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CMS, Russia

Gogolevsky Boulevard, 11
119019 Moscow
Russia
T + 7 495 786 4000
F + 7 495 786 4001

press release

www.cmslegal.ru

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CMS and *mergermarket* release Deal Drivers Russia latest edition, revealing a cautious level of optimism in the M&A industry for the year ahead

Moscow – Results of the survey Deal Drivers Russia, published today by CMS in cooperation with *mergermarket*, reveal that optimism is returning to the M&A industry, albeit slowly. Only 1% of respondents this time thought that M&A activity will decrease during 2010, as against the views of 33% at the end of 2009.

In December 2009, *mergermarket* interviewed 100 Russian M&A and corporate finance decision makers in order to garner their views on various aspects of the current Russian M&A environment. In addition, *mergermarket* supplemented this research with deal type and sector analysis from *mergermarket's* exclusive M&A data.

2010 Outlook – Key findings:

- Deal makers in Russia are overwhelmingly optimistic about the future of Russian M&A with 81% of those surveyed feeling positive about the prospects of the Russian economy in 2010 compared to 2009. An additional 6% even claim to feel very positive about Russia's M&A prospects.
- Tight credit conditions and the lack of liquidity in the market are viewed as the biggest threats to the growth prospects of Russian firms over the next 12 months. 32% of respondents view it as the greatest threat, while 30% see it as a major issue.
- 58% of those surveyed by *mergermarket* say that they expect the overall level of M&A activity in Russia to increase over the next 12 months, with a further 3% even thinking it will increase greatly.
- A sizable 48% of respondents expect the TMT sector to witness the most M&A activity in Russia over the next 12 months – in stark contrast, a mere 8% felt the Construction sector would be the hottest sector.
- 69% of respondents consider that the bulk of Russian M&A transactions will be worth less than €250m over the next year.
- Russian M&A activity over the course of 2010 is most likely to be driven by large corporates disposing of noncore assets according to nearly half of respondents (47%).
- An overwhelming majority of respondents feel that, over the course of 2010, an increasing number of cross-border acquirers will be targeting Russian assets (77%).
- 88% of respondents, the Asia- Pacific region will be most heavily targeted by Russian buyers.
- Overseas TMT targets will attract the most attention from Russian outbound acquirers over 2010 say just over half of respondents (51%), while foreign Energy, Mining and Utilities assets also remain attractive for Russian buyers (38%).

- 40% of respondents believe that the wider economy's underlying weakness will pose the biggest challenge facing Russian firms looking to finance acquisitions over the next 12 months – a marked shift from similar findings in 2008, when the single largest obstacle facing Russian businesses looking to finance a deal was the cost of leverage.
- More than half of respondents feel that the potential number of corporate defaults and restructurings in Russia over 2010 will remain similar to levels seen in 2009. Last year, however, the majority (83%) expected the number to increase, perhaps suggesting that while the worst of the credit crisis is over.
- Private equity deal making set to rebound in 2010 say 45% of respondents, 44% think it will remain the same.
- Securing deal finance is highlighted by over 50% of respondents as at least a very serious obstacle facing private equity firms – with exactly one-third highlighting this as the most serious issue facing the asset class.
- Respondents are split on whether foreign or local private equity firms will dominate the M&A landscape in 2010, polling nearly 50% each; with private divestments and public takeovers likely to be the most frequent sources of private equity acquisitions in Russia next year.

Notes for Editors – Deal trends 2009

- 2009 saw a total of 164 deals announced in Russia, worth a collective €17.6bn. Compared to the previous 12 months; this represents a fall of 40% in terms of deal volume, while valuations declined by 52%.
- The total domestic deal count amounted to 117 transactions collectively valued at €14.1bn, a decrease of around 40% from the prior year in both volume and value terms. The Energy, Mining & Utilities deal market was the most active space for domestic M&A in 2009, accounting for nearly 20% of total activity and over 50% of deal value.
- The top domestic transaction in the year saw Gazprom OAO exercise its option to acquire a 20% stake in JSC Gazprom Neft from Italian oil and gas group Eni SpA for €3.1bn, taking its total share in the company to 95.68%.
- There were 47 inbound M&A transactions during the year, collectively valued at €3.4bn, compared to 89 deals worth €12.7bn in 2008. The Consumer space was the top destination for inbound deals in 2009, accounting for around one-third of total transactions valued at a combined €279m. The Energy, Mining & Utilities space ranked as the second most active investment area in terms of deal volume with six transactions worth €1.6bn.
- The top inbound buy came to market in the Energy niche. The deal saw Volga Resources SICAV SIF, the Luxembourg-based holding company of Russian investor Gennady Timchenko, agree to acquire a 13.13% stake in OAO Novatek, an oil and gas firm, for an estimated consideration of €1.1bn.
- The number of outbound transactions fell 35% year on year to 39 deals, although aggregate valuations rose.
- Private equity transaction volumes and deal values shrank to a fraction of that seen in preceding years with just eight deals worth €276m transacted in the Russian market in 2009, compared to 27 deals valued at €1.7bn in the previous 12 month period.
- The average deal size fell to €107m from €134m in 2008. Average deal sizes varied widely over 2009, peaking at €158m in Q2 on the back of six large-cap (€250+) transactions coming to market – excluding Q2, the average deal size was just €86m.

Commenting on the results of the research, David Cranfield, Head of Corporate Practice of CMS Russia, said: "We are cautiously confident about a slight increase in M&A activity in 2010. Prices are becoming more reasonable while business opportunities are still here."

"In the second half of the year we expect the market to be driven by the privatisation programme and asset disposals by the state banks which will provide opportunities for domestic and international investors alike," said John Hammond, Senior Partner at CMS Russia.

I. About CMS

CMS is one of the leading law firms in Russia comprising over 90 lawyers, qualified in Russian, German, English and French law. We provide full scale of legal and tax services to international and domestic companies. Operating in Russia since 1992, we gained first rate reputation in banking and finance, corporate, competition, energy, infrastructure, insurance, real estate and tax as confirmed by international legal directories.

CMS aims to be recognised as the best European provider of legal and tax services. We combine deep local expertise and the most extensive presence in Europe with cross-border consistency and coordination.

CMS operates in 27 jurisdictions, with 53 offices in Western and Central Europe and beyond. CMS was established in 1999 and today comprises nine CMS firms, employing over 2,400 lawyers. CMS is headquartered in Frankfurt, Germany.

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Contact information:

David Cranfield, partner, CMS Russia, +7 495 786 4000 or david.cranfield@cmslegal.ru

Elena Netuzhilina, Marketing manager, CMS Russia, +7 495 786 4000 or elena.netuzhilina@cmslegal.ru

II. About mergermarket

Remark, The Mergermarket Group's events and publications division, offers a range of publishing, research and events services that enable clients to enhance their own profile and to develop new business opportunities with their target audience. Remark achieves this by leveraging off The Mergermarket Group's core research and intelligence gathering expertise and connections within the financial services and corporate markets. Remark publishes over 50 thought leadership reports and holds over 60 events each year that enable its clients to demonstrate their expertise and underline their credentials in a given market, sector or product. Please visit: www.mergermarket.com/remark.

Contact information:

Rory McNeil

Marketing & Production Executive, Remark

Tel : +44 (0) 207 059 6108

Email : rory.mcneil@mergermarket.com

Web : www.mergermarket.com