

大成 DENTONS

Manufacturing in Hungary



Foreword

Dear Readers,

The Dentons Europe offices cover a legendary territory for manufacturing and industrial projects, including Spain and France to the west, Russia, Kazakhstan and Uzbekistan to the east, Germany, Poland, Hungary and other Central European countries in the middle and from Italy to Turkey to the south. This territory offers a vast population with strong purchasing power and excellent infrastructure, combined with vast workforce resources and industrial expertise.

Dentons Europe has been at the forefront of the first industrial projects going east after the fall of the Berlin wall, actively advising on greenfield and brownfield projects as well as on acquisitions and joint ventures when Central European countries—Romania, Czech Republic, Slovakia and Poland—joined the European Union. We are now actively witnessing Asian investors' interest for manufacturing in Europe.

The legal environment in the countries we cover has greatly evolved. It is a strong advantage to have been present in some of the emerging economies of Eastern Europe, Caucasus and Central Asia for the past 20 to 30 years, as the legacy legal systems in these countries can still be felt, in particular with regard to land acquisition and environmental norms. Today many jurisdictions, including in Western Europe, offer state aid and tax incentives to attract the best manufacturing projects.

We are well placed to help you choose your entry doors to the European Union and to Eurasia.

We hope the Manufacturing Guide you have selected will be of interest. It aims to give you a general overview of key checkpoints for this jurisdiction. Do not hesitate to contact me or the authors of this guide for any further information.



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Credentials in Hungary

AGC Glass Europe, the European leader in flat glass: Successfully representing against the Hungarian Tax Authority. This resulted in the Court approving the entirety of the plaintiff's claims and decreasing AGC's corporate tax base and super tax base by more than €3 million. In addition, the Court doubled the amount of procedural costs awarded to AGC. In its ruling, the Court praised the quality of the briefs prepared by AGC's legal counsel. It stated that "the plaintiff's counsel performed complex written preparatory work of outstanding quality" and that "the content and quality of the plaintiff's preparatory briefs made a valuable contribution to the court by rendering unnecessary the annulment of the defendant's resolutions and the ordering of the institution of new proceedings, thereby providing an opportunity for the reversal of the resolution based on the detailed calculations, figures and chart submitted."

Autoliv: Advising the world's largest automotive safety supplier on the construction of an industrial unit in Hungary.

Bridgestone Hungary: Advising in relation to all aspects of employment law, including preparing work schedules and drafting template contracts and internal policies.

Essity: Advising a leading Swedish consumer goods company with regard to a cartel investigation initiated by the Hungarian Competition Authority (GVH) against paper producers Essity and Vajda-Papír Kft., together with retailers Metro, Spar, Auchan, Tesco, DM and Rossmann, based on allegations of price fixing via hub and spoke arrangements. The GVH investigation, which started with dawn raids, focused on hub and spoke allegations and is a novelty in the GVH's practice. In May 2018, the GVH terminated the case against Essity. If the cartel had been established, the GVH could have imposed significant fines, but all of the charges were rebutted successfully.

Hungarian subsidiaries of Delfortgroup AG: Providing corporate and labor law advice to two paper mills, Dunacell and Dunafin, both Hungarian subsidiaries of leading Austrian paper manufacturer, Delfortgroup AG.

Our guidance included advising on the reorganization of the workforce of the Hungarian subsidiaries.

Hungarian subsidiary of Sony: Advising on its winding down of operations of a blu-ray disc player and DVD recorder plant in the Hungarian city of Gödöllő. The plant, which employed approximately 540 staff, ceased operation, but some key individuals continued employment. Our guidance included advising the client on all corporate and labor aspects of the winding down process, including the reorganization of operations, advising on consultations with the workers' council, drafting termination documents, agreements and a large-scale dismissal.

SMR Automotive Mirror Technology: Advising on a greenfield investment in a new manufacturing plant in Hungary. The advice involved the drafting and negotiation of a complex design, project management and technical supervision agreement for the plant construction.

Toshiba: Representing before the GVH with respect to an alleged global cartel in the cathode ray tube (CRT) market. This alleged cartel was also being investigated by the European Commission. The GVH focus was on the impact on the Hungarian market in the period preceding Hungary's accession to the EU. The GVH established the infringement and imposed fines, but because of our complex defense strategy, this case was terminated against Toshiba.

Toyota: Assisting in the voluntary dissolution of its Hungarian affiliate, Robfin Kft. We established a new Hungarian subsidiary for its material handling operations, and we assisted this new company in its purchase of the material handling business of another Hungarian company engaged in the same industry. We also assisted this company in its internal reorganization.

One of the world's largest manufacturers of tire and other rubber products: Advising in connection with a major greenfield investment and in connection with the setting up of its operations in Hungary. Our work on this matter included advising on Hungarian environmental law issues and the negotiation of environmental indemnities and permitting procedures.

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Hungary and the European Union



Hungary joined the European Union in May 2004 together with nine other countries, thereby entering the single market of the other member states. In late 2007, Hungary also joined the Schengen Area, abolishing internal border controls. These steps greatly enhanced Hungary's connections to the European economy.

Various EU funds are available for use in development and investment projects in the country. According to currently available information, €17.93 billion (at 2018 prices) and €20.24 billion (at current prices) from such funds would be allocated to Hungary for the period after 2020.

Although there were plans to introduce the Euro in Hungary, it seems that at present this is not on the political agenda as a matter of priority. Accordingly, Hungary will maintain the Hungarian Forint (HUF) as its official currency in the near future.



**Preparing
to manufacture:**
greenfield and
brownfield projects



A. Corporate Vehicles

Types of companies: The two types of companies most commonly used by foreign investors in Hungary are the limited liability company (in Hungarian: “*korlátolt felelősségű társaság*”, “Kft.”) and a private company limited by shares (in Hungarian: “*zártkörűen működő részvénytársaság*”, “Zrt.”). Both types of companies can be set up by one or more quotaholders/shareholders and used as joint-venture vehicles for partnerships between Hungarian and foreign investors. There is no special type of company reserved for foreign investors.

Differences between a Kft. and a Zrt.: a Kft. has a less complex structure, allowing more freedom for its members in regulating the operation and other matters of the company, while a Zrt. is a more heavily regulated company form. In principle, a Kft. is the type of entity which better suits smaller companies, while a Zrt. is more suitable for companies with widely spread share capital or which intend to get access to capital markets. A Kft.’s minimum registered capital is HUF 3,000,000 (approx. €9,300) and is divided into “quotas” that are not incorporated in share certificates but merely represent a percentage of the overall capital. Consequently, each quotaholder owns only one quota, the value of which may vary depending on the portion of the corporate capital owned. The minimum share capital of a Zrt. is HUF 5,000,000 (approx. €15,500), and the membership interests of the shareholders are represented by the various types of shares issued by the Zrt. either in dematerialized or printed form. The share capital or the registered capital of either company form may consist of cash contributions, in-kind contributions (e.g. assets, receivables, or real property), or a combination of the two.

Shareholders and directors: There are no limitations on foreign individuals and entities being shareholders and/or directors in a Hungarian company (and individuals and entities need not reside in Hungary for these purposes), subject to certain general rules of company law (e.g. conflict of interest rules). Directors generally bear unlimited liability towards the company for damages caused by a breach of law, the articles of association, or shareholder resolutions. A member/shareholder is generally not liable for the debts and obligations of a Kft. or a Zrt. However, Hungarian law stipulates certain circumstances under which the member/shareholder may bear unlimited liability towards the creditors of the company (e.g. if the shareholder abuses its limited liability or if a shareholder having a qualified majority carries on a continuously detrimental business policy in respect of a company).

B. Real Estate, Construction and Insurance

Ownership or lease: Manufacturing projects in Hungary are typically carried out on owned land and leasing constructions are not commonly used for such purposes.

Construction: Typically, turn-key construction contracts are concluded, FIDIC terms are also used widely.

Permits: In most cases, construction projects for manufacturing plants require a building permit. For certain types of construction works it is sufficient to notify the building authority before commencing the construction works (but no permit is needed). The issuance of a building permit is subject to the approval of various authorities, depending on the type of the construction project (e.g. fire protection, public health authorities). A person whose right or lawful interest is affected by the construction may appeal against the building permit. In practice, this usually means the owners / users of nearby properties (properties exposed to adverse physical effects, e.g. noise, air pollution and the blocking of sunlight).

