



HUNGARIAN WATCH

Autumn 2016



Masters of Collaboration

Hungarian Watch Autumn 2016

Editor: Endre Várady

Publisher: János Tamás Varga, VJT & Partners Law Firm

1126 Budapest

Kernstok Károly tér 8.

Hungary

T: +36 1 501 9900

F: +36 1 501 9901

E: office@vjt-partners.com

Hungarian Watch is a quarter yearly issued brochure. It contains comprehensive, up-to-date information about Hungary, focusing on breaking news in the fields of law, economics, business and other situations which could have a major impact on the course of Hungarian events.

Hungarian Watch is primarily prepared for those who are thinking about Hungary from an investment point of view. The investment perspective runs through this brochure by leading the reader through the actual Hungarian business climate including current business and investment opportunities.

We hope that Hungarian Watch will keep you regularly informed on relevant Hungarian news, enabling you to know how and when to seize a business opportunity before it vanishes.

Hungarian Watch has been prepared for the use of clients, partners and staff of VJT & Partners.

Copyright © 2016 VJT & Partners

All rights reserved. No part of this brochure shall be reproduced or transmitted by any means—electronic, mechanical, photocopying, recording, or otherwise—without written permission from the publisher, except for the inclusion of brief quotations in a review.

Every effort has been made to make this brochure as complete and as accurate as possible, but no warranty of fitness is implied. The information is provided on an as-is basis. The authors and the publisher have neither liability nor responsibility to any person or entity with respect to any loss or damages arising from the information contained in this brochure.

Table of Contents

Summary	4
Investments	5
Time to invest	5
Brexit	8
Welcome to Budapest, good bye London?	8
Construction	10
The call for tender for EUR 30 million project just announced	10
Clinical trial	12
A new potential boom for the Hungarian clinical trial market	12
VJT & Partners	14
About VJT & Partners	14
The Firm	14
Practice Areas	15
How We Work	16
Our Values	16

Summary



[Time to invest](#)

[Hungarian Investment Promotion Agency continues with negotiating hundred projects](#)

The Hungarian Investment Promotion Agency makes a consistent effort to attract foreign direct investments. After a record year in 2015, HIPA continues to offer dozens of projects in various industries including agriculture, manufacturing, real estate, green industry and innovation. This is the right time to invest.

[Read more...](#)



[Welcome to Budapest, good bye London?](#)

[The potential effect of Brexit on the Hungarian market](#)

After Brexit has become official, many European financial hubs started to solicit international companies to move out of City to their locations. Budapest also joined in the race. The plan is to build a new business centre in Budapest on a 200 thousand sq.m. large area. Budapest will not win the race, but it can still take a piece of the cake. Could the wave of Brexit open room for Hungarian investment opportunities?

[Read more...](#)



[The call for tender for EUR 30 million project just announced](#)

[New campus to be built in Kecskemét](#)

Kecskemét has become a university town, so the call for tender of roughly EUR 30 million worth campus construction has been just announced. The deadline for submitting the tender is 28 November 2016. Be ready and seize this exceptional bidding opportunity. [Read more...](#)



[A new potential boom for the Hungarian clinical trial market](#)

[Clinical trial agreement to be standardised in Hungary](#)

The Hungarian clinical trials are one of the success stories of the country. Now thanks to a new proposal, a further boom may be expected. The government plans to make a uniform clinical trial agreement templates making the market environment more flexible and predictable. Experts expect a potential 25-30% growth in this already lucrative market. God is in the details, so we should take a "wait and see" approach before levying a final judgement. But as the new solution may serve as a further incentive for research & development, pharmaceutical companies should keep a close eye on the upcoming developments in clinical trials. [Read more...](#)

Time to invest

Hungarian Investment Promotion Agency continues with negotiating hundred projects

The Hungarian Investment Promotion Agency makes a consistent effort to attract foreign direct investments. After a record year in 2015, HIPA continues to offer dozens of projects in various industries including agriculture, manufacturing, real estate, green industry and innovation. This is the right time to invest.



