



newsletter

PPP, PRIVATISATIONS & OTHER LEGAL DEVELOPMENTS | SOUTH-EAST EUROPE MAY 2015

SOUTH-EAST EUROPE: PPP, PRIVATISATIONS & OTHER LEGAL DEVELOPMENTS

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editorial

François d'Ornano
Partner

A quick look at the previous issues of our newsletter shows that the theme of privatisations has always been in the spotlight, whether in individual articles or as the special feature of an entire issue, as was the case for our fourth issue, in April 2014. Meanwhile, we have hardly ever covered the theme of public-private partnerships (PPPs). In this issue, however, the articles on PPPs outnumber those on privatisations for the very first time. What could have prompted this?

Privatisation is a constant hot topic because the countries of the SEE Group are at different levels of development and although a major wave of privatisations took place immediately after the fragmentation of Yugoslavia and the fall of communism, in some cases the process remains incomplete, due to a lack of prospective purchasers or political instability, and in other cases it has been deliberately postponed. The SEE region therefore continues to offer interesting opportunities for foreign investors: the state's 49% stake in Slovak Telekom has recently been sold to Deutsche Telekom, while Montenegro has just announced a major privatisation plan for 2015. In Greece, with the recent political developments, most of the ongoing privatisations have been temporarily put on hold, and their form and timeframe are currently being reviewed. But they will certainly continue.

Unlike privatisation, the theme of PPPs has been interesting on paper but has given rise to few practical examples and even fewer successful ones; the contracts signed by the Macedonian government with TAV for the management of the Skopje and Ohrid airports being among these few.

The main issue with PPPs in the SEE region, despite a growing interest on the part of both states and foreign investors, is that implementation has been slow: first, the legislative framework had to be drafted and adopted, then the appropriate bodies had to be created and their personnel trained before, finally, projects could be launched, embarking upon the lengthy procedures involved in any PPP. We are now in this final stage: PPP procedures are being launched and are becoming a reality for many SEE countries although, as it is argued in the Macedonian article, the authorities in charge are still under-equipped and inexperienced in drafting proposals and implementing the different phases of a PPP project.

The PPPs discussed in this issue are mainly oriented towards the renewal of basic infrastructure: the D4 highway and R7 express road projects in Slovakia and the numerous projects planned in view of the upgrading of Slovenia's infrastructure (motorways, hydropower plants, railway sections and tunnels) illustrate this tendency. This is also the case in Croatia, with the Rijeka and Osijek airports and the Port of Dubrovnik, and with the waste management projects that are currently ongoing in Greece. At the same time, there is a project aimed at reviving and redeveloping Belgrade's riverside, called Belgrade Waterfront, the estimated development value of which exceeds 2 billion euros. The successful completion of this project is conditional upon the finalisation of a number of connected projects, such as the project for relocation of the central railway station, which we have decided to discuss in this issue.

The ongoing privatisations paired with the promise of a more dynamic PPP sector are positive signs for foreign investors in search of investment opportunities. States are in need of foreign capital and they are taking active measures in order to improve the fundamentals of their economies. This can be seen, for example, in the far-reaching changes in Serbian law on planning and construction, which introduce a unified procedure for obtaining the rights to construct and use buildings, and in the reform of the water system in Bulgaria, which offers potential investment opportunities to foreign investors.

We hope that this newsletter will illustrate the numerous investment opportunities in the SEE region, in the form of both privatisations and PPPs.

PART I : PUBLIC-PRIVATE PARTNERSHIPS / INFRASTRUCTURE

CROATIA

Contributed by: **Ivekovic Law Offices**
Strossmayerov trg 8 - 10000 Zagreb - Croatia

The Croatian government relies on infrastructure projects to attract and encourage investments as well as to improve the competitiveness of the Croatian economy. Tourism continues to be the sector expected to attract significant foreign investment, among others, through the revival of unused government facilities.

Infrastructure projects on offer in Croatia

Some of the most interesting infrastructure projects currently available in Croatia are described below:

<p>The Gate of Zadar</p>	<p>The project involves the construction of new infrastructure and commercial facilities, aimed at revitalising and urbanising the zone between the historical centre and the new part of Zadar.</p> <p>The project is valued at approximately 110.8 million euros and the project area at 30.1 hectares, of which 18.9 is land and 11.2 is sea.</p> <p>The City of Zadar plans to implement the project as one of strategic importance under the newly amended <i>Strategic Investment Projects Act</i>, which should result in a faster and more efficient implementation. The project will involve a right to build and operate the relevant commercial and other facilities for up to 99 years.</p> <p>The future strategic partner could participate in the development of the whole project or the commercial facilities only.</p>
<p>Sports Centre "Višnjik"</p>	<p>The project involves the construction of accommodation and additional sports facilities at the existing sports centre Višnjik in Zadar, covering 202,000 m².</p> <p>The project is valued at approximately 100 million euros.</p> <p>The project includes the construction of several new objects (a four star sports hotel, a sponsor's house with business offices and commercial capacities, a tennis centre and an outdoor swimming pool complex).</p> <p>Each investor/strategic partner is to have the chance to develop a specific part or the whole project, either alone or in cooperation with the management company Sportski centar Višnjik Ltd.</p> <p>The transaction structure has not been determined yet.</p>
<p>Port of Dubrovnik</p>	<p>The project involves the building and operating of the Cruise Terminal, Shopping Mall and Bus Terminal in the Port of Dubrovnik</p> <p>The project is valued at approximately 40 million euros and the gross building area (which is separated into several zones) totals 120,000 m².</p> <p>The project may be done in several phases, depending on investors' preferences.</p> <p>The transaction structure is based on a long-term concession agreement.</p>

<p>Rijeka Airport</p>	<p>The project involves the reconstruction, modernisation and development of Rijeka Airport.</p> <p>The project is valued at approximately 16 million euros.</p> <p>Three options are currently under consideration: (a) recapitalisation; (b) repurchase of existing stockholders or (c) PPP / concession contract.</p> <p>The most viable way of investing private capital into Rijeka Airport would be through recapitalisation or concession.</p>
<p>Osijek Airport</p>	<p>The project involves the modernisation of existing and the construction of new capacities and acquisition of equipment for commercial operations.</p> <p>The project is valued at approximately 5 million euros.</p> <p>Three options are currently under consideration: (a) recapitalisation; (b) repurchase of existing stockholders or (c) PPP / concession contract.</p> <p>The most viable way of investing private capital into Osijek Airport would be through recapitalisation or concession.</p>

From pumpkin to princess - disused government facilities to become high-end tourism resorts

The Croatian government has, in accordance with its economic development plan, worked out different models for reviving a large number of disused government facilities for tourist purposes as described below:

<p>Project Kupari</p>	<p>This project aims to further develop high-end tourism in the Dubrovnik-Neretva region, a highly popular tourist destination with some of the highest real estate prices in the country. The development, located in one of the most attractive locations in south Dalmatia (Kupari I) covering a land area of 14 hectares, is to be transformed into a high-end tourism resort with Dubrovnik and an international airport on its doorstep.</p> <p>Potential investors would be looking at a right to build and use the property for a period of up to 99 years.</p>
<p>Imperial Plc.</p>	<p>Imperial Plc., the main hotel company on the island of Rab, with a diverse real estate portfolio and a broad spectrum of possibilities for strategic development, is currently looking for investors.</p> <p>Pursuant to the <i>Regulation on the Sale of Shares and Business Interests</i>, the transaction model may consist of 2 rounds: (a) a determination of investors' interest in purchasing shares/business interests; and (b) the submission of a binding bid for the purchase of shares.</p>

Hoteli Plat Plc.	<p>Hoteli Plat Plc., situated in the small village of Plat (near the above-mentioned Kupari high-end tourism resort), with 4 beaches and great potential for further development as an independent hotel resort, is also currently looking for investors.</p> <p>Pursuant to the <i>Regulation on the Sale of Shares and Business Interests</i>, the transaction model may be conducted in 2 rounds: (a) a determination of investors' interest in purchasing shares/business interests; and (b) the submission of a binding bid for the purchase of shares.</p>
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In addition to the above-mentioned projects, the Croatian government introduced a significant number of other similar projects involving companies and real estate in the tourism sector, which is considered as one of the most prospective sectors offering some of the most interesting investment opportunities in Croatia.

GREECE

Contributed by: **Zepos & Yannopoulos**
75, Katehaki & Kifissias Ave. - 115 25, Athens - Greece

Greek PPP/infrastructure projects - burgeoning green shoots in the Greek investment landscape

2014 was a good year for public private partnership (PPP) projects in Greece. A total of 7 projects with an estimated value of 465 million euros reached transactional closure, bringing the country to third place on the European PPP market in terms of the number of deals concluded.

Most of the projects awarded in the second half of 2014 involved IT and telecommunications operations, an area where PPP is considered more advantageous in comparison to the standard public procurement framework. Such projects attracted the interest of global firms (such as LGS CNS and INTRASOFT) and included:

- improvement of urban transportation in Athens via the advancement of the telematics platform for fleet management and passenger information;
- establishment of an e-ticket system for urban transportation in Athens; and
- installation of broadband networks in remote areas to facilitate country-wide internet access.

