

newsletter

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editorial

We are pleased to introduce a special edition of our CEE newsletter, which focuses specifically on the mergers and acquisitions market in Hungary, Poland, Russia, Turkey, and Ukraine, all countries in which Gide has established a long-standing presence.

This special edition provides our analysis of the mergers and acquisitions market in these countries, giving an overview of the macroeconomic situation, the most buoyant sectors, the main operations conducted in 2014, as well as our outlook for 2015.

Analysts agree when they say that the volume and aggregate value of merger and acquisition operations in the CEE region in 2014 have dropped significantly in relation to 2013 - an unfortunate and logical side-effect of the situation in Russia and Ukraine.

A number of trends are present nonetheless. Firstly, the most buoyant sectors remain energy, banking and finance, industry and TMT. Secondly, while major privatisation operations are underway in Turkey and planned in Ukraine, in Hungary the State is significantly increasing its stake in a number of strategic sectors and, in Poland, the era of major privatisations is coming to an end. Lastly, it is clear that, in most of the countries studied, the main operations in terms of volume and value were conducted by "local" companies.

In 2015, the global political climate, the solving of the conflict in Ukraine and the improvement of the Eurozone's economic situation will weigh heavily on the mergers and acquisitions market in a certain number of CEE countries. As things stand, investors are being both prudent and patient. Nonetheless, the first figures published by the European Union on its economy are timidly optimistic.



HUNGARY

MACROECONOMIC INDICATORS

	2014	2015E
GDP Growth	3.2%	2.5%
GDP per Capita	USD 20,679	USD 21,459
Foreign Direct Investment	estimated USD 4bn	flat or declining inflow expected
Inflation	0.1%	2.5%
Household Spending	2.1%	2.6%
Unemployment	7.8%	7.5%

OVERVIEW OF HUNGARY'S M&A MARKET IN 2014

Three phenomena helped make Hungary's M&A market slightly more active in 2014 than in 2013: fewer risks from the Eurozone crisis affecting the CEE region and Hungary in particular; more active PE funds in Hungary (JEREMIE investments); and the Hungarian State's increasing dominance over the country's transactions in several sectors.

Top sectors and major M&A transactions

The Hungarian M&A market was dominated by the following sectors: Technology, Media & Telecommunications (TMT), Finance, Utilities and Real Estate.

Domestic transactions represented around 60% of all deals and around 70% of total deal value. Similarly to the previous year, the Hungarian State and state-owned entities (such as the Hungarian National Asset Management Company, the National Infocommunications Services Company and the National Bank of Hungary) were the most active players in Hungary's M&A market in 2014, as the government is aiming to strengthen State ownership in certain strategic sectors (i.e. energy, banking).

The largest deal in the financial sector was the sale by the German Bayerische Landesbanken of its Hungarian subsidiary MKB Bank for EUR 55 million. In December, the Hungarian government signed a letter of intent to buy Budapest Bank from its owner GE Capital by the end of June 2015.

Other top deals for 2014 in Hungary's financial sector aiming to increase State ownership in the banking sector included the minority stake purchase (49%) of FHB Kereskedelmi Bank Zrt. by Magyar Posta Zrt. for EUR 92 million, and the purchase of 78% of Giro Zrt for EUR 31 million by MNB.

In the energy sector, the Hungarian State bought 50% of Főgáz Zrt. (Budapest Gas Company) through MNV Zrt. for EUR 136 million in October 2014. Főgáz is expected to become the base of a State-run, non-profit public utility holding company by March 2015.

In the telecommunications sector, the government bought up the television and radio broadcasting company Antenna Hungária Zrt. through NISZ Zrt. from French company TDF for EUR 179 million. It was the country's largest transaction in 2014.

In November 2014, the State bought privately owned software company Welt 2000 Kft., which developed and owns the software that manages the EU tendering processes and distribution of funds.

Lastly, in the transport sector, MNV Zrt. bought a 64.9% stake in Bombardier Transportation MÁV Hungary Kft. (a joint venture between the German firm and the Hungarian railway company MÁV) from the German Bombardier Transportation GmbH for EUR 6.8 million.

Although the market saw 2013's adverse trends continuing in 2014 (i.e. several major international firms have announced plans to diminish their presence in the CEE region such as Lukoil, Sanoma and Citibank), there have been more M&A transactions with strategic investors. The media and IT sectors were the most popular targets.

The UK-based Misys Digital Channel acquired Hungarian IND Group, which specialises in online and mobile banking and personal finance management systems.

