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CEE GUIDE

ECOVIS®

A PRACTICAL GUIDE FOR INVESTORS AND ENTREPRENEURS

in cross-border transactions across Central and Eastern Europe

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4. Employment and Labour law

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Introduction

Mergers and acquisitions are not a stand-alone strategy, they are a key instrument for executing a company's broader agenda and creating long-term value. Delivering a successful transaction requires more than accurate documentation – it requires comprehensive transaction services supported by business insight, sector expertise and a strong understanding of local markets. This is where Ecovis adds value: international experience rooted in Europe, combined with robust local teams across Central and Eastern Europe.

Through the cooperation and commitment of Ecovis members in the CEE region, we have developed a regional platform for entrepreneurs and investors seeking a reliable partner for transactions in these markets. As part of Ecovis International – a leading global consulting firm originating in Continental Europe – we link cross-border capabilities with on-the-ground knowledge in each jurisdiction.

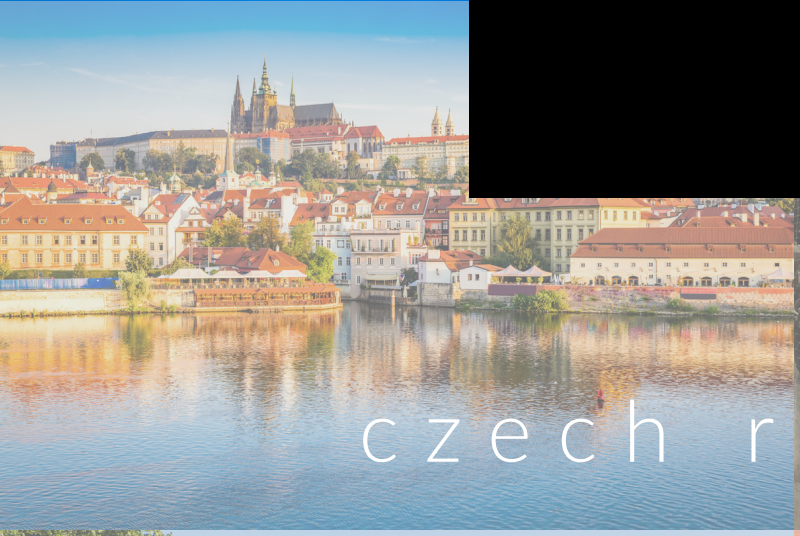
CEE Guide 2026 – "*Every Move Counts*" reflects our core belief that in transactions, market entry and everyday compliance there are no neutral decisions: each step can either reinforce or weaken the process.

The idea "Every Move Counts" was inspired by the Rubik's Cube. Just like solving the cube, every transaction requires precision, balance and awareness of how one move influences the whole structure.





poland





czech republic





slovakia





croatia

Poland

Forms of Employment

Polish law provides several employment models, offering different levels of flexibility and employee protection.

Indefinite-term employment contracts are the standard and most stable form of employment. They have no specified end date and provide the full range of statutory rights, including paid annual leave, sick-pay protection, regulated working time and protection against unjustified termination.

Fixed-term employment contracts are concluded for a defined period and generally end on the agreed date. As a rule, their total duration between the same parties may not exceed 33 months, and no more than three such contracts may be concluded, subject to statutory exceptions. Exceeding these limits generally converts the relationship into indefinite-term employment.

Probationary employment contracts are used to assess an employee's qualifications and suitability before longer-term employment. Their duration depends on the anticipated subsequent employment period and may generally be agreed for up to three months.

Civil-law contracts are used where the relationship does not have the features of regular employment. A contract of mandate covers specified activities or services, while a contract for a specific work concerns an individually defined result. These contracts are governed mainly by the Civil Code and generally provide fewer statutory protections.

The contract's title does not determine the legal nature of the relationship. Where work is performed personally, continuously, under the company's direction and at a designated place and time, the arrangement may be reclassified as employment.

Temporary agency work allows businesses to obtain personnel through a licensed agency. The agency remains the formal employer, while the employee works under the supervision of the user undertaking. This model is commonly used for seasonal, short-term or ad hoc work, replacing absent employees or meeting temporary staffing needs, and is subject to statutory limits.

Less common bases for employment include appointment, election, nomination and cooperative employment contracts, generally used for specific roles, public-sector positions or particular organisational structures.

For investors, distinguishing employment contracts from civil-law arrangements is important during due diligence. Incorrect classification may lead to claims for employee benefits, social-security contributions, tax arrears, overtime payments or paid leave.

