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A SURVEY OF CURRENT ISSUES IN THE EUROPEAN ENERGY SECTOR

THE EUROPEAN
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THIRD ENERGY PACKAGE

Throughout this publication, we refer to the two Directives and three Regulations adopted by the European Council and the Parliament on 13 July 2009 as the "Third Energy Package". For ease of reference, the Directives and Regulations adopted as part of the Third Energy Package: EU Directives 2009/72/EC, 2009/73/EC and Regulations (EC) No 713/2009, No 714/2009 and No 715/2009 are referred to as the "Third Electricity Directive", the "Third Gas Directive", the "ACER Regulation", the "New Electricity Regulation" and the "New Gas Regulation", respectively. Where the context so requires, we refer collectively to the two Directives as the "Third Electricity and Gas Directives" and to the Regulations as the "New Electricity and Gas Regulations", as appropriate.

CLIMATE CHANGE PACKAGE

We refer to the four Directives, one Regulation and one Decision adopted by the European Parliament on 17 December 2008 and the European Council on 6 April 2009 as the "Climate Change Package". For ease of reference, throughout this publication, we refer to EU Directives 2009/29/EC, 2009/28/EC, 2009/31/EC and 2009/30/EC as the "New EU ETS Directive", the "Renewable Energy Directive", the "CCS Directive" and the "Biofuel Directive" respectively. Further, we refer to EU Decision No 406/2009/EC and Regulation (EC) No 443/2009 as the "GHG Reduction Decision" and the "Emissions Standards Regulation", respectively.

Where required, we have referred to the previous internal energy market directives 1996/92/EC and 1998/30/EC as the "First Electricity Directive" and the "First Gas Directive", respectively and to Directives 2003/54/EC and 2003/55/EC as the "Second Electricity Directive" and the "Second Gas Directive", respectively.

Throughout the publication, we refer to Transmission System Operators as "TSO" and to Distribution System Operators as "DSO".

We use the following abbreviations for the various unbundling models:

FOU: Full Ownership Unbundling;
ITO: Independent Transport Operator;
ISO: Independent System Operator

LEGAL ADVICE

Please note that the content of this publication does not constitute legal advice and should not be relied upon as such. Specific legal advice should be sought for your specific circumstances.

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INTRODUCTION

I am delighted to introduce the 2015 edition of "The European Energy Handbook" which provides an in-depth survey of current issues in the energy sector in 42 European jurisdictions.

This year's edition focuses on recent legal and commercial developments in each jurisdiction and covers issues as diverse as the design of electricity markets, the reform of the support schemes for renewable electricity, new cross-border interconnections, new state aid guidelines, taxation issues for the upstream sector and significant commercial transactions and privatisations in the energy sector.

In addition to contributions for the European Union, Belgium, France, Germany, Spain, Russia and the United Kingdom from our own offices, this year we have contributions from Schönherr (Albania, Austria, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Romania, Serbia, Slovakia and Slovenia), Peterka & Partners (Belarus), Karanovic-Nikolic (Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia), S. A. Evangelou & Co LLC (Cyprus), Kromann Reumert (Denmark), Raidia Leijns & Norcoux (Estonia, Latvia and Lithuania), Roschier (Finland), Kyriakides Georgopoulos & Daniolos Issaias (Greece), Arthur Cox (Ireland), Studio Legale Legance (Italy), Signum (Kazakhstan), Arendt & Medernach (Luxembourg), Buttigieg, Refalo & Zammit Pace Advocates (Malta), Nauta Dutilh (the Netherlands), Arntzen de Besche Advokatfirma AS (Norway), WKB Wierciński, Kwieciński, Baehr (Poland), Esquivel Advogados (Portugal), Mannheimer Swartling (Sweden), Homburger (Switzerland), Kolcuoğlu Demirkan (Turkey), BBA//Legal (Iceland) and Sayenko Kharenko (Ukraine).

Whilst 2014 was supposed to be the year in which the internal market for energy would be completed, not all Member States have transposed the Third Energy Package into national law and the European Commission has referred a number of Member States to the European Court of Justice for either partial or complete failure to implement the same.

2015 will see intensified efforts to integrate the European energy market and is set to be an important year for the electricity market as the EU Target Model for electricity market integration is expected to be fully implemented this year.

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The gas markets are likewise anticipating further changes: In January, ACER published its updated Gas Target Model, which covers matters such as security of supply, the future of wholesale markets, the role of gas in complementing power generation from renewables, and new development along the gas value chain.

The security of gas supply is another topic which is likely to receive a lot of attention in 2015 as the European Commission has, in January 2015, opened a new consultation seeking views on EU rules to guarantee the security of gas supplies, in a bid to further improve Europe's resilience to gas supply disruptions. This follows stress tests carried out in October last year which showed that better cooperation and coordination between EU Member States was desirable.

In short, 2015 will be another busy year for the European energy sector.

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ENERGY LAW IN GREECE

Recent developments in the Greek energy market

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INTRODUCTION

Following several years of economic turmoil which has affected every part of the Greek economy, the energy sector included, Greece appears to be emerging from the economic crisis stronger, both as a significant energy hub for the South East European region and also a serious point of reference for major energy companies from around the world (Europe, America and Asia) which are seeking an entry into the European energy market. The energy market in Greece, which has been liberalised for many years, has taken advantage of the opportunities presented in the economic crisis in order to adopt many necessary reforms. In addition, areas of the energy market which have been underutilised in previous years are becoming active, while foreign investors are increasingly confident in investing in the Greek energy market, a fact evidenced in part by the interest in the privatisation of major Greek energy assets.

PRIVATISATION OF ENERGY COMPANIES

In the field of the privatisation of energy companies, the Greek government has made significant strides, overcoming many obstacles (which required making structural changes and overcoming domestic political opposition), where, as of this writing, the first major energy privatisation project is being concluded and the second such project is close to the selection of a successful bidder.

The first major energy privatisation project is the National Natural Gas TSO ("DESFA"); after almost three years since the commencement of the process, and almost one year since the selection of Azeri company Socar as the strategic partner of the Greek state and the signing of the relevant agreement to transfer a 66% majority stake to Socar, all national licences and certifications have been issued. In order to conclude the transaction (valued at €400million), the Regulatory Authority for Energy ("RAE"), has certified DESFA as an Independent Transportation Operator ("ITO") while also taking into account the European Commission's concerns and including a clause for suspension of the new owner's voting rights if it were deemed that the security of supply in Greece or the European Union was being threatened. Subsequent to the certification of DESFA as an ITO, all that remains for the sale to be finalised is its approval by the European Commission's Director-General for Competition.

Following on the heels of the privatisation of DESFA is the privatisation of the Independent Power Transportation Operator ("ADMIE"). Taking advantage of the experience gained from the DESFA privatisation process, the Greek state has been seeking to adhere to an ambitious timetable for the privatisation of ADMIE. The Invitation to Submit an Expression of Interest was published in April 2014; the submission of the binding bids by the interested parties, which was originally required within eight (8) months (December 2014), has only received minor delays at the request

of the interested parties and, as of the time of writing, is expected in late 2014 or early 2015, and the signing of the relevant agreement is expected to take place shortly thereafter. The four candidates for ADMIE are the State Grid Corporation of China ("SGCC"), Terna, the Italian operator, Elia, the Belgian operator, and PSP Investments, a Canadian fund which already has a presence in Greece with a 40% stake in the Athens international airport.

