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Manufacturing in Czech Republic



Foreword

Dear Readers,

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

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

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

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

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



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Credentials in Czech Republic

Megatech Industries: Advising on the acquisition of Czech, German and Polish automotive parts production facilities from Toyota Boshoku Corporation via a share deal and on establishment of a Czech JV between Megatech Industries and Toyota Boshoku Corporation for the production of automotive parts for BMW. Advising on subsequent termination of the JV and the acquisition of Toyota Boshoku's 50% shareholding in the JV.

VUK: Advising on the sale of a producer of tire production machines in the Czech Republic, to a large multinational group Continental.

International automotive supplier: Complex long-term employment advisory for various entities from the group, including day-to-day advisory on employment relationships, employment and managerial contracts, internal policies, collective bargaining, agency employment issues, representing in employment disputes and data protection. Advising on complex restructuring of subsidiaries and plants in the Czech Republic and on corporate governance.

MOTORPAL: Assistance in connection with the preparation and successful implementation of the pre-packed reorganization, and representation in insolvency proceedings, negotiations with creditors, and representation in proceedings before the Constitutional court.

International automotive supplier: Advising in connection with several long-term development projects in the Czech Republic, including R&D center for development of various sensors and control units for cars; combined R&D and office center; and another facility combining testing and R&D functions.

International hi-tech automotive investor:

Advising on complex revitalization of a post-industrial brownfield in the Czech Republic for the purposes of construction of a production plant.

Leading global manufacturer: Advising and representing in a product recall process in the Czech & Slovak Republics.

Global leader in magnesium technology: Advising on legal issues regarding operation of the client's plant in the light of the REACH regulation, on waste treatment and IPPC permit.

Global leader in household appliances: Advising on relationship with local distributors in the Czech Republic, Poland, Ukraine, Russia and Romania. Prague office coordinated the cross-border works.

Global machinery company: Complex advisory in the areas of employment, civil and criminal law in connection with the embezzlement of a substantial sum by a former employee, including representation of the client as injured party in criminal proceedings.

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Czech Republic and the European Union

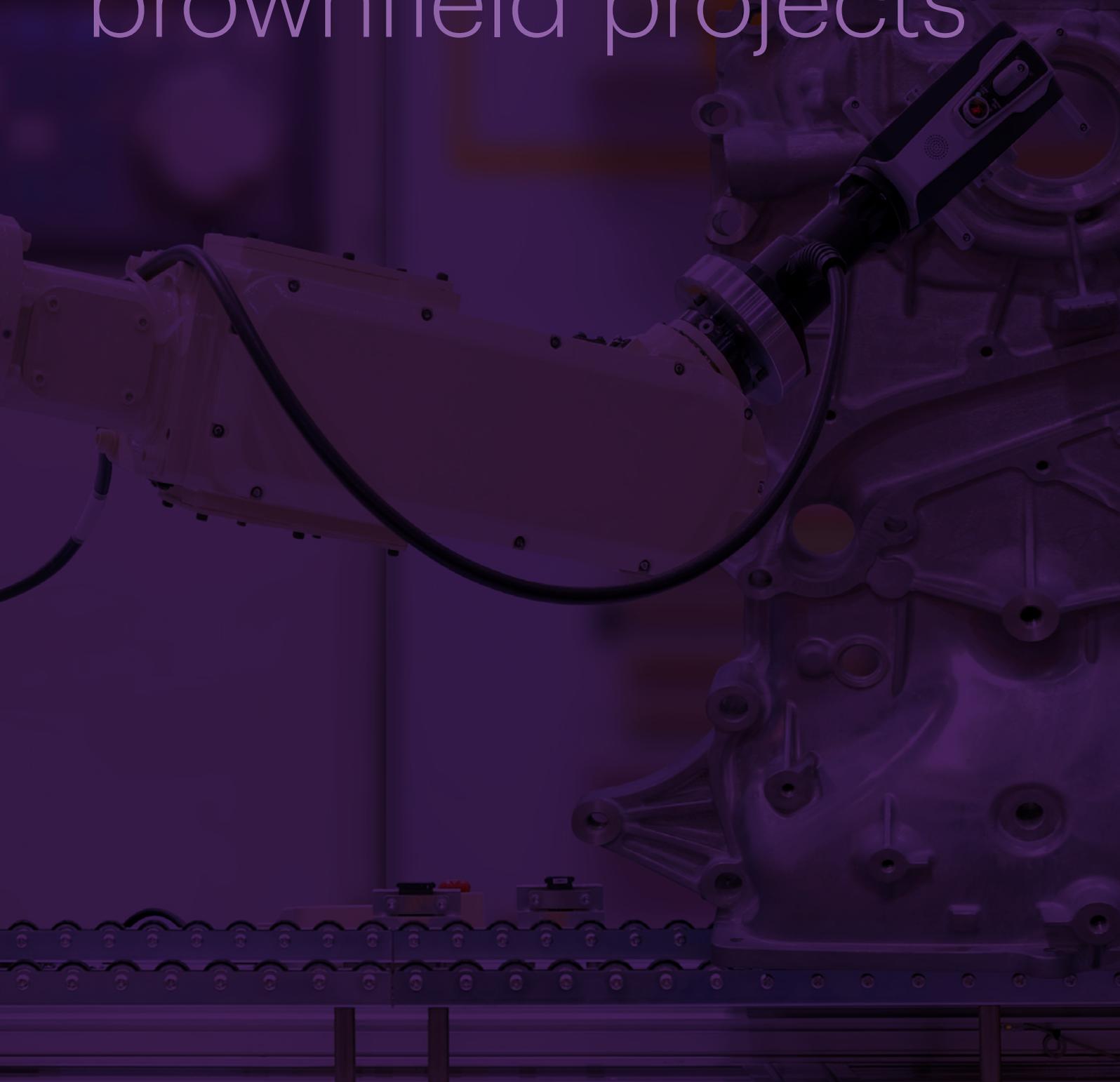


Since the accession talks commencing in the 1990s, obtaining EU membership on May 1, 2004 and finally gaining a Schengen Area membership on December 21, 2007, the Czech Republic has undergone a long journey encompassing mostly adjustment to European standards, not only in terms of its legal system, but also in terms of its economic and fiscal policy.

To date, the Czech Republic has been, with its export-oriented economy driven by strong automotive, manufacturing and energy industry achieving a trade surplus on a year-to-year basis as well as with its positive fiscal and monetary outlook, a strong and reliable partner of the major EU economies.

Naturally, products in the Czech Republic are subject to respective EU regulations and Czech laws harmonized in accordance with secondary EU legislation. Depending upon the type of product, be it food, drugs, insurance policies or electricity retailing, the governmental authorities both supervising and setting standards in terms of quality, manufacturing or consumer protection are: (i) Czech Agriculture and Food Inspection Authority, (ii) State Institute for Drug Control, (iii) Energy Regulatory Office, (iv) Czech National Bank, (v) Czech Trade Inspection Authority and (vi) Office for the Protection of Competition.

Preparing to manufacture: greenfield and brownfield projects





A. Corporate vehicles

The key commercial company forms include: (i) limited liability company (in Czech *společnost s ručením omezeným*), (ii) joint stock company (in Czech *akciová společnost*), (iii) limited partnership (in Czech *komanditní společnost*), and (iv) general partnership (in Czech *veřejná obchodní společnost*).

By far the most commonly used forms for doing business in the Czech Republic are a limited liability company and a joint stock company.

Limited Liability Company

Limited liability company is a type of company generally used for smaller businesses as its corporate governance is very flexible and may be established with a low registered (share) capital.

It must have at least one shareholder with no maximum number of shareholders. Shareholders are generally liable for the company only up to the unpaid portion of their registered (share) capital contributions.