In 2014, Hungary's media sector underwent complete reorganisation, with the acquisition of Sanoma Media by Central Fund and the sale of certain Ringier and Axel Springer portfolio elements to Vienna Capital Partners. The new publishing group Mediaworks owns sports daily Nemzeti Sport, business dailies Világgazdaság and Népszabadság, as well as eight regional dailies and several magazines. In addition, the German Funke Group sold its majority stake in the Hungarian economic weekly HVG.

The real estate sector saw minor deals, such as the acquisition of the Green House office project in Budapest by Diófa Alapkezelő Zrt. for EUR 36 million.

OUTLOOK FOR 2015

Despite some improvement in the economic indices and the investment environment during recent years, no significant increase in M&A transactions was apparent in 2014. We do not expect to see a significant change in this respect on the Hungarian M&A market in 2015.

The government still wishes to increase its participation in certain sectors (i.e. energy and utilities) and is not expected to introduce any significant changes in its economic policy that could encourage foreign investors. The State will thus certainly remain an active player in 2015.

Nevertheless, we may see some investments coming from the BRIC countries, especially China, which showed growing interest in 2014 for Hungary and the CEE region in general.

Thanks to a changing regulatory environment creating opportunities for service expansion and consolidation, healthcare and life sciences, technology, media and telecommunications (TMT) and energy are the three industries expected to receive the most attention for M&A activity in 2015. Some growth is also expected in the real estate sector.

In summary, the Hungarian M&A market is expected to slightly grow despite the general economic uncertainty characterising not only Hungary but also the Eurozone as a whole.

POLAND

MACROECONOMIC INDICATORS

	2014	2015E
GDP Growth	3.2%	3.0% (EBRD) 3.3% (NBP)
GDP per Capita	USD 10,752.82 [= EUR 9,586.95]	USD 10,979 [= EUR 9788.61]
Foreign Direct Investment	EUR 4.461 bln	increase
Inflation	0.0%	0.2%
Household Spending	N/A	N/A
Unemployment	12%	11.3%

OVERVIEW OF POLAND'S M&A MARKET IN 2014

In 2014, Poland was both an essential player in European growth and highly attractive to foreign investors. This can be explained by its ambitious population, which is entrepreneurial and well-trained, by the diversity of its economic activities (industrial and agricultural production, services, and distribution), by its macroeconomic stability, which lends long-term vision to potential investments, and its significant structural investments, whether projected or currently underway. This latter aspect receives strong backing from the European Cohesion Policy, which has pledged to provide up to EUR 82.5 billion in structural funds to Poland during the 2014-2020 period, i.e. the highest allowance of all 28 member states.

Since the second half of 2013, Poland's economic growth has been stable and mainly buoyed by domestic demand. Economic forecasts for 2014 and 2015 nonetheless had to be lowered to account for the tensions in Ukraine and the dropping demand from the Euro zone, which explain in part the lessening Polish exports. Expert analysts concur in their forecasts for 2015, which state that Poland will grow at 3 to 3.3%, a rate equivalent to the world growth rate calculated by the World Bank.

Top sectors and major M&A transactions

The Polish market remains a major and dominating market in Central Europe, both in terms of number and value of mergers and acquisitions completed. Despite a slower activity in early 2014, a significant increase in investments and the finalisation of a substantial number of major operations opened up new prospects in the second half of 2014. The aggregate value of operations reached EUR 4.5 billion, i.e. 60% lower than the previous year. Operations to an amount in excess of EUR 1 million fell 25%.

Mergers and acquisitions conducted as privatisations now concern investments in the infrastructure sector. They include in particular transmission networks, ports, airports, waste processing assets, the energy sector, i.e. projects for which risk is regulated and where income can be projected.

In parallel, Polish investors are showing increasing interest in foreign markets, Africa and the European Union in particular.

The Polish mergers and acquisitions market in 2014 was dominated by the Banking and the Intellectual Property, Telecommunications, Media & Technology sectors. Main operations in the banking sector include the acquisition of BGŻ SA by BNP Paribas for EUR 875.6 million, the acquisition of Grupa Nordea by PKO BP SA for EUR 669.86 million, and the acquisition of Link4 by PZU SA for EUR 354.07 million in the insurance sector. In the IP-TMT sector, the largest operation of the year was the acquisition by Cyfrowy Polsat SA of Polkomtel for EUR 1.471 billion. Other operations include the acquisition of Cinema City by Cineworld Group for EUR 669.86 million, and the acquisition by Deutsche Telecom of GTS CE for EUR 311 million.

