Business Guide for Hungary

SZABÓ KELEMEN & PARTNERS ATTORNEYS

INTERNATIONAL ALLIANCE OF LAW FIRMS

Szabó Kelemen & Partners Attorneys is a full-service Hungarian law firm that traces its origins back to Szabó & Partners Attorneys, which was established in 1996, and is the Hungarian member of the International Alliance of Law Firms.

The firm was the Hungarian member of the Ernst & Young Law Alliance from 1996 to 2003, and from 2004 worked in cooperation with Salans for two and a half years.

The firm's impressive client base consists of multinationals, as well as large and medium-sized Hungarian companies. The firm is particularly strong in competition, employment, tax, and corporate and commercial work, including corporate restructuring and insolvency, as well as in various industry sectors, including financial services and real estate.

Many of the firm's Hungarian lawyers have worked in law offices or barristers' chambers abroad, and many hold postgraduate qualifications from foreign institutions. The working languages of the firm are Hungarian, English and German.

The firm's core practice areas are:

- Antitrust/competition law
- Banking and securities
- Corporate and commercial, including company group financing and royalty payment structures
- Corporate restructuring and insolvency
- Employment
- Insurance
- Litigation and arbitration
- Mergers and acquisitions
- Public procurement
- Real estate/commercial property
- Tax

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Business Guide for Hungary[1]

1 COUNTRY OVERVIEW

Language	Hungarian

[1] This Guide was prepared as of 1 July, 2009. The HUF/EUR exchange rate used is HUF280 = 1 EUR.

Currency	Forint (HUF)
Capital	Budapest
Government type	Parliamentary democracy
Legal system	Civil law (Roman law) system
EU membership	Since 1 May, 2004
Neighbouring countries	Austria, Croatia, Romania, Serbia, Slovakia, Slovenia, Ukraine
Public holidays	New Year's Day (1 January), 1848 Revolution (15 March), Easter Monday (date varies), Labour Day (1 May), Whit Monday (date varies), St. Stephen's Day (20 August), Republic Day (23 October), All Saints' Day (1 November), Christmas Day (25 December)

2 BUSINESS ENTITIES

2.1 Forms of business entities

2.1.1 Introduction

In July 2006, a new Companies Act (Act IV of 2006 on Companies – "Companies Act") and a new Registration Act (Act V of 2006 on Public Company Information, Court Registration Proceedings and Dissolution Procedures – "Registration Act") came into effect.

The Companies Act provides for a variety of legal forms under which business entities may be established in Hungary.

Pursuant to the Companies Act, these forms are:

- unlimited partnership (Kkt)
- limited partnership (Bt)
- limited liability company (Kft)
- company limited by shares (Rt), which may be privately founded (Zrt) or publicly founded (Nyrt)

Companies duly formed and registered under Hungarian law may undertake obligations and acquire rights in their own name (i.e. they have the right to acquire property, may conclude contracts, file lawsuits or be subject to actions brought against them). As a general rule, companies may freely pursue activities; however, a license of the competent authority is required for certain activities. Companies with foreign participation may be established in any business entity form without an authority license or permission.

2.1.2 Unlimited partnership (Kkt)

In an unlimited partnership, the liabilities of its members are joint and unlimited for the partnership's obligations. No minimum initial capital requirement is set forth by law and its members are not required to take part personally in the activities of the partnership. By law,

every member is entitled to represent the partnership unless its articles of association state otherwise. The partnership must have at least two members.

2.1.3 Limited partnership (Bt)

A limited partnership must have at least one general partner and at least one limited partner. The general partner's liability is unlimited for the partnership's obligations (multiple general partners are jointly and severally liable) while the limited partner's liability is limited to the extent of his capital contribution. By law, only the general partner is entitled to represent the partnership unless its articles of association state otherwise.

2.1.4 Limited liability company (Kft)

A Kft is established with a predetermined amount of initial capital provided by its founders, and may have only one member (a sole-member Kft). The liability of its members is limited to the provision of the company's initial capital (and, if so stated in the articles of association, other contributions). As a general rule, members are not otherwise responsible for the company's liabilities. A Kft's members may not be recruited through public offerings. The members' rights and their title to the company's assets are represented by quotas in the company. No securities may be issued in respect of the quotas, which may be (i) ordinary quotas (quotas providing identical membership rights) or alternatively (ii) preferred quotas (only if the company's articles of association so provide), which may entitle their holders to, for example:

- dividend preference
- preference in voting rights etc.

2.1.5 Company limited by shares (Rt)

An Rt is established with a predetermined amount and nominal value of shares. The liability of its members is limited to the provision of the nominal or issue value of the shares.

An Rt may be established via a private offering (its shares are offered only to its founders) or a public offering (its shares are offered to the public). The difference must be indicated in the company's name as "Zrt" (private) or "Nyrt" (public).

Shares are securities that embody a shareholder's membership rights in the company. Only private Rts may issue printed share certificates, public Rts may only have dematerialized shares (registered in the shareholders security account held by a financial institution).

Shares may be (i) ordinary shares, (ii) employee shares, (iii) interest-bearing shares, (iv) redeemable shares or (v) preference shares, which have the following sub-categories:

- dividend preference shares
- preference with respect to the liquidation ratio
- preference with respect to voting rights
- (only in the case of private Rts) preference with respect to the appointment of executive officers or members of the supervisory board
- (only in the case of private Rts) shares ensuring pre-emption rights
- preference rights in particular cases as set forth in other legislation (part of the Government's measures to deal with the economic downturn)

2.1.6 Differences between a Kft and an Rt

Pursuant to the Companies Act, the following are the basic differences between a Kft and an Rt:

- *Management*

  Kft: one or more managing directors manage the company

  Rt: a board of directors composed of three to eleven members or, if the constitutive document so provides, the general director, manages the company

- *Recruitment of members through public offerings*

  Kft: forbidden

  Rt: other than a private Rt, the company may publicly advertise the sale of its shares

- *Required minimum initial capital*

  Kft: HUF 500,000 (EUR 1,785); Kfts may be established without cash contributions and only in-kind contributions

  Private Rt: HUF 5 million (EUR 17,850); private Rts may be established without cash contributions and only in-kind contributions

  Public Rt: HUF 20 million (EUR 71,400); public Rts may not be established without cash contributions

- *Supervisory board*

  General: The board must have three to fifteen members. If the annual average number of the company's full-time employees exceeds 200, then employees must make up one-third of the supervisory board. All companies must have a supervisory board if (i) the law so requests in order to protect public property or with respect to the activities pursued by the company, or (ii) the annual average number of full-time employees exceeds 200.

