



TRANSACTION SERVICES

M&A in Russia

Past performance and prospects

26 September 2008

ADVISORY

Agenda

- **M&A trends in Russia**
- **Specific trends in major sectors in H1 2008**

Russia – recent investor woes

What does it mean for Russia?

- Economy is not immune to global anxieties
- Cost of crisis – up to 3% of annual growth and 14% inflation
- The Russian M&A market continues to grow
- Foreign strategic investors continue to show interest in Russian assets
- Sectors oriented to the domestic market becoming attractive
- More domestic deals: further consolidation in certain sectors

Russia – what are the challenges?

- Economic impact of oil price
- Little diversification of the economy
- Infrastructure constraints
- Administrative hurdles
- Low market efficiency
- Corruption
- Tax/legal system - time consuming, costly, changing
- Low transparency
- Productivity vs. salary and shortage of personnel

Foreign investments into Russia



Source: Goskomstat

Overall Russian M&A market

Russian M&A market (1997-2008)



Notes: * - excluding Yukos deals
 ** - forecasted values
 Source: Thomson Financial and KPMG analysis

Change in structure of large deals

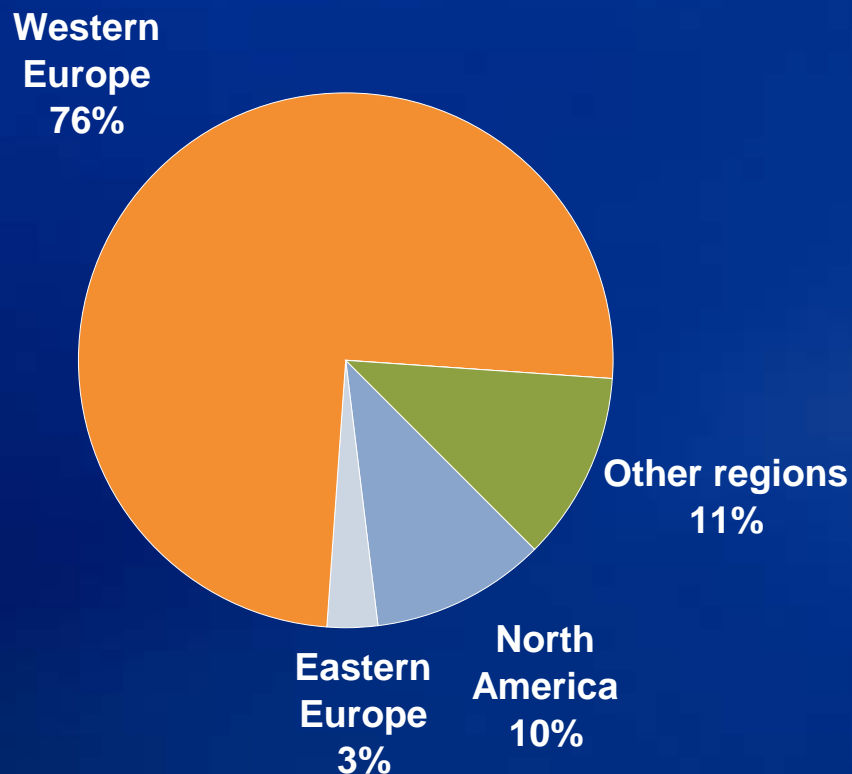
Over-billion-dollar-deals in Russia (2003-H1 2008)

Year	# of deals	Value, USDbln	Sectors
H1 2008	14	27.0	7
2007	21	73.8	6
2006	15	32.6	5
2005	5	25.6	3
2004	6	15.5	3
2003	3	15.3	1

