

Central European
Private Equity
Confidence Survey



Introduction



As illustrated on the front cover, M&A is “on ice”! However, many private equity professionals in Central Europe see the current environment as a great opportunity and believe that seeds sown in 2009 may reap great rewards.

Welcome to the latest edition of our Deloitte Central Europe Private Equity Confidence Survey, which has been mapping expectations of private equity professionals in the region since March 2003.

In line with the daily coverage in the financial press confidence of private equity professionals in Central Europe has expectedly plummeted compared to Spring of 2008. The private equity market is adjusting to the global changes and lack of liquidity in the banking market by shifting focus to portfolio management and waiting for the market to become a “buyers playground”.

Despite the overall current lack of optimism and cautiousness, private equity still sees Central Europe as one of the regions which will be less hit by a global economic downturn. Many Private Equity professionals in Central Europe see the current environment as a great opportunity and believe that seeds sown in 2009 may reap great rewards. The corollary of this of course is that seeds sown in 2008 may need constant nourishing in order for them to flourish.

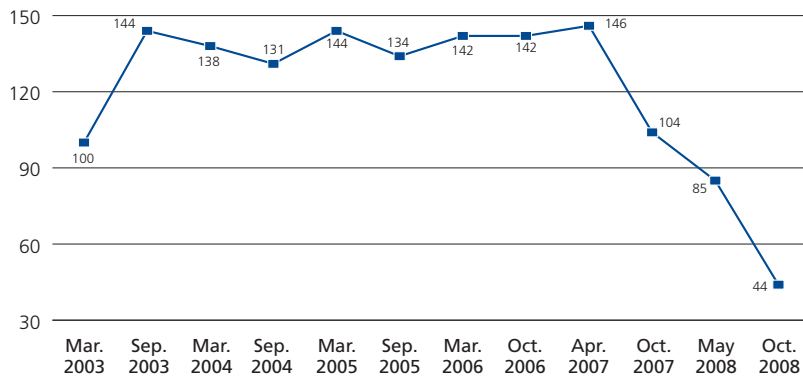
Let me wish you a Merry Christmas, Happy New Year and a revival of M&A flow in 2009.

Garret Byrne
Partner,
M&A Transaction Services Leader,
Central Europe

December 2008

Overview

Central Europe PE Index



Central Europe Private Equity Index

After an all time high in 2007 a new stage is set - the CE PE confidence index has plummeted to unprecedented lows and hopefully will not be beaten in months to come.

Signs of distress are seen and felt in virtually all aspects of leading economies. Hopes for quick recovery are tampered by locked credits and a stagnant interbank market. Unprecedented volatility in international equity markets forced European equities to reach new lows.

Despite the completely changed M&A landscape, positioning of leading PE funds in CE is still strong with funds available to spend, however largely in a stand-by mode waiting for entry multiples and seller expectations to curtail.

Three key reasons for the current slowdown pinpointed by key PE players are uncertainty in the markets, limited funding and time needed for sellers to adjust to new multiples and expectations. Market players currently face concerns about the gap between the point when buyers are legally committed and ultimate payment of money takes place - what will happen if severe change happens in the interim and how the hit is shared?

On a brighter note – historically in downturns there are more opportunities to create value for players who have available funds and can enter the market

Key findings

- Global financial crisis and economic turmoil has cut the confidence in private equity in half compared to April 2008
- Debt availability expected to contract further in the short term
- Clear shift of fund focus from new acquisitions to portfolio management
- Despite expectations on slowing market activity, funds expect to buy more in the coming periods with key competition for mid-sized targets and market leaders
- Unanimously, entry multiples are expected to curtail

of low valuations and forced sales where cash is king. Strong companies may face a once in a life time opportunity to secure dominant market share at reasonable pricing levels.

Corporate divestitures are expected to be a hot topic in the near future, while many large troubled groups will aim to divest non-core assets at potentially lucrative prices. The Majority of deals should fall into the mid-market deal size range.