The above list of projects is lengthened by an impressive list of significant projects of greater public interest, including the construction of 7 fire stations and 24 school complexes in the Attica region.

Another key sector for PPP in Greece so far has been waste management. Tenders that were ongoing in 2014 for waste management projects witnessed fierce competition, given that the value of the contracts in question well exceeded the construction, operation and maintenance costs of the relevant sites. In total, 5 contracts were awarded in the second half of 2014 in the Prefectures of Serres and Ileia as well as the regions of Peloponnese, Western Macedonia and Epirus. The revenue generated from these contracts is estimated in the range of 330 million euros (originating from private financing and/or EU funds) whereas closings are scheduled for early 2015.

A sixth tender concerning waste management in the region of Eastern Macedonia and Thrace is expected to be launched this year. The tender, advertised as a significant investment opportunity, involves the construction, maintenance and operation of a waste management site with a capacity of approximately 150,000 tons for a period of 27 years.

Overall, the implementation of PPP projects has been successful in Greece as the legislation provides a flexible, transparent and reliable framework for the execution of large-scale projects. In this respect, it is indicatively noted that only a handful of PPP projects have been successfully appealed against or annulled before the Greek courts.

Another factor contributing to the success of PPP projects in Greece is that PPP enjoys popular support: in a survey performed by Pulce RC in early 2014, 64% of the interviewees replied that they are in favour of public interest works implementation through PPP. In this respect, PPP could be seen as a valuable tool for the creation and implementation of investment projects stimulating investment interest and opportunities at a time of financial uncertainty.

MACEDONIA

Contributed by: **Debarliev, Dameski & Kelesoska Attorneys at law**
Albert Ajnstajn 4/1, 1000 Skopje - Macedonia

PPP in Macedonia: a flightless bird or a fledgling chick?

The concept of public private partnership (PPP) introduced with the Law on Concessions in 2008 and later replaced by a new Law on Concessions and PPP in March 2012, is relatively new in the Republic of Macedonia. The main changes of the new law related to the project implementation process, which culminated also in the enactment of the Law on Public Procurement.

The Ministry of Economy of the Republic of Macedonia is tasked not only with the regulation and implementation of PPP projects but also with managing and maintaining a register of PPP contracts awarded which, despite there being many more projects, currently contains only 15 contracts.

The Ministry is aided in its work on PPP projects by a number of institutions, the most important being:

- the **Bureau of Procurement**, which oversees the process for awarding PPP projects. In accordance with the Law on Public Procurement, the process can be implemented as open, restricted or negotiated, and must be preceded by a public notice or competitive dialogue;
- the **State Commission for Appeals for Procurement**, which, since January 2012, handles complaints relating to the process. The Commission has so far proven quite effective, having resolved approximately 95% of the complaints brought under the Public Procurement Act within the last 3 years and 8 out of 9 complaints submitted in relation to PPP contracts since 2013; and
- the **Council for PPP** which acts as an advisor and a body charged with the promotion and offering of projects, as well as proposing initiatives to amend PPP regulations, where needed.

Following introduction of the PPP legislative framework in Macedonia, several major contracts were entered into. In 2008, the Ministry of Transport and Communications signed an agreement with a Turkish company, Tepe Akfen Ventrus (TAV), to manage the Skopje and Ohrid Airports for a period of 20 years and to construct an additional airport in Stip, with an aim

to increase the number of passengers at these airports by improving their infrastructure. The Ministry of Transport and Communications in Macedonia is also implementing the Kicevo-Ohrid highway construction, which began in 2013, through a concession model, with a Chinese construction company taking the lead in the construction of the 374 million euros road. The Kicevo-Ohrid highway construction is one of the first major highways to be built with outside funding. Concessions have also been implemented in other sectors, such as telecommunications and health. The Ministry of Health recently concluded an agreement for 20 years with a private partner to manage a dialysis department. The project has been heavily criticized however in terms of the manner in which the process was run, the rising service prices for patients and the shrinking number of healthcare workers since then.

Although there is an interest in Macedonia to develop PPPs, and there have already been a number of successfully completed projects, the institutions are still under-equipped and inexperienced in drafting proposals and implementing the different phases of a PPP project. The existence of a functioning legal framework as well as the commitment of the authorities to more transparent and investor-friendly procedures give reasons for optimism for the future of PPPs in Macedonia.

SERBIA

Contributed by: **Maric Malisic Dostanic** | Gide exclusive correspondent firm
Resavska 32, 4th floor - 11000 Belgrade - Serbia

Belgrade on Water - founding the dream

“Belgrade Waterfront” is a project aimed at reviving and reinventing Belgrade’s riverside. The proposed Masterplan depicts a development complex stretching along 2,250m of the Sava river and encompasses a development area of 1,000,000m². The development, to be built in 4 phases, is to comprise residential buildings, schools, hotels, a retail mall, commercial offices and entertainment/cultural developments. The estimated value of the development exceeds 2 billion euros.

Given the complexity of this endeavour, many elements of infrastructure will need to be refurbished, transferred or built before the Belgrade Waterfront project can be carried out successfully. The total value of these “connected projects”, although not quantifiable precisely, is also estimated to exceed several billion euros.

With this in mind, there will be many opportunities for construction companies, project management companies, consulting and other related industries to become involved both in the Belgrade Waterfront project and its connected projects.

In this edition of our Newsletter, we have decided to focus on one interesting project that should lead to the relocation of the Belgrade central railway station, this being one of the pre-conditions for the realisation of the Belgrade Waterfront project. However, for the Belgrade central railway station to be fully functional upon relocation, the railway infrastructure and new routes need to be put in place first.

The main characteristics of this project are outlined below:

<p>Project name</p>	<p>“Construction of bypass railway Beli Potok - Vinca with the construction of a road-railway bridge and railway triangle Zuce - Bubanj Potok, Pancevo Hipodrom - Pancevo Varos for the “Belgrade Waterfront” project, and the highway bypass Bubanj Potok - Vinca – Pancevo”</p>
<p>Responsible parties</p>	<ul style="list-style-type: none"> • Ministry of Construction, Transport and Infrastructure • JSC “Serbia Railways” • PE “Roads of Serbia”
<p>Strategic and legal framework</p>	<ul style="list-style-type: none"> • Strategy for the creation of conditions for the construction of Belgrade on Sava, on the “Sava amphitheatre” territory, conditioned by the relocation of the railway installations • General urban plan of Belgrade until 2021 • Spatial Plan for the Republic of Serbia • Technical study for the finalisation of the Belgrade railway junction
<p>Project importance and goals</p>	<p>This traffic corridor is of great importance for The Republic of Serbia, Belgrade and Pancevo.</p> <p>The goal is to divert railway freight traffic and transportation of hazardous substances, and transit road traffic in Belgrade - Pancevo - Vrsac/Zrenjanin, outside the Belgrade and Pancevo city centres, via a bypass railway and bypass road.</p> <p>Within the “Belgrade Waterfront” project, JSC “Serbia Railways” plans to separate railway traffic for passenger transport (that goes through the city area) from the railway freight transport (that would circumvent the city area) by reorganising the traffic in the Belgrade railway junction.</p> <p>Without this project, the transfer of railway traffic from the city centre and the construction of the “Belgrade Waterfront” is not possible.</p>
<p>Investment value</p>	<p>The total investment for the construction, planning and design, indirect costs (conditions and consents, administrative taxes, permits and professional supervision) is approximately 470 million euros.</p>
<p>Brief project description</p>	<p>The project involves the construction of a highway bypass around Belgrade, and an electrified single-line railway with a road-rail bridge across the Danube.</p> <p>The bridge is the key facility, consisting of the main bridge and access to the highway and railway.</p>
<p>Funding and organisation</p>	<p>The process of reconciling <i>The Memorandum of Understanding</i> between the Ministry of Construction, Transport and Infrastructure and Chinese company Sinohidro Corporation Limited on the mutual realisation of the project as a public-private partnership or some other form of financial model, except for the classic borrowing, is currently in progress.</p>

SLOVAK REPUBLIC

Contributed by: **B & S Legal s.r.o.**

BBC V, blok A, Plynarenska 7/A - 82109 Bratislava - Slovak Republic

Significant and ambitious PPP projects raise the profile of Slovakia

Although PPP projects are not very common in Slovakia, the 3 billion euros project for the construction, financing and operation of the express road R1, initiated by the Slovak government in 2008, was a successful project. Six years later, the Slovak government is launching 2 significant and ambitious PPP projects, in road construction and in the health sector.

Road construction project

The total length of the road to be built in western and southern Slovakia will be 60 kilometres (D4 highway and R7 express road) and will provide an important connection with the Czech Republic, Austria and Hungary. According to the current estimations, the project will cost 1.325 billion euros and will be very similar to the R1 project in terms of the legal and structural framework.

