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Emerging Europe M&A Report 2017/18

In cooperation with:

 **EMIS**

A Euromoney Institutional Investor company

January 2018

League tables

CEE Legal Advisors for 2017

Company	Number of deals
CMS	57
Dentons	44
Schoenherr	31
DLA Piper	29
Cobalt	27
Wolf Theiss	22
Clifford Chance	21
Kinstellar	21
Weil, Gotshal & Manges	20
Sorainen	20

League tables were generated using the LeagueBoard tool available in EMIS .

The criteria used for crediting the advisers for the purpose of the league tables, as well as for summarising the M&A data presented in this report, include:

- Deal Announcement date: 01 January, 2017 - 31 December, 2017.
- Emerging Europe geographic area, understood as the dominant country of operations of the deal target or the location of its main assets, covers: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.
- Deal Value: at least USD 1m; for commercial real estate deals at least USD 5m (Note: Deals with undisclosed value were accounted for as having a value of zero, unless a publicly available market estimate was provided by a third-party, or a deal value could be estimated by EMIS. Such cases are clearly labelled in the report).
- Exclusions: rumoured or failed deals, ECM deals, convertibles issues, share buybacks, internal restructurings, joint ventures, and employee offers.

The ranking was created based on EMIS deal advisory information available, according to our best knowledge, as of 05 January, 2018. The data can be subject to updates.

Cover image: Starý most (Old Bridge) over the river Danube in Bratislava, Slovakia.

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Despite the uncertainties around global politics that were swirling around at the start of the year, confidence picked up in the second half of the year and there was a healthy flow of transactions with continued increasing interest from foreign investors throughout 2017. Emerging Europe enjoyed another solid year for M&A activity and closed 2017 with 2,113 deals across the region, a 6% increase on 2016. Deal value came in at EUR 71.5bn, a modest decline from 2016 but well ahead of 2014 and 2015 levels.

Buoyant economic activity and GDP growth across core markets in CEE spurred a stellar level of deal flow in the region, up 6% on 2016. A number of star performers emerged in 2017. Romania saw a healthy uptick in M&A activity, with a 13% increase in deal volume and 64% increase in value. Hungary showed the highest growth in terms of total deal value, ending the year on EUR 2.7bn, a 126% increase on 2016. There was a welcome sign of revival in Ukraine, despite tensions in the east of the country, reflected in its 67% increase in M&A activity. Serbia enjoyed a sharp rise in transaction numbers, though they tended to be smaller than in the previous year. Poland was most active market for new stock exchange listings, with IPOs worth close to EUR 1.8bn in total.

China became the largest foreign investor across emerging Europe in 2017, increasing the value of its investments into the region by 78%, after a 96% rise in 2016. The 2017 figures are skewed by the CEFC China Energy-Rosneft deal, but there is no doubt that CEE is firmly on the radar of Chinese investors and will play an important role in its Belt and Road initiative to improve infrastructure within key trading partners.

The US remained the busiest investor by number of deals with 92 transactions in 2017. Domestic investment continued to dominate deal activity in the region and Russia clocked up 603 deals worth a value of EUR 22.5bn, while Poland negotiated 166 deals worth EUR 4.3bn.

Across the region, the most active sectors were real estate and construction, followed by manufacturing and technology. Mining, including oil and gas, was the dominant sector by value in 2017, as it was in 2016, driven largely by a clutch of large deals in Russia. Private equity activity remains at similar levels as last year, while the overall value of deals dropped by 25% after 2016's record EUR 28.4bn.

The outlook for 2018 looks positive. The flow of deals shows that CEE remains a key target for international investors, whether they want to tap its markets directly or use them to produce goods for export. We are already witnessing a healthy pipeline of activity at the start of 2018 with all signs pointing to another good year for M&A activity in the region.

We trust you will find this report useful and encourage you to contact our local teams for additional up to date market insight and advice.



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2017 dealmaking in emerging Europe at a glance

 **2,113 deals**
6% increase from 2016

Poland

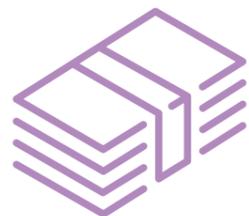
most active market for new stock exchange listings

IPOs worth close to EUR 1.8bn in total

EUR 71.5bn

total deal value

17% decrease from 2016



**Mining/
Natural
Resources
sector –
highest total
deal value
EUR 18bn**

Hungary 

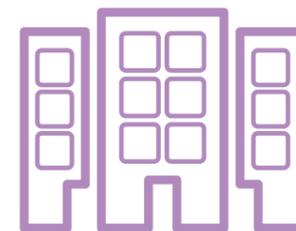
highest growth (126%) in total deal value (EUR 2.7bn)



Russia
highest number of deals, followed by **Poland**

EUR 1bn+

acquisition of Zabka in Poland by CVC Capital Partners
largest private equity acquisition in the region



**Real Estate –
most active sector**
390 deals

**Private
Equity**



remains at same level of activity as last year, while value of deals down by 25%



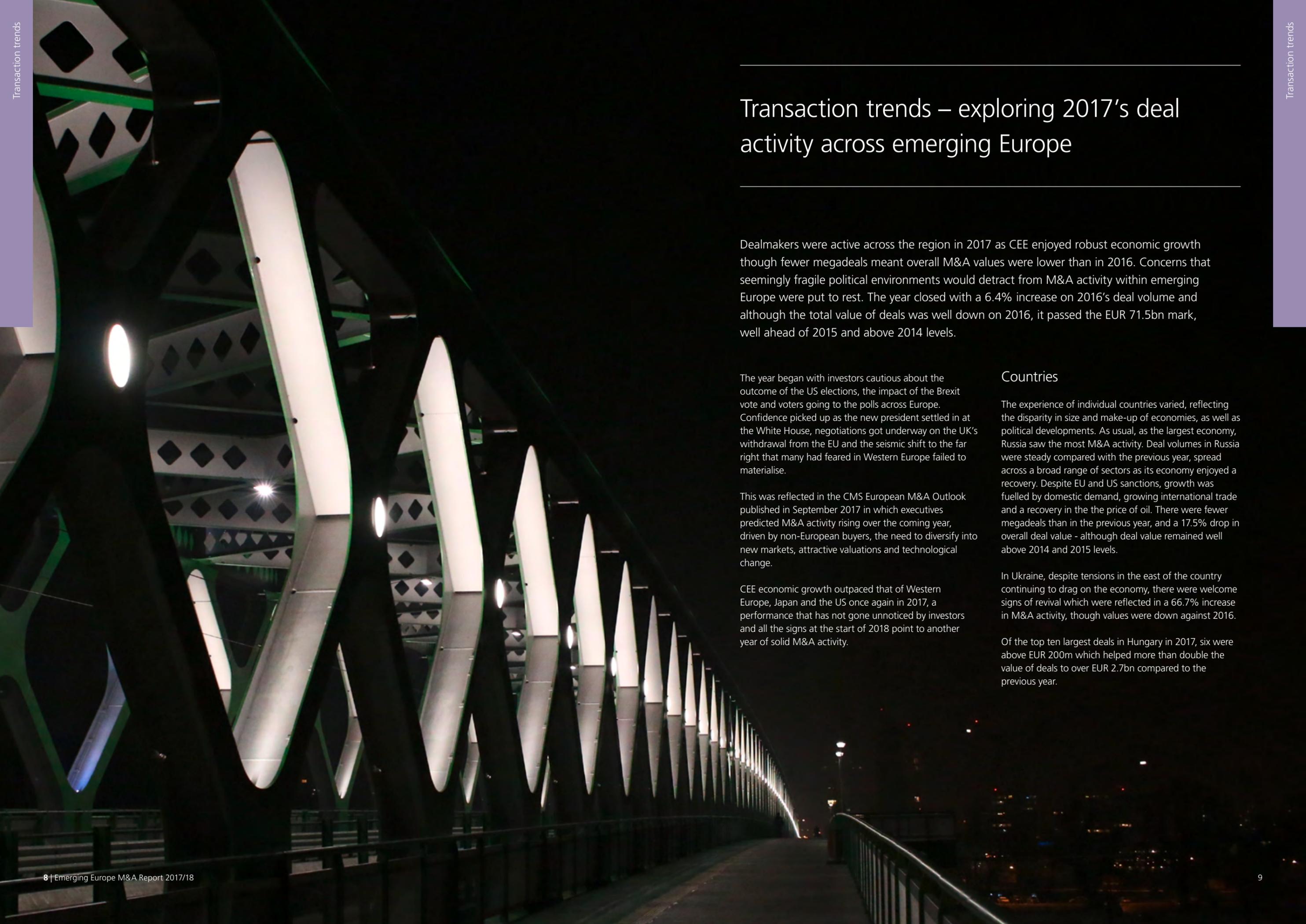
China

top foreign investor into region (by deal value)



USA

top foreign investor into region (by volume)



Transaction trends – exploring 2017's deal activity across emerging Europe

Dealmakers were active across the region in 2017 as CEE enjoyed robust economic growth though fewer megadeals meant overall M&A values were lower than in 2016. Concerns that seemingly fragile political environments would detract from M&A activity within emerging Europe were put to rest. The year closed with a 6.4% increase on 2016's deal volume and although the total value of deals was well down on 2016, it passed the EUR 71.5bn mark, well ahead of 2015 and above 2014 levels.

The year began with investors cautious about the outcome of the US elections, the impact of the Brexit vote and voters going to the polls across Europe. Confidence picked up as the new president settled in at the White House, negotiations got underway on the UK's withdrawal from the EU and the seismic shift to the far right that many had feared in Western Europe failed to materialise.

This was reflected in the CMS European M&A Outlook published in September 2017 in which executives predicted M&A activity rising over the coming year, driven by non-European buyers, the need to diversify into new markets, attractive valuations and technological change.

CEE economic growth outpaced that of Western Europe, Japan and the US once again in 2017, a performance that has not gone unnoticed by investors and all the signs at the start of 2018 point to another year of solid M&A activity.

Countries

The experience of individual countries varied, reflecting the disparity in size and make-up of economies, as well as political developments. As usual, as the largest economy, Russia saw the most M&A activity. Deal volumes in Russia were steady compared with the previous year, spread across a broad range of sectors as its economy enjoyed a recovery. Despite EU and US sanctions, growth was fuelled by domestic demand, growing international trade and a recovery in the price of oil. There were fewer megadeals than in the previous year, and a 17.5% drop in overall deal value - although deal value remained well above 2014 and 2015 levels.

In Ukraine, despite tensions in the east of the country continuing to drag on the economy, there were welcome signs of revival which were reflected in a 66.7% increase in M&A activity, though values were down against 2016.

Of the top ten largest deals in Hungary in 2017, six were above EUR 200m which helped more than double the value of deals to over EUR 2.7bn compared to the previous year.

Romania was also a star performer, both in terms of GDP growth and M&A, with a strong rise in deal numbers (up by 12.5%) and values (up by an impressive 64.3%), with major deals in energy and utilities, wholesale and retail, finance and manufacturing.

Turkey has been through a traumatic period, including the failed coup of 2016, but its economy showed signs of a sharp bounce back towards the end of the year. M&A activity levels recovered to some extent, with an uptick of 11.5% in deal volume and 46% in deal value, although there is still some way to go before Turkey returns to the levels of M&A activity we saw in 2012 and 2013.

Robust economic growth in Poland, driven by domestic demand and higher public spending, helped offset some of the nervousness of investors concerned about government policy and ensured an active transactions market. Poland enjoyed the highest number of transactions in the region after Russia, though values were down on 2016 when the top two deals alone were worth a combined EUR 2bn.

The Czech Republic's economy has continued to perform strongly, with unemployment among the lowest in Europe, but deal activity dropped back from the record levels of 2016. In Slovakia, the automotive sector continued to be the engine of economic growth. Overall deal numbers were down, but values were up by 6.4%.



Anne Fossemalle

Director of Equity Funds, European Bank of Reconstruction and Development

CEE is a fascinating region. On the one hand, we have seen the exit pace of crisis era funds picking up and returning liquidity to the market. On the other hand, we see investment conditions positively affected by the region's economic growth and by increases in disposable income. The strength of domestic demand is matched by exports produced by a highly skilled labour-force. Moreover, CEE benefits from developed-market risk and a vibrant, institutional quality PE ecosystem – and yet it has emerging market opportunities such as fragmented sectors and access to primary deal-flow via succession. For us, this means high expectations for CEE private equity going forward!

It was a more muted year for Croatia after a record number of deals in 2016 and although the economy grew steadily, investor sentiment was impacted by the problems at food and retail group Agrokor, the biggest employer in the Balkans. Slovenia was one of the top performing economies in the Eurozone, but saw a drop in M&A deal numbers and values against 2016 when a EUR 572m Japanese deal boosted the total.

Serbia enjoyed a sharp rise in transaction numbers, though they tended to be smaller than in the previous year. Deal values in Bulgaria showed a healthy increase, despite subdued volumes, as its economy moved up a gear. Among the smaller countries, Montenegro was a bright spot with deal volumes up 50% and values up 36.6%, as was Bosnia and Herzegovina, but Albania reported only a handful of deals.

Sectors

Once again, real estate and construction topped the league table by number of deals, broadly in line with 2016 and accounting for four of the largest 20 deals across the region. It followed a record-breaking 2016 for the sector. The Czech Republic, Poland and Hungary have been hot spots as investors have turned to CEE for higher returns and the prospect of solid rental growth in an increasingly sophisticated market.

Mining, including oil and gas, was the dominant sector by value in 2017, as it was in 2016, though there were fewer megadeals and the total value was lower. The year was dominated by a clutch of large deals in Russia, including the purchase of a stake in Rosneft for EUR 7.5bn by China's CEFC and the just over EUR 1.7bn purchase of a stake in the Yzhno-Russkoye oil and gas field by Austria's OMV group.

Economic buoyancy across CEE has resulted in falling unemployment and rising wages, providing a boost for sectors reliant on consumer demand. Telecoms and IT overtook manufacturing in terms of numbers of transactions, followed by wholesale and retail and finance and insurance. Energy and utilities remain critically important and we see continued interest in energy infrastructure projects as well as energy-from-waste projects as countries seek to balance their fuel needs against environmental commitments.

Wholesale and retail saw a 48% rise in deal values. The sector contributed to one of the year's megadeals through the purchase of convenience store chain Zabka Polska in Poland by private equity heavyweight CVC for an estimated EUR 1bn.

We expect to see the real estate, manufacturing, consumer products and technology and communications sectors to continue to drive M&A in 2018, as well as the transport and infrastructure sector, which offers interesting targets, including the airports in Belgrade, Tirana and Sofia. As the CMS Global Infrastructure Index 2017 noted, CEE "is particularly exciting as their economies experience a significant expansion due to the favourable environment for foreign investment and EU financing". Among the projects it highlighted were the planned EUR 384m modernisation of train stations in the Czech Republic from 2018 to 2022 and the new Central Transportation Port in Poland which will compete with Europe's largest airports, handling 50 million passengers a year.

Megadeals and greenfield

The number of megadeals dropped slightly in 2017, with only five of the top 20 deals valued at more than EUR 1bn - and of those, only one was more than EUR 2bn. By comparison, in 2016 all but one of the top 20 deals was above EUR 1bn and eight were above EUR 2bn.

Of the top 20 largest deals during the year, more than half of the targets were Russian, spread across mining, manufacturing, real estate, energy and utilities, telecoms and IT, with eight of those companies going to Russian buyers.

Across the region, state governments and local authorities remain keen to encourage greenfield investments to bring jobs and prosperity. Work progressed on the new EUR 1.4bn Jaguar Land Rover plant in Slovakia, which has also encouraged developments for related suppliers and logistics companies. As an attractive location for greenfield investors, the challenge still remains of finding suitable large sites earmarked as industrial zones, with good access to transport links and a ready supply of labour.

Private equity

The outlook for private equity deals in the region remains positive in the medium term. The total value of private equity deals in 2017 was EUR 21.4bn, the second highest after 2016's record EUR 28.4bn. Deal numbers remained level with 2016, increasing only from 266 to 267, but activity was broadly spread across sectors and countries.

A signal that funds see plenty of opportunities, Enterprise Investors in September 2017 closed a EUR 498m fund, half of which will be deployed in Poland, and Mezzanine Management launched a fund targeting mid-market companies in the region.



Bill Watson

Managing Partner at Value4Capital

Despite talk of overheating in European buy-outs, we think now remains a good time to invest in the Central European lower mid-market. We like the size of the Polish market, as well as the other large market, Romania. Competition for deals in this segment, enterprise values of Euros 20-50m, is lower than in others and we believe pricing expectations remain reasonable too. Sure there is strong growth in revenues and profits which builds sellers expectations, but we've found owners know that it's not an ever-upwards curve. In terms of sectors, we are sticking to services, which capture growth from inward investment as well as the expansion of domestic consumption.

Foreign vs regional investors

In what may be a sign of things to come, China became the largest foreign investor in the region, increasing the value of its investments by 78% to EUR 7.7bn, after a 96% rise in the previous year. The figures were skewed by the CEFC China Energy-Rosneft deal, but there is no doubt that CEE is firmly on the radar of Chinese investors and will play an important role in its Belt and Road initiative to improve infrastructure within key trading partners. Elsewhere in Asia, investors from Japan, Singapore and India remained active, though deal values from all three were down on the previous year.

The US was the second-largest international investor by value, with a 95% rise to EUR 2.95bn and it retained its long-standing position as the busiest by number of deals, with 92 transactions.

There were big increases in the value of investments from Austria, Switzerland, Netherlands and France, while investments from the UK dropped. Deal numbers were generally lower, but Switzerland and Sweden bucked the trend and were responsible for more transactions. The UK was the second largest by number of deals, down 11%, while UK deal values fell by 58% to EUR 2.19bn which may be a reflection of the weak pound and a sign that investors have become more cautious following the Brexit vote.



Andrea Ferancová Bartoňová

Founder of ESPIRA Investments, a private equity firm focused on growth capital investments in small and medium size enterprises based in Central Europe

Investing in companies managed by balanced management teams of men and women and focusing on high potential small medium enterprises in traditional sectors addresses an underexploited niche in the market. This strategy is especially relevant in consumer-oriented sectors, as 80% of total consumer spending is driven and strongly influenced by women. Companies which have their largest customer represented in the decision-making process prove more competitive and successful. In addition, research confirms that gender diverse management teams have the capability to deliver superior performance (higher growth and profitability with lower risk), which can lead to excellent risk-adjusted returns for investors. Small and medium size enterprises are important engines of growth and significant drivers of innovation in the CEE region and therefore we believe in the high potential of this market segment.

We have also seen a wave of investment by South African funds into real estate and other sectors, particularly in Romania, Croatia and Bulgaria, as well as interest in Hungary and Poland.

The importance of domestic buyers should not be overlooked; Russia was the largest player with EUR 22.5bn of deals and 603 transactions, broadly in line with a year earlier. Between them, Turkey, Poland and the Czech Republic were responsible for more than EUR 10bn of deals, with Turkey and Poland increasing the overall value of their investment into the region by 15% and 12% respectively.

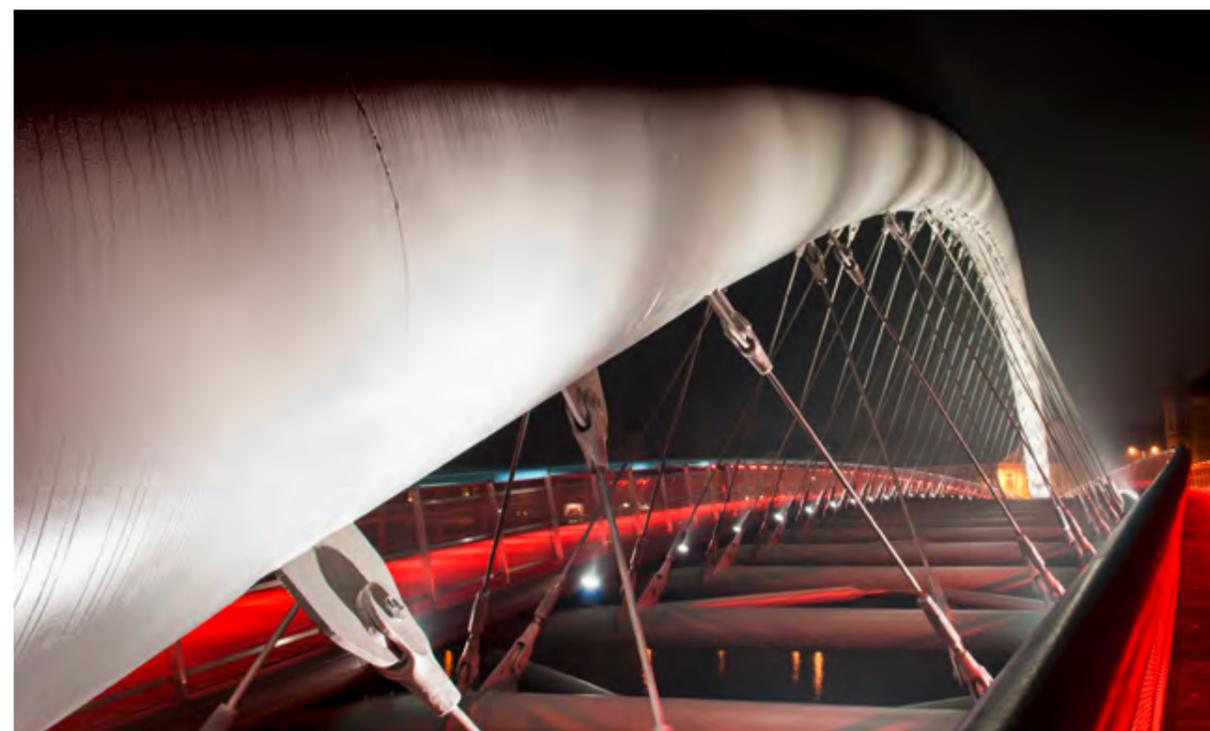
After suffering a fall against the value of the US dollar in 2016, the euro bounced back in the wake of the recovery in the Eurozone economy and for most of the year it enjoyed strong gains against the pound following the Brexit vote. Looking ahead, key issues will be whether rising US interest rates will push up the value of the dollar and whether a rally in the pound towards the end of 2017 proves to be more than just a temporary bounce.

Attractions of CEE

As a broadly stable region, with economic growth outpacing all major economies, a favourable environment for foreign investment and EU financing and an increasingly affluent population of more than 100m people, CEE is an attractive market in its own right. Companies across a wide range of sectors, from consumer goods to financial services, see it as an appealing territory in which to do business.

Attractive tax rates and improving infrastructure as well as an increasing appetite to embrace PPP projects appeal to investors for both M&A and greenfield projects.

Another big attraction is the availability of a relatively low-cost, well-educated and skilled workforce, which has made parts of the region a magnet for industries including automotive manufacturing, software and technology. The proximity to Western Europe and its affluent markets is another advantage as far as investors across Europe, Asia and the US are concerned.



Deal drivers for buyers

The flow of deals shows that CEE remains a key target for international investors, whether they want to tap its markets directly or use them to produce goods for export. It is a logical location for companies that operate in mature markets and are looking elsewhere for growth.