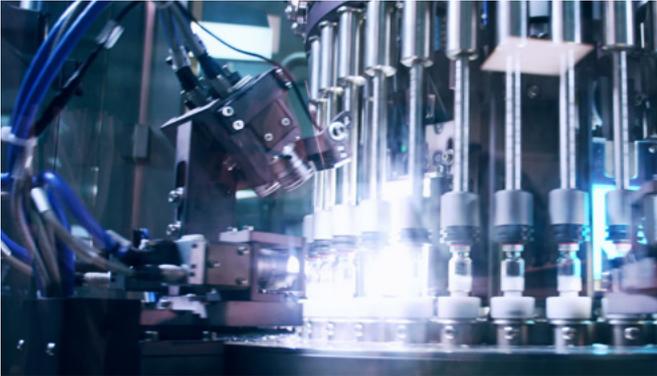
Corporate governance requirements include a general meeting and executive directors; a supervisory board is not mandatory.

Joint Stock Company

Joint stock company is a company generally used for bigger businesses with more dispersed ownership structure or certain regulated businesses (e.g. banks) which require stricter corporate governance.

It must have at least one shareholder with no maximum number of shareholders. Shareholders are not liable for the company's obligations.

Corporate governance requirements include a general meeting and, depending on the internal system, also statutory director and management board (in case of the monistic system) or the board of directors and supervisory board (in case of the dualistic system.) Certain major companies and/or companies conducting certain specific businesses (e.g. banks, insurance companies) must also establish an audit committee.



Limited Partnership

Limited partnership is typically used for investment structures or for tax reasons as it is “tax transparent” with regard to the general partner(s).

With respect to corporate governance, the company must have at least one limited partner and one general partner.

The general partner has unlimited liability for, and bears a portion of the profit loss of, the company corresponding to its participation. The limited partner is generally liable for the company up to the unpaid portion of the partnership contribution.

General Partnership

General partnership is sometimes established for tax reasons as it is “tax transparent”.

With respect to corporate governance, the general partnership must have at least two partners.

All partners have unlimited liability for the company and bear the profit and loss of the company.

B. Real Estate, Construction and Insurance

Acquisition of land in the Czech Republic and long-term leases

Acquisition by SPV purchase: Most acquisitions of large commercial real estate projects in the Czech Republic (such as office buildings and shopping centers) are done by the ownership of the special purpose vehicle (SPV) which owns the real estate asset. This is primarily tax driven, but it adds an extra level of risk for a purchaser/investor. Due diligence needs to be done carefully to identify tax, financial and legal risks/liabilities that the purchaser takes on by purchasing the ownership of the SPV.

Direct acquisition of a real estate asset: Operation of a production facility is rather often secured by direct acquisition of land which appears to be more beneficial for a purchaser and is more **prevalent in the acquisition of undeveloped land.**

Lease: Alternative to acquisition of the real estate asset with lesser impact into cash-flow may be a lease of the asset. Such approach is possible to both land, buildings or existing enterprise. The lessor makes available its property to the lessee for use. If the subject of the lease is registered in the Real Estate Cadaster, the lease may be registered too, however, the registration is not mandatory. In case of the lease of enterprise, a copy of the lease agreement must be published by the lessor in the collection of deeds in the commercial register, in order to be valid.

Building right: Building right allows the builder to benefit from the building it constructs on someone else’s land. The building right is considered as an immovable thing and as such can be subject to various dispositions and legal transactions (it can be transferred, inherited etc.). It must be registered in the Real Estate Cadaster; the maximum duration is 99 years.

Real Estate permits

Master plan: The local authority approves master plans as part of municipal planning documentation. If construction is not foreseen in the current master plan, a change to the master plan is required. The local authority may decide on the change to the master plan either on its own initiative or upon the application of an interested third party. If a change to the master plan is evoked by the exclusive demand of the interested third party, an appropriate reimbursement may be required. However, the local authority is entitled not to approve the change to the master plan.

Zoning/development permit: The zoning/development permit is a pre-condition for the issuance of a building permit. The project, and therefore the permit, must comply with the relevant master plan. The proceedings leading to the issuance of a zoning/development permit are initiated by submission of a written application to the relevant Building Authority.

Building permit: A building permit based on the zoning/development permit and in accordance with other requirements must be obtained. During the process of obtaining a building permit, the Building Authority will consider many items such as the access, environmental impact and objections raised during the proceedings. Provided the construction is not commenced, the validity of an issued building permit expires two years after issuance unless extended by the Building Authority pursuant to a justified request.

Occupancy permits: Occupancy permit/approval is needed for more complex structures. It is a mandatory condition for all buildings which have future users that are unable to influence their qualities, such as buildings used for commerce and industry. The Building Authority verifies, *inter alia*, whether the building is capable of separate use/operations, is in compliance with the permits,

the project documentation, the requirements and binding statements of respective authorities and the general requirements for development and as-built requirements.

Other permits: For certain complex structures (such as an electricity power plant or an oil refinery), other permits are required before they can be used or before the above permits are issued, such as EIA or IPPC Permit.

Construction contracts

Agreements for work are often used, and they differ from contractor to contractor. As a general principle, the parties are free to negotiate their own terms and conditions. If the agreement does not contain a provision regarding a particular subject, general provisions stated in the Civil Code are used.

FIDIC and other international model construction contracts may be used for major, complex developments, and it is often the case. However, for smaller and/or simpler constructions such as a production or storage warehouse, the contractors tend to provide their own drafts of contracts.

Insurance

Insurance policies taken out by the owner

of the construction to be built: While there is no mandatory insurance for the owners in the Czech Republic, standard property insurance is recommended. There is also a special type of insurance called construction all risk/erection all risk insurance, suitable for both, the owner and the companies involved in the construction.

In addition, in many cases the owner should consider title insurance. There is always a possibility that the records in the Cadastre are not complete and do not correspond with reality, not even full title searches can eliminate all risks.

Insurance policies taken out by the companies/builders involved in the construction phase:

Professional liability insurance is mandatory for certain professions, like authorized architects and authorized engineers or technicians working in the field of building constructions. Building contractors may consider the above-mentioned construction all risk/erection all risk insurance, and it is recommended that constructor's obligation to maintain such insurance is stipulated in the construction contract.

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

The trade licenses

Most Czech legal entities operate their business under some kind of trade licenses, nevertheless, certain activities e.g. banking or insurance sector require special licenses, which are issued by the relevant state authority. Czech law specifies two main categories of trade licenses, which are *notifiable* and *concession*. The relevant Trade Licensing Office grants notifiable trade licenses when an applicant meets general conditions and notifies the Trade Licensing Office with the prescribed form. For concession trades (e.g. liquor production, energy or transportation sector) additional permission is required.

The notifiable trades are divided into three groups: unregulated trades, crafts and regulated trades. Legal entities, which hold a trade license for crafts and regulated trades, shall have a responsible representative who shall meet certain educational and professional requirements. These requirements differ based on the respective business activity.

Ultimate beneficial owner

Starting January 1, 2019 ultimate beneficial owner, who is in Czech law defined as an individual who may actually or legally be able to exercise decisive control over a legal entity, will have to be registered in the non-public part of the Czech Commercial Register.

With regard to companies and cooperatives, the ultimate beneficial owner is considered to be a natural person who:

- a. alone or together with others acting in concert with him/her holds more than 25 percent of the voting rights in the company, or a share in its registered capital of more than 25 percent, or
- b. alone or together with others acting in concert with him/her controls the company referenced in (a) above, or
- c. enjoys the right to participate in at least 25 percent of the company's profits, or
- d. if the beneficial owner is unknown or cannot be determined pursuant to (a) through (c) above: is a member of the statutory body (or represents a legal entity who is a member of the statutory body) of the company, or holds a position similar to that of such a member.

