

October 2007



The Central & Eastern European Corporate Strategy Survey

A study of M&A sentiment in Czech Republic, Hungary, Poland, Slovak Republic and Slovenia



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Introduction

mergermarket is delighted to present the inaugural edition of **The Central & Eastern European Corporate Strategy Survey**, in association with **CMS, KBC Securities and Penta Investments**.

With the Central & Eastern Europe (CEE) region continuing to enjoy sustained growth in M&A activity, this survey gauges the opinions of key decision makers who drive this regional activity. We believe the results of this survey give a truly unique insight into regional M&A appetite – both on a country and sector basis.

Whatever lies ahead for M&A in the region in the coming year, mergermarket and our sponsors are grateful to the respondents for participating in what we hope will become the definitive market outlook on M&A in the CEE region. Your feedback is particularly welcome.

Simon Anam

Managing Director, Remark

Methodology

In April 2007, mergermarket canvassed the views of CEOs, CFOs, and Strategy Directors of 100 CEE based companies with an annual turnover exceeding €50m. The companies consisted of forty drawn from Poland; twenty each from the Czech Republic and Hungary; and ten from the Slovak Republic and Slovenia, respectively. The survey aimed to uncover Central and Eastern European business leader sentiment on a number of extant market topics. In particular the strategic intentions of the companies surveyed in respect of the M&A activity they are planning, current and potential funding sources, as well as their recent M&A experience.

KBC Securities Foreword

The CEE region has experienced tremendous growth since the end of the communist era. M&A volumes have increased as per consequence, and the potential for further growth is substantial. Regional cross-border M&A activity has definitely taken off and KBC Securities believes the same will be fuelling the M&A market growth next to a considerable domestic appetite in virtually all CEE countries.

As a consequence of the M&A dealflow and together with the succession issues that are expected to pop up throughout the region, private equity and IPOs seem to become increasingly popular ways of funding growth. KBC Securities is confident that the CEE region will continue to show attractive growth opportunities, both for domestic, regional and international investors.

The "Central and Eastern European Corporate Strategy Survey" was taken in the course of April 2007 by conducting interviews with senior executives in 100 companies from CEE (Czech Republic, Hungary, Poland, Slovak Republic and Slovenia). As the first project of its kind, the purpose of the survey was to sound for the strategic views and the expectations of these senior executives in respect of their company's external growth plans and how they are envisaging to realise them.

Beyond all doubt, the CEE economies have experienced a tremendous growth over the past 17 years and the number and volume of M&A has been increasing commensurately. In recent years, the CEE region has witnessed impressive growth in M&A volumes as recorded in the "mergermarket Heat Charts" that are being published quarterly. Even more, the expectations that are reflected in this survey - albeit rather qualitative than quantitative - are buoyant and point out to a strong dealflow throughout the CEE region for the next 12 months to come. Although there is no coherent picture across the various countries, financial services, TMT and retail/consumer are definitely the M&A sweetspots in terms of expected dealflow, while also energy/utilities and industrial will be fuelling deal volumes with their on average larger dealsize.

Compared to the mid-90s, the nature of M&A activity has changed however considerably. As the mid/late 90s saw the haydays of Western European companies and investors driving up the transaction volumes (mainly privatisations), current M&A volumes are being determined by domestic M&A activity in the respective CEE countries and increasingly so we have noticed a significant shift in the volume of inbound cross-border M&A activity towards CEE-regional cross-border deals.

With the exception of large state-owned conglomerates that were broken up and privatised, the vast majority of CEE corporate population is middle-sized and mainly having

family/private origins. Funding is a factor potentially hampering the CEE M&A market and although bank funding remains the main source of funding, companies will aim to further diversify their funding and increasingly turn to private equity and the stock markets. Especially since the average age of private company-owners is increasing and succession solutions might not always be available, midmarket companies that have grown considerably are and will be increasingly turning to the domestic stock markets or regional hubs such as the Warsaw Stock Exchange.

The steep growth of the region's economies, accompanied by a shift in professionalism of local management and a steadily growing transactional experience will translate into gradually higher deal volumes and a continued rise of regional cross-border activity. As such, this will imply a stronger involvement of advisors throughout the M&A process which in turn will bring added value in terms of the speed, quality and professionalism.

We were pleased to see that this report actually confirms our own views being a major advisory firm active in the CEE region. Reflecting upon our own operations and setting our ambitions and goals against the market expectations that are being reflected in this survey, we believe in a business advisory model that is funded on a dense and sizeable cross-border M&A network covering the whole of the CEE-region on top of strong local franchises. As a typical mid-market player, KBC Securities is extremely well positioned in the CEE region to offer high-quality financial advisory services to a booming clientele of medium-sized, strongly performing and fast growing CEE companies. Typically our deal size would be below EUR100m, with the vast majority of deals below EUR50m. By specifically targeting midmarket M&A volumes we believe to be able to offer our services and assist local CEE companies in realising their external growth ambitions.

Our CEE Corporate Finance group has 40 professionals spread over 10 locations throughout the CEE region, all at your disposal. If after reading this report you would like to discuss how our advisory services in CEE can assist you in realising your own expansion plans, we would be delighted to hear from you.

Bart Delusinne

Head of CEE Corporate Finance
KBC Securities Group

CMS Foreword

The economies that make up Central & Eastern Europe are going through a period of sustained change. GDP growth rates across the region are at least twice those found in Western European markets, and the level of foreign direct investment into the region as a whole is now on a par with FDI into China.

Where not so long ago CEE was seen as a difficult place to invest, fraught with uncertainty, now we are experiencing unprecedented levels of investment. According to mergermarket in the period from 2003 to 2006 the volume of M&A deals in CEE increased more than two and a half times. There are no signs at present of the current level of activity slowing.

Virtually every major multinational corporation is attracted to the region by a combination of its strong growth, its young population with their rising average incomes and by the advent of EU accession for many of the countries in CEE which has certainly aided both the pace of change and a feeling of sustainability of growth.

Locally based companies in CEE are also benefiting from the strong growth rates and are increasingly looking beyond their own borders for new growth opportunities. We expect to see the level of outbound investment across the CEE region increase significantly over the next 5 years. The need to improve market share and also to benefit from economies of scale are the two key drivers behind increasing M&A by locally based companies. This report looks specifically at businesses based in the region with a view to better understand the sentiments of their leaders with respect to current and future trends in corporate strategy. The findings make very interesting reading and we think that Central & Eastern Europe is set to remain an extremely prosperous region in which to do business.

Helen Rodwell

CEE Head of Corporate/ M&A

CMS Cameron McKenna



First Leveraged Buy Out

in the Czech Republic - Severomoravské vodovody a kanalizace, a.s. (SmVaK)



SmVaK is the second largest water management company in the Czech Republic, serving some 1.1 mil. of Northern Moravia inhabitants. It is the first water management company, the shares of which were initially offered in 1996 for public trading at the auxiliary market of the Prague Stock Exchange.

1. Pre-acquisition Phase

- in the years 1999 – 2004 the majority owner was the company Anglian Water, the minority owner was the company Suez Environment (Ondeo)
- from the point of view of a private equity investor the company SmVaK represented an optimal target for an LBO. The company had a natural monopoly position on the market, with predictable further development.

2. Acquisition

- in the time period from May to September 2003 an international private tender for the sale of a majority stake in the company, in which the only criterion was the price was organised
- in the course of the tender the strategic investors did not show interest in paying a high price for the company SmVaK, the price oscillated in the area of the local minimum
- in the banking sector the situation was positive due to low interest rates and high level of willingness to finance new projects
- based on the contract dated 4th November 2003, the private equity group Penta purchased 54.3% of shares from Anglian Water, as of 25th April 2004 further 44.07% of shares were acquired from the company Suez Environment
- for the above specified shares Penta paid in total CZK 3,2 bln.

- a pre-acquisition agreement including a long-term business plan of SmVaK based on water price continuity and infrastructure investments was concluded among the company management, municipalities, financing banks and Penta and represented a part of the transaction.

