



# HUNGARIAN WATCH

Summer 2014





## Hungarian Watch Summer 2014

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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 newsletter 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.

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# Table of Contents

<b>Summary</b>	<b>4</b>
<b>Time to Invest</b>	
Deals on the rise again	6
Hungary expects to make several significant Chinese deals	8
<b>Industry Review</b>	
Three or four large foreign banks may exit Hungary	10
Outlook of the Hungarian energy industry in 2014	12
Hungarian insurance industry may face consolidation	14
Driving production in Hungary	16
<b>VJT &amp; Partners</b>	
VJT & Partners is ranked as a Top-Tier Firm by EMEA Legal 500	18
About VJT & Partners	19
The Firm	19
Practice Areas	20
How We Work	21
Our Values	21



# Summary



## Deals on the rise again

### Hungarian markets look ahead with new deals

Hungarian markets have recently experienced a lively past in terms of deals. It may be just the beginning. The state will most likely continue to acquire strategic assets and consolidation of some industries may come. Successful Hungarian companies may contribute to the increase of M&A and IPO activities. Strategic investors may return. Overall the number of deals may substantially rise in the future. **Read more...**



## Hungary expects to make several significant Chinese deals

### Hungary aims to become a regional hub for Chinese investors

The market presence of Chinese investors in Hungary will most likely rise. 10-15 Chinese companies may enter Hungary with EUR 50-120 million worth of investments. Wanhua plans to expand the capacity of BorsodChem. BBKA Group plans to make a significant greenfield investment. Also, the government is in talks with China to realize two big-ticket deals related to railway line construction. All in all, Hungary expects to make significant Chinese deals. **Read more...**



## Three or four large foreign banks may exit Hungary

### Major changes in the banking industry ahead

This summer brought important developments. *“Three or four large banks will leave the banking sector in Hungary. There will be fewer, but bigger banks”* Márton Nagy, the managing director of Central Bank of Hungary noted. Simultaneously, BayernLB, the parent of MKB announced that it will sell MKB to the government. This is a milestone transaction showing that the long promised consolidation of the industry can be materialized. In addition, the exodus of foreign banks will become easier with the introduction of a “bad bank” established in order to separate non-performing loans of banks from their healthy portfolio. Overall, the Hungarian banking landscape may significantly change in the near future. **Read more...**



## Outlook of the Hungarian energy industry in 2014

### Shall Hungary expect new energy deals?

The Hungarian energy industry has been very hectic in 2014. Press placed a strong focus on potential state acquisitions of utility service providers, investments of MOL and the expansion of the Paks nuclear plant. The future is extremely challenging as all these potential deals may completely change the landscape of the respective energy industries. Overall, it is worthwhile for investors keep a close eye on the Hungarian energy market developments. **Read more...**



## **Hungarian insurance industry may face consolidation**

### **ING plans to sell its Hungarian insurance business, CIG Pannónia plans to expand**

The Hungarian insurance industry shows that slowly but surely it will face consolidation. The key problem is the small size of the market which is simply undersized for close to 30 players. Due to the extremely small size of market share, many foreign players could easily leave Hungary. Simultaneously, important announcements evidence further market movements in this industry. The Dutch ING announced that it will sell its insurance business. The Hungarian CIG Pannónia announced that it will purchase the client assets of its competitors. **[Read more...](#)**



## **Driving production in Hungary**

### **Hungarian automotive industry still racing along**

The Hungarian automotive industry is one of the great success stories of the country. The press regularly reports about production expansions, new greenfield investments and improvement of supplier networks. The big four, Opel, Mercedes, Audi and Suzuki have all shown steady production growth. Each of the big four have a very good business relationship with their local suppliers which boosts investments further. Thus, the local supplier networks are constantly improving. In this context, the construction of a new production plant by the Indian tyre producer, Apollo Tyres will be a major market breakthrough. Overall, market developments suggest that a continued investment boom is expected. **[Read more...](#)**



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## Deals on the rise again

### Hungarian markets look ahead with new deals

*Hungarian markets have recently experienced a lively past in terms of deals. It may be just the beginning. The state will most likely continue to acquire strategic assets and consolidation of some industries may come. Successful Hungarian companies may contribute to the increase of M&A and IPO activities. Strategic investors may return. Overall, the number of deals may substantially rise in the future.*



After the credit crunch deals in Hungary came to a standstill for years. Fortunately, 2014 has brought encouraging signs of upturn. The last couple of months have been lively. Numerous major deals have taken place. Many analysts believe that the growth of the number of deals is only the beginning. Let see what we might expect in the near future.