Termination of Employment and Collective Redundancies

Polish law provides several methods of terminating employment. The employer's obligations depend on the type of contract, reason for termination, employee's length of service and scale of workforce reduction.

Employment may end by mutual agreement, allowing the parties to determine the termination date and conditions without observing a statutory notice period. Termination with notice is based on a unilateral declaration. For fixed-term and indefinite-term contracts, notice periods are generally two weeks for service below six months, one month for service of at least six months and three months for service of at least three years.

An employer's notice should be made in writing. For indefinite-term contracts, it must state a genuine, specific and justified reason. Employees may challenge termination before a labour court and seek reinstatement or compensation. Termination without notice is allowed only in statutory cases, including serious misconduct, specified criminal offences, loss of required qualifications or prolonged incapacity for work.

Special protection applies to certain groups, including pregnant employees, employees on parental leave, pre-retirement employees and selected employee representatives.

Collective redundancy rules apply to employers with at least 20 employees where statutory thresholds are reached within 30 days. The employer must consult employee representatives, establish selection criteria and notify the labour office. Eligible employees may receive severance pay of one to three months' remuneration, capped at 15 times the minimum wage.

For investors, due diligence should cover notice periods, protected employees, collective arrangements, severance liabilities and dispute risks.

Employee Representation

Polish employees may be represented by trade unions, works councils or employee representatives elected for a specific purpose. The applicable form of representation depends on the size of the workforce, the presence of trade unions and the type of matter under consideration.

Employers may be required to provide information, conduct consultations or obtain the position of employee representatives in matters such as collective

redundancies, transfers of undertakings, changes to employment conditions and significant organisational or workforce restructuring. Trade unions may also participate in individual termination procedures and in negotiations concerning collective agreements, remuneration rules and internal employment regulations.

In M&A transactions, employee representation arrangements should be reviewed at an early stage. Due diligence should identify existing trade unions and works councils, applicable collective agreements and any information or consultation obligations triggered by the transaction or planned post-closing measures. Failure to comply with these requirements may delay implementation, create employee claims and increase the risk of disputes or administrative sanctions.

Non-Competition and Confidentiality Clauses

Polish employment law allows employers to protect confidential information, business relationships and commercially sensitive know-how through confidentiality obligations and non-competition agreements. Their scope should be clearly defined and proportionate to the employee's role, responsibilities and access to sensitive information.

Confidentiality obligations may arise from employment regulations, internal policies or contractual provisions. They typically cover trade secrets, client and supplier data, pricing policies, technical documentation and business plans. Such obligations may continue after employment ends, provided that the protected information and the employee's duties are sufficiently specific.
A non-compete during employment may prevent an employee from carrying out competing activities independently or for another entity. It must be agreed in writing and clearly define the prohibited activities. Separate compensation is generally not required.

A post-employment non-compete may be concluded only with employees who have access to particularly important information. It must specify the duration, scope and, where appropriate, territorial reach of the restriction. The employee is entitled to compensation of at least 25% of the remuneration received before employment ended, calculated for the corresponding restriction period.
Restrictions that are excessively broad, unclear or disproportionate may be difficult to enforce. For investors, due diligence should verify agreements covering key managers and employees with access to strategic information, including their validity, compensation obligations and enforceability following a change of control.

Employee incentives (ESOP)

Share, option and phantom-share plans are used to retain key employees and align management with investors. Tax treatment depends on the instrument, issuer, documentation and timing of acquisition, vesting and disposal. Qualifying share plans may defer personal income tax until sale; other structures may trigger tax and social-security charges earlier. Transaction documents should address vesting, leaver rules, acceleration and settlement after a change of control.

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poland







czech
republic



slovakia





croatia



Czech Republic

Forms of Employment

In the Czech Republic, indefinite-term employment remains the standard and most common form of employment. Fixed-term contracts offer employers greater flexibility but are subject to clear statutory limits. As a general rule, a fixed-term contract may be concluded for a maximum of three years and renewed or extended no more than twice between the same employer and employee. In practice, this allows fixed-term employment to continue for up to nine years, although specific statutory exceptions apply, including in certain cases involving temporary replacement of employees on family-related leave. Arrangements that do not comply with these requirements may be treated as indefinite-term employment.

Employment contracts must be concluded in writing and must specify three essential elements: the type of work, the place of work and the commencement date. Employers may also agree on a probationary period in writing. This may generally last up to four months, or up to eight months for managerial employees, while in the case of fixed-term employment it may not exceed half of the agreed contractual term.