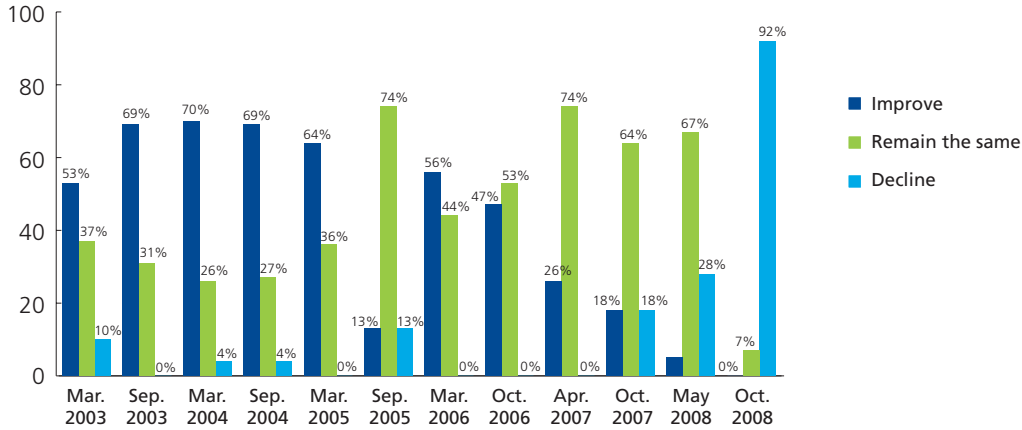
The current PE model may have to adapt, or rather step back, to the model used in the early 2000's - buying at comparatively low multiples, focusing on improving operations, bringing in expertise, realising synergies and selling on again, rather than relying on a leverage based model. To a large extent, this correlates with the overall shift of investor focus from new acquisitions to portfolio management, which will require more managerial and industry expert skills to survive the storm in the short run.

Once reasonable confidence in the markets is re-established, M&A track will be gained again. Deeper investigation of the potential deals with a focus on robust financial and commercial due diligence, and going back to fundamentals when valuing targets is expected.

Emerging markets are expected to continue to be one of the key focus points for many PE funds.

Survey results

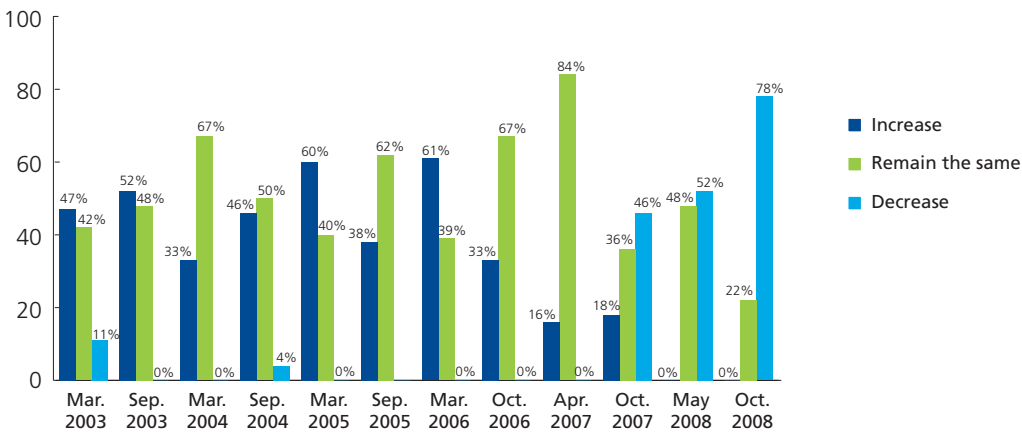
For this period, I expect the overall economic climate to:



Economic Climate

Signs of concern over economic climate expressed six months ago converged to zero improvement expectations in the short-term. 92% of respondents expect the overall economic climate to decline.

