The information in this brochure has been carefully compiled. Given the general nature of that information and the frequent amendments to Hungarian legislation and rules, Baker & McKenzie does not accept liability for any consequences arising from the use of the information taken from this brochure. This brochure should not be relied on as a substitute for legal advice. This brochure was prepared in May 2016 and therefore, the legislation and rules described herein might not be valid after May 2016.
1. **HUNGARY**

1.1 General Introduction  
1.2 Political system  
1.3 Economy

2. **FOREIGN INVESTMENT REGULATIONS AND CORPORATE REGIME IN HUNGARY**

2.1 Foreign Investment Regulations  
2.2 Corporate regime  
2.3 Business Organizations  
2.3.1 Founders  
2.3.2 Forms of business organizations  
2.4 General attributes of business organizations  
2.4.1 Limited Liability Companies (“Korlátolt Felelősségű Társaság” or “Kft.”)  
2.4.2 Joint Stock Companies (“Részvénytársaság” or “Rt.”)  
2.4.3 General partnership (“Közkereseti társaság” or “Kkt.”)  
2.4.4 Limited partnership (“Betéti társaság” or “Bt.”)  
2.4.5 Hungarian Commercial Representative Office of a Foreign Company (“Kereskedelmi képviselet” or “CRO”)  
2.4.6 Hungarian Branch of a Foreign Company  
2.4.7 European Public Liability Companies  
2.5 General rules on the operation  
2.5.1 Business activities  
2.5.2 Registered seat  
2.5.3 Representation and Signatory Rights  
2.5.4 Pre-company (“Előtársaság”)  
2.6 Corporate Governance  
2.6.1 Supreme body  
2.6.2 Executive Officers  
2.6.3 Supervisory Board  
2.6.4 Auditor  
2.7 Establishment, Registration  
2.7.1 Establishment  
2.7.2 Registration mechanisms  
2.8 Investments to Hungary in other structures  
2.8.1 Joint venture  
2.8.2 Venture Capital
3. REAL PROPERTY

3.1 Registration of Real Properties
3.2 Acquisition of Real Property
3.2.1 Acquisition
3.2.2 Agricultural land and related restrictions
3.2.3 Non-agricultural lands
3.2.4 Related licensing matters
3.2.5 Temporary restriction on commercial developments

4. ENVIRONMENT, ENERGY

4.1 Overview
4.2 Environmental Regulation

5. TAXATION

5.1 Corporate Taxation
5.1.1 Corporate Income Tax
5.1.2 No Withholding Tax
5.2 Local Business Tax
5.3 Value Added Tax
5.4 Public Health Product Tax
5.5 Excise duty
5.6 Transfer Tax
5.7 Bank tax and surtax payable by financial institutions
5.8 Transaction duty
5.9 Personal Income Tax

6. IMMIGRATION

6.1 Applicable legislation for immigration requirements of third country nationals
6.2 Rules on residing in Hungary less than three months
6.3 Rules on residency of third-country nationals exceeding three months
6.4 Work Permit
7. EMPLOYMENT

7.1 Sources of Hungarian Labour Law
7.2 Concept of unilateral cogency
7.3 Terms of employment
7.4 Probationary period
7.5 Working conditions
7.5.1 Basic Salary
7.5.2 Fixed salary vs. Performance-related salary
7.5.3 Bonus
7.6 Working Hours and Overtime
7.6.1 General
7.6.2 Reference period scheduling system
7.6.3 Extraordinary Work
7.6.4 Rest Period
7.6.5 Weekly Days off
7.7 Annual Leave
7.8 Sick Leave
7.9 Other Work Time Allowances
7.9.1 Maternity leave
7.9.2 Paternity Leave
7.9.3 Long-term home care
7.9.4 Additional leave in case of children
7.10 Public Holidays
7.11 Termination of the Employment
7.11.1 Termination of Employment by Notice
7.11.2 Termination of Employment by Notice with immediate effect
7.12 Definition of Executives under the Labour Code
7.13 Trade Unions
7.13.1 Definition of Trade Unions
7.13.2 The Role and Certain Rights of a Trade Union
7.14 The Collective Bargaining Agreement
7.15 Workers’ Councils
7.16 European workers’ council
8. COMPETITION LAW

8.1 Competition Law
8.2 Scope of the Competition Act
8.3 Restrictive Agreements, Abuse of Dominant Position
8.3.1 Restrictive Agreements
8.3.2 Prohibition of the abuse of dominant position
8.3.3 Dawn Raids
8.3.4 Leniency
8.4 Prohibition of Unfair Competition
8.5 Prohibition of the Unfair Manipulation of Business Decisions
8.6 Merger Control

9. INTELLECTUAL PROPERTY

9.1 Types of IP Rights that have effect in respect of Hungary
9.1.1 Trademark
9.1.2 Geographical indications and designations of origin
9.1.3 Designs
9.1.4 Copyright and related rights
9.1.5 Patents and supplementary protection certificates
9.1.6 Plant variety rights
9.1.7 Utility model protection
9.2 IP Law Enforcement
9.2.1 Customs Monitoring
9.2.2 Civil proceedings
9.2.3 Preliminary injunction
9.2.4 Criminal proceedings

10. LEGISLATION IN THE HIGH-TECH SECTORS AND DATA PROTECTION

10.1 Electronic Communication
10.1.1 Legislation
10.1.2 Notification obligation and the role of the NRA
10.2 Media
10.3 E-commerce and some related legislation
10.4 The Hungarian data protection, data transfer and privacy regime
10.4.1 General overview
10.4.2 Data Protection Act 2011
10.4.3 The legal grounds of the data processing
10.4.4 Information / Notice Requirements
10.4.5 Registration requirement
10.4.6 International Data Transfers
10.4.7 Enforcement

11. **THE HUNGARIAN BANKING SYSTEM**

11.1 General overview
11.1.1 Development of the banking system
11.1.2 Financing Activity
11.2 Legal Overview
11.2.1 EU Membership
11.2.2 Domestic Background
11.2.3 Banking Regulations
11.2.4 The Hungarian money and capital markets

12. **BANKRUPTCY AND RESTRUCTURING**

12.1 Bankruptcy
12.2 Liquidation Proceedings
12.3 Initiating liquidation proceedings
12.4 Temporary administrator
12.5 Simplified liquidation
12.6 The role of the liquidator in the liquidation proceedings
12.7 Settlement Agreement in the course of liquidation

13. **DISPUTE RESOLUTION**

13.1 Sources of law
13.2 State Courts
13.3 Arbitration

14. **INTRODUCTION OF BAKER & MCKENZIE**

15. **ABOUT THE HUNGARIAN INVESTMENT PROMOTION AGENCY**

16. **USEFUL LINKS**
1. 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. The economy has been transformed from a centrally planned to a functioning market economy and 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 and as a consequence of the moderate wage rates, high level of education, the investment friendly legal rules 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 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

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

The Hungarian Parliament adopted Act V of 2013 on the Civil Code (the “Civil Code”) effective as of March 15, 2014, which replaced the previous civil law regime in Hungary. The Civil Code partly assimilated the rules of the former companies legislation (i.e. Act IV of 2006 on Business Organizations (the “Companies Act”)), and partly introduced new rules. The Civil Code intends to increase creditor’s security and generally create legal certainty with respect to the operation of business organizations.

In addition to the Civil Code, Act V of 2006 on the Public Company Information, Company Registration and Winding-up Proceedings (the “Court Procedures Act”), sets out the rules on trade registry and winding-up procedures applicable to companies. The Hungarian parliament is expected to adopt within a year a new procedural act and a new, separate act on the voluntary winding up of companies. The aim of these new acts is to simplify the procedures and to provide more clarity on certain issues (such as e.g. harmonizing the general management disqualification rules now spread over in various acts).

2.3 Business Organizations

2.3.1 Founders

Business organizations can be established by Hungarian resident and non-resident natural and legal persons to jointly 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 joint stock company, 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 Civil Code. Currently, the following types of business organizations can be established under the Civil Code:

(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) general partnership (in Hungarian: “közkereseti társaság”, i.e. “Kkt.”);

(d) limited partnership (in Hungarian: “betéti társaság”, i.e. “Bt. “).

After the coming into effect of the Civil Code as of March 15, 2014, public joint stock companies may no longer be established. Joint ventures (in Hungarian: “közös vállalat”) can not 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 can not 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 million (approx. JPY 1,400,000). The registered capital consists of the capital contributions of the quotaholders, which can be a contribution in cash or in kind or both. A limited liability company may 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 with the trade registry 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. Quotaholders may grant to each other pre-emptive rights in the articles of association, or may restrict or add conditions to the transfer of the quota to third persons by other means.

The quotaholders of the company, the company or a person designated by the quotaholders’ meeting has, in this order, pre-emption rights for quotas to be transferred to third party by means of a quota sale and purchase agreement, provided that such right is not precluded or restricted by the articles of association.

In case of the sale of quota by means of a sale and purchase agreement, a quotaholder wishing to purchase the quota by exercising its pre-emptive right, must announce his/her position within 15 days from the date of the selling quotaholder’s communication of the sale offer. If the quotaholder does not make any announcement within said deadline, its pre-emptive rights shall be considered as waived. The deadline to respond to such offer is 30 days for the company and for 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 whose shares are not offered to the public, also any joint stock company whose shares were originally offered to the public but are no longer available to the general public, or were removed from trading on a regulated market. 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

After the coming into effect of the Civil Code as of March 15, 2014, public joint stock companies may no longer be established. Notwithstanding this restriction, the shares of private joint stock companies may still be admitted for trading on a regulated market, following which the company will continue to operate as a public joint stock company. Accordingly, a company may operate as a public joint stock company only if its shares have been admitted for trading on a regulated market.

(b) Capitalization Requirements

Private Joint Stock Company

A private joint stock company is established upon the signing by the founders of the articles of association of the company and the commitment of the founders to subscribe for all shares issued by the company.

The registered capital of a private joint stock company shall not be less than HUF 5 million (approx. JPY 2,300,000). Private joint stock companies can be also established with cash-contribution and/or with in-kind contributions, but the amount of cash contributions at the time of foundation may not be less than thirty per cent of the issued share capital.

Public Joint Stock Company

The registered capital of a public joint stock company shall be at least HUF 20 million (approx. JPY 9,100,000).

2.4.3 General partnership (“Közkereseti társaság” or “Kkt.”)

The general partnership is a business organization whose members are jointly engaged 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 contribution.

The supreme body of a general partnership is the meeting of members, in the activity of which all members shall take part.

The management of general partnerships shall be conducted by one or more managing directors, elected from among the members. If no managing director has been elected, all members are considered as managing directors. Any provision in the articles of association appointing (or allowing the appointment of) a non-member to be a managing director, shall be null and void.
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 with 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 which shall has 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, is 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) the Court Procedures Act.

(a) Permitted Scope of Activities

The CRO Act recognizes and authorizes the “CRO” as a legal form through which the following entities 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 or business 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 Founder 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 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) the CRO Act, and (ii) the Court Procedures Act.

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

(each referred to as a “Founder”).

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 process” 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 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).

The right to represent a branch includes the right to sign documents binding on that branch.
2.4.7 **European Public Liability Companies**


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 had, for at least two years, 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 of business organizations**

2.5.1 **Business activities**

A business organization may pursue any business activities that are not prohibited or restricted by law or government decree. 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.

Signature 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, one 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 deed by a notary public 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 to the court of registration the company registration application.

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 can not:

(a) change the members of the pre-company, expect where provided in the Civil Code;

(b) alter the articles of association except for the purpose of compliance with any request made by the court of registry or the competent body of authorization;

(c) initiate legal proceedings for the exclusion of a member;

(d) adopt any resolution on termination without succession, transformation into another company form, merger or demerger;

(e) establish a business organization, or become a member thereof.
2.6 Corporate Governance

2.6.1 Supreme body

The Civil Code provides that certain decisions fall under the exclusive competence of the supreme body (which consist of all members) of the business organization. In addition to the statutory scope of powers the establishment document may assign further issues to the exclusive competence of the Supreme body, and, as a result, only the supreme body may decide on such issues.

As a main rule, the supreme body shall adopt its decision if supported by the simple majority of the members, quotaholders or shareholders. However, the articles of association or applicable law may require that certain decisions are rendered by a two-third, a three-quarter or a unilateral vote.

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 limited liability companies;
(c) the general meeting in case of public and private joint stock companies.

In case of wholly-owned limited liability and joint stock companies, decisions falling within the competence of the supreme body shall be adopted by the sole quotaholder/shareholder, who shall notify the executive officers of such decision in writing. Such decisions shall become effective when they are communicated to management.

All members, quotaholders and shareholders of the business organization and - without voting rights - any person invited according to law or the articles of association (e.g. management, supervisory board members) has the right to attend the meeting of the supreme body of the business organization. All members, quotaholders or shareholders of the business organization have the right to participate in the activities of the supreme body.

2.6.2 Executive Officers

The executive officer of a business organization is entitled to make all decisions that are related to the management and operation of the business organization and which do not fall under the exclusive competence of the supreme body.

Duties of the management of the various types of business organizations are performed by:

(a) members entitled to perform the management as managing directors, 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 association of a private joint stock company may confer powers of the board of directors onto one single executive officer (CEO). The articles of association 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 (i.e. one-tier system).

The board of directors of a private joint stock company shall consist of at least three persons. The board of directors exercises its rights and performs its obligations as an independent body.

