Deloitte & Touche

IN ASSOCIATION WITH:

MULTINATIONAL STRATEGIES, INC.
DRT CZECHSOLOVAKIA

CZECH REPUBLIC PRIVATIZATION PROGRAM

PHASE I REPORT
PHASE II SCOPE OF WORK

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I. BACKGROUND

The Czech Ministry of Privatization (CMOP) requested technical assistance from the United States Agency for International Development (USAID) to assist in the implementation of the Czech privatization program. The CMOP has responsibility for controlling the privatization of state enterprises and state joint-stock companies in the Czech Republic. The technical services provided under the resulting grant from USAID are intended to improve the CMOP staff's capabilities in analyzing and evaluating privatization projects.

The large-scale privatization program in The Czech and Slovak Federative Republic (CSFR) is part of the broad economic reform effort aimed at achieving a rapid transformation to a free-market economy. A range of privatization techniques is being employed, from distribution of investment vouchers to Czechoslovakian citizens (to be exchanged for shares in selected enterprises) to direct sale of state property, in part or in whole, to foreign investors, enterprise management and employees, and other domestic investors.

The success of the privatization process depends on the number of state economic enterprises that are transformed into viable, profit-making, privately-owned entities. It is anticipated that the successful transformations will become the foundation for a stable economy and a productive work force.

At the same time, a large number of liquidations will also occur, involving those enterprises that do not have viable business characteristics. Liquidations may result in increased unemployment and periods of economic instability. The ultimate goal of the privatization program is, therefore, to offset these risks by

establishing economically practical enterprises that have a high probability of growth, increased employment opportunities, and a reduced reliance on government subsidy.

The sheer magnitude and short time frame of CMOP's intended privatization program remain unprecedented. In the first of two major privatization "waves," over 2,500 companies submitted privatization plans to their respective founder ministries. Both the CMOP and the founder ministry staffs were simply overwhelmed by the complexity of this task, all the more formidable for an essentially brand new government facing virtually minute-to-minute changes in social, political, economic and legal conditions. Staff was untrained and not nearly sufficient for CMOP to achieve its goal of converting the maximum number of state-owned enterprises into viable, privately owned businesses in the shortest possible time.

It is critical to the welfare of the Czech Republic, however, that CMOP's goal of maximizing the number of successful privatizations be achieved quickly. During the transition process, conversion to a market-based economy will be difficult. The pain can only be minimized to the degree that successful private businesses are created that can maintain employment, develop a revenue base and stabilize the economy.

To accomplish its goal, the CMOP requested USAID assistance in both setting up the required policies and procedures for evaluating proposed privatization plans and in actually implementing the privatization process, especially for projects involving foreign investors. This work required financial advisors with

expertise in corporate finance, mergers and acquisitions, leverage buyouts, strategic planning, operations and organizational management, and accounting. This team of advisors was assembled and put into place under Phase I of this contract, which took place between October 1, 1991 and December 31, 1991. The team's objective was to initiate the CMOP conversion program for the "first wave" of privatization. Additional advisors have been selected to complement the team for Phase II, and they will be in place when required in January 1992.

The objectives for Phase I were achieved and are presented in this report and the need for the advisory team to move immediately into the implementation of Phase II has become clear. It also has become clear that the advisory team should focus its attention on privatization projects involving foreign investors which are the most complex and require the greatest sophistication in their review, analysis and negotiation.

Based on the continually evolving nature of this assignment and the technical assistance needs of the CMOP, it was determined that Phases II, III and IV of the original program should be combined into one medium-term Phase II, lasting until December 31, 1992. During Phase II, the advisory team will help CMOP implement the first wave of privatizations, train the ministry and government staff, and assist in the coordination of the efforts of the various ministries, the National Property Fund, and the multiple groups of advisors. It is expected that the advisory team will be responsible for evaluating the proposals for privatization of over 150 companies that are attractive for foreign or domestic direct investment, representing approximately 80 percent of all the

assets in the Czech Republic undergoing privatization. With the potential for multiple privatization projects submitted for a given company, the number of projects to be reviewed will be higher.

The results of Phase I and the revised plan for Phase II are presented in this report. Repetition of material covered in the proposals and contracts for this project has been avoided wherever possible.

II. PHASE I ACTIVITIES AND RESULTS

A. Summary

Phase I was extremely productive, resulting not only in the structuring of the privatization process, but also in greatly accelerating the implementation of projects involving foreign investors. In summary, the advisory team achieved the following improvements and modifications in the workings of the CMOP and the privatization process in general:

1. In essence, the advisory team set up an investment banking/management consulting firm within the CMOP. The capabilities of the team include expertise in corporate finance; mergers and acquisitions; leveraged buyouts; strategic planning; hands-on management of large, complex organizations; turnaround management; marketing; research & development; and intellectual property.

2. Foreign Investor Privatization Guidelines were prepared, revised with input from the ministries and other advisory groups, and approved by the CMOP (See Exhibit 3).

3. Over fifty privatization projects were received by the advisory team from the founder ministries and/or the CMOP for review and analysis.

4. The team determined the best mode of summarizing the projects and presenting the team's recommendations to CMOP, in a standardized format, subject to the individualized attention required by the specific project details and complexity.

5. Effective communication and collaboration were established among the advisory team, ministries and agencies, and other advisory groups.

6. The team is now helping the CMOP act on our recommendations and implement the privatization process. This requires further coordination efforts with the CMOP and its sector heads; the founder ministries; other ministries; the National Property Fund; other governmental agencies and committees responsible for areas including monopolies, intellectual property, environment and social services; other advisory groups; company management; and the foreign investors.

7. Through effective integration of the commercial and governmental players, the team has averted the danger that privatization might turn into an adversarial process, which would dramatically slow and thwart the transition to private ownership and a market economy.

8. The team is pursuing ongoing activities which include ministry staff training, development and refinement of working procedures for evaluation, renegotiation and approval of privatization projects and compilation of new laws and policies as they come into effect.

Through the activities of Phase I, an effective plan of work for Phase II was defined, and the process of implementation is already underway.

B. Phase I Deliverables

1. Policies, Laws and Regulations

The policies, laws and regulations relating to privatization are in a constant state of change. Once they are issued in Czech, for example, it takes time to get an accurate translation in English. This is one of the many challenges involved in assisting the CMOP achieve its goal of large-scale, rapid privatization.

The major policies, laws and regulations directly pertaining to privatization are enclosed as appendices to this report:

Appendix 1	Transformation Law #92/1991
Appendix 2	Alternate Translation of Transformation Law (with legal commentary)
Appendix 3	Draft Commercial Code (effective 1/1/92, supersedes the Joint Stock Companies Act)
Appendix 4	Czech National Property Fund (summary of Law #171/1991 establishing the Fund)
Appendix 5	Rules of Sale of State Property
Appendix 6	Decree on Investment Vouchers (#383/1991)
Appendix 7	Voucher Privatization Information Booklet
Appendix 8	Mandatory Format of Privatization Projects (detailed format for submission of all privatization projects, translation by Credit Suisse-First Boston)
Appendix 9	The Enterprise with Foreign Property Participation Act The Act on Economic Relations with Foreign Countries The Joint Stock Companies Act Foreign Exchange Act

The advisory team constantly scans its available sources of information in order to keep up with the changes in the law and policy. These sources include government contacts, local newspapers, investment banks, law and accounting firms, and other advisors to the CMOP and founding ministries. As new laws and policies are issued, the advisory team incorporates them into the review and

analysis procedures in order to assure comprehensive coverage in its recommendations to CMOP.

Due to the evolutionary and sometimes almost revolutionary nature of the privatization process, the team sometimes has to revise its recommendations on short notice. In addition to the formal, written laws and policies adopted by the government, informal opinions and interpretations within the government often end up as policy in relatively short order and can have a dramatic effect on the team's review process.

2. Czech Ministries

Exhibit 1 shows the basic organization of the CMOP, its division into sectors paralleling the founder ministries, and how the advisory teams support the ministries. The sector heads of CMOP meet regularly with the Director of Privatization of their respective founder ministry, as well as with the subsector heads within the respective founder ministry. The members of the advisory team serve to enhance this process and integrate the ministries with the appropriate additional advisor groups.

The vast majority of proposed privatization projects with foreign investor components will come from the Czech Ministry of Industry (CMOI). The organization of the Ministry of Industry is shown in Exhibit 2. As of April 1, 1991, there were approximately 1,500 companies and organizations within the jurisdiction of the CMOI. These entities employed over 1.6 million people and controlled nearly 70% of the manufacturing in the Czech Republic. It is

expected that some 1,300 of these companies will be privatized in the first wave.

3. Implementation Plan for Privatization Process

Developing a rational, consistent process to evaluate, approve, and implement proposed privatization projects is central to the success of the overall privatization program in the Czech Republic. This process, cumbersome from the outset due to the large volume of enterprises to be privatized, is made even more complex by the fact that competing privatization proposals are often submitted for the same enterprise. The *ad hoc* nature of the early stages of the first wave of privatization created an unstable investment environment, especially for foreign investors, that may have impeded the success of the program. The senior advisors are working directly with senior officials of CMOP, the National Property Fund, the Monopolies Committee, etc., to create a more standardized and transparent proposal review, issue resolution, renegotiation and closure process that will be efficient and effective and will foster a favorable investment climate. Assistance has focused on 1) the evaluation and approval process for proposed privatization projects; and 2) the guidelines for foreign investment participation in privatization. These are explained in greater detail below.

In addition, the advisors are working directly with Czech management teams and foreign investors to help them use the Czech privatization procedures, improve relations among them, and enhance the process of fair and open negotiation and convergence to a closed transaction. It has been extremely

gratifying to experience the level of appreciation expressed by the ministries, managers and foreign investors to the advisory team for our assistance on their behalf.

3.1 Evaluation and Approval Process

Proposed privatization projects undergo a multi-stage screening and review process that requires cooperation and coordination between various ministries, enterprises, and potential investors. Once investor projects are received from the CMOP or founder ministries, they are logged in by the advisory team administrator and undergo screening to determine urgency based on the company's financial and market viability, the complexity of the transaction, the status of negotiations with investors, and the strategic importance of the company and its business to the Republic. A sample Project Status Log is shown in Exhibit 4. Ultimately, the projects will be entered into a Project Database.

Evaluation

The advisory team has a full staff meeting each Monday to assign team members to projects, review projects, resolve problems, present law and policy changes, and update the project status log. A member of the CMOP Directorate (Exhibit 1) is present at the meetings to provide regular, ongoing coordination and issue resolution with the government. All work is reviewed for meeting established standards and consistency. Efforts of the CMOP and founder ministry teams are coordinated. Each investor project is reviewed to determine the degree to which it is both competitive and appropriate in terms of

value and price, financial and technical investment, employment, environment, and stimulation of economic growth and competitiveness.

The assigned advisory team arranges for translation of relevant sections of the project documents, and the important data is summarized using a uniform format. The viability of the company is assessed both with and without the proposed investment in terms of product standards, technology, market, capitalization, indebtedness and the business plan.

The projects are then collectively reviewed by the CMOP advisors for suitability and completeness of the plan and its documentation. At any point during the review process, any shortage in the project in planning or documentation is remedied by contact with the founder ministry, company management and/or the foreign investor(s). Although the Mandatory Format of Privatization Projects (Appendix 8) requests much of the information needed in the review, it is generally not enough. Also, many changes have usually taken place in a company's plans since the privatization project was completed. It has therefore become apparent during Phase I that interviews with management are almost always essential in order properly to carry out the review. In some cases, site visits are also appropriate. These efforts are coordinated with the founder ministries so that we communicate effectively if it is determined that a project under review is not suitable and must be revised.

Once it is felt that all relevant aspects of the project are complete and suitable, the project is formally reviewed by the senior advisors for its commercial viability and economic fairness. Recommendations are prepared for the CMOP

in both English and Czech. At the suggestion of the senior advisors, the Directorate of the CMOP may request the senior advisors to carry out further negotiations with management and the foreign investor and facilitate the approval process in order to expedite closing of the transaction. The senior advisors work closely with the CMOP and the National Property Fund on all aspects related to successfully privatizing the investor projects, including appropriate publicity.

Final Project Approval

Once the CMOP finalizes its recommendations for approval, the project is forwarded to the Council of Ministers. Any issues raised by the Council are addressed, the project/transaction is modified accordingly and, if finally approved, the approval is transferred to the National Property Fund.

For the highly complex, large, and/or sensitive projects, an even more thorough review and analysis process occurs. The advisory team delves in detail into the basis and accuracy of the valuation, the identity, relationship and scope of work of any company and/or foreign investor advisors, the adequacy and fairness of the tender process, the basis of selection for the successful bidder, and all relevant defaults of the transaction. This is done on any project where the founder ministries, the CMOP or the advisory team feel it is necessary.

3.2 Foreign Investment Guidelines

Foreign investment is an important component of the Czech Republic's privatization program. However, soliciting and managing high levels of foreign

investment while preserving and promoting national economic and social interests is a delicate and complex task. The Foreign Investment Privatization Guidelines (Exhibit 3) were designed to ensure that privatization projects involving foreign investors are consistently reviewed and analyzed in order to produce the maximum possible benefits for the Czech Republic and its citizens. These benefits include employment, management and technical training, exports markets, new technology, production and marketing expertise, and a growing, competitive economy.

A particular concern is the nature of the process for final project approval by the Czech government. Currently, the system is *ad hoc*, has redundant activities, and is quite tentative. To potential foreign investors, the process can appear chaotic, even whimsical. Many foreign investors that are ready, willing and able to invest are frustrated by what seem like endless iterations and ever-changing policies. The managers of the Czech companies are equally frustrated. In many cases, foreign investment is their only hope for survival in the face of rising product quality standards and global competition. An alarming number of these companies will go bankrupt as early as 1992 without an almost immediate infusion of capital, technological know-how, and access to a greatly expanded market network.

While individual circumstances make rigid procedure impractical, the advisory team developed the Foreign Investment Privatization Guidelines (Exhibit 3) in order to provide a consistent approach to each privatization and to help focus the evaluation process. In summary, the guidelines suggest that the CMOP

find answers to the following questions before making a final decision on a foreign investor's bid:

1. Is the foreign investor's plan complete, in the correct format, and in compliance with the law?

2. Is the foreign investor qualified to meet all the requirements (financial strength, appropriate industrial expertise, ability to build business, etc.)?

3. Is the price being offered for the shares of the enterprise fair?

4. Does the business plan appear reasonable and achievable?

5. Is the valuation in line with those of comparable transactions for other enterprises?

6. What adjustments to the purchase price should be made in exchange for commitments for subsequent investments and maintenance of employment levels in the near-term?

7. Is the foreign investor's strategic plan with respect to the company viable? Will it improve the company's competitiveness?

8. Will the company's board be constituted according to ownership?

9. Is the foreign investor purchasing a controlling interest? Is this acceptable?

10. Are there any conflicts of interest with the foreign advisors?

11. Is the foreign investor's overall proposal fair and does it offer benefit to the company and the CSFR in the long-term?

During Phase II, the team will continue to assist the CMOP in the review, analysis and renegotiation of privatization projects involving foreign and domestic direct investment. The advisors will assist the CMOP and the founder ministries in managing the privatization process, training ministry staff, and integrating the activities and recommendations of the various other advisory groups.

4. Model Transactions

As stated earlier, the team in Phase I has already reviewed and made recommendations on a number of projects. Several are presented here and in Exhibit 8. Based on the results of these first projects, the advisory team has refined its data collection, analysis, negotiation, recommendations, presentation and reporting processes.

4.1 The Cokoladovny Privatization

One of the major projects that the advisory team has already worked on is the Cokoladovny chocolate factory (See Exhibits 5,6, and 7). This project offers a useful illustration of the activities the team will direct during Phase II.

The Cokoladovny project utilized a team consisting of financial advisors, investment bankers, accountants, and volunteer executives. The Project Summary is shown in Exhibit 5. It is important to point out that much of this information was not available in the privatization project documents but had to be researched, analyzed, and integrated through extensive interviews with

management and the foreign investors. The information and assumptions were examined by the advisors to test the value and fairness of the project. Sensitivity tests, discounted cash-flow analysis and comparison to relevant western transactions were performed. Exhibit 6 provides some examples. When all the analysis was completed, including the required iterations, the senior advisors summarized the key issues, strengths and weaknesses of the project and recommended a course of action. Such recommendations may include immediate approval, approval with modifications, new approach to privatization, or disapproval.

The report covering the team's recommendations and rationale was provided to the CMOP and the founder ministry in both English and Czech. The English version of the recommendation memo on Cokoladovny is shown in Exhibit 7. Senior advisors were involved in additional negotiations as a result of the submission of the memo to CMOP.

The presence of the advisory team has been a catalyst to the process of negotiation and has already resulted in substantially improved deal terms over the original proposals submitted by the foreign buyer. Among other things, the negotiations were greatly accelerated, the valuation was finalized, the capital investment was increased by approximately $100 million, the shares reserved for employees were doubled, with half at a 50% greater discount and half free to the employees, and the environmental liabilities were shifted from the Czech government to Nestle/BSN.

4.2 Other Privatization Transactions

A variety of types of companies and transactions has attracted foreign investors to the privatization process and the differing circumstances lead to alternative structures and strategies for their individual privatization schemes. The distinct examples shown in Exhibit 8 demonstrate that success is not limited to one privatization approach with foreign investors. These projects involve the use of a joint venture, direct sale, direct sale/management buyout, privatization of a state-owned stock company, privatization of a state joint-stock company by vouchers and foreign investor, and privatization with minority foreign participation.

5. Quarterly Work Plans

Daily Tasks:

1. Receive and log new projects, assign team members;

2. Review project status, set priorities for the day;

3. Review recommendation memoranda prior to submission to CMOP and make required changes, if required;

4. Submit completed projects to CMOP; and

5. Conduct required data collection, analysis and meetings with foreign investors, managers, ministers.

Weekly and Monthly Tasks:

1. Hold staff meeting -- review status of projects, staffing, priorities and make required adjustments. Discuss changes to process, policies, laws, etc.;

2. Conduct progress meetings with key founder ministry and CMOP staffs;

3. Conduct a progress meeting with USAID representative;

4. Other tasks as required to keep program on track; and

5. Review overall status - backlog, problems, possible solutions; make required adjustments to staffing, procedures and documentation.

Quarterly Tasks:

The team will prepare Quarterly Performance Summary Reports for USAID and the CMOP, documenting the numbers and types of privatizations reviewed and approved, the backlog and anticipated work flow, staffing, budget issues, schedule, changes to guidelines and procedures, revised outline of deliverables, and new project tasks identified.

6. Quarterly Performance Summaries

The present document constitutes the first quarterly performance summary under this contract and coincides with the completion of Phase I (which was one quarter). The Project Status Log shown in Exhibit 4 and the sample projects shown in Exhibit 8 highlight the number of projects logged in, the status of the review, the action items, and the types of transactions seen so far.

III. PHASE II SCOPE OF WORK

A. Summary

Under the second and final phase of this project, the professionals will continue to act as advisors to the Ministry of Privatization. In particular, the advisors will implement a system and guidelines for the review of privatization projects to meet the objectives of the Czech Ministry of Privatization. The team will assist the CMOP and founder ministries to manage the process and will provide advice, as appropriate, on further action necessary in relation to specific projects.

Under this phase of the work, consulting services are requested to assist the CMOP in carrying out the "investor projects," estimated to be up to 250 of the companies undergoing privatization, or roughly 10% of those enterprises in privatization. In dollar value, the assets of these approximate 50 to 80% of all the assets in the Czech Republic undergoing privatization.

The advisors will work with the founder ministries in cooperation with and under the guidance of the CMOP {National Property Fund} to assist in privatizing the companies with net foreign investment. Assistance will be provided to those companies in each sector which need attention due to their size and the urgency to the company's financial viability. Advisors are to be placed in four sectoral ministries as well as provide direct technical assistance to the CMOP which has overall responsibility for the process.

The second and final phase is divided into two interrelated components: Review of Voucher Projects and Review of Investor Projects.

B. Component A: Voucher Projects

The advisors will work with the assigned counterparts in determining which projects are to be assigned to the voucher program and which ones are to involve direct investment. The lead advisors in the CMOP will establish standard review procedures, coordinate the work of the teams in the four ministries, assist in problem areas, review work for consistency and make recommendations to the Ministry of Privatization regarding which projects involve potential direct foreign investment.

It is difficult to estimate what proportion of the total number of privatization projects will be voucher projects which exclude any foreign or domestic investor element, but it is reasonable to assume that the vast majority will exclude such investment. For the purposes of this scope of work it is assumed that all but 250 projects (10%) will fall into the voucher project category. Those 250 will fall into the investor project category and will be the focus of the technical assistance effort as outlined in Component B.

C. Component B: Investor Projects

This second component includes an overall review program for direct foreign investment enterprises, totalling up to 250 enterprises, and more detailed work

for up to 100 specific enterprises to be identified in carrying out the assignment.

One of the key objectives of the review process will be to ensure that investor projects have been based on proposals by investors which can be shown to be the most competitive in terms of value, investment, employment, and stimulation of economic competition.

For both the initial and detailed reviews a standardized format is to be followed, as outlined below.

Overall Guidelines

For all investor projects examined for initial or detailed review, the advisors will work under agreed upon guidelines and instructions to ensure consistency of approach throughout the process. These guidelines should concentrate, *inter alia*, on the following areas:

1. Cash flow requirements of the business

   - what is proposed for the enterprise's existing debt?
   - what are the enterprise's capital expenditure requirements?
   - will factories be closed? what effect will this have on the local population where the company is the major employer?

2. Employment

   - what are the plans for the existing work force?
   - is increased employment expected?

- is retraining planned to help dislocated workers?
- will employees be taught to be more productive?

3. Vouchers {if appropriate}

   - What proportion of the company is to be privatized by vouchers, if any?
   - what plans are put forward for the balance?
   - is it appropriate to offer more shares in the voucher scheme?

4. Residual Ownership

   - how much ownership should be retained by the National Property Fund?
   - should the government retain a separate portion of the shareholdings which it intends to sell to trade purchases in the future?

5. Management and Employees

   - what arrangements have been made to encourage investment by management and employees?
   - how will they pay for their shares?

There will be many other questions to be answered in the detailed review to ensure all areas are covered.

Initial Review: Up to 250 Enterprises

It is estimated that up to 250 projects will involve proposals with foreign investment, based on the work carried out in Phase I of this assignment. Each investor project will require an initial review in the same way as for the voucher allocation process. In addition, the privatization projects which include foreign investment will inevitably be those companies or sectors which are

likely to attract more public attention and therefore will need to be studied carefully by suitably qualified advisors to ensure that the objectives are met in respect of their privatization.

Under this task, for the initial review process, the team of advisors will work through the following steps:

1. The plans will be passed initially to the support teams in the sectoral ministries to carry out the initial review of the projects, to translate relevant sections, and to summarize the important data on the uniform format.

2. The plans will be passed secondly to the accountants, who will review them for financial completeness, plausibility and internal consistency, and who will review the financial statements.

3. As may be required, the plans will be passed to local Czech attorneys who will review them for completeness and consistency with the legal requirements in force.

4. Following this, they will pass them to the financial planners who will assess the viability of the company in terms of its indebtedness and its capitalization.

5. The financial planners' comments and the financial sections will then be collectively reviewed by the advisors in the corresponding section of the CMOP. Particular attention will be paid to whether the proposals for privatization in the plan are suitable, and whether all the issues raised in our summary of important criteria have been fully considered and the solutions proposed are adequate.

6. If at any point during this process, the papers supplied are incomplete, unclear or inadequate in any way, the company will be contacted immediately and requested to remedy the defect with all possible speed. In some cases management will be interviewed and sites inspected.

7. Once the factual record has been completed and reviewed for each company, it will be formally evaluated by the Senior Advisors at the Directorate of the Ministry of Privatization and appropriate recommendations forwarded to the appropriate Ministry official.

Detailed Review: Up to 100 Enterprises

It is estimated that up to 100 specific enterprises will require a more detailed review of their privatization projects. As well as covering most of the areas discussed under the initial review procedures for all 250 investor related projects outlined above, the detailed review will need to concentrate on the selection procedure adopted for the investor partner, including consideration of the basis of the valuation. In addition to 1 to 7 above, this detailed review will address such questions as:

1. Has enterprise appointed advisors?
2. Do the advisors have an international network?
3. Do the advisors have experience in conducting tenders?
4. Have the advisors reported on value?
5. Have the advisors prepared an information memorandum?
6. Have the advisors identified all potentially interested parties?
7. Have all parties been approached at an appropriately senior level?
8. Is evidence available of those expressing no interest?
9. How has the short list of bidders been drawn up?

10. What are the reasons for choosing successful bidder?

11. Do the advisors have any past or present relationship with successful bidder?

EXHIBITS

Exhibit 1

Organization of the CMOP

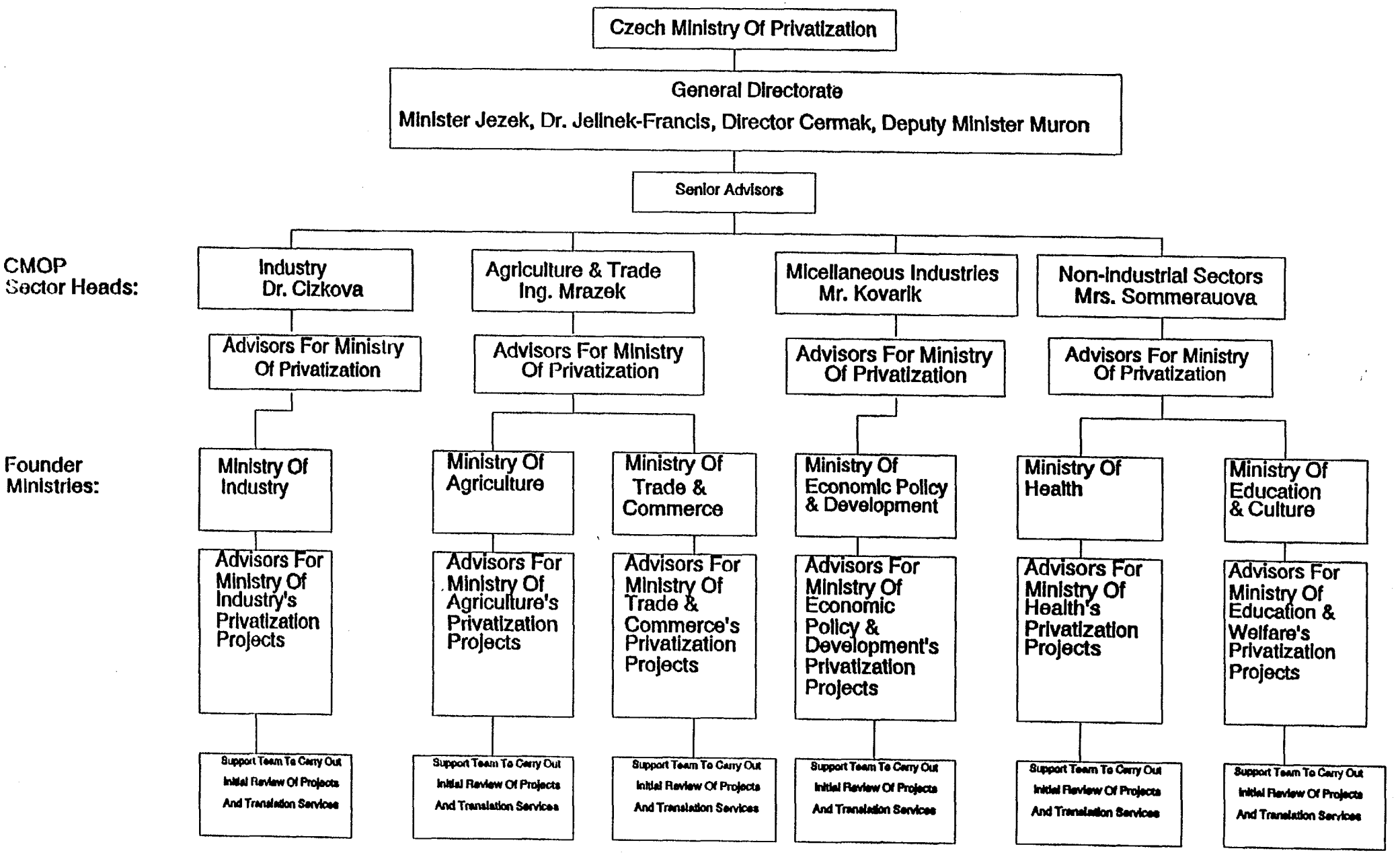
Czech Ministry Of Privatization
General Directorate
Minister Jezek, Dr. Jelinek-Francis, Director Cermak, Deputy Minister Muron
Senior Advisors
CMOP Sector Heads:
Industry Dr. Cizkova
Agriculture & Trade Ing. Mrazek
Micellaneous Industries Mr. Kovarik
Non-Industrial Sectors Mrs. Sommerauova
Advisors For Ministry Of Privatization
Advisors For Ministry Of Privatization
Advisors For Ministry Of Privatization
Advisors For Ministry Of Privatization
Founder Ministries:
Ministry Of Industry
Ministry Of Agriculture
Ministry Of Trade & Commerce
Ministry Of Economic Policy & Development
Ministry Of Health
Ministry Of Education & Culture
Advisors For Ministry Of Industry's Privatization Projects
Advisors For Ministry Of Agriculture's Privatization Projects
Advisors For Ministry Of Trade & Commerce's Privatization Projects
Advisors For Ministry Of Economic Policy & Development's Privatization Projects
Advisors For Ministry Of Health's Privatization Projects
Advisors For Ministry Of Education & Welfare's Privatization Projects
Support Team To Carry Out Initial Review Of Projects And Translation Services
Support Team To Carry Out Initial Review Of Projects And Translation Services
Support Team To Carry Out Initial Review Of Projects And Translation Services
Support Team To Carry Out Initial Review Of Projects And Translation Services
Support Team To Carry Out Initial Review Of Projects And Translation Services
Support Team To Carry Out Initial Review Of Projects And Translation Services

Exhibit 2

Organization of the CMOI

MINISTRY OF INDUSTRY of the CZECH REPUBLIC

/ Organization chart of the ministry staffs validate from 1st January 1991 /

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Explanatory note:

CD – Chief Director /Head of Sectio
D – Director / Head of Department

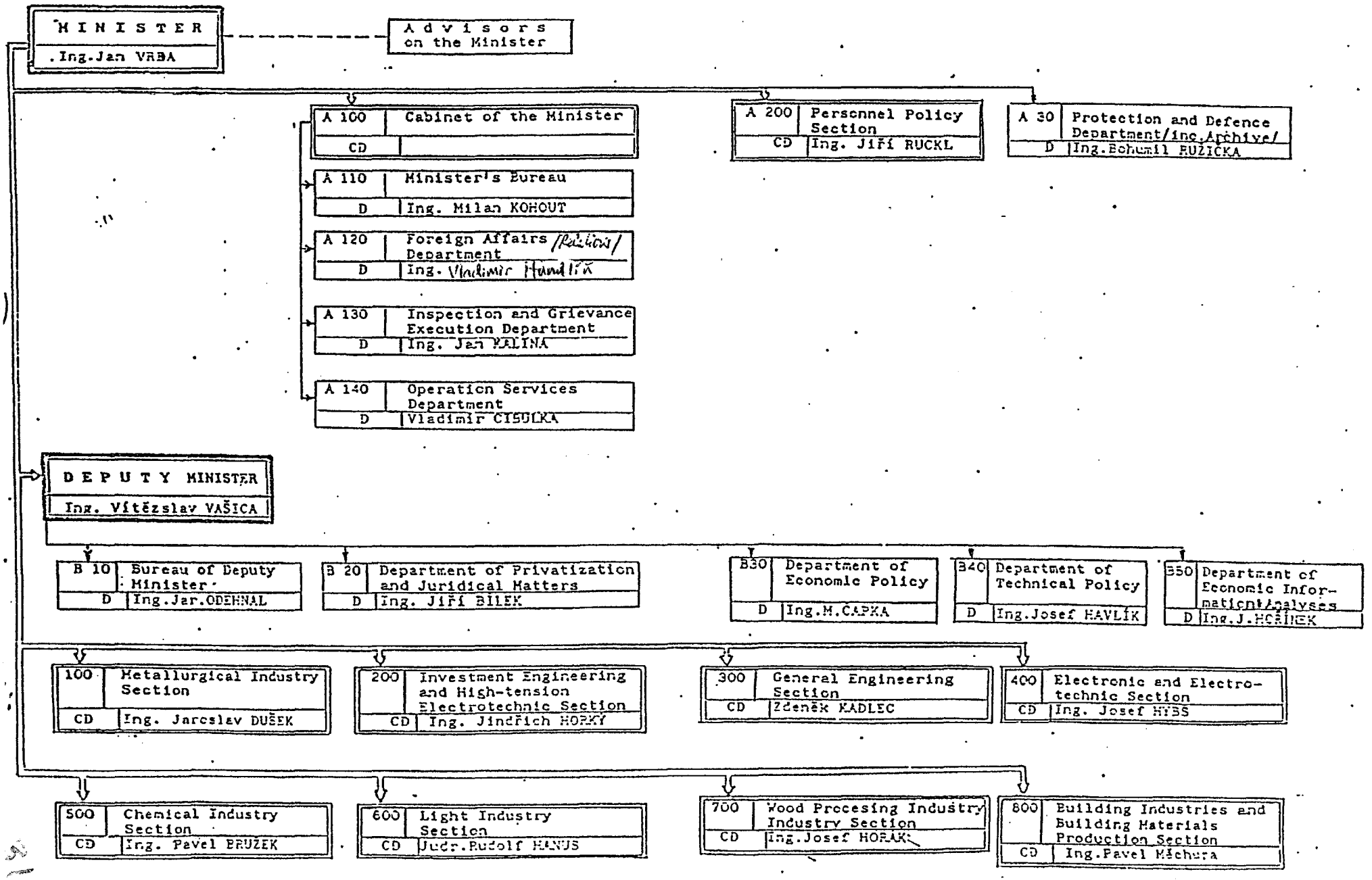

Exhibit 3

Foreign Investment Privatization Guidelines

November 29, 1991

FOREIGN INVESTMENT PRIVATIZATION GUIDELINES

Introduction

The following guidelines are intended to assist the evaluation of foreign investment privatization projects. Every item of investigation may not be appropriate in all cases, and additional areas of inquiry may be necessary. However, the guidelines do provide a consistent approach to thinking through each privatization project and should help focus the evaluation process on key areas.

I. Initial Review of Project at Founder Ministry

- Complete formal submission in compliance with the binding privatization project guidelines.
- Summarized presentation in Czech and English required.
- Identify and comment on issues for discussion.

II. Evaluate Foreign Investors

A. Background on Each Foreign Investor to Determine Qualifications:
- Description of how the Foreign Investor has been chosen.
- Summary description of Foreign Investor's business.
- Size and strength in respective industry. (if applicable)
- Financial information (income statement, balance sheet).
- Financial strength of Foreign Investor and ability to meet current purchase price and future commitments.
- Capability of Foreign Investor to build target company's business. (if applicable)
- Appropriateness of Foreign Investor from cultural/political point of view.

B. Structure of Bid
- Identify Foreign Investor and any related entity doing business in the CSFR.
- What entity is purchasing the shares/Company?
- Who are the shareholders of the entity?
- Is there an advisor(s) to the Foreign Investor?
- Is there an advisor(s) to the Company?
  - What is their compensation?
- How is the transaction financed?
  - If debt, who is guaranteeing debt?
  - What bank is being used?

III. Valuation, Initial Purchase Price, and Subsequent Investment

A. Valuation
- What method(s) of valuation was/were employed?
- Does the valuation seem reasonable as compared to similar transactions?

- Does the valuation reflect the extent of the stake of the Foreign Investor? (e.g., higher price if Foreign Investor is acquiring control)
- Has the valuation been performed by an independent valuation expert?

B. Initial Purchase Price
- Proposed initial investment to purchase assets or shares.
- Percentage share capital sought. (if applicable)
- Foreign Investor's proposed structure of initial investment, cash or other consideration, if non cash in what manner was the value determined?
- What is being purchased and what left behind? Ensure transaction does not encompass the most attractive parts of the business leaving behind other operations that would be difficult to privatize separately.
- Is there a danger of insolvency before privatization is complete?

C. Subsequent Investments
- Proposed magnitude of the Foreign Investor's ultimate financial investment in the Company and in the CSFR.
- In which areas is the Foreign Investor planning to invest (e.g., plants, marketing, technical, operational) and how would such approach increase overall shareholder value?
- What does the Foreign Investor expect the value of its contribution in areas of technical, operational, managerial, marketing, and other non-financial areas to be, and what is the methodology for such valuation?
- What is the Foreign Investor's timetable for and magnitude of subsequent investments?
- What does the Foreign Investor require of the Company or the Government in order to achieve this timetable?

IV. <u>Proposed Structure of Business</u>

A. Business Development Strategy
- How does the Foreign Investor intend to invest in developing the Company's market position?

- Does this strategy fit within the Foreign Investor's existing European marketing strategy? (including in Eastern Europe)
- Are any of the Company's existing name brands important to it?
- Any proposed change in product mix?
- Over what timeframe does the Foreign Investor

propose to implement these changes in product mix?

- What does the Foreign Invstor propose to contribute to the Company in terms of production, marketing, and production development expertise?
- What are the Foreign Investor's views regarding current capacity utilisation of the Company's production facilities and what future changes in production output would the Foreign Investor expect to make, and over what timeframe?
- What is the Foreign Investor's view on optimal capacity for the Company in the near to medium-term?
- Are all marketing arrangements to be made on an arms-length basis?

B. Employment

- What is the Foreign Investor's plan with respect to existing workforce?
- What contribution to the day-to-day management of the Company would the Foreign Investor make?
- What level of management control or board representation does the Foreign Investor expect ultimately to acquire?
- What are the Foreign Investor's plans for the continued training and development of the workforce?
- What are the Foreign Investor's views on the incentivisation of management and employees?
- Is the Foreign Investor going to try to source products locally, or will it rely on imports?

C. Liabilities

- Do the Foreign Investor's plans address all liabilities? (e.g. product liability, pension funds, restitution, legal, environmental)
- Where a restructuring results in a division of the company's assets into several entities (each with its own privatization plan), is the proposed division of liabilities equitable?

D. Financial Projections

- Foreign Investor should include its estimate of 3 years of financial projections.
- What are the cash flow requirements of the business? (sources and uses of cash, borrowing requirements, debt repayment, timing of cash flows including seasonal variation)
- How are future capital commitments to be financed? Are the minority shareholders protected from dilution?
- Will the Company avoid insolvency before the privatization process is completed?

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V. Proposed Ownership Profile

- Percentage Breakdown
  - % to Foreign Investor
  - % to Management
  - % to Employees
  - % to Vouchers
  - % to Restitution
  - % to National Property Fund
  - % to IPF
  - % to Municipality
- Foreign Investor's ultimate goal with respect to ownership.
- How did they arrive at management share and was it arrived at on an arms-length basis?
- Are employees and management able to obtain shares if no provision is made?
- Minimum holding period by Foreign Investor?
- Other restrictions on the transfer of shares?

VI. Summary of Issues

- Is the Foreign Investor's plan complete, in the correct format, and in compliance with the law?
- Is the Foreign Investor qualified to meet all requirements?
- Is the price offered for the shares fair?
- Does the business plan appear reasonable/achievable?
- Is the valuation in line with those of comparable deals?
- Adjustments to purchase price by commitments to subsequent investments and maintenance of employment in the near-term.
- Is the Foreign Investor's strategic plan with respect to the Company viable? Will it improve its competitiveness?
- Will the board be constituted according to ownership?
- Is the Foreign Investor purchasing control? Is that acceptable?
- Are there any conflicts of interest with the foreign advisors?
- Is the Foreign Investor's overall proposal fair and does it offer benefit to the Company and the CSFR long-term?

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MULTINATIONAL STRATEGIES 11/29/91

SUMMARY OF FOREIGN INVESTOR PRIVATIZATION PROJECT

I. Business Summary

Project Submitted by:

Name of Business/Location(s)

Number of Employees
- Management
- Production
- Administrative
- Sales and Marketing
- Total

Business Description - products and/or services

Market Position
- Market Share
- Major Competitors
  - Domestic
  - Foreign

Management - key employees, length of service, age

Major Customers (10% or more of sales)

Export Sales

Countries Exported to	Dollar Volume

Major Suppliers

Raw Material	Supplier	% of Total

II. Financial Summary

A. Income Statement Information
(3 years and interim period comparison)
- Sales
- Cost of Sales
- Gross Profit
- Selling, General, and Admin Expenses
- Operating Profit
- Depreciation
- Interest Expense
- Taxes
- Net Income

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B. Balance Sheet Information

Current Assets	Current Liabilities
Cash and Equivalents	Short-term Debt (a)
Accounts Receivable	Other
Inventory	Total Curr Liabilities
Other	
Total Current Assets	Long-term Debt (a)
Property,Plant and Equipment	Other Liabilities
Land	Share Capital
Other Assets	Total Liabilities
Total Assets	and Share Capital

(a) rates, maturity, lender for each long and short-term debt of obligation

C. Cash Flow Information

Cash Flow Provided by:
- Net Income
- Depreciation
- Increase in Debt
  - Total

Cash Flow Used by:
- Additions to Property, Plant, and Equipment
- Debt Repayment
  - Total
- Increase/Decrease in Working Capital (b)

(b) analysis of changes in working capital where available

D. Ratio Analysis
- Total Debt/Capital
- Total Debt/Total Assets
- Operating Profit/Interest Expense

E. Projections (at least one year with assumptions)

III. <u>Proposed Privatization Transaction</u>

Ownership Structure
Identity of Foreign Investor (and advisor, if any)
Purchase Price (form of consideration, if other than cash; timing, if staged)
Future Investments (amount, timing)

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COMPANY CONSIDERATIONS

I. Meetings and Discussion Points

Meetings and conversations with key company officers and employees, Company attorneys and others to discuss information relating to the Company or its affairs, at company sites or elsewhere, may be appropriate. The following financial, accounting, and business considerations are intended to guide the discussions.

A. Accounting and Financial Matters

1. Assets (particularly receivables) normally requiring valuation reserves and the appropriateness of such reserves; assets (particularly inventories) subject to stylistic or technological change; breakdown of inventories according to major product categorie with comparable data for previous year.

2. Re-valued assets.

3. Depreciation and depletion policies.

4. Unusual line items in the financial statements; that is, non-recurring items of income; extraordinary items.

5. Contingent liabilities, including guarantees, warranties and material commitments; support arrangements with other companies; environmental liabilities.

6. Summary of lease rentals for the past three years, the current year, and the next three years.

7. The Company's tax position, including any unusual problems or questions raised by the taxing authorities.

8. Effect of potential accounting changes (e.g., revaluation of assets, unfunded pension liabilities).

9. Covenants in existing loan agreements and their effect on the financial and operating policies of the Company; debt capacity under existing constraints; technical defaults, if any.

10. Debt maturity schedules; other cash flow requirements.

11. Description of banking relationships, including the nature, limit, and current status of any outstanding loan or credit arrangements.

B. Business Matters

1. History of the Company, in summary form, including all major developments and material changes in finances, products, facilities, location and the nature of operations and management over the years.

2. Subsidiaries and related companies; potential conflicts of interest; intercompany transactions.

3. Major divisions and departments of the Company, including products manufactured or services performed, number, type and function of employees and physical facilities utilized.

4. Major products or services of the Company, their development, use, sales and profit potential, methods of distribution technical attributes and requirements.

5. Recently discontinued operations; unprofitable areas or areas with disproportionately high or low profit potential and the business strategy with respect to these areas.

6. Major operational methods and policies (e.g., distribution, merchandisizing, advertising and pricing, manufacturing methods and procedures, purchasing, cost control, methods of budgeting and forecasting).

7. Major suppliers; types of products or materials supplied; adequacy of sources of supply; price guarantees.

8. Major customers and customer categories; special relationships with major customers, effect of major salesman's relationships, portion of business done with major customers (historical and projected).

9. Order/backlog figures, as of the latest available date, according to major customer and product categories, with comparable data for the corresponding date of the previous year.

10. Historical and projected capacity utilization; breakeven operating levels; capacity constraints.

11. Seasonal or cyclical influences on the business.

12. Nature and extent of expenditures for research and development, new products and processes; research and development funding sources and relationships; nature of accounting methodology.

13. Trademark, copyright, and/or patent status. (if applicable)

14. Nature and extent of expenditures for advertising and promotion.

15. Budgets and earnings estimates; projected financial performance in as much detail as possible with underlying assumptions.

16. Significant changes in the Company's business indicated by changes to a free market economy or trends in its internal operating environment (e.g., competition, pricing structure, technological developments, industry capacity, transportation and raw material availability and cost), its operating or asset relationships, its performance relative to others in the industry or by acquisitions/divestitures.

17. Major risks faced by the Company and its related contingency plans.

18. Insurance coverage. (e.g., facilities, business interruption)

19. The Company's plans, or absence thereof, to protect and enhance its distinguishing characteristics against its competition.

20. Special risks or opportunities due to foreign operations, suppliers or customers; significance of foreign earnings.

21. The Company's acquisition/divestiture policy and strategy and the present status of all its negotiations.

22. Existence and nature of significant contracts, commitments or business relationships and related provisions or underdstandings regarding performance and termination; contracts subject to renegotiation or price redetermination; any existing or potential defaults or any history of past defaults.

23. Labor relationships and related problems, if any; expiration dates of significant labor contracts.

24. The depth and ability of the Company's management; problems, if any, of dependence on one or more key individuals; potential conflicts of interest; outside investments and sources of income.

25. A summary of pending and threatened litigation; status thereof.

26. Chain of ownership of real estate since 1937.

27. Any threatened or actual restitution claims.

28. Regulatory consents/permits.

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Exhibit 4

Sample Project Status Log

PROJECT STATUS LOG AS OF 12/19/91

54 ~~48~~ Total Projects

Company (P)	Business	Team	Project Descriptions/Status	Action
Tabak (A) (P)	Tobacco	Batman/Hartzell	BT, Philip Morris, Rothmans, SETA, RJR invited to do due dil.	bids due Jan, review on hold pending govt dec. on for. own
Cokoladovny (A)(P)	Chocolates	Hartzell/Lewis/ Michel/Hraska	Nestle-BSN have agreed to invest 43%, ult. goal 66 perc.	going for gov't approval 12/18. memo recommending approval sent to Jezek, Muron, Mrazek, Jellinek
Cutisin (A)	Sausage casings mfgr	Michel/Hartzell	foreign partner to be chosen from 4 bids (Teepak, D-Broom, 2 German bidders)	Approved by MoA, receiving offer from other bidder New Teepack proposal due first wk in January
Konservarny a lihovary (A) (KOLI)	Distillery	Batman/Hartzell	foreign capital involved, awaiting Southern Touch proposal	Approved by MoA. Stage 1 - vouchers only, stage 2 - for. involvement, on hold
Prague Sugar (A)	Sugar	Hartzell/Batman/Kvacek	Groupe Sucraier (Belgium) prepared to invest file under review	awaiting legal documentation to prepare MEMO
Cukrovary Hradec Kralove (A)	Sugar	Hartzell/Batman/Kvacek	no foreign involvement	
Cukrovary Hrusovany (A)	Sugar	Hartzell/Batman/Kvacek	no foreign involvement	
Cukrovary Uher. Hr. (A)	Sugar	Hartzell/Batman/Kvacek	no foreign involvement	
PTZ Alpa (A)	Cosmetics, veg. oils	Hartzell/Pulpan/ Babicky/Batman	Unilever/AG	awaiting final legal documentation to prepare MEMO
Taborske Mrazirny (A)	Frozen foods	Hartzell/Lewis Dejmkova/Pulpan	Ernst&Young valuation, Unilever interest	PRIORITY, MoA approved; DRT prepared summary; met with co. 12/11 MEMO of understading being drafted, expected within 10-14 days
Litomericke Mrazirny (A)	Frozen foods	Hartzell/Lewis Dejmkova/Pulpan	Ernst&Young valuation, Unilever interest	PRIORITY, MoA approved, met w/E&Y & Unilever 12/10 Unilever to present revised proposal by 12/20.
Mrazirny Praha (A)	Frozen foods distribution	Hartzell/Lewis Dejmkova/Pulpan		DRT is preparing summary
Benesov/Mlekarny (A)	Dairy	Hartzell/Michel/Kvacek	BSN seeks 61%, govt wants limit at 49% price too low, suggested renegotiation with BSN	talking to mngt wk of 12/16
Pragolaktos (A)	Dairy	Hartzell/Batman/Hraska	DRT has file	advising Unilever to submit competing bid

PROJECT STATUS LOG AS OF 12/19/91

~~48~~ 54 Total Projects

Company (P)	Business	Team	Project Descriptions/Status	Action
Mlekarny Ceska Lipa (A)	Dairy	Hartzell/Pulpan	Thai Bidder	setting mtg with bidder wk of 12/16
Xaverov (A)	Poultry processing	Gold/Hartzell	2 letters of intent	summary being prepared
Vitana Bysice (A)	Dry foods mfgr.	Hartzell/Chewning		summary being prepared mtg w mngt 12/19
Maj (T) (P)	Dept. Store	Michel/Fellegi/Shore	K-Mart proposing to buy 75%; issue as to perc. for. own	memo finished and delivered to be renegotiated, to speak with Urban wk of 12/16
Kotva (T) (P)	Dept. Store	Michel/Fellegi/Shore	K-Mart is for. partner. Must decide whether it is ok to have same partner in both Prague dept. stores	prelim. memo to be completed by 12/20
K-Mart-Bohemia (T)	Dept. Store Chain	Michel/Fellegi/Shore	K-Mart proposing to buy 5 former Prior stores in Bohemia	MEMO delated to early January 1992
Domov Praha (T) (P)	Furn. Dept. Store	Fellegi/Shore	Ikea (Sweden) is for. partner	memo to be completed early January 1992
International Hotel (T)	Hotel	Michel/Fellegi/Shore	Ecofin (Belgium) seeks 15%, to assist with mngmt., modern., fin.	memo submitted to MoP to be approved by Min of Tr&C with amendments to contract
Jalta Hotel (T)	Hotel	Michel/Fellegi/Shore	Japanese investor	project to be renegotiated with Japanese (level of ownership) before 1/20/92
Grand Hotel Pupp (T)	Hotel	Michel/Fellegi	Carlsbad; 2 bidders in final negotiations	decision expected by 1/31/92
Zlaty Lev, Liberec (T)	Hotel	Michel/Fellegi/Shore		to be reviewed and discussed early 1992
Marianske Lazne (H)	Spa/Resort	Michel/Fellegi	spa wants to jv new hotel on its land with Tischman, project economics sound, venture needs struct. meeting priv. law	Tischman to refile a bid before 1/20/92
Prumyslove Stavby, Brno (I)	Industrial builder	Orem/Gold	valuation prepared by DRT	summary prepared, 12/18 mtg with management MEMO SUBMITTED MOP

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PROJECT STATUS LOG AS OF 12/19/91

54 ~~48~~ Total Projects

Company (P)	Business	Team	Project Descriptions/Status	Action
Mototechna (I)	Car Service	Orem	Skoda VW involved letter sent to Bilek	MoI decision to defer to 2nd wave
Technomat (I)	Wholesale distrib. of build. mat.	Orem	100% voucher, project in hand, memo sent to M of I advising need for for. partner	tentative decision by MoI to go joint stock, then voucher, and then for. partner, awaiting project from privatization
Bateria Slany (I)	Batteries mfgr	Orem/Lewis	on hold, priv. plan needs revision. Ralston's Eveready division potential purchasers of dry cell business, residual needs for. partner, working with German firm, Roland Berger, eval. survival potential	writing revised priv. plan
Kovosrot Decin (I) (P)	Scrap Metal	Orem/Batman	Sholtz - bidder, other bids expected by 12/16 KPMG advisor	memo by beg. of ~~Dec~~ JAN awaiting competing bids
Kaznejovske Chem Zavody (I)	Chem. mfgr.	Gold	MOI opening to public bid	memo written
ZPA Trutnov (I) (P)	Elec. connector mfgr	Orem/Lewis	Siemens and ABB each buying a piece; KPMG & Samuel Montague advisors to ZPA; valuation/environmental problems	PRIORITY, summary is being prepared Montague and KPMG mtg. with co. 12/10 & 12/11; team meeting with Montague and KPMG 12/12
Gumotex (I)	Plastics mfgr	Orem/Lewis	Offers from Greiner (German), Inespo (Spanish), Cirrus (Swedish); Fischer Int'l, German advisor	Under evaluation, completed for MoI, not final. for MoP, awaiting file from MoP
Cihelny Novosed (I)	Bricks mfgr	Batman/Gold/Hraska	DRT provided English Summary	PRIORITY. MEMO SUBMITTED TO MoP summary completed by Hraska
TOS Stredoluky (I)(P)	Engineering machinery	Lewis/Orem	German firm Junker interest, contract in German	going for govt approval 12/18 pending the rewiew of final contract
TOS Ctyrkoly (I) (P	Engineering machinery	Lewis/Orem	ditto	ditto
AKUMA Mlada Boleslav (I)(P)	Electrochem. mfgr.	Gold/Chewing	as the best partner, govt decision next week Caminor Holding (Swiss) interested	MEMO-early January 1992 REVIEW COMPLETE
RABS Liberec (I)(P)	Automotive parts	Gold/Lewis/ Stewart-Roberts	Rockwell is foreign bidder MoP will apply to shorten 2 months deadline for competitive bids to be filed.	PRIORITY. MoI approved Meeting w/SS&D 12/12 Urgent to finalize recommendations to MOP by 12/16 MEMO TO MOP 12/19

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APPROVED BY GOVERNMENT

Cementarna Prachovice (I)(P)	Cement	Bakal/Orem
Cementarna Mokra (I) (P)	Cement	Bakal/Orem
Cementarna Cizkovice (I)(P)	Cement	Bakal/Orem

PROJECT STATUS LOG AS OF 12/19/91

~~48~~ 54 Total Projects

Company (P)	Business	Team	Project Descriptions/Status	Action
Praga Praha (I)(P)	Automotive parts	Gold/Lewis		summary being prepared
AVIA Hradek nad Nisou (I)(P)	Automotive parts	Gold/Lewis		
OR Moravska Trebova (I)(P)				
VUBVL - Kourim (I)(P)	Veterinary Products	Orem/Gold	Foreign Bidder interested	Memo written recommending proceeding w/sale submitted to Cizkova, Ludvik (MoI) MOP
Slevarny AS (I)(P)	Aluminium foundries	Lewis		
BALARNEY (T)	Coffee packaging	Lewis/Michel	Sara Lee is for. invester	FILE NOT YET RELEASED
VODOHOSPODÁŘSKÉ STAVBY, BRNO	WATER			
LEČIVA	PHARMACEUTIC. DRUGS	GOLD		
MESING	MEASURING INSTRUMENTS			
SFINX	KITCHEN WARE			
KŘÍŽÍK	SPECIAL CONTROL	GOLD		
TESLA	SEMICONDUCTORS etc.			

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Exhibit 5

Cokoladovny Project Summary

PRIVATISATION PROJECT SUMMARY

DATE:NOV, 19 1991

SUBJECT: C O K O L A D O V N Y a.s. ID 16192800
143 20 Praha 4, Modranska 27
Joint stock company, 100% state ownership - Incorp. 29/3/91

PROJECT SUBMITTED BY: Chief executive officer approved by
The Board and Ministry of Agriculture
(Developed with bidder companies experts)
: TARGET DATE - December 1991

: NO COMPETITIVE PROJECTS IDENTIFIED

DESCRIPTION : Major Czech manufacturer of chocolate and other confectionery, cookie and cracker products

	1990 Actual	1991 Projected
Sales	4.3 bill Kr	6.5 bill Kr
Profit after tax	99 mill Kr	550 mill Kr
Book Value (000's)		2.389.038 Kr
Tangible Assets not recorded		30.137 Kr
TOTAL at 30/6/91		2.419.175 Kr

FOREIGN BIDDERS :Joint venture (50/50) registered in the Netherlands of:
B S N (France) - leading European manufacturer of cookies and crackers
N E S T L E - world leading manufacturer of chocolate and confectionery
selected by the management - other interested companies:Jacob Suchard,Phillip Morris,Brauser,

TRANSFORMATION : Independently Privatized Unit - Privatisation of the State's Property Interest in the Business of other Juristic Person

STRUCTURE OF OWNERSHIP SHARES :

34%	Voucher method
3%	National Property Fund
43%	Foreign Bidders (BSN-Nestle)
15%	EBRD
5%	Investicni banka
100%	Share capital

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PROPOSED VALUATION AND OFFER:
(method of valuation)
(authors of valuation)
(methods and source of financing)
(type and timing of financial contribution)

ASSETS NOT INCLUDED IN VALUATION AND OFFER:
(land,plant, debt, social assets and related costs,environmental liabilities,termination costs, training, product liabilities, restitution) as applicable

GOVERNMENT GUARANTEES REQUESTED:
(hold harmless, liability limits, grandfather clause,tax holiday,escrow arrangements)

PROFIT AND CAPITAL REPATRIATION:
(management fees, royalties,licences,etc.)

BOARD OF DIRECTORS:	Czech management	4
	Foreign Investors	5
	Total	9

FOREIGN BIDDERS (BSN/NESTLE) GUARANTEE:

* to increase their share in ownership to 66% of the enterprise through capital investment of 1.9 billions Kr in the form of equipment and cash , 1991-1995. This will enable expansion and introduction of brands under licence.

* to use the name Cokoladovny a.s. and the Trade marks of Cokoladovny after privatization.

* to expand into European markets through BSN and Nestle and use of their distribution network and efficient advertising activity.

* to assume liability for all financial obligations of Cokoladovny a.s. after privatization.

* to offer the employees of Cokoladovny a.s. the opportunity to buy a part of their shares on credit at a price 20% lower than their nominal value at the time of privatization.

* to allow two years in which none of the existing Cokoladovny sites will be closed and employment will not be decreased.

* to leave the post of CEO of Cokoladovny a.s. in the hands of Czechoslovak citizens. Add foreign specialists in marketing to the management team.

CONSULTING TO BIDDERS/MANAGEMENT: Skaaden Arps

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THE COMPANY:

Company activities : May be the largest Czech company engaged in manufacture and distribution of the chocolate, a variety of the confectionery,cookies and crackers.
They also engage in research, production and distribution of the equipment, steel and plastic dies, packaging machinery and computer services. The company also develop foreign markets and cooperation with foreign partners.

Sites : Fifteen (15) production units (plus Head office)
Some of them were founded over 100 years ago.
(age of equipment and buildings varies, newest ecquisition in the last 10 years)

Employees(31.7.91):	Workers	Management&Admin.	Other	Total
	5.992	1.216	552	7.760

Management :	Key Personnel	Service Length	Age
Managing Director	J. Camplik	20 years	about 50
Financial Director	M. Jech		about 50
Commercial Director	E. Vojtech		about 45
Former Managing Dir.	Mr.Vesely	56 years	77

Market share: The company owns over 40 Brand Names Registered in many countries - Orion,Lidka,Lipo,Diana,Zora,...

Domestic Market

Goods	Volume(tons)	% market share in 1990
Confectionery	74.365	39,8
Cookies&Crackers	163.300	41,1

Export Market
(000 Kr)

Year	1989	1990	1991(as at 30.6)
Former soc.countries	74.378	74.193	4.285
Western countries	121.161	161.115	112.649
TOTAL	195.539	235.308	116.934

Competitors : Four smaller manufacturers in Slovakia,plus imports.

Customers : Large customers

60% POTRAVINY (Czech monopoly state distributor)
ZDROJ (Slovak monopoly state distributor)

30% JEDNOTA (Biggest Czech coop distributor)
DOVP (Slovak monopoly coop distributor)

10% Small retailers (approx. 5000 outlets)

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Business Plan

Though it is relatively small (16 mil. inhabitants)- the domestic consumer remains the most important market.

Though there is 50% sales growth by 1995 ,domestic market share will decline from 46 % in confectionery to approximately 34 % and from 41 % to 35 % in cookies as a results of imports and other competition (substitutes),etc.
Exports are targeted to reach 20% of sales (from 6% in 1991).The company intends to keep export markets such as Germany, Saudi Arabia, Sweden, Finland, Spain, Canada, Netherlands, Great Britain, Australia, Singapore, USA and expand to other markets in Poland, Hungary, Mongolia and apparently China.
The company intends to manufacture BSN / Nestle Brands products under licence for domestic and export markets.
The company plans to improve efficiency through long term consolidation of facilities.

Other :Production capacity utilization :80 % for biscuits
73 % for confectionery
68 % for other products

Raw and packaging materials are readily available on the domestic market except:

Cocoa	Holco Man, London,U.K. Pretcher,Wien,Austria Andrie&Cie,Lausanne, JBS,Lausanne,Switzerl. Walter Matter,Geneve,
Flavors and essences	Rahimian,Hamburg,FRG Polack,Curych,Switzer. Indomed,London, U.K. Van Eeghen,Amsterodam Technorama, Madrid Edpa, Istanbul

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Čokoladovny a.s.

FINANCIAL SUMMARY – BASED ON MANAGEMENT INFORMATION

Income Statement (000.000' Czechoslovak Kr.)

Period	1989 actual	1990 actual	1991 estimate	%	1992 plan	%	1993 plan	%	1994 plan	%	1995 plan	%	95/91 ratio
SALES	4467	4319	6335	100	6766	100	7609	100	8374	100	9040	100	1.4
Direct material			3445	54.3	3938	58.2	4263	56.0	4787	57.1	5246	58.0	1.52
Packaging			715	11.2	942	13.9	1232	16.1	1323	15.7	1377	15.2	1.93
Direct labour			84	1.32	84	1.24	87	1.14	93	1.11	96	1.06	1.14
Factory overheads *			780	12.3	836	12.3	956	12.5	1049	12.5	1121	12.4	1.44
including depreciation			108	1.70	180	2.66	310	4.07	380	4.53	440	4.86	4.07
COST OF SALES			5024	79.3	5800	85.7	6538	85.9	7252	86.6	7840	86.7	1.56
GROSS PROFIT			1311	20.6	966	14.2	1071	14.0	1122	13.3	1200	13.2	0.9
Selling, general & admin. *			87	1.37	329	4.86	328	4.31	363	4.33	439	4.85	5.0
OPERATING PROFIT	206	237	1224	19.3	637	9.41	743	9.76	759	9.06	761	8.41	0.6
Interest	31	42	80	1.26	88	1.30	136	1.78	134	1.60	111	1.22	1.3
Income before tax	175	195	1144	18.0	549	8.11	607	7.97	625	7.46	650	7.19	0.5
Tax	55	96	597	9.42	240	3.54	243	3.19	250	2.98	260	2.87	0.4
Net Income	120	99	547	8.63	309	4.56	364	4.78	375	4.47	390	4.31	0.7
Tax Rate	31.46%	49.31%	52.19%		49.72%		40.00%		40.00%		40.00%		

* DRT estimates for 1992 – 1995

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FINANCIAL SUMMARY

'Balance Sheet (000.000' CZECHOSLOVAK KR.)

Period	1991 estimate	1992 plan	1993 plan	1994 plan	1995 plan
Cash *	128	538	837	1236	1805
Accounts Receivable	489	1045	1175	1293	1396
Inventories	1201	1154	1259	1344	1408
Other Current Assets					
Total Current Assets	1818	2737	3271	3873	4609
Intangible Fixed Assets *	1	1	1	1	1
Tangible Fixed Assets * inc.land	1544	2099	2479	2829	3074
Investments *	15	15	15	15	15
Total Fixed Assets	1560	2115	2495	2845	3090
Total Assets	3378	4852	5766	6718	7699
Bank Loans and Overdrafts	315	852	956	825	660
Trade Creditors	479	617	695	736	777
Accruals and Deferred Income	54	54	54	54	54
Other Creditors	153	520	474	640	866
Total Liabilities	1001	2043	2179	2255	2357
Common Stock	1802	2002	2502	3102	3702
Reserves	152	167	185	204	224
Retained Earnings	423	640	900	1157	1416
Current Earnings					
Capital and Reserves	2377	2809	3587	4463	5342
Total Liabilities and Capital	3378	4852	5766	6718	7699

* DRT estimates

FINANCIAL SUMMARY

Cashflow Statement (000.000' Czechoslovak Kr.)

Period	1991 estimate	1992 plan	1993 plan	1994 plan	1995 plan
Net Income	547	309	364	375	390
Depreciation	108	180	310	380	440
Increase in Borrowings		634	236	13	
Increase in Common Stock		200	500	600	600
Other Sources					
Total Sources	655	1323	1410	1373	1430
Capital Expenditure	231	735	690	730	625
Repayment of Borrowings	180	97	132	149	165
Investments					
Other Use of Funds	78	77	86	99	111
Changes in Working Capital					
Increase/(Decrease) in					
Accounts Receivable	N/A	556	130	118	103
Inventories	N/A	(47)	105	65	64
Other Current Assets	N/A	0	0	0	0
(Increase)/Decrease in					
Current Liabilities	N/A	(505)	(32)	(207)	(267)
Increase/(Decrease) in Net Liquid Funds *	166	410	299	399	569

* DRT estimates

Ratio Analysis

Period	1991 estimate	1992 plan	1993 plan	1994 plan	1995 plan
Return on Capital Employed	23.01%	11.00%	10.15%	8.40%	7.50%
Total liabilities/total assets	29.63%	42.11%	37.79%	33.57%	30.61%
Current liabilities/current assets	N/A	N/A	N/A	N/A	N/A
Current liabilities/ current assets less inventories	N/A	N/A	N/A	N/A	N/A
Interest cover	15.30	7.24	5.46	5.56	6.36
Inventory turnover(days)	69	62	60	59	57
Accounts receivable turnover(days)	28	55	58	55	55

Exhibit 6

Cokoladovny Analysis

Cokoladovny a.s.

FINANCIAL SUMMARY - ALTERNATIVE I

Income Statement (000.000' Kr.)

Period	1989 actual	1990 actual	1991 estimate	%	1992 plan	%	1993 plan	%	1994 plan	%	1995 plan	%	95/91 ratio
SALES	4467	4319	6335	100	6766	100	7609	100	8374	100	9040	100	1.43
Direct material			3445	54.4	3938	58.2	4263	56.0	4787	57.2	5246	58.0	1.52
Packaging			715	11.3	942	13.9	1232	16.2	1323	15.8	1377	15.2	1.93
Direct labour			84	1.3	84	1.2	87	1.1	93	1.1	96	1.1	1.14
Factory overheads *			780	12.3	836	12.4	956	12.6	1049	12.5	1121	12.4	1.44
including depreciation			108	1.7	180	2.7	310	4.1	380	4.5	440	4.9	4.07
COST OF SALES			5024	79.3	5800	85.7	6538	85.9	7252	86.6	7840	86.7	1.56
GROSS PROFIT			1311	20.7	966	14.3	1071	14.1	1122	13.4	1200	13.3	0.92
Selling, general & admin. *			87	1.4	329	4.9	328	4.3	363	4.3	439	4.9	5.05
OPERATING PROFIT	206	237	1224	19.3	637	9.4	743	9.8	759	9.1	761	8.4	0.62
Interest	31	42	80	1.3		0.0		0.0		0.0		0.0	0.00
Income before tax	175	195	1144	18.1	637	9.4	743	9.8	759	9.1	761	8.4	0.67
Tax	55	96	597	9.4	278	4.1	297	3.9	304	3.6	304	3.4	0.51
NET INCOME	120	99	547	8.6	359	5.3	446	5.9	455	5.4	457	5.1	0.83
Tax Rate	31%	49%	52%		44%		40%		40%		40%		

* DRT estimates for 1992 – 1995

FINANCIAL SUMMARY – ALTERNATIVE I

Balance Sheet (000.000' Kr.)

Period	1991 estimate	1992 plan	1993 plan	1994 plan	1995 plan
Cash *	(187)	(264)	12	623	1,423
Accounts Receivable	489	1045	1175	1293	1396
Inventories	1201	1154	1259	1344	1408
Other Current Assets					
Total Current Assets	1503	1935	2446	3260	4227
Intangible Fixed Assets *	1	1	1	1	1
Tangible Fixed Assets * inc.land	1544	2099	2479	2829	3074
Investments *	15	15	15	15	15
Total Fixed Assets	1560	2115	2495	2845	3090
Total Assets	3063	4050	4941	6105	7317
Bank Loans and Overdrafts					
Trade Creditors	479	617	695	736	777
Accruals and Deferred Income	54	54	54	54	54
Other Creditors	153	520	474	640	866
Total Liabilities	686	1191	1223	1430	1697
Common Stock	1802	2002	2502	3102	3702
Reserves	152	167	185	204	224
Retained Earnings	423	690	1031	1369	1694
Current Earnings					
Capital and Reserves	2377	2859	3718	4675	5620
Total Liabilities and Capital	3063	4050	4941	6105	7317

* DRT estimates

Ratio Analysis

Period	1991 estimate	1992 plan	1993 plan	1994 plan	1995 plan
Return on Capital Employed	23%	13%	12%	10%	8%
Total liabilities/total assets	22%	29%	25%	23%	23%
Currrent liabilities/current assets	N/A	N/A	N/A	N/A	N/A
Current liabilities/ current assets less inventories	N/A	N/A	N/A	N/A	N/A
Interest cover	15.30				
Inventory turnover(days)	69	62	60	59	57
Accounts receivable turnover(days)	28	56	56	56	56

FINANCIAL SUMMARY - ALTERNATIVE I

Cashflow Statement (000.000' Kr.)

Period	1991 estimate	1992 plan	1993 plan	1994 plan	1995 plan
Net Income	547	359	446	455	457
Depreciation	108	180	310	380	440
Increase in Borrowings		0	0	0	0
Increase in Common Stock		200	500	600	600
Other Sources					
Total Sources	655	739	1256	1435	1497
Capital Expenditure	231	735	690	730	685
Repayment of Borrowings	457				
Investments					
Other Use of Funds	78	77	86	99	111
Changes in Working Capital					
Increase/(Decrease) in					
Accounts Receivable	245	556	130	118	103
Inventories	25	(47)	105	85	64
Other Current Assets	0	0	0	0	0
(Increase)/Decrease in					
Current Liabilities	(103)	(505)	(32)	(207)	(267)
Increase/(Decrease) in Net Liquid Funds *	(278)	(77)	277	610	801

* DRT estimates

Notes to Financial Summary

Sales – the Company increased its selling prices substantially in 1991

Factory overheads – total overheads split:

Factory	80%
Selling,general and administrative	20%

The company expects selling,general and administrative overheads to increase between 1992 and 1995

Interest – a rate of 15% has been assumed for 1992 to 1995

Cash – increase/decrease from cashflow model

Fixed assets – previous year's closing balance plus purchases less depreciation

COKOLADOVNY A.S.
ALTERNATIVE II

		1992	1993	1994	1995	1996	residual value
SALES		7104	7989	8793	9944	10938	
COSTS		6316	7100	7858	8950	9845	
INCOME BEFORE TAX		789	889	935	994	1094	
TAX 40 %		315	356	374	398	438	
NET INCOME		473	533	561	597	656	
NET CASH FLOW		806	120	179	246	662	
		1	2	3	4	5	
P/EBIT+D	6				Residual value		7643
5278	15.0%	752	97	126	151	353	3800
4747	18.0%	742	93	118	138	314	3341
4287	21.0%	733	90	111	126	281	2947
P/EBIT+D	7.5				Residual value		9554
6228	15.0%	752	97	126	151	353	4750
5582	18.0%	742	93	118	138	314	4176
5024	21.0%	733	90	111	126	281	3683
P/EBIT+D	9				Residual value		11465
7178	15.0%	752	97	126	151	353	5700
6417	18.0%	742	93	118	138	314	5011
5761	21.0%	733	90	111	126	281	4420

Cokoladovny a.s.

FINANCIAL SUMMARY - ALTERNATIVE II

Cashflow Statement (000.000' Kr.)

Period	1992 plan	1993 plan	1994 plan	1995 plan	1996 plan
Net Income	473	533	561	597	656
Depreciation	180	310	380	440	484
Increase in Borrowings	0	0	0	0	0
Increase in Common Stock	1365	209	209	209	209
Other Sources					
Total Sources	2018	1052	1150	1246	1349
Capital Expenditure	735	690	730	685	400
Repayment of Borrowings					
Investments					
Other Use of Funds	77	86	99	111	111
Changes in Working Capital Increase/(Decrease)	400	157	142	204	176
Increase/(Decrease) in Net Liquid Funds	806	120	179	246	662

No debt end of '91
Co projections made:
① Sales price in 5-10
② S-G-A increase

COKOLADOVNY A.S. II
ALTERNATIVE

		1992	1993	1994	1995	1996	residual value
SALES *)		7104	7989	8793	9492	9492	
COSTS **)		6316	7100	7858	8522	8522	
INCOME BEFORE TAX		789	889	935	970	970	
TAX 40 %		315	356	374	388	388	
NET INCOME		473	533	561	582	582	
NET CASH FLOW		37	364	716	926	957	
		1	2	3	4	5	
P/E Ratio for residual value	15				Residual value		8733
6254	15.0%	35	295	505	568	510	4342
5582	18.0%	34	284	473	519	454	3817
5000	21.0%	34	273	445	475	406	3367
P/E Ratio for residual value	18				Residual value		10188
6978	15.0%	35	295	505	568	510	5065
6218	18.0%	34	284	473	519	454	4453
5561	21.0%	34	273	445	475	406	3928
P/E Ratio for residual value	20				Residual value		11644
7701	15.0%	35	295	505	568	510	5789
6854	18.0%	34	284	473	519	454	5090
6122	21.0%	34	273	445	475	406	4489

- sales increase by 5% per year against company projection first 3 yrs 1.5% per year
- S&A increase by 30% per year against information given by management

same as adv. / Prac

Exhibit 7

Cokoladovny Project Review Summary

December 2, 1991

To: Ing. Jan Mrázek

Attached is our report on the privatisation project submitted by Čokoládovny. Copies have been provided to Messrs. Ježek, Muron, Jelínek, and Roštejmský. We are available to discuss the enclosed at your convenience.

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ČOKOLÁDOVNY

PROJECT REVIEW SUMMARY FINAL

I. PROJECT 5 billion Kčs investment by BSN-Nestle Čokoládovny, evidenced by purchase of 43% of the existing shares from the Fund for 2.8 billion Kčs, and investment of an additional 2.2 billion Kčs in the company, resulting in an ultimate ownership by BSN-Nestle of 57%.

