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Emerging Europe: M&A Report 2014/15

2015

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Introduction

We are delighted to release the fourth edition of our "Emerging Europe: M&A Report", co-authored by CMS and EMIS, the leading provider of M&A information via the EMIS Professional service. The Report summarises the highlights of 2014 M&A activity across 15 countries in Central and Eastern Europe (CEE) and provides our deal activity predictions for 2015.

CMS, a global top ten full service law firm, continues to be the busiest M&A Legal Advisor in CEE, topping the CEE deal tables by volume once again in 2014. No other law firm can match our expertise in the region – we have more lawyers, more offices (15) and are doing more deals than any other firm (please see the League Tables). We also have the longest track record in the region – having been here for over 20 years.

According to EMIS, 2014 M&A activity levels dropped compared to 2013. We believe this was mainly due to continued financial and political uncertainty, particularly in relation to Russia and Ukraine.

But in the latest edition of the annual CMS survey of over 200 Europe-based corporate executives, published in October, respondents were more bullish about the European M&A outlook than they were a year ago. Two thirds of respondents expected that M&A activity will increase, with 11% anticipating a significant increase. This compares with 47% of 2013 interviewees expecting deal-making to increase, and just 1% expecting M&A to increase significantly. Attitudes about Europe's economic recovery have improved considerably and the majority believe that the worst is behind us. However, respondents are divided over whether the political situation between Russia and Ukraine will impact European M&A, with 41% agreeing that it will and 59% believing otherwise. The publication also revealed that regulatory issues are expected to be the main obstacle to deals, followed by financing difficulties and general economic uncertainty.

We observe that warranty and indemnity insurance (W&I Insurance) is becoming an increasingly regular feature of the M&A landscape and is frequently used as a mechanism to fill the gap between the protection (i.e. the "market standard" warranties and indemnities) the buyer requires in connection with an acquisition and the protection that the seller is willing to provide. It is regularly used by a buyer as a way to "top-up" the protection offered by a seller (typically, by way of increasing the cap, but also potentially by way of increasing the time periods or the scope of warranties). We have therefore invited AIG, the leading W&I Insurance provider in the region, to comment on that trend in this year's report.

Another clear trend has been the growing impact of "local" companies as buyers in M&A. Large companies such as PKN Orlen, KGHM or PZU have now become keen acquirers of assets outside Poland. We see a similar trend in the Czech Republic (EPH, PPF, KKCG) and Hungary (OTP and MOL).

Every six months CMS organises the Doing Deals in CEE seminar in London, and should you wish to participate and find out more about the region, please contact us at any of the email addresses below.

We hope you will find the Report useful and encourage you to contact our local teams to get the most up-to-date market insight and deal advice.

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League Tables

CEE Legal Advisers for 2014

Company	Deal Value (€m)	Number of deals
CMS	**1,173.2**	**39**
Sorainen	598	37
Dentons	2,768.8	31
LAWIN	644	29
Havel, Holasek & Partners	202.3	26
Schonherr Rechtsanwalte Gmbh	995.4	24
White & Case LLP	2,161.9	17
Clifford Chance LLP	2,084.1	16
Allen & Overy LLP	695.2	15
Baker & McKenzie LLP	351.8	15

Source: EMIS

League Tables were generated using the LeagueBoard tool available in EMIS DealWatch. The criteria used for crediting the advisers for the purpose of these league tables include:

— deal announcement date: 1 January - 31 December, 2014

— Emerging Europe geographic area, understood as the dominant country of operations of the deal target, covers: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine

— only deals in either announced or completed status

— deal value (excluding net debt): at least US $1 million **(note: deals with unspecified value were taken into account in calculations as having a value of zero)**

— all industries

— exclusions: rumoured or failed deals, convertibles issues, share buybacks, and employee offers.

The ranking was created basing on deal advisory information available, according to our best knowledge as of 31 December, 2014. The data can be subject to updates.

Emerging Europe: Overview

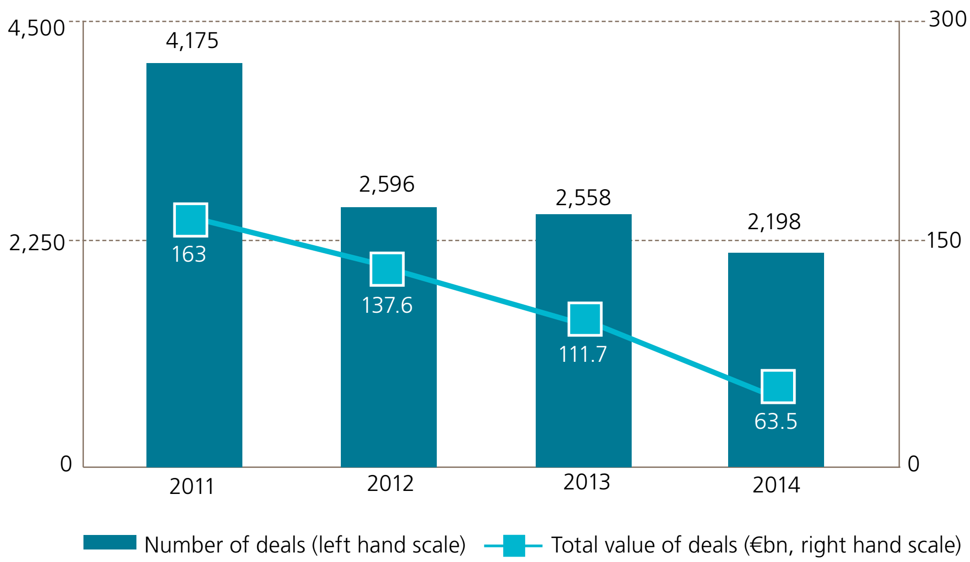
This is not a great time to be a dealmaker in Emerging Europe.

While investment bankers and M&A lawyers in other parts of the world enjoyed a well-earned rest this Christmas after their busiest year since 2007, their peers in Central and Eastern Europe were nervously following the freefall of the rouble while keeping an eye on Vladimir Putin's televised addresses.

And for a good reason: the crisis in eastern Ukraine and the subsequent western sanctions over Russia's intervention seriously hurt investor confidence in the region, which is already seeing its weakest growth since the fall of communism 25 years ago.

Merger and acquisition activity in Emerging Europe in 2014 saw a whopping 43% drop in deal values, falling from €112 billion in 2013 to €64 billion in 2014.

The number of announced deals with a value above €1 million recorded a 14% annual decline to a total of 2,198 transactions.



Source: EMIS

The most active sector by deal numbers in 2014 was manufacturing, with 364 deals representing 17% of all transactions.

Mining (including oil & gas) was the leading sector in terms of deal value, with over €10 billion accounting for nearly 17% of the overall market.

M&A in Russia accounted for 33% of all deals in Emerging Europe and 47% of the total deal value in 2014. Poland came second with a 13% share in deal numbers, closely followed by Turkey with 12%.

Private equity funds – known for their appetite for higher risk – had a relatively good year in the region, as the number of PE-related deals rose by 6% to 248.

Looking ahead to 2015, the falling price of oil, coupled with a looming recession and the currency crisis, will turn dealmaking in Russia into a risky gamble.

The prospect of further tit-for-tat sanctions between the West and Russia will keep investors across the region on their toes.

Yet it's not all doom and gloom, as there are plenty of big transactions in the pipeline.

Italy's biggest utility Enel plans to sell its power generation assets in Slovakia and its distribution and sales assets in Romania. The proposed merger of French cement maker Lafarge and Swiss peer Holcim will see the divestment of their operations in Romania, Hungary, Slovakia and the Czech Republic.

The Export-Import Bank of China, which operates via its China CEE Investment Cooperation Fund, said in December that it has earmarked $1 billion for further investments in Central and Eastern Europe.

Lenders like Austria's Erste Group and Raiffeisen Bank International, Italy's UniCredit and a number of Greek banks may withdraw from parts of the region.

The sluggish economies in Southeast Europe could also trigger bargain shopping for distressed assets.

Tensions between Moscow and Kiev as well as renewed speculation of Greece's potential exit from the Eurozone will be a drag on regional M&A activity in 2015.

However, we believe that large transactions in Poland, especially in the energy and banking sectors, and the ambitious privatisation programmes launched by the governments in Turkey and Romania, will bring some relief to regional market players.

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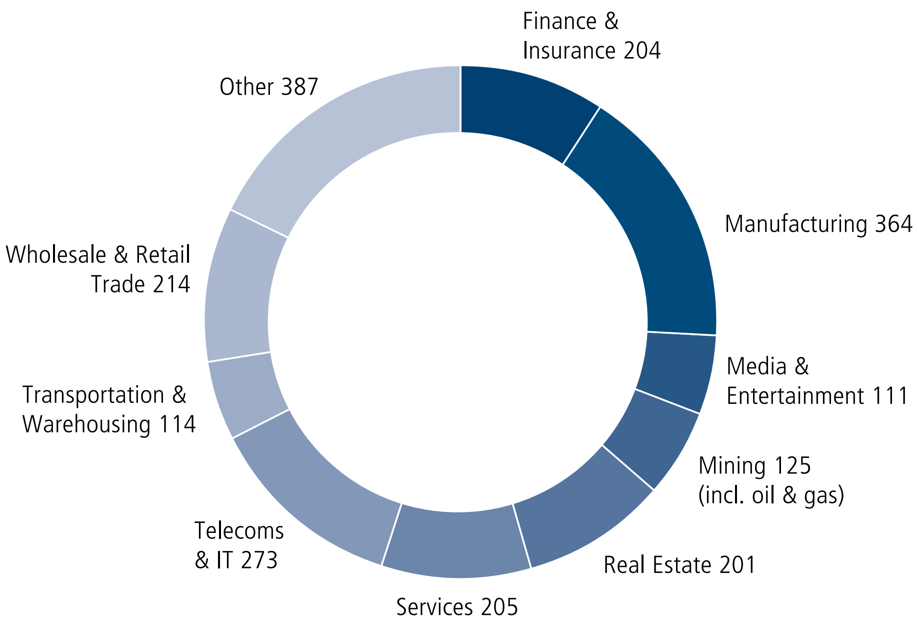
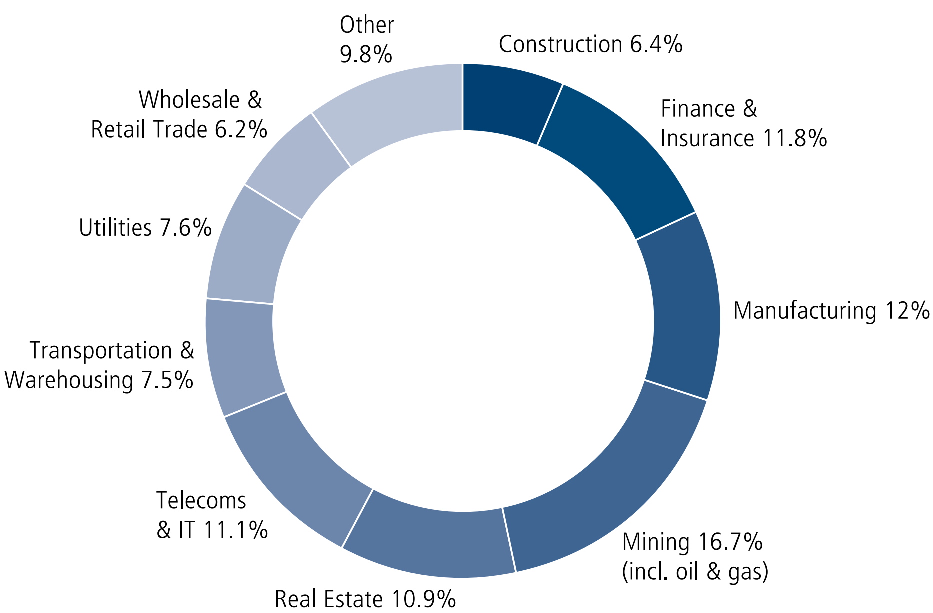
Emerging Europe: Deals by Sector (2014)

Number of Deals by Sector in Emerging Europe (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Emerging Europe (2014)



Source: EMIS

Emerging Europe: Top 20 Deals (2014)

Target Company	Sector	Deal Type	Country of Target	Buyer	Country of Buyer	Deal Value (€m)
RN Holding	Mining (incl. oil & gas)	Minority Stake Purchase (15.1%)	Russia	Rosneft	Russia	3,174.4[2]
Stroygazconsulting LLCl	Construction	Acquisition (44.1%)	Russia	Russian Baisarov - private investor	Russia	2,205.9*[3]
Garanti Bankasi	Finance & Insurance	Minority Stake Purchase (14.9%)	Turkey	Banco Bilbao Vizcaya Argentaria SA (BBVA)	Spain	1,975.2[2]
Kemerkoy TPPt; Yenikoy TPP; Kemerkoy Port area	Utilities	Privatisation (100%)	Turkey	IC Ictas Holding	Turkey	1,921.6[2]
Polyus Gold International	Mining (incl. oil & gas)	Minority Stake Purchase (18.5%)	Russia	Oleg Mkrtchan - private investor	Ukraine	1,295.6[3]
Turkcell AS	Telecoms & IT	Acquisition (13.8%)	Turkey	Cukurova Holding AS	Turkey	1,194[2]
Yugragazpererabotka	Manufacturing	Minority Stake Purchase (49%)	Russia	Sibur Holding	Russia	1,167.9[2]
vKontakte	Telecoms & IT	Minority Stake Purchase (48%)	Russia	Mail.ru Group	Russia	1,139.5[2]
NNK-Aktiv OJSC	Mining (incl. oil & gas)	Acquisition (60%)	Russia	Independent Oil and Gas Company	Russia	1,086.6[1]
Yatagan TPP; Guney Ege Linyit Isletmesi	Utilities	Privatisation (100%)	Turkey	Elsan Elektrik Gerecleri	Turkey	879.8[2]
T-Mobile Czech Republic (TMCZ) as	Telecoms & IT	Minority Stake Purchase (39.2%)	Czech Republic	Deutsche Telekom AG	Germany	828[2]
Evolution Tower	Real Estate	Acquisition (100%)	Russia	Transneft	Russia	760[1]
Milas-Bodrum Airport	Transportation & Warehousing	Privatisation (100%)	Turkey	TAV Havalimanlari Holding	Turkey	717[2]
SeverEnergia	Mining (incl. oil & gas)	Minority Stake Purchase (9.8%)	Russia	Gazprom Neft	Russia	710.1[2]
Dalaman Airport	Transportation & Warehousing	Privatisation (100%)	Turkey	YDA Insaat	Turkey	705[2]
UniCredit Tiriac Bankl	Finance & Insurance	Minority Stake Purchase (45.1%)	Romania	UniCredit SpA	Italy	700[2]
Migros Ticaret	Wholesale & Retail Trade	Minority Stake Purchase (40.3%)	Turkey	Anadolu Endustri Holding	Turkey	662.6[2]
SANORS Holding	Manufacturing	Acquisition (100%)	Russia	Rosneft	Russia	661.8[1]
Taas-Yuryakh Neftegazodobycha	Mining (incl. oil & gas)	Minority Stake Purchase (20%)	Russia	BP Plc (BP Group)	United Kingdom	614.8[1]
Volksbank Romania	Finance & Insurance	Acquisition (100%)	Romania	Banca Transilvania	Romania	600[1]

Source: EMIS

* The Stroygazconsulting deal was announced in June 2014 and was still pending as of year-end. EMIS DealWatch significantly discounted the original market estimate of US $5 billion (€3.67 billion) due to the subsequent sharp depreciation of the Russian rouble.

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

Private Equity in Emerging Europe: Overview

While 2014 saw relatively low levels of private equity activity in CEE compared to previous years, with only 248 deals totalling €9.3 billion (30% less in deals value than in 2013), last year was far from uneventful.

Many of the trends observed in 2013 continued well into 2014, such as a mismatch in valuations leading to protracted negotiations and aborted deals, as well as the scarcity of, and strong competition for, quality businesses. The latter continued to drive prices up for "quality" targets and gave rise to a number of sell-side driven and highly profitable exits, such as MEP's sale of its minority stake in T-Mobile to Deutsche Telekom for €828 million. Telecoms and IT continue to top the charts both in terms of number and value of deals (31.7% of total deal flow), followed by real estate.

The region remains fragmented, with Poland and the Czech Republic seen as the most stable investment territories and featuring predominantly in the deal tables, and with Russia, Ukraine and the former Yugoslav states being at the other end of the investment risk spectrum. That said, Russia continues to attract strong interest, despite the Ukraine crisis (with nearly 60 deals in the past 18 months) while Slovenia and Serbia came into the spotlight in the second half of 2014 as they announced a new wave of privatisations (such as those of the incumbent telecom operators in both countries and the second largest bank in Slovenia).

The region generally saw less cash available for investing in 2014, as some of the large players with a solid CEE track record appeared to be pulling out of the region. Nevertheless, 2014 also marked another fundraising success, despite the challenging fundraising environment across Europe, with MEP reaching a final close of its Fund IV in early August, €200 million shy of its original €1 billion target. This followed successful fundraisings by Abris and Enterprise Investors in 2013 and fuels optimism that LPs' confidence in the region is rising. This was further supported by the arrival of big private equity houses such as KKR (who are pursuing further investment opportunities in CEE after their recent €1 billion acquisition of SBB/Telemach in Serbia), TPG (after their acquisition of Point Park Properties in 2013), Blackstone (who have been acquiring real estate assets across the region) and Alinda. There was equally a growing trend of local CEE players (both private equity and strategics) becoming more active as buyers/investors abroad (such as Penta, CEZ, or OTP).

Despite a sluggish year, the general feeling around private equity in CEE remained one of cautious optimism, fuelled, among other things, by the increased relief in terms of access to finance and, more notably, by the sentiment across the private equity world that the worst of the financial crisis had passed and that Europe in general and CEE in particular are returning to growth. This will likely give way to increased deal flow in 2015, both in terms of buy-outs – as some attractive businesses and further privatisation opportunities come to the market – as well as in terms of exits, which will continue to dominate the charts, particularly if the IPO markets remain open.

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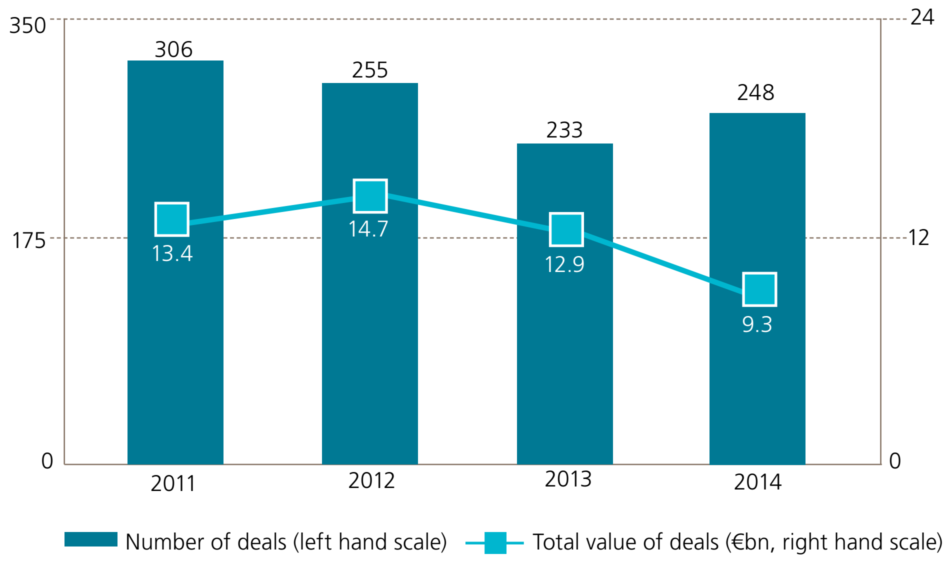
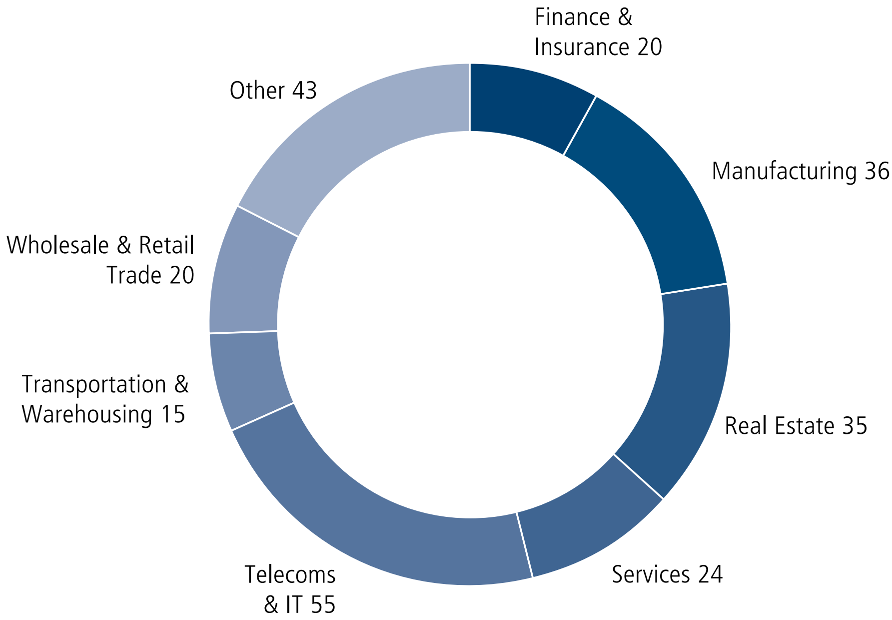
Private Equity in Emerging Europe



Source: EMIS

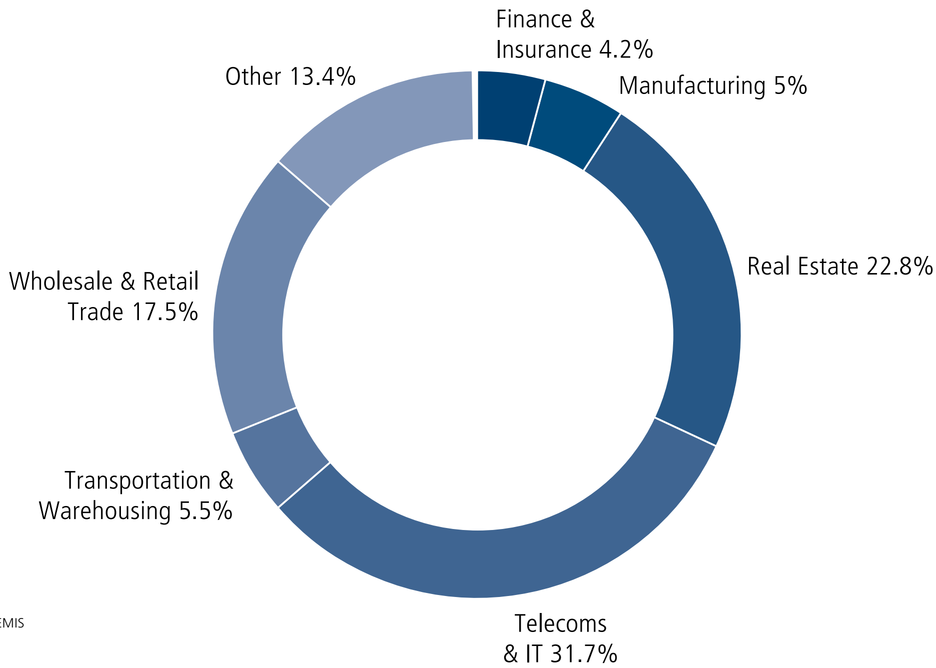
Private Equity: Deals by Sector (2014)

Number of Deals by Sector in Private Equity (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Private Equity (2014)



Source: EMIS

Private Equity: Top 20 Deals (2014)