Contract register

Contract register is a public register to which state, most of the public sector institutions and entities must publish contracts concluded with private entities. Publication of agreements in the register is a precondition to their effectiveness, and agreements not published within three (3) months as from their respective conclusion will be absolutely null and void.



D. Employment

Key employment forms:

An employment relationship may be established by three types of agreements: (i) **employment contract**; (ii) **agreement on working activity**; and (iii) **agreement on performance of work**.

The employment contract is the standard type of agreement establishing employment and the least flexible one (offering the highest set of rights and protection to the employee, e.g. in respect of termination of employment). The employment contract can be concluded either for an indefinite period of time or a definite period of time. The employment relationship for a definite period of time between the same contracting parties must not exceed three years and may be repeated a maximum of twice from the date of commencement of the first employment relationship for a fixed term (i.e., in total nine years). The employment contract is the only type of employment law agreement that allows for a full-time employment (40 weekly working hours).

The agreement on working activity may only be entered into for up to 20 working hours on average per week, which is calculated over the shorter of (i) the term of the agreement or (ii) a period of 52 consecutive weeks.

The agreement on performance of work may only be entered into for up to 300 hours of work in a calendar year.

It is legally prohibited to substitute an employment law agreement with a civil law agreement (e.g., mandate

agreement or service agreement) while the relations between the parties continue to bear the hallmarks of an employment relationship, i.e. where one party performs dependent work for the other party (work performed in person, in subordination to the employer, on behalf of the employer and under the instructions of the employer).

Social security and health insurance contributions

Social security contributions are paid monthly to provide for retirement pensions, disability and unemployment benefits. The contribution is paid partly by the employer from its own sources on top of the employee's gross salary (which increases costs of labor) and partly by the employee (through the employer) from the employee's gross salary. Generally, and with some minor exceptions, the rate of the social security contribution by the employer (paid from its own sources) is 24.8 percent calculated from the employee's gross salary. For the employee, the relevant rate is 6.5 percent calculated and paid from the employee's gross salary. The contributions differ for the employees who are participating in pension savings plans.

Public health insurance ensures access to free public medical care. The contributions are collected at a rate of 13.5 percent of the employee's gross salary. Again, the contribution is paid partly (9 percent) by the employer from its own sources on top of the employee's gross salary (which increases costs of labor) and partly (4.5 percent) by the employee (through the employer) from the employee's gross salary.



E. Tax and State aids

Tax

Below is an outline of the key corporate and real estate taxes, which apply in the Czech Republic:

Corporate Income Tax

Application: Applies to all Czech legal entities as well as to Czech tax residents. For Czech tax non-residents, the Corporate Income Tax only applies if they establish permanent establishment on the territory of the Czech Republic (e.g. if the entity provides services / sells good on / from the territory of the Czech Republic for a period exceeding six months in any 12 month period).

Rate: Generally 19 percent, but a special rate of five percent applies for certain investment, pension and mutual funds.

Income: Czech entities and Czech tax residents are subject to Corporate Income Tax on their worldwide income. For Czech tax non-residents, the Corporate Income Tax applies only to their Czech sourced income.

Tax period: Calendar or economic year (period of 12 months starting on the first day of any month other than January).

A newly established entity may opt for the economic year within the first 30 days of its existence by notifying the Tax Authorities. Existing entities may opt for the change from calendar to economic year (and *vice versa*) by notifying the Tax Authorities at least three months before the contemplated change.

Tax returns and payments: Must be filed within three months following the end of the respective tax period. May be extended for another three months if tax adviser or attorney is appointed to file for the tax return.

Withholding taxes: 15 percent on dividends, interest and royalties.

35 percent if the recipient of the income is either not a resident of another EU/EEA country; or not resident of a country with which Czech Republic concluded a treaty avoiding double taxation or treaty relating to exchange of tax related information.

Tax depreciation: Tangible assets with value exceeding CZK 40,000 will depreciate annually for the period ranging from 3 – 50 years (depending on a category of the asset).

Intangible assets with value exceeding CZK 60,000 will depreciate monthly for the period ranging from 18 – 72 months (depending on the category of the asset).

Dividends and capital gains: Dividends and capital gains realized by mother companies from their subsidiaries are subject to Corporate Income Tax exemptions, if they meet certain conditions.

Transfer pricing: Pricing agreements between related entities shall be done on the arm's length basis. If not, Tax Authorities may adjust the tax base by an ascertained difference. The OECD Transfer Pricing Guidelines apply.

Value Added Tax

Application: Applies to legal entities / individuals having a seat, establishment or place of business on the territory of the Czech Republic, who carry on economic activities on the territory of the Czech Republic and whose turnover for the last consecutive 12 months exceeds CZK 1 mil.

Also applies to foreign entities performing taxable supplies and having a place of taxable supply in the Czech Republic or performing a supply of taxable goods from Czech Republic to another EU member state.

Voluntary registration (in case not all the criteria above are met) is also possible.

Rate: Generally 21 percent, but a special rate of 15 percent applies for certain goods (e.g. food), real estate (social residential dwellings) and services (e.g. residential construction services, cultural events, etc.). A special rate of 10 percent applies to books, baby food and certain medical supplies.

Subject: Value Added Tax is levied upon transactions performed within the Czech Republic which constitutes supply of goods, acquisition of goods and importation of goods from third countries.

Tax period: Calendar month. However, the taxpayer may apply for quarterly periods if its turnover for the previous year did not exceed CZK 10 mil., it is not considered to be an unreliable taxpayer, and it applies for the change at the Tax Authorities within January of the respective year.

Tax returns and payments: Must be filed within 25 days following the end of the respective tax period.

The taxpayer has a right to deduct input Value Added Tax with respect to taxable goods and services received for his own economic activity. This shall be done through each tax return.

Invoice matching report: Legal entities must file them within 25 days following the end of each month, private individuals following the end of their respective tax period.

In the report, the taxpayer discloses certain realized transactions with its suppliers and customers.

Unreliable taxpayer: For a serious breach of a tax obligation, the Tax Authority may declare a certain taxpayer an unreliable taxpayer. This has significant implications attached and is also accessible publicly on the internet.

Real Estate Acquisition Tax

Rate: Any acquisition of a real estate for consideration is subject to Real Estate Acquisition Tax of four percent of the value of the real estate.

Real Estate Tax

Subject: Imposed on any buildings and plots of land registered in the Czech Real Estate Cadaster.

Rate: Depending on the size and location.

Tax period: The Real Estate Tax is paid by the owner, and the tax period is one year. The tax is assessed as of January 1, irrespective of any previous transfers.

Tax returns and payments: The owner of the real estate as of January 1 shall file the tax return until January 31 of the respective calendar year.

Tax depreciation: 10, 20, 30 or 50 years depending on the type of real estate.

Environmental Taxes

Application: Applies to any supplier or distributor, with certain exceptions under law.

Subject: Gas, coal and other hydrocarbon fuels and electricity.

Rate: For gas, depending on the type of gas and a period of a year (ranging from CZK 0/MWh to CZK 264.80/MWh).

For coal and other hydrocarbon fuels CZK 8.50/GJ.

For electricity CZK 28.30/MWh.

Tax period: Calendar month.

Tax returns and payments: Must be filed within 25 days following the end of the respective tax period.

Road Tax

Payable for all vehicles registered in Czech Republic and used for business purposes. The rate depends on the type of vehicle and ranges from CZK 1,200 to CZK 50,400 for a year. The tax period is a calendar year and the tax return shall be filed by January 31 of the next year.

Excise duties

Applies to alcohol, tobacco and mineral oils. The rates vary depending on the type of product. The tax period is generally a calendar month, and the tax return shall be filed within 25 days following the end of the respective tax period.

There are currently no stamp/registration duties or capital increase/contribution duties applicable in the Czech Republic.