Commencement of works: The developer is entitled to commence construction works based on the final building permit, which is effective for three years, subject to extension(s). The construction works generally need to be finished and be suitable for receiving an occupancy permit within five years from the commencement of the works. If the construction works are carried out without (or in breach of) a building permit, the building authority may stop the construction works and impose a fine on the developer. In a worst case scenario, the building authority may issue a demolition or reinstatement order. Once the works have been completed, an occupancy permit may be required before the building is put into use (depending on the specifics of the construction).



Mandatory construction cost escrow mechanism:

The principal must involve an escrow agent if the value of the construction works reaches the threshold of €5,548,000 (determined for 2018). Prior to signing the construction contracts, the principal should check if an escrow agent scheme is required for the project. The escrow agent (typically a bank) acts as a “financial intermediary” between the subcontractors and the general contractor. Its main role is to pay the contractors’ fee to the subcontractors, which is deposited in advance by the principal on the escrow agent’s bank account. The principal must provide the contractor’s fees to the escrow agent’s exclusive disposal by the commencement of the respective construction phase.

Insurance: Developers usually require ‘contractor’s all risks’ (CAR) insurance and civil liability insurance (tort and contractual) from the contractors, issued by a reputable insurance company.

C. Administrative law – dealing with authorities – including anti-bribery laws

Certain manufacturing activities may require environmental permits or so-called site permits, depending on the type and volume of the operations. Developers should check in advance what kind of permit is required in light of their planned operation.

In a number of administrative matters, companies are obliged to file and receive official documents to and from the competent authorities in electronic form.

Giving, offering, or promising any unlawful advantage to a public official in connection with his/her functions, whether directly or indirectly (including to or through a third party), constitutes a criminal offense under Hungarian law, regardless of the amount or type of the advantage at hand (e.g. facilitation payments, other items of value, personal advantages). If such illicit acts are intended or performed for the benefit of the company, the company may be subject to criminal law sanctions in addition to the perpetrator (such as fines, limitations on activities, or even the termination of the company by the criminal court).



D. Employment

Forms of employment and regulation of the employment relationship

- Employment relationships may be concluded for a fixed term or for an indefinite period. It is also possible to hire personnel through temporary work agencies, where such personnel are formally employed by the agency but receive their instructions from a company using the services of the agency under a civil contract concluded between the company and the agency.
- Employment relationships are regulated by the Labor Code and other legal regulations. As a general rule, collective bargaining agreements (if applicable to the employer) and individual employment contracts can only diverge from the rules set forth in law to the advantage of the employee. In respect of certain matters that can be decided by the employer (e.g., work schedule, benefits), the employer can also issue internal policies.
- Employment contracts must be made in writing and must include at least the data of the employer and the employee, the base salary and the position of the employee. Employment contracts are concluded for an indefinite term by default; if the contract is for a fixed term, this fact needs to be stated in the contract.
- Under certain circumstances, it is possible to employ personnel under service contracts, which are regulated by the Civil Code. However, authorities may reclassify a service/consultancy agreement as an employment agreement, if the terms thereof or the actual work conditions are typical of an employment relationship (e.g., work performed under the authority and upon the detailed instructions of a company, regular



working hours, vacation entitlement, benefits). If a service/consultancy agreement is reclassified as an employment agreement, the employer may be ordered to pay taxes retroactively and may also be subjected to substantial fines.

Basic obligations of the employer

- Ensuring that each employee has a written employment contract and registering the employer entity and each of the employees with the Tax Authority;
- Ensuring that each employee is informed in writing of main employment conditions (e.g., working time, salary payment date, represented trade unions);
- Ensuring that each employee is informed in writing about how his/her personal data is processed;
- Observing working time and holiday allocation rules and keeping records of working time and holidays;
- Ensuring that the principle of equal treatment is strictly observed;
- Paying salaries, as well as statutory premiums (shift premium, night premium, overtime); and
- Obtaining work permits for foreign employees (non-EU citizens), if necessary.



Monthly gross (statutory) minimum salary (in 2018)

Basic monthly gross minimum salary for full-time employees	HUF 138,000 (approx. €448)
Monthly gross minimum salary for full-time workers employed in positions requiring secondary school diploma or advanced vocational training	HUF 180,500 (approx. €586)

Social security burden of employer (in 2019)

Personal income tax (payable by private individuals)	15%
Public levies payable by an employee (deducted by employer)	10% pension contribution
Public levies payable by an employee (deducted by employer)	7% health insurance contribution

Termination of employment

The employer can terminate the employment of an employee by unilateral termination with immediate effect (i.e., for cause); by unilateral ordinary termination; or by way of concluding a mutual separation agreement. Unilateral termination must always take written form and be properly reasoned in line with strict legal requirements. In case there is a dispute, the burden of proof is on the employer, i.e. the employer must be able to demonstrate and provide evidence that the reasons referenced in the termination notice did occur and that they justify the termination of employment. If the employment is terminated by unilateral ordinary termination, a notice period, usually ranging between 30 and 90 days, must be observed, and the employee may be entitled additionally to statutory severance pay.

Before proceeding with the termination of the employment of an employee by ordinary unilateral termination, it is important to clarify whether such employee enjoys any statutory protection (e.g., maternity) that would render the termination notice invalid and expose the employer to wrongful termination claims.

E. Tax and State Aids

Tax requirements

When setting up or acquiring a business in Hungary, investors must comply with numerous administrative requirements (tax filing, financial reporting, etc.). It is expedient to engage a professional tax adviser even prior to starting the business establishment or acquisition process to help plan the process from the outset.

- **Corporate tax:** The general corporate income tax level is nine percent of the net profits, subject to items increasing and decreasing this tax base (alternative minimum taxation may apply in certain cases). Certain projects may benefit from corporate tax allowances, including development tax allowance. Under the development tax allowance rules, new investment projects with an investment volume of at least HUF 3 billion (approx. €9.3 million) and creating at least 50 workplaces, or HUF 1 billion (approx. €3.1 million) and 25 workplaces in preferred regions, may be eligible for corporate income tax reductions of 80 percent (depending on the applicable conditions). The allowance can be utilized in the year of the investment and during the subsequent 12 years.
- **Property tax:** A transfer tax, amounting to four percent up to a value of HUF 1 billion (approx. €3.1 million) and two percent of the part of the value exceeding HUF 1 billion, and capped at HUF 200 million (approx. €620,000) per property, applies to the acquisition of real estate and shares in real estate companies and is payable by the purchaser. In addition, local governments may impose land taxes or building taxes. The amount of such local taxes depends on the location or value of the land or building.
- **Other types of tax:** Depending on the activity to be performed by the company, other types of tax may be applicable (e.g. excise tax).

State aid

Government funds: The Hungarian Government offers subsidies based on individual government decisions (a.k.a. VIP cash grants) to investors with significant FDI projects creating workplaces in Hungary. Preference is given to projects in the biotechnology, electronics, engineering, pharmaceutical, IT, automotive and food industries, as well as projects involving regional shared service centers. Certain sectors and activities (e.g. steel sector, synthetic fibers sector, and primary agricultural production sector) are not eligible for VIP cash grants. Projects must generally have an investment volume of at least the HUF equivalent of €5 million, create at least 50 new workplaces and be maintained for a mandatory operation period of five years to be eligible for VIP cash grants. Higher thresholds of investment volume and minimum number of new workplaces apply in more developed regions. Special rules apply to research and development (R&D) and technology-intensive projects. The number of subsidies that may be allocated to a given project will depend on the location of the project. The highest aid intensity (meaning the amount of subsidy available for a given investment volume) is 50 percent and is available in Eastern Hungary. The business must be able to demonstrate an incentive effect to qualify for a subsidy and must be conducted continuously (subsidized assets must be retained and the stipulated level of employment must be maintained) during the mandatory operation period.

EU funds: Hungarian investment projects may benefit from subsidies available from EU funds, including the European Regional Development Fund and the European Social Fund for a large variety of projects. These cover a far greater range of projects than the VIP cash grants. Top priority targets are sustainable and quality employment, as well as competitiveness of small and medium enterprises. EU funds are generally awarded to businesses through tenders issued by the competent governmental agency from time to time.

