

A new era of deal-making
Central Europe Private
Equity confidence survey



2011 will be notable for some significant growth in the number of deals being done as the 'new normal' takes hold.

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Introduction



Welcome to the latest edition of the Deloitte Central Europe Private Equity confidence survey. We have been running this twice-yearly report since 2003, charting the views of Private Equity (PE) professionals from across the region on a consistent range of matrices, enabling us to track the changing levels of confidence.

Taken in conjunction with surveys from the last two years, this most recent edition shows the emergence of what we are calling the 'new normal' – the beginning of a new era of stability, where confidence levels have settled at a level marginally below those seen in early 2008, before the impact of the global financial crisis.

In my introduction to the April 2010 edition, I commented on the continued increase in confidence that was suggesting a future where more deals may be done. Today, that future is becoming reality as stability ushers in a new period of deal activity.

This view was strongly supported by the mood at the recent Central and Eastern Europe Private Equity Forum in London, where we were the lead sponsors.

The main themes that came through at the conference were:

- Increased deal activity in particular in Poland and the Czech Republic;
- Increased deal activity in the mid-market sector as the entrepreneurs of the 1990's come of age;
- The continuing capital overhang will tend to slow down new LP investments;
- The EBRD and the European Investment Fund (EIF) have a key role to play in easing the current fund-raising environment; and
- LPs are undertaking more thorough due diligence activities than ever before on General Partners, including more detailed investigation of their management teams, their track record, carry structures, and exposure of the investment thesis to foreign exchange risk.

From the evidence of the forum, the survey and our own observations, we believe that 2011 will be notable for some significant growth in the number of deals being done as the 'new normal' takes hold.

Garret Byrne
Partner
M&A Transaction Service Leader
Central Europe

November 2010

Overview

Key findings

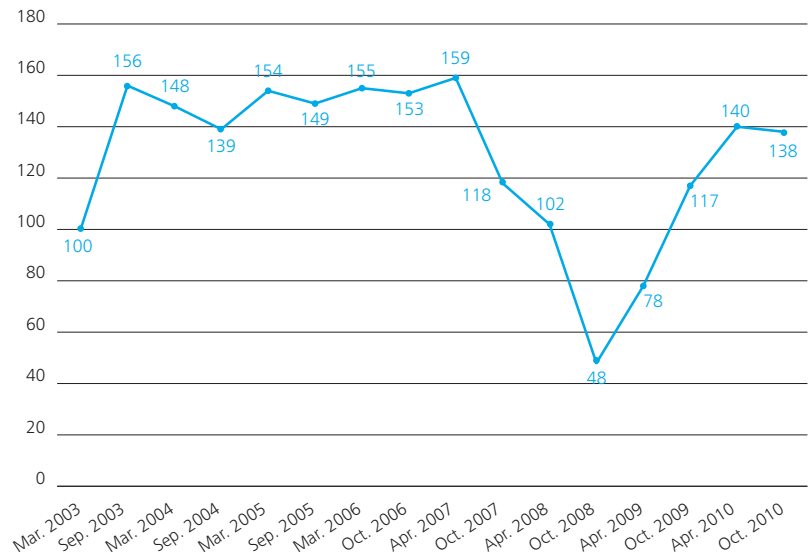
- The findings of the survey, which was carried out in October 2010, are in line with the region's slow but progressing economic recovery.
- Confidence has stabilised at a level just below those recorded before the unprecedented decline caused by the global financial crisis.
- The region's PE practitioners see growing revenue and reducing costs in portfolio businesses as their primary goals.
- Recent changes in the region's tax rates are having a minimal impact on PE professionals' decisions on whether or not to invest.
- The current PE business model of management fees and carry is expected to remain unchanged.
- The EBRD and the EIF are recognised as having a key role in the region.

Central European Private Equity Index

The Index has stabilised at 138, following a substantial 18-month rise from an all time low of 48 in October 2008 to peak at 140 in April 2010. The two-point decline since late spring is not meaningful, indicating that sentiment remains unchanged during 2010 to provide an effective basis for increased deal-flows during the months to come.

That said, close to a third of respondents (29%) expect to see further improvements in the overall economic climate into the first quarter of 2011, while 38% expect to see further increases in the availability of debt finance.

Central Europe PE Confidence Index



Most important of all, 67% expect to see an increase in overall market activity during the next six months, contributing strongly to the overall sense of optimism that permeates the survey's findings.