As economies in emerging Europe and the businesses within them develop, they are creating companies of a size to be attractive to international buyers who also appreciate the value of adding sophisticated technology and IP to their portfolios. One factor holding back M&A activity may be that there are simply not enough large assets to make it on to the radar of private equity funds or corporate buyers with a higher-value deal sweet spot.

As our European M&A Outlook report showed, 54% of executives believe that in the coming year cash-rich corporates will drive deal-making as they search for returns. With interest rates still low by historic standards and financial institutions in strong shape, securing funding for deals is not an issue, though competition between corporates and private equity firms means buyers need to be nimble.



Hedde Draper

Head of Corporate Finance Advisory for Austria and CEE, UniCredit

We have seen an active M&A market in 2017 that we expect to continue into 2018. An interesting market in CEE has been Romania. International strategic and private equity interest for Romanian assets has been significant. This manifested itself during the auction for Romanian food retailer Profi, ultimately sold to MEP. Romania, being one of the biggest markets in CEE, is perceived by investors to have a relatively stable and attractive investment climate.



Pawel Padusinski
Co-head of the Warsaw office
of Mid Europa Partners

We continue to see the region offering compelling investment opportunities especially in the consumer and service-oriented sectors. This is largely being driven by growth in private consumption in our region which is outpacing the growth in the Eurozone and we believe that this trend will continue as local consumer habits converge to those of Western Europe. The region has a sizable and growing middle class with increasing disposable incomes, seeking more convenience and higher value services.

Deal drivers for sellers

According to the Outlook report, sellers will be looking to offload non-core assets to raise capital for expansion in faster growing and more profitable areas. There was a sharp fall in the number of executives who expected distress selling to be a key factor in decision making.

In those CEE economies that went through a period of privatisation early on after the opening up of markets following the breakdown of the former Soviet Union, many family businesses are now reaching a stage where they need funds to expand and are seeking strategic investors. However, some owners are preparing to retire and cannot pass on the family business because their children are unable or unwilling to accept the mantle, perhaps because of a failure in succession planning. This so-called generational shift is common to most countries in the region, including Poland, the Czech Republic, Romania and Turkey, and is likely to be an important driver of deals in the coming years.

Obstacles

Although CEE remains a relatively stable place to invest and do business, political developments in some countries have given investors reason to be cautious in the last year or so. In particular, the rise of populist politics and a shift away from the centre ground has put the spotlight on countries such as Poland and Hungary. One of the key concerns of investors is that progress that has been made in unwinding regulation and pushing back bureaucracy could be reversed, though their caution has not had any significant impact on M&A activity levels this past year.

In one respect, some countries within CEE have become victims of their own success: their ability to bring in investment and create jobs has soaked up the available labour, pushing up wages and leading to skill shortages. The result is that employers are having to look further afield as they seek to fill key positions and keep production lines open, running the risk of stimulating migration which can be a politically volatile issue.

The impact of the new US tax rules is yet to become clear and there is uncertainty about whether the government's desire to repatriate profits will have the knock-on effect of reducing foreign direct investment in CEE.

Outlook

There are plenty of reasons to be optimistic about M&A activity in CEE in 2018, not least the region's impressive economic performance. With a rate of growth that leaves neighbours in Western Europe looking on with envy, it can offer an exciting and expanding consumer market in its own right, as well as an economically attractive bridgehead into the wider EU. Combine those factors with a healthy pipeline of deals and the M&A scene for the coming year and beyond looks set to be another lively one.



Data in focus: key insights

The head of EMIS' M&A database, Stefan Stoyanov, offers further insight on the stories coming out of 2017's M&A data

Q: How would you describe 2017 in terms of M&A activity in emerging Europe?

In a year marked by uncertainties surrounding Brexit's unwinding and the policy direction of the new US administration, as well as by fears of spreading populism that preceded the elections in the Netherlands, France and Germany, M&A activity across emerging countries in CEE/SEE has remained healthy. Deal flow was in fact higher than in 2016, reaching 2,113 transactions at year-end, although the total value of M&A fell by 17% to EUR 71.5bn due to fewer deals above the EUR 1bn threshold. The median size of deals, based on EMIS data on 1,308 transactions with disclosed or estimated values, has surprisingly remained unchanged at exactly EUR 11.2m.

Q: What are the main trends you observed?

Among the big trends we observed in 2017, the most obvious was that of China gradually becoming a major factor for inbound deals in CEE/SEE. Last year the Asian country ranked as the region's top foreign investor for the first time ever, despite having to curb its record 2016 global buying spree by nearly 40% due to regulatory and leverage concerns. It should be noted, however, that China landed the top investor spot thanks to a single exceptionally large deal - CEFC's purchase of a EUR 7.5bn stake in Russian oil major Rosneft. Nevertheless, Chinese buyouts in 2017 were more pronounced than

previously, featuring mixed buyers, as well as stronger country and sector diversification. China's increased interest towards CEE/SEE likely stems from the availability of more easily approachable targets than in the U.S. or in Western Europe, and a lighter regulatory environment. We expect this interest to grow further in 2018.

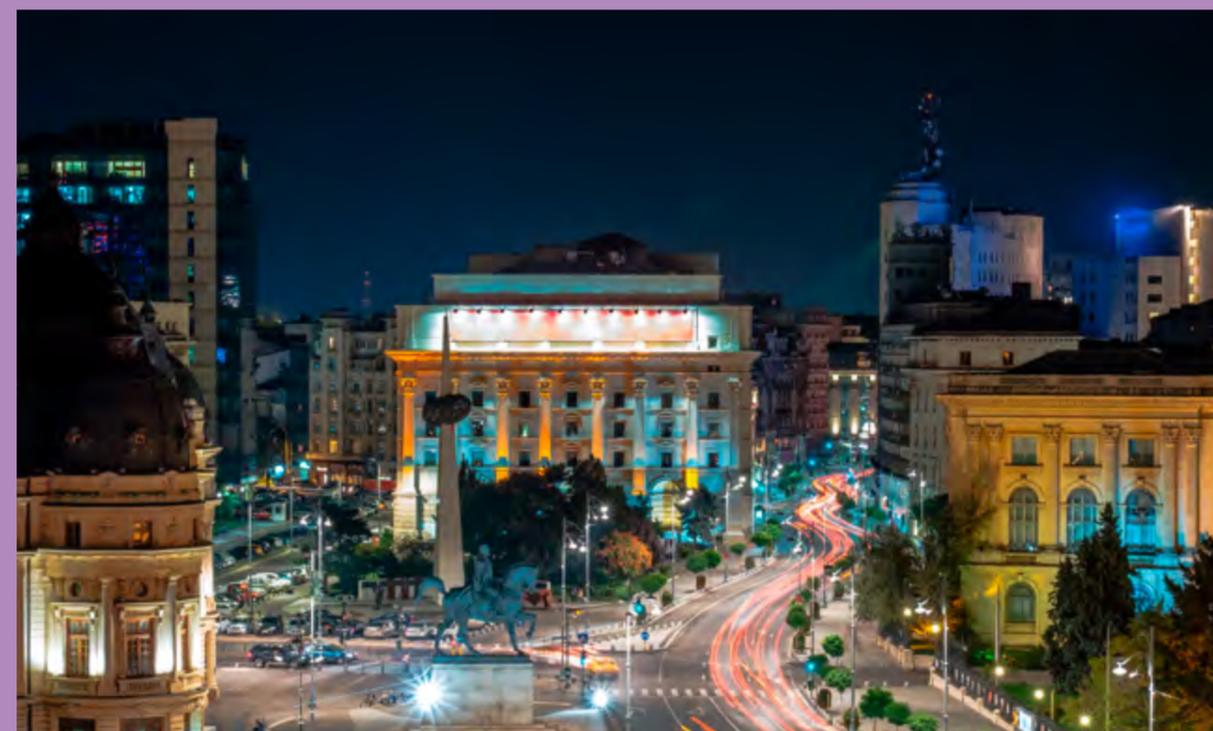
While the real estate sector still leads by number of deals, the booming IT scene is turning into a significant driving force for M&A. The volume of IT-related transactions increased by 15% last year, reaching 305 deals. A lot of the sector growth could perhaps be attributed to various EU funding mechanisms being in place across the CEE/SEE countries. Nevertheless, deals with foreign private equity participation in the EUR 20-50m range, which used to be sporadic once, are becoming more common.

Lastly, prolonged access to cheap funding within the Eurozone combined with dormant cash in the hands of both financial and strategic investors have boosted demand for acquisitions and resulted in the formation of a predominantly sellers' market. The sellers' advantageous position was evident in our observations of the newly announced deal intentions in 2017, as well as in the median valuations - while in 2016 EV/EBITDA was in the 6.5x-7x range, last year the range extended to 7.5x-9x, signalling the sellers' stronger bargaining position and their "shopping" for top bids. In

addition, sector players have confirmed an increasing amount of "locked box" deals, which shift certain transaction risks in favour of the owner.

Q: What about transaction activity in the banking sector - you had predicted increased activity for 2017?

Despite our earlier predictions for a more active banking M&A in 2017, the year was somewhat quiet. Deals in the financial sector were 161 (16% down from 2016) for a total value of EUR 3.5bn. The stabilizing European economy and booming mortgage lending in Hungary, the Czech Republic, Romania and Bulgaria have postponed the pressing need for mergers in the sector. Nevertheless, the near-zero interest environment is still suppressing profits and efficiencies of scale are being sought by active players in the region, such as Belgium's KBC and Hungary's OTP. The latter, said to have prepared a war chest of some EUR 1bn, already bought Romania's Banca Romaneasca and Vojvodjanska Banka in Serbia in summer, and is eyeing a further 2-3 deals by 2019. KBC on the other hand, after acquiring UBB in Bulgaria in late 2016, is now also seeking opportunities in Slovakia. On the Polish scene, after the IPO of Raiffeisen's local unit was again delayed, the only major banking deal that happened was the sale of part of the business of Deutsche Bank to local lender BZ WBK (owned by Spain's Santander) for over EUR 300m. More deals in the



region will surely come in 2018, although improving economies and the expected easing of ECB's bond buying programme could pose a hurdle to sector M&A.

Q: Which was the standout country in the region in terms of M&A?

Country-wise, most remarkable in 2017 was the revival of big oil & gas deals in Russia, which traditionally account for a large chunk of the region's total deal value. Top investments by China's CEFC, Austria's OMV and U.S. Schlumberger point towards a returning confidence in the Russian oil sector, which was also boosted by the recovering price of the commodity. Another major deal that should be mentioned (although not featured in our rankings due to criteria restrictions) was the combination of the ride-sharing businesses of Russian internet major Yandex and Uber into a new jointly-owned entity valued at more than EUR 3bn. Overall, assets in Russia are considered still relatively cheap at present, and that taken together with the country's improving

economy will likely guarantee the interest of both western and Asian buyers at least in the short to medium term.

Q: Did government policy in Poland deter investors?

Despite fears over the policy direction of the government, Polish M&A volume and value in 2017 did not move by much. The year's marquee transaction saw convenience store operator Zabka changing hands from one private equity investor to another. CVC's EUR 1bn purchase of the retailer from Mid Europa also ranked as the top PE investment in the region. However, with the majority of Polish M&A still defined by real estate deals, what impressed most in 2017 was the stock exchange activity. By the end of the year, eight companies had floated new shares on the main market of WSE, raising close to EUR 1.8bn - the highest amount since 2013. With other big deals in the pipeline and also considering FTSE Russell's recent upgrade of Poland to a developed market status, our expectations for deal making in the country for 2018 are upbeat.

Q: There seems to have been a recent uptick in deals in Turkey?

M&A activity in Turkey gained speed after April's constitutional referendum, which gave the president more executive power. Transactions long-delayed due to uncertainty finally took place and prospects that no imminent political changes will happen, coupled with strong GDP growth, helped boost investors' confidence. Overall for 2017, M&A was up in terms of both deal flow and total value but this comes as no surprise considering the sharp dip in 2016 after the failed military coup. Turkey's resilient economy will continue luring foreign buyers with its quickening growth rates and favourable demographics, yet continuing depreciation of the currency and stalling EU membership talks may result in another challenging year for M&A.

Q: How have the region's other markets fared?

Among other countries in CEE/SEE, the Czech Republic had a slower year with just one deal reaching EUR 1bn – the sale of 37% in Unipetrol to PKN Orlen. Although there were slightly more real estate deals, there weren't as many big sector transactions as in 2016, contributing to an overall decline in deal value. Hungary, on the other hand, surged more than 125% value-wise largely thanks to CEZ selling its stake in oil major MOL for nearly EUR 470m, and to U.S. private equity firm Indigo Partners exiting its WizzAir investment in an EUR 280m deal. Those two transactions aside, there were also big deals in real estate (Arena Plaza Mall, EUR 275m), finance (3% in OTP Bank, EUR 208m), telecoms (Invitel, EUR 204m), and energy (Magyar Gaz Tranzit, EUR 147m). Romania also saw larger deals, with value jumping by more than 60% to EUR 3.2bn. More remarkably, the top five transactions were all from different sectors, highlighting the country's well-balanced economy, which is certain to continue

drawing the interest of foreign investors in 2018. Lastly, after a slow start to the year, Bulgarian M&A finished strong, reaching the highest total value since 2013 of EUR 1.45bn. The deal scene was mostly defined by acquisitions of retail properties by South African investors, although there were also many interesting deals in the IT sector, including Dynamo Software (estimated at around EUR 60m), MM Solutions (EUR 31m) and Vayant Travel Technologies (EUR 29m). Among the upcoming big transactions in 2018 are the sale of the local business of CEZ, the planned new concession of Sofia Airport, as well as rumoured bank sales.

Q: What is the outlook for M&A in the region in 2018?

Although having some concerns that the wave of populism has not yet fully faded, that corruption is still an obstacle in some SEE countries, and that gradually increasing labour costs are affecting the investment attractiveness of the region, we are generally optimistic that 2018 will be better for M&A.



Stefan Stoyanov
Head of M&A Database,
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Economic growth in CEE/SEE, coupled with the still cheap financing, make it a desirable investment destination, also given the fewer unknowns at the start of the year as compared to 2017. In addition, we expect that tax and regulatory uncertainty overseas in the U.S. will force companies there to be more cautious about domestic deals and to take a closer look at Europe instead, especially if the dollar shows signs of improvement against the euro following the Fed's several planned interest hikes in 2018. Lastly, China's ranking as a top investor in CEE/SEE last year could hint at future things to come.





The evolution of family offices in Emerging Europe

The growing prominence of family offices participating in transactions in emerging Europe has been a striking development over the last two years. Family offices primarily remain visible in the more mature markets across the region, however, they are increasingly being established and growing in influence in broader CEE.

The rise can be ascribed to successful entrepreneurs of the post-communist era, who are now in the process of exiting and creating wealth or transferring it to family descendants. High-net-worth individuals across emerging Europe are now in the position to invest their money in the same way traditional family offices have been managing money for over 100 years in Western Europe and the US.

The very investment strategies that have made financial empires out of the likes of the Rothschild, Rockefeller, Quandt, Morgan and Jacobs families over time are now being emulated by local players. The expansion is symptomatic and commensurate with the growth in market maturity which is being experienced across the region.

Irrespective of the causes or motivations for the expansion, naturally it has invited discussion about the potential allure of direct investment through family offices as opposed to traditional private equity funds. Both vary in how they are defined but several clear distinctions between the two can be made.

In contrast to the position of LPs in private equity funds, principals in family offices must be able to directly influence how their money is managed. If this element is missing, by definition, it is not a family office, it is a fund or a quasi-private equity fund created by a family which is investing through family money.

A second defining feature in the comparison concerns their objectives. Family offices invest with the intent of the long-term preservation of assets, and are not constrained by an exit strategy. The practice of investment through family offices is to allocate money into an asset which will provide the family with a long term annual return in the form of dividends and will thereby protect the primary assets. On the other hand, private equity funds focus upon expanding an asset, selling it and providing a certain rate of return for investors.



It is always exciting to have new players in the emerging European market. Up to this point, the activity of family offices has been largely targeted at low to mid-size deals. However, in 2018 we expect them to be increasingly featured in some of the largest transactions in the region.



Helen Rodwell,
Partner, CEE Corporate practice

An important aspect of this divergent strategic approach to direct investment is that family offices and private equity firms employ different formulae in order to determine the value of assets. Family offices do not value assets on a 5-10 year basis, but usually consider valuations on a 10-15 year term. Additionally, in situations where interest rates are low, family offices are not always incentivised to maximise leverage rates.

A notable consequence of the mismatch between the approach to the valuation of assets and investment objectives is that it can frequently make it unfeasible for private equity firms and family offices to act in consortium on transactions. However, in light of recent headline transactions in the market and the growing influence of family offices, there is evidence that in certain situations the two are prepared to act together. The biggest obstacle is likely to always be in coming to an agreement on the exit strategy.

The flexibility of family offices and in particular, the absence of an exit strategy, is one of the decisive advantages over private equity firms. Unlike private equity firms, family offices are not restricted by having to invest by reference to a rigid investment thesis or strategy. Nevertheless, the apparent benefits of this freedom of investment for family offices need to be treated with caution; they can invite a lack of discipline and speculation coming into investment.

Private equity firms and family offices face different but equally significant challenges. Whilst private equity firms are confronted with external challenges such as the imposition of regulatory requirements for reporting and greater transparency with investors; the greatest challenges for a family office are internal. Family offices are susceptible to the desire for emotional and impulsive investments. They need to ensure that all investments strictly fit within a strategic model of asset

allocation which adequately accounts for relative exposure to any one particular asset. Critically, these considerations will always be founded upon the long-term preservation of assets of the family and accommodating the family's needs.

The Balkans in focus

Q: What were the key trends in the Balkans in 2016?

It was a year of steady progress, with no significant changes. On the whole, the Balkans have been politically stable which is very important for the region, though there have been some tensions in the former Yugoslavia which is a reason to be slightly cautious about the future. Economically, a strong upswing in Serbia helped to lift GDP growth in the Western Balkans, while Romania continued to develop well. We expect to see Macedonia being a focus of attention after the 2017 elections and a more EU-friendly government.

Q: Where did international investor interest come from?

It has been quite broadly based and the traditional investors such as Austria, the UK and Netherlands have remained active, plus new investors from China. One of the trends we have seen this year is that Turkish companies have been very active. Given some of the uncertainties they face at home, it is natural they would look for opportunities that are relatively close geographically.

Q: What were some of the notable deals?

We have not seen any megadeals, but there have been some significant smaller acquisitions. British American Tobacco has been consolidating its position in the region, buying a package of brands from Bulgartabac in Bulgaria and assets of FDS in Bosnia. Luxembourg-based Aelius, which is affiliated to Brazilian company EMS, bought a majority stake in Serbia's state-owned drug maker Galenika.



We will see further consolidation of the banking sector in the region, and as banks try to unwind their non-performing loans this may lead to M&A opportunities.



Radivoje Petričić, Partner, CMS Serbia

Q: Are there any major deals in the pipeline for this year?

We are aware of a number of transactions that are being worked on and should be completed in 2018. One that is in the public domain is the sale of a 25 year concession in Belgrade Nikola Tesla Airport in Serbia. The government said it received non-binding bids from 27 consortia and companies before it decided on which would go through to the next round. What is encouraging is that the interested parties came from across Europe and Asia and included many big names, which is proof that the region is very attractive to international investors.

Q: Have there been any setbacks during the year?

Unfortunately, an item of news that has attracted much attention - not just in Croatia and the Balkans, but further afield too - has been the crisis suffered by Agrokor, the food and supermarket group based in Zagreb. It has huge debt problems which have put a cloud over its future. As the biggest employer in the region, this could have serious implications for jobs, for creditors and the broader economy. We are hopeful that restructuring will go ahead in 2018 and expect to see strong interest from buyers in the event of any break-up.

Q: What is the outlook for 2018?

The outlook is very positive. Economic growth is expected to rise, helped by rising private consumption in the region and increased demand from the Eurozone. We are seeing a lot of interest from investors across a number of countries and a wide variety of sectors which creates optimism around M&A activity this year.

The main risk is political uncertainty, but if countries can sustain the momentum of growth and reform we should see another year of progress.





With the rise of M&A and real estate deals, the acquisition financing, asset-based lending and the interests of the banks to finance LBOs has significantly risen. We expect to see more acquisition financing in CEE region in 2018.



Maja Žgajnar, Partner, CMS Slovenia

Acquisition finance in emerging Europe

In recent times, CMS has observed more aggressive deal terms on acquisition financing transactions throughout emerging Europe. This indicates a growing convergence with Western Europe, however certain distinctions between the markets remain.

CMS International Banking and Finance Partner, Paul Stallebrass, discusses the latest developments in the financing landscape across the region.

Q: How would you summarise the acquisition financing activity we have seen in emerging Europe over the last 12 months?

We continue to see a lot of activity in Poland as well as southeast Europe, and in particular, Romania. In Poland there was concern that the political changes and increased state ownership of the local banking sector might have a negative impact on investor sentiment and the availability of financing, but that has not proved to be the case. The growth potential of Romania and parts of southeast Europe continues to encourage investment too, notwithstanding the more challenging regulatory environment.

Other historically mature markets including the Czech Republic, Hungary and Slovakia have seen less acquisition finance activity, apart from specific sectors such as technology.

Q: Do you notice growing evidence of financing transactions in the more developed CEE markets adopting Western European terms and expectations?

It is clear we are experiencing a shift to a more sponsor-friendly position in the terms and expectations for major transactions

in the region, provoked to some extent by the increased presence of major European funds. But, despite some perception that deals are being made on "Western European" terms, there is still a significant gap between the two regions. Part of the reason for this is that the majority of deals are still driven by the availability of significant local bank liquidity (with advantageous pricing) and on syndication local banks are less amenable to accepting aggressive Western European terms.

Another significant development is in homogeneity across the region. Deal terms and structures in the emerging CEE markets and the more developed CEE markets are increasingly similar. This trend can be expected to continue.

Q: Have you seen a substantial shift in sponsor management over the last few years in CEE?

A number of big international funds have come into the market over the last few years and over the last 12-18 months they have been localising their businesses to a large extent. This is most apparent in the case of Poland, where we have seen a number of new offices opened. This is interesting when considered in the context of other high profile funds moving out of CEE in recent years on the basis that it is not a separate market anymore, and therefore there is no need to have specialised CEE operations.

A relatively new development in the market is the increasing presence of investments from family offices (or similar). As of yet, they have not been particularly active in the finance market but we are sure this is a development that will come.

Q: Are the levels of local liquidity still strong in CEE?

There is a significant amount of local liquidity, which continues to drive the market. Over the next few years, it will be interesting to see the extent to which local liquidity moves to other countries in the region. There has been evidence of a growing willingness of local banks to participate in deals which are taking place with other CEE or neighbouring Western European countries.

Q: How would you explain the absence of Debt Funds in transactions in CEE?

It is a combination of a lack of knowledge of the market and the perception that due to the level of liquidity within the banking sector of CEE there is simply not the profit to be made. It is arguable that there is not the scope for the kind of margins that debt funds would make in Western Europe, although this is not conclusive as the market for debt funds in Western Europe is becoming increasingly competitive and margins are being squeezed. With this fierce competition in mind, it is perhaps surprising that more funds have not been tempted to look, for instance, at Poland or the Czech Republic in order to increase the likelihood of securing a deal.