  Kft: not required (apart from the above mandatory cases)

  Private Rt: only if shareholders representing at least 5% of the voting rights so request (as well as the above mandatory cases)

  Public Rt: mandatory except for public Rts operating under the so-called unified company management system

- *Auditor*

  Kft: not mandatory, except if (i) the Accounting Act so requires, (ii) the company's articles of association so prescribe, or (iii) the law so prescribes in order to protect public property

- *Quotas/shares*

  Kft: each quotaholder may have only one quota. If a quotaholder acquires another quota, its quota will be increased by the one it acquired, and as a result, the quotaholder will still only have one quota but with a higher value. Quotas may be freely transferred between members of the company. The members may give pre-emption rights to each other in the company's articles of association. By law, with respect to a quota intended to be transferred through a sale and purchase contract, the other member(s), the company, or a third person so designated by the quotaholders' meeting, in this order, have pre-emption rights, unless this is excluded (or restricted) under the articles of association. The articles of association may restrict, set

conditions or prescribe the need for the company's consent for the transfer of quotas to third persons.

Rt: only registered shares may be issued. Unless otherwise provided by law, shares are freely transferable. However, a private Rt's constitutive document may restrict the transfer of shares or may render it subject to the company's consent. The transfer of registered shares is valid with respect to an Rt and shareholders may exercise their shareholders' rights with respect to the company only if such shareholders have been registered in the book of shareholders. Unlike the quotas of a Kft or the shares of a private Rt, a public Rt's shares may be traded on the stock exchange.

- *Securities*

  Kft: printed securities representing the quotas may not be issued

  Rt: securities representing the shares may be issued (private Rts: printed share certificates or dematerialized shares, public Rts: only dematerialized shares)

2.2 Establishing companies

2.2.1 Introduction

The founders of a company must first sign the company's constitutive document, after which an attorney-at-law (a member of the Hungarian bar) must countersign and file it with the competent Court of Registration. Technically and legally it is the court's act of registration that creates the company. A company's fundamental corporate data (i.e. its name, headquarters, members' names, addresses/seats, main activity, initial capital, members' contributions, the method and timing of providing the initial capital, method of representation and signature rights, the names and addresses of the executive officers, supervisory board members and the auditor etc.) and its internal regulations are set forth in its constitutive document, i.e. (i) articles of association, (ii) deed of foundation, or (iii) statutes.

Only Kfts and private Rts may be one-member companies; other business entity forms must have at least two members.

2.2.2 Pre-company

Between the execution of the constitutive document and the court's act of registration, the company exists as a pre-company. A pre-company can only pursue a limited number of activities.

2.2.3 Registration fees

The duty levied for the registration of a:

- public Rt is HUF 600,000 (EUR 2,142)
- private Rt is HUF 100,000 (EUR 357)
- Kft is HUF 100,000 (EUR 357)
- Kkt or a Bt is HUF 50,000 (EUR 178)

A notice on the establishment of a business entity must be published in the official companies' gazette (Cégközlöny), which entails a nominal publication fee.

Companies only have to pay once for their registration (i.e. there are no further payments to the courts to keep their registered data in the Companies Register), as long as their registered data remains unchanged. However, almost any amendment to the company's data must be registered in the Companies Register, which entails the payment of additional nominal duty.

2.2.4 Registration

Pursuant to the provisions of the Registration Act, the establishment of a company must be reported to the competent Court of Registration within 30 days of signing (or in the case of a public Rt, accepting) the constitutive document.

All filings with the Court of Registration must be done digitally (in an e-mail message) by an attorney-at-law, with such legal representation by an attorney being mandatory. Scanned copies of the duly executed corporate documents must be enclosed with the request and the e-mail message must be endorsed with the filing attorney-at-law's certified digital signature and also with a time stamp.

Except for public Rts, all business entities may be established by filling out a template (the template is determined by law), which will be their constitutive document. In such cases the Court of Registration must register the establishment of the entity/changes in the corporate data within one working hour of filing the request during court opening hours (assuming the request and all related documents are faultless).

For entities not using the official template as their constitutive document, the competent Court of Registration must carry out the registration procedure within 15 days of filing the request (assuming the request and all related documents are present and correct).

The headings pertaining to the Companies Register (the indication of the data registered) may also be displayed in English, German, French and Russian. Furthermore, all corporate documents may be registered in any of the official languages of the EU provided that an official translation is enclosed for all the corporate documents which are filed.

2.3 Management of companies

2.3.1 Management

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

The executive officer(s) is/are called:

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

In the course of their management activities, executive officers must act with the responsibility generally expected of persons holding such positions. Executive officers will be liable for any damage incurred by their company due to their negligent or intentional breach of the above duty. Detailed rules apply in respect of the non-compatibility of executive officers.

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

Following the occurrence of a situation which threatens the company with insolvency, the executive officers must conduct their managing duties based on the priority of the interests of the creditors of the company. During liquidation proceedings any creditor or the liquidator may request the competent court to establish that the persons who were executive officers of the company during the three-year period immediately preceding the commencement date of the liquidation proceedings, failed to conduct their managing duties on the basis of the priority of the interests of the creditors after the occurrence of any situation threatening the company with insolvency, and, as a consequence of which, the assets of the company have been diminished to the extent specified in the request.

In the case where a company is terminated without a legal successor, anyone who is a member (shareholder) at the time of the company's termination may sue its company's former executive officers for damages. Such claims must be filed within one year of the company's termination. In the case where the liability of the member (shareholder) for the company's obligations was limited while the company existed, such member may claim damages as above only to the extent proportionate to the part of the company's assets that was due to it/him when the company was terminated.

2.3.2 Supervisory board

The formation of a supervisory board is mandatory for:

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

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

If, acting within the special competence transferred to it, the supervisory board has refused to give its consent to a resolution, the managing director or the board of directors is entitled to convene the quotaholders'/shareholders' meeting, which is the corporate body entitled to change the resolution of the supervisory board. For any damage caused to the company by resolutions made within the above powers of the supervisory board, its members and the executive officers will have joint and several liability vis-à-vis the company.