II. CONCLUSION The plan will permit Čokoládovny to become a viable, internationally competitive and profitable business. There can be no question about the competence of Nestle and BSN. The price is fair.

We recommend approval of the plan.

III. STRENGTHS

1. Modernisation program funded to upgrade quality
2. Export potential provided
3. Fair price
4. Credible and strong partners

WEAKNESSES/CONCERNS

1. Tax holiday and some debt forgiveness requested.

IV. Submitted by: Laurent Michel
Carl Hartzell
Shanaz Batmanghelidj
Gustav Hraska
Charles Stamm

V. December 4, 1991

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We have reviewed the privatisation project submitted by Čokoládovny, which involves a significant investment by a joint venture of Nestle and BSN, among the worlds largest producers of chocolate products and cookies respectively.

The scope of our work included review of the privatisation plan and of a draft of the Stock Purchase Agreement, visits to the company and discussions with both company management and representatives of Nestle-BSN, of their business plan, including financial projections related thereto. We have relied on the accuracy of both historical and projected financial information, and have not independently verified same.

Business plan

Čokoládovny has an estimated 40% share of the chocolate /cookie/ confectionary market in Czechoslovakia. 1991 sales are expected to reach 6.5 billion Kčs (versus 4.3 billion Kčs in 1990), generating an operating profit of 1.4 billion (versus 237 million Kčs in 1990). Despite this very strong performance, which reflects increased product prices and a one-time major inventory adjustment, the company, anticipating competition from imports, needs a foreign partner to fund a massive investment program to improve product quality. This will permit them to protect this domestic market share and to export to Poland, Hungary and Western Europe, using its labor cost advantage. Starting in 1990, conversations were held with various foreign investors (including Philip Morris, Suchard, Bahlsen, and Haas), and a letter of intent was executed with BSN-Nestle (a 50-50 joint venture formed for this specific purpose) in April 1991.

The company and BSN-Nestle elaborated a 5 year business plan, the key features of which include:

1. An investment program of 3,071 billion Kčs (to be financed with 2.2 billion Kčs in equity investments by BSN-Nestle and the remainder by retained cash flow) designed to improve product quality to international (western) standards. The program will permit an increase in the Company s current 200,000 TPY capacity.

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2. Retaining a 40% domestic market share is a top priority, addressed primarily through improved quality. The plan calls for the maintenance of existing product price and production levels. Reduction in the number of brands and products offered domesticaly, increased expenditure for marketing (advertising, personnel training and distribution) and improved credit terms for customers.

3. An increase in exports is planned as quality improvements are made. Overall tonnage is expected to increase from 134,000 tons in 1991 to 173,000 tons in 1995, almost all of that increase reflects exports. These, however, will be BSN or Nestlé brands which can be produced at a lower cost by Čokoládovny or products under private label.

Proposed structure and ownership

The proposal calls for the purchase from the National Fund by BSN-Nestlé of 43% of the existing shares, based on a market valuation of 6.5 billion Kčs. Simultaneously, the European Bank for Reconstruction and Development (EBRD) and Investiční banka will purchase 15% and 3.5% respectively of the shares, also at market price. The remaining 38.5% will be available:for the Restitution Fund - 4.5% and the coupon program - 34%, based on a book value of 2.4 billion Kčs. During 1992, BSN-Nestlé will invest 1.365 billion Kčs in the company and receive additional shares also based on the 6.5 billion Kčs valuation. BSN-Netslé are committed to a further equity investment of 825 million Kčs during 1993-1996, for which they will receive further shares.Giving effect to these various transactions, the ownership of Cokoládovny will be as follows:

	After purchase from the Fund	In 1992	By 1996 (est.)
BSN-Nestlé	43 %	53 %	57 %
EBRD	15	12	11
Investiční banka	3,5	3	3
Coupons	34	28	26
Restitution	4,5	4	3
	100 %	100 %	100 %

BSN-Nestlé will thus, from day one, control the Company and its Board of Directors.

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Valuation

The market value of 6.5 billion Kčs was arrived at in negotiations between BSN-Nestlé and company management, assisted by Skadden-Arps (legal advisor), All-Inn - an Austrian firm - and Investiční banka (financial advisors).

The price equals the Company s 1991 sales volume. In the past 3 years, most acquisitions of major food processing companies in the U.S. and western Europe have been completed at a multiple of sales ranging form 0.7 to 1.4, and averaging 1.1-1.2. An exception to this was the 1988 purchase of Roundtree, PLC in the U.K. by Nestlé, where the price equated to 1.8 x sales. Other similar recent transactions are more in line :

Year	Purchaser	Seller	Price/sales
1988	Hershey	Cadbury-Schweppes (U.S. chocolate business)	1.2
1990	United Biscuits	Koninklijka Verkade (Netherlands producer of biscuits and chocolate)	0.9
1990	Suchard	Chocolate business of Panks Hovis McDougell	1.0

It is, of course, to be expected that a business in Czechoslovakia will sell at a discount. Moreover, with the projected 3 billion Kčs investment program , the effective price is closer to 1.4 x sales.

We also developed a discounted cash flow model. As we view the business plan as possibly conservative, consideration was given to increased sales price, especially when product quality is improved over the next 5 years, coupled will an increase in marketing costs. This led to a computed fairness range for the existing equity of 5 to 6 billion Kčs, e.g. below the agreed 6.5 billion Kčs price.

Documentation

The stock purchase agreement is responsive to the intent of a long term commitment and to social matters,

1. BSN-Nestlé agree, for five years, to make no fundamental change in the business, or restructure, liquidate or sell substantial assets without the prior consent of Czech representatives of the Board.

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2. BSN-Nestlé agree, for two years, to retain management and the work force (except for normal attrition), to maintain existing social benefits, and to further train management and employees.

3. BSN-Nestlé will transfer 3% of the existing shares to the employees, half at no cost and half at a 20% discount from their purchase price.

BSN-Nestlé have, however, requested certain concessions from the government (which if not obtained would lead to a reduction of the purchase price of the Funds shares), viz:

1. Forgiveness of an existing 150 million Kčs loan for turnaround inventory from a state entity.

2. A tax holiday as to 1992 and 1993.

Exhibit 8

Other Sample Project Reviews

December 19, 1991

To: JUDr. Zdenka Cizkova
Ministry of Privatization

From: Michael Gold (MNS)
Trevor Lewis (MNS)

Re: RABS Liberec sp/Rockwell International

Attached is our report on the privatization project submitted by RABS Liberec sp. which proposes Rockwell International as its joint venture partner.

RABS LIBEREC sp
PROJECT REVIEW SUMMARY FINAL WITH RECOMMENDED CHANGES

I. PROJECT: Formation of a joint venture company in which Rockwell invests $6 mil USD into RABS Liberec sp and pays the National Property Fund $1 mil USD for 54.5% ownership. Rockwell retains a 10 year option to purchase the remaining shares for a fixed price of $5.845 mil USD. Additional equity investment of up to $3 mil USD is anticipated to create a world class auto components manufacturing facility.

II. CONCLUSIONS/RECOMMENDATIONS: The resulting company will become an international manufacturer and distributor of automobile components, providing employment and advanced training for Czech citizens. The company will not be viable as early as 1992 without a major infusion of capital and new technology. Rockwell clearly has the technical, financial and marketing capability to accomplish the goals of the privatization project. Based on our analysis and review of the previous valuation by Arthur Andersen, the price appears to be fair to the Fund.

However, there are several items of the joint venture agreement which need to be revised prior to signing, and several which require clarification and review by the Ministry of Privatization and the National Property Fund. Once these items are resolved, we recommend approval of this project.

III.a. STRENGTHS:
1. Major capital and technology infusion into company
2. Capital provided to National Property Fund
3. Significant employment and employee training
4. Extremely credible/strong multinational partner
5. Vast expansion of production capability
6. Large export potential
7. Existing 20 year commercial relationship with partner
8. Partner already a major supplier to Volkswagon

III.b. WEAKNESSES/CONCERNS/CLARIFICATIONS:
1. Items needing to be fixed:
   a) Noncompete clause
   b) Option of Rockwell to purchase remaining shares
   c) Option of 3rd party to purchase remaining shares from Fund
   d) Management control regarding Rockwell charges to RABS

2. Items needing clarification
   a) Price of shares for additional $3 mil USD investment
   b) Opportunities for management/employee ownership

3. Items needing review/policy decisions by Ministry of Privatization or National Property Fund
   a) Indemnifications,-representations and warranties, especially in regard to environmental liabilities
   b) Restitution
   c) Limited liability vs. joint stock company structure

4. Items not needing action
   a) Price of the remaining shares (45.5%) held by the Fund

IV. Scope & Limitations of Review

Analysis and review included privatization project documents, valuation report, draft joint venture agreement, meetings with RABS management and Rockwell representatives, and an on site visit to the facility in Liberec. We have relied on the accuracy of all information provided by RABS and Rockwell and have not independently verified same.

V. Submitted by: Michael Gold & Trevor Lewis
Multinational Strategies

VI. December 19, 1991

December 19, 1991

RABS Liberec sp

Joint Venture Proposal with Rockwell International

Introduction

Rockwell International has been negotiating with RABS since October, 1990 and a "Heads of Agreement" was signed on June 20, 1991. RABS management and Rockwell have been operating under the understanding that they have an agreement. Rockwell has placed senior management for RABS in Czechoslovakia. Five companies were considered as potential partners, and Rockwell was chosen by management as the superior partner.

RABS Liberec currently sells 85% of its output to Skoda. Since the establishment of Skoda's joint venture with Volkswagen, Skoda has introduced quality standards for its suppliers that RABS is unable to meet without substantial capital investment and the introduction of newer technology. This will also be true for RABS' other customers. RABS will not remain viable on its own. The proposed investment by Rockwell is well suited to meet these requirements and to secure the future of RABS.

For these and other reasons, an expedited review of this transaction seems in order at this time.

Benefits of the Proposed Transaction

In particular, Rockwell proposes to:

a) undertake a capital expenditure program of approximately USD 11 mil over 5 years (including reinvestment of profits) in order to upgrade the operation to modern world standards.

b) invest USD 6 mil in the company upon closing.

c) pay the National Property Fund USD 1 mil immediately upon closing of the transaction.

d) transfer its production technology to the new company to enable a wider range and higher standard of products to be manufactured.

e) maintain the workforce at the current level of 481 and undertake to increase employment to 798 by 1997. In addition, Rockwell will carry out a major program of staff training.

f) transfer the manufacture of certain product lines from other Rockwell operations, enabling production at Liberec to be increased substantially.

g) provide experienced senior personnel to help manage the operation.

Some of the above provisions need additional clarifications in the joint venture agreement.

Rockwell is a suitable joint venture partner for a number of reasons (benefits to the company):

a) it is a major multinational company with substantial interests in the automotive components industry and therefore has the resources and knowledge to achieve the objects set out above.

b) it has considerable financial resources and will finance its investments from its own resources. It is also willing for the new company's profits to be reinvested in the foreseeable future to finance further capital expenditure.

c) it has had a commercial relationship with RABS, Liberec, for 20 years, during which RABS has produced Rockwell designs under licence.

d) it is already a major supplier of automotive components to Volkswagen and is therefore well placed to assist the new company in developing a continuing supply relationship with the Skoda Volkswagen joint venture.

There are direct benefits to the Czech Republic including:

The Fund of National Assets will receive USD 1 mil immediately from Rockwell. In addition, Rockwell has the option to purchase the remaining shares of the Fund by December 31, 2000 for USD 5.845 mil. If modified as recommended below, we believe the option is favorable to the Fund.

The planned modernization and expansion of the RABS facility should strengthen the Czech motor vehicle industry, lead to increased Czech employment and ultimately to taxes to the government.

Valuation & Adequacy of Price

The assets of RABS were valued by Arthur Andersen. Both RABS and Rockwell accepted the valuation, though Rockwell believes the valuation was at the time about 80% above market value, and is even further above market value now. However, Rockwell is prepared to proceed with the existing valuation. The valuation was limited to a net asset value appproach. No discounted cash flow approach was undertaken. We performed a preliminary discounted cash flow analysis on the summary projections provided by Rockwell. Rockwell would not provide its detailed projections, so an accurate, fully adjusted analysis was not possible. However, the range of values calculated from the preliminary discounted cash flow analysis is less than the value accepted on the basis of the Arthur Andersen valuation.

Therefore, the proposed price after taking into account the USD 6 mil investment in the company at closing appears to be fair to RABS and the National Property Fund.

Weaknesses/Concerns/Clarifications

1) Items of the Joint Venture Agreement that need to be corrected:

a) Noncompete Clause (Article 12): The noncompete clause is too restrictive. It should be limited to the formation of a new, directly competing company in Liberec or a directly competing company anywhere that uses technology taken from RABS. Article 12.1 should be limited accordingly. Articles 12.2 and 12.3 should be deleted: existing businesses cannot reasonably be limited in this manner, and new businesses would be covered by the modification to 12.1 as above.

b) Option of Rockwell to purchase remaining shares (Articles 2.5, 2.6, and 2.7): Rockwell retains an option to purchase the shares at the current price up to December 31, 2000. However, they are not actually obligated to purchase the shares unless "trading profit" exceeds 5% of annual sales. Even if this condition is met, no specific number of shares is specified with each purchase, rendering the obligation meaningless. Also, Rockwell could be in a position to keep profit under 5% (see below). Rockwell has no incentive to exercise its option until expiration, if ever. The option should specify the number of shares required to be purchased upon partial exercise. Alternatively, it should require that all shares be purchased at the same time if any are purchased. Items c) and d) below should be modified to allow the Fund to sell its shares freely if the option is not exercised by December 31, 1995.

c) Option of 3rd party to purchase remaining shares from the Fund (Article 2.8): This provision should be changed to allow the Fund to sell its shares after December 31, 1995 to anyone without Rockwell's approval. Rockwell can be protected from the sale of the Fund's shares to a competitor by its having a right of first refusal to the purchase of the shares. Article 2.8.2 should be deleted. If Rockwell doesn't exercise its option to purchase the Fund's shares, the Fund must have an unrestricted right to sell the shares and the buyer must have a similar right to resell the shares.

d) Management control regarding Rockwell charges to RABS (Exhibit A, Article 6): As a result of Rockwell's control of the Board, all charges to RABS for goods, technology, know-how and/or services provided by Rockwell should be specified to be on terms and conditions no less favorable than to an unaffiliated third party. Such specification would help to prevent the "management" of earnings in RABS which could obviate an otherwise required option exercise.

2) Items that need to be clarified:

a) Price of shares for additional $3 mil USD investment (Article 2.10): Rockwell is to receive additional shares for further equity

capital it contributes to the venture. It proposes investing up to USD 3 mil; however, any investment is at Rockwell's option. Furthermore, it is not specified how the price of those newly issued shares will be determined, but should probably be at market.

b) Opportunities for management/employee ownership: There is no provision for management or employee ownership. This could be addressed in employment contracts or in the joint venture agreement if desirable.

3) Items needing review/policy decisions by Ministry of Privatization or National Property Fund:

a) Indemnifications, representations, warranties, and government approvals: Should be reviewed by the Fund to determine what is acceptable from a policy perspective. We are prepared to offer our thoughts on each of the provisions within these sections of the joint venture agreement. In particular, Rockwell is asking to be indemnified for environmental problems preceding the joint venture, as well as for any problems that arise for 3 years subsequent to the establishment of the joint venture, subject to Rockwell making reasonable efforts to prevent new problems.

b) Restitution: No provision is made for restitution.

c) Limited liability vs. joint stock company structure: Rockwell proposes a limited liability company which limits the shareholders to 50 and places control of share disposition in the hands of Rockwell. Should Rockwell not exercise its option to purchase the Fund's shares, the Fund would be limited as to potential purchasers. The agreement should either give the Fund the right to have the company changed to a joint stock company in the event Rockwell doesn't purchase the remaining shares or the company should be set up as a joint stock company from the outset to avoid this problem. The Fund may want to sell its shares to the public at a later date.

4) Items not needing action:

a) Rockwell has the ability to purchase the remaining shares from the Fund at the price of the initial purchase. This will not allow the Fund to benefit from the upside appreciation of the shares. However, the risk to the Fund of receiving its USD 6 mil for its shares is quite low, and the Republic receives other compensating benefits, as outlined above. Furthermore, if the option is modified as recommended, its value to the Fund is greatly enhanced. There is also a risk of having to renegotiate the entire deal or of losing the deal if such a major point is changed now. Since the overall transaction seems fair from a financial point of view, we recommend not changing this point now if the bulk of the agreement is acceptable and the above changes are accepted by Rockwell.

RECOMMENDATION

RABS needs a foreign partner, and Rockwell is an appropriate match. We recommend that the transaction be approved subject to negotiating the terms of the agreement to achieve the modifications recommended and subject to the final review of the Ministry of Privatization and the National Property Fund.

28 November 1991

To: **Vaclav Lisy**
Ministry of Industry

Copy To: JUDr. Zdenka Cizkova
Ministry of Privatization

From: Hans Deutsch, IESC
Michael Gold, Multinational Strategies

Subject: **VUBVL-Kourim (Kourim)**

Per your request, we are summarizing our meeting with you and the management of Kourim and providing some very preliminary comments. Your primary request was for us to review the valuation of the business in order to help you determine the fairness of the agreed upon price. This privatization project has not yet been transmitted to us by the Ministry of Privatization.

Proposed Direct Sale to A. LONZA A.G. (LONZA).

We understand that LONZA, a large Swiss firm, is interested in buying 100% of the division of the research institute VUBVL which is located in Kourim. There appear to be many positive aspects of this sale. LONZA is a large, well established firm in this field. They bring tremendous technical, business and marketing know-how to Kourim's business activities. In addition to the purchase, LONZA appears committed to investing adequate resources into the new firm "LONZA-Biotec" in order to make it a viable competitor in this fast moving field. LONZA plans to invest 50 million Kcs within the first year to expand the fermentation capacity and upgrade the quality of the production, and to reinvest 10-40 million Kcs per year for expansion and modernization. LONZA also plans on spending a total of 200 million Kcs over 4 years for improvement of the water system and air quality of the community. LONZA also intends to retain the current management and employees.

At least 14 firms have been reviewed by management as potential partners. Management has concluded that LONZA is the best partner for reasons including the above mentioned factors. LONZA has agreed to pay the book value for Kourim. In the absense of a strong foreign investor/partner, the prospects for Kourim are negative.

We would recommend a more thorough review of this transaction from investment banking and contractual perspectives once it's been transmitted to us through the Ministry of Privatization and contracts have been drafted. From our initial review, the proposed privatization project appears to have a lot of merit.

Valuation

Kourim's book value is approximately 135 million Kcs. The company was appraised by the Swiss firm Prognos at 127 million Kcs. A review of the Prognos appraisal by Arthur D. Little

stated that Prognos failed to consider certain factors such as management know-how which could contribute to the value of Kourim. Prognos' view is that those factors were inherently considered in their methodology. Arthur D. Little made no attempt to quantify their observations, which makes their review of limited value.

Since the Prognos appraisal did not include a discounted cash flow analysis, we performed a DCF using the projections provided in the privatization project. Using these projections, which could not be completely adjusted due to lack of detail, we arrived at a value of approximately 138 million Kcs (with a discount rate of 20%). This value is almost identical to the stated book value. However, management stressed that their projections were very optimistic, and that LONZA would also see them as overly optimistic. This puts the 138 million Kcs value as a "best case" value.

Therefore, based on the Prognos appraisal and our own review, we conclude that a purchase price of Kourim's book value of 135 million Kcs is probably the best price that is likely to be obtained. Additional appraisals taking into account the current state of the business, the market, reasonable projections, etc., would more likely than not obtain a lower value for the business, possibly much lower. It seems to us very unlikely that a higher value would be obtained. It seems unnecessary, therefore, to spend the money on additional appraisals.

22 November 1991

To: **Vaclav Lisy**
Ministry of Industry

Copy To: JUDr. Zdenka Cizkova
Ministry of Privatization

From: Hans Deutsch, IESC
Michael Gold, Multinational Strategies

Subject: **Kaznejovske Chemicke Zavody (KCZ)**

Per your request, we are summarizing our meeting with you and the management of Kaznejovske Chemicke Zavody and providing some very preliminary comments. To our knowledge, this privatization project has not yet been reviewed by the Ministry of Privatization.

Proposed Direct Sale to Aktiva

We understand that four of the top managers of KCZ have formed "Aktiva" in order to purchase KCZ. They, along with a foreign trade expert who we could not identify, propose to own 56% of Aktiva. Mr. Nesvadba, an Austrian entrepreneur, would own 44%. The proposed purchase price is 35 million Kcs. No provisions have been made for restitution. Aktiva is to build a citric acid plant for 550 million Kcs, financed through debt from a Czech bank (200 mKcs) and an Austrian bank (350 mKcs). We understand that the plant is already under initial construction with financing arranged by Mr. Nesvadba. The plan calls for exporting 80% of the citric acid, which is in heavy demand, to pay the 550 mKcs debt and provide a profit.

There are a number of issues which support the Ministry of Industry decision to request public tenders.

Valuation

This is difficult to determine with the information currently available to us. The price of 35 mKcs seems to have come from a draft of the valuation report prepared by the consulting group SCG, but is not supported in their final signed document which actually states a negative value of 69 mKcs. The valuation did not include a cash flow analysis. Although the book value of KCZ is 230 mKcs, the cost to clean up KCZ's toxic dumps has yet to be determined accurately, and could potentially exceed the book value by many times. Bids from major international chemical companies with expertise in toxic clean up and/or an estimate of the clean up cost by a major international toxic clean up firm would help establish the value.

Environmental Clean Up

KCZ is a 158 year old firm which has been dumping toxic chemicals, including heavy metals, for decades. The ground

water is almost certainly contaminated. It is not clear to us that Aktiva has either the expertise or the financial capability to handle this problem. All bidders should be required to present a responsible plan for the clean up including methods, timeline, costs and documentation of capability to implement the plan, both technically and financially. There is the danger for the new owners of KCZ to enjoy the profits from the new plant for several years without solving the environmental problem. The problem could then revert to the State.

Financing

The proposed Aktiva transaction is financed 100% with debt. Problems with the new plant, the market for citric acid, or the toxic clean up, etc., could make it difficult for Aktiva to service its debt and remain solvent. It would be useful to review why the negotiations with Jungbunzlauer AG, an Austrian firm, were discontinued. Management of KCZ (and thereby Aktiva) acknowledge that this firm is the largest European manufacturer of citric acid. They would therefore appear to have the expertise and financial strength necessary. They should be invited to bid in the new public tender process to avoid a conflict of interest. More tender offers will increase the chances of getting the best price and getting the environmental problem solved. New tenders should be encouraged to have equity components. More information about Mr. Nesvadba, his business holdings, and his financial strength should be made available for review of the Aktiva proposal.

Public Bid

We recommend that the public tenders for KCZ be solicited from major international firms and be advertized appropriately to accomplish that. Firms should be given adequate time to reply. Only the major international chemical firms will have the expertise and finances to both build and operate the new plant and clean up the toxic waste. It should be made clear in the tender request that tenders must include the plan for cleaning up the chemical dumps. Aktiva should be requested to resubmit their tender to include a plan for the toxic clean up and detailed information on its proposed partners.

Jungbunzlauer AG should be invited to submit a tender offer based on their competence and prior expressed interest.

To: Minister Tomáš Ježek

From: Laurent Michel

Attached is our preliminary review of the proposed purchase of Máj by K-Mart. Copies have been provided to MM Mrázek and Jelínek and Mrs. Hrabáková. We are available to discuss findings at your convenience.

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P R O J E C T S U M M A R Y

Project: Purchase of Máj by K-Mart

Evalation (check one): Preliminary ✓ Final

Recommendations 1) Commercially quite viable

2) Raises policy issues related to ownership structure

Strenghts

1) Provides financing for needed renovation of Máj

2) Inclusion of Máj in proposed K-Mart chain will create purchasing economies

3) K-Mart has recognized management skills in this sector

4) Competitive process

Weaknesses / Concerns

1) K-Mart will initially own 72% of shares and seeks options on additional shares

2) Possible price reductions through audit of absolete inventory

3) Injection of new capital into Máj limited to Kčs 100 MM

Prepared by Laurent Michel
Carl Hartzell

November 20, 1991

Per your request, we have completed a preliminary review of the privatization plan submitted by Máj, a.s. We understand the plan has been approved by the Ministry of Trade and Commerce. While the plan is economically viable, it raises policy issues for your consideration.

The scope of our review included a visit of Máj, discussions with management (Ing. Helena Prokopová and Ing. Stanislav Plecitý) and its auditors (DRT - Czechoslovakia) and legal advisers (White and Case), a brief meeting with representatives of K-Mart (M. G. Seunik) and their legal advisers (Skadden, Arps), a review of the privatization plan and of the market valuation report, and of a draft of the proposed purchase agreement. We have relied on the accuracy of Historical financial + operating data provided to us, and have not independently verified same.

Máj seeks a foreign partner for three reasons. First, the store is in urgent need of repairs to its escalators and other equipment and seeks investment capital to improve its selling space etc., and to upgrade its computer equipment. These needs, in the aggregate, are estimated at 100 MM Kčs. Second, the store feels it would significantly benefit from a relationship with a western group, who could provide management skills in a number of areas. Third, and very important, they would benefit from affiliation with a chain, who could provide centralized buying and resultant economies.

Accordingly, Máj hired DRT earlier this year to conduct a tender and seek interest from qualified parties over and above those that had approached Máj. All investors contacted insisted on majority ownership at some point. Following conversations with a number of other parties (including Quelle, Horton, Decoex, Mercator and Littlewood), Máj choose to negotiate with K-Mart for the following reasons: K-Mart was interested and committed to Czechoslovakia, their business and customer profile parallels that of Máj, they are a leading factor in the field and they plan to establish a chain of stores in the country. We understand

K-Mart is negotiating to purchase five former Prior stores in the Czech Republic, and has additional projects in the Slovak Republic. Máj would be the flagship of this chain.

Máj is already a joint stock company owned 82% by the state and 18% by Investiční banka. The accounting value, as established by DRT in accordance with Czech regulations, is 321 MM Kčs; we have not verified this calculation. The market value developed by DRT, and accepted by both Máj and K-Mart, is 450 MM Kčs. This value was established based 1) on an analysis of net asset value, especially including the value of the land and building for retail use and 2) a capitalization of potential future pre-tax profits. In 1990 (actual) and 1991 (est'd) Máj developed sales of 950 MM and 820 MM Kčs respectively and pre-tax income (reflecting a 14% gross margin) of 35 and 30 MM Kčs respectively. The DRT future model assumes sales of 1500 MM Kčs, a 20% margin and pre-tax profit of 90 MM Kčs. While Máj management feels the margin target is achievable, they doubt they can generate the targeted sales volume.

In the current evolving environment, it is difficult to establish a precize market value for Máj. The value of the site, as a hotel or office building, may be substantial. Nevertheless, we view the agreed 450 MM Kčs valuation as reasonable.

The agreement provides that K-Mart would purchase 67% of the outstanding shares from the Fund (i.E. 82% of its 82% holdings) for 301 MM Kčs. In addition, K-Mart requests that the Fund retain a 9% interest and give K-Mart a 2 year option to purchase this 9% at market value plus a 9,5% p.a. interest adjustment. The remaining 24% would be allocated/owned 18% by Investiční banka, 3% employees + 3% restitution. The agreement, parts of which need clarification or further negotiation, also provides the following:

1) An investment ba K-Mart of approx. 100 MM Kčs in return for additional shares, valued at the market price, the net result of which would be to uncrease their initial ownership to 72%.

2) A possible reduction (through an escrow) of up to 30 MM Kčs in the purchase price, based on an audit of obsolete inventory

3) Retention of the Máj name for 5 years

4) Retention of existing management and employees (except through attrition and organizational changes) for 3 years. Máj currently employs 700; the longer term expectation is that number with significantly reduce

It is our view that K-Mart can be very helpful in Máj's future development. It is not clear from prior conversations that there is another partner both interested and qualified.

Management feels the process has been competitive and that the 60-day wait for the development of additional bids should not be required. If the project is approved, they would like to schedule the renovations for the first quarter of 1992, traditionally a slower retail season, and thus avoid disruptions of sales during the spring and summer.

Laurent Michel
Carl Hartzell

To: Dr. Cizkova
From: Hans Deutsch (IESC)
Shahnaz Batmanghelidj (MNS)
Re: Cihelna Novosedly a.s.
Date: December 17, 1991

I. PROJECT: Proposed purchase of 10% of shares of this brick manufacturer by Wienerberger, a Vienna based company for Kcs 10.7 million with a subsequent investment in the Company of Kcs 100 million for a total ownership of 55%.

II. CONCLUSION: We recommend that this project be approved since the bidder is a credible entity with a viable business plan for Cihelna Novosedly which will make it competitive with imports. The valuation appears fair.

III. STRENGTHS:
- Modernization program to upgrade plant
- Increase the markets (exports to Austria)
- Fair price
- Credible partner with operations in Austria, Germany and Hungary.

ISSUES:
- We have not reviewed competing offers submitted for this company and have been told that the Company chose Wienerberger.

IV. BUSINESS PLAN:
Cihelna Novosedly is one of six brick manufacturers in Moravia with approximately 80 employees. The Czech brick industry is fragmented with over 100 brick plants scattered over the country. Wienerberger has 30 plants in Austria, West/East Germany and Hungary. Cihelna Novosedly was chosen due to its proximity to the Austrian market. Current plans are to increase production capacity by 88% from 43 million to 80 million bricks with significant technical and marketing assistance furnished by Wienerberger. Sales are expected to increase from Kcs 45 million to Kcs 149 million in 1993.

V. PROPOSED STRUCTURE AND OWNERSHIP:
Wienerberger will purchase 10% of shares initially for Kcs 10.7 million in Stage I. It will make a subsequent investment of Kcs 100 million, of which Kcs 25 million will be in the form of know-how and technical skills, in the Company in Stage II during 1993 and 1994 for a total ownership of 55%.

	Stage I	Stage II
Wienerberger	10%	55%
Coupons	87	43.5
Restitution	3	1.5
	100%	100%

VI. VALUATION:
Consulting AG., an Austrian consulting firm, determined a market value of Kcs 79.7 million. Their methodology was based on using a five-year average of projected earnings. However, the result is higher than using the normal discounted cash flow method. Given a book value of Kcs 68.3 million, 1991 sales of Kcs 70 million and net profit of Kcs 8 million, a valuation of Kcs 100.3 million for the Company is reasonable, particularly since they have committed to invest an additional Kcs 100 million in the business. The final figure was arrived at by negotiating with the Ministry of Industry.

APPENDICES

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Appendix 1

Transformation Law #92/1991

LAW No. 92/1991

dated 26th February, 1991

about the conditions of transfer of state property to other persons

(The "Transformation Law")

[revised version - October 18, 1991]

The Federal Assembly of the Czech and Slovak Federal Republic agreed on the following law:

PART ONE

Subject and extent of the regulation

§ 1

1) This law regulates the conditions of the transfer of state property which state enterprises are entitled to manage, state monetary institutions and insurance houses, and other state organisations (hereafter referred to only as "enterprises"), including their property participation in the activity of other legal persons, as well as the conditions of the transfer of property participations of the state in this activity, to Czechoslovak and foreign legal and physical persons (hereafter referred to only as "privatisation").

2) This law will apply in a similar way to the property of foreign trade enterprises and in their property participation in the activity of other legal persons.

3) The conditions of transfer of state property defined by this law do not apply to property that can only be in the ownership of the state, according to constitutional or special laws.

§ 2

The property of an enterprise for the purposes of this law is a summary of the property and financial means that the enterprise is entitled to manage or which it owns, as well as of rights, other property values and obligations of the enterprise.

§ 3

1) Property that is to be returned to legal persons by means of special regulation (1) is not subject to this law.

2) Property that has passed into the ownership of the state after 25th February, 1948 from the ownership of churches, orders and congregations and religious societies is also not subject to this law.

3) Property which can be the subject of a claim by a physical person according to special regulations (2) can be used, for the purposes of this law, only if these claims were not invoked within a given time period or were rejected.

§ 4

Property also cannot be transferred according to this law if it was proposed or included for transfer of ownership to other legal or physical persons according to special regulations [3], and until such time when it has been decided that it is not to be included in the list of operational units designated for transfer, or it has been eliminated from the list according to special regulations [4].

Special Regulations

[1] For instance Law No. 298/1990, regarding the adjustment of some material relations of monastic orders and congregations and Archbishopric of Olomouc.

[2] For instance Law No. 403/1990, re: alleviation of consequences of some material injustices, in text of the Law No. 456/1990.

[3] Law No. 427/1990, re: transfer of ownership of some state property to other legal or physical persons, in the text of the Law No. 541/1990.

[4] Law of the Czech National Council No. 500/1990, re: activity of organs of the Czech republic in the field of transfer of some state property into the ownership of physical or legal persons.

Law of the Slovak National council No. 474/1990, re: activity of organs of the Slovak republic in the field of transfer of some state property into the ownership of physical or legal persons.

PART TWO

Privatisation Projects

$ 5

Transfer of property according to this law is undertaken according to an approved privatisation project of the enterprise or according to an approved privatisation project of property participation of the state in the activity.

$ 6

Privatisation Project of the Enterprise

1) A privatisation project is a summary of economic, technological, property, time and other information that contains:

a) identification of enterprises and definition of property designated to be privatised according to this project (hereafter referred to only as "privatised property");

b) information about the way the state acquired the privatised property;

c) definition of that part of property unusable for entrepreneurial purposes (e.g. non-liquid debts, useless stocks and unusable fixed assets and stocks);

d) valuation of privatised property;

e) method of transfer of privatised property including settling of claims of authorised persons according to special regulation [2];

f) if a commercial company is to be founded, its legal form;

g) when a joint stock company (JSC) is being founded, the method of division of shares, percentage of each type of share and their types, as well as information about if, and to what extent, investment vouchers are to be used;

h) in case of sale, its form and the method of determining the price and conditions of payments;

i) in cases where $ 11, para 3 is applicable, definition of portions of privatised property according to $ 11, para 4;

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j) method of transfer of rights to industrial or other intellectual property, discussed with the Federal Office for Inventions, as long as these rights are the property of the enterprise;

k) time plan for realisation of the privatisation project.

2) A privatisation project can also contain, in addition to the information in para 1:

a) recommendation concerning the subject of its activity;

b) information concerning persons who expressed an interest in purchasing the enterprise or in participation in founding a commercial company using the property of the enterprise or in purchasing the shares of a newly-founded company;

c) information about the present and expected market position of the enterprise;

d) information about the number and qualification of its employees.

3) A privatisation project can be concerned with part of the enterprise, the whole enterprise or the property of several enterprises.

$ 7

1) The founder or organiser (hereafter referred to only as "founder") to whom proposals of privatisation projects are submitted is responsible for the preparation of the privatisation project.

2) The proposal of the privatisation project is usually prepared by the enterprise that is the subject of privatisation. If the founder or another person, other than the enterprise, prepares a privatisation project, the founder will request the point of view of the enterprise to the proposal.

3) The founder can assign to the enterprise the preparation of the proposal of the privatisation project and give an appropriate period of time to do so.

4) The enterprise will inform the appropriate union about the proposal of privatisation project.

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§ 8

1) The founder considers all submitted privatisation projects of enterprises and presents them with its point of view and without undue delay for approval to:

a) the Federal Ministry of Finance, if the founder is federal central organ of state administration;

b) the appropriate organ of state administration of the republic in other cases.

2) The founder also presents, according to para 1, proposals of privatisation projects of enterprises which it does not approve with a justification of its standpoint.

§ 9

Privatisation project of property participation of the state in activity

1) The Federal central organ of state administration that executes the rights of state over property participation in the activity of legal persons, is responsible for the preparation of privatisation projects of these participations within a period defined by the government of the Czech and Slovak Federal Republic and will submit them to the Federal Ministry of Finance.

2) The organ of state administration of the republic or a municipality that executes the rights of the state over participation in the activity of legal persons is responsible for the preparation of privatisation projects of these participations within a period defined by the Czech government or the Slovak government (hereafter referred to only as "governments of the republics"), and will submit them to the appropriate organ of state administration of the republic.

3) The privatisation project of property participation of the state in activity (hereafter referred to only as "privatisation project of participations") contains similar information as is required in the privatisation project of an enterprise.

4) The proposal of the privatisation project of participations is usually prepared by the legal person who is the subject of the project. The method mentioned in $ 7 and 8 applies.

§ 10

Approval of privatisation projects

1) A privatisation project of an enterprise and privatisation project of participations is approved and published by:

a) Federal Ministry of Finance, if it is the founder of the privatised enterprise or if the rights of the state over property participation of legal persons are executed by a federal central organ of state administration;

b) an appropriate organ of state administration of the republics in other cases;

2) The government of the Czech and Slovak Federal Republic or governments of the republics can reserve the right to approve a privatisation project or privatisation project of participations.

3) Approval of privatisation projects in accordance with para 2 is necessary in all cases of direct sale by methods other than public competition or public auction.

PART THREE

Transfer of privatised property to the funds and use of property of the funds.

$ 11

1) In accordance with an approved privatisation project the founder abolishes the enterprise without liquidation or removes part of the property of the enterprise.

2) In cases where the founder of the enterprise is, on the day of the transfer, a federal central organ of state administration, the privatised property is transferred, on the day the enterprise is abolished or part of its property removed, to the Federal Fund of National Property set up by this law in accordance with $ 29 (hereafter referred to only as "the Fund"). This does not apply to cases mentioned in $ 42.

3) In cases where the founder of the enterprise is an organ of state administration of the republic or a municipality, the privatised property is transferred, on the day the enterprise is abolished or part of its property removed, to the Fund of National Property of Czech Republic or to the Fund of National Property of Slovak Republic (hereafter referred to only as "funds of the republics") which will be set up by laws of national councils.

4) To the fund of the appropriate republic is transferred, according to para 3):

a) that part of the privatised property that is situated on the territory of the appropriate republic;

b) monetary assets and property established in rights and obligations, on the basis of the location of that part of the enterprise with whose activity these rights and obligations are connected;

c) monetary assets and property established in rights and obligations that are not connected with the activity of any of specific part of the enterprise are allocated on the basis of the proportion of the value of privatised property transferred to the fund of the appropriate republic in accordance with a) and b) above.

5) Prior to the transfer of property according to 2) and 3), the enterprise will dispose of unusable property ($ 6, para 1, c) in accordance with an approved privatisation project.

6) The founder will not remove part of the property of the enterprise which is formed or with which are connected the rights from industrial or another intellectual property ($ 6, para 1, j)). These rights are transferred by a contract ($ 16).

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7) If all property is being transferred to the Fund or the funds of the republics, the founding of a commercial company or sale of this property must coincide with the abolition of the enterprise without liquidation.

8) On the day stated in an approved privatisation project of participations, the federal central organ of state administration will transfer the rights connected with those participations to the Fund, and the organs of state administration of the republics and municipalities to the fund of the appropriate republic.

$ 12

1) The property of the Fund and funds of the republics (hereafter referred to only as "funds") does not form part of state budgets and it can be used only for purposes defined by the law.

2) The property of funds can only be dealt with in accordance with an approved privatisation project by the following methods of privatisation:

a) to found JSCs or other commercial companies (5) and to dispose of property participations in these companies;

b) to sell property of the enterprise or its part;

c) to transfer privatised property to municipalities;

d) to transfer privatised property for purposes of health and retirement insurance.

3) Permission is not required for disposal of property according to para 2), in accordance with special regulations (6).

4) It is possible to cover expenses of authorised persons in accordance with special regulations (2) from the property of the funds

5) Property of the funds can be used to fulfil obligations of the privatised enterprises.

$ 13

No concessions can be offered when selling the property of the funds. When selling shares, the only concessions admissible are those allowed by the law regarding JSCs.

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§ 14

1) The sale of an enterprise is realised by the funds on the basis of an agreement with the purchaser, or at a public auction. If the sale of the enterprise is realised at a public auction, the funds proceed in a similar manner as when transferring state property according to special regulation (3).

2) When the funds are depositing the property of a privatised enterprise into the basic capital of a commercial society, the funds proceed in accordance with special regulations (5).

§ 15

1) By selling the privatised property or by depositing it into the basic capital of a commercial company, ownership rights over assets, as well as other rights and obligations connected with the privatised property, are transferred to the acquirer on the day the contract comes into force.

2) The transfer of claims is directed by the legal regulation for submitting claims (7).

3) The consent of the creditor is not required for the transfer of liabilities, but the fund guarantees by its property the fulfilment of the liability by the acquirer of the privatised property.

4) The acquirer is obliged to inform immediately the creditors about the taking over of the liability.

Special Regulations

(5) Law No. 104/1990, re: Joint Stock Companies.
Law No. 109/1964, Economic Code in the text of later regulations.

(6) Law No. 173/1988, re: enterprise with foreign property participation, in the text of Law No. 112/1990.

(7) Law No. 40/1964, Civil Code.
Law No. 109/1964, Economic Code in the text of later regulations.
Law No. 101/1963 re: legal relations in international business relations (International Commercial Code).

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§ 16

Rights to industrial or other intellectual property are transferred on the basis of a contract between the acquirer and the enterprise.

§ 17

Rights and duties of the enterprise stemming from labour relations with the employees working in the enterprise or its organisational part that is affected by privatisation are transferred to the acquirer.

§ 18

Unless the contract or legal agreement by which all the property of the enterprise is transferred into the basic capital of a commercial company specifies otherwise, the acquirer is entitled to use the trademark of the enterprise, as long as it does not contradict the law that defines the authority to use a trademark. This transfer is not prevented by an addition or a change to the legal trade name of the enterprise.

§ 19

1) On the day the contract or deposit becomes valid, the fund has to hand over, and the acquirer to accept everything included in the privatised property. A list, signed by both parties will be prepared.

2) By the transfer, the acquirer accepts the risk of loss on this property, as well as ownership rights to it.

3) In order to acquire ownership rights to immovable property, registration according to special regulations is required [8].

Special Regulation

(8) Law No. 95/1963, re: State Notary and negotiations with State Notary's Office, in later text.

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§ 20

1) In the list regarding transfer (§ 19, para 1), missing and faulty property will be listed. If nothing is specified in the contract, property will be considered as missing if it has not been handed over to the acquirer although it should be, according to accounting records, part of the property taken over. In assessing the value of faulty property, its ability to serve the activity of the enterprise is considered and the length of its use according to the accounting records will be taken into account.

2) The acquirer is entitled to request an appropriate reduction in price, unless the contract states otherwise, in connection with missing or faulty property that is included in the list of transfer.

3) The acquirer is entitled to exercise his right to a reduction in price to the extent that obligations have been transferred to him and are not shown in the accounting records.

§ 21

Whilst handing over the property and writing the list of the property being transferred, the fund is represented by persons that are authorised, on the day of abolition of the enterprise or removal of part of its property, to act on its behalf. Whilst undertaking this activity, these persons are responsible to the fund.

PART FOUR

Investment Vouchers

$ 22

1) An investment voucher (hereafter referred to only as "voucher") is, for the purposes of this law a security bearing a person's name that entitles the person to buy shares designated to be sold for vouchers. A voucher is not transferrable and rights connected with it can be transferred only to an heir.

2) The voucher cannot be redeemed.

$ 23

1) Voucher contains in particular:

a) name and birth certificate number of the citizen;

b) mark of the issuing organ;

c) acquiring price;

d) period of validity;

e) date of issue;

2) Vouchers are issued by the Federal Ministry of Finance.

3) Net income from the sale of vouchers will be transferred to the fund of the appropriate republic according to the place of permanent residence of the acquirers of vouchers on the day of acquiring those vouchers.

$ 24

Each Czechoslovak citizen whose permanent residence is on the territory of the Czech and Slovak Federal Republic and who reaches the age of 18 at the time of issue of vouchers, is entitled to acquire vouchers.

§ 25

1) The vouchers of an appropriate issue can be used:

a) to purchase shares of any of the JSCs included for this purpose in the lists of privatisation projects, as long as the citizen has applied within the period defined in this list;

b) to acquire participation in commercial companies founded especially for this purpose, after previous consent of the appropriate organ of the republic.

2) The methods mentioned in para 1 can be used at the same time.

§ 26

When using vouchers, their owner can be represented by a physical or legal person on the basis of and to the extent of a written authorization.

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PART FIVE

Federal Fund of National Property

$ 27

1) The Federal Fund of National Property is set up as a legal person. The Fund is entered into the Register of Companies.

2) The Presidium, executive council and supervisory council are organs of the Fund.

3) The property of the Fund consists of the property transferred to it according to $ 11, para 2 and profit from its participation in the activities of commercial companies.

4) Details about the organisational set up of the Fund and its activity are defined by the statutes that are approved by the presidium of the Fund.

$ 28

1) According to an approved privatisation project, the Fund can sign contracts in its name and undertake other legal acts, in particular it:

a) founds JSCs and other commercial societies or it participates in their founding and deposits in them property that it has pledged;

b) acquires shares on the basis of its participation in the activity of JSCs and executes the rights of a share holder, including participation at general meetings;

c) executes the rights of a partner in its participation in other companies, excluding joint stock companies;

d) shares in the economic results of the activities of a commercial company which it participates and includes its results in the form of profit or loss;

e) sells shares or participations in other companies, excluding JSCs;

f) shares in the residue of liquidated companies to the extent of its participation in their activity, if these are abolished;

g) closes contracts regarding the sale of enterprises, their organisational parts and parts of their property; in doing so, it can use public competition;

h) rents out, for a given time, assets until such time that these are used for privatisation.

2) The Fund employs experts whose remuneration is approved by the presidium.

§ 29

By undertaking activities according to § 28 rights and obligations are created for the Fund. The Fund is authorised to demand the fulfilment of its rights at court or other appropriate organs and it can be sued for failing to fulfil its obligations and other duties, for the violation of which it is responsible with all its property.

§ 30

The highest organ of the Fund is the presidium which consists of nine members. The chairman, vice-chairman and members of the presidium are elected, based on a proposal of the government of the Czech and Slovak Federal Republic, by the Federal Assembly for a period of five years. A member of the presidium cannot be a member of the government of ČSFR, the Czech government or the Slovak government, or a member of the Federal Assembly, Czech National Council or Slovak National Council.

§ 31

1) The sphere of activity of the presidium includes the following:

a) to name and conduct the executive council and to supervise its activity;

b) to approve the statutes of the Fund;

c) to approve remuneration of the members of the executive council;

d) to work out the proposal of the budget of the Fund and to present it to the government of the Czech and Slovak Federal Republic for discussion;

e) to approve the agenda of the presidium and the executive council;

f) to discuss annual final accounts of the Fund and to present them for discussion to the government of Czech and Slovak Federal Republic;

g) to discuss, by 30th April at the latest, the annual report about the activity of the Fund for the preceding year.

2) Proposals of the annual budget and annual final accounts are presented to the government of ČSFR to be approved by the Federal Assembly.

109

§ 32

1) The presidium is able to pass resolutions as long as the meeting was attended by more than a half of its members, including the chairman and vice-chairman. In order to pass a decision, the agreement of more than half of those present is required. In the event of equal voting, the vote of the chair is decisive.

2) The documents are signed in the name of the presidium by the chairman and in the event of his absence, by the vice-chairman.

§ 33

1) The activity of the Fund is directed, within the framework of instructions from the presidium, by the executive council of the Fund (hereafter referred to only as the "council").

2) The council acts in the name of the Fund within the extent defined by its statutes. The statutes state to which written legal acts two signatures of members are required. The statutes further state when and to what extent the members of the council act in the name of the Fund and confer authority to act in the name of the Fund. Members of the council who are authorised to act in the name of the Fund are entered into the Register of Companies.

§ 34

1) The council consists of nine members named by the presidium for a period of five years. Before expiry of this period a member can be recalled by the presidium if he contravenes his duties or is unable to fulfil his function.

2) Members of the council elect from their midst a chairman and two vice-chairmen.

3) Members of the council are employees of the Fund.

§ 35

1) The supervisory council of the Fund oversees the activity and management of the Fund, its presidium and council. According to their nature, it brings to the attention of the presidium and the government, Federal Assembly or any other appropriate organ, any shortfalls which it has uncovered.

110

2) Budget proposals and annual final accounts have to be presented to the supervisory council for discussion with the presidium prior to being submitted to the government of ČSFR.

$ 36

1) The supervisory council consists of five members elected by the Federal Assembly for a period of five years. The Federal Assembly can recall members of the supervisory council before the expiry of their period of office. Election or recalling of a member of supervisory council is done by a secret vote.

2) Members of supervisory council cannot be employees of the Fund.

$ 37

1) The supervisory council elects from their midst a chairman and vice-chairman.

2) The conditions of Section $ 32 also apply in this section.

$ 38

The functions of a member of the presidium, a member of the council and a member of the supervisory council mutually exclude each other.

$ 39

Members of the presidium, council, supervisory council and employees of the Fund are forbidden to undertake activity that would be contrary to the interests of the Fund, in particular they cannot be members of organs of JSCs in which the Fund has property participation. Members of the presidium, council and supervisory council cannot acquire property of the Fund, except for shares acquired with vouchers.

$ 40

The Fund covers expenses connected with its activity from its property, and that within the framework of its budget approved by the Federal Assembly.

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PART SIX

Special, temporary and closing regulations

$ 41

1) For purposes of privatisation with the use of vouchers, the government of the Czech and Slovak Federal Republic and the governments of the republics will prepare, within three months from the time this law becoming effective, principles on the basis of which the appropriate central organs of state administration and municipalities will present to the appropriate government for approval lists of enterprises and property participations of the state in the activity of other legal persons, that will be included in privatisation.

2) Lists of enterprises presented for approval will contain in particular the name of the enterprise, seat of the enterprise, founder, valuation of the property and number of employees of the enterprise. The lists of property participations of the state in the activity of other legal persons will contain in particular the name of the legal person, its legal form, subject of activity and the extent of property participation of the state in this activity.

3) The government of ČSFR and the governments of the republics will state a period of time for the privatisation projects to be prepared.

$ 42

1) The property of foreign trade enterprises, state monetary institutions, apart from the State Bank of Czechoslovakia and state savings banks, founded prior to the day this law becomes effective, will be, in accordance with the privatisation project of the enterprise, transferred to the fund of national property of the republic in which the privatised enterprise has a seat and deposited into the basic capital of joint stock companies which this fund will found.

2) If the property a privatised enterprise mentioned in part 1 is transferred to the fund of national property of the Czech republic, this fund will transfer, after founding a joint stock company, one third of the shares to the fund of national property of the Slovak republic. If the property of the privatised enterprise is transferred to the fund of national property of the Slovak republic, this fund will transfer, after founding a joint stock company, two-thirds of the shares to the fund of national property of the Czech republic.

3) If enterprises mentioned in para 1 were transferred to joint stock companies prior to the day this law becoming effective or if they were founded as joint stock companies, two thirds of the participations of the state will be transferred to the fund of national property of the Czech republic and one third to the fund of national property of the Slovak republic on the day of approval of the privatisation project of participations.

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§ 43

The regulations of this law which are concerned with federal central organs of state administration apply to the State Bank of Czechoslovakia in a similar way.

§ 44

The valuation of the property of an enterprise contained in its approved privatisation project replaces the valuation of the non-monetary deposit into the basic capital of a JSC undertaken by a legal expert and required by special regulations (9).

§ 45

1) The enterprises cannot, apart from their usual activity (10), sign contracts about the transfer of ownership of property which they are entitled to manage, dispose of their property participations in the activity of legal person, nor to found these.

2) Exceptions from declaration of para 1 can be given, in justified cases, by an appropriate government. The exception granted replaces permission according to special regulations (6).

3) Property participations of the state in the activity of legal persons can be dealt with only in accordance with an approved privatisation project of participation.

§ 46

1) The legal relations of the funds of the republics, their activity and method of use of their property will be defined by laws of National Councils which will also state those situations where the property of the fund of the republics can be used for purposes other than privatisation.

2) The government of ČSFR, after an agreement with the governments of the republics, will define by a declaration a method of issue of investment vouchers, various types of vouchers, acquiring price of vouchers, method of expressing the extent of entitlement to shares and method of using the voucher.

Special Regulations

(9) Law No. 104/1990, re: JSCs

(10) Law No. 109/1990, Economic Code, in text of later regulations

§ 47

1) In cases where the removal of ownership rights to privatised property, or its part, occurred by any means mentioned in § 2, 3) of Law No. ..../1991, re: extra-judicial rehabilitations, the entitled persons are given the right, in accordance with the above mentioned law, to a settlement which will be dealt with in the privatisation project.

2) The claim of the entitled person has to be invoked at an appropriate organ, as per § 10, 1) for approval of privatisation projects, within 6 months of this law becoming effective otherwise the right to claim ceases. The entitled person must also inform the organ which enterprise holds the property. The appropriate fund of national property must deal with the entitlement according to the time plan for realisation of the privatisation project, but within one year from approval of the privatisation project at the latest.

3) To define the extent, method and implementation of the settling of the claim according to 1) and 2), the regulations of Law No. .../1991, re: extrajudicial rehabilitation are applied as appropriate.

§ 48

The following laws are abolished:

1. § 28 of law No. 111/1990, re: state enterprises.
2. Legal regulation No. 364/1990, re: disposal of property given into the care of state enterprises.

§ 49

This law becomes effective on 1st April 1991.

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Appendix 2

Transformation Law, Alternate Translation

ACT
ON THE CONDITIONS OF TRANSFER OF STATE PROPERTY TO OTHER PERSONS

With commentary by František Faldyna LL.D.

CZECHOSLOVAK CHAMBER OF COMMERCE AND INDUSTRY

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ACT
of February 26, 1991

ON THE CONDITIONS OF TRANSFER OF STATE PROPERTY TO OTHER PERSONS

I.
GENERALLY

Plurality of economic subjects and ownership relations form inseparable components of market economy, while the ownership relations and ownership rights must be clearly and unambiguously defined. Only in this way the required legal safety of all subjects of entrepreneurial activity, their power of decision making and property responsibility, as well as their share in the results of economic activity can be guaranteed.

So called socialistic, centrally planned economy was based on the principle of state collective ownership; this ownership became diffused and anonymous so that the state property seemed to belong to all but in reality to no one. In the economic sphere this ineffective ownership system had been represented by the instituional form of national or state enterprises and their superior bodies of economic management, i.e. by a bureaucratic system of planning and management. This system brought as its consequence economic desinterest of economic subjects and depression of the entrepreneurial iniciative which represents the clockwork of the economic development.

Within the framework of radical economic reform being implemented by steps after November 1989 in the ČSFR a conception of denationalization and privatization has been introduced the consequence of which has to lead to the individualization of the ownership subjects and the ownership

relations and as a matter of fact to the abolition of all monopolistic socialistic ownership which had originated after February 1948 in Czechoslovakia, when practically all property had been ineffectively nationalized or collectivizated and in this way all private ownership had been basically liquidated.

The sence of the privatization being under implementation is to restore a strong sector of private enterpreneurial subjects and to dynamize through its intermediary the development of national economy with the participation both of domestic and foreign capital. The state ownership dominating so far must become individualized, it has to be transferred from the sphere of public law into the range of private law or in other words it has to be transformed into private ownership, into the ownership of concrete entrepreneurial subjects of private law. Only these subjects are able to valorize the proprietary values at maximum as the effort of these subjects shall ensue from their immanent ownership and economic interest.

The process of denationalization and privatization in the Czechoslovak, after-socialistic economy is of demanding character both in terms of matter and time, the privatization cannot be performed simply and at once. It must be effected progressively, within certain stages, but as quickly as possible. The entire economic development of the ČSFR and its integration into the community of ecnomicaly developed countries in Europe and in the world shall be dependent on that development.

The first larger step made in the process of denationalization and privatization has been effected by the Act No. 427/1990 Coll., on the transfer of the state ownership to some goods to other juristic or natural persons (so called "Small Privatization Act") by which the privatization of business units in the sphere of services, commerce and production different from agricultural production is being performed.

The further transformation Act is the Act of February 26, 1991 on the conditions of tranfer of state property to other persons, currently called "Large Privatization Act". This Act specifies the procedure for the transfer of the state property into the ownership of domestic or foreign juristic and natural persons, as well as the conditions of this

transfer of state property to mentioned subjects for the purpose of entrepreneurial activity.

It is beyond any doubt that juristic persons (others than the state or state organizations), as well natural persons who become owners of the privatized state property shall have a better relation to their property in terms of quality and that they shall undertake their business in their own interest, as well as in the interest of the entire economic development of Czechoslovakia. Unlike "small privatization" it can be also anticipated that foreign investors shall participate in "the large privatization" in a considerable extent.

The Federal Assembly of the Czech and Slovak Federative Republic has passed the following Act :

II.
PROVISIONS OF THE ACT AND COMMENTS TO THEM

PART ONE
Subject Matter and Extent of the Specification
Art. 1

(1) This Act specifies the conditions of the transfer of state property, to which the state enterprises, state banking institutes, state insurance companies and other state organizations (hereinafter referred to as "enterprise" only) have their rights of management, further the conditions of the transfer of their proprietary participations in the entrepreneurial activities of other juristic persons, as well as the conditions of the transfer of state proprietary participations in these entrepreneurial activities, to Czechoslovak or foreign juristic or natural persons (hereinafter referred to as "privatization" only).

(2) This Act shall be applied analogously for the property of foreign trade companies and specialized organizations of foreign

trade and also for their proprietary participations in the entrepreneurial acitivities of other juristic persons.

(3) The conditions of the transfer of state property specified by this Act shall not be applied to the property which can be only the ownership of state in accordance to constitution law or special Acts.

Commentary :

The subject matter of the so called "large privatization" is not deemed the entire state property. It is defined according to the Act in terms of the subject and object of this subject matter.

The property can be privatized having been so far in state ownership, if it is subject of the so called "right of management of state organization", particularly of state enterprises and other state organizations of entrepreneurial type the management of which is based on principle of profit (incl. state banking institutes and state insurance companies). The object of the privatization can be both property values being managed by thè particular enterprise and also property participations of such enterprise in the entrepreneurial acitivity of other juristic persons (shares, proprietary parts etc.). The property participations in the entrepreneurial acitivity can be owned of course by state itself but even these proprietary values are subject of privatization. The Act puts also the organizations of foreign trade established according to the legal definitons of the economic relations with foreign countries, to the level of the enterprises in the terms of state organizations.

That state property cannot be privatized which is in exclusive ownership of the state in accordance with the existing constitutional and lower legal rules (accorging to Art. 10 of the Constituion of the CSFR this refers particularly to minerals, basic energetic resources and some other objects, mainly the property serving to the requirements of the entire public).

The Act does not apply mainly to the so called "national property" being in ownership of the state which are the goods, proprietary rights of the state and proprietary rights of state organizations (Art. 64, Par. 1 of the Economic Code).

The privatized property can be transferred not only to Czechoslovak but also to foreign juristic or natural persons.

Art. 2

The property of the enterprise for the purposes of this Act shall be deemed the complex of goods and financial means to which the enterprise has the right of management and which are its ownership, as well as the complex of rights, other proprietary values and obligations of the enterprise.

Commentary :

Property for the purposes of this Act is defined in the way that it involves goods (material objects), financial (monetary) means but also rights (particularly e. g. claims) and other proprietary values and obligations of the enterprise (e. g. both immaterial goods and also debts of the enterprise).

Art. 3

(1) The subject matter of this Act shall not be the property which has to be returned to juristic persons by special rules of law[1]. The subject matter of this Act shall be neither the property which has been transferred to the state after February 25, 1948 from the ownership of churches, holy orders and congregations and religious companies.

(2) The property, to delivery of which a claim may originate in favour of a natural person in accordance with specific rules of law[2] can be used according to this Act only in case that these claims had not been applied in the specified term or they have been rejected.

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1) For example the Act. No. 298/1990 Coll., on the modification of some proprietary relations of holy orders and congregations and of the archbishopric of Olomouc.

2) For example the Act No. 403/1990 Coll., on the relieving consequences of some proprietary injuries, in the wording of the Act No. 456/1990 Coll.

Commentary :

The provision of Art. 3 solves the relation of the Act to the so called "Restitution Acts".

The "Large Privatization Act" does not apply, before all, to the limited sphere of property which has to belong to the churches and religious companies which were deprived of the same by force and without compensation. Therefore such property cannot be privatized which shall be returned according to the Act No. 298/1990 Coll., on the modification of some proprietary relations of holy orders and congregations and of the archbishopric of Olomouc, which Act is explicitly referred by the "Large Privatization Act". In addition, as subject matter of this Act is not deemed the property having been transferred to the state from the ownership of churches, holy orders and congregations and religious companies after February 25, 1948; the restitution of this property shall be solved by a separate Act.

The present Act neither applies to the property being subject matter of the so called "small restitution" according to the Act No. 403/1990 Coll., on relieving some consequences of proprietary injuries, in the wording of the Act No. 456/1990 Coll. unless the legitimate natural person made valid his claim in time or his claim was not rejected).

Art. 4

The property can neither be transferred according to this Act, if it has been proposed and classified for the transfer of ownership to other juristic or natural persons according to special rules of law[3)], unless it has been decided that according to these rules of law the property shall not be classified for inclusion in the list of business units designed for transfer or that it has been excluded from this list[4)].

Commentary :

The special rule of law to which Art. 4 refers is the Act No. 427/1990 Coll., on the transfers of the state ownership of some goods to other juristic or natural persons, in the wording of the Act No. 541/1990 Coll - the "Small Privatizations Act" which precedes the large privatization in terms of the matter and time, i. e.

under conditions specified in that Act. In this respect it is referred to the respective Acts of the CNC (Czech National Council) No. 500/1990 Coll. and of the SNC (Slovak National Council) No. 474/1990 Coll., on the competence of the authorities of the Czech Republic or Slovak Republic resp. in the matters of transfer of state ownership of some goods to other juristic or natural persons.

PART TWO
Privatization projects
Art. 5

The transfer of the property according to this Act shall be exercised in conformity with the approved privatization project of the enterprise or in conformity with the approved privatization project of the state property participation in entrepreneurial activity.

Commentary :

The Act distinguishes between two kinds of privatization projects which shall be elaborated in respect to the privatization ineach individual case. The difference lies in the ownership charakter of the performed transfer from the state ownership into the ownership of juristic or natural, Czechoslovak or foreign persons.

Art. 6
Privatization Project of the Enterprise

(1) The privatization project of the enterprise shall be deemed a complex of economic, technical and proprietary data, data expressed in terms of time and other data and it shall include

a) the name of the enterprise and the definition of the property assigned to privatization according to this project (hereinafter referred to as "privatized property" only),

b) data on how the state had acquired the privatized property,

c) definiton of property being unusable for entrepreneurial purposes (e.g. uncollectible claims, unusable production essentials and inventories),

d) evaluation of the privatized property,

e) the way of transfer of the privatized property incl. the settlement of the claims of legitimate persons,

f) the difinition of the legal form of a commercial company in case of its foundation,

g) in case of the foundation of a joint-stock company the way of the distribution of the shares, the amounts of shares and/or the kinds of shares, as well as the data on whether and in what extent the investment coupons shall be used,

h) in case of the sale of the enterprise its form, determination of its price and conditions of payment,

i) in cases under Art. 11, Par. 3 the determination of the shares of the privatized property in accordance with Art. 11, Par. 4,

j) the way of transfer of industrial and intellectual property negotiated with the Federal Office for Inventions, as far as these right are property of the enterprise,

k) time schedule of the implementation of the privatization project of the enterprise.

(2) The privatization project of the enterprise can include along with the requirements specified in Par. 1 hereof

a) recommendation regarding the subject matter or the entrepreneurial activity,

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3) The Act No. 427/1990 Coll., on the transfers of the state ownership of some goods to other juristic or natural persons, in the wording of the Act No. 541/1990 Coll.

4) The Act of the CNC (Czech National Council) No. 500/1990 Coll., on the competence of the authorities of the Czech Republic in the matters of transfer of state ownership of some goods to other juristic or natural persons.

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b) information regarding the persons showing interests in purchase of the enterprise or in the participation in the foundation of a commercial company with the use of the property of the enterprise or purchase of the shares of a newly established company,

c) data on the present and anticipated position of the enterprise in the market,

d) information on the number of staff and structure of its qualification.

(3) The privatization project of the enterprise can affect a part of the enterprise or the entire enterprise or the property of more enterprises.

Commentary :

In the provisions of Art. 6 of the Act the privatization project of the enterprise and its contents are defined and it is to be elaborated, if an enterprise or its part has to be privatized. The enterprise in accordance with Art. 1 is understood, before all, the state enterprise.

In Par. 1 of the cited provision the obligatory requirements of the privatization project of the enterprise are specified. Every privatization project of the enterprise must comply with these requirements.

In Par. 2 the facultative requirements are enumerated which must not be involved in the privatization project of the enterprise, nevertheless they shall be mostly involved as they shall be usefull for the privatization and they shall be highly significant from the point of view of the future entrepreneurial activities.

As a rule any enterprise shall be privatized as a whole, however, only its part can be privatized (plant, business premises etc.) or the property of more enterprises can be privatized at the same time. This shall be dependent on the particular circumstances of each privatization project of the enterprise.

Art. 7

(1) The founder and/or the establishing subject (hereinafter referred to as "founder" only), to whom the proposals of the privatization project of the enterprise shall be submitted, shall be

responsible for the elaboration of the proposal of the privatization project of the enterprise.

(2) The proposal of the privatization project of the enterprise as a rule shall be elaborated by the entreprise which is concerned by the privatization. If the proposal of the privatization project of the enterprise is elaborated by the founder or by a person different from enterprise, the founder shall require the standpoint of the enterprise to the proposal.

(3) The founder can impose upon the entreprise the elaboration of the proposal of the privatization project of the enterprise and can set down an adequate term for it.

(4) The enterprise shall inform the competent labour union organ about the proposal of the privatization project of the enterprise.

Commentary :

The responsibility for the elaboration of the proposal of the privatization project of the enterprises lies with the founder to whom the proposal must be submitted. (The founder of the enterprise is the competent central or regional authority of state administration).

As a rule, the enterprise shall elaborate the proposal itself, even though it is possible that the proposal of privatization project is elaborated by the founder of the enterprise or by another person (to an order); in such an instant the founder is jobliged to require the standpoint of the particular enterprise to the proposal.

In the interest of the safeguarding of the privatization an instrument is enshrined in the Act for the founder of the enterprise which enables him to impose the elaboration of the privatization project within an adequate term. It shall depend on concrete circumstances (on the size and complexity of the enterprise, on the extent of the prepared privatization and the like) which term, is to be held for adequate.

The cooperation with labour union organization is effected in that the enterprise informs the competent labour union organ about the proposal of the privatization project (however the approval of this organ in not required).

Art. 8

(1) The founder shall evaluate all submitted privatization projects of the enterprise and shall submit them with its own standpoint, without unnecessary delay, to the approval of

a) Federal Ministry of Finance, if the founder is a federal central authority of state administration,

b) competent authority of state administration of the Republic in all other cases.

(2) The founder shall submit also the privatization projects of the enterprise under Par. 1 hereof which has not been recommended by the founder for implementation, with its reasoning of its standpoint.

Commentary :

The founder is not an approving body, his task is to evaluate the submitted privatization projects of the enterprise (from the wording of the Art. 8 it ensues that more proposals of privatization projects can be elaborated regarding the given enterprise) and afterwards to submit them together with its standpoint to the FMF or to the competent authoriry of the state administration of the Republic.

Art. 9

Privatization Project of the State Property Participation in Entrepreneurial Activity

(1) The federal central authority of state administration performing the rights of state regarding the property participations in the entrepreneurial activity of the juristic persons shall be responsible for the elaboration of the privatization projects of these participations during the term set down by the Government of the Czech and Slovak Federative Republic and shall submit the same to the Federal Ministry of Finance.

(2) The authority of state administration of the Republic or the municipality performing the rights of state regarding the proprietary participations in the entrepreneurial activity of the juristic persons

shall be responsible for the elaboration of the privatization projects of these participations during the term set down by the Government of the Czech Republik or the Government of the Slovak Republic (hereinafter referred to as "Governments of the Republics" only) and shall submit the same to the competent authority of state administration of the Republic.

(3) The privatization project of the state proprietary participations in entrepreneurial activity (hereinafter referred to as "privatization project of participation" only) shall include adequately the requirements of the privatization project of the enterprise.

(4) The proposal of the privatization project of participation shall be principally elaborated by the juristic person who is concerned. The proceeding under Art. 7 and 8 shall be applied adequately.

Commentary :

Except of the privatization projects of the enterprises the subject matter of which shall be the privatization of the enterprises (of their entire or partial property) the further type of privatization shall be the privatization of the state property participation. To this purpose the privatization project of the state property participation in the enterpreneurial acitivity shall be elaborated. That privatization consists in that the state participations in the already existing commercial companies, mostly joint-stock companies, shall be transferred into the ownership of private persons. In these joint-stock companies the holder of the shares pertaining so far to the state shall be the competent authority of the state administration. The privatization shall be effected by sale of the shares.

The activity and competence of the authorities being responsible for the elaboration of this kind of privatization projects and approving the same is specified in the Act similarly as in the case of the privatization projects of the enterprises; an adequate validity of the provisions given for the privatization projects of the enterprises is set down also for the requirements of the privatization projects of the participations of the subjects. The same applies for the competence and procedure required for the elaboration of the proposal of the privatization project of the participation.

Art. 10
Approval to Privatization Projects

(1) The privatization project of the enterprise and the privatization project of the participation shall be approved and published by

a) the Federal Ministry of Finance, if this is the founder of the enterprise or if the rights of the state regarding the property participations of the juristic persons are performed by the federal central authority of the state administration,

b) the competent authority of the state administration of the Republic in all other cases.

(2) The Government of the Czech and Slovak Federal Republic ot the Governments of the Republics can reserve the right of approval of the privatization project of the enterprise and the privatization project of participations.

(3) The privatization project shall require the approval under Par. 2 hereof, whenever it is the case of direct sale except of public competition or public auction.

Commentary :

The privatization projects shall be approved in accordance with the principle of federative organization of the state either by the Federal Ministry of Finance on the federal level or by competent authority of the state administration of the Republic on the level of Czech or Slovak Republic (by competent Ministry for Privatization).

The Federal Government or Governments of the Republics are entitled to reserve the right of approval to the corresponding privatization project. The approval of the competent Government is necessary in the instant when the privatization in accordance with the privatization project is effected by direct sale without public competition or public auction.

PART THREE

Transition of the Privatized Property to Funds and the Use of the Funds Property

Art. 11

(1) In conformity with the approved privatization project of the enterprise the founder shall wind up the enterprise without liquidation or it shall excerpt part of the property of the enterprise.

(2) In cases when the founder of the enterprise is the federal central authority of the state administration on the date of the transition, the privatized property shall transit to the Federal Fund of the National Property established by this Act according to Art. 29 (hereinafter referred to as "Fund" only) on the date of the winding up of enterprise or on the date of the excerption of part of its property. This shall not apply to the cases under Art. 42.

(3) If the founder of the enterprise is the authority of state administration of the Republic or a municipality, the privatized property shall transit to the Fund of the National Property of the Czech Republic or to the Fund of the National Property of the Slovak Republic (hereinafter referred to as "Funds of the Republics" only) on the date of the winding up of the enterprise or on the date of the excerption of part of its property; the Funds of the Republics shall be established by Acts of National Councils.

(4) To the competent Fund of the Republic the following items shall transit under Par. 3 hereof:

a) that part of privatized property being located on the territory of the appropriate Republic,

b) financial means and property in terms of rights and obligations according to the locations of that organizational component of the enterprise with the activity of which these rights and obligations are connected,

c) financial means and property in terms of rights and obligations being not connected with the activity of any of the organizational components according to the share ensueing from the value of the privatized property which

has transitted to the corresponding Fund of the Republic under Letter a) and b) hereof.

(5) Prior to the transition of the property according to Par. 2 and 3 the enterprise shall dispose of the parts of unuseable property (Art. 6, Par. 1, Letter c)) according to the approved privatization project.

(6) The founder shall not excerpt a part of the property of the enterprise being formed by the rights of industrial of other intellectual property or to which these rights are linked (Art. 6, Par. 1, Let. j). These rights shall be transformed by a contract.

(7) If the entire property of the enterprise transits to the Fund and/or the Funds of the Repbulics, the foundation of the commercial company or the sale of this property shall coincide with the winding-up of the enterprise without liquidation.

(8) On the date set down by the approved privatization project of the participations the federal central authority of the state administration shall transfer the rights concerning these participations to the Fund and the authorities of the state administration of the Republics and communities shall do the same to the corresponding Fund of the Republic.

Commentary:

The privatization process is composed of two stages and acts: the first one is the de-nationalization consisting in the transition of the property of the privatized enterprise to the competent Fund, the second one is the privatization itself consisting in the transition of the property from the Found to the subjects of private law, i. e. to juristic or natural persons.

In addition the individual privatization methods differ in other respects, e.g. in the sale of the enterprise in contradiction to the "coupons method" and in the status and the function of the founder and of the founds ensueing from that distinction.

The first step is represented by the winding up of the enterprise without liquidation or by exception of part of the privatized property of the enterprise which is effected by the founder in harmony with the approved privatization project of the enterprise.

The property of the wound-up enterprise or the excepted property being privatized transits to the relevant Fund (Federal or of the Rebuplics) established by this Act or by the Acts of the National Councils.

In case of the sale of the property of the wound-up enterprise the winding up of the enterprise shall be effected by the decision of the founder and by the transit of this property to the Fund in the moment when the Fund as the selling party concludes the purchasing contract with the purchaser. There exists therefore an immediate link-up in terms of time.

The Act respects three types of state ownership, i.e. the ownership of the Federation, ownership of the Czech Republic and of the Slovak Republic. Therefore, in terms of competence, the Act had to divide the transition of the privatized property to the Funds of the Republics in relation to the (Federation) Fund.

It has to be stressed particularly that also the rights of industrial and other intellectual property (rights ensueing from inventions, improvement suggestions, industrial designs, know how but also trade marks and certificates of origin, copyrights etc.) form the part of the privatized property. The founder cannot dispose of the rights linked with the enterprise. These rights are transferred by a contract between the seller and purchaser. The founder particularly cannot except these rights similarly as a part of the property of the enterprise assigned to privatization; such a part is transferred by a contract and in this way the rights are protected.

The temporal coincidence (immediate linkage in terms of time) is the condition required expressively by the Act for the case when the entire property of the enterprise being wound-up without liquidation transits to the Fund for the purpose of the sale of this property or for its investment in a commercial company being under establishment.