Other sources

- Cash grants for investments in the training of employees may be granted through individual governmental decisions or an agreement with the government.
- The National Employment Fund offers cash incentives to investors who create new workplaces, preserve existing workplaces or employ disabled or disadvantaged workers (conditions apply).
- Companies may apply for funds from the National Research, Development and Innovation Fund through competitive tenders (conditions apply).
- Certain municipalities (local governments) offer smaller incentives to investors, usually in the form of local tax exemptions.

Recommendations and things to watch out for:

- Investors should ensure that they receive the Government's acknowledgment of eligibility prior to the commencement date of the project (as defined in the relevant legislation), as failure to observe the relevant deadlines could preclude the granting of subsidies. Additionally, investors are advised to check whether they have performed any relocations (i.e. a transfer of the same or similar activity, or part thereof, from an establishment in an EEA country to Hungary) in the two years preceding the application for the subsidy or have plans to do so up to a period of two years after the planned investment is completed. If a relocation has taken place or is planned, the subsidy may need to be approved by the European Commission.
- Certain sectors (including automotive, manufacturing and food production) have suffered from labor shortages in recent years. This could pose difficulties in complying with the relevant thresholds relating to the required number of employees.



F. Protecting your intellectual property and complying with data privacy obligations

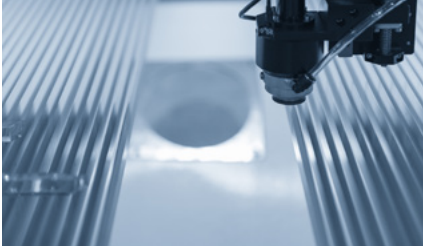
The Hungarian IP regulations are fully harmonized with EU law and Hungary is party to all major international IP agreements. Hungary recognizes two main categories of IP rights: copyright and industrial property rights.

- **Copyright:** The Copyright Act protects literary, academic, scientific and artistic works including computer programs and the related documents (software), architectural works, designs for technical structures and databases recognized as compilations.
- **Industrial property rights:** Industrial property rights are regulated by sectoral laws and include the following types of rights:
 - Patent protection of inventions;
 - Protection of utility models;
 - Protection of topographies of microelectronic semiconductors;
 - Protection of trademarks;
 - Protection of geographical indications;
 - Protection of designs;
 - Protection of plant variety rights;
 - Protection of patterns;
 - Protection of trade secrets and know-how; and
 - Protection of business names, including domain names.
- **Data privacy:** The provisions of the General Data Protection Regulation (GDPR) are applicable together with the Hungarian Act on the Right of Informational Self-Determination and on Freedom of Information, which is now fully harmonized with the GDPR. Personal data may be processed for clearly specified and lawful purposes only, where it is necessary for the exercise of certain rights or the fulfilment of obligations. An important aspect to consider is data protection at the workplace, as practically all companies process the data of their employees and directors. This aspect includes the processing of personal data in connection with the employment in general, entry/access control and worktime recording systems, surveillance at the employer's premises, monitoring the use of IT equipment, geolocation, etc. In some cases, the employer is required to carry out a data protection impact assessment prior to implementing a particular data processing activity (the employer also needs to consult the works council in matters relating to employee data processing).



Operating





A. Connecting to utilities

In case of greenfield projects, owners of the manufacturing plants are required to enter into a number of agreements with the relevant utility service providers (e.g., natural gas, electricity, drinking and sewage water, etc.), as the case may be, with respect to connections to and utilization of the public purpose networks (grids) for each connection point of the relevant property.

In case of brownfield projects, and provided that the existing premises have operating connection point(s) to the grids and no capacity expansion is required, only network utilization agreements will need to be concluded with the relevant utility service providers. Tariffs payable for connection and utilization are usually set by law.

Network connection and utilization agreements applied by the utility service providers are usually template agreements based on the applicable laws. Such agreements are subject to the general terms of business of the relevant service provider. Usually there is practically no room for owners of the manufacturing plants to renegotiate or amend the terms of these agreements (except for the technical and financial conditions of the connection, which may vary depending on the system requirements and other specifics of the relevant connection point).

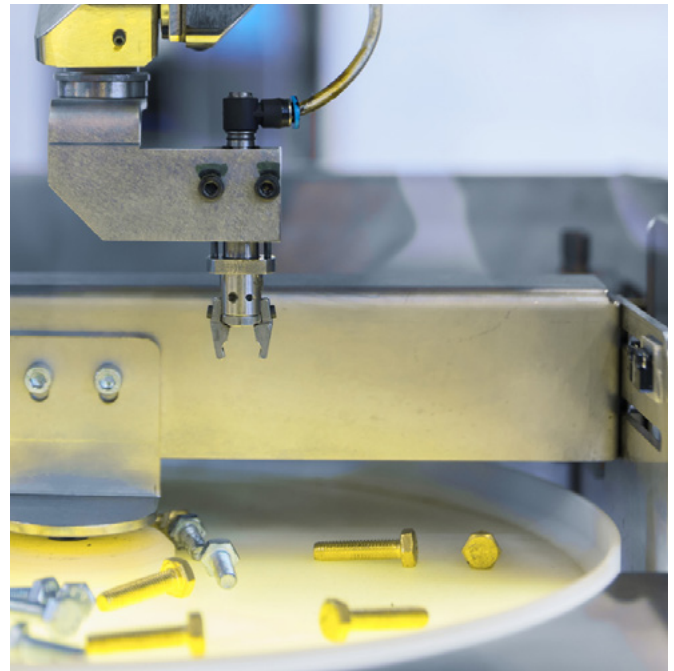
In addition to the above, and subject to the specific requirements applying to the relevant manufacturing activities, owners of the relevant properties may be required to procure additional utility services as well, such as for the treatment and disposal (transportation) of waste, ICT related services (internet and phone), etc.

B. Health and Safety

Employers are generally required to organize work in a way that ensures working conditions that do not endanger the life, health and safety of the employees. Within this framework, employers must arrange for medical aptitude tests for each employee upon entry and at regular intervals and provide health and safety at work training for the employees. Employers may also be required to organize elections for a Work Safety Representative under certain conditions. In the absence of a Work Safety Representative, employers should inform and consult the employees directly on health and safety issues.

The most important specific obligations of the employer in the field of work safety are to:

- Engage an expert to assess risk factors at the workplace; such risk assessment is required to be updated periodically and also in the event of new, potentially hazardous equipment being installed;
- On the basis of such risk assessment, prepare and implement a work safety policy that regulates work in such a manner that ensures occupational safety and health;
- Prepare and implement a fire safety policy;
- Provide the employees with such work safety equipment as may be required on the basis of the risk assessment and work safety policy documents;
- Ensure appropriate working conditions in line with the risk assessment and the work safety policy (depending on the type of activities pursued by the employer company, this usually includes the obligation to provide to all employees drinking water; facilities for dressing, washing, medical care, eating, resting and warming up; natural and artificial lighting suitable for the nature of the work; fresh air in sufficient quantity and quality, without any harmful pollutants, and at the proper temperature; etc.);
- Engage a medical services provider to conduct a medical aptitude test for each employee upon entering work and then periodically (periodicity depending on risk factors);
- In the event that the number of employees exceeds 20, ensure that the employees elect one or several work safety representatives (the number of such representatives depends on the total number of employees) and refrain from obstructing the work of such work safety representative(s); and
- Investigate and properly document and report to competent authorities any workplace accidents and occupational diseases.



C. Trade Unions

Trade Unions

Any trade union that has the employer company's employees as its members may establish a representation with such employer.

Trade unions may negotiate and conclude a collective bargaining agreement, which may diverge from default labor law rules on a number of material points (e.g., increase the annual overtime cap, extend the maximum term of the trial period).

Trade unions are entitled to require information related to the employees' interests from the employer and to initiate negotiations with the employer and are also authorized to represent their members in lawsuits.

Trade union officers are entitled to working time allowance for their employee representation activities, and they are protected against termination by the employer (approval of the trade union body is required for termination with notice by employer).

