

Central European Private Equity Confidence Survey



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Introduction

Welcome to the latest Deloitte Central Europe Private Equity Confidence Survey.

Here we present the most recent results reflecting the expectations of private equity professionals focusing on Central Europe. Recent optimism is driven by strong economic performance and the increasing profitability of investments.

We at Deloitte have seen an increased appetite for investments from private equity funds focused on Central Europe and from funds with a wider geographic focus. The funds that focus on Central Europe are now larger, more sophisticated and using debt much more than they were two years ago. We expect interest in Central European private equity to continue to grow, strongly fuelled by stronger economic performance versus Western Europe, and are gearing up our Transaction Services teams to become the advisor of choice for private equity in Central Europe.

I hope that you will find this review useful.

Garret Byrne

Partner

Mergers & Acquisitions Transaction Services Leader

Deloitte Central Europe

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Overview

Key findings

- Renewed optimism regarding economic performance
- Strong focus on new investments continues
- Expectation of higher entry multiples
- Strengthening of IPO's and secondary buyouts as exit strategies

Secondary Buyouts

In the last two years, we have seen the introduction and spread of secondary buyouts as an exit strategy in Central Europe.

Most recently, Mid Europa partners acquired Aster City Cable, a Polish cable provider with a triple-play portfolio of services (television, broadband internet and telephony services). The deal was worth EUR 413 million which gave HM Capital Partners LLC a return of 4.8 times their initial investment. Also in the cable TV sector, Mid Europa Partners are currently selling Karneval in the Czech Republic and this could well end up being a secondary buyout.

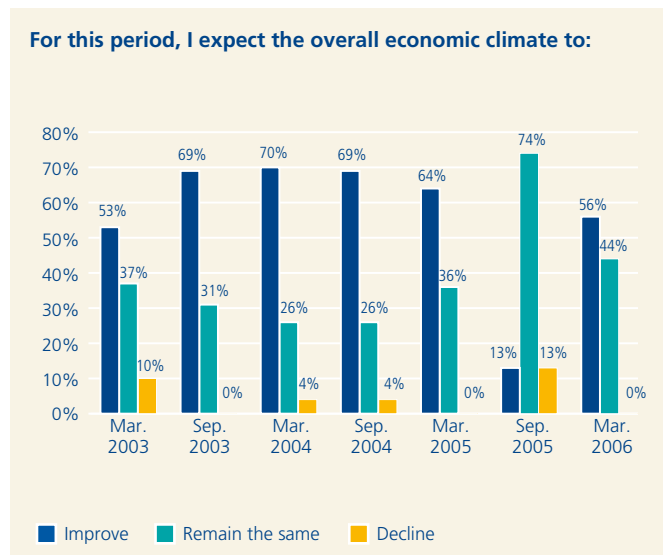
Other notable deals include the sale of Grisoft (a Czech anti-virus software provider) by Benson Oak Capital to Intel Capital and Enterprise Investors, the sale of Artima Retail Investment Company (Romanian supermarket operator) by SEAF and other investors to Enterprise Investors, and, also in Romania, the sale of Totalsoft SA to Global Finance.

We expect an increased volume of such deals across the region as the private equity sector moves from being primarily development capital based to the buy-out model.

Results

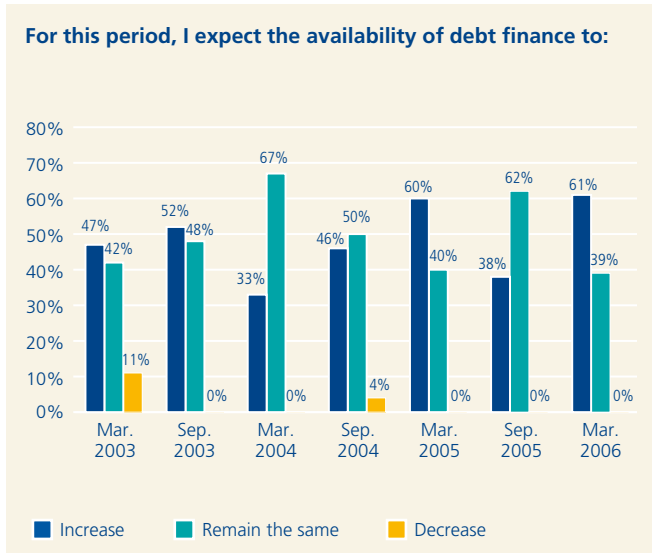
Economic climate

After cooling in September 2005, expectations regarding economic activity improved. Central European countries are still expected to outperform the old EU member states.