Significant operations were also concluded in the mining, industrial, retail, energy, real estate and health sectors. The substantial weakening of activity in the energy sector began in earnest in 2014.

OUTLOOK FOR 2015

The situation in Ukraine is a major political factor impacting Poland's economic situation. Companies having developed their activities in Russia or in Ukraine saw their order books reduce, thereby inevitably affecting competition and activity. That said, slowing economies in neighbouring countries necessarily impact the potential and stability of Polish companies in the region. The economic health of Poland for 2015 is clearly contingent on the solving of the military conflict in Ukraine.

Increased activity in Poland will also largely depend on Western Europe's economic situation. Although it is true that European growth should be stronger than that observed this past year, the growing popularity of radical political parties can cast doubts on the unity of the Euro zone. The good health of the European economy is all the more important for Poland that it is trying to compensate the losses of the Russian and Ukrainian markets by reinvesting in the West and the Eurozone in particular.

The Polish home affairs ministry hopes to boost the influx of foreign investment in Poland in 2015, which will in turn create jobs and generate tax revenue. The ministry is also looking to encourage those companies established in Poland to reinvest, as far as possible, their profits in the Polish market. The country has thus put in place an efficient system to support investors and industries, both on a national and local level.

In all likelihood, this year will be of particular interest in the banking sector, where the Raiffeisen and Millenium banks should leave the Polish market. The sales of television channel TVN, the largest network of clinics specialised in heart surgery AHP, rail shipment company CTL Logistics, medical equipment manufacturer HTL Strefa, and retail outlet chain Żabka, are also on the cards.

RUSSIA

MACROECONOMIC INDICATORS

Indicator	2014	2015E
GDP Growth	0.6%	-2.9% (World Bank) -4.8% (EBRD) -3% (FMI)
GDP per Capita	EUR 6,662	EUR 6,462
Foreign Direct Investment	EUR 16.8 billion	N/A
Inflation	11.4%	11% - 11.5%
Household Spending	N/A	N/A
Unemployment	5.7%	6.4%

OVERVIEW OF RUSSIA'S M&A MARKET IN 2014

2014 will have been a difficult year for the Russian economy. Western sanctions and the Russian trade embargo contributed to weaken an economy that was already slowing due to dropping oil prices and struggling domestic consumption. The influx of foreign direct investments (FDI) is declining and, according to the latest figures published by the Central Bank, capital outflow in 2014 more than doubled the 2013 level to reach USD 151 billion. Additionally, the rouble lost 41% of its value against the dollar and 34% against the euro.

With this tense economic and geopolitical background, it comes as no surprise that the Russian mergers and acquisitions market suffered significantly in 2014, both in terms of volume and value. Analysts concur in a 40% drop in total value for mergers and acquisitions in 2014 as compared with 2013. This can be explained in part by companies' difficulty in accessing financing. Indeed, in Russia, the cost of credit has increased significantly as a result of the obstacles local banks encounter to refinance themselves on European and American markets since the adoption of the sanctions. Additionally, the Central Bank's upholding of a high key interest rate these past few months has not encouraged banks to offer credit to clients¹. For their part, foreign banks come up against a ban to treat with certain Russian clients, and are more generally reluctant to finance projects in Russia.

¹ Mid-December 2014, the Central Bank had set its key rate at 17% and decided to drop it to 15% on 30 January 2015.

Top Sectors in 2014

The Russian mergers and acquisitions market remains dominated by the energy sector, which represented around one third of the value of total operations completed in 2014. Industry, construction, telecoms and services complete this league table.

As regards volume, energy and industry are the two sectors registering the most operations. The services and retail sectors, as well as telecoms, also showed strong activity. Most operations conducted in 2014 took place between Russian parties, since a number of projects involving foreign investors were suspended due to political tensions. In December 2014, for instance, BASF and Gazprom announced that they had dropped their 2012 project to exchange assets. Another shelved project is that of the purchase by Rosneft of the oil brokering division of US bank Morgan Stanley; US regulatory authorities had not approved the operation.