In case the supervisory functions are conferred upon it, the board of directors of a public joint stock company shall consist of at least five natural persons. In this case, the majority of the members of the board of directors shall be independent persons, as defined by the Civil Code.

Executives may be appointed either for an indefinite term or for a fixed term. In case the members have not stipulated the term of the executive officers’ appointment, they shall be considered to have been appointed 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/her acceptance of 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 can not be appointed as executive officers:

- a person who has been convicted of a crime and 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;

- a person who was an executive officer or a member with unlimited liability or, in cases of business associations operating with the limited-liability of the members, a member with majority control in a business organisation which was cancelled from the trade registry as a result of a forced cancellation proceeding, for a period of five years after said cancellation. For this rule to apply, the individual must have held the relevant position on the date of or during the calendar year in which the forced cancellation proceeding occurred or in the one year prior to the forced cancellation proceeding;
a person who was found liable by a final and binding court decision for the outstanding claims incurred in a liquidation process or a forced cancellation proceeding if said person has not satisfied the payment obligation required of him/her pursuant to said judgment.

- a person who, as the member of the business organization, failed to satisfy his/her unlimited liability to pay the debt of said business organization;

- a person on whom the court of registration imposed a fine, but failed to comply with said payment obligation.

The following prohibitions on conflict of interest also apply to executive officers:

- The executive may not acquire any quota or share - other than shares in a public joint stock company - in any other company whose main business activity is the same as the main business activity of that company at which he/she serves as executive. Furthermore, the executive may not accept any other executive officer position in a company, whose main business activity is the same as the main business activity of that company at which he/she serves as executive.

- The executive and his/her relatives may not conclude any contracts in his/her own name and interest the subject matter of which falls in the scope of the main business activity of the company, unless the establishment document of the company permits such transactions.

- The executive and his/her relatives may not be appointed to be the member of the supervisory board (if any) of that company at which the relevant individual serves as executive.

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

A legal person may also be appointed as executive officer for any type of business organization. In this case the appointed legal person shall designate a natural person to discharge the functions of the executive officer in the name and on behalf of the appointed legal person. The rules pertaining to executive officers shall apply to the designated person as well.

### 2.6.3 Supervisory Board

In order to supervise the management of the business organization, the members 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 (i.e. where the board of directors carry out the functions of the supervisory board as well);
(b) if the annual average number of full-time employees employed by the business organization exceeds 200, and the works council did not relinquish employee participation in the supervisory board (in this case, the employees are entitled to delegate 1/3 of the members of the supervisory board);

(c) irrespective of the form and operational structure of the company, where required by law.

2.6.4 Auditor

The auditor of the business organization shall be responsible for carrying out the audit 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 or by the articles of association of the company.

In addition, as a general rule, all joint stock companies shall nominate an auditor; however, the private joint stock companies’ articles of association may contain provisions contrary to the above provided that such provision would not breach the Accounting Act or other laws.

2.7 Establishment, Registration

2.7.1 Establishment

A business organization is established by (i) concluding an articles of association; 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 deed prepared by a notary public 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 Civil Code; however, the members may freely include in the articles of association any additional provisions which do not conflict with the mandatory and binding regulations of the Civil Code or other laws.

In general, the articles of association shall contain:

(a) the corporate name and registered office of the business organization;

---

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.
(b) members of the business organization, indicating at least, in case of natural persons, their name and address, and, in case of legal persons, their corporate name and registered office;

(c) the business organization’s main business activity or business purpose;

(d) the financial contributions prescribed, the value of such contributions, as well as how and when such contributions are to be provided to the company;

(e) at least the name and address (registered office) of the first executive officers appointed by the members;

(f) any other information required by the Civil Code for the various forms of business organizations.

2.7.2 Registration mechanisms

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 from obtaining the official authorization.

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 competent court of registration shall adopt a decision related to the application for registration within one hour after the tax number is established for the concerned company. 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 Establishment Document must be used as the articles of association of the company. The provisions of the Template Establishment 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 a financial year which corresponds to the calendar year and must use Hungarian Forint as its accounting currency.
2.8 Investments to Hungary in other structures

2.8.1 Joint venture

The old Companies Act abolished the company form “joint venture” (in Hungarian: közös vállalat), as a result of which companies can not 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 Civil Code, 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).
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. Each real property has a land registry 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 data registered on the land registry 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 at law 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

As a general rule, companies registered in Hungary (irrespective of the nationality of their owners, if Hungarian or foreign) may acquire real property. For the general rules and restrictions, regarding the acquisition of agricultural land see Section 3.2.2 and regarding the acquisition of non-agricultural land (including developed and undeveloped land), see Section 3.2.3 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, both share deals and asset deals are subject to (i) 4 per cent transfer tax payable on the portion of the gross value (including VAT) of the target real property up to HUF 1 billion, and (ii) 2 per cent transfer tax payable on the portion of the gross value (including VAT) of the target real property above HUF 1 billion, with a maximum amount of HUF 200 million per property. Share deal transactions are VAT exempt.
3.2.2 Agricultural land and related restrictions

Regarding agricultural land and forest properties, (1) the 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, (iii) a binding conceptual building permit for the development to be issued by the notary of the local municipality, and (iv) the approval of the owner; (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 3-5 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 are not entitled to acquire agricultural lands (including forests) and to be granted an option right over agricultural land currently. 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 obligation for the contracting parties 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 are approved, a binding conceptual building permit is issued and the reclassification of the agricultural land is completed, a final sale and purchase agreement may be concluded between the company and the owner on the acquisition of the reclassified development area.

According to the provisions of the new act on agricultural land, effective as of May 2014, citizens of the European Union will be able to acquire agricultural land with the same conditions as Hungarian citizens. However, the conditions prefer those citizens who have a Hungarian residence and who carry out their agricultural activity in Hungary. The main conditions are the following: (i) the citizen must have been living in Hungary at least for three years; (ii) the citizen must have been carrying out agricultural activity at least for three years; and (iii) the citizen must want to settle down in Hungary. The legal persons of the European Union and citizens outside the European Union will still not be able to acquire agricultural land.
3.2.3 **Non-agricultural lands**

Regarding non-agricultural land (including developed and undeveloped land), the ability of a foreign company or person to (in this Section 3.2.3 “foreign” means outside the European Union) acquire a non-agricultural land is contingent on the decision of the relevant government office. Also, 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.

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

As a general rule in case of transactions concerning buildings, the seller shall provide the purchaser with an energy certificate as a condition of the execution of the sale and purchase agreement. Pursuant to the provisions of the new Civil Code, effective as of 15 March 2014, the owner of a property may request that the land and the building on it be registered as separate real properties in the land registry system.

3.2.4 **Related licensing matters**

As to licensing, the construction work may only be commenced following the receipt of a 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.

As to the road infrastructure, based on the practice of the road authorities and the market practice, 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 (and a road occupancy permit in case of road constructions) must be applied for. The development may only be utilized based on and subsequent to the receipt of a binding occupancy permit.

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. In addition, as a condition precedent to the archeological excavation, the target real estate may be subject to ammunition discharge and examination, based on its conditions.
In case of a construction contract entered into with a general contractor for a total value of more than EUR 5,186,000 (data determined every year by the European Union) a so called project fund manager (a commercial bank or the state treasury) shall be appointed, who controls and manages the funds covering the construction costs and ensures that subcontractors are duly paid.

3.2.5 Temporary restriction on commercial developments

As a temporary restriction, new commercial buildings larger than 300 square meters may not be constructed, and existing commercial buildings may not be enlarged to exceed the above size limit or existing (commercial) buildings may not be transformed to commercial buildings (if requiring any permit) without the approval of the minister in charge of trade and commerce. Such restriction is likely to no longer apply after 31 December 2014. Also, each commercial building selling daily consumer goods shall ensure a defined number of parking spaces; the local government may not deviate from this rule in case of those commercial building selling daily consumer goods that are larger than 300 square meters.

---

2 In 2014
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 Directive 2009/28/EC on promotion of the use of energy from renewable sources, Hungary undertook to increase the share of energy produced from renewable energy sources to 14.65% by 2020.

Investors can take advantage of 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 sectorial 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.

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, where taxation rules change frequently, but the main concept of taxation does not change and the tax system is stable.

### 5.1 Corporate Taxation

#### 5.1.1 Corporate Income Tax

As of 1 January 2011, the corporate income tax rate is 10% up to the first HUF 500 million of the annual positive tax base; above HUF 500 million, the applicable tax rate is 19%. 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).

#### 5.1.2 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 the cost of goods sold and value of mediated services, the cost of sub-contractors, the cost of materials and the R&D costs.

Cost of goods sold and value of mediated services is gradually deductible. Up to net sales of HUF 500 million, the full amount is deductible; if the net sales exceed that amount, a lower percentage (70-85% depending on the net sales) of the cost of goods sold and value of mediated services is the deductible. Other costs described above are fully deductible, irrespective of the net sales.

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 certain entertainment services; the super reduced of 5 per cent applies to basic pharmaceuticals and books. As of 1 January 2016 the reduced 5 per cent rate also applies to new residential properties, which do not exceed 150 sqm and are placed in a building with several residential properties; and also to new single-unit residential properties, which do not exceed 300 sqm.
5.4 **Public Health Product Tax**

A public health product tax is levied on pre-packaged food products containing higher quantity of sugar, salt or caffeine than specified in the relevant act. The tax rate is based on the quantity of sugar, salt or caffeine in the product (*e.g.* in case of soft drinks HUF 7/liter, if the added sugar content exceeding the amount 8 grams of sugar/100 milliliters).

5.5 **Excise duty**

Excise duty is levied *e.g.* on tobacco, alcoholic drinks and mineral oils.

5.6 **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 (up to a market value of HUF 1 billion) and 2 per cent (on the excess above this value), tax payable capped at HUF 200 million per real estate. Special transfer tax rate applies if the real estate is acquired by a real estate agent or a financial leasing company or a real estate investment fund. The transfer of a company holding Hungarian real estate is also subject to transfer tax, at the above rates.

The gift of movables, immovables and immaterial rights is subject to gift duty. Gift duty has a general rate of 18%. The gift duty of obtaining rights (including ownership) relative to a residential property is 9%. Gifts among the closest relatives are exempted from gift duty.

5.7 **Bank tax and surtax payable by financial institutions**

Hungary introduced a bank tax on credit institutions, insurance companies, financial enterprises, investment enterprises, stock exchanges, commodity traders, hedge fund managers and investment fund managers, at various rates for the different categories of financial institutions. For example, for investment enterprises, the tax base is the difference between the income from and the expenses of investment services, as recorded in the 2009 financials of the investment enterprise; the tax rate is 5.6%. In case of credit institution, the tax rate is 0.15% up to tax base of HUF 50 billion, above that amount the applicable tax rate in 2016 is 0.24%. The tax rate is expected to change in the subsequent tax years.

In addition to bank tax, credit institutions are obliged to pay a profit-based surtax as well. The rate of this “credit institutions surtax” is 30% but maximum the amount of bank tax and is deductible from the amount of payable bank tax.
5.8. **Transaction duty**

As of January 1, 2013 so-called transaction duty was introduced. As of 1 August 2013, the credit institutions is subject to a 0.3 percent financial transaction duty in relation to each bank transactions they perform; such as bank transfers, collections, cash-payments to and from payment accounts and cash wire transfers. However, the transaction duty is capped at HUF 6000 per transaction. Transaction duty in relation with cash-payments from payment accounts is 0.6 percent, without being capped.

5.9 **Personal Income Tax**

Income earned from employment is generally subject to

- As of 1 January 2016, a fully flat-rated 15% personal income tax; and,

- the following contributions:

**Payments by the employer**

<table>
<thead>
<tr>
<th>Payment</th>
<th>Basis</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Contribution Tax</td>
<td>gross salary</td>
<td>27%</td>
</tr>
<tr>
<td>Vocational fund contribution</td>
<td>gross salary</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>28.5%</td>
</tr>
</tbody>
</table>

**Payments by employee**

<table>
<thead>
<tr>
<th>Payment</th>
<th>Basis</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension contribution</td>
<td>gross salary</td>
<td>10%</td>
</tr>
<tr>
<td>Health insurance and unemployment contribution</td>
<td>gross salary</td>
<td>8.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>18.5%</td>
</tr>
</tbody>
</table>
6. INCENTIVES TO INVESTORS IN HUNGARY

6.1 Overview

Creating new jobs, developing Hungarian businesses to reach new markets, and investment promotion for foreign investors.

These are the aims of Hungary.

Cost efficiency, high 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?

One of Hungary’s competitive advantages over other countries in the region is the Government’s strong commitment to streamlining business processes and increasing the competitiveness of SMEs and large firms in Hungary. To help achieve this, we offer wide-ranging incentives – both refundable and non-refundable – to facilitate foreign direct investments and reinvestments by local enterprises. The main types of incentives are cash subsidies (either from the Hungarian Government or from EU Funds), tax incentives, low-interest loans, and free or reduced price lands.

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 aid intensity is 50% in Northern Hungary, Northern Great Plain, Southern Great Plain and Southern Transdanubia; 25% in Western Transdanubia; 35% in the Central Transdanubia region; and 0%, 20% or 35% in the Central Hungarian region. Parts of Central Hungary are ineligible to receive any funding because they are much closer to the EU average in development terms.