2.3.3 Auditor

By law, an auditor must be elected:

- if the Accounting Act requires a company (e.g. the company has double-entry bookkeeping, and its annual net sales revenue, calculated on the basis of its preceding two business years' average sales revenue, exceeds HUF 100,000,000 (EUR 357,000))
- if the constitutive document of the company so prescribes
- if the law so prescribes for the protection of public property

2.4 Novelties of corporate law

The following list contains some recent corporate law amendments with possible significance from a practical perspective:

- law firms may provide certain company secretary services
- the person entitled to represent the company may exercise his/her right in e-mails by using his/her digital signature
- the company may publish some of its mandatory announcements on its website (as opposed to in the official companies' gazette (Cégközlöny))
- the headings of the Companies Register (the indication of the data registered therein) may be displayed in English, German, French and Russian
- the company may determine the date of effectiveness of the change of its corporate data, (i.e. it may be subsequent to the day when such change was decided upon)
- the appointment of a delivery agent (for persons/entities having no address/seat in Hungary) is optional (however, it is advisable to do so)
- anyone having an address/seat in Hungary may be a delivery agent (as opposed to the former significant restrictions effective prior to September 1, 2007)
- mortgages over quotas may (and must) be registered in the Companies Register
- members of companies, except for public Rts, may decide on all corporate matters without holding a meeting (e.g. in writing) providing that the company's constitutive document so provides
- executive officers may perform their duties under an employment contract (as opposed to a special agency agreement)
- filings with the Court of Registration, in their entirety, may only be done digitally
- Kfts may be established with HUF 500,000 initial capital (EUR 1,785 – as opposed to HUF 3 million (EUR 10,700) formerly)
- private Rts may be established with HUF 5 million (EUR 17,850, as opposed to HUF 20 million (EUR 71,400) formerly, which is still the requirement for public Rts)

Please note that the above list is far from exhaustive. For details or specific advice in corporate matters please contact our professionals listed at the end of this publication.

2.5 Pursuing business activities in a non-corporate form

2.5.1 Introduction

A foreign investor may decide to establish a presence in Hungary as a foreign private entrepreneur, through a commercial agent, as a commercial representative office or branch of a foreign company.

2.5.2 Foreign private entrepreneurs

Pursuant to Act LXXII of 1998 on Foreign Private Entrepreneurs, a foreign investor may carry out business activities as a private entrepreneur provided that an international treaty expressly ensures national treatment for him or her. The foreign private entrepreneur is deemed to be a foreign exchange resident unless legal rules regarding foreign exchange provide otherwise. For the purpose of the application of the legal rules related to the acquisition of real property, the foreign private entrepreneur is deemed to be a foreign natural person.

2.5.3 Commercial agent

A foreign investor may also carry on business activities if it contracts a "commercial agent" according to the stipulations of Act CXVII of 2000 on the Commercial Representation Contracts of Independent Commercial Agents (Commercial Agency Act). Its provisions are harmonized with the Council Directive on self-employed commercial agents (86/653/EEC).

The Commercial Agency Act uses the term "commercial agent" in the broadest sense. For the purpose of the Commercial Agency Act, an entity is deemed to be a "commercial agent" if it mediates transactions for its principal on the basis of a permanent contractual relationship for an agreed fee. This includes any such entity which is entitled to conclude agreements related to the principal's goods in its own name for the benefit of the principal.

The Commercial Agency Act applies to agreements concluded with independent "commercial agents" who pursue commercial activities at their own risk.

According to the Commercial Agency Act, should an entity qualify as a "commercial agent," certain mandatory provisions of Hungarian law have to be applied to the commercial agency agreement. For example, the agent should be entitled to compensation if it has brought the principal new customers and the principal continues to derive substantial benefits from such customers even after the termination of the agency relationship provided that the compensation payment is equitable with regard to all the circumstances.

2.5.4 Commercial representative office

According to Act CXXXII of 1997 on Hungarian Branches and Commercial Representative Offices of Foreign-Registered Companies (Branches Act), a commercial representative office is an organizational unit of a foreign enterprise having no separate legal entity. Foreign firms may establish commercial representative offices. A commercial representative office may start its activity after the competent Court of Registration has registered it. A commercial representative office may be entered in the Companies Register if the application for registration and its appendices conform to the requirements prescribed by the Branches Act and the Registration Act.

Only employees and persons seconded to the commercial representative office or persons who have a Hungarian domicile and a permanent services agreement to work at the commercial representative office may represent the commercial representative office. However, since Hungary's EU accession, this rule does not apply to commercial representative offices established by foreign companies registered in the European Economic Area.

A commercial representative office's activities are restricted to:

- mediating contracts between the foreign firm and Hungarian business organizations or private individuals.
- participating in preparing contracts as described above.
- concluding contracts required for the operation of the commercial representative office for and on behalf of the foreign firm.
- performing informational and promotional activities related to goods, services and rights marketed by the represented foreign company, including organizing the foreign company's participation in exhibitions, fairs, professional lectures and other similar events held in Hungary.

In contrast to branches, commercial representative offices may not conduct entrepreneurial activities.

2.5.5 Branch of a foreign company

A branch is an organizational unit of a foreign enterprise having no separate legal entity. However, the foreign enterprise is authorized to pursue business activities through its branch. The branch cannot perform representative activities on behalf of the founding foreign company.

The law considers the branch to be a relatively independent part of the foreign company, and specifies that the foreign company must continuously provide the assets needed for the operation of the branch, and to settle its debts. The foreign founder and the branch will bear joint and several, unlimited liability for debts incurred in the course of the activities of the branch. With respect to debts incurred in connection with activities pursued via the branch, execution may be levied over all the foreign company's assets located in Hungary.

The branch comes into existence and may start its operations when it is registered by the Court of Registration. However, in the case of branches of foreign companies having their seat in the European Economic Area, as of Hungary's accession to the European Union, it is possible for persons who are entitled to sign on behalf of the branch, to act in the name of and on behalf of the branch after filing the application for registration. However, the term "under registration" must be indicated on documents and during transactions.

It is not possible for the branch "under registration" to pursue activities that are subject to an authority license. If the branch's application for registration is rejected, it may not acquire further rights nor undertake further obligations and must promptly terminate its operations. The foreign founder will bear unlimited liability for debts incurred as a result of the obligations of the branch.