Paul Stallebrass
CMS International Banking and Finance Partner

Going global – outbound investment on the up in emerging Europe

Cybersecurity company Bitdefender is a classic example of how a company can grow into a national champion and use that as a springboard to become a global player.

With its roots going back to 1990, Bitdefender was founded by entrepreneur Florin Talpes in 2001 and quickly made a name for itself in its home country of Romania. Within three years it had set up offices in the US, Germany and UK as its international reputation grew.

Today, the Bucharest-based company boasts that it provides security for 500 million computers and its software is distributed in 150 countries, with offices in countries including Spain, Denmark, Italy and Dubai.

It has grown organically, but also made timely acquisitions. 2017 was a landmark year for the business. It started with its acquisition of Profil Technology of France, the largest deal in the company's history which accelerated its international expansion. It ended in December with a significant investment when European private equity firm Vitruvian Partners bought a 30% stake in the business from existing shareholder Axxess Capital, valuing the group at more than USD 600m.

In many respects, software and digital technology provide the perfect platform for international expansion because they serve a global need and companies in the

sector can move into new territories without the same capital requirements as, say, a retailer or manufacturer.

Historically, emerging Europe has not found it as easy to attract venture capital investment that has kick-started digital innovation in other places, such as California's Silicon Valley. But that is changing as funds see the value in talent and expertise in countries such as Romania.

Bitdefender has played an important part in putting the region's technology sector on the map as far as international investors are concerned. Other Romanian companies with international ambitions include internet retailer eMAG which has pushed into Bulgaria, Hungary and Poland and telecoms group RCS & RDS which has expanded into Hungary, Spain and Italy.

The pattern of outbound investment differs from country to country. Hungary, for example, has traditionally been very aggressive through state-backed corporations such as oil company MOL which has operations in 40 countries and OTP Bank in nine countries.

In contrast, Poland has created national and regional champions on the back of its large domestic consumer market. Shoe maker and retailer CCC sells across 16 countries, while fashion group LPP has 1,700 stores in 20 countries

through brands such as Reserved and Cropp. In recent years, we have seen a growing trend of leading Polish companies expanding abroad, in particular into other EU countries. For example, manufacturer and wholesaler of household appliances Amica Wronki's acquisition of a UK-based retailer of high quality kitchen appliances in 2015 further expanded Amica's existing network which already included Poland, Germany, Russia, the Nordic countries, the Czech Republic and Slovakia.

As companies reach the limits of growth in their homeland, they will look at markets where there is sufficient spending power to justify the costs of foreign expansion. A growing number of companies in CEE are reaching this stage, where they can be national, regional and even global champions, with the commercial and financial firepower to do cross-border deals.

We expect to see outbound investment pick up in 2018 and beyond as markets in emerging Europe and companies within them mature.

The strong growth of CEE economies means that companies in the region do not necessarily have to look as far afield as they did in the past. Rapid GDP growth and increased consumer spending power has created attractive markets on their doorsteps which will help drive cross-border deals within the region going forward.



We have got a positive story to tell, of home-grown companies that have become national champions capable of international expansion, and strong economic growth that makes emerging Europe an attractive target for outbound investment.



Horea Popescu, Partner, CMS Romania



FinTech finds a new frontier as banks, insurers and funds face up to competition

FinTech is transforming financial services across the world and although the sector is still relatively small in CEE, there are huge opportunities for it to expand to meet the needs of consumers and financial services providers.

Payment is a key area of focus for FinTech, giving customers the ability to transfer money instantly and cheaply, speeding up processing and making it easier for customers to carry out cross-border transactions.

Capital raising is being transformed through peer-to-peer lending and crowdfunding, opening up new opportunities for lenders, borrowers and investors. The advantage for all parties is that loans which might have taken months to arrange through a bank can now be made instantly.

Other areas where technology is driving change are cryptocurrencies (powered by blockchain technology), cybersecurity and various products based on data analytics and artificial intelligence.

In many respects, the banking system in emerging Europe has adopted new technologies faster than its western European competitors. Banks in CEE have been at the forefront of developments, first through internet banking and more recently through mobile banking, as well as services such as contactless card payments. Digitisation is accelerating the pace of change and banks need to keep up. Some are developing technologies of their own and others are looking to buy or invest in FinTech businesses.



Banks, insurers and funds are taking a fresh look at their business models as consumers appreciate the convenience of going mobile. The impact is going to be huge.



Cristina Reichmann, Partner, CMS Romania

A good example of how banks and their customers in CEE have embraced mobile banking is Warsaw-based mBank, which has been building its presence in Poland, the Czech Republic and Slovakia. A more recent entrant into the CEE market is German bank N26, which offers accounts in Slovenia and Slovakia and was authorised to operate in Romania from September 2017.

Insurers and asset managers were at first slower to adopt new technologies. However, they are starting to recognise the positive effect these could have on risk perspective (new type of risks to be insured), re-engineering of banking products (Internet of Things technology), internal operations and, perhaps most importantly, consumer experience. The ability to conduct financial affairs on smartphones, from straightforward banking transactions to buying and selling investments, seems to be the common expectation these days.

Although FinTech is usually associated with start-ups, giant online payment systems such as PayPal of the US and Alipay of China, which already have millions of users, could move into territory previously occupied by banks. The same goes for the likes of Amazon, Apple and Google which could leverage their huge customer bases and technology to encroach into financial services.

In a significant development in 2017, a leading European telecoms company may extend its services in CEE to consumer loans. That may be a sign of things to come.

For start-ups, the goal may be to strike a co-operation agreement with a bank or even agree a takeover. Others are planning to grow to a size where they can be a challenger in specific areas such as currency exchange. As ever with start-ups, a large number will inevitably disappear under the weight of competition from small rivals and big institutions alike.

Poland has been the focus for FinTech in CEE, but the Czech Republic, Hungary and Romania are also making inroads, thanks to their reputation for IT skills and technological innovation.

For ambitious new companies, forging links with London – Europe's leading FinTech centre – is an important step in developing their technology and reaching investors. The UK has a very supportive regulatory regime – known as the regulatory sandbox – to help start-ups test innovative products. For instance, Polish company Billon that introduced an instant payment system based on a blockchain technology, has set up its main office in London even though most of its IT staff are in Warsaw.

One of the problems for established financial institutions is that they are subject to regulation and supervision that may not apply to newcomers. Not only does that create an unfair advantage, but there is also the danger that without proper accountability for many of these new services, consumers could be left in a vulnerable position.

Universal banks, insurers and fund managers are revisiting their business models to face the growing competition from new entrants. FinTech is growing exponentially and will be a focus for M&A and investment. At this stage the deals in emerging Europe tend to be small, but for investors there is the opportunity to get involved in exciting technology at an early stage when prices are low.



The links between FinTechs in CEE and London will only get stronger, allowing companies to tap into the funding available in the UK and giving investors the opportunity to back innovative companies.



Irek Piecuch, Partner, CMS Poland

Slovakia in the spotlight

Slovakia had a healthy level of M&A activity in 2017, with deal value figures up and volume remaining relatively stable year on year. The transactions were spread across a broad range of sectors and included several landmark transactions. However, the most encouraging aspect of investment in the market was not reflected in M&A, but in the unprecedented greenfield investment boom that has occurred and is expected to continue throughout 2018.

There is growing evidence of substantial inbound investment transactions into Slovakia from major multinational investors. For instance, in September Prologis announced the sale of its Prologis Park Galanta-Gan hub in western Slovakia, comprising 240,000 square metres of space across four facilities, to China's CNIC Corporation in one the largest logistics space deals in emerging Europe.

In addition to CNIC, other Chinese companies are looking at the country, but investment so far has been moderate and most of the Asian interest has come from Japan and South Korea. Besides Czech, the German and Austrian investors remain the most active international investors in Slovakia, though it is also on the radar of US and UK companies.

Highlights of recent investment activity in Slovakia include: the sale of Alpha Medical, a diagnostics company with operations in Slovakia and the Czech Republic, to Geneva-based Unilabs; the planned merger of broadband operators Swan and Benestra by their respective owners, DanubiaTel and Slovak private equity company Sandberg Capital; US internet shopping group Amazon opening a new logistics centre in Sered in the Trnava region; and Polish Enterprise Fund VII, managed by Enterprise Investors, purchasing 100% of independent food retailer CBA Slovakia.

As the year progressed there was intense speculation about the possible sale of US Steel plant at Kosice by US Steel Corporation for more than EUR 1bn, with China's He Steel reportedly competing with Czech-Slovak group Moravia Steel. An agreement early in 2018 would get M&A activity for the year off to a strong start, but even without such a megadeal there looks to be a healthy appetite among buyers with an eye for Slovak targets.

“The stable growth in the economy is engendering confidence from investors abroad, which is reflected in a number of substantial inbound deals that have introduced several major new players in the market.



Peter Šimo, Partner, CMS Slovakia

In particular, the automotive industry provided a valuable stimulus for the Slovak economy. The construction of the new EUR 1.4bn Jaguar Land Rover plant at Nitra in the West of the country got underway and the company officially launched a recruitment campaign ready for production to begin in late 2018. It is expected to create 2,800 direct jobs and thousands more in the supply chain. The fourth car manufacturer to locate in the country, following Volkswagen, PSA Peugeot Citroen and Kia Motors, JLR's arrival cements Slovakia's position as the largest automobile maker in the world per capita, producing more than one million vehicles a year in a country with a population of only 5.4 million people.

Investors are attracted by Slovakia's stable political and economic climate, competitive incentives and its location in the heart of CEE, close to major European markets. It has a well-educated and skilled workforce, with competitive pay rates, but concerns remain that with unemployment at a historic low, wages could be driven higher - particularly in the automotive industry where demand for skilled labour is on the rise.

The economy has also been boosted by EU funds, primarily to build infrastructure such as roads, but with many of those projects either complete or coming to an end, some of that stimulus will fade away, though the OECD is forecasting growth rising to 4% over the next two years.



The excitement for investment in Slovakia is unparalleled in modern times as multinationals are increasingly taking advantage of the benefits the market has to offer. In 2018 we expect the announcement of several major greenfield projects and an uplift in M&A activity.



Petra Čorba Stark, Counsel, CMS Slovakia



Manufacturing – a CEE success story

Manufacturing continued to play a vital role in the CEE’s economic success story during 2017 and once again was a key focus for M&A and greenfield investment.

Deal values in the sector rose by 25% to EUR 9.29bn, the third largest after mining and real estate and construction. Deal numbers were slightly lower than the previous year and for the first time there were more deals in telecoms and technology than manufacturing.

In terms of M&A, activity was broadly spread across sub-sectors and countries. In the Czech Republic, the second biggest deal of the year was the purchase of rolling stock maker Skoda Transportation by Czech investment company PPF for an estimated EUR 390.8m. Romania saw a flurry of deals, including the purchase of EcoPack by DS Smith of the UK for EUR 208m and the sale of Takata Corp to Key Safety Systems of the US for EUR 153.9m. In Turkey, Erkunt Traktor was snapped up by Mahindra and Mahindra of India for EUR 97.5m. In Slovenia, the French company Trigano purchased the Slovenian manufacturer Adria Mobil for EUR 200m.

CEE remains an attractive location for greenfield investors and existing manufacturers looking to expand their operations in the region.

The automotive sector is one of the region’s success stories and the Jaguar Land Rover plant under construction in Slovakia is becoming a magnet for suppliers and logistics companies. Elsewhere, Mercedes-Benz began work on a new EUR 500m engine plant at Jawor, Poland, and VW announced it is to build its new electric utility vehicle in the country.



Manufacturing has been a big success story for CEE and all the signs are that will continue for some time to come.

Iain Batty, Partner, CEE Commercial Practice



Aviation maintenance is another growing sector and GE and Lufthansa announced plans to open a plant in 2018 to service GE widebody engines, expected to create 500 jobs, in Sroda Slaska in Poland.

Manufacturing investment has generally been driven by overseas producers, either through M&A or setting up local subsidiaries, from European, US and Asian companies. Chinese investment has been on a small scale so far, but there are a lot of discussions taking place.

There is growing demand for greenfield sites and one of the problems for investors is finding large plots zoned for industrial use. Ownership, where sites are divided into small parcels, can also be an issue because compulsory purchase by government is only possible in some jurisdictions.

One of the effects of the wave of investment in countries such as Poland, Hungary, the Czech Republic and Slovakia, is that unemployment rates are low and wages are rising. In some parts of the region recruitment of skilled workers is becoming a challenge, prompting employers to look further afield for labour at the risk of stirring up political controversy about migration.

Employers in CEE see the effects of Brexit and are monitoring these and the volatility of the pound carefully to see whether it will encourage migrant workers to return home.

For both M&A and greenfield investment, investors need to understand that from an employment law and regulation point of view, the rules can vary across the region and there is no one-size-fits-all policy. We have found that in transactions, employment law and HR issues are often considered very late in the process, which is a mistake because getting the right structures in place can take several months.

Another issue to be considered is setting up employee forums which benefit both sides and can have a commercial benefit and increase efficiency.

There have been concerns about a shift to populist politics in Poland and Hungary, but those governments have so far been careful not to alienate employers that want to create jobs and we have not seen any change in regulations or laws to affect manufacturers.

Interest in manufacturing in CEE remains at a high level and our experience is that seldom have so many potential investors been looking at opportunities.



Manufacturing 360°

CMS partners from various practice areas and offices talk about the continued investments we see in the manufacturing sector



Most jurisdictions in CEE support new investments through various types of tax, customs and local incentives, including state-aid and subsidies, as well as employment grants for all sizes of enterprises.



Tamara Jelić Kazić, Partner, CEE Tax practice



We expect a significant increase in transactions in the manufacturing sector in 2018, especially in small and medium-sized companies.



Aleš Lunder, Partner, CEE Corporate practice



Last year, in both the region and in Turkey, we continued to see an increase in small and mid-size M&A deals, a lot of which were investments in the manufacturing sector.



Döne Yalçın, Partner, CMS Turkey



All too often in a transaction, the employment law and HR issues are considered far too late in the process. They need to be taken into account much earlier, usually months before, as part of the broader M&A planning.



Katarzyna Dulewicz, Partner, CEE Employment practice



Finding the right location, with good transport links and an available workforce, on land that is already zoned for industrial use, is probably more important to an investor than government incentives.



Wojciech Koczara, Partner, CEE Real Estate practice

Asian investment in emerging Europe View from China

Nick Beckett, Managing Partner of CMS Beijing, on Chinese investment into emerging Europe

Chinese investment in emerging Europe hit record levels in 2017, up 78%, in the same year that President Xi Jinping pledged an additional USD 124bn for the Belt and Road initiative to expand global trade networks.

The region is earmarked as an important destination on what has been described as the New Silk Road that was first unveiled in 2013 to boost investment in ports, roads, rail and other infrastructure around the world. The 16+1 initiative, between China and emerging European partners, sits neatly alongside it as a forum for deepening ties.

I suspect many projects will be labelled “Belt and Road” whether they are or not. After all, China saw CEE as an important market long before the New Silk Road programme.

For the first time, in 2017 China became the biggest international investor in CEE and for the third year in succession the value of Chinese investments reached a new high, rising to EUR 7.7bn after doubling in the previous year. The figures were skewed by the largest deal of the year in the region, CEFC China Energy’s purchase of a stake in Russian oil and gas company Rosneft, but M&A interest remained high.

Deal numbers were only slightly down from 2016’s all-time high, but that should not be taken as a sign of waning interest. Rather, China is pulling levers to control the outflow of capital and my sense in talking to clients, banks and private equity firms is that the Chinese want to make sure it is directed into the most logical and sensible investments.

Areas such as football clubs, gaming and real estate are not seen as a priority. Whether it is through Belt and Road or not, the focus is going to be on infrastructure, energy and technology, areas where there is a high level of innovation, along with chemicals and consumers goods.

Outside of Russia, almost half of the deals have been into Poland, and China is casting its net wider across emerging Europe, not just geographically but by sector too.

In Poland, construction equipment maker LiuGong moved its regional headquarters to Warsaw and expanded its site at Stalowa Wola, and in Slovakia CNIC bought the Prologis facility at Galanta-Gan.

Smaller deals included Thunder Software Technology’s purchase of MM Solutions in Bulgaria, Norinco International taking a controlling stake in Croatian windpower company Energija Projekt and battery maker Camel Group raising its stake in Zagreb electric supercar company Rimac Automobili.



Whether or not it comes under the banner of “Belt and Road” there is going to be a big increase in Chinese investment in CEE.

Nick Beckett, Partner, CMS China



In the Czech Republic, telecoms giant Huawei confirmed plans to invest as much as USD 360m, while CEFC China was reportedly planning to increase its presence by leading a consortium to buy a majority stake in broadcaster CME.

Whereas five years ago China was interested in acquiring technology, brands and talent to help its companies become stronger, they have since learned to innovate and develop their own business models. In technology, for instance, their R&D is as impressive as many leading multinationals.

Looking ahead, we are likely to see less investment in areas such as real estate and entertainment, but as the Chinese become more innovative we will see them focus on innovation and infrastructure as China plays a leading role on the global stage.

Asian investment in emerging Europe Seeing China from inside Europe

Andrzej Blach, Counsel at CMS Poland, on Chinese investment into emerging Europe

Chinese investors, including those who have no significant experience working in foreign markets are increasingly finding themselves forced to look overseas as the pace of growth in their domestic economy slows.

Whether they are state owned or private, they are being told by their parent companies or the government to look elsewhere for growth. As a growing economy with significant needs for investments in infrastructure, emerging Europe is an ideal target.

This can pose a challenge for those who have been used to dealing only in China. They may have superb engineering skills and technical talent, but because they have only ever competed in a state-dominated economy, it can be a shock to find this is not enough alone to guarantee success. They do not always understand how harsh competition in the West tends to be.

If the Chinese state says yes to a project, then it will likely go ahead. What Chinese investors are not prepared for is that it is not the same in Europe where there can be all kinds of political and legal obstacles at a local, national or even EU level. For instance, public procurement rules are there for a reason and cannot simply be waived, which is something Chinese investors do not always fully appreciate.

Another issue, and one that is not exclusive to China, is that outsiders do not often appreciate the differences between CEE countries on matters such as law and regulation. Although the 16+1 initiative makes geographic sense, it



Finding local partners and advisers to guide them through the legal and regulatory minefield of doing business is vital to Chinese success in CEE.



Andrzej Blach, Counsel, CMS Poland

hides the fact that the 16 CEE countries do not necessarily have a lot in common, even those in the EU.

Legal culture is a good example of where there are huge differences. In China, many deals and contracts are agreed on the basis of a meeting of minds and a handshake. Lawyers tend to document deals as agreed by business people whereas in the West a lot of the structure comes from lawyers.

Traditionally, Chinese business people used to boast that they never took an agreement out of a drawer. This approach cannot work in the West where parties rely heavily on the precise wording of documents which can be crucial when it comes to enforcement. The carefully drafted “clause 17” on page seven and signed off at 5am may appear to be of little significance, but it could ultimately be of paramount importance to both parties.

Having local partners can make a big difference, but the Chinese have traditionally hired advisors very late in the process because they do not appreciate the benefits of bringing in that expertise early on. Fortunately, those attitudes are changing.

Equally important is the need for CEE businesses who may be used to dealing with European and US investors to understand the cultural differences of working with Chinese and other Asian investors. They must understand the differences are more than just linguistic and manifest themselves in many areas, from human interaction to negotiating strategies and corporate decision-making.

These are challenges both sides have to overcome, but there is a growing understanding between the two. One thing is certain, the Chinese have shown over the centuries that they are very skilled at commerce and once they understand a country or a sector they are likely to be very successful in their ventures. As far as CEE is concerned, what started as a trickle of business will turn into a flood.

Asian investment in emerging Europe View from Asia

Andrew Stott, Managing Partner of CMS Singapore, on Asian investment into emerging Europe

Historically, Asian companies from countries such as Japan, South Korea, Singapore and India, have seen the UK as the gateway into Europe, but the Brexit vote may change that and it should continue to develop the profile of CEE, accelerating the economic growth story in the region.

The UK has offered good access to markets in terms of transport, infrastructure and border controls, as well as a business-friendly environment, low corporation tax and a skilled workforce. Asian companies were prepared to accept the higher costs of the UK as trade-off for the sake of access into the EU and operational reliability, but if access to the common market is lost then so is some of the attraction of being in the UK. The CEE can mirror many of the advantages of the UK and it is cheaper with close access to the larger EU markets such as Germany and France and land access to Russia and Turkey, so on a very mercenary, balance-sheet basis it can provide the alternative that Asian companies are looking for. When you look at it from an Asian investment perspective, the future looks bleak for Britain and positive for CEE.

That is not to say we should be entirely convinced by UK political fear-mongering. Existing investments in the UK are likely to stay because they have already been paid for and closure would result in a loss or inability to monetise the underlying asset. However, when it comes to making new investments or locating back-office functions and decisions driven by logistical access to the EU,

attention will increasingly turn elsewhere. In addition, as various commentators have already observed, "core" countries in the CEE region such as Poland, Hungary, the Czech Republic, Slovakia and Romania are growing faster than any region in the world with the exception of Asia Pacific. This growth is in part due to the emergence of "new industries", such as those focused on the Internet of Things and connected devices, where there is no legacy bias and CEE opportunities to deal directly with the Asian powerhouses are unfettered by legacy deals or dominance of companies in more developed Western markets.

As transport links improve and CEE becomes better connected in terms of distribution and the supply chain, global distribution models will concentrate on where it makes most geographic sense to locate which will be good for the region. Singapore does not necessarily have the "weight" of large-scale industries and corporations with the investment firepower to participate in the big engines of growth, but it has two large sovereign wealth funds that are interested in areas such as data centres, supply chain, logistics parks, real estate and digital technology.

For Korea's "chaebol", as the big family-owned conglomerates are known, there are huge opportunities to take part in construction projects and the manufacturing and distribution of automobiles and white goods, and associated industrial processes and services.

Japan's focus will also be on big industries such as steel and motors, along with white goods and consumer goods. Expect the likes of Sumitomo Corp, Mitsui and Mitsubishi to invest more heavily in CEE over the short to medium term.

India has a diverse economy spread across pharmaceuticals, household goods, manufacturing and technology which traditionally saw the UK as the cultural business partner providing a key access point into Europe. On a purely economic basis, I suspect we will see closer ties with CEE.

Culturally, Asian companies prefer to have a partnership model rather than outright acquisition or a new greenfield approach in unfamiliar markets and we see opportunities growing for joint ventures. For CEE companies, becoming a trusted partner with an Asian company in one part of their business can open doors to working with others, or expanding those relationships, such as with the much larger Korean, Japanese and Indian conglomerates, in another field.

There has been no knee-jerk reaction to Brexit by Asian investors, but there is a sense that interest in CEE is accelerating and companies that five years ago would not have been sure where Romania or Slovakia were are now looking carefully at where they might locate manufacturing, R&D and distribution in CEE.