In case of the privatization project of a state property participation the transfer of the corresponding rights is effected by competent state administration authorities of the Federation or the Rebuplics, or of the municipality to the respective Fund.

Art. 12

(1) The property of the Fund and the Funds of the Republics (hereinafter referred to as "Funds" only) shall not form a part of the

state budgets and it can be used for the purposes specified by this Act.

(2) The property of the Funds can be used in conformity with the approved privatization projects for the following ways of privatization :

a) to the foundation of a joint-stock or other commercial company[5] and to the disposal of the property participations in these companies,

b) to the sale of the property of the enterprise or its part,

c) to the transfer of the privatized property to municipalities,

d) to the transfer of the privatized property for the purposes of pension and health insurance.

(3) For the use of the property under Par. 2 hereof the approval according to special rules of law[6] shall not be required.

4) The claims of the persons legitimate according to special rules[2] may be covered from the property of the Funds.

5) The property of the Funds may be used for the fulfilment of the obligations of the enterprises earmarked for privatization :

Commentary :

The Act precisely specifies the rules for the disposal of the property acquired by the respective Fund during the privatization process.

Before all, it has to be noted that in harmony with the de-nationalization principle the property of the Fund is separated from the state budgets (of the Federation and the Republics). The state property is transferred into the property of Funds which are juristic persons separated from the state. The state has no right to interfere in the property of the Funds.

On the other hand also the Funds may dispose of the transferred property only for the purposes enumeratively specified in the Act. (No further purposes, principally not even the entrepreneurial purposes are allowed).

The property of the Funds may be used only for purposes being in connection with the privatization, or for the purposes explicitely stated in the Act.

On the first place the Act specifies in the Art. 12, Par. 2 four kinds of privatization in conformity with the approved privatization projects.

For the use of the property for privatization purpose no approval according to special legal rules is reguired, mainly e.g. in accordance with the Act No.

173/1988 Coll., on enterprise with the foreign property participation, in the wording of the Act No. 112/1990 (for the investment of the privatized property share into such enterprise).

There are two exceptions from the above mentioned priovatization purposes stated by the Act. From the property of the Funds the claims of persons legitimate according to the "Restitution Acts" can be covered (e.g. according to the Act. No. 403/1990 Coll., on the relieving consequences of some proprietary injuries, in the wording of the Act No. 456/1990 Coll.). In addition, the property of the Funds can be used for the fulfilment of the obligations of the enterprises being earmarked for privatization; but even this case is related to the privatization.

Art. 13

For the sale of the property of the Funds no preferential treatment can be given. For the sale of shares only preferential treatment can be given which is admitted by the Act on joing-stock companies.

Commentary :

During implementation of the privatization the principle must be respected that all persons showing interest and acquirers have equal position so that no one should be subject of preferential or disadvantageous treatment.

An exception is only the preference treatment ensueing already from the existing rules of law regarding certain groups of share holders in the present time, as this is made possible by the Act No. 104/1990 Coll., on joint-stock companies.

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5) The Act No. 104/1990 Coll., on joint-stock companies.

The Act. No. 109/1990 Coll., Economic Code, in the wording of subsequent rules of law.

6) The Act. No. 173/1988 Coll., on enterprise with the foreign property participation, in the wording of the Act No. 112/1990.

Art. 14

(1) The Funds shall accomplish the sale of privatized property on the basis of a contract concluded with a buyer or in a public auction. If the sale is accomplished in public auction, an adequate proceeding shall be used as for the transfer of the state property according to special rules of law[3].

(2) In case of investment of privatized property in the basic capital of the commercial company the Funds shall proceed in compliance with special rules of law[5].

Commentary :

In cases of privatization implemeted by the sale of the privatized property, the Funds (Federal Fund, Funds of the Republics) shall perform such sale either on the base of purchase contract where the Fund is the sellilng party and the respective person (juristic or natural person) is the purchasing party, or in the form of a public auction.

If the sale takes place in a public auction, it shall be proceeded iln compliance with adequate use of special rules of law being applicable for this purpose and which are referred to by the "Large Privatization Act". This is the question of the Act No. 427/1990 Coll., on the transfers of the state property of some goods to other juristic or natural persons, in the wording of Act No. 541/1990 (Small Privatization Act).

If the way of privatization is used which is based on the investment of the privatized property in the basic capital of the commercial company, the Funds shall proceed in compliance with special rules of law regarding the establishment of commercial companies or regarding the property paricipation in these companies (in the present time the Act No. 104/1990 Coll., on joint-stock companies and the Act No. 109/1964 Coll., Economic Code, in the wording of subsequent rules of law). As a rule, it shall be a joint-stock company or private company limited by shares where the respective Fund shall be the only founder or the only partner. (It shall be either an investment into the capital stock of a joint-stock company or an investment into the basic capital of a private company limited by shares).

Art. 15

(1) By the sale of the privatized property or by its investment in the basic capital of a commercial company the ownership of the goods as well as other rights and obligations linked with the privatized property shall transit to the acquirer on the date on which the contract has come into effect.

(2) In all other respects the transition of the financial claims shall be governed by the legal adjustment of the cession of claim in accordance with special rules of law[7].

(3) For the transition of the obligation an approval of the creditor shall not be required, however, the Fund shall quarantee by its property the fulfilment of the obligation of the acquirer of the privatized property.

(4) The acquirer shall notify the creditors of the acquisition of the obligation without unnecessary delay.

Commentary :

The legal consequence of the sale of privatized property or of investment of this property into commercial company is the transit of the ownership to the goods (material objects) to the acquirer. Similarly also other rights and liabilities transit together with the privatized property (proprietary rights, rights of labour-law relations etc.).

Regarding the transition (cession) of a claim the Act refers to the existing special rules of law which are - for given consequences - the corresponding provisions of the Act No. 40/1964 Coll., Civil Code, Act No. 109/1964 Coll., Economic Code, in the wording of subsequent rules of law and Act No. 101/1963 Coll., on legal relations in international trade (Code of International Trade).

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2) see page 5, 3) see page 7, 5) see page 17.

7) The Act No. 40/1964 Coll., Civil Code
The Act. No. 109/1964, Coll., Economic Code, in the wording of subsequent rules of law.
The Act No. 101/1963, Coll., on legal relations in international trade (Code of International Trade).

Special provisions are included in Art. 15 of the Act regarding the transition of obligation (debt). To such transition no approval of the creditor (which approval uses to be obligatory in other cases) is required, however, this is replaced by a legal guaranty, because the Fund guarantees by its property the fulfilment of the obligation by the acquirer of the privatized property. In addition the acquirer has the notifying duty which he has to fulfill without unnecessary delay.

Art. 16

The rights of industrial and other intellectual property shall be transferred on the basis of a contract concluded between the acquirer and the enterprise.

Commentary :

These rights including the rights to inventions, iprovement suggestions and industrial designs, copyrights, rights to immaterial goods, as are the trade marks or certificates of origin, are of absolute character and are linked with the enterprise.

Their transfer, particularly for the reason of their protection in inland and in abroad, is effected only on the basis of a contract between the existing enterprise and the acquirer, while this contract is concluded simultaneously with the winding-up of the enterprise and with the signature of the purchase contract or with the effected property investment.

Art. 17

The rights and obligations of the enterprise ensueing from labour law relations to the employees of the enterprise or its organizational component, which are concerned by the privatization, shall transit to the acquirer.

Commentary :

The transition of the rights and obligations ensueing from labour law relations is subject of special provision, as the Labour Law Code does not apply to these cases. The provision of Art. 17 secures indispensable continuity and

legal security of the employees in that the mentioned rights and obligations are transferred to the acquirer without being changed in respect or their contents and extent.

Art. 18

If all the property of the enterprise is being privatized und unless otherwise ensues from the contract or from the legal operation by which the property of the enterprise is being invested into the basic capital of a commercial company, the right of use of commercial name of the enterprise shall transit to the acquirer, unless this is in contradiction with the Act specifying the use of commercial name. This transit shall not be prevented by a change of the complement of the commercial name specifying the legal form of the enterprise.

Commentary :

As far as all the property of the wound up enterprise is beging privatized, the transition of the so called "commercial name" (firm's name) is also taken into consideration; it represents a special right to immaterial goods, nevertheless with cosiderable proprietary consequences, (mainly if a well known firm has an outstanding image and a large clientage due to this fact). This provision is therefore set on the basis that also the authorization to use the commercial name (firm's of the existing enterprise is being transferred to the acquirer, unless this is in contradiction with the Act specifying the use of commercial name, mainly if consumers' deception may occure. (The revision of provisions regarding commercial name or firm's name shall be included in the newly drafted Commercial Law Code).

The commercial name (firm's name) does not transit to the acquirer of the entire privatized property in case, when this does not ensue from the contract or from the legal operation by which the property of the enterprise is invested into a commercial company (which means that the mentioned contract or legal operation can specify this matter differently).

The transfer of the commercial name (firm's name) shall not be prevented by a change of the complement of the commercial name specifying the legal

form of the enterprise (e.g. the change of the indication from "s.p." (state enterprise) to "a.s." (joint-stock company).

Art. 19

(1) The Fund shall transfer and the acquirer shall take over the goods included into the privatized property on the date on which the contract has come into effect. A minutes of it shall be made and signed by both parties.

(2) With the transfer of the property the acquirer shall assume the responsibility for damage of these goods as well as he shall acquire ownership of them.

(3) For the acquistition of ownership of immovable assets a registration according to special rules of law shall be required[8]).

Commentary :

The material transfer and acceptance of the goods included into the privatized property is effected by a minutes signed by the Fund and acquirer.

This moment is very important in terms of the moment of the transition of the liabilities for damage, as well as of the ownership of the transferred goods. The transition of the liabilities for damage is understood in that the acquirer has any right to require the compensation of the damage from the Fund, when the damage is specified as a loss, exctinction or deterioration of the goods concerned without taking into consideration the reasons of the damage, unless the damage has been caused by the Fund.

The ownership of immovable assets transits only as a consequence of the registration which is required for the validity of the respective legal operation. The registration is effected by the public notary office according to the Act No. 95/1963 Coll., on state notaries and proceeding before the state notaries, in the wording of subsequent rules of law.

Art. 20

(1) In the minutes of the transfer (Art. 19, Par. 1) the missing and defective goods shall be quoted. Unless otherwise settled in the contract, the missing goods shall be deemed those things not having

been transferred to the acquirer, even though they have to be part of the transferred property according to the book-keeping. When estimating the defectivenes of the goods it shall be taken into account how they are able to serve for the operation of the enterprise and how long they have beer in use according to the book-keeping.

(2) Unless otherwise settled in the contract, the acquirer shall apply for adequate price rebate of the missing or defective goods included into the minutes of the tranfer.

(3) The acquirer may apply his claim for price rebate regarding the obligations which have been transferred upon him and have not been entered into book-keeping.

Commentary :

In the minutes of the transfer of goods included in the privatized property it is necessary to quote the missing and defective goods, while this is processed in according to the book-keeping or on the basis of the estimation of the ability of defective goods to serve during the future operation of the enterprise. The acquirer has the right for adequate indemnification for the missing and defective goods, unless otherwise settled by the parties in the contract.

The acquirer has the right for rebate also regarding those obligations incl. debts which have been transferred upon him and have not been entered into book-keeping. For their application the respective forfeiture terms according to the Civil Law Code, Economic Code and International Commerce Law Code are applicable.

Art. 21

During the transfer of the goods and the preparation of the minutes of the transfer the Fund shall be represented by persons authorized on the date of the winding-up of the enterprise or the exception of a part of the property of the enterprise ot act on behalf of the enterprise. During this acitivity these persons shall be responsible to the Fund.

Commentary :

For practical reasons the Act states that during the transfer of the goods and the preparation of the minutes the statutary organs or representatives of the enterprise being wound-up, or of the enterprise from which a privatized part of property is being excepted are acting on behalf of the Fund, and are, of course, responsible for their activity to the Fund on behalf of which they are acting.

PART FOUR
Investment Coupons

Art. 22

(1) The investment coupon (hereinafter referred to as "coupon" only) for the purposes of this Act shall be deemed to be security (consolidated paper) in name giving the right to purchase shares specified for sale against coupons. The coupon shall be untransferrable and the rights atached to the same can be transferred only to heirs.

(2) The coupon cannot be amortized.

Commentary :

The separate fourth part of the Act concerns the coupon method of "large privatization".

The process of large privatization is confronted by an accute lack of inland capital, while it can be presumed that the foreign capital shall not cover and even shall not be able to cover all privatization plans.

The Act therefore ensues from the fact that the privatization process shall be accelerated and widened by the mediation of investment coupons. A number of state enterprises shall be transferred to joint-stock companies and the shares of these companies shall be sold to citizens for the issued investment coupons.

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8) The Act. No. 95/1963, Coll., on state notary and proceeding at the state notary office, in the wording of subsequent rules of law.

For the purpose of this Act the coupon is defined as security registered in name which is intransferrable to other person and the rights linked with this coupon are transferred only to heirs. The coupon can be used only for the purpose stated by the Act, e.i. for the purchase of privatized property.

The coupon cannot be declared invalid in case of its loss, misappropriation or exctinction.

Art. 23

(1) The text of the coupon shall contain at least the following :
a) name and birth statistical number of the citizen,
b) name of the authority having issued the coupon,
c) the acquiring price,
d) time of validity,
e) date of issuance.

(2) The coupons issuer shall be the Federal Ministry of Finance.

(3) The net revenue of the sale of coupons shall be transferred to the Fund of the Republik competent according to the location of the durable residence of the acquirers of the coupons on the date of the acquisition of these coupons.

Commentary :

The Act defines the obligatory requirements for the text of coupons in Art. 23, Par. 1, while not excluding, of course, that the coupons should fulfill otehr requirements.

The Federal Ministry of Finance is the exclusive coupons issuer so that no one else hat the right to issue the coupons.This provision is based primarily on the organizational, technical and finance-controll reasons and it does not influence eirther the extent of the privatized property being transferred to the individual Funds or the distribution of the revenues of the privatization.

Net revenue of the sale of coupons shall be transferred to the Fund of Czech Republic or Slovak Republic competent according to the location of the durable residence of the acquirers of coupons on the date of the acquisition of these coupons.

Art. 24

Any Czechoslovak citizen having his durable residence in the territory of the Czech and Slovak Federative Republic and who have completed 18 years of age on the date of the issuance of the coupons shall have claim for these coupons.

Commentary :

The right for coupons originating from the Act is attributed to every Czechoslovak citizen who completed 18 years of age and complies with the condition of durable residence in the Czech and Slovak Federative Republic.

Art. 25

(1) The coupons of a corresponding emission can be used for
a) purchase of shares of any joint-stock company included for this purpose into the list of privatization projects, as far as the citizen makes valid his claim within the term specified in this list,
b) acquisition of the participation in commercial companies founded specially for this purpose, after the previous aproval of the competent authority of the Republic.

(2) The ways specified in Par. 1 hereof can be used paralelly.

Commentary :

In Art. 25 two ways of the use of coupons are enshrined which can be used in particular cases paralelly.

In the first place it means the purchase of shares of a joint-stock company which has been included for this purpose into the list of privatization projects, while the citizen must enforce his claim for the purchase of the shares within the term specified in this list.

The coupons can be used also for the acquisition of the property participation in commercial companies (e.g. private companies limited by shares, limited partnerships, limited partnerships by shares) established specially for this purpose, after the previous approval of the competent authority of the Czech or Slovak Republic.

Art. 26

When using his coupons their proprietor can be represented on the basis and in the extent of a written proxy by a natural or juristic person.

Commentary :

The Act specifies also the possibility for the owner of coupons to be represented by a representative who can be a natural or juristic person.

PART FIVE
Federal Fund of National Property

Art. 27

(1) The Federal Fund of National Property shall be established as a juristic person. The Fund shall be entered into the Register of Companies.

(2) Organs of the Fund shall be presidium, executive board and supervisory board.

(3) The property of the Fund shall be created by the property transferred to it under Art. 11, Par. 2 hereof and by the profit from its participation in the entrepreneurial activity of the commercial companies.

(4) The details regarding the organizational structure of the Fund and its activity shall be specified by a statute approved by the presidium of the Fund.

Commentary :

The Federal Fund of National Property (just as the Funds of the Republics) represents a specific juristic person who has been established by the Act specially for the purpose of large privatization.

The Fund is separated from the state, or state bodies. The winding up of a state enterprise appertains to the competence of an authority of state administration; nevertheless, the proprietary disposal of the property being

subject of the privatization appertains to the Fund (sale of the property, sale of the participations in the businesses, establishing of commercial companies).

The property of the Fund is therefore formed particularly by the privatized property, i.e. by the property of wound-up enterprises, or of part of the property excepted from the enterprises. If the Fund participates in the entrepreneurial activity of commercial companies, it participates also in the profit originating from such a participation and in this respect the Fund is partially an entrepreneurial subject.

Art. 28

(1) The Fund shall conclude contracts on its own behalf in accordance with the approved privatization project and shall do other legal operations, and it shall, particularly,

a) establish joint-stock and other commercial companies or shall participate in their founding and shall invest in them amounts to which it has obliged itself,
b) acquire shares on the basis of its participation in the entrepreneurial activities of the joint-stock companies and shall execute its shareholder's rights incl its participation in the general meetings,
c) execute its partner's rights within its participation in other than joint-stock companies,
d) participate in the economic results of the commercial company in the entrepreneurial activity of which the Fund participates and bears the consequences of this activity in the form of profits or losses,
e) sell its shares or participations of other than joint-stock companies,
f) participate in the liquidation remainder of the company in the extent of the Fund's participation in the company's entrepreneurial activity, if the company becomes extinct,
g) conclude contracts on the sale of enterprises, their organizational parts and parts of their property and it can use also public competitions (invitations) for this purpose,

h) lease these values for a definite time until they are used for privatization.

(2) The Fund shall employ experts whose remuneration shall be approved by the presidium.

Commentary :

The Fund has its legal subjectivity and capability to conclude contracts on its own and to do legal operations pertaining to its competence according to the Act on the basis of approved privatization projects.

Before all, the Fund participates in the foundation and entrepreneurial activities of joint-stock companies and other commercial companies in a stated manner. It concludes also contracts on the sale of property of wound-up enterprises (the Act refers here inaccurately to "sale of enterprises") or on the sale of the excepted property from the enterprises and it is also authorized - in the interest of effective utilization of the acquired property - to lease proprietary values for a transitory period till they are used for the purpose of privatization.

The specification of the above mentioned legal operations is to be understood as an example only and the Fund can do other legal operations than those under Art. 28, Par. 1.

Art. 29

During the accomplishment of the acitivities specified under Art. 28 hereof the Fund shall acquire rights and assume obligations. The Fund shall be authorized to sue for the fulfilment of its rights or demand the fulfilment of its rights with other competent authorities and it can be sued for being in default of its obligations or other duties for the fulfilment of which he shall be liable by its entire property.

Commentary :

The property-law status of the Fund is given by that it is a subject of full rights. Being a juristic person it is liable for its obligations by its entire property and on the other hand it has the right to sue for the fulfilment of its rights with a court or other competent authorities.

Art. 30

The highest organ of the Fund shall be the presidium consisting of 9 members. The chairman, vice-chairman and the members of the presidium shall be elected by the Federal Assembly to the proposal of the Government of the Czech and Slovak Federative Republic for the period of 5 years. Members of the Czech and Slovak Federative Republic, of the Government of the Czech Republic and the Government of the Slovak Republic, members of the Federal Assembly, members of the Czech National Council and of the Slovak National Council cannot be members of the presidium.

Commentary :

The concept has been passed that the presidium being the highest organ of the Fund is elected by the Federal Assembly to the proposal of the Government of the ČSFR.

Simultaneously the incompatibility of the functions of members of the presidium with the functions of members of the Governments or members of the legislative bodies has been enshrined.

Art. 31

(1) The presidium shall have the power to

a) nominate and manage the executive board and to supervise its activity,

b) approve the statute of the Fund,

c) approve the remuneration of the members of the executive board,

d) elaborate the draft of the budget of the Fund and submit the same for the discussion of the Government of the Czech and Slovak Federal Republic,

e) approve the rules of procedure of the presidium and of the executive board,

f) discuss the annual balance statement of the Fund and submit the same to the discussion of the Goverment of the Czech and Slovak Federative Republic,

g) discuss the annual report on the activity of the Fund by April 30 for the preceeding year.

(2) After the draft of budget and annual balance statement has been discussed by the Government of the Czech and Slovak Federative Republic, the Fund shall submit the same to the Federal Assembly for its approval.

Commentary :

The most important managing activities within the framework of the Fund belong to the competence of the presidium, while the important checking functions had to be entrusted with to the Government of ČSFR and to the Federal Assembly, namely regarding the budget and annual account statement.

Art. 32

(1) The presidium shall be capable of transacting business if its meeting is attended by the majority of its members incl. its chairman and vice-chairman. For the decision making the approval of the majority of the present members shall be required. In case of equity of votes the vote of the chairman shall be decisive.

(2) The chairman and in his absence the vice-chairman shall sign the documents on behalf of the presidium.

Commentary :

The proceedings and decision makings of the presidium ibased on are customary democratic principles.

The presiding of the meeting of the presidium is either the chairman or in his absence the vice-chairman. In case of equity of votes the vote of the chairman or the vice-chairman is decisive.

Art. 33

(1) The activity of the Fund shall be governed by the executive board of the Fund (hereinafter referred to as "board" only) in accordance with the instructions of the presidium.

(2) The board shall act on behalf of the Fund within the extent specified by the statute. The statute shall specify which written legal operations shall require the signatures of two membres of the board. In addition, the statute will specify when and in what extent the members of the board shall act on behalf of the Fund and appoint a proxy to act on behalf of the Fund. The members of the board being authorized to act on behalf of the Fund shall be entered into the Register of Companies.

Commentary :

The executive board is an operatively managing organ of the Fund. The extent of the authorities of the board and the rights of its members to act on behalf of the Fund is stated by the Statute.

Art. 34

(1) The board shall consist of nine members nominated by the presidium for the period of five years. Prior to the termination of this term the presidium can recall any member of the board, if he violates his duties or is unable to perform his function.

(2) The members of the board shall elect from among themvelves a chairman and two vice-chairman at maximum.

(3) The members of the board shall be employees of the Fund.

Commentary :

The board and its members are responsible for their activity to the presidium. The members of the board which is the executive organ of the Fund have a labour relation to the Fund. They can be recalled from their function on the base of stated reasons.

Art. 35

(1) The supervisory board of the Fund (hereinafter referred to as "supervisory board" only) shall supervise the activity and management of the Fund, of its presidium and board. With respect to the character of the matter the presidium shall notify the

Government of the Czech and Slovak Federative Republic, Federal Asembly and/or other competent authorities of the identified discrepancies.

(2) The presidium shall discuss the draft of the budget and the annual balance statement in the supervisory board prior to their submitting to the Government of the Czech and Slovak Federative Republic.

Commentary :

As it ensues from its denomination and competence the function of the supervisory board of the Fund is a supervisory one. The duty of this board is particularly to discuss the draft of the budget and the annual balance statement prior to their submitting to the Federal Government.

The other competent bodies which may be notified by the supervisory board of the identified discrepancies with the respect to the character of the given matter, are the Federal Ministry of Control, the Federal Ministry of Finance, the Office of the Prosecutor etc.

Art. 36

(1) The supervisory board shall consist of five members elected by the Federal Assembly for the period of five years. The Federal Assembly can recall the member of the supervisory board even prior to the termination of the period of his function. The members of the supervisory board shall be elected and recalled by secret ballot.

(2) The members of the supervisory board cannot be the employees of the Fund.

Commentary :

The importance of the supervisory function of the board is stressed by the activity of the Federal Assembly in the relation to the supervisory board. The members of the supervisory board are elected and recalled by the Federal Assembly.

The independence and impartiality of the members of the supervisory board is secured by the provision that they cannot be employees of the Fund.

Art. 37

(1) The members of the supervisory board shall elect from among themselves a chairman and a vice-chairman.

(2) The provisions of Art. 32 shall .. applied analogously.

Commentary :

Regarding the quorum and decision making of the supervisory board the provisions of Art. 32 are applied analogously, i.e. the presence of simple majority of its members incl. its chairman or vice-chairman and the affirmative votes of simple majority of the present members are required with the provision that in case of equity of votes the vote of the presiding person is decisive. The documents of the supervisory board shall be signed on its behalf by the chairman or in his absence by the vice-chairman.

Art. 38

The function of the member of presidium, board and supervisory board shall be incompatible.

Commentary :

The incompability of the functions of the members of all three top organs is given for the security of impartiality, independence and proper perfomance of the Fund's function.

Art. 39

The members of the presidium, board, supervisory board and the employees of the Fund cannot perform activities which are in contradiction with the interests of the Fund, particularly they must not be members of the organs of joint-stock companies in the entrepreneurial activity of which the Fund has proprietory participation. The members of the presidium, board and supervisory board cannot acquire the property of the Fund except of the shares against coupons.

Commentary :

The provision of Art. 39 secures that the members of the organs and employees of the Funds do not come into conflict with public and their own private, proprietary interests. The Act protects these interests against potential collision by the above mentioned prohibition of activity and personal and proprietary participation, besides the mentioned exception.

Art. 40

The Fund shall cover the costs in connection with its activity from its property within its budget approved by the Federal Assembly.

Commentary :

As a matter of principle, the Fund covers the costs in connection with its activity from its property. It is not a organization financed from a state budget. Some of its functions are of entrepreneurial character; the activity ensueing from these function brings progit.

PART SIX
Special, Transitory and Final Provisions

Art. 41

(1) For the purpose of privatization effected also by means of coupons the Government of the Czech and Slovak Federative Republic and the Governments of the Republics shall specify the principles within three months from the date when this Act has come into effect; on the basis of said principles the competent central authorities of the state administration and the municipalities shall submit for the approval of the competent Government the lists of enterprises and lists of state proprietary participations in entrepreneurial activities of other juristic persons which shall be included into privatization.

(2) The lists of enterprises submitted to the approval shall include particularly the name and the seat of the enterprise and of

the founder, evaluation of the property and the number of the employees of the enterprise. The lists of the state proprietary participations in the entrepreneurial activities of other juristic persons submitted for approval shall include particularly the name and the legal form of the juristic person, the subject matter of the entrepreneurial activity and the extent of the state proprietary participation in this entrepreneurial activity.

(3) The Government of the Czech and Slovak Federative Republic and the Governments of the Rebuplics shall set down the terms for elaboration of privatization projects.

Commentary :

The task of all three Governments based on the Act is to specify principles for implementation of the privatization by using all means of privatization incl. the coupons method. On the base of these principles the competent central authorities of state administration (mostly the branch ministries) and municipalities shall submit to the competent Government (of the ČSFR or appropriate Republic) for their approval lists of enterprises and lists of state property participations which shall be included into provatization.

Lists of enterprises and lists of state property paricipations submitted for approval must include stated requirements to enable the competent Governments duly to evaluate the same.

To secure due temporal procedure of large privatization the Governments of the ČSFR and the Republics are empowered to state terms for subsequent elaboration of privatization projects.

Art. 42

(1) The propriety of the enterprises of foreign trade, specialized organizations of foreign trade, state banking institutes, with the exception of the State Bank of Czechoslovakia and the state saving institutes founded until the date on which this Act has come into effect shall be transferred according to the privatization project of the enterprise into the Fund of the National Property of that Republic where the privatized enterprise has its seat and where its

investment has been entered in the capital stock of the joing-stock companies established by this Fund.

(2) If the property of the privatized enterprise transits into the Fund of the National Property of the Czech Republic, this Fund shall transfer one third of the shares after the foundation of the joint-stock company into the Fund of the National Property of the Slovak Republic. If the property of the privatized enterprise transits into the Fund of the National Property of the Slovak Republic, this Fund shall transfer two thirds of the shares after the foundation of the joint-stock company into the Fund of the National Property of the Czech Republic.

(3) As far as the enterprises specified in the Par. 1 hereof had been transferred into joint-stock companies before the date when this Act has come into effect or had been founded as joint-stock companies, the state participations in their entrepreneurial activities shall transit by two thirds into the Fund of the National Property of the Czech Republic on the date of the approval of the privatization project and by one third into the Fund of the National Property of the Slovak Republic.

Commentary :

The provisions of Art. 42 solve the division of the privatized property between the Czech and Slovak Republics in terms of competence in cases of already quoted organizations of foreign trade and state banking institutes (apart from stated exceptions). This refers to a speicific sphere of foreign trade and banking operations.

The shares in the privatized property shall be distributed between the Fund of the National Property of the Czech Republic and the Fund of the National Property of the Slovak Republic in the rate 2 to 1.

Art. 43

The provisions of this Act concerning the federal central authorities of the state administration shall be applied analogously also for the State Bank of Czechoslovakia.

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Commentary :

The Act places the State Bank of Czechoslovakia on the level of federal central authorities of state administration. This bank is not only central emmission bank with entreprenuerial aspects but it also proves the features of a federal central authority of state administration.

Art. 44

The evaluation of the property of the enterprise included inthe approved privatization project shall replace the evaluation of the non-monatery investment in the capital stock of the joint-stock company made by an authorized expert and required according to special rules of law[9].

Commentary :

The obligatory component of an approved privatization project is evaluation of the property of privatized enterprise. For practical reasons the Act states that in such a case the evaluation of non-monetary investment in the capital stock of a joint-stock company required by the existing Act No. 104/1990 Coll., on joint-stock companies is simultaneously replaced by the above mentioned evaluation.

Art. 45

(1) Except of the customary management[10] the enterprises cannot conclude contracts on the transfer of ownership to which they have the right of management, and cannot dispose of their proprietary participations in the entrepreneurial activities of juristic persons nor establish the same.

(2) Exception from the provision of Par. 1 hereof can be approved by the competent Government in justified cases. The approved exception shall replace the approval according to special rules of law[6].

(3) The state proprietary participations in the entrepreneurial activity of juristic persons can be disposed of only in accordance with the approved privatization project of the participation.

(4) The provisions of Par. 1 and 2 hereof shall not be applicable to juristic persons specified in Art. 1, Par. 2 hereof and to organizations financed or substituted from state budget.

Commentary :

The provision of Art. 45, Par. 1 and 2 replaces in principle the existing legal measure No. 364/1990 Coll., on the disposal of property entrusted to the care of state enterprise.

The sence of this revision is to prevent the escape of the property which has to be privatized according to this Act.

What has to be understood as transfer of property standing apart from customary management is specified by the Economic Code (Act No. 109/1964 Coll., in the wording of subsequent rules of law - compare particularly with Art. 68 of the Code).

From this legal arrangement the organizations of foreign trade referred to in Art. 1, Par. 2 hereof and the organizations financed or substituted from state budget are excluded.

Art. 46

(1) Legal relations of the Funds of the Republics, their activity and kinds of use of their property shall be specified by Acts of National Councils which shall also specify in which cases the property of the Funds of the Republics can be used for other purposes than for the privatization.

(2) The Government of the Czech and Slovak Federative Republic in the agreement with the Governments of the Republics shall specify, by an Ordinance the way of the coupons' issuance,

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9) The Act. No. 104/1990, Coll., on joint-stock companies.

10) The Act. No. 109/1964, Coll., Economic Code, in the wording of subsequent rules of law.

various coupons' types, the purchase price of the coupons, the way of the specification of the extent of the claim for shares and the way of the use of the coupons.

Commentary :

The provision of Art. 46 includes indispensable powers both for passage of Acts of National Councils and for Decree of the Government of the ČSFR which shall be important procedural regulations for the performance of coupons method.

Art. 47

(1) In case that the ownership to the privatized property or to its part has been dispossessed in the way specified in Art. 2, Par. 3 of the Act No. 87/1991 Coll., on out-of-court rehabilitations, a legal claim shall originate in accordance with the mentioned Act in favour of the legitimate persons; the way of settlement of the claim shall be specified by the privatization project concerning that property.

(2) The legitimate person shall apply his claim with the authority competent according to Art. 10, Par. 1 hereof for the approval of the privatization project within 6 months from the date on which this Act has come into effect, orherwise the claim shall become extinct; at the same time the legitimate person shall notify this authority of the enterprise possessing the goods. The competent Fund of National Property shall settle the claim according to Par. 1 hereof in accordance with the time schedule of the implementation of the privatization project, however at the latest within one year from the date of the approval of the privatization project.

(3) In other respect, the provisions of the Act No. 87/1991 Coll. on the out-of-court rehabilitations shall be applied adequately for

the specification of the extent, way of application and settlement of the claim under Par. 1 and 2 hereof.

Commentary :

In Art. 47 it was necessary to solve the relation of the "Large Privatization Act" to the Act on out-of-court rehabilitations.

According to Art. 2, Par. 3 of the Act No. 87/1991 Coll., on out-of-court rehabilitations the persons are entitled to rehabilitation whose property has been nationalized in accordance with the provisions on nationalization of the years 1945 to 1948 without compensation. The claims of these persons shall be settled within the privatization project.

The claim shall be applied with the Federal Ministry of Finance or with respective authority of state administration of National Property and Its Privatization) by October 1, 1991, while these authorities must be simultaneously notified which enterprise holds the goods.

For the settlement the respective provisions of the Act on out-of-court rehabilitations shall be applied.

Art. 48

The following rules of law are hereby repealed :

1. Art. 28 of the Act No. 111/1990 Coll., on state enterprise.
2. Legal Measure No. 364/1990 Coll., on the disposal of the property entrusted to the state enterprise.

Commentary :

The derogation clause abolishes, apart from the already quoted legal measure No. 364/1990 Coll. (which has been replaced by the provision of Art. 45 of this Act), also Art. 28 of the Act on state enterprise, enclosing transformatory provisions which are replaced by the "Large Privatization Act" by its own provisions.

Art. 49

This Act shall come into effect as of April 1, 1991.

Prague, March 8, 1991.

Appendix 3

Draft Commercial Code

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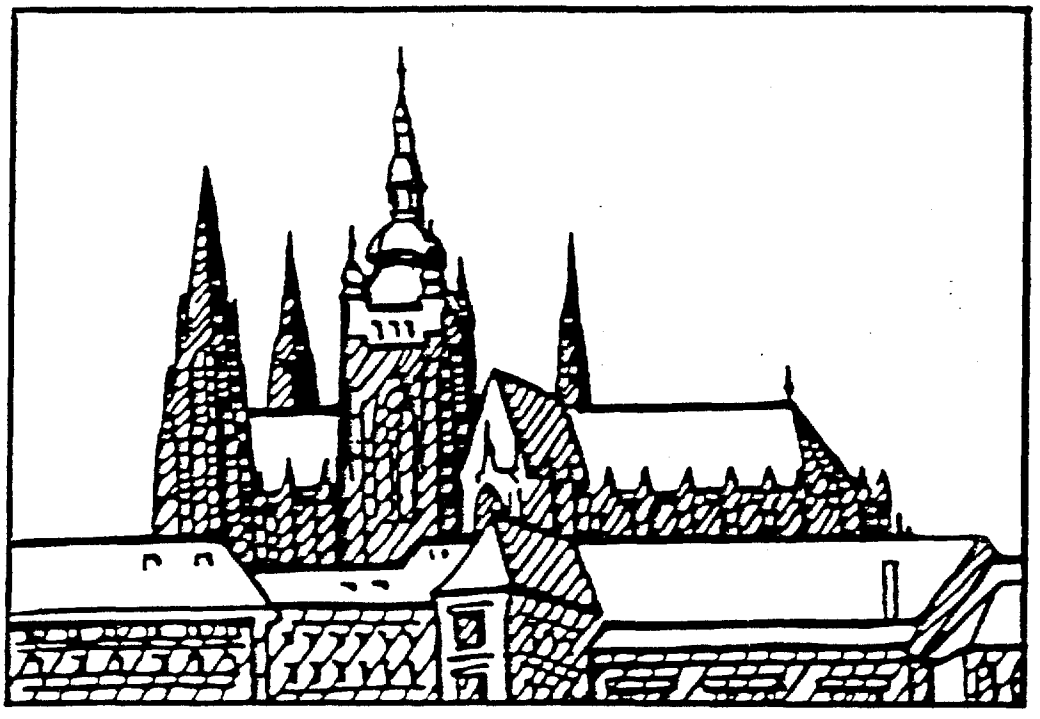

DRAFT COMMERCIAL CODE

Busines Companies and Co-operatives

FINAL VERSION OF
SECTIONS GOVERNING
JOINT STOCK COMPANIES

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THE DRAFT COMMERCIAL CODE

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THE DRAFT COMMERCIAL CODE

Czechoslovakia is starting to transform its state-owned enterprises into private companies. In addition, private businesses, albeit small, are emerging in great numbers. It is, therefore, important to provide both Czechoslovak and foreign entrerpreneurs and companies with one piece of legislation - the Commercial Code - on business companies and business transactions.

It is envisaged that 755 Articles of the new Commercial Code will replace some 80 Acts, Decrees and Regulations; among them:

- the Economic Code,
- the Joint Venture Act,
- the International Trade Code and
- the Joint-Stock Companies Act.

The draft Commercial Code also includes provisions on protecting the rights of foreign persons in Czechoslovakia. There is no reason to expect that Czechoslovakia would not honour such obligations. Czechoslovakia would like to enter the EC later in the 1990s, and the Czechoslovak market is in need of western investements, technology and marketing skills.

The draft Commercial Code should be adopted later this year so that it could be in effect from 1 January 1992. The following commentary provides information about the types of business companies included in the draft Commercial Code; other aspects of the Commercial Code will be dealt with in another publication.

A Brief Commentary on Business Companies and Co-operatives according to the Draft Commercial Code

The draft Commercial Code envisages the existence of the following types of business companies:

- **general commercial partnerships**
- **limited partnerships**
- **private limited companies**
- **joint-stock companies**

In addition to the above mentioned business companies, **co-operatives** may also be established.

1/ A General Commercial Partnership

in Czech "veřejná obchodni společnost",
in German "offene Handelsgesellschaft",
the relevant provisions are contained in Articles 76 to 92 of the draft Commercial Code.

It should be noted that the Czech designation "veřejná obchodní společnost" is misleading; it may be translated literally as "public trading company". This designation was already used in the amended Economic Code No. 103/1990 Coll., which is now in effect.

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The business name of a general commercial partnership must include the designation "veřejná obchodní společnost", or the abbreviation "veř. obchod. spol.", or "v. o. s.", unless the firm's name contains at least one surname of the partners, in which case it is sufficient to add "a spol." ("and Partners").

A general commercial partnership may be founded both by individuals ("natural persons") and legal entities. It must have no fewer that two partners; that is how the partnership, inter alia, differs from a limited liability company and a joint-stock company, both of which may exceptionally be established by one person (see further).

Each partner in a general commercial partnership is liable for the debts of the partnership and the business actions of the other partners with all his property. All partners are equal and are entitled to manage the business of the partnership; they may, however, authorize one or more partners to manage the firm.

Profits earmarked for distribution, or losses, are equally divided among the partners, unless their partnership contract stipulates otherwise. The consent of all the existing partners is required for any amendment of their partnership contract. The partners must not compete with their firm.

A general commercial partnership is entered in the Companies Register and is considered a separate legal entity (a company) under Czechoslovak law.

A general commercial partnership is dissolved on the death of one of the partners. The partnership contract may, however, specify that a deceased partner will be succeeded by his heir, in which case the partnership will continue to exist.

In the event of the dissolution and liquidation of a partnership, the liquidation balance will be used to repay the partners' investments in the firm, and afterwards, the residual sum will be equally distributed among the partners

2/ A Limited Partnership

in Czech "komanditní společnost",
in German "Kommanditgesellschaft";
Articles 93 to 104 of the draft Commercial Code stipulate the provisions on a limited partnership.

A limited partnership consists of two categories of partners:

- one or more general partners ("komplementáři") with unlimited liability for the obligations of the firm, and
- one or more limited partners ("komandisté"), whose liability is limited to the amount of their investments into the partnership.

Both an individual (a natural person) and a legal entity may become partners in a limited partnership.

A limited partnership is entered in the Companies Register and thus becomes a legal entity. Should the business name of the limited partnership include the name of a limited partner, this partner will bear liability for the partnership's obligations as a general partner. The business name of the limited partnership must include the designation "komanditní společnost", or the abbreviation "kom. spol.", or "k. s.".

Only a general partner or general partners may manage, and act on behalf of, the limited partnership. The general partners have the last word in just about everything. The are,

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therefore, subject to the ban on competitive conduct, which does not apply to the limited partners, unless the partnership contract so requires.

The profits of a limited partnership are divided into two parts: one owed to the general partners, the other to the limited partners; the ratio is stipulated in their partnership contract. The part owed to the general partners is distributed among them equally, whereas the distribution of the profits among the limited partners is proportionate to their investments into the partnership. The partnership contract may specify a different manner of profit distribution

If the participation of all limited partners is terminated, the general partners may agree to transform the limited partnership into a general commercial partnership without liquidation.

In the case that a limited partnership is dissolved and its dissolution is connected with its liquidation, every partner's investment in the partnership will be refunded from the liquidation balance. Should the liquidation balance not suffice to cover all the partners' entitlements, then the limited partners will have a preferential right to have their invested amounts repaid. If all the partners' deposits into the firm have been refunded, the residual part of the liquidation balance will be distributed among them in the same ratio as the profits

3/ A Private Limited Company

in Czech "společnost s ručením omezeným",
in German "Gesellschaft mit beschrankter Haftung";
the relevant provisions are contained in Articles 105 - 153 of the draft Commercial Code.

A private limited company may be established either by individuals or legal entities. The liability of the company's members for their company's obligations will be limited to their investments into the company

The business name of a Czechoslovak private limited company must include the designation "společnost s ručením omezeným", or the abbreviation "spol. s r. o.", or "s. r. o."

The registered capital (basic capital) of a private limited company is made up of agreed deposits invested into the company by its members. A limited liability company in Czechoslovakia may be founded by one person (unlike in the UK). The maximum number of members of a limited liability company is 50. The minimum amount of the company's registered capital is 100,000 Czechoslovak crowns (about 3,330 US dollars), and a member's investment into the company may not be less than 20,000 crowns (about 665 US dollars)

The amount of the individual members' proposed investment deposits may differ, provided that such amounts are divisible by 1,000 without remainder. If investments in kind are provided, the Memorandum of Association must include the object of such an investment the method of determining its value, as well as the agreed-upon amount to be included as a member's deposit into the company.

The Memorandum of Association must at least provide the following data:

- the business name and the seat of the company,
- the business name (name) and the seat (addresses) of the company's members,

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- the scope of activities,
- the amount of the registered capital, and the amount of each member's deposit into the company when the company is established,
- the name of the company's first executives and the manner in which they will represent the company,
- the names of the members of the first Supervisory Board, if established.

The Memorandum of Association may also stipulate that the Articles of Association will be issued and provide details of the company's internal organisation.

Prior to submitting a petition on the company's entry into the Companies Register, every pledged investment into the company must be paid up to no less than 30 per cent, and the total of the paid-up investment deposits must be no less than 50,000 crowns (about 1,670 US dollars). The petition must be signed by all the company's executives. If the company is established by one founder, then the registered capital must be fully paid prior to entering the company in the Companies Register.

A member is obliged to pay his investment deposit into the company under the conditions and within any deadlines set by the Memorandum of Association or the Articles of Association, however, within five years from joining the company at the latest During the existence of the company, its members may not demand to have their deposits returned.

A member, who has not paid his monetary deposit within the stipulated deadline, will have to pay annual interest of 20 per cent of the sum in arrears. If such a member does not fulfil his duty to pay the outstanding amount within an additional period of no less than three months, he may be expelled from the company.

The rights and duties of a member and his corresponding participation in the company are determined by the member's "commercial quotient", which is calculated as the ratio of his investment in the company and the total company's basic capital (§ 114). If the Memorandum of Association so permits, a member may transfer his commercial quotient to another party - subject to approval by the General Meeting On the death of a member, his commercial quotient will be transferred to his heir. The company is not permitted to acquire its own commercial quotients.

Members exercise their rights to manage and supervise company activities by participating in the General Meeting, which is the highest body of the company. The General Meeting is convened at least once a year. It approves the annual financial statement and the distribution of the profits (or the cover of the losses), approves or amends the Memorandum of Association and the Articles of Association, appoints and recalls company executives, expels members of the company, if need be, and may decide about the company's winding-up

The General Meeting rules by a simple majority of votes of the members who are present; a two-thirds' majority of votes is required for certain decisions.

Executives are appointed from among company members or other individuals by the General Meeting. The executives take decisions by majority vote. They are subject to the ban on competitive conduct.

If the company has more than twenty members, it will establish its Supervisory Board, which will be comprised of no less than three persons. The board will supervise executives' activities, and inspect business documents and the annual financial statement.

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Each member of the company is entitled to a part of the profits, proportionate to his paid up investment deposit into the company. The profits for distribution among company members may not be drawn from the financial means which make up part of the registered capital, from the financial means of the reserve fund, or from the financial means for supplementing the reserve fund.

In the case of losses, the General Meeting can be entitled to require company members to cover them in an amount of up to fifty per cent of the company's registered capital.

The company may be wound-up either by a court ruling, by a resolution of the General Meeting or for a reason stipulated in the Memorandum of Association. Prior to liquidation, the General Meeting will appoint a liquidator. Every member is entitled to receive a portion of the liquidation balance, in proportion to his paid-up investment into the company.

4/ A Joint-Stock Company

in Czech "akciová společnost",
in German "Aktiengesellschaft";
the relevant provisions are contained in Articles 154-220 of the draft Commercial Code.

A joint-stock company is a company whose capital stock is divided into a certain number of shares of a certain nominal value. A joint-stock company may be established by one founder, provided that the founder is a legal entity; otherwise by two or more persons. The company is liable with its entire property for a breach of its obligations; the shareholder does not bear liability for the obligations of the company.

The value of the company's capital stock may not be less than ~~100,000~~ 1,000,000 crowns (about 33,330 ~~3,330~~ US dollars). Unlike the Economic Code of 1990, the draft Commercial Code does not stipulate the minimum value of one share in order to facilitate the large-scale privatisation of state-owned property.

The business name of a joint-stock company must include the designation "akciová společnost", or the abbreviation "a.s." or "akc. spol."

If a joint-stock company is established by one founder (i.e. by a legal entity), the founder will prepare a Founder's Deed; if a joint-stock company is established by two or more persons, they will draw up a Founding Contract, which must include:

- the business name, the seat of the company and its business activities,
- the proposed amount of the capital stock,
- the number of shares and their nominal value, if shares of different classes are to be issued, then also their designation, and a specification of the rights attached to them,
- the subscribed deposits of individual founders,
- details of nonmonetary investments and their appraisal.

Should a joint-stock company be founded on the basis of a call to subscribe shares, then the Founding Contract must also specify:

- the place and timing of share subscription,
- the procedure to be adopted in the case of a higher subscription (i.e. if shares are subscribed in excess of the proposed capital stock),
- the place to pay for parts of subscribed shares and the the relevant amounts,
- the procedure for convening the Constituent General Meeting of subscribers.

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A call to subscribers must be properly publicized. Subscribers will pay at least 30 per cent of the nominal value of the subscribed shares prior to the company's entry into the Companies Register; they will be given a certificate of their deposits.

The Constituent General Meeting will be held within 60 days from the last successful subscription of shares. Such a meeting will constitute a quorum, if attended by subscribers representing at least one half of the subscribed shares. The meeting will decide on the company's founding, approve the Articles of Association and elect company bodies.

Upon the entry of a joint-stock company in the Companies Register, the company will issue interim certificates to its subscribers. An interim certificate is a security issued in the name of the holder. It will be exchanged for a share or shares when the nominal value of such a share or shares has been paid.

A share is a security giving a shareholder the right to participate in the company's management, in the profits and in the liquidation balance, should the company be wound-up.

Shares of different classes and of different values may be issued. A share may either be registered in the name of the shareholder, or it may be a bearer share. A bearer share is freely transferable by being handed over. A registered share is transferable by an endorsement and by passing the share over. The company will keep a list of shareholders having registered shares.

The company may decide to issue employee shares; these will be in the form of registered shares. The total amount of employee shares WITH LIABILITY TO PAYMENT must not exceed 10 per cent of the capital stock. Employee shares may be transferred only among current and retired employees of the company.

The company may also issue preference shares - with preference rights concerning dividends. The total nominal value of preference shares may not exceed 50 per cent of the capital stock.

It is further permitted to issue debentures of up to 50 per cent of the company's capital stock. The debentures may have certain rights attached to them, e.g. the right to demand the issue of shares at a specified time, or the right to the pre-purchase of shares for the nominal value designated on the debentures. Otherwise, on the expiration of a specified term, the debentures will be redeemed for a stipulated amount and agreed-upon proceeds. It is important to note that the issue of debentures does not increase the company's capital stock, and debentures do not carry shareholders' rights.

The highest body of a joint-stock company is its General Meeting consisting of all present shareholders. A General Meeting is convened at least once a year. It will constitute a quorum if shareholders, who have subscribed no less than 30 per cent of the capital stock, are present. Decisions are taken by a majority vote, unless the Commercial Code, or the Articles of Association, require another majority.

The General Meeting is authorized:

- to amend the Articles of Association,
- to elect and recall members of the Board of Directors (unless these are elected by the Supervisory Board),
- to elect and recall members of the Supervisory Board and other company bodies,
- to approve the annual financial statement and the distribution of profits,
- to decide on the winding-up of the company and other matters.
- to decide on increase and decrease of capital stock and issue of debentures

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The General Meeting elects a Chairman, a minutes clerk, two persons to verify the minutes and persons to count the votes cast.

A joint-stock company is managed and represented by its Board of Directors, who are elected to their office for no longer than 5 years. The Board of Directors will have no fewer than 3 members. ~~Should a company employ more than 50 employees, then at least one member of the Board of Directors will be elected from among the employees' ranks.~~ Members of the Board elect the Chairman.

The activities of the Board of Directors and of the company are supervised by the Supervisory Board, consisting of no fewer than 3 members, elected for a maximum period of 5 years. Two-thirds of the Supervisory Board members are elected by the General Meeting and one third by the employees, provided that there are more than 50 full-time employees at the time of election.

The joint-stock company will regulate further details in its Articles of Association, approved by the General Meeting.

The only obligatory fund, which a joint-stock company must form on its founding, is a reserve fund that will be supplemented annually from the company's profits.

The General Meeting of a joint-stock company may decide - by a two-thirds' majority of votes - about the increase or the reduction of its capital stock. Such a change must be properly recorded in the Companies Register.

The General Meeting may also decide about the winding-up of the company. Should such a decision be taken, the General Meeting will also appoint a liquidator. After satisfying all creditors' claims, the company's liquidation balance will be distributed among its shareholders in proportion to paid parts of the nominal value of their shares.

In addition to business companies, co-operatives may also be engaged in business activities.

5/ A Co-operative

in Czech "družstvo"

the relevant provisions are included in Articles 221 to 260 of the draft Commercial Code.

A co-operative associates a number of members and is established to undertake business activities, or to satisfy the economic, social or other requirements of its members.

A co-operative must have no less than 5 members; this does not apply, if at least 2 members are legal entities.

The business name of a co-operative includes the designation "družstvo". A co-operative is a legal entity and is entered into the Companies Register. The co-operative is liable for a breach of its obligations with all its property; members of the co-operative do not bear liability for the co-operative's obligations.

The basic capital of a co-operative is the total of all the members' deposits, which the members have undertaken to pay. The condition for membership in a co-operative is the payment of a membership deposit, either in full (the basic membership deposit), or in part (the entry deposit). Membership rights and obligations may be transferred to another member of the co-operative, unless the co-operative's statutes provide otherwise.

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A co-operative is founded at its constituent members' meeting, which will determine the amount of the registered basic capital, will approve the statutes, will elect the Board of the Co-operative and the Auditing Commission.

The total of the paid membership deposits must amount to no less than one half of the registered basic capital prior to the registration of the co-operative.

The bodies of a co-operative are:

- the meeting of the co-operative members,
- the Board,
- the Auditing Commission.

The highest body of a co-operative will be a meeting of its members, convened at least once a year. Its authority is similar to that of a General Meeting of a joint-stock company.

The activities of a co-operative will be managed by the Board, headed by the Chairman, and supervised by the Auditing Commission. Members of the first co-operative bodies, established after the foundation of a co-operative, may be elected for no more than 3 years, otherwise the term of office is up to 5 years.

A co-operative with fewer than 50 members may stipulate in its statutes that the activities of both the Board and the Auditing Commission will be fulfilled by the members' meeting.

A co-operative may be abolished by a resolution of the members' meeting, a declaration of bankruptcy, by a court ruling, or by the expiration of the period, for which the co-operative was established. A co-operative will officially cease to exist when struck off the Companies Register.

Establishing and running a company in Czechoslovakia is a challenge. It does require a persevering person, ready to overcome everyday problems. Business opportunities are, however, numerous. Good luck!

Dr Radko Resch
Zuzana Pošustová

18 October 1991

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THE DRAFT COMMERCIAL CODE
PART TWO
BUSINESS COMPANIES AND CO-OPERATIVES

Chapter I
Business Companies

General Provisions

§ 56

(1) A business company (hereinafter referred to as a "company") shall be a legal entity (a legal person) founded for the purpose of undertaking business activities. Companies may take the following forms: a general commercial partnership (i.e. an unlimited liability company), a limited partnership, a limited liability company and a joint-stock company. A limited liability company and a joint-stock company may also be established for other purposes, unless prohibited by a special Act.

(2) Natural persons as well as legal entities may become founders of a company and participate in its business activities, unless this Code stipulates otherwise.

(3) A minimum number of two founders shall be required to establish a company, unless otherwise stipulated by this Code.

(4) A natural person or a legal person (a legal entity) may become a partner with unlimited liability only in one company (partnership).

(5) Provisions concerning different forms of companies shall stipulate the extent of the partners' liability for their company's obligations. Provisions on liability (Article 303 and the following Articles) shall apply to the partners' liability unless other provisions of this Code specify otherwise.

(6) The partnes shall maintain liability for their company's obligations after the company has ceased to exit - and to the same extent as they did during the company's existence.

§ 57

(1) A company shall be founded on the basis of a Memorandum of Association (a partnership contract) signed by every founder, unless other provisions of this Code stipulate differently. The founders' signatures must be officially authenticated.

(2) The Memorandum of Association (the partnership contract) may also be signed for a founder by a person authorized to do so by the said founder. The power of attorney - with an officially authenticated signature of the founder - shall be enclosed with the Memorandum of Association (the partnership contract).

(3) When this Code permits the establishment of a company by a single person, the Memorandum of Association (the partnership contract) shall be substituted by a Founder's Deed in the form of a notarial record, unless stipulated otherwise by law. The Founder's Deed shall require the same necessary items as the Memorandum of Association (the partnership contract).

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§58

Initial Assets (Basic Capital)

(1) A company's initial assets shall be the total of its partners' monetary and non-monetary investments into the company.

(2) It shall be obligatory both for limited liability companies and joint-stock companies to deposit initial assets. The amount of the initial assets shall be entered into the Companies Register

Each Partner's Investment

§59

(1) A total of financial and other assets, whose values may be expressed in monetary terms, and which the partner has pledged to invest into the company, shall constitute each partner's investment into the company. Such investments shall entitle the partner to share in the proceeds of the company's business activities.

(2) Should part of the initial assets of a company comprise non-monetary investments, the Memorandum of Association (the partnership contract or the Founder's Deed) shall also stipulate the manner of assessing such investments, unless otherwise determined by law.

(3) Should an enterprise or its part be invested into a company, provisions on the transfer of rights and obligations concerning the contract of sale of the enterprise shall be applicable.

(4) Should an investment or its part take the form of the transfer of a claim, provisions on the claim transfer shall be appropriately applicable.

§60

(1) Prior to a company's registration, the founder - entrusted to do so in the Memorandum of Association (the partnership contract) – shall oversee the deposits of the money. The company shall acquire ownership rights to such investments starting on the day of the company's registration. Provisions on the transfer of ownership rights to real estate shall not be hereby affected.

(2) After the company's registration, the person in charge of the monetary investments shall be obliged to pass these amounts to the company without any undue delay. Should a company fail to be founded, the person in charge of the monetary investments shall be obliged to return them. The other founders shall bear liability for the fulfilment of this obligation jointly and severally.

(3) Should the value of a non-monetary investment not reach the originally agreed-upon amount by the time of the company's registration, the company may demand the payment of the difference in cash, unless the Memorandum of Association (the partnership contract) stipulates otherwise

§61

Partners' Shares of a Company's Property

(1) The shares of a company's property shall determine the extent of a partner's share in its net assets.

(2) When a partner terminates his share in a company's property while the company continues to exist, the said partner shall be entitled to reimbursement of his property share. The amount to be paid to the said partner shall be determined on the basis of the annual

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financial statement for the period in which the said partner's property share has been terminated. The reimbursement shall be paid in cash, unless otherwise stipulated by law, the Memorandum of Association (the partnership contract) or the Articles of Association the statutes).

(3) The settlement amount to be reimbursed to a withdrawing partner shall be payable three months after the approval of the annual financial statement, unless the Memorandum of Association (the partnership contract) or the Articles of Association (the statutes) stipulate otherwise.

(4) Should the company be dissolved and the company's dissolution be connected with its liquidation, a partner in the company shall be entitled to receive an amount - proportionate to his property share - from the liquidation balance.

§ 62

Company Formation

(1) A company shall be formed as such on the day on which it has been entered in the Companies Register. An application for registration must be submitted within ninety days after the company has been started. The court may forgive non-compliance with this deadline.

(2) A company shall be established for an unlimited period of time, unless it is explicitly specified that the company is established for a definite period of time.

§ 63

All legal actions which concern the establishment, registration, modification, dissolution (winding-up) or the termination of a company must be recorded in writing; the law stipulates which legal actions shall require the form of a notarial record.

§ 64

(1) Until the company is registered, its founders - or one of them – shall act on behalf of the company in matters related to the company's formation, unless this Code or special regulations stipulate otherwise.

(2) Until the day of a company's registration, its founders shall bear joint and several liability for the obligations which any, or all, of the company's founders have entered into on behalf of the company.

(3) Obligations referred to in paragraph 1 above shall be assumed by the company at the moment of its registration, unless the company refuses to assume such obligations within three months.

§ 65

The Ban on Competitive Conduct

(1) Provisions concerning different types of companies shall determine which persons, and to what extent, shall be subject to the ban on competitive conduct.

(2) A company shall be entitled to demand that any person, who has infringed upon this ban, shall relinquish any profit made from a business transaction that resulted from a breach of this ban, or to transfer the rights ensuing from such a transaction, to the company. This shall not affect the company's right to indemnity.

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(3) The company's rights ensuing from paragraph 2 above shall become null and void unless these rights shall be applied within three months from the day, on which the company learned of this fact, or within one year at the latest from the time that the infringement of the ban occurred.

§66

(1) Persons, who are members of a company's statutory bodies or other bodies, may resign from their posts; however, they shall be obliged to notify the bodies, whose members they are, or the body that elected (appointed) them to the post, from which they are resigning. Their performance of their duties shall end on the day, upon which the body that elected (appointed) them discusses or should discuss their resignation, unless the Memorandum of Association (the partnership contract) or the Articles of Association (the statutes) stipulate otherwise. The body shall be obliged to discuss such persons' resignation at the next meeting after having been informed of the resignation, unless the Memorandum of Association (the partnership contract) or the Articles of Association (the statutes) provide otherwise.

(2) The relations between the company on one side and a member of its statutory or another body on the other side, shall be appropriately governed by the provisions on the mandate agreement, unless a mutual contract (agreement) or other provisions of this Code stipulate otherwise.

(3) Unless the Articles of Association (the statutes) or the Memorandum of Association (the partnership contract) stipulate otherwise, the statutory and other bodies may pass resolutions only if over half of their members attend the meeting. The Chairman's vote shall be decisive in the event of a draw. The Articles of Association (the statutes) or the Memorandum of Association (the partnership contract) may permit voting in writing or by another means of communication if this is agreed upon by all members of the body concerned. The voting members shall be then regarded as present at the meeting.

§67

The Reserve Fund

(1) Should this Code require the establishment of a reserve fund, the fund may only be used to cover the company's losses or to take measures that would ease an unfavourable financial situation of the company.

(2) The reserve fund shall take the form of financial means deposited in a bank account, or of property values that can be quickly liquidated.

(3) The company's profits may only be determined after supplementing the reserve fund in accordance with this Code, the Memorandum of Association (the partnership contract) or the Articles of Association (the statutes).

§68

The Winding-Up and Termination of a Company

(1) A business company shall cease to exist on the day it is struck off the Companies Register.

(2) The company's abolishment shall be preceded by its winding up, either connected with the company's liquidation or without its liquidation; the latter shall be applicable only if the company's assets and liabilities are transferred to its legal successor.

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(3) A company shall be wound-up:
(a) upon the expiration of the period of time, for which it was established;
(b) on attaining the purpose, for which it was established;
(c) on the date, which a resolution of the partners, or an appropriate company's body, has stipulated as the final day; otherwise on the date upon which such a resolution was adopted;
(d) on the date given in a court's ruling for the company's winding-up; otherwise, on the date upon which a court's ruling shall become effective;
(e) by a resolution of the company's partners or a company's authorized body on merging or dividing the company or by its transformation into another form of business company or a co-operative;
(f) by declaring bankruptcy proceedings or rejecting a proposal for bankruptcy proceedings due to lack of property.
(4) Should the scope of activities of the company's statutory body not be taken over by a liquidator or an administrator of the bankruptcy assets, after the company's dissolution, that body may carry on its activities only to the extent required for the company's liquidation.
(5) If a move to declare bankruptcy proceedings has been rejected for any reason other than a lack of company assets, the company shall not be considered wound-up. Should there be some assets left after the bankruptcy proceedings, the liquidation of the company shall be effected.
(6) Based on a petition from a state body or a person, who has proven his legal interest, the court may rule on the winding-up of a company or its liquidation in the following instances:
(a) in the case that no General Meeting has been held for two years, or in the case that no election to company bodies has taken place while the company bodies' terms of office have been expired for more than two years, or in the case that the company has not undertaken any activities for over two years;
(b) in the case that the company has lost its registration and cannot continue its business activities;
(c) in the case that the prerequisites mandated by law for the establishment of the company have ceased to exist.
(7) Prior to the adoption of a decision to wind-up a company, the court may set a term to enable the company in question to eliminate the reason for which the company's winding-up has been proposed.

§ 69

A Company's Winding-up without Liquidation

(1) Should a company be wound-up voluntarily, it may be simultaneously decided that it shall be transformed into another form of company or into a co-operative, or shall be merged with another company, or shall be divided. This shall not affect any limitations set by a special Act.
(2) In the case of a company's transformation, the hitherto existing company shall be wound-up without liquidation, if all the pre-requisites for the establishment of the successor company or co-operative are met on the day that the proposal for the hitherto existing company is submitted and the hitherto existing company is to be struck off the Companies

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Register. A proposal to enter a successor company or a successor co-operative into the Companies Register must be submitted simultaneously with the proposal to strike off the wound-up company. The Register Court shall strike off the wound-up company from the Companies Register and enter its successor company or co-operative in the Companies Register on the same day. Should the conditions for the entry of a successor company or co-operative not be met, the wound-up company shall be subject to liquidation.

(3) In the case of a wound-up company's transformation into a new company or co-operative, all the assets and liabilities of the wound-up company shall be transferred to its successor company or co-operative. The partners shall bear liability for the obligations of the wound-up company to the hitherto extent even after the establishment of its successor company or co-operative. The same shall apply in the case of a company's merger.

(4) In the case of a wound-up company's division, the assets, and liabilities of the wound-up company shall be transferred to its successor companies in a ratio to be stipulated by a resolution on the wound-up company's division.

(5) Each of the partners' investments into the wound-up company shall be considered as investments of the same amount into the new company or co-operative, unless the resolution concerning the division of the wound-up company stipulates otherwise.

Liquidation of a Company

§70

(1) Should all assets and liabilities of the company not have been transferred to its legal successor (§69), the liquidation shall be executed according to this Code, unless a special Act stipulates another manner of property settlement.

(2) A note about the company's liquidation shall be entered into the Companies Register. During the liquidation, the business name of the company shall be supplemented with the words "in liquidation"

(3) When a note about the company's liquidation is made in the Companies Register, the powers of the statutory body - entitled to act on behalf of the company - shall be transferred to a liquidator, whose name shall also be entered in the Companies Register. If several liquidators are appointed and their appointment does not specify otherwise, every liquidator shall have these powers.

(Translator's note: The draft Commercial Code uses the term "liquidator" and so does the Joint-Stock Companies Act No. 104/1990 Coll.; the Bankruptcy Act No. 329/1991 Coll. of 11 July 1991 uses the term "administrator".)

§71

(1) A liquidator shall be appointed by the company's statutory body, unless otherwise stipulated by law, the Memorandum of Association (the partnership contract), or the Articles of Association (the statutes). In the case that the statutory body has failed to appoint a liquidator without undue delay, a liqidator shall be appointed by the court. Only a natural person may become a liquidator.

(2) Should the company be liquidated on the basis of a court's ruling, then the court shall also appoint a liquidator.

(3) Should the liquidator become deceased, give up his powers or become unable to exercise them, a new liquidator shall be appointed in the same manner as his predecessor.

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The name of the new liquidator shall be entered in the Companies Register and replace that of his predecessor. The court shall appoint a new liquidator in the case that the body - entitled to do so according to paragraph 1 - has failed to appoint a new liquidator without undue delay.

(4) Irrespective of the manner of the liquidator's appointment, the court may recall the liquidator upon the proposal of a person, who has proven his legal interest in the matter, should the liquidator breach his duties. The court shall appoint another person to succeed the recalled liquidator.

(5) A liquidator shall be responsible for the performance of his office in the same manner as a member of a statutory body.

§ 72

(1) A liquidator shall undertake only those legal actions on behalf of the company, which are aimed at the company's liquidation. In exercising his duties, the liquidator shall settle the company's obligations, file claims and accept their fulfilment, represent the company before courts and other authorities, conclude conciliatory agreements and agreements concerning the change and the termination of the company's rights and obligations. He shall conclude new contracts only with respect to the termination of unsettled business deals.

(2) Should the liquidator ascertain that the company in liquidation is overburdened with debts, he shall propose to declare bankruptcy proceedings without any undue delay.

§ 73

The liquidator shall notify all the known creditors of the fact that the company is under liquidation. He shall also publicize the fact that the company is in liquidation together with a notice to the company's creditors, as well as to other persons and bodies concerned to file relevant claims, or apply other rights within a stipulated period of time which may not be shorter than three months

§ 74

The liquidator shall compile a balance sheet as of the initial day of the liquidation and shall be obliged to send a review of the company's assets and liabilities to every shareholder on request.

§ 75

(1) As of the final day of the liquidation, the liquidator shall submit for approval a financial statement to all shareholders. Simultaneously, the liquidator shall submit a report on the course of the liquidation and a proposal concerning the distribution of the residual liquidation assets (liquidation balance) among the shareholders.

(2) The liquidation balance may be used to meet the claims of the company's shareholders (partners) only after the claims of all known creditors have been settled.

(3) Should a dispute arise over a claim, the liquidation balance may only be distributed after the settlement of the said claim.

(4) Within thirty days after the end of the liquidation, the liquidator shall submit a petition to the Register Court for the company to be struck off the Companies Register.

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(5) Compensation for the liquidator shall be stipulated by the company's body, which has appointed him. In the case that the liquidator has been appointed by the court, then the court shall determine his compensation.

A General Commercial Partnership (Veřejná obchodní společnost)

General Provisions

§ 76

A general commercial partnership shall be a company in which at least two persons carry on business activities under a common business name and bear joint and several liability for obligations of the company with all their property.

(Translator's note: "veřejná obchodní společnost" is sometimes translated as a "public trading company" or a "public commercial company" which is misleading. "Veřejná obchodní společnost" is, in fact, an unlimited liability company, in German "offene Handelsgesellschaft", as ensues from the following provisions. It is a legal entity under Czechoslovak law.)

§ 77

The business name must include the designation "veřejná obchodní společnost" which may be substituted by the abbreviation "veř. obch. spol." or "v.o.s.". Should the business name include a surname of at least one of the partners, it shall be sufficient to add "a spol.".

§ 78

(1) The partnership contract shall include at least the following:
(a) the business name and the address of the general commercial partnership,
(b) the business name and the address of the partners,
(c) objects of the business activities.
(2) All the partners shall sign a proposal requesting that the company's name be placed in the Companies Register.

Partners' Rights and Duties

§ 79

(1) The partners' rights and duties shall be governed by the partnership contract. The provisions of § 80, paragraphs 2 and 3, and § 82 shall only apply should the partners' rights and duties not have been specified in the partnership contract in another manner.
(2) The consent of all partners shall be required for any amendment to the partnership contract.

§ 80

(1) The partners' monetary and capital investments shall become the property of the company. A partner shall be obliged to provide his promised investment within the period of time stipulated in the partnership contract (agreement), otherwise after the registration of the company without any undue delay.

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(2) A partner shall be liable to pay 20% interest on the unprovided amo[illegible] any part of his contribution is delayed.

(3) A partner shall not be obliged to increase his deposit above the amount specified in the partnership contract, nor to supplement this amount in the event of any company losses.

§ 81

(1) All the partners shall be entitled to manage the business of the company. In such a case, any decision would require the consent of all the partners.

(2) Should one or several partners be authorized by the other partners to manage the company fully or partly according to the partnership contract, the other partners shall relinquish their authority to manage the company to the same extent. The authorized partners shall be obliged to abide by the decisions made by a majority of the partners. Every partner shall have one vote, unless the partnership contract stipulates otherwise.

(3) The authorization of a partner may be waived if so agreed by the other partners, unless the partnership contract stipulates differently. Should an authorized partner breach his duties (§ 345, paragraph 2), the court shall withdraw his authorization upon a petition from any of the other partners, even if the authorization is irrevocable according to the partnership contract. In this case the provisions of paragraph 1 shall apply, until the partners agree upon a new authorization.

(4) The partner, who has been entrusted to manage the business matters of the company, shall be obliged to inform the other partners about all company matters upon request. Every partner shall be entitled to inspect the entirety of the company's documents.

§ 82

(1) Profits designated for distribution shall be divided among the partners in equal proportions. The distribution of profits shall be based upon the annual financial statement and the profits shall be payable within three months from the day of the approval of the annual financial statement.

(2) If the profits are divided among the partners equally, the partners shall be entitled to receive interest on the amounts of their deposits according to the interest rate determined by § 502. The entitlement to receive interest on deposits shall exist even if the annual financial statement reveals a loss, and shall have priority over the entitlements that ensue from the provisions of paragraph 1 above.

(3) The partners shall bear equally any loss ascertained from the approved annual financial statement.

§ 83

Another partner may join the partnership, or a partner may leave it, provided that the partnership contract is amended accordingly and that at least two partners remain in the company.

§ 84

The Ban on Competitive Conduct

A partner shall not be allowed to engage in outside business activities in the scope of his partnership's business without obtaining the consent of his other partners, not even to

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the benefit of other persons. The partnership contract may regulate the ban on competitive conduct otherwise.

Legal Relations to Third Persons

§85

Each partner of a general commercial partnership shall be considered a statutory body, unless the partnership contract stipulates that all partners shall act jointly.

Partners' Liabilities

§86

A general commercial partnership shall bear liability for all its obligations with all its property. The company's partners shall bear joint and several liability for the company's obligations with all their entire property.

§87

(1) Any partner, who should join the company later, shall be liable for all the company's obligations, which arose prior to his association. Should such a partner fulfil the company's obligations, which arose prior to his joining the company, he may demand compensation from the other partners and redemption of related costs.
(2) Should a partner terminate his association with the partnership during the company's existence, the said partner shall maintain liability only for obligations, which arose prior to the termination of his partnership

Dissolution and Liquidation of the Company

§88

(1) In addition to the instances stipulated in § 68, a company may also be dissolved in the following cases:
(a) by a notice of withdrawal submitted by a partner no later than six months before the end of the calendar year, if the partnership contract has been signed for an unlimited period of time, unless stipulated otherwise in the partnership contract,
(b) by a court ruling according to the provisions of § 90,
(c) by the death of one of the partners, unless the partnership contract enables an heir to become a partner and the heir agrees to participate in the company and at least two partners remain in the company,
(d) by winding-up a legal entity which is a partner in the company,
(e) by declaring bankruptcy proceedings concerning one of the partner's properties,
(f) by depriving or limiting one partner's legal capability to enter into legal acts,
(g) for other reasons stipulated in the partnership contract.
(2) If the reasons for the dissolution of the company correspond to those specified in paragraph 1, letters (a), (b), (c), (d), (e) and (f), the remaining partners may decide to amend the company's partnership contract and continue with the company's business without that partner's participation.

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§ 89

In instances specified in § 88, paragraph 2, the former partner or his heir, or the former partner's legal successor may claim a proportionate part in the partnership's property. The amount shall be calculated by the same method as the proportionate share in the liquidation balance (§ 92)

§ 90

The court may dissolve a company based upon the petition of a partner, if it is proven that another partner has substantially breached the partnership contract.

§ 91

(1) Should the company not be dissolved as a result of one partner's death, his heir may apply his rights to succeed him in the company within one month after the inheritance proceedings have been completed. By doing so, the heir shall take over the rights and obligations of the deceased partner as of the day of the deceased partner's death. The heir's claim to participate in the company must be submitted in writing and the heir's signature must be officially authenticated

(2) An heir, who has not claimed his right to participate in the company, shall be entitled to payment in the form of a proportionate settlement share of the partnership's property according to § 89

(3) The provisions of paragraphs 1 and 2 shall apply appropriately, if the deceased partner's share is inherited by several heirs, provided that the rights stipulated in these provisions apply to each heir and his or her participation. The deceased partner's share in the company's property shall be divided among his heirs in the same ratio as applicable to other inheritances. The heirs, who do not want to participate in the partnership's business, shall be compensated with the appropriate proportion of the deceased partner's share, which they have inherited. The heirs, who inform the company of their wish to participate in the company, shall become the company's partners. Their share shall be determined according to the size of the deceased partner's share in the company and according to the heir's proportion of the inheritance

§ 92

(1) In the case of a partnership's dissolution connected with liquidation, the partners shall be entitled to a proportionate share of the liquidation balance. The liquidation balance shall be first distributed among the partners - proportionately to their deposits in the company. Afterwards, the residual liquidation balance shall be distributed equally among the partners.