Strikes, as a form of industrial action, are permitted if organized in accordance with the provisions of the pertinent act (note that so-called solidarity strikes may only be initiated by trade unions.)

Works Councils

If the number of the employees exceeds the threshold set by the Labor Code, a works council must be elected by the employees. In cases where the establishment of a works council is not mandatory, but the number of the employees on payroll reaches a lower threshold, a so-called employee representative is required to be elected by employees. Employee representatives have almost identical functions as a works council.

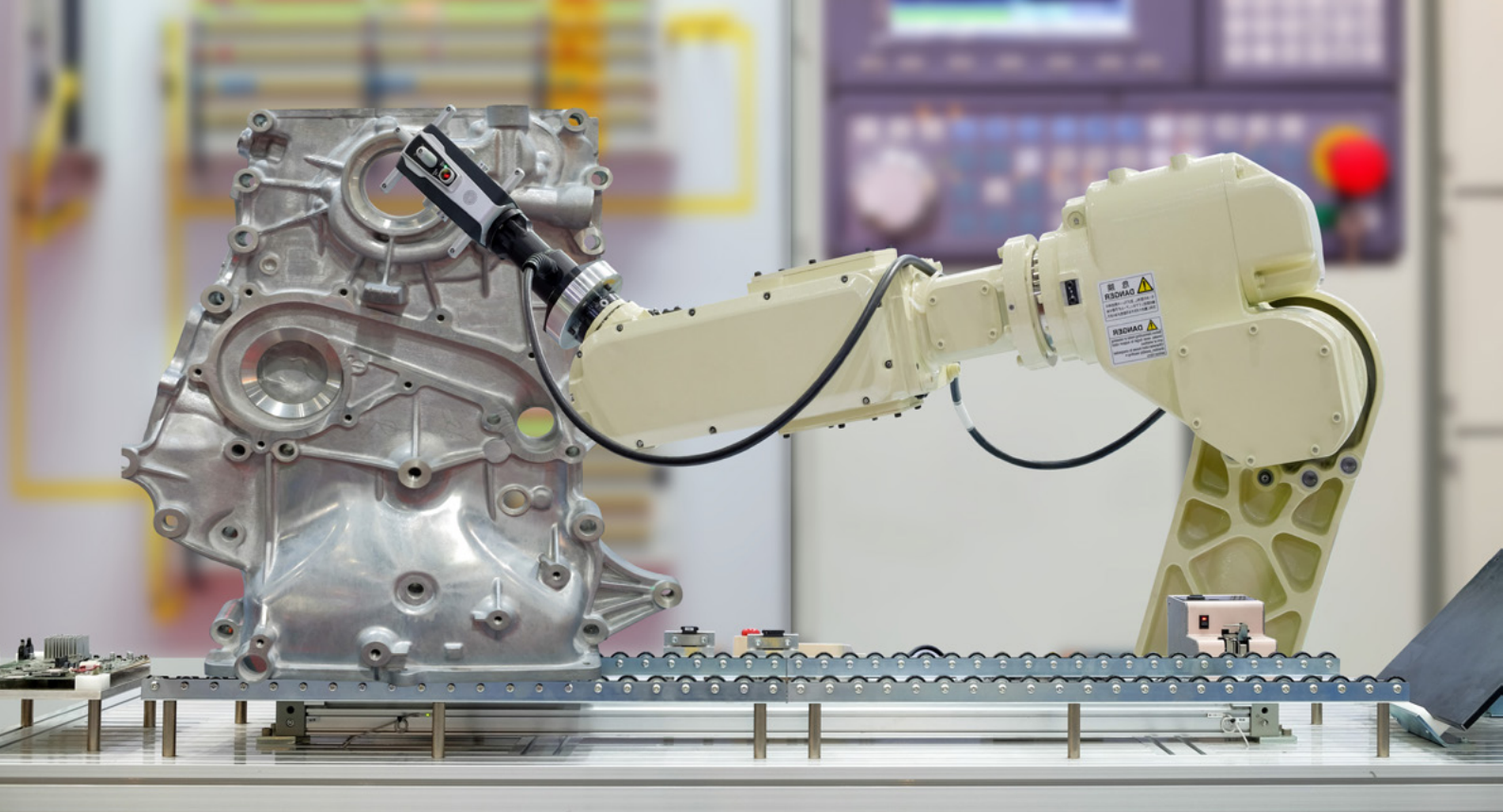
In addition to this, if the number of employees on payroll exceeds the threshold set by the Civil Code, a company is under a statutory obligation to establish a supervisory board, and the works council is entitled to appoint one of its members.

The works council has broad consultative powers. Almost any major decision relating to work scheduling, reorganizations, etc. needs to be discussed with the works council in advance.

Works councils may conclude works agreements with employers, and such agreements are similar to collective agreements in that they may include provisions on rights and obligations arising out of or in connection with employment relationships with the exception of those related to the remuneration of employees, on the condition that the employer has not concluded a collective agreement with a trade union and that there is no relevant trade union entitled to conclude a collective agreement.

The employer may also conclude a works agreement with the employee representative, but such works agreement may not include provisions on rights and obligations arising out of or in connection with employment at all.

Works councils and employee representatives must remain neutral in the event of a strike.



Work Safety Representative

Employers are under a statutory obligation to ensure that employees elect one or several work safety representatives (the number of such representatives depending on the total number of employees) and refrain from obstructing the work of such work safety representative(s) in the event that the number of employees on their payroll exceeds the threshold set by the pertinent act, but such representatives must be elected even in smaller companies if the local trade union, works council or employee representative so requests.

Work safety representatives have the right to request information concerning safety issues from the employer, to monitor compliance with regulations on workplace safety (equipment, personal protective gear, trainings), to participate in the preparation of decisions by the employer that might have repercussions on employees' health and safety, and to refer justified cases of non-compliance to inspectorates.

D. Industrial Risk & Insurance

Employees may claim compensation for injuries suffered at the workplace, and employers are required to inform any employee suffering an injury of the applicable procedures. Liability is established by the authorities responsible for work safety, taking into account the aforementioned documentation. The decision of the authority may be appealed before the local employment court by either party.

Employers are liable for injuries/sickness/damages incurred by the employee in connection with the employment relationship unless they prove that the occurrence was a consequence of unforeseen circumstances beyond their control and there was no reasonable cause to take action for preventing or mitigating the damage or that the injury/sickness/damage was caused solely by the unavoidable conduct of the aggrieved employee. The statutory limitation for employee compensation claims is three years.

Employers are strongly advised to maintain an employer's occupational insurance with an insurance provider to protect their interests.

E. Commercial and Insolvency related risks related to suppliers

The bankruptcy of a legal entity has an impact on creditors' claims. Hungarian law regulates two main types of insolvency proceedings against companies: (i) bankruptcy proceedings (in Hungarian: *csődeljárás*) aimed at the restructuring of the company's debt and the continuing of its operations, and (ii) insolvent winding-up proceedings (in Hungarian: *felszámolási eljárás*) which is aimed at the termination of the company and the satisfaction of the creditors by way of liquidating the company's assets and the collection of its receivables.

Companies may not be able to enforce claims against bankrupt suppliers. In case of bankruptcy proceedings, the stay of payment (moratorium) prevents enforcement of claims and most securities against the debtor, and the settlement reached by the creditors may not fully satisfy creditors. If a supplier enters into insolvent liquidation, claims of privileged creditors (including banks with mortgage rights and pledges and tax authorities) usually do not leave sufficient funds to satisfy other creditors.

If creditors hold a claim against the bankrupt legal entity, they are required to register their credit with the legal entity and the administrator and pay the applicable registration fee to the appointed administrator. The bankruptcy administrator shall register and classify the claims. The legal entity and the creditors may present their views in relation to such classification. Such comments shall be evaluated by the administrator, and the legal entity and/or the creditors may submit their objections (if any) against such evaluation to the court having jurisdiction over the bankruptcy procedures.