In the April 2010 issue, we reported that the main challenge of the next 12 months would be to convert growing optimism into completed deals. The last few pages of this document highlight some of the most significant investments and exits of recent months, showing how the region's PE professionals have risen to this challenge. Now, with 64% of respondents expecting to buy more than they sell in the months to come, it appears that yet stronger deal-flows are imminent.

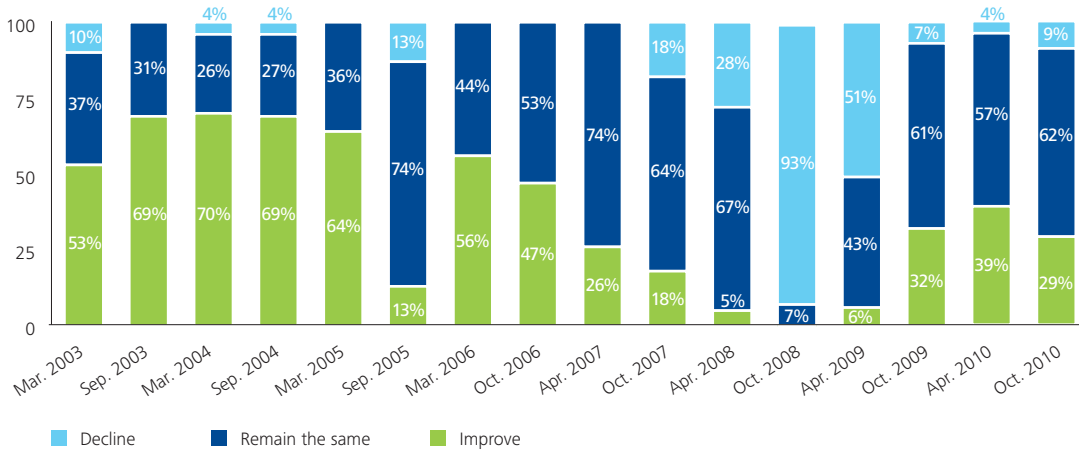


Survey results

Survey results

Economic climate

Over the next 6 months, I expect the overall economic climate to:

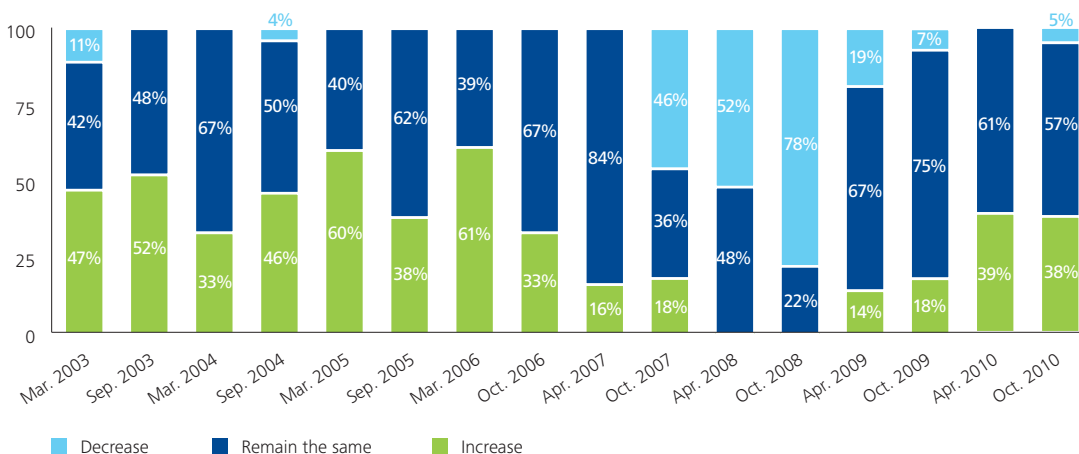


While there has been an increase since April 2010 in the proportion of respondents expecting a decline in the economic climate, a significant majority of respondents (62%) foresee no significant change during the next six months. This is in line with the findings of the October 2010 Deloitte Central Europe Business Sentiment Index (BSI) survey, which details expectations

for a continuing but sluggish recovery. The most optimistic outlook is that of the Slovakian business community, which is possibly unsurprising given the country's economic health – the Eurostat growth forecast for its Gross Domestic Product is only exceeded by that for Estonia.