Additional tax-related obligations

For each type of tax liability described above, the taxpayer needs to register with the relevant Tax Authority. This is done for most types of tax liabilities separately. Electronic format of registration is prescribed in most cases, and the forms are available online free of charge. Czech legal entities and entrepreneurs registered in the Czech Republic are obliged to communicate with the Tax Authorities electronically through the so-called data box, which is established to them by default upon respective registration.

Since December 1, 2016, Electronic Evidence of Sales was introduced. The Evidence currently applies to accommodation, restaurant and catering businesses, as well as to the retail and wholesale businesses. Commencing May 1, 2020, also transportation, agriculture, manufacturing and craft businesses as well as freelancers shall be subject to the Evidence. Entrepreneurs conducting business in these fields are obliged to report any cash payments (or payments by similar means) to the special system maintained by the Financial Authorities. In order to comply with this requirement, each respective entrepreneur shall acquire an electronic cash register, which is connected to the system maintained by the Financial Authorities and send information about each cash payment (or payments by similar means) to this system. Adherence to this obligation is subject to random checks.

State aid

Under directly applicable EU law, state aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by this prohibition and do not constitute State aid (examples include general taxation measures or employment legislation).



To be State aid, a measure needs to have these features:

- i. There has been an intervention by the State or through State resources which can take a variety of forms (e.g. grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or providing goods and services on preferential terms, etc.).
- ii. The intervention gives the recipient an advantage on a selective basis, for example to specific companies or industry sectors, or to companies located in specific regions.
- iii. Competition has been or may be distorted
- iv. The intervention is likely to affect trade between member states.

Aid measures can only be implemented after approval by the European Commission. Moreover, the European Commission has the power to recover incompatible State aid.

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

Intellectual property rights

The Czech Republic is a member of the European Union and a party to all main European and international treaties and agreements relating to IP. It has an IP regime that is substantially harmonized with IP regimes in other countries in the European Union.

Levels of protection: Registration to protect inventions, designs and trademarks is possible on the following geographical levels:

- i. National (Czech Industrial Property Office)
- ii. European (European Union Intellectual Property Office and European Patent Office)
- iii. International (through World Intellectual Property Organization)

Copyright protection: Czech copyright law gives protection to works whose authors (or co-authors) are Czech, or whose authors are nationals of any country belonging to the European Economic Area (full assimilation rule). It also protects works published for the first time in the Czech Republic (or simultaneously in the Czech Republic and abroad) or whose author is residing in the Czech Republic. As a party to all major international treaties and agreements, the Czech Republic protects works under the terms of these treaties and agreements. Original works are subject to copyright protection without any additional conditions or limitations. The works that may be subject to copyright protection have to be in some way of scientific or artistic nature as a result of the author's creative activity.

Durations of IP rights: The terms of protection of IP rights (subject to harmonization across the European Union) are:

- i. 70 years from the death of the author in relation to economic copyrights
- ii. 20 years for patents
- iii. 10 years for trademarks (with possible extensions for 10-year periods)
- iv. Five years for industrial designs (with possible extensions for five-year periods for up to 25 years in total)
- v. Four years for utility designs (with extensions for three-year periods for up to 10 years in total)



Data privacy obligations

Similarly as in other EU member states, personal data protection in the Czech Republic is regulated by The General Data Protection Regulation (Regulation (EU) 2016/679) (GDPR). GDPR is a European Union law, which entered into force in 2016 and, following a transition period of two years, became directly applicable law in all member states of the European Union on May 25, 2018.

Compared to the previous legal regulation GDPR substantially increases the maximum amount of fines (up to €20 million or four percent of the total worldwide turnover) that may be imposed by the supervisory authority, the Office for Protection of Personal Data, on data controllers for failing to comply with their duties. GDPR repeals duty of data

controllers to notify each envisaged processing of personal data to the Office for Protection of Personal Data. Instead, data controllers are obliged to keep records of personal data processing that is carried out on their behalf and be able to prove compliance of such processing with GDPR.

Even though GDPR is rather exhaustive, and thus does not leave much space to the member states to adopt their own rules, member states may stipulate certain specifics concerning, for instance the requirements for the designation of a data protection officer, data protection in the context of employment, and data breach notification obligations. The Czech Republic has enacted Act No. 110/2019 Coll., on processing of personal data on 24 April 2019.



Operating





A. Connecting to utilities

Agreements for work usually cover the issue of connecting to the utilities. During the construction, the technical specifics of the connection are discussed directly with the utility suppliers and should be addressed by the respective contractor.

B. Health and Safety

Buildings used for manufacturing projects must meet various hygiene and safety standards. These can differ based on the number of employees or the nature of the activities performed in the building. As a member of the EU, the standards used in the Czech Republic are in the majority of cases compliant with the EU regulations.

Services of technical consultants from an external company are often used by the employer in order to verify that the building meets all the necessary conditions. These matters are so technical, that legal advice is only rarely required. The construction contract should include that the finished project must comply with the hygiene and safety standards.

C. Trade unions

Employees may form or join **trade unions**. In addition, employees may elect (i) **works councils** and/ or (ii) **representatives for the area of occupational health and safety protection**. An employee works council shall have at least three and no more than fifteen members. The total number of representatives for the area of occupational health and safety protection shall depend on the total number of employees employed by the employer and on the risks following from the performed work; however, there may be no more than one such representative per ten employees.

If a trade union or a works council operates at the employer, the employer is obliged to fulfill the information and consultation obligations set forth by the Czech Labor Code regarding various matters of employment (i.e. regarding (i) collective dismissals, (ii) automatic transfers of employees resulting from transfer of the employer's activities to another employer, (iii) the current and planned economic situation of the employer, (iv) the status of employment and planned changes, and (v) important changes in the organization of work) towards such employee representatives bodies. If a trade union or a representative for the area of occupational health and safety operates at the employer, the employer is obliged to fulfill the information and consultation obligations set forth by the Czech Labor Code regarding various matters of occupational health and safety towards such bodies. In the absence of a relevant employee representative body, the employer informs and consults the employees directly.



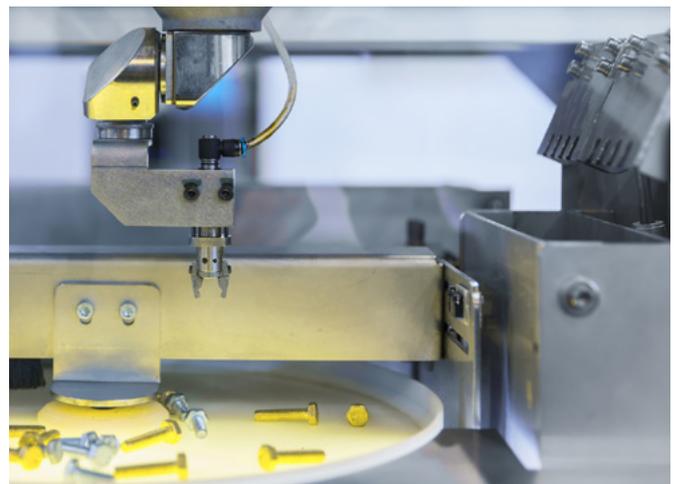
The trade unions are the body with the most extensive set of rights. If trade unions operate at the employer's workplace, the employer must inform and consult such trade unions—in addition to the matters listed above—of any termination of employments by a termination notice given to an employee. Employers are also required to obtain the consent of the trade union when terminating employment relationships with protected trade union representatives or with the issuance or any modification of the employer's working order. Importantly, trade unions are the only employee representative body entitled to negotiate and enter into a collective bargaining agreement with the employer.