F. Defending your intellectual property

Protection of copyright: A work is entitled to copyright protection under Hungarian law on the basis of its individualistic and original nature. Hungarian copyright law recognizes the authors' economic and moral rights. Within the framework of an author's moral rights, it shall be the author's exclusive right to disclose the work, to withdraw it from the public, to have his name indicated on the work, and to prevent any distortion, mutilation or any other modification of the work, which would be prejudicial to the author's honor or reputation. Within the framework of an author's economic right, the right holder has the exclusive right to authorize the use of the work, i.e. its reproduction, its distribution, its public performance, its communication to the public by broadcasting or in any other manner, its retransmission, its alteration and its exhibition. The right holder is entitled to remuneration for use of the work and such right may be waived only by an express statement to that end; in certain cases, the law may exclude the right to waive the remuneration.

Protection of industrial property rights: Registration to protect the main types of industrial property rights is possible on the following levels:

- **National:** Hungarian Intellectual Property Office and Council of Internet Service Providers
- **European:** European Union Intellectual Property Office and European Patent Office
- **International:** World Intellectual Property Organization

Remedies for the infringement of IP rights:

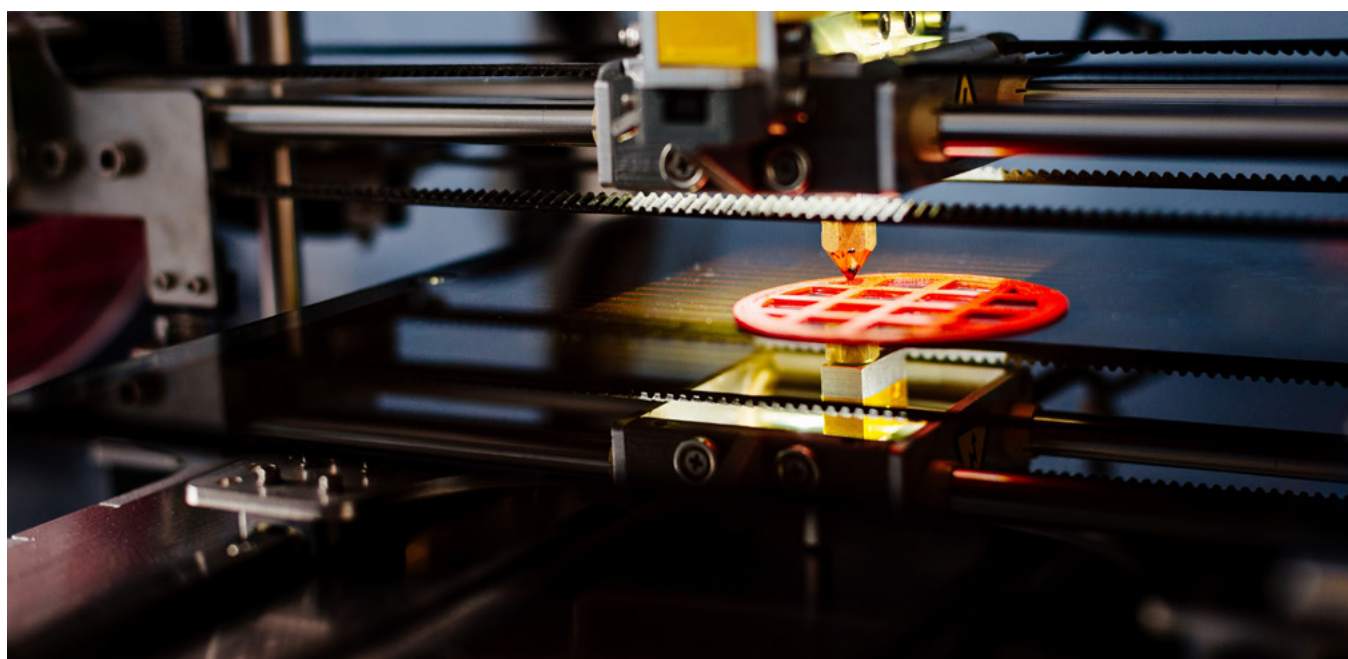
Measures for the protection of IP rights include both civil and criminal measures provided for in the copyright and industrial property laws and criminal law. In case IP rights are violated, the right holder has a number of remedies:

- The right holder may demand a court ruling establishing that there has been an infringement of rights;
- The right holder may demand that the infringement of rights be terminated and that the infringer be enjoined to cease any further infringement of rights;
- The right holder may demand that the infringer make amends for its actions by declaration or in some other appropriate manner;
- The right holder may demand that the infringer provide information on parties taking part in the manufacture of, and trade in, goods or

the performance of services affected by the infringement, as well as on business relationships established for use by the infringer;

- The right holder may demand restitution of the economic gains achieved through the infringement of the rights; and
- The right holder may demand that the infringement be terminated and the antecedent state of affairs be restored.

In the event of an infringement, the right holder may also demand compensation for damages in accordance with the provisions of civil law. In the event of a violation of personal rights, the author may also demand restitution in accordance with the general rules of civil law. The Hungarian Criminal Code also defines a number of offences and establishes penalties related to the violation of IP rights.



G. Regulation compliance

Directive 2001/95/EC of the European Parliament and of the Council of December 3, 2001 on general product safety was fully implemented into Hungarian law. The relevant Hungarian regulations stipulate the obligation of the producer to place only safe products on the market and the basis on which the safety of a product shall be assessed (e.g. the fundamental criteria of a product, or its impact on other products, health or environment). If a producer does not comply with the applicable EU or national regulations, the market surveillance authority may:

- Prescribe the placement of information concerning the danger arising from the use of the product;
- Order an extensive communication to the public so that consumers can be notified of the danger arising from the use of the product;
- Restrict or prohibit the placing on the market and the advertising of the product;
- Order the withdrawal of the product and prescribe the communication of such withdrawal;
- Order the recalling of the products or, if appropriate, organize, together with producers and distributors, the recalling of the products from consumers and the destruction of the products (taking into account environmental considerations) and monitor the execution of the same;
- Order the producer or the distributor to eliminate the errors and deficiencies revealed;
- Prohibit the distribution or the sale of the product, or only permit it subject to conditions until the legality is restored; and/or
- Impose a fine.

H. Competition law investigations

Investigations: Competition law investigations are carried out by the Hungarian Competition Authority (the Authority). The two stages of the investigation are the examination phase and the proceedings of the Competition Council.

Dawn raid: The Authority may carry out unannounced dawn raids in specific cases. In the framework of the dawn raid, the Authority is entitled to search any premises, vehicle or data carrier.

Fines: The Authority is entitled to impose a fine for any infringements. The amount of the fine can be up to a maximum of 10 percent of the company's net sales revenue for the financial year preceding the year when the resolution was adopted. The fine imposed upon associations of companies can be a maximum of 10 percent of the previous financial year's net sales revenue of the member companies.

Appeal: A complaint can be lodged in writing with respect to any irregularity in the investigation proceedings within eight days from the date of occurrence of such irregularity. An appeal can be proposed against the order of the Authority. The appeal is judged by the competent Competition Council. An appeal can also be proposed against the decision on agreements restricting economic competition within thirty days from the date when the decision was received.



I. Tax investigations

Main rights of taxpayers in case of investigations:

The company may engage a representative (e.g. tax adviser) to assist it during the investigation. The representative of the company may be present during all phases of the investigation at the company. The company may request to inspect the files of the case at any time. Following the conclusion of the investigation, the company may make comments and remarks with respect to the findings of the authority.

Main obligations of taxpayers in case of investigations: The company must generally cooperate with the tax authority during the investigation. It must grant access to its premises in case of a tax investigation. The tax authority may inspect any and all documents, receipts, accounting software etc., as well as vehicles and premises (if there are grounds to believe that evidence is being concealed). However, if there is no obligation to prepare and keep a certain type of record, calculation, overview or similar document, the company is not obliged to hand such document over to the tax authority.

Tips in case of investigations: Usually, the tax authority notifies the company in advance with regard to an investigation (and indicates which documents it would like to inspect). Documents handed over

to the tax authority should be retained in copy to avoid disputes as to what has been received by the authority. The company may consider making statements and comments to indicate its position about the case towards the tax authority. The findings of the tax authority made in the course of the investigation are included in a protocol. It is crucial to collect any and all remarks with respect to the findings in the protocol and submit them to the tax authority, as the company may not be able to bring these before the authority in case of an appeal if the company was aware of the relevant facts or evidence already during the investigation phase.