Debt availability

Over the next 6 months, I expect the availability of debt finance to:

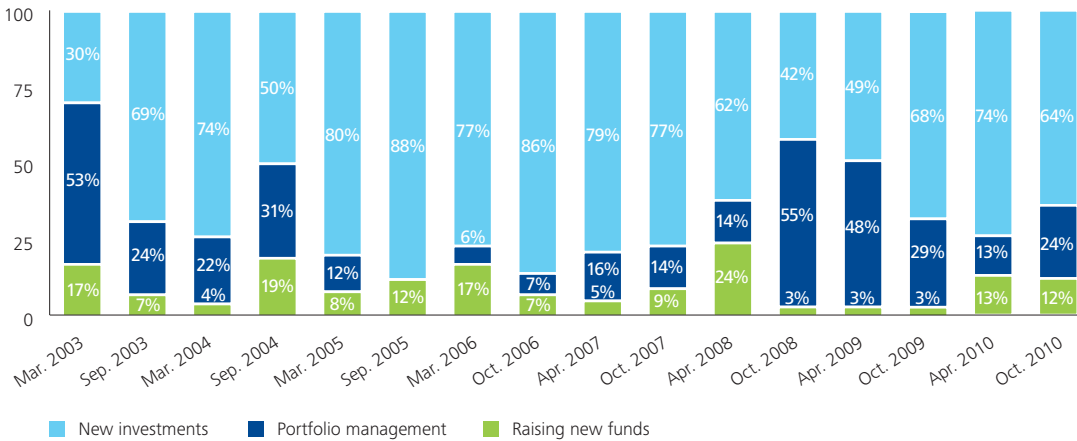


Expectations regarding debt finance availability have changed little since April 2010, when confidence levels regarding this metric were at their highest since October 2006. This is therefore an extremely positive finding – one that is at least matched by the October 2010 Deloitte BSI survey.

This found improving expectations regarding credit availability among the CXOs of the region's largest companies and a doubling in the number of 'optimists' over the same time in 2009.

Investors' focus

Over the next 6 months, I expect to spend the majority of my time focusing on:

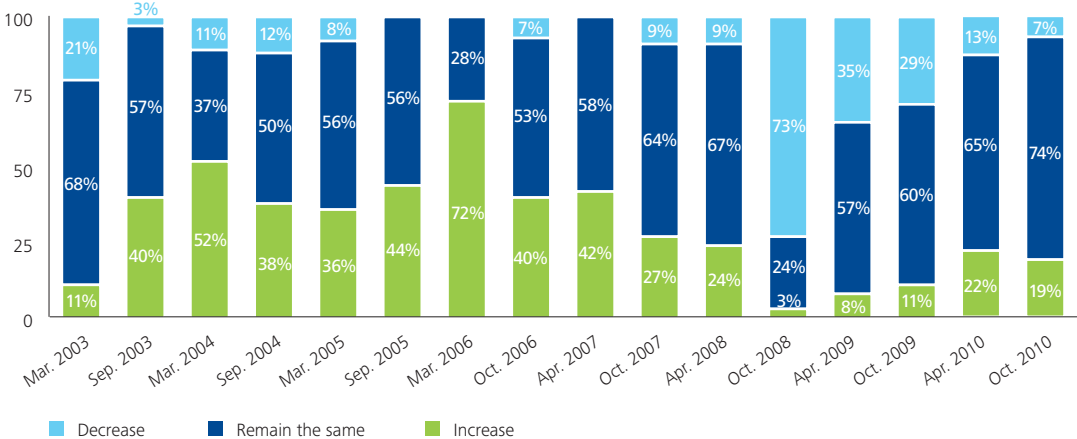


With 64% of respondents expecting to be focused on new opportunities over the next few months, the October 2010 survey shows a decline (from 74%) since six months earlier. However, it is likely that

the more stable conditions will enable a slowly accelerating increase in the number of deals being closed, although these levels are unlikely to reach pre-crisis levels for a considerable time.

Size of transactions

Over the next 6 months, I expect the average size of transactions to:

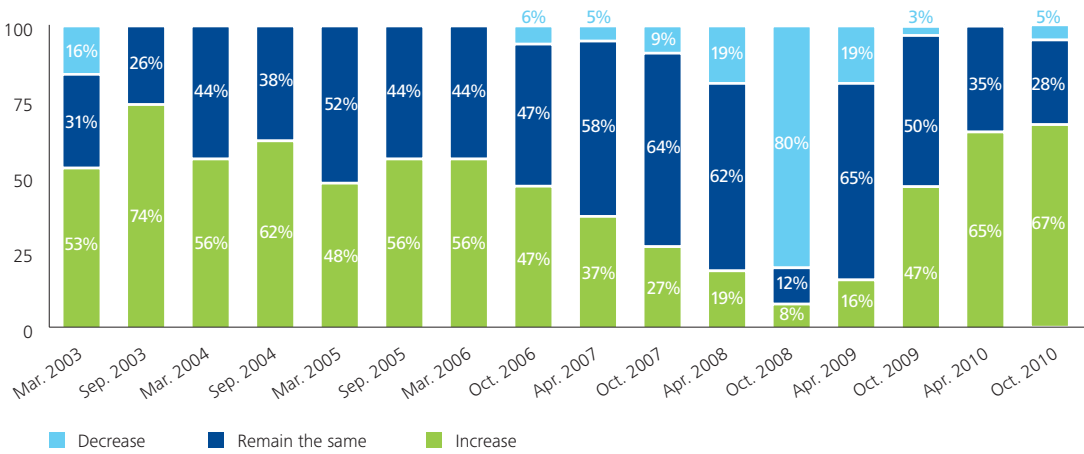


Average deal sizes during 2009 were rather low – mostly under €20m. There have been a number of significantly larger deals in 2010 such as the sale of Lider's KG Sp. z o.o. by LBO France and European Capital Ltd to Biscuits Poul't for €100m and the €153m purchase of 90% of Ruch SA by Lurena Investments.

That said, the expectations of 74% of respondents are that deal sizes will remain the same. This suggests that larger deals will continue to remain in the minority.

Market activity

Over the next 6 months, I expect the overall market activity to:

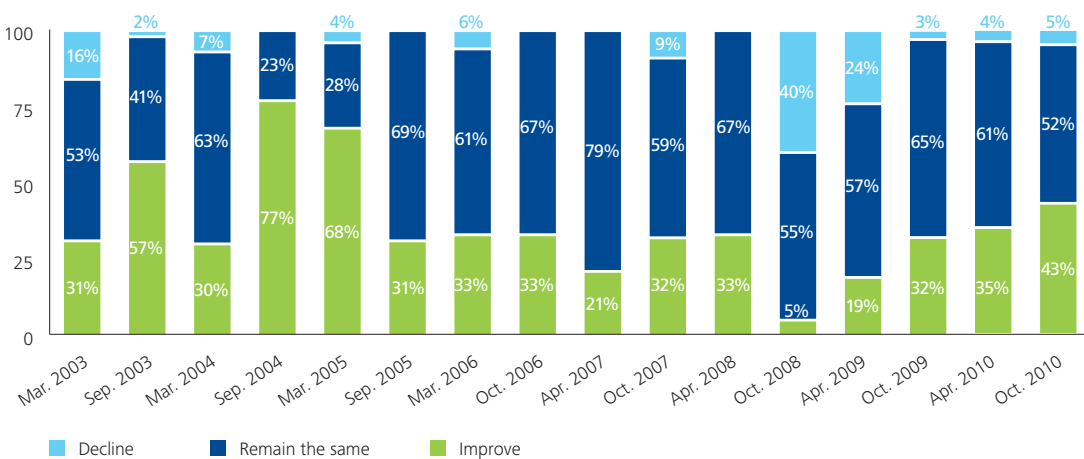


67% of respondents expect an increase in overall M&A market activity into 2011. This is the highest level for seven years, underlining the general increase in

optimism that has now held increasing sway since the low point of October 2008 when a staggering 80% foresaw decreases in activity.

Investment return

Over the next 6 months, I expect efficiency of my financial investments to:

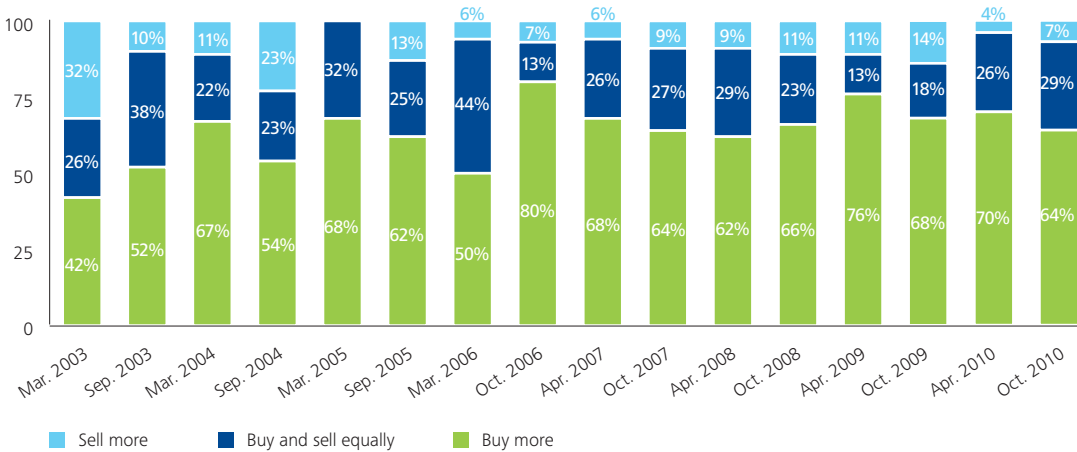


There has been a steady increase in optimism in responses to this key question since the low point of October 2008. Now, as 43% of respondents forecast an improvement in the performance of their portfolio

companies, this metric stands at its highest level since early 2005 – significantly ahead of the boom years of 2006 and 2007.

Investors' activities

Over the next 6 months, I expect to:

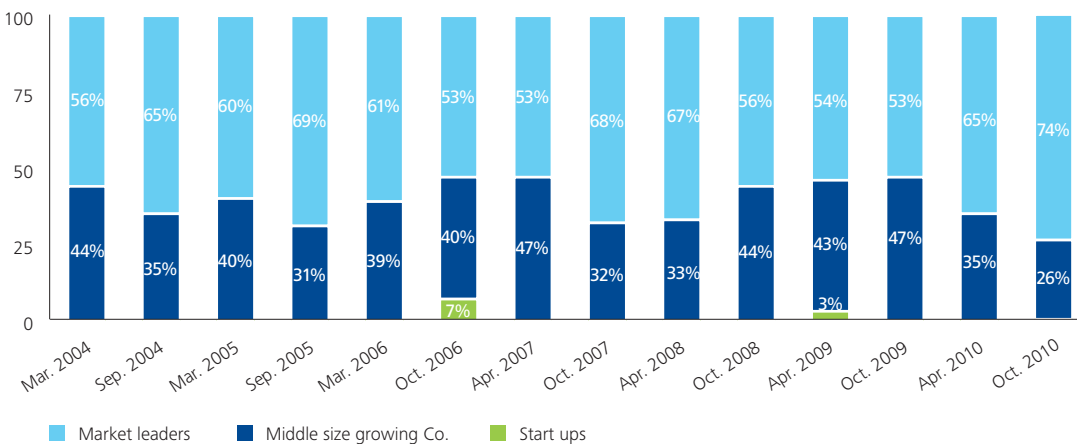


This edition of the survey highlights the settled nature of respondents' attitudes to this question – a slight decline in the proportion expecting to buy more to 64% is part of a consistent pattern since April 2007, during which time the proportion choosing this answer has floated

between a minimum of 62% and maximum of 76%. As before, this continues to highlight the confidence of most PE professionals that they can find and deliver value under almost any market conditions.

Competition for new investments

Over the next 6 months, I expect the highest competition for new investment opportunities in:

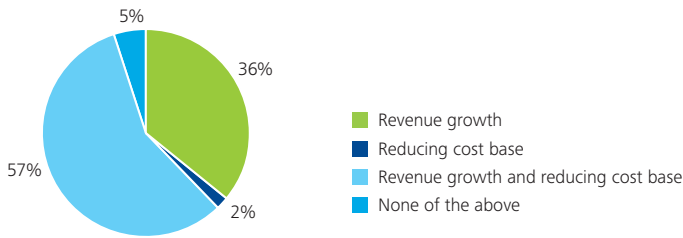


In only two of our 16 editions of this survey have start-ups registered any score, while market leaders have every time emerged as the most popular PE targets. In this edition, in fact, the proportion choosing market leaders is higher than ever before at 74%, possibly

highlighting a continuation of the risk-averse character of post-crisis investment. At 26%, medium-sized businesses appear to have declined substantially in attractiveness since the April edition of the survey, despite the opportunities they represent for growth.