Target Company	Sector	Deal Type	Country of Target	Buyer	Country of Buyer	Seller	Country of Seller	Deal Value (€m)
vKontakte	Telecoms & IT	Minority Stake Purchase (48%)	Russia	Mail.ru Group	Russia	United Capital Partners	Russia	1,139.5[2]
T-Mobile Czech Republic (TMCZ) as	Telecoms & IT	Minority Stake Purchase (39.2%)	Czech Republic	Deutsche Telekom AG	Germany	Mid Europa Partners LLP; Undisclosed investors	United Kingdom	828[2]
Migros Ticaret	Wholesale & Retail Trade	Minority Stake Purchase (40.3%)	Turkey	Anadolu Endustri Holding	Turkey	BC Partners; DeA Capital; Turkven Private Equity	United Kingdom; Italy; Turkey	662.6 [2]
Palladium shopping mall	Real Estate	Acquisition (100%)	Czech Republic	Union Investment Real Estate GmbH	Germany	Hannover Leasing GmbH & Co KG	Germany	565[1]
LPG and light oil products transshipment terminal at Ust-Luga Seaport	Wholesale & Retail Trade	Acquisition (100%)	Russia	Russian Direct Investment Fund (RDIF); Gazprombank; Foreign investors	Russia; India	Sibur Holding	Russia	511[2]
Avast	Telecoms & IT	Minority Stake Purchase (40%)	Czech Republic	CVC Capital Partners Ltd	United Kingdom	n.a.	n.a.	400[2]
Rondo 1 office building	Real Estate	Acquisition (100%)	Poland	Deutsche Asset & Wealth Management (DeAWM)	Germany	BlackRock Inc	United States	300[2]
Huvepharma	Manufacturing	Minority Stake Purchase (36.6%)	Bulgaria	Advance Properties	Bulgaria	The Rohatyn Group	United States	255[3]
Ronesans Gayrimenkul Yatirim	Construction	Minority Stake Purchase (21.4%)	Turkey	GIC Private Ltd	Singapore	n.a.	n.a.	250[2]
Poznan City Center shopping mall	Real Estate	Acquisition (100%)	Poland	Resolution Property; ECE Projektmanagement GmbH & Co KG	United Kingdom; Germany	Trigranit Development Corporation; Polskie Koleje Panstwowe SA; Europa Capital LLP	Hungary; Poland; United Kingdom	237.5[1]
AAA AUTO Group NV	Wholesale & Retail Trade	Acquisition (95%)	Czech Republic	Abris Capital Partners	Poland	Anthony James Denny - private investor; Existing shareholders	Czech Republic	220[2]
Telerik AD	Telecoms & IT	Acquisition (100%)	Bulgaria	Progress Software Corporation	United States	Bulgarian private investor(s); Summit Partners	Bulgaria; United States	211.7[2]
T-Mobile Office Park; Katowice Business Point; Lopuszanska Business Park	Real Estate	Acquisition (100%)	Poland	Starwood Capital Group	United States	Ghelamco Group	Belgium	192[1]
HeadHunter Group	Services	Acquisition (100%)	Azerbaijan; Belarus; *	Undisclosed investors; Elbrus Capital	Russia	Mail.ru Group family	Russia	166.6[2]
Four logistics parks; Stolica Business Centre in Lazy; Park Prague Airport	Transportation & Warehousing	Acquisition (100%)	Czech Republic; Poland	Blackstone Group LP	United States	Pramerica Real Estate Investors	United States	151.4[1]
Oilgaztet; Preobrazhenskneft	Mining (incl. oil & gas)	Acquisition (100%)	Russia	Mikhail Gutseriev - private investor	Russia	Verny Capital JSC; Russian private investors	Kazakhstan; Russia	150.4[1]
Sodrugestvo Group	Food & Beverages	Minority Stake Purchase (n.a.%)	Russia	A consortium of international investors from the Middle East and China ; Russian Direct Investment Fund (RDIF)	China; Greater MENA; Russia	n.a.	n.a.	144.9[2]
Severnoe Siyanie Business Centre	Real Estate	Acquisition (100%)	Russia	Eastern Property Holdings	Switzerland	n.a.	n.a.	121.3[2]
Siodemka SA	Transportation & Warehousing	Acquisition (100%)	Poland	DPD Dynamic Parcel Distribution GmbH & Co KG	Germany	Abris Capital Partners	Poland	119.8[1]
Logistics parks in Myslowice, Robakowo and Strykow	Transportation & Warehousing	Acquisition (100%)	Poland	Blackstone Group LP	United States	Standard Life Plc	United Kingdom	118.2[2]

Source: EMIS

* (cont'd) Estonia; Kazakhstan; Latvia; Lithuania; Russia; Ukraine
1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

Warranty and Indemnity insurance: an introduction

Warranty and indemnity (W&I) insurance originated in the 1980s, but only recently has it gained significant popularity in CEE with a record number of policies being issued in 2014, especially for property transactions.

Broadly, this can be attributed to two factors:

- W&I insurance is now significantly cheaper than it was five years ago, with premiums being roughly between 0.9% and 3% of the limit of liability under the insurance policy; and
- W&I insurance is now far easier to implement in transactions as insurers that specialise in this class of business typically require only five business days to put a policy in place.

A number of large claims have recently been paid by W&I insurers which has clearly increased the comfort level of parties considering using W&I insurance.

A W&I insurance policy indemnifies either the buyer (a "buy-side policy") or the seller (a "sell-side policy" for loss (including defence costs) suffered by the buyer due to a breach of a warranty or a claim under an indemnity, pursuant to the transaction agreement.

The key differences between a buy-side policy and a sell-side policy are as follows:

Buy-side Policy

- The buyer does not necessarily have to bring a claim against the seller in order to be indemnified under the W&I policy.
- The buyer is covered for the seller's fraud and misrepresentation.

Sell-side Policy

- The buyer has to bring a claim against the seller under the transaction agreement. The seller will then be indemnified under the W&I policy for any loss suffered as a result of the buyer's claim.
- The seller is not covered for its own fraud.

Insurers aim to provide cover under the W&I policy on the same basis as that provided by the seller under the transaction agreement. That is, if a claim can be brought under the transaction agreement, the same claim can be brought under the W&I policy. Please note however, that, like all insurance policies, W&I policies contain certain conditions and exclusions (discussed in more detail below).

Purpose of W&I Insurance and its Strategic Uses

W&I insurance serves two main purposes:

- to provide comfort to the insured party in relation to unknown risks associated with an M&A transaction; and
- to enhance the dynamics of the transaction so as to bring about a more beneficial commercial outcome for all parties (i.e. using W&I insurance strategically in a transaction).

The first purpose reflects the general motivation for individuals seeking insurance. However, the second purpose is underutilised by parties seeking insurance, which may be due to insurance being considered too late in the transaction process or insurance not being effectively incorporated into the transaction. There are significant benefits to be gained by parties who effectively use W&I insurance strategically. So what are the strategic benefits of W&I insurance?

- **Competitive Auction Process** – in an auction process the use of W&I insurance can be beneficial for both a seller and a buyer. From a seller's perspective, it can make the target more attractive to buyers as it provides counter-party credit risk certainty. From a buyer's perspective, it can enhance or 'sweeten' a buyer's bid by significantly reducing the liability of the seller in a transaction due to the risk being transferred from the seller to the insurer.
- **Maintenance of Seller Relationship** – the use of W&I insurance helps avoid disputes with the seller where the seller will remain with the target post-closing (especially relevant in start-up exits).
- **Exiting Sector/Geographical Location** – where a seller wants to exit an industry or location, it may not wish to be exposed to liability for the entire warranty period. This is particularly applicable to a large multinational company or private equity fund that wishes to announce it no longer has a material liability in a particular sector.
- **Fear of Seller Default** – the use of W&I insurance eases a buyer's concern that the seller may not have sufficient funds to pay out against substantial warranties for the period outlined in the transaction agreement. This can be a particular concern for sellers of family businesses who want to plan their tax and financial affairs and need certainty around the value of their assets.
- **Short Period of Ownership** – where corporate sellers have owned a company for a short period of time, they can be reluctant to provide warranties and indemnities for the period prior to their ownership. The use of W&I insurance can put the buyer at ease as it provides coverage for a set period of time (subject to sufficient due diligence being carried out).
- **Insolvency** – where an administrator is selling key assets and is not able to give warranties in relation to these assets but an investor is seeking customary warranty protection, then W&I insurance can be used to provide a solution so that the buyer is protected. As mentioned above, this can enhance the value of the asset being sold.
- **Protection of Passive Sellers** – where there are a number of sellers in a business including both active and passive sellers, W&I insurance can protect those who have not controlled or been actively involved in the business from unintentional non-disclosure or breaches of the transaction agreement.

The key factor in enabling parties to strategically use W&I insurance is to ensure insurance is considered as early as possible in the transaction process. Most lawyers nowadays have a good understanding or at least an awareness of W&I insurance and should be able to assist in this regard, otherwise speak to your insurance broker about your insurance options as soon as you identify a potential transaction.

About the Policy

To effectively consider W&I insurance in the context of a transaction, it is important to understand the basic mechanics of the W&I policy. So what does a W&I policy look like?

- **Policy Period** – the policy duration will generally run from the date that the deal is signed until the expiry of the warranty period set out in the transaction agreement (provided that such period is not indefinite and broadly market-standard). Typically, the policy period for general warranties will be two years and for tax warranties/indemnities it will be seven years. Often, there are extended warranty periods for other types of warranties, for example, fundamental warranties and environmental warranties. A further benefit of W&I insurance is that under a buy-side policy, the buyer can procure a policy period in excess to that provided under the transaction agreement.

- **Retention** – this is the first part of liability for which the seller or the buyer (if the transaction agreement is nil seller recourse) is liable to pay before the insurer becomes liable for loss under the policy (also referred to as "deductible" or "excess"). Essentially, the retention operates the same way as an "excess" under a general consumer insurance policy. The retention amount is agreed between the insurer and insured and depends upon certain underwriting considerations (discussed more fully below). Usually, this is around 1% of the enterprise value of the transaction, but for lower risk deals such as property, this is normally reduced.
- **De Minimis** – in the same way as the de minimis mechanism in the transaction agreement operates to avoid trivial claims, the policy tracks this aspect of the transaction agreement closely so as to avoid erosion of the retention and reduce the risk of a claim. Basically, for a claim to qualify as covered loss under the W&I policy, it must first be greater than the de minimis, and then the retention must be fully eroded by such qualifying claims before the insurer becomes liable under the W&I policy.
- **Policy Limit** – the policy limit is the maximum liability that the insurer is liable for under the W&I policy. AIG can offer W&I policies for limits in excess of US $5 million (subject to minimum premium requirements) up to US $100 million.
- **Premium** – this depends on certain underwriting considerations but will typically be between 0.9% to 3% of the policy limit.
- **Exclusions** – there are a number of market standard exclusions which are in place to incentivise the seller to provide full and complete answers and the buyer to carry out proper due diligence of the business as W&I insurance is not intended to allow complacency in transactions, but to protect against unusual and surprising circumstances and such issues which cannot be practically diligenced. The usual exclusions include:
  - actual knowledge on the part of the insured of a breach of warranty;
  - criminal fines or penalties to the extent they are uninsurable at law;
  - forward-looking warranties, estimates or projections;
  - post-completion adjustment provisions to the consideration payable;
  - liability arising from pensions under-funding;
  - liability arising from asbestos;
  - construction defects (in relation to property transactions); and
  - issues disclosed to or known by the insured.

Other exclusions will be transaction specific but particular concerns for underwriters typically include unaudited accounts, information warranties, environmental liability warranties, product liability and bribery and corruption.

The aim of our underwriting is to assess whether the due diligence is reasonably sufficient and adequate and that the transaction agreement has been negotiated to a degree considered to be market standard. It is important to bear in mind that W&I insurance is not a product which can replace due diligence being undertaken. The insurer will also expect that a sufficient disclosure exercise is undertaken by the seller. The key point to remember is that the transaction should be managed and negotiated and due diligence carried out as if there was no W&I insurance in place.

Angus Marshall

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About the Author

Angus Marshall is an Australian qualified lawyer having graduated from The Australian National University with a Bachelor of Commerce and a Bachelor of Laws and from the University of Sydney with a Masters of Law. Angus has worked for PricewaterhouseCoopers in their international tax and mergers and acquisitions practice and Norton Rose Fulbright in private mergers and acquisitions. Angus joined AIG London in 2013 and manages and underwrites transactions originating in Africa, Central and Eastern Europe, the Middle East, India and Israel. Please feel free to contact Angus by e-mail should you have any enquiries in relation to W&I insurance, or your preferred insurance broker.

Albania

The Albanian M&A market has been quite slow over the last few years, and 2014 did not bring any major changes, as the number and value of deals decreased. The economic and legal environment needs to undergo a series of reforms. A stronger macroeconomic base would also boost the M&A environment.

World Bank data shows the country's GDP growth at 2% from 1.9% projected earlier in 2014 and it is expected to accelerate further up to 3% during 2015 and 2016. There are expectations that the Albanian economy will grow due to EU candidate status granted to Albania in June 2014, even though there are certain governmental reforms that need to be accelerated in order to strengthen the business environment and boost the economy's competitiveness.

Dynamics of the market

Early in 2014, the International Finance Corporation, member of the World Bank Group, financed a project awarded to the Austrian company ENSO to build and operate small hydropower plants along the Lengarica River in Southern Albania. Enso Hydro will construct the hydropower plants through a local subsidiary, Lengarica & Energy Sh.p.k. Initially, the concession to build and operate the Lengarica hydropower project was awarded to a local company, Hasi Energji, which later sold the concession to Enso Hydro in a series of transactions. The project comprises construction of two small hydropower plants, Lengarica 1 and Lengarica 2, with an expected installed capacity of 3,700 kW and 2,500 kW, respectively. IFC controls 20% of the project through its investment in Lengarica & Energy Sh.p.k. Construction and implementation of the project have started, despite several objections from local environmental groups, complaining of the potentially adverse impact of the project on the natural canyons of the river.

In the beginning of 2014, an important development on the local market saw the Albanian low-cost airline "Belle Air" start bankruptcy proceedings. After eight years of operation, Belle Air suspended its flights. The company's network consisted of more than 25 destinations, principally routes from and to Italy, home to a considerable Albanian diaspora. Currently, the company is under investigation for fraud by the Albanian Prosecutor's Office.

During 2014, Trans Adriatic Pipeline Albania (TAP) further consolidated its presence in the country, increasing work to implement its pipeline project. TAP has a length of approximately 870 kilometres, from the Caspian Sea (Azerbaijan) via Greece, Albania and the the Adriatic Sea, coming ashore in the Apulia Region, South of Italy and further into Western Europe. The Project aims to facilitate gas supply to Western European countries as well as several Southeastern European countries, including Albania, Bulgaria, Bosnia and Herzegovina, Montenegro, and Croatia. Data shows that Albania will benefit from approx. €2 billion in investments during the construction phase of the pipeline. The project expects to enhance the country's supply and strategic position in the region for energy.

Another important energy issue the Albanian government had to deal with in 2014 concerned a settlement agreement between the newly elected Albanian government and the Czech energy group "CEZ". CEZ bought the Albanian power distributor OSSh in 2009 for €102 million and afterwards invested approx. €90 - 100 million in repairing and expanding the local grid. The Albanian Regulatory Authority revoked CEZ's license in January 2013, following disputes over tariffs, taxes, and unpaid electricity bills, leading CEZ to file a claim before the international arbitration court. In June 2014, the Government of Albania agreed to pay CEZ a total of approx. €100 million by 2018 in yearly installments. This corresponds to CEZ's initial investment.

In December 2014, an important government decision affected the energy market: feed-in tariff decreases for medium and small renewable energy producers. Calculation of the new feed-in tariffs (currently equal to Albanian Lek 9.4 - approx. €/cent 6.7) will be based on the average price of the Hungarian electricity market (HUPX). Investors affected by this decision heavily opposed it as it negatively affects their business plans.

Market expectations

The fiscal package effective as of January 1, 2015 introduced higher taxes. The tax rate on personal income of individuals will increase from 10 to 15% in 2015. This includes dividends and profit sharing, interest, capital gains from sale of immovable property, payments for artistic performances, royalties, leases, management and participation in managing bodies' etc. Duties and taxes will be higher for tobacco and petroleum products. By doing so, the government expects to reduce its public debt, which is high compared with the debt to GDP ratio elsewhere in the Balkans.

An important project in the infrastructure sector will be the construction of the Arbër Highway (Rruga e Arbërit) of approx. 170 km connecting Tirana with Debar (Dibra), a border town in the western part of the Former Yugoslav Republic of Macedonia. The Arbër Highway project will include two long tunnels, which will facilitate travel between Tirana and Skopje.

In addition, other important infrastructure projects are expected to be finalised, in particular, the Vlora by-pass and the National Football Stadium.

With regard to the insurance sector, the Albanian government has announced the privatisation of the state-owned company "INSIG Sha.", through sale of 100% of its shares in an international open tender procedure expected to be launched in 2015.

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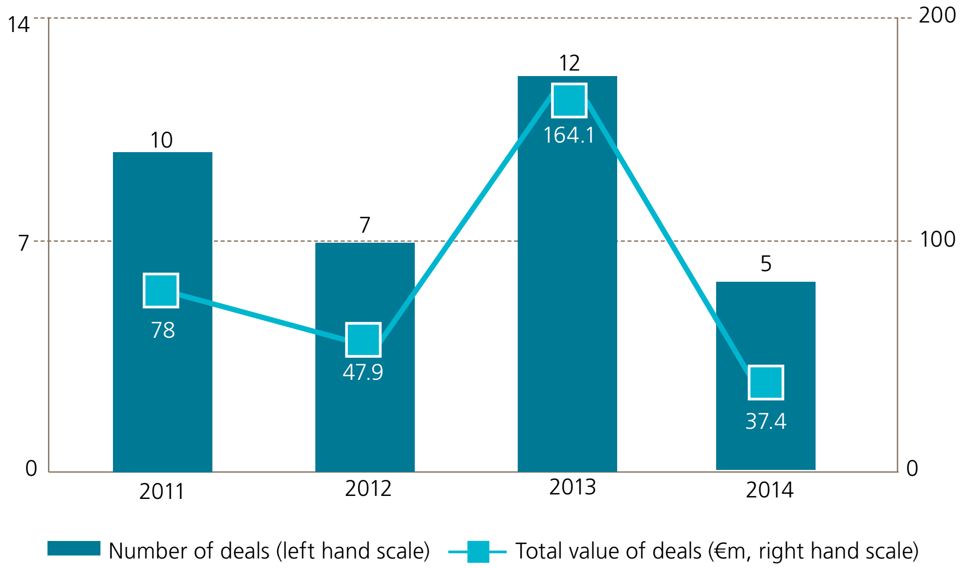
Albanian M&A Market

Deals by Value and Volume in Albania (2011-2014)



Source: EMIS

Top 3 Deals in Albania (2014)

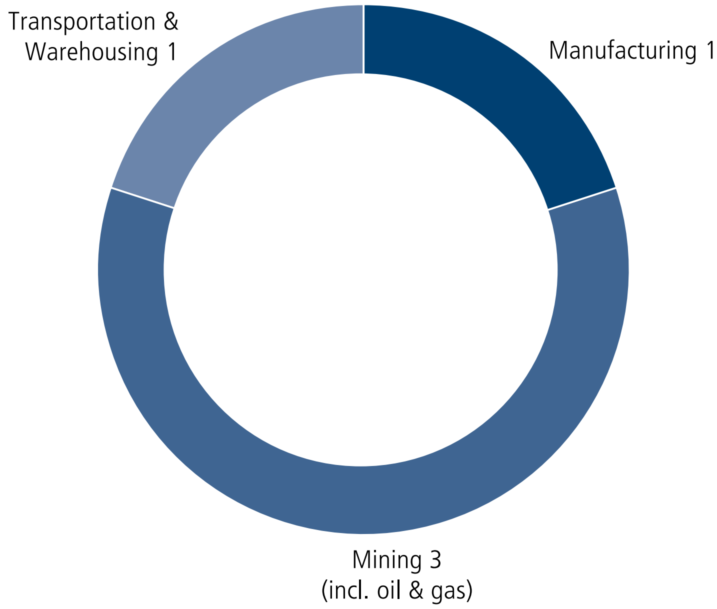
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Three oil fields, one gas field and one exploration license in Albania of Stream Oil and Gas (Canada)	Mining (incl. oil & gas)	Acquisition (100%)	TransAtlantic Petroleum Ltd.	Canada	33[2]
Balkan Resources SHPK	Mining (incl. oil & gas)	Acquisition (100%)	Arian Resources	Canada	4.4[2]
Trans Adriatic Pipeline (Albania)	Transportation & Warehousing	Minority Stake Purchase (19%)	Fluxys; Enagas SA	Belgium; Spain	n.a.

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

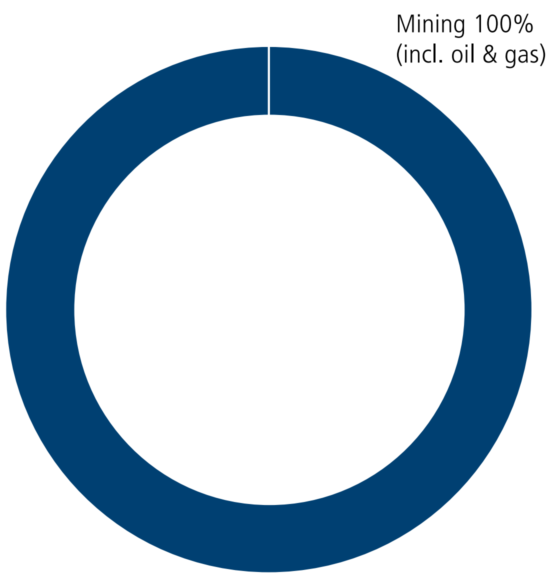
Deals by Sector in Albania (2014)

Number of Deals by Sector in Albania (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Albania (2014)



Source: EMIS

Bosnia and Herzegovina

Market recovery slowly progressing.

The first half of 2014 saw a slight increase in foreign investments in Bosnia and Herzegovina compared to 2013, which contributed to the market's recovery. However, due to political instability and the lack of necessary reforms in the business sector, recovery was slow.

The major foreign investors were from the UK, Slovenia, Germany, Cyprus, Croatia, Kuwait, and Austria. Significant foreign investment was focused on the construction of roads and in the energy sector, i.e. the construction of power plants, without acquisition of ownership. The two major sectors in which M&A took place in 2014 were the retail and telecommunications markets.

In the retail market one of the most significant M&A transactions in 2014 was the acquisition of Slovenian retail chain Mercator, by Croatian player Agrokor, which also owns Konzum. This transaction has created the largest retail group in the former Yugoslavia, which makes it a noteworthy competitor for European retail chains.

The company Tropic Group from Banja Luka acquired Bosnian assets of Delhaize. Also, Bingo d.o.o. Tuzla and CDEB Interex, a member of the Intermarche France group, entered an agreement, whereby Bingo Tuzla took over 24 business facilities of Interex, together with 709 employees.

In the telecommunications market the most significant transaction in the M&A sector this year was the €1 billion acquisition of the Telemach/SBB group, the major Pay-TV operator in the region, which included the Bosnian-based Telemach BiH, by KKR, a leading global investment fund.

Telemach BiH continued to expand in Bosnia and Herzegovina, acquiring another five cable operators, i.e. Vrbas cable television – Network d.o.o., M&H Company d.o.o., BHB Cable TV d.o.o., KATV "HS" d.o.o. and HKB Net d.o.o.

One of the most important transactions was the acquisition of the well-known platform for small ads pik.ba (PIK d.o.o. Sarajevo), which was sold to MIH Internet Europe.

Expectations for 2015

The prospects for foreign investments in 2015 are uncertain. After the elections in the second half of 2014 not all governments were formed, i.e. cantonal, entity, national level, which further adds to the climate of political insecurity. Regardless of the outcome, it has to be noted that it is the goal of all major political parties in BiH to join the EU. Therefore the Compact for Growth and Jobs, a practical agenda recently presented to the public, outlining necessary economic reform measures, provides a potential roadmap for the issues which have to be addressed in BiH. According to this agenda the main points are amendments to the tax system, increasing openness and competition in the labour market and minimizing the administrative burdens for establishing companies.

The government also announced the sale of its share in 14 companies: Bosnalijek d.d., Energopetrol d.d., Energoinvest d.d., Aluminij Mostar d.d., Hidrogradnja d.d., Remontni zavod d.d, Šipad export-import d.d., Željezara Zenica d.o.o., KTK Visoko d.d., Agrokomerc d.d., Konfekcija Borac d.d., Fabrika duhana Mostar d.d., PS Vitezit d.o.o. and Holding preduzeće Putevi BiH d.d. The total state capital in the companies amounts to 772,744,358 KM.

