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Regulations and Rules

The following Acts may be considered as the legal framework of corporate law in Slovenia:

The Companies Act (Official Gazette of Republic of Slovenia No. 30/93 with amendments)

Types of Companies and Liability of Shareholders

A company may be established in Slovenia in one of the following legal forms:

AS A PERSONAL COMPANY

- Druzba z neomejeno odgovornostjo (d.n.o.) – an unlimited company; all shareholders are liable for the obligations of the company for all their assets.
- Komanditna druzba (k.d.) – a limited partnership – at least one partner in the company is liable for all his assets (general partner) and at least one partner is not liable for the obligations of the company.
- Tiha druzba – a dormant partnership – the dormant partner is not liable for the obligations of the dormant partnership, but if the name of the dormant partner is included in the registered name of the dormant partnership, a dormant partner who knew or should have known about this shall be jointly and severally liable for all his assets to creditors for the liabilities of the dormant partnership.

AS A COMPANY WITH SHARE CAPITAL

- Druzba z omejeno odgovornostjo (d.o.o.) – a limited liability company - the shareholders are not liable for the obligations of the company.
- Delniska druzba (d.d.) – a joint stock corporation – the shareholders are not liable to creditors for the obligations of the company
- Komanditna delniska druzba (k.d.d.) – a limited partnership with share capital – there are two types of shareholders: general partner, who is liable for the liabilities of the company for all his assets and limited shareholders who have a share in the subscribed capital and are not liable for the liabilities of the company to creditors.

When the shareholder is not liable for the obligations of the company, his liability is limited to the capital contribution. The most commonly used forms are the limited liability company and joint stock corporation.

The Share Capital

D.N.O.

The amount of the subscribed capital can be agreed by contract of members. The amount of the minimum capital is not legally regulated, since the shareholders are personally liable for the obligations of the company.

K.D.

The shareholder is not liable for obligations of the company but must pay-in a contribution. No minimal amount is provided for.

T.D.

Not regulated.

D.O.O.

The minimum share capital is 2,100,000 SIT, approx. 8,750 EUR, the minimum share is 14,000 SIT, aprox. 58 EUR. At least 1/3 of the share capital must be paid in cash, the rest may be in-kind contributions.

D.D.

The minimum share capital is 6,000,000 SIT, approx. 25,000 EUR, the minimum nominal amount on the stock can be 1,000 SIT, approx. 4 EUR.

K.D.D.

The minimum share capital is 6,000,000 SIT, approx. 25,000 EUR.

In the case of companies engaged in banking, insurance, securities etc. the share capital requirements are provided for by legislation governing each specific activity.

CLASSES OF SHARES

In a d.d. the capital is divided into shares (securities). Shares can be made out to bearer or to a named person. But shares must be made out to a name if they are issued before the full payment of the nominal or a higher share issue value. In respect of the rights deriving from them, shares shall be classified as ordinary or priority. Ordinary shares are shares, which grant the holder the right to participate in the management of the company, the right to a part of the profit (dividend) and the right to a corresponding part of the remaining assets after the liquidation or bankruptcy of the company. Priority shares are shares which confer upon their holders in addition to the rights set above, certain priority rights, such as priority in the payment of predetermined sums or percentages of the nominal value of the shares or of the profit, priority payment upon the liquidation of the company and other rights set out in the articles of association of the company. A cumulative priority share shall confer upon its holder the priority right to payment of all outstanding dividends before dividends of any sort are paid to holders of ordinary shares in accordance with a resolution on

the distribution of profits. A participating priority share shall confer upon its holder in addition to priority dividends also the right to payment of dividends accruing to holders of ordinary shares in accordance with the resolution on the use of profits.

Corporate Governance

SHAREHOLDERS MEETINGS

d.d./d.o.o.- the shareholders decide on the following: adoption of the annual report, the use of the profit, recall and appointment of the members of supervisory board (the supervisory board is mandatory in d.d., inter alia, when it employs more than 500 employees or is a listed company or has more than 100 shareholders or its share capital exceeds 410 million SIT, while in d.o.o. it is entirely up to the shareholders whether a supervisory board will be appointed), release from liability members of the management board and the supervisory board, adoption of amendments to the articles of the association, measures to increase and reduce the capital, the appointment of an auditor, etc.