D. Industrial risk & insurance

- The insurance companies offer wide selection of insurance products to insure variety of risks, the most common include insurance against natural hazards, insurance against theft and vandalism, hull insurance, general damage liability insurance, directors and officers' liability insurance etc. It is possible to negotiate with the insurers a tailor-made insurance. Depending on the type of business activity of the company, the law may stipulate an obligation to maintain a special insurance, e.g. companies dealing with selected hazardous chemicals or chemical preparations are obliged to acquire a liability insurance for damage caused through major accident.
- Generally, in case of any incident the company should take necessary steps to avoid further damage and lessen the consequences of the incident. As soon as possible the company should contact the insurer and report the insurance event and all details regarding its occurrence and extent, rights of third parties and information on multiple insurance. The company has to submit to the insurer all relevant documents necessary for the investigation of the insurance event.
- The company has to follow the process set out in the insurance policy and insurance terms and conditions. These documents may provide for obligation to notify further information and provide other documents. The company should cooperate with the insurer and follow its instructions and offer any help necessary to investigate the insurance event. If the company breaches its obligations arising out of the insurance policy and insurance terms and conditions, the insurer is entitled to proportionally decrease the insurance benefit, and in some cases the company can be denied the insurance benefit in its entirety.

E. Commercial and insolvency related risks related to suppliers

Risk of immediate close of business: In case any supplier becomes insolvent, which means it has at least two creditors and is unable to pay its debts or is over-indebted, an insolvency proceeding can be initiated by an insolvency petition filed in by the supplier or any of its creditors. In case the insolvency of the supplier is not resolved by means of reorganization, bankruptcy is declared and an insolvency trustee becomes in charge of the business. The insolvency trustee has a right to continue the operations and fulfill existing contracts, however he can decide not to. Then, unless the trustee declares the opposite, almost all mutual contracts with business partners are terminated 30 days after the declaration of bankruptcy. It is therefore advisable not to be dependent on one supplier who cannot be replaced easily.





Registration of claims: Once the insolvency proceeding is commenced, all creditors holding a claim against the debtor have to register it in a prescribed form within two months from the declaration of insolvency. Information about the beginning of the insolvency proceeding including declaration of insolvency and all other important insolvency milestones is public and available online. As Czech creditors are not informed by the court about the beginning of an insolvency proceeding against their debtor, it is advisable to check the insolvency register related to any debtor regularly, because the claims cannot be registered after the two-months period. Known foreign creditors are informed by the court and do not have to adhere to the prescribed form.

Liability for suppliers' Value Added Tax: According to Czech law, a purchaser of goods is liable for VAT payment in case the supplier did not pay it properly and the purchaser knew or should have known that the tax evasion could happen. It is therefore advisable to carry out a proper due diligence of all suppliers.

F. Defending your intellectual property

Remedies for infringement of IP rights:

The measures for the protection of IP rights are provided for in relevant civil (and to certain limited extent also criminal) copyright and industrial property laws. For breach of an IP right, the right holder has a number of remedies. In particular the civil court may order the infringer of IP rights: (1) to refrain from the infringement upon IP rights, (2) to return unjust enrichment, (3) to restore the "state of affairs" prior to the infringement and (4) to compensate damages. General rules of civil procedure apply to the proceedings of claims for redress (which require proof of the kind and monetary amount of the damage). If someone breaches industrial property rights, redress may take the form of payment of an amount corresponding to at least twice the license fee or other suitable remuneration.

You can file a motion in any EU member state to combat counterfeiting in the Czech Republic.

This is because Czech Republic is subject to Regulation (EU) No 608/2013 of the European Parliament and of the Council of June 12, 2013 concerning customs enforcement of intellectual property rights.



G. Regulation compliance

Product safety rules are harmonized within the EU member states. The primary legislative source is the EU General Product Safety Directive 2001/95/EC which applies to all categories of products apart from pharmaceuticals, medical devices and food products. This EU Directive was implemented in the Czech Republic by the Act No. 102/2001, on General Product Safety.

The Czech General Product Safety Act imposes general duty upon producers to market only products that are not dangerous for consumers, which means only those which under common circumstances will not have any adverse effects on consumers' health. A product is deemed safe only on condition that it meets requirements as set forth in applicable EU or Czech technical norms. Furthermore, producers are responsible for ensuring that their products are labelled in compliance with special laws and accompanied by documentation containing information which enables consumers to assess risk associated with the product.

Supervision over product safety rules is carried out by several state agencies, authority of which is determined on the basis of the nature of the product at question. For products, which do not fall under competence of any specialized agency, the Czech Trade Inspection Authority is the competent supervisory body.

H. Competition law investigations

The Czech Office for the Protection of Competition (the Office) as well as the European Commission (the EC) have very extensive investigating powers when investigating suspicions of anticompetitive practices. They have a right to conduct surprise onsite inspections (dawn raids) during which they can search the premises, copy documents, computers, telephones and/or interview people. Both the Office and EC can impose heavy fines for lack of cooperation during the investigation or for providing false or incorrect information amounting up to one percent of a company's worldwide turnover.

It is therefore important that the companies are well prepared so that the employees behave appropriately during an inspection and that the procedures are already in place to handle this situation as best as possible at the arrival of the inspectors, during and at the end of the inspection. In order to prevent anticompetitive practices and to minimize any potential risks, an antitrust compliance program and dawn raid manual shall be in place consisting of training the management and the commercial teams on prohibited behaviors and providing them with guidance for any competition law questions they may have.

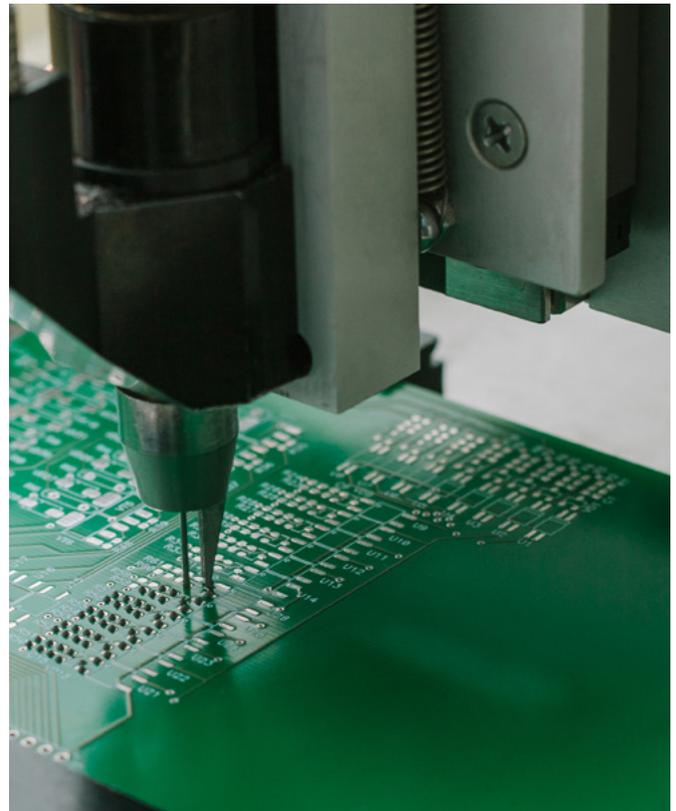
I. Tax investigations

Taxation and tax auditing is handled by district Financial Offices. Apart from these district offices, a Specialized Financial Office is established in order to administer big corporations. Their decisions may be reviewed by an Appellate Financial Directorates and a superior body is a General Financial Directorate.

Tax authorities may at any time and without a previous notice conduct a tax audit, during which they will inspect the respective accounting and books and may reassess respective tax liabilities of the audited entity for up to three years following the date on which the respective tax liability was due. In order to commence the tax audit, the respective Tax Authority has to deliver a decision to the audited entity, that the audit was commenced. Since this point, the abovementioned period is automatically extended for an additional three years. This deadline is again extended for an additional one year in case the respective Tax Authority delivers its decision concluding the tax audit to the audited entity, or an Appellate Tax Authority delivers its decision to the audited entity.