Regional aid intensity map in Central Hungary for the period 2014-2020:
Maximum regional intensity
For investments not exceeding EUR 50M 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:

<table>
<thead>
<tr>
<th>Size</th>
<th>Headcount</th>
<th>Turnover</th>
<th>OR</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt;= EUR 10 M</td>
<td>OR</td>
<td>&lt;= EUR 10 M</td>
</tr>
<tr>
<td>Medium</td>
<td>&lt; 250</td>
<td>&lt;= EUR 50 M</td>
<td>OR</td>
<td>&lt;= EUR 43 M</td>
</tr>
<tr>
<td>Large</td>
<td>&gt;= 250</td>
<td>&gt; EUR 50 M</td>
<td>OR</td>
<td>&gt; EUR 43 M</td>
</tr>
</tbody>
</table>

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

- **Eligible expenditure**
  - 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

---

When calculating the maximum available amount of regional incentives, all regional incentives – including cash subsidies, development tax allowance, etc. – must be taken into account.
TAX ALLOWANCES

There is a wide range of tax allowances for new investments and R&D. Hungary provides tax exemption on holding structures, capital gains on shares and intellectual property under certain conditions are tax free, and a 50% tax allowance is applicable on royalty incomes. There is no withholding tax on dividends, interest and royalty paid by a Hungarian company to a foreign company. Hungary has a wide international treaty network with more than 80 double tax treaties.

DEVELOPMENT TAX INCENTIVES

Each development tax allowance may be claimed for a 10-year period (beginning once the development is completed) in Corporate Income Tax (“CIT”) returns within a maximum period of 14 years from the original application for the incentive. In any given tax year, the tax incentive is available for up to 80% of the tax payable, but in total up to the state aid intensity ceiling. Applications for tax incentives must be submitted to the Ministry for National Economy, and the Hungarian Government has the right to grant permission if the aggregate eligible costs of the investment exceed € 100 million. If the investment is below this threshold, taxpayers need only notify the Ministry for National Economy before starting the investment.

TYPE
tax allowance for post-investment period

AMOUNT OF SUBSIDY

exemption for 80% of the corporate tax payable for 10 years following installation, up to HUF 500 M turnover the corporate tax rate is 10%, above HUF 500 M the tax rate is 19%

CONDITIONS

investment volume minimum HUF 3 B (€11.3 M), minimum 150 new jobs OR HUF 1 B (€ 3.7 M) 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 for National Economy
SUBSIDY BASED ON INDIVIDUAL GOVERNMENT DECISION

The main types of cash incentives related to investments are focused on asset investment (e.g. purchasing assets, construction work, etc.), creating new jobs, and training employees. A VIP cash subsidy (subsidy based on individual government decision) may be granted under current legislation based on Government Decree No. 210/2014. (VIII.27.) on the utilisation of investment incentive targeted appropriations.

The Hungarian Government makes a VIP subsidy opportunity available for investments greater than € 5, 10 or 20 million that create a certain number of new jobs, depending on the purpose and location of the investment. The conditions of the VIP subsidy are determined in a negotiation procedure between the investor and the Hungarian authorities. Subsidy applications can be submitted to HIPA, in English or in Hungarian.

The main areas that attract support are asset investment (greenfield, brownfield or capacity extension) and investments aimed at job creation.

SUBSIDIES BASED ON ASSET INVESTMENT

In order to be authorized for a VIP cash subsidy, investors shall create at least 50 new jobs in all regions of Hungary which can be subsidized, in case of investments aiming at the creation or the expansion of Regional Shared Service Centres.

VIP

In the case of any other type of asset investment, the system of criteria consists of two factors: the number of the newly-created jobs and the volume of the investment. In the region of Northern Hungary, Northern Great Plain, Southern Great Plain and Southern Transdanubia or in Vas, Veszprém and Zala counties, investors shall create at least 50 new jobs and the eligible cost of the investment shall be at least € 10 million.

Should investors set up a new establishment or expand their activity with a fundamentally new activity compared to its previously performed activities as a result of the investment in Northern Hungary, the Northern Great Plains, Southern Great Plains and Southern Transdanubia or in Vas, Veszprém and Zala counties, the condition of eligibility is the creation of at least 100 new jobs and a minimum investment volume of € 5 million.

In order to be eligible for the VIP cash subsidy, investors shall create at least 100 new jobs and the eligible cost of the investment shall be at least € 20 million in Fejér, Komárom-Esztergom and Győr-Moson- Sopron counties or in Central Hungarian regions which can be subsidized.

Please note that investments implemented by large enterprises can only be subsidized in Central Hungarian region, if the investment is located in an area which can be subsidized and the investor sets up a new establishment or expands the activity of the company with a fundamentally new activity compared to its previously performed activities as a result of the investment.
Eligible costs for an asset investment include the purchase of the plot, construction costs or building rental fee (during the implementation period), infrastructural costs, the purchase of new equipment and machines, intangible assets, etc. The investment period is determined by the investor, yet is usually less than five years. The monitoring period, starting from the completion of the investment, is five years in the case of large companies and three years in the case of SMEs.

**SUBSIDIES BASED ON JOB CREATION**

The eligibility criteria for a VIP cash subsidy on a job creation basis are as follows: in case of investments aimed at the creation or the expansion of Regional Shared Service Centres, investors shall create at least 50 new jobs, in all regions of Hungary which can be subsidized.

In the region of Northern Hungary, Northern Great Plain, Southern Great Plain and Southern Transdanubia and in Vas, Veszprém and Zala counties, investors shall create at least 50 new jobs and the eligible cost of the investment shall reach at least € 10 million. In Fejér, Komárom-Esztergom and Győr-Moson-Sopron counties or in the areas of Central Hungarian region which can be subsidized, the condition of eligibility is the creation of at least 100 new jobs and the eligible cost of the investment shall be at least € 10 million.
Please note that investments implemented by large enterprises can only be subsidized in Central Hungarian region, if the investment is located in an area which can be subsidized and the investor sets up a new establishment or expands the activity of the company with a fundamentally new activity compared to its previously performed activities as a result of the investment.

The eligible costs are 24 months of salary and contribution towards the newly hired within a three-year period. These costs must reach a minimum volume of €10 million (except in the case of investments aimed at the creation or the expansion of Regional Shared Service Centres).

### TRAINING SUBSIDY

The Hungarian Government also offers a VIP subsidy opportunity for the training of employees. The subsidy is available to investors creating at least 50 new jobs: for 50 to 250 new jobs created, the maximum training subsidy is €0.5 million; for 251 to 500 new jobs created, the maximum training subsidy is €1 million; for 501 to 750 new jobs created, the maximum training subsidy is €1.5 million; more than 751 new jobs, it is a maximum of €2 million. Furthermore, the amount of the subsidy per capita cannot exceed the amount of €3,000.

This subsidy is provided for trainings with maximum aid intensity of 50%. The aid intensity can be increased further in the case of small- and medium-sized enterprises and for training of disabled or disadvantaged workers. Please note that this subsidy may be granted in all regions of Hungary.
SUBSIDIES FROM EU FUNDS

A wide range of tender calls are available from EU Funds for which investments of less than € 10 million can also qualify. As a member of the European Union Hungary has access to EU funds for a number of development goals, such as asset acquisition, infrastructural development, new construction, renovation, service development, job creation and financing of human resources costs. The conditions for applying, the timing, and the total amount of the subsidy available vary from tender to tender. The first relevant tenders for the current seven financial years in the forms of both refundable and non-refundable incentives were announced in the autumn of 2014.
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 four 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

Regulation No 810/2009/EC on the European Parliament and of the Council (the “Visa Code”) regulation, as well as EC Regulation No 562/2006 of the European Parliament and of the Council on the rules governing the movement of persons across borders (“Schengen Borders Code”) establishes the procedures and conditions for issuing visas for short stays in and transit through the territories of Member States of the European Union, and also, it lists the third countries whose nationals are required to hold an airport transit visa when passing through the international transit areas of Member States’ airports and establishes the procedures and conditions for issuing such visas.

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 90 days within any 180-day period and for a period exceeding 90 days within any 180-day period.

---

\(^3\) Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lichtenstein, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, plus Norway, Iceland and Switzerland
7.2 Rules on residing in Hungary less than 90 days within any 180-day period

Third country nationals may enter Hungary for a maximum of 90 days within any 180-day period in compliance with the following requirements: (i) they are in possession of a valid travel document or documents authorizing them to cross the border, where the valid travel document shall have been issued within the previous 10 years and its validity shall extend at least three months after the intended date of departure from the territory of the Member States; (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, and they are not subject to expulsion or exclusion.

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 90 days within any 180-day period.

Visas for a maximum period of 90 days within any 180-day period are:

(a) airport transit visa, for entering the international areas of the airports of the Schengen states; and

(b) visa for entering or staying in a Schengen state for a period not exceeding three months within a six months period.

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 90 days in any 180-day period, 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 not affected by SIS (Schengen Information System) warning sign for entrance restriction or residence restriction.
The applicable law distinguishes between the following types of visas and permits:
(i) a visa for a longer period than ninety days within any 180-day period, (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, (vii) an EC permit for settling down; or (viii) an EU Blue Card.

A draft amendment introducing a so-called "Intra-corporate transfer" permit allowing third country national managers, specialists or trainee employees transferred to Europe to reside and work at various entities of the same group of company within various Member States of the European Union, is before Parliament and is expected to be adopted by September 2016.

Visa for a longer period than ninety days within any 180-day period

A visa for a longer period than ninety days within any 180-day period 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 ninety days within any 180-day period 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 ninety days within any 180-day period.

Residence Permit

Third-country nationals having a residence visa or a national visa, may 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 ninety days within any 180-day period, 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 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.

Third country nationals residing in Hungary for more than 90 days in any 180-day period for the purpose of performing work with a Hungarian employer must obtain a so-called joint work and residency permit, in a so-called joint procedure.
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 has (i) lawfully and continuously lived legally in Hungary for a period of at least for 5 years directly prior to the filing of the application for such permit or (ii) holds an EU Blue Card and lawfully and continuously lived in Hungary for at least 2 years directly prior to the filing of the application for such permit and lawfully and continuously lived in the member states of the European Union for a period of at least for 5 years.

**EU Blue Card**

An EU Blue Card is a work permit and a residence permit in one document which allows highly skilled third-country nationals to perform work requiring high-level qualifications and to live in a Member State.

The EU Blue Card is granted to third-country nationals if they (i) have valid travel documents; (ii) justify the purpose of their entry and stay; (iii) 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; (iv) are not affected by SIS (Schengen Information System) warning sign for entrance restriction or residence restriction; (v) have a high qualification required for the position to be fulfilled; (vi) have not submitted false or untrue information to the authorities; (vii) their work in Hungary is supported on the basis of employment political interests; (viii) are insured for health services; (ix) have reported their address in Hungary.

The EU Blue Card is issued for at least 1 year; it is valid for a maximum of 4 years and it can be extended by an additional 4 year period.

### 7.4 Work Permit

Pursuant to Government Decree No. 445/2013 on the Licensing of Employment of Third Country Nationals in Hungary (the “Decree”), as a general rule a work permit must be obtained if a third country national intends to perform work in Hungary. 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 now 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 (the “Labour Code”), which entered into force on 1 July 2012, after Act XXII of 1992 (the “old Labour Code”) was repealed. In addition to the Labour Code, various other Hungarian legislations relating to labour matters, health and safety, social benefits and immigration issues can also govern a particular employment relationship.

There are three levels of Hungarian labour law based 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 **Concept of unilateral cogency**

One of the main concepts of the Labour Code, which significantly protects the employees’ rights, is known as the “unilateral cogency” employment rule. This rule of law provides that the parties to an employment contract may only differ from the statutory provisions of the Labour Code relating to certain matters and only if such terms are more favorable for the employee than the statutory provisions. As of 1 July 2012, various dispositive rules have been introduced to the Labour Code. As a result, contracting parties to an employment contract are entitled to deviate from the statutory provisions of the Labour Code to a much larger extent than they have been in the past, and the provisions relating to the collective bargaining agreement also provide a wide discretion to deviate from statutory minimum rules of the Labour Code.

8.3 **Terms of employment**

The Labour Code requires employment relationships to be 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 employment contract may not be contrary to the collective bargaining agreement, unless it stipulates more favorable terms for the employee.

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 employee’s place of work must always be defined in the employment contract. The place of work can be a permanent location or a wider geographic area as specified in the employment contract.
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 working conditions and must confirm those in writing within 15 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 relationship is established for an indefinite period of time. A definite term employment relationship can be maximum 5 years (except for the executive employees), including the term of a definite term relationship and that of a new definite term employment relationship created within six months of the termination of the previous definite term employment relationship. 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

A probationary period can be stipulated in the employment contract. The term of the probationary period shall be a maximum of 3 months. Probationary period can be extended one time, provided however that together with the extension it does not exceed 3 months. The collective bargaining agreement may stipulate a maximum of 6 months probationary period. The contracting parties can not deviate from the above mentioned rules relating to probationary period. During the probationary 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 Basic Salary

Unless otherwise provided by law, the 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 either to his/her or the company’s performance; however, his/her salary may also be linked to his/her performance. If the achievement of the performance requirement does not depend solely on the employee, a minimum salary must be guaranteed.
2.8.3 **Bonus**

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

2.9 **Working Hours and Overtime**

2.9.1 **General**

The general statutory limitation relating to the work hours are 8 hours per work day.

