Ministry of Social Affairs and Employment
Under State Secretary Responsible for Social Relations

14853-4/2007-SZMM

"10" August 2007.

Mr. Marc Mathieu
Secretary General

European Federation of Employee Share Ownership

Dear Mr. Mathieu,

In answer to your letter directed to Mr. János Kóka, let me inform you about the follows.

In Hungary the central coordination of the economy inspires the employee-share ownership in the frame of the "Hungarian Approved Employees Securities Program (AESP)". The main point of this program is that the state provides a certain degree of tax immunity to those employers, which make it possible to their employees to buy shares. According to the latest data currently there are around 30 such programs in the country. I attached the detailed information about the AESP to this letter.

The Hungarian government doesn't plan any modifications in the legal system aimed the increasing of the employees' possibilities to buy shares at present. The State Secretariat for Budgetary Incomes and Accountancy of the Ministry of Finance has the governmental responsibility for the above mentioned program, which is led by Mrs. Imréné Kovács Under State Secretary.

Sincerely yours:

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TAX IMPLICATIONS OF A HUNGARIAN APPROVED EMPLOYEES SECURITIES PROGRAM ('AESP')

Under the current Hungarian tax legislation employees securities program can be operated as AESPs, provided that the program meets the statutory requirements set by the Hungarian Act on Personal Income Tax and the related legislation and the program is approved and registered by the Hungarian Ministry of Finance ('MoF'). The domestic legislation provides favourable tax treatment of the income realized by individuals through an AESP compared with a "traditional" share based compensation scheme. The purpose of this part of the correspondence is to outline the statutory requirements of introducing such a program, the related tax consequences and the possible tax cost savings.

1. General considerations

a. Favourable forms of share awards under the AESP rules

The AESP related regulations recognize two scenarios of share provisions as favourable.

The first scenario when the program organizer or the provider of the shares deposits shares free of charge at an investment service provider (i.e. broker) located in Hungary or in any other OECD member states. The shares should be deposited for the benefit of the participants in individual deposit accounts run by the investment service provider. The shares should be held in the securities account for at least two years from 31 December of the year when the shares were deposited. (For example, shares deposited on 1 July 2007 can be released on 1 January 2010.)

The other preferred way to set up an AESP is when the participant is granted a call option, a subscribe option or another (option) right to the underlying shares and the participants are allowed to exercise their option rights only after two years from the grant of the option rights.

b. Other statutory requirements

Underlying shares

The underlying shares should be registered shares incorporating membership rights and issued by the program organizer or its majority shareholder seated in an OECD member state. The majority shareholder is a company that directly or indirectly controls more than 50% of the voting rights in the program organizer company.

Participants

The program can be recognized as an AESP only if the share scheme offers shares only to the employees and executive officers. In addition, 10% of the employees (the average number of employees registered for statistical purposes at the company, in the year preceding the year in which the AESP application is filed with the MoF) of the company should declare their wish to participate in the Plan.

The ratio of the executive officers participating in the program cannot exceed 25% of the employees (e.g. 25 executive officer can be included in the program only if at least 100 employees are also included as participants) and the executive officers participating in the program can obtain no more than 50% of the securities available in the program.

Corporate participants involved in the AESP

As mentioned above the "organizer" (*„programszervező")* of the program should be a Hungarian company. The provider of the shares can also be the Hungarian company or its foreign parent company.

In addition, to engage a custodian where the shares are deposited is obligatory. A domestic Hungarian investment service provider or a foreign one registered in an OECD member state is also allowed.

Value of benefit

The maximum income provided through an AESP with a preferential tax (and social security) treatment is HUF 500,000 per participant per year. In case of the provision of free shares, the above income limit is to be measured against the fair market value of the shares on the date when the shares are deposited. In case of the share provision through option rights, the above income limit is to be determined based on the fair market value of the shares on the date when the option was exercised less the price paid by the participant for the option.

c. AESP application to be filed with MoF

As for the documentation requirements, we hereby list the main documents to be presented by the program organizer to MoF as part of the application process:

- A completed application form countersigned by a registered attorney or tax advisor. The form should be completed by the program organizer in which it declares that the program is meeting the statutory requirements set by law to recognize a share program as an AESP. (Six original copies of the application should be filed.)
- Registration form of the employees and the executive officers (on separate forms). On the form the individual should declare the nominal value of the shares intended to be acquired and that he understands the conditions of the program.
- Receipt proving that the program organizer has paid the application fee to MoF. The application fee is currently HUF 500,000.
- Draft of the framework agreement to be concluded by the program organizer and the investment service provider to operate the program. In addition, the draft individual agreement to be signed by the participant, the program organizer and the investment service provider to support the deposit. The program organizer should declare that once the program is registered the actual framework and

individual agreements mentioned above will have the same content as the draft versions filed with the application for approval as an AESP.

- A summary of the terms and conditions of the share award program in Hungarian.

2. Tax consequences of an AESP

Given the favourable tax consequences relating to an AESP, if the statutory conditions are met (especially the annual income limit of HUF 500,000, and the completion of the restriction period), the participants are not taxable when the shares are provided (i.e. deposited for the benefit of the participants) and taxation occurs usually only at the time the shares are released from the deposit. (When the shares are released from the deposit, the participants acquire full disposal rights over the shares.)

If a participant wishes to sell (at a later stage, after the statuary holding period elapsed) the shares acquired from the AESP, the income such received will be generally subject to capital gains tax under the Hungarian legislation.

The capital gain is the difference between the sales proceeds and the fair market value of the shares on the date of realizing the income, reduced by the expenses connected to the possession and sale of the shares (securities account fees, brokerage fees etc). Accordingly, if the shares are provided free, the fair market value of shares at deposit would give rise to tax. The capital gain should be converted to HUF for income reporting purposes, the general capital gains tax rate amounts to 25%.

Currently, capital gains derived from transactions carried out on the Budapest Stock Exchange or on any accredited stock exchanges of other EU or OECD member states on or after 1 September 2006, are considered to be as "income deriving from stock exchange transactions" and are taxable at a favorable tax rate of 20%.