We already reported that the Hungarian Investment Promotion Agency (HIPA) successfully promotes foreign direct investments (FDI) in Hungary. HIPA makes a continuous effort to identify investors, boost investment projects and also encourages reinvestments with after-care activities. Apart from that, HIPA plays a key role in supporting the government's strategic partnership program (close to 70 companies involved, including GE, Microsoft, Nokia, Ericsson, IBM, Samsung, Mercedes, Audi, Siemens and many others).

After a record year in 2015, HIPA continued to perform well in the first half of 2016. The inflow of FDI skyrocketed by 124%, reaching just over EUR 1.3 billion. In the first half of 2016, HIPA successfully closed 38 projects. As usual, the automotive sector was the leader (15 projects) followed by the SCC sector (7 projects). The largest investors were American (8 projects) and German (7 projects). Vast majority of these FDI projects were reinvestments. Namely, these companies do not repatriate their profit, but reinvest in Hungary creating added value for the market.

As of last year, Hungary was awarded great rankings in Financial Times Group publications. Budapest continues to be ranked among the top 10 most important European cities, but for the first time, a smaller town, Győr also reached the top 10 (in the category: smaller European cities of the future), and two Hungarian regions, Central Hungary and Transdanubia were also recognized as attractive investment locations.

HIPA believes that the second half of 2016 may bring even more success, as HIPA is currently managing more than 160 active FDI projects. It continues to offer projects in various sectors including manufacturing, energy, green industry, innovation, real estate and hotel industry.

Winning is always about finding the right opportunities.

Strategic partnership with nearly 70 companies

Skyrocketed inflow of foreign direct investments

Budapest in top 10 European cities

More than 160 active FDI projects ahead

Main investment projects offered by HIPA

(Source: HIPA)

Sector	Projects	Short description	Overall budget	Implementation period
Real estate	European Retirement Lifestyles	Building of a senior living community complex in Western Hungary (the complex from 350 to 375 single family units)	EUR 83.7 M	Max 60 months
	Eco Dome – Office Building	Green office building investment in a prestigious location of Budapest	EUR 9 M	15-16 months from the start of the construction
	Lake Park Offices and Residences	Building up an area of 200,000 sqm, which will include office buildings, apartments, shopping opportunities, service industry units, as well as facilities for sports and recreation	EUR 101.5 M	5 years
	Mezőkövesd Innovation Park	The site will be served with public utilities, allowing mixed use developments in line with proposed innovation park use.	EUR 15 M	2-5 years
Hotel business	4* Branded Lifestyle Select-Service Hotel	Building a 4* hotel Budapest in close proximity to the city's upscale promenade Andrassy	EUR 13.6 M	18-22 months
	Zala Springs Golf Resort	Building a new complex with golf, hotel, spa and residential elements	EUR 36 M	18 months
	Premium Health Park Kapuvár	Building of a 'health park' including a 5-star and a 4-star hotel, a medical bath and an apartment complex with 50 units	EUR 63 M	24 months
	Saloc International Spa & Golf Resort	Building a resort with over 900 units of real estate and a hotel equipped with 254 bedrooms	EUR 150 M	7 years
	Hotel Arborétum Debrecen	Building a 5-star hotel and 60 apartments with an exclusive medical and spa complex	EUR 47 M	18 months
Innovation	cSTePPaper Project	Preparing paper-based, moulded products – mainly egg-boxes – from the recycled product	EUR 8 M	1 year
	Innovative plasma-catalytic odour removal technology	Market entry of an innovative plasma catalytic industrial odour removal technology in Hungary and Europe	EUR 10 M	Finalise technology to make it marketable
	Cellum - Comprehensive mobile payment solutions	To strengthen its international presence, Cellum is looking to build partnerships and joint ventures	EUR 13-15 M	2014-2018
	Solo-Duo - Multi hybrid electric car	Investment is needed to finance the development, manufacture and distribution of multihybrid electric cars	EUR 51.5 M	2015-2020
	Holografika - Revolutionizing 3D display	Market expansion of 3D display technology	EUR 12 M	2016-2020
	Innomed - Innovative medical products	Investing into innovative medical products (e.g. mobile x-ray, and biphasic defibrillator monitor)	EUR 11 M	
	Lifechair - Safety aircraft chair	LIFECHAIR is an innovative safety aircraft seating aiming to considerably enhance air passengers' chances of survival.	EUR 6.5 M	2015-2019
	Flike – Hassle free personal flight	A revolutionary, all-electric personal flight device under development	EUR 5.4 M	2016-2020