“Tax speed cam”: The Hungarian tax authority regularly publishes a list of priorities of enforcement, indicating the types of businesses, activities or violations it will investigate in a certain period (usually the coming weeks or months). Businesses should consult the tax authority’s homepage regularly to check whether their activities are listed.

Mentoring: Hungarian law provides for a so-called mentor program for newly established businesses. The aim of the program is for the Hungarian tax authority to ensure the tax compliance of companies, prevent incorrect taxation practices and assist companies in the fulfillment of their obligations under tax laws. The mentoring is available for a period of six months upon the request of the company.

J. Compliance monitoring – anti-bribery, anti-money laundering and whistle blowing rules in Hungary

Compliance monitoring: In general, companies need to put in place adequate policies and procedures, as well as internal controls, to ensure compliance with legal and industry regulations relevant to their operations. These include (but are not limited to) areas of health and safety at work, fire protection, chemical hazards and industrial safety, environmental protection, product safety, and other areas (depending on the company's activities). Non-compliance with such regulations may result in fines of up to several million Euros.

Further, companies are advised to put in place adequate policies and procedures, as well as internal controls to prevent criminal offenses within the organization. This is due to the fact that under certain circumstances companies may be subject to criminal law sanctions. The general conditions for imposing criminal sanctions on a company are as follows:

1. A willful offense resulting in (or intended to result in) the gaining of an advantage for the benefit of the company or committed through the use of the company, where such offense was perpetrated by (i) a director, a member/shareholder authorized to represent the company, employee, executive or company manager or supervisory board member of the company, or the agent of these persons within the scope of activities of the company; or (ii) a member/shareholder or employee of the company within the scope of activities of the company, and an executive, a company manager, or a supervisory board member of the company could have prevented the perpetration of the offense by duly fulfilling its controlling or supervising duties; or
2. A willful offense resulting in an advantage for the benefit of the company (or perpetrated by using the company), if the director, member/shareholder authorized to represent the company, employee, executive or company manager, or supervisory board member of the company was aware of the perpetration of the offense.

Three specific types of sanctions may be applied against legal entities:

- A fine of up to three times the amount of the financial gain achieved or intended to be achieved by the offense, but at least HUF 500,000 (approx. €1,500);
- The limitation of the activities of the company, at the court's discretion (this may include a ban on participation in public procurement procedures or a prohibition from receiving public grants or subsidies); and
- The dissolution of the entity.

In addition to the above, the assets of the legal entity may be subject to confiscation and/or a forfeiture of collateral profits.

Anti-bribery: Failure to prevent bribery is a criminal offense under Hungarian law. If a person working for or on behalf of a company commits an act of bribery of public officials for the benefit of the company, and such act of bribery could have been prevented if the directors of the company (or other person working for or on behalf of the company vested with authority to exercise control or supervision) had properly fulfilled their control or supervisory obligations, the directors and other persons with supervisory powers may be subject to criminal law sanctions (including imprisonment for up to five years). Accordingly, companies are advised to put into place adequate policies and procedures, as well as internal controls to prevent bribery within the organization. Additionally, it

is advisable to carry out a due diligence on suppliers and subcontractors to ensure that they do not engage in any behavior that may be in breach of anti-bribery laws. Further, the company may need to consider whether foreign laws regarding anti-bribery (such as the UK Bribery Act or the Foreign Corrupt Practices Act) are applicable to the company and take necessary steps to ensure compliance.

Anti-money-laundering: Hungarian laws on anti-money-laundering implement the relevant OECD and EU regulations and directives. The definition of money laundering also follows these regulations, i.e. making punishable certain actions in connection with assets obtained from any punishable criminal offense committed by others, such as:

- Converting or transferring the asset in question, or performing any financial transaction or receiving any financial service in connection with the asset (e.g. in order to conceal or disguise its origin);
- Concealing or disguising the origin of the asset;
- Obtaining the asset for oneself or a third party; and
- Safeguarding, handling, using, or consuming the asset, or obtaining other financial assets by way of or in exchange for the asset, or by using the consideration received for the asset.

The scope of Hungarian anti-money-laundering regulations that require active measures, systems and processes (e.g. customer due diligence and reporting obligations) cover financial and insurance service providers, gaming operators, dealers of real estate and precious metals, certain accounting and legal professionals and trustees.

Whistle-blowing regulations: Hungarian law allows companies to set up whistle-blowing schemes (including with respect to the reporting of potential violations of group policies). The works council (or employee representative) must be notified about the implementation of a whistleblower system, and the works council must be requested to give an opinion about the system (however, the works council cannot block the implementation of the system; individual consent by employees is not required).

The scope of topics that can be reported may be restricted to violations of (i) legal regulations and (ii) legal principles of public and material private interest, as specified in underlying policies.

Only employees, customers and business partners (including employees who could be regarded as acting on behalf of a business partner), or persons who have a legitimate interest, can file reports. The processing of reports may be outsourced, including through the engagement of an ombudsperson.

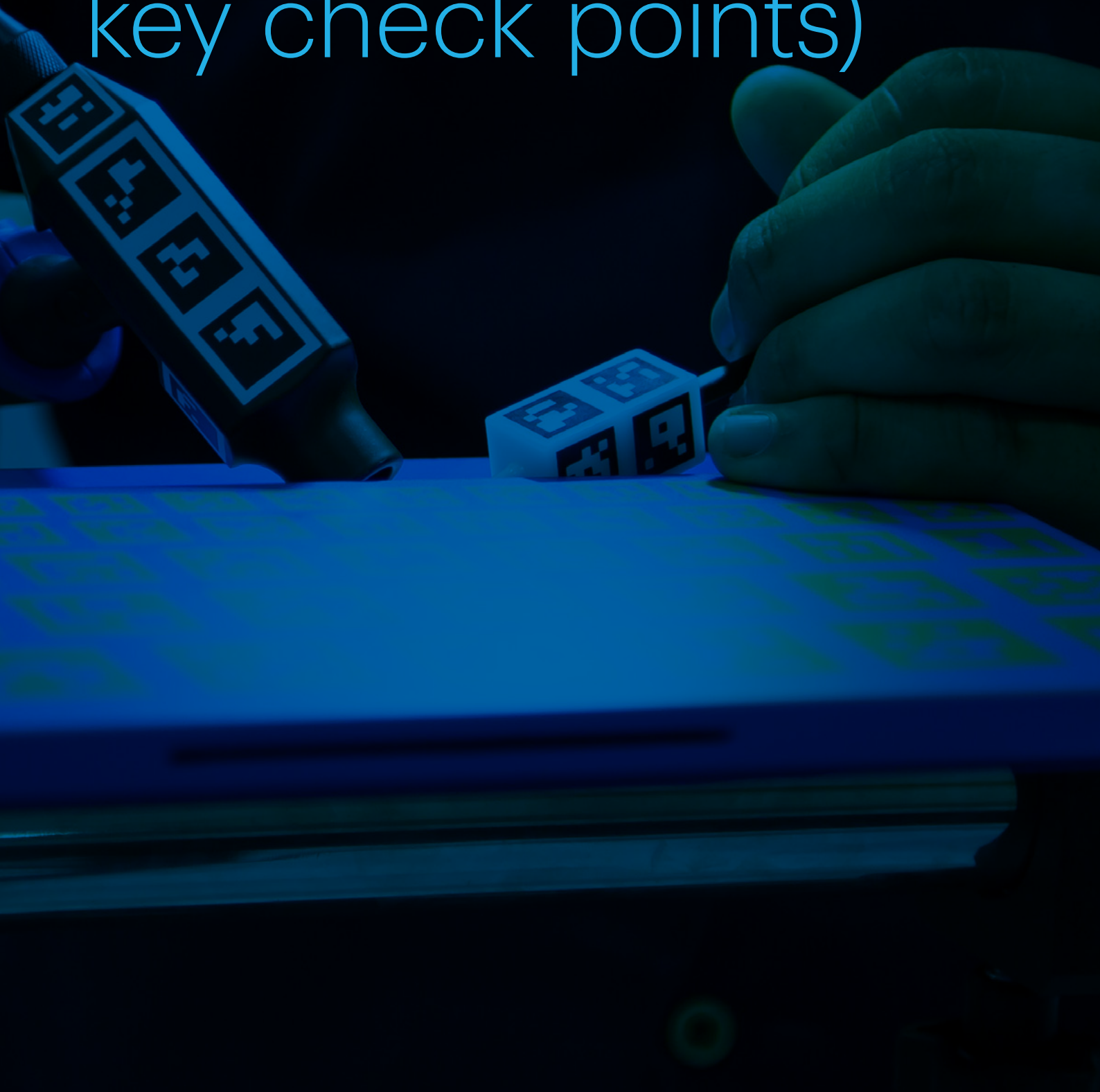
The anonymity of the whistleblower is not mandatory but permitted. However, the whistleblower system must be designed so that the identity of the whistleblower is only disclosed to the persons conducting the internal investigation. Anonymous reports can be disregarded. The company must ensure that good faith whistle-blowers are not subject to retaliation.