In addition to DESFA and ADMIE, other energy companies which are to be privatised in some form or another include the Public Gas Company ("DEPA"), the Public Power Corporation ("PPC"), and Hellenic Petroleum ("ELPE"). The first attempt to privatise DEPA was unsuccessful; however, as natural gas continues to increase its market share, DEPA is expected to be well positioned to play an important role in the region, and it is therefore expected that the second privatisation attempt will be successful. The fact that DEPA has implemented a number of actions to allow for increased competition in the field of natural gas and to make its responsibilities and obligations clear to all market players should increase the chances of a successful privatisation.

Finally, the position of PPC in the Greek energy market is vital; it is the dominant electricity producer and supplier, and therefore a very appealing investment opportunity. More particularly, the plan for the restructuring and privatisation of PPC includes (i) the establishment of a new subsidiary electricity company to be privatised ("Small PPC") which will "inherit" about 30% of the overall portfolio of PPC; and (ii) the additional privatisation of the Greek state's 17% stake in the parent company PPC.

HYDROCARBONS RESEARCH

The first decisive step towards the commercial exploitation of possible oil reserves in Greece through the "open door" process was made by the Ministry of Environment, Energy and Climate Change ("MEECC"), when in July 2013 it announced that consortiums led by Energean Oil and Hellenic Petroleum won the tenders for exploration and exploitation of hydrocarbons in the areas of Ioannina and Katakolo, and the Gulf of Patra in western Greece, respectively. These tenders were met with significant international interest and were considered to be a success. Following several delays, in September 2014, the Hellenic parliament ratified the agreements between the Greek state and the concessionaires, which means that the exploration activities will commence shortly.

Early forecasts estimate the oil reserves for the three locations for the above concession agreements amount to 305 million barrels, a quantity that could generate revenues of up to \$27billion over a 35 year period. In this event, the Greek state's earnings can be estimated to reach between \$5billion to \$8billion. The three consortiums have committed to investing €60million each during

their respective first stage drilling procedures and, based on the agreements, these investments would reach €700million to €800million if hydrocarbon discoveries are made.

1. The consortium of Greek firm Energean Oil & Gas and Canadian-based oil and gas company Petra Petroleum has been awarded concession for an onshore site in Ioannina, north western Greece. Based on its agreement, the consortium has committed to staging the first drilling effort within the next four years, with a follow-up effort within the ensuing six years. Should the exploratory work prove successful, production in the Ioannina area can be expected to begin after 2021.
2. The consortium of Energean Oil & Gas and UK firm Trajan Oil, has been awarded concession for the area of Katakolo, western Peloponnese. Production phase should come considerably sooner at the Katakolo site, where a relatively small oil reserve was confirmed in 1981. The consortium plans to reevaluate existing data for the spot and begin producing in 2017.
3. The consortium of Greek firm ELPE, along with Italy's Edison and Irish firm Petroceltic has been selected to work an offshore location in the Gulf of Patras. This consortium has already approached firms active internationally in seismic research and one of these will be chosen to prepare detailed data. Seismic study results are expected in spring in 2015, while initial drilling is anticipated to take place in mid-2017. Depending on the results, two or three drilling efforts are expected in the Gulf of Patras, each at a cost of between €20 and €35 million.

In order to capitalise on the success of the "open door" process and the experience gained through it, the Greek state has announced a new round of international tenders for exploration and exploitation of an additional 20 offshore blocks south of Crete and in the Ionian Sea, as well as of three onshore sites in western Greece. The area south of Crete is believed to be the country's most likely prospect for the discovery of a major petroleum reservoir of international proportions, while the onshore sites (in the Arta-Preveza region, Aetoloakarnania, and northwest Peloponnese) have already drawn interest from major international players such as ENEL. The offered offshore blocks have considerable water depth levels and they are larger than the blocks previously offered, which means that advanced technical capabilities and extensive capital support will be needed for the exploration activities; this practically means that only large and mid-sized firms will be capable of staying in the race for the award of concession.

The timeline for the procedures of this round of oil exploration deals will be considerably swifter than that of the "open door" process given the experience already gained. The interested parties have a six-month deadline from the date of publication of the announcement of the tender in the Official Journal of the European Union to submit their offers; these offers will then be evaluated over a period of at least three months before the successful bids are selected and the relevant agreements are expected to be signed in the fall of 2015. This means that the entire process from the publication of the tenders to the signing of the agreements will take approximately twelve months from the launch of tender procedures; an aggressive, yet attainable goal. To further highlight the seriousness with which the timetable is approached, assurances that drilling operations will be swiftly conducted once deals have been signed are likely to accumulate higher scores during the tender's evaluation stage.

In order to be able to follow through with this timetable, the Greek state has taken on in parallel several related activities: a) the preparation of a study to examine the environmental impact of the exploratory work; b) publication of a joint ministerial decision on the distribution of provincial tax between provincial governments and local councils; and c) new appointments of specialised staff at the Greek Hydrocarbon Management Company ("EDEY") aimed at making tender procedures more efficient. The president of EDEY has been appointed, its BoD was formed into corpus in September 2014 and EDEY will be hiring at least twenty additional staff members, all specialised energy sector officials, to bolster its efforts and overall efficiency.

THE ELECTRICITY MARKET REFORM

Implementation of the European Target Model

Currently, the structure of the operation of the Greek wholesale electricity market is primarily based on a mandatory pool model regulating power exchanges between market participants (ie producers, electricity suppliers and eligible customers) according to which energy generated is mandatorily placed on the national grid through its mandatory sale to the sole electricity off-taker in Greece, ie the Electricity Market Operator ("LAGIE"), without the ability to use bilateral contracts for physical delivery between producers/importers and load representatives. Within the framework of this mandatory pool model, all power producers are required to submit to LAGIE energy injection offers for each of their power units in order to become eligible for dispatch by the operator and receive the payments corresponding to the energy injected into the grid, which are calculated on the basis of the SMP¹.

Greece is currently in the process of restructuring its wholesale electricity model in order to conform to the rules for market integration based on the European Target Model for electricity, with the aim to participate efficiently in a single European electricity market. The fact that the Target Model is strongly influenced by the markets of north-western Europe raises significant challenges for the Greek market, the design of which is fundamentally different from the approach used in north-western Europe. In order to reach a decision on the options available for the Target Model, RAE, ADMIE and LAGIE instructed an international consultant to develop a study entitled "Basic Planning Principles and Action Timetable for the Adjustment of the Internal Electricity Market with the Requirement of the Target Model". The results of this study were placed in public consultation until November 2014.

The general themes of this study include (i) the creation of a market for forward contracts, (ii) the creation of an intra-day market in which the participants will be able to adjust their net positions so that they will not be penalised due to deviations from the purchased in real time quantities, (iii) the creation of a balancing market with offers for the increase and decrease of production and/or consumption in order to balance the production and consumption of the system in real time, (iv) the change of rules of the daily market as well as of the manner of submission of offers by the participants (eg, by examining the types of offers made in other European markets, such as blocks or complex offers), etc.