Alongside standard employment contracts, Czech labour law provides for two more flexible forms of engagement. An agreement to complete a job is typically used for occasional or project-based work and is generally limited to 300 hours per calendar year with the same employer. An agreement to perform work provides greater continuity but limits the employee's workload to an average of no more than half of standard weekly working hours.

Temporary agency work is also widely available and must be provided through a licensed employment agency. The agency remains the employee's formal employer, while the user undertaking is responsible for organising and supervising the employee's day-to-day work. Importantly, agency workers must benefit from working and remuneration conditions comparable to those applicable to employees performing equivalent roles at the user undertaking.

From an M&A and due diligence perspective, employment structures should therefore be reviewed not only in terms of headcount and employment costs, but also for compliance with fixed-term restrictions, the correct classification of flexible arrangements and the use of temporary agency workers. Any irregularities may give rise to additional employment liabilities or require post-closing adjustments.

Termination of Employment and Collective Redundancies

Employment may end by agreement, notice, immediate termination, termination during probation or expiry of a fixed term. An employee may generally resign without stating a reason, while an employer may give notice only on statutory grounds, including organisational changes, redundancy, health-related reasons, failure to meet job requirements or employee misconduct.

The standard notice period is at least two months and begins on the date the notice is delivered. In certain performance- or conduct-related cases, the minimum period is one month. Termination must be made in writing. Immediate termination is reserved for exceptional circumstances, such as a particularly serious breach of duties or specified criminal conduct.

Employees dismissed for organisational reasons are generally entitled to severance of at least one to three times their average monthly earnings, depending on length of service. Higher entitlements may apply in specific health-related cases.

Collective redundancy rules require advance information and consultation with trade unions or the works council, together with notification to the Labour Office. Employment generally cannot end earlier than 30 days after the required report is delivered. For investors, due diligence should identify protected employees, termination exposure, consultation obligations and restructuring costs.

Employee Representation

Employees may be represented by trade unions, a works council or occupational health and safety representatives, depending on the structure of the workforce and the arrangements in place within a particular organisation. These bodies provide employees with formal channels of representation and play an important role in communication and consultation between the workforce and the employer.

A works council may consist of between three and fifteen members and is elected for a three-year term. Its role is primarily focused on access to information and consultation on matters that may have a material impact on employees. Employers are required to provide relevant information and, where applicable, consult employee representatives on issues including economic developments, current and anticipated employment levels, planned organisational measures and changes affecting the workforce.

Information and consultation obligations may also arise in connection with transfers of undertakings and collective redundancies. In such situations, the timing and scope of the consultation process may become

particularly important, especially where significant organisational changes or workforce adjustments are planned.
From an M&A perspective, employee representation should therefore be reviewed at an early stage of the transaction. Due diligence should identify existing trade unions, works councils and other representative bodies, as well as any collective agreements and consultation procedures that may apply. Particular attention should be paid to statutory and contractual consultation timetables, especially where the transaction may be followed by restructuring, integration or changes in employment conditions.
Failure to comply with applicable information and consultation requirements may create additional legal and operational risks. It may also affect the timing of planned restructuring measures and increase the likelihood of employee disputes. For investors, early identification of these obligations is therefore an important element of both transaction planning and post-closing integration.

Non-Competition and Confidentiality Clauses

Czech employers may protect trade secrets, customer relationships, technical information and commercially sensitive know-how through confidentiality obligations and non-competition clauses. Confidentiality duties may arise from employment contracts, internal policies and statutory obligations and may continue after employment where the information remains protected.
However, confidentiality obligations may not extend to an employee's own pay. Employers are prohibited from restricting employees from disclosing or discussing the amount or structure of their wage, salary, or remuneration under agreements for work performed outside an employment relationship. Any contractual clause imposing such confidentiality is void as contrary to law, regardless of how it is framed or what legitimate purpose it is said to serve, and a breach of the prohibition may expose the employer to a fine of up to CZK 400,000.
During employment, employees must not conduct competing activities that overlap with the employer's business without prior written consent. Post-employment non-compete clauses must be agreed in writing and may apply only where this restriction is justified by the employee's access to information, knowledge or procedures capable of seriously affecting the employer's business.
A post-employment restriction may last no longer than one year. For each month of compliance, the employer must pay compensation of at least 50% of the employee's average monthly earnings. The agreement may include a contractual penalty for breach, provided it remains proportionate.