3. Implementation

The Private Equity Investor implemented 2 measures in the following areas:

a) operational area:

- after its acquisition of SmVaK the investor did not exchange the management, which was considered a step typical for Penta
- based on mutual discussions with the management, with the aim to reduce the cost Penta introduced best practices into the company operations
- a divestment of non core assets in the value of approx. CZK 200 mil. was carried out. This led to the improvement of the economic performance of the company by 10% in the years 2004 and 2005
- the investor enhanced the efficiency of the procurement processes by approx. 8%, whereas the achieved cost savings (approx. CZK 35 mil. p.a.) enabled an increase in the company's investment plan, especially in the area of water infrastructure

b) financial restructuring of the company's liabilities:

- optimisation of the capital structure. At the time of the acquisition, SmVaK did not use any loans, which from the point of view of the capital structure as well as in comparison with other water management companies was not considered as optimal.
- a syndicated loan amounting to CZK 1,75 bln. arranged and led by Citibank was subscribed and granted by 8 participating banks
- 10 bonds with tenor one year and 5% interest rate in the total amount of CZK 2 bln. were issued and managed by Citibank. The funds acquired were used for the refinancing of the original loan. As the bond capital was not subject to amortization, this resulted in a lower company's cash-flow requirement, and increase of the company value.
- banks, funds and private investors invested in the bonds

4. Exit

- in 2006 the private equity group Penta opened a private tender for the sale of its share in the company SmVaK, to which a restricted group of renowned strategic and financial investor participants were invited
- in the course of the tender the final price significantly increased. This convinced Penta to sell its ownership stake.
- as of 12th April 2006 Penta signed a purchase agreement with the Spanish company FCC, by which Penta sold 98.47 % of the SmVaK shares for a price amounting to CZK 4,76 bln.

The key to a successful LBO in the SmVaK project was a realistic assessment of the future market development as well as the successful implementation of the financial restructuring of the company's liabilities accompanied by an overall improvement of the processes within the company.

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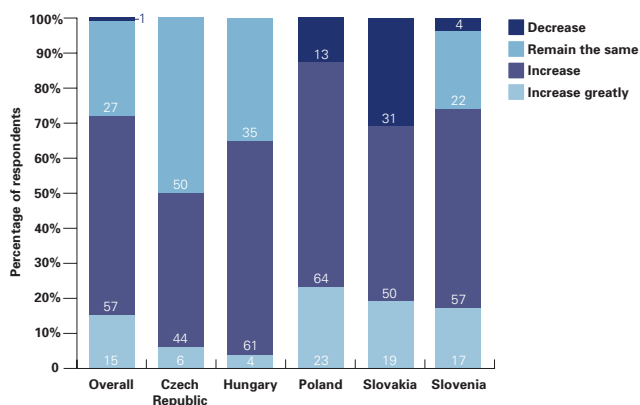
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M&A Expectations

Great expectations for M&A activity in the next 12 months in Central & Eastern Europe

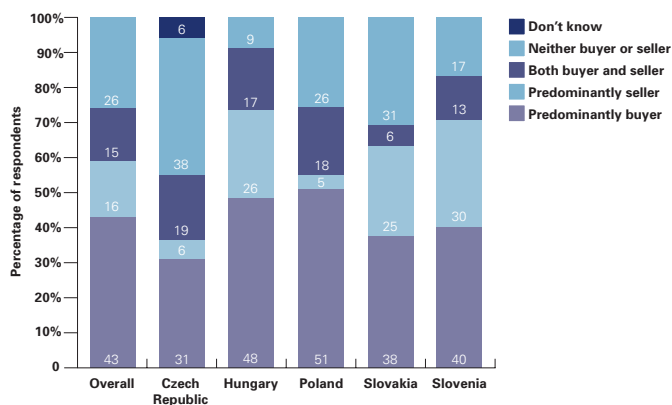
What do you expect to happen to the level of M&A activity in the overall CEE region over the next 12 months?



- The majority of respondents (72%) expect M&A activity in the overall CEE region to either increase or increase greatly in the next 12 months. Only 1% expect the current level of M&A activity to decrease. This clearly indicates that respondents expect M&A activity in the region to further develop going forward.
- Polish respondents are the most optimistic with a combined 87% backing an increase in activity in the overall region. Czech respondents, on the other hand, are 50/50 about whether M&A activity will increase or remain the same.
- Hardly any respondents foresee M&A activity to decline, clearly indicating M&A activity to further develop in the region as a whole.

Overall, 43% of respondents expect to be a buyer of assets in the next 12 months

Do you expect to predominantly be a seller or buyer of assets in the next twelve months?



- The largest share of CEE corporates – 43% – anticipate being a buyer of assets in the next twelve months. Among respondents from Poland and Hungary this belief is an even higher 51% and 48% respectively. Again, expectations among Czech respondents for M&A are slightly more muted, with 31% expecting to pursue buys, and a larger 38% not anticipating either a disposals or an acquisition in the next 12 months.

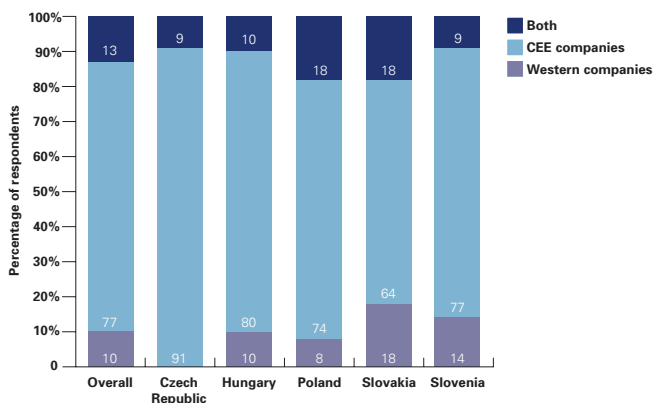
"This doesn't surprise us at all. We have seen a sharp rise in M&A activity among our clients recently, especially so in the last year, and the pipeline of deals remains very strong"

Dariusz Greszta, Head of Corporate
Warsaw, CMS Cameron McKenna

M&A Expectations

Majority of CEE corporates will keep their acquisitions within the region

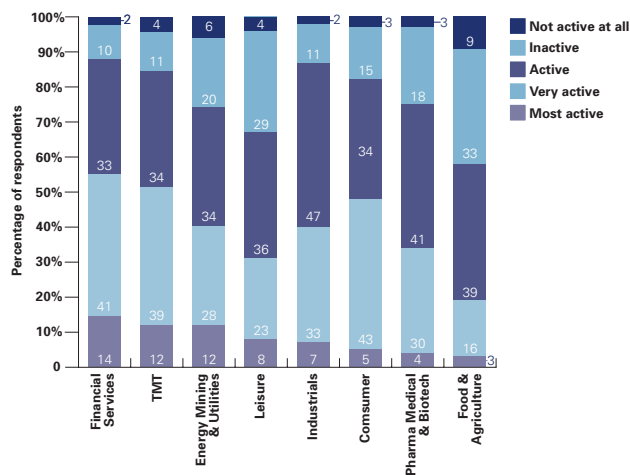
If you are planning to make an acquisition in the next 12 months, would you look at Western or CEE targets?



- 77% of respondents anticipate making acquisitions within the CEE region exclusively. As one Hungary based respondent says: "The CEE has higher growth potential so my personal focus would be on CEE countries, especially on those which have just joined the EU or those which are not yet part of the EU."
- A further 13% of respondents would also look outside of the CEE region at Western companies as well, and final 10% are going to prioritise only buying Western companies.

Financial Services and TMT forecast to be M&A hotspots in CEE

What do you foresee happening to M&A activity levels in the CEE region in the following sectors over the next 12 months?



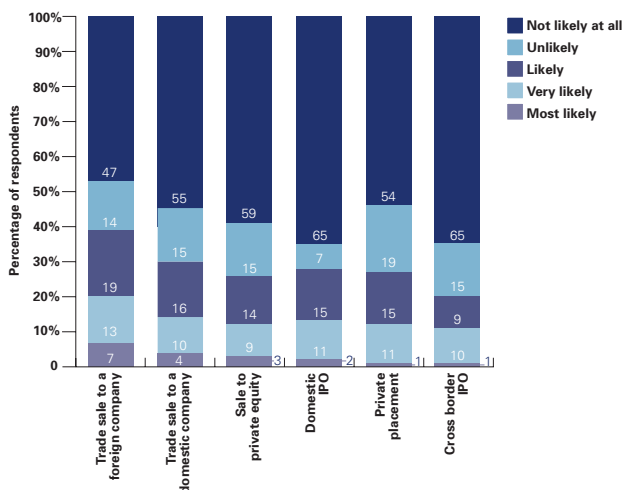
- Financial Services is the sector in the CEE anticipated to see the most M&A in the next 12 months – 65% of respondents expect it to be either very active, or most active. TMT is another expected to witness some significant deal flow – 51% believing it will be either most active or very active. In relative terms, Food & Agriculture receives the weakest endorsement, with only 19% of respondents believing it will be either most active or very active.
- Among the different countries, there are some divergences to the overall mean. Czech respondents for instance are lukewarm about M&A prospects in Financial Services, focusing instead on strong expected deal flow in Energy, Mining & Utilities and Industrials. Slovak respondents meanwhile are most confident about upcoming M&A in the Industrials sector, but still back Financial Services.