The shareholders can exercise their voting rights based on the nominal value of shares they hold (d.d.) or one share (14,000 SIT) gives one vote (d.o.o.) unless otherwise agreed upon in the shareholders' agreement. In d.d. the articles of association may provide restrictions on voting rights. The number of votes which an individual shareholder has are based on the number of shares and may not exceed a certain number or a certain percentage.

Normally a majority of 50 % of the votes is necessary for passing shareholder resolutions. There are, however also higher majority requirements such as 75 % of the votes present for the change of articles of association of a d.d. or 75 % of all votes for the change of the shareholders' agreement in a d.o.o. or for liquidation of a d.o.o.. The minimum number of meetings is one per year, since the annual financial sheets and reports must be approved.

Decision-Making Bodies

The decision making bodies in the d.d. are the Management Board, the Supervisory Board and the Shareholders' Meeting and in the d.o.o. the Shareholders' Meeting and the manager(s).

CLASSES AND POWERS OF DIRECTORS

Companies can have one or more directors. If more directors are appointed they can act individually or jointly. Along with the directors, also one or more procurators can be appointed. In the k.d. only the general partner may run the business of the company. In the d.n.o. all the shareholders may run the company, if the Act on Foundation does not determine a different option.

Directors act on behalf of the company. They are responsible for preparing measures which are required by the Shareholders Meeting, they prepare contracts and other regulations for which consent by the shareholders' meeting is required and they carry out decisions adopted by the shareholders' meetings.

APPOINTMENT OF DIRECTORS

Directors are appointed by Shareholders' Meeting if there is no supervisory board. Otherwise, they are appointed by the supervisory board.

MINIMUM NUMBER OF INDEPENDENT DIRECTORS

A d.d. must have a management board composed of at least three members if no supervisory board is appointed. Otherwise there may be one director or several members of the board. Where several members are appointed, one of them needs to be the chairman. A d.o.o. can have one or more directors. If more directors are appointed, they can act individually or jointly.

In the case of companies engaged in banking, insurance, securities etc. there are special rules governing the minimum number of directors.

TERM OF APPOINTMENT

The management of a d.d. can be appointed for maximum 5 year term, but it can be always reappointed. The maximum number of reappointments is not limited.

The director(s) of a d.o.o. can be appointed for a definite or indefinite period of time. If the director is appointed for a definite period of time, this period should not be shorter than two years. The director can be reappointed without limit.

RANGE OF DIRECTORS´ LIABILITIES

- does law/regulation require a specific agreement – or disclosure- for determining the remuneration of Directors? The remuneration is to be contractually agreed. Total remuneration must be in proportion to the tasks and financial situation of the company (in a d.d.). If the financial position of the company is endangered, the supervisory board may reduce the remuneration while the director may terminate the contract in accordance with the notice period as provided by applicable law (in a d.d.).
- Any limit? No, but there are some recommendations by the Association of Managers.

LIABILITIES

A d.d. shall be run by a management board in the interests of the company independently and at the management board's own liability. In business conduct of a company, the members of the management board must act with the care of a conscientious and fair manager and protect the business secrets of the company. The members of the management board shall be jointly and severally liable to the company for damage arising as a consequence of a violation of their duties, unless they demonstrate that they fulfill their duties fairly and conscientiously.

ANNUAL ACCOUNTS-FINANCIAL AND OPERATING RESULTS: DUTIES AND LIABILITIES

Necessary Documents:

- Annual Report;
- Auditors' opinion, where mandatory.

TIME LIMIT FOR DELIVERY OF DOCUMENTS

Directors will draft the Annual Accounts no later than 3 months after the end of the fiscal year. The Shareholders' Meeting approves or rejects these Annual Accounts no later than August 31. The audit, where mandatory, needs to be completed within 6 months of the end of the fiscal year.

Within 8 months of the end of the fiscal year, the annual reports (together with the auditors' opinion, if any) have to be presented to the State Statistics Bureau for publication.

