in association with:

IMAP INTERNATIONAL NETWORK OF M&A PARTNERS

IMAP profile: p69

The economic diversity of Central & Eastern Europe

Stretching from the Baltics in the North to the Balkans in the South, the Central and Eastern European region spans a vast geographical area. Although the term CEE provides a convenient shorthand to describe the former Communist states that fall between western Europe and Russia, it overlooks the fact that the countries that make up the region differ dramatically in terms of culture as well as economic makeup. One uniting factor however is the economic restructuring and mass privatisation wave that has taken place, to a greater or lesser extent, in each country since the early 1990s.

Describing the economic diversity of the region, Nigel Williams of Royalton Partners, a private equity house focusing on the midcap market in Central Europe, said: "The Visegrád Four - Poland, Hungary, Czech Republic and Slovakia - are ahead. The Baltic States exhibit Scandinavian-type characteristics with incredibly high growth rates of 10-11%. Then you've got the Balkan region which has had what you might call indifferent politics but which is now catching up. So some of the things that are happening in Romania and Bulgaria today happened in the Czech Republic, Hungary and Poland maybe five years ago."

Despite the diverse states of economic development amongst CEE countries, so far there has been little sign of the economic slowdown which is bearing down on western European economies. Given that growth in the CEE region as a whole is expected to be 5% in 2008 and 2009 according to the Centre for European Economic Research, well above predicted growth in Western Europe, M&A players are cautiously optimistic about the buoyancy of the deal market in the region.

Mid Europa Partners is a leading private equity player in Central and Eastern Europe. In a recent presentation managing partner Thierry Baudon pointed to the uplift effect of EU accession on the region and continued high inward flows of FDI. "There is still a smooth transition from an emerging market play to a high growth European niche story. The fundamentals are unchanged," he said.

However, there are early signs of malignant symptoms creeping in from the credit-strapped West. There has been a decline in deal volume at the larger end of the scale, but this is much less pronounced that the deterioration seen in Western Europe.

But for private equity players at the smaller end of the scale, it seems that the sun is still shining on deals in the CEE region.' "We're a private equity house that is midcap in terms of Eastern and Central Europe, which means deals of up to €200 million," said Mr Williams. "It's very much business as usual. The debt terms have tightened up a bit but we never had the excess that people had in the private equity markets in Western Europe. From that point of view we missed the high and now we will miss the low. I think that for some of the bigger boys doing the bigger deals then things are more akin to what's happening in Western Europe."

Mr Baudon raised the issue of how private equity is perceived in Central and Eastern Europe. "Private equity is not always fully understood by governments, the media, the labour unions, the NGOs and the general public, but the overall perception of the industry is positive." However, he said that the industry still needs to make efforts in the region to explain what it does and how

in association with:

Avanko Capital
Grigory Dudarev
+7 (812) 740 50 55
avanko@avanko.com

DLA Piper Weiss-Tessbach
Barbara Novosel
+43 1 531 78 1060
Barbara.Novosel@dlapiper.com

Domanski Zakrzewski Palinka sp.
Piotr Andrzejczak, Partner
+48 61 642 49 60
piotr.andrzejczak@dzp.pl

Kubas, Kos, Gaertner
Dominik Galkowski
+48 (12) 619 40 40
dominik.galkowski@kubas.pl

Mariana Anghel Law Office
Mara Anghel
+40 21 315 00 70
ama@ama-lawfirm.ro

McGregor & Partners
Neil McGregor
+40 722 368 076
neil.mcgregor@mcgregorlegal.eu

Mid Europa
Thierry Baudon
+44 (0) 20 7886 3600
tbaudon@mideuropa.com

Miro Senica in odvetniki
Melita Trop
+386 1 252 80 00
melita.trop@senica.si

Nörr Stiefenhofer Lutz
Hans-Peter Zier
+7-495-799 56 96
peter.zier@noerr.com

Ilja Ratschkov
+7-495-799 56 96
ilja.ratschkov@noerr.com

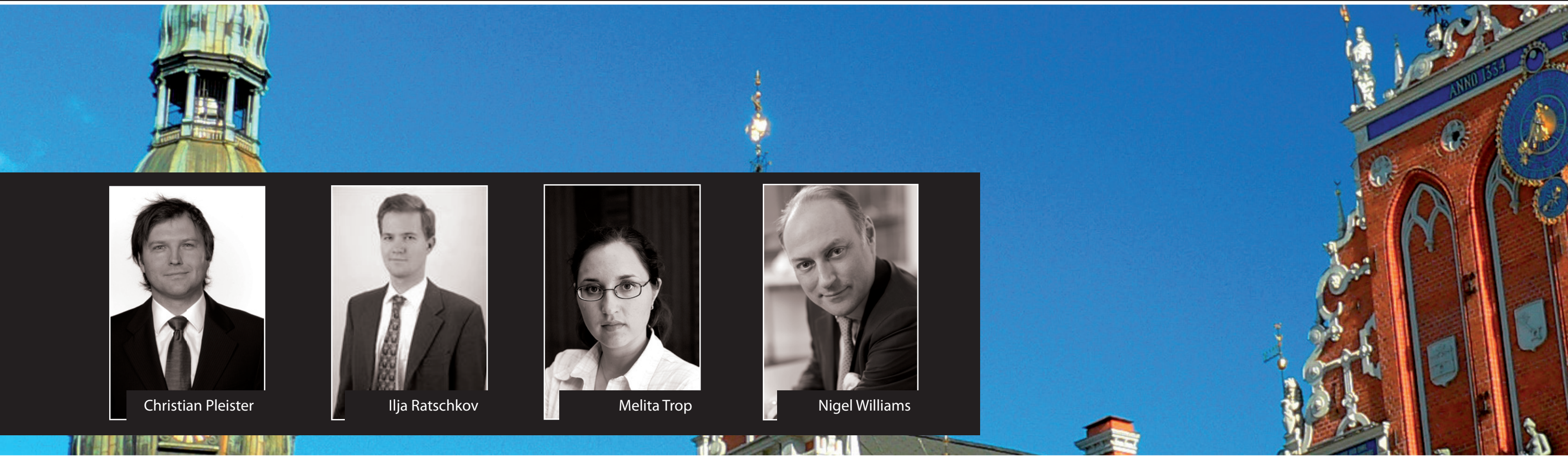
Christian Pleister
+380-44-495 30 80
christian.pleister@noerr.com

NSG Morison
Petr Sima
+420 224 800 930
petr.sima@nsgmorison.cz

Pajerová & Šnajdrová
Vladimíra Pajerová
+420 224 498 345-6
pajerova@advokatky.cz

Ondřej Majer
Bratislava (SK) : +421 2 544 18 700
Prague (CZ) : +420 2 460 85 300
Kyiv (UA) : +380 44 581 11 20

Royalton Partners
Nigel Williams
+48 22 337 82 50
nigel@royalton-partners.com



Christian Pleister

Ilja Ratschkov

Melita Trop

Nigel Williams

it can add value to a country's economy in order to maintain a friendly environment for the industry.

Despite the challenges imported into the region from western credit markets, deal commentators predict that the strength of the economic fundamentals in CEE countries will cushion the mid-market deal market in the coming months. Mr Williams said: "This whole region is catching up with Western Europe. It won't be a straight road, there will always be some going forward, stepping back and going forward again. Just as we've seen Spain catching up with Western Europe from being a poor country 25 years ago, that's exactly what is happening in Central and Eastern Europe."

In the next few pages, Corporate UK talks to leading specialists in Central and Eastern Europe to find out how M&A activity is faring in the region.

Russia

Buoyed up by sky-high oil and gas prices, Russia's economic growth over the past few years has brought with it a burgeoning M&A market across a range of sectors. Newly rich Russian companies are looking to consolidate and foreign investors have woken up to the huge potential of the Russian market.

According to a PwC report, M&A activity in 2007 in Russia increased by 61% over 2006 figures, hitting $179 billion. This is over three times the $53 billion in deal value created in 2005. Even though the number of deals actually fell last year, the average size of the deals more than doubled from $92 million to $190 million.

Foreign investors are particularly interested in opportunities in the energy, consumer goods and industrial sectors. The automotive sector as well is witnessing an active period of M&A as European suppliers to major automotive OEMs look to Russia to invest in production sites there. Real estate is also an attractive sector and many foreign investors are establishing REITs to take advantage of growth in Russia's property market.

European companies lead the investors into Russia in terms of numbers, especially those from Northern and Central European countries. However, there is a diverse range of countries represented with Japan and US investors, which are also present in Russia.

The Russian financial sector has not been as directly impacted by the subprime crisis as banks in the US and the UK. But Russian banks still rely on international interbank lending from western banks, which has been affected severely, and this means that financing for M&A in the country has become harder to access.

Ilja Ratschkov of European law firm Noerr's Moscow office said "What we can't deny is that for instance Russian construction companies are definitely slowing down now because of a lack of liquidity on the market. That does not mean the market is dead. But we have noted there is some need for liquidity which is not really covered by the banks."

Grigory Dudarev of Avanko Capital, a Russian M&A consultancy firm, added: "Russia will not be immune from the credit crunch. Financing of transactions will become much more difficult. We are already seeing transactions where financing from banking institutions is a crucial part having problems getting things closed. But this is not an issue at all for the trade buyer."