### Purchasing strategic assets

Without a doubt the Hungarian state has been the most noticeable player in the recent big-ticket deals. The government argues that the state needs to maintain control over strategic assets in various industries including energy, banking and telecommunications. As a part of this strategy, the state has already bought the gas distributor Főgáz, MKB Bank and the digital broadcast provider Antenna Hungária. Strategic assets may be qualified by a government decree making it unnecessary to obtain the approval of the competition authority. This regulatory ease may cause a rise in further state acquisitions.

In August 2014, the government announced that it will undertake further acquisitions. It plans to buy Bombardier MAV from the Canadian Bombardier, manufacturer of trains. The press reports that negotiations between the government and Bombardier are already underway. Utility service providers such as E.ON and RWE may be also potential acquisition targets.

### Consolidation of Hungarian industries

The growth of the number of deals is also associated with the consolidation of various Hungarian industries particularly in the financial sector. The press usually focused on CIB, Raiffeisen and Erste as potential acquisition targets. However, experts add that apart from banks, the number of players will also decrease in other financial industries including leasing, insurance and pensions. The consolidation process of Hungarian industries may go together with state acquisitions, as many times the Hungarian state is the only bidder for unprofitable, but strategically important targets.

Bombardier MAV  
soon to run on  
government rails.

Consolidation may  
visit the banking,  
leasing, insurance  
and pension markets



## Hungarian success stories

We could see above that the number of deals rise to a large extent due to selling pressure of unprofitable targets and state acquisitions. However, an increase of transactions can also be prescribed to Hungarian success stories.

First of all, it is worth noting that U.S. and U.K technology companies have recently bought several successful Hungarian innovative start-ups. In this context, the biggest deal has been the acquisition of IND Group, a Hungarian innovator in digital solutions purchased by Misys, the leading U.K. based financial software company. The purchase price is a business secret, but according to estimates it reached a value between EUR 80-100 million. Due to the success of this market the most prominent Hungarian start-ups have been already sold. However, there is a new generation of start-ups, such as Tresorit, Cellum, Distinction, Synetic and Gravity R&D which are still on the table for potential investors.

Innovative Hungarian start-ups get U.S and U.K technology companies turned on

New generation of start-ups: Tresorit, Cellum, Distinction, Synetic and Gravity R&D

Secondly, experts point out that several successful Hungarian players have been prepared - with the help of private equity funds - to join the global stock market. In this context, the airline company Wizzair, the logistic service provider Waberer, and the medical service provider Euromedic are the most prominent.

Thirdly, MOL and OTP are truly Hungarian champions, strong and acquisitive. All the recent market events indicate that they will continue major outbound investments. OTP aims to strengthen its presence in the CEE region. As a part of this strategy OTP has recently bought Banco Popolare in Croatia and the Millennium Bank in Romania. On the other hand, MOL will most likely continue its investments in the U.K market in order to integrate into the global upstream industry. After buying licences for offshore oil exploration and production from Wintershall and Premier Oil, MOL will most likely continue its North Sea expansion. As a next step MOL may establish closer business cooperation with other U.K. operators such as TAQA and Enquest.

OTP to invest in CEE banks

MOL may invest in UK operators

## Hungarian investment climate

The main problem is that due to the hardships of the Hungarian banking sector credit conditions are still tight and this presents hurdles for credit and investment expansion. However, experts believe that the recent low interest rate policy will allow investors to take higher risk as well as the continued participation of strategic players.

In summary, the recent market developments have been very hectic. There have been state acquisitions and consolidation processes. But there have also been successful Hungarian stories. This may be just the beginning. Overall, experts forecast a slow but steady growth of deals in Hungarian markets.