Portfolio business focus

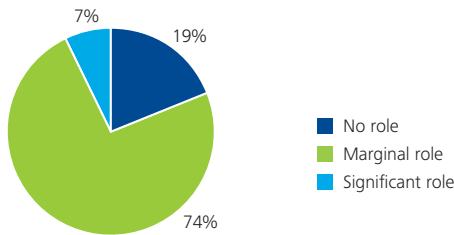
Over the next 6 months, I expect our portfolio business to focus primarily on:
(Oct 2010)



The answers to this question highlight how business attitudes have changed since the depths of the financial crisis and the recession that followed in most markets, when the primary focus of a vast majority of PE investors was single-mindedly on reducing costs. Today, with over a third (36%) now focused on revenue growth and just 2% on cutting costs, it is clear that the mindset has altered fundamentally. A substantial majority of those polled have a twin focus on reducing costs while driving growth, an apparent formula for sound business practice that mixes the defensive with the aggressive in a balanced manner for sustainable value enhancement.

Impact of tax environment

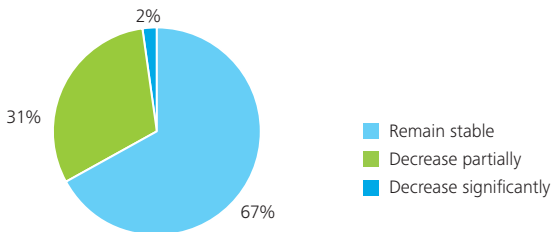
Over the next 6 months, I expect that tax changes and costs will play in my investment decisions
(Oct 2010)



With nearly a fifth of respondents (19%) saying that tax changes and costs will play no role in their investment decisions, and a further 74% saying they will play only a marginal role, it is clear that even recent dramatic tax changes – both increases and decreases – will neither motivate nor discourage Private Equity professionals from making investments in the region.

Management fees and carry

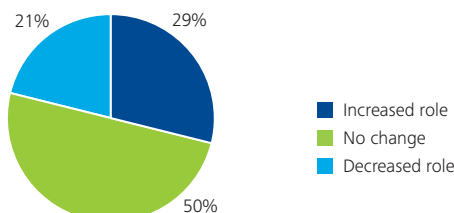
Do you expect the current model of management fees and carry for general partners to:
(Oct 2010)



There is a widespread expectation among respondents that the reward model on which the PE business is based will not change significantly in the medium-term future. Delegates at the recent Central and Eastern Europe Private Equity Forum believed, however, that only top-quartile funds can expect to continue receiving 2% in management fees and 20% carry.

Role of EBRD and EIF

Do you expect the role of supra-national capital such as EBRD and EIF to change as a source of funds for Private Equity in Central Europe?
(Oct 2010)



The survey results show that there is a widespread belief that both the EBRD and EIF have key roles to play in the Central Europe region's PE market for the foreseeable future through easing the fundraising environment.

Fund raising

Company	Fund	Value € m	Status	Description
3TS Capital Partners	3TS Fund III	160-target	Launched	3TS Capital Partners is raising its 3TS Fund III, a €160m lower mid-market growth capital and buyout fund for Central Europe. This is an extension of their Fund II, targeting the countries of Poland, Hungary, the Czech Republic, Slovakia, Romania and Bulgaria and the sectors of healthcare services, consumer and business services, TMT and energy. Cornerstone investors are expected to be the EBRD and the EIF with first closing slated for the end of Q1 2011.
Axxess Capital	Emerging Europe Accession Fund	150-target	Launched	Axxess Capital has announced the establishment of its third fund, the Emerging Europe Accession Fund (EEAF) to target investments in South Eastern Europe. The firm, which has raised a Romanian-focused fund and a fund focused on the Balkans region, has held a first close of the Emerging Europe Accession Fund on €94m, and is targeting a €150m final close.
Credo Ventures a.s.	Credo Stage One Fund	20-target	Launched	Credo Ventures a.s., headquartered in Prague, is establishing the Credo Stage One venture capital fund to focus on early stage investments in Central Europe. The firm has held a first close of the Credo Stage One Fund on €10m, and is targeting a €20m final close.

Selected significant exits

Company	Country	Seller	Buyer	Period	Value € m	Stake	Description
Calucem	Croatia, Germany	Mid Europa Partners LLP	Argus Capital	Oct 2010	N/A	N/A	Mid Europa Partners sold the operating assets of calcium aluminium cement manufacturer Calucem (which has production facilities in Croatia and sales offices in Germany) to ARGUS Capital Partners, for an undisclosed consideration.
Centrum Filmowe Helios SA	Poland	Nova Polonia Private Equity Fund LLC	Agora SA	Aug 2010	26	84%	Agora SA, the listed Poland-based media company that publishes daily newspapers, magazines and periodicals, and is involved in advertising, radio broadcasting and online services, has agreed to acquire Centrum Filmowe Helios SA (Helios), the Poland-based cinema multiplex theatre operator, from Nova Polonia Private Equity Fund LLC, managed by Krokus Private Equity Sp. z o.o, for €26m.
Harper Hygienics	Poland	Enterprise Investors	N/A	Jul 2010	12.9	25%	Enterprise Investors has partially exited its holding in Harper Hygienics through a listing on the Warsaw Stock Exchange, for a consideration of €12.9m.
ZPA Smart Energy a.s.	Czech Republic	Kilcullen Kapital Partner	El Sewedy Electrometer	May 2010	N/A	N/A	El Sewedy Electrometer, the Egypt-based provider of electricity meters, acquired ZPA Smart Energy a.s., the Czech Republic-based producer of electrometers and mass remote control devices, from Kilcullen Kapital Partner, for an undisclosed consideration.