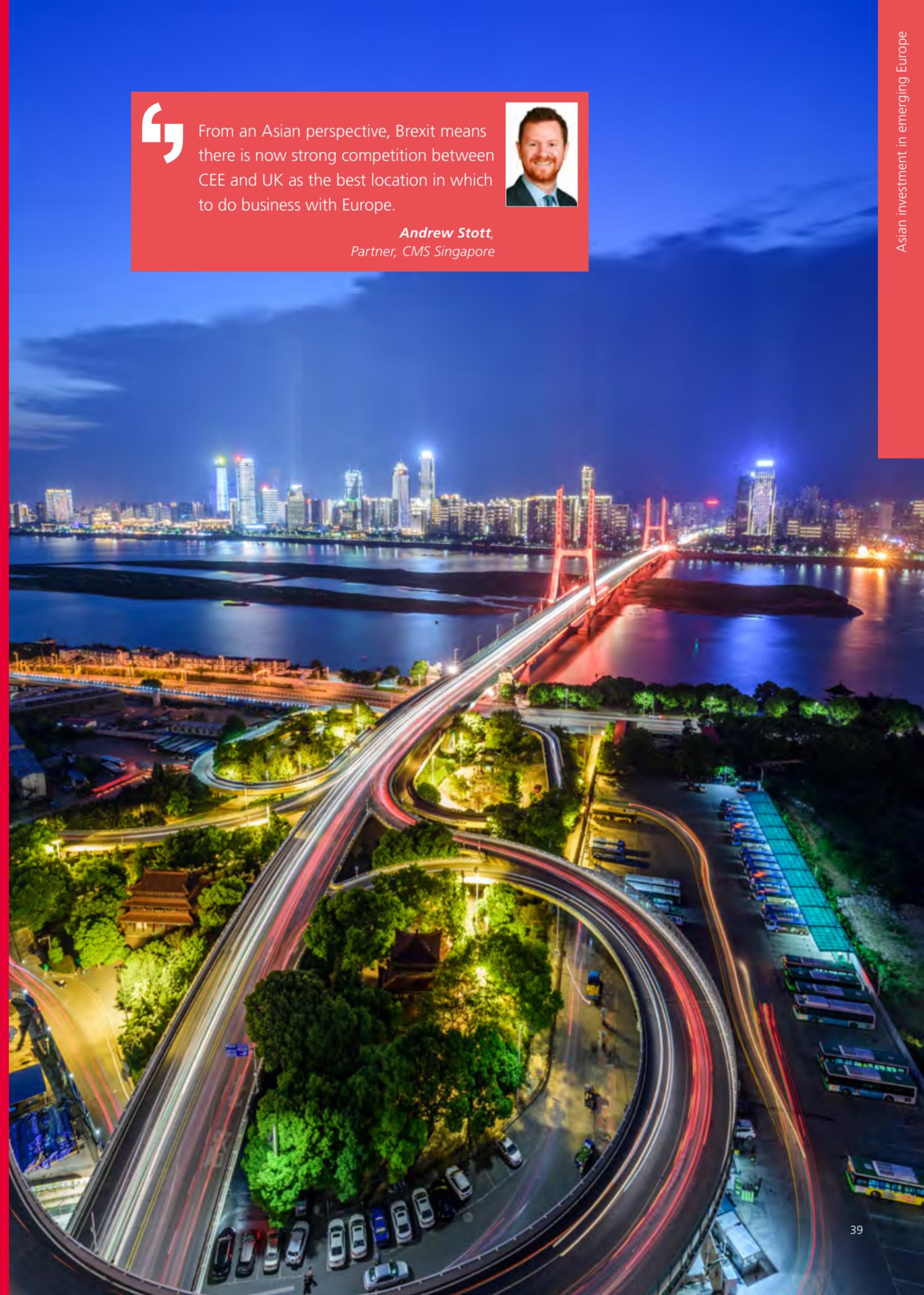
We anticipate a large amount of partnerships with CEE-based companies and an exponential increase in Asian investment in the region.



From an Asian perspective, Brexit means there is now strong competition between CEE and UK as the best location in which to do business with Europe.



Andrew Stott,
Partner, CMS Singapore



Emerging Europe's hotel market picks up

Tourists and business travellers are increasingly making a bee-line for hotels in CEE. The region's increased economic prosperity, its spectacular coastlines and scenery and its historic cities have made it a popular destination and that has been reflected in increased M&A activity in the sector.

Terrorist attacks in North African resorts and cities have prompted holidaymakers to consider alternatives which has benefited many of the region's countries, with the exception of Turkey which has had security and political issues of its own to contend with.

Those countries with a long coastline, including Croatia, Montenegro and Albania, have seen strong growth in tourism, as have Bulgarian resorts on the Black Sea. Croatia in particular has become a default option for Germans who would otherwise have travelled to North Africa or Turkey, while Dubrovnik has received an additional boost from fans of the popular Game of Thrones TV show in which it features as a location.

Before the financial crisis, hotel prices in Croatia became overheated, but they subsequently plunged and are now at realistic levels, drawing renewed interest from investors. Those hotels whose owners were in financial difficulties were left in the ownership of banks which have since been trying to clear them from their balance sheets, a process that is gradually coming to an end.



It has taken many years for prices in the hotel market to return to realistic levels after the financial crisis, but they are now at levels where buyers are interested again.



Gregor Famira, Partner, CMS Croatia

Across CEE countries, the tourism is maturing and improving in terms of the quality of hotels and service it offers which is helping to increase demand. Even those countries without access to beaches are seeing growth in city breaks, while GDP growth has increased demand for business hotels.

Poland has had a particularly strong year and is one of the few countries large enough to attract M&A interest in smaller cities, not just Warsaw. Prague, Budapest and Romania have also been in the spotlight.

Demand for hotels is also being driven by rising prices in commercial real estate, which has prompted investors to consider alternative asset classes, pushing up hotel prices and flushing out sellers.

Where prices are rising sharply there is a paradox because potential sellers are cautious about where they can reinvest the proceeds to get higher returns.

There is growing interest in leased hotels, which are selling quickly and at a high price because they offer fixed income at relatively low risk.

Generally, assets are being bought in individual deals, rather than as part of a portfolio.

Among the landmark deals, Austria's HETA Asset Resolution agreed the sale of Skipper resort in Istria to a local company, Hard Rock Hotels announced it was coming to Croatia and Hilton unveiled plans for two new hotels for Zagreb. In Romania, the Radisson Hospitality Complex in Bucharest was sold by its Nasdaq-listed owner to two international funds and Starwood Capital Group agreed the purchase of the Sofitel Budapest Chain Bridge Hotel.

Buyers continue to be primarily from Western European institutional investors, however recently there has been a spike in interest from Asian investors. Meanwhile, Turkish investors have been less active outside their own country, particularly in Croatia.

The market is picking up and we expect more consolidation and more interest from international buyers in 2018 as owners. The majority of these are family concerns looking to sell out completely or take the business to a more professional level through refinancing.



I don't see a reason why demand from hotel visitors will go down or why transactions in the sector would cool off.



Lukáš Hejduk, Partner, CMS Prague



Talking Turkey

CMS partners Döne Yalçın and Alican Babalioglu discuss 2017 and the outlook for the year ahead

Q: How have the economy and M&A market performed since the failed coup attempt in 2016?

The failed coup attempt along with a series of terrorist attacks certainly created a lot of uncertainty, particularly as far as foreigners were concerned. However, there is evidence of a bounce back in the economy. In the third quarter of 2017, Turkey's GDP grew by 11.1%, faster than any other G20 country. The M&A scene has been buoyant in 2017, with deal numbers up 11.5% and values up 44.1%. **AB**

Q: Is Turkey still an attractive place to do business and invest?

Turkey is a huge economy with a very young, affordable and well-qualified labour force. It is a big consumer market and investors with a long-term view see it as a good market to be in. **AB**

When investors became nervous, the government moved swiftly to offer incentive schemes and support for investment, particularly in manufacturing. We are seeing more public-private partnership (PPP) activity and the government is improving the legal framework around that which should build confidence and bring in international expertise. **DY**

Q: Tourism is a key industry. How has it fared?

Tourism has suffered and there has been a drop in foreign business travel, but there have been some positive signs. There is a lot of tourism from the Middle East and some of the friction between Turkey and Russia has eased which should help, but we really need to win back European tourists. Some hotels could not weather the storm



Foreign investors are like birds on a wire. It does not take much to frighten them away and it can take a long time to persuade them to come back.



Alican Babalioglu, Partner, CMS Turkey

and have become distressed assets at opportunistic prices. **DY**

Q: What have been the most active sectors?

Infrastructure remains very important for the whole economy, including bridges, roads, airports and hospitals. Turkish and South Korean companies began work on the longest suspension bridge in the world at Canakkale at a cost of about USD 2.8bn. Manufacturing has been strong and distribution is an area of interest to investors.

Major deals included Austria's OMV selling its Petrol Ofisi petrol stations to Vitol of Switzerland for EUR 1.4bn, Spanish bank BBVA increased its stake in Garanti Bank and Austria's Hamburger Containerboard announced a EUR 300m greenfield investment. **AB**

Q: Where has overseas interest come from?

Germany and Austria, the UK and US, as well as South Korea, Japan and China. The profile has shifted from five years ago when it was dominated by European investors. Now we are seeing growing interest from the Middle East and Asia. Some nervous investors who



Turkish companies and funds want to diversify and be seen as international operators.



Döne Yalçın, Partner, CMS Turkey

held back after the failed coup are picking up where they left off. **DY**

Q: What about Turkish investors looking at home and abroad?

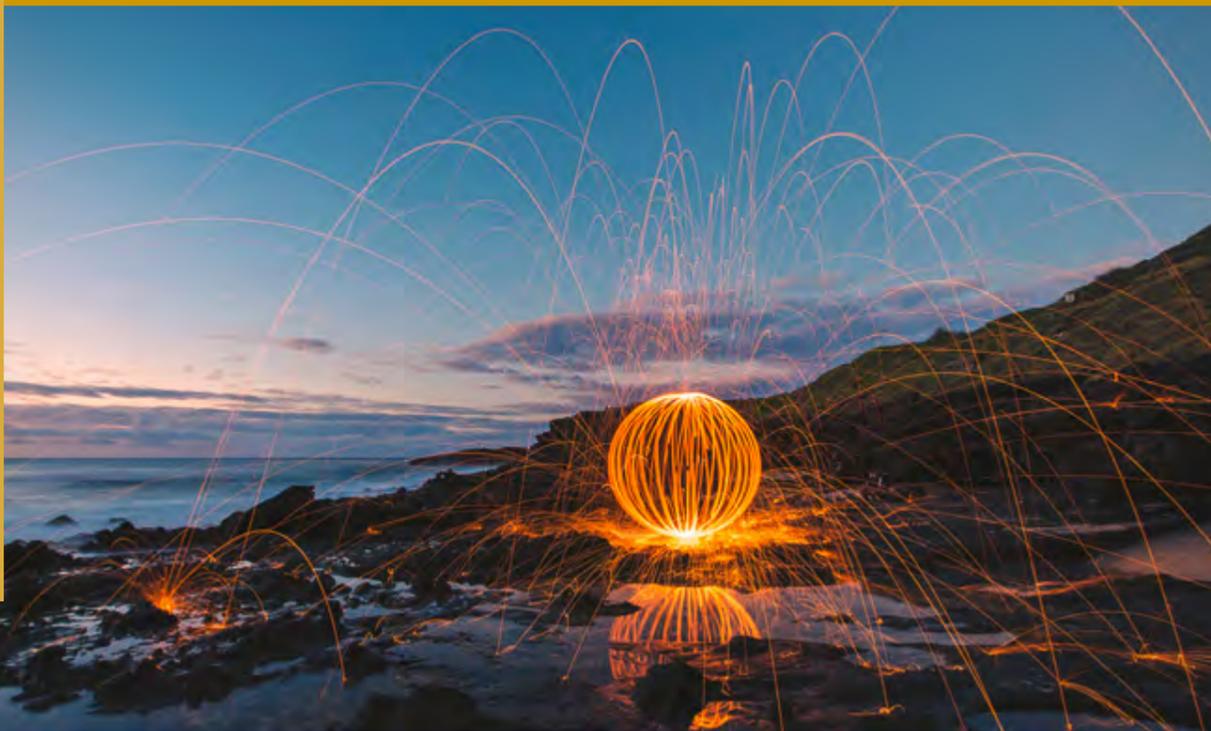
They have been more cautious about investing at home and there has been a rapid growth in outbound investment which will continue. Cash-rich Turkish companies are branching out into different industries at home and looking to expand abroad. Most business are family owned and have traditionally been very conservative, but the new generation of sons and daughters is more professional and their vision is broadening. **AB**

Q: What is the outlook for 2018?

Turkey is seen as an emerging market with potential. The situation is fragile, but things have been steadily improving over the past 12 months. **DY**

We see confidence building, barring any unforeseen setbacks. As reputable names complete deals, we will see investors come back. There are some major infrastructure projects in the pipeline and the next 12 months will be critical for the tourism industry. **AB**





Energy-from-waste opportunities in emerging Europe

The energy-from-waste industry is relatively new for most of the emerging European countries, but it is growing in importance because of public, political and economic pressures.

At one level, there is growing awareness about climate change and global warming has made the public more responsive to issues such as the circular economy, treatment of waste and alternative energy sources. At another level, governments are working out how to meet their energy requirements and tackle a legacy of underinvestment in power capacity that risks leaving them over-dependent on Russian gas supplies.

Meanwhile, EU regulation such as the Waste Framework Directive of 2008 and the Renewable Energy Directive setting targets for 2020 have put governments under pressure to address the issues. Even in those countries where there is little desire to engage with waste management, the threat of legal action has focused minds.

The picture across CEE is patchy, but countries have generally been slower to adopt energy-from-waste than their Western European neighbours, some of which, such as Austria, have embraced it enthusiastically.

There are multiple reasons for this. One is the technical complexity of projects which require a level of expertise that may not be available locally and the other is a lack of experience in funding this kind of project.

The market has been slow to grow, but it is taking off and there are some positive signs, particularly on funding as public-private partnership (PPP) becomes more widely used as a way of financing major projects.

For instance, one of the major projects announced in 2017 was the award of a 25-year PPP to a consortium of Suez of France and Itochu of Japan to treat 340,000 tonnes of municipal waste in Belgrade that would otherwise have gone into one of the biggest landfill sites in Europe. It is an indication of the level of interest among contractors and operators that there were three bidders for the project. Construction is due to start in the first quarter of 2018 in what is likely to become a flagship project, not just for Serbia but also for the whole of CEE.



Equipment suppliers are typically not just interested in supplying the technology, but in maintaining and operating plant and having an equity stake in ownership.



Đorđe Popović, Partner, CMS Serbia

Poland has one of the most developed waste collection and waste management markets in emerging Europe, with a number of plants in operation and others planned in Warsaw and combined installations for smaller cities and towns. The country has successfully utilised the PPP model, as well as EU funds, thus becoming the leading jurisdiction for energy-from-waste projects across CEE.

One of the issues for Poland for the future installations would be whether progress on recycling will mean there is not enough waste material to use as feedstock for plants. One solution could be to build smaller plants serving local areas and multiple municipalities.

Across emerging Europe, the experience on energy-from-waste is patchy. Bulgaria and Romania have increased their plans for new energy-from-waste capacity, from around five projects five years ago to more than 30, but there is no major installation in operation yet. Smaller countries such as Albania and Bosnia and Herzegovina are lagging further behind.

The issues are being debated across the region and in particular how to harness international financial and technical expertise, from construction companies, equipment providers and the professional investors that focus on such projects. The availability of EU funds is a major incentive for the region combined with the wide district heating infrastructure, which is capable of utilising the steam produced in addition to the base-load electricity.

As a young and underdeveloped sector in CEE, energy-from-waste is unlikely to attract M&A attention at this stage, but as projects mature there are likely to be opportunities for investors to build a portfolio. In some of the leading jurisdictions across CEE there are some initial attempts for refinancing of the successful energy-from-waste projects based on the PPP model.



It is likely that the CEE region will utilise the experience of Poland and Western Europe in the field of energy-from-waste, which is expected to grow substantially in the forthcoming years.



Kostadin Sirlishtov, Partner, CMS Bulgaria



Third-party funding for litigation – protecting investments

Although third party funding of legal disputes is becoming more widespread around the world, it is still little used in CEE jurisdictions.

Awareness of how it works remains low, but is growing and it is likely to become more popular as a way of mitigating risks for investors and companies.

fears that the rules of the game are being changed to the detriment of investors.

In some countries the independence of the judicial system is being called into question. There are also concerns about the length of the court process and the ability to enforce rulings at the end of

one regarded as a related party, where there may be concerns about the court's impartiality.

Whether or not there are concerns about judicial independence, one solution is to insert arbitration clauses into contracts so that any potential dispute is moved out of the state's control.

“ Given the concerns about the independence and efficiency of the court system in some countries, businesses often opt for arbitration, which is an area where third-party funding is likely to have an increasing role to play.



Malgorzata Surdek, Partner, CMS Poland

Even the largest corporations with deep pockets and large legal teams are not in the business of litigation which is costly not just in financial terms but also in management time. Turning to a specialist funder of legal cases helps to spread the financial risk and share the burden of managing a process that could last two to four years.

Outside of multinationals, companies operating in the region are unlikely to have come across third party funding. Similarly, funders may not be aware of the opportunities in the region because there is not the same culture of litigation as, say, in the US and the relatively small financial value of most disputes would make them unattractive.

One area that could be of interest to funders is disputes between investors and states. Not only is there a tsunami of regulation from Brussels, but there is also a blizzard of rules from regulators and enforcement agencies in individual countries. A shift to populist politics in countries such as Poland and Hungary has raised

proceedings. One option is to bring a claim at the International Centre for Settlement of Investment Disputes which is part of the World Bank, but this can cost between EUR 4m and EUR 20m.

Another alternative is to go down the investment arbitration route, which can be cheaper, quicker and more easily enforceable, making third-party funding an attractive solution for the claimant and the funder.

It could also be employed in commercial arbitration, particularly in cases where there is a dispute with a state-owned company or

In the US, class action lawsuits provide a natural home for such funding, but their use remains patchy in CEE. For instance, there is no legislation for them in Hungary or Romania, and although they are used in Poland, the system is based on the “opt-in” principle, unlike the “opt-out” approach of the US. That provides no incentive for the defendants to settle a dispute; there is no guarantee that a settlement with a group of claimants will bring an end to the matter, as another group may be formed to raise the same claims against the defendant. This factor combined with protracted proceedings in class actions, are the main reasons for their limited popularity in Poland.

There are reservations about the use of third-party funding in CEE, both from a claimant and funder perspective. But the knowledge that this kind of service is available if needed, particularly for arbitration cases, should give companies and investors some confidence as they enter into negotiations.

“ Third-party funding enables investors to retain counsel for the investment treaty disputes, a cost that otherwise might seem prohibitive. It has the benefit of increasing access to justice and encouraging investors to bring meritorious claims against host states.



Gabriel Sidere, Partner, CMS Romania

Strong economic growth drives M&A, but populism casts a political cloud

The impact of geopolitics on the deal landscape and investment appetite in 2017

Whatever concerns investors might have had about the state of the global economy and politics at the start of the year, they did little to dampen enthusiasm for M&A in emerging Europe. President Trump's arrival in the White House did not have any material impact on global growth and three rises in US interest rates did not send the value of the dollar soaring – in fact, it declined steadily over the year. Brexit talks between the UK and the EU made some progress, and there was widespread relief that the elections in France and Netherlands did not result in political chaos, though the German election later in the year left a weakened Chancellor Merkel trying to stitch together a new coalition.

Sluggish international growth was a feature of 2016, but as 2017 progressed the Eurozone economy recovered, which increased confidence across Europe and helped set the backdrop for growth in most of the Eurozone's neighbouring countries. CEE has enjoyed growth rates higher than the US, Japan and Western Europe, increasing its attraction as a place to do business and invest.

In a year of turbulence on the currency markets, many CEE countries have benefited from being part of the Eurozone, which has

insulated them from some of the fluctuations seen by other currencies such as the dollar. Local currencies have also mostly been relatively strong, despite fluctuations in the Polish zloty, the Turkish lira and the Russian rouble.

Investors like stability, particularly in the economic and political landscapes. There are some clouds on the horizon in CEE, but broadly speaking the region remains a stable one, without excessive risks as far as investors are concerned.

International investors used to view CEE as a gateway into the vast market of Western Europe, but it is now increasingly seen as an important market in its own right. The countries in this report, including Russia and Turkey, have a combined population of more than 350m and a growing middle class of consumers with money to spend.

For companies in sectors such as consumer goods and retail, CEE can provide higher rates of growth than can be achieved in mature markets such as Western Europe, the US and parts of Asia.

It has also established a reputation as an important place to plant businesses to export into neighbouring countries, taking

advantage of EU and individual government incentives, a skilled workforce and rates of pay that are still highly competitive – if on the rise, as employers compete for staff in key industries.

After years of progress in terms of liberalising their economies, reducing bureaucracy and establishing an independent judicial system, a number of countries in emerging Europe appear to be turning back the clock.

Poland has gone down an increasingly Eurosceptic route and made proposed changes to its judicial system that many see as potentially damaging to inward investment. The EU warned in December that judicial reforms threatened the rule of law by allowing the government to interfere in the judiciary. Launching disciplinary measures under Article 7 of the Lisbon Treaty, the European Commission gave Poland three months to address its concerns, though, the government insisted they were necessary to tackle inefficiency and corruption. The purchase of Polish coal and gas-fired plants from EDF by the state-owned Polska Grupa Energetyczna for EUR 991m was a landmark deal, not just because of its size, but also because it raised concerns about the Polish government's desire to take control of strategic assets.

Hungary has also adopted a very populist approach, which does not always make it a favourable environment in which to do business. All eyes will be on the election in 2018 to see whether it reinforces this trend. The Czech Republic has strong links to the West, but it has been a disappointment in many respects,



going down a similar route to Poland and Hungary by swinging to the centre-right and electing a populist prime minister at the head of a minority party with a Eurosceptic approach.

However, the shifting political landscape in these three countries has not yet had a major impact on investment sentiment. While uncertainty may have been ratcheted up, the M&A scene has remained resilient. For the time being, investors from outside the region do not see the risks of investing in these countries as outweighing the potential rewards.

Another possible cloud on the horizon is that, in those countries that have most successfully attracted foreign investment, wages have started to rise as unemployment has fallen. This is particularly true in the automotive sector, where employers are competing for staff from a limited pool of skilled workers. One solution is to recruit from countries in the east of the region, but this risks creating political problems because migration is such a thorny issue, and one that has already resulted in clashes between the EU and Poland, Hungary and the Czech Republic.



The regional economy is in a good place and GDP growth expectations have been positively revised. That makes CEE a good place for investors, whether it is through M&A or direct investment.



Dora Petranyi,
CEE Managing Director, CMNO

Ukraine has endured a difficult three years since Russia annexed Crimea, with conflict in eastern parts of the country, but there are signs of an economic upturn and EMIS data indicates a sharp rise in M&A activity. It is too early to say if this is sustainable and much will depend on whether relations between Kyiv and Moscow improve.

Turkey is also emerging from a difficult period, following the failed coup and the continuing civil war in neighbouring Syria, but economic growth has picked up and the potential for the economy remains huge.

Overall, CEE has many attractions for international investors, with strong historic links to the German-speaking countries, which remain an important source of funding,

and deals in the region. Recent decades have seen UK, French and US investors become more active, similarly Asian investors, particularly from South Korea, Japan and Singapore. And after years of weighing up the lie of the land, Chinese investors have started to build a presence on the ground. Although this is still relatively small, it is growing and will only increase as China's Belt and Road initiative gathers pace.