The maximum period for which the tax can be reassessed, however cannot exceed 10 years since the date when the reassessed tax return was due.

During the process of a tax audit, the Tax Authority generally reviews the respective accounting of the audited entity and investigates the underlining documentation. The Tax Authority may also interrogate relevant employees or management of the audited entity. It is also not uncommon that the Tax Authority will request a certain level of cooperation from the audited entity, which may include provision of additional documents and explanations and provision of official statements from the audited entity to certain issues or discrepancies.



Once the investigation phase is over, the Tax Authority shall communicate its findings to the audited entity and provide it with a reasonable time to react to these findings and potentially submit additional evidence in its favor. The Tax Authority will then either change its position, or sustain its position. In both cases, the Tax Authority will draft a Final Report in which its findings will be summarized. This report will be then negotiated with the audited entity and in case the tax liability will be reassessed by the Tax Authority, this report will function as an underlining document for the issuance of the Payment Orders for the reassessed tax liability.

During the whole process of tax audit, the audited entity may be represented by its tax adviser and/or attorney. The audited entity may also challenge the Payment Orders at the Appellate Financial Directorate. In case of negative decision, the audited entity may also challenge the decision of the Appellate Financial Directorate at the administrative courts and eventually at the Supreme Administrative Court. This process may generally take up to six years, until the final decision is rendered by the Supreme Administrative Court, subject to a number of procedural remedies used by the parties.

In case the Tax Authority reassesses a tax liability of an audited entity and issues Payment Orders, there are certain options how payment of the tax liability may be postponed. These options are usually based on economic criteria, and they also usually involve some sort of security for the Tax Authority, so the tax liability will be paid in the future. If the obligation to pay tax liability is postponed, please note that this will not relieve the audited entity from paying default interest during this period. However, the rate will be in such case reduced by 50 percent.

Please note that in case the Tax Authority comes to the conclusion that the payment of the reassessed tax liability in the future may be threatened, it has powerful instruments which can be used in order to secure the assets of the audited entity. These so-called freezing orders may be issued by the Tax Authority anytime during the tax audit and may target almost any assets of the audited entity (usually the most liquid ones). The use of these can significantly damage a cash flow of the audited entity and eventually lead to its liquidation in a very short time.

Recently, Czech Tax Authorities started to focus significantly on the investigation of potential Value Added Tax frauds. In order to be on the safe side, in case of buying assets that are subject to Czech Value Added Tax, it is advisable to complete reasonable due diligence of the seller before the transaction is concluded. Czech laws contain quite rigid anti-fraud provisions that often shift the Value Added Tax-related risk to the purchaser, especially if the seller does not properly perform its Value Added Tax obligations. Even a bona fide purchaser may end up paying the Value Added Tax twice or losing the right for a Value Added Tax credit.

Below is the list of the key penalties and default interest rates which may be incurred as a result of the tax audit. Please note that the taxpayer may request the Tax Authority to pardon certain portions of these, however there is no legal claim for this.

Penalty for filing the tax return after statutory deadline:	0.05 percent of actual tax liability for each day up to 5 percent of actual tax liability not exceeding CZK 300,000.
Penalty in case the taxpayer's tax liability is increased, or its tax deduction is reduced as a result of the tax audit:	20 percent of the amount for which the liability is increased or the deduction reduced.
Penalty in case the taxpayer's tax losses are reduced as a result of the tax audit:	1 percent of the amount for which the losses are reduced.
Default interest rate for late payment of tax liability:	Current repo rate (now 1 percent) issued by the Czech National Bank increased by 14 percent. May be assessed for a maximum of five years.
Penalty for noncompliance with registration and notification obligations:	Up to CZK 500,000.
Penalty for noncompliance with obligations to file certain submissions electronically:	CZK 2,000 and may be increased up to CZK 50,000 in case of serious cases.

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

A corporate compliance program is generally defined as a formal program specifying an organization's policies, procedures and actions within a process to help prevent and detect violations of laws and regulations. There is both an ethical component and a pragmatic component to compliance, a role that is crucial in helping organizations manage risk, maintain a positive reputation and avoid lawsuits. Furthermore, solid compliance programs may exempt an accused company from criminal liability.

Anti-bribery: Companies should establish simple programs prohibiting all forms of bribery and sufficient controls to detect efforts to violate that prohibition. To be viewed favorably by the law enforcement authorities, anti-bribery compliance program must clearly prohibit bribery in all its forms, warn of criminal sanctions applicable to individuals, and impose clear employment sanctions for violation of such policy. In order to mitigate risk of a potential criminal liability, it is also necessary to conduct controls, audits and enforce anti-bribery compliance from the top leadership.

Anti-money laundering: AML internal controls include those policies, procedures and processes designed to mitigate the risks of money laundering and support compliance with AML regulations (i.e. the Fourth Money Laundering Directive ((EU) 2015/849 and the Act No. 253/2008 Coll. on Selected Measures against Legitimation of Proceeds of Crime and Financing of Terrorism).

In practice, an AML compliance program should ensure that a company is able to detect suspicious activities associated with money laundering, including tax evasion, fraud and terrorist financing, and report them to the appropriate authorities.

Whistleblowing: Each company shall introduce whistleblowing rules. In order to have whistleblowing effectively managed, these basic rules shall be in place.

- i. Employees must be informed of appropriate steps to take in communicating their ethical concerns internally.
- ii. Employees must be ensured that their concerns will be taken seriously and, if the need be, also investigated.
- iii. Employees must not fear of personal reprisals (e.g. salary reduction, transfer to a worse position) for reporting wrongdoing.

Investigation at the plant: Investigations initiated by whichever authority (e.g. police, competition authority, etc.) usually start early in the morning. Upon arrival of the officials at the company's plant, the internal legal department should immediately get in touch with external lawyers and ask the officials to wait until external lawyers arrive. In the meantime, it is advisable to check authorization to carry out investigation.

All employees should be informed about ongoing inspection at the plant and be advised to behave in a cooperative manner towards officials during an investigation. Under no circumstances, should they shred documents or breach seals. Make sure that the officials are always accompanied by an external lawyer or if not possible by a staff member. Always keep records of all documents copied by inspectors.





Acquiring and selling a plant (buy side & sell side key check points)



A. Share deals & Asset deals

The following paragraphs address the differences between a share deal and an asset deal from a corporate standpoint. Please also bear in mind that tax aspects shall be considered when choosing between a share or asset deal.

Share deal

The share deal is usually carried out as an acquisition of shares in a limited liability company or a joint stock company.

In real estate deals, the acquisition of shares is preferred due to tax reasons, as direct transfers of real estate are subject to real estate transfer tax.

The disadvantage of share deals is that the investor acquires not only the relevant assets, but all the company's liabilities as well.

Asset deal

The asset deal can be structured either as a transfer of a going concern or a transfer of particular individual assets.

It is possible to transfer the company's entire body of assets and any and all rights and obligations pertaining to the assets, including contracts, real estate, IT licenses and IP rights, by a single written agreement.

The transferred assets must form a business enterprise, i.e., an organized set of assets and liabilities created for the purposes of conducting business activities. However, it is possible to contractually exclude an individual item from the purchase provided that the whole does not lose its nature as an enterprise. It is also possible to transfer only a part of the business enterprise provided that such part forms an independent organizational unit.

The agreement, on the basis of which the business is transferred, must be filed with the Collection of Deeds maintained by the Czech Commercial Register, and is made public.