Investments

PE House	Country	Company	Period	Est. Value € m	Stake	Description
Mid Europa Partners LLP	Poland	Med-Sport	Oct 2010	N/A	N/A	Mid Europa Partners acquired Polish healthcare services provider Med-Sport, for an undisclosed consideration.
Innova Capital	Poland	Marmite International SA	Oct 2010	N/A	70%	Innova Capital has taken a majority stake in Marmite International, a manufacturer of cast marble bathroom fittings, for an undisclosed consideration.
Advent International Corporation	Romania	Euroclinic Medical Centers	Sep 2010 - pending	N/A	N/A	Centrul Medical Unirea S.R.L (CMU), the Romania-based company that provides medical and healthcare services, which is portfolio company of private equity firm Advent International Corporation, agreed to acquire Euroclinic Medical Centers, the Romania-based hospital, for an undisclosed consideration.
Eton Park Capital Management LP	Poland	Ruch SA	Sep 2010	153	90%	Lurena Investments Sp. z o.o., the Poland-based investment company fully-owned by funds under the management of Eton Park Capital Management LP, the US based hedge fund and private equity firm, has agreed to acquire Ruch SA, the listed Polish retailer and distributor of press and fast moving consumer goods, for €153m.
Summit Partners LP	Czech Republic	AVAST Software a.s.	Aug 2010	79	Minority	Summit Partners LP, the US-based private equity firm, agreed to acquire a minority stake in AVAST Software a.s., the Czech Republic-based anti-virus software engineering company for €79m.
Arx Equity Partners s.r.o.	Czech Republic	Krkonoske vapenky Kuncice a.s.	Aug 2010	N/A	N/A	The management of Krkonoske vapenky Kuncice a.s. (KVK), the Czech Republic producer of mortar used in construction, has acquired the company, in a management buyout backed by Arx Equity Partners s.r.o., the Czech-based private equity house, from Michael Thomas Stastny, the Czech Republic-based private investor, for an undisclosed consideration.
Avallon MBO fund	Czech Republic	AG FOODS Group a.s.	Aug 2010	N/A	N/A	The management of AG FOODS Group a.s., the Czech Republic-based specialist in development, production and distribution of instant drink mixtures has agreed to acquire the company, backed by Avallon MBO Fund BV, the Poland-based fund of Avallon Sp. z o.o., the Poland-based private equity firm, for an undisclosed consideration.
IK Investment Partners Limited	Poland	Agros Nova Sp. z o.o.	Aug 2010	N/A	99%	IK Investment Partners Limited, agreed to acquire a 99% stake in Agros Nova Sp. z o.o., the Poland-based fruit products manufacturer, for an undisclosed consideration.
Groupe Alpha	Czech Republic	Auto Kelly a.s.	Aug 2010	N/A	100%	Rhiag Group Ltd, the Switzerland-based distributor of automotive aftermarket components and a portfolio company of Groupe Alpha, has agreed to acquire Auto Kelly a.s., the Czech Republic-based distributor of spare parts and automotive accessories, for an undisclosed consideration.