# Hungary expects to make several significant Chinese deals

## Hungary aims to become a regional hub for Chinese investors

Key players:  
Bank of China,  
Lenovo,  
ZTE,  
Huawei,  
Wanhua

*The market presence of Chinese investors in Hungary will most likely rise. 10-15 Chinese companies may enter Hungary with EUR 50-120 million worth of investments. Wanhua plans to expand the capacity of BorsodChem. BBKA Group plans to make a significant greenfield investment. Also, the government is in talks with China to realize two big-ticket deals related to railway line construction. All in all, Hungary expects to make significant Chinese deals.*



Hungary may  
become the regional  
hub

China and Hungary have a long-term established business relationship. China wants to establish a European gateway to break the EU market entry barriers and the Bank of China has just set up its regional centre in Budapest. Hungary aims to become a regional hub for Chinese investors. Hungary offers several compelling advantages. It is located in the heart of Europe, offers favourable logistic infrastructure and a cheap, highly

professional work force. Chinese companies are well aware of these benefits. “We wanted to be close to our European clients and therefore we wanted a country which is easily accessible within the EU... And last but not least, the workforce is well educated and affordable” David Gai, the director of Huawei Technologies noted.

BorsodChem plans  
to establish a new  
plant

So far, several large companies including Lenovo, Huawei, ZTE and Wanhua have already established their Hungarian subsidiaries. We can expect a slow but steady expansion of their Hungarian market presence. The recent news is that BorsodChem - owned by Wanhua – is planning to establish a new hydrochloric acid condensation plant in Kazinbarcika, with a EUR 84 million investment.

BBKA Group will  
make a significant  
greenfield invest-  
ment

We can also expect a new market entry. The Chinese BBKA Group plans to make a major market breakthrough. They plan to establish a large citric acid plant in Szolnok. This greenfield investment would be worth close to EUR 150 million. Talks have been recently held with the Hungarian Development Bank and Bank of China to discuss the financing details. If everything goes smoothly, construction on the plant may start in early 2015.

On the other hand, the Hungarian government itself has made a huge effort to strengthen Hungarian-Chinese business relationships. As a part of its Eastern Opening policy, Prime Minister Orban and its delegation travelled to China where they participated in business roadshows as well as negotiated with the Bank of China and



the Chinese government.

Ernő Pető, the president of Chinese-Hungarian Chamber of Economy, said that the trip was priceless. He reported that on the roadshow, allegedly 10-15 mid-size Chinese companies expressed a serious interest to enter into the Hungarian market with a EUR 50-120 million investment. As a result of the negotiations, the Bank of China has set up its regional centre in Hungary. Finally, the Chinese party wanted from Hungary to play a greater role in yuan internationalization. Thus, Ernő Pető believes that Hungary is on a good path to establish the first yuan clearing house in the CEE region.

10-15 Chinese companies may invest in Hungary

Hungary may establish a yuan clearing house

The main hurdle for blue-chip Chinese companies is that the Hungarian market itself is not large enough to justify their investment. There are no real major deals where the value would reach the expectations of the investors, unless the Hungarian government would also be part of the deal, but it is not the case in general.

However, this position may change. Namely, the government expressed a strong interest to participate in two potential major railway deals. Both projects are of strategic importance to China, as under its silk road concept, they want to ensure swift transit of Chinese goods from the Greek Port, Pireus to Western Europe. Thus, both projects will help Hungary to become the main transit country of Eastern goods delivered to Western Europe.

One of these big projects is the reconstruction of the Budapest-Belgrade railway line built with a Chinese contribution which may be the largest Chinese project not only in Hungary, but in the entire CEE region. Three party negotiations between the Chinese, Hungarian and Serbian governments are underway. *"We are practically talking about a TGV built by the Chinese"*, the Hungarian Prime Minister Viktor Orbán explained. The project will be significant as it will require EUR 3 billion in Chinese loans.

The biggest deal in the CEE region

The other big project is building a new rail line called VO to bypass the Budapest hub. The new railway line capable of operating 160 km/h would reduce the transit time of goods through Hungary from the current 4-5 days to 1 day. This project will also be huge, as it will require at least EUR 1 billion in loans from the China Development Bank. Negotiations on the financing details and a feasibility study are currently underway.