If, in connection with the performance of a particular activity, a license is required for founding a company or for the performance of a specific activity by a company, this license must also be obtained by the branch for its establishment or for the performance of this activity. For a specific activity, in order to protect the interests of clients, consumers or business partners, separate financial guarantees may also be required by law, and such requirements must also be met by the branch and companies as well. Since Hungary's EU accession, statutory provisions may provide that a company established in the European Economic Area may - by way of its Hungarian branch - engage in activities subject to a foundation or operational license also if it is itself equipped with such a license from the competent authority of its home country, or may provide that the foreign company may satisfy the above requirements.

A branch may be entered in the Companies Register if the application for registration and its appendices conform to the requirements prescribed by the Branches Act and the Registration Act.

Only employees and persons seconded to the branch, or persons who have a Hungarian domicile and a permanent services agreement to work at the branch, may represent the branch. However, since Hungary's EU accession, this rule does not apply to branches established by foreign companies registered in the European Economic Area. The Branches Act sets forth certain incompatibility rules for private person representatives of branches.

The branch is obliged to appoint a statutory auditor. However, since Hungary's EU accession, in the case of branches established by foreign companies registered in the European Economic Area, the branch is not obliged to appoint a statutory auditor provided that the foreign company's annual report has been prepared and audited in accordance with the relevant directives of the European Union and that the branch has published and deposited the foreign company's annual report in Hungarian.

The amount of capital available for the operation of the branch must be indicated in Hungarian Forint (HUF). Changes in the branch's capital must be reported to the Court of Registration, for registration and publication, at least once every year.

2.6 Mergers and acquisitions

2.6.1 Mergers

Under the Companies Act, a company's assets and liabilities may be transferred to another company and a new company (legal successor) may be established with the assets of the existing company through transformation. According to the provisions of the Companies Act, the merger of two or more companies and the de-merger of a company can accomplish transformation.

A merger is a way of amalgamating the assets or liabilities, and the activities of two or more companies. According to the Companies Act, there are two kinds of mergers, whereby:

- A company ceases to exist and all of its property is transferred to another existing company which is deemed the legal successor of the fused company in all respects.
- Two or more existing companies cease to exist and all of their property is transferred to a new company established through a merger, which is deemed the legal successor of the fused companies in all respects.

A de-merger is a way of splitting the assets or liabilities and business lines of one company. The Companies Act contains two methods of de-merger whereby:

- The original company ceases to exist and two or more separate and new independent companies come into existence with the assets of the original company. The new companies become the legal successors of the terminated original company (division de-merger).
- The original company remains in existence and continues to operate in its previous corporate form. One or more new companies are created by the members de-merging from the original company with certain parts of the assets of the original company. The new companies will be the legal successors of the original company based on the provisions of the de-merger agreement, unless the Companies Act states otherwise (separation de-merger).

2.6.2 Acquisitions

In the case of acquisitions, the aim to concentrate capital and/or business lines and/or strengthen the business position can be achieved by:

- having shares/quotas
- holding voting or other rights (e.g. the right to elect persons having key roles in the management of the target company)
- using the assets
- having other forms of influence

The Companies Act contains obligations imposed not only on Kfts or private Rts, but directly on the party acquiring the quotas/shares in them, for reporting a take-over if it exceeds a certain threshold (at least 75% of the direct or indirect votes, the latter of which is defined in the Hungarian Civil Code). Furthermore, provided that the articles of association do not exclude this, any minority quotaholders/shareholders of the controlled company may request (within 60 days from the publication of the take-over) that the dominant member purchase their shares.

The Companies Act introduced a new legal concept as of July 1, 2006; namely, a recognized group of companies. Any company which is required to draw up consolidated annual reports according to the Accounting Act (dominant member) and any public or private Rt, or Kft, over which the dominant member effectively exercises a dominant influence according to the Accounting Act (controlled company) may decide to enter into a control contract to join forces in pursuing their common business interests and continue operating in the form of a recognized group of companies. Having a recognized group of companies registered in the Companies Register will not result in creating a separate legal entity from the companies belonging to the recognized group. The dominant member must notify the creditors of any of the companies in the recognized group by an announcement to be published twice in the official companies' gazette (Cégközlöny). The members of a controlled Kft or shareholders of a private Rt which participate in setting up the recognized group may request that their quotas/shares be purchased by the dominant member. The Companies Act contains further stipulations that are applicable to recognized groups of companies.

Act CXX of 2001 on Capital Markets (the Capital Markets Act) contains special rules (for example, reporting and publishing obligations) that are applicable for the take-over of public Rts, i.e. an Rt operates as a public company if partial or total subscription of its shares is open to the public.

According to the Capital Markets Act, before acquisitions related to a public Rt (which has a registered seat in the Republic of Hungary or whose shares are admitted to trading on a Hungarian-regulated market) exceeding 33% (or 25% if there is no shareholder in the public Rt other than the bidder holding more than 10% of the voting rights, whether directly or indirectly) can begin, a public take-over bid must be made for all shareholders who have voting rights and all shares with voting rights. The bid must be approved by the Supervisory Authority in advance. A special procedure must also be conducted under the supervision of the State Supervisory Authority. If the bidder has acquired ninety percent or more of the voting rights and provided that further conditions of the Capital Markets Act are met, then he may exercise his option to purchase the remaining shares of the public Rt. If the bidder's holding in the public Rt exceeds ninety percent of the voting rights when closing out the take-over bid, the bidder must purchase the remaining shares if so requested in writing by the owners of these shares. The Capital Markets Act also contains an obligation to report and publish acquisitions related to public Rts. Since Hungary's accession to the European Union,

certain acquisitions must be published in all Member States of the European Union where the Rt's shares are officially listed on a regulated market.

The acquisition of listed shares may be rendered conditional upon additional requirements stipulated in the bylaws of the Budapest Stock Exchange approved by the State Supervisory Authority.

In the course of planning the acquisition, details of the relevant legal rules, such as for example the Companies Act and the Capital Markets Act, should also be considered. However, the prohibition of a one-member company from establishing or acquiring a Hungarian one-member company, which was contained in the previous corporate legislation, was removed by the Companies Act. In other words, Hungarian law now allows a chain of one-member companies.

3 REGULATIONS FOR FOREIGN INVESTMENT

3.1 General legislation

The Hungarian Parliament has passed extensive legislation intended to protect foreign and domestic investors from re-nationalization and expropriation. The most notable legislation is Act XXIV of 1988 on Foreign Investment. Hungary has also concluded bilateral investment agreements with several countries which include prohibitions relating to re-nationalization and expropriation.