B. Real Estate

Due diligence is vital:

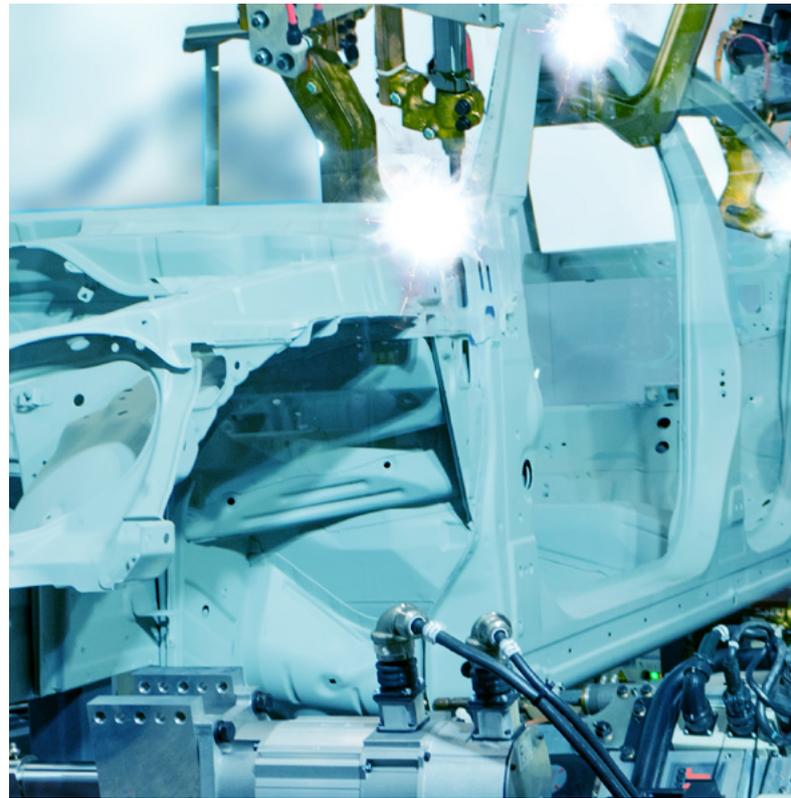
Before buying real estate, it is important to do a due diligence of the title to the real estate, the zoning and other permits. Beyond that, a technical survey on the site conducted by qualified professionals is always recommended. It could indicate the existence of unrecorded encumbrance, such as the above and of below-ground utility lines, pipes, drains etc.

Before buying real estate for development, check:

- The Cadastre of Real Estate for the registration of the real estate and encumbrances on it
- The agreement under which your seller or SPV bought (or otherwise acquired) the real estate
- The actual easements, mortgages and other encumbrances on the real estate (discovered by the cadastre check)
- If any of the real estate is designated for the required purposes in the master plan
- If acquiring an SPV, liabilities of the SPV
- If anyone holds pre-emption rights or other rights over the real estate
- If there are restitution claims involving the real estate
- Existing permits and approvals
- There is secured access to the building
- Potential presence of (historic) contamination on the site

Public entities must sell real estate by tender:

Usually, a public entity (e.g. a municipality, the State Treasury) must sell real estate by tender. There are certain exceptions that apply, but exceptions must be checked carefully. If a tender is required, any sale without a tender can be invalid.



C. Third party suretyship on the plant

Third party rights to the Real Estate may imply anything from easements, usufructuary leases, pre-emption rights, pledges or mortgage. The specific risk may vary with different types of deals (e.g. if you are buying an enterprise, you should check whether there is a pledge over the enterprise or if it is subject to a usufructuary lease. On the other hand, if you are buying a plot of land to develop, you should check the Cadastre for mortgages, easement etc.).

Statutory pre-emption rights

Pre-emption right of joint owners: As of January 1, 2018, the pre-emption right of joint owners was re-introduced to any transfer of real estate that is in joint ownership. It applies to all types of joint ownership unless agreed otherwise between the joint owners. The pre-emption right does not apply to the transfers of real estate between close persons.

Pre-emption right encumbering the land in favour of the building located on it and vice versa: The Civil Code returned to the principle which states that the buildings and other structures closely connected to the land are not separate things, but form part of the land (known as *superficies solo cedit*). However, there are still many cases in which the owners (of the land and of the building located on the land)



are different. The pre-emption right applies in these cases encumbering the land in favour of the building located on it and vice versa.

Mortgage

Mortgage over real estate registered in the Cadastre arises with the registration of mortgage. If the real estate is not registered, the mortgage agreement has to be executed in the form of notarial deed and the mortgage is registered with the Register of Pledges maintained by the Notarial Chamber.

Pledge over enterprise

The pledge over enterprises arise with its registration in the Register of Pledges maintained by the Notarial Chamber. The agreement must be in the form of notarial deed. Unlike the Cadastre of Real Estate, the Register of Pledges is not publicly accessible. To find out whether there is an existing pledge over enterprise, an application to the notary must be submitted.

D. Employment & Trade Unions

Share deal

Employees, workers councils or trade unions are not involved in case the employer is subject to acquisition through a share deal. The employer is not obligated to inform about or discuss the deal with the employees or their representatives.

Asset deal:

In case of an asset deal comprising a transfer of activities, the rights and obligations arising from the employment of employees that belong to the transferred business (i.e. exclusively or predominantly perform the transferred activities) will automatically transfer to the new owner of the business. The employer is obliged to inform and consult the trade union or the works council on the planned asset deal (transfer of activities) that will result in automatic transfer of employees (their rights and obligations arising from the employment). In case no works council or trade union operates at the employer, the employer shall merely discuss the employees directly affected by the transfer. The information and potential consultation obligation must be fulfilled no later than 30 days prior to the effective date of the transfer of business.

E. Specifics for distressed assets

Acquisition of manufacturing plant in insolvency proceedings – in principle, assets can be acquired in insolvency proceedings of a debtor in one the following ways:

Investment in reorganization.

Investors can acquire assets in reorganization by providing funds to creditors under conditions agreed in a reorganization plan.

Reorganization is a solution of insolvency of a debtor which allows the debtor to continue its business. Reorganization is possible only where the debtor had revenues of at least CZK 50 million or at least 50 employees in the fiscal year preceding commencement of insolvency proceedings. Reorganization is the preferred solution of insolvency over liquidation bankruptcy proceedings (see below).

During reorganization, the debtor remains in control of its business operations and prepares a reorganization plan which specifies recovery of creditors' claims. A reorganization plan can also be filed at the very beginning of insolvency proceedings together with the insolvency petition ("pre-packaged insolvency") allowing for quick resolution of insolvency proceedings. In such a case, the plan already has to be accepted by more than 50 percent of both secured and unsecured creditors when filed. In pre-packaged insolvency, the criteria related to revenues/employees specified above do not have to be met.

The reorganization plan can be structured in a way that provides for continued business operations (e.g. restructuring of business with funds provided by an investor) or could specify conditions of sale of assets or the whole business enterprise to a potential investor. Creditors vote for adoption of the plan, and

the insolvency court then approves the plan by its resolution (the reorganization plan can be approved even if minority of creditors disagrees).

Reorganization is completed after implementation of the reorganization plan and pre-insolvency claims are cleared.

Acquisition of selected assets or entire (or a part of) business in liquidation bankruptcy.

Assets can also be acquired directly in liquidation bankruptcy (as opposed to reorganization) where, in principle, the debtor ceases its business operations, and the insolvency trustee sells all of its assets. Where possible, the trustee can also sell the debtor's assets in a form of business enterprise (or its part(s)), in such a case, the continued business (going concern) character is retained and employees transfer with the business.

Sale of assets in liquidation bankruptcy is done either in private sale process or in public auction.

In case of public auction, the result of the auction can be contested within three months after it is held.

In case of the private sale process, the trustee, with the approval of creditors' committee (a committee of key creditors) and the insolvency court, specifies exact terms of the sale process (tender). Agreement on sale of assets in private sale process can be challenged by a motion filed with the insolvency court within three months after publication of the agreement in insolvency register, this limitation does not apply if the investor did not act in "good faith".