The main reason the Slovak government opted for PPP financing is that the Bratislava region is excluded from receiving European Union funds. As the domestic public funds are very limited, the only way to finance such a large project is to look for private funds and investors.

The D4 highway will provide the long-awaited bypass around Bratislava in western Slovakia, which is expected to resolve the constant traffic congestion on the roads in the larger Bratislava metropolitan areas. The R7 express road will connect Bratislava to towns in southern Slovakia. Both roads are part of a broader solution to the traffic situation in Bratislava and are considered as a single large project, although split into several smaller parts. The new roads should also help stop the fall of real estate prices in the region, which suffers from poor road accessibility, constant traffic congestion, and a resulting lower quality of life for the inhabitants.

The selection process for the private partner has already begun. According to the publicly available sources, 9 consortia are interested in the project. Based on criteria stated in the tender, the Ministry of Transport will choose 4 candidates to participate in the competitive dialogue. The conclusion of the concession contract and the beginning of the works are planned for late 2015 or early 2016. The construction should be complete within 4 years.

Meanwhile, the Ministry is acquiring ownership of the lands involved in the project. The estimated costs of the buy-out are 300 million euros for the D4 and 100 million euros for the R7 road. According to the latest information provided by the Ministry, the majority of the land for the R7 has been bought out; the data for the D4 has not yet been disclosed. The Ministry admits that the land buy-out may be the main stumbling block in the smooth development of this project.

The planning of the roads is further complicated by the presence of several large protected nesting sites in the Danube area. The government hopes that the construction will be completed in 2018 (R7) and 2020 (D4), respectively.

Hospital construction project

In early 2015, the Ministry of Health launched a public tender concerning a new hospital PPP project in the north-west Bratislava as part of the *BioMedPark* project, which features a teaching hospital and a biomedicine scientific park (to be run by the Slovak Academy of Sciences) and new premises for the Medical and Pharmaceutical Faculties of Bratislava's Comenius University.

The deadline for filing the prequalification bids was 31 March 2015. On 14 April, the Ministry of Health released a list of 7 bidders that expressed their interest in the project and that may now begin competitive dialogue, a process that could take approximately 10 months.

The full length of the concession will be 30 years and the design and construction phase is expected to last 3 years. Operations are expected to begin in 2018. The concession will involve the design, construction, financing and maintenance of the new hospital, provision of healthcare services and ensuring capacity for students.

The investment cost for construction is estimated at 130 million euros according to the tender announcement, whilst procurement of medical and non-medical equipment is estimated to cost at least 30 million euros. Acquiring the necessary ICT is deemed at, at least, 15 million euros. The Ministry's estimate for revenues in the first year of operation is 130 million euros, whilst the average investment cost would be 14 million euros per year.

Hospitals in Slovakia are financed 95% by health insurance companies (of which the state owns the largest) and 5% by direct patient payments.

The project is unique in that the private partner will also provide the healthcare itself and bear the demand risk while the public partner's financial participations will be nil or very limited. Consequently, the Ministry of Health will refrain from building competing facilities in the catchment area.

There are only 2 or 3 projects of similar type that have so far been completed in Europe, contributing to making this project quite exceptional.

SLOVENIA

Contributed by: **Kirm Perpar law firm, Ltd.**
Poljanski nasip 6 - 1000 Ljubljana - Slovenia

Infrastructure projects - will Slovenia take advantage of its geostrategic position?

Although Slovenia has not recently been making the news for large infrastructure projects, its geostrategic position and the Slovenian government's recognition of the importance of upgrading and improving Slovenia's infrastructure may lead to increased activity in this sector.

Following on from its relatively positive experience in constructing its motorway networks, building road links (development axes) and additional hydropower plants on the river Sava, increasing the Port of Koper capacity and upgrading its railway infrastructure, are just some of the items on the Slovenian infrastructure agenda. The government has stated that Slovenia will be applying for approximately 4.4 billion euros funding from the EU for the railway upgrade and modernisation projects alone.

Some of the projects currently on the agenda are described in the table below:

Project Name	Description
<p>Construction of the Draženci-Gruškovje motorway</p>	<p>Based on the October 2014 presentation of the project by DARS (Motorway Company in the Republic of Slovenia), the length of the new motorway section Draženci-Gruškovje will be 13.03 km. The section will be built on the route of the existing main road G 1-9, which will be removed.</p> <p>The following financing structure is planned for the project:</p> <ul style="list-style-type: none"> • own funds: 69.92 million euros • loans/bonds: 117 million euros • other sources (EU funds – Cohesion Fund): 56.06 million euros • TEN-T funds (for project engineering): 3.23 million euros. <p>The total value of the project is 246.22 million euros (including financing costs).</p> <p>The construction of the first part of the new motorway section is to begin in August 2018.</p>
<p>Construction of the Mokrice Hydropower plant</p>	<p>According to Silvester Jeršič, the project director and head of the technical sector of Hydropower plants on the lower Sava river company (HESS), the national spatial plan for the Mokrice hydropower plant has been completed, the regulation has been adopted and therefore the conceptual project has been completed.</p> <p>According to the primary time schedule, HESS is planning to obtain the building permit and begin construction of the plant in June 2016 with completion projected for December 2019.</p> <p>The estimated investment value of the infrastructure works is 100 million euros. The HESS Board has suggested that European funds will be applied for for the project.</p> <p>Unofficially, however, the main source of funds remains the Slovenian government-funded Water Fund. The 100 million euros for the energy part of the power plant will be provided by HESS and the owners, HSE and GEN energija.</p>
<p>Upgrade of the Zidani Most - Celje railway section</p>	<p>The length of the relevant railway section is 25 km.</p> <p>Construction is set to begin in 2016.</p> <p>The estimated value of the project is 225 million euros.</p> <p>According to the Slovenian Infrastructure Agency, the project financing is expected to come from the budgetary resources of the Republic of Slovenia and EU funds (TEN-T funds and Cohesion Funds). The application for obtaining TEN-T funds in the amount of 1.75 million euros (for preparation of the project documentation) was approved in March 2013. An application for obtaining the funds from the Cohesion Fund is expected to be submitted in the second half of 2015.</p>

<p>Upgrade of the Poljčane-Slovenska Bistrica railway section</p>	<p>Construction is to begin in 2016.</p> <p>The estimated value of the project is 46 million euros.</p> <p>In addition to the funding from the state budget, EU co-financing by the Cohesion Fund is also expected.</p>
<p>Construction of the second duct in the Karawan tunnel</p>	<p>Construction is to begin in 2017 and end in 2022 or 2023.</p> <p>The estimated value of the project is 320 million euros of which DARS is to finance 150 million. The rest is to come from the Austrian motorway operator Asfinag according to an agreement governing the joint financing and implementation of the overall development of the Karawan tunnel, signed by the parties on 14 April 2015.</p> <p>The 7.864 km Karawan tunnel is an important cross-border (Austria-Slovenia) road transport link and is essential in the EU's core transport network. The second duct will provide easier remediation of the existing duct and easier performance of regular maintenance works.</p>
<p>Upgrade of the Pragersko railway station</p>	<p>The Pragersko train station is a railway hub in the pan-European V and X corridors.</p> <p>The existing Pragersko station serves domestic and international freight and passenger traffic.</p> <p>The objectives of the project are to increase the permeability and manufacturing capabilities of the railway station, improve the technical parameters to meet D4 category requirements (load-bearing capacity of 22.5 t/axis), provide technical adequacy in line with European standards and requirements for interoperability, increase road safety, eliminate and prevent negative impacts on the environment and reconstruct the station to ensure proper connection with the planned modernized Pragersko – Ormož -Hodoš railway.</p> <p>The Ministry of Infrastructure intends to apply for EU funding from the Cohesion Fund. Further detailed information is not yet known.</p> <p>Although the media has speculated that construction of the station is to begin in 2017 and that the estimated value of the project is 184 million euros, detailed information has yet to be released.</p>
<p>Construction of third Novo Mesto ring road</p>	<p>During its 25th regular session on 5 March 2015, the government explained that construction of the first section of the southern part of the third ring road is planned in several phases, due to the high investment value and in terms of traffic and economic efficiency. The first phase includes the construction on the Novo mesto - East motorway connection and the Osredek route to the connection. The second phase includes the Osredek connection to the Poganci split and the final third phase includes the Maline connection with the tunnel under Gorjanci.</p> <p>The Regulation of the national spatial plan for the highway from Novo Mesto to the Maline connection was issued by the government in December 2012. The national spatial plan provides for the construction of a four-lane highway in the west and east of Novo Mesto.</p> <p>The Operational Programme for the implementation of the European Cohesion Policy from 2014 to 2020, inter alia, refers to the beginning of the construction of the third ring road. It indicates that by the end of 2022, only the 5.3 km four-lane motorway between the Novo Mesto - East highway exit and the Revoz connection will be completed.</p> <p>The estimated value of the project according to Slovenian media is 75 million euros.</p>