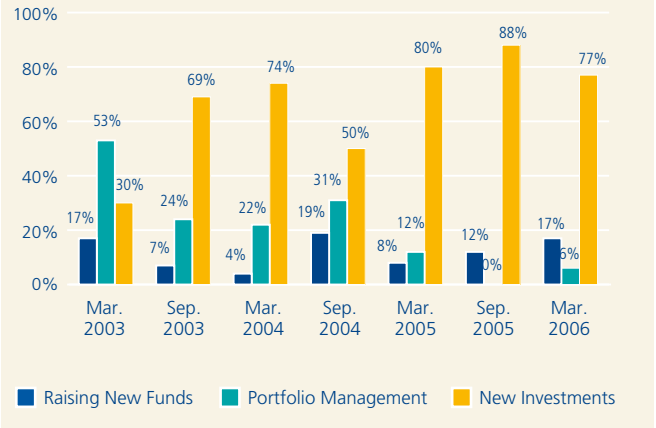


Debt finance

The clear expectation is that more acquisition debt will be available. Banks are more willing to provide financing for private equity deals and are becoming more sophisticated with the emergence of mezzanine debt and stapled debt offerings.



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



Investors' focus

Fundraising is very much on the minds of private equity funds with circa EUR 1.5 billion raised in 2005 and significant plans for fund raising in 2006.

Amongst others, funds have recently been raised by the following investors:

Middle Europa Partners	EUR 650 m
Firebird Management	EUR 150 m
Oresa Ventures	n/a

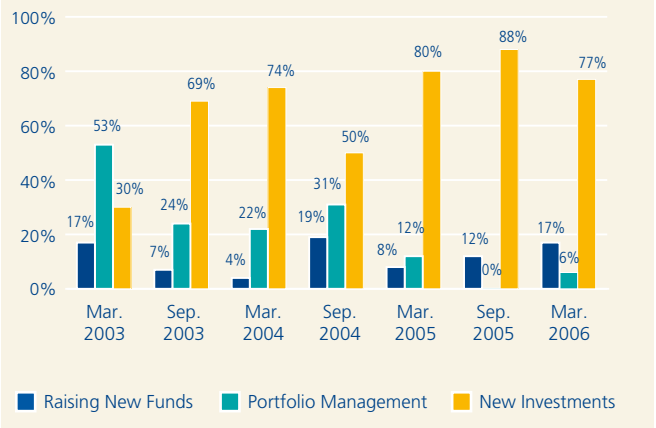
In 2006, fund raisings are expected from:

- Enterprise Investors
- Innova
- Bedminster
- GED

Size of transactions

There is an overwhelming expectation of increased transaction size. This leads to a distinct move towards buyouts and increased availability of leverage.

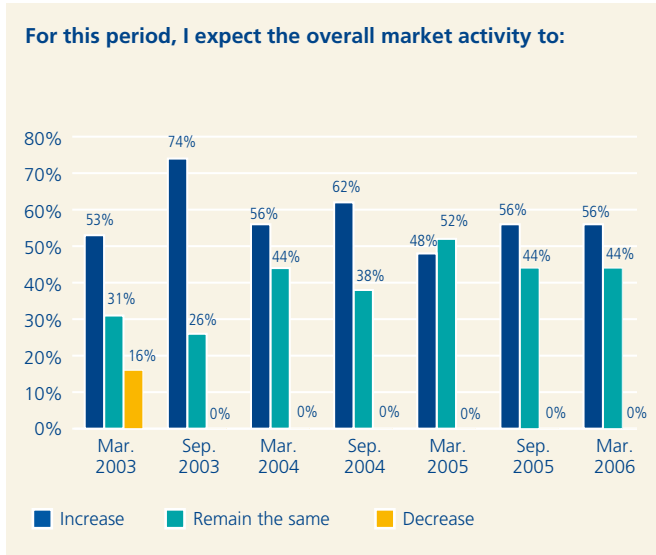
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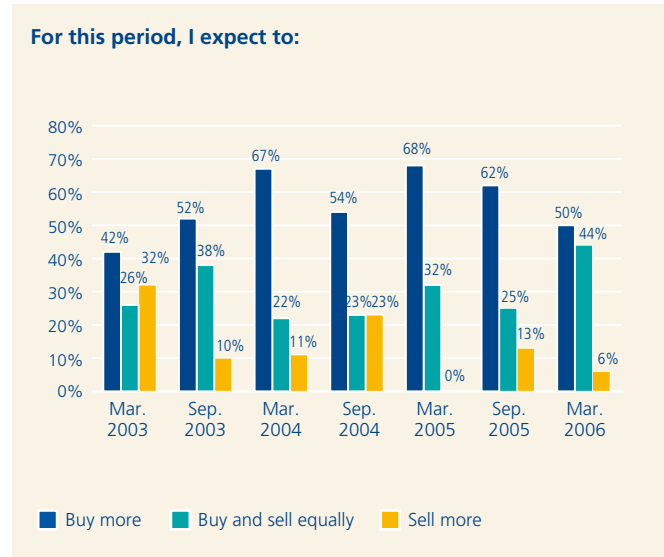
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Market activity