(2) Should the liquidation balance be insufficient to redeem all the partners' invested deposits, the liquidation balance shall be divided among the partners in a proportionate manner based on the ratio of their deposits

(3) The partnership contract may stipulate that the liquidation balance shall be distributed in another manner

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(2) Should the liquidation balance not suffice for distribution according to paragraph 1, it shall be distributed among the partners according to the same method as the distribution of profits.
(3) The Memorandum of Association may stipulate another procedure for the distribution of the liquidation balance.

A Limited Liability Company (Společnost s ručením omezeným)

General Provisions

§ 105

(1) A limited liability company shall be a company whose registered capital (basic capital) shall be made up of agreed deposits invested into the company by its members.
(2) A limited liability company may be founded by one person.
(3) The maximum number of members of a limited liability company shall be 50 (fifty).

§ 106

The company shall be liable for any breach of its obligations with its entire property. Each member's liability for the company's obligations shall be limited to the amount of his investment deposit into the company - as entered in the Companies Register. A payment made by a member on behalf of his limited liability company - as a result of his liability - shall be included into the amount of his investment deposit into the company, or the member may require a refund from the company. Should the member fail to receive the refund from the company, he may demand the refund from all of the other members - up to the amount of their shares in the company's registered capital.

§ 107

The company's business name shall include the designation "společnost s ručením omezenym", or the abbreviation "spol. s r.o.", or "s.r.o.".

§ 108

(1) The minimum amount of the company's registered capital shall be 100,000 (one-hundred-thousand) Czechoslovak crowns.
(2) A company's claim to the unpaid part of a member's proposed investment deposit and a member's claim against his company shall not be mutually creditable - with the exception of a claim according to § 106.

(Translator's note: 100,000 Czechoslovak crowns is about 3,330 US dollars.)

§ 109

(1) The amount of a member's investment deposit into the company shall never be less than 20,000 Czechoslovak crowns.
(2) Each member may take part in the company's founding with only one investment deposit. The amounts of individual members' investment deposits may differ, provided that such amounts are divisible by 1,000 without remainder. The total amount of all individual

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investments deposits into the company must correspond to the total amount of the company's registered capital.

(3) Should non-monetary investments be provided, the Memorandum of Association must include the object of such investment, the method of determining its price, as well as the agreed-upon amount to be included as a member's deposit into the company.

§110

(1) The Memorandum of Association must at least contain the following data:

(a) the business name and the seat of the company,

(b) the business name (name) and the seat (addresses) of the company's members,

(c) the scope of activities

(d) the amount of the registered capital and the amount of each member's deposit into the company when the company is established and the schedule for members' payment of investment deposits into the company and the objects of non-monetary investments,

(e) the name of the company's first executives and the manner in which they will represent the company,

(f) the names of the members of the first Supervisory Board, if established.

(2) The Memorandum of Association may also stipulate that the Articles of Association shall be issued; the latter to regulate in greater detail - the company's internal organisation and deal with some matters included in the Memorandum of Association.

§111

(1) Every pledged investment into the company must be paid up to no less than 30 per cent prior to the submission of the proposal for the company's entry into the Companies Register. The total of the paid-up investment deposits together with the value of non-monetary investments shall be no less than 50,000 (fifty-thousand) Czechoslovak crowns.

(2) In the event that the company is established by one founder, the company may be entered in the Companies Register on the condition that its registered capital has been fully paid up.

§112

(1) All the executives shall sign a proposal asking for the company's entry in the Companies Register.

(2) Enclosures to the proposal, asking for the company's entry in the Companies Register, shall include documents as stipulated in §31, paragraph 2, plus the following documents:

(a) the Memorandum of Association or the Founder's Deed,

(b) a document to confirm that the requirements specified in §111 have been fulfilled.

Members' Rights and Duties

§113

(1) A member shall be obliged to pay up his investment deposit into the company under the conditions and within any time limit set by the Memorandum of Association or the Articles of Association, however, no time limit shall be for more than five years after the company's establishment, nor shall it be for more than five years after the date that a new member joins the company.

(2) A member, who has not paid up the pledged amount of his monetary deposit within the time limit stipulated in paragraph 1 above, shall be liable to pay annual interest of 20 (twenty) per cent of the sum in arrears, unless the Memorandum of Association or the Articles of Association stipulate otherwise.
(3) If a member falls in arrears with the payment of his monetary deposit, the company may call upon him and warn him that unless he fulfils his duty within an additional period of no less than three months, he may be expelled from the company.
(4) A member, who does not fulfil his duty within the additional period of time, may be expelled from the company by the general meeting.
(5) The company may transfer the commercial quotient (§ 114) of the expelled member to another member or to a third party. A decision on such a transfer shall be taken by the company's General Meeting.
(6) Unless a commercial quotient is transferred according to paragraph 5, the General Meeting shall decide either to decrease its registered capital by the said commercial quotient of the expelled member, or the other members shall take over the commercial quotient proportionately to their commercial quotients in the company. The expulsion settlement must not detrimentally effect the registered capital.

§ 114

(1) A commercial quotient shall represent the rights and duties of a member and thereto corresponding participation in the company. It shall be determined by the ratio of a member's investment into the company and the company's capital.
(2) Each member shall be entitled to only one commercial quotient. Should a member provide additional investments, his quotient shall be increased in proportion to the amount of his additional investment.
(3) One commercial quotient may be owned by more than one person. Such persons shall perform their rights, ensuing from the said commercial quotient through a joint representative, and shall bear joint and several liability for the payment of their deposit into the company

§ 115

(1) A member may transfer his commercial quotient to another party on the basis of a contract if approved by the General Meeting.
(2) If the Memorandum of Association so permits, a member may transfer his commercial quotient to another party; however, he shall bear liability for the payment of the investment deposit by the party who has acquired the said quotient. The transfer of the commercial quotient shall be effective as of the day on which the company has been notified of the transfer by the acquirer.
(3) A contract on the transfer of the commercial quotient shall be done in writing; the new acquirer shall state that he accedes to the Memorandum of Association and the Articles of Association. The signatures shall be officially authenticated.

§ 116

(1) If a legal entity, which holds a commercial quotient in a company, is wound-up, its commercial quotient shall be transferred to its legal successor; however, the Memorandum of Association may exclude such a transfer to a legal successor of a wound-up entity.

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(2) On the death of a member, his commercial quotient shall be transferred to his heir, if this is permitted by the Memorandum of Association, and if the heir claims his right to become a member in the company within one month from the conclusion of the inheritance proceedings. By claiming his right, the heir shall take over the commercial quotient of the deceased member retroactive to the date of the latter's death.
(3) Unless a commercial quotient is transferred to a member's heir or a member's legal successor, the provisions of § 113, paragraph 5 and paragraph 6 shall apply.

§ 117

(1) The splitting-up of a commercial quotient shall only be possible when transferred to a member's heir or a member's legal successor. The consent of the General Meeting shall be required for the transfer of a split-up commercial quotient.
(2) The Memorandum of Association may rule out the transfer of a split-up commercial quotient.
(3) In splitting-up a commercial quotient, the required level of the deposit (according to § 109, paragraph 1) must be maintained.

§ 118

The replacement of a company member must be entered in the list of members and in the Companies Register. Upon such entry, the hitherto member's liability for the company's obligations shall be transferred to his successor, who shall then become the owner of the former member's commercial quotient.

§ 119

Should all the commercial quotients become owned by one member, the said member shall be obliged either to pay up fully all the monetary deposits, or to transfer part of his deposits in the company to another party within three months thereof. Should the said member breach this obligation, the court shall dissolve the company and shall order the company's liquidation.

§ 120

A company shall not be permitted to acquire its own commercial quotients.

§ 121

(1) The Memorandum of Association may stipulate that the General Meeting shall be entitled to require its members to contribute financially to cover company losses - in the amount of up to 50 per cent of the company's registered capital; the member's contributions would correspond proportionately to his existing investment deposits in the company. The provisions of § 113, paragraph 2 through to paragraph 4, shall apply to any breach of this requirement.
(2) The fulfilment of this duty according to paragraph 1 above shall not affect the amount of a member's deposit in the company.

§ 122

(1) Members shall exercise their rights to manage and supervise company activities by participating in the General Meetings; the details of their scope of powers and procedural

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issues shall be stipulated in the Memorandum of Association or in the Articles of Association.

(2) Members shall be entitled, in particular, to demand information about any company matters from company executives and to inspect company documents.

§ 123

(1) Each member shall be entitled to a part of the profits proportionate to his paid-up investment deposits in the company, unless the Articles of Association stipulate otherwise.

(2) Profit distributions may not be drawn from the financial means which make up part of the registered capital, from the financial means of the reserve fund, or from the financial means for supplementing the reserve fund in accordance with this Code, the Memorandum of Association, or the Articles of Association.

(3) During the existence of the company, its members may not demand to have their deposits returned. If payments to members are provided due to the reduction of the registered capital, these payments shall not be deemed refunds of members' invested deposits.

(4) The members shall be obliged to return to the company any parts of profits if paid to them in contradiction to these provisions. The executives, who have wrongly approved such profit payments, shall bear joint and several liability for the return of these payments.

§ 124

(1) Upon its foundation, it shall be obligatory for the company to establish its Supervisory Board. It shall also be obligatory for the company to establish a reserve fund at the level and according to the procedures stipulated in the Memorandum of Association; the reserve fund may not amount to less than five per cent of the registered capital of the company. The reserve fund shall be supplemented on an annual basis by a sum, stipulated in the Memorandum of Association or in the Articles of Association, and the sum shall not be less than five per cent of net profits, until the reserve fund reaches the level stipulated in the Memorandum of Association or in the Articles of Association, and the reserve fund level shall not be less than ten per cent of the registered capital.

(2) The executives shall decide on the use of the reserve fund in accordance with § 67.

Company Bodies
The General Meeting

§ 125

(1) The General Meeting shall be the highest body of the company. It shall be authorized:

(a) to repudiate actions taken by the founders prior to the registration of the company,

(b) to approve the annual financial statement, to distribute the profits and to cover losses,

(c) to approve and to amend the company's Articles of Association,

(d) to decide on the amendments of the Memorandum of Association, if entrusted to do so by law,

(e) to decide on the increase or the decrease of the registered capital,

(f) to appoint, recall and remunerate company executives,

(g) to appoint, recall and remunerate members of the Supervisory Board,

(h) to expel a member in accordance with § 113 and § 121,

(i) to decide on the dissolution of the company if the Articles of Association so permit,

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(1) to decide on other matters, which this Code, the Memorandum of Association or the Articles of Association entrust to the authority of the General Meeting.
(2) Unless otherwise stipulated in the Memorandum of Association, or in the Articles of Association, the General Meeting shall decide on the appointment and recall of a procurator (i.e. a person who has a power of attorney).
(3) The General Meeting may reserve the right to decide on other matters falling within the authority of other company bodies.

§ 126

A member shall take part in the General Meeting in person or shall be represented by proxy on the basis of a written procuration.

§ 127

(1) A General Meeting shall constitute a quorum when members having more than one half of all votes are present.
(2) Each member shall have one vote per every thousand crowns of his investment deposits in the company, unless the Articles of Association or the Memorandum of Association determine otherwise.
(3) The General Meeting shall rule by a simple majority of votes of the present members, unless the law or the Memorandum of Association requires a higher number of votes.
(4) Approval by at least a two thirds' majority of all members' votes shall be required for decisions on matters referred to in § 125, paragraph 1, letters (a), (c), (d), (e) and (i).

§ 128

(1) Unless the law, the Memorandum of Association, or the Articles of Association stipulate otherwise, a General Meeting shall be convened at least once a year.
(2) The executives shall be obliged to convene a General Meeting if the reserve fund drops below one half of its value as of the day of the last General Meeting.

§ 129

(1) Company members shall be notified of the date and agenda of the General Meeting in writing at least 15 (fifteen) days in advance, unless the Memorandum of Association stipulates otherwise.
(2) Any combination of members, whose investment deposits represent more than ten per cent of the registered capital, may demand a General Meeting. Unless the executives convene a General Meeting within one month from receiving such a requirement, the members shall be authorized to convene the General Meeting themselves.

§ 130

Members may adopt decisions also outside the General Meeting. In this event a draft resolution shall be submitted to the company members with a request for their comments within a specified term, within which the members shall present their written comments on the draft resolution. Unless a member comments on the draft within the notified term, it shall be registered that he disagrees. The executives shall inform individual members of the final result of the vote. The majority shall be counted from the total number of votes appurtenant to all members.

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§ 131

(1) Within three months after a General Meeting, each executive or each member of the Supervisory Board of the company may ask the court to declare a resolution of the General Meeting null and void, should such a resolution contradict the legal regulations, the Memorandum of Association or the Articles of Association.

(2) The company shall be represented in the legal proceedings by its executives; however, should they be participants in such proceedings, the company shall be represented by an appointed member (or appointed members) from the Supervisory Board. Should both company executives and members of the Supervisory Board have filed the charges, a company representative shall be appointed by the General Meeting. Unless such a representative is appointed within three months after the delivery of the charge, the court shall appoint a guardian to represent the company.

§ 132

Should the company have only one member, he shall exercise the scope of powers entitled to the General Meeting.

The Executives

§ 133

(1) One or several executives shall form a statutory body of the company. Each of the executives, if there is more than one, shall be entitled to act independantly on behalf of the company, unless the Memorandum of Association or the Articles of Association stipulate otherwise.

(2) The executives' authority may only be limited by the Memorandum of Association, the Articles of Association or the General Meeting. Such a limitation shall, however, be ineffective in relation to third parties.

(3) Executives shall be appointed from among company members or other natural persons by the General Meeting.

§ 134

The consent of the majority of the executives shall be required for decisions concerning the company management, if within those executives' authority.

§ 135

The executives shall be obliged to make arrangements for the proper maintenance of those files and accounts which are required by law, as well as a list of company members. The executives shall also be obliged to inform members about company matters.

§ 136

The Ban on Competitive Conduct

(1) Unless the Memorandum of Association or the Articles of Association imply otherwise, the executive shall not be allowed:

(a) to conclude business deals in his own name and on his own account, should such deals be associated with business activities of the company,

(b) to mediate company business deals for other persons,

(c) to take part in the business of another company as a partner with unlimited liability,

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(d) to carry out the activities of a statutory body or be a member of a statutory body of another legal entity with a similar scope of activities, unless the latter is a legal entity, in whose business the company, which the executive represents, takes part.

(2) The breach of paragraph 1 above shall bear the consequences stipulated in §65.

The Supervisory Board

§137

The Supervisory Board shall be established if stipulated by the Memorandum of Association. Should the company have more than 20 (twenty) members, the establishment of a Supervisory Board shall be obligatory.

§138

The Supervisory Board

(a) shall supervise executives' activities,

(b) shall inspect ledgers, other business documents and accounting documents and check their data,

(c) shall review the annual financial statement,

(d) shall submit reports to the General Meeting within a term stipulated by the Memorandum of Association, otherwise within one year.

§139

(1) Members of the Supervisory Board shall be elected only by the General Meeting.

(2) One third of the Supervisory Board members shall be elected by full-time employees, if the establishment of the Supervisory Board is obligatory, and the number of employees is higher than the number of company members (partners) at the time of the election.

(3) A company executive may not become a member of the Supervisory Board.

(4) The Supervisory Board must have at least three members.

(5) The ban on competitive conduct (§136) shall also apply to members of the Supervisory Board.

§140

(1) Members of the Supervisory Board shall be entitled to take part in the General Meeting. They shall be entitled to address the General Meeting whenever they so request.

(2) The Supervisory Board shall call for a General Meeting if they determine that the interest of the company requires it. The General Meeting shall be convened in the manner stipulated in §129, paragraph 1.

Amending the Memorandum of Association

§141

The consent of all members (partners) shall be required for any amendment of the Memorandum of Association, unless the law or the Memorandum of Association stipulates otherwise.

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Increasing or Reducing the Registered Capital

§ 142

It shall be admissible to increase the registered capital by new monetary deposits only after the pledged monetary deposits have been fully paid up. The registered capital may, however, be increased by non-monetary investments prior to the full payment of monetary deposits.

§ 143

(1) Should the company decide to increase its registered capital, the existing members shall thereby be given priority in the opportunity of taking over the new obligation through investment deposits in the company. Such priority shall be assigned in proportion to their commercial quotients, unless otherwise stipulated by the Memorandum of Association or the Articles of Association.

(2) Should the members not make use of their priority right within a term set by the Memorandum of Association or the Articles of Association, or within one month after they have been informed of a proposed increase of the registered capital, any other party may take over the obligation to a new monetary deposit, subject to the consent of the General Meeting.

(3) The obligation to a new investment deposit shall be taken over by means of a written declaration, in which the interested party must indicate that he accedes to the Memorandum of Association; the person's signature must be officially authenticated.

§ 144

The General Meeting may decide to cover the increase of the company's registered capital from its existing property and thereby increase its registered capital. In such a case, the amount of each member's deposit in the company shall be proportionately increased.

§ 145

The executives shall be obliged to petition - without undue delay - the update of the Companies Register indicating the increase of the company's registered capital.

§ 146

A resolution on the reduction of the registered capital must be passed by at least a two-thirds' majority of all members' votes at the General Meeting. The value of the registered capital of the company and the amount of each member's investment deposit may never be reduced below the amounts stipulated in § 108 and § 109, paragraph 1.

§ 147

(1) The executives shall be obliged to publicize the reduction of the registered capital firstly within 15 (fifteen) days of the resolution and secondly within 30 (thirty) days from the first notification. The notice shall include a call to the company's creditors to submit their claims within 90 (ninety) days from the last notice.

(2) The company shall be obliged to provide adequate funds to cover those creditors' claims which are submitted within the prescribed deadline.

(3) The reduction of the registered capital shall be entered in the Companies Register only if it is proven that the procedure for the reduction of capital has followed the procedure

prescribed by paragraph 1 above, and creditors' claims have been secured by a cover according to the provisions of paragraph 2 above, unless their claims have been met.

The Termination of Membership in a Company

§ 148

The Cancellation of Membership by the Court

(1) A member may not directly withdraw his membership from a company. He may, however, propose that the court cancel his participation in the company, if he cannot be justly required to remain in the company any longer.

(2) The provisions of § 113, paragraph 5 and paragraph 6, shall be appropriately applicable.

(3) The declaration of bankruptcy proceedings concerning a member's property or the termination of such bankruptcy proceedings, due to a member's lack of property, shall have the same effect as the termination of his participation in the company by the court.

§ 149

A Member's Expulsion

(1) A company may request that the court expels a member from the said company should the said member substantially neglect his duties. The court may meet such a request if it is proven that said member has been invited to fulfil his duties and has been notified in writing of the possibility of his expulsion. Members, whose deposits in the company represent at least 50 (fifty) per cent of the registered capital, must approve such a proposal. The provisions of § 113, paragraph 4, shall thereby not be infringed.

(2) The provisions of § 113, paragraph 5 and paragraph 6, shall similarly apply.

§ 150

Settlement

(1) The member, who has been expelled, shall be entitled to a settlement amount (§ 61, paragraph 2 and paragraph 3). An heir or a legal successor of the member shall have the same right, unless the commercial quotient has been transferred to him (§ 116).

(2) A settlement amount shall be calculated from the paid-up part of the deposit of the expelled member in relation to paid-up parts of all the other members' deposits.

The Winding-Up and Liquidation of a Company

§ 151

In addition to instances stipulated in § 68, the company may be wound-up:

(a) by the court's ruling in accordance with the provisions of § 152,

(b) for other reasons stipulated in the Memorandum of Association.

§ 152

The members may ask the court to wind-up their company for any reason or for any conditions stipulated in the Memorandum of Association.

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§ 153

(1) The General Meeting shall appoint a liquidator prior to starting the liquidation of the company.

(2) Upon the winding-up of the company, each member shall be entitled to receive a proportionate part from the liquidation balance. Each member's part shall be calculated as a ratio of each member's paid-up deposits and the total of all paid-up deposits, unless the Memorandum of Association stipulates otherwise.

A Joint-Stock Company (Akciová společnost)

General Provisions

§ 154

(1) A joint-stock company shall be a company whose capital stock is divided among a certain number of shares of certain nominal value. The company shall be liable with its entire property for any breach of its obligations. The shareholder shall not bear liability for the obligations of the company.

(2) The business name of the company must include the designation "akciová společnost" (joint-stock company) or the abbreviation "a.s." or the abbreviation "akc. spol."

§ 155

(1) According to this Code and the company's Articles of Association (STATUTES), a share shall be a security giving a shareholder the right to participate in the company's management, in the profits and in the liquidation balance (residual assets) should the company wind up.

(2) The share shall contain the following data:

(a) the business name and the seat of the company,

(b) the serial number and nominal value of the share,

(c) an indication as to whether it is a registered share or a bearer share, and the name of the owner, if it is a registered share,

(d) the amount of the capital stock and the number of shares at the time of issue,

(e) the date of issue and the signatures of two members of the board of directors authorized to sign on behalf of the company.

(3) Shares of different value may be issued. If different classes of shares are issued, the share must indicate its class and the rights pertaining thereto, with reference at least to the Articles of Association.

§ 156

(1) A share may either be registered in the name of the shareholder, or it may be a bearer share. The Articles of Association may stipulate the right of the shareholders to exchange registered shares for bearer shares and vice versa. This shall not apply to employee shares (§ 158, paragraph 3).

(2) A bearer share shall be freely transferable by being handed over, and its holder shall have all rights attached to the share.

(3) A registered share shall be transferable, and its transfer may be realized by an endorsement and by handing the share over. The endorsement shall state the business name ~~(name)~~ and the seat ~~(domicile)~~ of the ~~new holder~~ LEGAL PERSON OR *, as well as the day that the transfer shall take effect. Transfers by endorsement shall otherwise be subject to the provisions of The Bills and Cheques ~~Act~~ BILLINGEN. The Articles of Association may limit transfers of shares.

* NAME AND DOMICILE OF THE NATURAL PERSON WHO ACQUIRES THE SHARE

(4) The company shall keep a list of shareholders having registered shares; the list shall include the shareholder's business name (name) and his seat (domicile). The transfer of a registered share shall become effective upon entry of the transfer in the shareholder's list. Upon the shareholder's request, the company shall provide an abstract from the shareholders list concerning the said shareholder.

(5) A registered share may be registered in the name of two or more persons. The rights attached to the share may either be exercised by one of its owners, or by another party authorized by all owners of that share.

§ 157

The Articles of Association shall determine the nominal value of all classes of shares which are to be issued. The total of all nominal values of such shares must correspond to the amount of the capital stock

§ 158

(1) The Articles of Association may stipulate the issue of employee shares with advantages attached to them.

(2) ~~The total amount of the nominal value of employee shares must not exceed 10 (ten)~~ per cent of the capital stock, and the total of ~~registered~~ THE employee shares not liable to payment, must not exceed 5 (five) per cent of the capital stock.

AMOUNT OF PORTIO = NOMINAL VALUE

(3) Employee shares shall be issued as registered shares and may be transfered only among the current or retired employees of the company.

(4) In the event of death or the termination of employment, except for retirement, the rights ensuing from an employee share(s) shall cease, and the share concerned must be returned to the company.

(5) A detailed procedure for the acquisition of shares and for their transfer and return shall be provided in the Articles of Association.

(6) The owners of employee shares shall have the same rights as the other shareholders, unless this Code or the Articles of Association stipulate otherwise.

§ 159

(1) The Articles of Association may determine the issue of THE CLASS OF shares with preference rights concerning dividends (PRIORITY SHARES ~~preference shares~~), but the total of their nominal value shall not exceed 50 (fifty) per cent of the capital stock.

(2) The issue of shares giving the right to a certain interest – irrespective of the company's proceeds – shall not be allowed.

(3) The Articles of Association may stipulate the issue of PRIORITY ~~preference~~ shares, which do not entitle its owners to voting rights at a General Meeting. Such owners shall have all the other rights attached to shares. The Articles of Association or the General Meeting may, however, rule out, or limit, rights to a preferential subscription of newly issued shares. Should

a preference dividend not be redeemed, the shareholder shall acquire voting rights until the time that the preference dividend is again redeemed.

(4) When assessing the capability of a General Meeting to vote, shares having no voting rights shall not be taken into account.

§ 160

(1) The Articles of Association may stipulate that a company may issue debentures of up to 50 (fifty) per cent of its capital stock, provided that this has been approved by the General Meeting. The debentures shall have certain rights attached to them: the right to demand the issue of shares at a specified time, or the right to the advance purchase of shares for the nominal value designated on the debentures. Upon the expiration of a stipulated period of time, the debentures shall be redeemable in a stipulated amount and agreed proceeds.

(2) The issue of debentures shall not increase the company's capital stock and shall not involve shareholders' rights.

(3) Debentures shall otherwise be subject to special regulations.

§ 161

(1) A company shall not be allowed to issue shares from its capital stock. The company may redeem shares it has issued only in the following instances:

(a) when it becomes a legal successor - with all ensuing rights and duties - to a person who owned these shares,

(b) when it purchases the employee shares, or

(c) when it reduces or increases its capital stock in accordance with this Code.

(2) In order to redeem shares according to paragraph 1 above, the company may only use those of its assets which are in excess of the capital stock. This limitation shall not apply to employee shares.

(3) The company shall not be allowed to acquire the shares of another company, if that company is the only owner of the first company's shares, with the exception of a case specified in paragraph 1, letter (a), above.

(4) Should the company own shares which it has issued, it shall not be allowed to exercise the shareholder's rights attached to them, unless this Code stipulates otherwise. The same shall apply to shares acquired in accordance with paragraph 3.

(5) The company shall be obliged to sell shares acquired according to paragraph 1, letter (a) and according to paragraph 3, within three years of their redemption. Should the shares not be sold within this term, the company shall be obliged to take the shares out of circulation, and reduce the capital stock by their nominal value. Shares taken out of circulation must be destroyed.

Founding and Registering a Joint-Stock Company

§ 162

(1) A joint-stock company may be established by one founder, provided that the founder is a legal person; otherwise, by two or more founders.

(2) Two or more founders shall draw up a Founding Contract. If the joint-stock company is established by one founder, the founder shall sign a Founder's Deed. Signatures on

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the Founding Contract or the Founder's Deed must be officially authenticated. Draft Articles of Association shall be attached to the Founding Contract or the Founder's Deed.

(3) The value of the company's capital stock shall not amount to less than [redacted] Czechoslovak crowns. 1,000,000

§ 163

The Founding Contract

(1) The Founding Contract (the Founder's Deed) shall include at least the following data:

(a) the business name, the seat of the company and its business activities,

(b) the proposed amount of the capital stock,

(c) the number of shares and their nominal value; if shares of different classes shall be issued, then also their designation, and a specification of the rights attached to them,

(d) the subscribed deposits of individual founders,

(e) should non-monetary investments be used for the formation of the capital stock, then the object of such non-monetary investment and its appraisal by an authorized appraiser.

(2) Should a joint-stock company be founded on the basis of a call to subscribe shares, the Founding Contract (Founder's Deed) must specify:

(a) the place and timing of share subscription,

(b) the procedure to be adopted in the case of a higher subscription (i.e. if shares are subscribed in excess of the proposed capital stock),

(c) the place to pay for parts of subscribed shares and amounts thereof,

(d) the procedure for convening the Constituent General Meeting of subscribers.

Founding a Company Based on a Call to Subscribe Shares

§ 164

(1) The founders (promoters) shall ensure the formation of the capital stock by a call to subscribe shares. The call shall provide the data specified in the Founding Contract (§ 163).

(2) A call to subscribe shares shall be appropriately publicized. The contents of such a call may only be changed after the subscription of shares has proven unsuccessful within a stipulated period of time.

(3) The draft Articles of Association shall be available for information at every place where shares shall be subscribed.

*INEFFECTUAL EXPIRE OF TIME SET FOR THE SUBSCRIPTIO. OF SHARES.

§ 165

(1) A share shall be subscribed upon its entry into the subscribers' list. The entry shall provide the amount of the deposit (~~investment~~), a specification as to whether it shall be a monetary or non-monetary investment, deadlines for payments for subscribed shares, the business name (name), the seat (domicile) of the subscriber, and his signature.

THE NUMBER AND CLASS OF SUBSCRIBED SHARES

(2) If a non-monetary investment is to be made, then its description and assessment by a sworn appraiser must be entered into the subscribers' list as well.

(3) As regards monetary deposits, the subscriber shall be obliged to deposit at least 10 (ten) per cent of the nominal value of the subscribed shares, ~~into~~ IN THE AND ON a bank account specified in the call to subscribers, ~~unless the call stipulates a higher amount~~.* Should not the subscriber fulfil this obligation, the subscription is ineffective.

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§ 166

After the proposed capital has been sucscribed, the founders may reject any further subscription. Should they fail to do so, the Constituent General Meeting shall decide whether to accept or reject the subscription of shares in excess of full subscription of the proposed capital stock. If such subscription is rejected, the founders shall bear joint and several liability to return the paid-up sums to the rejected subscribers without any undue delay.

§ 167

(1) The subscription of shares shall be INEFFECTIVE unsuccessful if - by the last date set for the subscription - shares amounting to the proposed capital stock have not been subscribed, or unless the founders, or SOME ~~one~~ of the ~~founders~~, subscribes the missing ~~nominal value of~~ shares within one month. The subscription of employee shares - in the amount stipulated in the Founding Contract or the Founder's Deed - shall not be required.

(2) Should the subscription of shares be ineffective, the rights and duties ensuing from the share subscription will become null and void and the founders shall be obliged TO BEAR jointly and severally LIABILITY to pay back the subscribed sums without any undue delay.

§ 168

(1) The subscribers shall be obliged to pay up the subscribed shares within the deadlines stipulated in the subscribers' list. The subscribers shall be obliged to pay up at least 30 (thirty) per cent of the nominal value of the subscribed shares, which are to be CONTRIBUTED AS ~~settled by~~ monetary deposits LATEST by the time of the Constituent General Meeting; this shall not apply to non-monetary ~~investments~~ CENTRE SUBSIDYS (non-monetary deposits) AND EMPLOYEE SHARES

(2) Prior to the entry of the company into the Companies Register, the founders shall issue to each subscriber a certificate of the subscribed deposit in cash, or in other assets expressed in monetary terms, ~~and~~ indicate THE to what extent the deposit has been paid up.

(3) Upon the entry of the company into the Companies Register, the company shall exchange this certificate for an interim certificate or for a share, if its entire nominal value has been paid up.

The Constituent General Meeting

§ 169

(1) Subscribers, who have fulfilled their duty stipulated in § 165 and § 16~~6~~8, shall be entitled to participate in a Constituent General Meeting. The founders shall convene the Constituent General Meeting so that it is held within 60 (sixty) days from the day ~~of the last successful subscription of shares~~ THE SUBSCRIPTION OF PROPOSED BASIC CAPITAL WAS REACHED. (SHARES SUBSC. BY EACH THEM

(2) Should the founders fail to meet the deadline set in paragraph 1, the subscription of shares shall be considered void, and the provisions of § 167, paragraph 2, shall apply.

§ 170

(1) The Constituent General Meeting MAY ~~shall~~ take place provided that the ~~total nominal value of the subscribed~~ shares (with the exception of employee shares) IN THE ~~amount~~ OF ~~in~~ the proposed capital stock WERE SUBSCRIBED and that at least 30 (thirty) per cent of the nominal value of ~~pledged~~ monetary deposits has been paid up. PROPOSED NOMINAL VALUE OF EMPLOYEE SHARES IS NOT TAKEN INTO ACCOUNT (CONS.

(2) The Constituent General Meeting shall constitute a quorum, if attended by enough subscribers to represent at least one half of the subscribed shares, and who have paid up ~~their~~

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prescribed portion of pledged deposits. The Constituent General Meeting shall be opened and presided over by a founder, authorized to do so by the other founders or by such founder's deputy, until a Chairman of the Constituent General Meeting is elected.

(3) The consent of subscribers, owning the majority of subscribed shares and attending the Constituent General Meeting, shall be required to pass resolutions. A decision taken by such a majority may stipulate in which other cases the majority consent of all present subscribers with voting rights shall be required.

§ 171

(1) The Constituent General Meeting shall:

(a) decide on the company's founding,

(b) approve the Articles of Association,

(c) elect such company bodies which the General Meeting is entitled to elect according to the Articles of Association.

(2) If the Constituent General Meeting permits the subscription of shares in excess of the originally proposed capital stock, the meeting shall also determine the new amount of the capital stock. In this case, share subscription by subscribers, who have first subscribed shares to the new amount of capital stock, shall be considered effective. A subscriber, who has subscribed shares above the originally proposed amount of the capital stock, shall acquire voting rights, if the Constituent General Meeting increases the capital stock including his subscribed shares, and if the shareholder has paid up at least 30 (thirty) per cent of their nominal value.

(3) The Constituent General Meeting shall approve the amount of non-monetary investments (deposits) on the basis of an assessment made by a sworn appraiser. The Constituent General Meeting may not determine a higher assessment of a non-monetary investment than its appraisal given in the Founding Contract, or the Founder's Deed, or its appraisal by a sworn expert, which is enclosed with the subscribed shares.

(4) A Resolution of the Constituent General Meeting may differ from the Founding Contract, or the Founder's Deed, only with the consent of all subscribers attending the meeting, with the exception of the increase in capital stock.

(5) The holding of a Constituent General Meeting shall be substantiated by a public notary's deed, including the resolution, the list of subscribers, the nominal value of the subscribed shares, and the amounts paid by individual subscribers, as well as the name of the elected members of all company bodies.

Founding a Company without a Call to Subscribe Shares

§ 172

(1) Should the founders agree in the founding contract to pay the entire capital stock in an agreed-upon ratio, the subscription of shares and a Constituent General Meeting shall not be required.

(2) The founders shall have the same legal status as a General Meeting of a joint-stock company established on the basis of a call to subscribe shares. The presence of all founders and the consent of the founders, who have subscribed the majority of shares, shall be required to pass resolutions, unless the Founding Contract stipulates otherwise. The founders' decision must be recorded in the form of a notarial deed.

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(3) The provisions of paragraph 1 and paragraph 2 above shall appropriately apply if one legal person founds a joint-stock company without a call to subscribe shares.

The Articles of Association

§ 173

The Articles of Association shall specify CONTAIN

(a) the business name and the seat of the company,

(b) the company's scope of business activities,

(c) the amount of capital stock and the ~~conditions for~~ WAY OF paying up shares,

(d) the number and the nominal value of shares ~~of each class issued~~ AND DETERMINATION IF THEY ARE (registered shares or bearer shares),

(e) the procedure for convening a General Meeting, its scope of authority, and its decision-making procedures,

(f) the number of members of the board of directors, the Supervisory Board and other bodies, as well as a definition of their powers and their decision-making procedures,

(g) the initial amount of the reserve fund and the minimum amount THE FUND IS required to be ~~maintained in it~~, plus the manner in which it shall be replenished,

(h) the WAY principles of distributing the company's profits,

(i) the consequences of not paying up the subscribed shares on time,

(j) the manner of increasing and ~~reducing~~ REDUCING the capital stock, and

(k) the procedure for amending the Articles of Association.

§ 174

If REQUIRED SO ~~need be~~, the Articles of Association shall also make provisions for:

(a) the issue of different kinds of shares (for example employee shares), their IDENTIFICATION specification, their quantity and the rights attached to them, and

(b) the issue of debentures, referred to in § 160, and the rights attached to them.

The Registration of a Company

§ 175

(1) The Register Court shall enter a joint-stock company in the Companies Register IF EVIDENCE IN ACCORDANCE WITH THIS FACT ~~provided~~ that ~~the company has complied with the following requirements~~ of this Code:

(a) the proper Constituent General Meeting has been held in the event that such a meeting is statutory,

(b) the subscribers (founders) have subscribed the capital stock in full and have paid up at least 30 (thirty) per cent of the capital stock in monetary deposits (except employee shares),

(c) the company's Articles of Association have been approved,

(d) members of the company bodies have been elected.

(2) A petition for the company's entry in the Companies Register is submitted by the Board of Directors and signed by all the members thereof.

(3) The approved Articles of Association and a notarial deed on the holding of the Constituent General Meeting shall be enclosed with the petition. Should this Code not require the holding of a Constituent General Meeting, it shall be obligatory to enclose

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a notarial deed on the founders' decision on issues otherwise dealt with by the Constituent General Meeting.

An Interim Certificate

§ 176

(1) Upon the entry of a joint-stock company in the Companies Register, the company shall issue an interim certificate to its subscribers.

(2) The interim certificate shall include the nominal value of the subscribed shares, and possibly the specification of their class and the paid part of their nominal value.

(3) An interim certificate shall be a security issued in the name of the owner (holder); the rights attached to shares shall be attached to the interim certificate, ~~An interim certificate shall be~~ a substitute for shares. *

(4) Should an interim certificate be issued in the names of several persons, the provisions of § 156, paragraph 5, shall appropriately apply. All such persons shall bear joint and several liability for the payment of the nominal value of the shares.

(5) The joint-stock company shall exchange an interim certificate for shares after the nominal value of the shares has been paid.

* IF THE SUBSCRIBER TRANSFERS HIS SCRIP TO ANOTHER PERSON BEFORE HE HAS PAID UP WHOLE NOMINAL VALUE OF THE SHARES, HE GUARANTEES TO PAY UP THE BALANCE OF THE SUBSCRIBED VALUE OF SHARES

§ 177

(1) The subscriber shall be obliged to pay up the entire nominal value of shares subscribed by him within the deadline stipulated by the Articles of Association, however, within one year from the company's registration at the latest, with the exception of employee shares.

(2) Should the subscriber fail to fulfil his obligation to pay the nominal value of the subscribed shares or its parts, the subscriber shall pay an interest stipulated in the Articles of Association, otherwise an annual interest of 20 (twenty) per cent.

(3)

Shareholders' Rights and Duties

§ 178

(1) A shareholder shall be entitled to a part of the company profits (a dividend), assigned for distribution by the General Meeting on the basis of the company's financial results. Unless the provisions of the Articles of Association stipulate a different entitlement to a share of the profits, the quotient shall be determined as a ratio between the nominal value of a shareholder's share (shares) and the nominal value of all the other shareholders' shares.

(2) It shall not be permissible to pay dividends from the capital stock, or from the reserve fund, or from financial means earmarked to be added to the reserve fund according to this Code.

(3) The General Meeting may allocate - out of the profits earmarked for distribution - a certain proportion to members of the board of directors and the Supervisory Board (royalties).

(4) Unless a special Act stipulates otherwise, the company employees may receive a proportion of the profits, if this is in compliance with the Articles of Association. The Articles of Association may stipulate that such a proportion of the profits may only be used for acquiring employee shares.

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NOMINAL VALUE OF SUBSCRIBED SHARES WITHIN 60 DAYS OR WITHIN ANOTHER TERM DETERMINED BY THE STATUTES, FROM THE DAY HE WAS CALLED BY FOUNDERS OR BY MANAGEMENT BOARD TO DO SO;
THE MANAGEMENT BOARD MAY NOTIFY THE SUBSCRIBER HIS SCRIP WAS DECLARED INVALID AND ISSUE TO ANOTHER SUBSCRIBER SUBSTITUTE SCRIP UNDER CONDITIONS SIMILAR TO THOSE REQUIRED FOR THE ISSUE OF THE CANCELLED SCRIP.

THE AMOUNT OBTAINED FROM THE ISSUE OF THE SUBSTITUTE SCRIP SHALL BE USED TO REPAY THE AMOUNT PAID BY ORIGINAL SUBSCRIBER AFTER INCLUDING COMPANY'S CLAIMS ENSUED FROM THE BREACH OF SUBSCRIBER'S OBLIGATIONS.

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§ 179

(1) A shareholder shall not be obliged to return to the company dividends received in good faith.

(2) During the existence of the company or in the event of its winding-up, the shareholder shall not be entitled to demand the return of his investment deposits. Payments made in connection with the return of employee shares shall not be considered as a return of investment deposits.

(3) Should the company be wound-up and liquidated, its shareholders shall be entitled to receive proportions from the liquidation balance (the remaining assets).

§ 180

Each shareholder shall be entitled to attend the General Meetings, to vote, to ask for explanations and to submit proposals. The number of a shareholder's votes shall be determined by the nominal value of his shares. The voting procedure shall be governed by the provisions of the Articles of Association, which may, however, restrict the maximum number of votes per shareholder.

§ 181

(1) Shareholders, who own shares representing at least one tenth of the capital stock, may request the board of directors to convene an extraordinary General Meeting to discuss proposed matters.

(2) The board of directors shall convene an extraordinary General Meeting so that it is held within 30 (thirty) days from the day on which such a request was received. Should the board of directors fail to fulfil this duty, an extraordinary General Meeting shall be convened - upon the request of the shareholders referred to in paragraph 1 - by the court within the same term, starting from the day of the receipt of such a request. These shareholders shall be entitled to reimbursement of incurred expenses.

§ 182

Upon the request of the shareholders (referred to in § 181, paragraph 1):

(a) the board of directors shall include matters on the agenda of the General Meeting, which the shareholders have requested;

(b) the Supervisory Board shall review the performance of the board of directors' authority in such matters

§ 183

The provisions of § 131 - concerning the declaration of invalidity of a General Meeting's resolutions - shall appropriately be applicable

Joint-Stock Company Bodies
The General Meeting

§ 184

(1) The highest body of a joint-stock company shall be its General Meeting, comprising all the attending shareholders.

(2) The General Meeting shall take place at least once a year and shall be convened by the board of directors in the manner and within the periods, specified by the Articles of Association, unless this Code stipulates otherwise.

(3) In a joint-stock company with registered shares, the board of directors shall send invitations to all shareholders at least 30 (thirty) days prior to the General Meeting's proposed date. In a joint-stock company with bearer shares, the CONVENING OF THE General Meeting shall be publicized in the manner specified in the Articles of Association ~~with at least 30 (thirty) days' notice~~.

(4) The invitation to the General Meeting ~~and~~ OR the announcement of CONVENING OF THE the General Meeting shall include at least:

(a) the business name and the seat of the company,

(b) ~~the place~~ THE VENUE, the date and the hour of the General Meeting,

(c) information indicating whether a regular or an extraordinary General Meeting is to be convened,

(d) the agenda of the General Meeting

§ 185

(1) The General Meeting shall constitute a quorum if attended by shareholders owning shares with a total nominal value of more than 30 (thirty) per cent of the company's capital stock, unless the Articles of Association stipulate otherwise.

(2) Shareholders attending the General Meeting shall sign an attendance list, which shall include the name (business name) of the shareholder, his residence (seat), and possibly the name and the residence of a shareholder's proxy, IF ANY ~~the~~ serial number and the nominal value of shares entitling the shareholder to vote. The validity of the attendance list shall be confirmed by the signatures of the Chairman of the General Meeting and the minutes clerk of the General Meeting, elected in compliance with the Articles of Association.

(3) Should a General Meeting not constitute a quorum, the board of directors shall convene a substitute General Meeting ~~within~~ WITHIN NINE WEEKS AFTER THE DATE three weeks of the date of the originally convened meeting. The substituted General Meeting shall have the same agenda and shall BE CAPABLE OF TRANSACTING BUSINESS REGARDLESS OF THE PROVISION OF PARA constitute a quorum irrespective of the provisions of paragraph 1.

(4) Items, which have not been included in the proposed agenda of the General Meeting, may be decided upon only when all shareholders are present and agree to discuss such items.

§ 186

(1) The General Meeting (SHALL RULE BY DECISIONS) shall rule by the majority OF votes of the attending shareholders, unless this Code or the Articles of Association require another majority.

(2) The General Meeting may decide to amend the rights attached to a certain class of shares, provided that a two-thirds' majority of the holders of such shares have agreed to the proposed amendment

§ 187

(1) The General Meeting shall be authorized:

(a) to amend the Articles of Association,

(b) to decide on the increase or the reduction DECREASE of the capital stock and on the issue of debentures,

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(c) to elect and recall members of the board of directors, unless the Articles of Association stipulate that these members shall be elected and recalled by the Supervisory Board (§ 194, paragraph 2),
(d) to elect and recall members of the Supervisory Board and other company bodies as stipulated in the Articles of Association with the exception of Supervisory Board members elected according to the provisions of § 200,
(e) to approve annual financial statements, to decide on the distribution of profits and to determine royalties,
(f) to decide on the winding-up of the company,
(g) to decide on other matters, which this Code or the Articles of Association entrust to the authority of the General Meeting.
(2) Decisions concerning amendments of the Articles of Association or the increase or the reduction of the capital stock, or the winding-up of the company, shall require a two-thirds' majority of all votes of the attending shareholders; a notarial record thereof must be made.

§ 188

(1) The General Meeting shall elect a Chairman, a minutes clerk, two ~~persons to verify the minutes~~ and persons to count the votes cast.
(2) The minutes of the General Meeting shall include:
(a) the business name and the seat of the company,
(b) the venue and the timing of the General Meeting,
(c) the names of the following: the Chairman of the General Meeting, the minutes clerk, the verifiers and the vote counters,
(d) minutes from the comments made on individual items on the agenda,
(e) the decisions of the General Meeting recording the results of votes,
(f) protests lodged by shareholders, members of the board of directors or the Supervisory Board concerning decisions of the General Meeting, when the person ~~lodging such a protest~~ requests ~~this~~.
(3) The proposals and declarations submitted for discussion at the General Meeting shall be enclosed with the minutes of the General Meeting.

§ 189

(1) The board of directors shall issue the minutes of the meeting within 30 (thirty) days of the General Meeting. The minutes shall be signed by the minutes clerk and the Chairman of the General Meeting and two elected verifiers.
(2) Any shareholder may ask the board of directors ~~for~~ a copy of, or an excerpt from, the minutes of the General Meeting.
(3) The minutes of the General Meeting, together with the notice on convening the General Meeting or an invitation to the same plus the attendance list, shall be kept in the archives of the company ~~for the duration of its existence~~.

§ 190

In a single-person joint-stock company, the authority of the General Meeting (~~see § 187, paragraph 1~~) shall be assumed by its shareholder. The provisions of § 187, paragraph 2, § 188

and § 189 shall be applied as appropriate to records of the decisions taken when exercising the authority of the general meeting.

The Board of Directors = Management Board

§ 191

(1) The board of directors shall be a statutory body of the company which shall manage the activities of the company and act on its behalf. The board of directors shall decide on all matters of the company, unless they fall under the authority of the General Meeting in compliance with this Code or the Articles of Association. Unless the Articles of Association stipulate otherwise, any member of the board of directors shall be authorized to act on behalf of the company. The names of the members of the board of directors, who shall make binding obligations for the company, and the manner in which THEY DO SO ~~such obligations shall be made binding~~, shall be recorded in the Companies Register.

(2) The board of directors' right to act on behalf of the company may be limited by the Articles of Association, resolutions of the General Meeting or the Supervisory Board. However, this limitation shall have no effect with respect to third persons.

§ 192

(1) The board of directors shall ensure that the company's accounting shall be properly kept. The board of directors shall submit an annual financial statement, as well as a proposal OF ~~for~~ the distribution of profits to the General Meeting for approval. The financial statement in question shall be sent to holders of the registered shares at least 30 (thirty) days prior to the General Meeting. If the company has issued bearer shares, substantial data from the annual financial statement shall be publicized WITHIN ~~in~~ the same term and in the manner stipulated by the Articles of Association.

(2) The board of directors shall prepare a report for the General Meeting on the company's business activities and the company's assets in periods specified by the Articles of Association.

§ 193

The board of directors shall convene an extraordinary General Meeting when it has ascertained that the company has lost one third of its capital stock, or that the company has been insolvent for a period exceeding three months. The board of directors shall notify the Supervisory Board about such facts without delay.

§ 194

(1) Members of the board of directors shall be elected by the General Meeting from among the shareholders or other persons for a period stipulated in the Articles of Association, however, not exceeding 5 (five) years. The Articles of Association may stipulate that the board of directors' members shall be elected AND RECALLED ~~by~~ the Supervisory Board. IN THE MANNER DEFINED IN THE STATU

(2) The Articles of Association may stipulate that the board of directors, whose number has not dropped below one half of the original number, may appoint substitute members until the next General Meeting IS HELD. Only a natural person (an individual) may become a member of the board of directors.

(3) The board of directors shall have no fewer than 3 (three) members. ~~Should a company employ more than 50 (fifty) employees, then at least one of the board of directors' members~~

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~~must be elected from among the employees'~~ ranks. Members of the board of directors shall elect its Chairman. The board of directors shall take decisions on matters by a majority vote of its members; the required majority shall be stipulated by the Articles of Association, otherwise a mere majority of votes of all board members shall be sufficient.

(4) The board of directors shall follow the guidelines and instructions approved by the General Meeting. Their breach shall, however, have no influence on the board of directors members' dealings with third parties.

(5) The members of the board of directors shall be bound to exercise their authority with proper care, and to keep in secrecy confidential information and facts, which if disclosed, may harm the company's interests.

(6) Members of the board of directors, who have breached their duties, shall be liable to compensate damages caused to third persons, if such damages cannot be compensated by the company because of its insolvency.

§ 195

(1) The minutes of the board of directors' meetings, including adopted resolutions, shall be signed by the Chairman of the board of directors and the minutes clerk.

(2) Each member of the board of directors may demand that his differing opinion on a matter under discussion be recorded in the minutes.

§ 196 [illegible] OF THE COMPETITION

(1) Unless the Articles of Association imply otherwise, no member of the board of directors shall be allowed:

(a) to conclude in his own name, or on his own account, business deals related to the company's business activities,

(b) to mediate the company's business deals for third persons,

(c) to participate in the business activities of another company as a member with unlimited liability, or

(d) to exercise the powers of a statutory body, or be a member of a statutory or similar body of another legal entity engaged in similar business activities. This limitation shall not apply if the company, of whose statutory body he is a member, is a participant (a shareholder) in the other company's business.

(2) Any breach of the above provisions shall bear the consequences specified in § 65.

The Supervisory Board

§ 197

(1) The Supervisory Board shall supervise the performance of the board of directors and the company's business activities.

(2) Members of the Supervisory Board shall be entitled to inspect all the documents and reports concerning the company's activities and to check whether accounts are properly kept and are in compliance with reality, and whether the business activities of the company are in compliance with legal provisions, the Articles of Association and the instructions of the General Meeting.

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§ 198

The Supervisory Board shall review the annual financial statements as well as a proposal for the distribution of profits, and shall submit its comments to the General Meeting.

§ 199

(1) The Supervisory Board shall convene a General Meeting whenever the interest of the company requires it, and shall propose any necessary measures at the General Meeting. The provisions of § 184 shall appropriately apply to the procedure of convening the General Meeting.

(2) The Supervisory Board shall represent the company in court litigations and similar proceedings against members of the board of directors.

§ 200

(1) The Supervisory Board shall consist of no fewer than 3 (three) members. Two-thirds of the Supervisory Board shall be elected by the General Meeting, and one third by the employees of the company, provided that there are more than 50 (fifty) full-time employees at the time of election. The Articles of Association may stipulate a higher number of members of the Supervisory Board to be elected by the employees, however, this number shall not ~~be higher than~~ the number of members elected by the General Meeting. The Articles of Association may stipulate that even if there are fewerthan 50 (fifty) employees in the company, the employees shall elect ~~a member~~ (some members) of the Supervisory Board.

(2) Members of the Supervisory Board shall be elected for a period stipulated by the Articles of Association, however, not exceeding 5 (five) years.

(3) The provisions of § 194, paragraph 4 and paragraph 5, and § 196, shall similarly apply to members of the Supervisory Board.

(4) Only a natural person (~~an individual~~) may become a member of the Supervisory Board. A member of the Supervisory Board shall not be allowed to be simultaneously a member of the board of directors, ~~a procurator~~, or a person authorized to act on behalf of the company according to an entry in the Companies Register.

§ 201

(1) Members of the Supervisory Board shall participate in the General Meetings of the company and shall be obliged to report to the General Meeting the results of their auditing and inspection activities.

(2) Should the opinion of the employees' representatives of the Supervisory Board differ from the rest of the Supervisory Board, this minority's opinion shall be made known together with the conclusions drawn by the other members of the Supervisory Board at the General Meeting.

(3) The consent of the majority of members of the Supervisory Board shall be required for decisions of the board. Minutes of Supervisory Board meetings shall be provided and signed by its Chairman. The minutes shall also record the views of the minority, if the minority has demanded that such a record should be made.

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Increasing the Capital Stock

§ 202

(1) A proposal to increase the capital stock, submitted by the board of directors, shall be decided upon by a two-thirds' majority of the votes of all shareholders attending the General Meeting. Should several classes of shares have been issued, a two-thirds' majority of votes for each class of shares of the attending shareholders shall be required.

(2) An invitation to, or a notice of, the convening of a General Meeting shall include the following: the reasons for the proposed increase of the capital stock, the method of increasing the capital stock, the amount by which the capital stock should be increased, the proposed number of shares to be issued, or the new nominal value of the previously issued shares. Should the increase of the capital stock be effected by the issue of new shares, the deadline for their subscription shall be provided.

(3) Should THE INCREASE OF the capital stock ~~be increased by~~ INCLUDE a non-monetary investment, its object and its proposed amount shall be provided in the invitation or the notice. An assessment of this investment, made by an authorized appraiser, shall be submitted to the General Meeting.

(4) The increase of the capital stock shall be effective as of the day of its entry in the Companies Register.

Increasing the Capital Stock by Subscription of New Shares

§ 203

(1) It shall be permissible to increase the capital stock by the subscription of new shares only if the shareholders have paid up all previously issued shares. This limitation shall not apply to the increase of capital stock by non-monetary investments or to unpaid parts of employee shares.

(2) The provisions of this Code - concerning the subscription of shares when founding a company - shall appropriately apply to the subscription of shares when increasing the capital stock.

§ 204

(1) When subscribing a share in order to increase the capital stock, the subscriber shall pay the part of its nominal value stipulated by the General Meeting, however, no less than 30 (thirty) per cent.

(2) Unless the Articles of Association imply otherwise, the (existing) HITHERTO shareholders shall have a pre-purchase right to subscribe the newly issued shares in order to increase the capital stock - in an amount proportionate to their share in the existing capital stock.

(3) Should the company have issued debentures (§ 160) with pre-purchase EMPTIVE rights to newly issued shares, the company shall be obliged to offer the newly issued shares to the owners of such debentures. The pre-purchase right of debenture holders shall have priority over the pre-purchase EMPTIVE right of existing THEIR shareholders. The pre-purchase EMPTIVE right of debenture holders shall expire unless the debenture holder makes use of it within the deadline specified for the share subscription.

(4) Unless the Articles of Association stipulate otherwise, the shares issued in order to increase the capital stock shall bear the right to dividends within the year, that the capital stock was increased.

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§ 205

The capital stock of a company may be increased without a public invitation to the share subscription, if the company was founded without the latter, and all the shareholders have agreed to participate in the increase of the capital stock and have agreed to its amount. The provisons of § 203, paragraph 1 ~~and paragraph 2~~, shall appropriately be applicable to the increase of the capital stock.

§ 206

The board of directors may submit a proposal to enter the increase of the capital stock in the Companies Register after the corresponding shares have been subscribed, and no less than 30 (thirty) per cent of the nominal value of monetary investments have been paid.

The Conditional Increase of the Capital Stock

§ 207

(1) If, in compliance with the Articles of Association, the General Meeting decides on the issue of debentures which entitle their owners (holders) to request shares in the nominal value of the debentures, the General Meeting shall authorize the board of directors to increase the capital stock by the amount corresponding to the claimed rights attached to such debentures.

(2) The owners (holders) of such debentures shall claim their rights according to paragraph 1 in writing, specifying the number of shares which they require.

(3) Upon the submission of such debentures, the board of directors shall exchange the debentures for shares ~~corresponding to~~ the nominal value of claims attached to the debentures.

Increasing the Capital Stock Using the Company's Assets

§ 208

(1) Having approved an annual or extraordinary financial statement, the General Meeting may decide to make use of part of the profits or other company assets, exceeding the capital stock, and which are not earmarked for the reserve or similar fund, to increase the capital stock. ~~The shares of~~ The shareholders shall thus ~~be~~ increased proportionately to the nominal value of their subscribed shares.

(2) Shares, which are owned by the company according to § 161, paragraph 1, shall also be proportionately increased.

§ 209

(1) The increase shall be achieved either by issuing new shares and distributing them free of charge among the existing shareholders proportionately to ~~their~~ shares in the existing capital stock, or by increasing the nominal value of the existing shares.

(2) The nominal value of the existing shares may be increased either by their exchange, or by inscribing them with a ~~new~~ nominal value, provided with two signatures of members of the board of directors authorized to sign on behalf of the company.

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§ 210

Increasing the Capital Stock by the Board of Directors

(1) The Articles of Association may stipulate that the board of directors shall be authorized either to issue new shares under the conditions set by the Articles of Association, or to transfer the assets in excess of the capital stock into the capital stock and to increase the capital stock to an agreed value, but not by more than one-third of the existing value of the capital stock.

(2) If the Articles of Association so stipulate, the General Meeting may authorize the board of directors to increase the capital stock when issuing employee shares, in particular when part of the profits earmarked for employees shall be used to purchase such shares. Details shall be specified by the Articles of Association.

Reducing of the Capital Stock

§ 211

(1) A proposal to reduce the capital stock, submitted by the board of directors, shall be decided by a two-thirds' majority of votes of all the shareholders attending the General Meeting. If several classes of shares have been issued, a two-thirds' majority of votes of each class of shares of the shareholders attending the General Meeting shall be required. A document - recording such a decision of the General Meeting - shall provide the reason for the reduction of the capital stock, the amount by which the capital stock shall be reduced, and the procedure ~~for implementing this~~ reduction, as well as the deadline for submitting shares to the company

(2) The capital stock may not be reduced below ~~the amount~~ specified in the provisions of § 162, paragraph 3.

(3) The reduction of the capital stock shall in particular affect the shares owned by the company.

(4) The reduction of the capital stock shall not affect the rights attached to debentures (§ 160).

§ 212

An invitation to, or a notice of, the convening of a General Meeting shall provide the reasons for the proposed reduction of the capital stock, the amount by which the capital stock should be reduced and the procedure for implementing this reduction.

§ 213

(1) The capital stock shall be reduced either by decreasing the nominal value of the shares, or by the withdrawal of a certain number of shares from circulation.

(2) The nominal value of the shares shall be decreased by exchanging the existing shares for new shares with a lower nominal value, or by inscribing a lower nominal value on the existing shares with two signatures of members of the board of directors, authorized to sign on behalf of the company.

(3) The number of shares in circulation shall be reduced by redeeming certain shares presented in response to a call by the board of directors, or by redeeming drawn shares. The General Meeting shall set detailed rules for withdrawing shares when deciding to reduce the capital stock.

(4) The decision of the General Meeting to reduce the capital stock shall be entered in the Companies Register. An application for the entry thereof shall be submitted by the board of directors within 30 (thirty) days of the ~~time~~ DAY that the General Meeting takes such a decision.

§214

(1) The board of directors shall call on shareholders owning registered shares to present them within a deadline, stipulated by the decision of the General Meeting, in order to either exchange them, or to inscribe on them a lower nominal value, or to withdraw them from circulation. If bearer shares have been issued by the company, the company shall publicize a call to its shareholders to present their shares.

(2) The board of directors shall declare as null and void INVALID such shares which have not been presented in response to the call within the stipulated deadline. Shareholders shall be notified of this by a procedure stipulated in paragraph 1.

§215

(1) Within 30 (thirty) days of the ~~decision~~ RESOLUTION of the General Meeting to reduce the capital stock, the board of directors shall appropriately notify all persons, whose claims against the company originated prior to the entry of the company's decision to reduce the capital stock into the Companies Register.

(2) The decision of the General Meeting on the reduction of the capital stock shall also be publicized no less than twice with a minimum interval of 30 (thirty) days.

(3) Creditors of the company, mentioned in paragraph 1, may demand that the company provide an appropriate cover for their claims within 90 (ninety) days from the date on which they received the notice, otherwise within 90 (ninety) days from the last publicized notice.

(4) Should the company and its creditors fail to ~~come to~~ REACH an agreement on securing the creditors' claims, the court shall rule on this matter with regard to the kind and the amount of a claim in question.

§216

(1) After a period of 90 (ninety) days from the delivery of the notice on the decision to reduce the capital stock (§ 215, paragraph 1), or from THE LAST publicizing such a notice (§ 215, paragraph 2), the board of directors may submit an application to enter the ~~reduced amount~~ decrease of the capital stock in the Companies Register. The Register Court shall ~~make~~ RECORD IT the entry thereof, if it is proven that the decision of the General Meeting to reduce the capital stock has been ~~submitted~~ NOTIFIED according to the provisions of § 215, paragraph 1 and paragraph 2, and that the claims of the creditors have either been secured or settled.

(2) The capital stock shall be reduced as of the day of its entry in the Companies Register.

(3) Prior to the entry of the ~~reduced amount~~ DECREASE of the capital stock in the Companies Register, the company cannot provide payments to shareholders, or waive or reduce unpaid parts of the nominal value of their shares related to the reduction of the capital stock.

The Reserve Fund

§217

(1) At the time of its founding, a company shall create a reserve fund of an amount and in a manner determined by the Articles of Association. The minimum amount of a reserve fund

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shall be set at 10 (ten) per cent of the capital stock. This fund shall be annually supplemented by the amounts stipulated by the Articles of Association, however, by no less than 5 (five) per cent of the net profits until reaching a level stipulated by the Articles of Association, HOWEVER, NO LESS THAN UP TO 2 OF THE CAPITAL STOCK.

(2) The board of directors shall decide on the use of the reserve fund, unless the Articles of Association stipulate otherwise.

The Winding-Up and Liquidation of a Joint-Stock Company

§ 218

A decision on the winding-up of the company shall be taken by the General Meeting. The provisions of § 69 shall apply to the winding-up.

§ 219

(1) The General Meeting shall appoint a liquidator.

(2) Unless the Articles of Association imply otherwise, the shareholders holding no less than the limit 10 (ten) per cent of ~~the shares of~~ THE SHARES REPRESENTING the capital stock, upon stating their reasons, may ask the Register Court to recall a liquidator appointed by the General Meeting and to appoint another person as liquidator.

(3) A liquidator, who has not been appointed by the court, may be recalled by the General Meeting and replaced by another liquidator.

§ 220

(1) After satisfying all the creditors' claims, the liquidation balance (the remaining assets) shall be distributed among the shareholders proportionately to the nominal value of their shares, unless the Articles of Association stipulate otherwise.

(2) If the shares have not been fully paid, only those parts which have been paid shall be redeemed; the residual assets shall be distributed among the shareholders proportionately to the nominal value of their shares.

(3) Should the liquidation balance (the remaining assets) not suffice SUFFICIENT for redeeming the nominal value of the shares, the liquidation balance shall be distributed among the shareholders in proportion to the paid parts of the nominal value of their shares.

Chapter II
Co-operatives
(Družstva)

General Provisions

§ 221

(1) A co-operative shall associate a number of members and shall be established either to undertake business activities, or to satisfy the economic, social or other requirements of its members.

(2) The business name of a co-operative shall include the designation "družstvo" (a "co-operative").

(3) A co-operative shall have no fewer than 5 (five) members; this shall not apply if 2 (two) or more members are legal entities. The entry of new members into the co-operative or the withdrawal of membership of any existing members in the co-operative shall have no impact on the continuance of such a co-operative, provided that the co-operative meets the conditions stipulated in the first sentence of this paragraph.

§ 222

(1) A co-operative shall be a legal entity. It shall be liable for a breach of its obligations with all its property.

(2) Members of the co-operative shall not bear liability for the obligations of the co-operative. The statutes or the General Meeting may, however, stipulate that in order to cover losses of the co-operative, its members, or only certain members, shall be obliged to provide a refund of up to an agreed amount to the co-operative, and this amount shall exceed their membership deposits in the co-operative.

§ 223

(1) The basic capital of a co-operative shall be the total of all the members' deposits, which the co-operative members have undertaken to pay.

(2) The statutes shall stipulate the amount of the co-operative's basic capital, which shall be entered in the Companies Register (registered basic capital). The registered basic capital shall not amount to less than 50 (fifty) thousand crowns.

(3) The conditions for membership in a co-operative shall be the payment of a membership deposit stipulated by the statutes (the basic membership deposit), or by part of the basic membership deposit (the entry deposit) stipulated in the statutes...

(4) A total of the paid membership deposits must represent no less than one half of the registered basic capital prior to the registration of the co-operative.

§ 224

Founding a Co-operative

(1) A co-operative shall be founded at its Constituent General Meeting.

(2) The Constituent General Meeting:

(a) shall determine the amount of the registered basic capital,

(b) shall approve the statutes,

(c) shall elect the board and the auditing commission...

§ 225

(1) A co-operative shall be oficially constituted on the day of its entry into the Companies Register. Prior to submitting an application for such an entry, no less than one half of the registered basic capital must be paid...

§ 226

(1) The statutes of a co-operative shall include:

a) the business name and the seat of the co-operative,

b) its scope of business activities (the scope of activities),

c) the conditions of membership in the co-operative, the rights and duties of the members against the co-operative and vice versa,

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(d) the amount of the basic membership deposit and possibly the amount of the entry deposit, the procedure for paying up membership deposits and the settlement procedure in the case of withdrawing membership in the co-operative,
(e) the co-operative bodies and the number of their members, their terms in office, the procedure for their constitution, their scope of activities, their summoning procedure and the manner of their proceedings,
(f) the provisions on the use of profits and the refund of possible losses,
(g) the creation and use of the indivisible fund,
(h) further provisions, if ensuing from this Code...

Gaining and Withdrawing Membership

§ 227

(1) Both natural persons (individuals) and legal persons (legal entities) may become members of a co-operative. The statutes may stipulate that membership in the co-operative shall be connected with employment in the co-operative, in which case only a person who has finished his obligatory school attendance and has reached 15 years of age, may become a co-operative member...
(4) Membership in a co-operative shall not be effective prior to paying the entry membership deposit.

§ 229

(1) Any member may transfer his membership rights and obligations to another member of the co-operative, unless this is ruled out by the statutes...

§ 231

(1) Membership shall end by means of a written agreement, by withdrawal, by expulsion, or on the winding-up of the co-operative...

§ 235

The Indivisible Fund

(1) A co-operative shall be bound to create an indivisible fund to which no less than 10 (ten) per cent of the net annual profits shall be allocated until the fund reaches the amount that equals one half of the registered basic capital of the co-operative...

§ 236

(1) The distribution of profits among members shall be determined by the members' meeting when discussing the annual financial statement...

The Co-operative Bodies

§ 237

The bodies of a co-operative shall be the following:
(a) the meeting of the co-operative members,
(b) the board,
(c) the auditing commission,
(d) other co-operative bodies established according to the statutes.

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§ 238

(1) Only members of the co-operative who are over the age of 18 (eighteen), and representatives of legal entities that are members of the co-operative may be elected to co-operative bodies...

§ 239

(1) The highest body of a co-operative shall be a meeting of the members of such a co-operative (referred to as "the members' meeting").

(2) The members' meeting shall meet in terms stipulated by the statutes, but no less than once a year. The convening of a members' meeting shall be announced in a manner stipulated by the statutes.

(3) A members' meeting must always be convened, if at least one third of all members of the co-operative, or the auditing commission, demands so in writing...

(4) The members' meeting shall be authorized:

(a) to amend the statutes,

(b) to elect and to recall members of the board and members of the auditing commission,

(c) to approve the annual financial statement,

(d) to decide on the distribution and the use of the profits, or on the method of compensating the losses,

(e) to decide on the increase or the reduction of the registered (basic) capital,

(f) to decide on essential questions of the future development of the co-operative,

(g) to decide on the division, the merge, or the winding-up of the co-operative...

§ 240

(1) Each member shall have one vote.

(2) Should the statutes limit membership to entrepreneurs, then the statutes may stipulate the conditions, under which some members shall have more than one vote...

§ 243

The Board

(1) The board ("představenstvo") shall manage the activities of the co-operative and decide on all of the co-operative's matters which are not assigned to another body by this Code or by the statutes.

(2) The board shall be a statutory body of the co-operative.

(3) The board shall fulfil the resolutions of members' meetings and be responsible for its activities to the latter. The board shall be represented by its Chairman or Vice-Chairman, unless the statutes stipulate otherwise...

(7) The statutes may stipulate that the everyday activities of the co-operative shall be organised by a director, who shall be appointed and recalled by the board.

§ 244

The Auditing Commission

(1) The auditing commission shall be entitled to check all the activities of the co-operative and to deal with complaints lodged by co-operative members... The auditing commission shall have no fewer than three members...

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(4) The auditing commission shall meet as may be necessary, however, no less than once in three months...

§ 245
The Bodies of a Small Co-operative

(1) If the statutes so stipulate, the authority of the board and the auditing commission may be fulfilled by the members' meeting if the co-operative has fewer than 50 (fifty) members.
(2) The statutory body of such a co-operative shall be its Chairman, possibly with another member authorized by the members' meeting...

Joint Provisions on Membership in the Co-operative Bodies

§ 246

(1) The statutes shall stipulate the term of office in the co-operative bodies; the term shall not exceed 5 (five) years.
(2) Members of the first co-operative bodies, established after the foundation of the co-operative, may be elected for no more than 3 (three) years.
(3) Unless the statutes stipulate otherwise, members of the co-operative bodies may be re-elected...

§ 249
The Ban on Competitive Conduct

Members of the board, the auditing commission, the procurators and the director may neither be entrepreneurs, nor members of statutory bodies or supervisory bodies of other legal entities with a similar scope of activities. The statutes may specify the ban on competitive conduct differently.

The Winding-Up and Liquidation of a Co-operative

§ 254

(1) A co-operative shall cease to exist when struck off the Companies Register.
(2) A co-operative shall be abolished:
(a) by a resolution of the members' meeting,
(b) by a resolution of a members' meeting on the merge, division or transformation of the co-operative,
(c) by a declaration of bankruptcy, or by rejecting bankruptcy proceedings for lack of property,
(d) by a court ruling,
(e) by the expiration of the period for which the co-operative was established,
(f) by fulfilling the purpose, for which the co-operative was established...

§ 260
The Application of the Provisions on Business Companies

The provisions on business companies (§ 56 through to § 75) shall be appropriately applied to co-operatives, unless the provisions on co-operatives stipulate otherwise.

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Appendix 4

Czech National Property Fund (summary #171/1991)

Czech Republic National Property Fund

Based on the Czech National Council Act No. 171/1991 of Collection of Laws , the Czech Republic National Property Fund was established and as a legal entity it was - after the approval of its Statute by the Czech National Council - included in the company register on August 2, 1991.

The Fund takes the responsibility for implementation of privatization projects approved by the Ministry of National Property Administration and Privatization, that is for implementation of different transformation forms included in these projects. The following transformation forms will be applied in the privatization projects implementation:

- the joint-stock companies and other trading companies establishing,
- sale of state shares in existing joint-stock companies,
- direct sale of property to the people determined based on the privatization project approved by the Czech Government,
- sale of property based on the tender results
- sale of property in public auctions,
- settlement of the claims of the authorized persons if they were divested of their property rights in the way mentioned in § 2, subparagraph 3 of the Act No. 87/1991 of Coll. of Laws dealing with the off-court rehabilitation settlement of the restitution claims based on the Act No. 92/1991 of Collection of Laws.

The property of the Czech Republic National Property Fund does not form a part of the Czech Republic state budget. The Fund property can be used in accordance with the Czech National Council Act No. 171/1991 of Collection of Legal Acts in the following way:

- in accordance with the approved privatization project to settle the restitution claims of authorised persons based on the Act No. 92/1991 of Coll. of Laws to establish joint-stock companies or other trading companies, to sell the property

mainly through public auctions or tenders.
- to transfer the property to the municipalities,
- to transfer the property to the health and security insurance funds,
- to increase the banks and savings banks resources determined to grant credits mainly to the newly established businesses,
- to fulfill obligations of the companies determined for privatization in an extent and under conditions given by the Czech Ministry of the National Property Administration and Privatization,
- to finance the costs related to the privatization projects implementationin an extent and under conditions given by the Fund Statute and in the amount given in specific cases by the Fund Board,
- to settle the restitution claims of the authorized persons based on the Act No. 87/1991 of Coll. of Laws dealing with off-court rehabilitations.

The Czech Republic National Property Fund was on its establishment based on the Act No. 171/1991 authorized to administer the financial means deposited in a Czech Ministry of National Property Administration and Privatization special account in accordance with the Act No. 427/1991 of Coll. of Laws on State property rights to some goods transfer to other legal or physical entities. These means are administered by the Fund in accordance with the provisions of the Czech National Council Act No. 500/1990 and its amendments.

The Fund implements the above tasks in close co-operation with the Czech Ministry of the National Property Administration and Privatization. This Ministry works out the methodology for the Fund's activities.

There are 23 persons employed with the Czech Republic National Property Fund at present and the expected number of employees for 1992 is 70 persons.

At present, the activities of the Fund are aimed at the carrying out of the approved privatization projects implementation through all the forms of transformation that will be time consuming and extensive as well.

Czech republik National Property Fund issued in co-operation with the auction sales section of the Czech Ministry of the National Property Administration and Privatization the methodology on public auctions carrying out according to the Act No. 92/1991 of Coll. of Laws setting the procedure for the State property sale in this way. The first experiences with the direct sale and purchase based on the tender results serve for the preparation of the methodology for other transformation stages as well so that the Fund is able to carry out the privatization sales as soon as they are approved.

The state of privatization projects to November 30,1991

Privatization projects		number
transferred to the Fund for transformation		20
including	carried out transformation	11
	under transformation[x)]	9

[x)] Privatization projects where all the transformations were not carried out or the auction did not take place.

Based on the reccomendation of the Czechoslovak Financial Council and the decision of the Fund Board the Czech Republic National Property Fund will increase the equity of Komerční banka, Investiční banka, Československá obchodní banka and Česká státní spořitelna to Czechoslovak crowns b 7,8 as soon as possible. Further the Fund will issue the bonds totalling Czechoslovak crowns b 22,2 to the banks who - based on the requests of enterprises - will decide to continue granting credits to the future businesses after the positive assessment of the submitted business plans while writing off previously

granted credits at the same time. This operation will be carried out by the Fund and the banks before the privatization process begins, just once for every enterprize.

Based on the principles on establishing the Restitution Investment Fund accepted by the Financial Council of CSFR on 6th May, 1991, the Czech Republic National Property Fund establishes the National Investment Restitution Fund to satisfy the claims of authorized persons by stock granting.