<p>Construction of the railway pass from Primorska to Gorenjska; Tivolski lok</p>	<p>The project involves the construction of the direct connection between the No. 50 Ljubljana – Sežana twin-track railway line and the No. 20 Ljubljana – Jesenice monorail railway line. Due to increasing traffic, the need to establish a direct line from Primorska to Gorenjska, and vice versa, via the main railway station in Ljubljana, has long been identified. The objectives of the project are to increase traffic flow, shorten travel times, improve the reliability of the train timetable, and ease the burden on the Ljubljana train station. According to the Slovenian Infrastructure Agency, the spatial placement, projecting and repurchases for the project are expected to be completed in 2018, followed by project implementation, which is expected to take 2 years.</p> <p>The preliminary estimated value of the project is 15 million euros.</p>
<p>Upgrade of the Maribor-Sentilj railway section by constructing a second track</p>	<p>The project has been classified as one of the European co-financed projects by 2020. As explained by the Ministry of Infrastructure, the project is currently being outlined in the area, while the construction is planned from the end of 2018 to the end of 2022.</p> <p>The Maribor – Šentilj railway line, almost 16 km long, is part of the corridor Xa (Graz – Maribor - Zagreb). It is an important connection to the Port of Koper and a direct connection with Austria and the pan-European corridor V. The line needs complete renovation. Upgrading the existing track and constructing the second track will culminate in a new dual-track route. The purpose of the project is the modernisation and reconstruction of the route in accordance with European standards.</p> <p>The national spatial plan is currently being prepared. The adoption of the Regulation on the national spatial plan is expected in the second quarter of 2016.</p> <p>The planned construction period is the following:</p> <ul style="list-style-type: none"> • Upgrade of existing track: 2017-2020 • Construction of the second track: 2020 and thereafter. <p>The estimated value of the project is 305 million euros.</p>
<p>Deepening of the second pool in Port of Koper</p>	<p>The Ministry of Infrastructure has, for the year 2015, highlighted 2 key priorities.</p> <p>The first priority is to complete the deepening of the ship canal for the first pool, to be undertaken by the Maritime Administration, and following this, to complete the deepening of the port's second pool, which is being undertaken by Luka Koper as concessionaire.</p> <p>The second priority for the year 2015 is to begin preparing the project to deepen the ship canal into the second pool in the Port of Koper, and to continue preparations for the launch of new projects to construct public port infrastructure, such as extending the first pier, constructing a new entrance to the port at Srmin, building a hinterland of the port and additional rail links in the port.</p> <p>Although there are no official estimates for the value of the project, the management of Luka Koper d.d. has indicated the company plans to make investments in the amount of 240 million euros to increase the port's capacity in the coming years.</p>

PART II - PRIVATISATIONS

GREECE

Contributed by: **Zepos & Yannopoulos**
75, Katehaki & Kifissias Ave. - 115 25, Athens - Greece

Privatisation - shaping the Greek investment landscape

Following the parliamentary elections in January 2015, won by a coalition led by the leftist party Syriza, the current privatisation programme and the role of the Hellenic Republic Asset Development Fund (the “**HRADF**”), the state-owned SPV which coordinates the major privatisation projects, have been questioned.

As a result of the recent political developments, most of the ongoing privatisations have temporarily been put on hold, with their form and timeframe currently being reviewed.

The tender for the concession of the horse race betting license however has stayed on track for completion. On 24 April 2015, a contract was concluded between the HRADF and sports betting firm OPAP (a former holding in the HRADF portfolio) in exchange for 40.5 million euros. The transaction is now subject only to obtaining the necessary regulatory clearances.

The situation is less clear regarding the tenders for a 99-year lease of the Hellinikon site and a 40-year lease of 14 Greek regional airports. In both cases, the HRADF has selected the preferred bidders and the execution of the respective contracts is pending. Procedural delays are mainly due to the government’s intention to renegotiate certain contractual terms.

Nevertheless, such re-negotiation of terms could trigger important legal difficulties and would seem unlikely from a pragmatic point of view since, if concluded, the above deals will be the most successful privatisation projects in the country in recent years.

In particular, the Hellinikon site has been awarded to a joint venture between Greek real estate firm Lamda, Chinese investor Fosun International and Abu Dhabi-based firm Al Maabar. Its development is expected to generate a total of 915 million euros in state revenues in the next 10 years. Likewise, the overall revenues from the utilisation of the regional airports by a joint venture between German airport operator Fraport and Greek investor Copelouzos are estimated in the range of 7 billion euros.

The future of on-going transportation projects is more uncertain. The HRADF negotiations with qualified investors in tenders for the sale of 100% of the share capital of TRAINOSE and ROSCO (2 companies active in rail service operations and rolling stock maintenance, respectively) have reached a standstill with the government planning to rethink the framework of the deal.

One of the scenarios under discussion reportedly involves the joint sale of both companies as a more attractive bundle to potential investors. Another potential scenario involves the continued participation of the Greek state in the operations of TRAINOSE, with a view to the further develop the national railway network.

By contrast, it is more than likely that the tenders for the sale of 67.7% of the share capital in the Piraeus and Thessaloniki port authorities will go ahead as planned. The main intention is to resume the respective privatisation processes following a temporary halt at the beginning of the year, especially in view of the strong interest from international investors.

In general, there is currently little information as to how and to what extent the privatisation programme in Greece will be rebooted. The government is currently opting to strike a fine balance between a privatisation programme that will give a much needed boost to the distressed national economy and one that takes into consideration the public interest. In this respect, the privatisation plan appears to seek a balance between, on the one hand, securing a minimum investment from investors and, on the other hand, ensuring that at least some of the proceeds are re-invested for social welfare purposes.

More specific answers to the above questions are expected within the coming weeks, as maintaining a profitable privatisation programme is an integral part of the on-going discussions with the ECB, the European Commission and the IMF in connection with the Greek sovereign debt.

Furthermore, such answers are eagerly awaited given that the HRADF portfolio continues to include high-priced assets such as the sale of a 25% stake in the Athens International Airport, a 35% stake in the Greek Oil Company (Ellinika Petrelaia) and the management of the Egnatia Highway (a highway running through Northern Greece). As such, they will have a substantial impact in shaping the landscape of investment opportunities in Greece for the years to come.

MONTENEGRO

Contributed by: **Maric Malisic Dostanic** | Gide exclusive correspondent firm
Resavska 32, 4th floor - 11000 Belgrade - Serbia

Privatisation Plan for 2015 - a stimulus for Montenegrin economic renaissance

The Law on Privatisation of Economy ("Official gazette of the Republic of Montenegro", no. 23/96, 6/99, 59/00 and 42/04) establishes that privatisations shall be made in accordance with annual privatisation plans adopted by the government of Montenegro (the "**Government**") based on the Privatisation and Capital Investment Council's proposal (the "**Council**").

The Government issued the decision on the annual Privatisation Plan for 2015 on 12 February 2015 (no. 08-207). The Privatisation Plan establishes the main privatisation objectives and offers details on methods of privatisation, together with a list of companies and a percentage of share capital to be privatised.

Based on the 2015 Privatisation Plan, the priority is to encourage and eliminate barriers to foreign investment. Four privatisation methods are being considered:

- Sale of shares and assets by public tender;
- Public-private partnership;
- Sale of shares at the stock exchange; and
- Sale of shares and assets by public auction.

The public tender method is being applied to privatisations in various sectors such as healthcare, production of tobacco, agricultural production, chemical industry, defence, hotel and similar accommodation, rail traffic and air traffic.

Some examples are mentioned below:

Company	Sector	Status
Institute “Dr Simo Milosevic” AD - <i>Igalo</i>	Physiotherapy, rehabilitation and rheumatology	Negotiations on the Agreement on Sale and purchase of Shares are underway
“Novi duvanski kombinat” AD - <i>Podgorica</i>	Purchase, production and trade of tobacco and tobacco products	Tender announced on 2 December 2014 and deadline for bid submissions on 12 February 2015
“Poliex” AD - <i>Berane</i>	Chemical industry, production of explosives	Signing of the Agreement on Sale and Purchase of Shares expected shortly
“Montenegro Defence Industry” doo - <i>Podgorica</i>	Defence industry	Signing of the Agreement on Sale and Purchase of Shares expected shortly
Hotel “Park” - <i>Bijela</i>	Hotel	Deadline for bid submission on 27 February 2015

The public-private partnership method concerns mainly the tourism sector. A few examples are mentioned below:

Location	Project Type	Status
Island Lastavica with fortress “Mamula” - <i>Herceg Novi</i>	Island with fortress	Negotiations with the Bidder are completed and the Agreement is with the Privatisation and Capital investment Council and the Government for consideration and adoption
VTK “Mediteran” - <i>Zabljak</i>	Military tourist resort	Deadline for bids submission on 12 March 2015
“Donja Arza” - <i>Herceg Novi</i>	Land and maritime area	Deadline for bids submission on 12 February 2015
Complex Ecolodge - <i>Vranjina</i>	Tourist complex	Deadline for bids submission on 30 April 2015
Location “Kolasin 1600” - <i>Bjelasica and Komovi</i>	Ski resort	Deadline for bids submission on 30 April 2015

<p>Construction of golf complex (Montepranzo) - Tivat</p>	<p>Golf complex</p>	<p>Announcement of public tenders yet to be made and shall depend on dynamics in preparation of tender documentation, implementation of previously announced public tenders, priorities defined by the Privatisation and Capital investment Council, and interests expressed by potential investors</p>
<p>“Posta Crne Gore” AD - Podgorica</p>	<p>Post office</p>	<p>Tender for privatisation is expected to be announced during the 4th quarter of 2015</p>

There are currently no details as to the companies to which the remaining methods of privatisation would be applied.