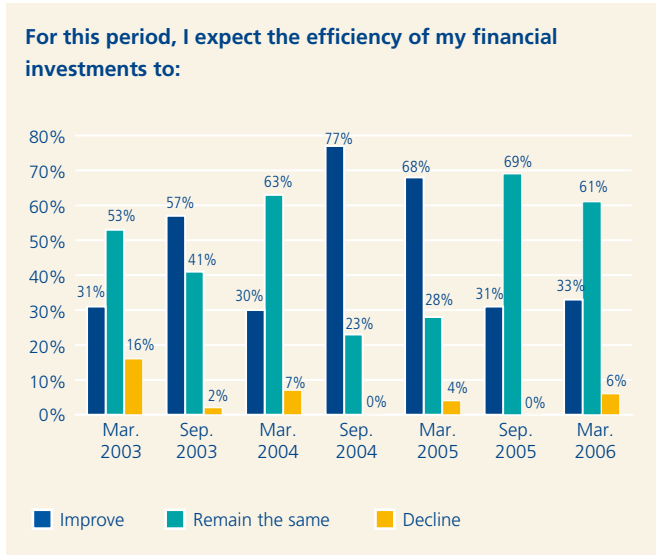
Respondents expect overall market activity to increase. We at Deloitte are seeing more interest in Central European Private Equity from funds based outside the region.



Investors' activities

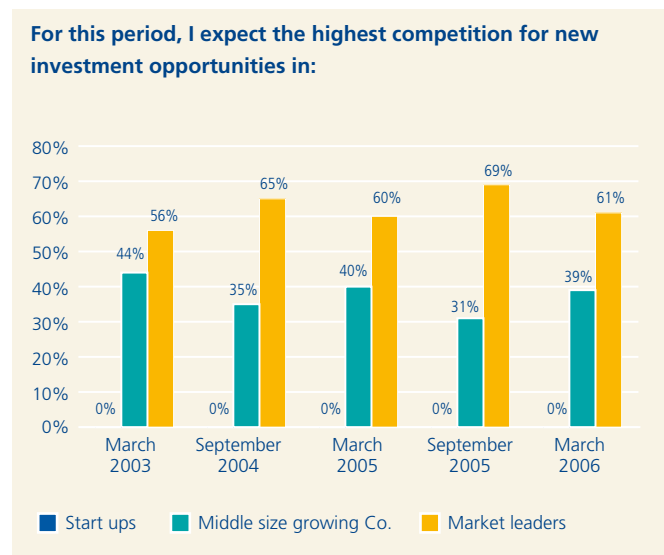


Investments efficiency



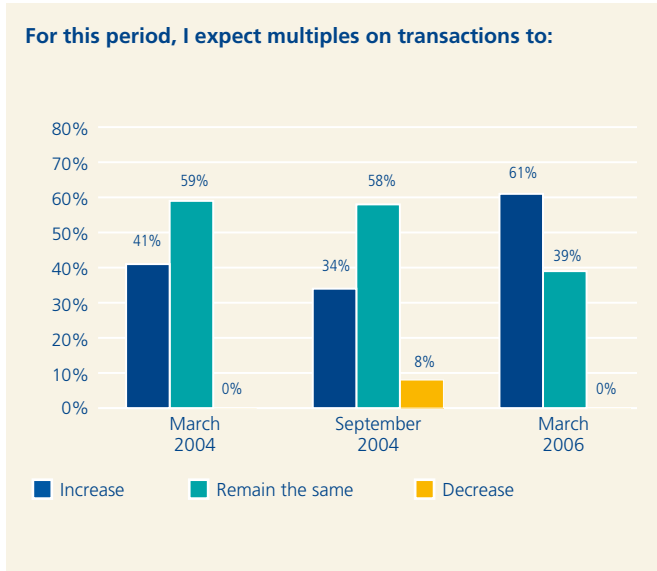
New investments competition

Market leaders are expected to attract the most interest from Private Equity. This ties in with the increased focus on buyouts and the increased interest from funds outside the region.