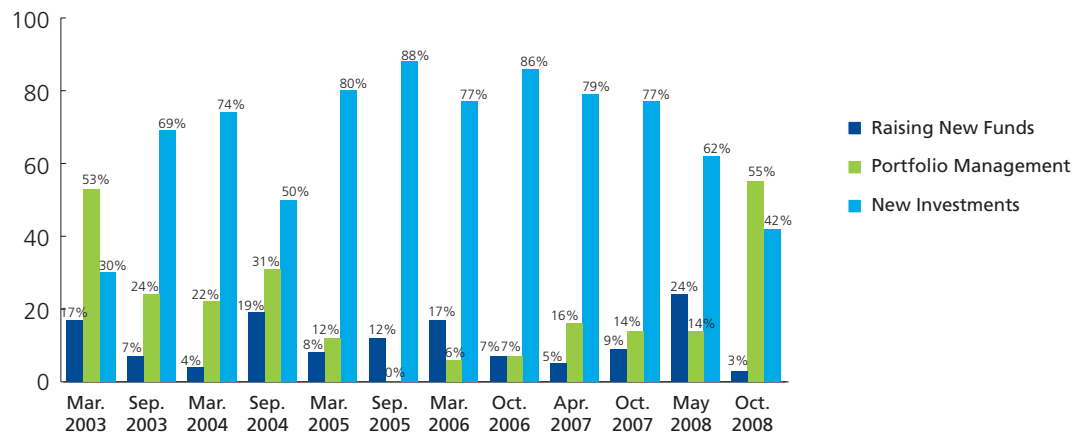
For this period, I expect the availability of debt finance to:



Debt Availability

Swing in expectations regarding debt availability which was clearly visible during last year has come to haunt the CE market worse than ever with limited debt available at increasing margins.

For this period, I expect to spend the majority of my time focusing on:



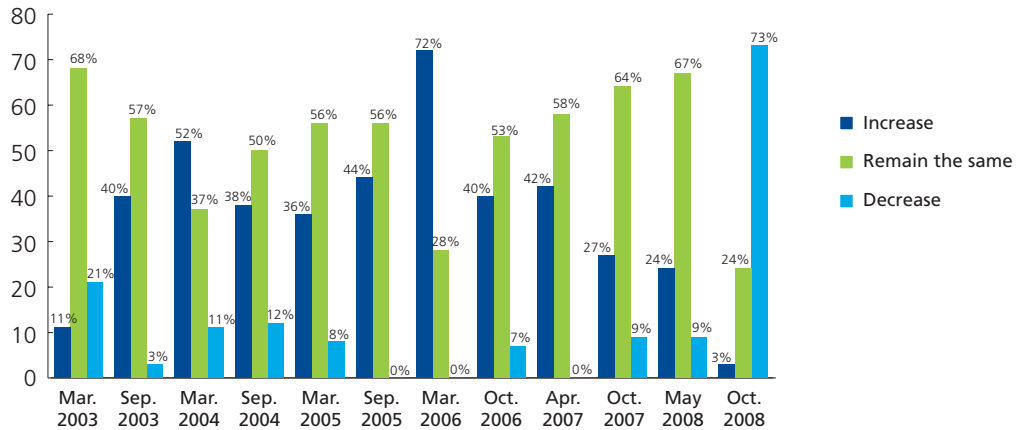
Investors' Focus

Participants focus on portfolio management with new investments left as second priority - a flashback to early 2003.

Size of Transaction

Remaining market activity is expected in small to mid-market deals with anticipated growth potential to be realised during coming periods. Small-cap deals with low levels of leverage seem to be the order of the day.

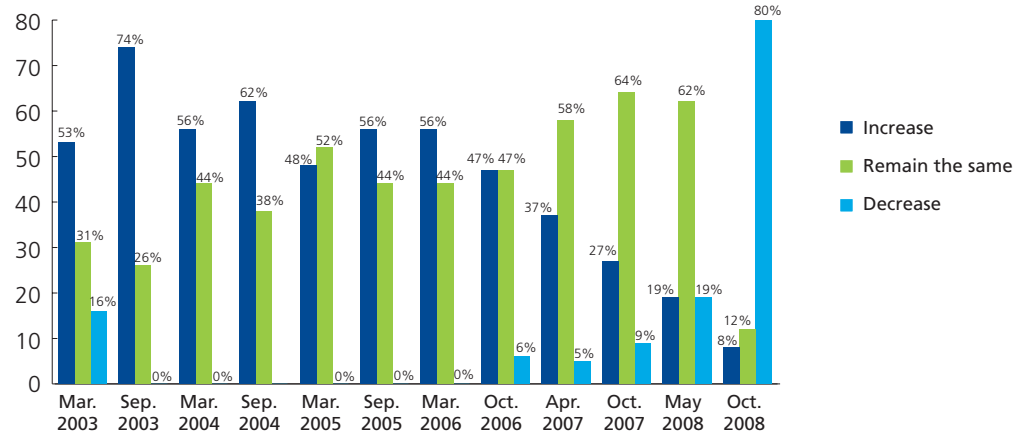
For this period, I expect the average size of transactions to:



Market Activity

The M&A market is largely in suspense in the short term, with speculation regarding recovery in Q2 or Q3 of 2009.

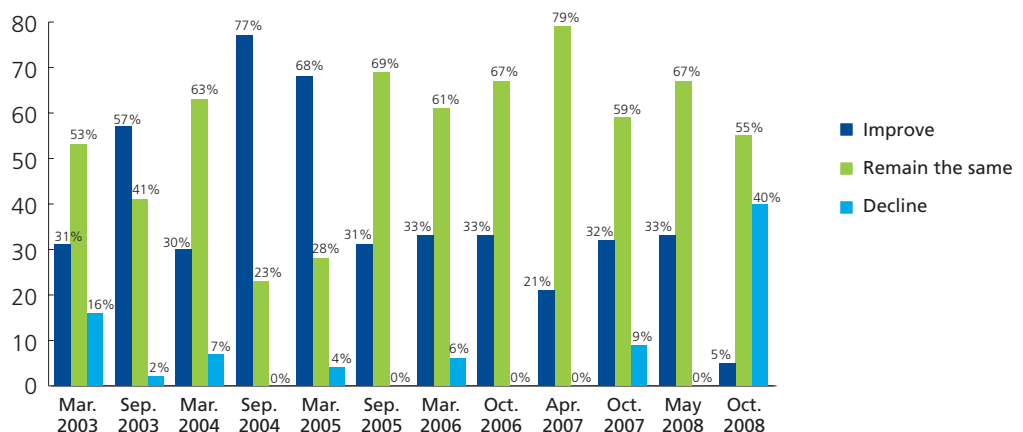
For this period, I expect the overall market activity to:



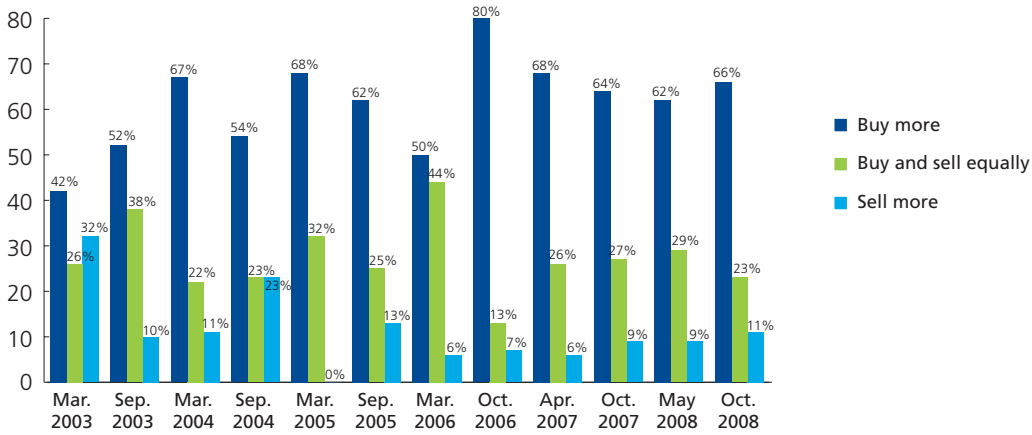
Investment Efficiency

Notable change in participant investment efficiency in short term is expected compared to previous periods. 40% of respondents expect performance of their financial investments to decline, while only 6 months ago not a single respondent responded pessimistically.