"These findings largely corroborate our own experience in that we see a clear rise of M&A activity within the CEE region, especially so for Polish corporates wanting to expand in the region."

Piotr Zdrojewski, Head of Corporate Finance
KBC Securities Poland

Trade sales are most anticipated disposal route for CEE corporates

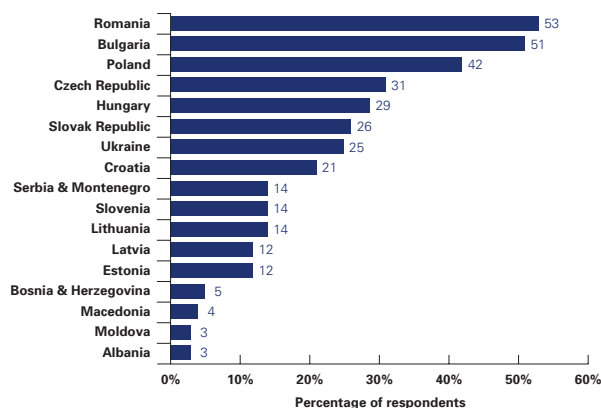
How likely are the following routes for any disposal your company might make in the next 12 months?



- The majority of respondents are not ready to consider the prospect of a disposal in the next twelve months, believing such a move is not likely at all or at least unlikely.
- Among those ready to consider the possibility of a disposal, some 39% of CEE respondents anticipate that a trade sale to a foreign company is either likely, very likely or most likely in the next 12 months. Similarly, the option of a trade sale to a domestic company is selected by 30%.
- A domestic IPO is the third most considered option - deemed most likely, very likely or likely by 28% of respondents.

Romania and Bulgaria are expected to witness the most M&A Activity

What countries in the region do you expect to see the greatest level of M&A activity over the next 12 months?



- 53% of respondents point to Romania as a market that will witness significant M&A activity in the next 12 months. Not far behind, with 51%, is Bulgaria.
- Poland is selected by 42% and in fourth place is the Czech Republic with 31%.
- This response is on keeping with the fact that most CEE companies in the sample were looking at acquiring targets in the CEE region. Together with a trade sale being the preferred transaction type, this suggests that CEE M&A activity will be strong in the future.

"South-east Europe is a particular hot-spot at the moment and will continue to be for the foreseeable future. Driven in large part by the effects of EU accession earlier this year the deal activity we are seeing in both Romania and Bulgaria is extraordinary"

Todd Robinson, Managing Partner,
Bucharest, CMS Cameron McKenna

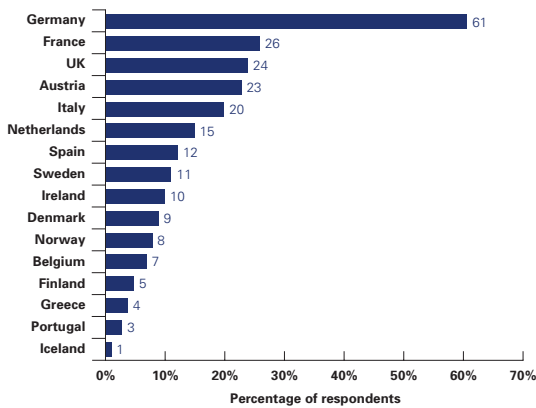
"Local companies are increasingly envisaging to list on their domestic stock exchanges, resulting in a strong IPO pipeline on all major CEE exchanges. Also in the Czech Republic, we saw a marked buildup of IPO projects over the last year and a half."

Tomas Klapste, Head of Corporate Finance
KBC Securities Czech/Slovak Republic

M&A Expectations

Germany is by far the most likely venue for CEE companies pursuing outbound M&A opportunities

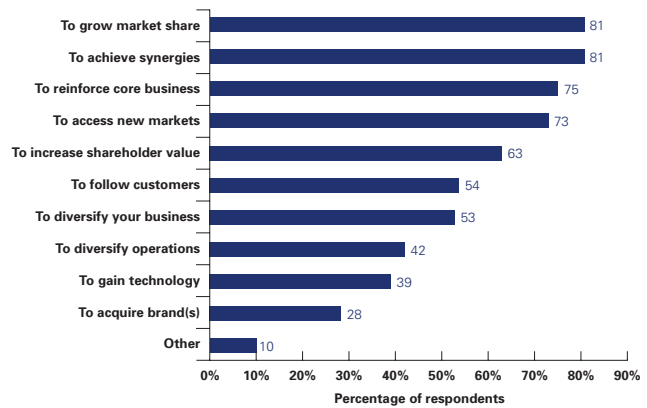
What countries outside of the region do you expect to provide CEE companies with the best outbound M&A opportunities?



- Economic scale and geographic proximity are clearly factors that mean Germany is by some distance the territory expected to provide the most opportunities for CEE companies. According to one respondent, they would consider Germany "...because most of our export sales are going there."
- France and the UK are placed in distant second and third respectively and it will be intriguing to see if the next 12 months yield significant deal flow in these markets. Not least because, according to mergermarket data, in the past 18 months the M&A markets in France and the UK have seen hardly any activity from CEE buyers.

Motives for M&A by CEE firms are multifarious: growing market share and achieving synergies are top ranked

What was the motive behind the most recent M&A undertaken by your company?



- Growing market share and achieving synergies are the most significant goals behind the M&A undertaken by CEE respondents – selected by 81% of respondents respectively.
- Reinforcing a core business and accessing new markets are also significant considerations for 75% and 73% of respondents respectively.

"Geographical proximity and the experience with the "Wende" in 1990/91 make Germany a privileged country in terms of incoming transactions from CEE corporates and outgoing transactions of German companies expanding throughout the CEE region."

Artur Deichmann, Head of Corporate Finance
KBC Securities Germany

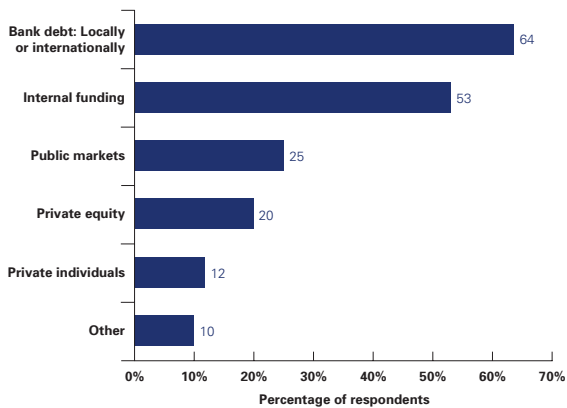
"Similar to CEE corporates' objectives for cross-border M&A, Western European companies planning to expand in the CEE region are increasingly lured by the possibility to tap into the fast growing CEE markets and are markedly less driven by delocalisation of production to reduce costs. EU-accession has undoubtedly played a major role in facilitating market entries."

Gyorgy Herczku, Head of Corporate Finance
KBC Securities Hungary

Financing M&A

Bank debt, either local or international, remains the most popular financing source for M&A

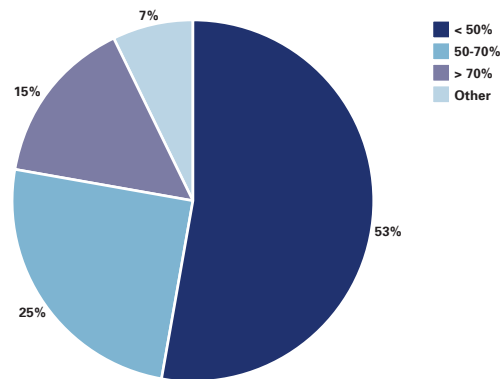
What sources of financing do you currently employ/would consider employing to finance M&A?