Transaction entry multiples

The positive development of the economy in Central Europe and increased competition suggests an increase in entry multiples.



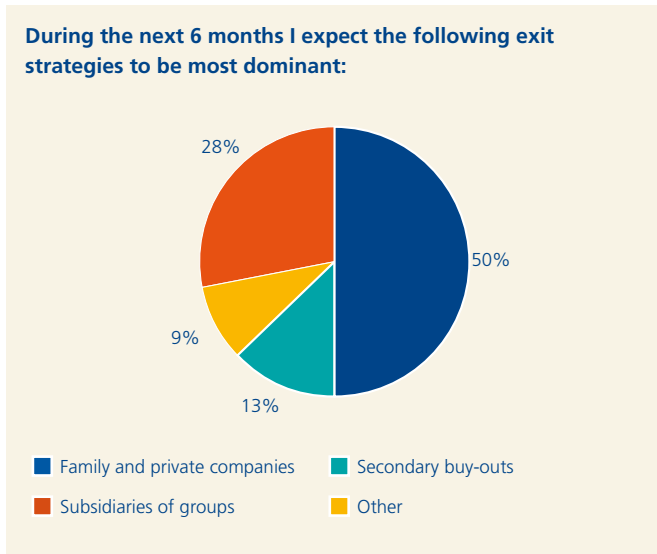
European fundraising

Private equity in Europe had a record year in 2005. Circa EUR 60 billion in funds was raised, versus EUR 27.5 billion in 2004. As global trends are mirrored in Central Europe, we can expect an increase in the size of funds.

Deloitte’s Fund Placement Advisory team has identified a great deal of interest for central European funds amongst investors. The amount of capital available for central European funds has increased due to the increase in exits from investors’ existing funds, increased interest in private equity due to attractive returns, as well as investors looking at new geographies to diversify their portfolios. If you expect to be fundraising in the short to mid-term, please contact Garret Byrne in our Prague office (Tel.: +420 246 042 339 , email: gbyrne@deloitteCE.com) or James Coleman in London (Tel: +44 7957 250 406 , email: jamescoleman@deloitte.co.uk).

Exits

Sales to strategic investors are still seen as the most popular exit strategy but secondary buyouts are more and more common (see the Aster, Grisoft, Gamet and Hutni montaze Ostrava deals as examples). With maturing stock markets in the region, IPO’s are becoming a popular exit strategy as well.