For companies where the state or state funds are majority owners and/or the value of assets exceeds EUR 50,000, the sale of such company/assets is subject to the prior approval by the Council.

SLOVAK REPUBLIC

Contributed by: **B & S Legal s.r.o.**
 BBC V, blok A, Plynarenska 7/A - 82109 Bratislava - Slovak Republic

Privatisation of Slovak Telecom - planned IPO derailed by a private bid

Slovak Telekom (“ST”) is the largest Slovak telecommunications provider and the largest broadband internet provider in the fixed networks market in the Slovak Republic. In 2013, ST’s market share in the Slovak telecommunications market was 40.3%. In 2014, the ST Group reached revenues of 767.6 million euros and a profit of 43.6 million euros. According to the general director of ST, the company is today in good shape and good competitive position thanks to investments made to infrastructure.

ST is controlled by Deutsche Telekom AG, through its subsidiary CMobil B.V. which holds 51% of the shares of ST. 15% of the shares were owned by the National Property Fund of the Slovak Republic (the “Fund”) and 34% by the state represented by the Ministry of Economy. In April 2015, the shares owned by the state were transferred to the Fund.

In February 2014, a Memorandum of Understanding was signed in relation to the envisaged sale of the 49% stake then held by the state and the Fund in ST. In July 2014, a mandate agreement to coordinate and manage the sale process was concluded between the Fund and the selected investment banks J. P. Morgan Securities PLC, J. P. Morgan Limited and Citigroup Global Markets Limited.

According to the Slovak Minister of Economy, the preferred sale method was through the public offer of shares on the capital market, a direct sale to a third party remaining as the second preferred alternative. In March 2015, the Slovak parliament approved the intention to privatise the said 49% share.

According to a follow-up resolution on privatisation adopted by the Slovak government on 1 April 2015, the Minister of Economy was supposed to procure, by 8 April 2015, a free transfer of the 34% stake held by the state to the Fund (its core business being the transfer of the state property selected for privatisation to non-state entities). At the same time, the resolution of the government charged the Fund with the task to procure the sale of the entire 49% stake via a public offering on the stock exchange.

Deutsche Telekom AG declared that it had no intention of selling its stake in ST and wanted to remain the majority shareholder.

According to the Slovak Minister of Economy, the state intended to kick-start the capital market in the Slovak Republic for the future, and hence followed the investment banks' recommendation to place part of the shares of ST on the domestic capital market.

The stake was to be listed on both Bratislava and London Stock Exchanges. According to the published information, the offer to institutional investors ran from 21 April to 6 May, with the offer for retail investors beginning on 22 April and ending on 5 May.

Each private investor (presumably limited to individuals in the Slovak Republic) that delivered a timely subscription of shares was supposed to be offered a discount of 5% off the offering price, provided the total number of shares purchased ranged between 10 and 423.

The offer to retail investors, i.e. individuals and non-institutional entities, was to not exceed 10% of the total offered shares, i.e. not more than 4,234,153 shares (according to the informative material of the Fund).

Within a period of 180 days following the public offer of shares through the stock exchanges, Deutsche Telekom AG and ST were to be in a lock-up period during which no securities could be issued (in case of ST) or sold (in case of Deutsche Telekom AG), except for certain limited exceptions. Citigroup and J. P. Morgan were appointed as joint global coordinators and book runners and Erste Group and Wood & Co. as joint lead managers.

The Slovak government wanted to have the whole process completed (shares transferred and proceeds credited to the account of the Fund) by the first half of 2015, and was not willing to comment on the expected profits from the sale back in April, commenting only that: *"Each statement may influence the process. It is a transparent process; the price will be generated by the market. There are some estimates, but let's leave it to the market."*

The share price, to be generated by the market demand during the offering period, was to be between 17.70 and 23.60 euros per share offered on the Bratislava Stock Exchange and between 19 and 25.30 dollars per share offered on the London Stock Exchange. Based on the offering share price between 17.70 and 23.60 euros per share, the profits from the sale would have reached between 750 million and 1 billion euros. According to the Minister of Finance, the demand for the shares in ST exceeded 1.6-multiple of the offer; however the price was at the lower limit of the range determined by the state following its agreement with the advising banks. The Slovak Republic would therefore have obtained 750 million euros through the sale of its stake in ST on the stock exchange.

At the beginning of May however, the Slovak government stopped the sale through the stock exchange after reportedly having received an "obviously better offer" from a strategic investor. According to the most recent news, the state and ST's majority shareholder, Deutsche Telekom, have on 19 May 2015 signed an agreement for sale and purchase of the state's 49% share in ST by Deutsche Telekom for 900 million euros. The Minister of Finance has stated that the conditions of sale will be made public soon.

Although the Slovak government is known for rejecting privatisations, it included in the 2015 budget approximately 1 billion euros of income from privatisation. Recently, the Ministry of Economy has stated it would like to use part of the sale proceeds from ST's privatisation to strengthen the position of the state in the biggest Slovak electricity provider, Slovenské elektrárne (in which it currently has a 34% share), in view of Italian Enel SpA currently selling its 66% share in the company. However, since the sale of the state's share in ST has been made public, the Minister of Finance has commented that the proceeds from privatisation of ST will be used to reduce public debt.

SLOVENIA

Contributed by: **Kirm Perpar law firm, Ltd.**
Poljanski nasip 6 - 1000 Ljubljana - Slovenia

National security issues - a threat to Slovenian Telekom's privatisation

Telekom Slovenije d.d. ("**Telekom**") is Slovenia's leading telecommunications service provider in the field of fixed and mobile phones, VoIP, IPTV and broadband internet services. The company also offers telecommunications network construction and maintenance services through its subsidiary GVO, and IT and TV services through Avtenta and TS media subsidiaries. The company also operates in Kosovo, Macedonia and Bosnia and Herzegovina.

On 21 June 2013, the National Assembly of the Republic of Slovenia adopted a consent to the disposal of capital assets of the Republic of Slovenia, held through the Pension Fund Management ("**KAD**"), Slovenian Sovereign Holding ("**SSH**"), Modra zavarovalnica d.d. ("**MZ**"), D.S.U., družba za svetovanje in upravljanje d.o.o. ("**DSU**") and Posebna družba za podjetniško svetovanje d.d. ("**PDP**"). Consequently, the National Assembly authorised, inter alia, the SSH to start the sale process of 72.38% of the Telekom shares which are held, directly or indirectly, by the Republic of Slovenia.

On 2 April 2014, the Slovenian state run fund, Slovenska Odskodninska Druzba (SOD), published in the Slovenian and foreign media an invitation for submissions of interest in the potential sale of 4,754,523 ordinary registered non-par value shares representing 72.75% of Telekom share capital. The shares are owned by SOD, the Republic of Slovenia, KAD, Sava Reinsurance Company d.d. and Triglav Insurance Company d.d. Additional shareholders, who collectively own 185,270 shares representing 2.83% of Telekom's share capital, have signed a letter of intent expressing an interest in selling their shares within the same process.

A deadline for submitting a binding offer to purchase the majority stake in Telekom expired on 13 April 2015. SOD received one binding offer, which is currently being evaluated.

The opponents to the Telekom's privatisation warn that the company should remain in state ownership because Telekom is an asset of national strategic importance (including its infrastructure network). In their opinion, the state ownership is fundamental to the Slovenian national sovereignty and security and they are concerned about potential illegal surveillance of communications. They are also concerned that the sale may pose a threat to national security, and lead to a reduction of state investments in networks and services, abuse of dominant market position, increase in service prices and job losses.

In March 2015, the Ministry of Defence of the Republic of Slovenia (the "**Ministry**") published a report evaluating the quality of telecommunications services required to meet the needs of the defence system and the system of protection in the event of a natural disaster. According to the report, among others, privatisation of national operators could lead to reduced safety of communications services.

Some analysis concerning privatisation of national telecommunications operators show that the following can be expected: reduced security of communications due to the use of newer forms of communication, not yet sufficiently mature IP technologies which are a main target for cyber-attacks, reduced availability of communications, especially in the event of a major natural or other disaster, higher costs of using communications connections, slower introduction of new generation emergency call services (112), expected major issues with operating networks and services in the event of individual major natural and other disasters or crisis situations, issues as regards reliability and assurance of quality of services in information and communications clouds from abroad.