- When it comes to financing M&A, bank debt is the most popular source, selected by 64% of respondents. Internal funding is also prominent (53%), but private equity is fourth placed after public markets. As one respondent says: "Private equity is still not as widely accepted as public funds."

Majority of respondents favour financing deals with under 50% debt

How much debt would your company consider/ taking on to finance an acquisition? (debt as % of total deal size)



- Perhaps unsurprisingly given the subdued attitude to private equity financing, the majority of respondents (53%) are reluctant to consider acquisitions with more than 50% leverage. A not insignificant quarter of respondents, however, are prepared to consider a debt component of between 50-70% of the overall deal value, and a further 15% would be prepared for over 70% debt. The remaining 7% feel "it depends on the deal size" or "on a lot of deal-specific factors".
- In combination with the financing preferences, this could indicate that more corporates will turn to the equity markets to finance their expansion.

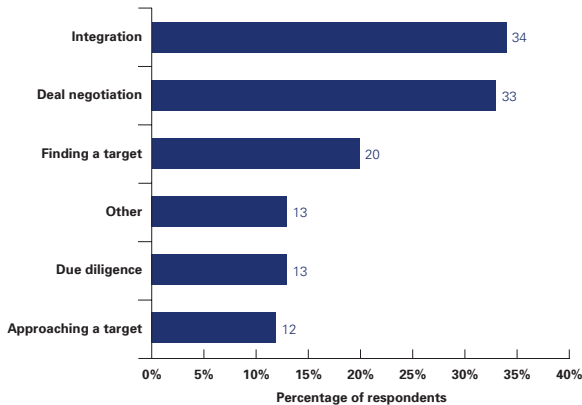
"Private equity may be in fourth place now, but there is no doubt in our mind that it's growing rapidly in the region. Funds continue to invest widely in CEE and many more CEE-specific funds are being raised to try to take advantage of the continuing growth of the markets here."

Sarka Robinson, Private Equity Partner
Prague, CMS Cameron McKenna

Obstacles to M&A

Integration and negotiation are main points of transactional difficulty

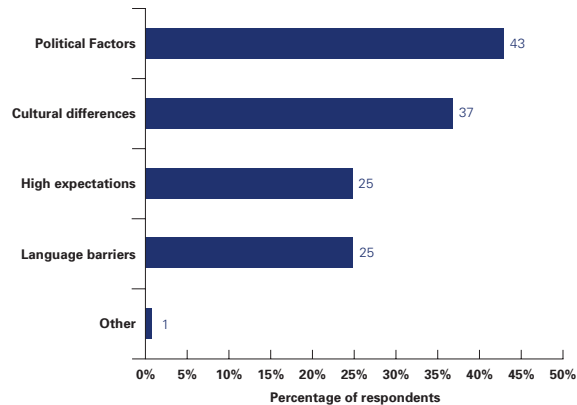
Which part of the most recent M&A undertaken by your company caused the most difficulty?



- It is worth underlining that the majority of respondents did not feel they encountered any significant difficulties with their most recent acquisition. Among those who did feel difficulties were encountered, 'Integration' and 'Deal negotiation' were two areas of prominence, selected by 34% and 33% of respondents respectively.
- Finding suitable targets remains difficult, especially in a cross-border context - this is demonstrated by the sentiments of 20% of the respondents.

Political factors are the largest obstacles facing companies in CEE when conducting cross-border deals

What do you believe to be the largest obstacles facing companies in CEE when conducting cross-border deals?



- Political factors are mentioned by 43% of respondents as an obstacle to conducting cross-border deals in the CEE region. Cultural differences are also cited by 37%.
- Respondents cite in particular the difficulty of complying with "legal and formal regulations". One respondent in particular cites the difficulties of "Negotiating with the Polish authorities to get permission for transaction."

"Integration difficulties can be minimised through effective use of the due-diligence process. We view due diligence as not just a means of spotting issues affecting the deal itself; it can also be used to help identify key integration issues before the deal goes through. Issues can then be tackled proactively and solved earlier in the past closing phase, making life easier for all concerned"

Helen Rodwell
CEE Head of Corporate/M&A
CMS Cameron McKenna

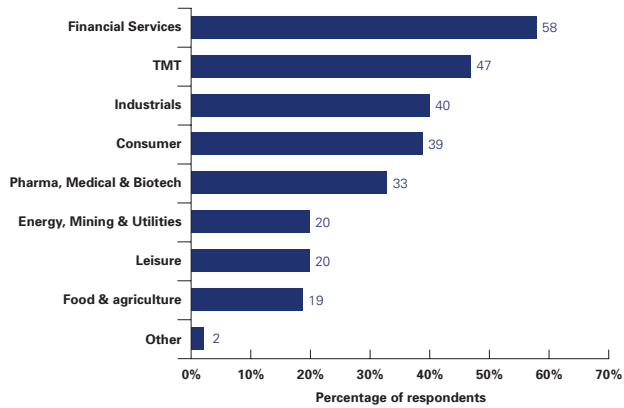
"Finding suitable targets in a cross-border context requires an approach that is both horizontal (across markets) and vertical (deep-in-the-market knowledge/intelligence) in order to achieve the optimal result, the two qualities to look out for when selecting an advisor. Especially for Balkan countries such as Serbia, Macedonia, Montenegro or Croatia, the ability to handle cultural differences and being able to rely on local on-the-ground intelligence are of crucial importance to succeed in regional expansion in South Eastern Europe."

Herman Walgraeve, Head of Corporate Finance
KBC Securities Serbia

Privatisation

Financial Services leads the way in privatisation efforts

In which sectors of your domestic economy do you believe privatisation been implemented most effectively?



- According to close to 60% of respondents, the Financial Services sector has been the most effectively-privatised industry in their domestic economies, followed by the TMT and Industrials sectors, which garnered 47% and 40% of respondents' votes accordingly. In the view of respondents, Food & Agriculture has been the least-effectively privatised industry.

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- Advised on the European aspects of the acquisition of Kodak's medical imaging business for \$ 2.4 billion.

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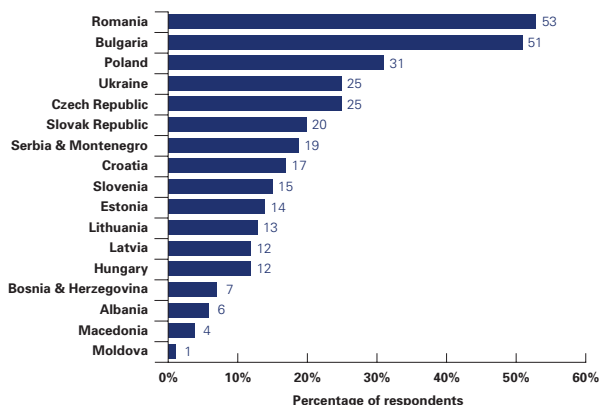
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Private Equity

Romania and Bulgaria are expected to most popular countries for private equity

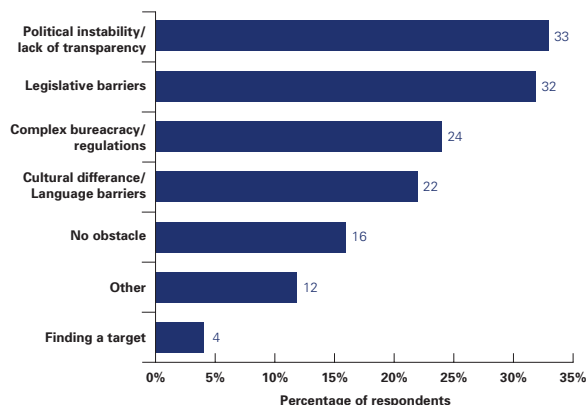
What individual territories in the CEE region do you believe will see the most private equity buyout deals in the next 12 months?



- Respondents were the most optimistic about private equity buyout prospects in Romania and Bulgaria while Macedonia and Moldova were seen to be the least conducive territories to conduct buyouts. More than half of respondents thought that the leading countries would be the most favourable areas for private equity buyouts while only a combined 5% believed that Macedonia and Moldova would witness the most deals over the next year.
- Interestingly, Ukraine jumps up to fourth place in terms of private equity interest. This is surprising as respondents expected it to be only the seventh most active overall M&A market in the region.

Core obstacles for private equity in CEE: Political instability/lack of transparency and legislative barriers

What are the largest obstacles you believe private equity firms are facing when looking to acquire targets in the CEE region?