Yes, there are potential hurdles ahead for CEE, but it remains a high-growth region which is attractive to investors from across the globe. There are plenty of reasons to be optimistic about the outlook for 2018.



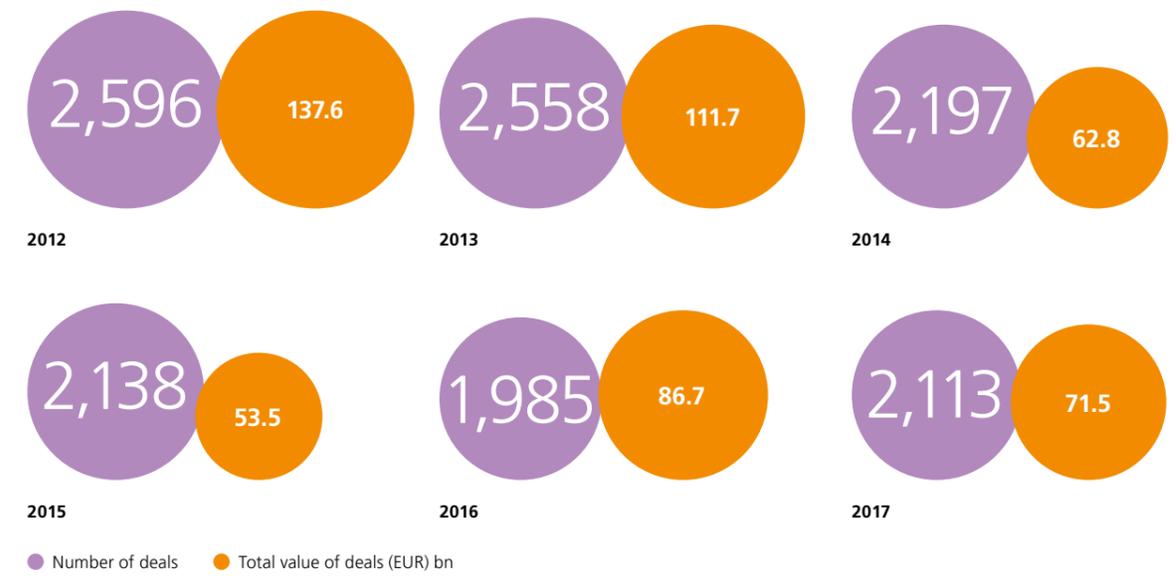
Some of the political shifts in countries such as Poland, Hungary and Czech Republic have increased uncertainty for investors, but so far have not had a significant impact on the appetite for M&A. The alarm bells are not ringing yet.



Graham Conlon, Partner,
International Private Equity

Appendix 1: Regional data and top deal lists

Deals by volume and by value – emerging Europe



Number of deals by sector in 2017 – emerging Europe

Real Estate & Construction

390 

Wholesale & Retail

199 

Services

136 

Manufacturing

308 

Finance & Insurance

161 

Mining (incl. oil & gas)

103 

Telecoms & IT

305 

Food & Beverage

137 

Other

374 

Emerging Europe: top 20 deals 2017

Target	Country of Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Rosneft	Russia	Mining (incl. oil & gas)	Minority stake	14.2	CEFC China Energy	China	7,520.7	1
Sibur Holding	Russia	Manufacturing	Minority stake	14.3	Leonid Mikhelson - private investor	Russia	1,755.4	2
Yuzhno-Russkoye field	Russia	Mining (incl. oil & gas)	Minority stake	25.0	OMV	Austria	1,719.0	1
Eurasia Drilling Company	Russia	Mining (incl. oil & gas)	Acquisition	51.0	Schlumberger	United States	1,652.2	2
OMV Petrol Ofisi	Turkey	Wholesale & Retail	Acquisition	100.0	Vitol Group	Switzerland	1,368.0	1
Zabka Polska	Poland	Wholesale & Retail	Acquisition	100.0	CVC Capital Partners; EBRD	United Kingdom; international	1,000.0	2
Portfolio of 28 retail properties of AXA, Ares Management and Apollo-Rida *	Poland	Real Estate & Construction	Acquisition	100.0	Chariot Top Group	Netherlands	1,000.0	1
Unipetrol	Czech Republic	Manufacturing	Minority stake / Tender offer	37.0	PKN Orlen	Poland	1,000.0	1
Assets of EDF in Poland	Poland	Energy & Utilities	Acquisition	100.0	Polska Grupa Energetyczna	Poland	991.2	1
Retail portfolio of Immofinanz in Moscow	Russia	Real Estate & Construction	Acquisition	100.0	Fort Group	Russia	901.0	1
MegaFon	Russia	Telecoms & IT	Minority stake	19.0	Gazprombank	Russia	898.2	1
RusHydro	Russia	Energy & Utilities	Capital increase	13.0	VTB Bank	Russia	891.0	1
Garanti Bankasi	Turkey	Finance & Insurance	Minority stake	10.0	Banco Bilbao Vizcaya Argentaria (BBVA)	Spain	871.8	1
Bashneft	Russia	Mining (incl. oil & gas)	Minority stake / Tender offer	7.6	Rosneft	Russia	805.5	1
Polyus **	Russia	Mining (incl. oil & gas)	Minority stake	10.0	Fosun International; Hainan Mining; Zhaojin Mining Industry; RDIF	Hong Kong; China; Russia	791.9	1
Mersin International Port	Turkey	Transportation & Logistics	Minority stake	40.0	IFM Investors	Australia	742.7	1
PIK Group	Russia	Real Estate & Construction	Minority stake / Tender offer	24.6	Sergey Gordeev - private investor	Russia	699.5	1
Portfolio of 12 retail properties of Chariot Top Group *	Poland	Real Estate & Construction	Acquisition	100.0	Echo Polska Properties	Netherlands	692.1	1
13,000 cell towers of VimpelCom	Russia	Telecoms & IT	Acquisition	100.0	Russian Towers	Russia	666.7	2
Kondaneft	Russia	Mining (incl. oil & gas)	Acquisition	100.0	Rosneft	Russia	657.8	1

* Chariot Top Group first acquired a portfolio of 28 properties and then sold 12 of them.

** On 15 January, after the data extraction cut-off date, it was announced that the deal failed.

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Emerging Europe: inbound investment 2017

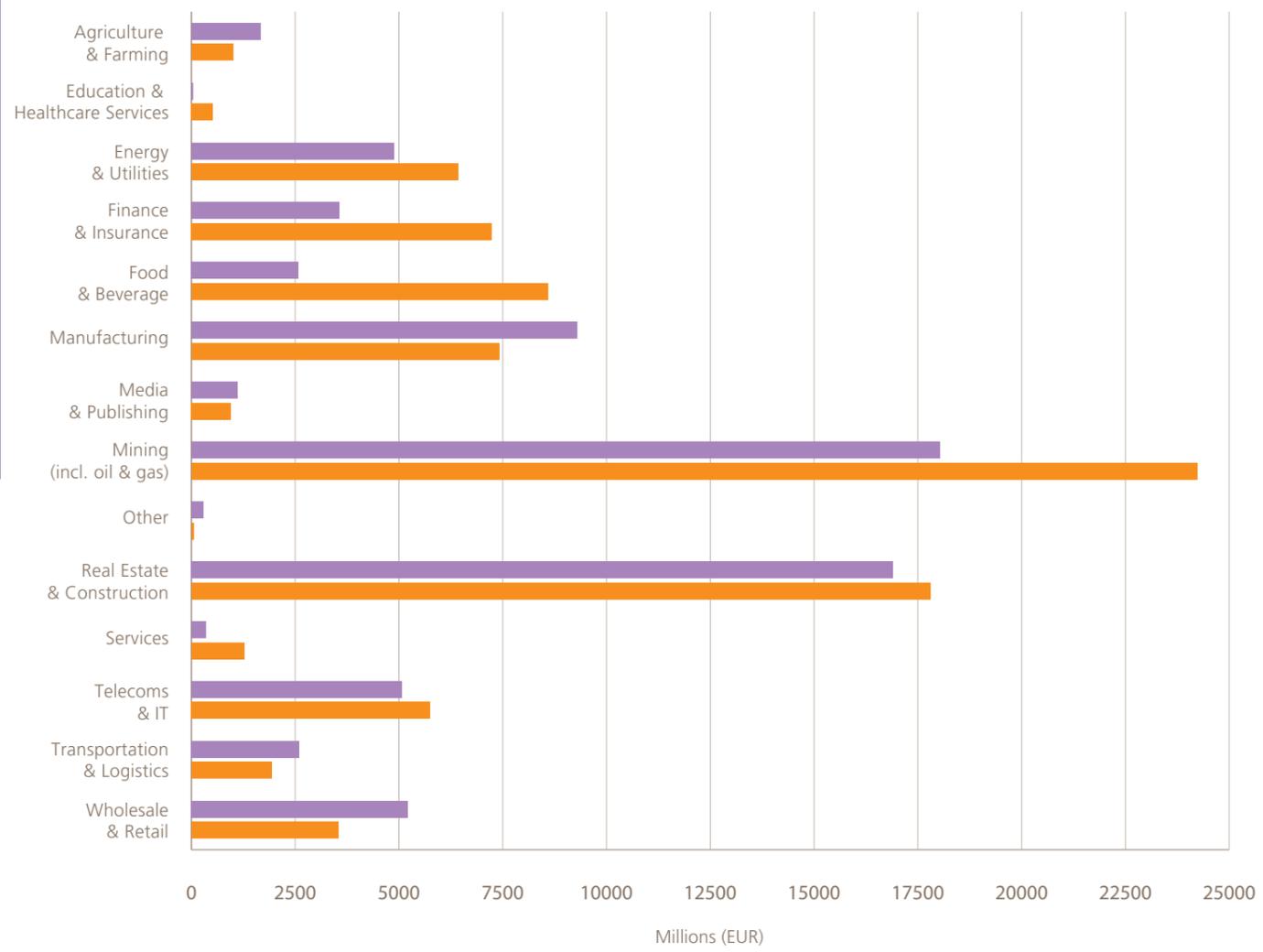
Investor country	FY17 Deals	FY16 Deals	%
USA	92	88	5%
UK	67	75	-11%
Germany	61	66	-8%
France	42	46	-9%
Switzerland	40	27	48%
Austria	36	37	-3%
Netherlands	27	33	-18%
Sweden	27	19	42%
China	27	28	-4%
South Africa	20	22	-9%

Investor country	FY17 Value, €m	FY16 Value, €m	%
China	7,726.5	4,350.7	78%
USA	2,956.3	1,513.6	95%
UK	2,191.3	5,192.0	-58%
Netherlands	2,128.7	586.5	263%
Austria	2,080.7	330.2	530%
Switzerland	1,500.7	278.4	439%
Germany	1,358.4	1,266.5	7%
South Africa	1,334.6	964.7	38%
Australia	1,101.0	346.9	217%
Spain	964.3	72.4	1,232%

NOTE: Only deals with investors from a single country were considered.

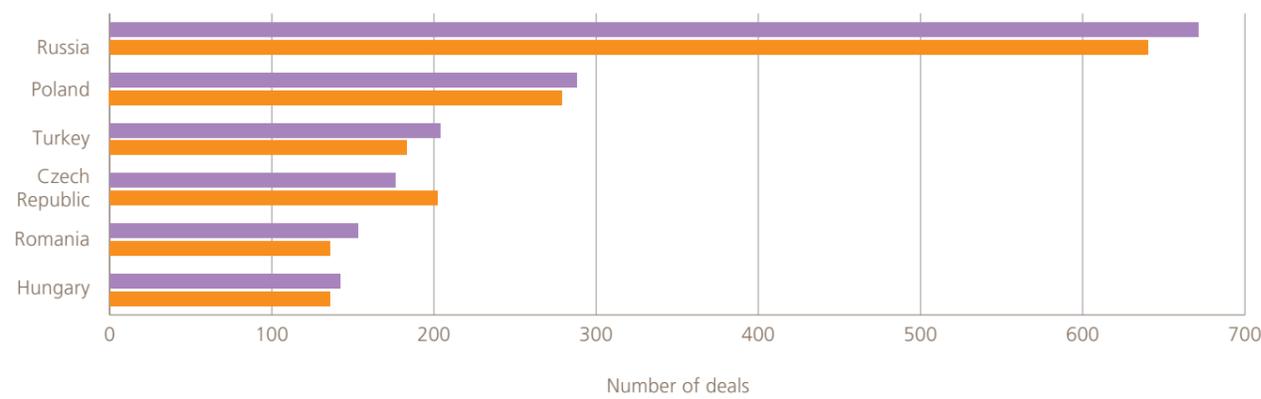
Value of deals by sector – emerging Europe

● 2017 ● 2016



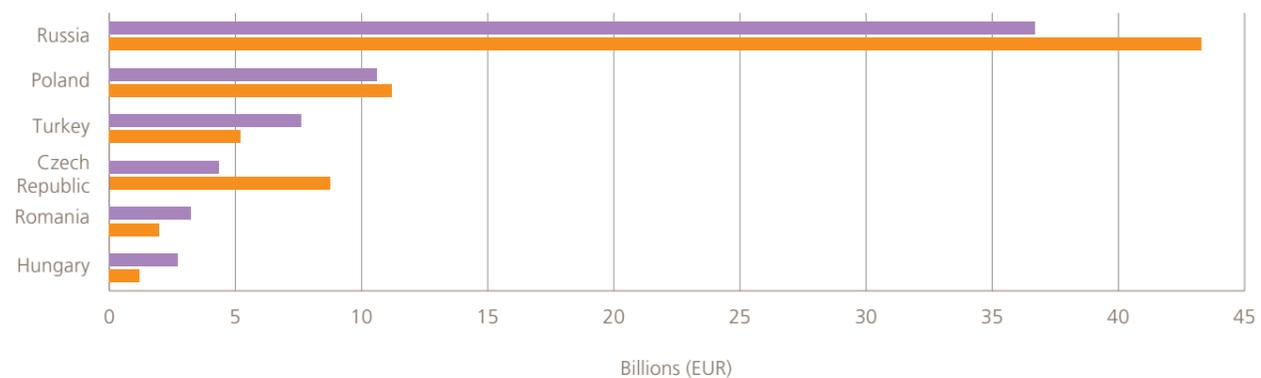
Most active countries: by number of deals

● 2017 ● 2016



Most active countries: by value of deals

● 2017 ● 2016



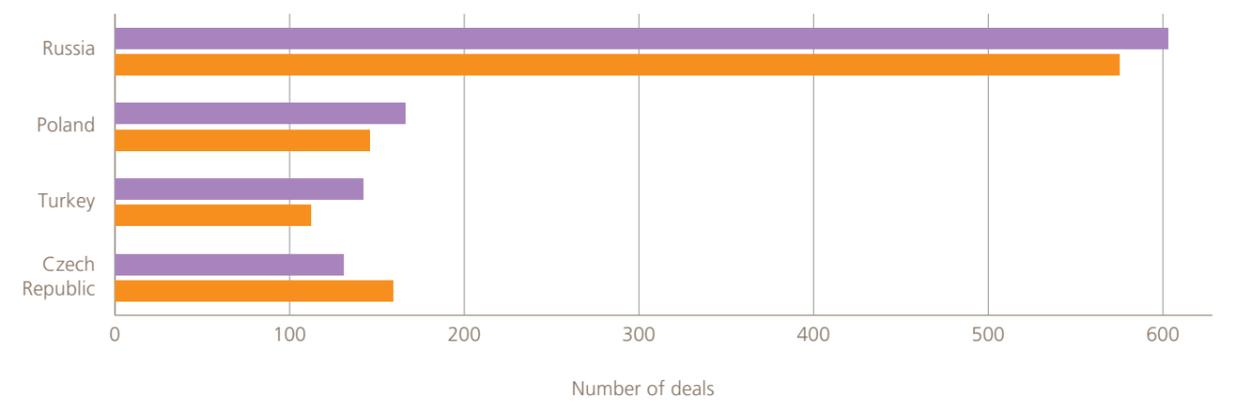
Most active foreign investors: by number of deals

● 2017 ● 2016



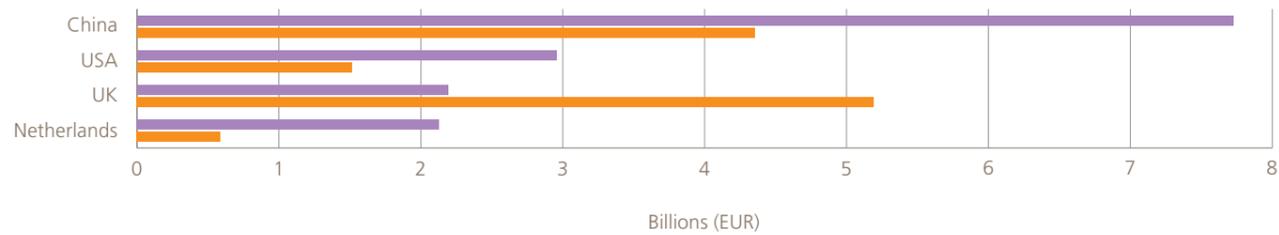
Most active investors from within the region: by number of deals

● 2017 ● 2016



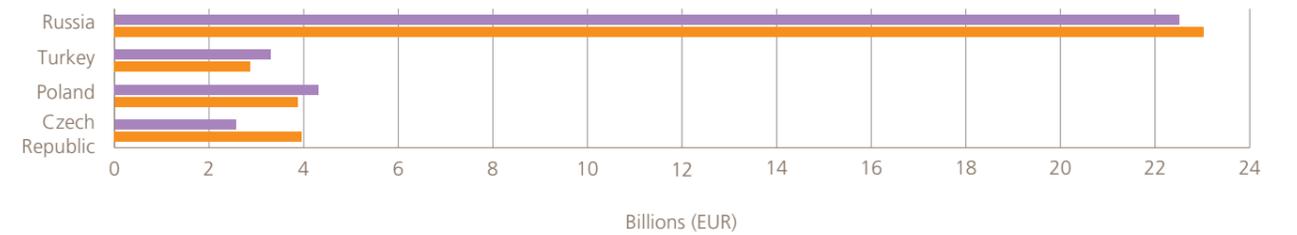
Most active foreign investors: by value of deals

● 2017 ● 2016



Most active investors from within the region: by value of deals

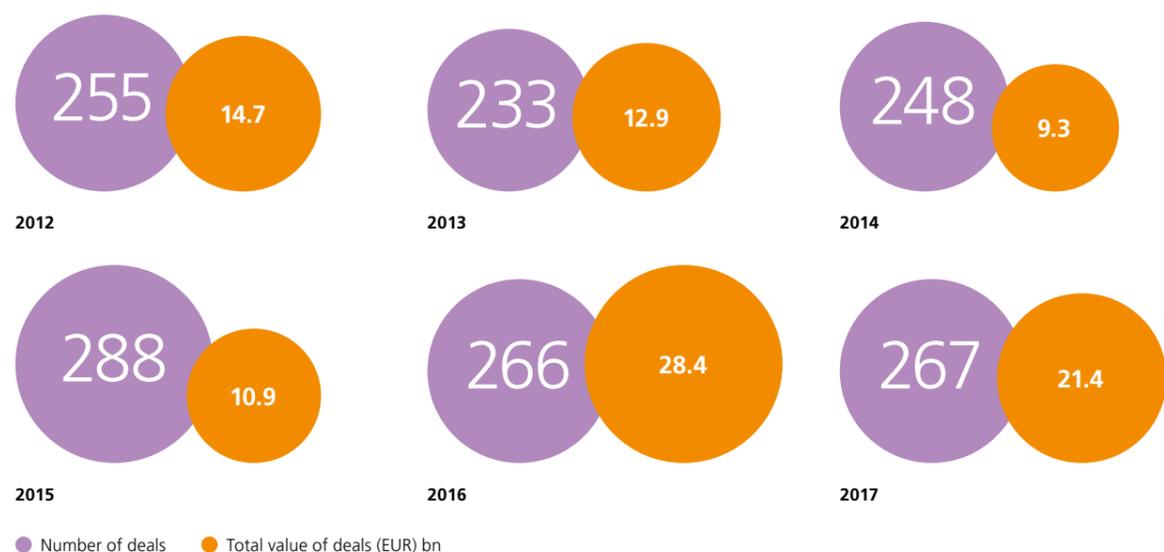
● 2017 ● 2016



NOTE: Only deals with investors from a single foreign country were considered.

NOTE: Only deals with investors from a single country from within the region were considered.

Deals by volume and value in Private Equity (2012-2017)



Number of Private Equity deals by sector in 2017

Real Estate & Construction

69



Manufacturing

41



Telecoms & IT

36



Wholesale & Retail

26



Finance & Insurance

20



Food & Beverage

16



Transportation & Logistics

15



Services

12



Other

32



Private Equity: top 20 deals 2017

Target	Country of Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Rosneft	Russia	Mining (incl. oil & gas)	Minority stake	14.2	CEFC China Energy	China	7,520.7	1
Zabka Polska	Poland	Wholesale & Retail	Acquisition	100.0	CVC Capital Partners; EBRD	United Kingdom; international	1,000.0	2
Portfolio of 28 retail properties of AXA, Ares Management and Apollo-Rida *	Poland	Real Estate & Construction	Acquisition	100.0	Chariot Top Group	Netherlands	1,000.0	1
Polyus **	Russia	Mining (incl. oil & gas)	Minority stake	10.0	Fosun International; Hainan Mining; Zhaojin Mining Industry; RDIF	Hong Kong; China; Russia	791.9	1
Mersin International Port	Turkey	Transportation & Logistics	Minority stake	40	IFM Investors	Australia	742.7	1
Portfolio of 12 retail properties of Chariot Top Group *	Poland	Real Estate & Construction	Acquisition	100	Echo Polska Properties	Netherlands	692.1	1
Eurasia Drilling Company	Russia	Mining (incl. oil & gas)	Minority stake	16.1	Middle Eastern investors; RDIF; RCIF; China-Eurasian Economic Cooperation Fund (CEF)	Greater MENA; Russia; China	517.1	2
Insurance assets of Renaissance Insurance and Blagosostoyanie	Russia	Finance & Insurance	Merger	100.0	The Sputnik Group; Boris Jordan - private investor; Baring Vostok Capital Partners; Transfingroup Managing Company	Russia	395.6	1
Skoda Transportation	Czech Republic	Manufacturing	Acquisition	100.0	PPF Group	Czech Republic	390.8	2
Magnolia Park shopping centre in Wrocław	Poland	Real Estate & Construction	Acquisition	100.0	Union Investment Real Estate	Germany	380.0	1
INEA	Poland	Telecoms & IT	Acquisition	n.a.	Macquarie Group	Australia	358.3	2
A&D Pharma Holdings	Romania	Wholesale & Retail	Acquisition	100.0	Penta Investments	Czech Republic	350.0	2
SASA	Macedonia	Mining (incl. oil & gas)	Reverse takeover	100.0	Central Asia Metals	United Kingdom	335.4	1
Part of the business of Deutsche Bank Polska	Poland	Finance & Insurance	Acquisition	100.0	Banco Santander	Spain	305.0	1
Wizz Air	Hungary	Transportation & Logistics	Minority stake	18.7	institutional investors	n.a.	283.2	1
Kozyatagi Carrefour	Turkey	Real Estate & Construction	Acquisition	100.0	Gulaylar	Turkey	269.0	2
Banvit Bandirma Vitaminli Yem	Turkey	Food & Beverage	Acquisition	79.5	BRF; Qatar Investment Authority	Brazil; Qatar	256.4	1
Airport Pulkovo	Russia	Transportation & Logistics	Minority stake	25.0	RDIF; Baring Vostok Capital Partners; RCIF; Mubadala Development	Russia; China; Russia; UAE; Greater MENA	240.0	1
TransContainer	Russia	Transportation & Logistics	Minority stake	24.5	Enisey Capital	Russia	210.5	3
Food Union Group	Latvia	Food & Beverage	Acquisition / Capital increase	n.a.	Meridian Capital China; PAG Asia Capital	China; Hong Kong	210.3	1

NOTE: The table includes both new PE investments and PE exits.