Hungarian legislation makes no distinction between domestic companies and companies with foreign participation. For the establishment, accounting, employment supervision, and insolvency of companies with foreign participation, the legal provisions applicable to domestic companies must also be applied, i.e. they are treated the same as wholly Hungarian-owned entities. A permit from the foreign exchange authority is not required for the foundation of, or participation in, a Hungarian company by foreigners.

Companies with foreign participation may be established for any type of economic activity, unless precluded by law. Prohibitions and restrictions are limited to some specific areas, for example, water transport, where a shipping license may be subject to majority Hungarian or EU ownership.

Permission is not required for foreign investments in financial institutions or insurance companies, but solely through the investor's foreign domicile, regardless of the size of the investment.

European Economic Area nationals and companies, registered in the European Economic Area, may perform cross-border services under the conditions and detailed rules laid down in specific legislation.

3.2 Acquisition of agricultural land by foreign persons

Hungary may restrict the acquisition of agricultural land by foreign persons (natural persons and legal entities) and Hungarian legal entities for a seven-year transitional period following Hungary's accession to the EU.

Notwithstanding the above, nationals of EU Member States, European Economic Area Member States, and other similar States treated equally on the basis of an international treaty, who plan to settle in Hungary as private entrepreneurial agricultural producers and who have been lawfully residing and pursuing agricultural activities in Hungary for a minimum of three

years, will enjoy the same treatment as Hungarian citizens with the proviso that they will have to provide the necessary documentation as stipulated in Act LV of 1994 on Arable Land (Arable Land Act).

When the above transitional period expires, the seven-year period may be extended by an additional three years based on the difference in land prices between the European Union and Hungary.

3.3 Acquisition of non-agricultural real estate by foreign persons

In general, the acquisition by foreign persons (natural persons and legal entities) of non-agricultural real estate requires the authorization of the competent authority. This rule does not apply to nationals and legal entities of EU Member States, European Economic Area Member States, and other similar States treated equally on the basis of an international treaty. All such nationals and legal entities will be treated in the same manner as Hungarian citizens and legal entities.

3.4 Acquisition of property by branches

Pursuant to the Branches Act (Act CXXXII of 1997 on Hungarian Branches and Commercial Representative Offices of Foreign-Registered Companies), foreign companies registered in the EEA or in a state whose citizens may enjoy the same legal treatment on the basis of an international treaty as citizens of states that are party to the EEA Agreement, may acquire the ownership of real estate necessary for business activities performed through their Hungarian branch only if such property is not classified as agricultural land. Foreign companies registered in a state not qualifying as an EEA state may acquire the ownership of real estate necessary for business activities performed through their Hungarian branch only if such real estate is not classified as agricultural land or a natural preservation area.

No permit is needed for acquiring the ownership title of real estate:

- in the cases defined in international treaties; or
- if a state of reciprocity in this matter has been established between Hungary and the country where the foreign company is registered.

In the absence of international treaties or a state of reciprocity, a foreign company may acquire the ownership of real estate, if the real estate is required for its business activities performed through its Hungarian branch, pursuant to the applicable legal provisions on the acquisition of real estate in Hungary by foreigners.

If the foreign company decides to dissolve its Hungarian branch office, it must sell its branch office's real estate within one year of the dissolution of the branch, unless its acquisition of title to the same real estate would not be subject to official authorization or unless the county public administration office has granted an exemption from such an obligation.

3.5 Foreign exchange controls

Restrictions on foreign exchange transactions and transactions performed in foreign currency were mostly removed by a series of laws enacted prior to Hungary's accession to the EU. Particularly important is Act XCIII of 2001 on Foreign Exchange Liberalization and the Modification of Related Acts (Liberalization Act).

The purpose of the Liberalization Act is to eliminate foreign exchange restrictions and foster the free movement of capital.

Pursuant to the Liberalization Act, all entities capable of establishment under Hungarian law may freely use Hungarian or foreign currency in their legal transactions or activities.

Notwithstanding the above, the Liberalization Act states that taxes, public dues and other payments ordered by public authorities must be paid in the Hungarian currency (HUF).

3.6 Banking obligations

Companies doing business in Hungary must open a bank account in a Hungarian bank. Nevertheless, there is nothing to prevent a Hungarian company or any Hungarian individual from holding a bank account outside of Hungary.

Hungarian legislation allows dividend remittances and, if applicable, capital repatriation to foreign investors. The Hungarian currency (HUF) is converted at the foreign-exchange rate set by the commercial bank engaged in the transaction.

4 BANKING AND CAPITAL MARKETS

4.1 Banking system

Hungary has a two-tier banking system, which means that the functions of the central bank and other specialized banks (commercial banks and specialized institutions) are separate.

The National Bank of Hungary (NBH) is the central bank and a member of the European System of Central Banks (ESCB). The NBH and the members of its decision-making bodies perform their duties and carry out their obligations independently from the government. With the exception of the European Central Bank, the NBH (and the members of its decision-making bodies) may not ask for or follow instructions from the government, the institutions and bodies of the European Union, the governments of other EU Member States or any other institution or body.

According to the definition of Act CXII of 1996 on Credit Institutions and Financial Enterprises (Financial Enterprises Act), credit institutions are financial institutions which collect deposits and provide credit lines and loans, and which perform other financial services. Depending on the financial activities performed by a credit institution, it may be known as a (commercial) bank, as a specialized credit institution, or as a co-operative credit institution (savings or credit co-operative).

A commercial bank may only operate in Hungary as a company limited by shares (Rt) or as the branch office of a foreign bank. A permit from the Hungarian Financial Supervisory Authority (PSzÁF – Supervisory Authority) is required before a commercial bank may be established and the commencement of operations in Hungary is allowed. In the case of a branch office of a foreign bank, a license for banking activities issued by its foreign authority is also required. The Financial Enterprises Act determines the range of financial services that commercial banks may provide.

In Hungary, foreigners may only perform financial services in one of two ways: by establishing a company limited by shares and registered in Hungary, or by founding a registered branch office. Banks – including the branch offices of foreign credit institutions – may be founded with a minimum of HUF 2 billion (EUR 7.1 million) in initial capital. A foreign registered credit institution may also establish bank representation, but may not perform any kind of business activity.

Since Hungary's accession to the European Union, credit institutions registered in another Member State of the EU may engage in cross-border services.