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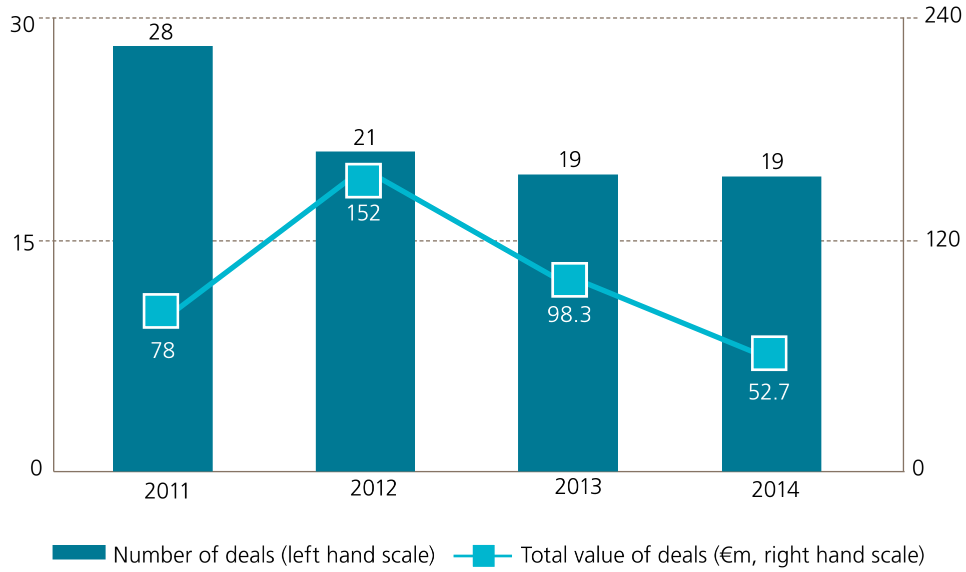
The Bosnia and Herzegovina M&A Market

Deals by Value and Volume in Bosnia and Herzegovina (2011-2014)



Source: EMIS

Top 5 Deals in Bosnia and Herzegovina (2014)

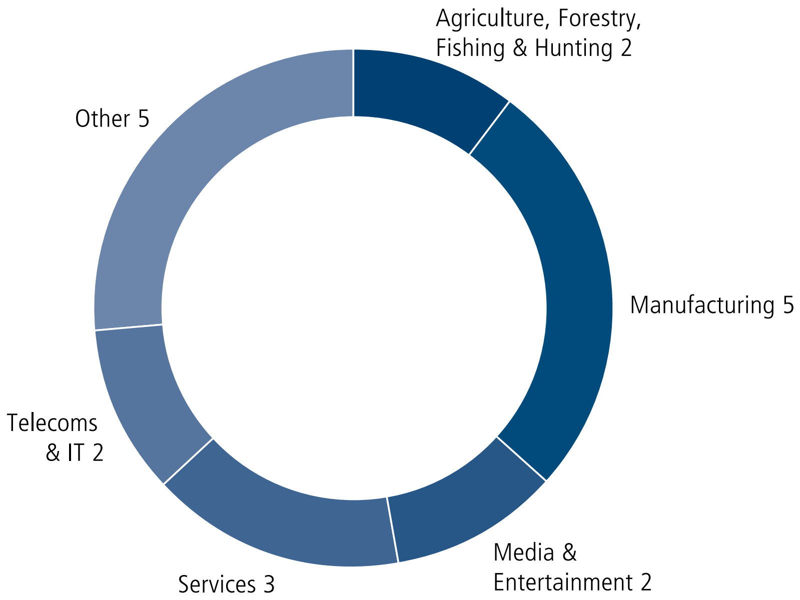
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Interex	Wholesale & Retail Trade	Acquisition (100%)	Bingo d.o.o.	Bosnia-Herzegovina	15.7[1]
Logosoft d.o.o.	Telecoms & IT	Acquisition (65%)	Telekom Srpske	Bosnia-Herzegovina	12[1]
Office building of Butmir Sarajevo	Real Estate	Acquisition (100%)	Fbih Banking Agency	Bosnia-Herzegovina	9.8[2]
Fabrika Glinice Birac	Manufacturing	Acquisition (n.a.%)	Gordan Pavlovic-private investor	Bosnia-Herzegovina	6.4[2]
Kapis Tkt d.o.o.	Manufacturing	Acquisition (100%)	n.a.	n.a.	5.8[2]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

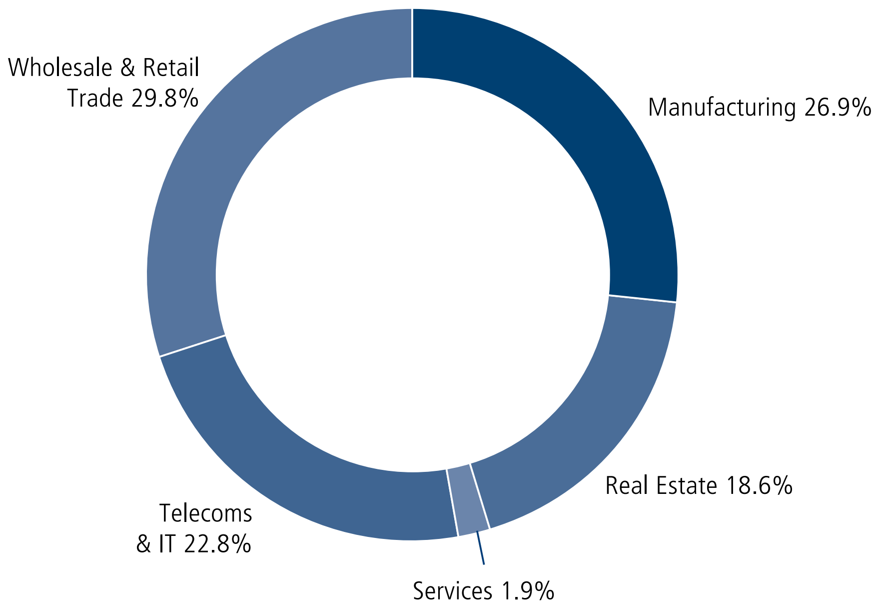
Deals by Sector in Bosnia and Herzegovina (2014)

Number of Deals by Sector in Bosnia and Herzegovina (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Bosnia and Herzegovina (2014)



Source: EMIS

Bulgaria

2014 – the year of failed or postponed transactions

Activity on the M&A market in Central and Southeast Europe is gradually picking up; however, transactions in Bulgaria visibly decreased in 2014. Compared to 2013, transactions were fewer in number and lower in value. 69 M&A transactions were completed in 2014, a slight decrease compared to 2013. Perhaps more striking, there were not more than 30 “significant” transactions. Compared to last year, the value of M&A transactions in the country decreased as well – by almost 30%. This drastic decline in deal value was due not so much to the decrease in the volume of the completed transactions, but because several large transactions in the telecommunications and industrial sectors from the preceding year were not matched in 2014.

In 2014, the foreign investment interest of strategic and financial players was focused again on production companies, assets which export their products to external markets. We saw a trend of synergies driving acquisitions, i.e. foreign strategic companies acquiring local companies to provide access to cheap resources and affordable labour. In addition, it could be said that the investment appetite for companies from low regulation sectors or those with stable and predictable cash flow remained relatively high.

Some of the significant transactions in Bulgaria in 2014 involved the sale of the cigarette manufacturer Bulgartabac Holding, a minority shareholding in Huvepharma, IT Company Telerik and Bella Bulgaria, a manufacturer of a wide range of food products. Traditionally, the hotel sector continued to be attractive for investors and two of the biggest hotels in the capital changed owners in 2014 – Kempinski Hotel Zografski and Hotel Rodina. As regards manufacturing companies, one of the most important transactions was the acquisition of a 36.6% stake in Huvepharma.

The problems

One of the key factors behind the decline in foreign investment in the country was the political instability, both locally and in the region, as well as delayed reforms in key sectors of the economy and public administration.

Furthermore, a large part of small and medium family businesses with considerable potential for future development do not take a proactive approach and seek investors only if they face serious problems. In a situation where M&A activity is generated mainly by the exit of foreign companies and restructuring and the search for partners by companies in difficulty, it is rare to see classic transactions where a large strategic investor is attracted by a successful, developed company with potential for synergies and future development.

Expectations for 2015

A key factor influencing the number and scope of transactions in the region is the record availability of disposable cash in corporations which are increasingly aggressive in using M&A to strengthen their market positions and to enter new markets and product lines. Funds have also accumulated huge resources which need to be invested. In addition, such funds are also increasing their awareness of the advantages of strategic partnerships and are looking for development in that direction.

Another factor expected to kick start the M&A market in Bulgaria is the fact that certain private equity funds are approaching the end of their investment horizon and exits are imminent – primarily in the industrial sector.

In the coming years, we expect to see transactions resulting from consolidation in the sector of fast-moving consumer goods, mainly the next phase in the consolidation of retail store chains, but also expect to see deals in the production sector. For example, there are ongoing sale transactions involving large companies in the food processing sector, which most likely will continue into the next year. There is strategic interest in cargo and passenger transportation, logistics and light production. We also expect a revival in the telecoms sector, as well as new transactions in the areas of information technology and business process outsourcing.

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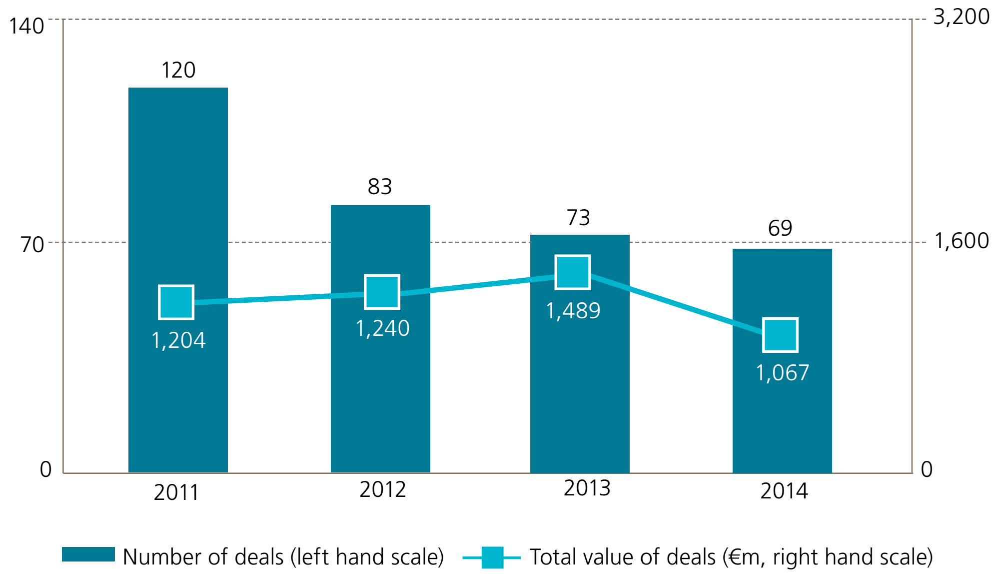
The Bulgarian M&A Market

Deals by Value and Volume in Bulgaria (2011-2014)



Source: EMIS

Top 10 Deals in Bulgaria (2014)

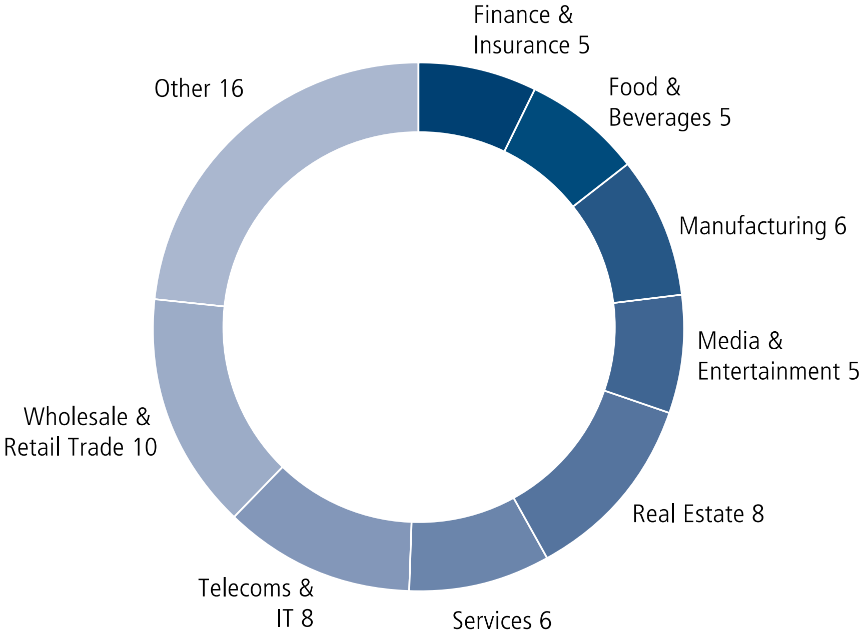
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Huvepharma	Manufacturing	Minority Stake Purchase (36.6%)	Advance Properties	Bulgaria	255[3]
Telerik AD	Telecoms & IT	Acquisition (100%)	Progress Software Corporation	United States	211.7[2]
Bulgartabac Holding	Food & Beverages	Acquisition (79.8%)	Livero Establishments	Liechtenstein	130[1]
Credit Agricole Bulgaria	Finance & Insurance	Acquisition (100%)	Corporate Commercial Bank	Bulgaria	47.2[2]
Remotex-Radnevo	Agriculture, Forestry, Fishing & Hunting	Acquisition (100%)	First Investment Bank AD	Bulgaria	40.8[2]
Zografski Private Company	Services	Acquisition (92.8%)	Vetko Arabadzhiev - private investor	Bulgaria	40.6[1]
Plaza West	Real Estate	Acquisition (100%)	NBG Pangaea	Greece	33[1]
Bourgas Shipyards	Manufacturing	Acquisition (100%)	First Investment Bank AD	Bulgaria	24[2]
BenchMark Business Centre	Real Estate	Acquisition (100%)	Unique Properties	Bulgaria	23[2]
bauMax Bulgaria	Wholesale & Retail Trade	Acquisition (100%)	Haedus JSC	Bulgaria	20[1]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

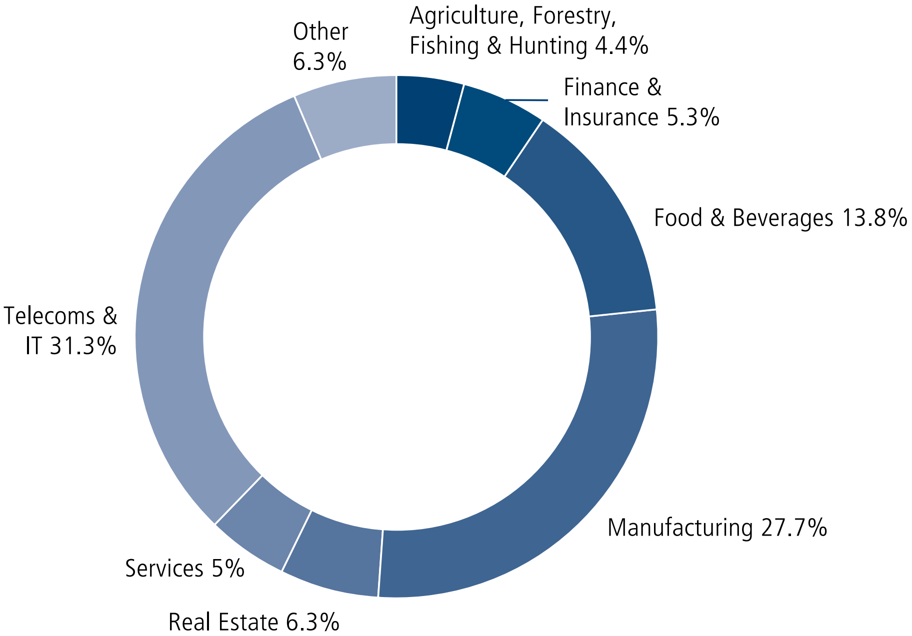
Deals by Sector in Bulgaria (2014)

Number of Deals by Sector in Bulgaria (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Bulgaria (2014)



Source: EMIS

Croatia

The Croatian M&A market in 2014 did not really meet expectations that were raised in the second half of 2013 following Croatia's accession to the EU.

The privatisation of the remaining publicly owned assets is not going to be completed as quickly as anticipated a year ago. One of the prime privatisation projects – the granting of concessions for the operation and maintenance of 1,024 km of highways to private operators for a period of 30 to 50 years and with a one-time concession fee of between €2.4 and 3.2 billion – was moving forward as planned; however, public opinion (and a petition signed by 531,000 Croatians within a couple of days) is creating increasing pressure on the government to favour a bidder consortium that includes some major Croatian players, or to put the motorway privatisation on hold. Additionally, none of the privatisations that the government announced would take place in 2014 were completed last year. The list includes four sea ports (Rijeka, Ploče, Zadar, Šibenik), Hrvatska Lutrija d.d. (the national lottery company), Croatia Airlines d.d., Narodne Novine d.d., the river port of Vukovar, and Petrokemija d.d. (a fertiliser producer).

In an effort to reform the legal system, in 2014 the government enacted a new Labour Act and a number of amendments to the tax laws. The new Labour Act that entered into force in August 2014 includes measures to allow for more flexible working hours, and for lower severance payments in the event of contract termination. New tax legislation, which entered into force on 1 January 2015, brought many changes to the Croatian tax system. From a foreign investor's perspective, the most interesting tax changes are those concerning the elimination of the obligation to submit an annual final VAT settlement, a new procedure of VAT taxation on the basis of paid invoices (i.e. small tax payers do not have to pay VAT until their invoices have been paid), reduced VAT rate (from 15% to 5%) for certain pharmaceutical products, and new criteria for the use of tax exemptions for reinvested profit. In addition, generally, the service level provided by Croatian authorities has improved a lot since Croatia's EU accession, and corruption has been driven back further, raising hopes that Croatia's Transparency International ranking will significantly improve in 2015.

In 2014 there were a few interesting acquisitions on the Croatian M&A market such as: Agrokor d.d.'s acquisition of Slovenian retail store chain Mercator d.d (deal value estimated at €550 million), and the joint acquisition of Zagrebačka banka d.d and Hrvatski Telekom d.d. of Optima Telekom d.d. in pre-bankruptcy settlement proceedings (deal value estimated at €43 million). Both of the deals have been conditionally approved by the Croatian Competition Agency under the condition of implementing structural measures (such as a 4-year limit on holding Optima and an obligation to sell or lease 96 retail stores in the case of Mercator).

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The finance and insurance sector was marked by the takeover of the Croatian branch of Banco Popolare by OTP bank Croatia and the entrance of the Czech J&T group to the Croatian banking market by taking over control of Varaždinska banka d.d. In the insurance sector, the only activity was the finalisation of Adris group d.d.'s privatisation of leading insurer Croatia osiguranje d.d., and Uniqa international AG's acquisition of Baloise group AG's Croatian daughter company, Basler osiguranje d.d.

Following Adris group's acquisition of Croatia osiguranje d.d., there was media speculation with respect to Adris group d.d. selling regional tobacco sector leader TDR d.o.o. to a Chinese buyer. There is speculation that Adris group d.d. would use the capital gained from its stake in TDR d.o.o. to further diversify its portfolio by entering into the marine business with the acquisition of state-owned ACI group d.d. (a chain of 21 marinas on the Croatian coast).

Although Croatia is keen to diversify its economy, there is no question that tourism remains the most important sector, and accordingly this sector enjoyed the biggest M&A activity in 2014, with an estimated deal value of €164 million. In 2014 Lukšić group (which already holds a significant portfolio of hotels on the Croatian coast) took over Istratourist d.d. (total deal value of €120 million) affirming their position in the Croatian tourism market with a capacity of 46,000 beds. The acquisition of the Hilton Imperial Hotel by Adris group's subsidiary Maistra d.d. represents an extension of their leisure business to the Dubrovnik area and is the first time the group has held assets outside the Istria region, where they are the market leader with a total of 70,000 beds. In June 2014 the third key player in the tourism sector, Valamar Riviera d.d., with 43,000 beds, further consolidated its portfolio by the downstream and upstream intragroup merger of Valamar Group d.d. and its subsidiaries. In addition, the Czech company Orco Group sold their creditor's position and half of their equity in Sunčani Hvar d.d. to Slovakian company Prime Tourist Resorts A.S. As a result, Prime Tourist Resorts A.S. now has control in the current pre-bankruptcy settlement proceedings over Sunčani Hvar d.d.

Russian investors' interest in the Croatian tourism industry continued in 2014. Russian private investor Viktor Vekelsberg acquired Hotel Belvedere (deal value estimated at €12.2 million) and Russian company UK Promsvyaz acquired nearly 40% of Jadranka d.d., increasing its stake to almost 90%, after which Jadranka d.d. was delisted from the Zagreb Stock Exchange.

To conclude, despite the fact that there is still a certain level of uncertainty on the Croatian market, investors are cautiously optimistic, and the vast majority of them will be seeking opportunities for growth in 2015.

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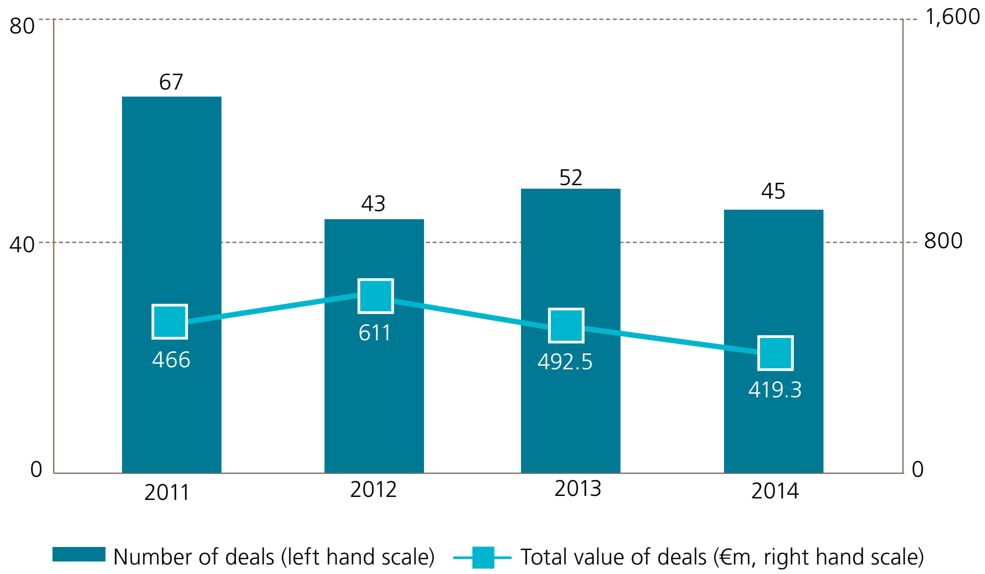
The Croatian M&A Market

Deals by Value and Volume in Croatia (2011-2014)



Source: Source: EMIS

Top 10 Deals in Croatia (2014)

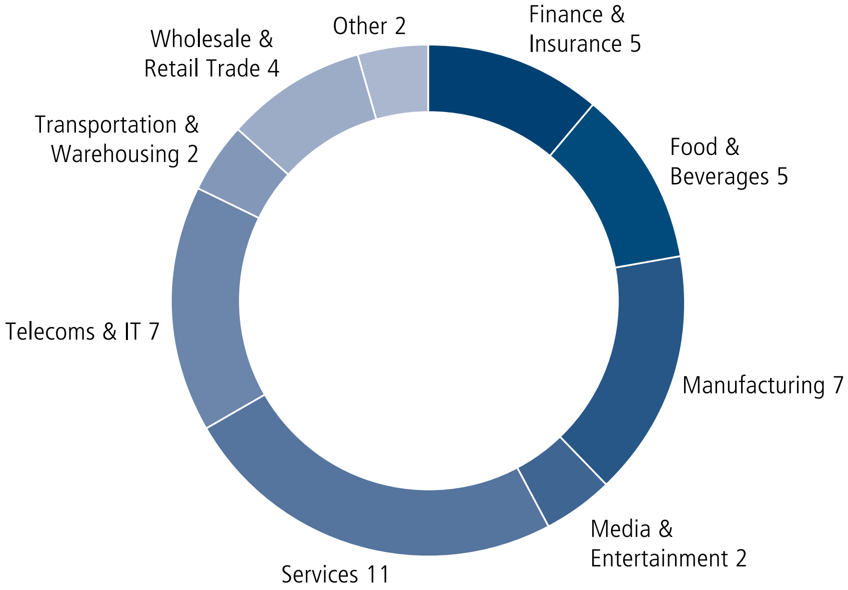
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Istraturist Umag d.d.	Services	Acquisition (93%)	Plava Laguna d.d.	Croatia	120.1[2]
Jadroplov d.d.	Transportation & Warehousing	Privatisation (70%)	Brodosplit d.o.o.	Croatia	52.2[2]
OT - Optima Telekom	Telecoms & IT	Minority Stake Purchase (45.5%)	Zagrebacka Banka	Croatia	37[1]
Real estate assets of Vjesnik	Real Estate	Acquisition (100%)	Government of Croatia	Croatia	20.9[2]
Hilton Imperial Dubrovnik	Services	Acquisition (81.6%)	Adris Grupa	Croatia	20[1]
Banco Popolare Croatia (former Banka Sonic)	Finance & Insurance	Acquisition (98.4%)	OTP Banka Hrvatska dd	Croatia	13.7[2]
Hotel Belvedere	Services	Acquisition (100%)	Viktor Vekselberg - private investor	Russia	12.2[2]
Varazdinska banka (Vaba)	Finance & Insurance	Acquisition (58.3%)	J&T Group	Czech Republic	9.8[2]
Rimac Automobili	Manufacturing	Minority Stake Purchase (10%)	China Dynamics (Holdings) Ltd	Hong Kong	7[2]
OT - Optima Telekom	Telecoms & IT	Minority Stake Purchase (9.2%)	HT-Hrvatske telekomunikacije d.d. (T-HT)	Croatia	6.8[1]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

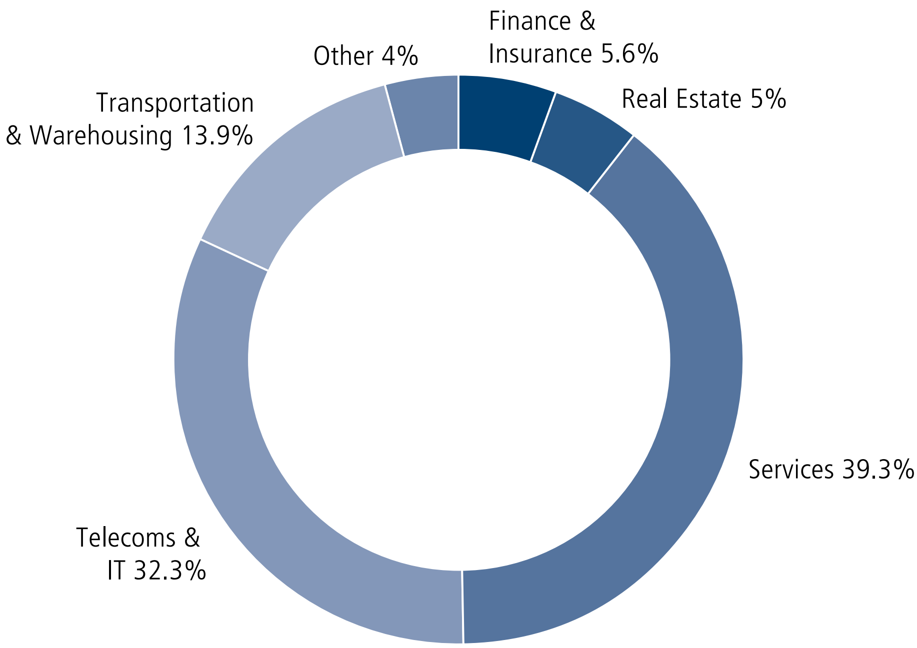
Deals by Sector in Croatia (2014)

Number of Deals by Sector in Croatia (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Croatia (2014)



Source: EMIS

Czech Republic

Last year's cautious optimism regarding the recovery of the Czech M&A market was, it seems, justified. Though the market lacked the deals in excess of €1 billion which characterised 2013, the number of deals signed last year reached its highest point since 2010. Moreover, the overall deal value for 2014, which topped €5 billion, is a telling sign of returning market activity.