For this period, I expect efficiency of my financial investments to:



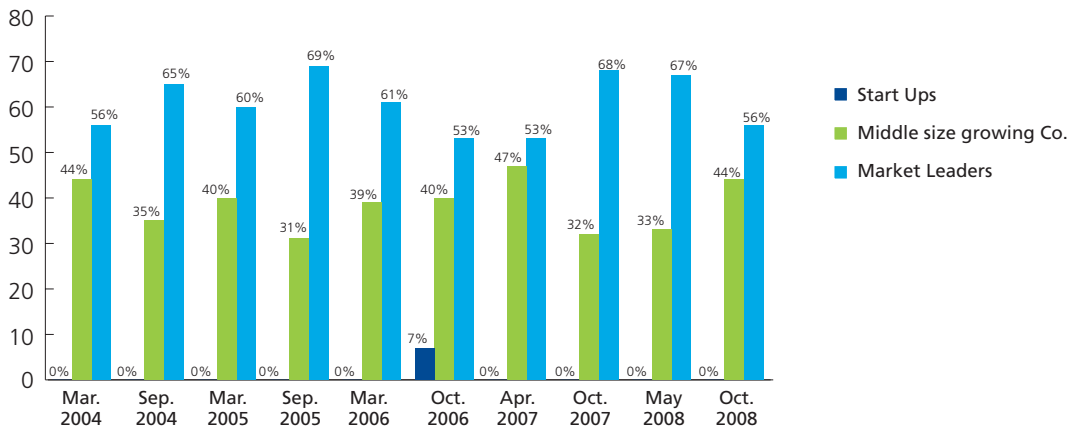
For this period, I expect to



Investors' Activities

Unsurprisingly, given current valuation levels, PE funds expect to be net buyers. Search for new and add-on investments at lower multiples prevail with the expectation that seeds sown in 2009 may lead to great rewards.

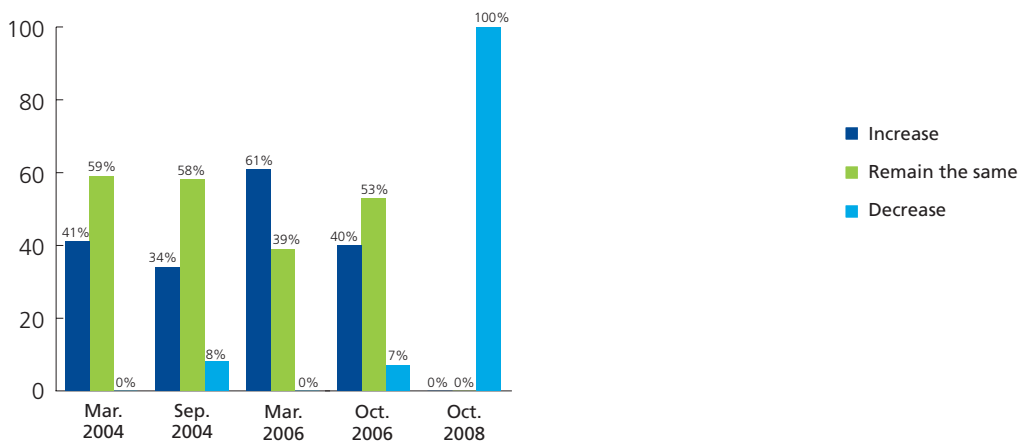
For this period, I expect the highest competition for new investment opportunities in:



New Investments Competition

Market leaders and less affected high potential mid-market targets are expected to steal the investment interest spotlight in short term.

For this period, I expect entry multiples on transactions to:



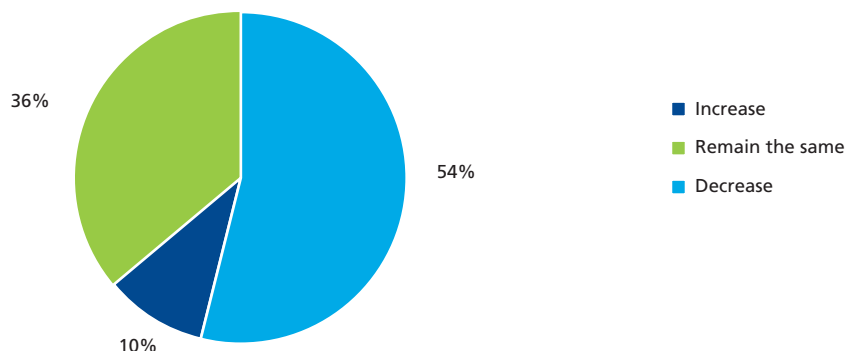
Raising of new funds

Complete shift of multiple expectations in favour of PE observed in short term, in contrary to seller's market moods which dominated in prior years since 2004.