4.2 Capital markets

After closing its doors in 1919, the Budapest Commodity Exchange (BCE) resumed operations in November 1989 in order to promote free trade in agricultural products. Less than a year later, the Budapest Stock Exchange (BSE) opened on 19 June 1990. The BSE and BCE were transformed from public corporations into limited companies in 2002 and 2003 respectively, and then merged in the autumn of 2005. The last trading day of the BCE was 28 October 2005, and the first trading day of the Commodity Section of the BSE was 2 November 2005.

The aim of the Capital Markets Act (Act CXX of 2001 on Capital Markets) is:

- to promote development and to improve the competitive edge of capital markets on the international stage
- to ensure transparency
- to improve regulations pertaining to parties involved in capital markets
- to improve the security of investments and to protect investors
- to improve the efficiency of the supervision of capital markets

The Capital Markets Act sets out rules on securities issues (including dematerialized securities), the conversion of securities, and the marketing of securities (the private and public offering of securities and the public offering of government securities). Since July 2005, the Capital Markets Act has outlined detailed rules on securities issued on regulated markets, i.e. on any exchange market which is included in the lists prepared by Member States regarding their regulated markets and which is sent to other Member States and the European Commission for information purposes. In addition, the Capital Markets Act also sets out, in detail, the rules of the subscription procedure and the international trading of securities, the trading of securities on account, share registers and nominees. From December 2007 regulations governing the service activities of investment service providers and commodities brokers, formerly contained in the Capital Markets Act, may be found in separate legislation, i.e. Act CXXXVIII of 2007 on Investment and Commodity Brokers and Their Permitted Activities. In order to provide such services, the service provider must submit an application to the Supervisory Authority, which will issue the permission if all the conditions set out by law are fulfilled. The service provider must report on its activities to the Supervisory Authority annually by providing its annual audited financial statements.

The financial sector – including credit institutions, investment service providers, insurance companies, pension funds and the BSE – is under the auspices of the Supervisory Authority.

Among others, Government Decrees No 250/2000 (XII. 24.) and 348/2004 (XII. 22.) impose special accounting rules concerning the stock exchange, clearing houses and banks.

5 FOREIGN TRADE

5.1 Import and export rules

Products and services may be imported freely into Hungary, subject to certain restrictions.

Since Hungary's accession to the European Union (1 May 2004) trade with other Member States takes place within the framework of the EU's internal market, the main principles of which are the free movement of goods, services, capital, and persons.

Trade between the EU and third countries is also regulated by EU legislation, within the framework of the EU's common commercial policy. Council Regulation (EC) No 3285/94 of 22 December 1994 on the common rules for imports (Import Regulation) applies to products imported to the EU originating in third countries, except for textile products which are covered by special common rules and products originating in certain third countries listed in Council Regulation (EC) No 519/94 of 7 March 1994.

According to the Import Regulation's general rule, products can be freely imported into the EU and, accordingly, are not subject to any quantitative restrictions, without prejudice to the safeguard measures which may be taken under the Import Regulation. Safeguard measures may be applied when products are imported into the Community in such greatly increased quantities and/or on such terms or conditions as to cause or threaten to cause, serious injury to Community producers.

In addition, neither the EU rules on the internal market, nor the Import Regulation, preclude the adoption or application by Member States of measures on the grounds of public morality, public security, the protection of the health and life of humans, animals or plants, the protection of national treasures, the protection of industrial and commercial property, and special formalities concerning foreign exchange.

Under Hungarian law, Government Decree No 110/2004 (IV. 28.) on the Trade of Goods, Services and Rights of Material Value Traversing the State and Customs Frontier (Trade Decree) and Government Decree No 16/2004 (II. 6.) – in line with Council Regulation (EC) No 1236/2005 of 27 June 2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment - provide for certain exceptions from the EU free trade rules set out above. According to these decrees, export or import transactions of certain products require a license from the Hungarian Trade Licensing Office of the Ministry for National Development and Economy, e.g. transactions with armaments, radioactive materials, recyclable or harmful waste, parts or derivatives of endangered animal and plant species, devices used in surveillance, and military engineering defense technology.

As for agricultural legislation, it should be noted that Hungary now falls under the very detailed European agricultural legal system and the Common Agricultural Policy (CAP). Other important regulations with respect to drugs (including psychotropic drugs), chemicals, waste, and nuclear products are contained in the decrees of the competent ministers.

5.2 Anti-dumping regulations

Since Hungary's EU accession, EU anti-dumping regulations have been applicable, the main source of which is Council Regulation (EC) No 384/96 of 22 December 1995 (Anti-Dumping Regulation). The intention of the Anti-Dumping Regulation is to protect the EU against imports dumped from third countries, and its application is based on two conditions: (i) the existence of dumping; and (ii) the proof of injury to Community industry, be it injury caused to an industry established in the Community, the threat of injury, or substantial retardation of the establishment of such an industry.

5.3 Quotas and other non-tariff barriers

Council Regulation (EC) No 520/94 of 7 March 1994 (Quota Regulation) establishes a Community procedure for administering quantitative quotas. The Quota Regulation applies to

import and export quotas, whether autonomous or conventional, established by the Community.

The Quota Regulation does not apply to agricultural products listed in Annex II in the Treaty of Rome, to textile products, or to products covered by special import rules which state specific provisions for the administration of quotas.

The Commission publishes notices in the Official Journal of the European Union which announce the opening of quotas, set the allocation method, the conditions to be met by license applications, time limits for submitting them, and a list of the competent national authorities to which they must be sent.

Quotas shall be allocated among applicants as soon as possible after they have been opened.

Quotas may be administered by one of the three methods set out in the Quota Regulation, i.e. (i) the method based on traditional trade flows; (ii) the method based on the order in which applications are submitted; and (iii) the method of allocating quotas in proportion to the quantities requested, by a combination of these methods, or by any other appropriate method.

6 COMPETITION/ANTITRUST REGULATIONS

6.1 Introduction

The Hungarian competition/antitrust regime consists of both domestic and EC rules of law which regulate market conduct and ensure consumer protection. Apart from the general rules, some specific products or branches of business are subject to special regulations.

The most important domestic source is Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (Competition Act). Further rules can be found in sectoral legislation, such as the rules concerning telecommunications, public utility services and electricity. Standalone provisions regarding the prohibition of the abuse of buyer power of certain undertakings were introduced by Act CLXIV of 2005 on Trade, effective from June 1, 2006. The Hungarian Criminal Code (1978) contains important anti-trust rules, as certain cartels may induce the application of criminal penalties against both the natural and legal person participants. In addition, under the Criminal Code any person who, either individually or as a member of an association of undertakings, attempts to unlawfully influence a tender procedure may be subject to criminal penalties.