There are numerous market drivers: on the buy side, general economic stability and low interest rates have stimulated investment. Meanwhile, private equity funds and business owners are using the increased competition among bidders to obtain a good price for their assets, while global strategic investors from various industry sectors continue to dispose of their businesses in the Czech Republic in order to focus on what they consider to be core markets. In addition, insolvency and situations of financial distress continue to drive sales.

The top 10 deals continued to be dominated by acquisitions by financial investors. In previous years, we have reported on the growing role of domestic (financial) investors; however, the Czech Republic is now also back on the radar of global private equity (backed) investors. It is a healthy sign that the top 10 deals include transactions spread across various industries.

In terms of deal value, the TMC sector is the clear frontrunner. The most significant deal of 2013, the purchase of O2 Czech Republic by Petr Kellner's PPF (€2.47 billion), heavily influenced deals in 2014 as well, with two related minority shareholder buyouts. Following these additional purchases, PPF holds an 83.15% share in the company.

A transaction involving the country's second largest mobile operator by market share secured the top spot this year. Deutsche Telekom gained full control of T-Mobile Czech Republic through the acquisition of a 39.2% stake from a consortium of investors including Mid Europa Partners.

It remains unlikely that a fourth mobile operator will enter the scene, and for now the gap is being filled by the growing number of virtual operators. In fact, market rumours that one of the existing mobile operators is seeking an exit in the coming years continue to circulate.

The Czech Republic has maintained its reputation for successful tech and social media start-ups, which continue to attract interest from global investors. Last year, CVC Capital Partners acquired an approximate 40% stake in private anti-virus software producer AVAST Software.

On the basis of the deal table, it may seem that the energy sector has declined in importance; however this is far from the truth. Though the sector did not dominate the M&A scene as in previous years, the year saw a number of headline transactions with undisclosed (but, based on market estimates, substantial) deal values.

As part of a regional deal with ENI, the Hungarian oil and gas company MOL acquired 124 AGIP-branded filling stations in the Czech Republic. Through its Slovak subsidiary Slovnaft, the company also purchased an additional network of 44 gas stations from Lukoil, making MOL the second largest player in terms of market share.

The divestment of ENI was not limited to it fuel stations. It also disposed of its 32.445% stake in Ceska Rafinerska. Unipetrol, the listed Czech Republic-based oil refiner, used its pre-emptive rights to purchase this share.

Following the divestment of its stake in insurance company Generali PPF Holding, PPF sold its 40% shareholding in the country's second largest utilities company, Energeticky a Prumyslovy Holding (EPH)*. Following the transaction, Daniel Kretinsky holds a 37% shareholding equal to that of Patrik Tkac, while Tkac's financial group J&T holds the remaining shares. EPH has also bought the 2GW Eggborough Power Station in North Yorkshire in the UK.

The financial services sector remains active, with both banks and insurance companies attempting to sell non-core assets. Expobank, the Russia-based commercial and retail bank, acquired LBBW Bank CZ from Landesbank Baden-Wurttemberg. In addition, GE Money Bank purchased the Czech leasing entities from Austrian VB-Leasing International Holding. It appears that a number of similar deals will soon materialise. Most recently, Citigroup announced that it is looking to dispose of some of its consumer businesses, including its business in the Czech Republic.

After a few years of relative silence, the pace of activity in the retail sector has picked up. UK consumer electronics retailer Dixons (now Dixons Carphone Group) sold its chain of Electro World stores in the Czech Republic and Slovakia to its Slovak counterpart NAY, marking a new entry into the Czech market. Dutch Royal Ahold, which operates the Albert supermarket chain, acquired SPAR Ceska, consisting of 36 compact hypermarkets and 14 supermarkets, making it the number one food retail brand in the country, with over 330 stores.

Though its profile does not yet match those of some of the more established investment holdings in the Czech Republic, Hartenberg Capital, the fund owned by Finance Minister Andrej Babis and Jozef Janov, is beginning to make its mark. Capitalising on Janov's previous experience at Penta, the company is building a particularly strong profile in the healthcare sector. Through its vehicle FutureLife it has acquired a number of pharmaceutical companies, medical centres and gynaecological and fertility clinics. Hartenberg frequently features as an interested party in press reports on ongoing deals across various industries, and investments outside of the healthcare sector seem imminent.

As there are no rumours about high value transactions expected in 2015, it will be hard to match the overall deal value of the last two years. However, on a positive note, we expect that deal volume will continue to grow.

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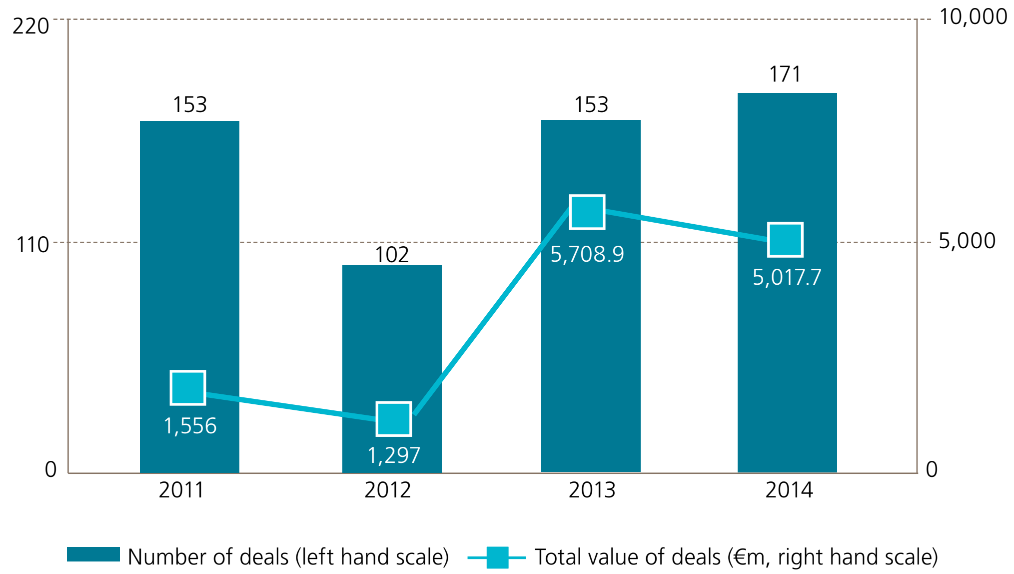
*This deal is a buyback of shares and therefore not captured in the Top deals table.

The Czech M&A Market

Deals by Value and Volume in the Czech Republic (2011-2014)



Source: EMIS

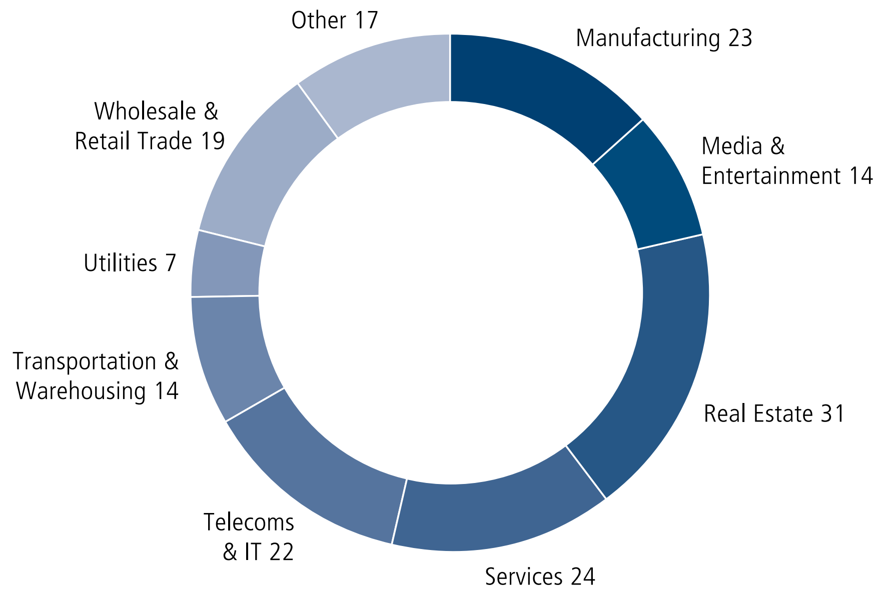
Top 10 Deals in the Czech Republic (2014)

Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
T-Mobile Czech Republic (TMCZ) as	Telecoms & IT	Minority Stake Purchase (39.2%)	Deutsche Telekom AG	Germany	828[2]
Palladium shopping mall	Real Estate	Acquisition (100%)	Union Investment Real Estate GmbH	Germany	565[1]
627,000 m2 logistics portfolio	Transportation & Warehousing	Acquisition (100%)	PointPark Properties (P3)	Czech Republic	523[2]
Avast	Telecoms & IT	Minority Stake Purchase (40%)	CVC Capital Partners Ltd	United Kingdom	400[2]
O2 Czech Republic as (O2 CR)	Telecoms & IT	Minority Stake Purchase (10.1%)	PPF Group NV	Czech Republic	291.2[3]
AAA AUTO Group NV	Wholesale & Retail Trade	Acquisition (95%)	Abris Capital Partners	Poland	220[2]
O2 Czech Republic as (O2 CR)	Telecoms & IT	Minority Stake Purchase (5.7%)	UniCredit SpA	Italy	185.2[3]
Ringier Axel Springer CZ	Media & Entertainment	Acquisition (100%)	Daniel Kretinsky - private investor; Patrik Tkac - private investor	Czech Republic	169.8[2]
Arkady Pankrac shopping mall	Real Estate	Acquisition (75%)	Atrium European Real Estate	Austria	150[1]
New World Resources Plc	Mining (incl. oil & gas)	Minority Stake Purchase (n.a.%)	BXR Group; Bondholders of New World Resources	Netherlands; Czech Republic	125[2]

Source: EMIS
1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

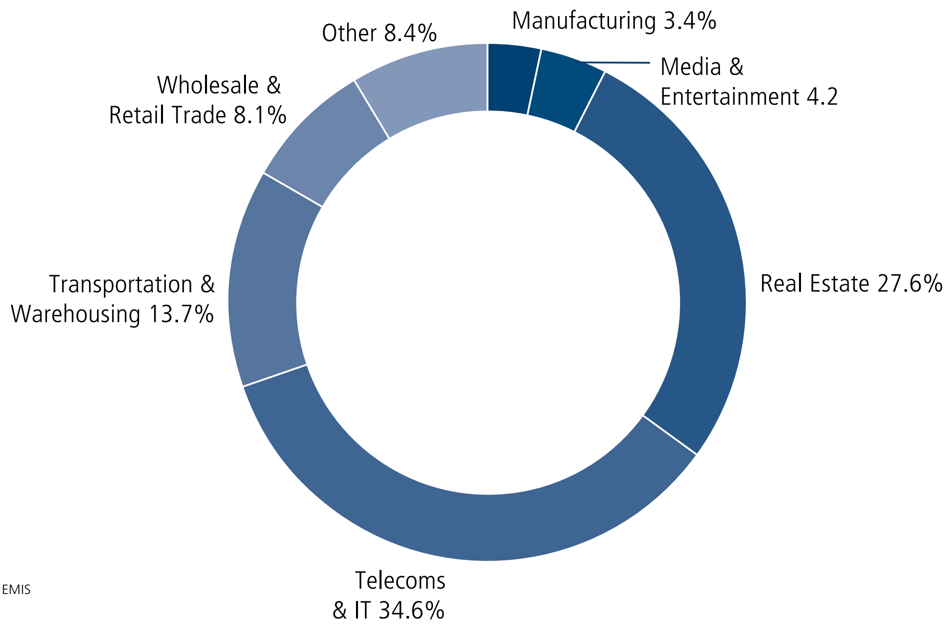
Deals by Sector in the Czech Republic (2014)

Number of Deals by Sector in the Czech Republic (2014)



Source: EMIS

Share of Sector in Total Value of Deals in the Czech Republic (2014)



Source: EMIS

Hungary

Expectations were high for the Hungarian M&A market in 2014, but, like 2013, the market failed to live up to them. The number of deals did increase somewhat in 2014; however, deal value decreased significantly.

As in 2012 and 2013, the Hungarian State and state-owned entities (such as MNV Zrt. – the Hungarian National Asset Management Company, NISZ Zrt. – the National Infocommunication Company and MNB – the National Bank of Hungary) were the most active players on Hungary's M&A market, completing by far the largest deals of the year.

These transactions included the acquisition of Antenna Hungária Zrt. (broadcasting company) by NISZ, the acquisition of 50% of Főgáz Zrt. (Budapest Gas Company) by MNV Zrt., the acquisition of MKB Bank by the Government of Hungary and the acquisition of substantial stakes in other banks and financial institutions (FHB Bank, Takarékbank, Budapest Bank, Giro Zrt.) by various government entities. Through these transactions, the state ensured that the majority of the banking sector is in "Hungarian hands", which was a crucial economic goal of the government. Other state acquisitions involved mainly utilities, as well as manufacturers in 'strategic industries' (e.g. the acquisition of Bombardier Transportation MÁV Hungary Kft., related to the railway industry). However, these acquisitions were not driven by market opportunities, but by economic and political considerations.

Compared to 2013, deal value decreased substantially (by almost 50%). On the other hand, the total number of deals increased by ca. 24%. This is mainly due to the high value of the acquisitions made by the Hungarian State in 2013. Another important factor is that there have been a significant number of JEREMIE-related projects (venture capital and PE investments based on EU funding), where the deal value is usually fairly low because of EU requirements.

The Budapest Stock Exchange once again failed to attract companies for listing in 2014, with only one real new listing in the whole year (Norbi Update Lowcarb Nyrt.). This is likely to remain the trend for the foreseeable future.

In terms of breakdown of the number of transactions, many took place in the finance & insurance, services, media & entertainment, utilities and real estate sectors, with the common feature that deal values were relatively low. The most popular targets for M&A operated in the fields of information technology, telecommunications and finance.

The market was dominated by domestic investors, while most foreign investors came from the United States or the UK.

Hungarian investments into other countries represented only a fairly small percentage of the total value of transactions. The Budapest Stock Exchange's blue-chip companies (MOL, OTP, Richter) were the most active in this field, as in previous years.

Although the economic indices of the country, and therefore the investment environment, has clearly improved during recent years, the significant increase in M&A transactions that many analysts expected in 2014 failed to materialise.

The Hungarian M&A market is not expected to change dramatically in 2015. The government is likely to continue to be an active player, as there is still strong political will to increase the state's presence in certain sectors, particularly energy and utilities. However, a significant increase of activity on the Hungarian M&A market will only be achieved if foreign investors become more active. The right-wing political party, which has governed since 2010, was re-elected in 2014, and it is not expected to make any significant domestic political or economic changes that might encourage foreign investors. Nonetheless, if the regional, European or worldwide M&A market becomes more active in 2015, then Hungary will most probably also benefit.

For some time, the Hungarian and CEE M&A markets have also been expecting growing interest from the BRIC countries, especially China. It is possible that 2015 will finally see this materialise.
Key sectors will remain active, in particular, technology, media and communications (TMC), financial services and energy. We expect some growth to be seen in the real estate sector.

The main hindrance remains the general economic uncertainty which characterises not only Hungary, but also the Eurozone.

In summary, the Hungarian M&A market is likely to grow moderately in the coming years, although some high-profile transactions are expected.

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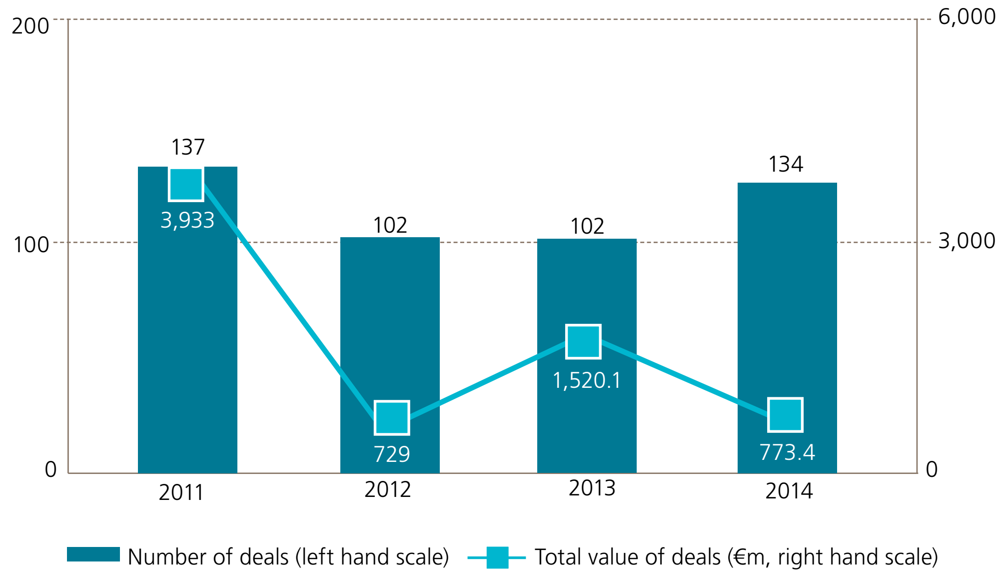
The Hungarian M&A Market

Deals by Value and Volume in Hungary (2011-2014)



Source: EMIS

Top 10 Deals in Hungary (2014)

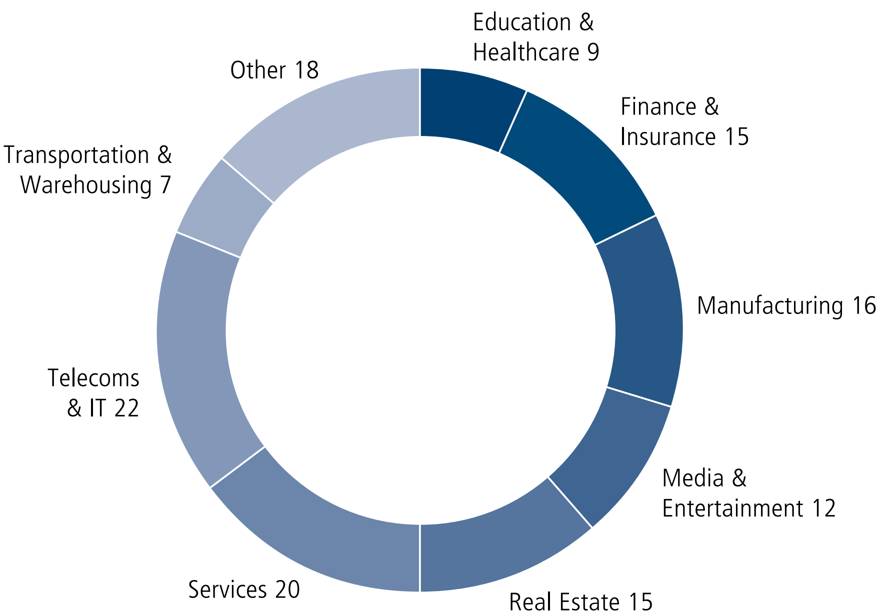
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
FHB Kereskedelmi Bank Zrt	Finance & Insurance	Minority Stake Purchase (49%)	Magyar Posta Zrt	Hungary	92[2]
Magyar Kulkereskedelmi Bank (MKB)	Finance & Insurance	Acquisition (99.9%)	Government of Hungary	Hungary	55[2]
prezi.com Kft	Services	Minority Stake Purchase (n.a.%)	Spectrum Equity Capital; Accel Partners	United States	45.6[2]
Eiffel Palace office building	Real Estate	Acquisition (100%)	Magyar Nemzeti Bank (MNB)	Hungary	38.2[2]
Green House office project in Budapest	Real Estate	Acquisition (100%)	Diofa Alapkezelo Zrt	Hungary	36[2]
IND Group	Telecoms & IT	Acquisition (100%)	Misys	United Kingdom	32.6[1]
Giro Zrt	Finance & Insurance	Acquisition (78.1%)	Magyar Nemzeti Bank (MNB)	Hungary	31[2]
Takarekbank	Finance & Insurance	Acquisition (54.8%)	Magyar Takarék Befektetési és Vagyongazdálkodás	Hungary	28.8[2]
Profession.hu	Telecoms & IT	Acquisition (100%)	Ringier Axel Springer Media AG	Switzerland	25.9[1]
Assets of MediaMass	Manufacturing	Acquisition (100%)	Waters Corporation	United States	17[1]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

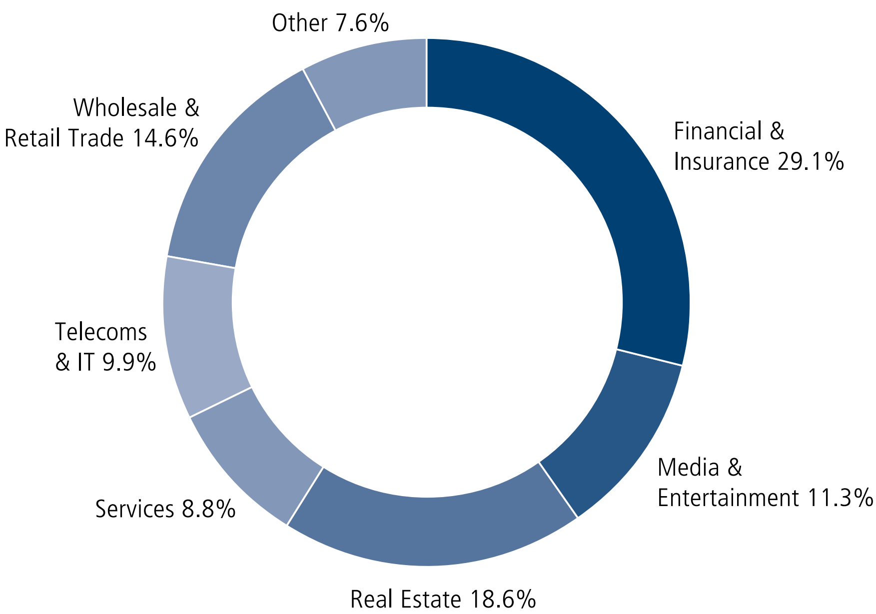
Deals by Sector in Hungary (2014)

Number of Deals by Sector in Hungary (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Hungary (2014)



Source: EMIS

Montenegro

The Montenegrin M&A market showed little activity in 2014 compared to previous years.