There are some very cash-rich Russian companies who do not need bank finance for their deals and are looking to spend some of their war chests built up during years of growth. The credit crunch and subsequent weakening of Western economies are creating opportunities both for these cash-rich Russian trade buyers as well as wealthy private individuals keen to find bargains abroad in the form of cash-poor targets.

Hans-Peter Zier of Noerr said: "We are starting to see Russian companies investing abroad and we are expecting further investors from Eastern Europe and Russia coming to Germany and Western Europe as a whole. We have clients who are looking at assets in Europe, especially Eastern and Central Europe. These are companies in various sectors such as tourism and heavy industry."

But investors in Russia will need the assistance of experienced advisers. Grigory Dudarev gave some background on what foreign investors can expect when buying a Russian company. "It's a very time consuming exercise. The country has changed a lot in recent years. Companies have changed a lot and there is a major transition from the old ways of doing things to the new way of doing things. Due diligence is quite expensive because there are a lot of things to be investigated and legal structuring takes quite a bit of time and is more complicated and more time consuming.

Tax complexity

"The tax system is not only complex but in general Russia is quite bureaucratic and requirements are very inefficient and labour consuming. Procedures are not user friendly and are also grossly inefficient. That takes a lot of additional time and effort," he continued.

Despite the legal challenges and gloom in western markets, there's no doubt that the size of the Russian market will continue to attract investors through 2008. Hans-Peter Zier said: "Foreign investors are very eager. They are only just discovering a market of more than 145 million people who can eat chocolate and wear jeans."

Mr Dudarev agreed that the strength of expansion in Russia means deals in the country will be able to easily shrug off the credit crunch in Western markets: "Despite the current economic uncertainty, I think 2008 will be a record breaking year, especially in the middle market."

Poland

Poland is one of the fastest growing economies of Central Eastern Europe. This is exemplified by the fact that last year its economy grew by a healthy 6.5%, and according to the European Bank for Reconstruction and Development it attracted $10 billion in foreign direct investment.

Piotr Andrzejczak partner at Domanski Zakrzewski Palinka said this is due to a growing number of entrepreneurs in Poland who are increasingly looking at M&A as a way of developing their businesses. "Last year the market in Poland grew at an incredible rate and we have seen a marked increase in the number of transactions taking place, and the value of these transactions is rising significantly," he said.

"Last year's M&A market was characterised by a steady deal flow and as a result revenue from advisory support to M&A deals represented a major portion of revenue for advisory firms, including law firms. Many of these transactions resulted from new foreign investments into Poland and the formation of new groups based on Polish capital via acquisitions."

Dominik Galkowski, a partner at Kubas, Kos, Gaertner, added. "We are seeing a large number of medium sized businesses making M&A transactions, mainly in the financial and insurance sector, which is proving a robust market for Polish M&A transactions."

Feeling the crunch?

The Central Eastern European countries have, to a certain extent remained unaffected by the credit crunch. But with Western banks reluctant to lend as much as they used to and setting tougher conditions, liquidity is starting to dry up and as a result the levels of foreign direct investment Poland has become accustomed to could diminish.

Mr Galkowski said that in a sudden turn of events M&A deals are flowing out of Poland, as opposed to into Poland. "Many Polish entrepreneurs are increasingly looking to buy companies abroad, not only in the obvious markets such as other Eastern European countries, but also in countries which are traditionally a source of investment into Poland such as Germany in Austria."

As a result of Poland's strategic geographical location, in the heart of continental Europe, its economic growth and investment friendly climate, the country has benefited from over $50 billion in direct foreign investment since 1990. If this rate of investment was to slow down the country's economy would certainly feel the effects.

Mr Andrzejczak added that already many deals in the first part of 2008 have suffered due to a lack of funds. "The credit crunch has had an affect on some M&A deals in recent months. In most cases, many deals have been postponed due to fund seeking or extended fund raising procedures," he said. "In extreme cases, some transactions were regrettably suspended or abandoned. This was particularly noticeable in the property market, where following the boom in this market; investors planned numerous attractive M&A deals but did not manage to close some of them due to funding problems.

"The Polish market is also expecting a re-valuation of many potential targets due to the global situation. By the time such re-valuation takes place and market expectations are met, a number of transactions or pre-transactional actions may be extended, and some deals may remain plans only."

The year ahead

Membership in the EU and access to EU structural funds have provided a major boost to the Polish economy in recent years and this has been sustained by rising private consumption and an increase in corporate investment. However the rate of last year's growth in the economy is in peril if it becomes affected by global economic difficulties. Mr Galkowski remains hopeful for Poland in the face of a downturn. "There may be a period of slowdown in the economy but I do not expect the crisis to have a major impact on Poland because we have not been exposed to the sub-prime market," he said. "I am optimistic for the future. The market is still growing and there will surely be an increase in transactions this year."

Mr Andrzejczak added. "In the upcoming year Poland's continuing economic growth along with the re-valuation of many potential targets will underpin a robust M&A market. In addition to this we will see an increase in activity from private equity funds in Central and Eastern Europe, who have announced that they are raising new funds for investments in our region."

Mr Galkowski echoes this view that private equity activity will increase in Poland. "Poland offers a good opportunity for private equity investment because you can acquire high quality companies with lower bids than elsewhere and these are often easy to finance. Most major private equity houses are active in Poland and I think they will be very active in M&A transactions

Peterka & Partners
Law Offices
Slovakia

PETERKA & PARTNERS

Ondřej Majer
Bratislava (SK) : +421 2 544 18 700
Prague (CZ) : +420 2 460 85 300
Kyiv (UA) : +380 44 581 11 20

office@peterkapartners.sk
www.peterkapartners.com

The Slovak economy put in a star performance last year with a record GDP growth of 10.4%, compared to a still impressive 8.5% in 2006. Since the beginning of the decade, the Slovak M&A market has reflected this growth, supported largely by local private equity and foreign investors acquiring shares in newly privatised or second stage privatised companies.

The 1998-2006 Dzurinda governments encouraged foreign investment into the country and carried out the economic restructuring necessary to join the EU in 2004, an event which bought with it a new momentum for foreign investment into Slovakia. The privatisation drive is now largely complete and the last few years have seen a drop off in deals involving state disposal of assets.

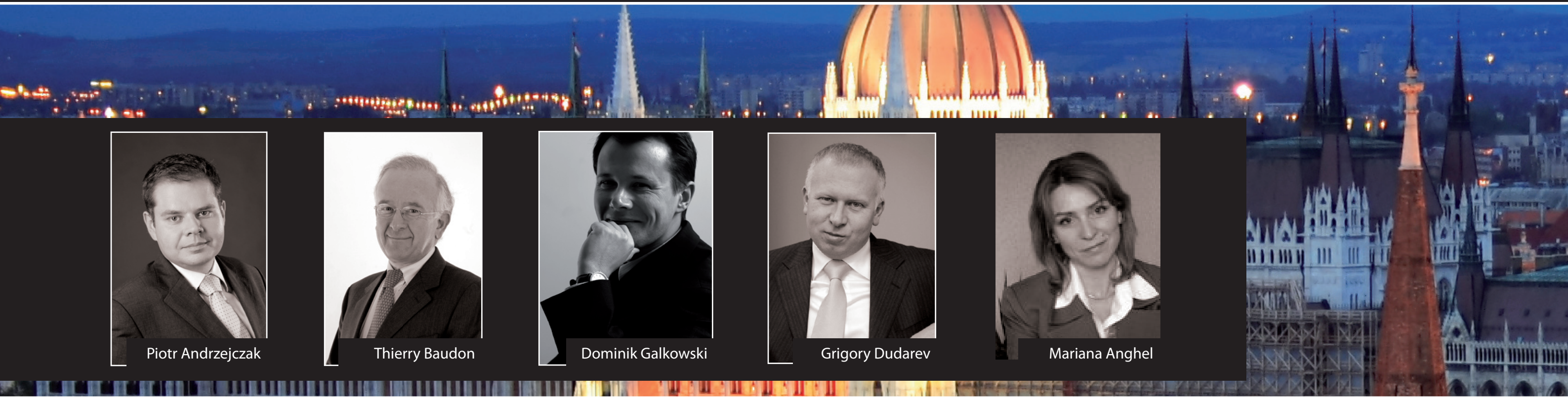
But that doesn't mean that there are no longer plenty of deals going through. Slovakia has been called 'Detroit of the East' as the automotive sector forms the backbone of the country's economy. Big international carmakers who have manufacturing bases in the country include Volkswagen, PSA Peugeot Citroen and Kia Motors and automotive supply companies are also a big presence in the country.

Slovakia's legislative and tax environment has been designed to make the country a welcoming destination for international investors. However, in terms of competition rules, the country stands out from its Central European neighbours as being somewhat harsher. Citing the case of Tesco's acquisition of Carrefour's stores in the country which was blocked last year by the Antimonopoly office, Ondrej Majer of Slovakian law firm Peterka & Partners said: "There is a general opinion amongst lawyers in Central Europe that the Slovakian Antimonopoly Office is one of the strictest in the region."

Up until now, the effect of the credit crunch on deals in the region has been relatively modest. Mr. Majer said: "The credit crunch has not significantly affected the Slovak market so far. But what is clearly apparent is the more cautious approach of investors compared to previous years. In addition, the credit crunch will probably affect the availability of funds provided by banks to a certain extent.