The Competition Act deals mainly with the following issues:

- control of concentrations between undertakings
- prohibition of unfair competition
- prohibition of unfair manipulation of business decisions
- prohibition of agreements restricting competition
- prohibition of the abuse of a dominant position

6.2 Control of concentrations between undertakings

The Hungarian Competition Authority (HCA) has the power to investigate major mergers, acquisitions and certain joint ventures, and may prohibit them if they would significantly impede effective competition in the relevant market, in particular as a result of the creation or strengthening of a dominant position.

In the case of company mergers, the Competition Act requires a compulsory clearance application to the HCA if:

- the combined net sales revenue of all the groups of companies involved, and the net sales revenues of the companies controlled jointly by members of the groups of companies involved with other companies in the previous financial year exceeded HUF 15 billion (EUR 53.6 million); and
- among the groups of companies involved there are at least two groups with net sales revenues of HUF 500 million (EUR 1.8 million) or more in the previous year together with the net sales revenues of companies controlled jointly by members of the same group with other companies.

The HUF 500 million (EUR 1.8 million) threshold covers those mergers - which took place during the two-year period preceding the merger and which were not subject to authorization - between companies that used to be part of the group that lost control due to the merger with companies from the group that acquired control.

In the case of concentrations between insurance companies, the value of gross insurance fees shall be taken into account instead of the net turnover. In the case of concentrations between investment service providers, the income from the investment activity shall be considered and in the case of concentrations between funds, the income from membership fees shall be taken into consideration.

In the case of concentrations between credit institutions and financial enterprises, the following income item amounts shall be taken into consideration, instead of the net turnover:

a) interest received

b) income from securities

i) income from shares and other securities of variable returns

ii) income from holdings

iii) income from holdings in associated enterprises

c) commission received

d) net profit on financial transactions

e) income from other operating activities

Concentrations are broadly defined and include mergers between formerly independent undertakings, acquisitions and full-function joint ventures. The determining factor is whether the transaction will lead to a lasting change in direct or indirect control over one or more of the undertakings.

If there is a legal requirement to notify a concentration, then it will be subject to the suspending rule contained in the Competition Act, i.e. the merger agreement will be deemed unconcluded until it has been authorized by the HCA.

The HCA may not withhold authorization if the transaction would not significantly impede effective competition in the relevant market, in particular as a result of the creation or strengthening of a dominant position. The HCA will take into account various factors, including the evidence of potential new entrants, the barriers to entry, the availability of alternative products, and the impact of the concentration on the undertakings' market position, among other issues.

The relevant market is defined with regard to the goods subject to the agreement and to the geographical territory. In addition to the goods for which the agreement is concluded, goods considered reasonable substitutes in terms of use, price, quality and the conditions of performance should also be taken into account.

When competition concerns are raised, the HCA has wide discretion in either applying structural remedies (e.g. the divestment of assets or shares, termination of exclusive distribution agreements, or severance of vertical links with customers, etc.), or requesting behavioural undertakings (e.g. licensing certain products/brands, or granting access on equal terms, etc.).

6.3 Prohibition of unfair competition

It is generally prohibited to pursue any unfair business activity that would violate or threaten competitors', business partners' and/or consumers' rightful interests, or which conflicts with the requirements of business integrity. In addition to a general clause stating this, the Competition Act specifies five types of conduct which are deemed illegal:

- It is prohibited to violate or jeopardize the good reputation or credit-worthiness of a competitor by stating or spreading untrue facts, and by misrepresenting true facts as well as by any other practices.
- It is prohibited to gain access to or use business secrets in an unfair manner, to disclose business secrets to unauthorized parties or to publish such secrets.
- It is prohibited 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.
- Goods may not be produced, or placed on the market, or advertised with such a typical outside appearance, packaging, or marking by which a competitor or its goods are normally recognized.
- It is prohibited to interfere with the integrity and fairness of bidding procedures, tenders, auctions, and transactions effected on an exchange in any way.

A company whose rightful interests have been violated or threatened may file an action in the civil courts requesting, among other things, the termination of the unfair practice, or compensation.

6.4 Prohibition of unfair manipulation of business decisions

It is prohibited to deceive business partners in competition. It is especially prohibited to deceive business partners with respect to the characteristic features of a product or service (i.e., the price and essential qualities of the product), to provide misleading information regarding the conditions of the sale, or the purchase of the product or service, or to give a false impression of the possibility of a particularly favourable purchase. It is forbidden to limit business partners' freedom of choice in any way.

Unfair practices within this chapter of the Competition Act fall within the competence of the HCA and investigations are started based on their knowledge of any unfair practices.

6.5 Prohibition of agreements restricting competition

The Competition Act prohibits companies from entering into agreements or concerted practices which have as their object or potential or actual effect, the prevention, restriction or distortion of competition. It is forbidden to enter into agreements that directly or indirectly fix

purchase prices, limit distribution, exclude groups of consumers from purchasing certain goods, and hinder market entry, among other things.

Exemptions from the general rule of prohibition are:

- Agreements of minor importance, i.e. where the joint participation of the contracting parties and their subsidiaries does not exceed 10% of the relevant market. This exemption does not apply to agreements aimed at price fixing between competitors or the division of the market by competitors.
- Block exemptions. The application of block exemptions is subject to the conditions set out in the Competition Act and/or the applicable Government Decree.
- The possibility to apply to the HCA for an individual exemption no longer exists. Instead, if the negative consequences of the agreement are outweighed by certain positive effects (which are enumerated in the Competition Act, e.g. contribution to a more reasonable organization of production or distribution, or the promotion of technical or economic development, or a fair part of the benefits arising from the agreement are channelled to the consumer, etc.), the agreement will be automatically exempted from the prohibition. However, the burden of proof that the agreement is exempt from the prohibition on this basis rests with the party who refers to this provision.

Investigations are started based on the HCA's knowledge of any concerted practices or restrictive agreements; private enforcement through the courts is also possible in certain matters.

6.6 Prohibition of the abuse of a dominant position

The existence of a dominant position is not prohibited in itself. However, the Competition Act forbids the abuse of a dominant position and provides examples of abusive practices, i.e. hindering market entry or predatory pricing.