Significant Exits

Company	Seller	Buyer	Date	Value	Stake	Description
SmVAK	Penta	FCC	April 2006	EUR 248m	99%	Penta sold its investment in a water and wastewater management company to a strategic investor. Assumption of EUR 79 m of debt is included in the deal.
Terapia SA	Advent International	Ranbaxy Laboratories	March 2006	EUR 270m	97%	Indian pharmaceuticals company agreed to acquire Romanian generic drug producer. Valuations stands at 11.6 multiple of EBITDA.
Zentiva	Warburg Pincus	Sanofi Aventis	March 2006	EUR 430m	20%	French strategic investor acquired a stake in the Czech pharmaceuticals company. Warburg Pincus has no stake in Zentiva as of today.
Lang Publishing and Hilding Capital	Royalton Capital Investors	WSOY	March 2006	n/a	45%	Finnish publishing house acquired in total 75% of the Hungarian educational group. Private investors hold the remaining stake.
AMG.net SA	Innova Capital	Bull SA	February 2006	n/a	n/a	Polish consultancy company was purchased by the French IT services firm. Annual revenues of EUR 6 m are generated.
Infopress SA	Baring Private Equity Partners	Oddi Printing Limited	January 2006	n/a	80%	In line with its expansion strategy, Oddi purchased Romanian full service printing house with reported revenues of EUR 35 m.
Tallina Kulmhoone AS	Amber Trust SCA	Nordic Foods AB	January 2006	n/a	n/a	Reverse acquisition of the Estonia based ice cream and desserts manufacturer by the Swedish ready made foods producer (to become Tallina's subsidiary).
Star Foods SA	Advent International, Copernicus Capital Partners	PepsiCo Light NV	December 2005	EUR 42m	100%	Polish snack food producer and distributor. Combined value of the acquired stakes was approximately EUR 42.3 m.
Slovanet Group	Advent International, Genesis Capital	Asseco Slovakia	December 2005	n/a	51%	Asseco retained 51% of the company's shares for an undisclosed sum. Slovanet's expected revenues for 2005 are SKK 440 m (EUR 12 m). Management holds the remaining shares. The transaction is subject to the approval of anti-monopoly authorities.
Orange Slovensko, a.s.	Consortium of funds led by AIG New Europe Fund	France Telecom SA	October 2005	EUR 523m	36%	Purchase of remaining stake in the biggest Slovak mobile operator.
Grisoft, s.r.o.	Benson Oak Capital	"Intel Capital and Enterprise Investors"	September 2005	EUR 42m	65%	Grisoft is a Czech antivirus software developer (well known AVG antivirus software). In this secondary buyout, Intel Capital (established by Intel to support its strategic interests) invested USD 16 m and EI USD 36 m
Poligrafia SA	Baring Central European Fund IV Ltd	RR Donnelley and Sons	August 2005	EUR 42m	56%	Polish printing company acquired by a strategic investor from the USA. 100% of shares were acquired (the balance from other investors).

Fund raising

Company	Fund	Value	Status	Time	Description
Bedminster Capital	SouthEastern Europe Fund II	USD 200m	first closing	June 2006	US based private equity fund (former Soros funds) received a USD 90 m contribution from OPIC in order to invest in Southeastern Europe.
Enterprise Investors	new fund	EUR 600m	planned	April 2006	Plan to launch a new EUR 600 m fund this year. The focus of the fund will be on investments in the CEE region.
Oresa Ventures	new fund	n/a	closed	March 2006	Dutch private investment company looking for acquisitions in Central Europe. Investment size range is EUR 2-10 m for one project.
Global Finance	South Eastern Europe Fund	EUR 197m	open	March 2006	Privately held Greek equity house focusing on acquisitions in Romania, Bulgaria and Greece. Aim is to raise approximately EUR 300 m.
Mid Europa Partners	Emerging Europa Convergence Fund II	EUR 650m	closed	January 2006	Newest fund raised from capital of various investors from Europe, US and Asia is focusing in accordance with MEP strategy on companies operating in industries with high barriers to entry.
Innova Capital	new fund	EUR 200m	planned	January 2006	Equity management group Innova plans to raise new fund targeting acquisitions in Eastern Europe.
Capexit	new fund	EUR 100m	planned	2006	Planned fund aims for investments in Austria, the Czech Republic, Slovakia, Hungary and Southern Germany. Targets worth between EUR 20 - 60 m are sought. First investment is planned by the end of 2006.
GED	GED Eastern Europe Fund II	EUR 100m	closed	2006	Spanish private equity firm raised its second fund targeting companies in Romania and Bulgaria. Planned fund size was a EUR 100 m with EUR 20 m contribution from EBRD.
Bridgepoint Capital	BE3	EUR 2.5bln	closed	2005	Well established private equity house is entering the Central European market with its new fund BE3.
Royalton Partners	Royalton Partners II	EUR 250m	open	December 2005	New fund raised by Royalton partners and targeting EUR 250 m will be focused on the Southeastern Europe region. EBRD committed EUR 50 m to the fund.
Firebird Management	Amber Trust II	EUR 150m	closed	November 2005	Launched in January 2005, originally aimed for EUR 125 m of capital. Investments in Central Europe are targeted but Baltic countries preferred.