In addition to the above, the study provides for the introduction of bilateral agreements between producers and alternative electricity off-takers. Furthermore, in order to protect the liquidity of the daily market, the bilateral agreements which the dominant supplier may

enter into will be restricted. Especially in relation to the renewable energy ("RES") market, the option for bilateral agreements is also supported by the "Guidelines on state aid for environmental protection and energy 2014 to 2020" released by the European Commission. While the Commission expects that energy produced by RES will become "grid-competitive" in the period between 2020 and 2030 and that, by that point, subsidies and other forms of aid to energy from RES will be phased out, state aid may be permitted for RES projects until this takes place. However, such aid will only be authorised for a maximum period of ten years and will only be considered appropriate under specific circumstances and conditions, which in principle contribute to the integration of renewable electricity in the market, such as requiring the beneficiaries of the relevant aid sell their electricity directly in the market and are subject to market obligations².

The introduction of bilateral agreements for RES producers will also be in compliance with the obligation of the Greek state, under the provisions of its recent loan agreements, to reexamine the viability of the currently existing RES support schemes and make them more compatible with the current economic and market conditions (see also next section on the RES New Deal). However, it should be noted that the implementation of the bilateral agreements option would require significant investments for the upgrade of the national Grid in order to become compatible with the European networks and enable also the exportation of RES energy under bilateral agreements with foreign off-takers³.

NOME auctions

Another measure which is close to being introduced in the Greek energy market is the use of auction procedures for the purchase of electricity packets (comprised of lignite and hydro production) by independent suppliers in order to cover the needs of their clients. This mechanism is based on the French NOME model facilitating low-cost energy. These auctions will be based on a starting price, although, as of the time of writing, specific details have not been made known.

The preparations for these auctions in the electricity wholesale market are close to being finalised in terms of regulatory details. RAE has made the necessary revisions based on the public consultations which took place as well as comments of the country's creditor representatives, the Troika. Taking into account the steps which have to be taken (the approval by the European Commission's Directorate-General for Competition and the submission to the Greek parliament for legislation processing) the first round of auctions is expected to take place in early March 2015.

THE RES NEW DEAL

The unprecedented and unexpected expansion of the RES sector in Greece and more particularly photovoltaic solar ("PV") projects due to the very favorable Feed In Tariff (FIT) granted to this technology created a high degree of financial obligations by the Greek state towards RES producers, which in turn led to an onerous shortfall in the RES Special Account, a special account from which payments to RES producers for the energy which they inject into the system are to be made. However, as this account had been underfunded over the years, coupled with the abovementioned favorable FIT granted to PVs, LAGIE has been late in making the required payments, which in turn affects the ability of RES producers to meet their own financing and loan obligations.

Due to this reason, and in light of the commitment of the Greek state towards its international lenders to completely eliminate the deficit in the RES Special Account, a new set of retroactive measures called "New Deal", applicable to all RES systems, was announced in March 2014 by the MEECC. Apart from eliminating the RES Special Account deficit, these retroactive measures also aim to reduce the cost of electricity for the end customers and to adjust the projects' internal rates of return (IRR), so that all RES power producers have similar investment returns.

The New Deal has been based on the following three main axes:

- a) The readjustment of the currently applicable RES FITs, in order for the internal rate of return ("IRR") of the investments in all types of RES technologies to converge between 12% and 15% for all RES power projects. The loss caused to RES producers by this reduction of the FITs is then counterbalanced with the extension of the duration of the Power Purchase Agreements ("PPA"s);
- b) The protection of the investors by taking into consideration the loan agreements entered into with local and international financing institutions; and
- c) The compatibility of the new RES FITs with the current needs of the Greek electricity market (reducing the cost for energy production in Greece and securing reasonable investment rates of return).

The readjusted RES FITs have been calculated on the basis of specific criteria which have been proven to have a significant impact on the investment rates of return, such as the project's installation and operation cost, its installed capacity, the date of its connection to the system and its operational period, as well as whether it has received any kind of subsidy by the Greek state or through funds made available by the EU for the materialisation of the investment (either in the form of a direct grant or through tax exemptions). It has been calculated that the average FIT reduction which will be applied to commercial PV projects will amount to approximately 33%, whereas the respective reduction for wind park projects is not expected to exceed 6.4%. By applying a "haircut" of the RES FITs for all types of RES technology the MEECC aims to secure the operability of the RES FIT system in the future and to prevent a deficit being created again.

In order to counterbalance the abovementioned reductions, the New Deal provided that the PPAs for RES projects which have operated for less than 12 years as of 1 January 2014 shall be automatically extended by seven years and, in the cases where such extension applies, the producers shall have to choose one of the following options:

- a) the sale of the produced energy on market terms (ie, under SMP driven prices) and on the basis of the contribution of each RES technology to the stability of the electricity system; or
- b) the sale of the energy produced by priority at a price of €90/MWh up to a specific quantity of energy provided for by an equation set out in the law depending on the type of RES project.

The decision on which of the above options the producer chooses must be made no later than six months prior to the beginning of the extension period. After the expiration of the term of the PPAs (including the extension period), and on the condition that a valid production licence still exists, the sale of the energy which is produced by RES power plants will be injected into the system on market conditions and prices.

In addition, the suspension period for the licensing of new PV projects and the connection of already licensed ones is terminated and replaced by a maximum annual capacity which may be entered into the electricity system by PV power plants of 200MW (a limitation applicable until 2020). Any capacity exceeding the above limit will be compensated on market terms (ie, under SMP driven prices) for the year within which the maximum allowed PV capacity was exceeded and at the applicable FIT for the year in which it was not exceeded.

CONCLUSION

The Greek energy market has been utilising the lessons learned and the opportunities which arose from the financial crisis, and is in the process of instituting a wide range of reforms and utilising sectors of the energy market which had been previously dormant. The movement seen in hydrocarbons exploration and the international interest which it has sparked, the success stories of the first major energy privatisations in Greece, the structural reforms which have been and are being made in the electricity and RES sectors, all of these show the reflexes and care which the Greek government has shown in responding to the pressing needs of the energy market.

The use of a more comprehensive energy policy which seeks to align the legal and regulatory framework with that of other European countries, the promotion of existing clean energy projects, the modernisation and expansion of the energy related infrastructure, the diversification of sources of energy by exploring new energy possibilities through hydrocarbons research, and the creation of new job opportunities and technological innovations can only mean that Greece is taking the necessary steps in becoming the energy hub of South East Europe which it can be, as well as the entry point for major international energy players.

ENDNOTES

1. RES producers are exempted from the above obligation since the energy generated enjoys dispatch priority to the Grid and the payments are calculated on the basis of a guaranteed fixed FIT.
2. As of 1 January 2016, all new aid schemes and measures will require that, among other conditions, aid is granted as a premium in addition to the market price ("SMP"), indicating a shift from the typical and currently applicable FIT scheme to the feed-in premium scheme, whereby, the RES producers will be obliged to sell electricity directly in the market. Wind parks with an installed capacity of up to 3MW are exempt from this condition. As of 1 January 2017 aid will be granted through a competitive bidding process, unless specifically shown that it is otherwise necessary (ex. for diversification purposes, for new and innovative technologies, for reasons of grid stability) or it relates to small RES projects (such as wind parks with an installed capacity of up to 6MW). The abovementioned competitive bidding process must be open to all RES producers on a non-discriminatory basis in order to be considered proportionate and not distorting of the competition of the internal market; failure to adhere to this would lead to the aid granted not being compatible with the internal market rules. If an installation is commissioned prior to 1 January 2017 and had received confirmation of the aid before such date, the aid could be granted on the basis of the scheme in force at the time of confirmation.
3. The abovementioned Commission Guidelines also allow for the option to allow investment aid to energy infrastructure up to 100% of the eligible costs in the cases of Projects of Common Interest, smart grids and infrastructure in assisted regions.