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Employment Contracts

CLASSES

There are two main classes of employment contracts: fixed-term employment contract and employment contracts for an indefinite period of time. Fixed-term contracts can be concluded only in Employment Act specified cases (Art. 52, for example: work which by its nature is of limited duration, temporarily increased volume of work, preparation or realization of work organized as a project, etc.). Except in some specific cases a fixed-term contract may not be concluded for more than two years and also further extensions are not permitted unless there is at last a three-month gap. If the fixed-term employment contract is concluded contrary to law or collective agreement, or if the worker continues to work even after the expiry of the period for which he had concluded the employment contract , it shall be assumed that the worker had concluded an employment contract for an indefinite period of time.

COSTS OF DISMISSAL AND WRONGFUL DISMISSAL

Under Slovenian law, the contractual parties may terminate the employment contract with a period of notice (ordinary termination) or, in the cases stipulated by law, the contractual parties may terminate the employment without a period of notice (extraordinary termination). A party may only terminate the employment contract in whole, meaning that partial termination is not possible. The worker may ordinarily terminate the employment contract without explanation, but the employer may ordinarily terminate the employment contract only in the cases and or/ for the reasons stipulated by law. The reasons are either for business reasons (cessation of the need to carry out certain work), for reason of incapacity (non-achievement of expected work results) or by reason of fault (breach of contractual obligations or any other obligation arising from the employment relationship).

The following shall be deemed to be unfounded reasons for ordinary termination of an employment contract: temporary absence from work due to inability for work because of a disease or injury or due to care of family members pursuant to regulations on health insurance, or absence from work due to parental leave pursuant to regulations on parenthood, trade union membership, bringing an action or participating in proceedings against the employer, race, skin color, pregnancy, religious or political convictions, disability, etc.

The ordinary or extraordinary termination of the employment contract by the worker as a result of a threat or fraud on the part of the employer or due to a mistake by the worker shall be invalid.

The employer who terminates the employment contract as a result of business reasons or by reason of incapacity (except in the case of fault) shall be obliged to pay the worker severance pay. As the basis for the calculation of severance pay, the monthly wage, which was received by the worker, or which would been received by the worker if working in the last three months before termination shall be taken. The worker shall be entitled to severance pay amounting to 1/5 of the basis for each year of employment with the employer, if the worker has been employed with employer for more than one and up to five years; ? of the basis, if the worker has been employed with employer for the period from five to fifteen years; 1/3 of the basis, if the worker has been employed with employer for a period exceeding fifteen years. Also the worker who, after having previously reminded the employer of the fulfillment of obligations and having informed the labor inspector about the violations in writing, extraordinarily terminates the employment contract, shall be also entitled to severance pay, stipulated for the case of ordinary termination of the employment contract for business reasons, and to compensation amounting to no less than the level of the lost remuneration during the notice period.

Workers whose employment contracts are terminated in bankruptcy proceedings, in liquidation proceedings made in court or in a case of a confirmed compulsory composition, shall be also entitled to severance pay in accordance with the above provisions.

EMPLOYMENT CONTRACTS FOR DIRECTORS; A SPECIAL REGIME

Under Slovenian law it is not necessary that managers have employment contracts, since it is also possible (and often is the case) that they work on some other type of civil law contract. However, this may result in adverse tax consequences and for this reason it is recommended that also managers are employed by way of contract. In the case of concluding employment contracts with managerial staff, the parties to the employment contract may regulate differently the rights, obligations and responsibilities arising from the employment in relation to conditions and limitations of fixed-term employment contract, working time, assurance of breaks and rests, remuneration of work, disciplinary responsibility and termination.

Employee Representatives and Union Representation

BRIEF DESCRIPTION OF THE INFLUENCE OF THESE GROUPS IN LABOR CONTRACTS

At a national level, trade unions are a negotiating party (together with the government and the employers) when preparing new labor legislation or collective agreements. They represent the general interests of the workers. At the company level, trade unions represent a link between employers and employees and take care that the rights of the workers are not violated. For this reason, the employer has a duty to inform the union and sometimes consult with it.

WHEN DOES LABOR UNION REPRESENTATION BECOME BINDING?

A trade union, which has members with a certain employer, may appoint and/or elect a trade union representative to represent it with that employer. A trade union must inform the employer on appointment and/or election of a trade union representative. A trade union representative has the right to provide and protect the rights and interests of trade union members with the employer.

WHAT ARE THE RIGHTS AND PRIVILEGES OF TRADE UNION REPRESENTATION INSIDE A COMPANY?