The working time, with extraordinary work ordered to be performed by 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.

2.9.2 **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 it cannot exceed 12 hours per day, and the average of the reference period must correspond to the general 8/40 hours limit.

2.9.3 **Extraordinary Work**

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

Employees may be required to perform extraordinary work only under justified and extraordinary circumstances. Extraordinary work on public 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 can not 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 fifty hours of extraordinary work in any given calendar year; or three hundred hours if so stipulated by the collective bargaining agreement.
Extraordinary work can not be required from pregnant women from the date their pregnancy is diagnosed to the time when the child reaches the age of three; men caring for their children as single parents up to the time when the child reaches the age of three; and employees who work under conditions harmful to health as defined by other legislation. For single parents, between the age three and four of the child, the employee’s consent is required for extraordinary work.

If extraordinary work is performed beyond regular working hours, the employee is entitled to time-off in lieu of the extra hours worked, or a supplement of 50% on his/her salary for the extra hours worked. If the extraordinary work is performed on the employee’s weekly day off, the employee is entitled to 100% supplement on his/her salary for the extra hours worked, or a minimum supplement of 50% on his/her salary and time-off in lieu of the extra time worked.

2.9.4 Rest Period

Should the daily working time exceed six hours, the employee is entitled to at least a twenty-minute continuous break. In addition to this, the employee is entitled to at least twentyfive minutes of continuous break after nine hours of work. The employees must be allowed at least eleven hours of rest between the end and commencement of daily work. Although the collective bargaining agreement and or employment agreement may deviate from the above rule, nevertheless a minimum of eight hours of rest must still be provided to each employee between the end and commencement of daily work.

2.9.5 Weekly Days off

The employee is entitled to two days off weekly. Weekly days-off of employees employed under irregular work schedules (e.g., continuous operation in multiple shifts and seasonal work) can be scheduled irregularly; however, even in such case, one day-off must still be scheduled after six days worked on a weekly basis; of these days at least one day off in every month must fall on a Sunday.

2.10 Annual Leave

Annual leave consist of base vacation and additional vacation. An employee is entitled to 20 days base vacation days per year. The employee is entitled to additional vacation days after reaching a particular age, as shown in the chart below:
<table>
<thead>
<tr>
<th>Age</th>
<th>Number of Base Vacation Days/year</th>
<th>Number of Additional Vacation Days/year</th>
<th>Total number of Annual Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 25</td>
<td>20</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>25</td>
<td>20</td>
<td>+1</td>
<td>21</td>
</tr>
<tr>
<td>28</td>
<td>20</td>
<td>+2</td>
<td>22</td>
</tr>
<tr>
<td>31</td>
<td>20</td>
<td>+3</td>
<td>23</td>
</tr>
<tr>
<td>33</td>
<td>20</td>
<td>+4</td>
<td>24</td>
</tr>
<tr>
<td>35</td>
<td>20</td>
<td>+5</td>
<td>25</td>
</tr>
<tr>
<td>37</td>
<td>20</td>
<td>+6</td>
<td>26</td>
</tr>
<tr>
<td>39</td>
<td>20</td>
<td>+7</td>
<td>27</td>
</tr>
<tr>
<td>41</td>
<td>20</td>
<td>+8</td>
<td>28</td>
</tr>
<tr>
<td>43</td>
<td>20</td>
<td>+9</td>
<td>29</td>
</tr>
<tr>
<td>45</td>
<td>20</td>
<td>+10</td>
<td>30</td>
</tr>
</tbody>
</table>

Annual leave shall be scheduled by the employer; however, seven days of the total number of the annual leave shall be scheduled as requested by the employee.

Annual leave shall be allocated in the year in which it is due. Employers may allocate vacation time before the 31st of March of the year following the year in question if this option is stipulated in the collective bargaining agreement. If the employee’s illness or another unavoidable restraint affects the employee, annual leaves shall be taken within 60 days following the cessation of such restraint. If the employment started on or after the 1st of October, the annual leave can be allocated until 31 March of the following year. Unless otherwise stipulated in the employment contracts, annual leave must be provided to the employees in a manner that it exceeds at least 14 calendar days. Employer and employee can agree to allocate the additional vacation days due according to the employee’s age until the end of the following year in question.

2.11 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 unable to work due to illness, not including accidents at work and occupational diseases as specified by other laws. Employees are entitled to receive 70 per cent of the absentee pay for the duration of sick leave.

For the period of sick leave exceeding 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 to verify the reason for his or her absence during his/her illness.
2.12 Other Work Time Allowances

2.12.1 Maternity leave

All pregnant employees are entitled to take up to 24 weeks maternity leave, of which two weeks must be taken. Maternity leave should be taken preferably in such manner that 4 weeks fall before the expected date of the 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.

2.12.2 Paternity Leave

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

2.12.3 Long-term home care

The employee may request the employer to permit unpaid leave for long-term nursing or home care of close relatives for the duration of care, if the employee personally provides such care and if the period of leave presumably will exceed 30 days. The duration of long-term home care must reflect the duration of the home care and it may not exceed 2 years. Long-term home care shall be certified by a duly qualified medical practitioner of the person who requires the care.

2.12.4 Additional leave in case of children

Employees having children younger than 16 years of age are entitled to additional vacation days. In case of one child two days, in case of two children four days, and in case of three or more children seven additional vacations days must be allocated yearly to the employees.

2.13 Public Holidays

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

2.14 Termination of the Employment

Pursuant to the Labour Code, an employment relationship may be terminated by: (i) notice; (ii) notice with immediate effect; or (iii) by mutual consent of the employer and employee.
2.14.1 Termination of Employment by Notice

(a) Indefinite term employment

Both an employer and an employee may terminate an employment relationship for an indefinite period by providing a notice to the other party.

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 operation of the employer.

If the employee terminates an indefinite employment relationship by a notice, he/she is not required to justify such termination.

In certain cases (e.g.: if the employee is pregnant), the Labour Code prohibits the employer from terminating the employment relationship simply by providing a notice of termination.

(b) Definite term employment

An employment relationship for a definite period of time can be terminated by the employer by way of a notice if (i) the employer is undergoing a bankruptcy-or liquidation procedure; (ii) the reason of the termination is the abilities of the employee; or (iii) the employer cannot maintain the employment relationship for external reasons not attributable to the employer.

Employees may also terminate a definite term employment relationship by providing a termination notice to the employer if there are such circumstances which make it impossible for the employee to maintain the employment relationship or which would result in an impropriionate burden on the employee.

2.14.2 Termination of Employment by Notice with Immediate Effect

Both an employer and or an employee may terminate an employment relationship by providing a termination a notice with immediate effect 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 termination with immediate effect. However, the parties may give concrete examples in the employment contract which may lead to an termination with immediate effect within the scope defined above.

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

The party terminating the employment relationship by a notice with immediate effect must exercise this right within fifteen days of learning about 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 with immediate effect is a crime committed by the other party, then the party terminating the employment may do so within the applicable statutory limitation period.

In addition to the above, either party may terminate the employment relationship by immediate effect during the probationary period, and reasoning is not required.

Further, the employer (and only the employer) can terminate a definite term employment relationship if it pays to its employee an amount equal to one year’s absentee fee. If, however, the remaining period of employment is less than one year, an amount equal to the absentee fee for such remaining period must be paid.

A notice with immediate effect immediately terminates the employment relationship.

### 2.15 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 employment contract may stipulate that employees with a salary of at least 7 times the minimum statutory salary performing important scope of duties and acting as key employees qualify as executives under the Labour Code.

An executive is liable for all the damages arising from the executive’s wilfully or negligent conduct.
2.16 Trade Unions

2.16.1 Definition of Trade Unions

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

2.16.2 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 in relation to matters relating to their living and working conditions.

2.17 The Collective Bargaining 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 by providing a notice three months in advance of the date of termination to the other party, but it may not be terminated during the first six months after the execution of the collective bargaining agreement.
2.18 **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 are elected for a five-year term.

The employer must request, at least 15 days before making a decision, the opinion of the workers’ council relating to 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.

In addition to this, the employer must at least every half year inform the works council relating to its economic situation, the change of the remuneration, the change of the work conditions and in the number of employees as well as of the position of the employees performing telework or being seconded to the employer.

Further, a workers’ council may request information from an employer in relation to all issues and may request the employer to negotiate with the workers’ council relating to certain previously specified issues. The employer is not entitled to refuse this request from the workers’ council.

The workers’ council and the employer may enter into a workers’ council agreement, in which they may regulate all issues that can be regulated in a collective bargaining agreement, except for issues related to remuneration. No agreement with the workers’ council can be concluded if the employer is subject to a collective bargaining agreement or if there is a trade union at the employer who is entitled to enter into a collective bargaining agreement.

2.19 **European workers’ council**

Act XXI of 2003 on the establishment of European workers’ council and the procedures of consultation and information of employees regulates the establishment and operation of European workers’ councils in Hungary.
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 formal 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.
3. COMPETITION LAW

3.1 Competition Law

The main rules of Hungarian competition law are set out in Act LVII of 1996 on
the Prohibition of Unfair Market Practices and Unfair Competition (the
“Competition Act”). The Competition Act has been amended many times since it
entered into force in 1997. The substantive provisions of the Competition Act
correspond to the EC antitrust rules (101 and 102 TFEU).

The Competition Act contains provisions on the prohibition of unfair competition,
the unfair manipulation of business decisions, merger control, the abuse of
dominant position and the prohibition of restrictive agreements and practices.

Infringement of antitrust rules may trigger administrative, criminal and civil
liability.

Administrative enforcement is the task of the Competition Office, which has the
discretion to issue an injunction and to impose administrative fines on infringing
companies. Criminal liability of individuals may arise only in cases related to
concession tenders and public procurement procedures. In such cases criminal
courts may impose criminal sanctions both on individuals and companies that
have been found to be in violation of the antitrust rules. In addition to
administrative and criminal sanctions, the infringement of antitrust rules may also
lead to private lawsuits before civil courts, in which private plaintiffs can seek the
termination of the infringement and/or raise damage claims.

3.2 Scope of the Competition Act

The Competition Act applies to the market activities of individuals and legal
entities both with and without legal personality. Individuals and legal entities are
collectively referred to as “undertakings”. The term undertaking includes all
individuals and entities involved in the sale of goods or the provision of services.
Individuals, however, are subject to the antitrust rules of the Competition Act only
if they pursue market activities as private entrepreneurs (i.e. as a non incorporated
business).

All restrictions of competition that have, or are likely to have, effects within the
territory of Hungary, are subject to the Competition Act. Accordingly, even
foreign undertakings are subject to these prohibitions, even if they do not have a
corporate or other type of presence in Hungary. Similarly, the jurisdiction of the
Competition Office can be established even if the conduct is carried out (solely)
abroad, but it results in (at least potential) restrictive effects on the Hungarian
market.
3.3 **Restrictive Agreements, Abuse of Dominant Position**

The Competition Office is not only bound by the Competition Act, but also by Regulation 1/2003 EC to apply Articles 101 and 102 of the Treaty on the Functioning of the European Union when an agreement or an abusive unilateral action may affect trade between Member States of the European Union.

The main substantive rules of competition law include rules on the prohibition of restrictive agreements and on the prohibition of the abuse of a dominant position.

3.3.1 **Restrictive Agreements**

Agreements or concerted practices between undertakings and decisions by associations of undertakings, public corporations, associations or other similar organizations (hereinafter together: “agreements”), which have as their object or potential or actual effect the prevention, restriction or distortion of competition, shall be prohibited. Agreements concluded between undertakings, which are not independent of each other do not qualify as such kind of agreements.

This prohibition applies, in particular, to

- the direct or indirect fixing of purchase or selling prices or other business terms and conditions;
- the limitation or control of production, distribution, technical development or investment;
- the allocation of sources of supply, or the restriction of their choice as well as the exclusion of a specified group of consumers or trading parties from purchasing certain goods;
- the allocation of markets, exclusion from sales, or restriction of the choice of marketing possibilities;
- the hindering of market entry;
- cases, where, given transactions of the same value or character, there is discrimination between trading parties, including the application of prices, periods of payment, discriminatory selling or purchase terms and conditions or methods placing certain trading parties at a competitive disadvantage;
- making the conclusion of contracts subject to the acceptance of obligations, which, by their nature or according to commercial usage do not belong to the subject of such contracts.

With the exception of horizontal price cartels and market sharing, restrictive agreements are not prohibited if the parties’ aggregate market share is below 10 per cent (so-called de minimis agreements). Moreover, agreements falling in the safe harbor of a block exemption decree, or meeting the requirements of an individual exemption are automatically exempted from the prohibition.
3.3.2 *Prohibition of the abuse of dominant position*

A dominant position shall be deemed to be held on the relevant market by persons who are able to pursue their economic activities to a large extent independently of other market participants substantially without the need to take into account the market reactions of their suppliers, competitors, customers and other trading parties when deciding their market conduct.