From a transaction perspective, due diligence should verify whether key managers and commercial or technical employees are covered by valid restrictions and whether compensation, duration, scope and termination mechanisms are properly documented, and whether existing confidentiality or non-disclosure documentation has been updated to remove any pay-confidentiality wording, which is void and carries regulatory exposure if retained.

Employee Incentives (ESOP)

CCzech companies use share awards, options, virtual shares and cash-based incentive plans to retain key employees and align management with investors. Qualifying employee share and option plans may benefit from deferred taxation, subject to statutory conditions, employer reporting and specified taxation events. The maximum deferral period is 15 years.
Plans should address vesting, performance targets, leaver provisions, exercise terms, dilution and change-of-control treatment. In M&A transactions, buyers should assess tax and social-security exposure, reporting compliance and the cost of accelerating or settling awards.

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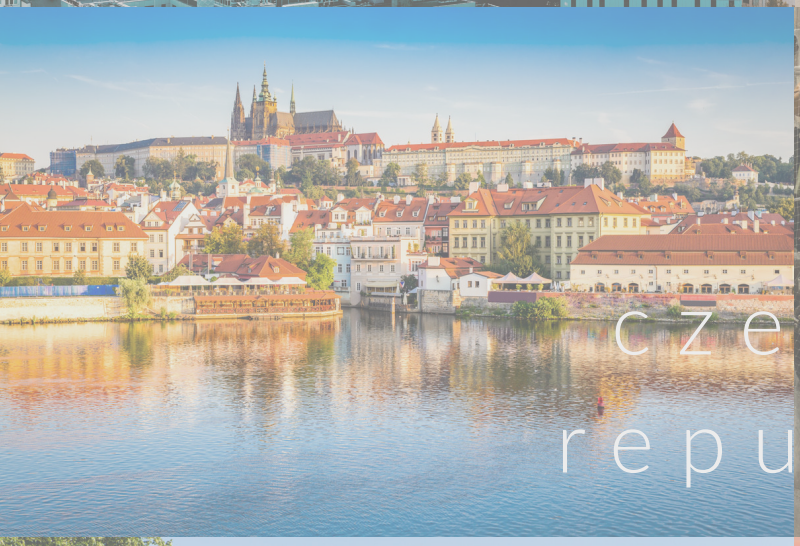


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poland





czech republic





slovakia





croatia



Slovakia

Forms of Employment

Slovak law treats employment for an indefinite term as the standard form of employment. Fixed-term employment must be agreed in writing and may generally last no longer than two years. Within that period, it may be extended or renewed no more than twice, subject to statutory exceptions, including temporary replacement, seasonal work and short-term staffing increases. Failure to comply with these requirements may result in the relationship being treated as indefinite-term employment.

Employment contracts must be concluded in writing and specify the type of work and its brief description, the place or places of work, commencement date and wage terms. A probationary period must also be agreed in writing and may generally last up to three months, or up to six months for certain senior managers. In fixed-term employment, it may not exceed half of the agreed term. Businesses may also use agreements for work performed outside an employment relationship. These include agreements to complete a specific task, generally limited to 350 hours per calendar year, agreements on work activity and student work agreements. Although more flexible, they remain regulated by the Labour Code and are subject to working-time and formal requirements.

Temporary assignments may be arranged by an employer or through an authorised temporary employment agency. The assigning employer or agency remains the legal employer, while the user undertaking assigns tasks and organises, directs and supervises the employee´s work. Due diligence should examine fixed-term limits, non-standard arrangements, agency compliance and the risk of misclassification.

Termination of Employment and Collective Redundancies

Employment may end by mutual agreement, notice, immediate termination, termination during probation or expiry of a fixed term. Employer-initiated notice must be in writing, delivered to the employee and based on a statutory reason, such as organisational changes, redundancy, health-related incapacity, failure to meet job requirements or employee misconduct.

The minimum notice period is generally one month. It increases to two months where employment has lasted at least one year and, for certain organisational or health-related dismissals, to three months after at least five years of service.

An employer may terminate employment with immediate effect only in exceptional statutory circumstances, including a final and binding conviction for an intentional criminal offence or a serious breach of work discipline. Employees may also benefit from protected periods during which dismissal is restricted, such as during pregnancy, maternity leave or parental leave.

Collective redundancy rules apply where dismissals for reasons unrelated to employees reach statutory thresholds within 30 days: at least 10 employees in businesses with 21–99 employees, 10% of employees at businesses with 100–299 employees, or 30 employees in businesses with at least 300 employees. Consultation with employee representatives, or directly with the affected employees if no representatives operate, must take place at least one month before the collective redundancies commence, and the relevant labour authorities must receive the statutory notifications. Severance depends on the termination method, reason and length of service.