One of the major transactions in 2014 was the EPCG debt for equity swap. After months of negotiations and insistence from members of political parties in the Montenegrin parliament, the Government collected the tax debt of the national energy company Electric Power Industry of Montenegro (EPCG) in the amount of €45 million. Accordingly, in July 2014, EPCG adopted a decision converting tax debt of €45 million into equity. After completion of the transaction, the Government, according to the Central Depository Agency (CDA), held a 57.02% stake in EPCG and the Italian company A2A held 41.75%. Before the transaction, the state had a 55% stake and the strategic partner, a 43.7% stake. After the capital increase the total capital value of EPCG amounts to €1 billion.

Another notable transaction in the energy sector involved the sale of what used to be Montenegro's biggest industrial employer, the bankrupt KAP aluminum plant, to local metal company Uniprom for the price of €28 million. The sale process commenced after KAP was declared bankrupt in October 2013 with net debt of around €459 million. Major creditors included Montenegro's finance ministry, En+ Group and CEAC, and EPCG. In June 2014, Uniprom signed a contract with KAP's bankruptcy administration to buy the company's assets for €28 million. However, a legal case launched in Cyprus by KAP's former owner, Russia's En+ Group, gainst the sale of the aluminum firm resulted in a delay of KAP's acquisition by Uniprom, as the new owner feared that the court might seize the assets. As a result, Uniprom paid only €4 million for KAP, and was given a six-month extension to pay the remainder. Nevertheless, Uniprom took over KAP on 19 July after the management contract of state-owned Montenegro Bonus expired. Montenegro Bonus had been running KAP in the past year, but showed no interest in extending the management contract. Uniprom agreed to take over KAP in order to prevent a disruption in its production process.

In February 2014, an important transaction occurred in the mining sector when the Balkan Mining Group Ltd signed an agreement with the Polish company Zakłady Górniczo-Hutnicze "Bolesław" S.A. for the purchase of shares in the company Gradir Montenegro d.o.o. for the price of €36.3 million.

In 2015, the Government of Montenegro plans to commence several tender procedures for privatisation. Among the companies that are to be privatised are the national airline "Montenegro Airlines", the Port of Bar and freight transportation company "Montecargo".

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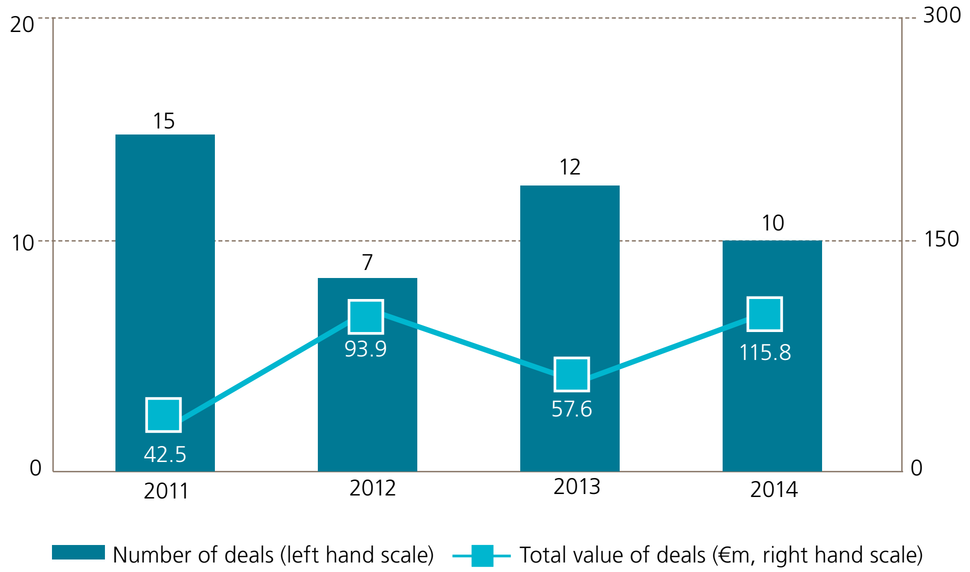
The Montenegrin M&A Market

Deals by Value and Volume in Montenegro (2011-2014)



Source: EMIS

Top 3 Deals in Montenegro (2014)

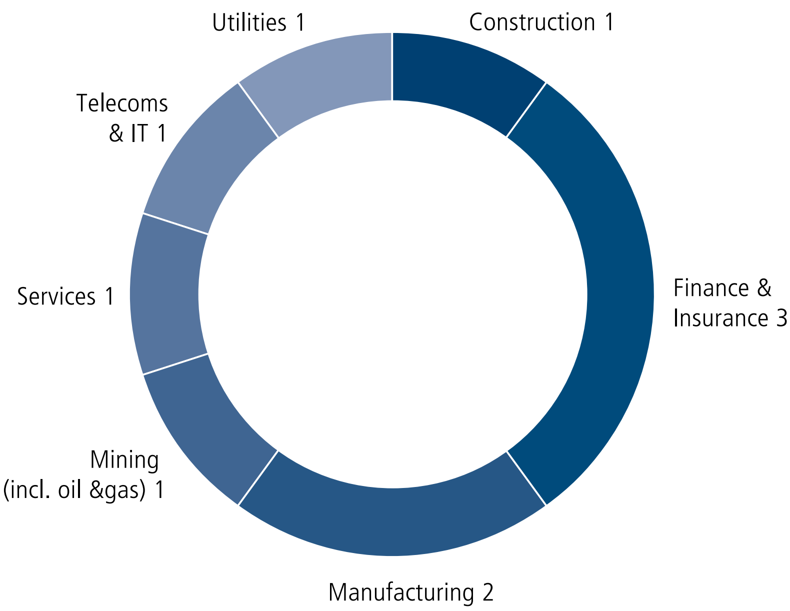
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Elektroprivreda Crne Gore AD Niksic (EPCG)	Utilities	Minority Stake Purchase (2%)	Government of Montenegro	Montenegro	45[2]
Gradir Montenegro	Mining (incl. oil & gas)	Acquisition (99.4%)	Balkan Mining Group	Malta	36.3[2]
Kombinat Aluminijuma Podgorica (KAP)	Manufacturing	Acquisition (100%)	Uniprom	Montenegro	28[2]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

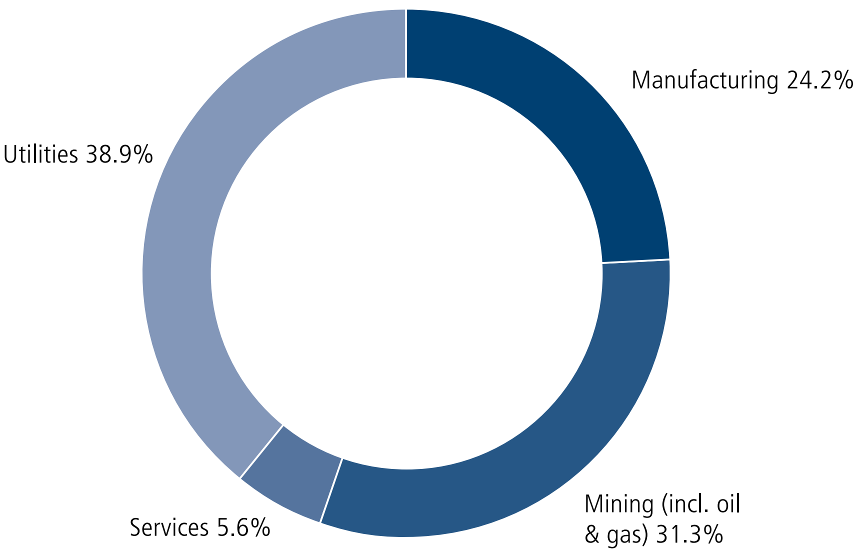
Deals by Sector in Montenegro (2014)

Number of Deals by Sector in Montenegro (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Montenegro (2014)



Source: EMIS

Poland

M&A slowdown in 2014 and cautious optimism for 2015

After a promising increase in M&A activity in the second half of 2013, expectations for 2014 were high. In this context, 2014 turned out to be a disappointing year as regards the number and overall value of M&A transactions. The volume of transactions fell by approximately 25% compared to 2013. The drop in value was even more significant – from €11.6 billion in 2013 to €4.5 billion in 2014.

As in 2013, acquisitions were mostly driven by consolidation trends in various sectors of the economy; however, the pace of consolidation in some sectors was slower than expected. There were very few high-value deals compared to previous years.

The real estate sector (office and commercial space) continued to see a relatively high volume of transactions, and the high level of M&A activity in the sector continued throughout the year. The most notable transactions took place in the retail and warehousing segment, which saw significant growth in transactions concerning logistics centres. The prospects for real estate transactions in 2015 are very promising.

Some sectors continued the downward trend already noted in 2013. In particular, the energy sector had a very slow year, mostly due to regulatory and energy pricing uncertainties. The only notable exception was the wind farm subsector, which recorded a significant increase in transaction volume, in particular in the second half of the year. This was due to an expected change in legislation applicable to renewable energy. In general, the energy sector is becoming increasingly dominated by Polish state-controlled utilities.

The sectors which attracted most attention and the highest number of deals were services, including financial services, food and beverages, wholesale and retail, insurance, healthcare and manufacturing. These sectors attracted trade as well as private equity investors.

Private equity investors were moderately active throughout the year. Deal flow was dominated by smaller transactions. This trend was fuelled by consolidation trends in sectors like TMC, IT, healthcare and retail, which are expected to continue in 2015. The most active PE funds were Abris, Innova and MCI. The most important private equity exit was the sale of Ultimo, a debt management company, by Advent to a strategic investor B2Holding.

In the financial services sector, consolidation of the banking market progressed, but not as fast as expected by many market players. The sale of a controlling stake in Alior Bank is still on the cards. In the meantime, Alior acquired Meritum Bank from Innova Capital. The deal is expected to be completed in early 2015. The sale of another PE-owned bank (FM Bank by Abris) was announced at the end of the year. The process is likely to be completed in 2015.

A much stronger consolidation push is yet to come, as many of the owners of Polish banks are foreign financial institutions, which have problems in their core markets. The likely buyers will be Polish banks, other financial institutions or new entrants. It is unlikely that private equity investors will acquire any significant banking assets, unless the Polish banking regulator's attitude towards private equity improves.

Two notable insurance transactions were the acquisition of Link4 by PZU SA, the largest Polish insurer, and Axa Group's acquisition of BRE Ubezpieczenia.

Just before the year's end, the sale of TVN, the largest Polish private media group, was announced. The deal, if completed in 2015, will likely be the largest ever media transaction in CEE.

Prospects for 2015

The prospects for M&A activity in 2015 are moderately optimistic. The sectors which are likely to be particularly attractive are FMCG, IT, healthcare, manufacturing (in particular, chemicals), transportation and media. Consolidation of assets in these and other sectors will drive the M&A market. We can also expect some significant deals in the financial sector, particularly in banking. Real estate (especially office and commercial retail space) will attract at least as much investor interest as in 2014.

It is very likely that there will be some high value transactions in the financial sector, in particular banking. The fate of FM Bank, BPH (GE-owned) as well as a controlling stake in Alior will likely be decided.

PKP, the government-controlled railway company, will continue its restructuring and, as part of the programme, will attempt to sell its non-core companies like PKP Energetyka and TK Telekom.

Deal flow, however, will most likely be fuelled by "first generation owners" selling their businesses. The majority of first generation owners have reached or are about to reach retirement age and are likely to cash out in the next couple of years. The majority of the transactions here will be within the range of €20-100 million.

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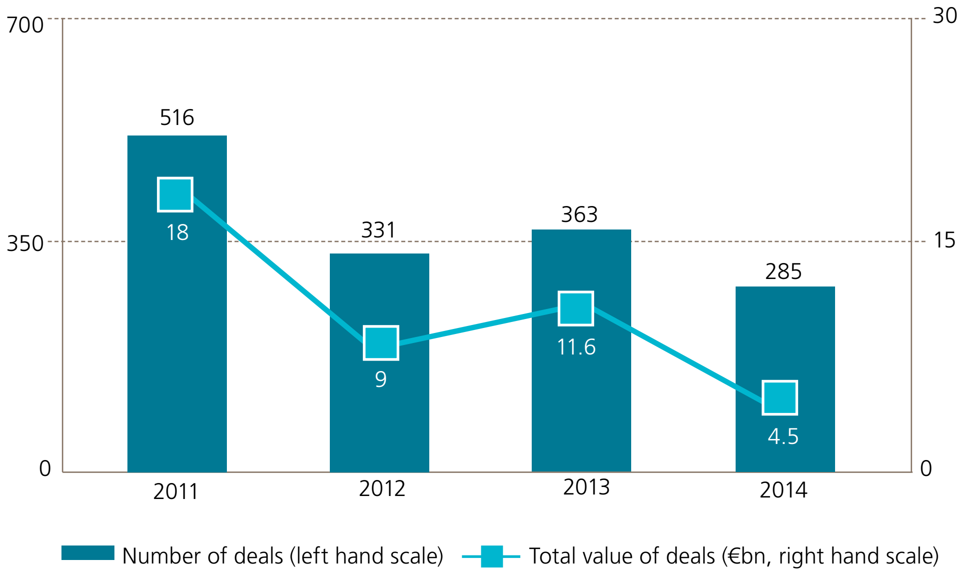
Deals by Value and Volume in Poland (2011-2014)



Source: EMIS

Top 20 Deals in Poland (2014)

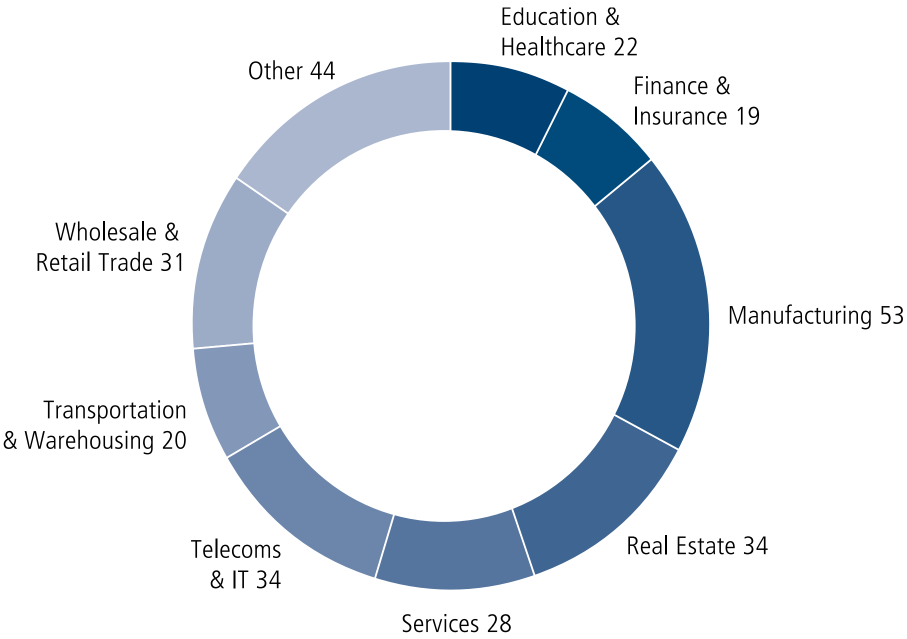
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Kopalnia Wegla Kamiennego Knurow-Szczyglowice	Mining (incl. oil & gas)	Acquisition (100%)	Jastrzebska Spolka Weglowa SA	Poland	368.5[2]
Rondo 1 office building	Real Estate	Acquisition (100%)	Deutsche Asset & Wealth Management (DeAWM)	Germany	300[2]
Poznan City Center shopping mall	Real Estate	Acquisition (100%)	Resolution Property; ECE Projektmanagement GmbH & Co KG	United Kingdom; Germany	237.5[1]
Plac Unii office and retail complex	Real Estate	Acquisition (100%)	Invesco Real Estate	United States	226.1[2]
Metropolitan office complex	Real Estate	Acquisition (100%)	Deutsche Asset & Wealth Management (DeAWM)	Germany	200[1]
T-Mobile Office Park; Katowice Business Point; Lopuszanska Business Park	Real Estate	Acquisition (100%)	Starwood Capital Group	United States	192[1]
Sokolow SA	Food & Beverage	Acquisition (50%)	Danish Crown	Denmark	180[2]
46 hotels of Accor in Central Europe	Services	Acquisition (100%)	Orbis SA	Poland	142.3[2]
Portfolio of four Panattoni logistics parks	Transportation & Warehousing	Acquisition (100%)	PZU SA	Poland	140[2]
BRE Ubezpieczenia Towarzystwo Ubezpieczen i Reasekuracji SA	Finance & Insurance	Acquisition (100%)	AXA Group	France	136[2]
Focus Mall Bydgoszcz	Real Estate	Acquisition (100%)	Atrium European Real Estate Ltd	Austria	122[2]
Siodemka SA	Transportation & Warehousing	Acquisition (100%)	DPD Dynamic Parcel Distribution GmbH & Co KG	Germany	119.8[1]
Logistics parks in Myslowice, Robakowo and Strykow	Transportation & Warehousing	Acquisition (100%)	Blackstone Group LP	United States	118.2[2]
Dominikanski office building	Real Estate	Acquisition (100%)	Union Investment Real Estate GmbH	Germany	117[1]
Link 4 Towarzystwo Ubezpieczen SA	Finance & Insurance	Acquisition (100%)	PZU SA	Poland	93.9[2]
Malpka SA	Wholesale & Retail Trade	Acquisition (100%)	PineBridge Investments LLC	United States	85.4[2]
Meritum Bank ICB SA	Finance & Insurance	Acquisition (97.9%)	Alior Bank SA	Poland	83.3[2]
Non Performing Loans portfolio of Getin Noble Bank	Finance & Insurance	Acquisition (100%)	Undisclosed international consortium	International	70[2]
Three wind farm projects in Poland	Utilities	Acquisition (100%)	CEE-Equity Partners Ltd	China	67.2[2]
Green Horizon office building	Real Estate	Acquisition (100%)	Griffin Group	Luxembourg	66[1]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

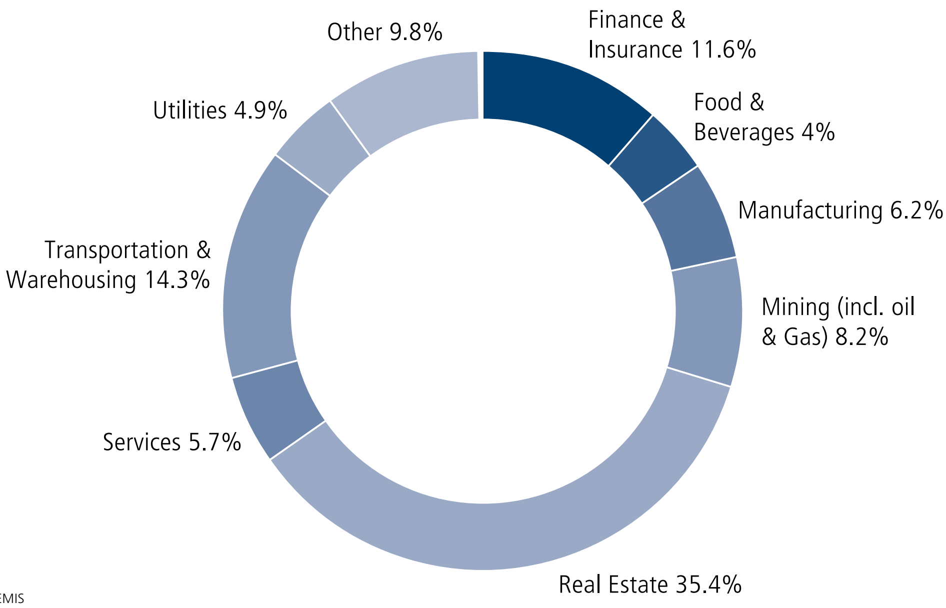
Deals by Sector in Poland (2014)

Number of Deals by Sector in Poland (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Poland (2014)



Source: EMIS

Romania

The Romanian M&A market showed good signs of recovery.

M&A activity in Romania was relatively constant throughout 2014. Although there were fewer deals in 2014 than in 2013, we saw a significant increase in deal value compared to previous years – and the highest annual total value for the last five years.

We also saw a healthy amount of larger scale cross-border M&A activity, as international businesses expanded their activities in Romania or made their first acquisitions here – and there were international players who restructured their global portfolios and divested some or all of their assets or business lines in Romania. We continued to see an increase in strategic investment from foreign investors too; with continued interest from new markets, such as China and Korea, a trend that looks set to continue for the coming years. The fact that the Chinese government opened a $10 billion special credit line for joint investment projects in East European infrastructure and technology projects is further testament to China's serious interest in promoting economic cooperation with the region.

2014's M&A activity was driven largely by deals in the financial institutions and services, technology and communications, energy, manufacturing, and agricultural sectors. In particular the financial sector saw high levels of transaction activity (and some high value deals) last year, with major deals in the banking (including both sales of banks and the transfer of loan portfolios), insurance and leasing sub-sectors.

There has been a recent wave of foreign investors interested in the agricultural sector in Romania and this will most certainly continue in 2015. There is significant growth potential for Romanian agri-business and significant investment is needed in this area. Projects are encouraged by both EU and Romanian government subsidies available to support investments in the sector.

We noted a shift in activity in the energy sector. Measures implemented by the Romanian Government in recent years that changed (effectively cancelled) a regime intended to attract investment in the renewable energy sector, negatively impacted the investments of numerous investors in renewable energy in Romania. However, transaction activity continued, mainly in oil & gas exploration and non-renewable electricity projects. 2014 also saw the first listing of a number of Romania-based renewable energy projects on a Canadian Stock Exchange.

The manufacturing sector also experienced a number of large-scale transactions – often part of major global asset sales, with large industrial groups selling their Romanian production facilities. We envisage this trend continuing, with several large industrial asset sales in the pipeline.

There has also been a slight uptick of deal activity in the real estate sector.

The deal landscape in Romania was driven less than was expected by privatisation in 2014. While there were some advances with regard to privatisations in the energy sector in the last couple of years, with the successful IPOs of the state-owned energy producers, Nuclearelectrica, Romgaz and Electrica, other long-awaited privatisations such as the sale of the national post operator Posta Romana, petrochemical plant Oltchim and a majority stake in the freight rail company CFR Marfa did not materialise.

Levels of private equity investment remained relatively low – although we did see a slight increase in activity compared with 2013. There is still a gap between the Romanian private equity market and that in other countries. Romania continues to lag behind other countries in the region where private equity funds tend to be based. i.e. in CEE's more mature markets, such as Poland and the Czech Republic. Funds appear hesitant about coming back to Romania in full force after the economic crisis of recent years, hence the slight disconnect in activity levels between Romania and central CEE countries. Nevertheless, CEE as a whole remains attractive given the diversification benefits in these countries. Funds are attracted by the competitive advantage that can be gained by having their portfolio companies sell products and services into Western Europe, while utilising the lower cost base that exists in certain CEE jurisdictions, such as Romania.

Increased deal activity expected for 2015

We believe that 2015 will bring a steady flow of deals, in particular small- and medium-sized transactions. We are optimistic about growth in the M&A market and have already seen it picking up considerable momentum in the second half of 2014, with some "big ticket" deals set to happen in 2015, such as the widely reported potential divestment of Enel and sale of some of the Lafarge-Holcim assets in Romania. Broadly speaking, significant improvements to transport infrastructure in Romania in the coming year(s), alongside the more efficient absorption of EU funds, should encourage investment into Romania and move the market forward. The most attractive sectors for acquisitions in 2015 will likely continue to be energy and natural resources, technology and communications, infrastructure, financial institutions and services, and agriculture, driven by strategic investment and consolidation. In particular the technology and communications sector shows a great deal of potential, with Romania uniquely positioned to become a centre of innovation in Europe and a hot spot for accelerated R&D initiatives. With a wealth of technical talent and resources, low operating costs and overheads, and a flourishing start-up community, Romania could emerge as a thriving European tech power house in coming years, which will of course impact the M&A landscape.