It shall be prohibited to abuse a dominant position, particularly:

- in business relations, including the application of standard contractual terms, to set unfair purchase or selling prices or to stipulate in any other manner unjustified advantages or to force the other party to accept disadvantageous conditions;
- to limit production, distribution or technical development to the prejudice of consumers or trading parties;
- to refuse, without justification, to create or maintain business relations appropriate for the type of transaction;
- to influence the economic decisions of the other party in order to gain unjustified advantages;
- to withdraw, without justification, goods from circulation or withhold them from trade prior to a price increase or with the purpose of causing a price increase or in any other manner which may possibly produce unjustified advantages or to cause competitive disadvantages;
- to make the supply or acceptance of goods subject to the supply or acceptance of other goods, furthermore to make the conclusion of contracts subject to the acceptance of obligations which, by their nature or according to commercial usage, do not belong to the subject of such contracts;
- in the case of transactions which are equivalent in terms of their value or character to discriminate, without justification, against trading parties including in relation to the application of prices, periods of payment, discriminatory selling or purchase terms and conditions or methods thereby placing certain trading parties at a competitive disadvantage;
- to set extremely low prices which are not based on greater efficiency in comparison with that of competitors and which are likely to drive out competitors from the relevant market or to hinder their market entry;
- to hinder, without justification, market entry in any other manner; or
- to create, without justification, disadvantageous market conditions for competitors, or to influence their economic decisions in order to obtain unjustified advantages.
Factors considered when assessing whether a dominant position exists:

- the costs and risks of entry to and exit from the relevant market, and the technical, economic and legal conditions that have to be met;
- the property status, financial strength and profitability of the undertaking or the group of undertakings (Article 15(2)), and the trends in their development;
- the structure of the relevant market, the comparative market shares, the conduct of market participants and the economic influence of the undertaking or the group of undertakings on the development of the market.

3.3.3 Dawn Raids

The Competition Office or the European Commission can conduct unannounced on-site investigations (“dawn raids”) to detect cartels effectively.

Competition authorities have a wide range of investigation powers: they may search business premises and vehicles of parties, as well as private premises and vehicles of their current or former officers, employees and agents. In the course of on-site inspections, they may enter and search any of the above premises, seize evidence, and seal premises where evidence is located. If necessary, they may also ask for the assistance of the police. In the course of a dawn raid, the authorities can search, copy or seize both hard-copy and electronic documents. Besides searching computers and taking copies of certain electronic documents, e-mails, the authorities may also make a forensic copy of all electronic data available on certain computers or servers. In the course of its investigation the authorities may obtain and review business secrets, bank secrets, and personal data. The authorities are not allowed to review attorney-client privileged documents which qualify as privileged under relevant provisions of the Competition Act or under EU competition law. It is the responsibility of the undertaking to claim that a document is protected under the attorney client privilege. During the dawn raid, case handlers conducting the inspection may ask questions from the representatives of the undertaking and from its employees.

Undertakings and individuals subject to an investigation must fully cooperate with the competition authorities. Procedural fines may be imposed both on undertakings party to an investigation and on individuals (e.g. employees, representatives of undertakings) who fail to cooperate with the authorities.

3.3.4 Leniency

(a) “Administrative immunity”

As another means of detecting cartels effectively, the Competition Office operates a leniency program. Under this program, undertakings that cooperate with the Competition Office in detecting cartels, may receive full or partial immunity from the fines.
Full immunity from the fine is available to the first undertaking providing such information and evidence on the cartel that enables the Competition Office either to acquire a court warrant authorizing a dawn raid or to prove the infringement.

A reduction of the fine (up to 50%) is available if the undertaking provides the Competition Office with evidence representing significant added value with respect to the evidence already in the possession of the Competition Office.

(b) “Criminal immunity”

Administrative immunity does not imply in any way immunity from possible criminal sanctions. In cases that may possibly give rise to criminal liability of individuals, a separate criminal “immunity” application must also be filed.

(c) “Immunity from Private Claims”

Administrative immunity does not give an absolute protection from civil law liability (i.e. liability for damages) either. Undertakings benefiting from full immunity remain jointly and severally liable for any damage caused, although they may refuse to pay damages as long as plaintiffs can collect funds from any other party to the infringement.

In addition to the above, it is important to note that administrative immunity is restricted to administrative antitrust enforcement in Hungary, and does not give any protection in investigations conducted by foreign (including EU) antitrust authorities. As the European antitrust enforcement system has not (yet) been able to introduce a one-stop shop system (i.e. a system where immunity granted by one member of the ECN would mean immunity within the whole network), multiple leniency filings can not be avoided if the conduct in question may affect several jurisdictions. Nevertheless, in cases concerning more than three EU Member States, if a full leniency application has been made with the Commission, the Competition Office also accepts a brief summary application which can be perfected later if necessary, and which temporarily protects the applicant’s position in the queue of (potential) leniency applicants.

Leniency is not available in case of vertical infringements or for abuses of a dominant position.

3.4 Prohibition of Unfair Competition

It is prohibited to conduct economic activities in an unfair manner, in particular, in a manner violating or jeopardizing the lawful interests of competitors, business partners and consumers, or in a way which is in conflict with the requirements of business integrity.
The following shall be construed as unfair conduct:

(a) to infringe upon or jeopardize the good reputation or credibility of any competitor by communicating or disseminating untrue facts, or by misrepresenting true facts with any false implication, as well as by any other practices;

(b) to gain access to or use business secrets in an unfair manner, and to disclose such secrets to unauthorized parties or to publish them;

(c) to make an unfair appeal to another party which is aimed at dissolving an economic relationship maintained with a third party or at preventing the establishment of such a relationship;

(d) produce, place on the market or advertise, without the express prior consent of the competitor goods or services with such typical external appearance, packaging or marking by which the competitor or its goods are normally recognized; furthermore, any such name, marking or indication of goods may not be used by which the competitor or its goods are normally recognized;

(e) to interfere with the integrity and fairness of bidding (in particular, public tender, invitation to tender), auctions and transactions conducted on an exchange market in any way.

3.5 Prohibition of the Unfair Manipulation of Business Decisions

It is prohibited to mislead business partners in economic competition.

In particular, the following conduct shall be construed as misleading business partners:

(a) the disclosure of untrue facts with respect to the price and essential qualities of the goods, or the misrepresentation of true facts with any false implication, the fitting of goods with misleading marking, or the provision of any information intended for misleading consumers in respect of the essential qualities the goods;

(b) the suppression of the goods’ non-conformity with legal provisions or with the requirements which the goods are commonly expected to satisfy, and that the use thereof requires the implementation of conditions substantially different from customary means;

(c) where information suitable for misleading business partners is disclosed in respect of circumstances related to the sale and distribution of the goods and influencing the business partners decision, in particular, in respect of the method of distribution, the terms of payment, any attached gift, discounts and any chances of winning;
(d) where a purchase is falsely purported as an extraordinary bargain.

In addition to the above, it is prohibited to employ business methods intended to unjustifiably restrict the business partners’ freedom of choice.

3.6 Merger Control

In case of a concentration of companies, authorization from the Competition Office shall be obtained if the aggregate net turnover of all groups of companies involved, and the net turnover of the companies controlled jointly by members of the groups of companies involved with other companies in the previous financial year exceeded fifteen billion forints, and among the groups of companies involved there are at least two groups with net sales revenues of five hundred million forints or more in the previous year together with the net sales revenues of companies controlled by members of the same group jointly with other companies.

From 1 July 2014, concentrations can not be implemented until the receipt of the Competition Office’s approval. Parallel to that, the statutory 30-days deadline for the filing has been abolished.

If the thresholds of the EU Merger Regulation are met, the concentration must be approved by the European Commission, and not the Competition Office.
4. INTELLECTUAL PROPERTY

Hungarian law grants protection for 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 enforce the IP rights, among others civil and criminal procedure, furthermore, the customs monitoring system.

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

4.1.1 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 Intellectual Property Office in Budapest.

(b) EU trademarks (or EUTMs)

EU trademarks provide a single right that is enforceable throughout the European Union, including Hungary. The EU trademark system is administered by the European Union Intellectual Property Office (EUIPO).

(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).

4.1.2 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 or its quality is very closely associated with a particular region, its natural environment, e.g. Szegedi paprika. A geographical indication indicates that the quality and reputation of the product has a strong link to a region, Csabai kolbász.
4.1.3 Designs

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

4.1.4 Copyright and related rights

Copyright is the right to grant the author the exclusive right to exploit its work, that is to prevent other people from copying or otherwise using original works of art. Copyright provides protection for works of literature, science, art and music, while the act does not provide for an exhaustive list of works capable of copyright protection. Copyright and related rights are protected automatically upon the creation of an original work. No registration of copyright is possible in Hungary. No transfer of the copyright that is pecuniary rights (there are some exceptions) and moral rights is possible.

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

Hungarian Copyright Act prescribes special provisions for software and for databases. 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 grant license to a third party to use the work created by the employee.

4.1.5 Patents and supplementary protection certificates

Patents protect inventions on any field of technology. 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 Cooperation Treaty) (“PCT”).

All of the above mentioned systems eventually grant the same right, a national Hungarian patent. 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 Cooperation Treaty, as one can file a single application that results in national patents in more than one country.

Hungary has signed the Unified Patent Court Agreement.

4.1.6 Plant variety rights

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

4.1.7 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.

4.2 IP Law Enforcement

4.2.1 Customs Monitoring

Customs will intercept and seize suspected infringing goods on the basis of an accepted Customs Monitoring Application if it detects goods it suspects to 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.

4.2.2 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 with respect to registered IP rights must be based on IP rights that are valid in Hungary. The Capital Regional Court (Budapest) has exclusive jurisdiction to hear IP infringement cases, while regional courts have jurisdiction to hear unfair competition cases and copyright cases.
4.2.3 Preliminary injunction

The IP right holder may request the 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.

4.2.4 Criminal proceedings

The IP right holder can report a crime to the 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 AND DATA PROTECTION

Introduction

Hungary opened its electronic communications market (telecommunications market) at the end of 2001. With its EU accession on 1 May 2004, it ensured compliance with the rules of the 2002 EU Regulatory Package. This then led to the adoption of a new electronic communications act, which harmonises Hungarian rules with those of the EU. The electronic communications market has been constantly changing and continuously developing since the implementation of the 2009 EU Regulatory Package. The applicable IT/Communication legislation is primarily determined by the harmonization obligations of Hungary.

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.

Since 2010, Hungary has a powerful independent national regulatory authority, the National Media and Infocommunications Authority (NRA) which resulted from the merger of the National Communications Authority and the National Radio and Television Board. The NRA is responsible for the supervision of the electronic communication market and the media market.

4.3 Electronic Communication

4.3.1 Legislation

The basic rules on electronic communications are set out in Act C of 2003 on the Electronic Communication (ECA) which provides an overall framework for market players. In addition to the ECA, several decrees have been adopted by the Government and the relevant Minister, and recently also by the President of the NRA. The decrees contain special rules, for example, on data protection, number portability and the like. In addition, the NRA is empowered to carry out regulatory as well as supervisory tasks, including but not limited to the designation of SMP undertakings, imposing remedies, etc.

In general, the 2009 EU Regulatory Package was successfully implemented, and, resultantly, Hungary has technology neutral legislation. New market players entered the relevant markets, among others, in the mobile telephony segment and new services were introduced. However, because of the economic downturn, the consumer segment has been decreasing, although the business sector experienced slight growth.
The ECA defines its scope in a manner similar to the relevant EU directives: it applies to electronic communication activities and to all other activities where radio-frequency signals are generated. The term, “electronic communication activity” covers activities related to electronic communication networks and electronic communication services. The ECA defines electronic communications activity as “an activity in the course of which signals, signs, texts, images, voice or messages of any other nature and generated in any form that can be interpreted, are transmitted via electronic communications networks to one or more users, including, in particular, electronic communications services, the operation of electronic communications networks and equipment, distribution of terminal equipment and related services”. Hungarian law defines those networks and services in terms similar to their Framework Directive definition.

The territorial scope of the ECA applies to all electronic communication activities performed in, or directed to, the territory of Hungary. The ECA applies both to service providers and customers. It contains no restrictions regarding the nationality of a service provider. The ECA does not apply to information society services. Separate legislation regulates, among other issues, radio and television activities, including the digital switch over.

Hungarian laws contain no specific guidance on the provision of complex electronic communication services. Hungary has not passed any VoIP specific laws. Basically, VoIP services must be assessed under the general electronic communications regime which applies to VoIP in limited cases only.

4.3.2 Notification obligation and the role of the NRA

In order to provide electronic communication services in Hungary, the service provider must notify the NRA and comply with the relevant legislation.

The powers and obligations of the NRA related to the electronic communication industry are consistent with the Framework Directive. The NRA may impose fines. The decisions of the NRA are subject to judicial appeal.

The NRA is also responsible for analyzing the different communication markets; it performs this activity in accordance with the recommendation of the European Commission. The Agency may impose obligations on the service providers.

4.4 Media

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

The Media Services and Mass Media Act (Media Act) and the new Act on the Freedom of Press entered into force in 2011. That legislation implemented the Audiovisual Media Services Directive (AVMS Directive - Directive 2010/13/EU) in Hungary. In general, the legislation is in line with the AVMS Directive, however, the scope of it is broader.
The Media Act contains broad registration and notification requirements. Linear media services subject to the Media Act provided by a media service provider with a registered office (domicile) in Hungary must be registered by the NRA. Services may be provided after that registration has occurred. On-demand and ancillary media services subject to the Media Act, provided by a media service provider with a registered office (domicile) in Hungary, also must be registered. The registration requirement applies to media products published by a publisher with a registered office (domicile) in Hungary. The Media Act also requires online media products and newsportals to be registered which is unique.