Building VO railway line is another big-ticket deal

Overall, Hungary is expecting growth in Chinese deals. There is no question that it is worthwhile for investors and business law firms to keep an eye on the Chinese-Hungarian business developments. As execution of these potential deals may present a major opportunity for big-ticket deals, business law firms shall look around for interested clients.



## Three or four large foreign banks may exit Hungary

### Major changes in the banking industry ahead

*This summer brought important developments. "Three or four large banks will leave the banking sector in Hungary. There will be fewer, but bigger banks" Márton Nagy, the managing director of Central Bank of Hungary noted. Simultaneously, BayernLB, the parent of MKB announced that it will sell MKB to the government. This is a milestone transaction showing that the long promised consolidation of the industry can be materialized. In addition, the exodus of foreign banks will become easier with the introduction of a "bad bank" established in order to separate non-performing loans of banks from their healthy portfolio. Overall, the Hungarian banking landscape may significantly change in the near future.*



In our previous editions, we reported that the Hungarian banking industry may face consolidation. After the credit crunch regulatory and market hurdles (such as lending in Swiss Franc when the value of Forint has dramatically decreased and the introduction of the extra tax) seriously hit the profitability of some large foreign banks. Analysts argued that CIB, Raiffeisen and MKB were in most trouble as they had a huge

number of non-performing loans and failed project finances. For this reason, it has long been speculated that there will be an exodus of these banks. At the end of 2013, the governor of Central Bank of Hungary ("CBH"), György Matolcsy forecasted that four banks will leave Hungary within the next 6 to 18 months. In this context, it is worth noting that MKB, Raiffeisen, CIB and Erste recorded significant losses in 2013.

In 2014, the consolidation process has been openly supported by the government. It is not a secret any more that the strategy of the government is to ensure larger domestic ownership. In the recent election campaign, Prime Minister Orbán noted that *"the economy does not stand on its own feet until domestic ownership reaches 50%".* The government argues that the change in the Hungarian banking structure is necessary as foreign ownership shows that parent companies of the Hungarian subsidiaries tend to pull out large funds out of Hungary in times of crisis which adversely affects the stability of the Forint and domestic lending.

In this context, the recent sale agreement of MKB Bank concluded between the government and BayernLB fits well within this strategy. The purchase price was only EUR 55 million. In addition, it is striking that BayernLB practically paid for its exit. Namely, BayernLB undertook the obligation to increase the capital of MKB by EUR 270 million to cover the future anticipated losses. Analysts point out that in a normal

Key players:  
OTP,  
Erste,  
Raiffeisen,  
Intesa Sanpaolo,  
Unicredit,  
KBC

Four banks may  
withdraw from  
Hungary

The government  
wants larger domes-  
tic ownership



bargaining position BayernLB would not have paid for its exit, but as MKB Bank was highly unprofitable, there was no room left for better financial terms. The transaction sets a good example to other foreign banks how the government envisages exits of unprofitable banks.

It seems that the Hungarian state will own MKB Bank only for a short period of time. The Economy Minister, Varga noted “Our hope is that MKB regains its strong, competitive position within one or two years, so that it can be sold on the market.” Analysts believe that among the potential buyers local players will be favoured as the government prefers domestic ownership. However, they also add that Asian buyers cannot be excluded.

Apart from this transaction, this summer brought another important development. So far the high ratio of non-performing loans (NPL) of banks has made selling difficult. Thus, the CBH has recently announced that a “bad bank” will be established with the purpose of purchasing and managing NPL of banks. The overall portfolio of banks will improve, so selling banks will become more digestible. Therefore, the introduction of the bad bank may accelerate the exodus of foreign banks.

Under these conditions, it is not a surprise that CBH reiterate that the consolidation of the Hungarian banking industry is approaching. *“Three or four large banks will leave the banking system... there will be fewer, but bigger banks... The future is about synergies, but this leads to jumbo banks. So it should not be the top three banks that begin to buy, but say two medium banks should form a major bank, or a small and a big one should become a larger one”* Márton Nagy, the managing director of CBH noted.