Sector	Projects	Short description	Overall budget	Implementation period
Manufacturing	Zero waste technology for cleaner drilling	New technology for cleaning drilling stops from oil well drilling. The project owner is looking for an investor for a production	EUR 9.8 M	
	Cannula and needle production	To set up a factory producing 55 million pcs of cannula/month	EUR 42 M	2014-2018
	Waste tyre recycling	Implementation of a new technology for rubber waste pyrolysis. 5 new factories to be opened	EUR 25 M	5-6 years
	Medical device	Sale of 76% of the shares of a developer, producer and trader of ECG and blood pressure devices as well as related integrated analysis systems	EUR 4.4 M	
	Concrete pipe	Sale of 100% ownership of the company producing concrete product parts	EUR 3.3 M	
	MTCN	Establishment of a green field alkaloid production plant	EUR 44 M	
	HandInScan	HandInScan is an innovative health-tech company providing a technology driven, IP protected solution for the prevention of healthcare-associated infections and biological contamination	EUR 15M	2017-2020
	Energy	Geothermal district heating in Kecskemét	Connecting a new geothermal power plant to the existing primary district heating network to cover the required heat demand of the city	EUR 30.4 M
Geothermal district heating in Kiskunhalas		Major expansion of the existing natural gas based heating system utilizing geothermal energy	EUR 6-9 M	18 months
Geothermal district heating in Mosonmagyaróvár		Connecting a new geothermal power plant to the existing primary district heating network to cover the required heat demand of the city	EUR 8.7 M	
South Hungarian Enhanced Geothermal System (EGS)		Development, implementation and operation of an EGS power plant in South Hungary	EUR 116 M	end of 2018
TCG System based power plant		Market entry of an innovative waste management and energy recovery system, with an operating counterpart in the USA	EUR 82 M	12 months
Green industry	3 Bio Plant	Bioethanol-biogas-biomass plant project for the production of fuel quality bioethanol and green energy	EUR 112 M	
	Wind Park Project	Installation of 7 wind turbines near the Hungarian-Austrian border,	EUR 27 M	
	Hydroelectric power plant	Testing of the prototype of an innovative renewable energy hydro power plant technology with the aim of additional power plant construction	EUR 7.5 M	18-24 months
	Electronic waste processing	Construction of an electronic waste recycling plant, with the processing capacity of 8,000 t/year	EUR 7.4 M	12 months

Welcome to Budapest, good bye London?

The potential effect of Brexit on the Hungarian market

After Brexit has become official, many European financial hubs started to solicit international companies to move out of City to their locations. Budapest also joined in the race. The plan is to build a new business centre in Budapest on a 200 thousand sq.m. large area. Budapest will not win the race, but it can still take a piece of the cake. Could the wave of Brexit open room for Hungarian investment opportunities?



Major movements after Brexit

The prime minister of the UK, Theresa May, said that she would trigger article 50 of the Lisbon Treaty before the end of March 2017, setting in motion the two-year process of leaving the EU. The countdown started and everybody speculates whether City will retain

its global dominant financial position or will investors start looking for new hubs. According to PWC, if the UK loses access to the single EU market, London could fall into second place after Dublin, and the gap with other EU cities such as Luxemburg or Paris could narrow considerably.

Many major European cities such as Frankfurt, Paris and Warsaw have already started to solicit international companies to move out of City to their locations.

A new business centre to be built in Budapest

Budapest decided to join this race. Budapest will implement one of its biggest real estate investment projects on a 200 thousand sq.m. large area in the upcoming years. Apart from 150 thousand sq.m. large office complex, it will also include shops, apartments and new public spaces.

The project will be financed by an EUR 120-130 million credit to be concluded with a financial consortium. The consortium may even include new banks which have not yet been present in Hungary. It is also speculated that Western European and Asian real estate funds may also be involved in the financing scheme.