Major M&A Transactions in 2014

The largest operations carried out in 2014 in the energy sector include: the acquisition by Rosneft of 15.1% of shares in RN Holding for an estimated EUR 3 billion; the acquisition by Oleg Mkrchan of 18.5% of shares in Polyus Gold International for an estimated EUR 1.2 billion; the acquisition by the International Oil and Gas Company (a Russian company) of a 60% stake in the joint venture NKK-Aktiv OJSC for an estimated EUR 1 billion; and the acquisition by Gazprom Neft of a 9.8% stake in SeverEnergy for an estimated EUR 710 million. The main operations carried out in 2014 by French companies in the energy sector in Russia include in particular the acquisition by Total of 1.28% of shares in Novatek in the first half of 2014. This acquisition, for EUR 344 million, takes Total's share in Novatek to 18.24% at 30 June 2014. The French oil group had initially thought to increase its stake in Novatek, but shelved its plans after the crash of the Malaysia Airlines flight MH17 in Ukraine.

Major operations in the telecoms sector include the acquisition by group Mail.ru of 48% of shares in the social network vKontakte for EUR 1.3 billion, and the creation of the 4th largest Russian mobile operator via the setting up of a joint venture between the state-owned Rostelecom and Tele2 Russia, controlled by Russian bank VTB.

The largest operation to affect the construction sector was the acquisition by Ruslan Baisarov of 44.1% of shares in construction company Stroygazconsulting for an estimated EUR 3.7 billion, bringing the share of Ruslan Baisarov in Stroygazconsulting to 74.1%.

As regards acquisitions by foreign investors in Russia in 2014, that by US pharmaceutical group Abbott of Russian drugs manufacturer Veropharm was of particular note. Another significant operation in the same sector, conducted this time between Russian parties, was the acquisition by Farmstandart of 20% of shares in Biocad Holding Ltd, a Cypriot holding owning Russian drugs manufacturer CJSC Biokad. At the same time, Roman Abramovich's Millhouse Capital investment fund bought up 50% of shares in Biocad Holding Ltd.

OUTLOOK FOR 2015

Foreign investors in Russia should face two major risks in 2015, i.e. political risk and exchange rate risk. Much will depend on the Ukrainian crisis and oil prices. In this uncertain context, a significant number of acquisition projects have been shelved. However, certain investors could also decide to adopt a counter-cyclical investment policy and acquire assets at attractive prices, thereby gaining an advantage over their competitors. Indeed, the lower value of assets and increased competitiveness resulting in particular from the rouble's devaluation could offer significant acquisition opportunities to investors. Additionally, Russia is becoming aware of the need to develop a local industry, and creating manufacturing facilities in Russia will become an essential condition to access an increasing number of markets. It is therefore highly likely that a number of acquisitions could take place in the agriculture, pharmaceuticals or industry sectors, once the political crisis has passed. Lastly, investments could also be made in the construction and transport sectors, in particular as part of the government's policy to develop infrastructure and prepare for the 2018 FIFA World Cup.

TURKEY

MACROECONOMIC INDICATORS

	2014	2015E
GDP Growth	3.1%	3.5%
GDP per Capita	USD 10,518	USD 11,187
Foreign Direct Investment	USD 9.12 billion (for the first nine months)	N/A
Inflation	8.1%	7.2%
Household Spending (annual percentage change)	0.8%	N/A
Unemployment	9.9%	11.5%

OVERVIEW OF TURKEY'S M&A MARKET IN 2014

Growth in Europe and Central Asia is estimated to have reached 2.4% in 2014. In 2015, while the recession in Russia may hold back growth in the Commonwealth of Independent States, a gradual recovery in the Euro Zone should have the opposite effect and revitalise growth in Central and Eastern Europe, Turkey in particular. In contrast with some economically static countries, Turkey is currently the fastest growing emerging market in Europe. Turkish gross domestic product exceeded expectations and grew by 3.1% in 2014, and the World Bank expects growth in the region to reach 3.8% in 2016-2017.

The general elections of 2014, which took place in the first quarter, slowed down the M&A market. Nevertheless, this slight loss early in the year was quickly offset by the acceleration of the M&A activity in the remainder of 2014.

Both the number of M&A transactions and the aggregate deal value increased in 2014 in Turkey: annual M&A volume was around USD 21 billion (representing a growth of 20% on 2013) with some 230 deals. Privatisations were a major part of the 2014 M&A Turkish market, representing 7 of the top 10 largest M&A deals and around 40% of the total deal volume (USD 8.6 billion through 12 transactions). It should be noted here that privatisations in Turkey attracted a majority of local investors.