Romania has the potential to become again an interesting market for private equity investors in the medium/long term, with opportunities for investment across all sectors. In terms of the most competitive deal size, it seems that the "sweet spots" for investors, whether new or seasoned, are between €10-30 million and €30-50 million.

We should of course consider the development of the M&A market in Romania in the wider context of current economic uncertainty at the peripheries of the region, which threatens to, in turn, impact the European economy. Romania continues to remain vulnerable given the strong financial ties and trade links with the Eurozone, and the European economic situation, whether positive or negative, will certainly impact the years ahead. If Europe's economic recovery continues however and as global confidence in that recovery increases, Romania has the potential to become an attractive investment destination for global M&A. To maximise this potential, it is imperative for Romania to have effective and transparent legal systems in place.

All in all, we expect to see increased deal activity in Romania in 2015 and see potential for significant increased growth in the local M&A market in the years ahead.

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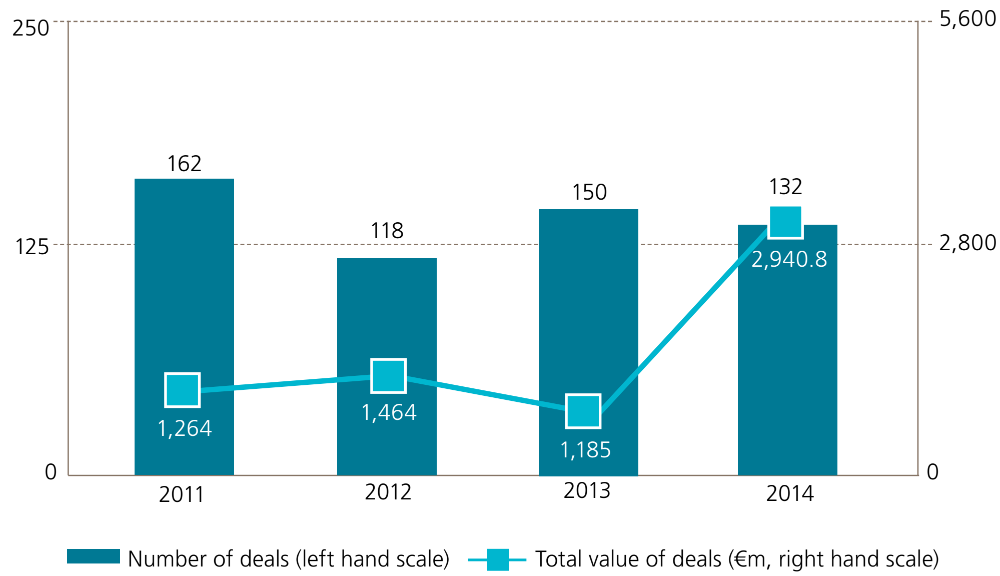
The Romanian M&A Market

Deals by Value and Volume in Romania (2011-2014)



Source: EMIS

Top 10 Deals in Romania (2014)

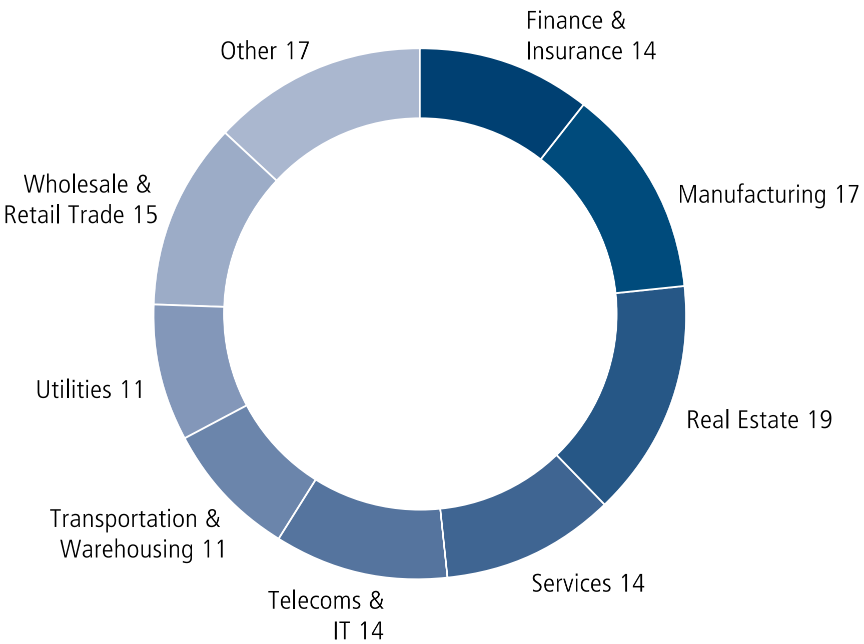
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
UniCredit Tiriac Bank	Finance & Insurance	Minority Stake Purchase (45.1%)	UniCredit SpA	Italy	700[1]
Volksbank Romania	Finance & Insurance	Acquisition (100%)	Banca Transilvania	Romania	600[2]
12 shopping centre properties	Real Estate	Acquisition (100%)	Auchan Group	France	280[2]
Promenada Mall	Real Estate	Acquisition (100%)	New Europe Property Investments plc	South Africa	148[2]
Non-performing loans of Volksbank Romania	Finance & Insurance	Acquisition (100%)	Deutsche Bank AG; AnaCap Financial Partners; H.I.G. Capital LLC	Germany; United Kingdom; United States	100[1]
Societatea Companiilor Hoteliere Grand	Services	Minority Stake Purchase (35.3%)	STRABAG SE	Austria	95[2]
Charles de Gaulle Plaza	Real Estate	Acquisition (100%)	HR GLL Central Europe	Germany	70[1]
United Shipping Agency SRL	Transportation & Warehousing	Acquisition (51%)	COFCO Corp	China	50[1]
Silver Mountain complex	Real Estate	Acquisition (100%)	Banca Comerciala Romana (BCR)	Romania	49.7[2]
Nusco Tower	Real Estate	Acquisition (100%)	Globalworth Real Estate Investments	United Kingdom	46[2]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

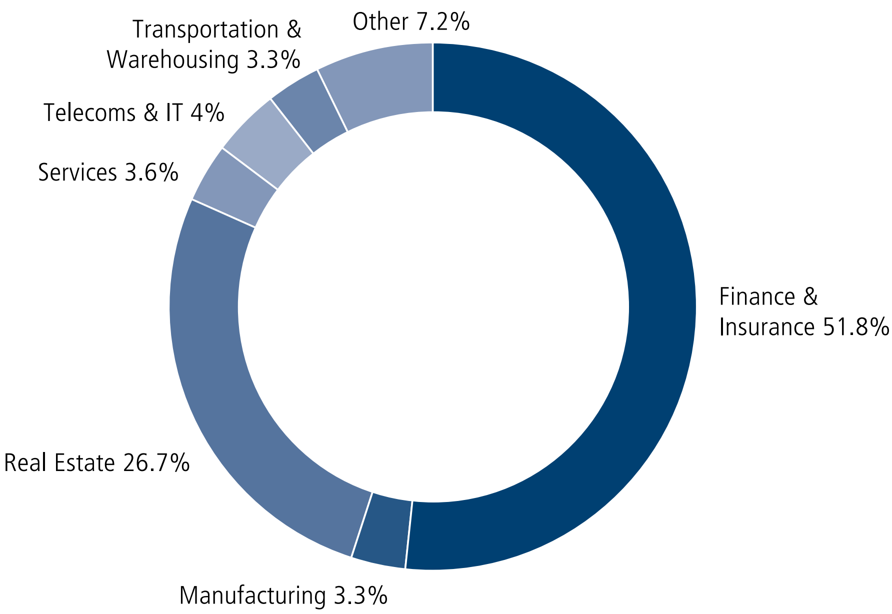
Deals by Sector in Romania (2014)

Number of Deals by Sector in Romania (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Romania (2014)



Source: EMIS

Russia

Russia's poorly balanced economy, falling oil prices, the direct and indirect effect of sanctions and the currency collapse, combined to create highly adverse conditions in 2014 for deal making in Russia. All the worrying trends we identified in 2013 became significantly worse as the year proceeded.

Domestic politics were ever present but not in terms of modernisation and diversification of the economy. Geopolitics were constantly in the headlines and the Rouble decline, which had been dramatic enough in 2014 when the Rouble hit a four year low against the dollar, turned into a rout.

So it is hardly a surprise that much less than half the number of deals was completed in 2014 as against 2011 and that whereas we have not seen the dramatic fall in deal count that occurred between 2011 and 2012, the year-on-year contraction of the M&A market through 2012 to 2014 is marked. It is the same with deal value; falling around 40% from nearly €70 billion in 2013 to just €29.9 billion and even this overstates it as €3,174.4 million of this was Rosneft's acquisition of a remaining 15% stake in R N Holdings (former TNK BP), already announced in 2013. All this was in line with our predictions at the end of 2013.

Russia has always been a considered a high risk destination for foreign investment but in 2014 the political risk became more of a reality. The Russian M&A market in the past four years has been heavily dominated by Russian domestic transactions with few notable foreign incursions and 2014 was not a year to buck the trend. The impact of sanctions on M&A activity was immediate, with many transactions stopping dead in their tracks, even when the sanctions had no direct effect on the target or its sector.

Some non-domestic deals nevertheless made it to the DealWatch Top 20 by value in 2014; but it was the ones that got away that told the real story. Undeterred, US pharma major Abbott Laboratories completed its acquisition of Russian generics producer Veropharm in a deal worth €326.5 million in the same year that according to reports Fresenius, Pfizer and Amgen abandoned projects in the same space. BP took a minority stake in Taas-Yuryakh Neftegazodobycha, and France's Total completed the purchase of 16% of shares in Novatek for €344.4 million, increasing to 18% its indirect stake in Russia's second largest gas producer (it already holds 20% of the operating subsidiary) but then abruptly froze its share acquisition program on the day Flight MH17 was shot down "considering all the uncertainties that event could lead to".

On the domestic front, topping the 2014 deal list for value was Ruslan Baisarov's purchase of a further 30% in OOO Stroygazconsulting – the biggest construction holding company in Russia - for an estimated €2.2 billion. The deal increased his stake in the company to 74.1%, having already acquired 17% in April 2014 and showed confidence in future opportunities from Russian major infrastructure projects - one possible source of activity in 2015. The state gas majors were again behind most of the biggest domestic M&A transactions including Rosneft's €3,174.4 million acquisition of 15.1% of R N Holdings and 100% of Sanors Holding for an estimated €661.8 million and its disposal of 10% in Vankorneft – Rosneft's subsidiary for the development of the Vankor gas field - to China National Oil & Gas Exploration and Development Corporation, a deal that illustrates the increasing cooperation between Russia and China in the upstream sphere. Also in August, Rosneft acquired the drilling and well repair assets of Swiss company Weatherford International for €373.1 million.

Mail.ru Group acquired a further 12% stake in vKontakte, Russia's largest social networking site by its acquisition for €255.3 million of Bullion Development Limited from Ivan Tavrin, the CEO of mobile operator Megafon and reportedly a close ally of Mail.ru's principal shareholder Alisher Usmanov and later completed its take-over of the company and settlement of long-running shareholder disputes, by buying out United Capital Partners' 18% for €1,139.5 million.

In the real estate sector, Transneft acquired the Evolution Tower, shaped like a strand of DNA and one of the jungle of odd-shaped skyscrapers forming the Moscow City office district, for a price close on €760 million. Transneft will use the tower for its own offices and the deal greatly reduces the vacancy rate for the complex which was running at around 25% owing to delayed construction and lack of interest in the site among professional firms; more indicators of the poor investment climate and M&A slump. In another major real estate deal, state bank VEB sold Novinsky Passage (Moscow headquarters of Shell) to the Gutseriyev brothers for €276.1 million.

It is difficult to paint a very positive picture for 2015, but let's try. One of the significant comments of the President during his televised press conference in November came when he said: "we proceed from the view that we have failed to achieve many things that were planned and that needed to be done to diversify the economy over the past 20 years." So the failure of the present administration to continue earlier modernisation initiatives (remember Skolkovo?), was finally admitted by the President – as he could scarcely not. If the first step in any cure is admitting the problem exists, Russia may now be about to make a new start.

The present US and EU sanctions against Russia certainly halted much deal making in 2014 and it is hard to predict what the future holds. The sanctions in practice thwarted the possibility of western companies participating in exploration or production in the Arctic deepwater and shale oil reserves and denied the Russian state banks access to western capital markets. ExxonMobil, Total and Shell all announced the suspension of their cooperation with the Russian state gas companies and the state became embroiled in a multi-billion Rouble bank bail-out program. On the other hand, the ambit of the sanctions is clear and quite narrow and an extension of them to other sectors including manufacturing, construction, pharma, food and agriculture, consumer products and retail seems unlikely. It can be seen from the DealWatch sector breakdown that 29.5% of the deals in 2014 were in the manufacturing and construction sectors alone, accounting for nearly €9 billion of deal value.

A more significant threat for investors into these sectors is the exchange rate risk; in this respect 2015 may see some long-awaited stabilisation of the Rouble following its seemingly unstoppable (but comparatively gentle) slide over the previous 24 months and the dramatic swings, which saw the currency trading at 32 to the dollar at the start of 2014 and hitting 80 in mid-December. Even as we write, the Rouble may have stabilised somewhat, trading at between 58 and 64, and the intended ending of the dollar/euro currency peg and move to a free float in 2015 (if it can be achieved), should also promote currency stability, making investment in the Rouble economy more approachable than it has been for some considerable while.

Funding for Russian domestic M&A being extremely scarce and, at the same time, domestic groups looking to divest non-core operations, we are seeing more management buy outs in Russia, which may be an opportunity for private equity. It means that assets are cheap for cash-rich foreign players wanting to expand existing operations in Russia or enter this market for the first time.

The best prospects for 2015 therefore seem to lie in the possibility that things cannot get too much worse for foreign investment in Russia and that emerging market veterans and others that missed the opportunities afforded by the slump of 1998, might see 2014/2015 as a good time to invest in a, possibly, 're-emerging' economy. Sectors outside oil and gas will provide opportunities; President Putin has made it clear that foreign firms that want to sell in Russia must be prepared to manufacture here. Abbott's acquisition of Veropharm is an example. The acquisition means the company picks up existing manufacturing facilities in Pokrov, Belgorod and Voronezh. We are seeing clients switching from distribution to local production in diverse sectors and we expect Russia's retaliatory ban on certain food imports to also be a spur to foreign investment in local manufacturing. So it is our prediction that M&A in 2015 will start slow but start to pick up – the reverse, in other words, of 2014.

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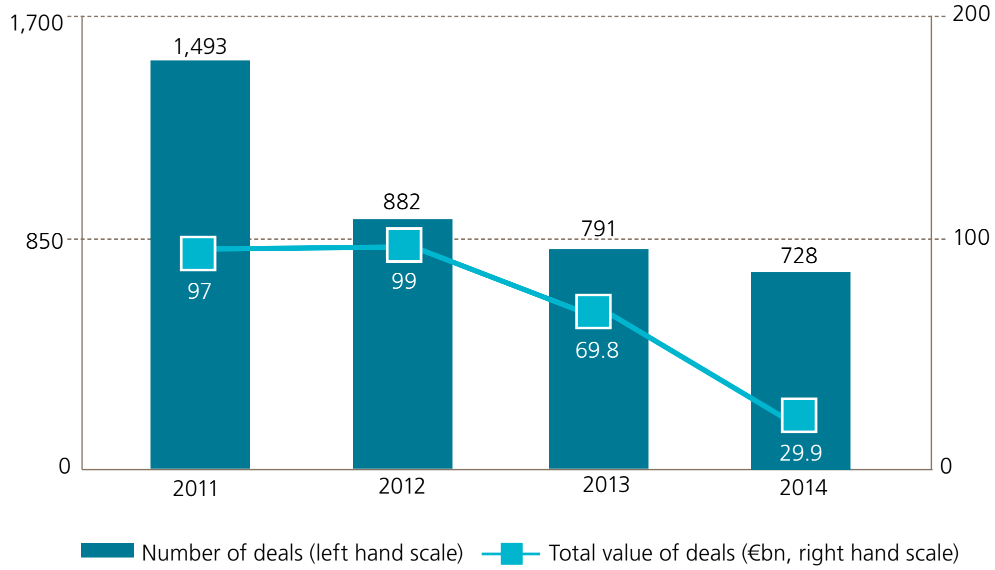
Deals by Value and Volume in Russia (2011-2014)



Source: EMIS

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Top 20 Deals in Russia (2014)

Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
RN Holding	Mining (incl. oil & gas)	Minority Stake Purchase (15.1%)	Rosneft	Russia	3,174.4[2]
Stroygazconsulting LLC	Construction	Acquisition (44.1%)	Ruslan Baisarov - private investor	Russia	2,205.9*[3]
Polyus Gold International	Mining (incl. oil & gas)	Minority Stake Purchase (18.5%)	Oleg Mkrtchan - private investor	Ukraine	1,295.6[3]
Yugragazpererabotka	Manufacturing	Minority Stake Purchase (49%)	Sibur Holding	Russia	1,167.9[2]
vKontakte	Telecoms & IT	Minority Stake Purchase (48%)	Mail.ru Group	Russia	1,139.5[2]
NNK-Aktiv OJSC	Mining (incl. oil & gas)	Acquisition (60%)	Independent Oil and Gas Company	Russia	1,086.6[1]
Evolution Tower	Real Estate	Acquisition (100%)	Transneft	Russia	760[1]
SeverEnergia	Mining (incl. oil & gas)	Minority Stake Purchase (9.8%)	Gazprom Neft	Russia	710.1[2]
SANORS Holding	Manufacturing	Acquisition (100%)	Rosneft	Russia	661.8[1]
Taas-Yuryakh Neftegazodobycha	Mining (incl. oil & gas)	Minority stake purchase (20%)	BP Plc (BP Group)	United Kingdom	614.8[1]
LPG and light oil products transshipment terminal at Ust-Luga Seaport	Wholesale & Retail Trade	Acquisition (100%)	Russian Direct Investment Fund (RDIF); Gazprombank; Foreign investors	Russia; India	511[2]
Transstroy	Construction	Minority Stake Purchase (48.9%)	Egor Andreev - private investor	Russia	487.4[1]
Mordovcement	Manufacturing	Acquisition (100%)	Eurocement Group	Russia	456.8[1]
Sia International Ltd	Wholesale & Retail Trade	Acquisition (51%)	R-Pharm	Russia	456.4[1]
Blagosostoyanie OPS	Finance & Insurance	Acquisition (100%)	O1 Group	Russia	378[1]
Vankorneft	Mining (incl. oil & gas)	Minority Stake Purchase (6%)	Rosneft	Russia	373.1[1]
Land drilling and workover assets of Weatherford	Mining (incl. oil & gas)	Acquisition (100%)	Rosneft	Russia	373.1[2]
Novatek	Mining (incl. oil & gas)	Minority Stake Purchase (1.3%)	Total SA	France	344.4[2]
Veropharm	Manufacturing	Acquisition (n.a.%)	Abbott Laboratories Ltd	United States	326.5[3]
Gazprom Drilling	Mining (incl. oil & gas)	Acquisition (100%)	Igor Rotenberg - private investor	Russia	325[1]

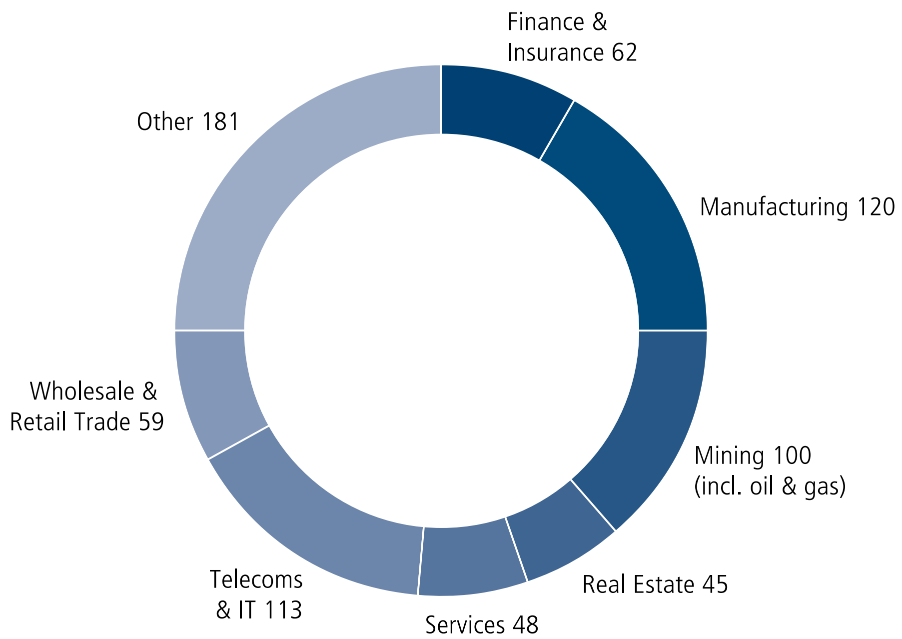
Source: EMIS

* The Stroygazconsulting deal was announced in June 2014 and was still pending as of year-end. DealWatch significantly discounted the original market estimate of US $5 billion (€3.67 billion) due to the subsequent sharp depreciation of the Russian rouble.

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

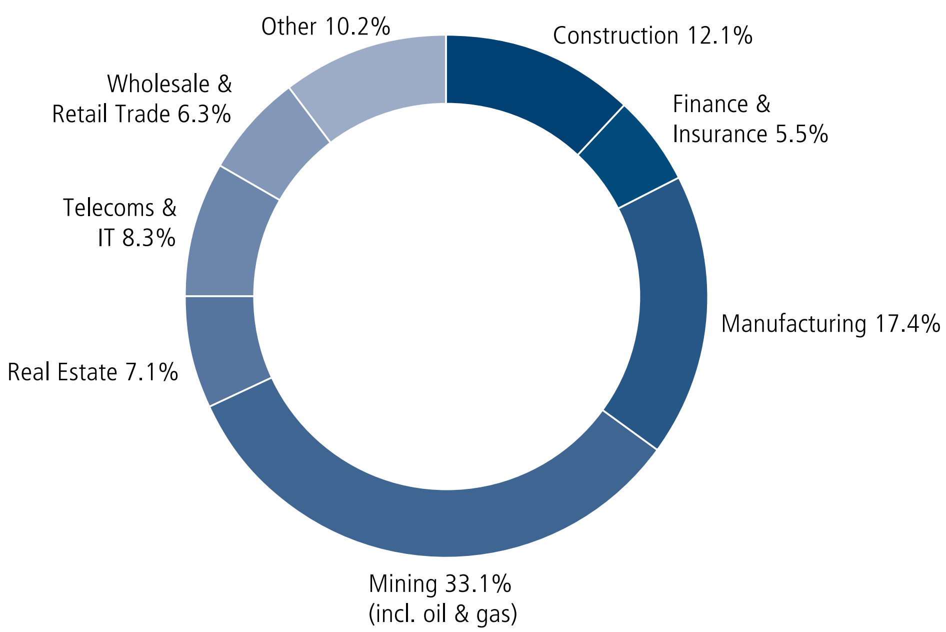
Deals by Sector in Russia (2014)

Number of Deals by Sector in Russia (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Russia (2014)



Source: EMIS

Serbia

The year 2014 has seen a growth in direct foreign investments in the Serbian market in comparison to 2013 (€1 billion vs €700 million), however, a rather small portion of these investments came through M&A deals. As a matter of fact, the number of M&A investments almost halved in 2014, with total deal value decreasing significantly (less than €200 million).

One of the biggest M&A transactions was the acquisition of Basler Insurance, a part of the Swiss Baloise insurance group, by Austrian Uniqa Insurance. The transaction encompassed both life and non-life insurance businesses and was worth €75 million.

Part of a bigger CEE transaction worth approximately €250 million that had an effect on the Serbian market was the acquisition by the Austrian group Ring International of the Slovenian coatings maker Helios. The Serbian part of the acquisition entailed a takeover of several companies, including two listed paints and varnish making companies - Zvezda and Duga.