For investors, due diligence should assess protected employees, notice and severance exposure, consultation requirements and post-closing restructuring costs.

Employee Representation

Employees may be represented by trade unions, a works council or an employee trustee. A works council may operate at employers with at least 50 employees, while employers with 3 to 49 employees may have an employee trustee. Employee representatives have information, consultation and, in certain matters, co-determination rights covering employment conditions, organisational changes, business transfers and collective redundancies. In M&A transactions, these bodies and applicable collective agreements should be identified early, as consultation duties may affect the transaction timetable.

Non-Competition and Confidentiality Clauses

Slovak employers may protect trade secrets, customer relationships and sensitive know-how through confidentiality obligations and non-competition arrangements. Employees are generally required to protect information obtained in connection with their work where disclosure could damage the employer. Contractual provisions should clearly define the protected information and may continue after employment where justified.

During employment, an employee may perform competing activities only with the employer's prior written consent. Certain scientific, educational, journalistic, literary and artistic activities are excluded from this requirement.
A post-employment non-compete must form part of the written employment contract. It may be agreed only where the employee has the opportunity to acquire information or knowledge that is not commonly available and whose use could cause substantial harm to the employer. The restriction may last no longer than one year.

The employer must pay compensation of at least 50% of the employee's average monthly earnings for each month of the restriction. A court may limit or cancel an excessively broad restriction. From an M&A perspective, due diligence should verify the scope, duration, compensation and enforceability of restrictions covering key employees.

Employee Incentives (ESOP)

Slovak companies may use shares, options, phantom shares and cash-based plans to retain key employees. Tax treatment depends on the instrument, issuer and timing of acquisition or disposal. Since 2024, an income tax exemption may apply to a non-cash benefit acquired by an employee in the form of shares in the employer or an ownership interest in the employer where it is a limited liability company. The exemption is subject to statutory conditions: the employer must not have distributed dividends from the date of its tax registration through the end of the tax period in which the benefit is acquired and, in the case of employee shares, the shares must not have been admitted to trading on a regulated market through the end of that period.
Plans should address vesting, leaver rules, valuation, transfer restrictions and change-of-control treatment. Buyers should assess tax, social security, reporting, dilution and settlement exposure.

Contact

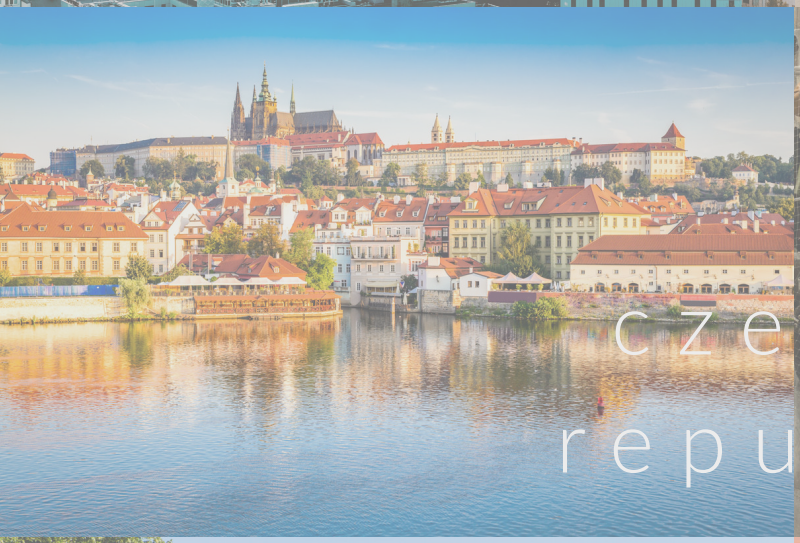


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poland





czech republic





slovakia



croatia





Croatia

Forms of Employment

Croatian labour law treats indefinite-term employment as the standard model. Fixed-term contracts are permitted where an objective reason, such as replacing an absent employee, completing a defined assignment or meeting a temporary business need, justifies a predetermined end date. As a rule, no more than three consecutive fixed-term contracts may be concluded with the same employee, with their total duration generally limited to three years. Non-compliant arrangements may be treated as indefinite-term employment.

Employment contracts should be concluded in writing and specify key terms, including the role, workplace, commencement date, working time, remuneration and termination rules. A probationary period of up to six months may also be agreed.