Within a company, the Trade Union has the following rights and privileges:

- before adopting proposal for general acts, with which the employer lays down the organization of work or the responsibilities of workers, the employer must present the acts to the Union for its views;
- In the case of a transfer of employees from one employer to another, the transferor and the transferee must inform the Union about the date of the transfer, reasons for it, the legal, economic and social implications of the transfer for workers and the measures envisaged in relation to workers;
- In the case of redundancies, the employer must as soon as possible inform the Union about the reasons for redundancies, the number and the categories of redundant workers, etc. and consult with them about redundancies;
- before the beginning of a calendar and/or a business year, the employer shall fix a yearly distribution of working time and notify this to his workers and to trade unions at the employer organization;
- prior to the introduction of night work, the employer must consult with trade unions;
- the Trade Union has also a role in disciplinary proceedings.

Collective Bargaining Agreements ("CBAs"). Other Agreements

CLASSES

According to Art. 7 of the Employment Relationship Ac,t in cases of entering into and terminating an employment contract as well as during the employment relationship, the employer and the worker must follow the provisions of the Act and other statutes, ratified and published international agreements as well as other regulations, collective agreements and employer´s internal regulations.

ARE COLLECTIVE BARGAINING AGREEMENTS BINDING ON LABOR CONTRACTS?

Yes, where applicable, CBAs are binding on all labor contracts. The collective agreements may lay down rights which are more favorable to workers than those laid down in the Employment Relationship Act.

Wages and Other Types of Compensation

CLASSES OF WAGES

Remuneration for work carried out on the basis of the employment contract is composed of the wage, which must always be paid in cash, and other types of remuneration, if they are laid down in the collective agreement or agreed upon in employment contracts. As regards the wage, the employer must take account of the minimum laid down by law and/or collective agreement, which bind him directly. A wage is composed of the basis wage, part of the wage for job performance and extra payments (for night work, overtime work, Sunday work, work on statutory holidays and free days). The basis wage also constitutes the basis on which the seniority allowance is to be paid. A constituent element of the wage is remuneration for business performance, if laid down by collective agreement or the employment contract. The employer must also ensure the worker receives reimbursement of expenses for meals during work, for travel expenses to and from work and expenses the workers incur for performing certain work and tasks on business travel. The employer is also obliged to pay holiday allowance and retirement severance pay.

MINIMUM SALARY IN 2005

In January 2005 the gross minimum salary in Slovenia amounts to Slovene Tolars (SIT) 117,500 or approximately EUR 490.

COST OF OVERTIME HOURS

The worker is entitled to extra payments for special working conditions related to the distribution of working time for overtime work. The amount of extra payment is laid down by branch collective agreements.

Employment Regulations

The parties to employment contracts must follow the provisions of the Employment Relationship Act (Official Gazette of Republic of Slovenia, No. 42/2002) which is the fundamental act in this legal field, other statutes, ratified

and published international agreements as well as other regulations, collective agreements and the employer´s internal regulations.

Social Security

There are two types of social security contributions, those to be paid by the employer (approx. 16 % in total) and those to be paid by the employee, but withheld by the employer (approx. 20 % in total).

Health and Safety

ESSENTIAL DUTIES OF THE EMPLOYER

The employer must provide the conditions for safety and heath of workers in accordance with special regulations on safety and heath at work. The worker is also obliged to respect and implement regulations on safety and health at work and work carefully in order to protect his life and health, and health and life of others. Furthermore, the worker is obliged to inform the employer of any threat or danger to life or health.

According to Art. 5 of the Health and Safety at Work Act, an employer has a duty to ensure the health and safety of his employees in every aspect related to work. Within the context of his responsibilities, the employer must take the measures necessary for the safety and health protection of employees, including prevention of occupational risks and the provision of information and training, as well as the provision of appropriate organization and necessary means. An employer has a duty to introduce such preventive measures and to select such working and production methods that will enhance the level of health and safety at work, and will be incorporated in all activities of the employer and at all levels of the organization.

MAIN REGULATIONS

General regulations as to health and security are codified in the Employment Relationship Act and Health and Safety at Work Act.