Telekom is a key entity and business partner in that it provides telecommunications infrastructure and information services required for the regular operation of the national security system, including defence and protection against natural and other disasters.

The Ministry uses a very wide range of Telekom's services, inter alia in the areas of public mobile telephony, public mobile data transfer, public fixed telephony, infranet (signal transmission of technical security), lease of communication lines, access to the global Internet network, operation of emergency calls (112), and public warning system.

Since the opening of the telecommunications market in Slovenia, the Ministry has begun to use other operators' services, however these operators do not all provide the required services or only provide services to densely populated areas of the country. Consequently, for certain services, the Ministry will not be able to switch operators.

Given that Telekom has the most extended telecommunications infrastructure in Slovenia, the company was listed as a critical state infrastructure in Slovenia.

Considering the increasing dependence on the availability of communication and information systems, fixed and mobile networks, the performance of such systems is of utmost importance in particular in times of crisis (i.e. large-scale natural disasters). The vast majority of information systems used in the field of defence operate on public operators' telecommunication infrastructure. Consequently, according to the Ministry, it is fundamental that the telecommunications operator is able to provide safe and quality services even in times of crisis.

In the event of a change in Telekom's ownership, the Ministry expects the same level of service at the same level of quality for equal or lower costs. According to the Ministry, the next phase of negotiations with potential buyers requires special attention to national security issues and will require the potential purchaser to unconditionally accept the statutory obligations of operators in this area.

National security issues not only represent a stumbling block in the sale of Telekom, but can also be misused for political purposes and to prevent the company's sale.

PART III - OTHER LEGAL DEVELOPMENTS

BOSNIA AND HERZEGOVINA - REPUBLIKA SRPSKA

Contributed by: **Maric Malisic Dostanic** | Gide exclusive correspondent firm
Resavska 32, 4th floor - 11000 Belgrade - Serbia

Tax regulations overhaul in Republika Srpska

Significant changes to the tax regulations in the Republika Srpska (the "RS") are expected in the coming months, although the extent of the changes is not yet known. On 6 March 2015, the National Assembly of the RS passed amendments to the Law on Fiscal Cash Registers, which came into force on 27 March 2015. The rest of the new laws drafted by the government of the

RS are currently under consideration and it is unlikely that the proposed legislation will be adopted and come into force before the beginning of 2016.

Real Estate Tax Law

The proposed real estate tax law will introduce fixed tax rates on immovable property: 0.20% for property which is used directly for commercial production and 0.25% for the others. The tax will be levied on the market value of the property in question. Currently, the tax rates applied to real estate depend on the location of the property and range from 0.05% to 0.50%.

The law stipulates favourable tax treatment for real estate intended for sale. However, the proposed law prohibits taxpayers from selling real estate if they have not settled their real estate tax obligations in full. Thus, before allowing the execution of the property sale agreement between the taxpayer and any third party, the public notary in RS will check whether the taxpayer has fulfilled all his or her real estate tax obligations.

Corporate Income Tax Law

The most significant change introduced by this law is an increase in the withholding tax rate from 10% to 20%, and a new definition of the income exempt from, and subject to, withholding tax.

According to the proposed law, capital gains or losses resulting from the sale of fixed assets or investment property used for the business activities of a taxpayer are no longer included in taxable profit.

Under the proposed law, transfer pricing rules will be strengthened and clarified, with the definitions and methods for recognising related parties established under OECD Transfer Pricing Guidelines being adopted and the threshold for related party status increased from the previous 10% to 25% of participation in capital, management or voting rights of an entity.

One of the most significant differences with the previous regime concerns the accounting method used when calculating the tax base. With an accounting method that is specifically required to report expenses, the definition of tax-deductible expenses will have a broader scope compared with that in the existing law. For example, expenses incurred for the purposes of marketing and advertising a business activity are recognised as expenses. This change in accounting method will result in a lower overall tax liability and therefore will likely have a positive impact on the state of the economy.

It is estimated that the amount of annual tax income for the state budget will be reduced by about BAM 10 million (approximately 5.1 million euros), with such amount remaining in the private sector.

Personal Income Tax Law

The essential change in the field of personal income tax is the abolition of tax on dividend income. Significantly, a new provision is envisaged, which would make “non-domiciled residents” subject to obligation to pay tax based on their “worldwide” income. A “non-domiciled resident” is a foreign national who has invested more than BAM 20 million (approximately 10.3 million euros) in the RS and i) has spent more than 30 days in the RS; or ii) owns a residential property in the RS with a value of at least BAM 300,000 (approximately 150,000 euros), or iii) holds share capital in a company of at least BAM 100,000 (approximately 50,000 euros) registered in the RS.

Tax payments are defined as fixed amounts, depending on the amount of income generated abroad: from approximately 50,000 euros for an income of up to approximately 1 million euros, to approximately 800,000 euros for an income exceeding approximately 20 million euros.

A further important change is the expansion of the type of income subject to personal income tax, with the introduction of a residual category called "other income", which includes not only fees to members of management bodies, but also income generated in show business, income of athletes, translators, independent journalists, service income and even scholarships to students and athletes, all of which are to be taxed at the standard 10% personal income tax rate.

Finally, the proposed amendments try to deal with the issue of undeclared personal income by requiring that all natural persons in the RS pay tax on the difference between their declared income and the value of their assets.

BULGARIA

Contributed by: **Arsov Natchev Ganeva**
Shipka Street 36 - 1504 Sofia - Bulgaria

Reform of the water sector in Bulgaria: potential investment opportunity?

The water supply and sanitation (W&S) sector in Bulgaria has long been in need of an upgrade at least to comply with the European Accession Treaty requirements. According to an assessment prepared for the Bulgarian government, W&S 2013 - 2020 sector strategy, an estimated 6 billion euros (of which 2.5 billion for renewal and replacement investments in water supply and 3.5 billion for compliance costs) worth of investments will be needed for Bulgaria to implement the requirements of the Accession Treaty for the period 2014 - 2023. Of this amount, up to 40% can be financed through EU funds with the rest having to come from other sources.

The water sector reform in Bulgaria began in 2009 with several significant amendments to the Bulgarian Water Act aimed at, among others, resolving W&S asset ownership and management issues. The reform consists of a series of key measures, including the creation of water supply and sanitation associations (WSSAs), the transfer of the W&S assets from the current state/ municipal W&S operators to the newly created WSSAs, and the division of the Bulgarian territory into designated administrative regions. WSSAs are essentially associations of W&S infrastructure owners (the state and the municipalities), managing W&S assets on behalf of such owners. The reform was financed by the Cohesion Fund of the European Union and the state budget of the Republic of Bulgaria under the Operational Programme Environment 2007-2013.

Each of the designated administrative regions is to have one W&S operator and the regions coincide with the regions where the existing W&S operators operate. Currently, there are 51 designated administrative regions, however this number will likely change due to the expected merger and transformation of the existing W&S operators (in many cases in order to achieve economies of scale) and the appearance of new players (such as foreign investors) on the market.

Pursuant to the amendments to the Water Act, the role of the newly created WSSAs will be to select and conclude a long-term contract or concession agreement with a W&S operator for the designated administrative region of the relevant WSSA. Such operator may be a public, public-private or private entity. Currently, it seems that WSSAs will select the current W&S operators and conclude a contract with them. In order to meet the EU fund requirements, the contracts with the current W&S operator are to be concluded by the end of this year. The successful contractor is to operate the W&S assets and make the necessary investments to improve the W&S network. Various sources of funding are being considered, such as EU funds, loans, operators' self-funding or funding by the state and municipal funds.

The ultimate goal of the reform is to promote and better control the quality of W&S services, modernise and rehabilitate the W&S network and, last but not least, improve the investment environment and thereby attract foreign investors and EU funding into this sector.

Although, the Water Act provides an opportunity for WSSAs to select a new operator (different from the existing operator), it may be difficult for this to be implemented in practice as it would involve the usual difficulties encountered by public authorities in concession type projects. Namely, a concession of the W&S services would require more time and cost in terms of project preparation (to justify the need to concession out the works or services), additional costs for preparation of tender and contractual documentation and significant support from at least 75% of the relevant WSSA members. Nevertheless, the opportunity exists and public authorities seem eager to cooperate with private partners. With the growing need to diversify sources of funding and the expected restructuring of the W&S sector by penetration of new players (private companies), the WSSAs may increasingly be willing to look to the concession option, which should boost investment opportunities and the business climate in this sector.

CROATIA

Contributed by: **Ivekovic Law Offices**
Strossmayerov trg 8 - 10000 Zagreb - Croatia

The Strategic Investment Projects Act revamp

At the end of 2013, the Croatian government enacted the *Strategic Investment Projects Act* in an effort to further stimulate foreign investment. The main goal of this act was to improve investment conditions by making available a special procedure for projects of strategic importance so that they can be developed faster. A project of strategic importance can be private, public or public-private and once a project has been assessed as strategic, all of the administrative procedures for the preparation and implementation of such project are to be centralised and fast-tracked. Under the act, 2 bodies are appointed for assessing and implementing strategic projects; an assessment commission and an operational group with the latter being in charge of coordinating the relevant administrative bodies and assisting and guiding investors through the project implementation, including the relevant permitting procedures.