* Chariot Top Group first acquired a portfolio of 28 properties and then sold 12 of them.

** On 15 January, after the data extraction cut-off date, it was announced that the deal has failed.

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

IPOs: top 20 IPOs 2017

Target	Country of Target	Sector	Stake %	Deal Value (€m)	Value Source
En+ Group	Russia	Mining (incl. oil & gas)	18.8	1,282.1	1
PLAY Communications	Poland	Telecoms & IT	47.9	1,043.6	1
Dino Polska	Poland	Wholesale & Retail	49.0	393.6	1
Detsky Mir Group	Russia	Wholesale & Retail	30.5	303.4	1
Mavi Giyim	Turkey	Manufacturing	55.0	296.0	1
Global Liman	Turkey	Transportation & Logistics	38.2	210.4	1
RCS & RDS	Romania	Telecoms & IT	25.6	207.4	1
getBACK	Poland	Finance & Insurance	40.0	174.4	1
DP Eurasia	Turkey; Azerbaijan; Georgia; Russia; Netherlands	Services	51.0	169.3	1
Griffin Premium RE	Poland	Finance / Real Estate	57.1	120.1	1
Obuv Rossii	Russia	Manufacturing	37.5	87.5	1
Sphera Franchise Group	Romania	Services	25.3	62.0	1
Globaltruck Management Group	Russia	Transportation & Logistics	45.4	51.3	1
Waberer's International	Hungary	Transportation & Logistics	29.7	50.3	1
R22	Poland	Telecoms & IT	36.7	21.7	1
Mistral GYO	Turkey	Finance / Real Estate	25.0	15.9	1
MaxCom	Poland	Manufacturing	32.0	11.3	1
Venture Inc	Poland	Finance & Insurance	50.3	7.0	1
Madara Cosmetics	Latvia	Manufacturing	14.2	3.3	1
XTPL	Poland	Manufacturing	9.1	2.4	1

Real Estate: top 20 deals 2017

Target	Country of Target	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Portfolio of 28 retail properties of AXA, Ares Management and Apollo-Rida *	Poland	Acquisition	100.0	Chariot Top Group	Netherlands	1,000.0	1
Retail portfolio of Immofinanz in Moscow	Russia	Acquisition	100.0	Fort Group	Russia	901.0	1
PIK Group **	Russia	Minority stake / Tender offer	24.6	Sergey Gordeev - private investor	Russia	699.5	1
Portfolio of 12 retail properties of Chariot Top Group *	Poland	Acquisition	100.0	Echo Polska Properties	Netherlands	692.1	1
Retail real estate portfolio of CBRE Global Investors in the Czech Republic, Hungary, Poland and Romania	Czech Republic; Hungary; Poland; Romania	Acquisition	100.0	CPI Property Group	Czech Republic	650.7	2
PIK Group **	Russia	Acquisition ***	20.1	Sergey Gordeev - private investor	Russia	554.8	1
Gorbushkin Dvor	Russia	Acquisition	100.0	Viktor Kharitonin - private investor	Russia	446.4	2
Olympia Center in Brno	Czech Republic	Acquisition	100.0	Deutsche EuroShop	Germany	382.0	1
Magnolia Park shopping centre in Wroclaw	Poland	Acquisition	100.0	Union Investment Real Estate	Germany	380.0	1
Office space and parking area in IQ-Quarter complex	Russia	Acquisition	100.0	Agency for Housing Mortgage Lending	Russia	368.4	1
Metropol Istanbul Shopping Mall	Turkey	Acquisition	100.0	EYG Group; Kefeli Gayrimenkul	Turkey	300.4	1
Galeria Katowicka	Poland	Acquisition	100.0	Employees Provident Fund (EPF)	Malaysia	300.0	2
Arena Plaza Mall in Budapest	Hungary	Acquisition	100.0	NEPI Rockcastle	South Africa	275.0	1
Kozyatagi Carrefour	Turkey	Acquisition	100.0	Gulaylar	Turkey	269.0	2
Aviapark	Russia	Minority stake	30.0	Aviapark Mall Holdings	Russia	254.2	2
Paradise Center	Bulgaria	Acquisition	100.0	NEPI Rockcastle	South Africa	252.9	1
Krokus shopping centre in Krakow; Serenada shopping centre in Krakow	Poland	Acquisition	100.0	NEPI Rockcastle	South Africa	249.4	1
PIK Group **	Russia	Minority stake	7.6	VTB Bank	Russia	222.0	1
Serdika Center and Office	Bulgaria	Acquisition	100.0	New Europe Property Investments (NEPI)	South Africa	207.4	1
Portfolio of eight Vienna House hotels	Czech Republic; Poland; Romania	Acquisition	n.a.	U City	Thailand	180.0	1

* Chariot Top Group first acquired a portfolio of 28 properties and then sold 12 of them.

** The three deals for PIK Group involved separate sellers and sale processes.

*** Following the deal, the buyer will own more than 50% of PIK Group.

◆ Value source – key:

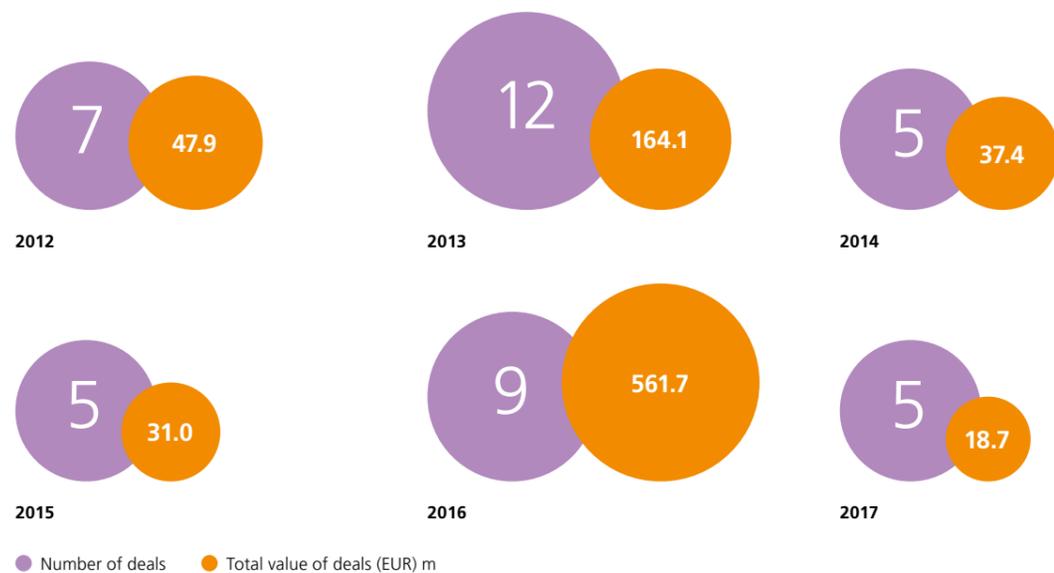
1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate



Appendix 2: County data and top deal lists

Albania

Deals by volume and value in Albania (2012-2017)



Number of deals by sector in 2017

Finance & Insurance

3



Mining (incl. oil & gas)

2



Top 5 deals in Albania in 2017

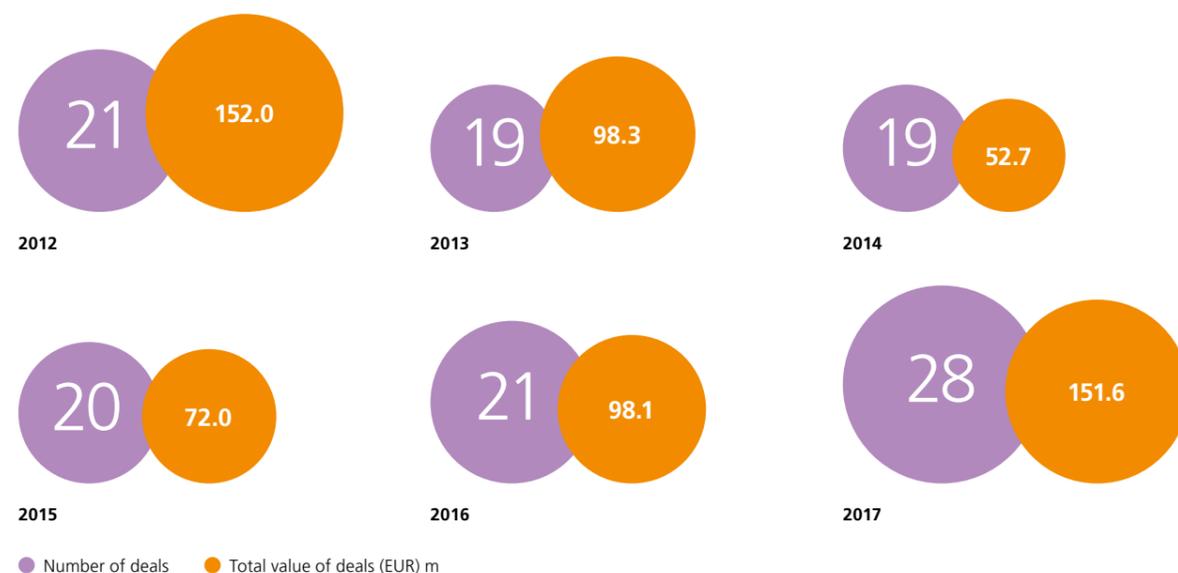
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Cakran-Mollaj oil field; Gorisht-Cokul oil field	Mining (incl. oil & gas)	Acquisition / Debt-for-equity swap	100.0	Albpetrol	Albania	18.7	1
Banka Credins	Finance & Insurance	Minority stake	14.9	Amryta Capital	United Kingdom	n.a.	
Veneto Banca assets in Albania	Finance & Insurance	Acquisition / Distressed	100.0	Intesa Sanpaolo	Italy	n.a.	
Amonices oil field	Mining (incl. oil & gas)	Acquisition	100.0	Albpetrol	Albania	n.a.	
Life insurance business of Insig	Finance & Insurance	Acquisition	90.0	Samir Mane - private investor; Shefqet Kastrati - private investor	Albania	n.a.	

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Bosnia and Herzegovina

Deals by volume and value in **Bosnia and Herzegovina (2012-2017)**



Number of deals by sector in 2017

Food & Beverage

7



Manufacturing

3



Telecoms & IT

1



Finance & Insurance

6



Real Estate & Construction

3



Other

1



Wholesale & Retail

6



Agriculture & Farming

1



Top 5 deals in Bosnia and Herzegovina in 2017

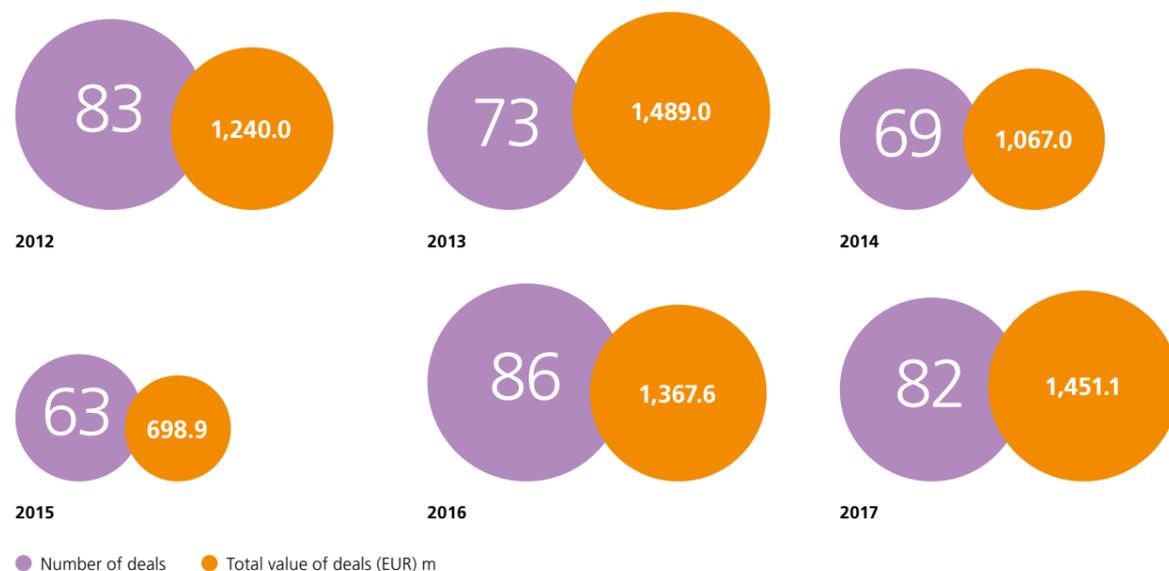
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Merkur Otoka Shopping Center	Real Estate & Construction	Acquisition	100.0	Bingo	Bosnia and Herzegovina	51.0	2
Konzum	Wholesale & Retail	Acquisition / Debt-for-equity swap	n.a.	LEDO; Sarajevski Kiseljak	Bosnia and Herzegovina	35.1	1
Farmland	Agriculture & Farming	Acquisition	100.0	undisclosed Chinese investor(s)	China	24.0	1
VGT Osiguranje	Finance & Insurance	Acquisition	95.0	GRAWE Group	Austria	9.2	1
Bijeljina put	Real Estate & Construction	Acquisition	100.0	Kozaraputevi	Bosnia and Herzegovina	5.1	2

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Bulgaria

Deals by volume and value in Bulgaria (2012-2017)



Number of deals by sector in 2017

Real Estate & Construction

17 

Finance & Insurance

10 

Services

6 

Telecoms & IT

13 

Wholesale & Retail

9 

Education & Healthcare Services

2 

Manufacturing

11 

Food & Beverage

6 

Other

8 

Top 10 deals in Bulgaria in 2017

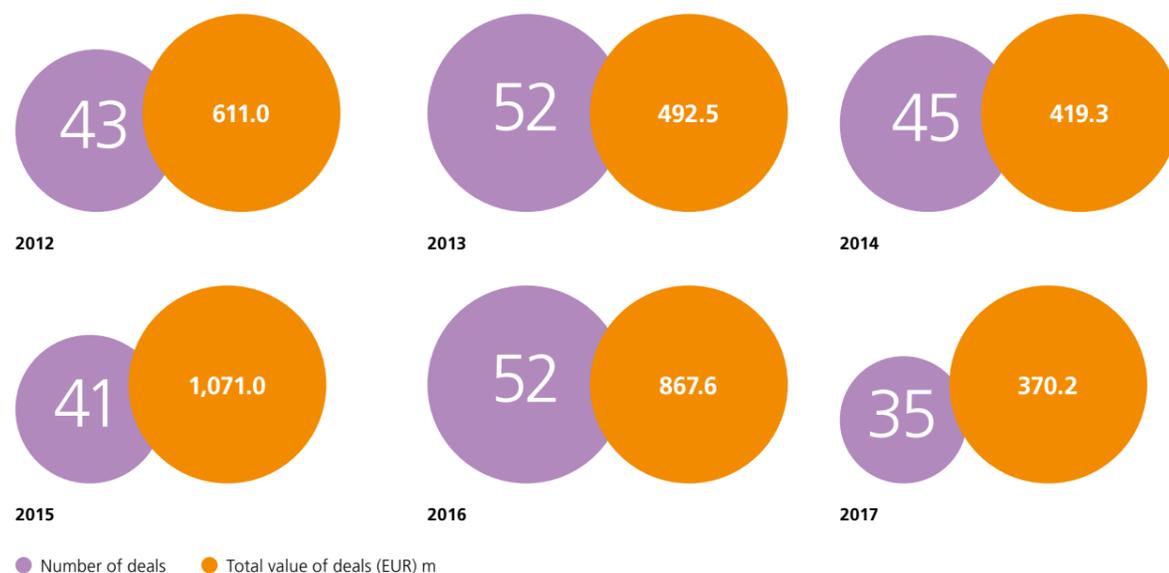
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Paradise Center	Real Estate & Construction	Acquisition	100.0	NEPI Rockcastle	South Africa	252.9	1
Serdika Center and Office	Real Estate & Construction	Acquisition	100.0	New Europe Property Investments (NEPI)	South Africa	207.4	1
The Mall	Real Estate & Construction	Acquisition	100.0	Hyprop Investments; private investor(s)	South Africa	156.0	1
Bulgarian leasing portfolio of Heta Asset Resolution	Finance & Insurance	Acquisition	100.0	AMS Bulgaria	Bulgaria	150.0	3
Cigarette brands of Bulgartabac; Express Logistic and Distribution	Food & Beverage	Acquisition	100.0	British American Tobacco	United Kingdom	100.0	1
Dynamo Software	Telecoms & IT	Acquisition / Capital increase	n.a.	Francisco Partners	United States	64.1	3
Galleria Stara Zagora; Mall Galleria Burgas	Real Estate & Construction	Acquisition	100.0	MAS Real Estate; Prime Kapital	South Africa; Romania	62.0	1
Galleria Varna	Real Estate & Construction	Acquisition	50.0	Delta Holding	Serbia	60.0	3
Moto-Pfohe	Wholesale & Retail	Acquisition	100.0	Sumitomo Corp	Japan	50.2	2
TPP Varna	Energy & Utilities	Acquisition	100.0	Sigda	Bulgaria	50.0	2

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Croatia

Deals by volume and value in Croatia (2012-2017)



Number of deals by sector in 2017

Real Estate & Construction

10



Manufacturing

3



Media & Publishing

2



Transportation & Logistics

6



Wholesale & Retail

3



Services

2



Finance & Insurance

4



Energy & Utilities

2



Other

3



Top 10 deals in Croatia in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Broadcast operations of Central European Media Enterprises (CME) in Croatia *	Media & Publishing	Acquisition	100.0	Kohlberg Kravis Roberts & Co	United States	135.0	3
Sunce Koncern	Real Estate & Construction	Minority stake	50.0	Sunce Ulaganja	Croatia	43.0	1
Energija Projekt	Energy & Utilities	Acquisition	76.0	Norinco International Cooperation	China	32.0	1
Punta Zlatarac Tucepi	Real Estate & Construction	Acquisition	50.0	TUI Group	Germany	31.5	1
Rimac Automobili	Manufacturing	Capital increase	n.a.	Camel Group	China	30.0	1
Hoteli Makarska	Real Estate & Construction	Privatization	55.5	Valamar Riviera; Allianz ZB	Croatia	22.8	1
Hoteli Maestral	Real Estate & Construction	Privatization	68.9	J&T Finance Group	Czech Republic	15.1	1
Luka Rijeka	Transportation & Logistics	Privatization	11.8	OT Logistics	Poland	10.6	1
Pevec	Wholesale & Retail	Minority stake	19.8	Dicentra	Croatia	8.2	3
Vila Castello	Real Estate & Construction	Acquisition	100.0	Slovak private investor(s)	Slovakia	8.1	1

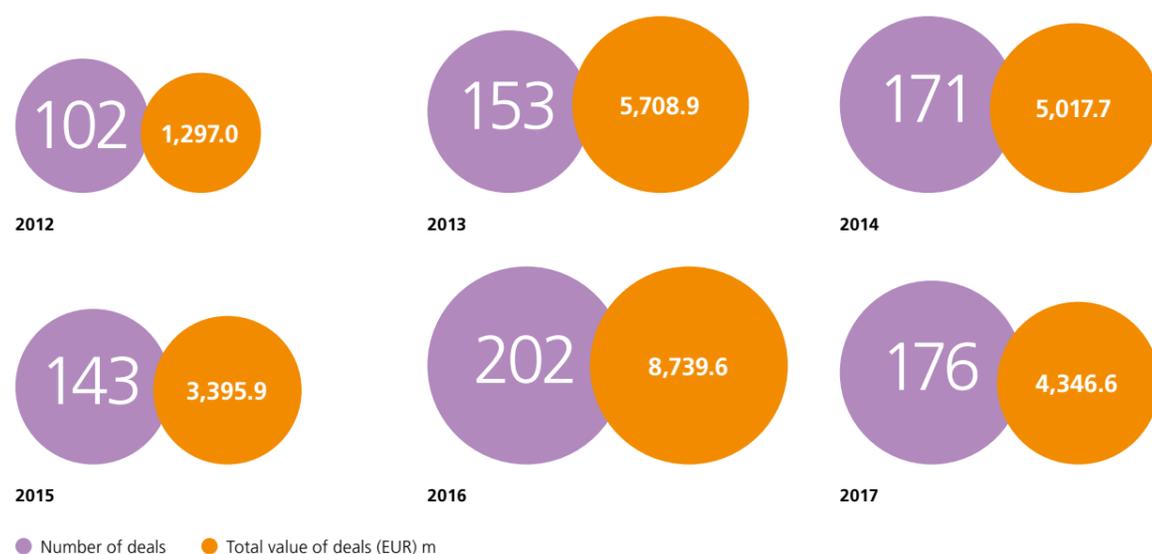
* As of late November, the deal is under regulatory block in Croatia, and KKR is assessing the situation.