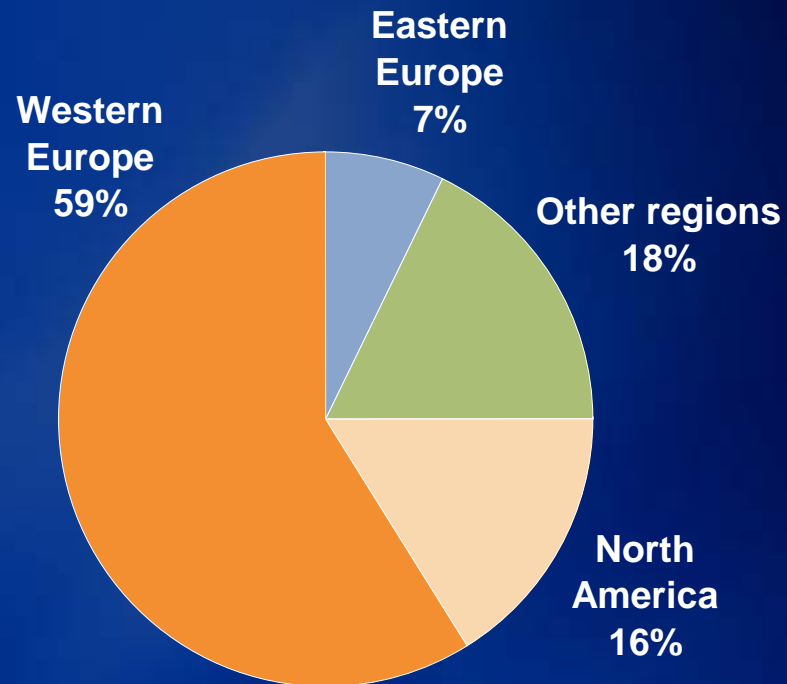
Source: MergerMarket, Dealwatch Russia, Thomson Financial, Bloomberg, KPMG analysis

Inbound M&A in H1 2008 – Where do the buyers come from?