Businesses may engage independent contractors under civil-law service or works contracts, particularly for autonomous assignments or defined deliverables. Such arrangements offer greater flexibility but should not disguise a relationship that, in practice, has the characteristics of employment.

Temporary agency work is available through registered agencies. The agency remains the formal employer, while the employee performs work for the user undertaking. Equal-treatment requirements apply, and the same agency worker may generally perform the same role for the same user for no longer than three continuous years. Employment due diligence should therefore examine contract classification, fixed-term limits and agency arrangements.

Termination of Employment and Collective Redundancies

Employment may end by mutual agreement, ordinary dismissal with notice or extraordinary dismissal without notice. An employer may ordinarily dismiss an employee for business-related, personal or conduct-related reasons, or due to unsatisfactory performance during probation. The decision must be made in writing, delivered to the employee and supported by a valid explanation.

Statutory notice periods depend mainly on continuous service and generally range from two weeks for employment below one year to three months after 20 years. Extraordinary dismissal is reserved for serious breaches or other circumstances making continued employment impossible and the law sets forth that in these cases, no notice period applies.

Employees with at least two years' continuous service are generally entitled to severance following employer-initiated ordinary dismissal, except where dismissal results from misconduct. The statutory minimum is one-third of the employee's average monthly salary for each completed year of service, normally capped at six average monthly salaries unless more favourable terms apply.

Collective redundancies trigger consultation with the works council or trade union and notification of the Croatian Employment Service once statutory conditions are met. Selection criteria, protected employees and severance exposure should be assessed early, particularly where an acquisition is followed by restructuring or workforce integration.

Employee Representation

Employees may be represented by trade unions, a works council or elected representatives. At employers with at least 20 employees, workers may establish a works council to protect their economic and social interests. Employers must inform and consult it on business developments, employment structure, organisational changes, new technologies and collective redundancies. Certain decisions require its prior consent. In M&A transactions, representative bodies, collective agreements and consultation duties should be identified early to avoid delays, disputes or sanctions.

Non-Competition and Confidentiality Clauses

Croatian employers may protect trade secrets, commercial relationships and sensitive know-how through confidentiality obligations and non-competition arrangements.

Confidentiality clauses should clearly identify the protected information and may continue after employment where justified by the nature of the information and the employer's legitimate interests.

During employment, employees may not conduct activities competing with their employer without authorisation. A post-employment non-compete must be agreed in writing, may last no longer than two years and should be limited to activities that genuinely compete with the former employer. Restrictions that are excessive in scope, duration or purpose may be unenforceable.

As a general rule, a post-employment non-compete binds the employee only if the employer undertakes to pay compensation of at least half of the employee's average salary received during the three months preceding termination. Specific statutory exceptions may apply.

From a transaction perspective, due diligence should determine whether key managers and commercial or technical employees are covered by valid confidentiality and non-compete arrangements. Particular attention should be paid to their duration, scope, compensation obligations, termination mechanics and enforceability following a change of control.

Employee Incentives (ESOP)

Croatian companies can use share options, direct share awards and phantom-share plans to retain key employees and align management with investors, although in practice this is all seldomly used. Tax treatment depends on the instrument, issuer and timing of grant, exercise and disposal. Share and option benefits may be taxed as capital income; for options, the taxable benefit is generally the difference between market value and the exercise price upon exercise or transfer.

Plans should regulate vesting, performance conditions, leaver rules, transfer restrictions and change-of-control treatment. In M&A transactions, buyers should assess tax reporting, valuation, dilution and settlement obligations.

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latvia





lithuania

(baltic states)





estonia





hungary



ECOVIS®

Lithuania

(*baltic states)

Forms of Employment

Lithuanian law recognises indefinite-term employment as the standard model. Fixed-term employment contracts may also be concluded, including for permanent work, subject to statutory limitations. As a general rule, successive fixed-term contracts for the same function may not exceed two years, while the total duration of successive fixed-term contracts for different functions may not exceed five years, subject to statutory exceptions. Fixed-term contracts for permanent positions may not exceed 20% of the employer's total employment contracts.

Employment contracts must be concluded in writing and specify the essential employment conditions, including the work function, remuneration and workplace. A probationary period of up to three months may generally be agreed.