Major investments

Company	PE House	Period	Value	Stake	Description
Guzu Chim Prod Com s.r.l.	Oresa Ventures	May 2006	EUR 9m	49%	Romanian paint manufacturer with 380 employees and EUR 25 m sales in 2005 was acquired by Netherlands based private equity house. Proceeds will be used for expansion of production and distribution.
Donit Tesnit	DBG Eastern Europe II	April 2006	n/a	79%	Leading provider of gasket materials for industrial applications in Europe. 20% of the European market share is held by the new DBG acquisition. In LBO two senior managers partnered with DBG.
VUES Brno, a.s.	DBG Eastern Europe II	April 2006	n/a	80%	Czech producer of high quality electric motors was acquired by DBG via LBO. Most of the production is exported to Western Europe. The company has 480 employees.
Pett&Pett Donako	Innova Capital	April 2006	n/a	70%	Polish manufacturer of components for electrical use. Annual revenue more than EUR 28 m in 2005. P&P Donako has a Chinese subsidiary (54.5%) and also FBG (60%). Innova provided a financing package of EUR 7-10 m for meeting increasing demand.
Ewido Networks	Enterprise Investors/Intel Capital	April 2006	n/a	100%	Grisoft - portfolio company of Intel Capital and EI acquired the German protection software developer in order to improve its products.
WG Global Inc.	Mid Europa Partners LLP	February 2006	n/a	n/a	Holding company of the Wheelabrator Group, a US based provider of surface preparation solutions. It aims to strengthen the position of the firm in the region. Annual sales of the purchased entity were USD 300 m in 2005 with 1,200 employees.
Metal Znojmo	KBC Private Equity	February 2006	n/a	100%	Metal Znojmo, with its subsidiary Novartis, is the leading producer and distributor of taps and sanitary equipment in the Czech Republic and Slovakia. The company's turnover was CZK 500 m (EUR 17.5 m) in 2005.
Bratislava and Kosice Airports	Flughafen Wien, Penta & Raiffeisen Zentral Bank	February 2006	EUR 305m	66%	Consortium purchased the two biggest Slovak airports.
Fischer Air Polska	Carlson Private Equity Ltd	January 2006	n/a	n/a	Carlson, through Podroze TV SA (its portfolio company), acquired a Polish airline operator. Expected revenues for 2006 are approx. EUR 78 m. In line with the strategy of consolidating the tourist sector.
Nabi Group	Cerberus Capital Management LP	January 2006	EUR 70m	100%	Hungary based bus manufacturer. Together with Nabi Gyarto es Kereskedelmi (Hungarian investment company), they assumed investment in the company along with debt worth EUR 68.2 m. Previous shareholders will receive EUR 1.8 m.
Kamax & Keystone	Advent International	January 2006	EUR 50m	n/a	Polish and German rail equipment manufacturers acquired by US based Advent. Combined revenues of both companies is approx. EUR 54 m.
Mercor SA	Innova/3 LP fund	January 2006	EUR 14m	37%	Polish manufacturer of fire doors and fire safety systems and smoke and heat exhaust ventilation. The company's revenues were PLN 170 m (EUR 39.7 m) in 2005.

Major investments (continued)

Company	PE House	Period	Value	Stake	Description
Pegas	Pamplona Capital Partners	December 2005	n/a	100%	A leading producer of nonwoven textiles in Europe was purchased by Pamplona Capital Partners (a Spanish private equity fund).
Banjalucka Pivara	Altima Partners LLP	December 2005	EUR 34m	54%	Altima acquired the Bosnian brewery at auction with EUR 22.1 m of debt included.
Aster City Cable	Mid Europa Partners LLP	December 2005	EUR 413m	n/a	Secondary buyout of the biggest Polish cable operator and triple-play services provider from HM Capital Partners enables the consolidation of the Polish cable market intended by Mid Europa Partners.
Eurocom Cable	Warburg Pincus	December 2005	n/a	n/a	Eurocom Cable is a Bulgarian telecommunications company. It provides cable TV services and internet access.
Nay Holding	Enterprise Investors	September 2005	EUR 18m	48%	Slovak domestic appliances retailer.
Grisoft, s.r.o.	Intel Capital/ Enterprise Investors (EI)	September 2005	EUR 42m	65%	Grisoft is a Czech antivirus software developer (well-known AVG antivirus software). In this secondary buyout, Intel Capital (established by Intel to support its strategic interests) invested USD 16 m and EI USD 36 m.
SOR Libchavy	Bauliga, a.s. (J&T finance group affiliate)	August 2005	n/a		Czech bus manufacturer was acquired by Bauliga investment holding from eight private investors. It had revenues of approximately EUR 25 m in 2004.
Siweco Romania	Intel Capital/ Enterprise Investors (EI)	July 2005	EUR 10m	33%	Romanian computer, networking and communications producer acquired by Intel and Enterprise Investors.
Plzenska energetika	Penta	2006 (Planned)	n/a	50%	Planned acquisition of a stake in Plzenska Energetika from Zapadoeska Energetika (subsidiary of CEZ). Sales of EUR 29 m in 2005 and 270 employees.
Gamesa Energia y Servicios & Sicusa Este	3i	March 2006	n/a		Wind farm construction and maintenance companies acquired by the private equity investor. Expansion into foreign markets expected - the renewable energy industry is the main target.
Nowaco	JP Morgan Partners & Bancroft II	August 2005	n/a	100%	Distribution and production activities in the Czech Republic, Hungary and Poland were sold to private equity funds during the divestment process by the Danish holding company.