OVERVIEW OF THE LEGAL AND REGULATORY FRAMEWORK IN GREECE

A. ELECTRICITY

A.1 Industry structure

Greece began the liberalisation of the electricity market in 1999 and subsequently revised the legal framework in order to comply with EU legislation and incentivise private investment and competition. Under current economic conditions and pursuant to the financial assistance agreement Greece entered into with the IMF and EU, complete market liberalisation has been prioritised and is a key pillar of Greece's current economic model.

The Greek electricity market has been shaped by a series of key legislative acts over the past twenty years. These laws¹, the Energy Law being the most recent addition to the legislative puzzle, along with the Grid Codes and a series of secondary legislation in the form of Regulations, Ministerial Decisions and other Administrative Acts, establish the organisational and operational rules for the electricity market, as well as the fundamentals and restrictions of the market organisation and power exchange.

The government bodies and institutions which oversee and regulate the electricity market are:

- The Regulatory Authority for Energy ("RAE"), an independent authority that promotes and safeguards the liberalisation of Greece's electricity and natural gas markets. RAE supervises and monitors the operation of all sectors of the energy market, and advises the competent authorities on compliance with competition rules and consumer protection;
- The Ministry of Environment, Energy and Climate Change ("MEECC"), which is principally responsible for the formulation and implementation of Greece's energy policy in relation to its international and Community obligations;
- The Ministry of Regional Development and Competitiveness, which can indirectly affect energy matters through its monitoring of petroleum product prices and, perhaps more significantly, through its responsibility for administering European Union Cohesion Funds;
- The Public Power Corporation ("PPC"), Greece's dominant electricity producer and supplier, and owner of the Distribution Network. The PPC is owned by the Greek state (51.12%) and several insurance funds (3.81%), with the remaining percentage (45.07%) held by private investors;
- The Hellenic Distribution Network Operator ("HDNO"), a wholly owned subsidiary of the PPC which is the operator of the Distribution Network and as such is responsible for all activities relating to electricity distribution;
- The Independent Transmission Operator ("ITO"), a wholly owned subsidiary of the PPC which is the owner and operator of the High-Voltage Transmission System and accordingly is responsible for its operation, exploitation, development and maintenance; and
- The Electricity Market Operator ("EMO"), exclusively owned by the Greek state (100%), which is responsible for the operation of the electricity exchange market.

Since Greece chose to adopt the ITO unbundling model, and given that the PPC is the exclusive owner of both entities controlling the Distribution Network and the Transmission System, several special provisions and safeguards which had been included in the Energy Law in order to secure the independent and non-discriminatory operation of the ITO and the HDNO have been implemented in accordance with the relevant EC Regulations.

Under Greek electricity legislation, the development, construction, commissioning and operation of power generation facilities is extensively regulated by a number of legislative acts, which provide for three basic licences:²

1. The Electricity Generation Licence is issued by RAE upon its review of the criteria stipulated in the Energy Law and may only be granted to legal entities based within the European Union and/or EU citizens;
2. The Installation Licence, in conjunction with the environmental licensing of the respective facilities, is a prerequisite for every developer seeking to proceed with construction works, enter into agreements with the relevant operators for the connection of the power plant with the grid and the sale of the electricity produced and also, in the case of gas-operated power plants, enter into an agreement for the connection of the power plant with the natural gas transmission system; and,
3. The Operation Licence, issued following the connection of the power plant with the grid, the completion of the works and the successful trial operation.

Finally, the ownership, along with the transmission and distribution activities of the electricity sector, may only be performed with the granting of a respective licence.

A.2 Third party access regime

The ITO adopts all necessary measures to ensure the immediate and uninterrupted new connection to and use of the system by users. To this end, the ITO must make a connection offer to the user with the aim of concluding a connection agreement pursuant to which the parties commit to perform the agreed system development works.

The cost of implementation and commissioning of the connection extension works, including the costs for land expropriation and any other expenses, are exclusively borne by the applicant, whereas the ownership of the works may either remain with the producer or be passed to the ITO depending on their type.

Upon a decision by RAE, new direct interconnectors may be exempted from providing third party access for a limited period of time.

The annual system cost is allocated by the ITO between all system users and the relevant invoices are approved by RAE. The charge corresponding to each user is the product of the user's chargeable capacity multiplied by the unit charge corresponding to that user. The unit charge for each customer is the product of the annual transmission cost allocated to customers divided by the sum of customers' chargeable capacities.

A.3 Market design

The Greek electricity mandatory pool market design consists of two independently operating markets: (i) a Day Ahead Scheduling ("DAS") market, in which the units are remunerated for the energy they inject into the System at a uniform marginal price and (ii) a Capacity Assurance Market in which the producers are remunerated for their availability through Capacity Availability Tickets ("CATs").

The requirements for market participation in power generation are set out in section A.1 above. The activity of power supply, however, can only be performed upon the issuance of the relevant supply licence which is granted to companies incorporated as *société anonymes* or limited liability companies with a capital of no less than €600,000, and which have the necessary organisational structure and financial capability to safely support the supply activities. These licences, much like the Generation Licences, are only available to legal entities based within the European Union and/or EU citizens, while for holders of supply licences in other countries of the EU, a supply licence shall be granted under a specialised procedure.

A.4 Public service obligations and smart metering

Companies which are obliged to provide public services to their customers (mainly power suppliers) must ensure that electricity is made available to the consumers of the non-interconnected islands and the remote microsystems at a pricing level that is (per consumer category) the same as the one applied at the interconnected system. In addition, they must ensure that electricity is provided under a special pricing scheme for large-family consumers and "economically sensitive groups", as per the relevant legislation, and to further adhere to any other public service obligations which may be introduced in the future.

Although there is currently no smart metering system in place, the provisions of the Energy Law have established the target of providing no less than 80% of electricity customers with such a system by 2020.

A.5 Cross-border interconnectors

The Greek Transmission System is interconnected to the north with Bulgaria, FYROM and Albania with a transmission capacity of 600MW; to the west with Italy via an underwater interconnector with a transmission capacity of 500MW; and to the east with Turkey. The northern interconnections are used primarily for the importation of electricity, while the interconnection to Italy is used to export significant quantities of electricity during the winter months.

B. GAS

B.1 Industry structure

The Greek natural gas market is still in the early stages of development. However, gas demand is projected to increase significantly over the coming years, as it progressively gains a larger market share in power generation, as well as in the industrial, residential and commercial sectors.