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Contracting and Outsourcing of Work and Services

The employer who, on the basis of a concession contract, may engage in the activity of providing workers to another employer (the user) concludes an employment contract with such workers. The employer may not refer workers to a workplace with another user in cases when this would represent replacement of workers employed by the user who are on strike or in cases when the user has during the period of the past 12 months terminated employment contracts of a large number of workers employed by him or in the case of a workplace which the user's risk assessment shows that workers working there are exposed to dangers and risks due to which measures are provided for reducing and/or limiting the time of exposure, and in other cases which can be laid down by branch collective agreement. The employer may not provide workers to the user continuously or with interruptions of up to one month for more than one year in the case of performing the same work by the same worker.

An employment contract is concluded for a definite or indefinite period of time in such cases. Premature cessation of the user's need for work performed by the worker does not in individual cases represent a reason for terminating an employment contract.

In the employment contract, the worker and the employer agree that the worker shall perform work with other users, at the location and during the period stipulated by the worker's referral to work with the user. In the employment contract, the employer and the worker also agree about the level of wage compensation for the period of any premature cessation of work with the user, and/or for the period in which the employer fails to assure work with the user. The wage compensation may not be lower than 70% of the minimum wage.

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The basic principles of property law, possession and real rights and the method of their acquisition, transfer, protection and extinguishment in Slovenia are regulated in The Property Code of the Republic of Slovenia (Official Gazette of RS, No. 87/2002, hereinafter: PC).

Types of Ownership

According to Art. 37 of PC the Ownership is the right to possess a thing, to use it and enjoy it in the fullest manner, and to dispose of it. Restrictions on use, enjoyment and disposal can only be determined by law. There can be only one ownership on one thing, but it can be performed by one ore by more persons. Two or more persons can have co-ownership of an undivided thing (co-owners) if the share of each of them in the thing is determined as a proportion of the whole (ideal share). If so, a co-owner shall have the right to possess an item and to use it together with the other co-owners in proportion to his ideal share and without thereby violating the rights of the other co-owners.

Further, two or more persons can have joint ownership (joint owners) of an undivided thing when their shares are not determined in advance. Joint owners jointly use the thing and dispose of it and are jointly and severally liable for obligations arising in connection with the joint property.

The owner may restrict his right for any purpose which is not prohibited unless otherwise determined by law. The owner may however, establish on his real estate other real rights such are: lien, land debt, easement, right of encumbrance and a right of superficies.

The Land Register

The land register in Slovenia is a public evidence on real estate rights and contains all legal issues connected to real estate. Land Register is held by the

land registry Courts. Land Cadastre and Land Register data are complete real Estate evidences.

Issues related to Land Register are regulated in the Land Registry Act (Official Gazette No. 58/2003). The act sets out the fundamental principles of the land registry entries, the contents and types of land registry entries, land registry procedure, the implementation of Land Registry entries and the administration of the collection of documents. The Land Registry Act also governs cancellation actions.

Transfer / Acquisition Formalities

According to the provisions of PC the ownership may be acquired on the basis of a legal transaction, inheritance, a law or a decision of a state body. Acquisition of ownership of a real estate by means of a legal transaction requires a valid contract and an entry in the land register. The entry in the land register must be made on the basis of a document containing the land registry permission, on which the signature of the current owner, who is entered in the land register, must be notarized. Depending on the location and type of the real estate certain additional documents may be necessary.

Mortgages (Lien on Immovables)

According to Art 128 of PC, a lien is the right of a lienor in the event of the non-payment of a secured claim upon maturity to receive payment together with interest and costs from value of the pledge ahead of all other creditors of the pledger.

A mortgage encompasses the immovable as a whole as well as all its elements and fruits until such time as they are severed from the principal thing. A mortgage also encompasses the accessories owned by the pledger.

The acquisition of a mortgage on the basis of a legal transaction requires an entry in the land register. The entry shall be made on the basis of a document containing the land registry permission. The mortgage can be also created on the basis of a legal transaction in the form of a directly executable notarial protocol and on the basis of a court decision.

There are different types of mortgages possible on the basis of a legal transaction under the Slovenian law:

Joint mortgage: a mortgage is established on more than one immovable as security for the same claim. In this case the mortgagee may demand repayment of his claim from the sale of immovable of each of the pledgers, and may do so in any order;

Maximum mortgage: a mortgage can also be established by determining a maximum amount up to which an immovable is used to guarantee a secured claim. With this mortgage all interest and costs of the secured claim are also secured up to the maximum amount;

Supermortgage: a lien on a claim secured with a mortgage.