"We cannot say exactly how the deal market will develop though because of the problems in the US and the world. Slovakia is a small country so it depends on the rest of Europe's economy. It's really close to Austria - Bratislava and Vienna are 30 minutes apart in the car. Prague is also close so it is particularly linked to Central European economies," he added.

Peterka & Partners does not expect any major downturn in the M&A market in Slovakia in the next few months. "Although we do not have exact information on the whole market, we do not expect any essential reversal in 2008. As the largest deals in terms of size have already been done, the majority of deals in the future will affect medium-sized companies," said Mr. Majer.



Piotr Andrzejczak Thierry Baudon Dominik Galkowski Grigory Dudarev Mariana Anghel

this year."

Ukraine

With an average projected growth rate between 2006-2010 of 5.3%, Ukraine is a very attractive country at the moment for foreign investors. The country is set to join the WTO in May, reflecting its desire to engage in the global economy. Ukraine is also negotiating a free trade agreement with the EU which is further expected to grow its economy and give more security to investors.

Christian Pleister of CEE law firm Noerr's Kiev office is enthusiastic about M&A activity in Ukraine. "It's been very active and it's still booming," he said. "There is a very interesting and open market for financial institutions. We have about 180 banks and already between 35 and 55%, depending on whether you look at clients, turnover or the assets of the banks, are owned by foreign institutions."

As well as the financial sector, the food industry is proving attractive to foreign investors. Steel too, is another interesting sector. In 2005 the Ukrainian government privatised the country's largest steel mill in a $4.8 billion deal with Mittal Steel. Other important sectors are the chemical industry and suppliers to the automotive sector.

Although there are some disputes within the government about the scale of the privatisation process, the sale of state-held assets will continue to provide a key impetus for deals in the country. A majority stake in the 92% state-owned telecommunications company Ukrtelecom is expected to be put up for sale later this year. The government is also considering the privatisation of state-run energy companies, a move which is set to be politically controversial at home.

"Another important asset to be privatised is the Port of Odessa which is a de facto monopoly. The government decided in January to privatise it within this year. It's a very ambitious timeframe but everything is very ambitious in Ukraine," said Mr Pleister.

Ukraine will co-host Euro 2012 with Poland and this is set to create another wave of economic opportunity as the country will need more hotels and better tourist infrastructure as well as investment in its transport network. The Ukrainian government is keen to foster public private partnerships to deliver the investment needed.

Mr Pleister believed that Ukraine is strong enough to weather the credit woes that are afflicting western European markets. "There is a lot of cash available. I don't think the credit crunch will affect the Ukrainian economy. It's very much self-dependent"

Financial turmoil in western Europe may even push private equity towards Ukraine. "The big private equity deals in Europe have stalled because they cannot leverage themselves but funds still have money available and are looking to emerging Europe as an alternative. Emerging countries promise higher returns by investing a high portion of equity which is not as highly leveraged as in western deals," said Mr Pleister.

Mr Pleister provided some advice for foreign investors looking at Ukraine. "Things take longer and it's more bureaucratic so don't have too tight a timescale for your investment. There is more paperwork than in western Europe but you will still get your deal done," he said.

South East EuropeSouth East Europe is home to an active and diverse deal market. Real estate is booming in Croatia, Bulgaria and Montenegro for example, and is becoming more attractive for investors in Bosnia and Serbia. Project finance has been dominant in Croatia in connection with the leisure and retail sector and privatisation programmes are still ongoing in Serbia, Bosnia and Bulgaria. Although deals in the region have been affected by the credit crunch and it is more difficult to get financing, the slowdown has not been as bad as in Western Europe.

Barbara Novosel of DLA Piper Weiss-Tessbach in Austria works mainly with companies investing in the former Yugoslavia and in the wider region of South East Europe. Commenting on the types of deals she sees in the region, Ms Novosel said: "Real estate in combination with hospitality has proven to be very profitable almost throughout the region but especially in coastal countries. Mining and metals are dominant in Bosnia, Macedonia and Bulgaria. This covers iron ore, lime stone, granite, coal, bauxite, aluminium and steel."

The ongoing privatisation programme taking place in the region means that a lot of energy companies involved in both generation and distribution are coming onto the market. Allternative energy providers are also growing and the region has seen the construction of a number of wind farms. The privatisations of state-run telecommunication companies in Bulgaria, Bosnia and Serbia are also fuelling deals.

In an example of the privatisation drive, Aluminij, the region's biggest aluminium plant based in Mostar in Bosnia, is set to be sold off in the coming months. Last year it produced 121,750 tonnes of metal and generated export income of 240 million and its sale has attracted the interest of a number of strategic buyers. However, the deal is being held up due to a dispute over the price of electricity supplied to the plant.

A lot of investors in the region come from Austria as the country has long had both cultural and economic connections in South East Europe. Also, DLA Piper counts American, Israeli, Turkish, Arabic, Polish, Russian and other Western European investors amongst its clients in the region.

Ms Novosel pointed to the challenges involved in deals in the area, especially with regard to real estate. "Buyers should look out for denationalisation, the restitution rights of previous owners and the liberal expropriation rights by the state. There is also a slow and corrupt system of land records and the system for granting building permits likewise lacks integrity and efficiency.

"Public tenders lack transparency and compliance with the principles which privatisation tenders or procurement have in Western Europe and there is a bias against foreigners. When offers are not to the liking of the tending authority, the awarding of the best bid is often delayed and tenders cancelled. Any long term supply agreements which investors agree with government-owned utilities are often subject to the changing political climate and unpredictable breaches. These difficulties can be mitigated with good project management, legal and other professional advice," said Ms Novosel.

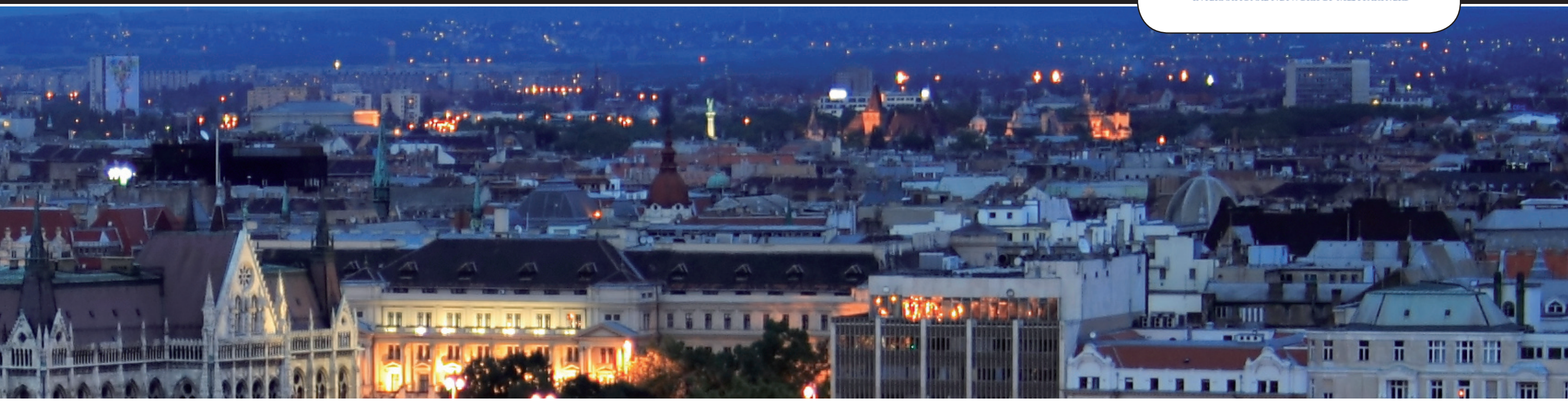
Slovenia

Slovenia enjoyed exceptional growth of 6.1% in 2007 and its entry to the Euro in January last year is a reflection of the country's strong economic credentials. Despite the Economist Group forecasting a slight moderation in Slovenian GDP growth, from 4.6% in 2008 to 4% in 2009, there is still plenty of scope for M&A in the region and Slovenian lawyers expect to remain busy well into the future.

Melita Trop of Slovenian law firm Miro Senica in odvetniki, Ljubljana, said: "I would say that M&A deals have been extremely active in the last few years. There have been a lot of acquisitions in Slovenia by national parties but also by international parties. We are seeing the kinds of parties interested in Slovenian targets that have not been present before on the Slovenian market." It seems that the credit turmoil in Western markets has not had any significant impact on deals in the region and lawyers on the ground predict that Slovenia will come through unscathed.

in association with:

IMAP International Network of M&A Partners



Privatisation of state-held companies is expected to become a major driver of future M&A activity in the country. “There is huge potential for M&A deals in Slovenia arising from sales of state stakes in companies,” said Ms Trop. The state is currently present in the country’s energy producing industry and infrastructure in terms of railways, ports and roads, with an either 100% ownership or majority ownership. Telecommunications and financial institutions are also largely still in the hands of the state.

The government’s promise to privatise these assets means that a bumper crop of M&A targets is set to come onto the market in the next few years and many investors, both Slovenian and from outside the country, are waiting in the wings. The country’s largest bank Nova Ljubljanska Banka is 34% owned by Belgian banking and insurance group KBC, Italy’s San Paolo IMI owns Banka Koper and ninth largest Slovenian bank, Krekova Banka is owned by Austrian Raiffeisen Zentralbank. However some accuse the Slovenian government of dragging its feet in the privatisation process.