All in all, this summer has brought significant developments. Consolidation of the banking industry has become evidently closer. The purchase of MKB shows that the government seems to be ready to take over unprofitable foreign banks. Matolcsy, the governor of CBH forecasted four exits. It remains to be seen when the remaining three forecasted deals can be materialized.

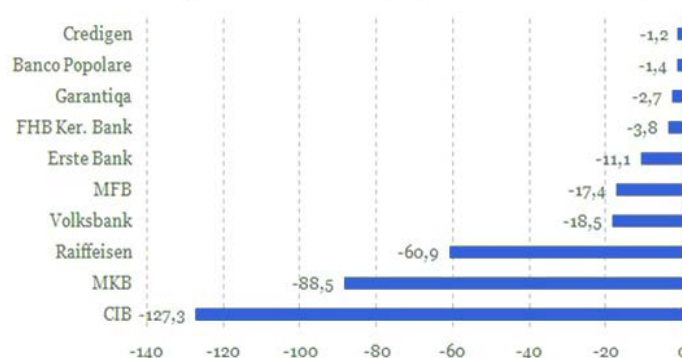
The MKB sale shows how to pull out of Hungary

The government seeks to unload MKB

Bad bank establishment may promote flood of foreign bank exodus.

Synergies, the future

Top 10 credit institutions (operating as companies limited by shares) with the biggest losses in Hungary in 2012 (billion HUF)



Source: PSZÁF, Portfolio.hu



# Outlook of the Hungarian energy industry in 2014

## Shall Hungary expect new energy deals?

*The Hungarian energy industry has been very hectic in 2014. Press placed a strong focus on potential state acquisitions of utility service providers, investments of MOL and the expansion of the Paks nuclear plant. The future is extremely challenging as all these potential deals may completely change the landscape of the respective energy industries. Overall, it is worthwhile for investors keep a close eye on the Hungarian energy market developments.*



For a long time, we have not recorded so many major movements in the Hungarian energy sector as in the last one to two years. On the one hand, the government has become a very active player in the energy sector. In order to reduce energy prices, the government is planning to undertake state acquisitions of utility service providers and to expand the Paks nuclear power plant. On the other hand, the Hungarian oil company, MOL has become very strong and acquisitive regarding M&A deals both on the regional and global level. Now let carefully analyse what we might expect in the near future.

## Utility service providers may exit Hungary

In our previous editions we reported that exits of utility service providers have become a burning issue mainly due to massive rounds of utility price cuts. As most of the major utility service providers are highly unprofitable, the Hungarian state has become the only possible bidder. It seems that the aim of the government is to return natural monopolies to the public sector.

One major transaction has already materialized. RWE sold its stake in Főgáz to the Hungarian state-owned energy giant MVM. We shall see what the future will bring. There are plenty of targets, but it is hard to meet the price expectations of the parties. Press speculates that complete exodus of E.ON and RWE may be the nearest future developments. In this context, it is worth noting that in March 2014, MVM signed a non-binding letter of intent to buy the E.ON's Hungarian retail gas and electricity units and also the complete gas distribution unit. However, the details of the ongoing negotiation have not been made public.

The government has been quite silent the last couple of months. Thus, it is hard to determine what will be the next potential step. Still, just couple of weeks ago the gov-

E.ON and RWE may unplug from the Hungarian retail energy

The government will continue to buy utilities



ernment emphatically announced that it will continue to buy utility service providers.

### **MOL will continue investments**

MOL has become a very strong player. MOL has recently concluded major deals both on the regional and global level.

In the region MOL strengthened its retail market by buying filling stations of Eni and Lukoil in various CEE countries. MOL will likely continue its retail investments. *“MOL wants to expand its retail network, possibly adding several hundred more filling stations this year”*, Executive Vice President for Downstream Ferenc Horváth noted.

Nevertheless, the strong regional position of MOL could be shaken. MOL may sell its stake in INA. The potential sale may significantly change the regional landscape of the oil industry. MOL would give up its largest strategic move as a great part of its aggregated stores and exploitation are provided by INA. “To sell or not to sell” has been in focus for a long time. MOL has been categorical that it will sell its share if INA does not follow a modern business model. On the other hand, the Croatian state asked from the arbitration court to ban the planned sales of INA shares on the grounds of fraudulent management takeover. If the parties cannot reach an agreement, the court will have the last word.