The project should be implemented within three years. To make this feasible, the most state-of-art and innovative technological solution support might be needed from abroad.

Welcome to Budapest, good bye London?

The company Optima charged for this project hopes that as a result of this development Budapest may become an attractive new business centre for new investors. *“We do not want to miss the competition for financial service providers departing from Lon-*

Construction of a new business centre backed by EUR 120-130 million credit

don”, the managing director of Optima, Zoltán Fekete said.

For example Optima is considering negotiation with Japanese car manufacturers (such as Nissan) who already announced that they may rethink their business strategy and move from London to other European locations.

Potential negotiation with Japanese car manufacturers

What will the future bring?

Budapest is not among the top financial hubs (in PWC ranking, in Central Europe, only Warsaw may become a financial hub). Budapest will not win the Brexit race.

But this does not necessarily mean that the new business centre construction project will not be successful. Mr Fekete argues that Budapest already attracts global financial and accounting service providers. For example, the American company GE has just recently opened its Hungarian service center. Overall, Mr Fekete concludes that irrespective of Hungary’s success in the Brexit race, it makes sense for Budapest to build a new business center.

Budapest attractive hub for global financial and accounting service providers

On the other hand, the Hungarian Government clearly wants to strengthen Hungarian-UK bilateral business relations. First, the Hungarian state-owned bank EximBank provided roughly EUR 500 million in credit to facilitate Hungarian companies in entering the UK market. Second, the Hungarian-UK business council was set up. Last but not least, the Hungarian Foreign Minister Péter Szijjártó has just announced that British Petrol will set up its global service centre in Szeged with an investment of roughly EUR 25 million.

EUR 500 million credit support for Hungarian companies to enter UK

Overall, Budapest will not become the new City, but the Brexit wave may still wash over Hungary and open room for potential investment opportunities. We excitedly await what the future will bring.

British Petrol sets up global service centre in Szeged

The call for tender for EUR 30 million project just announced

New campus to be built in Kecskemét

Kecskemét has become a university town, so the call for tender of roughly EUR 30 million worth campus construction has been just announced. The deadline for submitting the tender is 28 November 2016. Be ready and seize this exceptional bidding opportunity.



The Hungarian city, Kecskemet started a big-ticket deal in the higher education. Kecskemet has just become a university town, so a call for tender has been announced for the construction of the whole new campus.

The development strategy is based on the “Smart University” concept by which the students will be able to learn via most state-of

art tools in a building complex featured by 21th century technology. The whole complex will be more than 30 thousand sq.m. large and include 5 buildings: educational, administrative, public library, dormitory and multi-cultural centre.

The investment volume of the project is close to HUF 12 billion (roughly EUR 30 million). The deadline for submitting the tender is 28 November 2016. Only big ticket players may apply having references of public building construction in several billion HUF value in the last 8 years.

After closing the tender, this enormous, 5.5 hectare development area will be handed over for work in the coming months. So the implementation of this challenging project may be started in the first half of 2017. Now every potential player should prepare for bidding as it will soon close. When such an exceptional opportunity knocks make sure your door is not locked.