Foreign private equity interest in Slovenia has been growing in the last years and looks set to continue. Foreign private equity funds are testing the waters in the country and some started to make acquisitions.

Corporate tax in Slovenia is 23% but this is scheduled to be reduced to 20% by 2010. The country has had the Euro for over a year and regards itself as a modern EU state. “We are a business-friendly environment. Purchasers in Slovenia can receive the same support as they would in any other EU country,” said Ms Trop.

Network focus: Morison International

Morison International in Central and Eastern Europe

Petr Sima of Czech multidisciplinary firm NSG Morison is Central and Eastern European spokesperson for Morison International, a global association of independent accountants, auditors, tax advisers, business consultants and lawyers, in the region. Morison International was established to allow member firms to serve the crossborder needs of their clients.

Mr Sima gave an overview of the deal landscape in the region: “The CEE region is definitely not homogeneous and the countries in the region are quite different. But, in general, there is a lot M&A activity in the entire area which is mainly driven by Western investors. At the same time there are acquisitions originating from within the region.”

Mr Sima pointed to Poland as a source of many deals, owing to the relative strength of the Polish stock market meaning that a lot of cash-rich Polish firms are able to expand in the region. CEE companies are growing organically at a rapid rate as well, especially in the real estate sector.

Mr Sima described how Morison International facilitates dealmaking in the region. “We share deal information across Morison International members and the details of people who are looking for acquisitions or doing disposals so we can put the association to the best effect. And by sharing expertise we can deliver the best team for each deal,” he said.

Describing how Morison International differs from other global networks and associations, he said: “We have a clear focus on building relationships between members firms by focusing on corporate finance activity including training and development for member firms. Though we are independent firms we share knowledge and skills.”

Focus on the Czech Republic

NSG Morison is based in the Czech Republic which is witnessing a buoyant M&A market. In the past, M&A activity was mainly driven by larger corporations but in the last few years, midmarket players have come to the fore as Czech SMEs become both targets and acquirers.

Traditional sectors like machine building remain strong but deals have been done across a variety of sectors. As the cost of labour in the country rises, the number of foreign investors attracted by cheap labour have dropped off but this is being counteracted by a new maturity amongst Czech companies. “We see a significant number of companies that in the last 10 to 15 years have grown from scratch to having an EBIT of €2 million across a range of different sectors. They are now either looking for targets or prepared to be taken over, especially as succession planning starts becoming an issue as well.”

Mr Sima reported no major impact of the credit crunch in the Czech Republic. He said: “Local banks are all owned by major international banks but are focused on the local market only and are highly profitable. Real estate developers have started feeling the higher price of money, though demand for good quality projects is still high. Real estate specialists are forecasting price stabilisation and slower growth than in the years preceding the crunch. Obviously, should the crisis last longer investors will have to reconsider M&A activity, but currently deals continue to emerge.”

Investing in property in the Czech Republic

Pajerová & Šnajdrová is often approached by foreign investors coming to the Czech Republic to purchase property for development in order to lease or resell it. The firm’s Vladimíra Pajerová said: “The most frequently asked questions by foreign investors relate to the acquisition of properties and the related risks. They also include questions relating to foreign entities conducting business in the Czech Republic, the tax system in the Czech Republic and the possibilities for tax optimisation. Questions on labour law, employers´ rights and obligations to employees are also current.”

Ms Pajerová stated that investors can rest assured that the Czech legal system will provide security for their investments. “The existing level of Czech legislation and the Czech Republic’s membership of the EU provides foreign clients with the necessary legislative assurance. The only and essential task for the client is to choose an attorney-at-law to whom he may reveal in full confidence his plan to be implemented,” said Ms Pajerová.

A typical case that the firm has worked on is a British fund interested in acquiring property in the Czech Republic which it wanted to develop and sell on at a profit. Pajerová & Šnajdrová advised on the tax issues involved in the resale of the property.

“The client was recommended to acquire property by purchasing business shares in a company which owned property and approved the acquisition. This method of property acquisition is very common as it is an advantageous way of optimising tax savings at resale. As a necessary precondition for closing the deal, we recommended that the client perform due diligence,” said Ms Pajerová.

Due diligence will reveal any issues connected with the property in question, such as unresolved restitution claims. These can arise as a result of unclear legislation from the beginning of the 1990s which might still be encountered even today. There can also be issues resulting from court disputes pursued against the company whose shares are bought or court disputes in connection with the property.

At the same time, due diligence reveals any of the company’s liabilities such as claims by governmental agencies or third parties or whether previous transfers of the company’s shares were implemented in accordance with legislation, namely the provisions of Section 196a of the Commercial Code. Failure to adhere to this code may result in the

(l-r): Neil McGregor, Boiana Berchi, Julian Spassov

invalidity of purchase agreement.

With regard to the British fund interested in buying property in the Czech Republic, the due diligence process highlighted some areas that needed addressing. “Thanks to the due diligence carried out, several failures in the implementation of previous transfers of business shares were established. However these were not fatal enough to result in the absolute invalidity of the purchase agreement. The client was notified of the situation and alternative solutions were proposed so that the burden and exposure to risk of both parties were minimised,” said Ms Pajerová

Romania & Bulgaria

While many parts of the world seem to be suffering in some way from the fallout of the credit crunch, both Romania and Bulgaria are still experiencing a healthy level of activity.

Romania ranks among the top five countries in the Central Eastern European region in terms of mergers and acquisitions completed in 2007, with €6.5 billion invested in 125 M&A transactions. The average value per transaction was estimated at €52 million and the total value of invested funds was 28 times bigger in 2007 compared to 2006, when it was €2.4 billion.

A bullish economy

This rate of activity looks set to continue into 2008 as, according to the chief economist of BRD-Societe Generale the macroeconomic data for Romania indicates a continuation of growth to 6.6% in 2008. The estimation of the BRD-Societe Generale analysts considers the contribution of services and construction sectors to the growth of the economy and Mara Anghel from Mariana Anghel Law Office considers these to be Romania’s assets: “Both the construction and services sector are robust in Romania and this is upheld by recent statistics published by Eurostat, which show Romania to be the most dynamic EU market in the construction sector,” she said.

“In addition to this the UK Minister of Trade stated that the services sector in Romania, along with the financial system, communications and the area of environment protection are the most attractive sectors for UK investments in Romania.”

Neil McGregor from McGregor and Partners added that activity in the Romanian and Bulgarian markets has been benefiting from strategic acquisitions and financial investments by funds and private equity houses. “The development of the markets following the accession of the two countries to the EU has encouraged strategic activity and the continuing transition of the economies obviously continues to provide financial investors with profitable opportunities for investment,” he said. “Much of the recent investment has been in real estate projects but we expect to see an increasing emphasis on more complicated development and infrastructure projects in the near future.”

Effects of the Credit Crunch

For the time being, the deal landscape in Romania and Bulgaria has not been significantly influenced by the global credit crunch. However the expected aggravation of the credit conditions and the increase in interest rates may still affect investments in the country. Ms Anghel said “The evolution of the Romanian economy will in certain respects be dependant on international turbulences, but internal factors, including the country’s capacity to manage the crisis has so far stood up to the test. Our EU membership provides a strong anchor in terms of economic and democratic standards, sustaining the attractiveness of Romania for financial investors as well as for strategic investments.

“According to the chief economist of BRD-Societe Generale, the Romanian banking system is quite solid in comparison to the banking systems in some other countries. This further enforces the view that the possible effects of the international crisis may be marginal and not create serious problems for the Romanian central bank.”

Mr McGregor added “The only effect of the credit crunch that I can predict relates to the availability of funds for foreign investors to raise the cash for investment in Romania and Bulgaria. In general, real estate prices show no sign of suffering and the greater scope for growth may make it more attractive for investments to be made here.”

Cross border activity

Cross border transactions involving Romania and Bulgaria have remained steady following the accession to the EU, and to a certain extent this has aided the level of bureaucracy that is to be dealt with, although there are always cultural differences that need to be taken into account. Mr McGregor said. “In any cross border transaction the key skill is always managing expectations to ensure that neither party has unrealistic expectations of what the other can deliver in a particular time,” he said.

“Many transactions involve a third jurisdiction, particularly when structuring joint ventures for the Romanian market, since Romanian law does not recognise voting conventions between shareholders and nominee ownership. However we are particularly pleased to be able to offer a ‘one stop shop’ service to clients who are doing business in both Romania and Bulgaria.”

2008 and onwards

The fact that Romania and Bulgaria have not yet experienced a downturn in the economy, does not mean that they are in any way safe. If the appetite for funding good deals remains strong and banks don’t feel the squeeze on credit too much then the forecast growth 6.6% in 2008 can hopefully be achieved.

Mr McGregor: “In the face of the credit crunch, we have been more than twice as busy in the first part of this year as we were in the equivalent period in 2007, and we expect this trend to continue well into 2008,” he said. “Also, we are increasingly busy working on energy projects. An example of this is the work carried out by our Sofia office on the establishment of the Long Man Wind Farm project near Varna, Bulgaria, for Global Wind Power.”

in association with:

IMAP

INTERNATIONAL NETWORK OF M&A PARTNERS

Baltics

in association with:

BORENIUS GROUP

HELSINKI | ESPOO | TAMPERE | TALLINN | RIGA | VILNIUS

Priit Pahapill
Luiga Mody Hääl Borenius
Estonia
+372 665 1888
Priit.Pahapill@lmh.ee

Lauris Liepa
Liepa, Skopina/Borenius
Latvia
+371 6 7201 811
lauris.liepa@borenius.lv,

Tomas Rymeikis
Foigt & Partners/Regija Borenius
Lithuania
+370 5 264 9555
t.rymeikis@regija.lt

So far, the Baltic States have been relatively immune from the credit crunch, cushioned by their lack of direct exposure to the western banking sector. But clouds are gathering overhead and the signs are there that a tougher economic climate in the wider world will impact on Latvia, Lithuania and Estonia in the coming months.