The Media Act gives the NRA strong rights to enforce the Media Act. Within the NRA, the Media Council is the most important decision-making body. The Media Council may impose fines, the amount of which depends on the several factors defined in the Media Act. Although the maximum amount of the fines has been increased as compared to the former legislation, judicial control - with a short statutory deadline for the reaching of a court decision - is available to service providers, who may request a court to suspend the obligation to pay a fine accessed by the Media Council until a final judicial decision is reached. The power of the Media Council is not considered to be extraordinary in Hungary.

The Media Act also introduced some concentration related rules. The Media Act says that where there is a merger of two groups of companies bearing editorial responsibility for media content, then, if the primary objective of the undertakings concerned is the distribution of media content to the general public, the Competition Authority must obtain the position statement of the Media Council before approving the concentration. The issuance of the Media Council’s position statement is subject to the payment of an administrative fee.

Finally, the Act on Digital Switchover sets out the deadline for the digital switchover for access to digital audiovisual media services. The final deadline was 31 December 2014. According to the NRA’s report, the digital switchover had been successfully implemented throughout the territory of Hungary.

4.5 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 to information society and e-commerce services directed to Hungary. If such services are provided from another EU Member State, the country of origin principle applies. 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 (which are allowed under Hungarian law), the information which has to be provided to recipients, liability related rules (liability of the service provider and the intermediary service provider), etc.

The services of the major Internet companies are available in Hungary. The tendency is that companies do not establish webstores in the different jurisdictions, but provide services from one EU Member State which services are available from other Member States as well. Even US companies established webstores in the EU in order to benefit from the EU e-commerce legislation.

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.

As for Hungarian top level domains (.HU ccTLDs), delegation rules are regulated in the Domain Registration Rules which are issued and amended from time to time by the Council of Hungarian Internet Service Providers. Section 1.1.1 of the Domain Registration Rules lays down that domains may be applied for by:

a. any citizen of the European Union;
b. any natural person holding a residence permit for Hungary or
c. any entity established by virtue of law, entered in the records of or registered with an authority or court in the territory of the European Union; and
d. any owner of a trademark registered with the Hungarian Intellectual Property Office or protected in Hungary (such as European Union Trade Marks and International Marks protected in Hungary).

Accordingly, an owner of any trademark protected in Hungary as well as EU residents may register .Hu ccTLDs without being Hungarian residents. An application for the registration of a domain must be submitted to one of the assigned “registrars” who arranges the registration of the domain with the Council of Hungarian Internet Service Providers that registers Hungarian top level domains.

4.6 The Hungarian data protection, data transfer and privacy regime

4.6.1 General overview
As of 1 January 2012 a new data protection act, Act No. CXII of 2011 on Information Rights and the Freedom of Information is in force (“Data Protection Act”). The Hungarian data protection regime is considered one of the strictest within the EU; however, the Data Protection Act is more business friendly than the previous legislation.

In addition to this general legislation, sector specific laws contain specific data protection rules, for example, in case of an employment relationship, the Labor Code or in case of electronic communication services, the ECA and the related decrees contain the relevant regulations.

4.6.2 Data Protection Act

The Data Protection Act applies to the processing of any information relating or otherwise connected to an identified or identifiable natural person (“Data Subject”). An identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to his physical, physiological, mental, economic, cultural, or social identity. Any conclusion concerning the natural person that can be drawn from the information being processed also qualifies as protected personal data (“Personal Data”). In the course of data processing, such information is treated as Personal Data as long as the Data Subject remains identifiable. Thus, the term of Personal Data is widely defined, as well as the term data processing, which covers, among others, collecting, recording and storing, processing, utilizing Personal Data. The law also applies to the processing of sensitive personal data.

The Data Protection Act applies to those persons, including any natural or legal person or organization, who determine the purposes for which and the manner in which any Personal Data is, or is to be, processed and who execute the data processing or appoint someone to process the Personal Data (“Data Controller”). The legislation applies to third-party data processors (“Data Processors”) as well. According to the law, Data Processors perform technical data processing activities upon the instruction of the Data Controller.

If the Data Controller decides to apply a Data Processor, they must conclude a written agreement. The legislation allows Data Processors to appoint further data processors (subprocessors) in line with the instructions of the Data Controller.

The Data Protection Act applies to any processing of Personal Data in the territory of Hungary. It also applies if a Data Controller processing Personal Data outside the EU employs a Data Processor whose registered address or place of business (branch) or habitual residence is in Hungary, or if it makes use of equipment situated in the territory of Hungary unless such equipment is used solely for the purpose of data transit throughout the territory of the EU.
4.6.3 The legal grounds of the data processing

The Data Protection Act failed to properly implement those Articles of the Data Protection Directive (Directive 95/46/EC) that regulate the legal basis of data processing (i.e. criteria for making data processing legitimate). In light of a decision of the Court of Justice of the European Union, there are good arguments that in this regard, Article 7 of the Data Protection Directive has direct effect (but not horizontal direct effect) in Hungary. Therefore, in Hungary, instead of the relevant provisions of the Data Protection Act, a Data Controller could directly rely on the criteria of the data processing as defined in the Data Protection Directive. As a result of the above, the Hungarian data protection regime became similar to the data protection regime of other EU Member States.

4.6.4 Information / Notice Requirements

The processing of Personal Data is legal, if the Data Subjects have received adequate information about the data processing. Among others, the Data Subject has to receive information on all the relevant facts about data processing, including: a detailed description of the Personal Data types to be processed; the duration of the proposed processing operations; the purposes of processing the Personal Data; the legal basis of data processing; description of data transfers; the use of a Data Processor; the rights and legal remedies of the Data Subject.

As a general principle, only such Personal Data may be processed that is essential for the purpose for which it was collected and which is suitable to achieve the purpose of processing. Even in such case, Personal Data may only be processed to the extent and the duration necessary to achieve the given purpose. Data processing must be guided by the objective of the collection. The Data Controller must keep the Personal Data accurate and complete.

The Data Subject has several rights. Among others, the Data Subject may request information about the processing of his or her Personal Data. The Data Subject is entitled to request the blocking, correction, or deletion of his or her Personal Data, and to object to the processing of such data.

The Data Controller is responsible for taking appropriate technical and organizational measures necessary to ensure data security. To certain Data Controllers, for example, financial institutions, specific requirements contained in the financial laws apply.

4.6.5 Registration requirement

The general rule is that every data processing activity has to be registered with the Hungarian National Authority for Data Protection and Freedom of Information (“Authority”). In general, data processing cannot be commenced before registration. There are several exemptions from the registration obligation. Among others, data processing for purposes of maintaining an employment relationship, customer relationship or supplier relationship does not have to be registered.
4.6.6 International Data Transfers

With the introduction of Data Protection Act, the rules of international data transfer became more business friendly. Personal Data (including Sensitive Personal Data) may be transferred outside Hungary to Data Controllers or Data Processors located in non-EU countries if (i) the Data Subject gives his explicit consent; or (ii) the laws of the non-EEA third country in question afford an adequate level of protection. Among others, adequate level of protection is achieved if Personal Data is transferred to a country that is recognized by an EU Commission decision to provide adequate level of protection; or the Data Controller and the recipient sign Model Clauses which is an agreement drafted and published by the European Commission, applied in other EU Member States as well. Furthermore, groups of companies may also ensure adequate level of protection by implementing binding corporate rules (BCRs).

Transfer of personal data within EEA Member States is treated as a transmission within Hungary.

4.6.7 Enforcement

The infringement of the data protection laws may have administrative, civil and criminal law consequences. The Authority may impose administrative fines. Additionally, the Authority may, among other actions, prohibit the data processing (though judicial recourse is available against the decision of the Authority) or require that the unlawfully processed data be blocked, deleted or destroyed.
11. THE HUNGARIAN BANKING SYSTEM

4.7 General overview

4.7.1 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 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 National Bank of Hungary 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 operational efficiency of the banks is adequate, while the higher cost levels in the ration of balance sheet total are due to the still lower level of the banking penetration. The balance sheet total of the banking sector is 90 percent of the annual GDP in 2014. Nevertheless, the Hungarian economic growth lags behind other regional countries because of the long lasting consequences of the financial crisis, which creates somewhat adverse business environment for the banks as well. Based on the Country Risk Assessment of the Hungarian Financial Supervisory Authority dated June 2013, major systematic risks in respect of the Hungarian banking system are permanently low profitability rates, in certain cases even permanent losses and the structure and source of profits: in 2012 and in 2013 the financial results were positively affected by the results of the foreign branches of the Hungarian parent credit institutions and the more favorable treatment of the calculation of amortisation, however, the interest incomes representing the core activity of credit institutions have been decreased significantly and continuously.

Commercial banks have been shifting the focus of their expansion to the retail market and small and medium-sized companies in order to offset the decreasing margin on the higher end of the multinational corporate clients, which objective is officially supported by the National Bank of Hungary: in June 2013 the Credit Facility Program of the National Bank of Hungary has been launched, according to which the National Bank of Hungary grants refinancing credit facilities to commercial banks, and those commercial banks grants credit facilities to small and medium sized enterprises at below the average interest rates both for new projects and for the replacement of credit facilities denominated in foreign currency to credit facilities denominated in HUF. Competition in pricing and in product innovation is back by rapidly enlarging nation-wide branch networks of the top 7-8 universal financial institutions.
The domestic private or state owned equity of banks is barely more less 10 per cent in Hungary the foreign direct ownership proportion exceeds 75 per cent. At the end of 2013 the number of credit institutions of the banking sector is 37 based on the data of the National Bank of Hungary, of which:

- the number of commercial banks 34
- specialized credit institutions 11

Source: Golden Book 2014 published by the Hungarian National Bank

4.7.2 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.
4.8 Legal Overview

The legal framework of the present banking system is based on Act CCXXVII of 2013 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”), Act CXX of 2001 on the Capital Markets (the “Capital Markets Act”) and Act XVI of 2014 on Collective Investment Schemes and its Managers and decrees of the Finance Minister, the Government and the Governor of the Hungarian National Bank. Regulation of the Hungarian banking system is generally in line with the relevant EU banking standards.

4.8.1 EU Membership

Hungary became a member of the European Union on 1 May 2004. Membership of the EU has resulted in 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.

Act CXII of 1996 on the Credit Institutions and Financial Enterprises (the “Original Credit Institutions Act”) was abolished as of 1 January 2014 in order to adopt the new Credit Institutions Act. Based on the official commentary to the Credit Institutions Act, the purpose of the adoption thereof has been twofold: first, the Credit Institutions Act implements (i) the prudential rules and requirements of the Directive 2013/36/EU of the European Parliament and of the Council on, inter alia, the prudential requirement applicable to credit institutions (the “Prudential Directive”) and (ii) its implementing regulation, the Regulation (EU) No 575/2013 of the European Parliament and of the Council (the “Prudential Regulation”), and second it was essential to restate the structure and wording of the Original Credit Institutions in order to eliminate minor logical and wording flaws caused by its frequent amendments.
The legal regime of the central credit information system has been implemented into a new act: the Act CXXII of 2011 on Central Credit Information System (the “Credit Information Act”). As of the Credit Information Act the Central Credit Information System operates as a complete list of borrowers; certain data of the borrower set out in the Credit Information Act may be registered not only in the case of the breach of the credit contract by the borrower - which remained a obligatory case of registration - but by the fact of the execution of the credit agreement. The purpose of the regulation is to create a good borrower list upon the approval of the borrower; the relevant credit institution is entitled to transfer certain data of the borrower to an other credit institution where for example the borrower intends to obtain a new credit facility. Nevertheless the purpose of safeguarding of the rights of the individuals registered in the Central Credit Information has not changed; the scope of available remedies is still appealing, offering safety against the accidental errors in data handling.

In the framework of the harmonization of national law with EU law, Hungary has implemented Directive 2004/39/EC on markets in financial instruments, as amended from time to time (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, as amended from time to time (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.


The Prudential Directive and the Prudential Regulation not only sets out stricter prudential rules, but those laws also require the clear distinction of the payment services from other financial services, not only in terms of distinct legal rules but also in terms of separate organisational provisions. In order to achieve such effect, the Act CCXXXV of 2013 on Certain Payment Services Providers (the “Payment Services Providers Act”) was adopted, whereby the payment services are to be offered by a new type of institution, the payment services institutions, which are entitled to offer other financial services than payment services only in limited scope and under limited circumstances. The Payment Services Providers Act also incorporates the applicable rules for electronic money institutions and voucher issuers.
4.8.2 Domestic Background

Role of the National Bank of Hungary


The National Bank of Hungary is responsible for determining and executing the monetary policy. In determining the monetary policy the National Bank of Hungary is relatively independent but as a recent development the National Bank of Hungary shall consider and comply with the European monetary policy determined by the System of European Central Banks.

The primary objective of the National Bank of Hungary shall be to achieve and maintain price stability in correspondence with the international and European standards. To achieve this the principal instrument is the central bank base rate. By increasing and decreasing such base rate the National Bank of Hungary is able to affect various economical indicators indirectly. Please note that there are further instruments to be utilized.

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. In respect of the refinancing credit facilities provided to commercial banks by the National Bank of Hungary, please refer to Clause 12.1.1.

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 Hungary itself.
**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, as of the date of preparing this memorandum Hungary is not the member of the ERM-II system.