Deal value



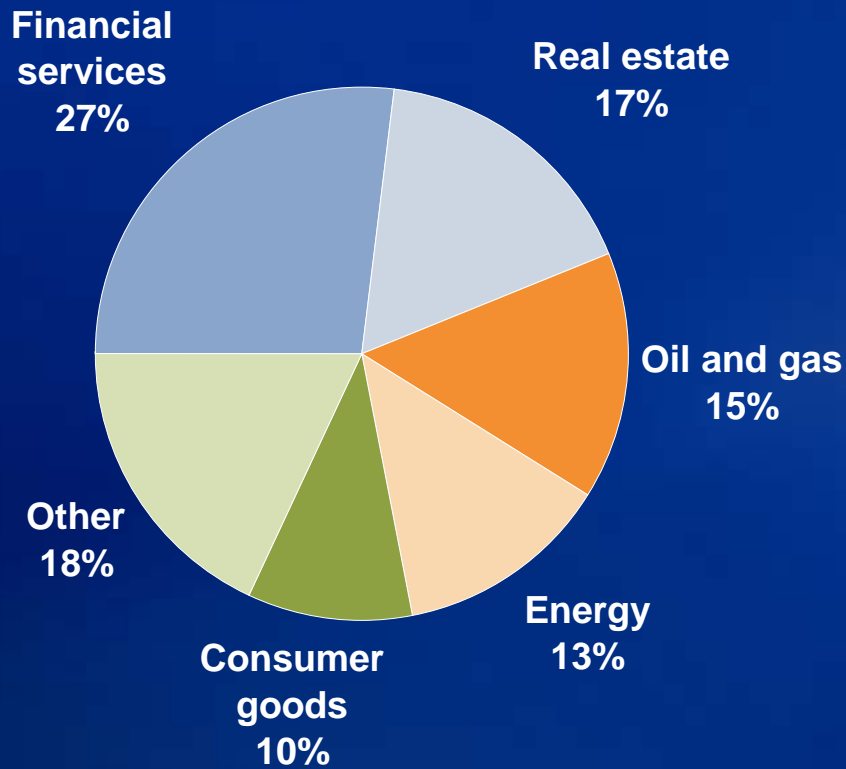
Number of deals



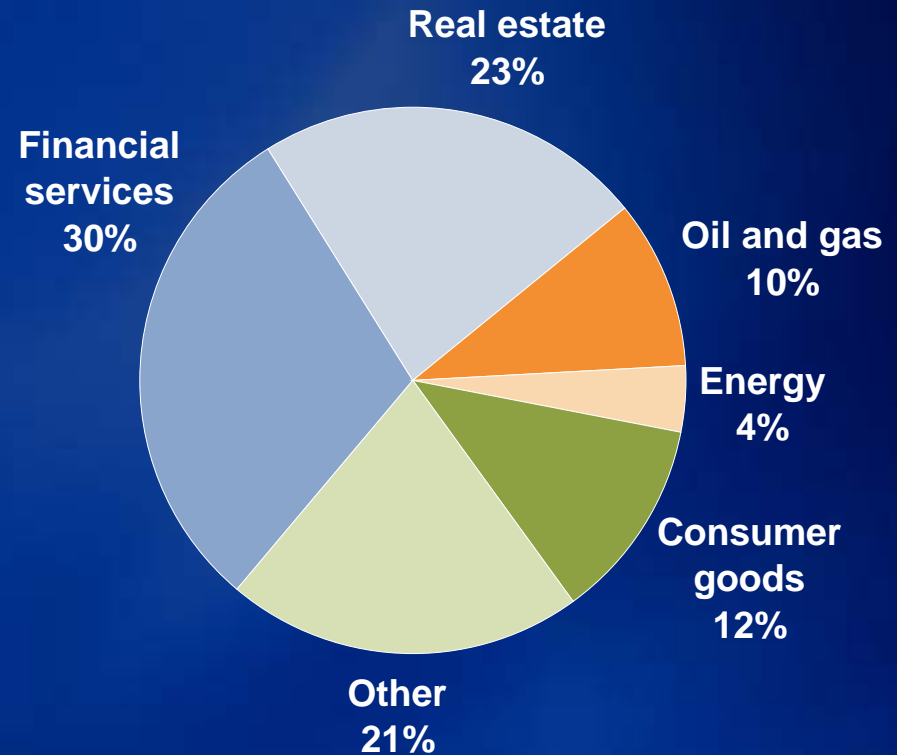
Source: MergerMarket, Dealwatch Russia, Thomson Financial, Bloomberg, KPMG analysis

Inbound M&A in H1 2008 – Which industries are targets for cross-border acquisitions?