Some hope it will serve to rein in growth in a region which many have described as 'overheated' – inflation last year hit 14.1 per cent in Latvia. JPMorgan Chase & Co. predicts that average growth for the three countries could fall to 5 per cent this year, well below the last few years. Some commentators are even talking of a recession in Latvia, which only two years ago was posting rip-roaring growth of 11.9%. Real estate and logistics are bearing the brunt of the slowdown in the region.

Borenius Group's lawyers however are keen to stress that so far, they are as busy as ever. Last year saw a slew of large deals and big international private equity hitters, such as Blackstone Group have been keenly studying the region. The buyout giant was a partner in the proposed, not completed $575 million management buyout of Latvian IT and telecommunications company SIA Lattelecom Group. Central and Eastern European private equity specialist Mideuropa last year acquired Latvian and Lithuanian mobile phone operator Bité for 450 million.

But nobody is ignoring the warning signs. Tomas Rymeikis said: "I think the credit crunch will inevitably lead to a slowdown in transactions and the value of deals. It was the case nine years ago with the Russian crisis but we do not expect the slowdown to be as big as then."

It may be the Baltic States' proximity to Russia which shelter them from the ills of the western economies. Lauris Liepa of Liepa, Skopina/Borenius, Latvia said: "We can still see a fairly sizeable impact from the Russian economy and Russian businesses. In Russia GDP growth has been tremendously good, over 7% last year, and that is bringing lots of Russian money and business activity to the countries that are close to it. For this reason, people in legal markets have been kept in business also during the first quarter of this year, while the deal flow form the western European economies has slowed."

However, banks in the Baltics have already started to rein in the credit that was previously abundantly available for M&A and this will inevitably have an effect on deals and the economy in general. Priit Pahapill of Luiga Mody Hääl Borenius Estonia said: "The banks' approach to any sort of financing has obviously become very conservative. Many financing deals have been postponed for unknown time. It is clear that Estonia will somehow be affected by the wider global economic slowdown but it is yet to be seen exactly how. The specialists' forecasts are very different however. They all seem to agree that the years of rapid growth in economy are over for now and are to be followed by slowdown to either a small annual positive growth or even negative growth."

Advisers predict that a weakening in the Baltic economy will pave the way for cash-rich countries, such as Russia, to make inroads into the region and take advantage of Baltic companies who are struggling.

Private equity is present in the region, usually on a much smaller scale than in the European economies to the West. Deal size in the region means that local private equity funds have not suffered to the same extent as their western European and US counterparts. "We have local and regional private equity clients whose size is certainly smaller than Blackstone or Capital or the other major international private equity lenders. These midsize and small lenders have got money that they have saved cautioned by the signs of potential economical problems. Now they are looking around to see what to finance," said Mr Liepa.

Despite the mixed outlook for the Baltic economy, Borenius Group advisers in the three countries remain cautiously optimistic, saying the Baltic Sates still have the fundamentals in place that will encourage further M&A activity in the region. "Because we are quite new to the EU, foreign investors see this market as a potential for establishing business in the Baltic countries. The cost of labour is still quite low in comparison to other EU countries, therefore there will be some big deals," said Mr Rymeikis.

Mr Liepa is also sanguine: "We've survived crises in 1995,1998 and 2000 which taught people some lessons. I hope that lessons had been learned and we are better equipped now; we will know how to survive."

Foreign investment structuring in Russia: some legal frameworks

PG&P PEPELIAEV, GOLTSBLAT & PARTNERS

Pepeliaev, Goltsblat & Partners
A.Pekhovsky
www.pgplaw.ru

Never before has the production sector of Russia's economy seen such high investment growth as nowadays. It would, no doubt, be an over-simplification to put all this down to the inflow of petro-dollars and investment in the extraction industries. The successful implementation of a whole series of large-scale production investment projects, in both the engineering and consumer sectors, have indubitably contributed to driving economic growth.

This article is intended to draw your attention to three possible options of business structuring in Russia:

- Establishment of a wholly owned subsidiary in Russia that will run the business and be the sole owner of all assets necessary for its activities;
- Establishment of two wholly owned subsidiaries in Russia (sharing a common parent, but otherwise not related). One company will act as the "holding" company, which will own the assets necessary for the activities in Russia. The other company will run the business leasing all necessary assets from the "holding" company;
- Establishment of a wholly owned subsidiary that will run the business in Russia but not hold title to the property. All assets necessary for the operations of the business will be leased from the foreign investor directly.

Establishment of a single multipurpose wholly owned subsidiary in Russia

Advantages

- A single company will have lower management costs than a multiple company structure;
- Holding the title to property as part of the whole structure, a single company may have a greater degree of freedom in the event that mortgages are sought or the fixed assets are otherwise leveraged;
- If the company plans to operate in numerous areas within the Russian Federation, it may do so through branches or representative offices. Required permits and licenses are to be acquired only once for the company and not for each branch.

Risks

- The main risk of such a structure is that the company bears simultaneously all risks related to its business activity and title to the property. Therefore, in case any substantial problem arises with regard to business activities it will impact the property management and vice versa, and thereupon the forfeiture of title to the property may occur on various grounds.
- Some mistakes in tax calculation with regard to one type of activity of the company will influence the whole company. In the extreme event that taxes are not properly calculated, the tax authorities may seize corporate assets including, at the worst, real estate.

Separation of the business activities from the property ownership

Advantages

- Separating the property ownership from the business operations significantly reduces the risk that problems arising in one legal entity will negatively impact on the activities of the other.

Risks

- Russian legislation is very document oriented and all relations between the two companies need to be supported by contracts.
- Lease agreements for immovable property for terms of over a year will be subject to state registration.
- Fees between the legal entities paid under the contracts have tax consequences that will need to be considered:
- The transactions between related entities could be subject to transfer pricing control. The prices under agreements between such companies (e.g. property lease) that deviate from the market price by more than 20% are subject to mandatory modifications for tax purposes.
- The company providing services in Russia will have an insignificant amount of assets. Therefore many transactions will fall under the notion of "large-scale transaction". If transactions exceed 25% of the book value of the company's assets, these transactions will require approval of the company's shareholders / participants or Board of Directors;
- The net assets of the service company should be constantly checked and maintained. Russian law specifies that, if at the end of the second and each subsequent fiscal year the value of the company's net assets proves to be less than the minimum amount of the charter capital, the company is subject to liquidation;
- Procedure of obtaining permission on employment of foreign employees and work permits for foreigners may take up to six month and employment of foreign employees can be made only after mentioned permissions are received for each company;

Establishment of a wholly owned subsidiary which will exceptionally run the business in Russia

Advantages

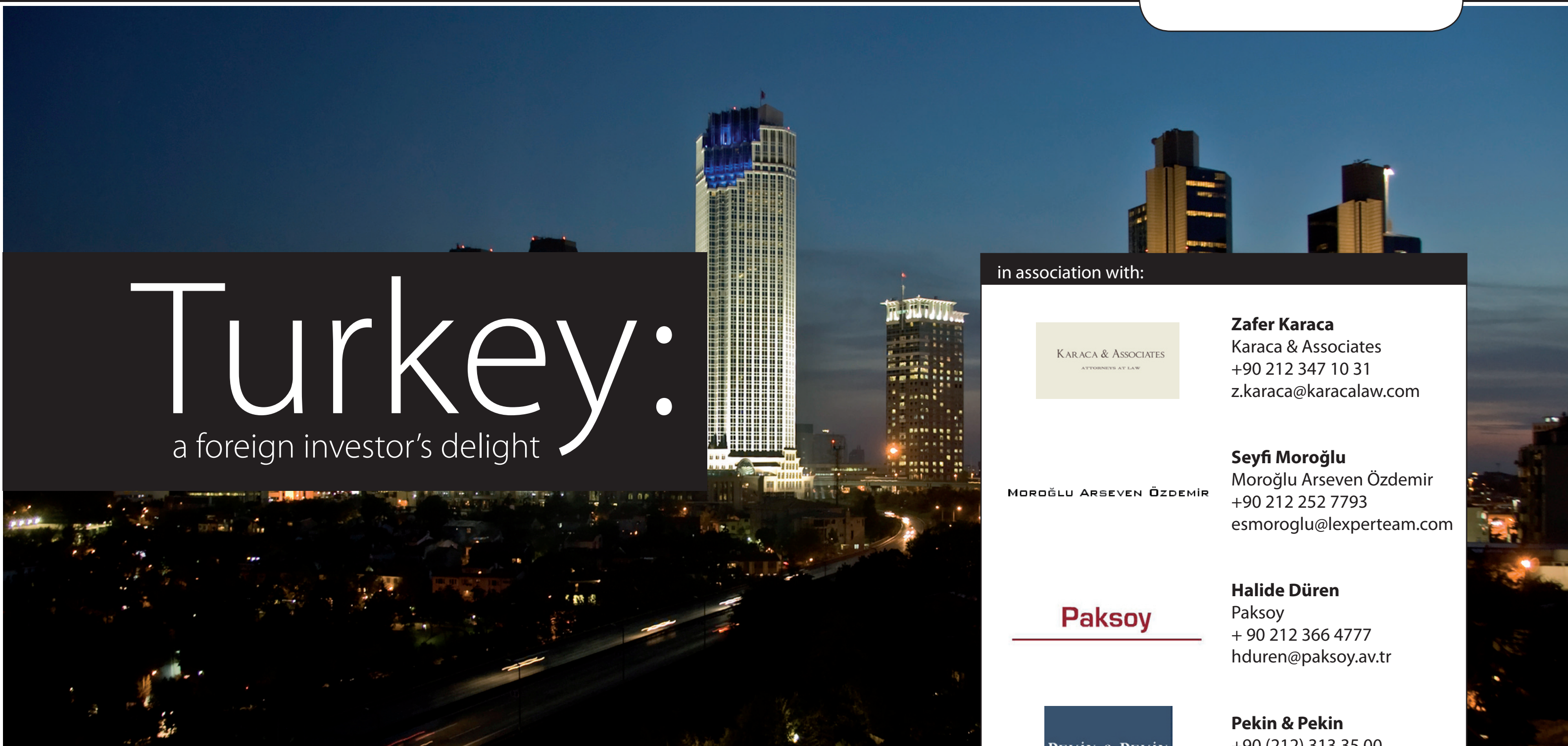
- The property is accumulated in a foreign company and property management is rather facilitated;
- Funds may be repatriated out of Russia through lease agreements as well as other agreements.