All reports must be treated as confidential. The persons conducting the internal investigations shall keep the content of the report/complaint and information regarding the implicated persons secret and may not disclose such information to any other organizational unit or employee of the company (other than informing the implicated person) until the internal investigation is completed or, as a result of such investigation, formal procedures are initiated against the implicated person.



Acquiring and selling a plant

(buy side & sell side
key check points)





A. Share deals & Asset deals

Investments in real estate assets in Hungary, including manufacturing plants, can be completed through:

- An asset deal, structured as either an acquisition of a real estate asset or an acquisition of an on-going business / ongoing-business branch; or
- A share deal, i.e. the acquisition of the shares/quotas of a company which owns a real estate asset.

Asset deals – main pros & cons:

Asset deals do not entail any risks not directly related to the purchased asset.

Cherry picking is possible: if the asset deal is structured as an acquisition of an on-going business / ongoing-business branch, there is no automatic transfer of all the assets and liabilities pertaining to the transferred business. The parties may agree to exclude specific assets and liabilities (with the exception of employment contracts, if any).

No automatic transfer of contracts pertaining to the transferred plant, save for (i) with respect to the acquisition of an ongoing business or ongoing business branch, eventual employment contracts, which the purchaser is legally obliged to step into, and under which the purchaser is obliged to take over related liabilities, and (ii) with respect to the acquisition of a real estate asset, lease agreements and janitor agreements (or equivalent contracts).



Restrictions on specific real estate transactions could be applicable to foreign investors and individuals:

- **Agricultural land:** As a general rule, non-EU foreign individuals and Hungarian or foreign legal entities may not acquire agricultural land. From 2014, EU citizens may acquire agricultural land on the same terms as Hungarian citizens. The acquisition of agricultural land by EU and Hungarian citizens is subject to special conditions.
- **Non-agricultural real estate:** EU citizens and legal entities resident in the EU (or EEA legal entities) may acquire non-agricultural real estate on the same terms as Hungarian citizens and legal entities. Citizens and legal entities resident in other countries will need a permit (governmental consent) for the acquisition of real estate.
- **Pre-emption right:** For certain properties there is a statutory pre-emption right (e.g. pre-emption right on the part of the state and the local municipality with respect to buildings classified protected cultural heritage sites).

Share deals – main pros & cons:

Cherry picking is not possible: All the assets and liabilities related to the purchased shares/quotas are to be transferred.

An extensive due diligence covering all legal aspects relating to the shares/quotas of the target company, existing debts, receivables, liabilities, contracts, financial statements and the company books should be carried out (also in connection with the negotiation of the indemnity provisions inserted in the agreements regulating the deal).

The following restrictions with respect to transfer of shareholdings could be applicable:

- **Statutory restrictions on the transfer of quotas in a Kft.:** As a general rule, quotas are transferable, but such transfers (especially to third persons) are usually subject to certain restrictions, which may include the pre-emption right of the other members, the company itself, or a third person appointed by the members' meeting. The articles of association may also provide that the transfer of quotas to third persons is subject to the approval of the members' meeting, or that quotas may only be transferred based on a sale and purchase agreement.
- **Restrictions on the transfer of shares of a Zrt.:** Shares are registered, have a face value and are freely transferable securities as a general rule. The articles of association of a company, however, may impose certain limitations on the transfer of shares (such as a requirement for board approval, or a pre-emption right, option right, or redemption right). However, if such restrictions are imposed, they have to be clearly discernable from the share certificate itself or the securities account in case of dematerialized shares.

B. Real Estate

Due diligence: Prior to the acquisition of a real property, it is highly recommended that a due diligence exercise is carried out in order to identify potential risks (e.g. title to the property, environmental issues, monument protection or other restrictions on transferability, use and utilization of the property, encumbrances, permits and technical status of the asset, etc.)

Limitations:

- Agricultural land: As a general rule, non-EU foreign individuals and Hungarian or foreign legal entities may not acquire agricultural land. From 2014, EU citizens may acquire agricultural land on the same terms as Hungarian citizens. The acquisition of agricultural land by EU and Hungarian citizens is subject to special conditions.
- Non-agricultural real estate: EU citizens and legal entities resident in the EU (or EEA legal entities) may acquire non-agricultural real estate on the same terms as Hungarian citizens and legal entities. Citizens and legal entities resident in other countries will need a permit (governmental consent) for the acquisition of real estate.
- Pre-emption right: The Hungarian state (and in certain cases, the relevant local municipality) may have a statutory pre-emption right over the real property, in particular, if the property is a listed cultural heritage or if it is located in a designated world heritage area. In such cases, the entire terms of the sale must be notified to the government/municipality, and the state / local municipality may step in as a buyer under the same terms.

Land Registry System: Ownership of all property in Hungary is recorded in the land registry, maintained in the land registry offices throughout Hungary. Each individual parcel of real property is identified by reference to a topographical lot number and is registered by the local land registry office.

The proprietary sheet evidences the current registered owner of the real estate. It also evidences the registered encumbrances over the real estate (such as mortgages, easements and rights of way). It will also contain the data of the real estate (e.g. its area, classification and location) and contain margin notes where applicable.

Title and encumbrances (rights and facts of legal importance) are subject to registration with the land registry and are registered by priority of their filing date, while certain rights may be perfected without registration (e.g. leases, statutory pre-emption rights, etc.).

Information recorded in the land registry shall be considered as true until proven otherwise, even if it is false. A person acquiring a right that is not entered in the land registry may not enforce such right against a party making a purchase in good faith and in reliance on the land registry records.

Statute of limitation: Under Hungarian law, title claims do not expire, however, title/encumbrances recorded for the benefit of a person acquiring rights in good faith, for consideration (exchange of good value), and in reliance on the validity of the previous registration, may not be cancelled from the land registry after three years have elapsed since the date of registration.

C. Third party suretyship on the plant

Real estate mortgages are required to be registered by the land registry office and indicated on the proprietary sheet of the real property.

If the target property is pledged for the benefit of the financing bank, the bank typically issues a pay-off letter confirming the amount necessary for the full release of the liens. Such amount forms part of the flow of funds at acquisition closing, and the pledge release documents are simultaneously delivered by the bank.

D. Employment & Trade Unions

Where a Hungarian company is acquired, it is important to conduct a due diligence exercise to uncover any potential severance costs. If the employees of the target company have been employed by the target company for a long period of time, they may be entitled to substantial statutory severance payments, and the cost of any potential workforce restructuring would be significantly increased.

In the case of a share sale, there is no statutory requirement for the employer to inform or consult employee representatives. However, the employer may be under such an obligation under applicable collective agreements or works agreements concluded by the employer.

If the acquisition of the plant takes the form of an asset sale, then the statutory provisions on transfer of undertakings are applicable, and the rights and obligations arising from employment relationships existing at the time of transfer are automatically transferred to the new employer. The new employer must, therefore, maintain the working conditions specified in collective agreements, works agreements and employment contracts.

Strict notification and consultation are required by law in the case of an asset transfer. The employer must provide prior information to the works council or employee representative, or in their absence, the employees themselves, including data on the transfer's legal, economic and social implications, and the reasons for and date of the transfer. Once the transfer is concluded, another round of notification is required, whereby the works council, employee representative or the employees themselves are to be provided with the new employer's basic data.