Piped natural gas sales from Russia began in 1996 and from Turkey in 2007, while liquefied natural gas ("LNG") sales from Algeria began in 1999, all on the basis of long-term supply contracts. Prior to this, the establishment of the high-pressure natural gas transmission system ("NNGTS") and LNG terminal facilities resulted from a decision by the Greek state in 1992 to modernise its energy industries and diversify the country's energy sources through the introduction of natural gas.

Until recently, the Greek Natural Gas market was essentially regulated by Law 2364/1995³. This law largely conformed to the fundamental EU guidelines on the sector but the most crucial and significant step towards natural gas market liberalisation came with enactment of the Gas Market Law (Law 3428/2005) and the Energy Law. These laws transposed the Third Energy Package into national legislation replacing certain provisions of the Gas Market Law.

The government bodies and institutions which oversee and regulate the natural gas market are:

- RAE (described in section A.1 above);
- MEECC (as described in section A.1 above);
- The Public Gas Company ("DEPA"), a state-controlled natural gas company vested with the non-exclusive rights to import, export and trade natural gas (to the regional gas distribution companies and large end-users); and
- The Independent System Operator ("DESFA"), a wholly owned subsidiary of DEPA, is vested⁴ with exclusive authority for the operation of the NNGTS and has the exclusive rights of programming, constructing, owning and exploiting the NNGTS, in addition to the rights of storage (including the management of the LNG terminal facilities that constitute part of the NNGTS) and the processing of natural gas. DESFA was granted a single ownership and an operation licence with regard to the NNGTS for an initial period of fifty years.

Following liberalisation pursuant to the Second EU Gas Directive, DEPA is no longer the only entity active in the sale, purchase, import and export of natural gas. Such activities are now open to any interested party without any licensing requirements. As a result the market has been opened up to new participants. Interest in entering the market is high as Greece offers a unique advantage for those involved in the business of natural gas due to increasing consumption needs, its geographic position in the region and its potential as an access point for the needs of southeast and mainland Europe.

However, the exercise of other natural gas activities within the territory of the Greek state, pursuant to the gas sector legislation, constitutes a public service and is performed under the supervision and regulation of the MEECC. In general, Greek policy regarding gas related issues focuses on:

- ensuring security and continuity of supply;

- protecting consumers;
- ensuring the promotion of free competition and environmental protection; and
- promoting the implementation of energy-efficient and economical, effective practices by the licensees.

Specifically, the supply and distribution of natural gas to eligible and non-eligible customers, as well as the construction and operation of Independent Natural Gas Transmission Systems, are permitted only to the holders of the respective licences granted by RAE.

B.2 Third party access regime to gas transportation networks

DESFA is required to provide system users with access to the NNGTS in the most economic, transparent and direct way for as long as they wish. Access to the system may be refused for certain reasons in which case DESFA must specifically substantiate its reasoning.

Title to the delivered natural gas at a system entry point remains with the shipper, while DESFA obtains custody rights once the gas is delivered to the entry point. Any risk of loss passes to DESFA at the entry point, and returns back to the shipper at the exit point.

The relevant transportation tariffs, according to the NNGTS Operation Code, set out that the shipper is required to pay a fee to DESFA, on a monthly basis, for using the system in accordance with the published NNGTS tariff regulations for gas transportation. The consideration is calculated based on the charge for the capacity transportation reserved by the shipper each year and the charge for the gas quantity transported each year on the shipper's behalf.

B.3 LNG and gas storage

Greece has one LNG import terminal, located west of Athens on the island of Revythoussa, with a total useful capacity of 126,500m³. LNG supplies were historically imported solely by DEPA under a contract with Algeria's Sonatrach. However, as of spring 2010, privately owned LNG shipments have been entering the system.

The LNG is regasified and then supplied to the NNGTS. In July 2007, DESFA completed an expansion of the infrastructure and an upgrading of the facilities in order to increase gasification capacity.

The MEECC is examining the possibility of international partnerships for the construction of a second LNG terminal in Northern Greece. A private company licensed by the Greek state to drill for oil at Prinos is seeking to convert the depleted South Kavala Gas Field into an underground gas storage facility utilising the existing infrastructure which, according to studies, can store significant quantities of gas sufficient to secure uninterrupted gas supply in Greece for a period of 90 days. An alternate plan for this area however, which seems to be being promoted by the Greek state, is for the Hellenic Republic Asset Development Fund to examine other proposals for the exploitation of the Field, as part of the general privatisation effort taking place in Greece.

Furthermore, RAE has also approved a floating LNG terminal in the northern Aegean, comprising an offshore delivery and regasification station, which will inject the natural gas into the NNGTS through an underwater pipeline.

These projects shall ensure that sufficient natural gas quantities reach the Greek market, while also contributing to the enhancement of the NNGTS.

B.4 Market entry

Subject to the licensing restrictions described above, liberalisation has lifted the barriers to entry into the gas market.

B.5 Public service obligations and smart metering

The public service obligations and smart metering initiatives in natural gas are the same as those which apply in electricity, as described in section A.5 above.

B.6 Cross-border interconnectors

Greece is seeking to diversify its natural gas imports by sourcing natural gas from countries such as Iran and Azerbaijan, and is cooperating with several nations that are constructing pipelines. Azeri gas is scheduled to be transported via Turkey through the Trans Adriatic Pipeline ("TAP"), after the signing of a Memorandum of Understanding between Greece, Albania and Italy and the selection of this pipeline by the administrative consortium of the Shah Deniz gas field. This pipeline is designed to connect with the main line of the NNGTS and provide for the transportation of natural gas from Greece to Italy via Albania.

In addition, there has been an agreement on the implementation of the IGB (Interconnector for Greece-Bulgaria) pipeline, which can potentially be used as a starting pipeline for exporting Arabian LNG from Egypt, Algeria and the Persian Gulf to the Balkans and Central Europe, and is scheduled to be completed by the end of 2013.

C. ENERGY TRADING

C.1 Electricity trading

The operation of the electricity market is a licensed activity, currently based on a mandatory wholesale daily market (the "Pool") for power exchanges between market participants and is mainly comprised of the Day Ahead Scheduling ("DAS") and the real time dispatch of generation units. Within the framework of the DAS, all power exchanges between suppliers and generators are settled at a uniform system marginal price ("SMP") per dispatch period (SMP in €/MWh/h), which is the bid price of the last generating capacity included in the day ahead schedule. The DAS, therefore, results in a uniform price at which all power transactions are settled.

Within the schedule of the market operation, prospective market participants are required to enter into the Power Exchange Contract and the Capacity Availability Contracts. In addition, they are entitled to enter into other bilateral contracts with the EMO which, depending on the nature of each agreement, include Contracts for Ancillary Services, Supplementary System Energy Contracts and Cold Reserve Unit Contracts.

Following the Dispatch Day, the EMO activates the imbalances settlement procedure, which results in a uniform price at which the EMO settles the relevant charges and credits to the participants concerned and encourages the availability of generation units.

This mandatory pool model, however, is scheduled to be changed: there is currently an on-going public consultation on the complete

restructuring of the wholesale electricity market (initiated by RAE) in order to move from a mandatory pool to the Target Model promoted by the EU, which shall enable bilateral agreements between market participants. This restructuring process, which is part of the complete liberalisation of the electricity market, is targeted for completion at the end of 2014.