Risks

- According to the Russian Civil Code, under extreme conditions the "mother" company may bare a joint responsibility for the obligations of the "daughter" company if the liability occurred due to the instructions of the "mother" company. In this case the accumulated property may suffer;
- Russian legislation governing land ownership places some (minor) restrictions on foreign ownership of land (along national borders, for example);
- Although significantly liberalised in recent years, Russian currency control regulations remain complicated. Transactions between Russian and foreign legal entities will be monitored by the bank asked to make the transaction for compliance. The rules of special bank accounts and reservation requirements should be complied with.

in association with:

IMAP — International Network of M&A Partners



Turkey:

a foreign investor's delight

in association with:

Zafer Karaca
Karaca & Associates
+90 212 347 10 31
z.karaca@karacalaw.com

Seyfi Moroğlu
Moroğlu Arseven Özdemir
+90 212 252 7793
esmoroglu@lexperteam.com

Halide Düren
Paksoy
+ 90 212 366 4777
hduren@paksoy.av.tr

Pekin & Pekin
+90 (212) 313 35 00
postmaster@pekin-pekin.com

Turkish M&A has shown very few signs of letting up since the M&A market began to flourish over the last five years. Total deal volume reached 162 in 2007, with around half of these emanating from international investors, whose appetite for Turkish companies is as strong as ever. Questions over the country's full accession to the EU have added to fears that the foreign investors' taste for Turkey is eating away at the self-dependence of its national economy. The market remains exceptionally buoyant at least.

Booming M&A

Unprecedented levels of M&A activity last year amounted to in excess of $20 billion, extending a growth curve that Turkey hopes to bend further in 2008 after standing defiant against global credit turmoil. The M&A curve inclined particularly steeply three years ago, leading to a total $71 billion being accrued since then, against a $73 billion total over the last five years.

Thanks to high growth, economic stability, and reforms spurred on in part by attempts to assimilate Turkey with its potential EU counterparts, the country has become a burgeoning hotbed of FDI. Cross border deal making has therefore constituted a hefty proportion of these improvements over the past five years. Amongst the mega multi-jurisdictional deals that have steamed into Turkey during this growth period have been the acquisition of Turk Telecom by Suadi Oger for $6.5 billion and Vodafone's purchase of Telsim for $4.5 billion.

Such deals are just the pinnacle of an overseas investment drive which has led to around 40% of Turkish banks and 70% of the Turkish stock market to be brought under foreign ownership. The heavy dependency of Turkish M&A on foreign debt, however, could increase the likelihood of faltering activity over the coming year, as the fallout spreads through the international markets.

Nonetheless, as Halide Düren at Paksoy Law Firm pointed out, significant mergers have punctuated the market so far in 2008, with total values for the first quarter topping $4 billion. "Existing markets, particularly Turkey, have a generally secure position even though they may feel the side effects of the ongoing credit turmoil," she said.

"However, data shows that FDI in Turkey is slowing as buyers scared by the global credit crisis become more selective. Analysts say Turkey will draw at least $15 billion in FDI this year and a $20 billion goal is well within reach despite global gloom, but this is partly due to payments from past sales."

A spokesperson from law firm commented: "The M&A market in Turkey at present is an emerging Euro-tiger and both strategic investors, including blue-chip international companies, and major private equity funds have recently closed M&A deals or looking into many exciting transactions. Significant M&A transactions are being expected in energy, health, pharmaceuticals and insurance sectors in particular.

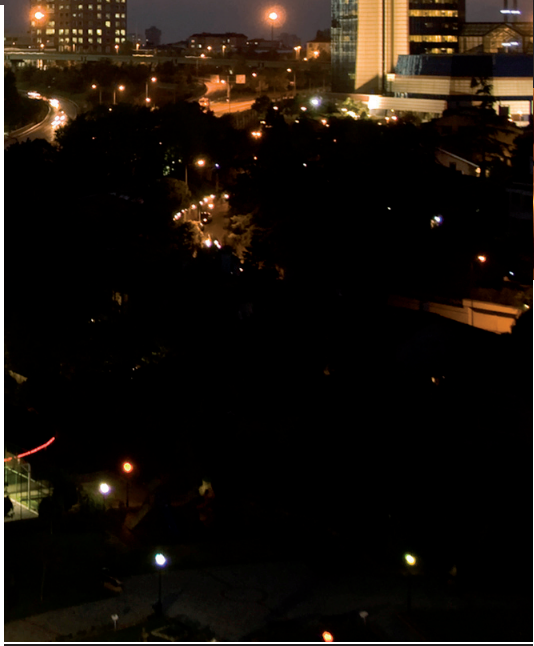
"Furthermore, in the past five years, privatisation worth US$18.3 billion have been realised in Turkey, and it is being planned that electrical energy generation and distribution companies, including Ankara gas grid, Istanbul Metropolitan Municipality subsidiaries Istanbul Gas Distribution Inc. (IGDAS) and Istanbul Seabuses and Fast Ferries Inc. (IDO), projected to bring $10 billion in revenue, and National Lottery will be privatised in the year 2008."

The overseas wave continues

Strong Turkish businesses are still being snapped up by foreign companies. British American Tobacco privatised Turkish cigarette manufacturer TEKEL for $1.7 billion in February after fighting off several Turkish competitors, while in the same month, BC Partners added to the growing presence of private equity in Turkey when it acquired the country's largest supermarket chain, Migros Türk.

The TEKEL deal came just weeks after approval from the Turkish parliament to ban smoking in public over the next 15 months. BAT estimates this will cut smoking levels by 5% in a market where Turks smoke around 110 billion cigarettes a year, but the British giant was still not deterred.

So what exactly has triggered this burgeoning enthusiasm for Turkish companies? Seyfi Morolu from Morolu Arseven Özdemir attributed the M&A market's continued strong activity to the economic approach of the government and their liberalisation of FDI. "This has 'opened the doors of the dam' so to speak, and motivated many foreign investors who have long been considering to have a production, marketing or management base in Turkey," he said.



"Another reason for the attractiveness of Turkish M&A is the growing need of local companies for funds in Turkey," Mr. Moroglu continued. "This places a burden on the seller rather than the buyer, which continues to support the buyer's decisions in completing the deal. M&A finance has mainly come from international banks and the practice of M&A financing in Turkey is developing slowly, unparallel to the growth and current level of the M&A market."

Quelling fears that the deal financing sector will continue to impede domestic M&A in Turkey, financial services did see more activity than any other in 2007, and ING Bank's acquisition of Oyak Bank was last year's biggest deal, valued at $2.67 billion. Such consolidating deals are likely to have a wider long term influence on Turkish M&A, bringing increased sophistication to a thus far underdeveloped banking sector.

Zafer Karaca, partner at Turkish law firm Karaca & Associates agreed that the SME sector will be ripe for activity following further M&A in the banking sector. "As a consequence, medium and small sized companies in Turkey may well benefit and find foreign targets, as long as domestic politics are not led astray by the daily tensions of old fashioned leaders," he said.

"There are many productive and hard working manufacturing lines here, but they are in need of management know-how in order to penetrate the international markets," he continued. "Turkish banks at the moment don't encourage M&A projects amongst mid cap companies. Instead, they back bigger companies with financial strength in the short term, which doesn't help in developing a more competitive free market."

Are EU being serious?

One hot topic that has dominated media coverage surrounding Turkey over the past year has been the country's potential accession to the European Union. Whether future reforms to be undertaken as part of an assimilation process with fellow European nations have directly influenced recent high levels of M&A activity is still in question.

Zafer Karaca explained that full membership negotiations have already provided an important impetus to foreign investment. "Foreign investors are now more concerned with the future reforms, however, and Turkey's integration into the EU will surely be achieved through legislative reforms on the part of Turkey, and equal treatment from the EU towards Turkey as an 'acquis communautaire'."