- Political instability, lack of transparency and legislative barriers are all cited as serious obstacles to private equity companies when looking to acquire targets in the region. Rather alarmingly, quite a few respondents talked of "corruption". One Polish respondent in particular feels that: "Trust in private equity funds is low in some CEE countries, and also, because there is a lot of pressure on privatisations & company auctions, there are some preferred buyers, and favouritism due to corruption."
- More generally, there is a sense among 24% of respondents that complex bureaucracy has a stifling impact on private equity activity in the CEE region. Indeed, a Slovenian respondent believes: "The largest obstacle is government regulation of M&A – they are yet to come out with clear-cut policies."

"Romania and Bulgaria have always attracted specialist emerging market private equity investors and many of our private equity clients have enjoyed very healthy returns in these markets. EU Accession has given the stamp of approval to these markets and so many of the more traditional players are becoming more and more active here now."

David Butts, Managing Partner
Sofia, CMS Cameron McKenna

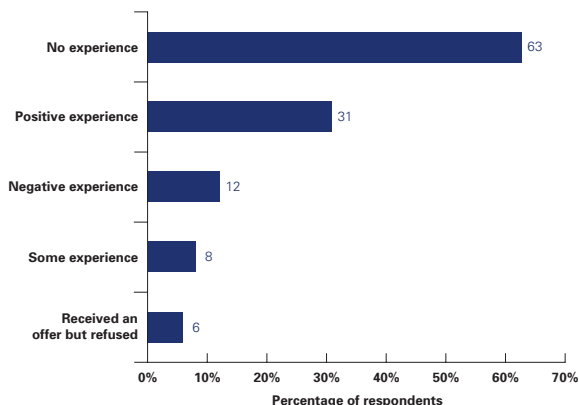
"Whilst it is certainly true that there are more obstacles to doing business in CEE than in Western Europe we believe the perception is worse than reality. The political and legal environment is changing rapidly with EU convergence and we believe the region is a great place to invest."

Robert Hayhurst, Corporate/M&A Partner
Budapest, CMS Cameron McKenna

Private Equity

Majority of companies have not met with private equity investors...

What is your own (if any) company's experience of interacting with private equity investors?



- The majority of respondents (63%) have had no experience dealing with private equity investors. A total of 31% enjoyed a positive experience, – equalling over half of those who had dealt with private equity – while 12% had a negative encounter – equating to just under one quarter of those who worked with private equity. It is interesting to note that 6% of respondents received offers from private equity but turned them down.

“We were approached but refused their offer. At that time, we were proud of being a growing company and we found the option of being acquired as mediocre. Now the situation has changed and there is more scope for activity.”

Czech respondent

“We did not have a good experience with the private equity investor that approached us. We were targeted by a US firm which lacked local information. There was also an element of mistrust as they did not pass on the correct information to us.”

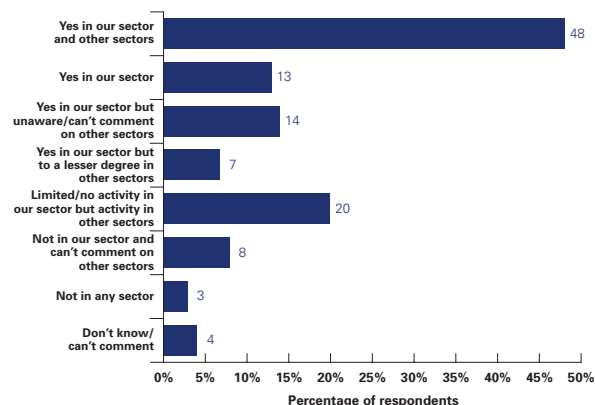
Polish respondent

“Our experience of interacting with private equity investors has been good as they are experts in their fields. They have sound knowledge of their line of business which helps them guide their targets better.”

Slovak respondent

...but have witnessed them in either their own, or another sector

Do you see private equity activity in your sector?
Do you see significant private equity in other sectors?



- Just under half of respondents have seen private equity activity in both their own and other sectors while one-fifth have not seen private equity activity in their own sector but have in others. Over 87% of respondents have witnessed some form of private equity activity, either in their own or another sector.

“Yes but private equity is very limited in my sector. The industry I work in is dominated by big players who have more than 90% market share. There is significant activity in other sectors like consumer goods, retail and leisure.”

Hungarian respondent

“No we do not see private equity invest in our sector due to low fiscal stability. I do not see them significantly participating in other sectors in my region as well.”

Hungarian respondent

“Yes, we see significant private equity participation in our sector as well as in other sectors such as financial services because it is a newly-developed area. People in the financial services sector are trained and skilled. They have experience and the sector is preferred by private equity investors.”

Hungarian respondent

Advisers

Large majority of advisers rated as 'good' to 'excellent'

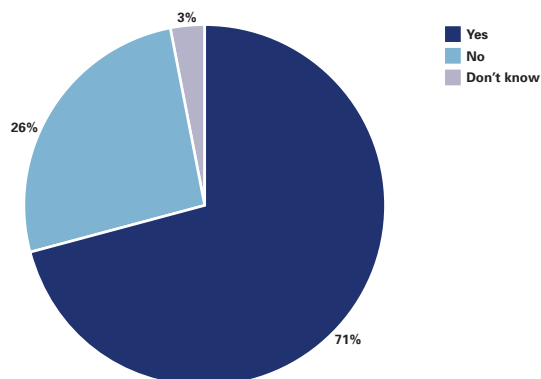
How would you rate the quality of your advisers' general support throughout the M&A process?



- The assessment of most respondents toward their advisers' general support was broadly consistent across the board, with between 10% to 14% of respondents rating their financial, tax, accounting and legal advisors as 'excellent', and between 35% to 48% rating their services as 'very good'.

Domestic and cross-border deals differ in cost

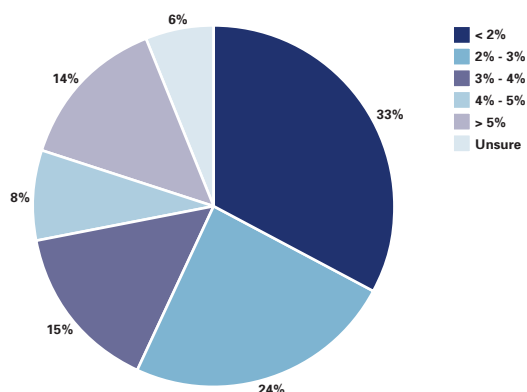
Do you see any difference in direct acquisition cost levels between domestic and cross-border M&A deals?



- A large majority (71%) of respondents are of the impression that transaction costs differ between domestic and cross-border M&A deals. Just over one-quarter thought that there was no difference in cost while 3% did not know.

Most acquisition costs are under 4% of total deal value

What is the total direct acquisition cost level (as a % of total deal size) that your company budgets for a cross-border M&A deal?



- One-third of respondents stated that their acquisition costs were less than 2% of the total deal size while 14% reported that their costs were over 5% of the total deal size. Just under three-quarters of respondents' transaction costs were under 4% of deal size.

"It is very encouraging to see that M&A advisers receive very positive reviews. We think this is because investors are more often than not turning to advisers that are based in the region. These advisers are living and breathing the region, and so are much more in tune with their client's needs than advisers that fly in for a deal and depart when its done."