In order to establish the Restitution Investment Fund the Czech Republic National Property Fund will put aside 3% of the privatized property which is being invested into the joint stock companies and 3% of the privatization state property participation in the existing joint stock companies.

The Czech Republic National Property Fund has a financial share in establishing the privatization consulting centers providing the necessary information to the persons working on the privatization projects.

The Fund will take a significant part in the financial strengthening of the Czech Guarantee and Development Bank which is intended to be established by the beginning of the next year.

Appendix 5

Rules of Sale of State Property

Part . Rules of Sale of State Property

Section 01. Purpose.

This Part of the Rules of Implementation for the Privatisation Law of Large Enterprises sets forth the rules governing the sale of any large enterprise or interest therein or property thereof, as specified in the Approved Privatisation Project with respect to such enterprise or property (individually a "Sale" and collectivel "Sales"). The rules set forth in this Part are intended to serve the following goals and should be so interpreted and applied by the appropriate organ of Federal or state administration having approval rights with respect to the Privatization Project of which any Sale is a part, or designated in /10/ of the Privatization Law of Large Enterprises (the "applicable Ministry"):

a) to facilitate the rapid transfer of state property into private hands;

b) to raise revenue for the government;

c) to assure consistancy, fairness and transparency, both in appearance and in reality; and

d) to increase the economic efficiency of the enterprise or property that is the subject of the Sale.

Sales may be made by any of the methods specified in Sections .02 through .05, or by a combination of such methods, and shall in each case be supervised and approved by the applicable Ministry in accordance with Section .06 and have the effect as to title to the property sold specified in Section .07.

Section .02. Controlled Sales

1. Commentary on Use of Controlled Sales. A conntrolled sale is the most flexible method of conducting a Sale and is therefore likely to be the most useful method in accomplishing the several

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goals set forth in Section .01. It involves a non-public auction to an invited group of bidders who can be selected on the basis of characteristics likely to enhance the future prospects of the enterprise and improve its efficiency. Such characteristics might be, for example, bidders engaged in the same or complimentary lines of business, who could provide managerial and technological know-how, or bidders with capital available to facilitate a capital restructuring and modernization program for plant and equipment. Even if a Sale can not be completed by the controlled sale method, it may serve to identify one investor with which the applicable Ministry could effect a Sale bz the negotiated sale method specified in Section .05.

2. Procedures for Controlled Sales. Procedures for conducting a Sale by the controlled sale method are set forth in the following paragraphs of this Section .02. Although the procedures refer to a Sale involving shares of stock of an enterprise, they are equally applicable to a Sale involving other property and should be so interpreted and applied by the applicable Ministry.

3. Invitation to Bid. Each Sale by the controlled sale method shall be conducted by means of an Invitation to Bid, which shall be prepared by or on behalf of the applicable Ministry and circulated to those persons who are being invited to bid.

4. The Invitation to Bid shall contain at least the following information:

a. A description of the enterprise that is the subject of the Sale, which may be taken from the Privatization Project for such enterprise.

b. The capital structure of the enterprise, the number of shares of capital stock to be sold in the controlled sale, the number of such shares to be retained bz the government, if applicable, and the number of such shares to be witheld for vouchers.

c. Information on stock exchange listings, if applicable.

d. The Instructions to Bidders describing how the controlled sale will take place and how to participate as a bidder therein, which shall cover at least the following subject matter:

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i. The timetable of the controlled sale process.

ii. The procedures for delivery of the Qualification Notice, including the applicable Ministry to which such notice shall be delivered, the address and phone and facsimile numbers thereof and the name of a person at the applicable Ministry to whom questions regarding the controlled sale process may be directed.

iii. The requirements of the Qualification Notice to be delivered by each prospective bidder, which shall contain the following:

A. Proof of either (x) of net equity of at least (specify amount), or (y) deposit of (specify amount) in (specify bank) in cash or short-term securities approved by such bank (provide specific information on the deposit procedures).

B. A description of the prospective bidder's expertise or access to expertise in (specify subject matter of the enterprise).

C. Three alternative dates to visit the facilities of the enterprise between (specify dates), and an indication of the required time for such visits.

D. The identification of the beneficial owners of the prospective bidder.

iv. The requirement to provide audited financial statements for the (specify period) for the prospective bidder, such financial statement to include profit and loss accounts, balance sheets and cash flow statements as well as the accompanying notes. The financial statements shall be attached as an exhibit to the Qualification Notice.

v. The requirement to maintain absolute confidentiality regarding the information that will be received by signing a confidentiality agreement. Such agreement will state that information must not be divulged to other parties except with the written authorization of the applicable Ministry. The nonwinning bidders or prospective bidders must undertake not to disseminate

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in any way the information received and to return all the information given as well as any duplicates made or show a certificate of its destruction signed by a notary public. The confidentiality agreement shall be attached as an exhibit to the Qualification Notice.

vi. Identify the beneficial owners of bidding party.

5. Notification of Bidders, Return of Guarantee Money.

a. The persons that qualify after having satisfied the requirements of the preceding section will be allowed to continue in the process to acquire the shares of the enterprise. The applicable Ministry will notify each interested bidder of its qualifacation no later than (specify number of days after the date of delivery given above).

The persons qualified to participate in the controlled sale will be provided with information on obtaining answers to questions and on opportunities to visit installations of the enterprise and to interview managers.

b. Once qualifying bidders have been selected, the guarantee money deposited at (specify the bank) of those participants that were not selected for the controlled sale process, together with any interest accrued thereon, will be returned to such persons within 10 business days of the date of notification.

6. Procedure for the Controlled Sale.

a. General. By means of the process initiated with the Qualification Notice required by the provisions of the previous section, qualifying bidders may bid for the acquisition of the shares in the manner provided in this Section.

b. Types of Bids. In order to bid for the shares of the enterprise, qualifying bidders may proceed in accordance with any of the following alternatives:

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i. Joint-Bid. (Czech and foreign investor group)

ii. Czech Bidder.

iii. Joint venture

iv. (identify other types of arrangements)

c. Price. The bidders must specify in their bids the cash price which they are offering to pay for the shares of the enterprise, specifying said price in (specify currency), for each share which they offer to acquire, and the total value of the bid.

d. Plans or Programs for the Enterprise. Any person which has qualified to participate in the controlled sale and which will bid therein, must include with its bid a qualitative and quantitative report which describes the plans or programs for development and growth which it has for the enterprise commencing on the date when, as the case may be, it would acquire the shares offered for sale and it would take charge of the management of the enterprise. The plans and programs indicated must consider both business and technological aspects, and must include the program for modernization, technological advancement, expansion of services and training of personnel, as well as including convincing arguments with respect to its management capacity to operate an enterprise of the size and importance of the enterprise.

e. The Bids. Upon fulfillment of the qualifications and other requirments provided for in Section 4 herein, those persons interested in submitting bids for the acquisition of the shares must submit their bids to the applicable Ministry), in a sealed envelope, containing one original and four copies, drafted in the (designate language), at precisely the time fixed therefore, between 9:00 a.m. and 1:00 p.m., on (in each case, x days after a specified event) at the offices of the applicable Ministry. The bids must include:

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i. The number of shares which are to be acquired and what price per share, in (designate currency), they undertake to pay for the shares which are the subject matter of their bids.

ii. The express obligation and agreement to pay, in (designate currency), to the applicable Ministry), on the Closing Date (as hereinafter defined, the total amount of their bid (or identify other payment terms).

The bidders may apply to the payment of the amounts provided for in this Section those amounts which may have been deposited in accordance with Section .

iii. The express obligation and agreement to pay to the applicable Ministry within the period indicated in the bid, which shall in no case exceed ( ) calendar days from the Closing Date, in (designate currency), the balance of the price of the shares which they have offered to acquire, as well as the obligation and agreement to pay, together with principal of such balance, interest upon the amount thereof computed commencing on the date of the signature of aforementioned Purchase-Sale Agreement and ending on the date of the full payment, an annual rate equal to (provide interest rate standard).

iv. A record which acknowledges that the deposit was made at (designate bank and office) of (specify money amount) or, as the case may be, that such other collateral was constituted to satisfy said institution to secure that, in the event that their offer is accepted and their bid prevails, they will proceed to acquire the shares, and that they proceed to sign the Purchase-Sale Agreement and to pay the price set forth in their offer. For purposes of the mentioned deposit, the bidders will be able to credit the deposit which is referred to in Section .

In the event that the bidder which has prevailed in the controlled sale does not perform the obligations which it has incurred under the preceding paragraph, then the deposit and

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interest thereon are lost in favor of the applicable Ministry, as a contractual penalty, without prejudice to other remedies in its favor under the law, including that of requiring specific performance or recession of the transaction.

v. Acceptance of the Model Purchase-Agreement, the models of which shall be delivered at the latest on (time period) to those persons which have qualified such that the bids are made as they are deemed necessary, as well as the obligation and agreement of such persons to sign such agreement in accordance with the accepted model, in the event that their offer is accepted and their bid prevails.

vi. Their program or plan for the development of the enterprise in accordance with that provided for in Section herein.

f. Unsealing of Bids. All of the bids submitted on (the specified date), in sealed envelopes, shall be unsealed on the same date in the office of the applicable Ministry in the presence of representatives of the applicable Ministry or other witnesses and of those bidders who attend, as well as before a notary public, who shall attest to the bidders submission and contents of the bids, attaching to his official record a copy of all of the bids submitted.

g. Additional Information. The applicable Ministry shall analyze the bids submitted for the purpose of making it possible to compare them and, for such purpose, in the event that clarifications or additional information may be required from one or more of the bidders in order to be able to review the bids, then such applicable Ministry shall so request from the bidder or bidders involved, which must submit the clarifications or additional information requested within 72 hours of the request of the applicable Ministry.

h. Acceptance of Offers, Standards. Commencing on (designate date, e.g., 30 days from the date of submission of the bids),

provided that the conditions set forth in Sections ( ) herein have been fulfilled, the applicable Ministry shall inform the bidders as to which offer or offers have been accepted and have prevailed in the controlled sale, after having considered among them:

i. That offer or bid which has offered the highest price per share, provided that any difference in price between two offers which is % or less shall not be deemed a reason or criterium sufficient to elimimate the lower offer, with the exception of that provided in the next subsection, pursuant to which a criterium for exclusion of the higher offer shall be deemed to exist, even when the difference is greater than %.

ii. The terms and characteristics of the programs and plans referred to in Section herein.

i. Closing Date. Upon informing the bidders as to which offer or offers have been accepted and have prevailed in the controlled sale, the applicable Ministry shall also inform them of the date set for the closing of the purchase-sale transaction for the shares, by means of the signing of the Purchase-Sale Agreement (hereinafter referred to as the "Closing Date").

j. Closing. On the Closing Date, a single act shall proceeed to effecuate:

i. The delivery of certificates which evidence the fulfillment of all of the conditions precedent set forth in the Purchase-Sale Agreement, as well as the delivery of the opinions provided for therein.

ii. The signing of the Purchase-Sale Agreement by the applicable Ministry officials and the person who has submitted the prevailing bid.

iii. Payment to (provide payment terms, wire instruction

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terms). Such person may apply to the paymante of the amounts indicated in this Section the amount of the deposits which such person has made pursuant to Sections ( ) and ( ) above. The payments referred to in this Section must be made either by certified check in favor of the applicable Ministry or government, as the case may be, or by confirmed transfer of funds to the account of the applicable Ministry or government, as the case may be.

iv. (Other Closing Date requirements to be provided as necessary.)

k. Future Offering of Shares. If applicable, on the Closing Date, the winning bidder shall expressly undertake with the applicable Ministry not to carry out any act whatsoever which may impede or render difficult the public placement of the shares owned by such ministry on the domestic or international stock markets and to cooperate with such ministry in the public placement of such securities.

l. Miscellaneous. (identify other requirements)

7. Restrictions and Conditions.

a. Compliance with other laws. In the process of bidding for and the purchase and sale of the shares, there must be adherence to all of the provisions of law and regulations in force, and, in particular, the provisions of (designate relevant Czech and Slovak laws, e.g., laws on investments by foreign persons).

b. Other.

8. Reservations and Powers.

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a. Modifications. The applicable Ministry or applicable government, as the case may be, reserves to itself the right to modify this Section .02 on controlled sales at its discretion, as well as to grant extenstions of the periods of time established herein, or to modify in specific cases, the requirements established herein, without thereby incurring any liability whatsoever, up to fifteen (15) calendar days before the date upon lwhich the offers for the acquisition of the shares must be submitted. Such modifications shall be announced to those persons who have been deemed to have qualified to participate in the controlled sale. In such case, any such qualifying person may withdraw from the process of the controlled sale and the amount of the security deposit which it has deposited, and interest thereon, shall be refunded to it, without it having the right to any claim or compensation.

b. Ministry Action under Certain Circumstances. The applicable Ministry may in its discretion:

i. in case it deems all bids unsatisfactory, cancel the controlled sale process, or

ii. in case of the receipt of only one offer, declare the controlled sale process terminated and initiate with the one bidder the negotiated sale process set forth in Section .05 herein.

c. Construction of this Section. The applicable Ministry will have the power to construe the meaning of the terms of the Controlled Sale and of this Regulation.

d. No Liabilty. The applicable Ministry or government assumes no liability whatsoever deriving from the accounting practices or policies of the enterprise or of the valuation of the enterprise required by Part hereof, all claims for such reasons to be disallowed.

Section .03. Public Auctions

1. Commentary on Use of Public Auctions.

A public auction is the method of sale currently being used to privatise small enterprises in Czechoslovakia, in which bidders to acquire 100% of the entity are sought from the domestic public at large. It is not common practice, however, for the public auction method to be used for large, complex privatizations. Nevertheless, it may be appropriate in cases where the enterprises being privatized are in the small to middle range of the large privatizations or are of marginal economic viability. It may also be useful where the enterprise has no economic viability but its property has value and can become the subject of a Sale, either in whole or in parts.

2. Procedures for Public Auctions.

Procedures for conducting a Sale by the public auction method shall be those procedures set forth in the Law Concerning the Transfer of Certain Property of the State to Other Legal or Physical Persons, Federal Law No. 427/1990, as amended by Federal Law No. 541/1990 (effective December 1, 1990.

Section .04. Public Offerings

1. Commentary on the Use of Public Offerings.

While a voucher system seeks to achieve the goal of broad public ownership of formerly state-owned enterprises, a domestic public offering seeks a similar goal, combined with the objective of realizing proceeds for the government (where already issued stock is sold by the government) and/or an infusion of equity capital into the enterprise (where newly issued stock is sold).

A pre-requisite for a public offering is the existence of a visible public marketplace, or stock exchange, on which the enterprises's shares can be traded. It is an objective of the government to establish a stock exchange in Prague by the summer of 1992. In addition, enterprises would be eligible for listing and trading on the Budapest and Vienna stock exchanges.

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Privatisations by public offering occur most often in mature economies such as the United Kingdom and France. Economies in transition and development are more often privatised by one or more of the other methods specified in this Part.

From an economic standpoint, the main issue is one of optimizing proceeds. Different valuation methods and other factors may tend to produce greater proceeds from a controlled sale than from a public offering. If a majority stake is sold in a controlled sale, a premium for control could be obtained, thereby maximizing the sale proceeds by this method. The decision to sell control has political implications, particularly where the sale is to foreign interests.

The choice between a controlled sale and a public offering may also be influenced by an enterprise's need for technological and management expertise that can only be obtained from a strategic partner. A controlled sale need not preclude a public offering, either simultaneously or at a later time. In fact, a controlled sale to a strategic investor would be likely to improve the market for a public offering because of the confidence that the presence of a knowledgable strategic investor would instill in investors.

A public offering may also be attractive from the standpoint of certain non-economic considerations. A public offering targeted to domestic investors can distribute economic ownership stakes somewhat broadly throughout the country. However, the pool of domestic capital may be inadequate to achieve a large privatization by means of a public offering. A public offering to both domestic and foreign investors will broaden the pool of capital and should increase demand for the shares and thereby enhance the price and liquidity of the stock of the enterprise.

2. Procedures for Public Offerings.

A Sale by means of the public offering method requires the following steps:

a. selection of market or markets (domestic only, foreign only or

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a combination, and if foreign markets, which ones),

b. selection of investment banking firm or firms to "underwrite" the offering--that is first, to help the applicable Ministry and enterprise determine the size of the offering and the price of the shares to be sold, the other terms of the offering and second, to purchase the shares and immediately resell them in the selected markets on the basis of its name and reputation in those markets, which it uses to vouch for the value of the shares being sold by it,

c. due diligence by the selected investment banking firm and its legal counsel--that is, a process of (i) reasonable investigation of the enterprise to determine all information about the enterprise that would be material to an investor in deciding whether to buy the shares of the enterprise being offered and (ii) preparation of a selling document (known as a "prospectus") accurately setting forth all such information,

d. meetings of senior enterprise managers and members of the investment banking firm with prospective investors and brokerage firms in the selected markets (known as a "road show"),

e. finalization of size and price of offering and allocation of shares to selected markets,

f. sale of shares,

g. delivery of shares against payment (the "closing").

Section .05. Negotiated Sales.

1. Commentary on the Use of Negotiated Sales.

A Sale by the negotiated sale method may take place only in cases where the controlled sale process breaks down because prospective buyers are unwilling to participate in the process through its completion. This is most likely to occur where the enterprise being sold is unprofitable or otherwise unattractive, or where a limited pool of buyers exists because the enterprise is in a specialized industry or prevailing market conditions make financing of an acquisition generally difficult. In contrast to a controlled sale in which the enterprise is marketed to an

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extended group of potential buyers and sold on the basis of largely standardized terms dictated by the seller, a negotiated sale involves negotiation of the terms of sale with a single buyer or a very limited number of buyers. Because these negotiations inevitably require concessions on the part of the seller, the process is more open to manipulation or at least the appearance of manipulation than is the controlled sale process. In order to minimize the potential for abuse, the rules require that the applicable Ministry obtain the favorable opinion of a qualified investment advisor as to the fairness of the sale transaction.

2. Procedures for Negotiated Sale.

A Sale by the negotiated sale method may take place upon the failure of a bona fide effort to sell an enterprise under the controlled sale procedures set forth in Section .02. As a precondition to any such Sale, the applicable Ministry must obtain the opinion of a qualified financial advisor as to the fairness of the Sale transaction from a financial point of view.

Section .06. Governmental Supervision and Approval of Sale.

Each Sale shall be carried out under the supervision of, and upon completion shall be approved by, the applicable Ministry. The applicable Ministry shall maintain a reasonably complete written record of all decisions made and other actions taken in supervising the conduct of each Sale and in approving such Sale. Such record shall be preserved and shall only be available to the Parliament to which the applicable Ministry is accountable or in accordance with judicial direction. The approval of any Sale by the applicable Ministry shall be evidenced by a certificate of approval issued by the applicable Ministry, which shall be final and conclusive as to all matters pertaining to such sale, including, without limitation, the methodology used, the purchase price and form of consideration paid and the successful bidders selected, if the sale is conducted pursuant to Section .02 or .03, or the purchaser involved if the Sale is conducted pursuant to Section .05.

Section .07. Title to Property Sold.

Upon the completion of a Sale supervised and approved in accordance with Section .06, title to all property sold thereby shall pass to the purchaser or purchasers thereof, free and clear of any right, title or interest whatsoever that might otherwise be asserted by any person claiming under Law No. 403/1990, concerning the rectification of some property injustices, according to the letter of Law No. 456/1990.

Appendix 6

Decree on Investment Vouchers (#383/1991)

DECREE OF THE GOVERNMENT OF THE CZECH AND SLOVAK FEDERATIVE REPUBLIC

REGARDING THE ISSUE AND USE OF INVESTMENT VOUCHERS

dated SEPTEMBER 5, 1991
(Ref No. 383/1991 Sb.)

This translation has been prepared by the privatisation advisers to the Federal Ministry of Finance in Czechoslovakia.

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The government of the Czech and Slovak Federal Republic, in accordance with § 46, 2) of Law No 92/1991, re: conditions of the transfer of state property to other persons (the "Transformation Law"), after agreement with the government of the Czech Republic and the government of the Slovak Republic, decrees:

PART I

INVESTMENT VOUCHERS

Section 1

1 The Federal Ministry of Finance is to issue voucher books that consist of registration cards I and II and of vouchers. Each page of the voucher book is marked with the same reference number.

2 The voucher book becomes an investment voucher [1] on the day it is registered in the name of its owner with the Federal Ministry of Finance, which is setting up, for this purpose, a numbered network of special work places (hereafter referred to only as "registration places").

3 The lists of registration places will be published by the Federal Ministry of Finance.

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[1] § 22 of Law No. 92/1991, re: conditions of the transfer of state property to other persons.

Section 2

Registration cards I and II contain the following information:

(a) the acquisition price of the vouchers;

(b) the birth number of the owner of the investment vouchers, his surname, name, title, address of his permanent residence, the signature of the owner and the date of the signature;

(c) the number of the registration place, the signature of an employee at the registration place, and the date of registration of the voucher book;

(d) the date of issue of investment vouchers of the relevant issue.

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Section 3

1 Besides the information prescribed by Law No. 92/1991, re: conditions of the transfer of state property to other persons (hereafter referred to only as "the law"), the investment vouchers contain the following information:

(a) the number of investment points with which the owner of the investment voucher exercises his entitlement, in accordance with § 5, 2), to purchase shares of joint stock companies (hereafter referred to only as "shares"), the shares of which are being privatised for vouchers in connection with the lists of enterprises and lists of property participation of the state in the activity of other legal persons [2] and in accordance with approved privatisation projects (hereafter referred to only as "lists of projects");

(b) serial number of each voucher.

2 Each investment voucher consists of three parts marked by letters A, B and C. Parts B and C are separable.

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[2] § 4, 1) of Law No. 92/1991

Section 4

1 Investment vouchers of the relevant issue are valid for 10 months from the date of issue. The Federal Ministry of Finance can extend this period.

2 The date of issue of the investment vouchers will be defined by the Federal Ministry of Finance.

Section 5

1 Each voucher book contains investment vouchers in the following composition:

(a) two vouchers, each for one order of 1,000 investment points;

(b) two vouchers each for two orders of 500 investment points;

(c) four vouchers each for five orders of 200 investment points;

(d) six vouchers each for five orders of 100 investment points.

2 Each owner of an investment voucher has the same entitlement to shares. The total extent of this entitlement is 1,000 investment points for one owner and for one privatisation wave (§ 11).

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Section 6

1 The voucher book can be purchased by any person for 35 Kčs.

2 The acquisition price of an investment voucher of the relevant issue is 1,000 Kčs. This price is payable at the time of registration of the voucher book by a voucher stamp which is affixed to registration card II.

3 The size of the voucher stamp is 23mm x 30mm; it contains the national emblem of the Czech and Slovak Federative Republic and is marked with the acquisition price of 1,000 Kčs.

Section 7

1 The registration place will verify, on the basis of the identity document or other document that may replace it, that the citizen who presents his voucher book for registration, fulfils the conditions prescribed for the establishment of his entitlement to investment vouchers [3] and whether the information given on both registration cards is identical and correspond to the facts. If the prescribed conditions are fulfilled, the registration place will carry out the registration.

2 The registration place will provide both registration cards with a signature of the employee of the registration place, a registration stamp printed over the voucher stamp and the date of registration.

3 When registering, a citizen can be represented by a physical or legal person on the basis of and to the extent given by a verified written Power of Attorney.

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[3] in particular § 23, 1), a) and § 24 of Law No. 92/1991

Section 8

The registration place will detach from the voucher book the registration card I and will send it without undue delay to the Federal Ministry of Finance for central recording.

Section 9

1 Should there be more than one voucher book registered to one person at various registration places, the first registration is valid. Should there be doubts which of these registrations was the first one, the Federal Ministry of Finance will decide which registration is valid. All other registrations are invalid.

2 If the owner of the investment voucher requests, during the course of a privatisation wave (§ 11) at the registration place which registered his voucher book, a change of this registration place the Federal Ministry of Finance will effect this change without undue delay.

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Section 10

1 The Federal Ministry of Finance will define the beginning and end of the period of time during which investment vouchers can be registered. Any registration made outside this period is invalid.

2 The registration places will start registration of the voucher books after the publication of the lists of projects. These lists, prepared in accordance with the documentation submitted by the central bodies of state administration of the republics authorised to approve privatisation projects [4] (hereafter referred to only as the "republic ministries"), will be published by the Federal Ministry of Finance.

3 The lists referred to in paragraph 2 will be prepared and published for each privatisation wave (§ 11).

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[4] § 2, 3) of Law No. 171/1991 of the Czech National Council on the effectiveness of the bodies of the Czech Republic concerning the transfer of state property to other persons and on the Fund of National Property of the Czech Republic.

§ 5, 1) of Law No. 253/1991 of the Slovak National Council on the effectiveness of the bodies of the Slovak Republic concerning the transfer of state property to other persons and on the Fund of National Property of the Slovak Republic.

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PART II

PRIVATISATION WAVE AND PRIVATISATION ROUND

Section 11

1 A privatisation wave is a period of time, the beginning and end of which is defined by the Federal Ministry of Finance, during which the owners of investment vouchers can, directly or through investment privatisation funds (§ 16), apply to purchase shares (hereafter referred to only as "order shares).

2 The privatisation wave cannot be commenced until basic information about joint stock companies, which will be privatised in the given privatisation wave with the use of investment vouchers, and about investment privatisation funds (§ 16), is published.

Section 12

The Federal Ministry of Finance can, on the basis of the actual number of registered citizens, adjust appropriately the number of shares published before the commencement of the privatisation wave.

Section 13

1 Within the framework of each privatisation wave, the shares are offered in individual privatisation rounds. A privatisation round is a period of time the beginning and end of which will be defined by the Federal Ministry of Finance.

2 Only shares with a nominal value of 1,000 Kčs can be offered for investment vouchers.

Section 14

Each privatisation round has the following four phases:

(a) the announcement of the rates of shares of individual Joint Stock Companies offered in the appropriate privatisation round for sale for investment vouchers; for the purposes of this Decree, the rates of shares means the number of shares of the appropriate nominal value offered for 100 investment points, or another whole multiple of a hundred investment points;

(b) the ordering of shares;

(c) collection and evaluation of the orders;

(d) the announcement of the results of the privatisation round (§ 25).

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Section 15

The Federal Ministry of Finance will define the rates of shares of individual joint stock companies for each privatisation round and will secure the publication of these rates.

PART III

INVESTMENT PRIVATISATION FUNDS

Section 16

Investment vouchers can also be used to acquire participation in Joint Stock Companies especially founded, after approval by the republic ministries, for this purpose (hereafter referred to only as "investment privatisation funds").

Section 17

1 The owner of an investment voucher can authorise an investment privatisation fund to use the investment vouchers handed over by the owner to acquire shares. He can do so only in the period of time before the commencement of the first privatisation round (hereafter referred to only as a "pre-round").

2 The beginning and end of the pre-round will be defined by the Federal Ministry of Finance.

3 The investment privatisation fund will, with the investment points handed over by owners of investment vouchers, purchase shares for these owners, with the proviso that these shares together with other shares acquired in the same manner, will be used to increase the basic capital of the investment privatisation fund. The investment privatisation fund will issue shares, with total nominal value corresponding to the increase in its basic capital, to the owners of the investment points who handed over investment points to the fund. Each of these owners is entitled to shares in the investment privatisation fund in nominal value corresponding to the ratio of the number of the investment points handed over to the total number of investment points handed over to this fund.

4 The handing over and accepting of investment vouchers creates a contractual relationship, between the owner of the investment voucher and the investment privatisation fund, the content of which are the mutual rights and duties mentioned in paragraph 3.

5 The handing over and accepting of investment points is done in accordance with Part IV.

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PART IV

ORDERING OF SHARES AND SATISFYING OF ORDERS

Section 18

It is possible to order shares of any joint stock company mentioned in the appropriate lists of projects. Investment points can be handed over to any investment privatisation fund.

Section 19

The owner of investment vouchers can order shares during the privatisation round or authorise an investment privatisation fund, in accordance with § 17, in the pre-round (in the Czech Republic at the Administration of post offices and telecommunications, Prague and in the Slovak Republic at the Administration of post offices and telecommunications, Bratislava) which will set up for this purpose a numbered network of special work places (hereafter referred to only as "acceptance places").

Section 20

1 The owner of investment vouchers orders shares, or authorises investment privatisation funds, in accordance with § 17, by entering in the pre-printed frame on the investment voucher the identification number of the joint stock company, the shares of which he is ordering, or of the investment privatisation fund to which he is handing over his points. This order of shares or this authorization is done identically on all three parts of the investment voucher. The pre-printed number next to the frame defines the number of investment points which are used up by the identification number entered in the frame.

2 If the information given on individual parts of the same investment voucher do not agree, the information given in part C of this voucher is taken as valid. Where part C is damaged or lost, the information on part B of this voucher is taken as valid.

3 The frames on each voucher form lines. The owner of the investment voucher fills in these lines from the top down. On part C the owner will enter, in a special frame, the number of lines which he has filled in with the identification number according to paragraph 1. If this information is not identical with the real number of lines filled in, only information on the appropriate number of the highest lines is taken as valid.

4 The investment voucher must not be filled-in illegibly, creased or damaged. The acceptance place can refuse to accept a voucher with such defects.

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Section 21

The investment privatisation fund will place its orders at a registration place in a way that will be defined by the Federal Ministry of Finance.

Section 22

1 The acceptance place will confirm the acceptance of the order or the authority according to § 17 by stamping the filled-in investment voucher on all three parts with its stamp bearing the date of the acceptance of the order and the signature of an employee of the acceptance place.

2 It is not the duty of the acceptance place to check the information given on the investment voucher and it is not responsible for incorrect information.

3 For each of the filled-in vouchers handed in, a fee of 2 Kčs is payable to the acceptance place.

Section 23

The acceptance place will send, without undue delay, part C of each investment voucher accepted to the Federal Ministry of Finance for central processing of the orders. Part B of each accepted investment voucher will be retained at the acceptance place for a period defined by the Federal Ministry of Finance. Part A of this voucher remains in the voucher book as a confirmation of the order or the authorisation, according to § 17, having been accepted

Section 24

1 The Federal Ministry of Finance will decide, on the basis of the results of central processing of the orders, which of the orders applied for within one privatisation round can be satisfied and which cannot be satisfied.

2 All orders of shares will be satisfied if the total demand was lower than the total supply of shares for vouchers or if the total demand equalled the total supply.

3 The orders for shares will not be satisfied for vouchers if the total demand exceeded the total supply by more than 25%.

4 If the total demand for shares did not exceed the total supply by more than 25%, the Federal Ministry of Finance can decide that orders submitted by investment privatisation funds will only be partially satisfied, pro rata to the extent of the orders applied for by the individual investment privatisation funds. This reduction cannot be more than 20% of the total portion of shares ordered by individual investment privatisation funds. Investment points corresponding to this reduction can be used by the investment privatisation fund in the following privatisation rounds.

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Section 25

1 During the last phase of each privatisation round, the Federal Ministry of Finance will inform each registration place about the number of shares that were ordered by the owners of investment vouchers registered at that particular registration place and by the investment privatisation funds that place their orders through that registration place. At the same time the Federal Ministry of Finance will inform the registration place which of these orders were satisfied in this privatisation round. The relevant registration place will issue, on request, the above mentioned information to these owners and those investment privatisation funds.

2 The Federal Ministry of Finance will publish, in the last phase of each privatisation round, information about orders which could not be satisfied in this round.

3 If it is not possible to satisfy the orders of shares by the method mentioned in § 24, the Federal Ministry of Finance will decide that none of these orders will be satisfied and that these shares will be re-offered in the following privatisation round. At the same time the Federal Ministry of Finance will define the new rates of these shares and will secure the publication of these new rates.

4 Investment points used for orders that have been cancelled in accordance with paragraph 3 shall not be included in the total entitlement according to § 5, 2).

Section 26

1 Depending on the development of the supply and demand for shares in individual joint stock companies, the Federal Ministry of Finance will decide on the ending of the sale of these shares in the appropriate privatisation round, and will publish this information.

2 Investment vouchers of the relevant issue which were not used in the privatisation wave for which they were issued, or were not used to the full extent according to § 5, 2), cannot be used in following privatisation waves.

Section 27

1 The Federal Ministry of Finance will announce in writing, within one month of the privatisation wave ending, to each owner of investment vouchers and to each investment privatisation fund, which of their orders placed in the course of the whole privatisation wave were satisfied. The Federal Ministry of Finance will at the same time announce, within what time and by what form these shares will be handed over to them.

2 The investment privatisation fund must, within one month of receiving its shares in accordance with paragraph 1, announce in writing to the owners of investment vouchers that have authorised it in the pre-round, according to § 17, the number and nominal value of the shares to which they are entitled. At the same time it will announce within what time and in what form these shares will be handed over to them.

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PART V

FINAL PROVISIONS

Section 28

1 The owner of investment vouchers can, in cases of loss, damage or using up all the pages of the registered voucher book, request the registration of a new voucher book at the same registration place which registered his original voucher book.

2 The price for registration of a new voucher book in accordance with paragraph 1 is 500 Kčs and is payable before the registration by money-order to a special account of the Federal Ministry of Finance. The registration of a new voucher book does not increase the entitlement according to § 5, 2).

Section 29

If a citizen applies for registration of other voucher books at one or more registration places, he is not entitled to a refund of the excess amount paid for acquisition of the extra investment vouchers.

Section 30

If the owner of investment vouchers exceeds, when ordering shares, the limits defined in § 5, 2), the Federal Ministry of Finance is entitled to bring this information in line with the defined limit. In doing so, the Federal Ministry of Finance will always give preference to an order submitted earlier (before an order submitted later).

Section 31

Information concerning joint stock companies, mentioned in § 3, 1), investment privatisation funds and rates of shares will be published by the Federal Ministry of Finance, in particular through registration places and acceptance places.

Section 32

The decisions under this decree will be taken by the Federal Ministry of Finance after agreement with the republic ministries.

Section 33

This Government Decree becomes effective on the day of its announcement.

This translation has been prepared by the privatisation advisers to the Federal Ministry of Finance in Czechoslovakia.

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Appendix 7

Voucher Privatization Information Booklet

FEDERAL MINISTRY OF FINANCE

Voucher Privatisation

INFORMATION BOOKLET

PRAGUE 1991

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I. GENERAL PART

1. What is privatisation

The concept of privatisation is being used both in the broad and narrow sense of the word. **In the broadest sense of the word** it means increasing the size of the private sector of the economy by reducing the state sector.

In the economy, privatisation happens, for instance, when the share of manufacturing businesses in the private sector increases from 10% to, say, 18%. This increase can occur for two reasons. First of all because new private enterprises are founded. Secondly, because enterprises owned by the state are transferred into private ownership.

In the narrower sense of the word, the concept of privatisation is always understood to be the latter of the above mentioned processes, i.e. the transfer of property owned by the state to private persons.

Such a transfer can be done, principally, by three methods. First of all by restitution, secondly by sale and thirdly in the form of a gift.

During privatisation the state therefore either returns some property to its original owners, or it sells its property to domestic or foreign entrepreneurs, or it gives its property to certain groups of the population as a gift.

It is a feature of privatisation that property, which is the subject of the transfer (i.e. restitution, sale or gift) are generally means of production. Therefore buildings, land, machinery, stocks, trademarks, patents and often whole enterprises, including their claims and liabilities, are privatised.

Privatisation (in the narrower sense of the word) is therefore a process which results in a change of ownership of means of production from the state to private entrepreneurial subjects.

2. Aims of privatisation

The aims of privatisation are both political and economic. Changes in the social structure, i.e. creation and expansion of the group of proprietors and their interest in ownership, belong among the **political aims**. This group will establish the counter-balance to all other social groups, in particular for the group of employees. As a result of privatisation, the monopoly of the state to provide employment opportunities is removed. The removal of this monopoly is a necessary condition for the functioning of democratic society.

The **economic aim** of privatisation is to increase the ability of the economy to adapt to external conditions. Private entrepreneurs react substantially faster to changes in prices, demand, technology etc. If they do not react, they perish. It is not in the interest of the state, and the state has no reason, to prevent them from this decline. On the contrary, from the point of view of the state, an enterprise that is going bankrupt is making the necessary space for the creation of new companies or for the growth of the enterprises that prosper.

Private enterprises are therefore more flexible not only as far as their creation and operation are concerned, but also in their liquidation. The abolition of state enterprises, on the contrary, will always be prevented by their owner - the state - which will, by various methods, try to help them get over their economic difficulties. Therefore, enterprises which should have been liquidated a long time ago to make space for those that are prosperous, often survive in a state-controlled economy.

Private enterprise is subject to more stringent controls over its economics because there are particular people whose personal benefit is connected with its prosperity.

Managers of a private enterprise are responsible for the results of their activities not to some state bureaucracy but to definite owners, or definite shareholders. Each shareholder has various reasons to be interested in whether the manager acts sensibly or, on the contrary, is irresponsibly wasting resources.

Therefore it is possible to expect a substantially higher financial discipline from a private enterprise than from a state one, the tendency of which is to prefer social targets (in particular maintaining a high level of employment) to the detriment of pure economic effectiveness.

3. Methods of privatisation

3.1 Partial and full privatisation

In principle, enterprises are bought and sold by the same methods as any other goods. However, certain criteria do exist. In the sale of an enterprise, a very significant role is played by the co-owners or participants in its activities. Only very exceptionally are medium-sized and large enterprises owned by a single physical person.

Participation in the activities is, in effect, participation in the decision-making process on how to manage the property of the enterprise. If the enterprise is 100% owned by the state, a board named by the state decides on the running of the enterprise. In the case of a private enterprise, these decisions are made by a board of directors named (elected) by the private owners. An enterprise can also have mixed ownership - it is partially owned by the state and partially by private persons. The decisions are then made by a board of directors which is in part named by the state and in part named (elected) by the private co-owners.

The privatisation of an enterprise therefore means a reduction in or even removal of the share of the state in determining the running of an enterprise. An enterprise can therefore be privatised fully or partially.

There are several methods to reduce or remove the share of the state in determining the running of an enterprise. All of them, however, can be included in one of the following categories:

a) sale of the enterprise, or part of its property, to a defined private investor.

b) deposit of the property of the state-owned enterprise into the assets of a commercial company and the sale of the state's property participation in this commercial company.

c) deposit of part of the state-owned property into a subsidiary founded together with a private entrepreneur.

3.2 Sale of an enterprise or part of its property

In this case, individual parts of the property of an enterprise are sold directly. This, of course, includes material property (buildings, machinery) and also claims and liabilities. Further, the rights to patents and licences are also included in the property of the enterprise.

When an enterprise is being sold, the individual parts of the property of the enterprise (if not all) which are to be transferred into the ownership of the new private owner must be defined.

The sale of an enterprise (or its part) is thus an exceptionally difficult business transaction in which whole teams of lawyers and economists usually participate.

3.3 Sale of state participation in the activity of legal persons

An approach can also be adopted where the property of the enterprise is not sold directly, but indirectly, by means of so-called property participation. In this case the property of the enterprise is deposited into the assets of a commercial (most often a joint stock) company. It is then not the property of the enterprise (including claims and liabilities) which is privatised because this property is no longer owned by the state but is owned by the appropriate commercial company. The state has acquired a property participation (shares) in this newly-created commercial (joint stock) company instead of property in its ownership. It is this property participation which is then privatised. In other words, it is not the material and non-material assets of the newly-created joint stock company which are being privatised but the shares that are issued on the basis of its assets.

3.4 Founding of an enterprise with private (e.g. foreign) property participation

A situation which very often arises in our circumstances is that the state enterprise splits off part of its property, and this property is then deposited, together with property of some foreign private company, into a new commercial company. The deposit of the property of the state and deposit by the foreign firm creates a so-called joint venture.

The right to decide on how to manage the property of this newly-created company will be determined by the size of the deposit of the two founders, i.e. the state enterprise and the foreign private firm. This means that the original 100% control of the state over the enterprise has been "diluted". The founding contract of this joint venture can also presuppose a further inflow of investment capital from the foreign partner. In such a case, the control of the state over the originally state-controlled property will decrease further. Actual decision-making about the management of the property can pass very quickly under the full control of the foreign private partner due to the fact that the original property of the enterprise has been transferred into the ownership of a commercial company, and the influence of the private partner is increasing.

4. Valuation and purchase price

If goods (e.g. enterprises) are being sold among private persons, the question of price i their private business in which nobody has the right to interfere. The situation i different in the case of a sale of state property to private persons. The question of pric immediately becomes a public issue.

The very basis of the privatisation process triggers off the problem of the price o privatised property. State property is not subject to market relationships and therefor no market price exists for it. When selling this property, the price must always b defined **administratively**. The government (a ministry), and not the market, must defin the price of the enterprise being sold. In some cases the government will invite consultancy firm to attempt to value the enterprise.

The result of this valuation, however, can differ significantly from the actual amount fo which the enterprise can be sold, i.e. from the actual purchase price. This is ofte ascertained only as the result of a public competition or auction because in these case the property is sold to the highest bidder. It can be defined by law that this purchas price must not be significantly lower than that shown by the valuation.

Unlike consumer goods, in the case of a sale of an enterprise (particularly if the seller is the state) a zero selling price may be shown. Restitution, for instance, is an example of a free-of-charge transfer of the property of the state into the ownership of private persons. But the state can also decide, aside from reasons of restitutions, to divide part of its property among other categories of persons.

This gift is not, of course, always motivated by generosity. There are enterprises that nobody would want even free of charge. Ownership of an enterprise is a very expensive business. Each owner has certain duties towards his property and the fulfilment of those duties can be very costly. If a citizen does not believe that the income from the enterprise will at least cover the liabilities, he will refuse an offer of an enterprise, even if it is being offered free of charge.

There are even cases where the government (as seller) is willing to pay the new owner for his willingness to take on the management of an enterprise. In such cases the government defines for the new owner a so-called negative price. It does so in the knowledge that the alternative will be to close down the enterprise and bear all costs connected with its liquidation, including compensation to ex-employees and consequent unemployment benefit.

5. Securities market

5.1 Joint stock company and shares

A Joint Stock Company (JSC) is a special type of commercial company. It is created on the basis of an agreement among a group of people who decide that each of them will take a certain amount of their own property and "donate" this property to the company being founded. Property that the founders owned thus becomes the property of the JSC. This property can be in the form of money or immovable property (buildings, land). It can also be, for instance, the right to use a patent or a trademark.

As a result of having "donated" his property to the JSC, the founder acquires certain very significant rights. The physical proof of his newly-acquired rights are securities called shares. Instead of being the owner of the donated property, the founder has become an owner of shares, or property participation in the JSC. The owner of the donated property has thus become a shareholder.

The statutory representative of a JSC is the board, sometimes called the administrative council. This board represents the JSC against third parties, in court and against other organisations. The board establishes and manages the operations of the company and exercises the rights of an employer. The board therefore decides on the methods of managing the property of the JSC.

The basic right of every shareholder is the right to participate in the election of the board. By depositing part of his property in a JSC the shareholder acquires the right to participate in decisions about who will manage this property. The larger the amount of property deposited by the shareholder in the JSC in proportion to the total property deposited, the larger is his share in this decision-making process. In other words, the number of votes of each shareholder during elections to the board is dependent on the number of shares he owns.

Another right of the shareholder is to share in the profits of the JSC. This share of profit is called a dividend. The third of the basic rights of a shareholder is his right to sell his shares at any time to anybody and to receive capital from this sale.

5.2 Dividends and capital

The motives of every shareholder are purely capitalistic. From his property participation in the activity of the JSC he expects financial profit. This is the purpose and fundamental right of each shareholder. The aim of his participation in electing the board will be the selection of people that will make his financial profit as large as possible. The intentions of the shareholder will be short-term or long-term. In the short-term he will consider dividends, in the long-term capital gains.

Dividends arise as a consequence of the rights of the shareholder to share in the profit of the JSC. Each year the JSC will determine its income and from this it will subtract costs, taxes and money designated for investment and reserves. What is left is available to be divided among shareholders. This share of profit that the shareholder receives every year is called a dividend. The dividend will equal zero if the JSC made no profit or decided to invest all its profit into development of its operations or retain in its reserves. It will be highest in cases where the JSC made large profits or does not intend to invest and divides its whole profit among shareholders.

Capital gains result from the right of the shareholder to sell his shares to anybody for the highest price offered. If the JSC prospers and grows and its markets are expanding and its reputation spreads, the demand for its shares will increase. The more people who want to buy shares in this JSC, the higher will be the price that people are willing to pay for these shares. Shares that are being sold this year for 1,000 Kčs may be sold in five years time for 5,000 Kčs. If a citizen owns 50 of such shares, his capital gain in five years time will be 200,000 Kčs.

Capital gains arise alongside income from dividends. Both these types of income can be related to each other. In most successful JSCs high dividends can be paid, and at the same time the current price for which shares can be sold, increases. Some JSCs invest all their profit and pay no dividends; if the investment is wise, the prices for which shares can be sold grows fast. Capital gains in such cases can more than compensate shareholders for the loss they suffered by not receiving dividend income. Short-term profit is sacrificed for the expectation of a long-term one.

The situation does not however always develop favourably. The JSC may stagnate or even announce bankruptcy. This can be immediately recognised by shareholders by the falling price of shares. The reason is that increasingly fewer people consider that these shares have good prospects.

The reaction of the shareholder to such a situation can be either "active" or "passive". In the first instance he will exert pressure on the board of the JSC to recall at least some of the managers and replace them with capable people. If the shareholder is convinced that his efforts will be successful, he will use the temporary drop in prices of shares to purchase as many as possible.

A "passive" shareholder, on the other hand, will try immediately to get rid of shares in the company which he has ceased to have confidence in (if they still have any value). He does not believe that the JSC will bring him dividends or capital gains in the future. He believes that money acquired by the sale of the shares can be invested better elsewhere, for instance in the shares of another JSC.

5.3 Guarantees for liabilities

The JSC owns its property. It alone owns machinery, stocks, patents, claims and liabilities, including debts. Therefore only it guarantees that its debts will be paid correctly and on time. If it does not pay its debts on time, court proceedings can be commenced against it. It is the JSC that is being sued, not its shareholders.

The JSC guarantees its liabilities like anyone else, i.e. with all its property. Should the company be declared bankrupt, all of its property which is saleable is sold and from the income of the sale the claims of creditors are paid. The JSC's responsibility for its debts is therefore unlimited, it guarantees them with all its property.

These guarantees however do not concern shareholders as they do not own the property but only property participation in the JSC. On the basis of this, the position of shareholders is very simple - they have only rights and basically no obligations. The only risk in cases of bad management is that their shares will have no value on the securities market.

5.4 Purchase and sale of securities

Shares are bought and sold as any other goods. Shares of some JSCs are in great demand, others are not sought at all. The supply - demand ratio defines the market price of these shares. The share market demonstrates very quickly and clearly the position each of these JSCs is in. A high price of shares shows that the market has confidence in the prosperity of the appropriate JSC. Decreasing prices of shares signal the opposite. If confidence in the viability of a JSC is completely lost, its shares lose all their value, i.e. become unsaleable.

6. Investment funds

6.1 Minimisation of investment risk

In a market economy, each citizen has the possibility to invest his savings, i.e. invest them in securities (shares and bonds), non-movable property, precious metals, antiques etc.

Each of these investment decisions carries with it a certain amount of risk: at least inasmuch as an alternative investment could be more profitable. The direct purchase of shares, for instance, requires some knowledge about the future economic effectiveness of the appropriate JSC.

The purchase of shares in an unknown JSC is therefore associated with a risk that this might be a poor investment, i.e. the shares will not bring any dividend or their market value will decrease.

A general strategy for the minimisation of investment risk is to diversify each investment, in other words divide it into several independent projects. An individual citizen does not usually have sufficient finances, however, for such diversification. An individual citizen therefore usually cannot, alone and from his own pocket, purchase a wide range of different securities. He can never create a sufficient assortment of investments to be able to compensate at least partially for the loss, should one of his investments "crash". In order to protect his investment as much as possible from the risk of bankruptcy of JSCs, he would have to acquire shares in at least one hundred JSCs. Moreover these shares should not be from companies in the same sector and in the same geographic region. Only such variability would protect the citizen against, for instance, a crisis in a sector of industry or political instability in a geographical region.

An **investment fund** is an institution which accumulates the finances of many small savers and invests these finances on their behalf into as many variable, successful and safe projects as possible.

Investment funds that invest in shares are important from the point of view of the requirements of voucher privatisation. The property of such investment funds are shares

of other JSCs. An investment fund itself is often a JSC. In these cases it is necessary to differentiate very carefully between these two types of shares:

a) shares owned by the investment fund, i.e. the shares are the property of the fund, its assets,

b) shares of the investment fund, i.e. the shares which represent the value of the assets of the investment fund.

Example:

Let us take an investment fund "Středočeská chemie, a.s." (Mid-Bohemian Chemicals). The fund owns shares in companies that operate in mid-Bohemia in the chemical industry as follows: 10 shares of 100,000 Kčs each in "Chemspol, a.s.", 100,000 shares of 1,000 Kčs each in "Petrochem, a.s." and 245 shares of 10,000 Kčs each in "Chemoexpoimpo, a.s.".

The nominal value of the shares held by "Středočeská chemie, a.s." is therefore 3.55 million Kčs. These assets are represented by 3,550 shares of 1,000 Kčs each in "Středočeská chemie, a.s.". Each shareholder of "Středočeská chemie, a.s." will be able to influence the management with shares in the above mentioned three chemical enterprises.

6.2 Investment policy

When formulating its investment policy, the investment fund must provide answers for at least the following three areas of questions:

a) Time horizon for the aims of the fund

The investment fund will state in its policy statement whether the aims of the fund are mainly short-term (maximum dividends) or mainly long-term (maximum capital gains). The more long-term are the aims of the fund, the less emphasis is put on the payment of dividends.

If the basic strategy of the fund is long-term appreciation of the investments then it will state in its founding contract that dividends and short-term capital gains will be, at least at the beginning, largely re-invested to expand the property of the fund.

b) Field of investments

The investment fund must decide in what shares and of which JSCs it will invest. There are two basic criteria for diversification of the investments:

b1) regional, and

b2) sector.

By combining these criteria, such types of investments as, for instance, "machinery in mid- Bohemia" or "electronics industry in Slovakia" can be created.

An extreme investment policy is, of course, a 100% purchase of an enterprise. The opposite extreme is the policy of a "portfolio diversified to the maximum" when the fund, theoretically, buys only one share in each enterprise.

c) Extent of activity

If the fund acquires at least 10% of shares in a given JSC, it may also acquire the ability to become an **active fund**, i.e. to actively intervene in the management of the JSC. In

cases of 100% ownership, the fund becomes a sole shareholder and does not have to share its authority to decide how the JSC is run.

A **passive fund**, on the other hand, limits itself to the administration of its portfolio. This means that it follows the movements on the securities market and buys and sells shares so that the profit (dividends and capital gains) for shareholders is as large as possible.

While the composition of securities held by an active fund normally is stable, the composition of securities in the passive funds may change rapidly. (In extreme cases the funds are capable of completely changing the content of their portfolio many times a year.)

6.3 Investment funds in the process of voucher privatisation

The general principles of investment funds described above also apply to the so-called investment privatisation funds (IPFs) created for the accumulation of investment vouchers. Instead of financial assets these IPFs will collect from citizens their investment vouchers - either the full 1,000 investment points or a portion of this sum.

The aim of the IPFs is to provide services for those citizens who will acquire investment vouchers but will lack the courage to use them for direct purchase of shares. These Owners of Investment Vouchers (OIVs) will entrust the investment points to IPFs which will invest the points on their behalf.

An IPF is created as a joint stock company. Its own shares are issued on the basis of the assets of the IPF. The property of the IPF will be made up of shares which the IPF purchases using the investment points handed over to it. Citizens who hand over their investment points to the IPF will acquire shares not directly in the privatised JSCs but shares in the IPF.

II. SPECIFIC PART

7. The purpose of voucher privatisation

From experience in developed, developing and recently also in ex-socialist countries we know that the transfer of an enterprise from the ownership of the state into the ownership of private persons is a very complicated and lengthy process. In principle, of course, the enterprise is sold like any other goods. At the same time, however, these goods are substantially more complicated than normal consumer items.

If the seller is the state, to the usual technical problems are added the problems stemming from the inexperience of state bureaucracy to undertake business transactions and from the high political sensitivity of the transaction.

In the majority of countries, privatisation is a very slow process. If the state manages to privatise several tens of enterprises, it is considered a great success. However in countries where there are thousands of state enterprises (and nothing else), such a rate is unacceptably slow.

In adopting their privatisation policy, our government and Parliament have decided to speed up the course of privatisation by the application of a so-called voucher method. Within the framework of this privatisation, a significant volume of state property will be transferred into the ownership of private persons not for money but for investment vouchers.

The voucher method solves at least two problems:

a) lack of money among the population,

b) inexperience of the population that generally does not know by what methods means of production or securities are bought. (Even if the citizen had sufficient finances, he cannot participate in privatisation because he does not know how.)

The sale of state property for investment vouchers is organised in such a way that it is sufficiently simple and understandable for every Czechoslovak citizen.

Voucher privatisation will thus above all guarantee that a large volume of state property will pass quickly into private ownership. Secondly, it will guarantee that a maximum number of domestic citizens can participate in the privatisation process.

8. Principles of the voucher method

Voucher privatisation will take place according to the following basic principles:

1. A certain number of state enterprises will be transformed into joint stock companies. These JSCs will be joined by a certain number of JSCs that were created in the past from state enterprises. It will be decided what portion of shares in each of these JSCs will be allocated for sale for investment vouchers.

2. The collection of shares of various JSCs thus defined will be offered for sale in one privatisation wave for investment vouchers. Vouchers of this issue are valid only for one privatisation wave.

3. Vouchers are valid only after being registered at a Registration Place. The Owner of Investment Vouchers (OIV) can spend, during one privatisation wave, a maximum of 1,000 investment points.

4. Shares are offered in individual privatisation rounds, therefore one privatisation wave consists of individual privatisation rounds. Each privatisation round has four stages.

5. In the first stage of each privatisation round the OIV will discover the price of individual shares. In the next stage he will order shares that he wants to buy. During the third stage all orders are centrally processed. The last stage is the announcement of the results of the privatisation round.

6. One round will not last longer than one month. It is expected that one privatisation wave will not consist of more than five rounds.

7. OIV can hand over part, or all of his 1,000 investment points to an Investment Privatisation Fund (IPF). Investment points can be handed over to an IPF by the beginning of the first privatisation round at the latest, i.e. by the start of the sale of shares of privatised JSCs. The limit of 1,000 investment points for each OIV is reduced by the number of investment points which he hands over to an IPF.

8. The OIV can spend his 1,000 investment points in one go during a privatisation round, or gradually during several rounds. Should he exceed his limit of 1,000 investment points (including points handed over to IPFs), this order will be reduced in accordance with an official decision so that it complies with the stated limit. (see section 14.1).

9. The order of shares applied for by the OIV may not always be satisfied. It will invariably be satisfied when the total demand for shares ordered is lower than the offer. In the opposite case it may be decided that the order will not be fulfilled. Investment points invested in an unfulfilled order can be used in later rounds for orders of shares of any JSC.

10. Orders of shares (and hand over of investment vouchers to an IPF) can be done by the holder at any Acceptance Place. However, information about the current and final results of his orders can be acquired by the OIV only at that registration place that has dealt with his registration.

9. Government decree about the issue and use of investment vouchers

Law No. 92/1991, re: conditions for the transfer of the property of the state to other persons, has authorised the government of ČSFR, after agreement with the governments of both republics, to regulate the method of issue of investment vouchers, the various types of these vouchers their acquisition price, the methods of expressing the entitlement to shares and the method of use of the vouchers. The government gives the following responses to the above mentioned matters in its decree:

9.1 Method of issue of vouchers

First of all, voucher books will go on sale and subsequently their registration will take place. Anybody can buy a book of vouchers. But only a Czechoslovak citizen with permanent residence on the territory of ČSFR who has reached 18 years of age by the date of the issue of the vouchers can register his book of vouchers in his name. At the time of registration, the voucher book will be stamped, which will show the date of issue of the investment vouchers. This date defines the appropriate issue of vouchers: the vouchers of this issue are valid for 10 months from the date of issue. Shares are sold for investment vouchers of a single issue. This sale of shares of a selected list of JSCs for investment vouchers of a particular issue forms the so-called privatisation wave.

9.2 Various types of investment vouchers

At the time the law was being approved, the possibility of the existence of so called restitution vouchers was considered. Through these it would have been possible to pay compensation in accordance with Law No. 87/1991, re: extrajudicial rehabilitation. While preparing the government decree, the working groups came to a decision that the above mentioned financial compensation will be paid by another method - by shares of specially-created investment restitution funds. Therefore the whole voucher privatisation will involve the use of only one type of investment voucher.

9.3 Acquisition price of vouchers

There is a distinction between the price of the voucher book and the acquisition price of investment vouchers.

There are no rights and obligations connected with the purchase of a voucher book itself. A voucher book can therefore be bought as a souvenir. (For these reasons, too, it is difficult to estimate in advance the real number of voucher books which will be sold.)

The acquisition price of the vouchers has been defined as 1,000 Kčs. Physical evidence of this fee having been paid requires the introduction of a special voucher stamp. The stamp is affixed in the voucher book, on registration card II, and will be evidence that the acquisition price has been paid.

The registration stamp is not a duty stamp. Income from the sale of voucher stamps will go to a special account of the Federal Ministry of Finance. This account will be used to cover all expenses connected with the costs of voucher privatisation. (Net income from this privatisation will be transferred to the property of the republic funds of national property.)

9.4 Methods of expressing the entitlement to shares

The government decree introduces a new unit - the investment point. With the aid of this unit the extent of the entitlement to shares is defined. Therefore the prices of privatised shares will be defined in investment points. The purchase strength of individual investment vouchers will also be defined in investment points. Each citizen is entitled to use his vouchers up to the maximum of 1,000 investment points.

9.5 Method of application of investment vouchers

After the investment vouchers have been registered by their owner they can be used to buy shares (for this owner) by anybody. Shares are bought in such a way that first of all they are ordered by the OIV and afterwards he is told whether his order has been satisfied or not.

Ordering is done at the acceptance places, which is the network of post offices. The orders are processed centrally. Controls over whether the person for whom the shares have been ordered is properly registered and whether the order does not exceed the limit of 1,000 investment points are also carried out centrally. Before the commencement of the first privatisation round a so-called pre-round will be announced during which OIVs will be given the opportunity to hand over their investment points to IPFs. These investment points are used by IPFs to purchase shares. Shares bought by an IPF for investment points are deposited into its assets and on the basis of this, it will issue its own shares. Holders of investment vouchers that have entrusted their investment points to an IPF will then receive shares in that IPF.

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10. Voucher book

The first two pages of the voucher book are registration cards marked I and II. Registration card I is sent off for central recording. Registration card II remains in the voucher book. Central recording of persons will prevent one citizen from ordering, for himself, shares using more than one book at the same time.

Information on the registration cards corresponds to the requirements of the law. All the pages of a voucher book have the same reference number. The date of issue of the investment vouchers of the appropriate issue is not pre-printed either on the registration card or on any other page of the voucher book. It is included in the registration stamp. Due to this it is possible to use the voucher book for various privatisation waves. For instance, should only some of the prepared books be sold in the first privatisation wave, the remaining voucher books can be used for the following issue of vouchers. Because it is difficult to estimate in advance the number of those interested in the voucher books, and due to the high costs of printing, this minimises the total costs of voucher privatisation.

The extent of the entitlement to shares is expressed in investment points. Therefore the price of shares in individual JSCs in the appropriate privatisation round is also expressed in investment points. Each investment voucher in one voucher book has its own serial number. The voucher book contains a total of 14 investment vouchers marked 01 - 14.

An investment voucher has three parts marked A, B and C. The information filled in on all three parts is identical. Each part of each voucher is therefore identified by three features:

a) the voucher book reference number (common to all pages of the voucher book),

b) the serial number of the voucher,

c) information on whether it is part A, B or C.

The period of validity of vouchers of one issue has been defined as 10 months from the date of issue. The authority given to the Federal Ministry of Finance to extend this period will permit flexibility during the course of a privatisation wave. Should the course of the sale be somewhat delayed, this creates the ability to sell the vouchers of the appropriate issue after expiry of the 10-month deadline.

The voucher book contains investment vouchers of various nominal values. This variability will enable OIVs to place diversely structured orders. The total volume of investment points on the 14 vouchers is 11,000 points, out of which however the OIV is allowed to use at the most 1,000 during the course of one privatisation wave.

These 1,000 points can be used at once in one privatisation round or gradually in several. If an order exceeds the limit of 1,000 investment points it will be reduced on the basis of an official decision, in order to fit the limit.

It is expected that several million people will register their voucher books. Such a vast number of people can only be served by setting up special Registration Places. Due to other functions that Podnik výpočetní techniky, a.s., (PVT Prague), and Podniky výpočtovej techniky, š.p., (PVT Bratislava), are fulfilling in the process of voucher privatisation, they have been authorised to establish the Registration Places.

A citizen is entitled to register at a registration place of his choice. The selection of this place is important for the citizen because only this place will have to provide information about current and final results of the sale of shares for investment vouchers.

The pre-printed form for the power of attorney on the reverse of registration card II can be used by a citizen if he wants to be represented at registration by another citizen.

Another written form with this authorisation can also be used. The signature on the written power of attorney must be verified by an agent authorised to do so. To acquire this verification is just as difficult as to do one's own registration. Therefore it will be mainly persons who will not be on the territory of ČSFR during voucher privatisation that will be represented in such a way.

If the citizen is represented by a legal person, (e.g. bank or a savings house), this organisation will have to prove its authority to represent the citizen in the usual way.

11. Prices and rates of shares

A concept of "privatisation wave" is being introduced. The factors defining this wave are:

a) On the demand side: issuance of investment vouchers of the appropriate issue (The 10-month period during which the vouchers are valid defines the appropriate issue of vouchers).

b) On the supply side: a list of JSCs the shares of which (fully or partially) will be sold for investment vouchers of one issue.

Registration of investment vouchers cannot be commenced until citizens know, at least roughly, the volume of the supply. This requirement is satisfied when there exists a list of enterprises that are to be transformed into JSCs and consequently privatised with the aid of investment vouchers of the appropriate issue.

The duration of the privatisation wave is not known beforehand. Its beginning and end is within the authority of the Federal Ministry of Finance that will, in making these decisions, react flexibly to the actual course of the sale.

Shares for investment vouchers are sold by an auction method in privatisation rounds. Each round commences with the announcement of a so-called rate of shares for each JSC. This rate indirectly defines the price of a share (in investment points).

Example 1:

The rate of a share in company XYZ is defined as "5 shares for a hundred". This means that five shares of 1,000 Kčs each in this company are being sold in the appropriate privatisation round for 100 investment points. (One 1,000 Kčs share of this company therefore costs 20 investment points.)

Example 2:

The rate of a share in company CDE is defined as "2 shares for 300". This means that each of the 1,000 Kčs shares of this company costs 150 investment points.

12. Participation of the citizen in voucher privatisation

Full participation can be divided into the following five stages:

1. purchase of a voucher book,
2. registration of the voucher book,
3. handing over points to Investment privatisation fund in the pre-round,
4. ordering shares in individual privatisation rounds,

5. exchange of satisfied orders for shares in privatised JSCs. (Steps to be taken in this stage will be the subject of a separate information booklet.)

12.1 Purchase of a voucher book

Voucher books will be sold in all post offices in ČSFR. The information booklet and the voucher stamp, by which the registration fee of 1,000 Kčs is paid, can be bought at the same place. Prior to the commencement of the registration of the voucher books, lists of JSCs, the shares of which will be sold for investment vouchers, will be published. The lists will also contain, for each JSC, information about the accounting value of the property of the JSC and the portion of their shares that will be privatised by the voucher method. These lists will be available at all post offices and local council offices. Lists of all registration and acceptance places can also be found there.

12.2 Registration of a voucher book

Only that owner of a voucher book who registers his book of vouchers can participate in the privatisation wave.

The citizen will carefully fill in, in accordance with the instructions, registration card I in his voucher book and will make sure that all registration information has been correctly transferred to registration card II. The voucher book can be registered by its owner but he can also authorise another person to do so on the basis of a power of attorney. The power of attorney must be in writing and the signature must be officially verified.

Registration of the voucher book can be done at any registration place.

Registration itself is done by an authorised employee of the registration place. A citizen proves his identity to this employee. The employee will check that the information given on the registration card corresponds to the information in the identity document of the person presenting his voucher book for registration. For the purposes of registration, the citizen must also buy a voucher stamp. This stamp is affixed to registration card II and the employee overprints it with a registration rubber stamp. Registration card I is also rubber stamped. Both registration cards will also include the date of registration and the signature of an employee of the registration place. This employee will detach registration card I and will return the book to the citizen. Registration card II with the rubber-stamped voucher stamp remains in the citizen's voucher book.

Registration card I is sent from the registration place for central recording, i.e. to be entered in the central register of holders of investment vouchers.

Only voucher books that are clean and not damaged or bent can be registered. Information in the voucher book must always be filled-in in capitals using the enclosed black ball point pen. Exceptionally, another ball point can be used but it must be of good quality, must not run or smudge and must be black or blue.

The citizen will fill in the information required in the pre-printed frames. No part of the letters (including hooks, strokes and other diacritical signs) must be written outside the frames, and these must not be crossed, corrected etc. Failure to respect these instructions could result in mistakes when reading the information, as this information will be processed by optical reading equipment. The registration or order may be distorted due to such mistakes. Responsibility for these mistakes is fully on the person who has mistakenly filled-in the registration card or investment voucher.

None of the empty frames should be crossed through as the optical reading equipment regards any sign entered in the frame as part of the information!

The citizen fills in registration card I, which is copied onto registration card II. Maximum attention must be given to filling in registration card I. It may be appropriate to write the information on a piece of paper first of all and only then fill in the voucher book. Should the citizen make a mistake, he has to buy another voucher book. After filling in registration card I the citizen will make sure that all the information is legible also on registration card II. If not, the citizen will rectify the situation.

All information on registration card I must be filled in from the left. That means that the first letter or number of the information given must be placed in the first frame on the left edge.

Example:

correct: | D | I | V | I | Š | | | | | | | | | | | | | | | | | | |

incorrect: | | | | D | I | V | I | Š | | | | | | | | | | | | | | | |

a) **Birth number.** The citizen will find his birth number on his birth certificate or in his identity document. If the birth number has nine digits, the last 10th frame will remain empty. The empty frame must not be crossed through! Dashes or full stops which are used in the birth numbers should not be filled in on the card.

b) **Surname.** Only Latin lettering of up to 25 letters can be used. If there is a sign contained in a citizen's name which is not given in the lettering pattern, he should fill in the letter which is most similar.

c) **Name.** To be filled in like the surname, maximum of 18 letters.

d) **Title.** The title will be filled in as the citizen considers suitable but always according to the same rules that he used to fill in previous information. Empty frames here should also not be crossed through.

e) **Permanent address.** This information is divided into the following three groups: street (town), number, town (sorting office), PSČ (post code).

Information is filled in here according to whether the address is in a large town, in a town that has a post office and streets, in a town that has no post office but has streets or in a village that has no streets.

Examples:

In a large town:

street (town), number

| L | O | V | O | S | I | C | K | Á | | 6 | 6 | 0 | | | | | | | | | | | |

town (sorting office)

| P | R | A | H | A | | 9 | | - | | P | R | O | S | E | K | | | | | | | | |

In a town that has post office and streets:

street (town), number

N	Á	M	.	T	.	G	.	M	A	S	A	R	Y	K	A		Č	.	1	5															

town (sorting office)

L	Á	Z	N	Ě		B	Ě	L	O	H	R	A	D																						

In a town that has no post office but has streets:

street (town), number

B	Í	T	O	V	I	C	E	,	H	O	R	N	Í		Č	.	1	0																	

town (sorting office)

S	T	R	U	H	A	Ř	I	C	E																										

In a village that has neither post office nor streets:

street (town), number

D	O	L	N	Í		J	A	V	O	Ř	Í		1	0																					

town (sorting office)

L	Á	Z	N	Ě		B	Ě	L	O	H	R	A	D																						

f) **Number of the registration place.** Each registration place has an identifying number. The easiest way for the citizen to fill in this number on the registration card will be directly at the registration place. The number will be placed so that it is clearly visible.

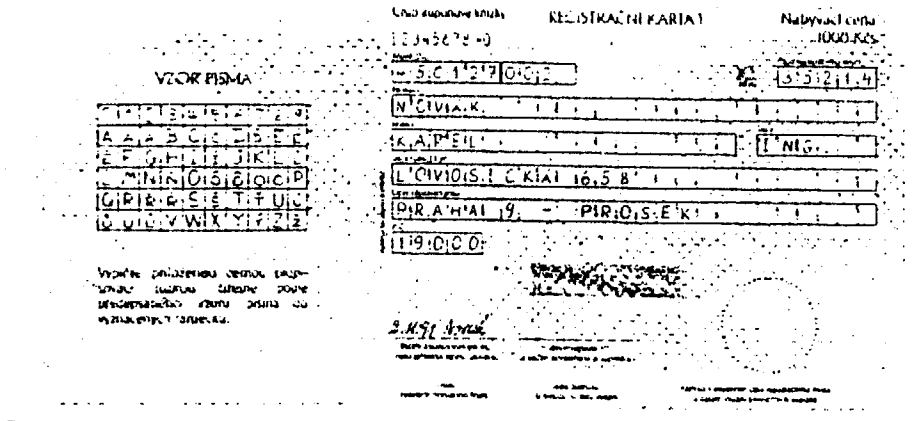
g) **Date and signature of the citizen.** Registration of a voucher book can be done either directly by the owner of the voucher book or by a person that he will authorise. Either the owner or his representative will sign the registration card and will include the date of this signature. This signature and date must not be mixed up with the information that will be filled in by the authorised employee of a registration place at the time of registration.

Examples:

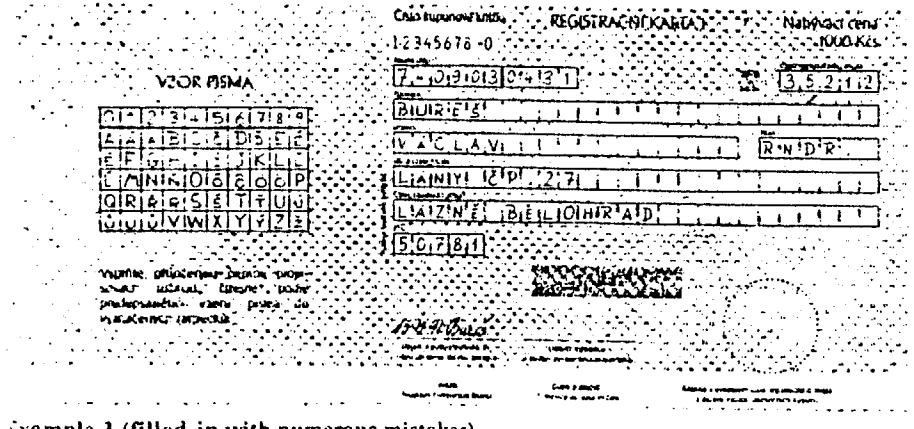
The enclosed examples 1 and 2 illustrate a faultless filling-in of the registration ca
Example 3 intentionally contains the following mistakes:

- letters in the surname are crossed out
- the name is not filled in from the left
- the title is crossed out and written above the frames
- the address is incorrectly written and wrong lettering has been used (it should be capitals in accordance with the guide)
- the post code has been scribbled over.

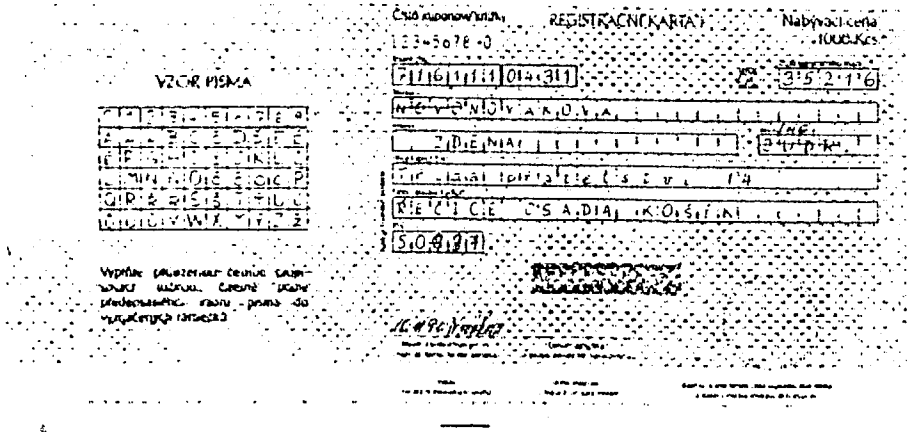
Example 1 (filled-in correctly)



Example 2 (filled-in correctly)



Example 3 (filled-in with numerous mistakes)



12.3 Ordering of shares in investment privatisation funds in the pre-round

The following information will be published before the beginning of the process of ordering shares:

a) a final list of privatised JSCs containing information about the amount and nominal value of shares with which this JSC is entering privatisation. Each JSC will be marked with an identification number of the organisation (IČO).

b) a list of investment privatisation funds to which it is possible to hand over investment vouchers. Each IPF, too has its own IČO.

The Federal Ministry of Finance will define a period during which it will be possible for the OIVs to hand over their investment points to some IPFs. The OIV can invest a maximum of 1,000 investment points in an IPF. He can divide these 1,000 investment points among several IPFs. Investment points handed over to an IPF cannot be used in subsequent privatisation rounds for the purchase of shares.

Example 1:

The OIV wants to hand over all his investment points to an IPF the number of which is 90000112. To do this he enters this IČO on investment voucher No. 1 and hands it in at any acceptance place. By handing over all 1,000 investment points the OIV has lost the opportunity to participate in the following privatisation rounds.

Example 2:

The OIV wants to hand over 200 investment points to IPF no. 90067722 and 300 investment points to IPF no. 90001111. For this he takes investment voucher No. 9 and in the first two lines on the top he enters (on all parts A, B and C) the IČO of the first IPF and in the remaining three lines the IČO of the second IPF. He has 500 investment points left to purchase shares in the following privatisation rounds.

Investment vouchers filled-in in this way are handed over at any acceptance place. The acceptance place takes the same steps as when accepting orders for shares: it stamps all three parts A, B and C of the investment voucher with the stamp of the acceptance place and provides a signature of the authorised employee. Then the employee detaches parts B and C of the investment voucher for recording and processing on computers. Part A remains in the book as proof of the transaction having taken place.