New Investments Competition

Survey participants expect competition to tighten in the short term. The fight is likely to concentrate around the less affected small and mid-market targets with growth potential and clear sector/market leaders, which are expected to keep their stronghold.

For this period, I expect the highest competition for new investment opportunities to:



Fund raising

Company	Fund	Value (EUR m)	Status	Time	Description
Arx Equity Partners	Arx CEE III	83	first closing	Oct 2008	Arx Equity Partners has completed a first closing on its third dedicated CEE-focused lower mid-market fund. The fund has a target of EUR 125m.
3TS Capital Partners	CEE Fund III	200	to launch	Oct 2008	3TS Capital Partners have announced that it will launch a new fund 'CEE Fund III' later this year with targeted size of EUR 200m. The new fund will focus on the lower mid market, targeting expansion capital and buy-out opportunities in the CEE region, both within the EU and outside.
Enterprise Investors	Enterprise Venture Fund I	100	closed	Sep 2008	Enterprise Investors has closed its Enterprise Venture Fund I dedicated to investments to Central and Eastern Europe on EUR 100m.

Selected significant exits

Company	Country	Seller	Buyer	Date	"Value m EUR"	Stake	Description
Donit Tesnit d.o.o.	Slovenia	Arx Equity Partners	Donfin	Sep 2008	15.0	n/a	Arx Equity Partners has exited its investment in the Slovenian based company dealing in compressed sealing materials, for a consideration of EUR 15m. The transaction was financed with a loan of EUR 11.85m provided by Unicredit Bank Slovenia.
UAB General Financing	Lithuania	Avestis	Societe Generale Consumer Finance	Sep 2008	n/a	n/a	Avestis sold UAB General Financing, the Lithuania based consumer finance company, for an undisclosed consideration to Societe General.
Zaklady Urzadzen Komputerowych Elzab SA	Poland	BBI Capital NFI SA	Exorigo Sp. z o.o	Jul 2008	9.0	32.7%	BBI Capital NFI SA disposed of a 32.7% stake in Zaklady Urzadzen Komputerowych Elzab SA (Elzab), a Poland based manufacturer of cash registers, peripherals and accessories to Exorigo Sp. z.o.o. (Exorigo). Part of the consideration comprised of a 23.2% stake in Exorigo. The deal is awaiting Competition and Consumer Protection office approval.
Ardaf	Romania	PPF Investments Ltd	Generali PPF Holding B V	Jun 2008	9.0	72.7%	PPF Investments disposed of a 72.7% stake in in Asigurare Reasigurare Ardaf SA the Romania based insurance and reinsurance service provider to Generali PPF Holding BV (the Czech based insurance company). The deal is awaiting regulatory authorities' approval.
Roumanie Assurance International S.A.	Romania	PPF Investments Ltd	Generali PPF Holding B V	Jun 2008	79.0	99.9%	PPF Investments disposed of a 99.9% stake in Roumanie Assurance International S.A. (RAI); the Romania based insurance company, to Generali PPF Holding, for a consideration of €79m. The deal is awaiting regulatory authorities' approval.
Jyxo, s.r.o.	Czech Republic	Centralway Holding AG	Central European Media Enterprises Ltd.	May 2008	6.0	n/a	Centralway Holding AG exited its investment in Jyxo, s.r.o, the Czech Republic based internet service provider of search engines, advertising software solutions, blog technology and webmail services to Central European Media Enterprises Ltd.