In addition, one of the matters set out in the public consultation is the use of auctions with regard to the lignite electricity production of the dominant power producer, the PPC, in order to enhance competition in this cost-effective power source. These auctions are envisaged to take place in accordance with the NOME model, as is currently the case in France.

Furthermore, the High-Voltage Transmission System Operation Code and the Electricity Exchange Code include provisions regulating both the operation of the transmission system and the power exchanges and reflect the changes which have been introduced because of the incorporation of the new ITO and EMO.

C.2 Gas trading

Natural gas supply companies, as well as distribution companies, are entitled to supply customers with natural gas in their respective areas of jurisdiction pursuant to the terms and conditions of their respective supply and distribution licences.

The trading of natural gas takes place between the suppliers and their customers through bilateral contracts. Due to the relatively underdeveloped state of the domestic gas market, the completion of financial trades in gas follows the principles that apply to physical trades under natural gas supply contracts. Therefore, the physical delivery of a quantity of natural gas (as certified by DESFA) determines the basis upon which the related financial trades are completed. The Gas Supply Code is expected to set the general framework for the supply of natural gas to eligible customers, as well as the general terms and conditions of the natural gas supply contracts.

Physical trades in natural gas are determined on the basis of specific provisions in the NNGTS Operation Code, which sets out a gas trading scheme encompassing weekly scheduling for the resale and transportation of natural gas, the transmission of capacity rights within the system and an imbalances settlement regime. Further conditions are determined by the model transportation contracts and LNG facilities use contracts which grant gas undertakings access to the national system in order to supply an eligible customer.

C.3 Introduction of EMIR and REMIT

Greece is committed to taking all necessary measures to ensure compliance with the EMIR and REMIT frameworks, and to assist ACER with its operations; to this end, while no major legislative changes are necessary, the implementation of the provisions of these frameworks will have to be gradual, so that they may follow any changes and additions the European Commission puts forward.

D. CLIMATE CHANGE AND SUSTAINABILITY

D.1 Climate change initiatives

Under the Climate Change Package, the EU27 are committed to a 20% reduction in carbon emissions by 2020, compared to 1990 levels. In order to comply with its obligations, since 2000 Greece has implemented a programme which coordinates all private and

public sector activities with the aim of limiting greenhouse gases. This aggressive programme has taken measures affecting the household and tertiary sectors; transportation; industry; electricity generation; waste disposal; agriculture; manufacturing processes and others.

D.2 Emission trading

The emission trading system in Greece functions through the national allowance plans ("NAPS"), under which each country distributes its carbon credits allocation to domestic installations (which can then supplement these credits by purchasing EU and international trading credits). If an installation successfully reduces its carbon emissions, it then has the opportunity to sell its credits for a profit, allowing the system to be more self-contained and to be part of the stock exchange without much government intervention. The Athens Stock Exchange Market has been assigned by the MEECC with the duties of the Auctioneer for Greece within the framework of the EU Emission Trading System ("ETS").

The final version of the Greek NAPS, issued in April 2008, set out the total emission rights allocated to Greece for the period 2008 to 2012 at 341,547,710 tons of CO₂, all of which were allocated free of charge. A decision was made in early 2011 to auction 10 million unallocated emission rights units ("EUA") with an estimated total value of approximately €200 million. Throughout 2011, a total of eleven auctions took place selling EUAs, raising a little over €111 million, short of the original target. Since then, 2012 has seen the continuation of this auction scheme, albeit with less frequency and raising less revenue.

A number of changes to the current trading scheme are expected to take place in 2014. These changes will include a centralised allocation process by an EU authority to replace the national allocation plans, a decision to auction a greater share of credits (above 60%) rather than allocating them free of charge, and the inclusion of other greenhouse gases. The proposed goal for the Third Trading Period foresees an overall reduction of greenhouse gases of 20% by 2020 compared to 1990 levels.

D.3 Carbon capture and storage

This section is not applicable in Greece.

D.4 Renewable energy

June 2010 brought the issuance of the New RES Law which streamlined the licensing procedures for RES projects in order to expedite their materialisation. The law exempted a larger field of projects from the need to receive Production Licences and environmental approvals, reduced the timeframe needed for cases where these are required (by merging processes and transferring the task of the issuance of Production Licences from the Ministry to RAE), offered incentives for projects that do not qualify for subsidies, and permitted RES installations on high productivity land. Finally, of great significance is the removal of the own financial capability criterion that burdened many shareholders and stalled numerous projects. Law 4152/2013 introduced additional measures in an effort to further expedite the completion of the licensing process.

A RES project must receive a series of licences, which can be classified in the following basic categories:

- The Electricity Generation (or Production) Licence;

- The Environmental Terms Approval ("ETA");
- The Connection Terms Offer ("CTO"), which becomes binding upon the issuance of the ETA;
- The security of the land rights for the project site;
- The Installation Licence;
- The Connection Works Agreement and the Power Purchase Agreement; and
- The Operation Licence.

As mentioned above, the New RES Law does not require the ETA for all projects. However, in cases where a project is exempt from the ETA, a confirmatory decision on this point must be issued.

Greece has reached almost 15% energy consumption from RES and the total installed capacity from RES has reached 4,118MW. The increase has mainly been led by photovoltaics ("PVs"), while the other RES technologies have not shown significant progress, mainly due to the economic crisis and difficulties in securing the necessary financing. As a result, significant efforts must still be made in order to reach the national targets which have been set for the production of power through RES at 20% of the total national energy consumption by 2020.

The aforementioned targets are to be achieved through a mix of measures related to the implementation of policies in the field of energy efficiency and the large penetration of RES technologies, both in electricity production and heat supply. In October 2010, the MEECC issued a Ministerial Decision on the desired ratio of the installed capacity for RES technologies in Greece using two years (2014 and 2020) as benchmarks. Within this framework and due to the fact that the goals set out for the desired installed capacity of energy produced by PVs for the year 2020 have already almost been met because of the significant increase of the installed PV parks, the Ministry decided to suspend the submission of new applications and the review of existing applications already submitted to RAE or the relevant operator for production licences or connections terms, as well as to suspend until 31 December 2013 the signing of PPAs and Connection Agreements with regard to PVs. The provisions of the New RES Law, along with the "fast-tracking" of certain projects, aim to simplify the licensing procedure, rationalise the feed-in-tariff scheme, tackle specific barriers at the local level, and immediately advance certain key projects, all for the advancement of power production by RES and for the attainment of the set targets.

The fast-track process has been used in the past for large scale energy, tourism, industry, advanced technologies and innovation projects which fall under the scope of the investment law. Currently, it is being used as a tool aimed to accelerate large scale investments in Greece, with most of those investments being in RES projects. Within the framework of the fast-track process, a company under the name "Invest in Greece S.A." operates as a one-stop-shop for investors and undertakes all of the required procedures and licensing obligations on behalf of the investor.