A company is deemed to have a dominant position in the relevant market if it is in a position to conduct its economic activities in a manner largely independent of others; it does not have to consider the market behaviour of its competitors, suppliers, buyers or other business partners.

Investigations are started based on the HCA's knowledge of any abusive practices; private enforcement through the courts is also possible in certain matters. If the abusive conduct is manifested in the dominant company's refusal to enter into an agreement with another undertaking, the undertaking, so refused, may go to court requesting the conclusion of the agreement.

7 CONSUMER PROTECTION

One important aim of Act CLV of 1997 on Consumer Protection (Consumer Protection Act) is to ensure the safety of goods placed in the market, with another being to protect the life, health and safety of consumers. Separate legal regulations or prescriptions by the European Union may set forth safety requirements regarding different products, and if so, these products may only be distributed if such requirements are fulfilled.

The Consumer Protection Act also states that consumers must be properly informed, and that products must be suitably packaged. If the legal regulations on information and packaging are violated, the consumer, at his discretion, may enforce his rights against the manufacturer, or

any distributor, regardless of whether or not the manufacturer was identified. In the latter case, the distributor is entitled to enforce a claim for reimbursement against the manufacturer. According to the Consumer Protection Act, a complaint made by a consumer shall be examined and answered within 30 days by the business entity. Should the negotiations between the consumer and the business entity be unsuccessful, the Consumer Protection Act has established a special arbitration board to settle disputes between a business entity and the consumer or, should this fail, to decide on the matter expeditiously in order to effectively enforce consumers' rights. Generally, the procedure of the arbitration board does not prevent the business entity or the consumer from enforcing its/his rights in court.

The Hungarian Consumer Protection Authority supervises whether the provisions of the Consumer Protection Act are properly applied in consumer relationships. Should the authority discover that the business entity did not comply with the relevant provisions, it may impose legal sanctions, e.g. impose penalties or temporarily close the business. If certain conditions exist, the imposition of a penalty is mandatory on the basis of the Consumer Protection Act. The penalty may amount to five per cent of the annual net sales revenue of a business entity whose annual net sales revenue is in excess of HUF 100 million, up to a maximum of HUF 100 million (EUR 357,000); if the infringement concerns the lives, health, physical integrity of a broad range of consumers, the amount of the penalty may be up to HUF 2 billion (EUR 7.1 million). (Concerning a business entity whose net sales revenue is under HUF 100 million, the upper limits of the penalties are: HUF 500,000 (EUR 1,785) and HUF 5 million (EUR 17,850) respectively.)

Since 2007 the Consumer Protection Act has also contained rules regarding the cooperation of the consumer protection authorities of Hungary and other countries in the European Economic Area, and regarding the enforcement of the European Union's most important pieces of consumer protection legislation.

Other important legislation also protects the rights of consumers, e.g. Act XLVIII of 2008 on Business Advertising Activities and Act XLVII of 2008 on the Prohibition of Unfair Trade Practices Against Consumers. The latter Act establishes a general prohibition of unfair practices via any active or negative conduct which results in the distortion of consumers' conduct.

8 GOVERNMENT-OWNED INDUSTRIES AND PRIVATIZATION

8.1 Government-owned industries

The properties owned by the Hungarian State consist of:

- treasury property, which serves the public (e.g. historical buildings, forests, state-owned shares in companies which became state-owned property by using funds originating from the central budget and state-owned funds); and
- state-owned entrepreneurial assets.

Treasury property was formerly managed by the Treasury Property Holding Office and the main administrator of state-owned entrepreneurial assets was the Hungarian Privatization and State Holding Company (ÁPV Zrt). In addition, the national land reserves were managed by the Land Reserve Management Body. These three bodies were finally unified into the Hungarian National Asset Management Company (MNV Zrt) beginning from January 1, 2008.

Together with the above changes, Act XXXIX of 1995 on the Sale of State-Owned Entrepreneurial Assets (Privatization Act), which applied to (i) assets remaining under long-

term state ownership and (ii) entrepreneurial assets available for privatization, was repealed and replaced by Act CVI of 2007 on National Assets (National Assets Act).

According to the National Assets Act, the Hungarian State regards the main privatization process as having ended. The primary aim of asset management in this case is to preserve national assets and to provide for their profitable operation, which does not preclude the possibility of sale.

The annex of the National Assets Act lists those companies in which the Hungarian State will keep its stake. These companies are involved in many industries, from electricity and water supply to forestry.

8.2 Privatization

Privatization in Hungary can be divided into four phases:

I. Up to 1994, the State sold attractive, well-run marketable companies, and at the same time, tried to provide assets to the widest possible circle of small domestic investors.

II. Between 1995 and 1997, large strategic companies (public utility service providers, banks, companies of strategic importance) were privatized at an accelerated pace, mainly to strategic investors.

III. Since 1997, capital market transactions (public offerings, sales through the stock exchange) as well as the privatization of minority stakes have come to the forefront of the privatization process.

IV. From 2002, the target has been to finalize privatization.

By 2007, more than 80% of Hungarian GDP was produced by the private sector. The Government is committed to continuing the privatization process which also generates income for the state budget.

Privatization revenues for 2005 and 2006 amounted to HUF 154 bn and HUF 325.3bn, respectively. The key companies which were partially or fully sold to private investors included Budapest Airport, Malév Hungarian Airlines, FHB Bank and MÁV Cargo (railway transportation).

The remaining properties which are expected to be privatized in the future primarily represent state monopolies. The Government's privatization policies, as well as the list of the companies which will be sold, are set out in the National Assets Act. In accordance with this Act, 25% of the shares minus 1 vote of Magyar Posta Zrt. (postal services) and MVM Zrt. (energy producer and trader), and 100% of ÁAK Zrt. (motorway management) are being proposed for sale during 2009 or in subsequent years.

The privatization of the national gambling monopoly, Szerencsejáték Zrt, is also projected, although its minimum rate of state ownership has been determined at 100% under the aforementioned Act, an amendment to which would require a Government consensus.

The list of properties for sale is available at MNV Zrt's homepage (www.mnvzrt.hu).

The sale of these properties should be performed by MNV Zrt (i) directly, or (ii) through capital market institutions, or (iii) through investment funds or investment enterprises.

The assets may be sold through the following procedures:

- competition (this may be a public or exclusive tender or a public auction)
- public offering
- private offering
- commission for sale on the stock exchange
- in exceptional cases, without competition (there is no tender, but rather a hand-over)