All three parts of the submitted investment voucher must be filled-in in an identical way. If this is not so, the information on part C is taken as valid. A hand over of investment points by the OIV to an IPF is done using the same technique as for ordering shares of privatised JSCs. There follows a detailed description of this technique.

12.4 Ordering shares in individual privatisation rounds

The investment vouchers are on pages 3 - 16 of the voucher book. Each investment voucher has its serial number (01 - 14). The value of each voucher is expressed in investment points. Investment vouchers issued on one date can be used only during the course of the appropriate privatisation wave. Any unused vouchers are not transferrable into future privatisation waves.

Orders for shares are filled in on investment vouchers by the Owner of Investment Vouchers (OIV). OIV must not overwrite, cross out or change any information on the voucher.

All information is filled in only in the pre-printed frames. Any of the fourteen investment vouchers can be used to order shares regardless of the sequence. Orders for shares in each privatisation round can be done on one or more investment vouchers. If the OIV makes a mistake, he can use any other voucher.

Each investment voucher has three parts marked A, B and C. The identification number of the JSC (ICO) is filled-in in the same way and on the same line on all three parts. This ICO is filled-in in the pre-printed frame. The pre-printed number by the side of the frame designates the number of investment points that the OIV is intending to invest in the JSC. These pre-printed numbers differ on individual investment vouchers. This gives the difference in the orders that can be made on vouchers 01 - 14.

On part C of the investment voucher the OIV will state how many lines of the voucher have been filled-in. This guarantees that lines that have been left free will not be filled in by another person. No frame that the OIV decides to leave free is to be crossed through! If the number of filled in lines on the investment voucher is higher than the information entered on part C of the investment voucher, all the extra lines will not be recorded.

Orders on all parts of the investment voucher are filled-in in the same way from the top down and without spaces. (By space we mean an unfilled or wrongly filled-in line). Each line of the investment voucher is independent of other lines. If, for instance, the OIV fills in three lines of the voucher with the same ICO, he is placing three times the designated amount of the voucher in this JSC. In the frame stating ICO, the OIV fills in the identification number of the organisation, either a JSC or an IPF.

Each OIV can use 1,000 investment points at the most. He can use this amount all at once, or gradually in individual privatisation rounds. If by placing an order in one of the privatisation rounds the OIV exceeds this limit, the order will be decreased officially to comply with the defined limit.

Example 1:

This is a correctly executed order by which all 1,000 investment points are handed over to an IPF with ICO No. 90000112. This order can be handed in only before the commencement of the sale of shares itself. If OIV hands over all his 1,000 investment points to an IPF, he cannot order any shares in the following rounds.

Example 2:

This is a correctly executed order. Shares of JSCs No. 00660721 (for 500 investment points) and No. 00250111 (also for 500 investment points) are ordered. At the time of submission of this order, the account of the registered voucher book must contain all 1,000 investment point.

Example 3:

This is an incorrectly executed order. (Only shares of JSCs No. 00350545 for 200 investment points and No. 00450712 for 400 investment points are correctly ordered). Number 90000112 is an IPF, the orders for which can be submitted only in the pre-round. The 200 investment points that were intended for the IPF are therefore invalid and can be used in the following privatisation rounds.

Example 4:

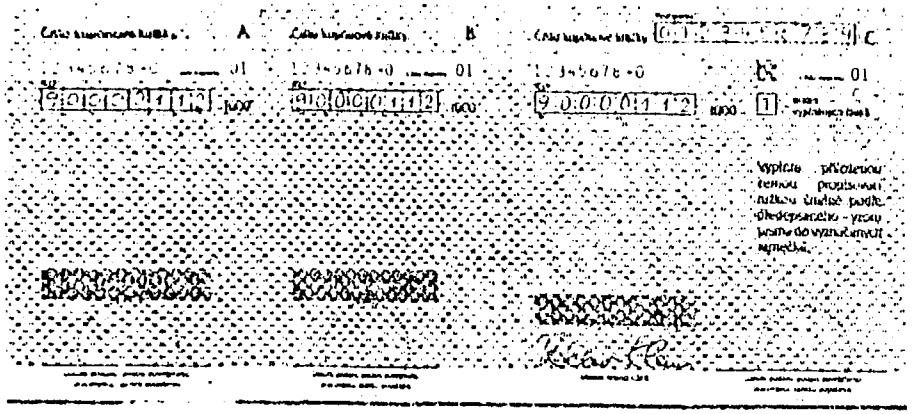
When filling in this voucher, the OIV has made the following mistakes:

- ICO wrongly filled-in on line 1
- line 2 crossed through
- in line 3 all three parts have not been filled-in in an identical way
- line 4 is blank
- in line 5 a change in the value of the order on the investment voucher has been made
- in part C, section "No. of lines filled in" has been left blank.

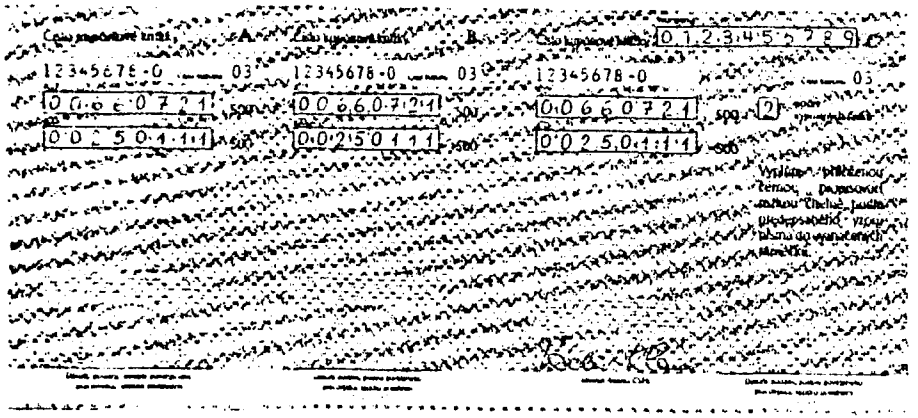
Example 5:

The OIV has made the following mistake: On part C, "the number of filled in lines" is stated as 2. In fact, the OIV has filled in 3 lines. During processing of this order, only the first two lines will be taken into consideration and the last line ignored. Instead of placing orders for 300 investment points, only 200 investment points have been used. The remaining 100 investment points can be used by the OIV in the following rounds.

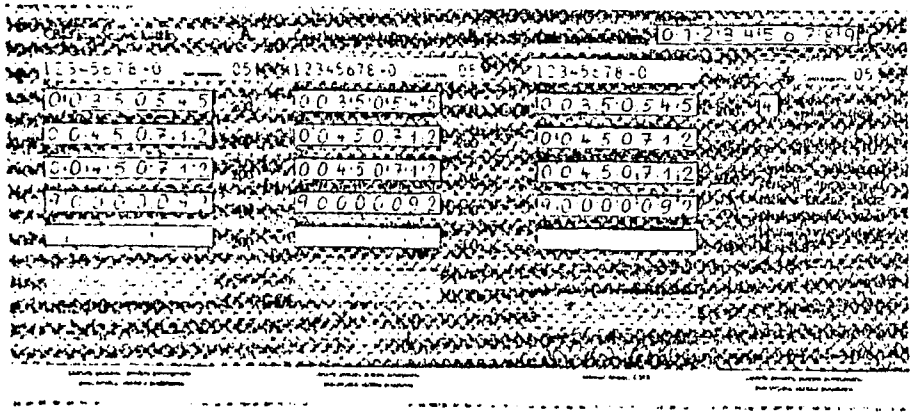
Example 1



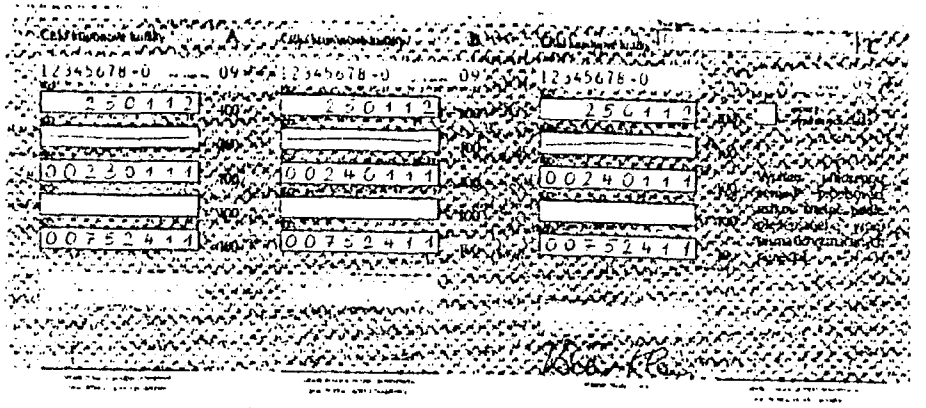
Example 2



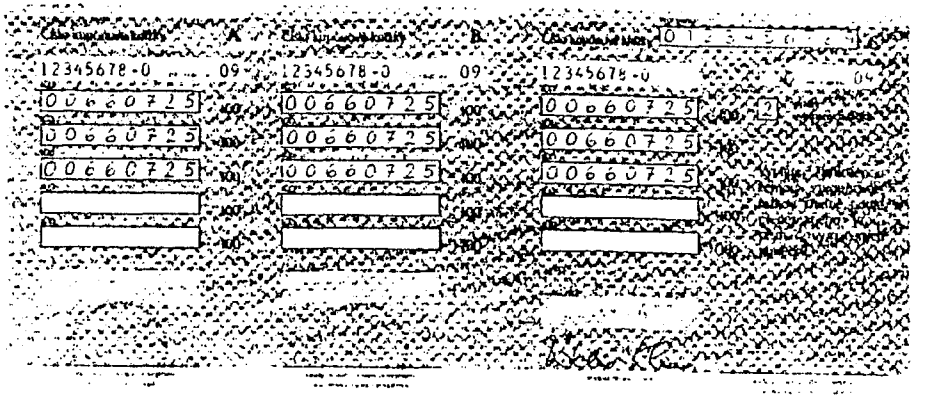
Example 3



Example 4



Example 5



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13. Oversubscribed demand

Shares of a large number of various JSCs will be offered in each privatisation round. Let us take two of these companies and mark them XYZ and CDE. Let us suppose that the privatisation wave has reached the third round and that:

shares of XYZ are offered at the rate of 20 shares for a hundred points

shares of CDE are offered at the rate of 3 shares for a hundred points.

Therefore shares of XYZ are very cheap (5 points for one share) while shares of CDE are very expensive (33.3 points for one share).

Let us suppose that, in this third round, 125,000 shares of company XYZ and 63,000 shares of company CDE are being offered.

After the rates are announced the OIVs will submit their orders. On their investment vouchers they will mark the identification number of those companies in which they are interested. Some citizens will order the above-mentioned two JSCs, XYZ and CDE. After all the orders have been processed, let us assume that the results of the orders for these two JSCs are as follows:

a) XYZ

Shares of this company have been ordered in the third round by a total of 1,200 OIVs, who have invested a total of 480,000 points. (Each OIV has invested on average 400 points, i.e. 1,200 x 480 = 480,000). In total, for those 480,000 points, 96,000 shares of company XYZ have been ordered (at the rate of 5 points for one share).

From the total offer of 125,000 shares, therefore, only 96,000 shares have been ordered. The offer in this case was larger than demand. The size of this excess offer is

125,000 - 96,000 = 29,000 shares.

The result of the third round for company XYZ therefore is: 96,000 shares of this company have been sold in the third round, and the remaining 29,000 shares will be hand overred into the following round, and probably offered for a lower price than in the third round (for instance they may be sold at the rate of 25 shares for 100 investment points, i.e. 4 points for one share).

b) CDE

Shares of this company in the third round have been ordered by a total of 12,500 OIVs who have invested a total of 2,500,000 investment points. (Each OIV has invested on average 200 points.) A total of 75,000 shares of company CDE has been ordered for the 2.5 million points (at the rate of 33.3 points for one share).

In the third round, therefore, while the total offer was 63,000 shares, an extra 12,000 shares have been ordered. A situation of **an oversubscription** has arisen, the size of this oversubscription being:

75,000 - 63,000 = 12,000 shares

In case of excessive supply, the applications can be satisfied. In cases of oversubscription this is not possible. The orders of OIVs who wanted to buy shares of company CDE in the third round will not be satisfied. All these orders will be cancelled. All shares of CDE offered in this (third) round will be hand overred to the fourth round. All investment points used in the third round to buy shares of CDE remain valid to be used in the following privatisation rounds.

In the next, fourth, round all 63,000 shares of company CDE will be re-offered for a price that can be expected to be higher than in the third round. (The rate in the fourth round could be, for instance, 2 shares for 100 investment points; this rate corresponds to 50 points for one share.)

Those OIVs that ordered shares of company CDE in the third round can re-use the points from this order. Points invested in the third round into shares of company CDE remain valid and are not included in the 1,000 investment points limit.

At the end of each privatisation round the Federal Ministry of Finance will announce by a convenient method, which orders could not be satisfied. On the basis of this information each OIV will realise how many investment points he has left for use in further privatisation rounds.

Example:

Before the third round an OIV has at his disposal 300 investment points. (In the pre-round he has handed over 200 investment points to an IPF and in the first two rounds he successfully ordered shares for the total of 500 investment points.)

In the third round, out of his 300 investment points, he has invested in the following way:

100 points to XYZ,

100 points to CDE.

The order for shares of XYZ was satisfied. These 100 investment points have been used. The order for shares in CDE was not satisfied in the third round. This means that the 100 points used to order shares in CDE remain to be used by the OIV. In the fourth round the OIV can place orders for a total of 200 investment points.

If the OIV is not sure how many investment points he has left after the third round, he can do one of the two things:

a) verify this information at his registration place,

b) order shares regardless of the 1,000 point limit. If by this order he exceeds his limit, his order will be automatically reduced.

14. Central correction of orders

14.1 Orders exceeding the limit of 1,000 investment points

The 1,000 investment points are at OIV's disposal for the whole privatisation wave. These 1,000 investment points can be spent in various ways.

To illustrate, let us suppose that in the pre-round the OIV has handed over to an IPF 100 investment points and therefore has 900 investment points to order shares in privatisation rounds.

Further let us suppose that in the first round the OIV has successfully ordered shares for 600 investment points. This means that for the second round he has left:

1,000 - 600 - 100 = 300 investment points

In the second privatisation round he orders, by mistake or intentionally, shares for 500 points, for instance in this way:

a) On 2.4.1992, on voucher no. 10, shares for 400 investment points and two days later, 4.4.1992 (in the same privatisation round) the same OIV orders on voucher no. 9 for 100 investment points.

b) On voucher no. 10 the OIV has ordered:

b1) shares of company XYZ on the first two lines totalling 200 investment points,

b2) shares of company CDE on the next two lines also totalling 200 investment points.

c) On voucher no. 09 he has placed an extra order for 100 investment point for company XYZ.

These two orders (on vouchers nos. 10 and 09) cannot be fully satisfied as the OIV has exceeded the limit of 1,000 investment points. These two orders will be, "by official decision", reduced according to the following principles:

1. All orders of the same OIV in the appropriate round will be arranged according to their date of submission.

2. Orders submitted on the same day will be arranged according to the serial number of the vouchers on which they were submitted.

3. Where there are a number of orders on a single voucher, these will be arranged according to the lines entered, from top to bottom.

4. Orders of one OIV submitted in one privatisation round are then crossed off from the bottom up until remaining orders fit into the limit of 1,000 investment points.

In our example it means the following: Preference is given to orders on voucher no. 10, as they were submitted earlier than orders on voucher no. 09.

Out of the orders on voucher no. 10, preference is given to orders of company XYZ, instead of company CDE, as they are placed on "higher" lines. The order for company CDE for 200 investment points will therefore be reduced by half.

The OIV in this example will be regarded as having ordered 200 investment points in XYZ and 100 investment points in CDE.

This course is not changed by the fact that, in the case of company XYZ, the OIV can find himself in a situation of an oversubscribed demand.

The above mentioned course is partially adjusted in cases where the order in CDE cannot be reduced by a half, for instance where the shares of company CDE are being offered at the rate of 1 share for 200 points. In this case the whole order is cancelled and the OIV is regarded as having ordered only shares of company XYZ for 200 investment points.

The OIV then enters the following privatisation round with 100 remaining investment points.

14.2 Orders on an unsuitable investment voucher

The voucher book contains a total of 14 investment vouchers which are divided into four groups according to what orders can be submitted on them.

It is possible that, during the course of privatisation wave, a suitable voucher for the intended order has already been used up.

Example:

In the first four rounds the OIV has used up all 100-point vouchers, i.e. vouchers nos. 09 - 14. (Some of these vouchers he has defaced, for instance, by filling them in incorrectly). In the fifth round shares of company XYZ are being offered at the rate of 2 shares for 300 points.

The vouchers remaining in the OIV's voucher book do not enable him to order shares of XYZ for exactly 300 investment points. Therefore the OIV will use, for instance, voucher no. 03 and will order shares of XYZ for 500 investment points. This order will during processing be automatically taken as an order of only 300 investment points.

If the OIV enters the ICO of company XYZ in both 500-point lines on voucher no. 03, formally he is ordering for 1,000 investment points. This order will be, however, automatically reduced to 900 points. Should the OIV exceed by this order the 1,000 point limit, the order will be further reduced in accordance with the principles mentioned above.

15. Investment privatisation funds (IPFs)

15.1 Property of IPF, shareholders of IPF and division of shares among these shareholders

An IPF is founded as a joint stock company. The founder of an IPF can be a legal person which obtained authorisation from the appropriate republic ministry of privatisation. These founders will be mainly existing state financial institutions. Other legal persons, already established or founded for this purpose, can also apply to found an IPF.

The aim of the founder of an IPF is to become the administrator of the property of an IPF. The property of an IPF will be shares of various JSCs purchased for investment points. These investment points are handed over by the holders of investment vouchers to the ICO of an IPF which they have selected. The founder will collect investment points handed over and will use them to buy shares. These shares will be hand overred into the property of the IPF. Then it will issue its own shares based on the property acquired. These shares will be divided among those OIVs who have handed over their investment points to the appropriate IPF.

Example:

Let us take two holders of investment vouchers, A and B and one IPF, to which in the pre- round:

A hands over 200 investment points

B hands over 600 investment points.

B therefore has handed over three times as many investment points to the IPF; the ratio of the investment points handed over by the two persons is 1 : 3. This ratio is identical to the ratio in which shares in the IPF will be divided.

The total points handed over was 800 and using these points shares will be bought (by the founder of the IPF).

Let us suppose that at the end of a privatisation round the following was purchased for the 800 points:

50 shares of 1,000 Kčs in company XYZ,

30 shares of 1,000 Kčs in company CDE, and

80 shares of 1,000 Kčs in company FCH.

For the 800 points was bought:

50 + 30 + 80 = 160 shares of 1,000 Kčs in various JSCs.

The shares thus acquired are handed over to the IPF. The nominal value of the property of the IPF is 160,000 Kčs. The IPF will then issue its own shares to this value. For instance, 16 shares of 10,000 Kčs of this IPF could be issued. These 16 shares will be divided between A and B; A will receive 4 shares and B 12 shares in the IPF.

A and B have therefore become shareholders in the IPF and their total participation in its shares is in the ratio 1 : 3, i.e. the ratio in which they handed over their points to the appropriate ICO of the IPF.

If other OIVs, apart from A and B, also hand over their points to the same IPF, two fundamental changes would take place in our example:

a) the volume of points for which shares are bought would increase and consequently also the resulting value of the IPF,

b) the ratio in which the resulting shares of the IPF will be divided among A and B (and others) would also change.

At the moment that the OIV is handing over his investment points to the IPF, he does not know which other holders are doing the same and to what extent they are doing so. At the end of the pre-round it may be discovered that only very few OIVs have handed over their points to the ICO of a particular IPF. By the same token, however, it may be that tens of thousands of OIVs have decided to send a significant part of their 1,000 investment points limit to the same IPF.

15.2 Reduction of IPF orders in cases of oversubscription

During voucher privatisation the single most complicated element is a situation where oversubscription occurs. (This means that more shares are requested than are offered.) When dealing with the problem of oversubscription it is necessary to bear in mind that shares are requested by two types of applicants:

a) individual voucher holders

b) investment privatisation funds.

These two types of applicants compete for the shares of a company in which there is high demand.

If, in any JSC there is a situation of oversubscribed demand, the basic rule is that all the orders for its shares are cancelled and re-offered in the following round.

An exception is introduced into this rule under the following two conditions:

a) the oversubscription is not too large, and

b) demand based on the total orders by individual OIVs is lower than the supply (i.e. oversubscription occurs only after the inclusion of IPF orders).

The above mentioned exception states that, by official decision, it is possible to reduce orders submitted by IPFs in such a way that after this reduction the supply equals demand.

Example:

Let us take a JSC called XYZ which is offering 150 shares of 1,000 Kčs. Assume this company is ordered by only three applicants: individual voucher holders A and B and one IPF. Let those orders be as follows:

A orders 40 shares,

B orders 30 shares,

IPF orders 85 shares.

Total orders are therefore:

40 + 30 + 85 = 155 shares,

i.e. 5 more than total supply.

In this case, by an official decision, the order of IPF will be reduced by 5 shares from 85 to 80. The points that the IPF invested in those 5 shares remain, of course, valid for the following round.

16. Example calculation of an average share price

Approximately 11.5 million inhabitants over 18 years of age live on the territory of ČSFR. These citizens, should they be interested, are therefore eligible to become owners of investment vouchers.

Of course not everybody will buy a voucher book and not everybody will register it. If only one third of eligible persons is willing to pay 1,000 Kčs for the right to buy shares for investment vouchers, we shall have almost 4 million investment voucher holders. This of course is a very large number of people. All these people must be given the chance to acquire some "visible" property. So that each OIV can receive a sufficient quantity of property large enough to interest him, the total supply of property entering voucher privatisation must be substantially larger than it might appear at first sight.

For example, 4 million OIVs will define the volume of demand. The purchase strength of each OIV is equal, at 1,000 investment points. On the demand side, the total purchase strength is expressed as:

4 million x 1,000 = 4 billion investment points.

On the supply side, the volume of property offered must be sufficient to be at least technically divisible among 4 million OIVs. It means that it is necessary to offer a volume of property which represents hundreds of our large enterprises. The more, the better. For instance, if we regard as sufficient supply the property of 1,200 state enterprises, each of which is represented by an average value of assets of, let us say, 260 million Kčs. The total value of property offered in this case is:

1,200 x 260 = 312,000 million Kčs, = 312 billion Kčs. This property will be represented by

1,200 x 260,000 = 312 million shares of 1,000 Kčs.

These shares of course represent shares of all 1,200 JSCs that will be sold for investment vouchers.

In the above example, on the side of supply stand 312 million shares. The demand side is represented by 4 billion investment points. On the basis of this it is easy to calculate the average price of one share:

$$\frac{4{,}000 \text{ million}}{312 \text{ million}} = 12.8 \text{ points per share}$$

If the OIV has at his disposal 1,000 investment points, that means that for those he can purchase roughly 78 shares of 1,000 Kčs. If the supply is as we have mentioned above and the demand side of the voucher privatisation is entered by the said 4 million OIVs, each of them should acquire property in the accounting value of roughly 78,000 Kčs.

This accounting value, of course, says very little about the market value of shares that the OIV will acquire for his investment vouchers. There is a great difference between the nominal value of a share (1,000 Kčs) and the price for which it can be realistically sold. Some 1,000 Kčs shares will quickly show a very low price. The price of other shares, on the contrary, will grow quickly in accordance with the growing demand for them, including demand from foreign investors.

Only when the process of registration is finished will it become known whether all 11.5 million of the eligible citizens will participate in the privatisation wave, or only 100,000. Similarly, the ratio of registered citizens with permanent residence in the two republics will not be known beforehand.

After the registration is finished it may be revealed that for the actual number of registered citizens too much property is being offered. The average price of one 1,000 Kčs share would be, in this case, too low, e.g. 0.01 investment point for a share. For this sort of price, the rate of a share would be 10,000 shares for 100 points. To one registered OIV would then belong, on average, 100,000 shares of 1,000 Kčs. This is almost one half of a medium-sized enterprise. In such a case, the Federal Ministry of Finance will be authorised to lower, in an appropriate manner, the volume of the supply.

And what about the average number of shareholders? If 4 million OIVs participate and supposing that the total of 1,200 JSCs are being offered for them, each JSC will have, on average,

$$\frac{4 \text{ million}}{1{,}200} = 3.3 \text{ thousand shareholders}$$

The average share capital of a JSC is, in our case, represented by 260,000 shares of 1,000 Kčs. Should each of the 3.3 thousand shareholders of one JSC own the same number of shares, he would own just those 78 shares that we have talked about earlier. (78 shares represent approximately 0.03% of the total shares of this JSC).

In reality, the situation will be somewhat different from our theoretical example. JSCs will be of varying sizes, demand for individual JSCs will indubitably differ, as well as the number of shares in the hands of various shareholders of the same JSC. One extreme is a shareholder who owns only a single share in "his" JSC. The other extreme is a shareholder who has acquired for his vouchers several thousand of shares of the same JSC.

The latter case will happen in a situation when demand for a particular JSC will be small and therefore its shares will be sold for a significantly lower price than the average price of 12.8 points per share. Let us suppose that the price of one share in this "unpopular" JSC will sink, in an extreme case, below 1 point, e.g. 0.75 points per share. For the 1,000 points that each OIV has at his disposal he can therefore acquire approximately 1,300 shares in this company. Such an OIV would have acquired 0.5% of the shares of the company. That in itself is a lot. However, the OIV can get in touch with others, let us say forty, persons of similar thinking (friends or relatives). These 40 OIVs will then hold 20% of all the shares of the JSC on which they are concentrating. This 20% holding may be sufficient to give control of the JSC. A well-organised group of 40 shareholders can, independently, decide on who will be and who will not be a member of the board of the

JSC. Through the board the controlling group will then supervise the selection of able managers and will secure a thorough control of the effectiveness of their work. Should their effort for increased effectiveness be successful, the controlling group may of course try and buy up the shares of other shareholders.

In cases that the demand for a given JSC will be high, the price for which its shares will be sold will also be high. This price can, for instance, be three times as high as the average 12.8 points. Should the price be 40 points per share, the OIV can order 25 shares at the most. This number represents approximately 0.01% of the total number of shares of an average JSC. At first sight it may seem that the owner of such a tiny portion can execute no control over the running of the company. This would undoubtedly be true if the position of other shareholders was better, if one or two of them owned significantly higher portions. This is not so however as each of the shareholders owns equally small amounts. Thus each of these "unimportant" shareholders has a surprisingly high possibility to influence the shape of the board of the JSC and how strict they will be in their supervision over its management. It is simply sufficient for the shareholder to be suitably active. If he regularly attends general meetings and if he is interested in how investment decisions are made, if he keeps an eye on the financial statements prepared, he will very quickly create conditions in which the management will have to either act responsibly or leave their posts.

Even if among the 10,000 shareholders there are just a handful (let us say 100) of such active shareholders, very strict supervision over the management will be created.

The second reason for not fearing such diverse ownership is the existence of the secondary market. This market will deal with the buying and selling of shares acquired for investment vouchers. Experience from other countries shows that shares will very quickly accumulate in the hands of investors who are capable of providing sufficiently strict supervision over the adherence to financial discipline of their JSC.

17. Recommended strategy for ordering of shares in the first privatisation round

The necessary condition for participation in voucher privatisation is an early purchase of a voucher book and registering it on time. The majority of citizens will undoubtedly understand that one thousand crowns is not such a large amount of money for them to invest in a process of such importance as voucher privatisation. That in spite of the fact that during the time that registration will be taking place, not all citizens will be fully and exactly acquainted with all details of the rules of voucher privatisation. It is likely that the citizen will begin to seek details eagerly only after he has registered his voucher book.

For 1,000 Kčs the OIV has acquired the possibility to become a shareholder, i.e. owner of shares of one or more JSCs. The OIV wants to become a shareholder mainly because he is expecting some financial profit, either dividends or capital gain. At the same time the shareholder must be aware that nobody will guarantee him either the dividends or the capital gain. To be a shareholder means, apart from other things, also the necessity to carry certain risks, for instance the risk that shares can lose their value or that the purchase of other shares might have been substantially more lucrative.

Everybody entering the voucher privatisation process must be aware that the hopes vested in the process may not be fulfilled. Particularly in our economy where the conditions for management are changing day-to-day, the investment made can gain a lot, but also it can be lost.

An immense number of variations of how to start the process of ordering can be selected. In this booklet we are recommending the five basic strategies set out below.

Let us suppose that the majority of OIVs will not hand over the majority of their investment points to IPFs and will rather aim for specific enterprises. Each OIV knows of at least three enterprises about which he has good reason to believe that they will survive in market economy. This may, for instance include the enterprise in which the OIV is employed or in which his friends or relatives work. The most important fact that the OIV has to discover about this enterprise is the state of its management, or what the quality of its executive employees is like.

If the management is not stable, if it is in the throes of internal arguments and is disunited in its view of the future of the enterprise, it makes no sense to invest in such an enterprise. But if the enterprise is led by an able manager who has surrounded himself with hardworking and qualified people, the hopes for future development of such an enterprise are great, although the present situation the enterprise finds itself in may not point at the moment to that. Even an enterprise which is in debt and has obsolete machinery can have excellent future if it passes into the hands of the right people.

The second piece of fundamental information that each OIV has to find out about is facts about the future sales of the enterprise. There are enterprises that are beyond any help and not even the most able manager will be able to get them out of trouble. These are enterprises that must disappear because nobody requires their products (or services). The three enterprises in which the OIV believes in their prosperity can be put into a sequence: in one enterprise of the three the OIV trusts the most, and in one the least. The OIV will arrange his enterprises and define his "No.1", "No.2" and "No.3".

Strategy 1:

The basic and the most highly recommended strategy then states that straight away in the first round it is necessary to place an order for at least 600 investment points in company "No.1". The OIV will discover the ICO of his "No.1" and will enter it in the frames on voucher no. 05. On this voucher he can make 5 orders for 200 points each. If the OIV wants to order his "No.1" for 600 points, he will enter its ICO in three lines, one under the other. (The remaining two lines he will leave free and on part C he will enter number 3 as the number of lines filled-in.) 400 points remain at the OIV's disposal. Those he keeps for the second privatisation round.

Strategy 2:

The OIV invests all his 1,000 investment points into his "No.1" straight away in the first round. He can do so, for instance, on voucher no. 05 by entering the ICO of his "No.1" into all five lines.

Strategy 3:

A similarly good strategy is to order straight away in the first round his "No.1" for 600 investment points and his "No.2" for 400 investment points. This again can be done on investment voucher no. 05. In the first three lines he enters the ICO of his "No.1" and in the remaining two lines the ICO of his "No.2" company.

Strategy 4:

Deferral of an order can be regarded as risky. There of course exists the possibility that company "No.1" will be offered more cheaply in the following privatisation round. By the same token the possibility also exists that "No.1" will not be for sale in the following

round as it was mainly sold in the first round. To delay one's order into the following rounds can only afford to be done by an OIV who can anticipate well the [illegible] demand for individual JSCs.

Course in the following rounds:

After the first round it will become more clear in which enterprises there is a large demand and in which only limited interest. It can happen that both in "No.1" and in "No.2" the demand has exceeded supply and the OIV finds himself in the situation of oversubscription. In this case the OIV has a decision to make: either he will order his two preferred enterprises in the second round, although they will probably be offered for a substantially higher prices, or he will give up on his "No.1" and "No.2" and will start ordering his "No.3".

Strategy 5:

Without any doubt, the simplest strategy is to hand the whole 1,000 investment points to one of the IPFs in the pre-round. In the list of the IPFs that will be founded for this purpose will be contained the identification number (ICO) of each such IPF. The OIV will select the ICO of one of the IPFs and will enter this number in the frame of voucher no. 01 and will present the voucher thus filled-in at any acceptance place.

The problem of this strategy is the fact that at the end of a privatisation wave the OIV will become a shareholder of an IPF the property of which he will not be able to understand because it will consist of shares in many JSCs. To hand over investment vouchers to an IPF is basically a passive investment that removes the chance to follow the economic development of the privatised enterprises.

Summary recommendation:

a) handing over of investment vouchers to IPFs is only recommended for those OIVs who are really at a loss or who cannot find anybody to order on their behalf. (Anybody can turn up at an acceptance place with a registered voucher book).

b) The majority of OIVs can therefore order, for their investment points, shares in specific privatised enterprises. We are recommending OIVs to select one such enterprise and in the first round to invest in it as many points as possible, if not the whole 1,000, then at least 600.

c) to delay an order makes sense only for those OIVs who believe that his company has a future and that in the later rounds will be offered for a lower price. This supposition (that there will be small demand for a company with good future) is however very risky.

Appendix 8

Mandatory Format of Privatization Projects

FINANCIERE CREDIT SUISSE FIRST BOSTON
PRAGUE REPRESENTATIVE OFFICE

MANDATORY FORMAT OF PRIVATISATION PROJECTS

Prague 1991

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P r i v a t i z a t i o n c a t e g o r i e s

Form No. 1
Accompanying letter of the Privatization Project

Form No. 2 /A/
Delimitation of the property of a legal entity earmarked for privatization under this project, if the property of the entire legal entity or a hundred-percent property participation of the state in enterprising of other legal entities is the subject of the project

Form No. 2 /B/
Delimitation of the property of a legal entity earmarked for privatization under this project, if the subject of the project is only a part of the property of the legal entity

Form No. 2 /C/
Summarization of property of individual legal entities earmarked for privatization under this project

Form No. 3 /A/
Property earmarked for privatization under this project and subject to restitution (Article 47 of Act No. 92/1991 of the Collection of Laws on transfer of the State property to other persons)

Form No. 3 /B/
Delimitation of part´s of the property earmarked for privatization under this project unusable for undertaking purposes

Form No. 3 /C/
Survey of the property earmarked for privatization by means of the public auction under Act No. 427/1990 of the Collection of Laws on trnasfers of the state property of some subjects to other legal entities or natural persons

Form No. 4 /A/
Independently privatized unit - privatization by means of the public auction under Article 14 of Act No. 92/1991 of the Collection of Laws on transfers of the state property to other legal entities

Form No. 4 /B/
Independently privatized unit - privatization on the basis of the result of a tender offer

Form No. 4 /C/
Independently privatized unit - privatization by means of direct sale to owner determined in advance

Form No. 4 /D/

Independently privatized unit - privatization by means of transfering the enterprise to the legal form of the joint-stock company

Form No. 4 /E/

Independently privatized unit - orivatization of property participation of the state in the undertaking of other legal entities

Form No. 4 /F/
Indep endently privatized unit - privatization by means of the transfer of property without consideration in accordance with provisions of Article 12, para.2, letters C,D of Act No. 92/1991 of the Collection of Laws in conditions of transfer of the state property to other persons and in accordance with provisions of Article 18, para.2, letters B,C,E of the Czech National Council No. 171/1991 of the Collection of Laws on the operation of organs of the Czech Republic in matters of transferring the state property to other persons.

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Mandatory Format of Privatisation Projects

Prague 1991

INTRODUCTION

In principle, the following steps are to be taken in the process of drafting a privatisation project:

1. Identification of assets (or state´s property interest in a given juristic person´s business) scheduled for privatisation within the scope of the project in question (Forms No. 2 (A) to (C)).

2. Determination of restitution claims of rightful persons related to the assets scheduled for privatisation within the scope of the project in question and of the proposed manner of settlement (Form No. 3 (A)).

3. Definition of that part of the assets which is unsuitable for entrepreneurial purposes (Form No. 3 (B) and which is to be settled before the privatisation is commenced, and definition of that part of assets which is designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of some state assets to other juristic or physical persons (Form No. 3 (C)).

4. Establishment of units which can be privatized independently (Forms No.4 (A) to (F)).

Furthermore, the entity drafting the privatisation project shall prepare an accompanying letter (Form No. 1) with the most important data on the project as a whole.

The following principles should be observed when performing the said steps in drafting a privatisation project.

1. Definition of assets (or state´s property interest in a given juristic person´s business) to be privatized within the scope of the privatisation project.

   The mandatory format of the privatisation project is based on the principle that one privatisation project can be used for privatisation of assets of only one entity (enterprise) or assets of several entities. At the same time, the privatisation project is applied both to an entity as a whole and to it parts. This is applicable also to cases of state´s interest in the business of other juristic persons (e.g. joint-stock companies where the state is a shareholder).

   One of the Form No. 2 series has to be prepared for each entity whose assets (state´s property interest) are to be privatized within the scope of the privatisation project in question.

   Form No. 2 (A) is used when the assets of an entire entity are to be privatized, while Form No. 2 (B) is used when only a part of assets of an entity are to be privatized. Form No. 2 (C), containing summarized data of Forms No. 2 (A) and No. 2 (B) is used for privatisation of more than one entity. This form presents information on all the assets (state´s property interest in a juristic person´s business) to be privatized within the scope of the project.

2. Determination of restitution claims by rightful persons pertaining to the assets privatized within the scope of the project and proposed manner of settlement of such claims.

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The entity drafting the project shall use Form No. 3 (A) for the above purpose. It is necessary to use a number of forms corresponding to the number of restitution claims pertaining to the assets to be privatized.

The proposed manner of settlement of restitution claims should be based on the alternatives enumerated in relevant legal regulations referred to in item 7 of Form 3 (A). In the event that a restitution claim is settled by a transfer of assets or shares of a joint-stock company which is a legal successor of the holder of the assets to be privatized, such assets (shares) are not to be included in the assets or liabilities of independently privatized units when the Forms 4 (A) to (F) are being completed.

3. Definition of that part of the assets which is unsuitable for entrepreneurial purposes, and which is to be settled before the privatisation is commenced, and definition of the part of assets designated to be privatized by means of a public auction under Act No. 427/1990, Sb - on transfer of state assets to other juristic or physical persons.

   In the event that prior to privatisation some parts of the assets to be privatized are identified as unsuitable for entrepreneurial purposes, Form No. 3 (B) is to be prepared. Such assets are not to be included in the assets of independently privatized units when Forms 4 (A) to (F) are being prepared. Instead, the results of the settlement (e.g. proceeds from liquidation) shall be included in the value of assets of privatized units.

   A similar procedure is to be adopted in the case of assets to be privatized by means of a public auction under Act, No. 427/1990, Sb - on transfer of state assets to other juristic or physical persons.

4. Establishment of units to be privatized independently

   For the purposes of the privatisation project the term "unit to be privatized independently" is understood to mean a newly established entrepreneurial entity which is the result of a transformation process preceding the privatisation proper. Within the scope of the privatisation project any number of units to be privatized independently can be established. Each unit to be privatized independently shall have a separate form of No. 4 series completed.

   When independently privatized units with property interest of entities other than the state are established, the fact that other entities have property interest has to be stated in the project. In addition, the assets owner´s stand-point has to be enclosed. The project has to indicate also the value of non-state-owned assets and the valuation method used, together with a description of the distribution of proceeds from the privatisation. The methods of valuation of state´s and non-state´s assets has to be based on the same principles, while respecting currently valid price regulations. For example, there can be an independent unit with cooperative and private property interest established in order to be sold as a single unit in a public auction. Such a course of action is possible only on the basis of an agreement with the owner.

In the event that a part of the assets to be privatized within the scope of this project is located on the territory of the Slovak Republic, this fact has to be explicitly mentioned in the privatisation project and, at the same time, the manner of settlement between the Fund of National Assets of the Czech Republic and the Fund of National Assets of the Slovak Republic has to be proposed.

¤ ¤ ¤

This mandatory format can also be used for privatisation of other than trading joint-stock companies of which the state is a co-founder. In this case the relevant forms for privatisation by means of a public auction, public tender or direct sale shall be used (Form No. 4 (A), (B), (C)).

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Form No. 1

ACCOMPANYING LETTER OF THE PRIVATISATION PROJECT

1. Entity drafting the project:

   (If a juristic person - company name, seat and address, company identification number IČO, if a physical person - name, surname and address.)

2. Relationship between the entity drafting the project and the assets to be privatized:

   (Relationship to all the entities the assets of which are to be privatized within the scope of the project - e.g. enterprise management, enterprise employee, external party etc.)

3. Project submitted to the founder (founders) on:

   (date)

4. List of annexes:

   (In addition to annexes specified in the forms of this mandatory format, the entity drafting the project has to enclose annexes listed below. If considered necessary, more information can be enclosed in the form additional annexes).

   4.1. Stand-point of the relevant authority for economic competition concerning the compliance with provisions in Act 63/1991, Sb - on protection of economic competition.

   4.2. Approval of the Federal Bureau for Inventions of the transfer of industrial and other intellectual property.

   4.3. Timetable of steps required to implement the privatisation project.

   4.4. Table No. 1: "Use of Property of Individual Entities".

   Table No. 2: "List of Property of Independently Privatized Units" (Table No. 2 is to be completed only when the assets of an independently privatized unit comprise property of more than one entity).

   4.5. When the voucher privatisation method is used, also Table No.3 "Joint-stock Company Registration Form" is to be enclosed.

5. Annexes attached to the project by the founder (founders) prior to submission for endorsement:

   5.1. Stand-point of all entities whose assets are to be privatized within the scope of the given project, unless it is the entity drafting the project (Article 7, Para. 2, Act 92/1991, Sb - on transfer of state assets to other persons).

   5.2. Stand-point of the founder (founders) (Article 8, Para. 1 of Act 92/1991, Sb - on transfer of state assets to other persons).

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Form No. 2 (A)

DEFINITION OF THE ENTITY´S ASSETS SCHEDULED FOR PRIVATISATION WITHIN THE SCOPE OF THE PROJECT IN CASES WHEN THE ASSETS OF THE ENTIRE ENTITY OR A HUNDRED-PERCENT STATE´S PROPERTY INTEREST IN THE BUSINESS OF JURISTIC PERSONS ARE TO BE PRIVATIZED

It is to be prepared separately for each enterprise of which the assets, including possible property interest in the business of other juristic persons, are to be privatized within the scope of the privatisation project.

It is to be prepared separately also for each juristic person with state´s property interest when the state´s interest is to be privatized within the scope of the privatisation project.

1. Entity name.
2. Seat and address.
3. Company identification number (IČO).
4. Founder.
5. Juristic form.
6. In the case of privatisation of the state´s property interest in the business of other juristic persons:

   names, seats, addresses of other entities involved,

   state´s property interest in %
7. Brief characteristics of the entity:

   (Main line of business, number and location of business units, major suppliers and clients, position on the market.)
8. Economic characteristics of the entity:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)[1]		
6.	Expenses	(úč. 1A-12 ř. 51, ths Kčs)		
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

Note 1 - úč. = financial statement, ř. = line

9. Assets of the legal entity included in the balance sheet:

   (A balance sheet úč. 2A-02 based on the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Moreover, the following summary data are to be included:

Assets, total	(ř. 52 úč. 2A-02)
Liabilities	(ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

   Entity´s assets included in the balance sheet (total assets - liabilities)

10. Entity´s land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb.

11. Other assets, not in the books:

    (In particular, costs related to modernization and reconstruction of fixed assets reimbursed from working capital, expert estimate of assets fully expensed at the beginning of their utilisation, etc.).

12. Total

    (Sum of values in Kčs under items 9 to 11.)

13. Intangible assets not recorded in the books:

    (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1	2
Description and brief characteristics	Estimated value in Kčs

14. Information on the manner in which the assets to be privatized have been acquired by the state:

    (The manner and date of acquisition of real estate property by the state. As far as movable assets are concerned, the information is to be provided only in cases of restitution claims under Act No. 403/1990, Sb - on alleviation of consequences of some cases of property-related injustice and under Act No.87/1991, Sb - on extrajudicial rehabilitations, as well as cases of transfer of property from the Church, religious orders, congregations and religious societies to the state after 25 February, 1948.)

15. The date on which the company concerned is to be dissolved by the founder without liquidation or the date (dates) on which a part (parts) of the company´s assets is (are) to be separated:

    (As a rule, such dates shall be identified by reference. Usually, it will be necessary to specify e.g. "on the day of entry of the joint stock company founded under this project in the Company Register", etc. However, such dates cannot be earlier than the date on which contracts concluded under the given project enter into force.)

16. The manner of transfer of industrial rights and/or other intellectual property, if such rights are property of the entity:

    (These include in particular patents, innovations, industrial designs, trade marks, etc.)

Form No. 2 (B)

IDENTIFICATION OF THE ENTITY´S ASSETS SCHEDULED FOR PRIVATISATION WITHIN THE SCOPE OF THE PROJECT IN CASES WHEN ONLY A PART OF THE ENTITY´S ASSETS IS TO BE PRIVATIZED

It is to be prepared when only a part of the company´s assets or the state´s property interest in the business of other juristic persons are to be privatized within the scope of the privatisation project.

1. Entity name.
2. Seat and address.
3. Company identification number (IČO).
4. Founder.
5. Legal form.
6. In the case of privatisation of the state´s property interest in the business of other juristic persons:

   names, seats, addresses of other entities involved,

   state´s property interest in %
7. Brief characteristics of the entity:

   (main line of business, description of links between the part of assets privatized within the scope of this project and the remaining part of the entity´s assets)
8. Description and brief characteristics of the assets to be privatized within the scope of this project (henceforth referred to as "assets to be privatized"):

   (Position of the assets to be privatized in within the current organizational structure and data on major plants (buildings, production units) and property.)
9. Economic characteristics of the entity:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses	(úč. 1A-12 ř. 51, ths Kčs)		
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

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10. Justification of the privatisation of a part of the entity´s assets under this project.

11. Assets to be privatized included in the balance sheet:

(A balance sheet úč. 2A-02 based on the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Within individual items of assets and liabilities only items concerning privatized property are to be given. Moreover, the following summary data are to be included:

Assets, total	(ř. 52 úč. 2A-02)
Liabilities	(ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

Entity´s assets included in the balance sheet (total assets - liabilities)

12. Entity´s land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

13. Other assets, not in the books:

(In particular, costs related to modernization and reconstruction of fixed assets reimbursed from working capital, expert estimate of assets fully expensed at the beginning of their utilisation, etc.).

12. Real estate evaluated according to the Decree No.182/1988, Sb - on prices of buildings, land, permanent growths, on reimbursements for establishing the right of personal use of land, and compensations for temporary use of land in the sense of the decree No.316/1990, Sb which are not recorded in the books.

14. Assets to be privatized, total

(the total 10 to 13)

15. Intangible assets not recorded in the books and pertaining to the assets to be privatized:

(In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1	2
Description and brief characteristics	Estimated value in Kčs

16. Definition of the entity´s assets which are not to be privatized within the scope of this project and justification of this procedure:

(Assets to be privatized within the scope of another project and assets the privatisation of which is not possible by law (constitution regulations). A balance sheet úč. 2A-02 based on the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. The balance sheet is to be prepared separately for assets to be privatized within the scope of other privatisation projects and for assets to be transferred to other state organizations before the privatisation process is commenced.

Moreover, the following summary data are to be included:

Assets, total	(ř. 52 úč. 2A-02)
Liabilities	(ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

Entity´s assets not to be privatized within the scope of this project (total assets - liabilities)

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17. Information on the manner in which the assets to be privatized have been acquired by the state:

    (The manner and date of acquisition of real estate property by the state. As far as movable assets are concerned, the information is to be provided only in cases of restitution claims under Act No. 403/1990, Sb - on alleviation of consequences of some cases of property-related injustice and under Act No.87/1991, Sb - on extrajudicial rehabilitations, as well as cases of transfer of property from the Church, religious orders, congregations and religious societies to the state after 25 February, 1948.

18. The date (dates) on which the founder shall separate a part (parts) of the company´s assets from the rest:

    (As a rule, such dates shall be identified by reference. Usually, it will be necessary to specify e.g. "on the day of entry of the joint stock company founded under this project in the Company Register", etc. However, such dates cannot be earlier than the date on which contracts concluded under the given project enter into force.)

19. The manner of transfer of industrial rights and/or other intellectual property, if such rights are property of the entity:

    (These include in particular patents, innovations, industrial designs, trade marks, etc.)

FORM No.2 (C)

AGGREGATE DATA ON ASSETS OF INDIVIDUAL ENTITIES TO BE PRIVATIZED WITHIN THE SCOPE OF THE PROJECT

It is prepared only when assets of several entities are to be privatized:

1. Number of entities involved:

   (It should be identical with the number of completed forms No.2 (A) or 2 (B)

2. Aggregate values of the assets to be privatized of individual entities:

   (Sum of values under item 12 of Forms No. 2 (A) and sum of values under item 14 of Forms No. 2 (B) of individual entities).

FORM No. 3 (A)

ASSETS SCHEDULED FOR PRIVATISATION WITHIN THE SCOPE OF THE PROJECT WHICH ARE SUBJECT TO RESTITUTION (Article 47 of Act No. 92/1991, Sb - on transfer of state assets to other persons)

1. Definition of the assets to be restituted and the entity holding them:

   Of which on the territory of the Slovak Republic:

2. Manner of acquisition of the assets by the state:

   (Reference to relevant legal documents which came into force between 1945-1948 and on the basis of which the assets were nationalized.)

3. Date on which the assets were transferred to the State:

   (i.e. the date on which the nationalization was announced by the Official Gazette or the date on which the fist ruling on nationalization was announced.)

4. Evaluation of the restitution claim:

   (Price of immovable property based on the property´s condition at the time it was dispossessed, determined by a court expert on the basis of price regulations valid as of 1st April, 1991 and possibly with the residual value of nationalized movables still in existence added.)

5. Name and address of the person (persons) entitled to make the claim.

6. Documents supporting the restitution claim:

   (A copy of records in the Land Register or of the nationalization ruling and a document confirming the transfer of title from the original owner to the rightful person - successor.)

7. Manner of settlement of the restitution claim:

   a) by returning the asset

   b) by compensation in the form of shares of the joint-stock company which is the successor of the assets´ owner

   c) by compensation in the form of shares of the Restitution Investment Fund:

   (Only if the nationalized assets become subject to a public auction or direct sale.)

8. Opinion of the rightful person on the manner of settlement of the restitution claim:

   (If different from the person preparing the privatisation project.)

9. Opinion of the entity holding the assets on the manner of settling the rightful person´s restitution claim:

   (If different from the person preparing the privatisation project.)

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FORM No. 3 (B)

DEFINITION OF PARTS OF ASSETS SCHEDULED FOR PRIVATISATION WITHIN THE SCOPE OF THE PROJECT WHICH ARE UNSUITABLE FOR ENTREPRENEURIAL PURPOSES

1. Definition of those parts of the assets which are unsuitable for entrepreneurial purposes:

   (The following information shall be included for individual parts of the assets)

   1.1. Definition and brief characteristics of the assets

   1.2. Price of the assets

   (Residual value and purchase price for physical assets and company price for other assets.)

   1.3. Justification of the unsuitability for entrepreneurial purposes

2. Total value of assets unsuitable for entrepreneurial purposes:

   (Sum of values under item 1.2., in the case of physical assets only the residual value.)

3. Manner of settlement of assets unsuitable for entrepreneurial purposes. The following information shall be included for individual parts the assets:

   3.1. Whether the assets are to be sold and in which way

   3.2. Whether the assets are to be physically liquidated

   3.3. Whether the assets are to be transferred free of charge, to which entity, for what reasons

   3.4. Expected profit (loss) from the sale or physical liquidation of the corresponding part of assets unsuitable for entrepreneurial purposes.

4. Expected total profit (loss) from the sale or physical liquidation of assets unsuitable for entrepreneurial purposes:

   (Sum of values under item 3.4 for individual parts of the assets.)

5. Distribution of the expected profit (loss) from the sale or physical liquidation of assets unsuitable for entrepreneurial purposes individual units privatized independently:

   (As a rule, it is based on the original allocation of assets. All the profit (loss) has to be distributed.)

FORM No. 3 (C)

OVERVIEW OF ASSETS TO BE PRIVATIZED BY MEANS OF A PUBLIC AUCTION UNDER ACT No. 427/1990, Sb - on transfer of some state assets to other juristic or physical persons

1. List of business units designated by the enterprise or by other persons for sale in public auctions:

   (Applicable only to business units forming part of the assets to be privatized within the scope of this project.)

2. Relationship between the business units designated for sale in public auctions and the other entities' assets, together with the reasons for their sale through a public auction:

   (e.g. enterprise store, enterprise recreation facility etc.)

3. Timetable of public auctions:

4. Total value of assets designated for sale in public auctions:

   (Sum of opening prices of all the business units on the list drawn as per to item 1.)

5. Expected proceeds from the sale of inventories.

6. Distribution of expected proceeds from the sale of inventories to the independently privatized units.

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Form No. 4 (A)

INDEPENDENTLY PRIVATIZED UNIT - PRIVATISATION BY MEANS OF A PUBLIC AUCTION AS PER ART. 14 OF ACT No. 92/1991, Sb - on transfer of state assets to other persons

It is to be prepared separately for each part of the assets to be privatized by means of a public auction.

1. Definition of the independently privatized unit:

   (Name, seat and address, number and location of sub-units, etc.)

2. Brief characteristics of the independently privatized unit:

   (Main line of business, position on the market, etc.)

3. Economic characteristics of the independently privatized unit:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses	(úč. 1A-12 ř. 51, ths Kčs)		
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

4. Assets of the independently privatized unit included in the entity's balance sheet:

   (A balance sheet úč. 2A-02 based on data of the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Only assets and liabilities pertaining to the independently privatized unit are to be included. Moreover, the following summary data are to be included:

   Assets, total (ř. 52 úč. 2A-02)

   Liabilities (ř. 2-69, ř. 4, ř. 85, ř. 102 úč. 2A-02)

   Assets of the independently privatized unit included in the balance sheet (total assets - liabilities)

5. Land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

6. Other assets, not in the books:

   (In particular, costs related to modernization and reconstruction of fixed assets, expert estimate of assets fully expensed at the beginning of their utilisation, etc.).

7. Estimated profit (loss) from the sale or physical liquidation of asset unsuitable for entrepreneurial purposes:

   (Data as per Item 5 of Form No. 3 (B), pertaining to the independently privatized unit in question.)

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8. Estimated proceeds from the sale of inventories related to the assets designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of state assets to other juristic or physical persons:

   (Data as per Item 6 of Form No. 3 (C), pertaining to the independently privatized unit in question.)

9. Total assets of the independently privatized unit:

   (Sum of data as per Item 4 to 8)

10. Intangible assets not recorded in the books:

    (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1 Description and brief characteristics	2 Estimated value in Kčs

11. Contractual rights and liabilities pertaining to the independently privatized unit:

    11.1 Contracts

    (Information on major contracts with suppliers and clients, including orders from the state - scope, date of delivery, and possibly price.)

    11.2. Warranty-related costs

    (Data for the last three years)

    11.3. Assets the transfer of which is blocked by restrictions on real estate transfers:

1 Identification	2 Value of blocked assets	3 Blocking period	4 Unpaid part of the liability

    11.4. Lease agreements (granted) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessor.)

1 Scope	2 Name and address of lessee	3 Lease period	4 Annual rent

    11.5. Lease agreements (taken) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessee.)

1 Scope	2 Name and address of lessor	3 Lease period	4 Annual rent

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11.6. Lease agreements (granted) with subsequent transfer of ownership: (active leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessee	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.7. Lease agreements (taken) with subsequent transfer of ownership: (passive leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessor	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.8 Other rights and liabilities:

(Description, brief characteristics, possible impact on financial position - e.g. indemnification as per the Labour Code, rights and liabilities that might result from litigation in progress, etc.)

12. Public auction terms:

(Similar to those of a public auction under Act No. 427/90, Sb - on transfer of some assets from the state to other juristic and physical persons. Any departure from those terms, particularly the range of participants a number of auction rounds, have to be indicated in the privatisation project.)

12.1. Opening price of the unit privatized in a public auction:

(Usually the figure under item 9, in the event that the range of participants includes foreign persons, the opening price has to be increased on the basis of an expert estimate of the market value.)

12.2. Terms of participation in a public auction:

(e.g. deposit, public auction entrance fee, public auction participation fee, duties passed onto the future owner.)

12.3. Range of participants of a public auction:

(Only departures from the range of participants as per Article 3 and 13, Act No. 427/90, Sb - on transfer of some assets from the state to other juristic and physical persons are to be listed.)

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12.4. Manner in which the transfer of credits, rights and liabilities is ensured:

1 Object of transfer	2 Reasons for selecting the manner	3 Manner

12.5. Manner of payment for the auctioned assets.

12.6. Other terms of a public auction:

(e.g. abolition of the three minute period before final knock down, change in organisation of the Dutch auction.)

13. Statement that the state´s assets to be privatized in a public auction are either not subject to restitution claims by rightful persons as per relevant regulations or that such claims shall be settled in another manner (transfer of shares - see Form No. 3 (A).

14. Restrictions imposed by other entities:

(e.g. servitude, liabilities set by municipal or state authorities as per currently valid regulations.)

15. Time and place of the public auction.

16. Name of the person or authority who shall conduct the auction.

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Form No. 4 (B)

INDEPENDENTLY PRIVATIZED UNIT - PRIVATISATION BY MEANS OF A PUBLIC TENDER

It is to be prepared separately for each part of the assets to be privatized by means of a public auction.

1. Definition of the independently privatized unit:

   (Name, seat and address, number and location of sub-units, etc.)

2. Brief characteristics of the independently privatized unit:

   (Main line of business, position on the market, etc.)

3. Economic characteristics of the independently privatized unit:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses		(úč. 1A-12 ř. 51, ths Kčs)	
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in %. (accum. dep./purchase price x 100))		

4. Assets of the independently privatized unit included in the entity's balance sheet:

   (A balance sheet úč. 2A-02 based on data of the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Only assets and liabilities pertaining to the independently privatized unit are to be included. Moreover, the following summary data are to be included:

   Assets, total (ř. 52 úč. 2A-02)

   Liabilities (ř. 2-69, ř. 4, ř. 85, ř. 102 úč. 2A-02)

   Assets of the independently privatized unit included in the entity's balance sheet (total assets - liabilities)

5. Land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

6. Other assets, not in the books:

   (In particular, costs related to modernization and reconstruction of fixed assets, expert estimate of assets fully expensed at the beginning of their utilisation, etc.).

7. Estimated profit (loss) from the sale or physical liquidation of asset unsuitable for entrepreneurial purposes:

   (Data as per Item 5 of Form No. 3 (B), pertaining to the independently privatized unit in question.)

8. Estimated proceeds from the sale of inventories related to the assets designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of state assets to other juristic or physical persons:

   (Data as per Item 6 of Form No. 3 (C), pertaining to the independently privatized unit in question.)

.9. Total assets of the independently privatized unit:

   (Sum of data as per Item 4 to 8.)

10. Intangible assets not recorded in the books:

   (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1 Description and brief characteristics	2 Estimated value in Kčs

11. Contractual rights and liabilities pertaining to the independently privatized unit:

   11.1 Contracts

   (Information on major contracts with suppliers and clients, including orders from the state - scope, date of delivery, and possibly price.)

   11.2. Warranty-related costs:

   (Data for the last three years.)

   11.3. Assets the transfer of which is blocked by restrictions on real estate transfers:

1 Identification	2 Value of blocked assets	3 Blocking period	4 Unpaid part of the liability

   11.4 Lease agreements (granted) related to the assets:

   (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessor.)

1 Scope	2 Name and address of lessee	3 Lease period	4 Annual rent

   11.5. Lease agreements (taken) related to the assets:

   (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessee.)

1 Scope	2 Name and address of lessor	3 Lease period	4 Annual rent

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11.6. Lease agreements (granted) with subsequent transfer of ownership: (active leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessee	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.7. Lease agreements (taken) with subsequent transfer of ownership: (passive leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessor	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.8 Other rights and liabilities:

(Description, brief characteristics, possible impact on financial position - e.g. indemnification as per the Labour Code, rights and liabilities that might result from litigation in progress, etc.)

12. Statement that the state´s assets to be privatized in a public auction are either not subject to restitution claims by rightful persons as per relevant regulations or that such claims shall be settled in another manner (transfer of shares).

13. Restrictions imposed by other entities:

(e.g. servitude, liabilities set by municipal or state authorities as per currently valid regulations.)

14. Informative price to be announced together with the public tender.

15. Manner in which the transfer of credits, rights and liabilities is ensured:

1	2	3
Object of transfer	Reasons for selecting the manner	Manner

16. Public tender terms:

(The entity drafting the privatisation project shall propose criteria for evaluation of the public tender and present arguments supporting the selected procedure. Following criteria can be used, among others: price, payment terms, direct development expenditure, employment levels, business plan, environmental expenditures, participation in community affairs, etc.)

17. Range of participants of a public tender:

(Public tender - domestic or international, open or restricted.)

18. Range of persons and authorities who shall evaluate the public tender´s results.

19. Public tender invitation:

    (Brief description of the unit to be privatized, how to obtain more information - information memorandum, management presentation, visits to the unit, deadline for presenting offers, range of public tender participants, public tender procedure, etc.)

20. Method used to announce the public tender:

    (e.g. through mass media, investment banks, advisory firms, opening date of the publicity campaign.)

21. Date of announcing and closing the public tender.

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Form No. 4 (C)

INDEPENDENTLY PRIVATIZED UNIT - PRIVATISATION BY MEANS OF A DIRECT SALE TO A SELECTED PERSON

It is to be prepared separately for each part of the assets to be privatized within the scope of the project by means of a direct sale outside a public tender or auction process. This form is to be used also to settle the claim of a rightful person as per Article 47, Act 92/1991, Sb in combination with a direct sale of related assets to the rightful person.

1. Definition of the independently privatized unit:

   (Name, seat and address, number and location of sub-units, etc.)

2. Brief characteristics of the independently privatized unit:

   (Main line of business, position on the market, etc.)

3. Economic characteristics of the independently privatized unit:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses		(úč. 1A-12 ř. 51, ths Kčs)	
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

4. Assets of the independently privatized unit included in the entity's balance sheet:

   (A balance sheet úč. 2A-02 based on data of the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Only assets and liabilities pertaining to the independently privatized unit are to be included. Moreover, the following summary data are to be included:

   Assets, total (ř. 52 úč. 2A-02)

   Liabilities (ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

   Assets of the independently privatized unit included in the entity's balance sheet (total assets - liabilities)

5. Land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

6. Other assets, not in the books:

   (In particular, costs related to modernization and reconstruction of fixed assets, expert estimate of assets fully expensed at the beginning of their utilisation, etc.)

7. Estimated profit (loss) from the sale or physical liquidation of asset unsuitable for entrepreneurial purposes:

   (Data as per Item 5 of Form No. 3 (B), pertaining to the independently privatized unit in question.)

8. Estimated proceeds from the sale of inventories related to the assets designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of state assets to other juristic or physical persons:

   (Data as per Item 6 of Form No. 3 (C), pertaining to the independently privatized unit in question.)

9. Total assets of the independently privatized unit:

   (Sum of data as per Item 4 to 8.)

10. Intangible assets not recorded in the books:

    (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1 Description and brief characteristics	2 Estimated value in Kčs

11. Contractual rights and liabilities pertaining to the independently privatized unit:

    11.1 Contracts:

    (Information on major contracts with suppliers and clients, including orders from the state - scope, date of delivery, and possibly price.)

    11.2. Warranty-related costs:

    (Data for the last three years.)

    11.3. Assets the transfer of which is blocked by restrictions on real estate transfers:

1 Identification	2 Value of blocked assets	3 Blocking period	4 Unpaid part of the liability

    11.4 Lease agreements (granted) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessor.)

1 Scope	2 Name and address of lessee	3 Lease period	4 Annual rent

    11.5. Lease agreements (taken) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessee.)

1 Scope	2 Name and address of lessor	3 Lease period	4 Annual rent

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11.6. Lease agreements (granted) with subsequent transfer of ownership: (active leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3
Scope	Name and address of lessee	Residual value of leased assets

4	5
Expected date of last payment	Amount remaining to be paid

11.7. Lease agreements (taken) with subsequent transfer of ownership: (passive leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3
Scope	Name and address of lessor	Residual value of leased assets

4	5
Expected date of last payment	Amount remaining to be paid

11.8 Other rights and liabilities:

(Description, brief characteristics, possible impact on financial position - e.g. indemnification as per the Labour Code, rights and liabilities that might result from litigation in progress, etc.)

12. Purchase price of the unit to be privatized by means of a direct sale:

(Purchase price and the manner in which it was determined. In the case of a direct sale to a foreign entity, the purchase price has to be determined on the basis of an expert estimate of the market value.

In the event that the assets are to be sold to a rightful person claiming related assets, the purchase price is to be determined as the difference between the claimed assets´ price - Item 4, Form No. 3 (A) - and the total assets of the unit to be privatized - Item 8 of this Form.)

13. Statement that the state´s assets to be privatized by means of a direct sale are either not subject to restitution claims presented by rightful persons as per relevant regulations or that such claims shall be settled in another manner (transfer of shares):

13.1. Information on restitution claims presented by rightful persons as per relevant regulations and settled by transferring the assets in question:

(Applicable in the event that related assets are to be sold to the rightful person together with the transfer of assets claimed.)

14. Manner in which the transfer of credits, rights and liabilities is ensured:

1	2	3
Object of transfer	Reasons for selecting the manner	Manner of transfer

15. Information on the potential buyer:

    15.1. Name of the person.

    15.2. Seat and address.

    15.3. Main references:

    (Current line of business, experience, financial position, qualification, etc.)

16. Arguments supporting the direct sale method.

17. Business plan of the potential buyer.

18. Main terms of the sale agreement.

19. Manner of payment for the assets to be sold.

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Form No. 4 (D)

INDEPENDENTLY PRIVATIZED UNIT - PRIVATISATION BY MEANS OF TRANSFORMATION OF THE ENTERPRISE INTO A JOINT-STOCK COMPANY

It is to be prepared separately for each part of the assets to be privatized within the scope of the project by means of transformation into a joint-stock company.

In the event that a trading company is established, relevant parts of this form are to be used.

1. Definition of the independently privatized unit:

   (Name, seat and address, number and location of sub-units, etc.)

2. Brief characteristics of the independently privatized unit:

   (Main line of business, position on the market, etc.)

3. Economic characteristics of the independently privatized unit:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses	(úč. 1A-12 ř. 51, ths Kčs)		
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

4. Assets of the independently privatized unit included in the entity's balance sheet:

   (A balance sheet úč. 2A-02 based on data of the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Only assets and liabilities pertaining to the independently privatized unit are to be included. Moreover, the following summary data are to be included:

   Assets, total (ř. 52 úč. 2A-02)

   Liabilities (ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

   Assets of the independently privatized unit included in the entity's balance sheet (total assets - liabilities).

5. Land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

6. Other assets, not in the books:

   (In particular, costs related to modernization and reconstruction of fixed assets, expert estimate of assets fully expensed at the beginning of their utilisation, etc.)

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7. Estimated profit (loss) from the sale or physical liquidation of asset unsuitable for entrepreneurial purposes:

   (Data as per Item 5 of Form No. 3 (B), pertaining to the independently privatized unit in question.)

8. Estimated proceeds from the sale of inventories related to the assets designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of state assets to other juristic or physical persons:

   (Data as per Item 6 of Form No. 3 (C), pertaining to the independently privatized unit in question.)

9. Total assets of the independently privatized unit:

   (Sum of data as per Item 4 to 8.)

10. Intangible assets not recorded in the books:

    (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1 Description and brief characteristics	2 Estimated value in Kčs

11. Contractual rights and liabilities pertaining to the independently privatized unit:

    11.1 Contracts:

    (Information on major contracts with suppliers and clients, including orders from the state - scope, date of delivery, and possibly price.)

    11.2. Warranty-related costs:

    (Data for the last three years.)

    11.3. Assets the transfer of which is blocked by restrictions on real estate transfers:

1 Identification	2 Value of blocked assets	3 Blocking period	4 Unpaid part of the liability

    11.4 Lease agreements (granted) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessor.)

1 Scope	2 Name and address of lessee	3 Lease period	4 Annual rent

    11.5. Lease agreements (taken) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessee.)

1 Scope	2 Name and address of lessor	3 Lease period	4 Annual rent

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11.6. Lease agreements (granted) with subsequent transfer of ownership: (active leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessee	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.7. Lease agreements (taken) with subsequent transfer of ownership: (passive leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessor	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.8 Other rights and liabilities:

(Description, brief characteristics, possible impact on financial position - e.g. indemnification as per the Labour Code, rights and liabilities that might result from litigation in progress, etc.)

12. Statement that the state´s assets transferred to the joint-stock company are not subject to restitution claims presented by rightful persons as per relevant regulations.

13. Company´s equity.

14. Types of funds to be established when the company is founded and their size:

(e.g. reserve fund, if established when the company is founded.)

15. Company equity share of non-state entities:

(Only in the event that a foreign partner, municipality, cooperative, etc. participate in establishing the company by a contribution, mainly of assets. If a foreign partner participates in establishing the company, the value of his equity share is to be determined as the ratio of the market value of his contribution and the market value of the state´s contribution.)

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16. Description and valuation of the contribution by entities other than the state:

1 Definition of assets contributed	2 Name and address of contributed assets´ owner	3 Valuation of physical assets contributed (volume of capital contributed, Kčs)	4 Valuation method used	5 Special terms agreed

17. Arguments supporting the selected privatisation method - establishing a joint-stock company.

18. Business plan.

    18.1. Production and marketing analysis.

    18.2. Quantification of capital expenditure requirements and their financing.

    18.3. Manpower requirements analysis:

    (Expected changes in employment levels and personnel structure, costs of requalification, redundancy benefits, etc.)

    18.4 Expected profit and its distribution:

    (Projected revenues, costs, net profit and its distribution at least till 1993.)

    18.5 Additional relevant information:

    (e.g. solution of environmental problems, opportunity to raise capital by issue of bonds.)

19. Establishment of the joint-stock company.

    19.1. Name and seat.

    19.2. Timetable of the process:

    (Description of steps to be taken, as prescribed by relevant regulations.)

    19.3. Shares of the joint-stock company:

    (Namely the type, number and nominal value of shares.)

20. Privatisation of shares owned by the Czech Fund of National Assets:

(Information on all the shares owned by the Czech Fund of National Assets, except for shares transferred to rightful persons to settle their restitution claims - see Form No. 3 (A), Para. 7b.)

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20.1. Free-of-charge transfer:

(Such transfer can be made for example to municipalities, health care and pension funds, banks and saving banks in order to augment credit resources.)

1	2	3
Number of shares	Share of the company´s equity	Type of shares

4	5	6	7
Nominal value of shares	Future hareholder	Justification of leasing the assets	Date of transfer

20.2. Privatisation by means of vouchers:

(Nominal value of shares allocated for this purpose is set at 1000 Kčs per share.)

1	2
Number of shares	Share of the company´s equity

(The data have to be identical with those in Table No. 3 - "Joint-stock Company Register Form".)

20.3. Shares retained by the Czech Fund of National Assets:

1	2	3
Number of shares	Share of the company´s equity	Type of shares

4	5
Nominal value of shares	Justification of leaving the shares in the Czech Fund of National Assets

20.4. Direct sale of shares:

1	2	3	4
Number of shares	Share of the company´s equity	Type of shares	Nominal value of shares

5	6	7	8
Future shareholder	Justification of the sale to selected entity	Purchase price	Pricing principle used

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20.5 Sale through a bank (stock exchange):

1	2	3
Number of shares	Share of the company´s equity	Type of shares
4	**5**	**6**
Nominal value of shares shareholder	Pricing principle used	Name, seat and address of the agent

21. Annexes:

(Documents required by law for establishing the type of joint-stock company in question have to be enclosed.)

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Form No. 4 (E)

INDEPENDENTLY PRIVATIZED UNIT - PRIVATISATION OF THE STATE´S PROPERTY INTEREST IN THE BUSINESS OF OTHER JURISTIC PERSONS

It is to be prepared separately for each joint-stock company where a state administration authority or a municipality in the Czech Republic was a stockholder when the company was established, and also for each joint-stock company established by a state enterprise in cases when all the assets of the founding enterprise were transferred to this company and the enterprise itself was dissolved without liquidation.

1. Definition of the independently privatized unit:

   (Name, seat and address, number and location of sub-units, etc.)

2. Brief characteristics of the independently privatized unit:

   (Main line of business, position on the market, etc.)

3. Economic characteristics of the independently privatized unit:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses		(úč. 1A-12 ř. 51, ths Kčs)	
7.	Net profit	(úč. 1A-12 ř. 51- ř. 110, ths Kčs)		
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

4. Assets of the independently privatized unit included in the entity´s balance sheet:

   (A balance sheet úč. 2A-02 based on data of the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Only assets and liabilities pertaining to the independently privatized unit are to be included. Moreover, the following summary data are to be included:

   Assets, total (ř. 52 úč. 2A-02)

   Liabilities (ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

   Assets of the independently privatized unit included in the entity´s balance sheet (total assets - liabilities)

5. Land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

6. Other assets, not in the books:

   (In particular, costs related to modernization and reconstruction of fixed assets, expert estimate of assets fully expensed at the beginning of their utilisation, etc.)

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7. Estimated profit (loss) from the sale or physical liquidation of asset unsuitable for entrepreneurial purposes:

   (Data as per Item 5 of Form No. 3 (B), pertaining to the independently privatized unit in question.)

8. Estimated proceeds from the sale of inventories related to the assets designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of state assets to other juristic or physical persons:

   (Data as per Item 6 of Form No. 3 (C), pertaining to the independently privatized unit in question.)

9. Total assets of the independently privatized unit:

   (Sum of data as per Item 4 to 8.)

10. Intangible assets not recorded in the books:

    (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1 Description and brief characteristics	2 Estimated value in Kčs

11. Contractual rights and liabilities pertaining to the independently privatized unit:

    11.1 Contracts:

    (Information on major contracts with suppliers and clients, including orders from the state - scope, date of delivery, and possibly price.)

    11.2. Warranty-related costs:

    (Data for the last three years.)