Call for tender for
EUR 30 million
project

Opportunity only
knocks once

Type of the tender	Construction investment
Language of the tendering procedures	Hungarian
Main scoring criteria	<p><u>Quality criteria</u></p> <ul style="list-style-type: none"> - Date of possible performance compared to the maximum duration of the tender (10 points) - Professional offer (40 points) - Environmental sustainability plan (10 points) - Organisational plan (10 points) - Feasibility plan (10 points) <p><u>Costs criteria</u></p> <ul style="list-style-type: none"> - Price (50 points)
Main eligibility criteria	<p><u>Professional registration/licence requirement</u></p> <p><u>Financial requirements</u></p> <ul style="list-style-type: none"> - The bidder has no negative balance sheet earning subsequently in the last 3 financial years - The bidder's amount of equity in the last financial year was not below HUF 2 billion (circa EUR 6 million) in the last financial year - The bidder revenue in the last 3 financial years together reached HUF 8 billion (circa EUR 25 million) <p><u>Reference requirements</u></p> <ul style="list-style-type: none"> - Reference for construction plan documentation preparation and construction/renovation work of a public building with a net value of at least HUF 2.7 billion (circa 8 EUR million) (where the consideration for construction plan documentation must reach at least net value of HUF 40 million) - Reference for construction work of an education facility with at least 10,000 sqm area and with a net value of HUF 2.2 billion (circa EUR 6 million) including the works described in the tender - Reference for construction of a two-storey internal height lecture room, conference room or theatre with a capacity to accommodate at least 250 visitors as described in the tender <p><u>Personnel requirements</u></p>
Type of the procedure	Open bidding
Main contractual commitments	<p>Collateral for non-performance – 5 % of the net value of the contract price</p> <p>Collateral for non-conformity – 5% of the net value of the contract price</p> <p>Guarantee period – 60 months</p>
Maximum duration	410 days
Deadline for submission of bids	28 November 2016

A new potential boom for the Hungarian clinical trial market

Clinical trial agreement to be standardised in Hungary

The Hungarian clinical trials are one of the success stories of the country. Now thanks to a new proposal, a further boom may be expected. The government plans to make a uniform clinical trial agreement templates making the market environment more flexible and predictable. Experts expect a potential 25-30% growth in this already lucrative market. God is in the details, so we should take a “wait and see” approach before levying a final judgement. But as the new solution may serve as a further incentive for research & development, pharmaceutical companies should keep a close eye on the upcoming developments in clinical trials.

Key players: Richter, Teva, Servier, Sanofi and Bayer AG



EUR 200 million revenue in clinical trial market

New hope – uniform clinical trial agreement

The Hungarian pharmaceutical industry is still one of the leading industries in Hungary. The annual turnover of the industry exceeds EUR 2 billion. The key players are all major international companies, such as Richter, Teva, Servier, Sanofi and Bayer AG.

Hungarian clinical trial market is a very important part of this industry with a constant growth potential. Its total revenue in 2015 reached approximately EUR 200 million. Hungary is in the top 10 European countries in the total number of clinical trials, and 4th in number of clinical trials per population ratio. So far the Hungarian clinical trials helped 15-20 thousands patients to receive the state-of-art medicines and provided professional work and scientific careers for hundreds of medical workers.

Now, thanks to the new proposal, a further boom may be expected. The aim of the proposal is to introduce a uniform clinical trial agreement template which could simplify and bring transparency to the whole process thereby increasing Hungary’s position in the global market.

Experts welcome this proposal and believe that this change may result in an additional 25-30% growth in Hungarian clinical trial market.

But in the end, the success of the template will depend on the final content. Numerous issues have not yet resolved:

Parties: There is at this time mere speculation whether there will only be one agreement between the sponsor and the hospital, or the sponsor should conclude different agreements with the parties involved in the trial (nurses, doctors, etc.). It would be easier for the companies initiating the trial to only conclude one agreement which would involve all parties.

Content: Will the contract balance between the different preferences of the sponsors, clinical trial organisers and the medical facilities? Will it apply to all medical approaches? Will it handle sensitive matters such as insurance, termination, and limitation of liability issues?

Deviation from the template: A key question is whether the parties may deviate from the template agreement? And if yes which provisions can they form for their preferences? If the template argument is not flexible and tailor-made enough to market players, then a mandatory application of the template may be counterproductive.

Database: At the time of the introduction of a template agreement a new data base will be established which will be available not only for hospitals, but for sponsors and patients as well. It is still not clear what the main function and the exact content of the database will be.

Overall, it is early to make any final judgements because God is in the details. A new, more transparent and flexible environment could certainly attract pharmaceutical companies. On the other hand, if the template agreement regulation is strict and inflexible it may cause counter effect.

But as the proposal may result in market growth, it is definitely worth investors keeping an eye on the upcoming Hungarian clinical trial developments. VJT & Partners will keep the readers informed. Stay tuned.

Keep an eye on
Hungarian clinical
trial developments

About VJT & Partners

The Firm

VJT & Partners is a Hungarian commercial law firm advising international and domestic corporate clients and entrepreneurs. The firm was founded by Janos Tamas Varga, who has created a highly successful team based on values including inspiring leadership, striving for perfection, commitment, courage and harmony.