Major investments

Company	Country	PE House	Period	"Value m EUR"	Stake	Description
Okna Rabein Sp Z.o.o.	Poland	Penta Investments Limited	Oct 2008	n/a	100%	Penta Investments Limited acquired Okna Rabein, the Poland based company engaged in manufacturing of PVC windows and doors. Revenues of Okna were EUR 46.7m in 2007.
Kofola-Hoop S.A.	Poland	Enterprise Investors	Sep 2008	146.0	43.01%	Polish Enterprise Fund VI (PEF VI) managed by Enterprise Investors has announced a public tender offer for all the remaining shares in the Kofola-Hoop SA (the Polish listed soft-drinks producer). The transaction was conducted via a public tender offer under Polish law.
Veris Polska sp. z o.o	Poland	Penta Investments Limited	Sep 2008	n/a	n/a	Penta Investments Limited has acquired Veris Polska sp. z o.o, the Poland based pharmaceutical company, for an undisclosed consideration.
Tella Capital SIA	Latvia	Argus Capital Partners	Aug 2008	n/a	n/a	Argus Capital Group Limited made an investment in Tella Capital SIA, the Latvia based cable television broadcaster and also engaged in internet and telecommunication business, from a group of private investors, the proportion acquired along with consideration was not disclosed.
Promedis Sp Zoo	Poland	Mid Europa Partners LLP	Aug 2008	11.0	n/a	Mid Europa Partners LLP acquired Promedis Sp Zoo, the Poland based company providing medical services from Tara Cosmetics B.V, the Netherland based cosmetics company.
Wema SA	Poland	Enterprise Investors	Aug 2008	46.0	60%	The private equity firm acquired 60% stake in Wema SA, the Poland based retailer of bathroom tiles and accessories.
Broker-Service Sp z o.o	Poland	Penta Investments Limited	Aug 2008	14.0	n/a	Penta Investments Limited has acquired Broker-Service Sp z o.o, the Poland based company providing broadband network services such as cable TV, internet and telephony.
Axtone S.A.	Poland	IK Investment Partners Limited	Aug 2008	n/a	n/a	IK Investment Partners acquired Axtone SA, the Poland based manufacturer of rail freight equipment, from Advent International Corporation, for an undisclosed consideration. The transaction is subject to regulatory approvals-still pending.
Papcel a.s.	Czech Republic	EK Mittelstandsfinanzierungs AG	Aug 2008	n/a	34%	MBO of Papcel a.s. The management team will acquire 66% with the remaining stake of 34% held by EK Mittelstandsfinanzierungs. Undisclosed consideration - still pending.
EVM Zrt	Hungary	Benson Oak Capital	Jul 2008	n/a	99%	Benson Oak Capital has acquired 99% stake in EVM Zrt, the Hungary based manufacturer of household chemicals used for cleaning products and disinfectants. Revenues of EVM were EUR 19.31m in 2007 with workforce of around 200 people.
Euromedic International NV	Hungary	Merrill Lynch Global Private Equity, Ares Life Sciences, Montagu Private Equity	Jun 2008	800.0	n/a	Merrill Lynch Global PE, Montagu Private Equity and Ares Life Sciences (Hungary based VC) acquired Euromedic International NV, the Hungarian provider of medical services (153 owned healthcare centers across 14 countries) from Warburg Pincus LLC and GE Healthcare.
Fundusz Mikro Ltd	Poland	Abris Capital Partners	Jun 2008	n/a	100%	Abris Capital Partners acquired Fundusz Mikro Ltd, the Polish institution providing microfinance, for an undisclosed consideration.
Progard Securitas d.o.o.	Serbia	Copernicus Capital Partners	May 2008	n/a	85%	Copernicus Capital Partners has divested 85% of Progard Securitas d.o.o. held via Consolidated Developments Limited (Poland based) to Group 4 Securicor Plc for undisclosed consideration. Still pending on approval from Serbian Competition Authority.
Internet Mall a.s	Czech Republic	3TS Capital Partners, Intel Capital	May 2008	28.0	n/a	3TS Capital Partners and Intel Capital acquired a majority stake in Internet Mall a.s, the Czech Republic based online retail company, from Netretail Holding, B.V, for a consideration of EUR 28m.

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