    11.3. Assets the transfer of which is blocked by restrictions on real estate transfers:

1 Identification	2 Value of blocked assets	3 Blocking period	4 Unpaid part of the liability

    11.4 Lease agreements (granted) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessor.)

1 Scope	2 Name and address of lessee	3 Lease period	4 Annual rent

    11.5. Lease agreements (taken) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessee.)

1 Scope	2 Name and address of lessor	3 Lease period	4 Annual rent

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11.6. Lease agreements (granted) with subsequent transfer of ownership: (active leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3
Scope	Name and address of lessee	Residual value of leased assets

4	5
Expected date of last payment	Amount remaining to be paid

11.7. Lease agreements (taken) with subsequent transfer of ownership: (passive leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3
Scope	Name and address of lessor	Residual value of leased assets

4	5
Expected date of last payment	Amount remaining to be paid

11.8 Other rights and liabilities:

(Description, brief characteristics, possible impact on financial position - e.g. indemnification as per the Labour Code, rights and liabilities that might result from litigation in progress, etc.)

12. Company equity´s share of non-state entities:

(Name and address of the shareholder, equity share in %, shareholder´s opinion on the selected method of privatisation.)

13. Business plan.

13.1. Production and marketing analysis.

13.2. Quantification of capital expenditure requirements and their financing.

13.3. Manpower requirements analysis:

(Expected changes in employment levels and personnel structure, costs of requalification, redundancy benefits, etc.)

13.4 Expected profit and its distribution:

(Projected revenues, costs, net profit and its distribution at least till 1993.)

13.5 Additional relevant information:

(e.g. solution of environmental problems, opportunity to raise capital by issue of bonds.)

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14. Date of transfer of the assets from the joint-stock company to the Czech Fund of National Assets:

(This is to be preceded by a reduction of the joint-stock company´s equity by the value of assets being transferred and at the same time withdrawal of shares of corresponding nominal value from circulation. Privatisation as per this item of the form has to precede any privatisation as per item 16 of the same form.)

15. Date of transfer of shares representing the state´s property interest in the independently privatized unit to the Czech Fund of National Assets.

16. Privatisation of shares owned by the Czech Fund of National Assets:

(Information on all the shares owned by the Czech Fund of National Assets, except for shares transferred to rightful persons to settle their restitution claims - see Form No. 3 (A), Para. 7b.)

16.1. Free-of-charge transfer:

(Such transfer can be made for example to municipalities, health care and pension insurance funds, banks and saving banks in order to augment credit resources.)

1	2	3
Number of shares	Share of the company´s equity	Type of shares

4	5	6	7
Nominal value of shares	Future hareholder	Justification of leasing the assets	Date of transfer

16.2. Privatisation by means of vouchers:

(Nominal value of shares allocated for this purpose is set at 1000 Kčs per share.)

1	2
Number of shares	Share of the company´s equity

(The data have to be identical with those in Table No. 3 - "Joint-stock Company Register Form".)

16.3. Shares retained by the Czech Fund of National Assets:

1	2	3
Number of shares	Share of the company´s equity	Type of shares

4	5
Nominal value of shares	Justification of leaving the shares in the Czech Fund of National Assets

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16.4. Direct sale of shares:

1	2	3	4
Number of shares	Share of the company´s equity	Type of shares	Nominal value of shares
5	**6**	**7**	**8**
Future shareholder	Justification of the sale to selected entity	Purchase price	Pricing principle used

16.5 Sale through a bank (stock exchange):

1	2	3
Number of shares	Share of the company´s equity	Type of shares
4	**5**	**6**
Nominal value of shares shareholder	Pricing principle used	Name, seat and address of the agent

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Form No. 4 (F)

INDEPENDENTLY PRIVATIZED UNIT - PRIVATISATION BY MEANS OF A FREE-OF-CHARGE TRANSFER OF ASSETS AS PER ARTICLE 12, PARA. 2C, ACT No. 92/1991, Sb - on transfer of state assets to other persons AND ARTICLE 18, PARA 2B,C,E, ACT OF ČNR No. 171/1991 - on authority of the Czech state administration with respect to transfer of state assets to other persons

This form is used in the event of transfer of certain assets by the Czech Fund of National Assets to municipalities, health care and pension funds, and to banks and saving banks in order to augment credit resources.

1. Definition of the independently privatized unit:

   (Name, seat and address, number and location of sub-units, etc.)

2. Brief characteristics of the independently privatized unit:

   (Main line of business, position on the market, etc.)

3. Economic characteristics of the independently privatized unit:

		1989	1990	1991
1.	Number of employees (adjusted number)			
2.	Of which: technical and economic personnel			
3.	Of which: workers			
4.	Average monthly wage in Kčs	(labour costs plus remuneration fund)		
5.	Revenues and extraordinary proceeds	(úč. 1A-12 ř. 81, ths Kčs)		
6.	Expenses	(úč. 1A-12 ř. 51, ths Kčs)		
7.	Net profit		(úč. 1A-12 ř. 51- ř. 110, ths Kčs)	
8.	Exports	(ths Kčs)		
9.	Of which: to socialist countries			
10.	Of which: to non-socialist countries			
11.	Subsidies	(úč. 1A -12, ř. 102 plus ř. 103 plus ř. 106) (ths Kčs.)		
12.	Level of depreciation	(of fixed assets in % (accum. dep./purchase price x 100))		

4. Assets of the independently privatized unit included in the entity's balance sheet:

   (A balance sheet úč. 2A-02 based on data of the last interim (monthly) balance of the books before submitting the privatisation project is to be enclosed. Only assets and liabilities pertaining to the independently privatized unit are to be included. Moreover, the following summary data are to be included:

   Assets, total (ř. 52 úč. 2A-02)

   Liabilities (ř. 62-69, ř. 84, ř. 85, ř. 102 úč. 2A-02)

   Assets of the independently privatized unit included in the entity's balance sheet (total assets - liabilities)

5. Land evaluated according to the Czech Finance Ministry Decree No. 182/1988, Sb - on prices of buildings, land, and vegetation, fees for the right to use land and compensations for temporary use of land as per the Czech Finance Ministry Decree No. 316/1990, Sb and not recorded in the books.

6. Other assets, not in the books:

   (In particular, costs related to modernization and reconstruction of fixed assets, expert estimate of assets fully expensed at the beginning of their utilisation, etc.)

7. Estimated profit (loss) from the sale or physical liquidation of asset unsuitable for entrepreneurial purposes:

   (Data as per Item 5 of Form No. 3 (B), pertaining to the independently privatized unit in question.)

8. Estimated revenues from the sale of inventories related to the assets designated to be privatized by means of a public auction under Act. No. 427/1990, Sb - transfer of state assets to other juristic or physical persons:

   (Data as per Item 6 of Form No. 3 (C), pertaining to the independently privatized unit in question.)

9. Total assets of the independently privatized unit:

   (Sum of data as per Item 4 to 8.)

10. Intangible assets not recorded in the books:

    (In particular patents, innovations, industrial designs and trade marks, licences, know-how etc.)

1 Description and brief characteristics	2 Estimated value in Kčs

11. Contractual rights and liabilities pertaining to the independently privatized unit:

    11.1 Contracts:

    (Information on major contracts with suppliers and clients, including orders from the state - scope, date of delivery, and possibly price.)

    11.2. Warranty-related costs:

    (Data for the last three years.)

    11.3. Assets the transfer of which is blocked by restrictions on real estate transfers:

1 Identification	2 Value of blocked assets	3 Blocking period	4 Unpaid part of the liability

    11.4 Lease agreements (granted) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessor.)

1 Scope	2 Name and address of lessee	3 Lease period	4 Annual rent

    11.5. Lease agreements (taken) related to the assets:

    (Agreements related to the unit to be privatized and entered into by the entity to be privatized in the role of the lessee.)

1 Scope	2 Name and address of lessor	3 Lease period	4 Annual rent

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11.6. Lease agreements (granted) with subsequent transfer of ownership: (active leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessee	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.7. Lease agreements (taken) with subsequent transfer of ownership: (passive leasing)

(Agreements related to the unit to be privatized and entered into by the entity to be privatized.)

1	2	3	4	5
Scope	Name and address of lessor	Residual value of leased assets	Expected date of last payment	Amount remaining to be paid

11.8 Other rights and liabilities:

(Description, brief characteristics, possible impact on financial position - e.g. indemnification as per the Labour Code, rights and liabilities that might result from litigation in progress, etc.)

12. Purpose for which the assets are allocated.

13. Name, seat and address of the entity to which the assets are to be transferred.

14. Justification of the proposed transfer.

15. Terms which have to be respected by the future owner of the independently privatized unit:

(In particular, obligation to maintain the same or substantially same production, prohibition on transfers of the independently privatized unit for a given period, etc.)

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LEGEND OF TABLES

Table 1 - USE OF PROPERTY OF INDIVIDUAL ENTITIES

Line:
1 Assets, total
2 Liabilities
3 Assets on the balancw sheet
4 Physical assets not in the books
5 Of which: Land, total
Other physical assets, total
6 Property, total

Col.:
1 Privatized entity
2 Total
3 Of which: in the Czech Republic
4 in the Slovak Republic
5 Assets not included in the privatisation project
6 Assets to remain State property
7 Restitution in kinds
8 Assets unsuitable for entrepreneurial purposes
9 Public auction within "Small-business Privatisation"
10 Public auction within "Large-business Privatisation"
11 Public tender
12 Direct sale
13 Joint-stock company
14 Free-of-charge transfer
15 Privatisation of State property interest in the business of other juristic persons

Notes:
1 Physical assets are to be shown in line 4 only if they are not on the balance sheet
2 Col. 2 = Col. 3 + Col. 4 = sum of Col. 5 to Col. 16

Table 2 - LIST OF PROPERTY OF INDEPENDENTLY PRIVATIZED UNITS

Line: Lines 1 to 6 identical with those of Table 1

Col.:
1 Privatized entity
2 Total
3 In the Czech Republic
4 In the Slovak Republic
5 to 12 Entity

Notes:
1 Physical assets are to be shown in line 4 only if they are not on the balance sheet
2 Col. 2 = Col. 3 + Col. 4 = sum of Col. 5 to Col. 16

Appendix 9

The Enterprise with Foreign Property Act

Act on Economic Relations with Foreign Countries

The Joint Stock Companies Act

·om 1990) on and of a simple registration. The remaining activities must be uthorized.

(I) Foreign Exchange Régime

- hundred (100) percent foreign exchange earned must be offered for purchase to ıe State

- accounts in foreign exchange kept with a foreign bank may be opened only upon n authorization having been granted by the State Bank of Czechoslovakia.

- credits may be taken from a foreign Bank only on hand of an authorization by the tate Bank of Czechoslovakia.

(J) Repatriation of Profits

Basically, such repatriation is possible only if there are sufficient liquidities in ɔreign exchange.

But a more liberal régime shall govern such repatriation in case of specific treaties ɔ foster and protect foreign investment.

1. 4. The Enterprise with Foreign Property Participation Act

The Act of April 19, 1990 amending the Enterprise with Foreign Property Participation Act No. 173 of 1988, Coll.

The Federal Assembly of the Czechoslovak Federative Republic has passed the following Act:

Part I
GENERAL PROVISIONS

Article 1
was abolished.

Article 2

(1) An enterprise with foreign property participation (hereinafter referred to as "enterprise") shall be a juristic person engaging in economic activities with a seat situated on the territory of the Czechoslovak Federative Republic, provided a foreign participant takes part in its establishment and, aftrer such establishment, in its trading.

(2) For the purposes hereof, a "foreign participant" shall include both a juristic or a natural person with a seat or domicile outside the territory of the Czechoslovak Federative Republic, who participates with an investment in the enterprise.

(3) For the purposes of this Act, "a Czechoslovak participant" shall include both a legal or a natural person with a seat or a domicile situated on the territory of the Czechoslovak Federative Republic who participates, together with the foreign participant, with its investment in the enterprise.

(4) In addition, the present Act shall apply also to cases where the enterprise is established exclusively by a foreign participant or where such a foreign participant participates exclusively in its trading.

Article 3

The establishment, the legal form as well as the legal relations, and the liquidation of the enterprise shall be governed by Czechoslovak law. [1)]

Article 4

(1) The enterprise stands for the breach of its commitments and other obligations with its own assets.

(2) The enterprise is not liable for commitments of the State or for commitments of other juristic persons, and the State and such other juristic persons are not liable for commitments of the enterprise; this does not exclude liabilities originating in accordance with appropriate general rules of law.

Part II
AUTHORIZATION TO ESTABLISH AN ENTERPRISE

Article 5

An enterprise may be established only on the basis of, and to the extent of, an authorization to establish to be granted by the Federal Ministry of Finance having heard the opinion of the Ministry of Finnace, Prices and Wages of the Republic, on the territory of which the enterprise will have its seat (hereinfater referred to as "the authorization"). In the field of banking business, such authorization is to be granted by the Czechoslovak State Bank.

Article 6

(1) An application for authorization may be filled by any participant. In such application, the applicant shall state:
a) the name, seat, legal form and subject-matter of trading of the enterprise,
b) the name, seat and or domicile as well as the subject-matter of trading of the participants,
c)the basic capital, the shares of the individual participants, the form of same as well as the currency in which same will be paid, the prescribed amount of the reserve fund, the participation of individual participants in the bodies of the enterprise provided such determination in the bodies is not inconsistent with the legal form thereof as well as the distribution of profits and coverage of losses, if any, unless same does result from the legal form of the enterprise.
(2) If more participants establish the enterprise, a draft memorandum of agreement establishing same as well as draft bye-laws or statutes of same shall accompany the application.

Article 7

(1) When deciding upon the grant of an authorization the respective authority shall examine whether there is hope that the enterprise being established will contribute to the increase of fruitful participation of Czechoslovak economy in the international division of labour and whether during its economic activity will be able to create sufficient financial resources both in Czechoslovak as well as in foreign currencies.
(2) An authorization for business and trading activities may be granted in any branch of national economy with the exception of those important for defence and security of the Czechoslovak Federative Republic.

(3) A decision upon an application shall be taken in administrative proceeding [3] not later than sixty (60) days following the date of same having been filed.

Article 8

An authorization granted to the prospective enterprise under Article 5 hereof shall substitute all authorizations necessary for the respective type of economic activity under specific rules of law, provided the authorization under Article 5 hereof i granted by an authority who has the power to grant such authorizations to engage in said econoic activities and the authorized type economic activity of the enterprise covers up such activities.

Part III
MANAGEMENT OF THE ENTERPRISE

Chapter I
ECONOMIC ACTIVITIES

Article 9

In the State Plan of Econonomic and Social Development, no tasks may be imposed on the enterprise.

Article 10

Legal relations arising out of cooperation of the enterprise with Czechoslovak juristic persons shall be governed by the Economic Code, provided that provisions of the Economic Code setting forth the obligation to conclude, modify of cancel a contract without the actual intention of the parties, or the power to create, modify or cancel such obligations, as well as those provisions which, due to their contents, do not conespond to the nature of the enterprise or which are inconsistent with its legal standing as defined hereunder, shall not apply. The rules of the International Trade Code shall not be affected thereby.

Chapter II
FINANCIAL MANAGEMENT

Article 11

The Enterprise shall be assessable only for taxes provided for in the Act.

Article 12

After its establishment, the joint ventures corporation shall create a reserve fund up to the amount, and in a manner, set forth in its bye-laws or statutes. This fund shall

be yearly fed from the earning after taxes by amounts of not less than five (5) per cent the distributable profits, until the amount fixed in the bye-laws or statutes is reached. The minimum amount of a reserve fund shall be ten (10) per cent the basic capital. The enterprise shall feed a part of the reserve fund in foreign currencies.

Article 13

Upon payment of taxes and contribution into the reserve fund (Art. 12 hereof) the enterprise shall be free to distribute the remaining part of available profits among the parties.

Article 14

(1) The annual balance sheet of the enterprise as well as its financial statement for each year shall be subject to an approval by two auditors.
(2) The auditors shall exercise their activities in an independent way, using their necessary professional knowledge.
(3) Rules governing particulars of the functions of auditors and their appointment by the respective authority of State administration shall be enacted by the Federal Ministry of Finance in a generally binding rule of law.

Chapter III
FOREIGN EXCHANGE MANAGEMENT

Article 15

The duty to offer (foreign exchange) set forth in foreign exchange regulations, shall apply to an enterprise, too[4].

Article 16

An enterprise shall be free to open foreign exchange accounts with a Czechoslovak foreign exchange banking institution or, with the authorization of the Czechoslovak State Bank, with foreign banks.

Article 17

The conversion of the Czechoslovak currency into foreign currency and vice versa shall take place at rates fixed by the Czechoslovak State Bank.

Article 18

An enterprise shall be free to take foreign exchange credits from Czechoslovak foreign exchange banking institution; it may take such credits from foreign banks only with the authorization of the Czechoslovak State Bank.

Chapter IV
SOCIAL AND ECONOMIC INFORMATION

Article 19

An enterprise shall
a) set up a system of social and economic information in concordance with the respective generally binding legal provisions applicable to Czechoslovak organizations, the subject-matter of enterprising (business and trade) of which is similar to that of the enterprise;
b) keep accounts and books in Czechoslovak currency in accordance with the respective generally binding legal provisions; exceptions, if any, based on the differet nature of the enterprise or its legal standing hereunder may be granted to the enterprise by the Federal Ministry of Finance;
c) supply the respective authorities with the accounting and statistical data to the extent, in the manner and within terms set forth in the generally binding legal provisions.

Part IV
TRANSFER OF CAPITAL

Article 20

(1) In case of winding up the enterprise or its liquidation, or in case of the sale of shares up to the amount previously paid (invested), the foreign participant is free to transfer abroad the proceeds from his part. Provided that the transfer shall be made in the currency formerly paid in.
(2) In addition, the foreign participant may transfer abroad his part in the earning of the enterprise and, in case of winding up, liquidation or sale of its shares, the part exceeding the capital formerly paid in, provided the enterprise has sufficient foreign exchange funds.

Article 21

(1) Persons whose domicile is abroad, employed by such an enterprise, shall be free to transfer abroad their income earned in connection with their employment with the enterprise.
(2) The enterprise shall be free to transfer sums abroad destined to cover social insurance contributions in favour of persons on its staff, whose domicile abroad, or to transfer same in accordance with the directives of such person provided the insurance is not contracted in the Czechoslovak Federative Republic. The term "social insurance" as used throughout this Act shall cover insurance contribution in case of illness and pregnancy, children bonuses, accident and old age insurance as well as insurance contribution for unemployment.

(3) The enterprise shall continue contributing to the old age insurance schema of persons on its staff whose domicile is not in the Czechoslovak Federative Republic.
(4) Sources from which all payments under the preceding paragraphs may by made, shall be exclusively the proper foreign exchange funds of the enterprise.

Article 22

(1) The property of the enterprise on the teritory of the Czechoslovak Federative Republic may be expropriated or its rights and interest in such property may be restricted only in accorda nce with the rules of the Act.
(2) If measures under par. (1) thereof are taken, the foreign participant shall receive a compensation corresponding to the actual value of his property affected by said measures at the time of their being enforced. The amount of compensation shall be freely transferable abroad in the currency which the foreign participant paid when acquiring his shares in the corporation or, otherwise, in the currency of the country in which it has its seat or domicile.

Part V
WINDING UP

Article 23

(1) An enterprise shall not cease to exist, unless and until wound up. The purpose of such procedure is to settle the property relations of the enterprise being wound up.
(2) If the liabilities of the enterprise exceed its assets, it shall be wound up by means of liquidation under the provisions of Art.352 through 354 of the Civil Procedure Code.[5)]

Article 24

(1) The enterprise shall apply for the entry of its winding up and of the appointed liquidator into the Companies Register. During the term of its winding up it shall add to its name the words "being wound up " or "in liquidation" as the case may be.
(2) At the day of the entry of the liquidator into the Companies Register, the corporate bodies shall cease to exercise their functions. The liquidator shall have the power to act in the name, and on behalf, of the enterprise in all matters connected with winding up.

Article 25

(1) The enterprise shall prepare a balance sheet as of the date of the commencement of its winding up. It shall remit one copy thereof to the liquidator and other copies to the respective authorities.
(2) Within thirty (30) days following his entry into the Companies Register, the liquidator shall prepare the initial financial statement as of the date of the commence-

ment of the winding up and remit same to the participants, together with the time schedule of winding up, its budget and protocol of inventory taken during an extraordinary check of the economic assets available, as of the date of th commencement of the winding up.
(3) During the winding up, the liquidator shall, inter alia:
a) concentrate all finanacial means available with one Czechoslovak banking institution;
b) complete and finalize the current business of the enterprise;
c) pay off all taxes and dues;
d) pay off all debts and obligations;
e) sell the assets of the enterprise in the most economic and speedy way or dispose of same in another way, in accordance with th decision of the participants;
f) report to the participants quarterly and annually on the progress of the winding up. accompanying his reports by quarterly and annual balance sheets.

Article 26

(1) Upon completing the winding up, the liquidator shall prepare the final balance sheet as of that day and submit same to the participants together with the final report on the course of winding up for their pproval.
(2) Upon examination and approval of the balance sheet by the participants and upon paying off th taxes due, the liquidator shall:
a) dispose of the balance left in accordance with the decision of the participants;
b) place all written records and accounting documents in a safe custody;
c) inform the court of the completion of the winding up applying for striking the enterprise off the Companies Register.

Part VI
COMMON, TRANSITIONAL AND FINAL PROVISIONS

Article 27

The provisions of this Act shall apply, unless otherwise provided in an international treaty which is binding on the Czechoslovak Federative Republic.

Article 28

The Government of the Czechoslovak Federative Republic may, by way of a governmental decree, state conditions in which an enterprise may be established without an authorization or fix different rules and procedures for granting such authorizations.

II

Authorizations granted prior to the present Act entering into force, in accordance

with rules hitherto valid, governing memoranda of agreement to establish an enterprise shall regarded as authorizations granted hereunder.

III

The Presidium of the Federal Assembly of the Czechoslovak Federative Republic is authorised to publish the full wording of the Enterprise with Foreign Property Participation Act No. 173 of 1988 with the modifications and amendments hereunder in the Collection of Laws and Decrees.

IV

This Act shall enter into force as of May 1st, 1990.

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[1]Companies Limited by Shares Act No. 243 of 1949, Coll. On Legal Relations Arising in International Business Transactions Act No. 101 of 1963 Coll. (the International Trade Code)
[3]Administrative Procedure Code Act No. 71/1967, Coll.
[4]Art. 12 paragraph (1) of the Foreign Exchange Act No. 162 of 1989, Coll, Decree No. 169 of 1989 Coll. Implementing the Foreign Exchange Act as amended by the Decree of April 19, 1990
[5]Civil Procedure Code Act No. 99/1963, Coll, as amended on later occasions.

1.5. The Act on Economic Relations with Foreign Countries

The Act of April 19, 1990 which modifies and amends the Act No. 42/1980 Coll. on Economic Relations with Foreign Countries, in the version of the Act No. 102/1988 Coll.

The Federal Assembly of the Czechoslovak Federative Republic has passed the following Act:

Part I
INTRODUCTORY PROVISIONS

Article 1

This Act determines
the organization, regulation and control of foreign economic activity, and defines its forms,
the establishment of trade representation offices of foreign persons on the territory of the Czechoslovak Federative Republic,
the establishment of organizational bodies of Czechoslovak persons in foreign countries,
the posititon of chambers of commerce and industry on the territory of the Czechoslovak Federative Republic and their tasks,
non-commercial exports and imports,
the protection of trade policy interests of the Czechoslovak Federative Republic, and defines the competence of central authorities in this sphere.

Article 2

In administering this Act the central government bodies shall cooperate so as to secure the implementation of the economic policy of the State and to protect the trade policy interests of the Czechoslovak Federative Republic in accordance with obligations resulting from international legal relations of the Czechoslovak Federative Republic.

Article 3

For the purposes of this Act
a) the term "Czechoslovak persons" means juristic persons having their seat and natural persons having their domicile on the territory of the Czechoslovak Federative Republic; the term "foreign persons" means other juristic or natural persons;

b) the term "service" means fulfilment of an obligation the subject of which is an economic activity carried out against payment; activity carried out on the basis of a labour relationship is not a service;

Part II
FOREIGN ECONOMIC ACTIVITY

Chapter 1
BASIC PROVISIONS

Article 4

Foreign economic activity under this Act has the following forms:
a) foreign trade activity (Article 6);
b) foreign economic services (Article 17);

Article 5

Foreign economic activities shall be managed, organized and controlled by the State within the limits of the Act in such a way that said entrepreneurial activities in this firld develop in condititons of economic competitiveness, in accordance with the needs of the national economy of the Czechoslovak Federative Republic and in accordance with international treaties binding on the Czechoslovak Federative Republic and that the integration of Czechoslovak persons in the international division of labour grows in suitable forms.

Chapter 2
FOREIGN TRADE ACTIVITY

Section 1
DEFINITION OF FOREIGN TRADE ACTIVITY

Article 6

(1) Foreign trade activity includes with regard to Czechoslovak persons the following:

a) the export of objects from the Czechoslovak Federative Republic and the imports of objects into the Czechoslovak Federative Republic for the purpose of sale or other paid for transactions or for the use in production or in granting service, or for the performance of a profession, as well as the export from the Czechoslovak Federative Republic and the import into the Czechoslovak Federative Republic by their other economic activity (commercial export and import);

b) purchase of goods and its direct resale in foreign countries without import into the Czechoslovak Federative Republic;

c) granting of services to foreign persons on the territory of the Czechoslovak

Federative Republic for Czechoslovak currency with the exception of direct satisfaction of personal needs of natural persons or similar needs of juristic persons;

d) granting of services in foreign countries;

e) acceptance of services from foreign persons with the exception of services accepted by Czechoslovak natural persons for the satisfaction of their personal needs;

f) mediatory activity for Czechoslovak persons in relation with foreign persons;

g) impartial control on the basis of an inspection contract for issuing certificates on goods delivered or services granted in international trade;[4]

h) procurement of transport of objects (consignments) by any form of means of transport and connected activity, if the place of dispatch or the place of destination or both are outside the territory of the Czechoslovak Federative Republic;

i) operation of sea-shipping.

(2) Foreign trade activity includes with regard to foreign persons the following;

a) the export of objects from the Czechoslovak Federative Republic and the import of objects into the Czechoslovak Federative Republic for the purpose of sale or another paid for transactions, or for the use in production or in granting services or for the performance of a profession, as well as export from the Czechoslovak Federative Republic and the import into the Czechoslovak Federative Republic by their other economic activity (commercial export and import);

b) granting of services on the territory of the Czechoslovak Federative Republic;

c) sale of goods on the territory of the Czechoslovak Federative Republic, if it is not realized between foreign persons only;

d) impartial control on the basis of an inspection contract on the territory of the Czechoslovak Federative Republic for issuing inspection certificates.

(3) Foreign trade activity includes also any activity mentioned in paragraph 1 carried out by:

a) Czechoslovak Film and Czechoslovak Television;

b) the Czechoslovak Press Agency with the exception of the procurement and supply of news material on the basis of contracts.[5]

(4) Foreign trade activity does not include:

a) import and export of values and trade with foreign exchange regulated by the provisions on foreign exchange control[6] with the exception of gold for industrial consumption or technological purposes;

b) activity realized by the Czechoslovak State Bank on the basis of special law[7] and by banking institutions and organizations entrusted by the Czechoslovak State Bank to fulfil some of the tasks reserved by law to the Bank;

c) granting and acceptance of legal assistance by persons authorized for this according to Czechoslovak generally binding rules of law[8];

d) activity of experts and interpreters realized under special law[9]

e) granting of, and acceptance of, services in the sectors as specified in hereof Article 17.

Section 2
REGISTRATION AND AUTHORIZATION OF FOREIGN ACTIVITY

Article 7

(1) Foreign trade activities may be carried out only by

a) Czechoslovak persons registered in the Companies Register – on the basis of registration, if this is not a case when according to this Act registration is not required and if it is not the case when, according to this Act an authorization is needed for this activity;

b) foreign persons – on the basis of a granted autorization if it is not the case where no authorization is required.

(2) The provision of paragraph 1 concerns also persons whom another legal regulation entities to cary out foreign economic activity with that that this title can be limited only by law, or only in cases and under conditions determined by law.

(3) Authorization to carry out foreign trade activities is required in case of Czechoslovak persons if:

(a) the subject of import are objects other then those to be used in production by the person importing them, or other than meant for the perfomance of a profession by such a person, or the subject of export are objects other than from the own production of the person carrying out their export; objects of their own production are meant to be such products for which the technological process of elaboration means an essential change in quality and utility of the purchased raw materials, materials and semi-products and in whose calculation the value added exceeds the value of the actual production (direct wages, overheads, direct and distribution costs and profit) by 30 per cent the value of the price of the thing;

(b) the subject of this activity is to negotiate the work activity of a Czechoslovak natural person abroad or a foreign natural person in the Czechoslovak Federative Republic;

(c) this concerns the export or import of objects or the carrying out of other activitites, determined by the decree of the government of the Czechoslovak Federative Republic;

(d) a Czechoslovak person does not fulfil the conditions for registration given an Art. 7c.

(4) Registration or authorization for foreign trade activities is not required

(a) for foreign persons to sign contracts, which they sign on their own behalf with Czechoslovak persons entitled to carry out foreign trade activity and for the fulfiment of these contracts[9a]; ·

(b) in other cases, if in the interest of the national economy of the Czechoslovak Federative Republic it is expedient to bind the carrying out of foreign trade activity neither to an authorization nor to registration and that under conditions and to the extent determined in the implementary provisions issued according to Art. 9.

Article 7a

Foreign trade activity of Czechoslovak persons is registered, the registration is withdrawn and the authorization for foreign trade activity is granted, changed and recalled by the Federal Ministry of Foreign Trade.

Article 7b

(1) Prior to applying for registration for foreign trade activity the applicant must deposit on a specially for this purpose opened bonded account with a bank or savings bank[9b] (further only "monetary institutions") an amount of money given in paragraph 4 (further only "security"). If it does not follow from the decision according to paragraph 2 otherwise, the appliant has the right to be returned the security within 15 days from the date that the decision on the nullification of the registration of his foreign trade activity or the decision on the refusal of registration become legally valid.

(2) If the applicant in carrying out foreign trade activity repeatedly or seriously violates the duties given for the carrying out of such activity in the generally valid legal provision or in the measures of the bodies of economic management or if the applicant, who is a Czechoslovak person, threatens during such activity repeatedly or seriously the good name of the Czechoslovak entrepreneurs or other Czecholsovak subjects carrying out economic activity in relation to foreign countries, the Federal Ministry of Foreign Trade in agreement with the Federal Ministry of Finance can decide that the applicant looses his right to the return of the security or its part. The financial means to the return of which the applicant lost his right will be transferred by the Federal Ministry of Foreign Trade to the state budget. The Federal Ministry of Foreign Trade can, in connection with the conclusion of the foreign trade activity by the applicant at his request, decide that the security or its part will be returned to the applicant prior to the date of the conclusion of this activity and return the security or its part. In the event the security or part of it is lost, the applicant, if he continues to carry out foreign trade activity, shall complement it to its original amount.

(3) To the carrying out of foreign trade activity on the basis of an authorization applies the provision of paragraphs 1 and 2 analogously.

(4) The security is

a) 20,000 crowns for Czechoslovak natural persons

b) 100,000 crowns for other persons.

(5) The monetary amount deposited as security according to the provision of paragraph 1 has the same interest rate for the depositor as other long-term deposits placed with monetary institutions under the same conditions.

Article 7c

(1) The application for registration contains if it is for

a) a juristic person, his name, the seat, legal form statutary bodies, identification

number of the organization and the subject of activity, as well as a copy of the agreement with a Czechoslovak person, which carries out the foreign trade activity proposed for registration for the applicant, on the method of settling claims or other rights and obligations towards the foreign persons related to the property rights relations arising in carrying out this activity between the applicant and this Czechoslovak person, or a statement that this type of foreign trade activity has not been carried out for him;

(b) a natural person, his name and surname, the name under which he carries out the activity, identification number, domicile, identity card number and economic activity to which he is entitled on the basis of special regulations.

(2) The application also contains

a) the type and scope of the proposed foreign trade activity and in the export of objects also the marking of the nomenclature according to the customs tariff;

(b) marking of the decision on the issued permission according to special regulations to carry out economic activity on the territory of the Czechoslovak Federative Republic if the proposed foreign trade activity cannot be carried out without such permissions;

(c) statement from the Companies Register including the subject of activity.

(3) Data given in paragraph 1 and paragraph 2 letter b) must be substantiated by the applicant by the respective documents.

(4) A Czechoslovak person further submits information from the finance body on the active results of his economic activity according to his last accounting as well as a document on the deposit of the security.

(5) If the application for registration does not contain data according to paragraphs 1 and 2 or if it is not substantiated according to paragraph 3, and information according to parapraph 4, the Federal Ministry of Foreign Trade rejects the registration within 15 days from receiving the application.

(6) If during the registration or after the registration realities given in the application for registration change, the Czechoslovak person is obliged to inform the Federal Ministry of Foreign Trade about these changes within 15 days from the date he learned about those changes.

(7) The Federal Ministry of Foreign Trade can withdraw the registration if the Czechoslovak person repeatedly or seriously violates the obligations set for carrying out foreign trade activity by generally valid legal provision or measures of bodies of economic management[9c] as well as in the case that he does not fulfill the obligations determined in parapraph 6. It goes that for the period of one year from the date that the decision on the withdrawal of the registration becomes legally valid according to the above sentence conditions for registration are not fulfilled for the Czechoslovak person it concerns. The Federal Ministra of Foreign Trade withdraws the registration at the request of the applicant if he concluded the operations of the registered foreign trade activity. The Federal Ministry of Foreign Trade can withdraw the registration if it finds that the registered activity has not been carried out by the Czechoslovak person for more than two years. The Federal Ministry of Foreign Trade informs the monetary institution of the Czecholsovak person about the nullification of the registration.

(8) To the procedure of registration, with the exception of its withdrawal and the procedure on the appeal against the decision on the refusal or withdrawal of registration, do not apply the general regulations on administrative procedure (Administrative Rules). Registration is not considered as a measure of the bodies of economic management[9c]. A proper application for registration must be decided without delay, at the most within 15 days from delivery. The decision on registration contains an accurately defined type and scope of registered foreign trade activity, a statement that this activity has been registered, the alloted registration number, definition of the person for whom this activity was registered, information on the possibilities of appeal, date of registration, definition of the worker who carried out the registration and his signature; decision on registration which does not fully meet the application for registration, contains also the statement on the rejection of part of the application and the justification of the refusal to register. Similar matters are contained in the decision which fully rejects the application for registration. Against the refusal to register the Czechoslovak person can appeal to the Minister of Foreign Trade within 15 days from the date he received the refusal of registration. The decision on registration which fully meets the request for registration can be marked on the copy of the application for registration, which the applicant receives, statement of the registration, the alloted registration number, date of registration and adding of the name of the worker who carried out the registration and his signature.

(9) The application for registration is submitted by the applicant to the Federal Ministry of Foreign Trade in two copies.

Article 8

(1) The Federal Ministry of Foreign Trade shall grant an authorization to carry out foreign trade activities to a Czechoslovak person, provided the latter shows that it meets the requirements guaranteeing a due, economically efficient and rational exercise of such activities and disposes of sufficient foreign currency funds to meet its liabilitites arising out of a breach, if any, of its obligations towards foreign persons. The government of the Czechoslovak Federative Republic may fix for serious reasons additional conditions on the meeting of which it will make dependent the grant of authorization to engage in foreign trade activities. In addition, the Federal Ministry of Foreign Trade may grant an authorization to engage in foreign trade activities to foreign persons, if such grant appears to be in concordance with the goals of an expedient integration of the Czechoslovak Federative Republic's national economy into the international division of labour.

(2) The Federal Minisry of Foreign Trade shall restrict or withdraw the authorization to engage in foreign trade activitites, if the Czechoslovak or foreign person, that have been authorized to engage in foreign trade activity commits a breach of its

bligations set forth in the grant repeatedly, or in a serious manner. The Federal linistry of Foreign Trade can withdraw or limit the authorization to carry out foreign 'ade activity from a Czechoslovak or foreign person, if conditions decisive for its ranting have changed aaccording to paragraph 1.

(3) Foreign trade activity, its change or withdrawal is written for Czechoslovak persons in the Companies Register.

Article 9

The Federal Ministry of Foreign Trade shall enact generally binding legal rules, governing the procedure to be followed when granting, modifying or withdrawing the uthorization to engage in foreign trade activites, singling out such foreign trade ctivities, normally requiring registration or authorization hereunder, that can be carried out without registration or authorization, setting forth conditions and extent or such operations.

Section 3

REGULATION AND CONTROL OF FOREIGN TRADE ACTIVITIES

Article 10

Czechoslovak bodies and foreign persons carrying out their inspection activity on the basis of a contract (Art 6, par. 1g and par 2d) are obliged to carry out the inspection of goods and services in an impartial way and to issue an inspection certificate corresponding to the outcome of the inspection. Official measures, instructions or legal acts restricting the impartiality of such inspection are invalid.

Article 11

was abolished

Article 12

(1) The Federal Ministry of Foreign Trade shall control the exercise of the foreign trade activities by means of enacting hereunder generally binding legal rules, as well as through customs and, in cooperation with other central bodies of State administration, by means of other economic instruments withicn its powers.

(2) The Federal Ministry of Foreign Trade shall supervise the foreign trade activitites under and within the scope of generally binding rules, enacted under Article 3 hereof.

(3) The Federal Ministry of Foreign Trade shall, in a generally binding legal rule, specify details concerning the authorized extent and content, operation and control of foreign trade activitites carried out by Czechoslovak and foreign persons who engage in this activity on the basis of registration or granted authorization, or who can engage in this activity without registration or authorization (Art. 7 para 4).

Article 12a

(1) Czechoslovak as well as foreign persons shall not be free to establish Czechoslovak juristic persons, the basic subject-matter of business of which will include foreign trade activitity and to modify same, unless an authorization is granted on to them by the Federal Ministry of Foreign Trade.

(2) Authorities of State administration shall not be free to establish a Czechoslovak juristic person under paragraph (1) hereof, or to modify the subject-matter of its business, unless a leave is granted to them by the Federal Ministry of Foreign Trade.

(3) An authorization under paragraph (1) or leave under paragraph (2) hereof shall replace registration or authorization under Article 7 paragraph (1).

Section 4

FOREIGN TRADE ENTERPRISES

Article 13

(1) A foreign trade enterprise is a juristic person established to engage in foreign trade activity, which stands for the breach of its commitments and other obligations by its own assets.

(2) Foreign trade enterprises are not liable for commitments of the Stale, neither for commitments of other juristic persons, and the State and other juristic persons are not liable for commitments of foreign trade enterprises; this does not exclude liabilitites originating in accordance with appropriate rules of law.

(3) Having heard the opinion of the respective national commitee, the Federal Ministry of Foreign Trade shall have the right to establish foreign trade enterprises. Should the subject-matter of business of the newly established enterprise include activities other than foreign trade the Federal Ministry of Foreign Trade shall apply for approval to the competent authority of State administration, regarding that part of the subject-matter of business, provided special rules require such approval. The Charter of the foreign trade enterprise shall include, inter alia, its name, place of business, identification number, date of the establishment of the enterprise, subject-matter of business and its basic capital. The created enterprise shall be entered in the Companies Register. The enterprise shall have the capacity to acquire rights and to assume obligations as of the date of entry into the Companies Register is submitted by the Federal Ministry of Foreign Trade which attaches to this proposal

a) foundation document,

b) the agreement of the responsible body of state administration on the subject-matter of enterprising, if a special regulation requires such an agreement.

(4) The Federal Ministry of Foreign Trade carries out towards the foreign trade enterprise the function of economic management under conditions and to the extent set forth by law and in this position supervises the economic and social activity of the enterprise.

Article 13a

(1) The state creates conditions for entrepreneurial activity of the foreign trade enterprise and regulates this activity mainly by legal regulations.

(2) The activity and territorial scope of the enterprise can be limited or interferred with under conditions and in a way as set by an Act.

Article 14

(1) A foreign trade enterprise shall be headed by a general dierector, who shall be the sole leader to control the activity of the enterprise, he is responsible for it and its results to the Federal Ministry of Foreign Trade; as a statutary body he acts on behalf of the enterprise. The general director is nominated and recalled by the Minister of Foreign Trade. The general director nominates and recalls his deputies who are statutary bodies of the foreign trade enterprise. The general director and his deputies register in the Companies Register as statutary bodies of the foreign trade enterprise. The authorization to act on behalf of the foreign trade enterprise is gained by the general director and his deputies on the day of nomination. The effects of the ending of their function towards third persons start on the date of the registration of chnages in the Companies Register.

(2) The internal organization of the foreign trade enterprise and the organization of the internal management are solely within the scope of the enterprise. The internal organization of the foreign trade enterprise is adjusted by the organization order, or another enterprise organization rule. In the designation of an internal organizational unit of the foreign trade enterprise the word "enterprise" or "organization" may not be used. The foreign trade enterprise can determine which internal organizational units will be registered in the Companies Register and is entitled to carry out on behalf of the enterprise all legal acts concerning this branch office.

(3) The foreign trade enterprise must see to it that its property is fully, effectively and ecnonomically used and protected. The Federal Ministry of Foreign Trade will prepare in agreement with the Federal Ministry of Finance and the State Bank of Czechoslovakia by a generally binding rules details on the management of the property of foreign trade enterprises.

(4) The foreign trade enterprise keeps its books in the prescribed way, makes out an annual accounting and makes it available to the respective bodies of state administration. The auditing of the annual accounting of a foreign trade enterprise is carried out by an expert or a group of experts named by the Federal Ministry of Foreign Trade, or by an auditor. Costs connected with the auditing are covered by the enterprise.

(5) It is the duty of the foreign trade enterprise to cooperate in its economic and social activity with the respective national committees and share in the overall economic and social development of their territory in a way and under conditions set out by Law. It is also its duty to closely cooperate with the respective national Committee in the implementation of measures for the protection of the environment.

Article 15

(1) The Federal ministry of Foreign Trade shall take decisions concerning liquidation, division, consolidation and amalgamation of foreign trade enterprise and modify in the subject-matter of their business; when doing so, the Ministry shall proceed in accordance with the provision of Article 13 paragraph (3), the first and second sentences hereof. A trade-union body gives its opinion on the measures of the previous sentence. In addititon, the Federal Ministry of Foreign Trade shall have the power to modify the enterprise's name, and to change its seat and its basic capital. A divided enterprise ceases to exist and its property and obligations and rights are transferred to the extent as determined by the Federal Ministry of Foreign Trade to the newly formed, or taking over foreign trade enterprises. A merged enterprise ceases to exist and its property, rights and obligations are transferred to the receiving foreign trade enterprise. After the fusing of enterprises the former foreign trade enterprise cease to exist and their property, rights and obligations are transferred to the newly formed foreign trade enteprise.

(2) The liquidation, divivsion, consolidation or amalgamation of the foreign trade enterprise or the modification of its basic assets shall not adversely affect the creditors thereof. Such liquidation, division, consolidation, amalgamation or modification of its basic assets shall become effective as from the date of the respective entry into the Companies Register. The proposal for registration is submitted by the Federal ministry of Foreign Trade.

(3) If no decision as to the transfer of a claim against the foreign trade enterprise being divided is taken, the creditor shall be free to assert his claim against any of the enterprise newly created by division, and these shall be liable jointly and severally.

(4) After the disestablishing of a foreign trade enterprise the Federal Ministry of Foreign Trade decides about the transfer of rights and obligations ot the abolished foreign trade enterprise to another Czechoslovak juristic person or about the liquidation of the property. For the decision of the transfer of rights and obligations of the liquidated foreign trade enterprise to another Czechoslovak juristic person other than a foreign trade enterprise the prior consent of the receiving person must be obtained.

Article 15a

(1) The purpose of property liquidation (further only liquidation) of an enterprise is to settle the property matters of the abolished enterprise.

(2) The enterprise ceases to exist after the liquidation by the striking off the enterprise from the Companies Register.

Article 15b

(1) The enterprise proposes the recording of its liquidation and the liquidator, or liquidators (further only liquidator), who is appointed, in the Companies Register. During the stage of liquidation it uses its name with the appendix "under liquidation".

(2) On the date that the liquidator was registered in the Companies Register the bodies of the enterprise cease to exist. The liquidator is entitled to act on behalf of the enterprise in matters connected with the liquidation.

Article 15c

(1) On the date that the liquidation starts the enterprise prepares a balancing of its accounts and submits it to the liquidator and the respective bodies.

(2) Within thirty days after registration in the Companies Register the liguidator prepares a balance for the day of the commencement of liquidation and submits it to the Federal Ministry of Foreign Trade together with the liquidation plan, the budget of liquidation and inventory list about the extraordinary inventory of the economic means carried out on the date of the commencement of liquidation.

(3) During the course of liquidation the liquidator must mainly

a) deposit all monetary means with one Czechoslovak monetary institution,

b) conclude all current matters,

c) settle taxes and fees,

d) settle obligations and claims,

e) turn into cash the property of the enterprise in the most economic and most rapid way or use it otherwise according to the decision of the Federal Ministry of Foreign Trade,

f) submit to the Federal Ministry of Foreign Trade quarterly and annual reports on the course of the liquidation documented by the quarterly and annual balance.

Article 15d

(1) The liquidator prepares the accounting balance on the date of the conclusion of the liquidation and submits it to the Federal Ministry of Foreign Trade for approval together with the final report on the whole course of liguidation.

(2) After the screening and approval of the accounting budget by the Federal Ministry of Foreign Trade and after settling all tax duties, the liquidator

a) will dispose of the final balance of the liquidation according to the decision of the Federal Ministry of Foreign Trade,

b) sees to the safe depositing of any written material and accountings,

c) reports the conclusion of the liquidation to a court with the proposal for the enterprise to be struck off the Companies Register.

Article 15e

The liquidation of an enterprise with an overdraft takes place according to special regulations[9d)].

Section 5

FOREIGN TRADE ORGANIZATION FOR PARTICULAR PURPOSES

Article 16

(1) In order to secure the development and realization of foreign trade activity, especially to concentrate some technical activities, the Minister of Foreign Trade of the Czechoslovak Federative Republic may establish and liquidate foreign trade organizations for particular purposes.

(2) For the establishment, transfer, amalgamation, division and liquidation and activity of foreign trade organizations for particular purposes, the general rules concerning State organizations shall be applied similarly.

Chapter 3

FOREIGN ECONOMIC SERVICES

Section 1

DEFINITION OF FOREIGN ECONOMIC SERVICES

Article 17

(1) The term "foreign economic services" shall include services rendered in the field of international carriage of goods more particularly railways, air, road, river and combined river and sea transports, with the exception of the procurement of transport of consignments, as well as in the field of communications, culture, education, insurance, and medical care, with the exception of spa cures, funeral, banking and financing services, provided all these are performed;

a) by Czechoslovak persons to foreign persons with the exception of services destined to meet personal needs of foreign natural persons and similar services rendered to foreign juristic persons, on the territory of the Czechoslovak Federative Republic paid in Czechoslovak currency, and to Czechoslovak persons abroad;

b) by foreign persons on the territory of the Czechoslovak Federative Republic;

(2) In addition, the foreign economic services shall include:

a) services rendered by Czechoslovak persons to Czechoslovak persons when mediating transfer of copyrights of Czechoslovak authors or performing artists to foreign countries, and of foreign authors or performing artists to the Czechoslovak Federative Republic[10)];

b) the issuing of transport documents by Czechoslovak rail transporters of transport provided by foreign rail transporters, and by Czechoslovak air transporters for transport provided by foreign air transporters.

c) The sale of goods and granting of services on the territory of the Czechoslovak Federative Republic for foreign exchange (further only sale for foreign exchange).

(3) For the purpose of this Act "combined river and sea transport" means transport realized on river by the same boat.

Section 2
REGISTRATION AND AUTHORIZATION OF FOREIGN ECONOMIC SERVICES

Article 18

(1) Foreign economic services can be granted only by

a) Czechoslovak juristic persons founded for this purpose with authorization according to Art. 19 par 3;

b) other Czechoslovak persons on the basis of registration, if it is not a case where no registration is required and if they are not services given under Art. 17, par. 2, letter c), which may be rendered only on the basis and within the limits of the granted authorization;

c) foreign persons on the basis of an authorization if it is not the case where no authorization is required.

(2) Registration or authorization for granting foreign services are not required:

a) if foreign economic services are granted on the basis of law or an international treaty binding on the Czechoslovak Federative Republic;

b) in other cases where in view of the interests of the national economy of the Czechoslovak Federative Republic it is not appropriate to make the granting of foreign economic services dependent upon registration or authorization; the conditions and extent of this exception shall be specified in the implementory provisions under Article 22.

Article 19

(1) The granting of foreign economic services is registered, the registration is nullified and the authorization to grant foreign economic services is granted, changed or withdrawn in the sphere

a) of railway, air, river and combined river and sea transport by the Federal Ministry of Transport;

b) communications by the Federal Ministry of Communications;

c) road transport and funeral services by the Ministry of the Interior; or the Ministry of Interior and the Environment of the Republic; in the case of authorization in agreement with the Federal Ministry of Transport;

d) culture by the Ministry of Culture of the Republic;

e) education by the Ministry of Education, Youth and Physical Education of the Republic;

f) insurance by the Ministry of Finance, Prices and Wages of the Republic; in case of authorization in agrement with the Federal Ministry of Finance;

g) medical service by the Ministry of Health and Social Welfare of the Republic;

h) banking and finance by the State Bank of Czechoslovakia; in case of authorization in agreement with the Federal Ministry of Finance;

i) sales for foreign currency by the Federal Ministry of Finance in agreement with the State Bank of Czechoslovakia and the Federal ministry of Foreign Trade.

(2) If according to paragraph 1 the decision lies with a Ministry of the Republic this means that it shall be the Ministry of the Republic in which the Czecholsovak granter of services has his seat, or domicile or the foreign granter of services the seat of his organizational unit.

(3) A Czechoslovak juristic person, whose subject of enterprising includes foreign economic services, can be founded or its subject of enterprising changed only with the approval of the respective body similarly as according to paragraph 1.

(4) The body that has registered the granting of foreign trade services or nullified the registration, has given authorization for their granting or has changed or withdrawn such authorization, or has given, changed or nullified the authorization of the founding of a juristic person according to paragraph 3 must submit within 10 days notification about this to the Federal Ministry of Foreign Trade. The Federal ministry of Foreign Trade keeps a central evidence of these registrations, authorizations and agreements on the basis of an allotted central filing number of the foreign economic services.

(5) For the granting, changes and withdrawal of authorization for granting foreign economic services applies analogously the provision of Art. 7b and Art. 8 par 2 to 4. Provision Art. 7b and Art 7c, par. 8 applies analogously also to the registration of these services. Provision Art. 8 par. 2 applies to the sale for foreign currencies, however, the authorization cannot be granted if it would be undesirable with regard to the Czechoslovak currency.

Section 3
REGULATION AND CONTROL OF FOREIGN ECONOMIC SERVICES

Article 20

Czechoslovak persons are allowed to grant foreign economic service connected with export of objects from the Czechoslovak Federative Republic only under conditions and to the extent specified by the implementary provisions issued under Article 22.

Article 21

(1) Foreign economic services shall be controlled by those central authorities of State administration who registered this activity or granted the the respective authorization. Such control shall be carried out by enactment of generally binding rules of law and by economic instruments, applied in cooperation with the respective central authorities of State administration.

(2) The central authoritites of State administration referred to im paragraph (1) hereof shall supervise the exercise of foreign economic services under, and to the extent of, generally binding legal regulations enacted under Article 22 hereof.

Article 22

In the field of

a) railway, air, river and combined river and sea transport: the Federal Ministry of Transport;

b) communications: the Federal Ministry of Communications:

c) road transport: the Federal Ministry of Transport in agreement with the Ministries of Interior, or the Ministries of Interior and the Environment of the Republics;

d) culture: the Ministries of Culture of the Republics;

e) education: the Ministries of Education, Youth and Physical Education of the Republics;

f) insurance: the Ministries of Finance, Prices and Wages of the Republics in agreement with the Federal ministry of Finance;

g) medical care: the Ministries of Health and Social Welfare of the Republics;

h) banking and financing: the State Bank of Czechoslovakia in agreement with the Federal Ministry of Finance;

i) funeral services: the Ministries of Interior or the Ministries of Interior and the Environment of the Republics;

j) sale for foreign exchange: the Federal Ministry of Finance in agreement with the State Bank of Czechoslovakia

shall specify by enactment of generally binding legal regulations, in agreement with the Federal Ministry of Foreign Trade:

(1) requirements of the application for registration of foreign economic services, cases, when their registration can be refused or nullified and what services, under what conditions and to what extent, can be provided without registration;

(2) details of the procedure in granting, changing and refusing authorization for providing foreign economic services and which services, under what conditions and to what extent, can be provided without this authorization;

(3) the procedure of Czechoslovak persons in providing foreign economic services, and the organizing and supervision of this activity; in the case of sale for foreign exchange there can be, besides the conditions for the implementation of such sales, also a modification of its legal form.

Articles 23–36
were abolished

Part III
TRADE REPRESENTATION OFFICES OF FOREIGN PERSONS

Article 37

(1) A trade representation office under this Act is an organizational body of a

foreign person established for its economic activity or for the promotion of this activity on the territory of the Czechoslovak Federative Republic.

(2) A foreign person can establish its trade representation office and carry out operations only on the basis of registration, if it is not the case where no registration is required.

(3) Registration is not required, if from the point of view of the interest of the national economy of the Czechoslovak Federative Republic it is not expedient to bind the establishing of a trade representation office of a foreign person to registration and that under the conditions and to the extent determined by the implementary rules issued under Art. 39.

Article 38

(1) The establishing of a trade representation office is registered and the registration nullified in the field of

a) international railway, air, river and combined river and sea transport by the Federal ministry of Transport;

b) road transport by the Ministry of Interior, or the Ministry of Interior and the Environment of the Republic on the territory of which the representation is to operate;

c) banking and financing by the State Bank of Czechoslovakia;

d) insurance by the Ministry of Finance, Prices and Wages of the Republic on the territory of which the trade representation office is to operate.

(2) The establishing of trade office in the other fields is registered and the registration nullified by the Federal Ministry of Foreign Trade.

(3) The body which registered the establishing of a trade representation office or changed or nullified such a registration has to submit within ten days notification about this to the Federal ministry of Finance; if it is a trade representation office in the field given in par. 1 letter a) and b) also to the Federal Ministry of Foreign Trade. The Ministry of Finance keeps a central evidence of the registration of the trade representation offices on the basis of the alloted central filing number.

Article 39

The Federal Ministry of Foreign Trade in agreement with the Federal Ministry of Finance, the Federal Ministry of Transport, the Federal Ministry of Communications and the State Bank of Czechoslovakia shall specify by generally binding legal regulation the method and scope of the activity of the trade representation offices and details on the registration and its nullification, as well as when registration is not required.

Part IV
ESTABLISHMENT OF ORGANIZATIONAL BODIES OF CZECHOSLOVAK PERSONS IN FOREIGN COUNTRIES

Article 40

(1) Czecholsovak persons may establish their organizational bodies in foreign countries to carry out economic activity or to help its promotion on the basis and within the limits of its registration, with the exception of cases where no registration is required.

(2) Registration shall not be reguired if in view of the interests of the national economy of the Czechoslovak Federative Republic it is not appropriate to make the establishment of an organizational body of a Czechoslovak person in a foreign country dependent upon the granting of a registration; conditions and extent of this exception shall be specified in implementary rules issued under Article 42.

Article 41

The organizational body of a Czechoslovak person abroad is registered and the registration nullified

a) in the field of international railway transport, air, river and combined river and sea transport by the Federal Ministry of Transport;

b) in the field of road transport by the Ministry of Interior, or the Ministry of Interior and the Environment of the Republic on whose territory the Czechoslovak person has its seat or domicile;

c) in the field of banking and financing by the Czechoslovak State Bank;

d) in the other fields by the Federal Ministry of Foreign Trade.

Article 42

The Federal Ministry of Foreign Trade shall specify, in agreement with the federal Ministry of Finance, the Federal Ministry of Transport and the State Bank of Czechoslovakia by generally binding rules of law details concerning the application for registration of organizational bodies and when registration of organizational bodies can be rejected or nullified.

Part V
CHAMBERS OF COMMERCE AND INDUSTRY

Chapter 1
CZECHOSLOVAK CHAMBER OF COMMERCE AND INDUSTRY

Article 43

(1) The Czechoslovak Chamber of Commerce and Industry shall promote the development of Czechoslovak economic relations with foreign countries.

(2) The Czechoslovak Chamber of Commerce and Industry is a juristic person associating Czechoslovak persons who carry out foreign economic activity or connected production or other economic activity.

(3) The Czechoslovak Chamber of Commerce and Industry has its seat in Prague; the regional hedquarters of the Czechoslovak Chamber of Commerce and Industry are located in Bratislava.

Article 44

The Czechoslovak Chamber of Commerce and Industry shall also

a) grant expert consultation and other assistance to its members;

b) disseminate information on economy, economic conditions and legal provisions concerning economic relations with foreign countries and in connection with this activity publish and distribute informative and technical publications;

c) issue certificates concerning facts important in legal relations arising in the realization of international trade; such certificates shall bear the character of official documents.

Article 45

(1) The supreme body of the Czechoslovak Chamber of Commerce and Industry is the plenary assembly of members which especially passes the statutes of the Czechoslovak Chamber of Commerce and Industry and determines the main directions of its activity and the amount of membership fees.

(2) The quorum of the plenary assembly is formed by the presence of a majority of members; it decides by a majority of members present.

(3) In the period between sessions of the plenary assembly the Czechoslovak Chamber of Commerce and Industry is directed by a board of directors elected by the plenary assembly for a period of five years.

(4) Statutary authorities acting in the name of the Czechoslovak Cahmber of Commerce and Industry are the chairman, the vicechairmen or the secretary general, elected by the plenary assembly.

Article 46

Details concerning the activities of the Czechoslovak Chamber of Commerce and Industry, the membership therein, the rights and duties of its members, the economic management and the organizational structure thereof shall be contained in its statutes. These shall be approved, upon proposal by the Federal Ministry of Foreign Trade, by the government of the Czechoslovak Federative Republic.

Chapter 2
ARBITRATION COURT OF THE CZECHOSLOVAK CHAMBER OF COMMERCE AND INDUSTRY

Article 47

(1) The Arbitration Court acts at the Czechoslovak Chamber of Commerce and Industry as a permanent independent body for settling disputes concerning property claims by independent arbitrators in accordance with the provisions on arbitration proceeding in international trade relations.

(2) The Arbitration Court is headed by a board elected by the Board of directors of the Czechoslovak Chamber of Commerce and Industry for a period of three years. The quorum of the Board of the Arbitration Court is formed by the presence of a majority of its members; its decisions are taken by a majority of members present.

(3) The Board of the Arbitration Court consists of a chairman, vicechairmen and members. The Board elects its chairman and vicechairmen who are acting in the name of the Arbitration Court.

Article 48

The organizational arrangement of the Arbitration Court and its proceeding are regulated by the rules of procedure of the Arbitration Court proposed by the Board of the Arbitration Court and announced by the Federal Ministry of Foreign Trade in Collection of Laws.

Chapter 3
SPECIAL AND MIXED CHAMBERS OF COMMERCE

Article 49

(1) Czechoslovak persons may agree to establish a special chamber of commerce for the development of economic relations with foreign countries in a certain sphere.

(2) Czechoslovak persons may agree with foreign persons to establish mixed chambers of commerce for the development of economic relations with a certain state or several states.

(3) Special and mixed chambers of commerce may be established with the consent of the Federal Ministry of Foreign Trade only.

(4) Details concerning the activity of special and mixed chambers of commerce under paragraphs 1 and 2, membership, rights and duties of members, management and organizational arrangement shall be specified by statutes to be approved by the Federal Ministry of Foreign Trade.

Article 50

(1) The Federal Ministry of Foreign Trade may, for the development of economic relations with foreign countries in a certain sphere or in relation to a certain state or several states, establish a special or a mixed chamber of commerce.

(2) The decision on the establishment of a special or a mixed chamber of commerce shall contain namely its name, seat, subject-matter of activity and day of establishment.

(3) The organization of special and mixed chambers of commerce established under paragraph 1 shall be determined by statutes to be issued by the Minister of Foreign Trade of the Czechoslovak Federative Republic.

Article 51

. Special and mixed chambers of commerce shall be registered in the Companies Register.

Part VI
NON-COMMERCIAL EXPORT AND IMPORT

Article 52

Non-commercial export and import means export and import of objects outside foreign economic activity.

Article 53

(1) If it is required by the protection of interests of the national economy of the Czechoslovak Federative Republic or if there are particularly important reasons, non-commercial export or import of certain objects may be prohibited or made dependent on an authorization.

(2) Decisions concerning the admission of non-commercial export or import are subject to general rules on administrative proceedings (Administrative Rules) with the following deviations:

a) applications initiating the proceedings may be presented even orally;

b) decisions on admission of non-commercial export or import need not be taken in written form.

(3) Decisions on admissibility of non-commercial export or import shall be taken by the customs authorities.

Article 54

The Federal Ministry of Foreign Trade shall specify, by generally binding rules of law, the export or import of which objects and to what extent or value is prohibited, eventually cases when non-commercial export or import is subject to authorization, which authority of the customs administration and under what conditions is entitled

to grant authorizations, and details concerning the decisiontaking of admissibility of non-commercial exports or imports.

Part VII
PROTECTION OF TRADE POLICY INTERESTS

Chapter 1
REGULATION OF TRADE POLICY

Article 55

The Federal ministry of Foreign Trade

a) submits to the Government of the Czechoslovak Federative Republic proposals concerning principles to govern the uniform foreign trade policy;

b) carries out the uniform foregn trade policy in relation with competant authorities of other states;

c) regulates and controls the realization of the uniform foreign trade policy in connection with the activities regulated by this Act and also in other fields of economic relations with foreign countries; for this purpose it issues rules of law and takes necessary measures.

Article 56

(1) In order to protect the trade policy interests or other important interests of the Czechoslovak Federative Republic, or to secure the fulfilment of international obligations, the Federal Ministry of Foreign Trade by a generally binding rules of law may

a) restrict or prohibit the exercise of foreign economic activitites or the transit of goods over the territory of the Czechoslovak Federative Republic;

b) make the exercise or the transit hereunder dependent on certain terms and conditions, including the grant of official authorization or the submission of documents stipulated.

(2) The method of publishing the list of items of goods and services, which are subject to the issuing of an official authorization or the submitting of the specified documents, is determined by the Federal Ministry of Foreign Trade in a regulation issued according to par. 1

Chapter 2
PREVENTIVE INSPECTION OF EXPORTED AND IMPORTED GOODS

Article 57

(1) The Federal Ministry of Foreign Trade is authorized to control the quality and quantity of exported and imported goods or to establish a juristic person for this

purpose or to entrust with realization a juristic person under its management (further only "control organization").

(2) The Federal ministry of Foreign Trade is authorized to lay down the obligation of a Czechoslovak person delivering goods for export to provide a certificate of inspection for certain kinds of goods.

(3) The Federal Ministry of Foreign Trade or the controlling organization are authorized to prohibit the dispatch of defective goods abroad, or to make the admissibility of the dispatch of such goods dependent upon the fulfilment of stipulated conditions.

(4) The Federal ministry of Foreign Trade shall specify by a generally binding rules of law details concerning the extent and form of the realization of inspection and the issuance of certificates of inspection.

Part VIII
TRANSITIONAL AND FINAL PROVISIONS

Article 58

(1) Foreign trade enterprises established under the hitherto valid rules shall be considered as foreign trade enterprises under this Act.

(2) Authorizations or permissions of foreign economic activity, non-commercial exports and imports and establishment of organizational bodies of Czechoslovak juristic persons in foreign countries granted under the hitherto valid rules shall be considered as authorizations under this Act.

Article 59

(1) The Czechoslovak Chamber of Commerce and Industry acting under the hitherto valid rules is the Czechoslovak Chamber of Commerce and Industry under this Act.

(2) The present organizational rules of the Czechoslovak Chamber of Commerce and Industry shall remain in force until the day of coming into force of the statutes under Article 46.

(3) The authorities of the Czechoslovak Chamber of Commerce and Industry shall function until the election of the authorities of the Czechoslovak Chamber of Commerce and Industry under this Act.

Article 60

(1) The Arbitration Court of the Czechoslovak Chamber of Commerce and Industry shall settle disputes under the Rules of the Arbitration Court of the Chamber of Commerce announced by the Decree of the Federal Ministry of Foreign Trade No. 47/1975 Coll. until the day of coming into force of the rules of procedure of the Arbitration Court to be announced under Article 48.

(2) The Board of the Arbitration Court of the Czechoslovak Chamber of Commerce and Industry shall function until the election of the Board of the Arbitration Court of the Czechoslovak Chamber of Commerce and Industry under this Act.

Article 61

General rules of administrative procedures (the Administrative Rules[11]) shall not apply to the procedures under Article 56 and 57 hereof. If persons incur losses as a result of the rejection of their application for the grant of, or modification of, an authorization, or as a result of the modification or withdrawal of such authorization or permission, or as a result of other steps taken in accordance herewith, no claim for damages shall be available to them.

Article 62
was abolished

Article 63

(1) The provision of Article 2, par. e) of the Act No. 123/1965 Coll. on the Czechoslovak Press Agency shall be amended by the deletion of the words "...and in agreement with the Ministry of Foreign Trade also in the field of trade."

(2) The following rules of law are hereby repealed:

a) the provision of the Act No. 119/1948 Coll. on the State Organization of Foreign Trade and International Forwarding with the exception of the provisions concerning nationalization;

b) Act No. 85/1972 Coll. on Procedures concerning Conclusion of Treaties on Economic Cooperation with Foreign Countries;

c) Article 38, par. 2 of the Act No. 133/1970 Coll. on the sphere of Action of Federal Ministries;

d) Article 3 of the Act No. 61/1952 Coll. on Maritime Navigation;

e) Decree of the Government No. 11/1959 Coll. on the Amendment of the Sphere of Action in the Field of Import and Export of Precious Metals for Industrial, Technological or Consumption Purposes;

f) Decree of the Minister of Foreign Trade No. 103/1960 coll. on the Sphere of Action of the Czechoslovak Chamber of Commerce and its Organization, as amended by decrees of the Minister of Foreign Trade No. 32/1961 Coll. and of the Federal Ministry of Foreign Trade No. 69/1978 Coll.;

g) Decree of the Minister of Foreign Trade No. 121/1968 Coll. on Authorization to Engage in Foreign Trade Activities, as amended by Decree of the Minister of Foreign Trade No. 164/1969 Coll.;

h) Decree of the Ministry of Foreign Trade No. 31/1964 Coll on Proceedings concerning Export, as amended by Decree of the Ministry of Foreign Trade 4/1969 Coll.;

i) Decree of the Ministry of Foreign Trade No. 32/1964 Coll. on Proceedings concerning Import, as amended by Decree of the ministry of Foreign Trade No. 5/1969 Coll.;

j) Decree of the Ministry of Foreign Trade No. 17/1967 Coll. on the Regulation of Collectors Exchange of Postage Stamps and other Objects of Philatelistic Interest with Foreign Countries;

k) Decree of the Minister of Foreign Trade No. 8/1969 Coll. on Authorizations concerning Import and Export of Goods and some other Activities of Foreign Trade;

l) Decreeof the Federal Ministry of Foreign Trade No. 125/1975 Coll. on Realization of Foreign Trade Activity for Foreign Enterprises;

m) Decree of the Federal Ministry of Foreign Trade No. 58/1979 Coll. on Prohibition or Restriction of Export of Some Kinds of Objects in Tourist Relations.

(3) In addition, the following rules of law are abolished:

a) Decree of the Government of the Czechoslovak Federative Republic No. 157/1980, Coll., on the grant of authorization to enter into, modify or repudiate some contracts of industrial specialization or cooperation in production with foreign countries as amended by the Decree of the Government of the Czechoslovak Socialist Republic, No. 21/1987, Coll.;

b) Decree of the Federal ministry of Foreign Trade No. 167/1980, Coll., on procedures to be followed when liquidating Foreign Trade Enterprises;

c) Decree of the Federal Ministry of Foreign Trade No. 54/1981 Coll. on Productive Councils of Foreign Trade Enterprise[11a].

Article 63a

Decrees or part thereof, establishing a foreign trade enterprise under the previously rules of law shall become null and void as of the day where their contents are modified by the exercise of activitites under Article 13 to 15 hereof[12].

II

(1) Qualification or authorization for foreign trade activities and foreign economic services, as well as for the establishing of trade representation office and the operation of them and for the establishing of organizational bodies of Czechoslovak juristic persons abroad, granted according to the present rules is considered as authorization, or registration, under this Act.

(2) The Federal Ministry allotts a central evidence number to persons which received authorization for foreign trade activity or foreign economic services up to the time this Act was adopted; the bodies of state administration given in Art. 19 must inform the Federal Ministry of Foreign Trade within 30 days after the date this Act came into force about a list of persons, which received authorization for foreign economic services and the contents of the issued authorization.

(3) Generally binding rules of law[13] issued according to Art. 11 are considered to be generally binding rules of law iddued according to Art. 22. Authorization for foreign trade activities according to Art. 6, par. 1, letter f) is considered as authorization for foreign economic services according to Art. 19, par. 1, letter i).

(4) For the export and import carried out by a Czechoslovak person, which this person would be authorized to carry out without authorization according to Art. 7, par. 2, letter b) of the former version of the Act, if it is realized to meet the obligations

of delivery on the basis of an agreement on production cooperation (Art. 23 of the former version of the Act) validly signed before this Act was passed on the basis of such an agreement on cooperation, neither registration nor authorization is required for a period of three months.

(5) The bodies of the socialist self-administration of the foreign trade enterprises are abolished and the election period of the general director of the foreign trade enterprise ends on the date this Act is adopted; however, the general director continues in his office up to the date on which the general director nominated by the minister of Foreign Trade (Art. 14, par. 1.) assumes responsibility to act on behlf of the foreign trade enterprise.

(6) If in Act No. 42/1980 Coll. on Economic Relations with Foreign Countries in the version of the Act No. 102/1988 Coll. the term Czechoslovak Socialist Republic is used it should be read Czechoslovak Federative Republic.

III

The presidium of the Federal Assembly is authorized to announce in the Collection of laws the complete version of the Act No. 42/1980 Coll. on Economic Relations with Foreign Countries as follows from the Acts ehich modify and amend it.

IV

This Act shall become effective as of May 1st, 1990 The Act No. 102/1988 Coll. codifying and amending the Act No. 42/1980 Coll. on Economic Relations with Foreign Countries became effective as of July 1st, 1988.

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4) Art. 521 of the International Trade Code
5) Art. 2, a) and b) of the Act No. 123/1965 Coll. on the Czecholsovak Press Agency.
6) Act No. 142/1970 Coll. on Foreign Exchange Control.
7) Act No. 144/1970 Coll. on the Czechoslovak State Bank.
8) Act No. 118/1975 Coll. and Act Nl. 133/1975 Coll. on Advocacy
9) Act No. 36/1967 Coll. on Experts and Interpreters.
9a) Para 600–624 of the International Trade Code.
9b) Act Nl. 158/1989 Coll. on banks and saving banks.
9c) Para. 26a and the following of the Economic Code.
9d) Art. 352–354 Act Nl. 99/ 1963 Coll. Civil Procedure Code as amended on later occasions.
10) Art. 44 par. (1) (6) of the Literary, Scientific and Artistic Creative Works Act No. 35 of 1965, Coll. (the Copyright Act 1965)
11) The Administrative Procedure Code (Administrative Rules) No. 71 of 1967, Coll.
11a) Art. II of the Act. No. 102/1988 Coll., modifying and amending the Act. No. 42/1980 Coll on Economic Relations with Foreign Countries.
12) E. g. Decree of the Minister of Foreign Trade No. 312/1953 Off. Bul. on the Establishment of Strojexport, Foreign Trade Enterprise for the Export of machinery and Equipment as amended on later occasions and Decree of the Minister of Foreign Trade No. 74/1971 Coll. on the Establishment of Omnia, Foreign Trade Enterprise.
13) For example, the Decree of the Federal Ministry of Foreign Trade and the Federal Ministry of Finance No. 8/1981 Coll., on coupons of the foreign trade enterprise Tuzex and the Decree of the Federal Ministry of Finance No. 83/1988 Coll. on the conditions of the sale of goods and granting services for foreign exchange on the territory of the Czechoslovak Federative Republic.

1. 6. The Joint - stock Companies Act

The Federal Assembly of the Czechoslovak Federative Republic has passed the following law:

Part I
GENERAL PROVISIONS

Article 1

Joint-stock company

(1) The joint-stock company (hereinafter only company) shall be a juristic person for entrepreneurial activities whose capital stock is divided into a certain number of shares, the nominal value of which is determined in advance.

(2) The company shall be the owner of financial means paid and good made available to it by its shareholders, as well as of property acequired during its business activity.

(3) The designation joint-stock company or the abbreviation "a.s." shall be included in the commercial name of the company.

Article 2

(1) The company shall be capable of acquiring rights and assuming obligations. It stands the breach of its commitments and other obligations with its assets. The shareholder is not liable for the obligations of the company.

(2) For the purpose of this Act, also the owner of the interim certificate is deemed to be a shareholder.

Article 3

Shares

(1) A share is a security giving the shareholder the right to participate according to this Act and the statutes of the company, in its managements, its profits and the remainder of its assets when the company becomes extinct.

(2) Unless provided otherwise in this Act or in the statutes of the company, the company issues shares guaranteeing the same rights to the owners of the same number and the same kind of shares.

(3) If several kinds of shares are issued, the rights pertaining to the various kinds of shares shall bed efined in the statutes. Shares of the same kind shall have the same nominal value.

Article 4

(1) The shares can be either shares registred in the name of the shareholder, or bearer shares.

(2) For registred shares, the company keeps a list of shareholders, with the commercial designation (name) of the shareholder, and his seat (domicile). Upon request of the shareholder, the company shall provide him with an abstract from the list of shareholders, in the part concerning him. Unless provided otherwise in the statutes, registred shares can be transferred by an endorsement stating the commercial designation (name) and the seat (domicile) of the new holder as well as the date of effectiveness of the transfer. To transfer by endorsement, provisions of th Bills and Cheques Act otherwise apply. [1)]

(3) Bearer shares are freely transferable by their handing over, and the holder shall have the rights ensuing from them.

(4) Recording the transfer of registred shares in the list of shareholders is necessary to make the transfer valid.

Article 5

The nominal value of one share shall be at least 1.000 Czechoslovak crowns, or a multiple of this sum divisible by 1,000. Shares issued in a lower nominal value are invalid.