Another way to promote electricity generation through RES in Greece is through a guaranteed feed-in-tariff ("FIT"). This FIT provides electricity producers from RES a guaranteed sale price for their produced electricity, along with a guaranteed buyer for their production. The selling price can be altered depending on whether the RES electricity producers are located on a Greek island or not,

on the type of RES technology used and on the time of electrification of the power plant. As of July 2012, for a period of 2 years a Special Extraordinary "Solidarity" Fee ranging between 10% and 42% depending on the date of connection of the plant and the type of technology used is levied on all RES producers. RES power plants also enjoy dispatch priority to the Grid. The FIT, however, is limited in time, and is only guaranteed for the duration of the PPA. These agreements have a duration of twenty years and may be extended by agreement between the parties.⁵

Another financial instrument for the promotion of RES in Greece (with the exemption of PVs), is the National Development Law (Law 3299/2004) which covers all private investments in Greece across all sectors of the economy. The National Development Law governs the terms and conditions of direct investment in Greece and provides for incentives, available to both domestic and foreign investors, depending on the sector and the location of the investment.

Also of note is the central planning structure in relation to future RES production. The EMO is obliged to publish the National Transmission Development Plan ("NTDP") each year. This plan describes all planned transmission projects under a five year horizon, and also includes an overarching strategic view under a ten year horizon. The planning process takes into consideration existing Production Licences and applications for new licences and, through close collaboration between the EMO and RAE, aims to plan the most suitable transmission projects to accommodate future RES production.

D.5 Biofuel

While initiatives and developments on biofuel market have recently started in Greece, with biodiesel being the only biofuel produced in the country, legislation has been passed in order to harmonise domestic law with EU legislation on biofuels. Such legislation provides for the need to receive licences in order to perform certain activities. Biofuel distribution is one such activity and in order to receive the relevant licence one must also hold a biofuel production licence (or alternatively valid contracts to purchase biofuels). These licences are only granted to sociétés anonymes or limited liability companies based within the European Union.

D.6 Energy efficiency

A very successful programme which has been in place for the past year or so, and which promotes energy efficiency in small scale settings, is the "rooftop PV" programme. Under the terms of this government sponsored initiative, domestic consumers of electricity and small business are given the opportunity to install small PV systems (up to 10kWp) on the rooftops of their buildings. The electricity produced is sold to the HDNO and the financial gains from this sale usually offset all investment costs and allows for a profit for the small investor. The success of this programme is evidenced by the fact that over 300MW have already been installed.

E. NUCLEAR ENERGY

There are no nuclear energy activities in Greece.

F. UPSTREAM

In Greece, 99.5% of the petroleum that is used is imported, while only 0.5% is locally produced. Even though Greece has had legislation concerning the research, exploration and exploitation of hydrocarbons for many years, it only recently started taking more advanced steps to improve its productivity in this area.

The research, exploration and exploitation activities for hydrocarbons are regulated by Law 2289/1995, which was significantly revised by the Energy Law, introduced in August 2011 (Law 4001/2011).

In accordance with the United Nations Convention on the Law of the Sea, as ratified by Law 2321/1995, the right to research, explore and produce hydrocarbons existing in onshore areas, sub lakes and submarine areas, where the Greek state has either sovereignty or sovereign rights, belongs exclusively to the Greek state. Their exercise shall be for the benefit of the public. Following enactment of the Energy Law and by virtue of Presidential Decree 14/2012 the state company Hellenic Hydrocarbons Resource Management S.A. (HHRM S.A. or EDEY S.A. as per its Greek initials) was established to deal with certain matters relating to the management of the process of research, exploration and production of hydrocarbons.

In accordance with the above, HHRM S.A. shall grant research licences to third parties following an open tender procedure, with a decision approved by the Minister of Environment, Energy and Climate Change, for a period of up to eighteen (18) months. The area to be researched may not exceed 4.000 km² with respect to onshore areas, and 20.000 km² with respect to offshore areas. The granting of research licences to several applicants for the same area is permitted. The granting of such a licence does not confer any other right on the licensee.

The holder of a research licence is obliged, immediately after its granting, to submit to HHRM S.A. a research programme divided into phases and, after the completion of each phase, shall be obliged to submit copies of all technical and scientific data and conclusions that resulted from research carried out in that phase. Within three months from the expiration of the licence, the licensee has to submit to HHRM S.A. a detailed report, accompanied by official information and data, in which the results of the research have been analysed. Breach of the foregoing obligations by the licensee, as well as any breach of the terms of the invitation or the licence may result in the revocation of the licence and in forfeiture of the letter of guarantee in favour of the state.

Technical notes

The state's rights of exploration and production of hydrocarbons are granted to third parties either (i) by the conclusion of a lease agreement; or (b) by the conclusion of a production sharing agreement, and in either case both the stages of exploration and production shall be provided for. Each agreement shall concern one or more adjacent areas onshore or seabed which shall comprise the initial exploration area for the discovery of hydrocarbon deposits ("Contract Area"). The Contract Area shall eventually be restricted to the area where commercially exploitable hydrocarbon deposits have been discovered ("Production Area").

Under both agreements the contractor assumes the obligation to plan and perform the exploration and production of hydrocarbons and their by-products and has the exclusive right to do so. The

contractor provides, at its own expense, the necessary technical equipment, materials, personnel and funds required for the performance of the project, and bears the entire financial risk in all events, particularly if no commercially exploitable deposit is discovered or if the profit made on the yield from a deposit is insufficient. The contractor manages the project, which shall be carried out in accordance with the international models for the exploration and production of hydrocarbons and pursuant to work programme and budget which has been approved by the employer or the lessor, as the case may be, and bears the risk throughout the entire term of the agreement.

Under the production sharing agreement, in the event of the discovery and production of hydrocarbons, the contractor shall retain part of each calendar year's total production of hydrocarbons and by-products of each Production Area in order to cover the relevant expenses specified in the Law. The remainder of the production from the Production Area in question together is shared between the employer and the contractor on the basis of a fixed and agreed upon percentage (ie, production sharing).

Under the lease agreement, in the event of the discovery of a commercially exploitable deposit, the contractor, by notification to the lessor, becomes lessee of the right of production of the deposit. As a result, it is obliged and entitled to produce hydrocarbons and their by-products and to market the same for his own benefit, either in their crude state or following the processing thereof, excluding refining, by paying to the lessor the rent and the relevant tax. The rent is due to the lessor under any circumstances, irrespective of whether the contractor realises a profit or not. It is agreed that the rent will be paid in kind or in cash, at the lessor's option. In the first case, the rent shall be determined as a percentage of the quantity of hydrocarbons produced and in the second case as a percentage of their value, as provided under the agreement.

Presidential decrees, which are issued following a proposal of the Minister of Environment, Energy and Climate Change specify in detail the terms and conditions of the agreements such as the contents and the timetable for the submission for approval of the exploration and production programmes and the expenditure budgets.

HHRM S.A. shall grant, on behalf of the state, the right to explore and produce hydrocarbons in accordance with the procedures specifically described in Law 2289/1995 and more particularly either (i) upon an invitation to tender; (ii) upon an application by the interested party for an area not included in the invitation to tender; or (c) with an open door invitation for the expression of interest.

The invitation to tender shall set out in detail the selection criteria and the competition points, which includes the rent offered by the interested parties. Under the lease agreement or the participation interest in the hydrocarbons to be produced that are being offered to the employer by the interested parties in the case of a production sharing agreement, there is a signature bonus as well as the production bonus. The declaration may also provide for payment of an annual remuneration (surface fees) during the exploration and production stage which shall be set out per stremma (1,000m²).