PE House	Country	Company	Period	Est. Value € m	Stake	Description
Penta Investments Limited	Poland	Iglokrak	Jul 2010	N/A	100%	Penta Investments Limited acquired IgloKraK Group, the Poland-based manufacturer and distributor of frozen food products, for an undisclosed consideration.
Mid Europa Partners LLP	Hungary	Invitel Holdings A/S	Jul 2010	N/A	8%	Mid Europa Partners (MEP) has announced the closure of its compulsory redemption procedure; as a result, it now owns 100% of the share capital of Invitel Holdings A/S.
Enterprise Investors	Estonia	Webmedia Group	Jul 2010	7	36%	Enterprise Investors, the Poland-based private equity firm, has agreed to acquire a 36% stake in Webmedia Group, the Estonia-based software development company, for €7m.
Enterprise Investors	Hungary	Netrisk Elso Online Biztositasi Alkusz Kft	Jul 2010	23	Controlling stake	Enterprise Investors agreed to acquire a controlling stake in Netrisk Elso Online Biztositasi Alkusz Kft, the Hungary-based online non-life insurance broker, for a total consideration of €23m.
Enercap Capital Partners Limited	Czech Republic	Horni Lodenice windfarm (18 MW)	Jun 2010	10	N/A	EnerCap Power Fund acquired 18 MW Horni Lodenice windfarm, for €10m.
Eva Grupe	Poland	Zaklady Przemyslu Cukierniczego Mieszko SA	Jun 2010 - pending	20	66%	EVA Grupe agreed to acquire a 65.9% stake in Zaklady Przemyslu Cukierniczego Mieszko SA (ZPC Mieszko SA), the listed Poland-based manufacturer of confectionery and baked products, for €20m.
Enterprise Investors	Poland	Dino Polska Sp. z o.o.	Jun 2010	48	49%	Enterprise Investors, agreed to acquire 49% stake in Dino Polska Sp. z o.o., the Poland-based supermarket chain operator, for €48.07m.
Penta Investments Limited	Hungary	Kaiser Food Kft	Jun 2010	N/A	97%	Debreceni Hus Zrt, the Hungary-based producer of meat products, and a portfolio company of Penta Investments, has acquired a 97.3% stake in Kaiser Food Elelmiszeripari Kft, the Hungary-based meat processing company, for an undisclosed consideration.
Bessemer Venture Partners; Columbia Capital; HarbourVest Partners LLC; M/C Venture Partners; Innova Capital Sp. z o.o. & Oak Investment Partners	Romania	Datek Telecom Srl	Jun 2010	N/A	N/A	GTS Central Europe Holdings BV, the European broadband optical and IP network provider and provider of voice and data communications in Central Europe is a portfolio company of Columbia Capital, M/C Venture Partners, HarbourVest Partners, Bessemer Venture Partners, Oak Investment Partners and Innova Capital Sp. z o.o. has acquired Datek Telecom Srl, the Romania-based telecommunication company, for an undisclosed consideration.
European Capital Limited & LBO France SAS	Poland	Lider's K G Sp. z o.o.	Jun 2010	100	N/A	Biscuits Poult, the France-based producer of biscuits and cookies, has acquired Lider's K G Sp. z o.o., the Poland-based manufacturer of confectionery products and biscuits and a portfolio company of LBO France and European Capital Limited for €100m.

PE House	Country	Company	Period	Est. Value € m	Stake	Description
Genesis Capital s.r.o.	Czech Republic	Profimedia International s.r.o.	Jun 2010	N/A	60%	Genesis Private Equity Fund II, managed by Genesis Capital, agreed to acquire a 60% stake in Profimedia International s.r.o., the Czech Republic-based provider of visual content for the media and advertising industry, for an undisclosed consideration.
Innova Capital Sp. z o.o.	Poland	Expander Advisors Sp. z o.o.	May 2010	N/A	40%	Innova Capital Sp. z o.o. acquired a 40% stake in Expander Advisors Sp. z o.o., the Poland-based financial company involved in advisory services, broking, credit and insurance, for an undisclosed consideration.
GED Iberian Private Equity	Romania	Infopress SA	May 2010 - pending	N/A	92%	GED Iberian Private Equity agreed to acquire a 92% stake in Infopress SA, the Romania-based company that provides commercial printing services, for an undisclosed consideration.

Contacts & Additional resources

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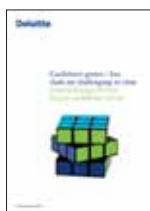
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Central European Private Equity Confidence Survey

Central European Private Equity Confidence Survey reflects the expectations of private equity professionals focusing on Central Europe. The survey has been conducted twice a year since March 2003 and the results are based on questionnaires sent to private equity firms around the region.

Previous editions are available at www.deloitte.com/ce-private-equity-confidence



Deloitte Business Sentiment Index

The Deloitte Business Sentiment Index is a research-based analysis of the opinions of senior executives on a number of important business-related issues. The executives who participate in the Business Sentiment Index represent some of the largest companies within six countries of Central Europe: Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia.

For more information go to www.deloitte.com/bsi



Deloitte CE Top 500 report

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