A project qualifies as “strategic” if it fulfils certain criteria under the act relating to the project value and type. The value of the project must be equal to or greater than 20 million euros (in case of EU funded project, 10 million euros), to the exception of projects that are either within the scope of statutorily defined less developed areas or within the scope of agriculture and fisheries projects, whose value must be equal to or greater than 2.7 million euros. A project must also, among others, significantly contribute to the competitiveness of the Croatian economy, have a positive impact on several economic activities or create jobs.

However, so far, despite the measures taken to attract foreign and domestic investment, only a few large-scale projects have qualified as “*Strategic investment projects*” and could benefit from fast-tracked procedures. The main obstacle for private investment projects was the mandatory requirement that the project have a closed financial structure and the financial aspects be fully covered at such an early development stage.

Since most of the submitted projects could not fulfil this requirement and due to a number of deficiencies exposed in other areas of the act, the Croatian Parliament made a number of amendments to the act at the end of 2014.

The closed financial structure requirement was amended, meaning the investor must now submit to the administration proof of sufficient funds in the amount of at least 10% of the total project value and show sufficient collateral either by way of bill of exchange, debenture note, bank guarantee or deposited funds.

It remains to be seen whether the adopted amendments will increase the number of strategic investments made in Croatia.

CZECH REPUBLIC

Contributed by: **Dvorak Hager & Spol.**
Oasis Florenc, Pobrezni 394/12 - 18600 Praha - Czech Republic

Controversy in the banking sector

The Czech Supreme Court has recently significantly destabilised the banking practice on collaterals for bank guarantees when it challenged a pledge-securing bank guarantee that was drawn by the beneficiary after the debtor was declared bankrupt. The court concluded that the bank did not qualify as secured creditor in the insolvency proceedings because the secured receivable materialised (as a result of the drawing on the bank guarantee by the beneficiary) only after the declaration of bankruptcy. As a result, the pledge securing the receivable for reimbursement of the bank guarantee was declared non-existent by the court.

This has created significant turbulence amongst Czech banks, which are now exposed in insolvency situations. The conclusions of the Supreme Court are regarded by the legal practice as very unfortunate. In addition, the courts of lower instance are bound to follow this decision, unless they can highlight different circumstances in the case before them.

The banks' response to this decision varies, for the time being, from offering only bank guarantees that cease to exist upon declaration of bankruptcy/insolvency (usually not acceptable to the beneficiaries), to using more flexible instruments (such as promissory notes) to cover their exposure and provide additional security. Hopefully, the Supreme Court will soon reconsider its decision.

Registration rights for notaries

As another improvement measure, the Czech recodification effective from 1 January 2014 implemented an option for the Czech notaries to be able to directly register entries into the public registers (including the commercial register). Despite the good intent however, the operational implementation has long remained impossible. Direct registration into public registers (including commercial register) has only been possible since 1 May 2015.

The relevant implementation regulation finally allows notaries to directly register into the commercial register the changes implemented on the basis of the notarial deed executed by them. Based on the information available, it appears that registration by the notaries is not only quicker (2 to 3 days, as compared with 5 business days previously) but also slightly cheaper.

As a result, when a change is made in a company's articles of association before a Czech notary, the notary may register the relevant changes without needing to file an application with the courts.

The hope is that this will further simplify the life of entrepreneurs in the Czech Republic and remove a certain workload from the courts, allowing them to concentrate on other issues.

Reshaping the consumer credit providers' market

Similarly to other jurisdictions such as Slovakia, the Czech Republic is planning to implement stricter requirements for consumer credit providers, which are to be placed under the supervision of the Czech National Bank and will need a special licence to carry on this type of business activity.

In addition, consumer credit providers will need to fulfil certain criteria relating to professional duties, financial stability and cover for potential consumer claims. In line with the EU legislation, consumer credits will include residential financing. The law is currently being drafted and will become public within the coming weeks.

The new legislation should result in a significant decrease in the number of competitors in this sector on the Czech market.

GREECE

Contributed by: **Zepos & Yannopoulos**
75, Katehaki & Kifissias Ave. - 115 25, Athens - Greece

Hidden stumbling blocks in the Greek regulations

Greece can generally be described as very open to foreign investment, considering the recent legislative initiatives that focused on promoting economic development, attracting foreign investment and reducing bureaucracy. The government has also continued to deregulate various industries, in line with EU regulations and standards.

While the majority of restrictions to foreign investment have been abolished in recent years, the following may still be considered as restrictions and should be taken into consideration by foreign (especially non-EU) investors planning their business in Greece:

Real estate transactions in border areas

<p>Type of restriction: Sector specific (<i>real estate</i>); geographic limitation; discriminatory</p>	<p>Relevant provisions: Articles 24-27 of Law 1892/1990, as amended and currently in force (amended, among others, by Law 3978/2011 and Law 4278/2014).</p>
<p>Summary:</p> <p>Non-EU and non-EFTA nationals and legal entities having their registered seat in a non-EU and non-EFTA jurisdiction are subject to certain statutory restrictions when they enter into real estate transactions (e.g. purchases, leases, or other rights acquisitions) concerning land and buildings located in areas designated as "border areas". Such transactions are subject to an authorisation process.</p> <p>The interested individual or legal entity must apply for authorisation from a special commission of the competent local administrative authorities. The transaction is cleared if approved by a majority vote which must include an affirmative vote from the representative of the Ministry of Defence (who is one of the members of the special commission).</p> <p>The above procedure also applies when a non-EU and non-EFTA national or legal entity having its registered seat in a non-EU and non-EFTA jurisdiction acquires shares or other participation rights in the capital of a legal entity owning real estate property in border areas.</p>	

Public contracts between the Greek state and owners of media companies

<p>Type of restriction: Industry specific (<i>media & telecommunications</i>); non-discriminatory (general application)</p>	<p>Relevant provisions: Law 3310/2005, as amended and currently in force (amended, among others, by Law 3414/2005).</p>
<p>Summary:</p> <p>Media companies (i.e. companies that are active in newspaper publishing, television and radio station operations and internet news websites) are prohibited from entering into a public contract with the Greek state and/or the public sector generally, where the contractual amount is significant (over 1.000.000 euros). The same prohibition also applies to the owners, partners, basic shareholders (i.e. shareholders owning at least 1% of the share capital), members of the management and executives of companies, where a court decision has been issued against the relevant person for actual corruption.</p> <p>Similar restrictions apply in respect of subsidiaries and/or other holdings of media companies as well as legal entities controlled by individuals who have the capacity of an owner, partner, basic shareholder and/or member of the management of a media company (provided that a court decision has been issued against such individual for actual corruption).</p>	

Business activities of non-EU nationals in the mining industry

<p>Type of restriction: Industry specific (<i>mining</i>); discriminatory</p>	<p>Relevant provisions: Articles 10-12 and 20 of Legislative Decree 210/1973, as amended and currently in force (amended, among others, by Law 274/1976); Presidential Decree 92/1986.</p>
<p>Summary:</p> <p>Non-EU nationals and legal entities having their registered seat in a non-EU jurisdiction are subject to a series of restrictions with respect to investing in the mining industry.</p> <p>For example, any transaction relating to an acquisition of mining rights (whether outright or through a concession) is subject to a special approval of the Ministry of Development. Likewise, acquisition of shares or other participation rights in the capital of a legal entity with mining rights by such individuals or legal entities will similarly be subject to the above approval. Furthermore, non-EU nationals and legal entities having their registered seat in a non-EU jurisdiction may not have mining research licences issued in their own names.</p>	

Finally, indirect and general restrictions on investments in some “sensitive” industries should be taken into account by prospective investors. For example in the banking and credit institutions, media and investment management firm sectors, prior approval or notification is required if the shareholding to be acquired exceeds specific percentages. Similarly, certain types of activities require a licence before being undertaken. In such cases, it may be possible, as a matter of practice, that Greek and/or EU nationals may find it easier to satisfy the requisite conditions for securing such licence.

MACEDONIA

Contributed by: **Debarliev, Dameski & Kelesoska Attorneys at law**
Albert Ajnstajn 4/1 - 1000 Skopje - Macedonia

The “Turkish stream” pipeline to cross Macedonia

The construction of the “Turkish stream” pipeline is aimed at delivering Russian gas to consumers in Turkey. It is possible that the pipeline will also connect the Balkans countries with Austria. Russia is currently conducting intensive negotiations with the countries which could be transit areas, including the Republic of Macedonia.

Hiring young unemployed people - good for business?

According to new regulations, employers hiring young people aged up to 35 years will be exempt from paying income tax and contributions in respect of such employees for a period of 3 years. Employers employing people aged between 35 and 50 years will be exempt from paying income tax and contributions in respect of such employees for a period of 5 years, if they employ (i) an employee aged up to 35 years that is unemployed and has been actively registered as unemployed for at least 3 months prior to the employment, or (ii) an employee aged between 35 and 50 years that has been unemployed for at least 10 out of the last 15 years and has been actively registered as unemployed for at least 3 months prior to the employment.