It is indisputable that the 'EU effect' has prompted a certain modernisation of the Turkish market, and as negotiations persist, needless bureaucracy is being slowly dissolved, whilst market liberalisation looks set to continue. In a World Bank study evaluating the ease of doing business in 178 countries, Turkey ranked 57th in 2008, up from 65th in 2007, which shows a steady move towards more Europeanised regulatory structures.

As Seyfi Moroglu noted, however, the correlation between EU negotiations and the burgeoning economy has been far from directly proportional. "Full membership negotiation with the EU is still taking place at a very high political level whereas the enormous global commercial activity in the world is also reflected in the Turkish market.

"The real determining factors of cross border activity are global commercial, financial, and industrial ones," he continued. "If the correlation between full membership negotiations and the increase in commercial activity was a direct one, we would definitely be in a weak position."

Solid prospects for 2008

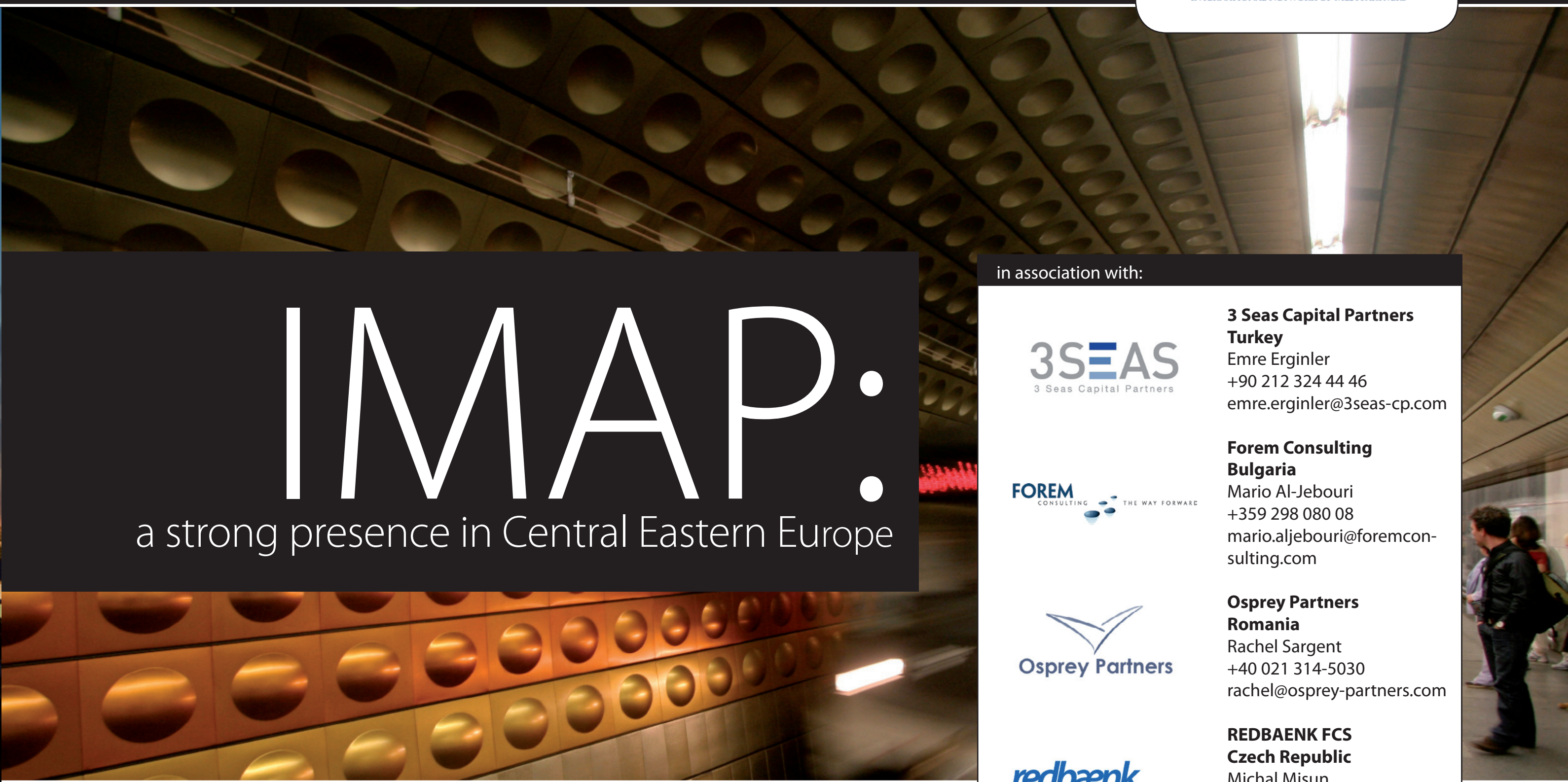
Deals completed so far this year, however have demonstrated Turkey's position to be a robust and defiant one. The country's corporate finance arena will only continue to improve with additional reforms, such as further simplification of bureaucracy and well regulated corporate law.

Halide Düren painted an outline of the Turkish market's outlook as it stands: "Currently we're seeing an increase in project finance deals financed by Turkish parties, but also in line with global trends, investments such as mining, energy and petrochemicals are likely to increase," she said.

Ms. Düren also explained that such privatisations as the firm has already worked on with the TEKEL deal, for example, will further increase international direct investment into Turkey. "Privatisation projects that have been interrupted or remain in the preparation stage include power distribution companies, highways, and certain ports. Halkbank and National Lottery Administration are also in the pipeline to be privatised."

in association with:

IMAP
INTERNATIONAL NETWORK OF M&A PARTNERS



IMAP:
a strong presence in Central Eastern Europe

in association with:

3 Seas Capital Partners
Turkey
Emre Erginler
+90 212 324 44 46
emre.erginler@3seas-cp.com

Forem Consulting
Bulgaria
Mario Al-Jebouri
+359 298 080 08
mario.aljebouri@foremconsulting.com

Osprey Partners
Romania
Rachel Sargent
+40 021 314-5030
rachel@osprey-partners.com

REDBAENK FCS
Czech Republic
Michal Misun
+420 221 986 450
michal.misun@redbaenk.cz

SEECAP
Serbia
Zoran Mitic
+381 113 283 100
zoran.mitic@seecap.com

Formed in 1973, IMAP is one of the oldest and most prestigious global mid-market mergers and acquisitions organisations in the world. With almost 60 member firms in over 40 countries and five continents, IMAP unites the top independent advisory firms on a global scale, and allows members to offer their clients seamless cross-border and global coverage.

IMAP is dedicated to helping buyers and sellers of mid-market companies establish and fulfil important objectives. The organisation offers access to carefully selected, leading intermediaries who can provide local expertise on a global scale. It serves as an informational vehicle regarding key developments impacting the acquisition and sale of companies and also forms a dedicated network through which its members may gain confidential access to qualified domestic and international buyers and sellers.

Members are carefully selected, leading intermediaries in their respective markets, distinguished by their skill, integrity, experience and ethics and are considered among the best in the business.

In 2007, IMAP was ranked 4th globally for global deals with a value of over $50 million among worldwide mid-market advisory organisations, according to the recently released Thomson Financial league tables, and listed 6th for completed transactions of up to $100 million worldwide. The firm ranked 6th in Europe, 7th in the U.S., 6th in Eastern Europe, 9th in Hochinma and 1st in the Nordic region for completed transactions up to $100 million.

Benefits of IMAP

Rachel Sargent, IMAP chairman of the Central European region and managing partner at Romanian firm Osprey Partners explained the reasons behind the establishment of the grouping: "We figured that soon many regional champions would want to start expanding outside their borders. So, we established our group with the intention of simulating our success with intra-regional deals," she said. "We are very strong in this area because we are used to co-operating together and have strong local knowledge. In addition to this we have a well developed buy-side product for acquisitive companies. We discuss deal ideas within our group and share data."

Ms Sargent went on to detail the benefits of IMAP membership. "Our partnership with IMAP means we are able to leverage their key relationships and experience so it accelerates and improves all our processes. When we make a 'long-list' of potential investors or buyers that list contains all of IMAP's knowledge and experience. This significantly increases our chances of finding an investor or buyer and closing a transaction," she said. "In addition to this our clients like to deal with entrepreneurial minded people, and that is what IMAP is composed of. We often refer to our IMAP colleagues and in most cases they act as an extension of our team in Romania."

Emre Erginler from 3 Seas Capital Partners in Turkey explained the benefits of his IMAP membership when identifying potential M&A targets. "Being able to reach out to other IMAP partners across the globe is an invaluable asset for us. In many instances we have turned to our IMAP partners for co-operation on either identifying a target or identifying potential acquirers," he said.

A key advantage of IMAP is that local members can often identify extra opportunities in their home markets that may have been missed in the first instance. Mr Erginler added. "In this case the entire process becomes quicker and more efficient, as in most cases our local partners have an existing relationship with the targets/acquirers they identify for us and often approach them locally, on our behalf," he said "Essentially, our IMAP membership has added an international dimension to our organisation and has helped us compete with our major local competitors who have international parent corporations"

IMAP's offering

IMAP offers extensive services on both the buy and sell side of corporate transactions. Through contact with a local firm in an overseas jurisdiction you have immediate access to detailed knowledge of the local market as IMAP firms are essentially local firms, focused on their particular market. Furthermore, you are guaranteed the engagement of a local partner in each deal, which can help bridge the gap between different national specifications.