In the context of an automatic transfer of undertakings, there is no opt-out right, but the employees may be entitled to terminate their employment based on a substantial change in working conditions (with an entitlement to severance payment). The employer, on the other hand, may not cite the transfer as a legitimate ground for termination with notice, though operational reasons may be cited as grounds for dismissal once the transfer is completed.

E. Specifics for distressed assets

Bankruptcy proceedings: From the date on which the court order for the initiation of bankruptcy proceedings is published, the appointed administrator has to approve and endorse any financial commitment of the debtor. The administrator shall only approve new commitments or payments by the debtor if they serve the debtor's interest in terms of operations and for the preparation of composition arrangements.

Insolvent liquidation proceedings: In the context of insolvent liquidation proceedings, the assets of the debtor have to be disposed of by way of public sales (i.e., public auction or tender) at the highest price that can be obtained on the market. The liquidator may only forgo the application of these requirements in limited cases.

Dealings by companies in financial distress:

The managers of companies in financial distress (in a pre-insolvency situation) have an additional duty of care to preserve the company's assets and to mitigate potential losses of creditors. If the company subsequently enters into insolvent liquidation proceedings, the creditors or the liquidator may bring actions to contest certain transactions and contracts of the debtor (even if they were concluded several years before the initiation of the proceedings) in the following cases:

- Fraudulent trading (transactions intended to conceal the debtor's assets or to defraud any creditor or the creditors, and the other party had or should have had knowledge of such intent);
- Contracts decreasing the value of the debtor's assets (transactions intended to transfer the debtor's assets without any compensation or to undertake any commitment for the encumbrance of any part of the debtor's assets, or if the stipulated consideration constitutes unreasonable and extensive benefits to a third party);
- Unfair preference (contracts intended to give preference and privileges to any one creditor, such as the amendment of an existing contract to the benefit of a creditor, or to provide financial collateral to a creditor that does not have any);
- Improperly settled security (contracts made for the purpose of transfer of ownership by way of guarantee, or the assignment of a right or claim by way of a guarantee or exercising a collateralized option to buy, where the beneficiary exercised such acquired right by failing to fulfill his obligation of accounting toward the debtor, or did so improperly, and/or failed to pay the amount remaining after the secured claim is satisfied).



F. Merger control

A concentration of companies is subject to a duty of prior notification to the Hungarian Competition Authority (in Hungarian: *Gazdasági Versenyhivatal* or *GVH*) provided that they exceed the following thresholds:

- (i) The net turnover of all of the relevant undertakings in the previous financial year exceeded 15 billion forints; and
- (ii) Among the groups of companies involved, there are at least two groups with a net turnover of 1 billion forints or more in the previous year together with the net turnover of companies controlled by members of the same group jointly with other companies.

Failure to give prior notice of the transaction to the GVH triggers the imposition of a fine.

The GVH will make a decision either to clear the operation unconditionally or subject to remedies or to forbid the transaction.

Under Hungarian competition law, the concentration of companies cannot be carried out (there is a standstill duty) and the transaction cannot be implemented until the deadline to process the notification provided to the GVH expires or, if competition proceedings are initiated, until a decision is rendered by the GVH.

G. Tax risks

Statute of limitation: five years from the last day of the year in which the tax return was due or was filed.

The transfer of a “going concern”: Such a transfer is not subject to VAT under certain conditions.

VAT deductibility: There are very strict substantial and formal rules on the deduction of input VAT, therefore, companies should make sure that all those requirements are met. Passive holding companies are not allowed to deduct any input VAT.

Controlled foreign company (CFC) rules: Hungary has CFC rules that could lead to the taxation of a CFC's profits in Hungary (while the tax may be creditable in the home country of the CFC). Before setting up the investment structure, investors should investigate carefully the CFC status of foreign entities with which the Hungarian company has transactions. A CFC is a foreign entity in which the Hungarian company, together with its related parties, holds a direct or indirect participation exceeding 50 percent and which is a foreign permanent establishment. If the tax paid by the foreign entity or the permanent establishment is less than the difference between the tax that would have been payable in Hungary for the same revenue and the tax actually paid there, there may be an additional tax liability that would be payable in Hungary. There are certain exceptions to this rule.



Participation exemptions: A participation exemption applies to dividends received without any holding requirements. A participation exemption also applies to capital gains derived from the transfer of shares after a one-year holding period (no minimum shareholding requirement as of 2018) and if the shares had been reported to the tax authority within 75 days of their acquisition. If investors intend to hold the investment for a longer period, they may wish to consider applying the above regime.

Profit repatriation: Hungary does not levy withholding tax on dividend, interest and royalty payments made to foreign recipients unless they are private individuals.

Tax rulings / Advance Pricing Agreements:

Such rulings are available for confirming the tax consequences / arm's length price of a transaction. Depending on the investment structure, and the volume of the transaction, the company may consider applying for such rulings. In general, such rulings can be obtained for future transactions.

H. Intellectual Property & Technology acquisition

IP due diligence: The company should conduct an IP due diligence in respect of copyright, patents, trademarks, designs, software, trade secrets and know-how (legal, technical and business IP due diligence). This is to ensure that the company is entitled to carry on its present and future business activities (i.e. that it will not infringe third party IP) and that any third party from whom the company acquires IP rights has full entitlement to such rights.

Closing down

– Moving away
manufacturing from
Hungary



Voluntary winding-up

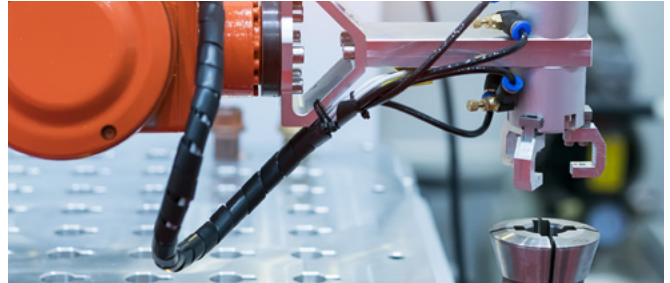
A company, (if it is not insolvent) may decide to initiate voluntary winding-up proceedings (in Hungarian: *végelszámolás*) and decide on its termination without succession. During such procedure the liquidator shall assess the company's financial position in the course of the proceedings, recover its claims, pay its debts, enforce its claims and discharge its obligations, and shall sell off its assets if necessary. The receiver shall distribute the assets remaining after the satisfaction of the creditors among the members in cash or in kind, and shall terminate the company's operations. The company's supreme body may instruct the liquidator to sell all or parts of the company's financial assets by public tender or by way of auction. At the end of such proceedings, the company will request its deletion from the companies register and shall be terminated.

Existing guarantee and warranty obligations

In the framework of voluntary winding-up proceedings, the liquidator needs to commission the services of a third party for the settlement of future guarantee, warranty, and indemnification obligations, and shall hand over the funds tied up for this purpose in due consideration of all circumstances. A notice concerning this assignment is required to be published in the Company Gazette (the official journal relating to company matters in Hungary).

Real estate in general

The Hungarian statutory warranty regime is very general and does not have specific rules for real estate transactions. As the seller of real estate (in particular, with construction permits and/or leases in place), the company should negotiate the warranties to be undertaken with special regard to environmental matters and the limitation of the seller's liability (both monetary and time limits).



Lease agreements

Lease agreements usually specify notice periods and detailed rules of termination. Definite term leases usually limit the possibility of termination without cause. Indefinite term leases usually permit the termination without cause requiring the party intending to terminate the agreement to observe a certain notice period. In lack of such provisions, the statutory regulations apply regarding the notice periods (these generally depend on the payment frequency on the rent).

Employment

In case manufacturing activities are moved away from Hungary, the provisions of the Labor Code on mass layoffs may apply. If the number of employees planned to be dismissed exceeds a certain percentage of the total workforce (typically 10 percent), the employer will be required to comply with a strictly regulated procedure involving the notification of the competent authorities and entering into consultations with the local works council. Notices of termination cannot be served until the process is completed, which means a delay of about two months.

State aid

If the company receives state aid, it must consider and comply with all obligations relating to the operation of the plant and/or equipment developed or purchased using the subsidy. Failure to comply with such maintenance obligation may result in the company having to repay the state aid received (with interest).

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