The Labour Code also provides for other forms of employment, including temporary agency, apprenticeship, project-based, job-sharing, multiple-employer and seasonal employment contracts. Temporary agency workers are employed by a temporary-work agency and assigned to a user undertaking, with statutory equal-treatment requirements applying to key employment conditions. Independent services may be provided under civil-law contracts where the contractor acts autonomously and assumes responsibility for the agreed result. Such contracts must not disguise subordinated employment relationships. For investors, due diligence should therefore review contract classification, fixed-term employment arrangements, temporary agency arrangements and potential employment, tax and social security exposure.

Termination of Employment and Collective Redundancies

Employment may end by mutual agreement, employee resignation, employer-initiated dismissal, expiry of a fixed term or termination at the employer's will. The applicable procedure, notice period and severance entitlement depend on the legal basis for termination and the employee's individual circumstances.

In the case of dismissal at the employer's initiative without employee fault, the employer must generally give one month's notice and pay severance equal to two average monthly remunerations. Where the employment relationship has lasted for less than one year, shorter notice and reduced severance apply. Notice periods are increased for certain categories of protected employees. Depending on their length of service, dismissed employees may also be entitled to a statutory long-term service benefit paid separately in accordance with the applicable legislation.

An employer may also terminate an employment contract at the employer's will by giving three working days' notice and paying severance of at least six average monthly remunerations, although this termination ground is subject to statutory restrictions and is unavailable in certain cases.

Dismissal for employee fault may be applied in the case of a gross breach of employment duties or a second identical breach committed within the statutory period, subject to the procedural and proportionality requirements established by the Labour Code. Such dismissal is generally without notice and without severance.

Collective redundancy rules apply where the statutory thresholds are reached within a 30-day period. Employers must comply with statutory information and consultation requirements in relation to employee representatives and notify the Employment Service before implementing collective redundancies. Transaction due diligence should therefore identify protected employees, potential severance and long-term service benefit exposure, consultation and notification obligations and the potential costs and timing of post-closing restructuring.

Employee Representation

Employees may be represented by trade unions, works councils or employee trustees. Employers with an average workforce of at least 20 employees must generally establish a works council, unless a qualifying trade union performs its functions.

*With respect to the Baltic States, the services are provided by Ecovis ProventusLaw.

Employee representatives have statutory information and consultation rights regarding matters including employment levels, organisational changes, business transfers and collective redundancies. In M&A transactions, existing employee representative bodies, collective agreements and applicable information and consultation procedures should be identified at an early stage, as they may affect the timing and implementation of post-closing measures.

Non-Competition and Confidentiality Clauses

Lithuanian employers may protect commercial secrets, customer relationships and sensitive know-how through confidentiality and non-competition agreements.
Confidentiality arrangements should clearly identify the categories of information to be protected. Unless otherwise agreed, confidentiality obligations may continue for one year after termination of employment. Information that is publicly available or, under applicable law, cannot be treated as confidential, as well as an employee's general knowledge and professional experience, should be distinguished from protected confidential information.

A non-compete agreement may apply during employment and for a maximum period of two years after termination of employment. It may be concluded only with employees who possess specialist knowledge or skills that could cause harm to the employer if used for the benefit of a competing business.

A non-compete agreement must be in writing and specify the prohibited activities, applicable territory, duration and compensation. During the non-compete period, the employer must pay compensation of at least 40% of the employee's average remuneration. Excessively broad or insufficiently defined restrictions may be difficult to enforce.

From an investor's perspective, due diligence should review confidentiality and non-compete arrangements applicable to management, sales, technical and other key personnel, including their validity, scope, compensation requirements and enforceability following a change of control.

Employee Incentive Plans

Lithuanian companies may use various employee incentive arrangements, including shares, share options, phantom share arrangements and other cash-based incentive plans, particularly to attract and retain key employees and management. The applicable tax and social security treatment depends on the type and terms of the relevant incentive, including the conditions for grant, vesting, exercise and disposal.

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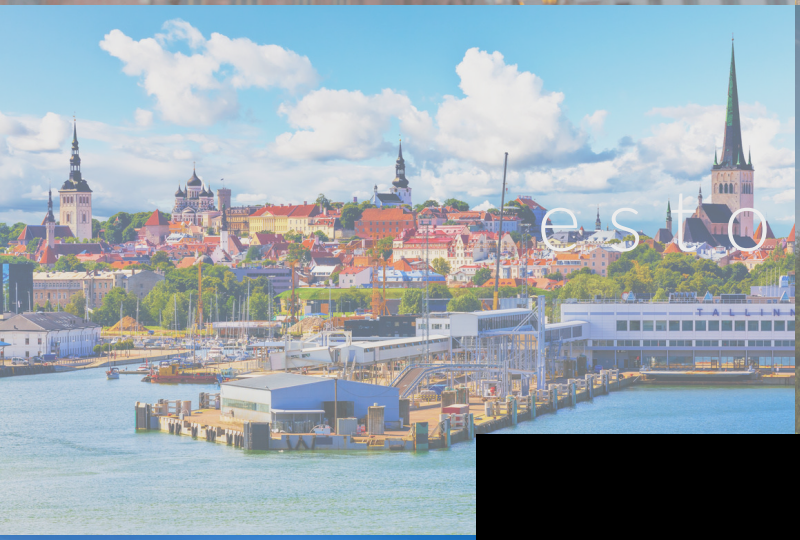
latvia