- Key information about insolvency proceedings and ongoing sales can be found online in the insolvency register.

F. Merger control

In the Czech Republic the merger filing with the Office is mandatory if (i) the transaction qualifies as a concentration of previously independent undertakings and (ii) any of the below turnover thresholds are met.

A transaction must be notified where:

The combined net aggregate turnover in the Czech Republic of all undertakings concerned exceeded in the last accounting period CZK 1.5 billion (approx. €58.6 million); and at the same time

- At least two of the undertakings concerned each has a net aggregate turnover in the Czech Republic that has exceeded CZK 250 million (approx. €9.8 million) in the last accounting period;

OR

- The net aggregate turnover in the Czech Republic in the last accounting period
 - i. of at least one undertaking being a party to the merger; or
 - ii. of an undertaking or its part over which a direct or indirect control is being acquired; or
 - iii. of at least one undertaking establishing a joint venture with other independent undertaking.
- Exceeded in the last accounting period CZK 1.5 billion (approx. €58.6 million); and at the same time
- The worldwide net aggregate turnover of any other undertaking concerned exceeded in the last accounting period CZK 1.5 billion (approx. €58.6 million).



Generally, until the Office has cleared a concentration and a clearance decision becomes unappealable, an acquiring company may not put into effect its control over the target. The Office has repeatedly stated that there is a difference between an acquisition and an implementation of control. In this regard, a mere transfer of shares without the exercise of voting rights should not generally be regarded as a breach of a suspension duty, although the non-exercise of voting rights may lead to an implementation of control.

G. Tax risks

Risks

Different ways of buying a business have different tax consequences. If existing business is acquired or sold, following options shall be considered: (1) buying shares; (2) buying an enterprise (buying a business as a going concern, including all assets and liabilities); or (3) buying assets only. Each has different tax effects that require careful consideration.

In case of buying real estate, its tax status shall be considered because this may have an impact on the Value Added Tax treatment and may affect the timing of the transaction. Also it shall be noted that every transfer of real estate is subject to a four percent real estate acquisition tax unlike transfer of shares of companies owning real estate. Mergers, demergers, share exchanges and contributions of an enterprise are also exempt from corporate income tax, subject to certain conditions.

Careful attention shall be given to the correct delimitation of the business or assets that are subject to the transaction. The Value Added Tax treatment of the sale of assets and the sale of a business are different and tax authorities can sometimes re-classify an already completed transaction, imposing an unexpected tax liability. The change of ownership may sometimes also disqualify the utilization of tax losses from the past.

In case of acquisition of already existing legal entity, there is a risk of potential overdue tax liabilities or accounting failures which may eventually lead to tax audit and reassessment of tax liabilities.

Recommendations

A number of legitimate investment structures that are tax efficient can be used, such as using an EU-based intermediate holding company, tax-advantageous "basic" investment fund, tax-transparent partnerships, and others. Domestic and EU-based investment funds that meet certain criteria and qualify as "basic" investment funds (e.g., exchange-traded funds, or mutual unit funds) pay Corporate Income Tax at a reduced rate of five percent.

Due consideration shall be also given to relevant tax treaties. If properly placed in corporate structure, Czech subsidiary may incur little or no withholding tax when repatriating profits, interests and other payments.

Tax holidays of up to 10 years are available for companies (including Czech subsidiaries of foreign investors) that implement sizable investment programs and meet certain other conditions.

Proper tax due diligence shall be conducted before acquisition of already existing legal entity, in order to discover potential tax red flags.

Statute of limitation

Generally, the subjective statute of limitation for reassessment of tax liabilities is three years from the moment when deadline for filing relevant tax return lapsed or when the tax liability became due. However, since this subjective statute of limitation can be prolonged, or its lapse paused by certain events, there is also an objective statute of limitation of 10 years.

The statute of limitation for payment of already assessed or reassessed tax liabilities is six years. Since this period may be also paused or prolonged by certain events, the maximum statute of limitations is 20 years.



H. Intellectual Property & Technology acquisition

Request a list of all of the following types of IP assets owned or used by the target.

You should pay attention especially to:

- Patents, patent applications and patent-type filings (inventions)
- Trademarks
- Internet domain names
- Copyrights
- Trade secrets and proprietary know-how, technology or processes

Things to watch out for

- **Employment contracts do not generally give you derivative rights to IP created by your employees:** Under employment contracts you as employer acquire economic copyrights in works created by your employees in course of their employment. The same principle also applies to rights to obtain a patent, utility and industrial design in relation to works, inventions and designs.
- However, you do not obtain derivative rights and personal copyrights to works created by your employees. These rights are generally necessary to make changes to copyrighted works and to dispose and use the works derived from their original work. The law allows you to exercise these rights only while actively exercising the economic copyrights,

unless you stipulate otherwise in a contract with your employee. Also, if the employer does exercise economic copyrights, the author (employee) may demand to be granted a licence to the work.

- **Make sure you get ownership title to the 'carrier' of copyrighted works:** Generally, the transfer of economic copyrights to work does not automatically transfer the ownership title to the medium (carrier). This needs to be provided for in the separate transfer agreement.
- **Architectural work:** The architectural work can newly be used for the purposes of maintenance work or reconstruction of the finished building to the extent strictly necessary while maintaining the value of the work, both as expressed by the construction, architectural drawings and/or plans.
- **Be careful about logos:** Transfer of the protection right to a trademark does not automatically transfer the copyrights to the logotype registered as a trademark. This needs to be transferred separately.
- **Be careful about sublicenses:** The licence agreement must expressly state the right to sublicense IP rights.

Closing down

– Moving away
manufacturing from
Czech Republic



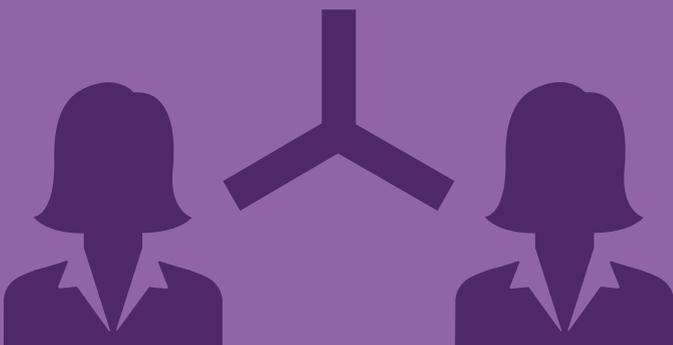


When moving away from manufacturing, the shareholders either may consider selling the whole company or its business to another entity as a whole or may decide to liquidate the company. The process of liquidation entails selling off individual assets of the company and paying off the liabilities of the company.

The process of liquidation includes in particular:

- Decision of the general meeting (sole shareholder as the case may be) of the company on its dissolution and appointment of liquidator
- Preparation of (i) closing financial statements as of the date immediately preceding the date of the entry into liquidation, (ii) an opening balance sheet as of the date of entry into liquidation and (iii) a list of the company's assets and liabilities
- Registration of information about the liquidation and the liquidator in the Commercial Register
- Notification of the liquidation in the Commercial Bulletin to unknown creditors of the company (which notification must be published at least on two separate occasions with at least two weeks apart) to register their claims with the liquidator within three months from the day of the second notification
- Settlement of all company's liabilities and receivables, disposition of all company's assets and termination of all agreements to which the company is a party
- Issuance of the final report on liquidation summarizing the course of the liquidation and including the proposal for the distribution of liquidation proceeds (if any)
- Approving of the final report on liquidation and the proposal for distribution of the liquidation proceeds (if any) by the general meeting (sole shareholder as the case may be)
- Distribution of the liquidation proceeds by which the liquidation is considered complete
- Deletion of the company from the Commercial Register as a result of which the company legally ceases to exist

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