Both the lease agreement and the production sharing agreement may provide for the participation of the state in a joint venture with the contractor with regard to the exploration and the production

stage. Such participation right of the state may not be exercised by HHRM S.A. The invitation to tender shall specify the percentage of the state's participation, if any; its participation percentage in the exploration and production expenses; its participation percentage in the allocation of the production; the legal entity through which the state will exercise its participation rights; the management of the joint venture; and any other necessary details.

Under the agreements concluded, contractors may be natural persons and/or legal entities, acting singly or in a joint venture, provided they have the nationality of, in the case of a natural person, or are registered in, in the case of a legal entity, a Member State of the European Union or a third party country having reciprocity. Following a recommendation by the Minister of Environment, Energy and Climate Change, the Council of Ministers may resolve to prohibit a person who is substantially controlled by a third country or by the citizens of a third country or, a joint venture in which such a person participates, from participating in the abovementioned procedures and from being granted a research licence or from concluding lease agreements or production sharing agreements and from transferring rights granted under such agreements for reasons of national security. Following the conclusion of an agreement, the contractor may not be placed under the direct or indirect control of a foreign state which is not a Member State of the European Union, or under the direct or indirect control of a citizen of such a state without the prior approval of the Council of Ministers. The Council of Ministers will resolve whether or not to give such approval after receiving the opinion of the Minister of Environment, Energy and Climate Change. Breach of this provision shall result in the contractor forfeiting all his rights under the agreement following a resolution of the Council of Ministers to this effect.

The duration of the exploration stage shall be determined in the agreement, but may not exceed seven years for onshore areas and eight years for offshore areas, and starts with the entry into force of the agreement. Its term may be extended by up to one half of the initial period under specific circumstances. If the contractor finds that the discovered deposit of hydrocarbons is commercially exploitable, he is obliged to notify the lessor in writing, within the time limit set forth in the agreement, of the commercial exploitability of the deposit and the anticipated amount of its recoverable reserves. While the decision as to whether the deposit is commercially exploitable rests with the contractor, it is obliged to justify his decision in the above-mentioned notice. By virtue of the notice, the Production Area of the specific deposit is determined, its size is delineated in accordance with paragraph 10 of this Article, and the production stage of the area commences. The duration of the production stage of each area is 25 years. The duration of the production stage may be extended for up to two five-year periods, upon a proposal by HHRM S.A., when it is shown that the original duration is not sufficient for the completion of the activities in question, with a renegotiation of the terms of the agreement and the signing of a new agreement, upon an application of the contractor which must be submitted before its expiration.

The licence for the installation and operation of hydrocarbons storage tanks, production platforms and all kinds of mechanical installations as well as for the installation of pipelines for the transportation of the extracted hydrocarbons to the separation, processing or storage and loading installations which the contractor has in the country shall be granted by resolution of the Minister of Environment, Energy and Climate Change. Depending

on the site of the above installations the opinions of the following Ministries may be required: Ministry of National Defense, Ministry of Development, Competition and Maritime Affairs, Ministry of National Defense, Ministry of Infrastructure, Transport and Networks, and Ministry of Agriculture.

The contractor has the right to transfer, in whole or in part his contractual rights and corresponding obligations to an independent third party only upon the written consent of the lessor or employer and the approval of the Minister of Environment, Energy and Climate Change. The lessor or employer may refuse such consent if the reasons of paragraph 2 of Article 4 apply, as well as if the independent third party does not meet the criteria mentioned in the Law. The lessor or employer may place any terms on the contractor in order to secure his own interests.

The state may exercise an option right in the case of subrogation or transfer of the contractor's interest percentage.

This consent is also required when the Affiliate Enterprise which controls the contractor is transferred.

The contractor has the right, upon the written consent of the lessor or employer and the approval of the Minister of Environment, Energy and Climate Change, to transfer in whole or in part his contractual rights and corresponding obligations to an affiliate enterprise. This is conditional on the contractor remaining wholly, jointly liable with the receiving affiliate enterprise, with respect to the lessor or employer for the performance of his contractual obligations. This consent and approval may be refused for reasons of national security or technical reasons.

If the contractor is a joint venture of natural persons or legal entities, each member is entitled to transfer his contractual rights and obligations to another member of the joint venture, upon the written consent of the lessor or employer and the approval of the Minister of Environment, Energy and Climate Change.

The State may exercise an option right in the case of subrogation or transfer of the contractor's interest percentage.

The contractor shall be subject to a special income tax of 20%, as well as to a regional tax of 5%, without any other ordinary or extraordinary contribution, fee or other expenditure of any kind for the benefit of the state or of any third party. The tax shall be imposed on the net taxable income earned by the contractor's operations under each agreement.

Upon the expiration of the Production stage of each Exploration Area the same reverts, free and clear, to the state.

The use of real property which has been acquired and the ownership of moveable property, the value of which has been depreciated, shall be turned over to the lessor or the employer ipso jure without the payment of any consideration.

From the time of acquisition of such assets by the lessor or employer, the latter shall bear no responsibility whatsoever to the lenders of the contractor for any of its debts unless a real security has been granted in favor of such lender which the contractor is obliged to release before the property reverts to the state.

The lessor or the employer shall be entitled to declare that the contractor has forfeited his rights under the agreement in the event that:

- (a) the contractor fails, through his own fault, to fulfill his obligations under the provisions of the Law and the specific provisions of the agreements;
- (b) the contractor fails to pay on time the rent or the production share, as the case may be, or the income tax.

The lessor or the employer may also seek compensation for any damage he has suffered and any consequential loss.

In the event of any other breaches by the contractor or the contractor's subsequent failure to comply with the terms of the agreement within a 60 day time limit imposed by the lessor or the employer, the contractor may be declared to have forfeited his rights pursuant to an award by the arbitrators, provided that the agreement makes provision for an arbitration procedure otherwise the contractor may be declared to have forfeited his rights pursuant to a decision by the competent court.

The rights of the lessor or employer shall be abrogated after the lapse of six months from the date the lessor or the employer becomes aware of the cause of forfeiture.

ENDNOTES

1. These laws are in detail: Law 2773/1999 On the liberalisation of the Electricity Market, Law 3175/2003 which amended Law 2773/1999, the Grid Control and Power Exchange Code for Electricity of May 2005 (the Grid Code), Law 3426/2005 On the Acceleration of Electricity Market Liberalisation, Law 3468/2006 On the Production of Electrical Energy from Renewable Energy Sources, Law 3851/2010 On the Acceleration of the development of RES and the Climate Change (the New RES Law), and finally Law 4001/2011 On the Operation of the Electricity and Natural Gas Energy Markets and for the Research, Production and Transmission Networks for Hydrocarbons and other provisions (the Energy Law).
2. Other ancillary requirements prescribed by the general legislation relate to building permits, health and safety legislation, etc. The issuance of these run in parallel and is a prerequisite to the licences mentioned above.
3. As amended by Laws 2528/1997 and 2992/2002.
4. The State Oil Company of the Azerbaijan Republic (SOCAR) has been recently awarded with the tender for the privatization of DESFA. Once the formalities of the tender process will be concluded, Socar will acquire 66% of DESFA's share capital.
5. However, the FIT applicable for the extension of the PPA is likely to be the FIT applicable at the time of extension, and not the one granted at the signing of the original PPA.

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