Dariusz Greszta, Head of Corporate
Warsaw, CMS Cameron McKenna

Outstanding advisory services in Central and Eastern Europe (CEE) with focus on Equity Capital Markets and M&A transactions

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Strong footprint in Central and Eastern Europe

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- KBC Securities is the investment banking arm of the KBC Group, a top-3 financial group in the CEE region
- Integrated equity house (Corporate Finance, Research, Sales and Brokerage, Securities Services)
- Corporate Finance network covering the whole of the CEE region, on top of strong local franchises
- Excellent track record in ECM and M&A transactions, both domestic and cross-border
- 40 Corporate Finance professionals at your disposal in 10 locations in CEE and Germany

For more information please contact the CEE desk:

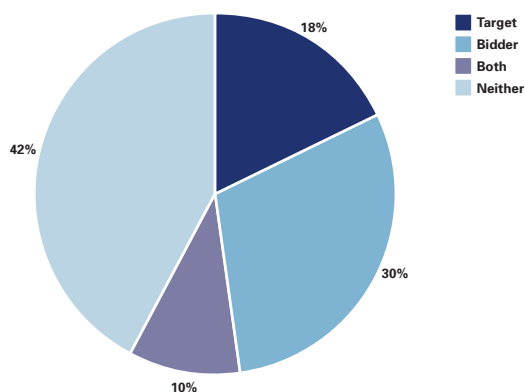
tel. +32 2 429 18 11, fax +32 2 429 17 64, e-mail: tomas.cifra@kbcsecurities.be

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Recent M&A Experience

Over half of respondents have taken part in M&A process in last two years

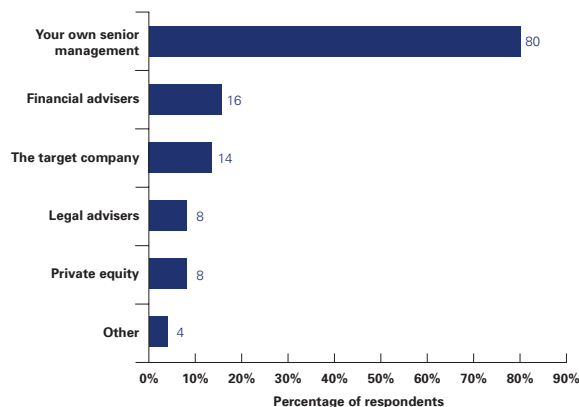
Have you been a target or a bidder in an M&A transaction over the last 24 months?



- Over half of respondents – 58% to be precise – have experienced an M&A transaction first-hand, having been a target, bidder or both over the past two years. The remaining 42% of respondents have not witnessed any M&A deal in the past 24 months.

Senior management call the shots when it comes to sourcing M&A target opportunities

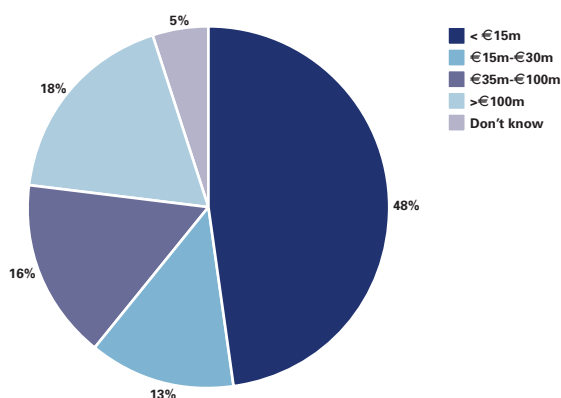
Where does the idea for M&A typically come from?



- Senior management are the primary source of deal origination according to 80% of respondents. Next closest – but by some distance – are financial advisers which are credited by just 16% of respondents. Private equity is mentioned by just 8% of respondents.

Majority of respondent deals worth less than €15m

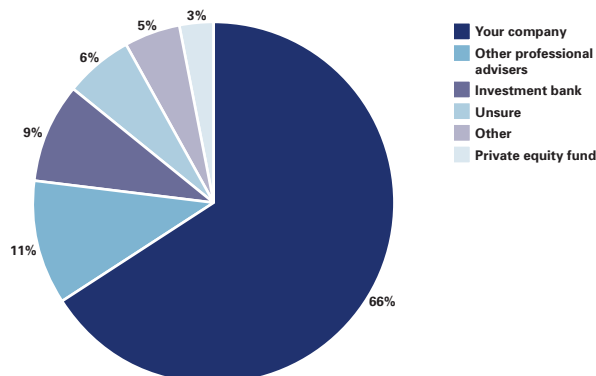
What was the size of the last acquisition your company made?



- The majority of acquisitions last made were worth less than €15m, with 48% of purchases falling into that category. A sizable 18% of buyouts were in excess of €100m while 5% of respondents didn't know how much their company had last spent in acquisitions.

Majority of respondents initiate the initial approach to M&A targets themselves

If you have made an acquisition in the last 24 months, who initiated the first contact with the target company or its shareholders?

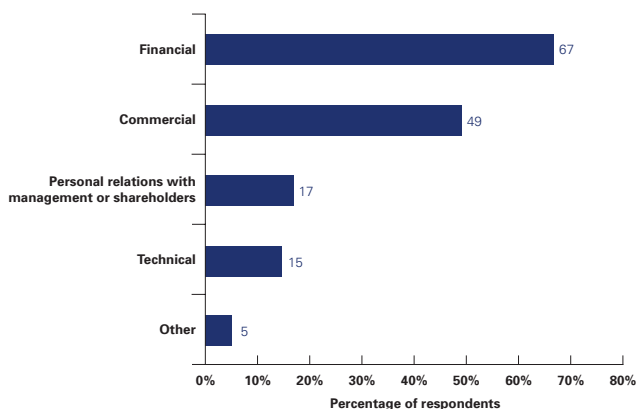


- Exactly two-thirds of respondents' companies made first contact with targets over the past two years when making an acquisition. Professional advisers and investment banks come in second and third places with 11% and 9% respectively. Private equity funds initiated first contact only 3% of the time.

Recent M&A Experience

Financial parameters are the main measure of whether to abort an M&A deal

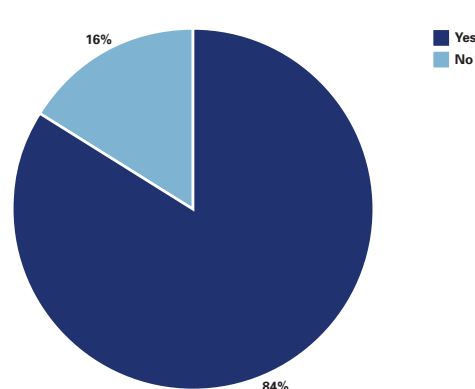
What are the main parameters you use to decide to go-ahead or abort an M&A project?



- Unsurprisingly perhaps, financial considerations are the main parameter respondents use in deciding whether an M&A project goes ahead, with 67% of respondents supporting this view. Interestingly, personal relations with management shareholders and technical parameters are the primary factors for 17% and 15% of respondents respectively.

Majority of respondents target companies in their own sector

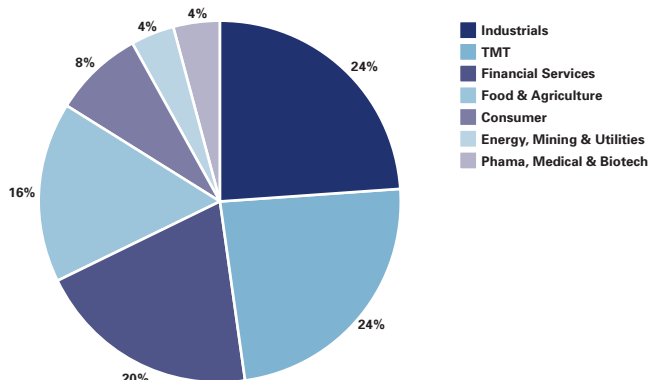
Was the target company active in the same sector as your company?



- The overwhelming majority of respondents (84%) targeted a company within their own sector of operation.

Industrials, TMT and Financial Services top three sectors for cross-sector M&A

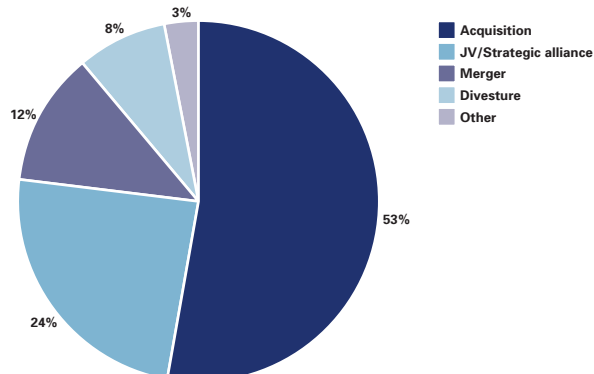
If the target company was not from your sector, which one was it from?



- Among the minority 16% who purchased outside of their own sector, the Industrials, TMT and Financial Services sectors collectively account for just under 70% of cross-sector M&A targets. Food & Agriculture, Consumer, Energy, Mining & Utilities and Pharma, Medical & Biotech sectors making up the remainder.

Majority of CEE respondents have been on the acquisition trail

What kind of M&A transaction was your company last involved in?



- Just over half of recent M&A deals pursued by respondents have been acquisitions while the second most popular M&A activity – Joint Ventures and Strategic Alliances – were carried out by 24% of respondents. Divestitures were the least popular M&A transaction, pursued by only 8% of respondents.