Additional tax burdens for contract workers and copyright agreements

As of 1 January 2015, 5 acts aimed at new taxation of fees came into force amending the existing legal regulations. As a result of the amendments, in addition to the obligation to pay 10% of the fees allocated to income tax (which was the only tax burden thus far), a total of 35% of the fees allocated for pension and health insurance will be payable on income received pursuant to a service agreement or a copyright agreement. The state is trying to obtain additional income from transactions involving service agreements and copyright agreements, imposing an obligation to pay additional contributions, equal to those payable in connection with an employment agreement. Although service agreements and copyright agreements are now equal, in terms of contributions payable, to employment agreements, they do not afford the contractors the same labour rights as are afforded to employees, since they are not considered employment agreements.

ROMANIA

Contributed by: **Leroy și Asociații**
Strada Maior Gheorghe Șontu nr. 10-12 - 011448 Bucharest - Romania

Romania’s energy market integration into the EU market

Integration of the Romanian energy market within the EU market has progressed significantly over the past couple of years.

Although the road ahead is still long, the development of certain cross-border operational instruments and interconnection infrastructure in the electricity and natural gas sectors, detailed below, are important milestones towards integration.

As a preliminary note, to better understand the context of these evolutions, it is important to mention the following issues.

Firstly, the Romanian energy legislation has recently been harmonised with European law, following several infringement actions launched by the European Commission against Romania's failure to adequately transpose provisions set forth by the Third Energy Package within national legislation.

Secondly, the Romanian energy market is undergoing liberalisation with deregulation of supply of electricity and natural gas to non-household consumers already in effect¹, and the regulated supply to residential consumers is to be repealed by 1 January 2018 for electricity and 1 July 2021 for natural gas.

Lastly, there is increased transparency in the energy markets with the requirement in the electricity sector that all wholesale be carried out on the centralised market², and in the natural gas sector that at least a portion of the market's participants purchase and sell³ natural gas on the centralised markets⁴.

Cross-border exchanges of electricity

Romania is currently top-ranked in South-East Europe in terms of total installed production capacity for electricity, with a wide variety of energy sources (hydro, thermal, nuclear and wind energy). In 2013, the Romanian electricity production amounted to close to 56 TWh.

Romania is a net exporter of electricity, with yearly exports amounting between 1.15 TWh and 3.85 TWh.

According to estimates made by the European Network of Transmission System Operators for Electricity (ENTSO-E), Romania effectively uses only 50% of its available interconnection capacities.

Alongside Serbia and Bulgaria, Romania is involved in the "North-South Corridor" of interconnections, a project of common interest on the EU's strategy list. However, its development is slow, due to protracted legal procedures concerning authorisations and expropriations.

Nevertheless, Romania's participation in the electricity market coupling scheme with the Czech Republic, Slovakia, Hungary and Romania is one of the most notable recent steps as regards market integration.

The "*Four Member States Market Coupling*" ("4M MC") project is part of a larger future plan for connecting electricity centralised markets within the EU.

Market Coupling implies an optimal allocation of electricity and cross-border transmission capacity rights for market participants in the 4 member states, in one common process, all bids and capacity data being considered together. The process works similarly to the local (intra country) matching of bids, but covers cross-border operations. Thus, energy, maximised through a more efficient cross-border capacity allocation procedure, flows from low price areas to high price areas in an attempt to balance the market prices.

The project means that market participants are in contact only with the centralized market where they are registered members.

¹ Since 1 January 2014 for electricity and since 1 January 2015 for natural gas.

² The Romanian power exchange OPCOM.

³ For natural gas producers, such requirements apply until 2018; for natural gas suppliers, such requirements apply until 2016.

⁴ The two centralized markets in the gas sector are operated by OPCOM and Bursa Română de Marfuri – BRM.

Cross-border exchanges of natural gas

Romania's cross-border exchanges of natural gas have not been significant in the past⁵.

Firstly, the largest part of domestic consumption (92.5% in 2014)⁶ is covered by domestically produced natural gas, the rest being covered by imports (mainly from the Russian Federation and Hungary).

Romania's low dependence on natural gas imports places it in a privileged position compared with other countries in the region. However, Romania still needs imports to a certain degree due to the low flexibility of the domestic production market, high seasonal variation of consumption and insufficient storage capacities.

Secondly, Romania's physical interconnection capacities for natural gas export are limited.

The Arad-Szeged pipeline (with a transfer capacity from Romania towards Hungary of 10,000 cubic meters/hour in steady conditions and of 40,000 cubic meters/hour under the interruptible regime) ensures interconnection for export towards the European Union.

In 2014, the Iasi-Ungheni pipeline (with transfer capacity of 14,000 cubic meters/hour), which interconnects the gas networks from Romania to the Republic of Moldova, was put into operation.

In 2013, to somewhat counteract the lack of interconnection capacities for export, a backhaul natural gas transfer service was introduced as a commercial tool allowing virtual flow of gas in a direction in which physical flow is not possible.

Finally, up until 2 years ago, domestic natural gas producers were under an obligation to sell their entire production on the Romanian market, a measure which was criticised at European level.

Although this export ban has been formally repealed, other limitations on the sale of domestic production abroad were subsequently adopted. Thus, producers must grant priority to the sale of natural gas for household use⁷. This legal requirement is subject to an infringement action launched by the European Commission, resulting in a reasoned opinion being sent to the Romanian government on this issue on 10 July 2014.

SERBIA

Contributed by: **Maric Malisic Dostanic** | Gide exclusive correspondent firm
Resavska 32, 4th floor - 11000 Belgrade - Serbia

Focus on the construction industry following a change in the Law on Planning and Construction

The World Bank Doing Business report 2015 ranked Serbia 186th out of 189 countries in the procedure for obtaining building permits. It was therefore necessary to employ all the legal and economic mechanisms to improve this procedure in order to attract more private investments.

On 8 December 2014, changes to the *Law on Planning and Construction* (the "**Law**") were adopted. These changes created a *unified procedure* for obtaining the rights to construct and use buildings.

⁵ In 2013, Romania had the lowest natural gas price in the EU. The gap between the price of natural gas from Romania's domestic production and the price of imported gas illustrates the lack of convergence between the Romanian and the European natural gas markets as well as the low degree of liberalization and actual opening of the market up to 2013.

⁶ ANRE's Monitoring Report for the year 2014.

⁷ Specific mix structure requirements apply to natural gas for household use. The requirements were established by ANRE, in order to guarantee that the population benefit from domestic gas to a significant extent. In February 2015, the required mix structure was 96.5% domestic gas and 3.5% imported gas.

Due to a poor building permits practice, a quick and essential turning point was not achievable without introducing the “one counter system”, meaning that all construction-related procedures were brought under the same procedure from the submission of the applications to the issuance of the use permits, and the registration of a newly constructed building in the land registry.

The implementation of the unified procedure implies the clear definition of each administrative body’s role as well as the definition of each step of the procedure and their respective deadlines. In practice, pursuant to the implementation of this unified system, an investor will not have to submit documents which are already in other authorities’ records. These documents will be obtained by the authority responsible for issuing the building permits, *ex officio*, within the unified procedure. The implementation of the unified procedure started on 1 March 2015 and it will continue to evolve until 1 January 2016. From 1 January 2016, a software solution will be released enabling the electronic exchange of documents, not only between government bodies and public authorities, but also between an investor (i.e. its architects) and the body in charge of implementing the unified procedure.

The electronic system should create a unique and up-to-date, publicly available, electronic register containing all completed unified procedures. It will also result in a transparent procedure and the incentive for the involved authorities to act within the prescribed deadlines, in a legal and predictable manner.

The adoption of the Law’s bylaws will allow the construction permits to be issued within 28 days instead of 240 days, as was previously the case. It is estimated that the procedure for obtaining use permits will be reduced from the current 224 days to 54 days. In addition, it is also estimated that the procedure for registering constructed buildings in the land registry records will be reduced from 45 days to around 20 days. In total, the unified procedure saves investors 195 days in the completion of such procedure.

Overall, the unified procedure is expected to decrease the number of documents that an investor needs to provide to the authorised bodies, reduce the construction costs, and significantly speed up the procedures required for construction. This should ultimately in turn increase activities in the construction sector and employment in the construction industry, as well as reduce costs of business and residential space on the property market.

It is also important to note that the Law meets all the conditions of the Stabilisation and Association Agreement between the EU and Serbia, as well as of the Treaty on the Functioning of the EU.

The first positive effects of the implementation of the Law are visible in the data, which shows that during March 2015 (the first month of implementation of the Law), 225 building permits were issued, i.e. 45 times higher than during the same period last year.

CONTACTS

FRANCOIS D’ORNANO
ornano@gide.com

IOANA KNOLL-TUDOR
ioana.knoll-tudor@gide.com

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