In December 2014, the Serbian competition authority conditionally cleared the planned merger of Holcim and Lafarge, thus giving the green light for implementation of the $40 billion worth global transaction in Serbia.

Foreign investments in 2014 were mostly characterised by further expansion of already present foreign companies or by new market participants entering the market and building their presence from the ground up.

One of the most appealing sectors in 2014 remained the automotive industry, where the biggest portion of investments came to realisation. Market players such as Michelin and Cooper Standard opened new production plants with investment worth approximately €250 million and €25 million respectively. The agriculture and food industry was one of the sectors with the most potential, benefiting from investments by Ferrero, German KWS and Belgian Nuscience Group. The textiles and chemicals industry, pharmaceuticals, metal, machinery and electronics industry also received an inflow of foreign capital in 2014.

The end of 2014 saw the suspension of one of the biggest infrastructure projects in this part of Europe - construction of The South Stream pipeline was put aside due to alleged non-conformity with EU laws and its future remains uncertain.

The new Serbian government has as one of its prime goals reforms that will attract investors and establish an appealing business environment. In order to enable this, several important laws were amended throughout 2014 (e.g. Labor Act, Privatisation Act, Bankruptcy Act, Foreign Direct Investment Act). The new Privatisation Act is aimed at privatisation of 584 state-owned companies and sets a deadline for transformation to private property by the end of 2015. The Act offers more flexible models, methods and measures of privatisations, which will enable companies to find potential partners, investors and buyers, and return to economical life if possible. It is safe to assume that application of this Act will increase the number of M&A investments in Serbia in 2015, but will also open the door for other types of investments in case of companies in bankruptcy (around one third of the state-owned companies are at this point). Some of the major profitable state-owned companies expected to be privatised in 2015 are Telekom Srbija, Airport Nikola Tesla and Dunav Insurance.

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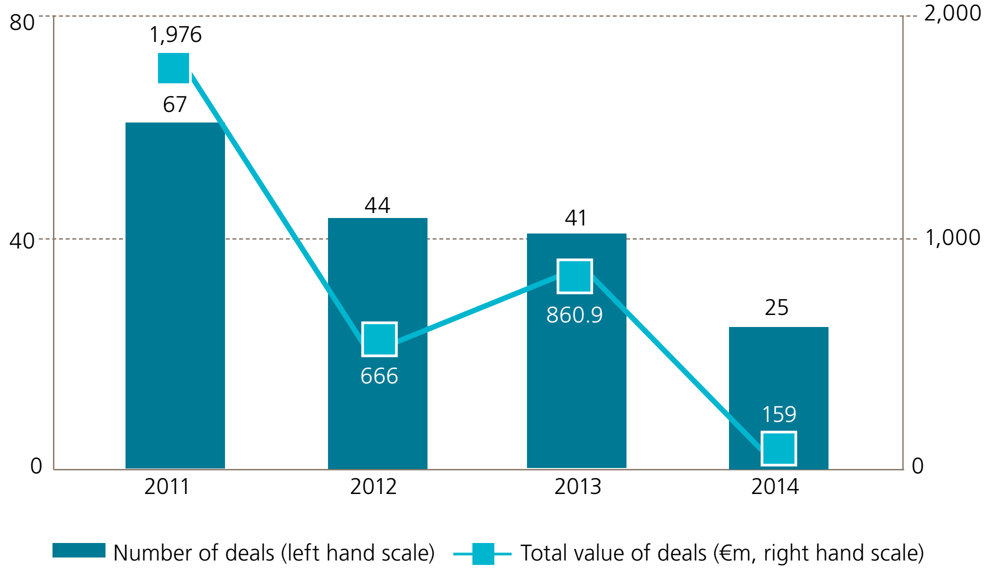
The Serbian M&A Market

Deals by Value and Volume in Serbia (2011-2014)



Source: EMIS

Top 5 Deals in Serbia (2014)

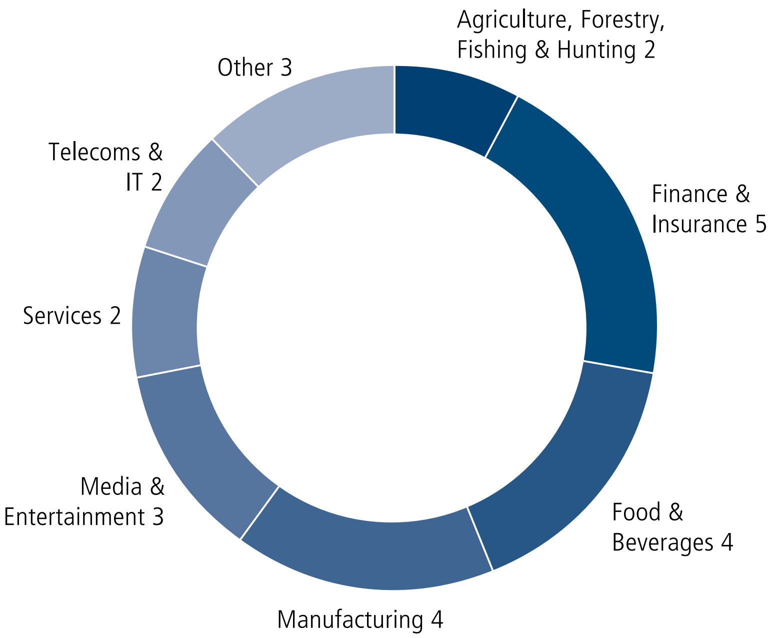
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Simpo ad	Manufacturing	Acquisition (76.9%)	Government of the Republic of Serbia	Serbia	53.4[2]
Kragujevac Plaza	Real Estate	Acquisition (100%)	New Europe Property Investments plc	South Africa	38.6[2]
Dunav Banka A.D.	Finance & Insurance	Acquisition (80%)	Telekom Serbia	Serbia	8[2]
PZP Nis a.d.	Construction	Acquisition (100%)	Trace Group Hold	Bulgaria	5[2]
Zitopek A.D.	Food & Beverages	Acquisition (51%)	Don Don D.O.O.	Slovenia	2.9[3]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

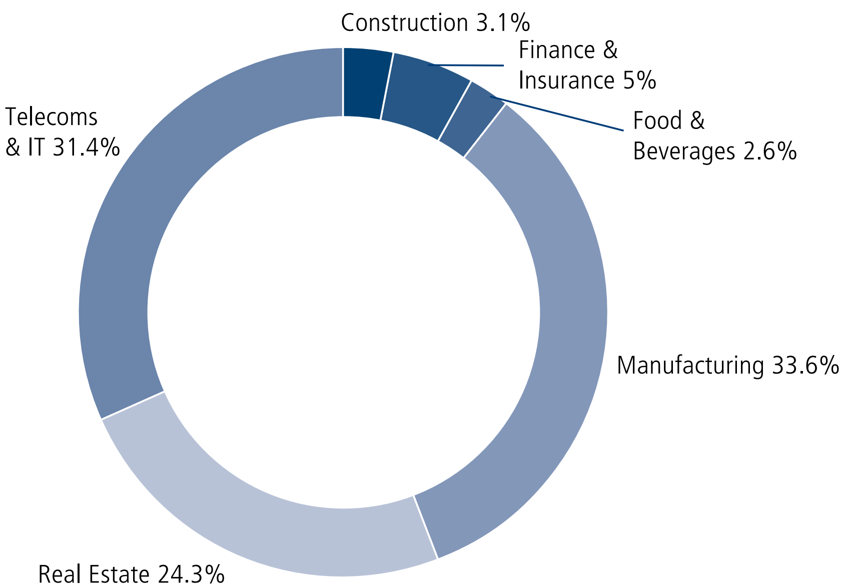
Deals by Sector in Serbia (2014)

Number of Deals by Sector in Serbia (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Serbia (2014)



Source: EMIS

Slovakia

The volume of reported deals in 2014 increased for the third year running, but the total value of deals decreased again to €472.5 million.

Despite fairly low transaction activity, Slovakia remains one of the best-placed Eurozone economies over the medium term. In their analysis, EY predict that the steadily improving domestic economy should provide sufficient impetus to offset any temporary softening in exports and, as a result, GDP should grow by 2.5% in 2014 and by 3.2% in 2015. Growth could be slower if geopolitical tensions develop further. It is estimated that in 2015, growing domestic and external demand and the impact of a weaker euro on import prices will push inflation back up to 1%.

The latest European Commission economic sentiment indicator remains above 100, higher than in the previous year. Measures of sentiment in retail and construction show much improvement over the last year, despite weaker industrial production figures.

The vast number of transactions was made by strategic investors. In comparison to other CEE countries, Slovakia also had a high proportion of financial investors. When considering the number of transactions, the most attractive sectors were information and communications technology, manufacturing and wholesale & retail trade. The telecoms & IT sector pulled in the most value, almost 44.5% of the total value of all transactions.

The number of transactions increased from 49 in 2013 to 58 in 2014, however the overall value decreased from €719 million to just over €472 million in 2014 (it was €2,767 million in 2012). The 2014 value is still higher than in 2011. The largest transaction was the acquisition of Towercom by the Australian Macquarie Group Ltd for almost €200 million (market estimate). The seller was private equity firm Hampden Holdings. Financial Group Wood & Company bought a 66% stake in KOSIT, a major waste disposal and road maintenance company in Košice, Eastern Slovakia, for €14.3 million (market estimate). Latvian company Grindeks bought Slovak company HBM Pharma, a contract manufacturer of pharmaceutical products, for over €13 million.

Other important transactions closed in 2014 include the 51% acquisition of Slovak telecoms operator Slovanet by Slovak company SNET for €11 million and the 100% acquisition of Poštová Office Center for €8.5 million by Czech Property Investments. Vietnam's leading IT company FPT Software acquired RWE IT Slovakia, a subsidiary of the RWE Group – one of Europe's leading utility companies. German publisher Rheinische Post sold its 50% stake in the publishing house Petit Press (SME daily) to Namav, a subsidiary of the Slovak SITA news agency. The transaction was funded by the investment group Penta, who will become the final owner.

Major transactions expected in 2015 include the sale of a 66% stake in Slovenské elektrárne by the Italian group Enel, the sale of a 66% stake in freight carrier ZS Cargo's subsidiary company ZSSK Cargo Intermodal and the privatisation of Slovak Telekom (leading telecoms operator in Slovakia). The Slovak government intends to privatise Slovak Telekom by selling its 49% stake, while co-owner Deutsche Telekom has a right of first refusal. The preferred sale option in Slovak Telekom appears to be by IPO. Alternatively, depending on various factors which may affect the success of the IPO, a direct sale or a combination of public market sale and direct sale would be considered.

The German company E.ON is reportedly considering the sale of its 49% stake in Západoslovenské elektrárne (ZSE). Swiss cement producer Holcim plans to sell its assets in Slovakia in connection with its intended merger with French competitor Lafarge.

Chinese firms are becoming quite active in Slovakia. China's Shanghai Electric Group is interested in purchasing Enel's 66% stake in Slovenské elektrárne, while a Chinese investor recently bought the Slovak company Boge Elastmetall and wants to further invest in it. The fifth largest investment company in China, the private company CEFC China Energy, plans to acquire a 30% stake in J&T Finance Group for €700 million. Also, Beijing Fanrong Weilin wants to build a new manufacturing plant with an area of 5,000 m2 in Stará Ľubovňa to manufacture automotive components. Chinese company FLAMEshoes is looking to build a new plant for the production of rubber footwear in Bardejov for €4 million.

Slovakia continues to rely on exports; the main growth is in the automotive, machinery and textile industries. Kia Motors has increased its production to a historical maximum and produced 300,000 cars in the first eleven months of 2014. Most cars were exported to the Russian Federation, Southern and Western Europe. Slovakia's main European export partners are the stronger economies on the continent, such as Germany, Austria, Poland and the Czech Republic, which has helped maintain export strength.

The country is expected to see recovery in domestic spending. Slovakia's three biggest banks passed the ECB's stress tests in October, which underlines the sector's financial health. Credit conditions for corporate loans are predicted to improve in 2015. Additionally, the ECB's targeted longer-term refinancing operations should help support the expansion of corporate loans.

Slovakia's transport infrastructure will be strengthened by the low-cost airline Ryanair, which is slated to open its first base in the country in March 2015, from which it will provide international flights to new destinations.

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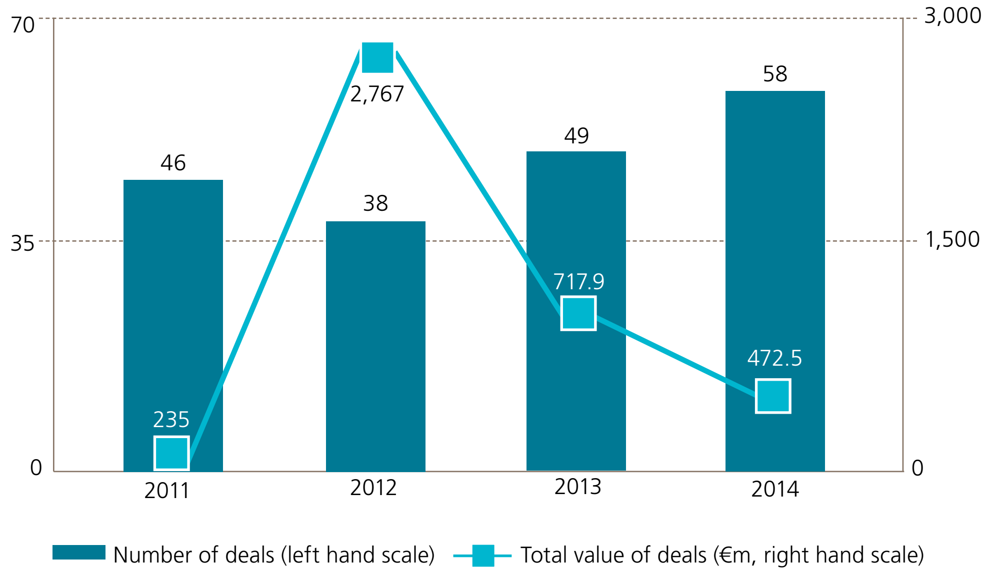
The Slovak M&A Market

Deals by Value and Volume in Slovakia (2011-2014)



Source: EMIS

Top 5 Deals in Slovakia (2014)

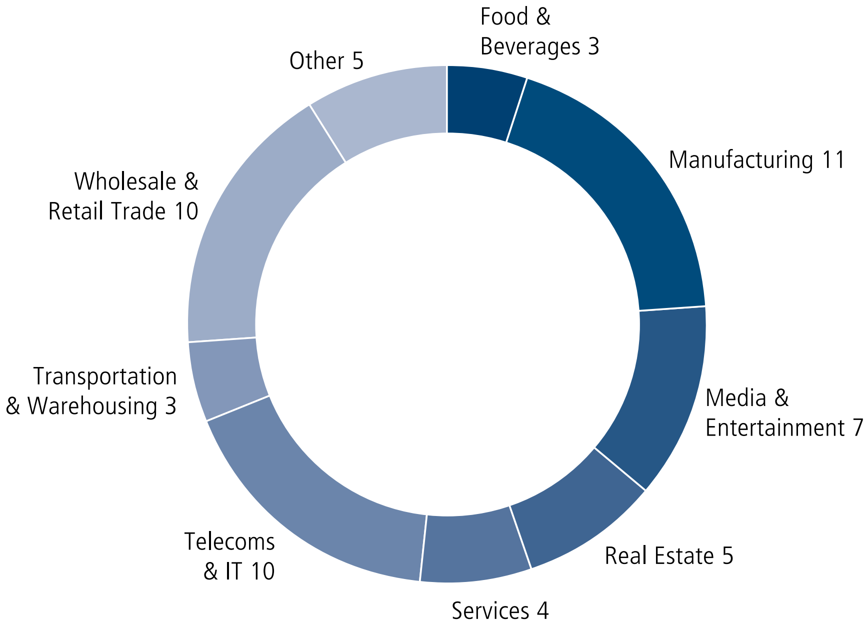
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Towercom as	Telecoms & IT	Acquisition (100%)	Macquarie Group Ltd	Australia	199.1[1]
Aupark Kosice shopping centre; Aupark Office Tower Kosice	Real Estate	Acquisition (100%)	New Europe Property Investments plc	South Africa	165[2]
KOSIT as	Services	Acquisition (66%)	Wood & Company	Czech Republic	14.3[1]
HBM Pharma sro	Manufacturing	Acquisition (100%)	Grindeks AS	Latvia	13.1[2]
Slovanet as	Telecoms & IT	Acquisition (51%)	SNET as	Slovakia	11[2]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

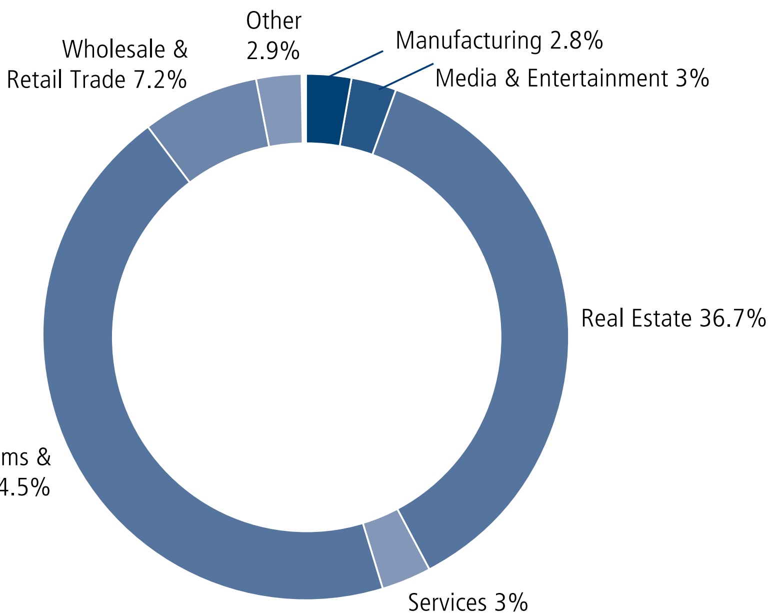
Deals by Sector in Slovakia (2014)

Number of Deals by Sector in Slovakia (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Slovakia (2014)



Source: EMIS

Slovenia

Privatisations continued in 2014 with the sale of three further companies from a confirmed list of 15, with Aerodrom Ljubljana and Letrika in the top 10 deals, as well as the sale of a 70% stake in Fotona in January 2014. The sale process of a further four companies, Telekom Slovenije, Nova Kreditna Banka Maribor, Žito and Cinkarna Celje is well under way, even though the Slovenian government stopped the Telekom Slovenije process in the summer for several months for no reported reason, thus again proving that the biggest obstacle to further privatisations and foreign investments in Slovenia is political risk.

In 2015 political risk will remain the main obstacle to privatisation, as the current government is not in favour of it, and in addition is trying to subdue the currently independent Slovenian Bad Bank DUTB/BAMC (Družba za upravljane terjatev bank – Bank Assets Management Company).

The Slovenian government has promised to produce a strategy for the management of shareholdings in Slovenian companies. It is expected that the government will keep significant stakes (more than 50% or 25% + 1 share) in various companies like Petrol, Zavarovalnica Triglav (insurance) and Nova Ljubljanska banka. Unfortunately, there is a significant lack of corporate governance in many state-owned companies and there has been hardly any improvement in recent years; therefore it is difficult to believe that this will change significantly in the near future. As a result of political risk and the deficient corporate governance, state-owned or state-controlled companies will not be very attractive to either domestic or foreign investors.

The possibility of early elections in 2015 adds further political risk. The three-party coalition is currently very unstable, and the initial support it received after the elections in summer 2014 has dramatically fallen away.

In the wake of the financial crisis, Slovenian banks – still largely state-owned – will have to sell their shareholdings in various Slovenian companies. A significant number of companies will have to raise new money or will need to be sold, as they are highly overleveraged and unable to fulfil their financial obligations in the long run. Under these circumstances the sale process of the Pivovarna Laško Group (brewery) has already started. In December 2014, Pivovarna Laško sold Radenska (mineral water) for €52 million to the Czech company Kofola. Also in December 2014, the sale process for the brewery business received an additional boost when a consortium of shareholders joined the process.

In the near future, we can expect to see the initiation of the sale of two larger overleveraged companies: Cimos (automotive parts) and Perutnina Ptuj (poultry products), with others to follow. It is fair to assume that Adria Mobil (caravan and mobile home producer) will also be sold in 2015, due to the restructuring of its shareholder ACH.

Private-to-private deals will continue to play an important part, volume - but not size-wise, in the Slovenian M&A market, especially in the manufacturing and service sector. In 2014 several smaller deals involving foreign investors, such as the Japanese OTP Daihen Corporation acquiring 100% in Varstroj (welding machines), completed.

In the private sector, it is likely that Steklarna Hrastnik (glass producer) will come onto the market once more after the sale process was stopped at the end of 2013.

Some interesting opportunities may arise in the manufacturing and service sector, where family-owned enterprises are looking to sell due to the lack of potential successors. Strategic investors and smaller private equity funds may take an interest in these companies, as they are usually highly innovative and well placed in their respective markets.

As it is too early to tell whether the new governmental strategy will have a negative impact on further privatisations in Slovenia, we may assume that the financial restructuring of companies and Slovenian banks will fuel the M&A market in Slovenia in 2015.