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.

**The National Bank of Hungary as the legal successor of the Hungarian Financial Supervisory Authority**

As of 1 October 2013, the Hungarian Financial Supervisory Authority merged into the Hungarian National Bank pursuant to the National Bank Act, whereby the role as the financial supervisory and regulatory authority was transferred to and is carried out by the National Bank of Hungary. Such fundamental change, however, did not reshape substantially the financial regulatory environment: simply the supervisory authority vested with the Hungarian Financial Supervisory Authority is exercised by the National Bank of Hungary.

The National Bank of Hungary is an administrative regulator of the Hungarian Government and has nation-wide jurisdiction. It is headed by the governor who is appointed by the president upon the proposition of the prime minister for 6 years.

The Financial Conciliatory Committee is a professionally independent committee which is operated and financed by National Bank of Hungary. The Financial Conciliatory Committee’s scope concerns consumer contracts entered into between a consumer and one of the various institutions being supervised by the National Bank of Hungary, i.e. which include but not limited to credit institutions, insurance providers and payment services institutions. In short the Financial Conciliatory Committee is an extra judicial organization, which purpose is to settle dispute without the involvement of ordinary courts. The director of the Financial Conciliatory Committee is appointed by the governor of the National Bank of Hungary.

The National Bank of Hungary holds wide-ranging powers in particular but not limited to under the Credit Institutions Act, the Investment Firm Act, the National Bank of Hungary Act and the Capital Markets Act to license and supervise the establishment and operation of institutions under each respective act mentioned above.

As of 1 January 2006, the supervisory role of the National Bank of Hungary has been harmonized with the relevant EU Directives with regard to insider dealing and market manipulation.
As a recent development, the National Bank of Hungary launched an electronic platform, called the ERA System, which purpose is to replace the conventional notification method via mail to an electronic notification system. Pursuant to the applicable Decrees of the Governor of the National Bank of Hungary, certain notifications and submission set out in the relevant finance related laws are obliged to be filed via the ERA System to have a legal effect.

4.8.3 Banking Regulations

The Credit Institutions Act, the Investment Firm Act, the Capital Markets Act and the Payment Services Providers Act set out the regulatory framework for the Hungarian banking system. Additionally, the Act CLXII of 2009 on the Credit provided to consumers became into the center of attention according to the common usage of unfair terms and conditions by credit institutions in Hungary. Specific rules not regulated in detail under these Acts are set out in Government decrees or decrees issued by the minister responsible for finance, decrees issued by the Governor of National Bank of Hungary.

Capital Adequacy

According to the Credit Institutions Act and in line with European regulations, banks must have a registered capital of at least HUF 2,000 million (about EUR 6.4 million). Mortgage credit institutions are specialized credit institutions with a registered capital requirement of at least HUF 3,000 million (about EUR 9.6 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 National Bank of Hungary will give the credit institution a maximum of 18 months to bring its equity to the required level. National Bank of Hungary may also request the board of directors of such credit institution to summon the general meeting thereof. Should the credit institution do not cure such breach of prudential requirements, the National Bank of Hungary is entitled to impose other sanction set out in the National Bank Act over the credit institution in breach.

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

By adopting the Prudential Regulation the particulars of the content and keeping of trading books are regulated in comprehensive way. Based on the direct applicability of EU regulations, the rules contained in the Prudential Regulation are directly applicable for Hungarian credit institutions. Pursuant to the Prudential Regulation, in order to ascertain a credit institution’s capital requirements on trading and certain other long and short positions held for the purpose of trading or for hedging transaction behind such trading transactions, a trading book must be kept to record the financial instruments in the trading portfolio that are exposed to the market risks.
In addition the trading book keeping obligation, the credit institutions shall have consistent by-laws and internal regulations on the handling of the trading book and the positions listed therein, such by-laws shall provide for, inter alia, the estimate on the capability of the credit institution to identify the risks associated with a particular position, and for the method and estimated timeframe of closing such positions and for any restriction set out by applicable laws or operational rules, which may hinder such closing.

**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 respective annual after-tax profits into the general reserve. (Upon request, a credit institution may be exempted by the National Bank of Hungary 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 the National Bank of Hungary has granted exemption from the obligation to create general reserves. A credit institution is entitled to use general reserves only to settle the losses incurred during its activities. A credit institution is entitled to re-allocate its available profit reserves in whole or in part into general reserves.

**Solvency Capital and Risk Provisions**

Based on the implementation of the Prudential Directive, a credit institution must have a sufficient amount of solvency capital. The minimal amount of the solvency capital of credit institutions is determined by the Credit Institutions Act and the Prudential Regulation.

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 sum of

(A) the minimum capital requirement under Section 92 of the Prudential Regulation;

(B) additional requirement imposed by the Hungarian National Bank as part of a supervisory proceeding; and

(C) combined capital buffer requirement under Section 86-96. of the Credit Institutions Act;

but at least the minimum registered capital requirement for credit institutions.
Pursuant to the Credit Institutions Act and the Prudential Regulation, the credit institutions are obliged to reserve the following types of capital buffers, as applicable:

(A) capital reserve buffer;
(B) anti-cyclic capital buffer;
(C) capital buffer of credit institutions with global and systemic importance;
(D) systemic risk capital buffer.

The Credit Institution Act further elaborates on the detailed rules of each type of capital buffers, however, it is important to note, that under limited circumstances (correlation and cumulation of the above types of capital buffers) not each and every type of capital buffer shall be reserved in their entire amount.

We note, however, that despite the fact, that both the Credit Institutions Act and the Prudential Regulation are in effect and directly applicable, the above set of rules of capital buffers are not to be complied with the credit institutions as of 1 January 2014, rather in the course of a longer period specified for each type of buffers by the Credit Institutions Act in order to ensure the proper preparation of the concerned credit institutions.

Further to the above, the credit institutions shall have a reliable, efficient and comprehensive internal strategies and methods to maintain and reserve the solvency capital sufficient to cover present and future risks arising out of the operation of the business of the credit institutions.

4.8.4 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. Unfavourable 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.
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 certain special 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 insolvency of non-business organizations can be distinguished by dividing these organizations into two groups. The first group contains associations, foundations and other nonprofit organizations; in relation to this group of organizations the provisions of the Bankruptcy Act are applicable. The second group contains any other non-business organizations (such as government agencies), which 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 and acquired in the course of its bankruptcy, liquidation proceedings are subject to such proceedings.

During liquidation proceedings the tax, customs, social security authorities, the labor authority and credit institutions are notified of the commencement of liquidation proceedings by the court carrying out the proceedings.

Certain special rules apply to bankruptcy and involuntary liquidation procedures against economic organizations of high strategic importance.

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 generally entitled to file an application for bankruptcy with the competent court at any time via their legal representative on a separated form determined by special acts (from the 1st of January 2015 this can only be initiated by way of an electronic form), depending on the financial status of the debtor. A restriction is that the debtor may not declare bankruptcy within 2 years of the announcement of the end of its previous bankruptcy, if there are still unpaid creditor claims from the previous bankruptcy.
4.10 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. Before the commencement of the liquidation, a “creditor” is a person who has an overdue claim against the debtor based on a final and enforceable court ruling or administrative decision, or based on some other (e.g., notarial) enforceable deed, or has an overdue claim which is not disputed or has been acknowledged by the debtor. Certain special rules apply to bankruptcy and involuntary liquidation procedures against economic organizations of high strategic importance.

4.11 Initiating liquidation proceedings

Creditors (and the debtor, receiver or, at special conditions, a court) 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 twenty days of the due date, and failure to satisfy such debt upon receipt of the creditor’s subsequent written payment notice; or

(b) the debtor’s failure to settle its debt within the deadline specified in a final and binding 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 an order 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 45 day grace period to such debtor for repayment of its debt(s).
The court will terminate the liquidation proceedings effective immediately if it can be established that the debtor is solvent.

The court orders the appointment of a liquidator when insolvency of the debtor is established. The court order is published in the Official Company Gazette; the court, in the frame of the court order, calls upon creditors to submit their claims to the liquidator within 40 days.

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.
- After the starting date of the liquidation, any claim against the debtor in connection with the assets covered under liquidation can be enforced only in the framework of the liquidation.

4.12 Temporary administrator

The creditor may request the court to appoint a temporary administrator, from the register of liquidators, to supervise the debtor's 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 200,000 if the debtor has no legal personality and HUF 400,000 for legal person debtors; equaling approximately EUR 670 and 1,340) 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 seriously and repeatedly 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.

4.13 **Simplified liquidation**

If the assets of the debtor would not cover the costs of the liquidation procedure, 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.

4.14 **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 order to liquidate and about the claims reported after the 40 day period but within 180 days from the publication of order 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 liquidator disputes the claim reported by a creditor, upon the creditor’s request the court decides the validity of the creditor’s alleged claim.

The liquidator must convene all the registered creditors, within 75 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 three 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.

4.15 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 order ordering the liquidation. 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 if and after a settlement is made.

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 the settlement conforms to the law then the court approves it by an order.
13. DISPUTE RESOLUTION

4.16 Sources of law

Hungary is a civil law jurisdiction. The main sources of law are the “Fundamental Act of Hungary”, the acts of the Parliament, and the governmental, ministerial and municipal decrees. The Constitutional Court has a certain authorization to review the constitutionality of Hungarian legislation.

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

Judicial precedents are generally not binding.

4.17 State Courts

Hungary has a four-tier court system, which include the circle (in Budapest, the district ) courts, the tribunals (organized at a county level and in Budapest), the Appellate Courts and the Curia (formerly known as the ‘supreme Court”). There are separate courts, organized at a county level, to hear administrative and employment matters at the first instance.

In most of the cases, the circle courts, including the district courts operating in Budapest, are the courts proceeding on the first instance. They deal with any commercial matter except those delegated to the tribunals that may also proceed as the court of first instance.

There are twenty tribunals in Hungary: one in each of the 19 counties and an additional one in Budapest (the latter is called the Metropolitan Tribunal). The tribunals hear appeals from judgments of the lower Courts, and also act as courts of first instance in certain matters, among others in commercial disputes where the amount in controversy exceeds HUF 30 Million (approximately EUR 100,000). Separate divisions of the tribunals 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 tribunals.

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

4.18 Arbitration

The Hungarian Arbitration Act regulates both domestic and international arbitrations in Hungary. The Hungarian 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 arbitral awards. However, state courts are allowed to cancel arbitral awards on certain, very limited grounds.

About Baker & McKenzie

Baker & McKenzie has provided sophisticated legal advice and services to many of the world’s most dynamic and global organizations for more than 60 years.

With a network of more than 4,200 locally qualified, internationally experienced lawyers in 47 countries, Baker & McKenzie International, a Swiss Verein has the knowledge and resources to deliver the broad scope of quality legal services required to respond effectively to both international and local needs - consistently, confidently and with sensitivity for cultural, social and legal practice differences.

The more than 13,000 lawyers, supporting professionals and staff of Baker & McKenzie share common values of integrity, personal responsibility and tenacity in an enthusiastic client service culture. We are still guided by the entrepreneurial spirit and demanding standards of our founders. We constantly strive to forge close personal relationships among our professionals in order to foster the responsiveness and accountability clients rightfully expect.

Ours is a diverse and welcoming culture with a global mindset. The lawyers and other professionals in our network are citizens of more than 72 countries. We have been educated at more than 1,200 institutions, including nearly all of the world’s leading law schools. We speak more than 80 languages. English is our common language.

Our teams are supported by advanced technologies and sophisticated management systems. These include a single, shared technology platform, including client intake, financial and billing systems, e-mail, intranet and client extranets as well as practice standards, a quality audit program and a worldwide conflicts policy based on the standards of the American Bar Association.

Baker & McKenzie in Hungary

Opened in 1987, the Budapest Office of Baker & McKenzie was the first international law firm to establish itself in Central-Eastern Europe. Kajtár Takács Hegymegi-Barakonyi Baker & McKenzie is today one of Hungary’s leading law firms. Drawing on broad local and international experience, Kajtár Takács Hegymegi-Barakonyi Baker & McKenzie provides premiere legal services across the full range of business law issues.

Our Hungarian law firm currently employs some thirty lawyers, all of whom have an outstanding knowledge of the local legal, business, social and cultural environment; several of them have supplemented their Hungarian qualifications with training abroad. All our lawyers are fluent in English, and many also speak other foreign languages.
During its nearly 30 years of operation, Kajtár Takács Hegymegi-Barakonyi Baker & McKenzie has gained a wealth of experience in coordinating sophisticated international and domestic transactions. This experience is the foundation for the exceptional standard of the firm’s work process, structured according to a system of practice groups, each specialized in different areas of business law. Kajtár Takács Hegymegi-Barakonyi Baker & McKenzie was the first among Hungarian law firms to introduce such a system, and is currently divided in specialized practice groups.