Top sectors and major M&A transactions

Turkey's M&A market in 2014 was dominated by the energy, mining, transport and consumer goods industries. The privatisation of the Turkish national lottery Milli Piyango for USD 2.755 million was the largest deal on the market. In the field of energy and infrastructure, M&A transactions concerned mainly large privatisations. The largest operations carried out in 2014 in the energy sector include: the acquisition by Turkish company IC İttaş Enerji of Yeniköy and Kemerköy thermal power plants for USD 2.671 million, and the acquisition by Turkish company Bereket Enerji of Yatağan thermal power plant for USD 1.091 million. In the finance sector, the acquisition by Spanish BBVA of a minority stake in Garanti Bankası for an amount of USD 2.469 million should be highlighted. The infrastructure sector was marked in particular by the privatisation of Fenerbahçe - Kalamış Marina and Derince Port.

The majority of Turkish investors' deals in 2014, in terms of number and value, came from Turkish investors with an estimated value of USD 13 billion, 66% of which coming from privatisations. Foreign investors generated a total deal volume of USD 8 billion, mainly in the private sector.

OUTLOOK FOR 2015

Some elements indicate that 2015 could be a challenging year for M&A in Turkey.

M&A transactions could slow down during the third quarter due to upcoming general elections. Nevertheless, considering the long-term growth potential of the country, investors may remain alert to investment opportunities. .

There is a high potential for transactions in Turkey in a number of sectors. In particular, energy and infrastructure both represent significant investment opportunities, with a real need for development in order to sustain the country's growth. Real estate will also offer investment opportunities for 2015, with property prices and foreign demand both rising in 2014. Given Turkey's young population and growing consumer class, manufacturing, telemarketing and consumer products could be sectors to watch in 2015.

UKRAINE

MACROECONOMIC INDICATORS

	2014	2015E
GDP growth, annual	-8.2%	-2.3%
Foreign direct investment, net inflows (current USD)	USD 3.8 bn	Considering current economic situation, FDI will remain weak in 2015
Inflation, GDP deflator (annual)	11.5%	10.6 - 12.3%
Unemployment, total (% of total labour force)	9.8%	10.2%

OVERVIEW OF UKRAINE'S M&A MARKET IN 2014

Top sectors and major M&A transactions

Despite an unfavourable economic and political situation, some economic sectors were still attractive to investors and the Ukrainian M&A market saw the completion of several major transactions in 2014. Top sectors in 2014 were Banking and finance, Wholesale and retail, Agriculture, Energy and utilities, and Manufacturing.

Banking and finance was the top M&A sector, with the acquisition of the Bank of Cyprus by the Russian Alfa Group for EUR 225 million. Another on-going deal in the sector is the investment of EMF Capital Partners in the Ukrainian insurance market through acquisition of CJSC Retail-Insurance. It should be noted that a trend seems to be developing whereby some Ukrainian banks are selling their assets abroad.

Agriculture remains an attractive industry in Ukraine, and the acquisition of a 5% stake in Uklandfarming by the Cargill group for EUR 146 million at the beginning of 2014 proves it. A number of mid-size transactions also took place in the sector, pointing to the fact that low price and moderate risk make agricultural assets still profitable.

The Ukrainian M&A market was also partially affected by global deals involving Ukrainian assets, such as the establishment of a joint venture between Mitsubishi Heavy Industries and Siemens AG, or the EUR 2.1 billion acquisition of the Italian CDP Reti S.p.A. by the State Grid Corporation of China.

OUTLOOK FOR 2015

The Russia-Ukraine conflict, which demands an increased budget to support military operations, the devaluation of the local currency, the annexation of Crimea and the stopping of economic activity in Eastern regions of Ukraine, do not create a favourable environment for M&A transactions in 2015.

This notwithstanding, the on-going negotiations with the IMF give hope as regards the improvement of the country's financial situation. Moreover, further cooperation with the IMF will be seen as a positive sign by foreign investors and institutions, which may in turn lead to new deals in 2015.

We may suppose that the current trend will continue in 2015 and banking & finance, wholesale & retail, agriculture, energy and manufacture will generate the most M&A transactions.

In parallel, the Ukrainian government is currently preparing a list of state companies to be privatized in 2015 and a number of large plants, ports and other companies could be included on this list. Clear and transparent rules of privatization tenders may attract new investors and boost the M&A market in Ukraine.

Lastly, a number of companies (especially Russian-owned) are still looking to sell their business and leave the Ukrainian market. Given the low demand, it is very unlikely that such deals will dominate in 2015, but they will leave a mark on the general picture of M&A transactions in 2015. ■

HUNGARY

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