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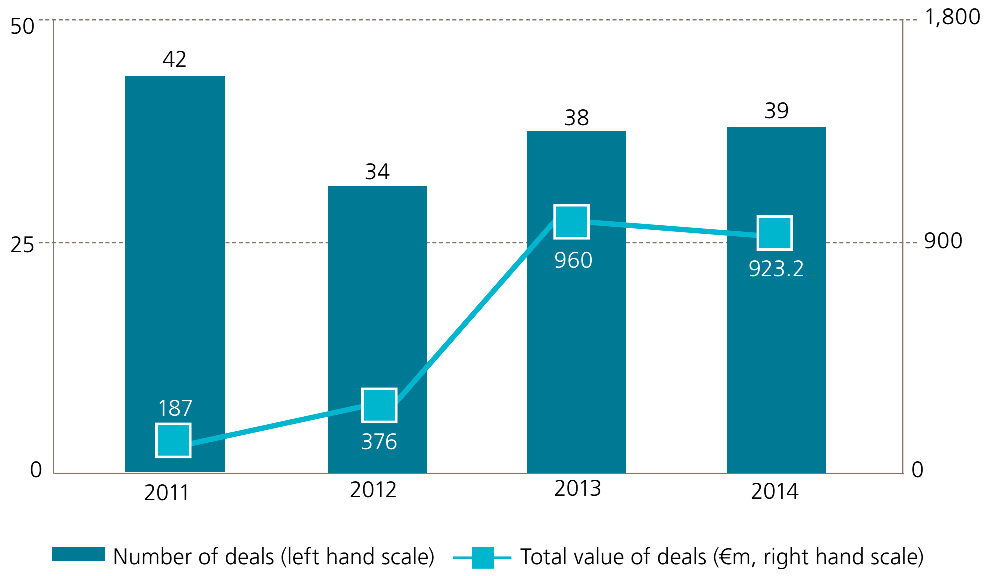
The Slovenian M&A Market

Deals by Value and Volume in Slovenia (2011-2014)



Source: EMIS

Top 10 Deals in Slovenia (2014)

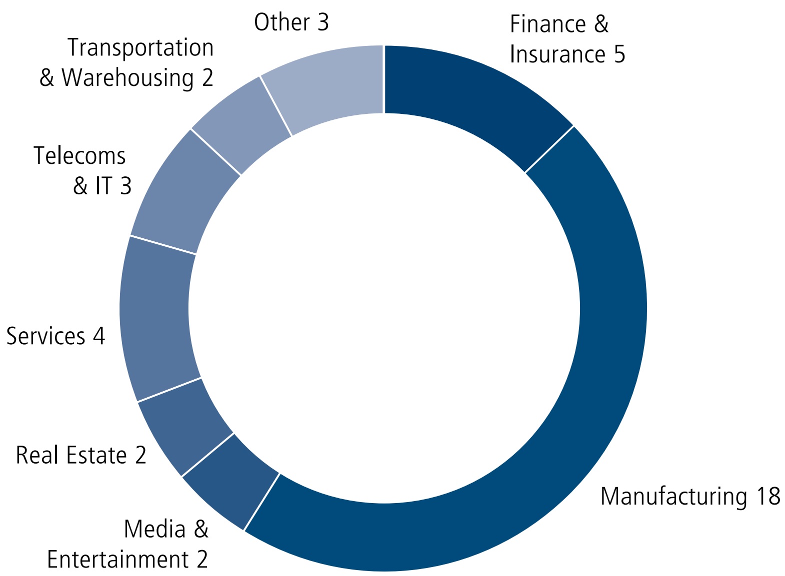
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Aerodrom Ljubljana d.d.	Transportation & Warehousing	Privatisation (75.7%)	Fraport AG	Germany	177.1[2]
Tusmobil d.o.o.	Telecoms & IT	Acquisition (100%)	Telemach	Slovenia	150[1]
Mercator d.d.	Wholesale & Retail Trade	Minority Stake Purchase (7.4%)	Agrokor d.d.	Croatia	97[2]
HESS doo	Utilities	Acquisition (35.6%)	GEN energija doo	Slovenia	96[2]
Letrika	Manufacturing	Privatisation (54%)	Mahle Group	Germany	58.3[2]
Radenska d.d.	Food & Beverages	Acquisition (75.3%)	Kofola as	Czech Republic	51.8[2]
Assets of Probanka	Finance & Insurance	Acquisition (100%)	Hranilnica Lon; Sberbank d.d.	Slovenia	48.6[2]
Terme Maribor	Services	Acquisition (70%)	Gazprom	Russia	25[2]
Four hotels in Portoroz	Services	Acquisition (100%)	Hoteli Cavtat	Croatia	24[1]
Litostroj Power d.o.o.	Manufacturing	Acquisition (100%)	Energo-Pro as	Czech Republic	21.4[2]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

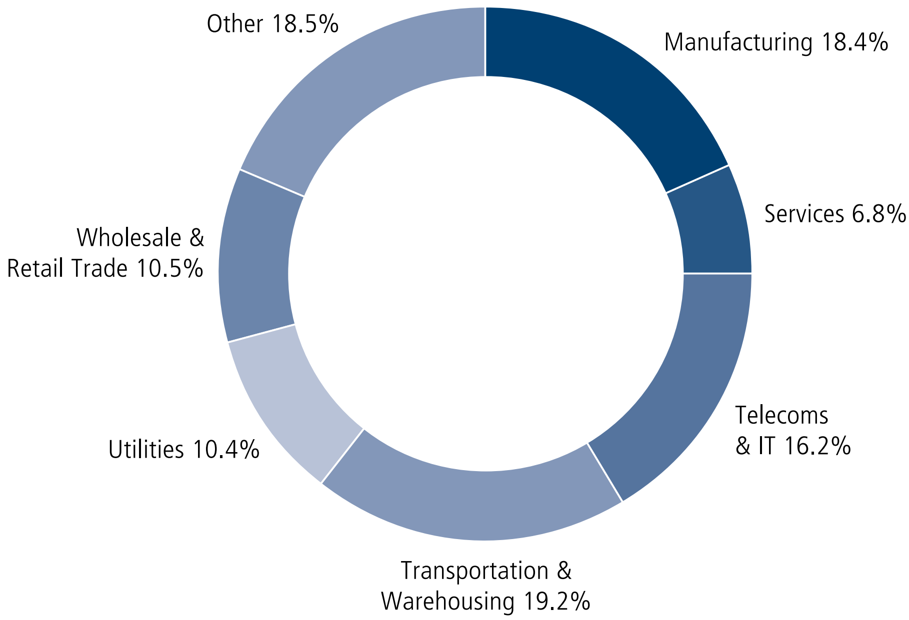
Deals by Sector in Slovenia (2014)

Number of Deals by Sector in Slovenia (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Slovenia (2014)



Source: EMIS

Turkey

Turkey is currently the fastest growing emerging market in Europe and the OECD. Turkish GDP grew by 8.8% in 2011, 2.2% in 2012 and 4% in 2013 and the World Bank estimated 3.1% growth in 2014. 2014 saw an increase in the deal value of M&A transactions in Turkey, although the number of deals decreased.

Despite the drop in the number of transactions, which may be the result of local and presidential elections occurring in 2014, it was a strong year for the Turkish M&A market. The increase in the value of M&A deals is strong evidence that Turkey has firmly established itself as a promising growth market, as the global investment community has shown continued faith in its long-term performance. Investment appetite remains healthy and promises to continue to grow in the coming years, with the World Bank currently estimating GDP growth of 4.5% in 2015.

Continuing the trend from previous years, privatisations played a major role in the 2014 M&A landscape, with nine of the top 20 largest M&A deals being privatisations, particularly in the energy, warehousing and transportation sectors. Privatisations in Turkey have continued for the most part to attract local investor interest.

By deal value, utilities was the most successful sector of 2014, with an approximate total deal value of over €3 billion, representing almost 20% of the Turkish M&A market for 2014, despite making up less than 12% of the number of deals for the year. Indeed, two of the five largest deals of 2014 were in the energy and utilities sector and both were privatisations with local buyers.

Attracting foreign capital has continued to be a high priority for the Turkish government, as Turkey seeks to become an increasingly attractive hub for foreign direct investment. Turkey's investment appeal has risen dramatically in recent years and a 9.8% year-on-year rise in foreign direct investment was recorded in the first eight months of 2014 and this trend seems set to continue in 2015.

What's next?

Despite the slight decrease in GDP growth in 2014, the World Bank is predicting further GDP growth in 2015 and 2016, making Turkey an appealing jurisdiction for foreign investors compared to the landscape of slow economic recovery still affecting much of Europe.

There is significant potential for transactions here across a wide range of industry sectors. Energy and infrastructure are both hot sectors for investment opportunity, with a real need for development in both areas in order to sustain the country's growth and meet future infrastructure needs. Real estate is also well positioned to have a strong year in 2015, with property prices and foreign demand both rising steadily throughout 2014. Manufacturing, healthcare and lifesciences, TMC and consumer products are also likely to continue attracting investment in 2015, given Turkey's young population and rapidly growing consumer class.

All in all, the investment climate has proved increasingly attractive in recent years to both domestic and foreign investors – and this looks set to continue for the coming years. We expect the developing M&A market to modestly increase, or at the very least maintain, the volume of deals in 2014, although it is unclear whether the General Election due in June 2015 could result in investors being more cautious in Q1 and Q2, pending the election result.

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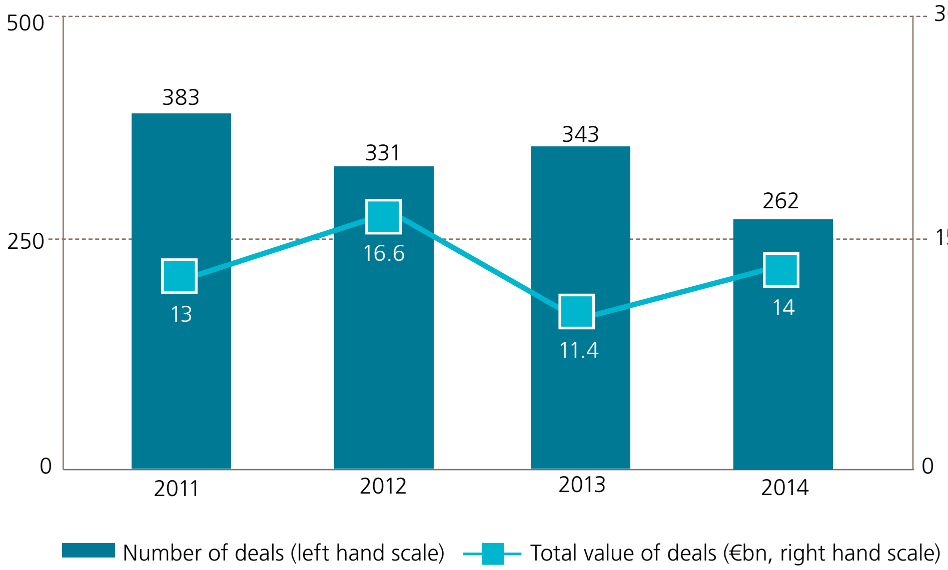
The Turkish M&A Market

Deals by Value and Volume in Turkey (2011-2014)



Source: EMIS

Top 20 Deals in Turkey (2014)

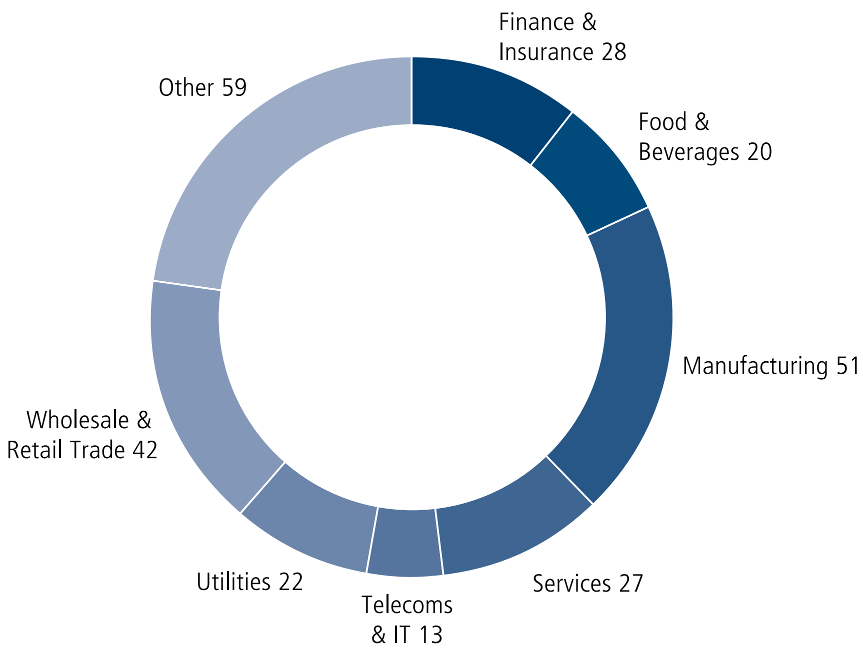
Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
Garanti Bankasi	Finance & Insurance	Minority stake purchase (14.9%)	Banco Bilbao Vizcaya Argentaria SA (BBVA)	Spain	1,975.2[2]
Kemerkoy TPPt; Yenikoy TPP; Kemerkoy Port area	Utilities	Privatisation (100%)	IC Ictas Holding	Turkey	1,921.6[2]
Turkcell AS	Telecoms & IT	Acquisition (13.8%)	Cukurova Holding AS	Turkey	1,194[2]
Yatagan TPP; Guney Ege Linyit Isletmesi	Utilities	Privatisation (100%)	Elsan Elektrik Gerecleri	Turkey	879.8[2]
Milas-Bodrum Airport	Transportation & Warehousing	Privatisation (100%)	TAV Havalimanlari Holding	Turkey	717[2]
Dalaman Airport	Transportation & Warehousing	Privatisation (100%	YDA Insaat	Turkey	705[2]
Migros Ticaret	Wholesale & Retail Trade	Minority stake purchase (40.3%)	Anadolu Endustri Holding	Turkey	662.6[2]
Kalamis Marina	Media & Entertainment	Privatisation (100%)	Koc Holding	Turkey	473.5[2]
Orhaneli TPP; Tuncbilek TPP; Bursa Linyitleri Isletmesi	Utilities	Privatisation (100%)	Celikler Insaat	Turkey	420.2[2]
Derince Port	Transportation & Warehousing	Privatisation (100%)	Safi Kati Yakit	Turkey	399.3[2]
Denizli Cimento	Manufacturing	Acquisition (100%)	OYAK Group	Turkey	337.3[1]
Catalagzi TPP	Utilities	Privatisation (100%)	Elsan Elektrik Gerecleri	Turkey	286.9[2]
Sabiha Gokcen Airport	Transportation & Warehousing	Minority stake purchase (40%)	Malaysia Airports Holdings Berhad	Malaysia	285[2]
Finansbank	Finance & Insurance	Minority stake purchase (5%)	National Bank of Greece	Greece	270.1[2]
Kristal Kule office property	Real Estate	Acquisition (100%)	Finansbank	Turkey	257[2]
BMC	Manufacturing	Privatisation (100%)	Ethem Sancak - private investor	Turkey	256.1[2]
Ronesans Gayrimenkul Yatirim	Construction	Minority Stake Purchase (21.4%)	GIC Private Ltd	Singapore	250[2]
Tekstil Bankasi	Finance & Insurance	Acquisition (75.5%)	Industrial and Commercial Bank of China Ltd	China	229.9[2]
Petlim Limancilik	Transportation & Warehousing	Acquisition (30%)	The Goldman Sachs Group Inc	United States	185.2[2]
Dosu Maya	Food & Beverages	Acquisition (100%)	Lesaffre Group	France	161.8[2]

Source: EMIS

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate

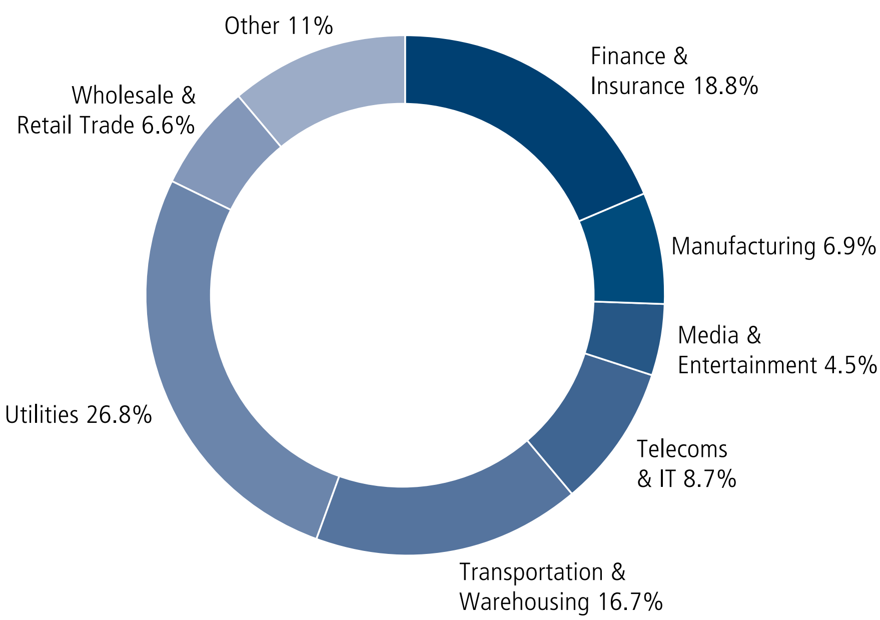
Deals by Sector in Turkey (2014)

Number of Deals by Sector in Turkey (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Turkey (2014)



Source: EMIS

Ukraine

Challenging times for the country and the M&A market.

2014 proved to be a challenging year for Ukraine. What started in November 2013 as a peaceful demonstration in Kyiv against refusal by the then current Ukrainian President, Viktor Yanukovych, to sign the Association Agreement with the EU, in favour of closer cooperation with Russia, ended in the annexation of Crimea by Russia, ongoing war in Eastern Ukraine and devaluation of the Ukrainian Hryvnia by nearly 50%. Such unfortunate events certainly did not contribute to the stability or growth of the M&A market in Ukraine and resulted in a significant drop in the number and value of M&A deals as compared to previous years. Many deals were put on hold by potential investors in the hope that the crisis would be resolved in the near future.

Our data shows 60% fewer M&A deals in 2014, and a dramatic 81% drop in the total deal value as compared to 2013. The M&A market was dominated by domestic investors, with a number of high profile deals carried out by and amongst Ukraine's richest businessmen.

The sectors which attracted the highest number and value of deals were finance & insurance, agriculture, wholesale & retail trade and manufacturing. Overall, the finance & insurance sector had the biggest share of total deal value and deal number for the year, accounting to 36% and 23% of the total, respectively. IT and oil & gas also remained strategically important sectors in Ukraine in 2014.

The most notable M&A deals in 2014 included Russia's Alfa Group's acquisition of 99.8% of PJSC Bank of Cyprus for a reported €225 million and Austrian AMIC Energy Management GmbH's €223 million purchase of Lukoil-Ukraine.

Given all the turmoil, at best we see the 2015 M&A market in Ukraine as flat when compared to 2014, with perhaps a small number of high profile M&A deals being carried out by and amongst Ukraine's elite, alongside further strategic exits from the country. We predict that the most attractive sectors in 2015 will be banking (there are still too many banks, with over 175 operating on the market), agriculture, IT and energy. 2015 may also become a year of privatisations as the Government seeks to follow through on its commitments.

But despite all the turmoil, 2015 could potentially be a year where the country starts to see some light at the end of the tunnel. President Petro Poroshenko is now the President and in June 2014 he signed the long-awaited Association Agreement with the EU. Parliamentary elections followed in October 2014 and more than three-quarters of voters supported political parties which favour closer relations with the West and Ukraine's course towards Europe. Formation in December 2014 of a new Western-oriented Government completed a series of key political changes in Ukraine in 2014.

Ukraine is currently in need of radical changes and the new Government has pledged to pass an extensive program of reforms in the near future, including those required by the IMF and the terms of the EU-Ukraine Association Agreement. Implementation of these reforms is expected to strengthen the business environment in Ukraine and attract investment. So whilst our prediction is that 2015 will be a relatively uneventful year from an M&A perspective, continued efforts by the Government to eradicate corruption and improve the investment climate could well plant the seeds so as to make Ukraine a more attractive investment destination for both domestic and foreign investors in 2016 and beyond.

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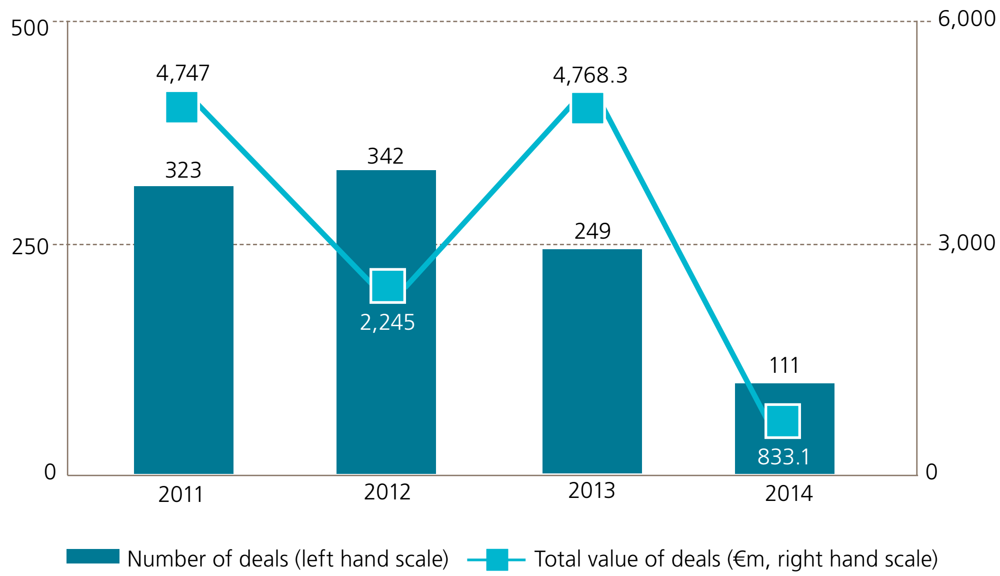
The Ukrainian M&A Market

Deals by Value and Volume in Ukraine (2011-2014)



Source: EMIS

Top 10 Deals in Ukraine (2014)

Target Company	Sector	Deal Type	Buyer	Country of Buyer	Deal Value (€m)
PJSC Bank of Cyprus	Finance & Insurance	Acquisition (99.8%)	Alfa Group Consortium	Russia	225[2]
Lukoil-Ukraine	Wholesale & Retail Trade	Acquisition (100%)	AMIC Energy Management GmbH	Austria	223.9[2]
UkrLandFarming PLC	Agriculture, Forestry, Fishing and Hunting	Minority stake purchase (5%)	Cargill Inc	United States	146[1]
Pravex-Bank	Finance & Insurance	Acquisition (100%)	Group DF	Ukraine	74[2]
Kamianets-Podilskyi Avtoagregat JSC; *	Manufacturing	Acquisition (n.a. %)	State Savings Bank of Ukraine PJSC	Ukraine	57[1]
Sky Mall shopping centre in Kyiv	Real Estate	Acquisition (50%)	Arricano Real Estate plc	Ukraine	38.9[2]
Danube Shipping-Stevedoring Co LLC	Transportation & Warehousing	Acquisition (70%)	Noble Group Ltd	Hong Kong	16.2[2]
Zakarpattyaoblenergo	Utilities	Minority stake purchase (25%)	Financial company Favorit	Ukraine	15.5[2]
AgroKIM LLC	Agriculture, Forestry, Fishing and Hunting	Acquisition (60%)	Industrial Milk Company	Ukraine	13.1[2]
PJSC Vinnytsyaoblenerho	Utilities	Minority stake purchase (25%)	Fund Asset Ltd Plc	Ukraine	5.9[2]

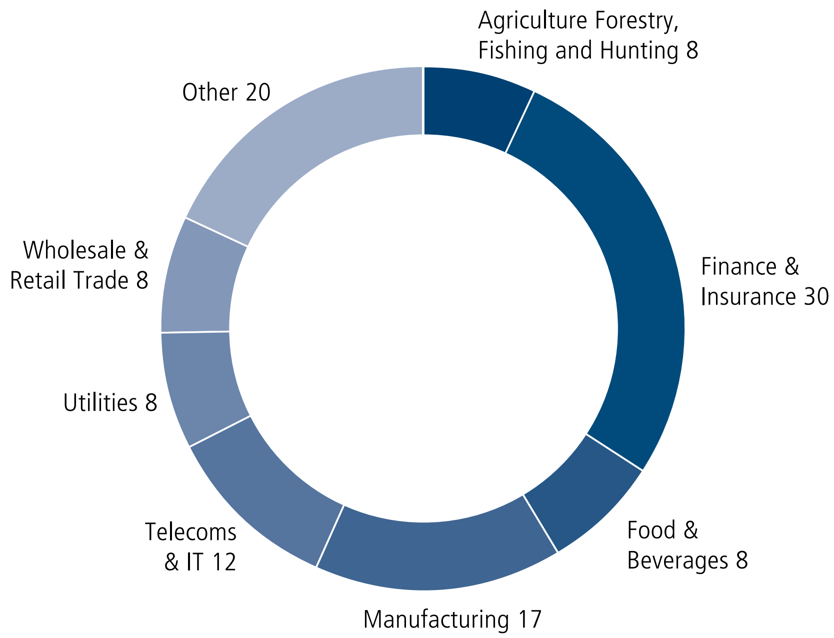
Source: EMIS

* Simferopol Steering Wheel Plant OJSC; Tokmak Press-Forging Plant OJSC; Poltava Auto Aggregate Plant Tapaz; Kherson Cardan Shafts Plant JSC

1 Market Estimate
2 Official data
3 EMIS DealWatch Estimate e

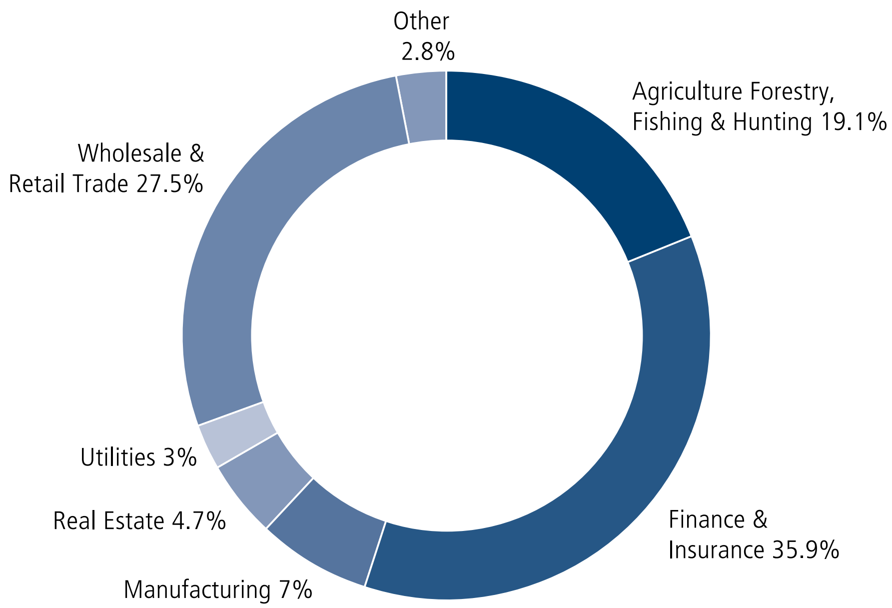
Deals by Sector in Ukraine (2014)

Number of Deals by Sector in Ukraine (2014)



Source: EMIS

Share of Sector in Total Value of Deals in Ukraine (2014)



Source: EMIS

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