Penta Private Equity Group

We help to improve efficiency of our investee companies and prepare them for a sale to strategic investors.

ABOUT PENTA

Penta is a Czech-and-Slovak private equity group established in 1994. Penta predominantly deals with acquisitions of large and medium companies, LBO's, LBI's, restructuring projects, and since 2005 even in real estate. Penta manages a fund only of its 5 partners – joint owners. Currently it is involved in the successful restructuring of, among others, AERO Vodochody (aerospace), Česká lékárna (pharmacies), Fortuna bookmakers, AVC Čadca (manufacturing), Paroplynový cyklus Bratislava (energy), Slovenský investičný holding (former Východoslovenské železárně Košice), ZSNP Žiar nad Hronom (manufacturing) as well as the biggest private insurance provider in Slovakia, Dôvera health insurance company. Penta is now expanding its real estate activities and also its presence in other Central and Eastern European countries. The consolidated assets managed by Penta are worth in excess of EUR 860 million. In its portfolio companies Penta employs over 13 thousand people and provides services to almost two million customers on a daily basis.

MAIN AREAS OF OPERATION:

- Health-care sector
- Utilities
- Engineering
- Metallurgy
- Entertainment
- Transport
- Telecommunications
- Retail
- Real Estate

PHILANTROPY

Social responsibility is a part of Penta's activities. In 2002 Penta established the Penta Foundation whose primary aim is to support educational activities. In addition to being the general sponsor of schools for highly gifted children, the Penta Foundation supports university students. The Foundation oversees all charitable and sponsoring activities of Penta, including education, healthcare, arts and sports.

Heat Chart

Heat						
	Poland	Czech Republic	Hungary	Slovakia	Slovenia	TOTAL
Industrials and Chemicals	49	8	25	4	5	91
Consumer	53	15	11	4	1	84
TMT	28	13	3	2		46
Financial Services	26	5	4	4	3	42
Construction	22	4	7			33
Business Services	26		1			27
Energy/Mining/Utilities	9	8	3		2	22
Transportation	7	8	1	2	3	21
Leisure	10	2	2	1		15
Pharma/Medical/Biotech	9	2	3			14
Defence	5		3			8
Agriculture	5		2			7
TOTAL	249	65	65	17	14	410

Hot	Warm	Cold
40	25	10
35	20	5
30	15	0

mergermarket's CEE Heat Chart is based on our intelligence database of companies looking to sell and companies looking to buy in Central & Eastern Europe. The intelligence derives from a range of sources, including press reports, company statements, and our own proprietary research. The data does not differentiate between small and large transactions nor between near-term and long-term deals and between rumoured and confirmed intelligence.

Historical Data

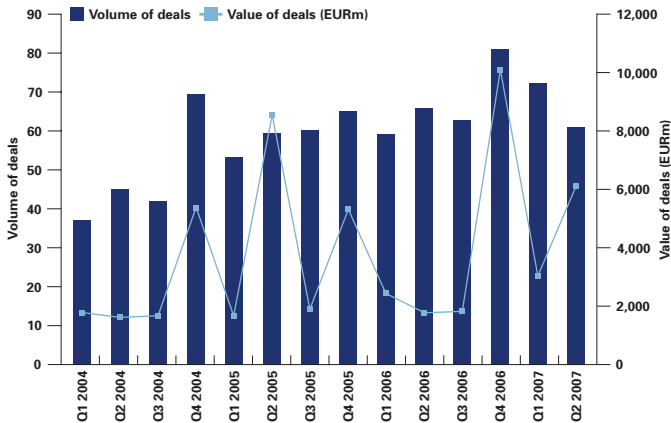
Top Deals – Q1 2006 - 2007 YTD

Announced Date	Status	Target Company	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value EUR (m)
13/11/06	P	Bank BPH SA	Poland	Bank Pekao SA	Poland	UniCredito Italiano SpA	Italy	5,188
26/04/07	P	Generali PPF Holding	Czech Republic	Assicurazioni Generali SpA; PPF Group NV			Italy; Netherlands	2,499
09/05/07	C	Budapest Airport Rt (75% stake)	Hungary	Caisse de Depot et Placement du Quebec; GIC Special Investments Pte Ltd.; Hochtief AirPort GmbH; KfW IpeX-Bank	Canada; Singapore; Germany	BAA plc	United Kingdom	1,900
23/11/06	C	Ceske Radiokomunikace AS	Czech Republic	Al Bateen Investment Company; Lehman Brothers Private Equity; Mid Europa Partners LLP	United Arab Emirates; USA; United Kingdom	Bivideon BV	Netherlands	1,190
10/03/06	C	Polkomtel SA (19.6% stake)	Poland	KGHM Polska Miedz SA; Polski Koncern Naftowy Orlen SA; Polskie Sieci Elektroenergetyczne SA; Weglokoks SA	Poland	TDC AS	Denmark	861
07/11/06	C	BorsodChem Rt	Hungary	First Chemical Holding	United Kingdom	Firthlion Ltd	Hungary	674
24/05/07	P	Ceska Rafinerska AS (16.11% stake)	Czech Republic	ENI SpA	Italy	ConocoPhillips Company	USA	500
09/01/07	C	Invitel Tavkozlesi Szolgaltato Rt	Hungary	Hungarian Telephone and Cable Corp	USA	GMT Communications Partners Ltd; Mid Europa Partners LLP	United Kingdom	470
26/10/06	C	Aero Vodochody AS (99.98% stake)	Czech Republic	Oakfield AS	Czech Republic	Government of the Czech Republic	Czech Republic	466
27/03/06	C	Zentiva NV (24.88% stake)	Czech Republic	Sanofi-Aventis SA	France	Warburg Pincus LLC	USA	430

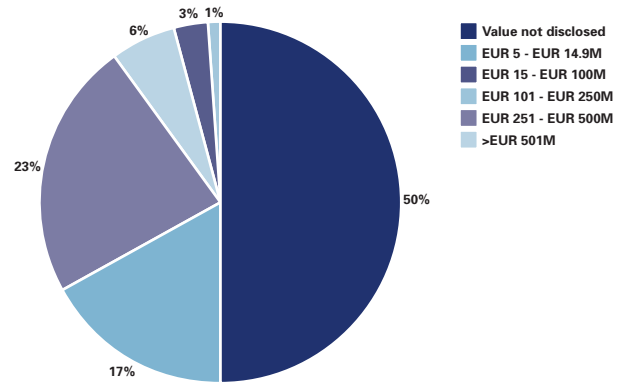
C = Completed; P = Pending

Historical Data

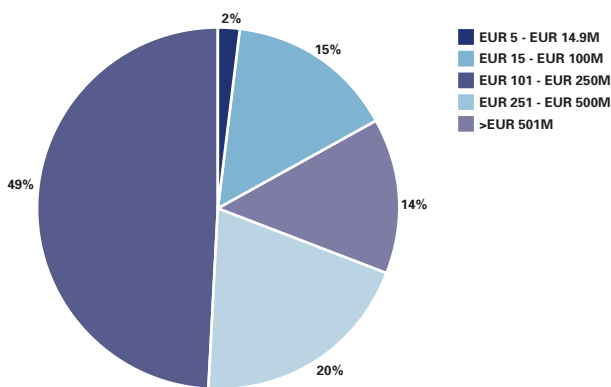
M&A quarterly trends 2004-Q2 2007



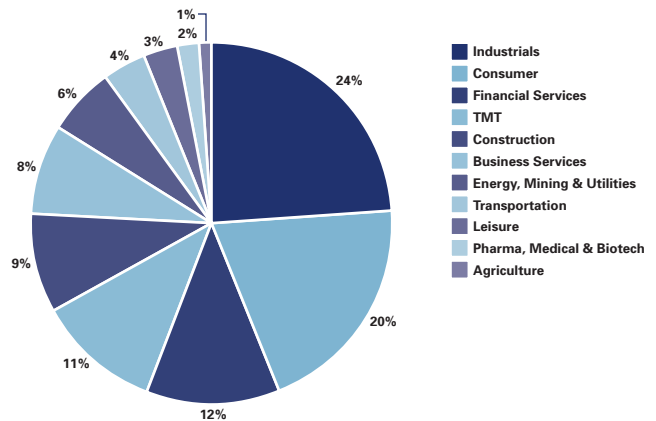
M&A deal size split by volume 2006-Q2 2007