**Practice Groups**

**General Commercial Law**

- preparing and commenting on commercial contracts and advising on product distribution, including advice on distribution, commercial agency, franchise and other civil law agreements;

- advising on consumer protection and product liability matters; advising on various regulatory matters, including food and other labelling and product warranty matters; and advising on advertising matters, including advertising matters related to e-commerce;

- providing representation in legal disputes arising from commercial instruments;
Tax and Customs Law

- advising on international taxation matters, in particular on European tax laws;
- advising on corporate tax planning and structuring in diverse transactional and operating contexts and advising on transfer pricing;
- providing representation in various tax dispute areas;
- advising on VAT and indirect tax matters;
- advising on employment related tax matters;
- advising on customs and duties;

Real estate / Commercial Properties

- advising on all aspects of and coordinating major real estate development and construction projects, including site acquisition, funding, letting and disposal;
- advising on planning, environmental and rating issues and liaising with local and national government bodies;
- designing and conducting due diligence investigations to identify and quantify commercial risks associated with real estate transactions;

Company law

- advising multinational companies in selecting and optimizing the structure of their Hungarian operations, including establishment, transformation and operation counselling, as well as preparing internal regulations;
- advising in winding-up and final accounting procedures and advising on creditors’ protection matters;
- providing corporate counselling for concession entities and providing representation in licensing procedures for concession activities.
M&A

• providing the full range of transactional advising services on local and cross border transactions, from the letter of intent stage, to structuring, to the pre-acquisition review process, to agreement drafting and negotiation, to closing and post-closing integration and operating advice, including transaction management and implementation services, in a variety of economic sectors;

• advising, whether from the buy or the sell side, on: share or asset sale or purchase transactions; auction sales; private equity/venture capital transactions; privatization transactions; greenfield investments; and strategic alliances;

• advising on capital markets transactions, including those involving equity securities, as well as on takeovers and takeover related matters;

Corporate Law

• advising on and conducting corporate group restructurings, including local restructuring implementation, including through spin offs, mergers or voluntary windings up;

• advising on ongoing corporate law requirements and corporate governance matters, including entity establishment and operational counselling, such as the preparation of internal regulations and codes of conduct/by-laws, as well as providing corporate maintenance support services;

Labour Law

• advising on individual and collective employee labour law issues, whether in the context of a company’s ongoing Hungarian operations, or of their establishment or acquisition;

• preparing, negotiating, and advising concerning employment contracts, including those of executive personnel;

• advising concerning and implementing individual, group, and executive terminations;

• advising on benefits and compensation issues, and tax issues relating to the employment relationship and employee benefits;

• conducting employment related litigation;

• advising on and conducting communications with works councils and unions, and industrial disputes;

• advising on data protection and immigration matters arising in the employment context.
Banking

- advising in respect of project finance transactions arranged through syndicated facilities (including energy and power finance, telecom finance, real estate finance, aircraft finance, finance related to industrial investments and financing related to public and other services, etc.) as well as asset finance, on both the finance parties’ and borrower’s side;

- advising in the area of domestic and international refinancing transactions through syndicated facilities as well as in respect of acquisition and structured finance on both the finance parties’ and borrower’s side;

Capital Markets

- advising in relation to domestic and international public offering and/or private placement of securities on both the arranger’s and the issuer’s side;

- advising in respect of domestic and/or international structured finance transactions (including securitisations, complex securities offerings, synthetic transactions) on both the arranger’s and issuer’s side;

Other Financing

- transactional advice in relation to trade finance on the bank’s, the purchaser’s and the seller’s sides;

Derivatives Transactions

- advising in connection with various types of OTC derivatives transactions (including transaction involving forwards, swaps and/or options and the combined versions thereof) on both the bank’s and client’s side on the basis of ISDA and other documentation;

- advising in respect of hedging arrangements in connection with major financing transactions;

Banking and Securities Regulation

- advising on various questions arising in relation to banking regulatory, compliance and other regulatory questions, such as the establishment of financial institutions, the conditions for rendering financial and/or investment services and, the background regulation of banking and securities transactions;

- advising in connection with general securities law issues including domestic and international settlements, the introduction to stock exchanges and the international sale of securities.
Competition law

- analyzing contracts under Hungarian and EC competition law; performing competition law audits on companies; preparation of competition compliance manuals and providing competition law training to employees;

- representation before the Hungarian and EC competition authorities as well as courts in cartel, abuse of dominant position and unfair competition cases and in sectoral investigations;

- advice and legal representation in merger control and state aid matters;

Advertising and consumer protection law

- advising on general and industry specific advertising law issues, including review of advertising campaigns for legal compliance and legal analysis of competitors’ conduct;

- representation before the Competition Office and other consumer protection authorities as well as courts in matters relating to deceit of consumers and in unfair/unlawful advertising cases;

Intellectual property rights

- advising on copyright and industrial right issues; representation in Hungarian, international and community trademark matters before the national and international authorities (Hungarian Patent Office, World International Property Organization, and Office for Harmonization in the Internal Market) in connection with new registrations, as well as the renewal of, and amendments to, existing registrations;

- advising on brand protection, legal representation in disputes relating to intellectual property rights, including opposition and cancellation matters, civil and criminal proceedings as well as customs monitoring in connection with IP rights infringement;

- preparing and analyzing intellectual property rights related contracts (e.g. transfers, encumbrances, licences) and conducting due diligence examinations of IP portfolios;

- consolidated and up-to-date registration of IP rights registrations and other matters via Global IP Manager, Baker & McKenzie’s proprietary, internet based data management system;
Environment and energy law

- representation before the authorities in environmental matters;
- advising on environmental liability arising from pollution;
- advising and representation in regulatory and contractual matters related to emission trading;
- advising on the liberalization of energy markets and representation in licensing and other regulatory matters before the Hungarian Energy Office;

Media, telecommunications, information technology and data protection

- offering specialized legal advice on issues arising from, and in connection with, the rapid development of the modern information society and the liberalization of the telecommunications market;
- preparing contracts and other documents in connection with domestic and international IT outsourcing transactions, and legal advising on, and handling of related data protection issues;
- advising on media related contractual and regulatory issues and representation before National Television and Radio Council (ORTT), other authorities and courts;

Pharmaceuticals and health science

- advising on various industry specific legal issues arising in connection with the operations of companies manufacturing and/or marketing pharmaceuticals, medical devices or other health science products (e.g., regulatory issues relating to clinical trials, product registrations, production and marketing licences, promotion and advertising, donations, price regulation and reimbursement issues, etc.), including preparing of internal manuals and conducting employee training;
- representation before the National Institute of Pharmaceuticals, the National Health Fund, the Competition Office, the consumer protection and other authorities as well as courts in regulatory and other matters;
- advising on the operation of healthcare institutions (e.g. data protection and other patient rights issues);
- preparing and analyzing contracts related to clinical trials, marketing and/or licensing of products
Compliance & Investigations

- Implementing and updating ethics and compliance programs, codes of conduct, whistleblowing and similar policies
- Preparing and delivering employee trainings on various compliance topics, including business ethics, anti-corruption, antitrust, data privacy.
- Conducting internal investigations or helping clients manage their own investigations.
- Representing and advising clients in government investigations.
- During or after the investigation, we help address possible compliance deficiencies and prepare an efficient remediation plan which helps prevent future misconduct.
- Help companies recover defrauded assets and enforce damage claims against wrongdoers, regardless of whether they are employees or third parties.
WTO and international trade

- advising on EU export-import regulations, antidumping procedures and market protection measures, as well as on WTO and other issues of international trade;

Dispute resolution

- representation in landmark cases pending before ordinary and arbitration courts (e.g. Permanent Court of Arbitration affiliated to the Hungarian Chamber of Commerce and Industry, Permanent Court of Arbitration of Financial and Capital Markets);

- representation in proceedings before the EC Commission and European Court of Justice;

- advising and representation in alternative dispute resolution procedures as well as negotiations of out-of-court settlements;

- advising and representation in execution, bankruptcy and liquidation proceedings;

- advising on public procurement issues and legal representation before the Public Procurement Commission and courts in cases arising from public procurement related disputes.
Contact details of Baker & McKenzie:

Kajtár Takács Hegymegi-Barakonyi  
Baker & McKenzie Attorneys-at Law

Dorottya u. 6  
1051 Budapest, Hungary  
Tel.: +36 (1) 302 3330  
Fax: +36 (1) 302 3331  
www.bakermckenzie.com

Zoltán Hegymegi-Barakonyi  
Principal, Managing Partner

Competition, Commercial,  
EU law, Pharmaceuticals, IP,  
Environment and Energy, Litigation

Tel.: +36 (1) 302 3330 (316)  
Zoltan.Barakonyi@bakermckenzie.com

Zoltán Barakonyi is the Managing Partner of the Budapest Office. He leads the Competition, Trade and European Law practice group of the Budapest Office. He specializes in competition law and trade regulations, commercial transactions and litigation including public procurement matters. He advises on the full range of competition law matters, including unfair competition and other antitrust issues. Zoltán represented major international companies in competition law cases involving horizontal and vertical restraints on competition and abuse of dominant position. Zoltán also advises Hungarian and international companies on their merger control notifications to the European Commission and the Hungarian Competition Office as part of their major M&A transactions.
Pál P. Takács  
Principal  
Corporate, M&A, Employment, Banking and Finance  
Tel.: +36 (1) 302 3330 (338)  
Pal.Takacs@bakermckenzie.com

As co-head of the Mergers and Acquisitions Practice Group of the Budapest office, Pál specializes in mergers and acquisitions transactions and has considerable experience in concessions, corporate and commercial law, privatizations, including, for example, in the chemicals, metals and electricity industries in Hungary. Pál advises a wide range of clients, including organs of the Hungarian State, international investment banks and other financial institutions, and both foreign and Hungarian private investors.

Ines K. Radmilovic  
Principal  
Corporate, M&A  
Tel.: +36 (1) 302 3330 (335)  
Ines.Radmilovic@bakermckenzie.com

Ines is co-head of the Mergers & Acquisitions. She is the Chairperson of the Firm’s Steering Committee for the European M&A Practice and is a member of the Firm’s Steering Committee for the Global M&A Practice. Ines has particularly considerable experience in advising on cross-border transactions in the CEE region and in South-East Europe.
ABOUT THE HUNGARIAN INVESTMENT PROMOTION AGENCY

Hungarian Investment Promotion Agency (HIPA) is a national investment promotion organisation governed by the Ministry of Foreign Affairs and Trade. It provides professional consulting services to interested companies free of charge in a one stop shop service model, supporting them in selecting a business location, providing tailor made incentive offers and information on state aid issues, identifying investment possibilities and dealing with public authorities.

Before you make a decision HIPA offer you…
…one-stop-shop management consultancy services to address your business needs.
…tailor- made incentive offers and information packages on the business environment, labour market, tax regulations, etc.
…location search & evaluation + site visits.
…assistance with your incentive application.
…reference visits at companies that are already established in Hungary.
…meetings with HR & real estate agencies, law firms and other consultants based on your needs.

After you have chosen Hungary
We are open to your feedback and offer mediation between government and business based on your inputs.
We support your further expansion and plans.

Why Hungary?

Foreign investors can make the most of the country’s strategic location and telecoms infrastructure. They can benefit from a foreign trade focused foreign policy and count on the government’s commitment in supporting their FDI. There is also the advantage of attractive incentive schemes, and the reliability of a globally acknowledged human capital at a reasonable cost. Investors can also realise that Hungary has the lowest level of the corporate tax rate in the CEE region.

References
Every two years, the fDI magazine announces its ranking entitled "European Cities & Regions of the Future" which aims to collect and rank the most important investment sites. This year, in addition to Budapest, Hungarian rural locations also have been placed on the magazine's list of the top ten. According to the ranking Budapest is still among the most attractive cities on the list of the top ten cities in Eastern Europe and is on the list of the top ten most important European cities in three subcategories as well. Further significant success is that, in addition to Budapest, for the first time another Hungarian town achieved a ranking: "Győr ranked ninth among the “Top 10 Small European Cities of the Future 2016/17 – Business Friendliness”. In addition, the Central Hungary region ended up among the top 10 in as many as two categories: it is the fourth among the “Top 10 Mid-Sized European Regions of the Future 2016/17 – Business Friendliness”, while Transdanubia region reached tenth on this ranking. Among the “Top 10 Eastern European Regions of the Future 2016/17”, on the whole, Central Hungary ranks seventh, which is an important achievement.
With a view to responding to new economic challenges, the Hungarian Government decided to transform its economic policy and place more emphasis on foreign economy in 2014.

As a result of the structural changes, the Ministry of Foreign Affairs and Trade (KKM) has become one of the most powerful Hungarian ministries, which gives priority to foreign economy. The relevant institutions were also transformed, and the Hungarian Investment Promotion Agency (HIPA) was established as the successor of the Hungarian Investment and Trade Agency.

The professional investment promotion organization thus created will, as the background institution of KKM, give even more concentrated assistance for the Hungarian investments of international companies.

Róbert Ésik graduated from the Corvinus University of Budapest in 2001 where he studied Business Administration, Investment Analysis and European studies and received an MSc degree. He also holds a Master Degree in the field of Banking and Finance from the Panthéon-Assas University.

During his carrier he worked mainly in the telecom sector in different leading positions. A milestone in his professional career was Siemens where he worked e.g. as a Regional Finance Director in Austria and as Finance Director of the Communications Division in Hungary between 2002 and 2006.

The next major change was when in 2007 he started to work for Nokia Siemens Networks, later Nokia Solutions and Networks, where he was employed e.g. as CFO in Hungary, Country Director in Hungary and the Head of Contract Management, Region SEE position.
In October 2014 he became president of the Hungarian Investment Promotion Agency (HIPA) and Chairman of the Board of the Hungarian Export-Import Bank Plc. and Hungarian Export Credit Insurance Plc.