lithuania





estonia



hungary





Hungary

Forms of Employment

Hungarian law treats indefinite-term, full-time employment as the standard model unless the parties agree otherwise. Fixed-term employment is permitted, but its total duration, including extensions and contracts renewed within six months, may generally not exceed five years. Renewal or extension requires a legitimate employer interest and must not undermine the employee's lawful interests.

Employment contracts must be concluded in writing and specify at least the employee's position and basic salary. The employer must provide further written information on key working conditions. A probationary period of up to three months may be agreed and may be extended once within that limit. A collective agreement may allow a probationary period of up to six months.
Flexible models include part-time, remote, on-call and job-sharing arrangements. Temporary agency work is also permitted, with the agency acting as the formal employer and the user undertaking directing day-to-day work.

Independent contractors may be engaged under civil-law service or works contracts where they operate autonomously. If the relationship involves personal work under the company's control, it may be reclassified as employment. Due diligence should therefore review fixed-term arrangements, agency work and contractor status.

Termination of Employment and Collective Redundancies

Employment may end by mutual agreement, notice or termination with immediate effect. Employer-initiated notice must generally be in writing and justified by the employee's conduct or capability, or by reasons connected with the employer's operations. Employees may terminate indefinite-term employment without providing a reason.
The basic notice period is 30 days. Where termination is initiated by the employer, it increases with service and may reach 90 days after 20 years. The parties may agree on a longer period of up to six months. The employer must release the employee from work for at least half of the notice period.

Severance is generally payable following employer-initiated termination for operational reasons or cessation of the employer without succession. Depending on service, it ranges from one month's absence pay after three years to six months after 25 years. Enhanced entitlements may apply shortly before retirement.
Collective redundancy rules apply where, within 30 days, dismissals reach 10 employees at businesses with 21–99 employees, 10% at businesses with 100–299 employees, or 30 employees at larger employers. The employer must consult the works council and notify the employment authority. Investors should assess notice, severance, consultation duties and restructuring costs.

Employee Representation

Employees may be represented by trade unions, a works council or a works representative. A works representative may be elected where the workforce exceeds 15 employees, while a works council may be established where it exceeds 50. Employers must provide information and consult on economic conditions, employment levels, major organisational measures, business transfers and collective redundancies.

In M&A transactions, representative bodies, collective agreements and consultation timetables should be identified early, as they may affect restructuring and post-closing implementation.

Non-Competition and Confidentiality Clauses

Hungarian employees must protect trade secrets and may not disclose information where publication could harm the employer's legitimate economic interests. Confidentiality obligations may arise from legislation, employment contracts and internal policies and may continue after employment while the information remains protected.

During employment, employees must not engage in conduct that jeopardises the employer's legitimate economic interests. Additional restrictions should be

clearly defined and proportionate to the employee's role and access to sensitive information.

A post-employment non-compete must be agreed in writing and may remain in force for no more than two years. The employer must pay adequate compensation, taking account of the extent to which the restriction limits the employee's ability to obtain new work. Compensation may not be lower than one-third of the employee's basic salary for the corresponding restriction period.

Following a transfer of undertaking, rights and obligations under the non-compete generally pass to the new employer. Transaction due diligence should verify restrictions covering key personnel, including their duration, scope, compensation, contractual penalties and enforceability after a change of control.

Employee Incentives (ESOP)

Hungarian businesses use employee shares, options, restricted equity and cash- or phantom-share plans to retain key personnel. Employee shares may be issued free of charge or at a preferential price, subject to corporate-law requirements. Approved employee ownership structures may offer tax advantages, while ordinary plans require case-specific tax and social-security analysis.
Plans should address vesting, performance conditions, leaver rules, valuation, transfer restrictions and change-of-control treatment. Buyers should assess dilution, reporting, tax exposure and the cost of accelerating or settling awards.

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