However, MOL seems to be ready to give up its INA benefits as it has clearly changed its strategy. Instead of the regional focus and refinery privilege, the global exploration & production has become the key focus. Therefore in order to integrate into the global upstream industry, MOL made a serious market breakthrough into the UK. In just a couple of months MOL concluded two major transactions with U.K operators, Wintershall and Premier Oil. MOL will most likely continue its North Sea expansion. As a next step MOL may establish closer business cooperation with other U.K. operators such as TAQA and Enquest.

### **Expansion of Paks nuclear power plant**

The expansion of the Paks nuclear power plant is still on the daily agenda. It has been public that the project would be carried out by Rosatom and that the government would borrow EUR 10 billion from the Russian government to implement the project. Rosatom has recently set up its Hungarian branch which is also a step forward towards the implementation of this project.

However, the project may need to overcome serious obstacles. There are rumours that the European Commission may conduct an investigation in order to examine whether the project complies with the EU state aid rules. In addition, the current EU-Russian conflict could also cause hurdles for this project. The future of this project is still uncertain, but giving the green light would result in the conclusion of the biggest Hungarian deal ever made.

In summary, the Hungarian energy industry is hectic. In some energy industries, it is almost definite that new deals will be concluded soon. In other energy industries there are uncertainties but the value of potential deals remains high. However, all these potential deals could completely change the landscape of the respective Hungarian energy industries. Overall, it is worth investors keeping a close eye on the Hungarian energy market developments.

MOL will continue retail investments in the CEE region

MOL may unplug from INA

MOL to tap into UK operators

EUR 10 billion project



# Hungarian insurance industry may face consolidation

## ING plans to sell its Hungarian insurance business, CIG Pannónia plans to expand

*The Hungarian insurance industry shows that slowly but surely it will face consolidation. The key problem is the small size of the market which is simply undersized for close to 30 players. Due to the extremely small size of market share, many foreign players could easily leave Hungary. Simultaneously, important announcements evidence further market movements in this industry. The Dutch ING announced that it will sell its insurance business. The Hungarian CIG Pannónia announced that it will purchase the client assets of its competitors.*

Key players:

Allianz,  
Generali,  
Groupama,  
Aegon,  
ING,  
Uniqa,  
Hungarian Post Life  
Insurance



In recent years the Hungarian insurance market has been struggling to generate profit due to the challenging regulatory and market environment. The competition has been extremely high, so insurance players are constantly forced to push down their insurance premiums. Surely insurance companies cannot endlessly push their premiums without jeopardizing their activity. In addition, the introduction of extra tax put further strains on Hungarian insurance companies.

Recent years show a slight sign of upturn. Due to a macroeconomic recovery, households are more willing to spend compared to 2013 and the construction sector – one of the key industries for insurance players – also showed a slight sign of recovery. However, despite these signs of recovery analysts agree that the consolidation of this industry will gain momentum in the coming years.

The key problem remains that there are dozens of players in the puny Hungarian insurance market where the overall profit does not reach the profit level of an average mid-size Belgian insurance company. Although the industry is profitable, only four or five of the biggest insurance companies realize 90% of this small overall profit out of a vast number of insurance players.

The small market size of this industry clearly calls for consolidation. A recent survey suggests that there are 29 insurance players in the Hungarian market. The key players are Allianz (15,69%), Generali (13,34%), Groupama (10,35%), Aegon (9,15%), Hungarian Post Life Insurance (9,01%), ING (7,40%) and Uniqa (7,00%). The market is clearly undersized for 29 market players operating at the same time. It is particularly striking that apart from the 7 key players owning approximately 70% of the whole market, the remaining 21 players need to share the remaining 30% out of which 13 players have market shares which do not reach 1% of a share.

The consolidation process will be not swift. Even if there is a seller, it is not easy

Consolidation triggered by  
the small market  
size



to find a buyer who will pay a purchase price which the seller considers fair and noteworthy. Still the signs of consolidation have already been supported by recent transactions. The British Aviva bought the Hungarian insurance operations of the U.S. Metlife and the Austrian Vienna Insurance bought the Hungarian insurance operations of the French AXA.