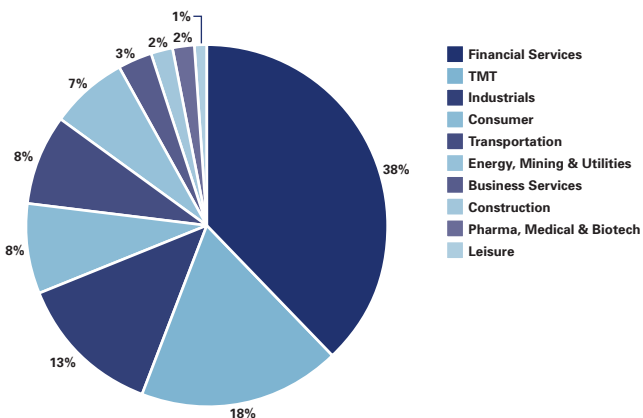
M&A deal size split by value 2006-Q2 2007



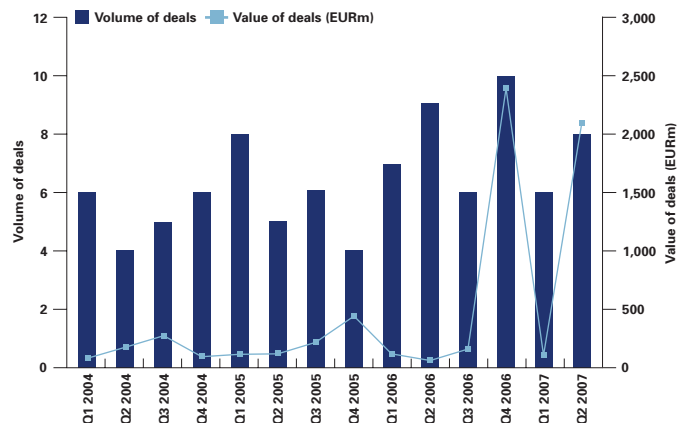
M&A sector split by volume 2006-Q2 2007



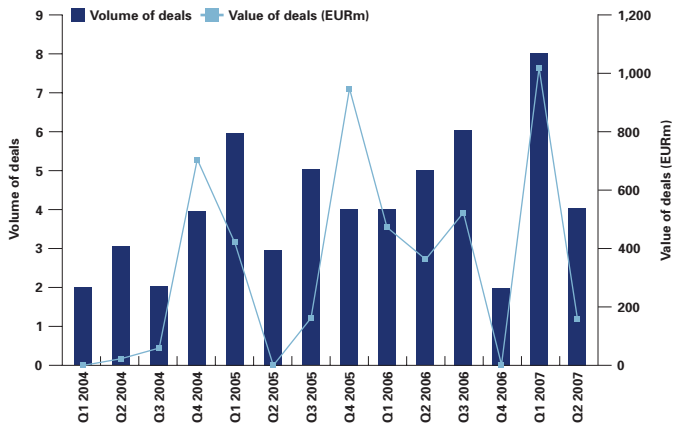
M&A sector split by value 2006-Q2 2007



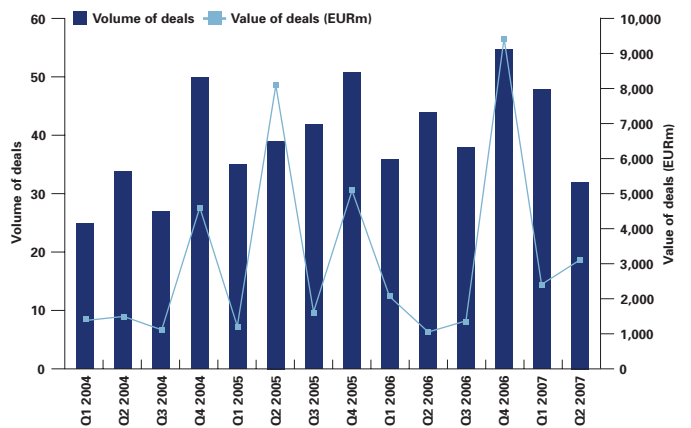
Private equity buyouts by quarter 2004-Q2 2007



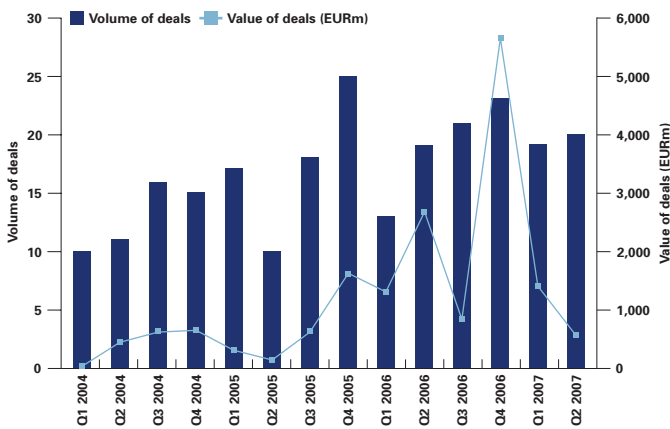
Private equity exits by quarter 2004-Q2 2007



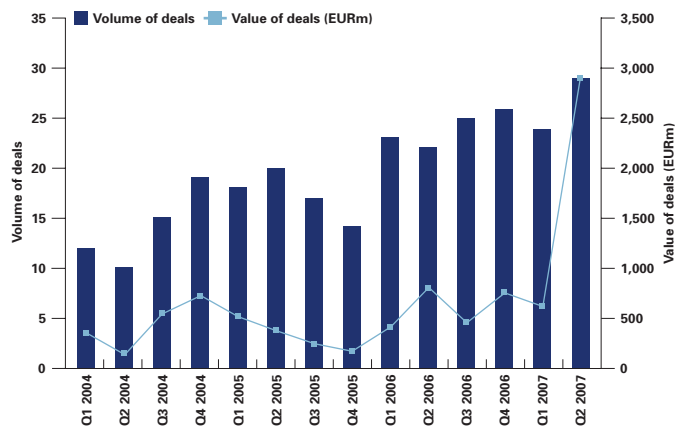
Inbound cross-border M&A quarterly trends 2004-Q2 2007



Outbound cross-border M&A quarterly trends 2004-Q2 2007



Domestic M&A quarterly trends 2004-Q2 2007



KBC Securities in Central & Eastern Europe

Our Group

KBC Securities is the equity house of the KBC Group, focusing on Belgium, the UK and the CEE region while implementing a fully integrated business model combining market activities, research, securities services and corporate finance advisory. KBC Group is one of the largest European financial groups with a top-3 presence in the CEE region, its second home market.

Our network and market position

KBC Securities is a top-player, both in Belgium (number 1 position on Euronext Brussels) and the UK (second largest market maker in small and midcaps and number 1 IPO house on LSE-AIM) and although it actually started up its CEE activities only a few years ago, it has gained rapidly an excellent reputation throughout CEE, alongside its strong and increasing footprint in this region.

KBC Securities' operations currently include activities in 10 key CEE countries (Bulgaria, Czech Republic, Hungary, Latvia, Poland, Romania, Russia, Serbia, Slovak Republic and Ukraine), all structured around the same concept of integrated services on equity trading and brokerage, research and financial advisory.

Our activities

KBC Securities is the leading brokerage firm in the mid-European region (number 1 position on the 2006 turnover ranking by the Hungarian Ministry of Economics) and occupies strong positions in trading on the local stock exchanges throughout the region, with market leadership in the Czech Republic, Hungary and Romania and strong positions on the other regional exchanges, with a large regionally oriented institutional sales team of about 50 sales people.

Our CEE research team is among the largest in the region and is highly regarded both in the CEE region and beyond (recently top-ranked by Euromoney), covering over 70 CEE blue chips and midcaps in a wide array of sectors.

Experience, expertise and industry depth at your service

KBC Securities' CEE Corporate Finance team consists of 40 full-time professionals, specialising in assisting domestic, CEE regional and international clients on acquisitions, disposals and ECM activities (IPO/SPO). We assist our clients throughout the whole transaction process both in M&A and ECM, from initiating and originating the transaction to closing and settlement of the same, through local teams that are deep in the market, having an excellent transaction track record and a wide industry experience. As a part of the KBC Securities Corporate Finance network, our CEE Corporate Finance teams work closely together with the London and Brussels teams.

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