Rachel Sargeant

Mr Misun from REDBAENK in Czech Republic said that on the sell side IMAP comes in most useful when identifying potential investors. "No database, however large, can substitute the knowledge of a local partner focusing on their particular country. For a recent mid-market transaction, we obtained from one of our IMAP partners a 'long-list' with over 100 names of potential investors," he said. "The mid-sized M&A market is different form large deals as smaller companies are usually niche specialist players, where detailed knowledge of potential investors is very valuable as the numbers of would-be investors are usually very limited. In this case a long-list of that size is excellent for mid-sized M&A potential."

At any one time a firm can be working on a number of international or cross border deals that are benefiting from local assistance from IMAP. Ms Sargent currently has a high number of live mandates with IMAP partners around the world. "One of our UK colleagues was contacted by a UK company who wanted to dispose of their investment in Romania and we are now managing that for them. In addition to this, we have four mandates with our Czech colleagues for Czech companies that are buying Romanian companies in various fields," she said. "Working together on these mandates has benefited the clients because our Czech IMAP colleagues can manage the client relationship with better sensitivity than we can but we add vital local knowledge."

Within the IMAP organisation, certain industry specialists have been identified, in order to maximise more business opportunities in the areas of automotive, business outsourcing, construction, food, global energy, information technology and life sciences. These specialised groups are active in their particular industry and vested in their local business community. Providing insight into industry-specific valuations, transaction processes and market developments these industry specialties allow IMAP to satisfy any client request and provide the ability to identify appropriate buyer and seller prospects.

By sharing not only M&A leads but also sector analysis and industry specific insight in a region where information on potential targets is not readily available. Unique experience of each IMAP member, especially in our region, with different marketing tactics is both educational and instrumental for growth of M&A advisory services and helps shaping out a successful business model tailored to the middle market.

Mario Al-Jebouri from Forem Consulting explained that the industry specific knowledge of IMAP firms is one of the organisations key advantages. "IMAP distinguishes itself from other similar organisations by sharing not only M&A leads but also sector analysis and industry specific insight in a region where information on potential targets is not readily available. The unique experiences of each IMAP member, especially in our region, with different marketing tactics is both educational and instrumental for growth of M&A advisory services and helps to establish a successful business model tailored to the mid-market."

Foreign investment in CEE

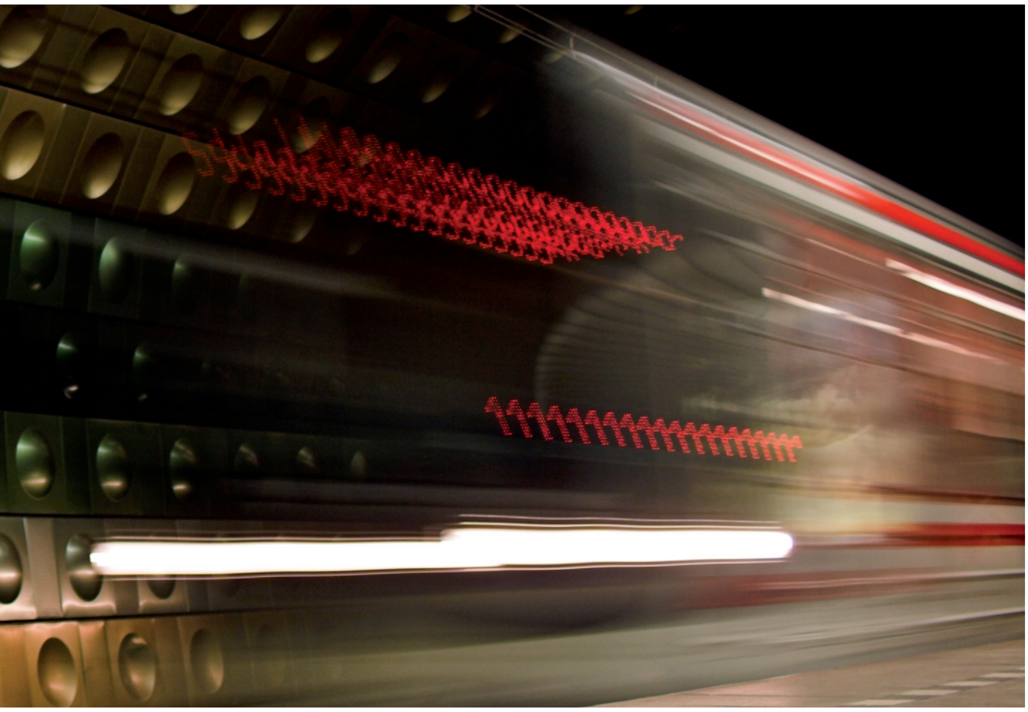
Foreign investment is a key element of a country's economy that provides a major source of capital. Such investments bolster domestic capital, productivity, and employment, all of which are crucial to sustaining economic growth. Mr Erginler explained that Turkey is currently experiencing high levels of foreign investment. "Most investors in Turkey originate from Western Europe and the US and we are starting to see increasing interest from the Middle East," he said. "Most of the foreign direct investment coming into Turkey has been directed towards the financial sector, such as banks, brokerages and insurance companies. Industrial sectors and service related businesses have also seen increasing interest in the last couple of years. The largest non-financial benefactors of FDI have been telecommunication, energy, retail, logistics, port operations, pharmaceuticals, and healthcare related industries."

In addition to this the Czech Republic continues to be interesting for foreign strategic buyers. Last year, the primary interest was in utilities and financial companies, mainly from manufacturers as there is still a skilled and cheap labour force compared do West Europe. Increasingly however, the majority of interest has been drawn by the IT and media sector.

In the past few months Mr Misun has witnessed growing interest from distributors, mostly specialised in specific niche markets for investment into the Czech Republic. "At present around half of our mandates are related to the construction and distribution sectors. One of our recent deals in this sector, and one in which IMAP were involved, is the acquisition of Tchas, the largest independent Czech construction company by Eiffage, a leading French construction company."

As one of the largest EU members, Romania offers an attractive market in terms of size and population, offering investors strong market potential. In 2006 Romania experienced record volumes of foreign investment totalling almost 9 billion, and in 2007 it was the second largest recipient of foreign direct investment in Central Eastern Europe after Poland.

Ms Sargent said that since the Romanian revolution of 1989 foreign direct investment has been led from Europe, with investors seeking value for money in the manufacturing sector and the opportunity to provide over 22 million new customers with products and services. "Romania has entered a more sophisticated phase in terms of investment.



The banking sector is almost entirely dominated by foreign banks and many foreign private equity groups are looking for strong local companies to support or acquire as the corporate sector has matured. In addition to this, we have seen increased interest and activity from India and Russia who are looking for manufacturing opportunities and access to the EU via Romania."

Zoran Mitic of SEECAP, Serbia's first independent investment banking boutique believes that the democratic changes in 2000 have shifted interest from the political to the commercial arena in the country. Since then the country has received over 10 billion of foreign direct investment, including investments by private equity groups. "Serbia has been one of Europe's fastest growing economies with GDP growth averaging 7.3% since 2004. The World Bank Report described Serbia in 2004 as a top performer," he said. "With GDP growth remaining high we are expecting more mandates from large equity funds. While the local demand is leaning towards the growth funds I would not rule out the potential for major buyouts in the coming years."

CEE and the credit crunch

The emerging economies of Central Eastern Europe have been enjoying rapid growth in recent years. However, the spread of the global credit crunch and a possible recession in the US are threatening the stability of all markets. Following the rates of M&A activity experienced in the last year Eastern European countries look well positioned to sustain this growth, yet some are feeling the effects in certain areas already.

In 2007 57% of the total M&A volume in Bulgaria was dominated by acquisitions by private equity groups. Mr Al-Jebouri said. "M&A turnover in Bulgaria last year totalled approximately €3.5 billion, and about a third of this came from the telecommunications sector. A significant transaction in this area was the €1.8 billion sale of Bulgarian Telecom Company BTC to AIG Group, which accounted for half of the total volume," he said. "There were some large deals in the financial services sector also, with the sale of two banks, the largest insurance company and the largest consumer finance company last year. Retail sector, mainly large food and electronic retailers contributed 10% to the overall M&A activity and the real estate sector witnessed the first large MBO in Bulgaria."

All of this activity in the past year is promising for Bulgaria's economy. However, Mr Al-Jebouri, founding partner at Forem Consulting Bulgaria, added that in 2008 the credit crunch has begun to take hold in certain areas. "The issues in the global economy have negatively affected the IPO momentum on the local stock market with close to a dozen IPO's already postponed or rescheduled for the second half of 2008. The stock index declined almost 40% from last year's highs and price expectations of sellers have slowly started to become more realistic," he said. "Last year the M&A scene was dominated by financial investors and the stock crash has brought public companies to more reasonable levels which is expected to further boost the appetite of private equity group's for acquisitions."

Mr Erginler added. "So far we have not experienced a slowdown in the M&A activity in Turkey in relation to the credit crunch and Turkish banks have not been affected by the global crisis, however they are still cautious. The only issue has been the slight slowdown in the credit processing times and the increase in YTL borrowing rates. Due to the increase in liquidity needs, an increasing number of companies have started looking for foreign partnerships that can also bring money to the table in order to continue any investments."