Moreover, the recent market events suggest that important movements may occur in the near future.

### ING will sell its Hungarian insurance business

ING Insurance Hungary is one of the most successful life insurance companies in Hungary. However due to strategic considerations its parent Dutch company ING decided to sell its complete NN Group (including ING Insurance Hungary) operating insurance business in more than 10 countries.

ING prepares one of the biggest European insurance deals

ING intends to divest more than 50% of its shareholding in NN Group before 31 December 2015 and the remaining shares before 31 December 2016. As the first step, ING sold 28.6 percent of NN Group by way of an initial public offering at the beginning of July 2014. As one of the biggest potential European insurance deals it may have a major impact on the Hungarian insurance industry.

### CIG Pannónia plans to extend its business

CIG Pannónia is a smaller-sized Hungarian insurance company, but with a stable growth perspective. At the beginning of June 2014, CIG Pannónia announced that its determined goal is to grow. CIG Pannónia is determined to buy client assets of its competitors.

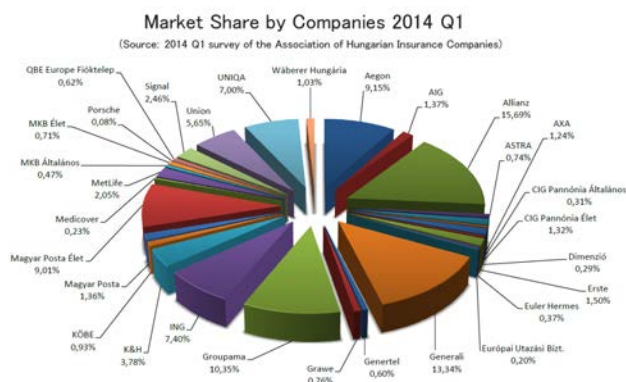
CIG Pannónia is intent on buying up its competitor's client assets

### Other players

At this time other insurance companies have not revealed any intention to sell their Hungarian businesses. However, again it shall be noted that there are more than 13 players whose market shares do not even reach 1%. Analysts argue that foreign players who have such a minimal share in Hungary may easily leave the country. As they have a trivial portion of Hungarian shares, their overall revenues would remain almost unaffected by the potential exits.

Foreign insurance players may easily withdraw from Hungary

In summary, major market movements will most probably take place in the Hungarian insurance industry. The situation is not sharp-edged which would result in fast movements. On the contrary, the Hungarian insurance market expects slow, but sure consolidation. This will allow investors to carefully review possible target companies.





# Driving production in Hungary

## Hungarian automotive industry still racing along

*The Hungarian automotive industry is one of the great success stories of the country. The press regularly reports about production expansions, new greenfield investments and improvement of supplier networks. The big four, Opel, Mercedes, Audi and Suzuki have all shown steady production growth. Each of the big four have a very good business relationship with their local suppliers which boosts investments further. Thus, the local supplier networks are constantly improving. In this context, the construction of a new production plant by the Indian tyre producer, Apollo Tyres will be a major market breakthrough. Overall, market developments suggest that a continued investment boom is expected.*

Key players:  
Opel,  
Mercedes,  
Audi,  
Suzuki,  
Hankook,  
Continental



Production steps on  
the gas

The Hungarian automotive industry deserves great attention. The press regularly reports about production expansions, new greenfield investments and improvement of supplier networks of the automotive industry. The biggest component of industry growth is linked to this industry with an increase of more than 20% industrial output. In addition, reports suggest that this industry produces one fifth of the manufacturing

output and almost 20% of the export. Production will most likely continue to increase.

The big four, the German Opel, Audi and Mercedes and the Japanese Suzuki established their plants in Hungary. In addition, major tyre manufacturing companies, Hankook and Continental have also made significant investments by building their production sites in Hungary. But what is the secret of this successful story?

Investors consider Hungary as a great geographic location as it is at the crossroads of four main European transportation lines, therefore it is an ideal logistic centre from where the Middle East, Eastern and also Western Europe is directly accessible. These investors find a talented, multi-lingual and well-qualified workforce in Hungary for 30-50% less costs than in Western Europe. Innovation potentials and R&D capacities have also an outstanding role.