More than one mortgage may be established on the same immovable. Only after the first creditor is repaid in full, the next creditor is paid. With transfer of a secured claim the mortgage is also transferred, unless otherwise agreed.

A mortgage is intended to secure a claim until its final repayment, if a claim is partly repaid the mortgage is not reduced. On the division of an immovable encumbered with a mortgage each of the parts of the immovable is encumbered with the mortgage in full. If the debtor fails to pay a claim within the deadline the creditor may demand in a suit that the pledged real estate be sold. If the mortgage was created on the basis of a directly executable notarial protocol, the creditor may demand that the notary establish that the claim has matured and sell the pledged immovable and repay the creditors or propose execution.

The mortgage extinguishes by deletion from the land register in which it is entered.

Issues Arising in the Context of the Sale of Property: Pre-Emptive Rights / Protection of Buyer and Seller

Pre-emptive rights are generally contractually agreed upon. In certain cases, however, statutory pre-emptive rights exist as well. Statutory pre-emptive rights exist in cases of co-ownership of a real estate, on agricultural land etc.

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In case of co-ownership of a real estate, a co-owner may dispose his right without the consent of the other co-owners, but the co-owners have a pre-emptive right if the immovable is sold. If the pre-emptive right is exercised simultaneously by two or more co-owners, each of them may exercise their pre-emptive right in proportion to their ideal share.

Protection of buyer and seller is regulated by the Code of Obligations (Off. gazette of RS, No. 83/20019. If the seller sells a thing and transfers the ownership to a third person without notifying the pre-emption beneficiary and the beneficiary's right of pre-emption was known or could not have remained unknown to the third person, the pre-emption beneficiary may within six months of learning of the sales contract demand that the contract be annulled and the thing be sold thereto under the same conditions. If the seller erroneously notifies the pre-emption beneficiary regarding the conditions of the sale to the third person and this was known or could not have remained unknown to the third person the six month deadline shall run from the day the pre-emption beneficiary learnt of the true contractual conditions. The entitlement shall in any case terminate five years after the transfer of the property to the third person.

The above rules apply mutatus mutandis also to statutory pre-emptive rights unless otherwise provided for by applicable law.

Leases

Real estate can be rented under a lease contract. The lease contract is regulated in the Code of Obligations of the Republic of Slovenia (Art. 587 to 618). The Code of Obligations regulates for example the automatic renewal rights, the protection of a lessee in case of transfer of the real estate to a new owner, etc.

In case of alienation of a real estate, that prior to this was handed over to a third party for leasing, the acquirer of the real estate shall assume the place of the lessor; thenceforth the rights and obligations deriving from the lease shall exist between the acquirer and the lessee. The acquirer may not demand that the lessee terminates the lease contract prior to the end of the period for which the lease was agreed, or the end of the period of notice if the duration of the lease is not stipulated by the contract or by law. The transferor shall be jointly and severally liable as a surety for the obligations held by the acquirer deriving from the lease.

If following the end of the period for which the lease contract was concluded the lessee continues to use the thing and the lessor does not oppose such, a new lease contract for an indefinite period shall be deemed to have been concluded with the same terms and conditions as the previous contract.

Zoning, Building Permits, etc.

The basic unit of the land cadastre in Slovenia is a land plot. The land plot is an undivided land property, which is located within one land registration district and recorded in the land cadastre as a land plot with its parcel number. Land cadastre data, held by the Surveying and Mapping Authority of the Republic of Slovenia is an official land plot and tax evidence.

Legal framework related to this subject:

- Construction Act (Official Gazette No. 110/2002 with amendments)
- Real Estate Property, National Border and Spatial Units Registration Bill (Official Gazette No. 52/2000 with amendments)
- Land Registry Act (Official Gazette No. 58/2003)
- Spatial Planning Act (Official Gazette No. 54/2002 with amendments)
- Law on Geodetic Activities (Official Gazette No. 8/2000 with amendments)

Others

Slovenian legislation strictly regulates agricultural land and forests.