VJT & Partners is recognised as one of Hungary's leading commercial law firms and also as an excellent collaborative partner, working hand-in-hand with its clients. Clients value the firm's absolute commitment, leading to effective and enduring relationships. The firm combines the highest degree of professionalism, the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Lawyers in the firm have developed an in-depth understanding of both the legal and the commercial realities of business. The firm prides itself in giving direct, honest and practical advice, tailored to its clients' needs. The shared values of VJT & Partners are at the very core of the creativity and 'fresh thinking' approach of the firm.

As a member of the EU, but not the single currency, Hungary has a unique language and business culture and a complex legal system bringing particular challenges. All lawyers at VJT & Partners have extensive experience of working with international and domestic companies alike, to help navigate these challenges and to achieve their objectives in Hungary, and to ensure appropriate regulatory approvals.

The leading legal directories rank VJT & Partners highly across a range of practice areas.

VJT & Partners is a full-service law firm that satisfies the needs of clients across a broad range of industries and professions. The firm's legal services include aviation, commercial contracts, competition, corporate M&A, data protection, dispute resolution, finance, immigration, employment, intellectual property, outsourcing, private equity, real estate, regulatory, restructuring and insolvency, and technology.

Practice Areas

The firm is especially active and highly ranked in the following areas:

Corporate mergers and acquisitions

VJT & Partners believes that advising on M&A transactions is to provide more than just legal advice. Understanding the logic and dynamics of the industry sector in which the client and other participants operate is a prerequisite for success.

We advise clients on international and Hungarian M&A transactions including acquisitions, disposals, mergers and demergers, from deal inception through due diligence and negotiations to post completion. The expertise of our multi-disciplinary team in the areas of corporate, commercial, competition, real estate, employment and regulatory enables us to provide excellent service.

Employment

The highly-rated employment lawyers at VJT & Partners have a wealth of experience in all aspects of contentious and non-contentious employment matters. Fully appreciated for understanding their clients' business goals, lawyers design structures and procedures that are watertight and defensible in many court proceedings.

We regularly advise employers on general employment matters including drafting employment agreements, internal policies, termination agreements, termination notices and complex mass dismissal structures as well as employee incentive schemes. We have particular expertise in managing work permit and business immigration applications as well as advising on the different employment and labour related issues which arise with commercial transactions such as outsourcing.

Our team has successfully represented employers and executive employees in all types of court proceedings in Hungary. In particular, we represent clients in disputes concerning issues which include unlawful termination, overtime payment and bonus claims.

Technology

Understanding our clients' underlying technical and technological ideas and objectives, while providing clear, concise and practical advice lies at the heart of our work. The phenomenon of convergence and the rapid proliferation of innovative services inspire our Information, Communications & Technology (ICT) team to continue to build unique expertise in a wide range of technology matters.

Our lawyers have particularly strong track record in commercial IT arrangements such as software licensing, call centre and hosting services as well as hardware procurement, online and e-commerce matters such as setting up web-shops. We also regularly advise on sector-specific regulatory issues concerning communications services such as licensing, interconnection and carrier-pre selection.

How We Work

Lawyers at VJT & Partners are encouraged to develop, to enjoy their work and to become real 'Masters of Collaboration'. Clients comment on the firm's cooperation, communication and its absolute commitment to what they are trying to achieve.

In turn, we find that this leads to effective and enduring relationships. We combine the highest degree of professionalism and the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Our Values

The values that lie at the heart of our business ethos are the building blocks of our business. Nurturing the following values brings the 'hearts and minds' of VJT & Partners' lawyers together as one successful team. We would be happy to talk you through them, what they mean to us, to our business and our clients:

- Inspiring leadership
- Striving for perfection
- Commitment
- Courage
- Harmony

Office:

1126 Budapest
Kernstok Károly tér 8.
Hungary

Contact:

Tel: +36 1 501 9900
Fax: +36 1 501 9901
E-mail: office@vjt-partners.com
Web: www.vjt-partners.com