Article 6

The text of the share shall contain at least the following:

a) the name and the seat of the company;

b) the serial number and the nominal value of the share, designation whether it is a registred share or a bearer share, and the name of the owner if it is a registred share;

c) the kind of share, and the rights pertaining to this kind of share according to the statues;

d) the date of issue, the amount of the capital stock of the company, and the number of shares of this kind at the time of issue;

e) signatures of two members of the board of directors authorized to sign on behalf of the company.

Article 7

(1) Shares issued prior to the valid registration of the company in the register of companies and before they are fully paid up are invalid.

(2) Prior to the valid registration of the company in the register of companies, or prior to the complete payment for the share, the founders can issue interim certificates attesting to subscribed deposits in money or orher property values, and to the extent of their payment.

(3) The interim certificate is a security granting the shareholder full rights. It must be issued in his name, and only after the valid registration of the company in the register and full payment of the value of the share can it be exchanged for a share of nominal value, either a share registred in name or bearer share.

(4) The issuers of the share or of the interim certificate shall be jointly and severally liable for damage caused by an infraction of this proision.

Article 8

(1) The company statutes can provide for the issue of shares giving priority right a share of the profit (priory shares). The statutes may reduce or void the voting right pertaining to priority shares.

(2) The statues determine the rules oncerning the exercise of the priority right to a share of the profit.

(3) The statutes can also permit the issue of another kind of priority shares.

(4) Priority shares of any kind can be issued only up to one half of the capital stock of the company.

Article 9

(1) The statutes can provide for the issue of staff shares, sold at an advantageous price.

(2) Staff shares are issued in name, and are transferable only among the employees and retired employees of the company; the provisions concerning the transfer of registered shares must be observed.

(3) In the event of death or end of employment, with the exception of retirement, the rights ensuing from the staff shares cease, and the share concerned must be returned to the company. Unless provided otherwise in the statutes, the company shall pay the market price for the share, if quoted, otherwise its nominal value.

(4) The statutes or the general meeting determine in detail the conditions for acquisition and transfer of these shares. Otherwise, the owners of staff shares have the same rights as the other shareholders.

Article 10

(1) According to the statutes, shares can also be issued on which a previously fixed interest is paid (interest shares): their aggregate value must not exceed ten (10) per cent of the capital stock.

(2) The owners of interest shares are entitled to interest from the nominal value of the shares according to the interest rate inscribed on the share, even if the company makes no profit in the year concerned.

(3) The owners of interest shares are entitled also, besides interest, to a dividend in excess of the interest.

Article 11

(1) The statutes can specify that the company can, up to an amount equal to half of the capital stock, issue a certificate to a person who pays an agreed sum to the company. The certificate entitles him to ask, after a certain time, for the return of the sum paid, plus interest stated in the certificate, or to ask for a share, or option to buy this share.

(2) The certificate referred to in paragraph 1 may give the holder the right of lien to the property of the company or priority right to satisfaction of claims agains the company before other creditors.

(3) The certificate can be issued in name or for holder.
(4) The issue of these certificates does not increase the capital stock and does not involve any shareholderś rights.

Article 12

(1) The company can acquire, for its assets in excess of the capital stock, the shares it has issued and are fully paid for.
(2) The aggregate nominal value of these shares which the company acquires as its property must not exceed one-third of the capital stock.
(3) Unless otherwise provided by this Act, the company must not exercise shareholderś right on the basis of these shares and has to sell them within three years.

Article 13

(1) The company can also take out of circulation the shares it has acquired according to Article 12, paragraph 1.
(2) Registred shares taken out of circulation must be struck off the list of shareholders: shares taken out of circulation, both registered and bearer shares, must be destroyed.
(3) The taking of shares out of circulation shall be reported by the company to the registry office within 30 days, for the purpose of this being entered in the register of companies.

Article 14

(1) A registered share can have several owners who act vis-á-vis the company as one shareholder; they can exercise their rights only through their common representative.
(2) When a share is owned jointly by two or more persons, also the name of the common representative shall be entered in the list of shareholders.

Part II
ESTABLISHMENT OF A JOINT-STOCK COMPANY

Article 15

Founder
The founder of a company can be the state, a juristic person or a natural person. A company may also be established by one founder.

Article 16

Capital stock
(1) The capital stock of a company shall not be smaller than 100,000 Cz. crowns.

(2) The total of the financial contributions paid in at the time of the establishment of the company shall not be less than thirty (30) per cent of the capital stock, and shall be at least 50,000 Cz. crowns.

Article 17

Subscription of shares
(1) The founders create the capital stock by subscribing shares.
(2) Shares are subscribed on the basis of the establishment contract or, when there is one founder, according to the establishment plan. Duplicates or copies of the establishment contract must be notarially verified.
(3) The establishment contract or the establishment plan shall include:
a) the commercial designation, the seat, sphere of entrepreneurial activities and the period of existence of the company;
b) the proposed amount of the capital stock and the minimum shares of the founders in the capital stock;
c) the number and nominal values of the shares; if shares of several kinds are to be issued, their designation and description of the rights pertaining to them;
d) th place and the dates of the first and last subscription of shares;
e) In case that a part of the capital stock is to be a non-monetary contribution, its nature and value, the commercial designation (name) and seat (domicile) of the investor of the non-monetary contribution, and the name of the sworn expert who has made a preliminary assessment of the contribution:
f) the way of convening the constituent general meeting of the shareholders.
(4) The terms of subscription of the capital stock shall be made public in a suitable way.

Article 18

In the establishment contract or the establishment plan, the value of the nonmonetary investment can be given as not higher than the preliminary value determined by the sworn expert.

Article 19

(1) The subscription of shares shall be carried out by the signing of the list of subscribers; the subscription can be executed by a statutory organ of the subscriber, personally, or through a representative.
(2) The subscribers, with the exception of those making non-monetary investments, shall deposit at least ten (10) per cent of the subscribed sum into the bank account specified by the founder.

Article 20

(1) In case that more shares are subscribed than the founders propose to issue (higher subscription), the founder can reject the subscription in excess of the

proposed number of shares. If he does not do so, the constituent general meeting decides whether to accept or reject the excess subscription in determining definitively the amount of the capital stock.

(2) When the founders or the constituent general meeting reject higher subscription, the rejected subscriber shall receive back the sum he has paid in, without deductions, within 15 days of the date of the rejection. The founders are responsible jointly and severally for the fulfilment of this obligation.

Article 21

(1) Establishment of a company shall be unsuccessful if by the last date set for the subscription of shares, shares amounting to the proposed capital stock have not been subscribed.

(2) In case of failure to establish a company, payments made by the subscribers shall be returned to them within 15 days, without deductions. The founders are jointly and severally responsible for the fulfilment of this obligation.

Article 22

Constituent general meeting

(1) The founders shall invite the subscribers to the constituent general meeting which must be held within sixty days from the date of the last successful subscription of shares.

(2) When the founders fail to meet the deadline for convening the constituent general meeting aaccording to paragraph 1, the subscribers shall be relieved of their obligation and can ask for the return of the sums they have paid. The founders shall be jointly and severally responsible for the return of the payments made, without deductions.

(3) By the date of the constituent general meeting, the subscribers shall increase the sums paid in in making the subscription to thirty (30) per cent of the nominal value of the shares subscribed. This provision does not apply to those making a non-monetary investment.

Article 23

The constituent general meeting shall:

a) note that the capital stock has been subscribed and that at least thirty (30) per cent of it has been paid, but a minimum of 50,000 Cz. crowns;

b) accept or reject higher subscription of shares;

c) decide to establish the company;

d) approve the statutes of the company;

e) determine the advantages of the founders and confirm possible separate agreements concluded in the course of the establishment of the company with the founders or with other persons, if these are to have effect for the company;

f) determine the value of non-monetary investments (contributions) and the deadline by which they are to be made;

g) elect for the first year a board od directors and a supervisory board, with the exception of the case that this right has been reserved by the founders in the establishment contract;

h) elect the companies auditors.

Article 24

(1) The constituent general meeting is capable of passing resolutions if subscribers who have subscribed at least half of the capital stock are present.

(2) For decisions of the constituent general meeting, a simple majority of the subscribed shares of the present subscribers is necessary. Decisions can deviate from the establishment contract or the establishment plan only if they are unanimous decisions of all the subscribers present. The constituent general meeting shall not set a higher value of non-monetary investments than the value given in the establishment contract or the value set by a sworn expert, and must not change the advantages to which the founders are entitled.

(3) When decisions are made on non-monetary investments and on the advantages of the founders, the subscribers concerned cannot vote.

(4) A notarial record shall be made of the constituent general meeting.[2]

Article 25

Single-action establishment of a company

(1) When the founders agree in the establishment contract that they themselves will pay in the entire capital stock in an agreed ratio, subscription of shares and a constituent general meeting shall be unnecessary.

(2) In case of single-action establishment of a company, the founders agree on the appointment of the members of the board of directors, the supervisory board and the company statutes.

(3) In matters for which no provisions exist in paragpraphs 1 and 2, general provisions on the establishment of companies apply appropriately.

(4) The provisions of paragraphs 2 and 3 are appropriately valid also in case that the exclusive founder of the company is a juristic person who will pay in the entire capital stock.

Article 26

Statutes

(1) The statutes shall determine

a) the commercial name and the seat of the company;

b) the period of its existence;

c) the sphere of entrepreneurial activity;

d) the amount of the capital stock and the conditions for paying up shares;

e) the number and the nominal value of the shares, as well as the kind of the shares issued (registered or bearer shares);

f) way of entering the company in the register of companies;
g) way of convening general meetings, procedures in cases that the general meeting constitutes or lacks a quorum, of conditions for and ways of exercising the voting right of the shareholders;
h) the number of the members of the board of directors, the supervisory board and the number of auditors, the way of electing them, definition of their powers and periods of function;
i) principles for drawing up balance sheets and rules for dividing the profits of the company;
j) ways of making public the facts prescribed by law or the company statutes;
k) consequences of infraction of the obligation to pay up the subsrribed shares in time;
l) the amount and the use of the reserve fund.

(2) When necessary, the statutes shall make provisions especially for
a) cases that various kinds of shares are issued: their designation, number, nominal values and the rights pertaining to them;
b) the rules according to which certificates (under Art. 11) can be issued;
c) possibilities of taking shares out of circulation, including the procedure that must be adhered to;
d) the extent of the powers of the board of directors in cases of increasing the capital stock (Art. 69).

Article 27

Registration of a company in the register of companies

(1) The company comes into existence on the day of its registration in the register of companies. The application for registration shall be signed by all members of the board of directors.

(2) The registry office carries out the registration only provided that:
a) the constituent general meeting has been held, if it is prescribed;
b) the subscribers have subscribed the entire capital stock;
c) at least thirty (30) per cent of the capital stock has been paid up;
d) the approved statutes and a notarial record of the constituent general meeting have been submitted;[2]
e) an identification number has been assigned by the state statistical authority.

(3) When a permit according to special regulations is necessary for the economic activity in which the company is to be engaged, or for the establishment of the company the registry office shall carry out the registration only if this permit has been submitted.

Part III

OBLIGATIONS AND RIGHTS OF THE SHAREHOLDERS

Article 28

The shareholder shall pay to the company the full value of his shares within one year from the registration of the company in the register of companies. In this period, he shall pay the value of the shares in instalments by dates specified in the articles.

Article 29

(1) When the shareholder delays in paying an instalment towards the value of his share, he shall pay interest of twenty (20) per cent a year of the amount the payment of which was overdue.
(2) When the shareholder fails to pay an instalment within sixty days of the call, the board of directors is entitled to declare his interim certificate invalid, and deprive him of shareholder's rights; at the same time, it may enable another person to subscribe the share concerned. From the sum thus obtained, the claims of the company are satisfied first, and the remainder is returned to the former shareholder.

Article 30

When the shareholder transfers his interim certificate to another person before he has paid up the whole nominal value of the share, he is responsible for the payment of the subscribed sum as guarantor.

Article 31

(1) The shareholder is entitled to a share of the profit which has been fixed for distribution (dividend) in accordance with his shares (interim certificates), on the basis of the annual financial statement, by the general meeting.
(2) In case of extinction of the company, the shareholder is entitled to a share of the assets which can be divided on completion of the winding up, in accordance with his shares (interim certificates).
(3) The provisions of the paragraphs have nothing to do with special rights of some shares according to the company's statutes.
(4) It is not permissible to meet the claims of the shareholder at the cost of the capital stock, with the exception of a decrease of the capital stock.

Article 32

(1) In the period of existence of the company, nor in case of its extinction, the shareholder cannot ask for the return of his property investment.
(2) The shareholder is not obligated to return the dividends received in good faith.

Article 33

(1) Every shareholder is entitled to attend general meetings, ask for explanations

nd make comments. On the basis of shares with voting rights, the shareholder is ntitled to put forward proposals and to vote on them, as well as on the proposals of other shareholders.

(2) On matters proposed for the agenda, the board of directors shall provide the necessary information at least eight days before the date of the general meeting, to very shareholder who has asked for it in time in writing.

(3) The board of directors shall publish, in a way prescribed in the statutes, at least he main data from the annual financial statement, the proposed distribution of profits, and from the report of the board of directors and the supervisory board, at east thirty (30) days before the general meeting.

Article 34

(1) The voting rights pertaining to the share is determined by the nominal value of he share.

(2) The statutes may restrict the exercise of the voting right by specifying the highest number of votes of one shareholder.

Article 35

(1) The way of exercising the voting right shall be determined by the statutes.

(2) The shareholder cannot exercise his voting right if he has breached obligation concerning the payments for the subscribed shares.

Article 36

(1) The shareholder can exercise his voting right at the general meeting also by proxy. A member of the board of directors, the supervisory board, or an auditor can not function as proxy.

(2) Authorization for representation shall be valid only for one general meeting, including its possible repeated convening because of its lacking a guorum. The authorization shall be submitted to the board of directors before the opening of the general meeting.

Article 37

When dividends for some priority shares, with restricted or excluded voting right, are not paid by the company in any one year, or paid only partly, and the payment s not made in the subsequent year, priority shares shall acquire the voting right which can be exercised until the time when the company has paid the previously unpaid dividends.

Article 38

(1) The board of directors shall convene a general meeting when this has been requested, with the purpose and reason stated, by shareholders whose shares represent at least one-tenth of the capital stock.

(2) When the convening of a general meeting has been requested according to paragraph 1 and the board of directors fails to convene a general meeting within thirty days, it shall be convened, upon request of the shareholders referred to in paragraph 1, by the registry office, within the same period of time.

Article 39

(1) The shareholders whose shares represent at least one-tenth of the capital stock and have the voting right can ask the board of directors, stating the purpose and reason, to place questions on the agenda of the general meeting. The statutes may give this right also to shareholders whose shares represent a smaller share of the capital stock.

(2) Shareholder can exercise the right according to paragraph 1 within eight days from the date of convening the general meeting.

(3) The board of directors shall place submissions according to paragraph 1 on the agenda of the general meeting, and shall make it public within eight days in a way in keeping with the publication of general-meeting proceedings.

(4) When the board of directors fails to fulfil its obligation according to paragraph 3, the agenda of the general meeting shall be supplemented, upon request of the shareholders who have made the submission, by the registry office, within three days after it has received the request.

Article 40

(1) The shareholders whose shares represent at least one-tenth of the capital stock, can ask the supervisory board, stating the purpose and reason, for a review of the entrepreneurial activities of the company.

(2) When the supervisory board does not comply with the request made according ro paragraph 1 within 30 days, the shareholders referred to in paragraph 1 can appeal to the general meeting (Article 39).

Article 41

(1) Any shareholder and any member of the board of directors and the supervisory board can ask for a court annulment of a decision of the general meeting which is contrary to law.

(2) When such annulment is requested by a member of the board of directors, the company shall be represented in the dispute by a member of the supervisory board, elected by the board. When annulment is requested by a member of the supervisory board, the court shall appoint a guardian to represent the company.

(3) The person requesting annulment of a decision shall deposit with the court security amounting to the nominal value of at least one share, but not more than 10,000 crowns.

(4) The final ruling shall be binding also on all shareholders.

Part IV
ORGANIZATION OF THE JOINT-STOCK COMPANY

Article 42

'eneral meeting

he general meeting is the highest organ of the company; all shareholders are led to take part in its deliberations.

Article 43

he general meeting shall have the exclusive power to

) approve and amend the statutes;

) increase and decrease the capital stock;

) change the rights pertaining to the various kinds of shares;

) make the decision on the extinction of the company;

) elect and recall members of the board of directors, the supervisory board, and itors, and determine bonuses for them;

approve the annual financial statement and the distribution of the annual profit;

) make decisions concerning the issuing of convertible or priority certificates ording to Article 11;

) make decisions on all matters which this Act or the company statutes entrust ıe exclusive competence of the general meeting.

Article 44

1) General meetings shall be convened in periods specified in the statutes, but at t once a year. In necessary cases, a general meeting can be convened at any

2) The general meeting shall be convened by the board of directors, unless erwise provided by this Act.

3) The general meeting shall be convened in the way prescribed by the statutes ast 30 days in advance. The invitation shall include:

) the name and seat of the company;

ɔ) the date and venue of the general meeting;

c) the agenda of the general meeting;

) the conditions of the statutes and the exercise of the voting right.

4) When bearer shares have been issued, the company shall announce the vening of the general meeting in a suitable way, within a period specified agraph 3.

Article 45

1) The shareholders present at the general meeting sign their names in an ndance list which shall contain the commercial designation (name) of the

shareholder or his representative, his seat (domicile), the numbers of his shares and the number of the votes he has according to the shares.

(2) The validity of the attendance list shall be confirmed by the signatures of the chairman of the general meeting and the minutes clerk.

Article 46

(1) The general meeting is capable of transacting business if attended by shareholders owning more than a half of the shares entitling them to vote.

(2) When the general meeting lacks a quorum, the second general meeting shall be convened within 15 days, with the unchanged agenda: it is capable of transacting business regardless of the number of persons present.

(3) Matters which have not been included in the published agenda can be decided only when all shareholders are present and agree unanimously that the matter can be considered.

Article 47

The general meeting makes decisions on matters referred to in Article 43, a) through d). at least by a majority of two-thirds of valid votes; on other matters, unless the statutes prescribe a qualified majority, the general meeting makes decisions by a simple majority of votes.

Article 48

The decisions of the general meeting which change the rights pertaining to some kind of shares in their disfavour shall be valid when at least a three-fourths majority of shareholders representing the kind of shares concerned agree with the decision in a way prescribed by the statutes: when the procedure is not prescribed, provisions concerning the general meeting shall be applied appropriately.

Article 49

(1) The general meeting shall at first elect its chairman, a minutes clerk, two persons to verify the minutes, and persons to count the votes.

(2) The minutes of the general meeting shall contain:

a) the name and seat of the company;

b) the venue and date of the general meeting;

c) the name of the chairman of the general meeting, the names of the minutes clerk, persons verifying the correctness of the minutes (verifiers), and the names of the vote counters;

d) the more important events in the proceedings and the statements made at the general meeting. Submissions made in writing and statements shall supplement the minutes;

e) the decisions of the general meeting, stating the number of votes in favour, against and abstentions;

f) protests lodged by shareholders, members of the board of directors or the ıpervisory board, against some decision, when the persons lodging the protest quest this.

(3) The minutes shall be signed by the minutes clerk and the chairman of the neral meeting, and their correctness shall be confirmed by two verifiers.

(4) The board of directors shall have the minutes completed within thirty days after e general meeting. Together with the announcement of the convening of the neral meeting and the attendance list, the minutes shall be kept in the archives of e company for the whole time of its existence.

(5) Any shareholder can ask the board of directors for an excerpt from the minutes, for a copy of the minutes of the general meeting.

Article 50

The board of directors

(1) The board of directors shall be elected by the general meeting from among the ıareholders or other persons. The general meeting can also decide that as long as e number of the members of the board of directors does not fall to a half, the board directors completes the number by cooptation. The subsequent general meeting ıall either confirm the coopted members of the board of directors, or elect new ıes.

(2) The board of directors shall have at least three and not more than eleven embers. The chairman of the board shall be elected by its members.

(3) The board of directors is a statutory body of the company. It represents the ɔmpany towards third persons, and before courts and other authorities; it creates ıd directs the organization of the work of the company and exercises employer's ghts.

(4) The way in which the members of the board of directors represent the company ıall be determined by the statutes, and recorded in the register of companies.

Article 51

The statutes, decisions of the general meeting or the supervisory board may limit e right of the board of directors to represent the company; this limitation, however, ıall be inefective in relation to third persons. The members of the board of directors e liable jointly and severally for damage caused by their acting beyond the extent their powers.

Article 52

(1) The board of directors shall be responsible for the drawing up of the annual ıancial statement and of a proposal for the distribution od profits.

(2) The board of directors prepares a report on the business activities of the ɔmpany, on the state of its assets and on its commercial policy for the general ıeeting, in periods specified by the statutes, but at least once a year.

(3) The board of directors ensures that accounts and the business books of the company are properly kept.

Article 53

The board of directors shall convene a general meeting and notify the supervisory board when it has ascertained that

a) the company has lost one-third of its capital stock, or that

b) the company has been insolvent for a period longer than three months.

Article 54

(1) The member of the board of directors shall not

a) make business deals in his own name, within the operations of the company;

b) be a member of unlimited liability of another company operating in a similar sphere of business;

c) be a senior officer of another company operating in a similar sphere of business.

(2) When a member of the board of directors breaches one of the prohibitions in paragraph 1, the company

a) may claim damages;

b) instead of damages, may demand that the member of the board of directors let the company have the business deal he has made for himself;

c) that he let the company have his benefits from the business deal, or transfer to the company his claims from it.

(3) The claim of the company according to paragraph 2 expires within three months from the day on which the other members of the board of directors learned of the fact, but at the latest a year after the claim has arisen.

Article 55

The supervisory board

(1) Every company shall set up a supervisory board which shall have at least three members.

(2) The members of the supervisory board shall be elected by the general meeting from among the shareholders or other persons. The general meeting shall not elect a company employee as a member of the supervisory board.

(3) When the number of the company employees exceeds 200 in annual average, in full-time jobs, one-third of the members of the supervisory board shall be elected by an assembly of the company employees from their ranks.

Article 56

(1) The supervisory board is entitled to check on action taken in matters of company business, to inspect accounting documents and company books at any time, and to ascertain the state of the company.

(2) The supervisory board shall review the annual financial statement, the balance

sheets and proposals for the distribution of profits, and shall submit to the general meetings every year reports on the results of the review.

Article 57

(1) The members of the supervisory board shall attend the general meetings of the company; they can make submissions concerning the agenda of general meetings.

(2) In case that in the supervisory board, opinions of the representatives of the employees differ from those of the other members of the supervisory board, also this minority opinion shall be communicated.

Article 58

(1) The supervisory board shall convene a general meeting whenever the interest of the company requires it.

(2) In litigation initiated against the board of directors or against its members, the company shall be represented by the supervisory board.

Article 59

(1) The supervisory board shall exercise its powers jointly or through its individual members. Inspection work can also be divided by the supervisory board permanently between its members. The distribution of inspection activity does not affect the responsibilities of the members of the supervisory board, nor their right to perform other inspection functions.

(2) When an inspection organ exists in the company, it shall be subordinated to the supervisory board.

Article 60

The provisions of Article 54 apply also to the members of the supervisory board.

Article 61

Auditors

(1) Every company shall elect at least one person to audit the company books. The auditor shall be elected by the general meeting from among the shareholders or other persons.

(2) The auditor shall perform tasks assigned to him by this Act, other legal regulations, the company statutes and the general meeting.

Article 62

A single-person-joint-stock company

(1) A company can be established also in the way that a juristic person is the only shareholder.

(2) A single-person company is estsablished also when one shareholder has acquired the ownership rights to all shares.

Article 63

For single-person companies, the provisions of this Act shall apply, with the proviso that the rights of the general meeting, according to Article 62, paragraph 1, shall be exercised by the founder, and in cases according to paragraph 2 by the shareholder.

Part V

INCREASING AND DECREASING THE CAPITAL STOCK

Article 64

Increasing the capital stock

(1) The company shall be able to increase the capital stock only when the shareholders have fully paid the total of the nominal values of previously issued shares, with the exception of the case specified in Article 68.

(2) The capital stock can be increased by the subsrciption of new shares, by the transformation of the assets of the company in excess of the capital stock into capital stock, or by the exchange of certificates according to Article 11 for shares.

Article 65

(1) The decision to increase the capital stock shall be made by the general meeting at the proposal of the board of directors. The announcements of the convening of the general meeting shall include, in addition do data listed in Article 44, paragraph 3, also the following:

a) reasons for increasing the capital stock, the way of increasing it, and the lowest value of the increase;

b) proposed changes in the articles concerning the increase of the capital stock;

c) the number and nominal value of the new shares;

d) when a new kind of shares is to be issued, the rights pertaining to them, as well as the decision which rights of the previously issued shares will be affected, and in which way;

e) when the capital stock is to be increased by the subscription of shares, the dates of the first and last subscription;

f) when the capital stock is to be increased by non-monetary investments, the proposed value of the investments.

(2) The capital stock increase shall be carried out by the board of directors.

Article 66

(1) When the capital stock is to be increased by the subscription of shares,

a) for every share, an amount shall be paid as determined by the general meeting, but at least thirty (30) per cent of its nominal value,

b) by a three-fourths majority of votes of the shares entitling owners to vote, the general meeting can give every shareholder first option to buy the new shares, and fix the date by which shareholders can exercise this right.

(2) Owners of certificates according to Article 11 can exercise their right to :hange their certificates for shares, before shareholders.

(3) For the subscription of shares to increase the capital stock, the provisions of s Act concerning the establishment of a company shall apply, with the proviso that subscription of shares can be started only after the decision of the general eting to increase the capital stock has been entered in the register of companies.

Article 67

When capital stock is to be increased partly or wholly by non-monetary invest- ents, the company can increase its capital stock by their value also when the gregate nominal value of previously issued shares has not been fully paid up.

(2) Provisions of this Act concerning the establisment of a company shall be ›propriately applied for determining the value of non-monetary investments and for e responsibility in connection with this.

Article 68

(1) The company shall be able, after the approval of the annual or special financial atement, to transfer a part of its assets in excess of the capital stock into the capital ock by issuing new shares, or by increasing the nominal values of the various ıares previously issued.

(2) Unless the general meeting decides otherwise, the newly issued shares shall e offered first to the shareholders. The offer shall be made in the way prescribed by ıe statutes.

(3) When the shareholder does not take possession of the new shares by the ›nclusion of the next general meeting, the company shall be able to sell freely the ew shares.

(4) The nominal value of shares shall be increased by their being exchanged for ew shares of a higher nominal value, or the higher nominal value shall be inscribed n the previously issued shares, with signatures of two members of the board od irectors, with authority to sign on behalf of the company.

Article 69

The statutes can authorize the board of directors to issue, under conditions pelled out by the statutes, new shares, or transfer the assets in excess of the capital tock, to increase the capital stock to a fixed value, but not by more than one-third of the original capital stock.

Article 70

Conditional increasing of the capital stock

(1) The general meeting can decide to conditionally increase the capital stock if he purpose of the decision is to issue certificates according to Article 11.

(2) Owners of certificates according to Article 11 can apply for shares against the

conditionally increased capital stock. The applications shall be made in writing, and state the number and nominal values of the requested shares.

(3) The board of directors can issue shares according to paragraph 2 only to the extent to which entitled owners exercise their right for the exchange of their certificates for shares, and after the full value of the shares has been paid.

(4) In cases that the certificates according to Article 11 have been issued for a lower amount than the nominal value of the shares, it shall be possible to issue new shares only if the entitled owners have paid to the company the difference between the nominal value of the share and the value of the certificate. Shareholder's rights originate after the issue of the new shares.

Article 71

(1) The board of directors shall notify the registry office of the decision of the general meeting to increase the capital stock within thirty days from the date of the decision. The same shall be done after the increasing of the capital stock, or in the event that the increase has not been carried out.

(2) In the case of conditional increasing of the capital stock, the board of directors shall notify the registry office of the increase of the capital stock through the conditionally increased capital in the previous year, within thirty days after the approval of the annual financial statement.

(3) The increase of the capital stock becomes effective on the day on which the registry office makes an entry in the register of companies. Provisions concerning the establishment of companies shall be appropriately applied for making an entry in the register of companies.

(4) Shares or interim certificates shall be issued only after the entry has been made.

Article 72

(1) The new shares issued on the basis of the increased capital stock according to the articles or a decision of the general meeting shall participate in the profit made in the year in which the capital stock has been increased.

(2) The shares which are owned by the company shall participate in the increase of the capital stock according to the rules valid for the other shares.

Article 73

Decreasing the capital stock

(1) The decision of the general meeting to decrease the capital stock shall contain the reason for decreasing the capital stock, the way it is to be done, the value by which the capital stock is to be decreased, and the deadline by which the shares are to be presented to the company.

(2) For the purpose of decreasing the capital stock, above all those shares which are owned by the company shall be withdrawn from circulation.

3) In decreasing the capital stock, the provisions shall be observed which cern the lowest value of the capital stock: the decrease shall not affect the rights ıe owners of certificates according to Article 11.

Article 74

1) The board of directors shall notify the registry office of the decision of the ıeral meeting to decrease the capital stock within thirty days after the decision has n made.

2) After the entry has been made in the register of companies, the board of ctors shall make this decision public in a suitable way, twice, with an interval of cast thirty days.

Article 75

1) The creditors whose claims against the company originated before the first ɔlication of the decision to decrease the capital stock, can ask the company for 'ety up to the amount of their claims, within ninety days after the last publication he decision to decrease the capital stock. Failure to meet this deadline constitutes ɔiry of the right of the creditors to this surety.

(2) The company shall provide the appropriate surety the creditors applying for it cording to paragraph 1.

Article 76

(1) The capital stock shall be decreased by a reduction of the number of shares, by lowering the nominal value of individual shares, or by simultaneous reduction the number of shares and of their nominal value, or by giving a larger number of ares the value of a lower number of shares.

(2) The number of the issued shares shall be reduced by withdrawing a certain ımber of shares from circulation (calling in shares) and by buying back the shares esented in response to the call, or drawn shares, The general meeting shall termine detailed rules for a draw to withdraw shares from circulation.

(3) The nominal value of the shares shall be reduced by their exchange for new ıares of a lower nominal value, or by inscribing on them lower nominal values, with gnatures of two members of the board of directors authorized to sign on behalf of e company.

(4) A certain number of shares can also be exchanged for one with the full previous ɔminal value.

Article 77

(1) The general meeting can decide to decrease the capital stock also when it has ɔt yet been fully paid up.

(2) In such a case, the general meeting shall decide that further part payments for 'ıares will not be made, and that the issued interim certificates will be exchanged for hares of the appropriate nominal value, or that the company will desist from issuing futher number of shares which were to have been issued according to the statutes.

Article 78

(1) The board of directors shall publish, in a way prescribed in the statutes, a call on the shareholders to present, within a specified time, their shares for the purpose of exchange, inscription of their lower nominal value, withdrawal from circulation, or for the purpose of exchanging more shares for one.

(2) The company shall declare as invalid the shares that have not been presented in response to the call. The declaration of such shares as invalid shall be made public by the company in a suitable way.

(3) In substitution for the shares declared as invalid, the company can issue new shares which it can sell. The sums obtained from the sale shall be paid to the shareholders whose shares have been declared invalid, or shall be deposited until a time when it is ascertained that it is justified to make the payment.

Article 79

(1) After 90 days from the last publication according to Article 74, paragraph 2, the registry office, upon request of the company, shall make an entry on the decrease of the capital stock in the register of companies. The decrease of the capital stock takes effect on being entered in the register of companies.

(2) The entry can be made provided that

a) the decision of the general meeting to decrease the capital stock has been made public twice;

b) surety has been provided according to Article 75, or that the creditors have been satisfied.

(3) Payments to shareholders debited to the capital stock or waiver of outstanding payments for shares shall be permissible only after the decrease of the capital stock has been recorded in the register of companies.

Article 80

Progressive redeeming of shares

(1) When the existence of the company is limited to a certain period because the capital stock will be completely expended in the course of time, or rests on rights limited in time, the statutes of the company shall contain provisions for redeeming progressively, during the existence of the company, all shares of the shareholders from the net profit.

(2) The progressive redeeming of the shares shall be carried out by the witrhdrawal of the drawn shares from circulation: their owners shall receive, in addition to the nominal value of their shares, certificates attesting the rights pertaining to the drawn shares (usufruct documents).

Article 81

(1) For the owners of shares which have not been drawn, the articles shall reserve a certain part of the net profit for dividends which shall be divided only among them.

n the event of the winding up of the company, they shall have also priority right to share of the liquidation proceeds, corresponding to the nominal value of their hares.

(2) The company shall not be dissolved by the drawing of all shares but only by a decision made at a general meeting of the owners of usufruct documents.

Article 82

(1) For the drawn shares, certificates can be also issued guaranteeing their owners the right to a part of the net profit which will remain after the payment of the dividend (superdividend) and to the surplus luquidation proceeds (creditors' usufruct documents).

(2) In the case referred to in paragraph 1, the company shall be dissolved by the complete drawing of all shares.

Article 83

(1) Instead of progressive drawing and redeeming of shares, or progressive buying up of shares, the company can create a fund from the net profit from which, at the end of the period of its existence, it would redeem all shares at once.

(2) When this fund is used to redeem the shares, all prescriptions for decreasing the capital stock must be observed.

Part VI
THE RESERVE FUND

Article 84

After its establishment, the company shall create its obligatory reserve fund, the size of which and the way it is created are prescribed in the statutes. This fund shall be augmented annually from profits after payment of all taxes, by not less than five (5) per cent of them, up to the amount also specified in the statutes. The minimum amount of the obligatory reserve fund shall be ten (10) per cent of the capital stock.

Part VII
EXTINCTION OF JOINT-STOCK COMPANIES

Article 85

(1) The extinction of the company requires

a) resolution of the general meeting on the extinction of the company in accordance with the statutes, or

b) achievement of the objective's of the company, if stated in the statutes, or expiration of the period for which the company has been established.

(2) The company shall cease to exist after winding up by its being struck off the register of companies.

Article 86

Winding up the company

(1) The function of the liquidator shall be performed by the board of directors or a person approved by the general meeting at the proposal of the board of directors.

(2) The shareholders representing at least one-tenth of the capital stock may ask the registry office, stating the reasons, to appoint another person as the liquidator. The statutes may grant this right also to shareholders representing a smaller share of the capital stock.

(3) The winding up of the company and the liquidator shall be entered, at the proposal of the board of directors, in the register of companies, and the words "being wound up" or "in liquidation" are added to the name of the company. After the winding up or liquidation of the company has been entered in the register of companies, the functions of the company organs shall be limited to those necessary to carry out the winding up.

(4) The liquidator shall notify all persons and organs concerned that the company has started winding up or liquidation proceedings. The final financial statement and other accounting reports shall be drawn up as of the date on which the winding up proceedings have been started.

(5) In the course of the winding up proceedings, the liquidator shall

a) concentrate all financial means with one banking institution;

b) complete and finalize the current business;

c) make all payments, pay taxes and dues;

d) settle the obligations of the company and secure satisfaction of its claims;

e) sell the assets of the company in the most economical and speedy way;

f) submit reports on the progress of the winding up, in accordance with the articles.

Article 87

(1) The liquidator shall draw up a financial statement upon completion of the winding up, and submit it to the general meeting together with the final report on the winding up, and a proposal for the distribution of the remainder of the company assets among the shareholders.

(2) After the approval of the closing financial statement and of the distribution of the remainder of the company assets, the liquidator shall

a) redeem the shares returned to him by the shareholders;

b) place all redeemed shares, company documents and books in safe custody;

c) request that the company be erased from the register of companies.

Article 88

Special regulations exist for the liquidation of companies that have become insolvent.[3)]

Part VIII
FINAL PROVISIONS

Article 89

The legal status of trade union organizations active in the company is defined by ɔecial provisions.

Article 90

Companies established in accordance with legal provisions in force prior to this ɔt shall be deemed to have been established hereunder. If their statutes are at riance with this Act or do not contain provisions required by this Act, these ɔmpanies shall change their statutes within six months after this Act has taken fect.

Article 91

The Government of the Czechoslovak Federative Republic may lay down rules for ngle-action establishment of companies and for changing state enterprises into ɔmpanies, in which shares will be owned by the state or state enterprises.

Article 92

The Law No. 243/1949 on joint-stock companies is hereby repealed.

Article 93

This Act shall come into effect on May 1, 1990.

Bills and Cheques Act, Law No. 191/195
Article 100 of the Law No. 95/1963, on state notaries and procedures before state notaries
Article 352-354 of the Code of Civil Procedure, Law No. 99/1963, in the wording of subsequent rovisions (full wording No. 78/1983)

Chapter 2: List of cooperation willing companies in Czechoslovakia

In the folloving chapter you have a choice of more than 150 enterprises from Czechoslovakia which are because of different reasons looking for partnership abroad. This does not mean, that these are the only 150 cooperation interesed companies in Czechoslovakia. The number is of course higher. Here you should find a cariety in branches, company sizes and types. If you dont find a vconveniet partner here, please contact the already mentioned Pragon Associates a.s. consulting company.

In case of your interest for some details you are missing in this chapter you can contact directly the mentioned companies but anyway please advise Conmarket for improving the next edition of this book.

We hope that even this limited list of companies will help to establish many fruitful connections between Czechoslovak enterprises and foreign companies.

EXPLANATORY NOTES:

B – LEGAL FORM

C – ESTABLISHED

D – TURNOVER PER YEAR

E – NUMBER OF EMPLOYEES

F – BANKERS

Appendix II.
FOREIGN EXCHANGE ACT
dated November 28, 1990

The Federal Assembly of the Czech and Slovak Federal Republic has hereby ssed the following Act:

Part One

Section 1
Definitions of Terms

Article 1

(1) Foreign exchange resources shall be financial resources in foreign currency foreign exchange.

(2) Foreign currency shall be financial resources in the form of banknotes, bills nd coins in circulation.

(3) Foreign exchange shall be financial resources in foreign currency deposited n accounts opened with domestic or foreign financial institutions, or negotiable on ne basis of foreign documents of payment (Article 2, Letter (a)).

Article 2

or the purpose of the present Act, the following terms shall be defined as follows:

(a) foreign documents of payment shall be documents granting the right of ayment in foreign currency (bills of exchange, cheques, letters of credit, orders, ayment (credit cards etc.);

(b) gold shall be gold coins and gold bullion negotiable worldwide, whose purity hall be guaranted for the present purpose by a seal or a certificate issued by a world uthority;

(c) securities shall be documents granting the right to a share in property (stock, hares etc.), debentures and bonds (issued by the state, public institutions, banks, ndustrial and other enterprises), as well as dividend and interest coupons and alons;

(d) foreign securities shall be securities related to property abroad or issued broad/payable abroad;

(e) foreign exchange assets shall be foreign currency, foreign exchange, foreign documents of payment, gold, foreign securities and deposit books in foreign currency;

(f) trade in foreign exchange assets shall be sales and purchases of foreign exchange assets for the Czechoslovak currency, mutual exchange of foreign exchange assets, and use of foreign exchange assets in all types of transactions (guarantees, arbitration actions, credits, loans);

(g) financial claim of a foreign exchange national vis-á-vis a foreign exchange expartriate shall be a claim the payment of which is effected in the Czechoslovak currency, or in foreign currency;

(h) financial obligation/liability of a foreign exchange national vis-á-vis a foreign exchange expatriate shall be an obligation/liability to be paid in the Czechoslovak currency, or in foreign currency.

Article 3

(1) For the purpose of the present Act, foreign exchange financial institutions shall be banks and savings banks resident in Czechoslovakia and authorized by the State Bank of Czechoslovakia to trade in foreign exchange assets and to effect payments to and vrom foreign countries pursuant to special regulations [1].

(2) If not stated otherwise by the present Act, the position of a foreign exchange financial institution is defined by provisions defining the legal status of foreign exchange nationals – juristic persons.

Article 4

The foreign exchange license is a license granted by a foreign exchange body (see Article 6) upon a reques and in compliance with applicable provisions of the present Act. the foreign exchange license may also be issued for repeated transactions.

Article 5

(1) Foreign exchange nationals are natural persons the registered domicile [2] of whom is in Czechoslovakia and juristic persons resident in Czechoslovakia. Other natural persons and juristic persons are foreign exchange expatriates.

(2) Unless stipulated otherwise by the present Act, the scopes of activities exercised by the different foreign exchange bodies listed above are as follows:

(a) the Federal Ministry of Finance – in the sphere of governmental credits and in relation to budgetary, subsidized organizations, civic associations, churches, foundations and other juristic persons within the scope of the Federation, that are not engaged in entrepreneurial activities,

(b) the Ministries of Finance of the republics – in relation to budgetary and subsidited organizations and civic associations operating within the jurisdiction of the respective republic and not engaged in entrepreneurial activities, as well as in relation to natural persons resident in the territory of the respective republic,

(c) the State Bank of Czechoslovakia – in relation to other juristic persons.

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[1] Article 9, Paragraph 2, Letter (e) of Act No. 158/1989 of Law Reports, on banks and savings banks

[2] Act No. 135/1982 of law Reports, on reporting and registering domiciles of citizens, and Decree No. 69/1965 of Law Reports, on foreigners Staying on the territory of the Czechoslovak Socialist Republic.

(3) The Ministries of Finance of the republics shall prepare foreign exchange egistration sheets and back-up materials for international/intergovernmental nego- ations concerned with property claims and provide for results of such negotiations ɔ be duly implemented within their respective territorial jurisdictions.

Part Two

Trade with Foreign Exchange Assets and System of Payments

Article 7

(1) Foreign exchange financial institutions may with foreign exchange assets ee Article 2, Letter (f)) within limits set by the State Bank of Czechoslovakia.

(2) Foreign exchange nationals that are not a foreign exchange financial institu- ɔn may trade without a foreign exchange license in the following spheres:

(a) foreign exchange assets a foreign exchange financial institution has refused ɔ purchase (Article 11, paragraph 3, Article 17, Paragraph 7),

(b) gold coins.

(3) In instances to which provisions of Article 2 above do not apply, foreign :change nationals that are not a foreign exchange financial institution may trade in ɔreign exchange assets only if authorized so by the State Bank of Czechoslovakia, ıless one of participants in such trade transactions is a foreign exchange financial stitution.

(4) Foreign exchange expatriates – natural persons may mutually trade in foreign :change assets for the Czechoslovak currency, or effect such transactions with ɔreign exchange nationals only if authorized so by the Stats Bank of Czechoslova- a.

(5) Óther persons the State Bank of Czechoslovakia has granted a foreign :change license to trade in foreign exchange assets, to effect payments to and from reign countries or to operate as moneychangers pursuant to special regulations [4] .ve, within limits set by the license, rights and liabilities the present Act stipulates for foreign exchange financial institution.

(6) Banks may purchase and sell foreign exchange assets for the czechoslovak ırrency without any license. When performing such activities, their status is that of foreign exchange financial institution.

Article 8

(1) If not stipulated otherwise by the applicable implementing decree, the license ssued by the State Bank of Czechoslovakia, or the license issued by another foreign :change body in agreement with the State Bank of Czechoslovakia, a foreign

Act No. 116/1985 of Law Reports, on conditions governing the operation of organizations with an ernational element in the Czechoslovak Socialist Republic.

exchange national may effect payments to and receive payments from foreign countries only through a foreign exchange financial institution.

(2) The permission required by Paragraph 1 is not needed for providing financial postal services in international postal traffic[5].

Part Three

Rights and Obligations of Foreign Exchange Nationals – Juristic Persons and Foreign Exchange Expatriates

Section 1

Article 9

Reporting Duty

(1) A foreign exchange national – juristic person is obliged to report for registration to the appropriate foreign exchange body and when invited to do so by the latter

(a) his claims and financial obligations vis-á-vis a foreign exchnages expatriate,

(b) his immovable assets abroad, as well as arevies of his revenues and expenses associated therewith,

(c) his property participations in enterprising abroad,

(d) his foreign securities.

(2) In a invitation pursuant to Paragraph 1, the period which the report is concerned with, as well as the foreign exchange financial institution through which the information specified under Letter (a) is reportde, are cancelled.

Section 2

Transfer of Claims of a Foreign Exchange National – Juristic Person to Czechoslovakia

Article 10

(1) A foreign exchange national – juristic person is obliged to take all steps necessary for the sum paid to settle his claim and foreign exchange resources deposited in accounts with foreign financial institutions to be transferrred or brought to Czechoslovakia; such steps must be taken without any undue delay.

(2) An implementing regulation may specify when a foreign axchange national – juristic person is exempt from the duty stipulated in Paragraph 1. In justified instances, a foreign exchange national – juristic person may be exempt of the duty by being granted a foreign exchange license.

4) E. g. Article 14 of Act No. 158/1989 of Law Reports, Article 2 of Act No. 105/1990 of Law Reports, on private anterprising of citizens, Article 19, paragraph 1, Letter (h) of Act No. 42/1980 of Law Reports, on economic contacts with foreign countries, as amended by Act No. 113/1990 of Law Reports, Article 5 of Act No. 173/1988 of Law Reports, on enterprises with a foreign property participation, as amended by Act No. 112/1990 of Law Reports

Section 3
Offering Duty and Right of Reimbursement

Article 11

(1) A foreign exchange national – juristic person is obliged to offer foreign xchange resources and gold, except for gold coins, to a foreign exchange financial ıstitution for purchase for the Czechoslovak currency and in an extent correspond-ıg to the total foreign exchange resources and gold acquired.

(2) A foreign exchange financial institution is obliged to offer foreign exchange 'escurces and gold purchased from foreign exchange nationals and expatriates to he State Bank of Czechoslovakia for purchase for the Czechoslovak currency, in an xtent and manner to be stipulated by the State Bank of Czechoslovakia.

(3) Exempt form the offering duty are foreign exchange resources and gold vhereby a foreign exchange expatriate participates in the foundation capital of a company in Czechoslovakia pursuant to special regulations[5].

(4) An implementing regulation may specify when a foreign exchange national – uristic person is exempt from the duty stipulated in Paragraphs 1 and 2, or to extend he term of compliance with the above duty in accordance with Article 12. In justified nstances, a foreign exchange national – juristic person may be exempt of the duty by being granted a foreign exchange license.

(5) A foreign exchange national – juristic person is obliged to deposit foreign xchange resources and the equivalent value of gold in foreign currency which are ıot liable to the offering duty (Paragraphs 3 and 4) on a foreign exchange account opened with a foreign exchange financial institution, unless an implementing regu-ation or a foreign exchange license stipulate otherwise.

(6) Foreign exchange resources deposited on a foreign exchange account are ıot liable to the offering duty pursuant to Paragraphs 3 and 4, their owner being able o use them without any limitation whatsoever, except for trading in foreign exchange esources (see Article 7, Paragraph 3).

Article 12

(1) As far as foreign currency and gold is concerned, a foreign exchange national – juristic person is obliged to honor the duty stipulated by Article 11 within 30 days since theiracquisition, or after he has learned about the acquisition, or has become a foreign exchange national. As to foreign exchange, the offering duty is considered complied with by a transfer of the equivalent value of the acquired foreign exchange o an account of the foreign exchange national – juristic person in the Czechoslovak currency and kept by a foreign exchange financial institution.

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[5] Act No. 222/1946 of Law Reports, on posts (Postal Act)
[6] Act No. 173/1988 of Law Reports, as amended by Act No. 112/1990 of Law Reports

(2) The purchase of foreign currency and gold is effected at an exchange rate applying to purchases of foreign currency, or at a market price of gold, valid on the day the foreign currency or gold are offered for purchase to a foreign exchange financial institution. the purchase of foreign exchange is effected at an exchange rate valid on the day the foreign exchange is cleared by a foreign financial institution toa foreign exchange financial institution in favour of the foreign exchange national – juristic person involved.

(3) If a foreign exchange financial institution refuses to purchase foreign exchange resources from a foreign exchange national – juristic person, it will issue a certificate to this effect. the foreign exchange national – juristic person may then use such foreign exchange resources both in czechoslovakia and abroad without any limitations whatsoever.

Article 13

(1) To meet a financial obligation of a foreign exchange national – juristic person to a foreign exchange expatriate, which has arisen in compliance with the present Act or on the basis of a generally applicable legal regulation, the foreign exchange financial institution is obliged, following a request by the foreign exchange national, to settle such an obligation to the foreign exchange expatriate against an equivalent payment in the Czechoslovak currency.

(2) The payment for foreign exchange resources provided pursuant to paragraph 1 is effected at an exchange rate valid on the date of maturity of the financial obligation.

(3) the State Bank of Czechoslovakia will issue an implementing regulation stipulating the procedure to be used by foreign exchange financial institutions when effecting such payments.

Section 4
Assumption of financial Liabilities to Foreign Exchange Expatriates and Their Payment

(1) A foreign exchange national – juristic person may contractually undertake financial payments to a foreign exchange expatriate without a foreign exchange license, providing that he has foreign exchange resources deposited on a foreign exchange account opened with a foreign exchanze financial institution (Article 11) to meet such an obligation.

(2) a foreign exchange national – juristic person mays contractually undertake financial payments to a foreign exchange expatriate without any foreign exchange license, providing that he can use his Czechoslovak currency resources to meet such an obligation and except for the following purposes:

(a) purchase of immovable assets abroad,
(b) purchase of foreign securities,
(c) receiving of a foreign exchange credit form a foreign exchange expatriate.

Part Four

Rights and Obligations of Foreign Currency Nationals – Natural Persons

Section 1

Reporting Duty

Article 15

(1) A foreign exchange national – natural person is obliged to report for registration to the Ministry of Finance of the republic in which he has his permanent place of residence and when invited to do so by the latter

(a) his financial claims and financial obligations vis-á-vis a foreign exchange expatriate,

(b) his immovable assets abroad, including a review of his revenues and expensdes associated therewith during the period involved,

(c) his property participations in enterprising abroad,

(d) his foreign securities.

(2) The invitation as per above is governed by applicable provisions of Article 9, Paragraph 2.

(3) If the payment of a financial claim of a foreign exchange national – natural person is effected through an appointed legal entity, then such an entity is responsible for reporting the claim to be registered.

Section 2

Transfer of Peyments Resulting from claims to Czechoslovakia

(1) A foreign exchange national – natural person is obliged to take all steps necessary for the sum paid to settle his claim and foreign exchange resources deposited on accounts with foreign financial institutions to be transferred or brought to Czechoslovakia; such steps must be taken without any undue delay.

(2) An implementing regulation may specify when a foreign exchange national – natural person is exempt from the duty stipulated in Paragraph 1. In justified instances, a foreign exchange national – natural person may be exempt grom the duty by being granted a foreign exchange license.

Section 3

Duty to Deposit of Offer Foreign Exchange Resources and Right to Purchase Foreign Exchange

Resources

Article 17

(1) A foreign exchange national – natural person is obliged to offer his foreign exchange resources exceeding the equivalent value of CSK 5,000 to a foreign exchange financial institution for purchase for the Czechoslovak currency, or to deposit them on a foreign exchange account opened with a foreign exchange financial institution, both within the period stipulated in Paragraph (3). The foreign exchange financial institution is obliged to inform the foreign exchange national upon his request what sum in a given foreign currency is equivalent to CSK 5,000.

(2) A foreign exchange national – natural person is obliged to offer gold (Article 2, Paragraph 1, Letter (b)) to a foreign exchange financial institution for purchase for the Czechoslovak currency or foreign exchange resources. The offering duty stipulated above does not apply to gold coins.

(3) A foreign exchange national – natural person is obliged to honor the duty stipulated by Paragraphs 1 and 2 within 30 days since the acquistion of foreign exchange resources or gold, or after he has learned about the acquisition, or has become a foreign exchange national. foreign exchange resources and gold acquired by a foreign exchange national – natural person during his stay abroad and brought by him to Czechoslovakia must be deposited on a foreign exchange account or offered to a foreign exchange financial institution for purchase within 30 days since the date of return from such a stay.

(4) Foreign exchange resources the equivalent value of which does not exceed CSK 5,000 may be used by a foreign exchange national – natural person without any limitation whatsoever, except for trading puposes (Article 7, Paragraph 3).

(5) The equivalent sum corresponding to CSK 5,000 is calculated using an exchange rate of foreign currency/exchange purchases on the day the deadline to meet the obligations stipulated by Paragraphs 1 and 2 starts.

(6) Foreign exchange resources sold or issued by a foreign exchange financial institution are not liable to the duty stipulated by paragraph 1 for six months since the date of their purchase/issuance specified in a certificate of the foreign exchange financial institution. during the period specified above, the foreign exchange natinal – natural person may use such foreign exchange resources without any limitation whatsoever, except for trading purposes (Article 7, Paragraph 3).

(7) If a foreign exchange financial institution refuses to purchase foreign exchange resources from a foreign exchange national – natural person, it is obliged to issue a certificate to this effect to the latter. The foreign exchange national – natural person may then use such foreign exchange resources both in Czechoslovakia and abroad without any limitations whatsoever.

Article 18

A foreign exchange financial institution does not examine whether the deadline stipulated by Article 17, Paragraph 3, has been complied with when meeting duties pursuant to Article 17, nor does it investigate the origin of acquisition of foreign exchange resources being offered or deposited.

Article 19

(1) An implementing regulation may stipulate concessions with respect to duties a foreign exchange national - natural person is eligible to pursuant to Article 17.

(2) A foreign exchange national - natural person may be exempt from duties stipulated by Article 17, or his deadline to meet such duties may be extended by being granted a foreign exchange license.

Article 20

(1) A foreign exchange financial institution is obliged to sell a foreign exchange national - natural person and a foreign exchange expatriate foreign exchange resources for the Czechoslovak currency in all instances specified in the present Act, an implementing regulation hereto, or a foreign exchange license permitting a payment to a foreign exchange expatariate abroad.

(2) The sale of foreign exchange resources pursuant to Paragraph 1 is effected at an exchange rate valid for the sales of foreign exchange/currency by the foreign exchange financial institution of the day of the sale.

Article 21

(1) A foreign exchange financial institution is obliged to sell a foreign exchange national - natural person foreign exchange resources fot the Czechoslovak currency, such resources to be used to pay expenses associated with a trip abroad, their extent being determined by the State Bank of Czechoslovakia for a given period. The above institution is also obliged to issue a certificate to this effect.

(2) The sale of foreign exchange resources pursuaant to Paragraph 1 is effected at an exchange rate valid for the sales of foreign exchange/currency by the foreign exchange financial institution on the day the foreign exchange national - natural person involved deposits an equivalent value of the foreign exchange resources being purchased in the Czechoslovak currency at the foreign exchange financial institution.

Section 4

Foreign Exchange Accounts

Article 22

(1) A foreign exchange financial institution is obliged to open an interest-bearing foreign exchange account for a foreign exchange national - natural person at a

request of the latter to deposit foreign exchange resources in a currency agared upon.

(2) Foreign exchange resources deposited on a foreign exchange account opened pursuant to paragraph 1 may be used by the owner or another foreign exchange national - physical person empowered by the owner without any limitations whatsoever, except for trading purposes Article 7, Paragraph 3).

(3) Foreign exchange accounts opened pursuant to Paragraph 1 bear interest in the currency they are maintained in.

Section 5

Assumption of Financial Lisbilities and Their Payment

Article 23

(1) A foreign exchange national - natural person may contractually undertake financial payments to a foreign exchange expatriate in foreign currency and without having a foreign exchange license, providing that he can use, in compliance with the present Act

(a) foreign exchange resources deposited on a foreign exchange account opened with a foreign exchange financial institution,

(b) foreign exchange resources a foreign exchange financial institution is obliged to sell pursuant to Articles 20 and 21,

(c) foreign exchage resources which a foreign exchange financial institution has refused to purchase, issuing a certificate to this effect,

(d) foreign exchange resources acquired during a stay abroad.

(2) In instances not covered by Paragraph 1, a foreign exchange national - natural person may contractually undertake foreign currency financial payment liabilities vis-á-vis a foreign exchange expatriate only if having been granted a foreign exchange license. An implementing regulation may specify other instances not requiring such a license.

Section 6

Manipulation with Some Assets

Article 24

(1) A foreign exchange national - natural person needs a foreign exchage license to be allowed to transfer without consideration to a foreign exchage expatriate, or to quit in his favour

(a) financial claims against a foreign exchange expatriate,

(b) immovable assets in Czechoslovakia and abroad.

(2) The foreign exchange license pursuant to Paragraph 1 is not required for transactions with the assets listed above in the event of death.

(3) An implementing regulation may specify additional instances for which the foreign exchange license pursuant to Paragraph 1 is not required.

Article 25

(1) A foreign exchange expatriate may acquire an ownership reight to immovable assets in the Czech and Slovak Federal Republic only when stipulated so by a special act, or by descent [7].

Part Five

Section 1

Export and Import of Foreign Exchange and Other Assets

Article 26

(1) Imports of foreign exchange assets (Articles 1 and 2) to Czechoslovakia require not foreign exchange license.

(2) A foreign exchange expatriate importing gold to Czechoslovakia is obliged to have a clearing bill issued by customs bodies.

Article 27

(1) A foreign exchange national - physical person travelling abroad may export without any foreign exchange license

(a) foreign exchange rescurces specified in a receipt or certificate issued by a foreign exchange financial institution, which is not older than six months and which confirms that such fesources have been sold or issued by the foreign exchange financial institution,

(b) foreign exchange resources the equivalent value of which does not exceed CSK 5,000 according to an exchange rate valid for the purchases of foreign currency/exchange by a foreign exchange financial institution on the day such resources are being exported,

(c) foreign exchange resources which a foreign exchange financial institution has refused to purchase and specified in a certificate to this effect issued by the institution,

(d) payment/credit cards in the name of a foreign exchange national and issued by a foreign exchange financial institution.

(2) A foreign exchange expatriate may export or transfer abroad without any foreign exchange license foreign exchange resources, foreign payment documents, foreign securities and deposit books in a foreign currency, except for instances he has acquired such resources and assets in Czechoslovakia illegally.

(3) A foreign exchange expatriate may export gold (Article 2,.Paragraph 1, Letter (b)) which he has imported to Czechoslovakia and whose import has been certified

[7] E. g. Act No. 403/1990 of Law Reports,on alleviating consequences of some roperty injustices, Act No 427/1990 of Law Reports, on transfers of the state's ownership of some assets to other juristic or natural persons.

by customs bodies without any foreign exchange license. The same applies to gold coins, if he is able to prove that he has acquired them by purchase from a person authorized to deal in their sales. Exportsdof inherited gold coins are liable to Article 31, Paragraphs 3 and 4.

Article 28

A foreign exchange national staying abroad for the purpose of performing work or an occupation, as well as his dependents, may export, without any foreign exchange license and through-out the duration of such a stay, foreign currency, foreign payment documents and foreign securities which they have imported to Czechoslovakia during the stay. The import of such assets must be certified by customs authorities.

Article 29

(1) Foreign exchange assets not covered by provisions of Articles 27 and 28 require a foreign exchange license by the State Bank of Czechoslovakia to be cleared for exports.

(2) An implementing regulation may specify additional instances not requiring a foreign exchange license pursuant to Paragraph 1.

Section 2

Exports and Imports of th Czechoslovak Currency and Other Assets in the Czechoslovak Currency

Article 30

(1) Exports and imports of valid Czechoslovak banknotes and coins, their transfers to and from abroad, payment documents in the Czechoslovak currency, as well as securities in the Czechoslovak currency may be effected only with a foreign exchange license issued by the State of Czechoslovakia.

(2) No foreign exchange license is required for imports of assets listed in Paragraph 1, if such assets has been exported from Czechoslovakia in accordance with the present Act.

(3) A foreign exchange national or expatriate may exportssums of the Czechoslovak currency as stipulated by an implementing regulation without any foreign exchange license.

(4) An implementing regulation may also specify additional instances in which no foreign exchange license is required for exports and imports of the assets listed in the preceding paragraphs.

Part Six
Transfers of Foreign Exchange Resources and Other Foreign Exchange Assets

Section 1
Transfers of Inherited Assets Abroad

Article 31

(1) A foreign exchange expatriate may export or transfer abroad without any oreign exchange license the following items, providing that he has met terms pecified in Paragraph 2:

(a) foreign exchange resources he has inherited,

(b) foreign exchange equivalent value of inherited financial resources in the Czechoslovak currency,

(c) foreign exchange equvalent value of financial resources acquired by selling inherited immovable assets,

(d) foreign exchange equivalent value of financial resources acquired for movable assets sold till the end of estate settlement proceedings.

(2) A transfer or export of foreign exchange resources pursuant to Paragraph 1 may be effected if

(a) the inheritance ecquisition has been duly confirmed, approved or settled by a notary public, and all fees pertaining to the inherited assets have been duly settled, or

(b) the inheritance acquisition has been approved by a foreign estate administration and

(c) the transfer is to be effected to a country in which similar transfers to Czechoslovakia are not liable to foreign exchange limitations, or are based on a principle of reciprocity.

(3) If having met the conditions stipulated by Paragraphs 1 and 2, a foreign exchange expatriate may also export without a foreign exchange license, or transfer without the same

(a) transfer abroad interests and winnings pertaining to inherited deposits, such interests and winnings being in a foreign currency,

(b) transfer or export abroad inherited coins, providing that he has submitted a certificate of a juristic person specified in an implementing regulation to the effect that such coins are not historical.

(4) In instances not covered by provisions of Paragraphs 1 to 3 above, a foreign exchange license issued by the Ministry of Finance of the republic in the territory of which the estate settlement has taken place is required.

Section 2
Transfer of Alimonies Abroad

Article 32

(1) A foreign exchange national – national person may meet his legal alimony duty to a foreign exchange expatriate abroad without any foreign exchange license, providing he has submitted a certificate issued by a body specified in an implementing regulation and to the effect that

(a) his legal maintenance/alimony obligation still holds,

(b) the alimony is paid to a country, or to a citizen of a country which is a party of an international agreement specifying the exacting and transfers of alimonies, or in which similar transfers to Czechoslovakia are not liable to any limitations, or where similar transfers are subject to the principle of reciprocity.

(2) The duty pursuant to Paragraph 1 is met in accordance with a court ruling or a consent decree. An implementing regulation will determine the limit up to which alimony obligations based on an agreement of both parties may be met, as well as a method to be used for such payments.

(3) In instances not covered by Paragraphs 1 and 2, a foreign exchange national may pay an alimony to a foreign exchange expatriate abroad only with a foreign exchange license. An implementing regulation may specify additional instances in which such a license

Section 3
Other Transfers

Article 33

(1) Without a foreign exchange license, a foreign exchange national may

(a) return a payment effected by a foreign exchange expatriate to him without giving any legal reason for doing so,

(b) pay expenses associated with court or other legal proceedings taking place abroad, which have been initiated against the foreign exchange national or by the foreign exchange national in connection with meeting obligations stipulated by the present Act, including expenses for his legal representation,

(c) effect payments abroad, if he is obliged to effect such payments pursuant to an enforceable court ruling, or to an enforceable ruling of another authorized Czechoslovak body, or if such a payment is stipulated by a generally applicable Czechoslovak legal regulation[8].

(2) A foreign exchange national may effect transfers not covered by Paragraph 1 only if he has been granted a foreign exchange license. An implementing regulation may specify additional instances in which such a foreign exchange license is not required.

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[8] E.g. Act No. 119/1990 of Law reports, on court rehabilitation

Part Seven

Property Participation in Enterprising Abroad

Article 34

(1) A foreign exchange national may take a property participation in enterprising broad only if he has been granted a foreign exchange license by the State Bank of Czechoslovakia, issued under an agreement with the Federal Ministry of Finance and he Federal Ministry of Foreign Trade.

(2) A foreign exchange national may transfer his participation in a foreign legal ntity to a foreign exchange expatriate only if he has been granted a foreign xchange license by the State Bank of Czechoslovakia, issued under an agreement vith the Federal Ministry of Finance and the Federal Ministry of Foreign Trade.

(3) An implementing regulation issued by the State Bank of Czechoslovakia, the Federal Ministry of Finance and the Federal Ministry of Foreign Trade may specify vhen a license pursuant to Paragraphs 1 and 2 is not required, and determine equirements applying to the license issued pursuant to the above paragraphs.

Part Eight

Accounts of Foreign Exchange Expatriates

Article 35

(1) A foreign exchange financial institution is obliged to open an interest-bearing ccount for a foreign exchange expatriate upon his request, or a foreign currency ccount (hereinafter "expatriate's account").

(2) A deposit account opened with a foreign exchange financial institution is considered an expatriate's account in the event the account owner has become a oreign exchange expatriate, or when a foreign exchange expatriate has inherited it.

rticle 36

(1) A foreign exchange expatriate may use foreign exchange resources deposed on his expatriate's account kept in a foreign currency without any limitations for payments abroad and in Czechoslovakia, except for trading purposes (Article 7, Paragraph 3).

(2) A foreign exchange expatriate may use financial resources deposited on his xpatriate's account kept in the Czechoslovak currency without any limitations for payments in Czechoslovakia.

(3) A foreign exchange license granted by the State Bank of Czechoslovakia is required to effect payments abroad from an expatriate's accont kept in the Czechoslovak currency.

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Part Nine

Foreign Exchange Supervision, Supervision of Imports and Exports of Assets

(1) The foreign exchange supervision is exercised by the State Bank of Czechoslovakia and other foreign exchange bodies within their respective jurisdictions.

(2) When carrying out the foreign exchange supervision, the foreign exchange bodies make sure whether and how obligations resulting from the present Act and implementing regulations hereto are being met.

(3) Persons having obligations pursuant to the present Act are obliged to provide the foreign exchange body carrying out the foreign exchange supervision necessary cooperation, especially to submit reports and explanations concerned with directly or indirectly relevant circumstances of a case with potential foreign exchange consequences upon a request, to submit necessary documents thereto, and to allow the foreign exchange bodies carrying out the foreign exchange supervision to inspect accounting, registration and other documents in a way not interfering with principles of banking secret.

Article 38

(1) If discovering a vilation of the present Act and implementing regulations hereto, bodies carrying out the foreign exchange supervision or check may demand that such shortcomings be rectified within a specified period of time.

(2) If such a violation perpetrated by a foreign exchange national – juristic person has resulted in a damage of the foreign exchange management and policy, the foreign exchange body carrying out the supervision is entitled to levy a fone up to CSK 500,000.

(3) A fine pursuant to Paragraph 2 may be levied by the foreign exchange body within two years since the vilation of the present Act and implementing regulations hereto is discovered, but no later than five years since the year the violation is perpetrared.

Section 2

Supervision and Checks of Imports and Exports of Assets Falling under the Present Act

(1) Checks of compliance with provisions of the present Act and implementing regulations hereto with respect to imports and exports of foreign exchange assets (Articles 26 and 27), the Czechoslovak currency and other assets in the Czechoslovak currency (Article 30) are carried out by customs administration bodies. Such checks are performed in compliance with regulations protecting personal liberties and invioability of mail.

(2) The customs administration bodies are authorized to demand a declaration nd demonstration of assets covered by the present Act and being imported or xported. At the same time, they may demand from persons importing or exporting

(3) If imports or exports of foreign exchange assets, the Czechoslovak curency or other assets in the Czechoslovak currency are subject to alicense, or require a certificate or another document, the importing or exporting person is obliged to ubmit such documents to customs administration bodies when exporting or nporting such assets.

Article 40

Mail being sent abroad and containing foreign exchange assets the export of which requires a foreign exchange license, the Czechoslovak currency or other ssets in the Czechoslovak currency must be submitted by the sender to an ppropriate customs administration body for a check pursuant to the present Act before being mailed. The check completed, the customs administration body provides the mail matter with a seal.

Article 41

(1) At border checkpoints, customs administration bodies receive assets requiring a foreign exchange license (Articles 27, 29 and 30) for safekkepung, if a person avelling abroad does not possess such a license and, owing to the place or time of he crossing is unable to hand such assets over for safekeeping to a foreign currency nancial institution at the border checkpoint or return them back to Czechoslovakia.

(2) The safekeeping pursuant to Paragraph 1 is governed by the Civil Code. However, the right of being returned a safekept article is rendered null and void and he article forfeited by the state if the person who has given the article into afekeeping does not claim it back within a year since the customs administration ody takes it over.

Article 42

(1) In instances where a person is exempt from a customs inspection pursuant to pecial regulations[9] or a customs inspection is not carried out, the check pursuant o the present Act is not carried out either.

(2) Upon a request, customs administration bodies are obliged to issue a written ertificate for imported foreign exchange assets the export of which without a foreign

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Customs Act No. 44/1974 of Law Reports, as subsequently amended

(h) acquires immovable assets in Czechoslovakia (Article 25)
(i) effects transfers abroad (Article 33, Paragraph 2),
(j) takes a property participation in enterprising abroad, or transfers his property participation abroad to a foreign exchange expatriate (Article 34),
(k) exports foreign exchange assets (Articles 27 and 29),
(l) imports or exports the Czechoslovak currency and other assets in the Czechoslovak currency (Article 30),
(m) fails to declare or demonstrate assets when urged to do so by customs administration bodies (Article 39, Paragraph 3), providing the acts listed above do not constitute a crime.

exchange license is subject to Article 26, Paragraph 2, Article 27, Paragraph 4, and Article 28, i. e. preceding import.

Part Ten
Foreign Exchange Transgressions and Transgression Procedures

Section 1
Transgressions Against the Foreign Exchange Act

Article 43

A transgression of the present Act is perpetrated by a person who, in violation of the Act

(a) trades in foreign exchange assets (Article 7)

(b) effects payments abroad and receives payments from abroad without a foreign exchange financial institution acting as an intermediary (Article 8),

(c) fails to comply with the reporting duty (Articles 9 and 15),

(d) fails in his obligation to transfer to Czechoslovakia a sum paid abroad to cover his claims, or resources on an account opened with a foreign financial institution (Articles 10 and 16),

(e) fails in his duty to deposit or offer his foreign axchange resources (Articles 11 and 17),

(f) assumes a contractual obligation vis-á-vis a foreign exchange expatriate, purchases immovable assets abroad, foreign securities, accepts a credit in foreign exchange from a foreign exchange expatriate (Articles 14 and 23),

(g) transfers without consideration to a foreign exchange expatriate or quits in his favout a financial claim against a foreign exchange expatriate or immovable assets in Czechoslovakia or abroad,

Section 2
Transgression Procedure

Article 44

(1) Transgressions against the present Act are handled by appropriate local administration bodies[10] and, where foreign exchange transgressions falling under Article 44, Letters (j), (k), (1) are involved, by customs administration bodies. These bodies take decisions in matters of oreign exchange transgressions in accordance with spe cial regulations[11], unless atipulated otherwise by the present Act.

(2) A transgression under Article 44, Letter (a), is investigated by bodies of the Corps of National Security.

(3) The Government of the Czech and Slovak Federal Republic will pass a decree stipulating the registration of foreign exchange transgressions under Article 44, Letter (a).

Article 45

(1) The bodies specified in Article 44, Paragraph 1, may impose, in view of the riousness of the transgression

(a) a reprimand for the foreign exchange transgressions listed in Article 43,

(b) a fine up to CSK 20,000 for foreign exchange transgressions listed in Article 43, tters (b) to (1),

(c) a fine up to CSK 50,000 for foreign exchange transgressions listed in Article 43, tter (a),

(d) a forfeit of the article(s) involved for foreign exchange transgressions listed in icle 43, Letters (a), (k), (1), (m).

(2) The forfeit of the article(s) involved may be imposed separately, or in combi- ion with another punishment. The former punishment may only be imposed if the cle involved belongs to the perpetrator and the article

a) has been used in or planned for the perpetration of the transgression,

b) has been acquired through the transgression, or exchanged for an article quired through the transgression.

3) The forfeit punishment may not be imposed if the value of the article involved isproportionate to the seriousness of the transgression.

Article 46

) If the forfeit punishment pursuant to Article 42, Paragraph 2, has not been osed, the article involved may be confiscated if

) it belongs to a perpetrator who cannot be prosecuted for the transgression,

) does not belong to the perpetrator of the transgression, or

) the perpetrator is not known.

) The article cannot be confiscated if its value is disproportionate to the usness of the transgression.

Part Eleven
General, Temporary and Final Provisions

Article 47

ovisions of the present Act will apply unless stipulated otherwise in an interna- agreement the Czech and Slovak Federal Republic is bound to abide by, which een published in Law Reports.

: name of the appropriate body will be supplemented folowing the passing of a cirrently drafted ocal administration bodies.

: of the Czech National Council No. 200/1990 of Law, Reports, on transgressions
of the Slovak National Council No. 372/1990 of Law Reports, on transgressions
No. 367/1990 of the Law Reports, on communities (communal administration system)
No. 369/1990 of the Law Reports, on communities (communal administration system)

Article 48

(1) The decision-making procedure with respect to granting foreign exchange licenses pusruant to the present Act will be governed by applicable administrative procedural regulations[12], except for cases listed in Paragraphs 2 and 3.

(2) A foreign exchange body is obliged to take a decision on an application pursuant to the present Act in sixty days since its delivery.

(3) A foreign exchange body decision is final and there is no appeal possible.

Article 49

Implementing regulations to the present Act and for its individual provisions are issued jointly by the Federal Ministry of Finance, the State Bank of Czechoslovakia, unless stipulated otherwise by the present Act.

Article 50

A foreign exchange license granted to a foreign exchange national or expatriate in accordance with existing foreign currency regulations will be regarded as a foreign exchange license granted in accordance with the present Act, if the latter and its provisions still require it for a given case.

Article 51

(1) Foreign exchange accounts of foreign exchange nationals

- natural persons established in accordance with existing regulations will be preserved and will be governed by provisions of the present Act since the day it comes into effect.

(2) Foreign exchange accounts of foreign exchange nationals - juristic persons established in accordance with existing regulations will be preserved only on the basis of a foreign exchange license granted by the State Bank of Czechoslovakia and only till they are exhausted. A foreign exchange national - juristic person is obliged to apply for such a license no later than by January 31, 1991.

Article 52

The following legal documents and parts of legal documents are hereby abolished

(a) Foreign Exchange Act No. 162/1989 of Law Reports, as amended by Act No. 109/1990 of Law Reports,

(b) Decree of the Federal Ministry of Finance and the State Bank of Czechoslovakia No. 169/1989 of Law Reports, as amended by Decree No. 234/1990 of Law Reports,

(c) Article 24, Paragraph 1 of Act No. 403/1990 of Law Reports

(d) Article 26 of Act No. 427/1990 of Law Reports

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12) Act No. 71/1967 of Law Reports, on administrative procedures