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Czech Republic

Deals by volume and value in Czech Republic (2012-2017)



Number of deals by sector in 2017

Real Estate & Construction

55 

Wholesale & Retail

15 

Food & Beverage

7 

Manufacturing

34 

Services

13 

Transportation & Logistics

7 

Telecoms & IT

20 

Education & Healthcare Services

10 

Other

15 

Top 10 deals in Czech Republic in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Unipetrol	Manufacturing	Minority stake / Tender offer	37.0	PKN Orlen	Poland	1,000.0	1
Skoda Transportation	Manufacturing	Acquisition	100.0	PPF Group	Czech Republic	390.8	2
Olympia Center in Brno	Real Estate & Construction	Acquisition	100.0	Deutsche EuroShop	Germany	382.0	1
Retail real estate portfolio of CBRE Global Investors in the Czech Republic	Real Estate & Construction	Acquisition	100.0	CPI Property Group	Czech Republic	294.6	3
Moravia IT	Telecoms & IT	Acquisition	100.0	RWS Holdings	United Kingdom	273.5	1
Logistics portfolio of Stage Capital in Plzen	Real Estate & Construction	Acquisition	100.0	CBRE Global Investors	United States	125.0	1
FTV Prima Holding	Media & Publishing	Acquisition	50.0	Vladimir Komar - private investor; Ivan Zach - private investor	Czech Republic	116.0	1
Metropole Zlicin shopping centre in Prague	Real Estate & Construction	Acquisition	50.0	Unibail-Rodamco	France	110.0	1
Aqualia Infraestructuras Inzenyring; SmVaK	Energy & Utilities	Minority stake	49.0	Fomento de Construcciones y Contratas (FCC)	Spain	92.5	1
River Garden Office II; River Garden Office III	Real Estate & Construction	Acquisition	100.0	Encore+	Luxembourg	84.0	1

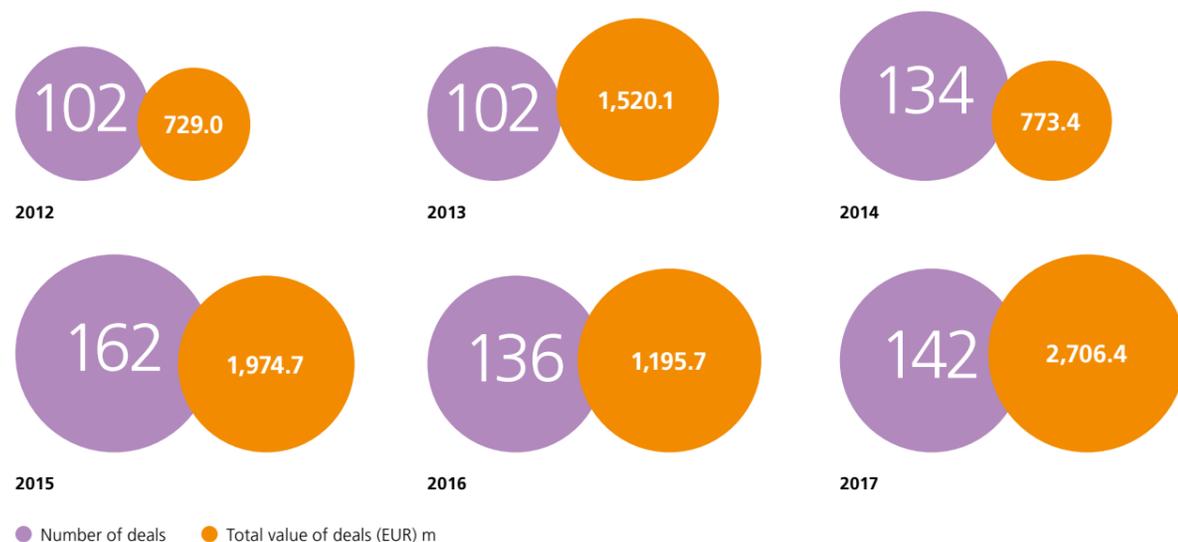
NOTE: The sale of Alpha Medical, said to be among the largest ones this year, is not included as its value could not be properly estimated.

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Hungary

Deals by volume and value in Hungary (2012-2017)



Number of deals by sector in 2017

Real Estate & Construction

45 

Media & Publishing

12 

Services

8 

Finance & Insurance

21 

Food & Beverage

11 

Manufacturing

6 

Telecoms & IT

13 

Energy & Utilities

9 

Other

17 

Top 10 deals in Hungary in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Magyar Olaj- Es Gazipari (MOL)	Mining (incl. oil & gas)	Minority stake	7.5	undisclosed investor(s)	n.a.	465.4	1
Wizz Air	Transportation & Logistics	Minority stake	18.7	institutional investor(s)	n.a.	283.2	1
Arena Plaza Mall in Budapest	Real Estate & Construction	Acquisition	100.0	NEPI Rockcastle	South Africa	275.0	1
Retail real estate portfolio of CBRE Global Investors in Hungary	Real Estate & Construction	Acquisition	100.0	CPI Property Group	Czech Republic	239.4	3
OTP Bank	Finance & Insurance	Minority stake	3.0	institutional investor(s)	n.a.	208.5	1
Invitel Group *	Telecoms & IT	Acquisition	100.0	CEE Equity Partners; China-CEE Investment Cooperation Fund	Poland; China	204.4	1
Magyar Gaz Tranzit	Energy & Utilities	Acquisition	100.0	Magyar Olaj- Es Gazipari (MOL)	Hungary	147.4	1
Invitel *	Telecoms & IT	Acquisition	99.9	RCS & RDS	Romania	139.5	1
Corvin Skypark	Real Estate & Construction	Acquisition	100.0	OTP Ingatlan Befektetési Alapkezelő	Hungary	128.3	1
Sofitel Budapest Chain Bridge	Real Estate & Construction	Acquisition	100.0	Starwood Capital Group	United States	75.0	1

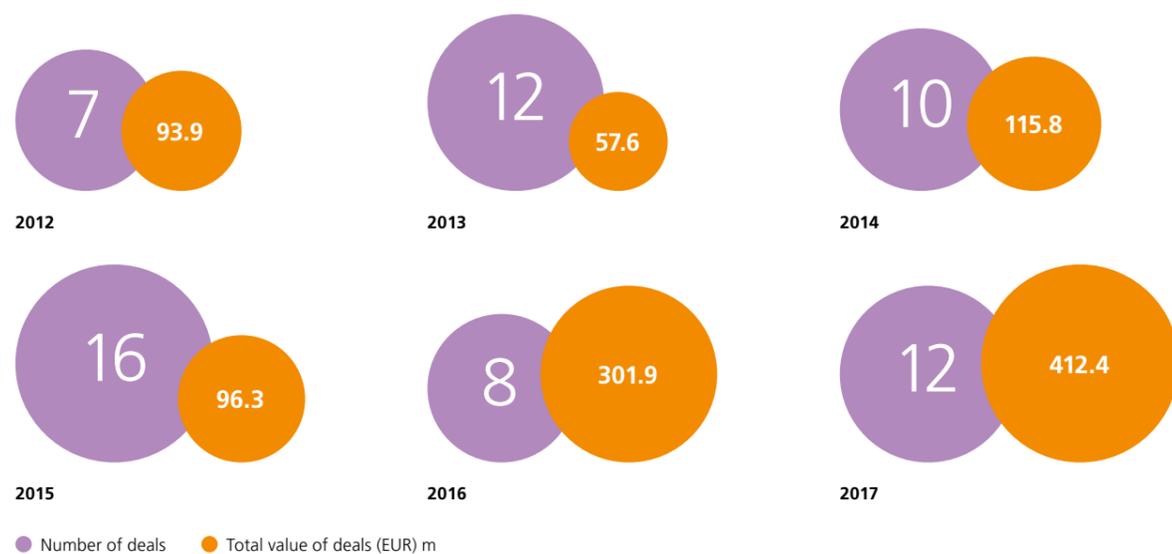
* Invitel Group (comprising four companies) was acquired by Chinese investors in January. In July, they sold the main company of the Group.

◆ Value source – key:

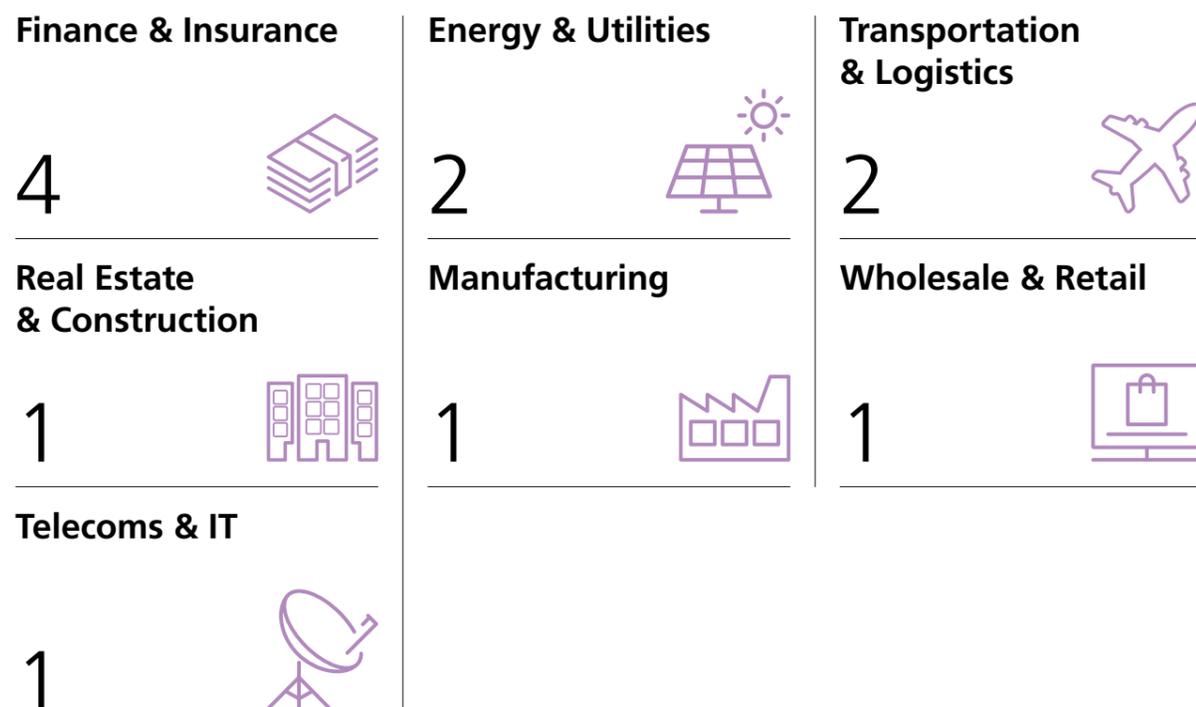
1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Montenegro

Deals by volume and value in Montenegro (2012-2017)



Number of deals by sector in 2017



Top 5 deals in Montenegro in 2017

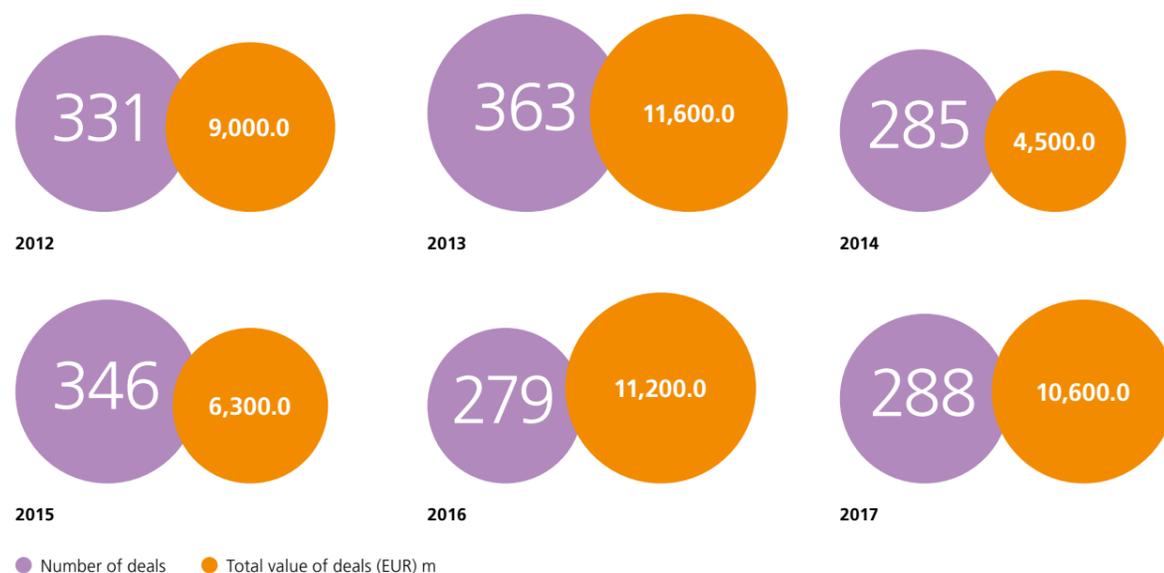
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Elektroprivreda Crne Gore	Energy & Utilities	Minority stake	41.7	Government of Montenegro	Montenegro	250.0	1
Crnogorski Telekom	Telecoms & IT	Acquisition	76.5	Hrvatski Telekom	Croatia	123.5	1
Luka Bar	Transportation & Logistics	Privatization	30.0	OT Logistics	Poland	8.5	1
Riviera Hotel	Real Estate & Construction	Acquisition / Auction	100.0	Montenegro Hotels	Montenegro	6.8	1
Jugopetrol	Wholesale & Retail	Minority stake	9.8	Nova Ljubljanska Banka (NLB)	Slovenia	5.8	1

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Poland

Deals by volume and value in Poland (2012-2017)



Number of deals by sector in 2017

Real Estate & Construction

68



Food & Beverage

35



Finance & Insurance

13



Manufacturing

57



Wholesale & Retail

20



Education & Healthcare Services

10



Telecoms & IT

39



Services

18



Other

28



Top 20 deals in Poland in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Zabka Polska	Wholesale & Retail	Acquisition	100.0	CVC Capital Partners; EBRD	United Kingdom; International	1,000.0	2
Portfolio of 28 retail properties of AXA, Ares Management and Apollo-Rida *	Real Estate & Construction	Acquisition	100.0	Chariot Top Group	Netherlands	1,000.0	1
Assets of EDF in Poland	Energy & Utilities	Acquisition	100.0	Polska Grupa Energetyczna	Poland	991.2	1
Portfolio of 12 retail properties of Chariot Top Group *	Real Estate & Construction	Acquisition	100.0	Echo Polska Properties	Netherlands	692.1	1
Synthos	Manufacturing	Minority stake / Tender offer	31.4	Michał Solowow - private investor	Poland	486.0	1
Magnolia Park shopping centre in Wrocław	Real Estate & Construction	Acquisition	100.0	Union Investment Real Estate	Germany	380.0	1
INEA	Telecoms & IT	Acquisition	n.a.	Macquarie Group	Australia	358.3	2
Part of the business of Deutsche Bank Polska	Finance & Insurance	Acquisition	100.0	Banco Santander	Spain	305.0	1
Galeria Katowicka	Real Estate & Construction	Acquisition	100.0	Employees Provident Fund (EPF)	Malaysia	300.0	2
Emperia Holding (Stokrotka)	Wholesale & Retail	Acquisition / Tender offer	100.0	Maxima Group	Lithuania	292.5	1
Krokus shopping centre in Krakow; Serenada shopping centre in Krakow	Real Estate & Construction	Acquisition	100.0	NEPI Rockcastle	South Africa	249.4	1
Hortex Holding	Food & Beverage	Acquisition	100.0	Mid Europa Partners	United Kingdom	200.0	2
Galeria Twierdza shopping centre in Zamosc; Wzorcowia shopping centre in Wloclawek; Galeria Tecza shopping centre in Kalisz; Galeria Twierdza shopping centre in Klodzko	Real Estate & Construction	Acquisition	100.0	Echo Polska Properties	Netherlands	166.6	1
Galeria Sloneczna shopping centre in Radom	Real Estate & Construction	Acquisition	100.0	REICO investicni spolecnost Ceske sporitelny	Czech Republic	164.0	1
Tryton Business House office building in Gdansk; A4 Business Park office building in Katowice; West Gate office building in Wrocław	Real Estate & Construction	Acquisition	100.0	Griffin Premium RE	Poland	160.0	1
Netia	Telecoms & IT	Minority stake	31.8	Cyfrowy Polsat	Poland	149.2	1
Pioneer Pekao Investment Management; Pekao Pioneer Powszechne Towarzystwo Emerytalne	Finance & Insurance	Acquisition	51.0	Bank Pekao	Poland	140.0	1
Griffin Premium RE	Real Estate & Construction	Acquisition / Tender offer	67.9	Globalworth Real Estate Investments	United Kingdom	139.6	1
Part of the business of mFinance	Finance & Insurance	Acquisition	100.0	Indigo Underwriters	United Kingdom	122.6	1
Proximo I office building in Warsaw	Real Estate & Construction	Acquisition	100.0	REICO investicni spolecnost Ceske sporitelny	Czech Republic	116.6	1

* Chariot Top Group first acquired a portfolio of 28 properties and then sold 12 of them.

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Romania

Deals by volume and value in Romania (2012-2017)



Number of deals by sector in 2017

Manufacturing

39 

Telecoms & IT

13 

Transportation & Logistics

7 

Real Estate & Construction

30 

Finance & Insurance

11 

Services

6 

Wholesale & Retail

15 

Food & Beverage

9 

Other

23 

Top 10 deals in Romania in 2017

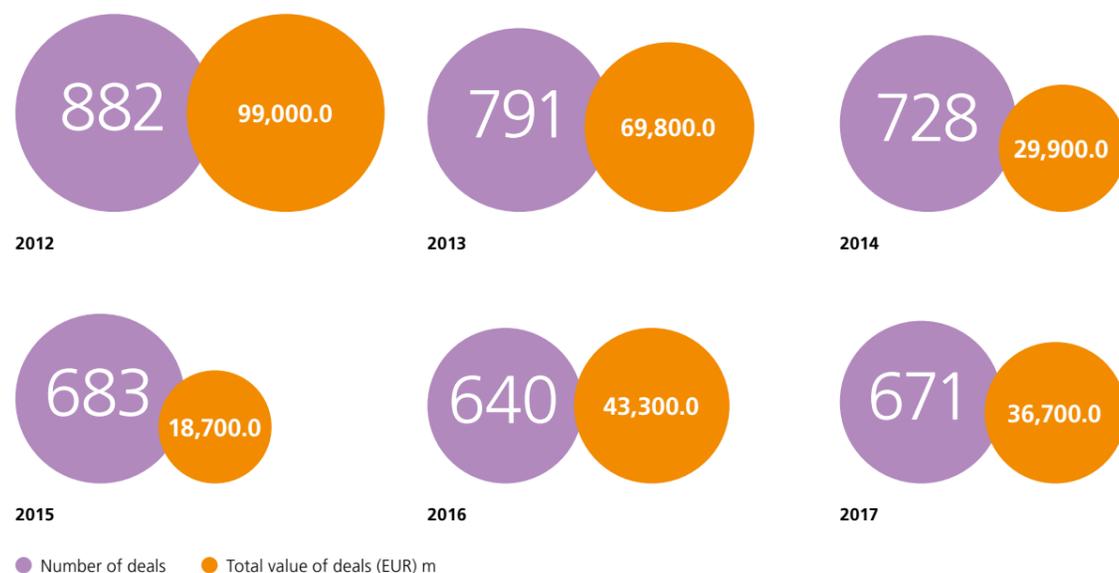
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Enel Distributie Muntenia; Enel Energie Muntenia	Energy & Utilities	Minority stake	13.6	Enel	Italy	401.2	1
A&D Pharma Holdings	Wholesale & Retail	Acquisition	100.0	Penta Investments	Czech Republic	350.0	2
Bancpost	Finance & Insurance	Acquisition	99.2	Banca Transilvania	Romania	240.0	2
EcoPack; EcoPaper	Manufacturing	Acquisition	100.0	DS Smith	United Kingdom	208.0	1
Radisson Blue Hotel in Bucharest	Real Estate & Construction	Acquisition	100.0	Revetas Capital	United Kingdom	169.2	1
SDEE Distributie Muntenia Nord; SDEE Distributie Transilvania Nord; SDEE Distributie Transilvania Sud; Electrica Furnizare	Energy & Utilities	Minority stake	22.0	Electrica	Romania	164.7	1
Takata Corp operations in Romania	Manufacturing	Acquisition	100.0	Key Safety Systems	United States	153.9	3
BitDefender	Telecoms & IT	Capital increase	30.0	Vitruvian Partners	United Kingdom	151.3	3
Premium Porc Group	Agriculture & Farming	Acquisition	100.0	Polaris Private Equity	Denmark	134.0	2
Certain assets of Oltchim	Manufacturing	Acquisition / Distressed	100.0	Dynamic Selling Group; Chimcomplex	Romania	128.9	1

◆ Value source – key:

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Russia

Deals by volume and value in Russia (2012-2017)



Number of deals by sector in 2017

Telecoms & IT

133



Mining (incl. oil & gas)

78



Agriculture & Farming

37



Manufacturing

87



Wholesale & Retail

64



Finance & Insurance

35



Real Estate & Construction

84



Services

38



Other

115



Top 20 deals in Russia in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Rosneft	Mining (incl. oil & gas)	Minority stake	14.2	CEFC China Energy	China	7,520.7	1
Sibur Holding	Manufacturing	Minority stake	14.3	Leonid Mikhelson - private investor	Russia	1,755.4	2
Yuzhno-Russkoye field	Mining (incl. oil & gas)	Minority stake	25.0	OMV	Austria	1,719.0	1
Eurasia Drilling Company	Mining (incl. oil & gas)	Acquisition	51.0	Schlumberger	United States	1,652.2	2
Retail portfolio of Immofinanz in Moscow	Real Estate & Construction	Acquisition	100.0	Fort Group	Russia	901.0	1
MegaFon	Telecoms & IT	Minority stake	19.0	Gazprombank	Russia	898.2	1
RusHydro	Energy & Utilities	Capital increase	13.0	VTB Bank	Russia	891.0	1
Bashneft	Mining (incl. oil & gas)	Minority stake / Tender offer	7.6	Rosneft	Russia	805.5	1
Polyus ***	Mining (incl. oil & gas)	Minority stake	10.0	Fosun International; Hainan Mining; Zhaojin Mining Industry; RDIF	Hong Kong; China; Russia	791.9	1
PIK Group *	Real Estate & Construction	Minority stake / Tender offer	24.6	Sergey Gordeev - private investor	Russia	699.5	1
13,000 cell towers of VimpelCom	Telecoms & IT	Acquisition	100.0	Russian Towers	Russia	666.7	2
Kondaneft	Mining (incl. oil & gas)	Acquisition	100.0	Rosneft	Russia	657.8	1
Yug Rusi Group	Food & Beverage	Acquisition	62.0	Solnechnye Produkty	Russia	634.8	2
PIK Group *	Real Estate & Construction	Acquisition	20.1 **	Sergey Gordeev - private investor	Russia	554.8	1
Eurasia Drilling Company	Mining (incl. oil & gas)	Minority stake	16.1	Middle Eastern investors; RDIF; RCIF; China-Eurasian Economic Cooperation Fund (CEF)	Greater MENA; Russia; China	517.1	2
Gorbushkin Dvor	Real Estate & Construction	Acquisition	100.0	Viktor Kharitonin - private investor	Russia	446.4	2
RusAl	Manufacturing	Minority stake	7.0	SUAL Partners; Viktor Vekselberg - private investor; Leonard Blavatnik - private investor	Russia	430.7	1
Insurance assets of Renaissance Insurance and Blagosostoyanie	Finance & Insurance	Merger	100.0	The Sputnik Group; Boris Jordan - private investor; Baring Vostok Capital Partners; Transfingroup Managing Company	Russia	395.6	1
Ust-Luga Oil	Wholesale & Retail	Minority stake	25.0	Transneft	Russia	368.7	2
Office space and parking area in IQ-Quarter complex	Real Estate & Construction	Acquisition	100.0	Agency for Housing Mortgage Lending	Russia	368.4	1

* The deals for PIK Group involved separate sellers and sale processes.