Deal value



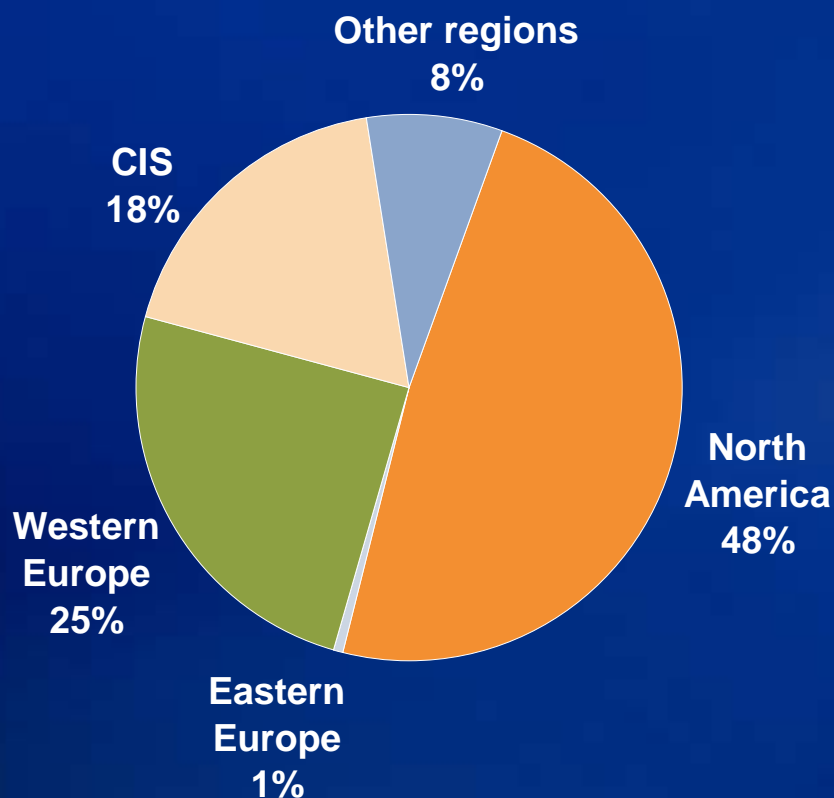
Number of deals



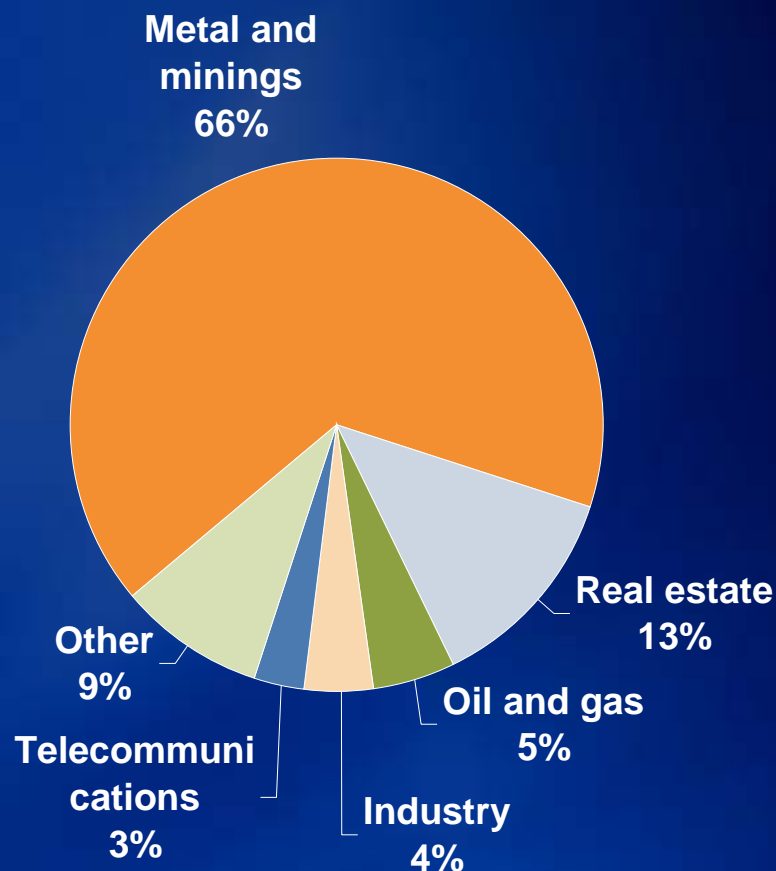
Source: MergerMarket, Dealwatch Russia, Thomson Financial, Bloomberg, KPMG analysis

Outbound M&A in H1 2008 – Where do Russians find their targets?

Geographies (deal value)



Industries (deal value)



Source: MergerMarket, Dealwatch Russia, Thomson Financial, Bloomberg, KPMG analysis

Agenda

- M&A trends in Russia
- **Specific trends in major sectors
in H1 2008**

Oil & Gas

Key statistics:

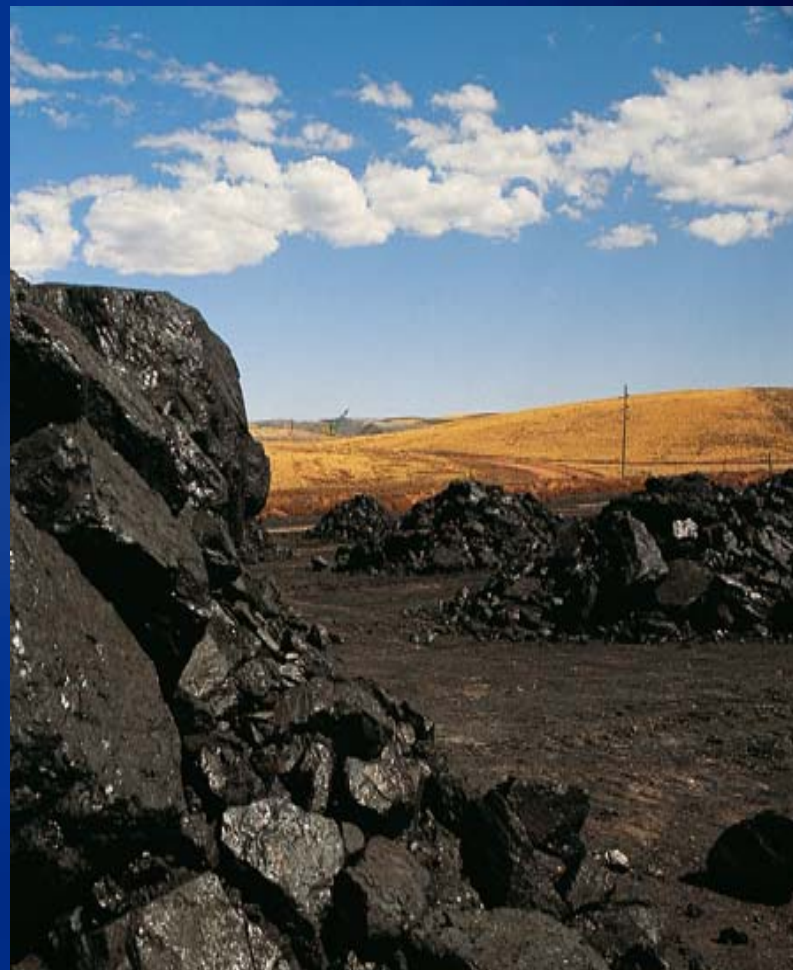
- Total deal value: USD6.8 billion (USD4.7 billion in H1 2007)
- Number of deals: 20 (40 in H1 2007)
- Average deal value: USD339 million (187% increase compared to H1 2007 (USD118 million))
- Share in total M&A market value: 12%
- Share in total number of deals: 7%



Metals & Mining

Key statistics:

- Total deal value: USD13.2 billion (USD7.0 billion in H1 2007)
- Number of deals: 39 (30 in H1 2007)
- Average deal value: USD339 million (USD233 million in H1 2007)
- Share in total M&A market value: 24%
- Share in total number of deals: 14%



Consumer Goods & Retail

Key statistics:

- Total deal value: USD3.3 billion (USD2.4 billion in H1 2007)
- Number of deals: 26 (63 in H1 2007)
- Average deal value: USD129 million (USD38 million in H1 2007)
- Share in total M&A market value: 6%
- Share in total number of deals: 10%



Financial Services

Key statistics:

- Total deal value: USD5.4 billion
(USD1.7 billion in H1 2007)
- Number of deals: 93 (52 in H1 2007)
- Average deal value: USD255 million
(USD33 million in H1 2007)
- Share in total M&A market value: 9.6%
- Share in total number of deals: 7.8%



Telecommunications

Key statistics:

- Total deal value: USD5.6 billion (USD1.3 billion in H1 2007)
- Number of deals: 23 (27 in H1 2007)
- Average deal value: USD246 million (48 million in H1 2007)
- Share in total M&A market value: 10%
- Share in total number of deals: 8.5%



Trends in Russian M&A (1/2)

Promising sectors - Number of Deals and Value

Sector	# of deals	Transaction volume, USDm
Energy	47	11,400
Machine manufacturing	26	2,800
Transport and transport infrastructure	15	1,660
Media	21	2,200
Construction, real estate, hotels	109	7,000
Other sectors	27	1,700
Total	245	26,760

Source: MergerMarket, DealWatch Russia, Thomson Financial, Bloomberg

Trends in Russian M&A (2/2)

Sellers

- Sellers that need refinancing may expect less beneficial offers
- Sellers that seek higher valuations will invest in the sale process
- Longer process, IPOs postponed

Buyers

- Increased buyer (and financing bank) diligence and attention to risk
- Expectation of opportunities with lower valuations
- Mid-market displays little slow-down; however, financing rates are higher
- Strategic deals (internally funded) overshadow financial deals
- Developed economies are targets for emerging economies

Presenter's contact details

Vyacheslav Jaravine
Director
KPMG Transaction Services
in Russia and CIS

Office: +7 495 937 4477

Fax: +7 495 937 4400

vjaravine@kpmg.ru

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2007 KPMG Limited, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in Russia.