It shall be also not forgotten that the government wants Hungary to become a manufacturing state rather than a service state. Thus, in contrast to other industries such as banking, energy and telecommunications sectors where the players continue to pay extra tax, car producers continue to enjoy tax reliefs and other incentives.

In return for the government support, car producers use the local suppliers. Thus, component manufacturers and other suppliers have grown enough to become real partners of the big four. The big four purchase from the local supplier network on a

Big four are willing to  
buy from the local sup-  
pliers



regular basis which give a boost to further investments.

In this context, the recent market developments show that the local supplier network is constantly improving. The U.S. supplier BorgWarner is planning to raise its headcount to 300 and the U.S. car interior maker Eagle Ottawa is planning to raise its headcount to 1200 at their Hungarian bases due to capacity expansion. Hankook may also expand its production capacity soon with a EUR 120 million investment. Finally, there will also be a major market breakthrough. The Indian Apollo Tyres chose Hungary for its European car and truck tyre production base. The investment may worth more than USD half billion. The construction of the production plant may start in 2015.

It can be concluded that the Hungarian automotive industry is one of the great success stories which will likely continue in its strong economic outlook. If this course continues, an additional investment boom is expected.

Production capacity  
extension of BorgWarner,  
Eagle Ottawa and  
Hankook

Apollo Tyres may burn  
through USD half billion



## VJT & Partners is ranked as a Top-Tier Firm by EMEA Legal 500

*The prestigious legal directory has placed VJT & Partners as a top-tier firm for Employment and highly recommends it in four other practice areas.*



VJT & Partners has been recommended as a top-tier law firm for Employment for the fourth year running in the Legal 500 Europe, Middle East & Africa 2014. The guide comments: *"The 'very knowledgeable' and 'very responsive' team at VJT & Partners counts HP, Montivíz and ING Financial Advisory among its clients, and advises on employment contracts, policies, termination and mass dismissals. Zoltán Csernus and Dóra Bocskov-Szabó are recommended."*

Managing Partner János Tamás Varga is included in the list of elite "Leading lawyers" in this guide to outstanding lawyers.

Having climbed the rankings consistently in recent years, VJT & Partners' M&A and Dispute resolution practices are both recommended in the second tier, while the firm remained in the second tier for TMT and the fourth tier for Real estate and construction. The guide comments: *"VJT & Partners' three-partner corporate and M&A team, which includes the 'proactive' and 'reliable' János Tamás Varga, provides a service which is 'excellent in all respects'. Varga and the 'exceptionally detailed' Zoltán Csernus worked alongside a leading US law firm to advise ARC Group Worldwide on a cross-border acquisition."*

Four lawyers at VJT & Partners are recommended in The Legal 500 Europe, Middle East & Africa 2014 editorial:

- Corporate and M&A: János Tamás Varga and Zoltán Csernus
- Dispute resolution: János Tamás Varga, Zoltán Csernus, Gábor Hacsí and Dóra Bocskov-Szabó
- Employment: Zoltán Csernus and Dóra Bocskov-Szabó
- Real estate and construction: János Tamás Varga and Gábor Hacsí.

The Legal 500 series of legal directories provides an in-depth assessment of law firms based on intensive independent research of firms and their clients.

János Tamás Varga, Managing Partner of VJT & Partners, commented: *"Legal 500 is regarded as providing accurate analysis of law firm capabilities; as such, we are delighted to receive such high rankings in the guide which we take as an endorsement by our clients of our capabilities and practices."*



# 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 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.

### Business Immigration

Immigration is built upon a system of complex legal rules. It is difficult for non-experts to fully understand the law and identify the best immigration strategy to pursue. VJT & Partners' immigration lawyers handle all aspects of business immigration cases, advising medium to high-net worth foreign individuals and multinational corporations in various matters from dealing with residence permit applications based on investment or setting up a Hungarian business to representing our clients in their Hungarian naturalization procedures.

Immigration lawyers at VJT & Partners have experience in tailoring solutions to the individual needs and circumstances of the client. We have the courage to develop new creative solutions even in the most difficult immigration cases.



## 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

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