Deals to watch

Seller	Company	Net assets	Description
Government of Serbia	Simpo	EUR 70m	Plans to sell a 40% stake with a subsequent mandatory offer to small shareholders for their shares for the same price. Simpo is a furniture maker.
Government of Bulgaria	privatization	n/a	Privatisation of 57 state owned companies and enterprises. Airline (Bulgaria Air), energy (coal mines and hydro power plants) and transportation (Bulgarian fleet and inland shipping) enterprises are scheduled for sale.
Government of Bulgaria	privatization	n/a	Privatisation of five Bulgarian heating plants (100% stakes) in Varna, Plovdiv, Pernik, Rousse and Shumen.
Government of Serbia	Radijator	EUR 23m	Serbian producer of heating units and boilers with 429 employees. Besides Radijator, Yumco (clothing manufacturer) and Optika (optical products and photographic equipment) are also for sale.
Supernova Capital	investment funds	EUR 42.5m	Polish asset management firm is willing to sell two of its investment funds (Progress and Drugi).
Government of Poland	spas	n/a	The government intends to privatise its spa resorts. They will be divided into three groups, of which one will be sold via an IPO; alternative plan calls for individual privatisation.
BPH/Pekao	divestment	EUR 5bln	As the BPH/Pekao merger proceeds, Unicredito (parent company) reached agreement with the Polish government to divest EUR 5 bln in assets.
Government of Macedonia	Airports in Skopje and Ohrid		Sale of Macedonian airports is scheduled.
Government of Serbia	various companies	up to EUR 10m	The government of Serbia intends to sell various companies producing parts and tools for vehicles, metal structures and marble and granite industry companies.
AIG Emerging Europe Infrastructure Fund and GMT Telecommunications Partners	Invitel	n/a	AIG and GMT are selling their stake in the second largest Hungarian fixed line operator. Expected transaction revenue is up to EUR 500 m.
Government of Serbia	Mobi 63	n/a	Serbian mobile telecommunications company (former Mobtel) is being prepared for privatisation.
Mid Europa Partners	Karneval	n/a	Second largest cable TV provider in the Czech Republic is currently for sale by Mid Europa Partners.



per share

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March 22
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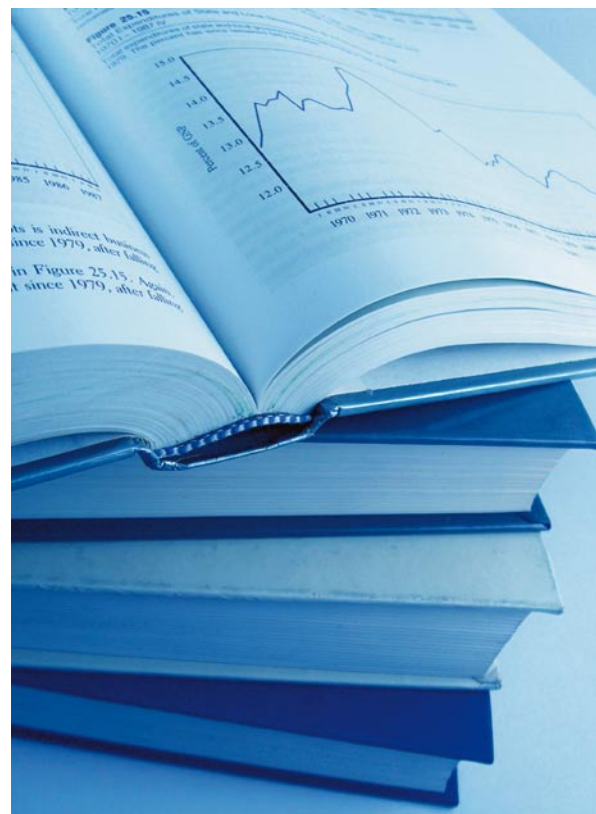
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