** Following the deal, the buyer will own more than 50% of PIK Group.

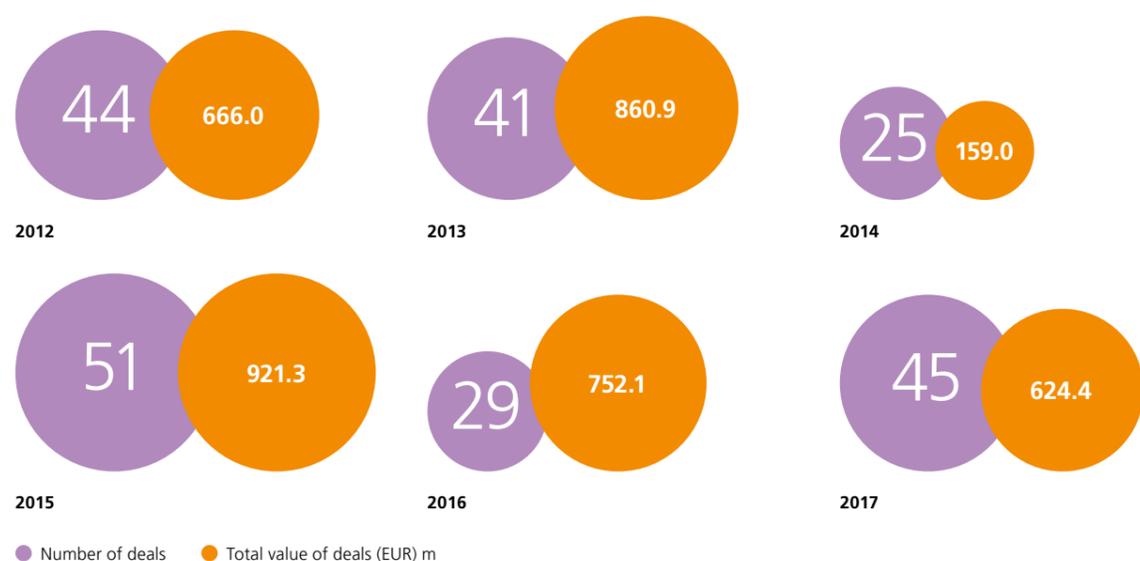
*** On 15 January, after the data extraction cut-off date, it was announced that the deal failed.

◆ Value source – key:

1. Official data
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3. EMIS Estimate

Serbia

Deals by volume and value in Serbia (2012-2017)



Number of deals by sector in 2017

Manufacturing

15



Wholesale & Retail

4



Services

2



Real Estate & Construction

12



Agriculture & Farming

3



Energy & Utilities

1



Finance & Insurance

5



Food & Beverage

3



Top 10 deals in Serbia in 2017

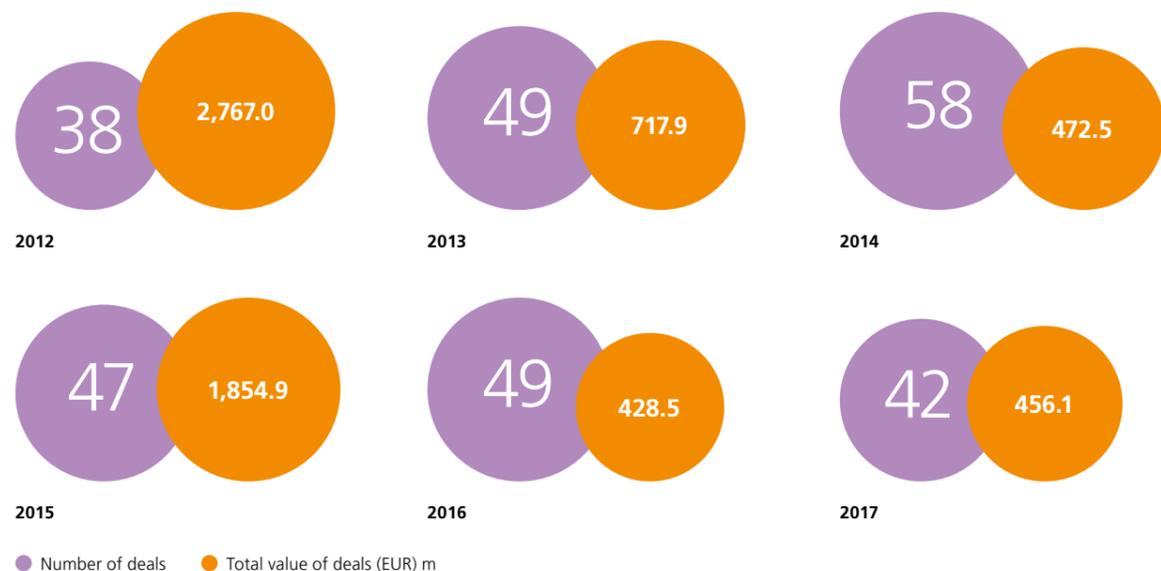
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Vojvodjanska Banka; NBG Leasing	Finance & Insurance	Acquisition	100.0	OTP Bank	Hungary	125.0	1
Galenika	Manufacturing	Minority stake / Debt-for-equity swap	8.0	Srbijagas; Government of the Republic of Serbia	Serbia	123.1	2
Piraeus Bank Belgrade	Finance & Insurance	Acquisition	100.0	Direktna Banka	Serbia	59.5	1
Mercator Centar	Real Estate & Construction	Acquisition	100.0	MPC Properties	Serbia	46.0	1
Belgrade Plaza	Real Estate & Construction	Acquisition	100.0	BIG Shopping Centers	Israel	44.9	1
Galenika	Manufacturing	Privatization	93.7	EMS	Brazil	41.0	2
Atterbury Serbia	Real Estate & Construction	Acquisition	n.a.	Atterbury Europe	South Africa	35.2	3
Energoprojekt Holding	Real Estate & Construction	Minority stake / Tender offer	16.7	Napred	Serbia	22.8	1
Beohemija-Inhem	Manufacturing	Acquisition	100.0	Preston	Serbia	20.0	1
Toza Markovic	Manufacturing	Acquisition / Debt-for-equity swap	65.9	Srbijagas	Serbia	20.0	2

◆ Value source – key:

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3. EMIS Estimate

Slovakia

Deals by volume and value in Slovakia (2012-2017)



Number of deals by sector in 2017

Real Estate & Construction

9



Telecoms & IT

7



Food & Beverage

2



Wholesale & Retail

8



Media & Publishing

3



Finance & Insurance

1



Manufacturing

7



Education & Healthcare Services

2



Other

3



Top 5 deals in Slovakia in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Prologis Park Galanta-Gan logistics facility	Real Estate & Construction	Acquisition	100.0	CNIC	Hong Kong	164.8	3
Lozorno logistics park	Real Estate & Construction	Acquisition	100.0	undisclosed buyer(s)	n.a.	90.2	3
Universal Media Corporation Slovakia	Manufacturing	Acquisition	56.7	Sharp	Japan	85.0	1
Composite Innovation International (c2i)	Manufacturing	Acquisition	50.1	LG Group	South Korea	39.9	1
Park One office building in Bratislava	Real Estate & Construction	Acquisition	100.0	REICO investicni spolecnost Ceske sporitelny	Czech Republic	35.6	1

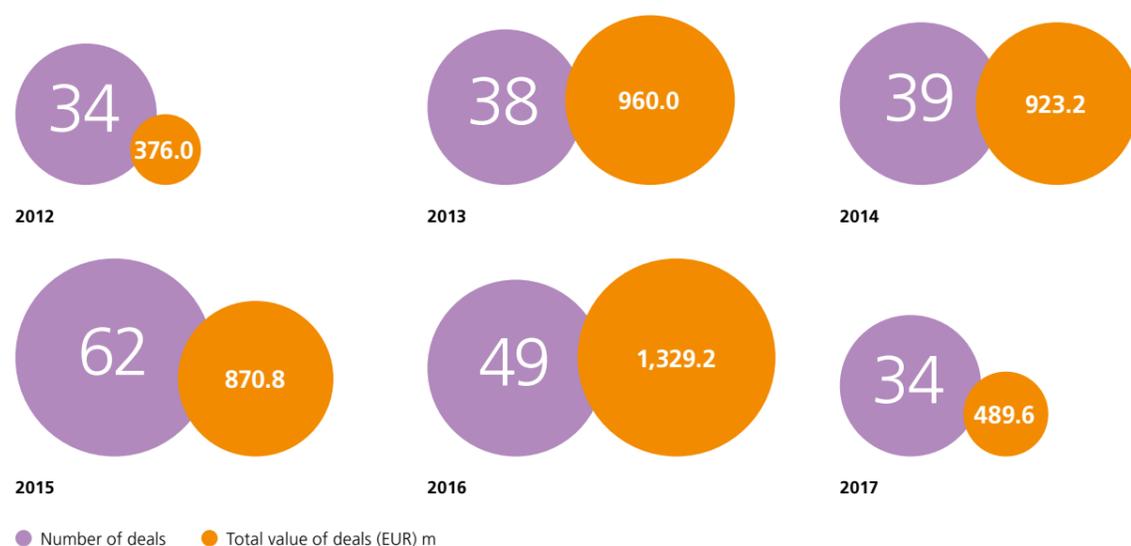
NOTE: The sale of Alpha Medical, said to be among the largest ones this year, is not included as its value could not be properly estimated.

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3. EMIS Estimate

Slovenia

Deals by volume and value in Slovenia (2012-2017)



Number of deals by sector in 2017

Manufacturing

6



Transportation & Logistics

4



Telecoms & IT

3



Wholesale & Retail

6



Food & Beverage

3



Real Estate & Construction

2



Finance & Insurance

5



Services

3



Other

2



Top 10 deals in Slovenia in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Adria Mobil	Manufacturing	Acquisition	100.0	Trigano	France	200.0	2
Broadcast operations of Central European Media Enterprises (CME) in Slovenia	Media & Publishing	Acquisition	100.0	Kohlberg Kravis Roberts & Co	United States	94.9	3
Portfolio of 13 Merkur DIY stores *	Wholesale & Retail	Acquisition / Distressed	100.0	HPS Investment Partners	United States	49.0	2
Mercator	Wholesale & Retail	Minority stake / Auction	18.5	Sberbank	Russia	40.6	1
Merkur Trgovina *	Wholesale & Retail	Acquisition / Distressed	100.0	HPS Investment Partners	United States	28.6	2
Petrol	Mining (incl. oil & gas)	Minority stake	3.0	Slovenian State Holding (SDH)	Slovenia	21.3	3
Geoplin	Wholesale & Retail	Minority stake	7.8	Petrol	Slovenia	14.5	1
Perutnina Ptuj	Food & Beverage	Minority stake	12.8	SIJ – Slovenian Steel Group	Slovenia	11.2	1
Paloma	Manufacturing	Minority stake / Tender offer	30.3	Eco-Invest	Slovakia	9.7	1
Mesna Industrija Primorske (MIP)	Food & Beverage	Acquisition / Distressed	100.0	Pivka	Slovenia	4.2	1

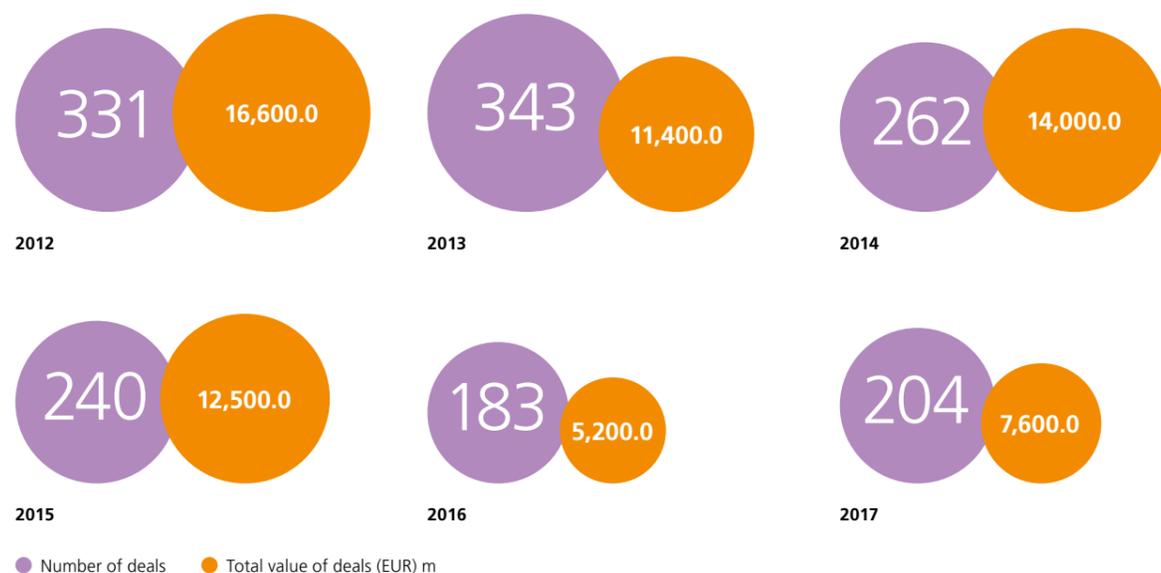
* The deals for Merkur and for its 13 DIY stores involve separate assets of the distressed company, separate sale processes and sellers.

◆ Value source – key:

1. Official data
2. Market estimate provided by EMIS and based on publicly available information
3. EMIS Estimate

Turkey

Deals by volume and value in Turkey (2012-2017)



Number of deals by sector in 2017

Manufacturing

34 

Energy & Utilities

24 

Food & Beverage

15 

Real Estate & Construction

28 

Telecoms & IT

16 

Services

15 

Wholesale & Retail

25 

Transportation & Logistics

16 

Other

31 

Top 20 deals in Turkey in 2017

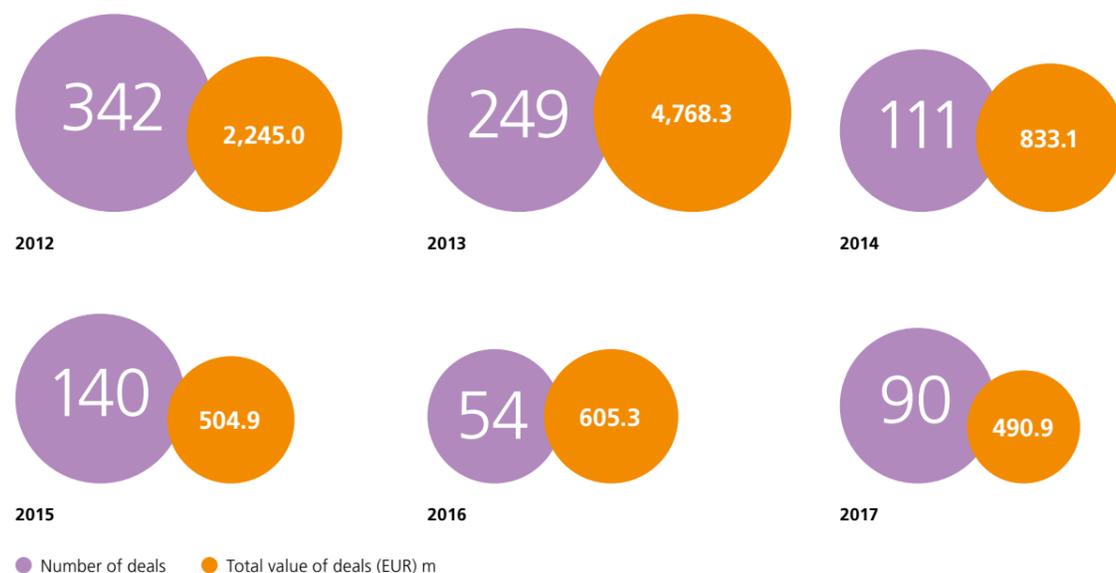
Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
OMV Petrol Ofisi	Wholesale & Retail	Acquisition	100.0	Vitol Group	Switzerland	1,368.0	1
Garanti Bankasi	Finance & Insurance	Minority stake	10.0	Banco Bilbao Vizcaya Argentaria (BBVA)	Spain	871.8	1
Mersin International Port	Transportation & Logistics	Minority stake	40.0	IFM Investors	Australia	742.7	1
Osmangazi Elektrik Perakende	Energy & Utilities	Acquisition	100.0	Zorlu Holding	Turkey	333.3	1
Menzelet HEPP; Kilavuzlu HEPP	Energy & Utilities	Privatization	100.0	Koc Holding	Turkey	306.7	1
Metropol Istanbul Shopping Mall	Real Estate & Construction	Acquisition	100.0	EYG Group; Kefeli Gayrimenkul	Turkey	300.4	1
Kozyatagi Carrefour	Real Estate & Construction	Acquisition	100.0	Gulaylar	Turkey	269.0	2
Banvit Bandirma Vitaminli Yem	Food & Beverage	Acquisition	79.5	BRF; Qatar Investment Authority	Brazil; Qatar	256.4	1
Kerevitas Gida	Food & Beverage	Acquisition / Capital increase	73.9	Yildiz Holding; Turkish private investor(s)	Turkey	214.8	1
Besler Gida	Food & Beverage	Acquisition	100.0	Kerevitas Gida	Turkey	214.8	1
Copper mine in Siirt	Mining (incl. oil & gas)	Acquisition	100.0	Cengiz Holding	Turkey	182.2	1
Superbahis	Telecoms & IT	Acquisition	100.0	Ropso Malta	Malta	150.0	1
TAV Havalimanlari Holding	Transportation & Logistics	Minority stake	8.1	Aeroports de Paris	France	142.4	1
Konya Ilgin Elektrik Uretim	Energy & Utilities	Acquisition	100.0	Park Elektrik	Turkey	140.2	1
Migros Ticaret	Wholesale & Retail	Minority stake	9.8	Anadolu Endustri Holding	Turkey	129.8	1
Akkardan; Bossa	Manufacturing	Acquisition	n.a.	Oguz Tekstil	Turkey	104.0	3
Tasucu Port	Transportation & Logistics	Privatization	100.0	Metal Yapi Konut	Turkey	98.1	1
Erkunt Traktor; Erkunt Sanayi	Manufacturing	Acquisition	100.0	Mahindra & Mahindra	India	97.5	2
Samli wind power plant	Energy & Utilities	Acquisition	100.0	Guris Insaat	Turkey	94.1	1
Milta Turizm Isletmeleri	Other	Acquisition	100.0	Koc Holding	Turkey	89.7	1

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Ukraine

Deals by volume and value in Ukraine (2012-2017)



Number of deals by sector in 2017

Finance & Insurance

19



Telecoms & IT

9



Energy & Utilities

7



Agriculture & Farming

11



Manufacturing

9



Wholesale & Retail

5



Real Estate & Construction

9



Services

8



Other

13



Top 10 deals in Ukraine in 2017

Target	Sector	Deal Type	Stake %	Buyer	Country of Buyer	Deal Value (€m)	Value Source
Ukrainian Agrarian Investments	Agriculture & Farming	Acquisition	100.0	Kernel Holding	Ukraine	138.4	1
EVRAZ Sukha Balka	Mining (incl. oil & gas)	Acquisition	100.0	Development Construction Holding	Ukraine	98.2	1
Agro Invest Ukraine	Agriculture & Farming	Acquisition	100.0	Kernel Holding	Ukraine	38.3	1
Astarta Holding	Agriculture & Farming	Minority stake	10.0	Fairfax Financial Holdings	Canada	34.6	1
DTEK Dniiproblenergo	Energy & Utilities	Privatization	25.0	System Capital Management	Ukraine	32.8	1
Kyivenergo	Energy & Utilities	Privatization	25.0	System Capital Management	Ukraine	25.3	1
DTEK Dniiproenergo	Energy & Utilities	Privatization	25.0	System Capital Management	Ukraine	23.8	1
Karpatneftekhim	Telecoms & IT	Acquisition	100.0	Igor Shchutsky - private investor; Ilham Mamedov - private investor	Ukraine	23.4	1
Magellan shopping centre	Real Estate & Construction	Acquisition	100.0	Sberbank	Russia	20.1	3
DTEK Zakhidenergo	Energy & Utilities	Privatization	25.0	System Capital Management	Ukraine	13.9	1

NOTE: The deal for hypermarket chain Karavan, said to be among the largest ones this year, is not included as its value could not be properly estimated.

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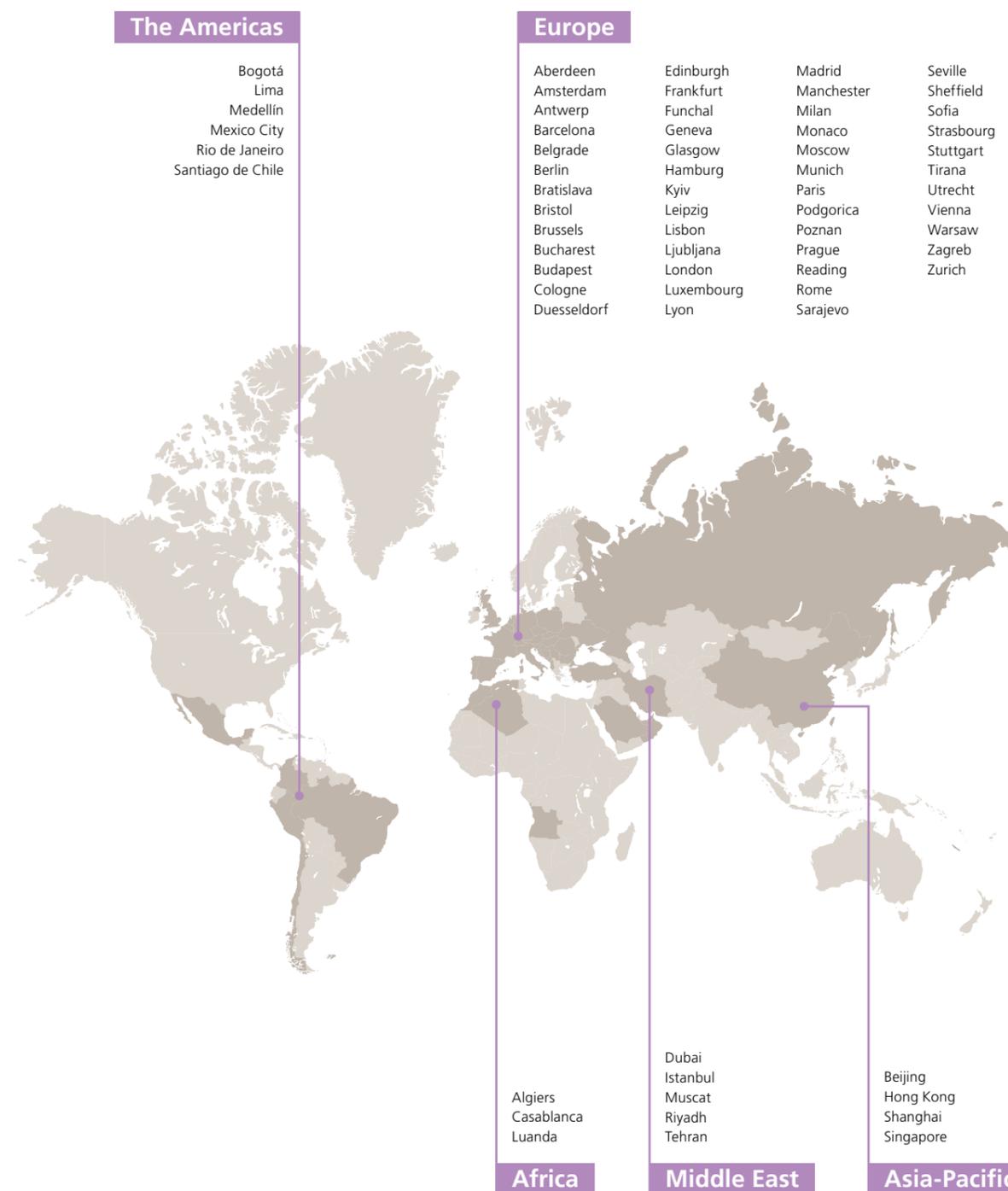
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