Baltics M&A Monitor

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RAIDLA LEJINS & NORCOUS

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Foreword

Deal making in Lithuania, Latvia and Estonia has been on the rise over the course of the past several years, which is remarkable given the dire economic outlook in neighbouring Western Europe. Across the three countries, deal value for 2011 was 140% higher than the total for 2010, and perhaps even more encouragingly deal volume was 23% higher than the year prior. Having acted decisively after its first economic crisis in 2009, the Baltic region is well-positioned to withstand external shocks.

Headline deals for 2011 included the €361m acquisition of AB Sanitas by Valeant Pharmaceuticals, the €63m purchase of Silmet by Molycorp and the acquisition of Baltcom by AXA Private Equity and Resource Partners for an undisclosed value. All of these were inbound cross-border transactions, demonstrating the increasing attractiveness of the Baltics amongst foreign investors as a long-term growth market.

The Baltic region offers international businesses a platform for growth in Central and Eastern Europe, where attractive demographics are triggering growing demand, particularly in the Consumer and Healthcare market. Local acquirers have been taking advantage of the current buyers' market, and total domestic deal flow increased by two-thirds between 2010 and 2011.

The Consumer sector was particularly prominent in Latvia, where small-scale consolidation amongst retailers is indicative of a desire to achieve economies of scale. Pharmaceuticals have dominated in Lithuania, meanwhile in Estonia, Financial sector consolidation has been a key trend.

In terms of private equity activity, there remain vast opportunities for investors in the Baltics which are still underexploited by investors. The Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative has started to materialise into private equity deals, driving investment activity into various sectors including Manufacturing, Consumer and Leisure sectors. BaltCap, the Baltic-focused private equity group, has made particularly good progress in drawing from JEREMIE funding.

While the Baltic region is certainly not insulated from Western European turmoil, the region hosts a range of smaller to mid-sized businesses in sectors that are ripe for consolidation. These businesses are adopting organisational and technological change rapidly, and policymakers in their respective countries have made important moves toward approving their appeal to foreign investors. This dynamic has already put the Baltic region on the radar of the international business community.

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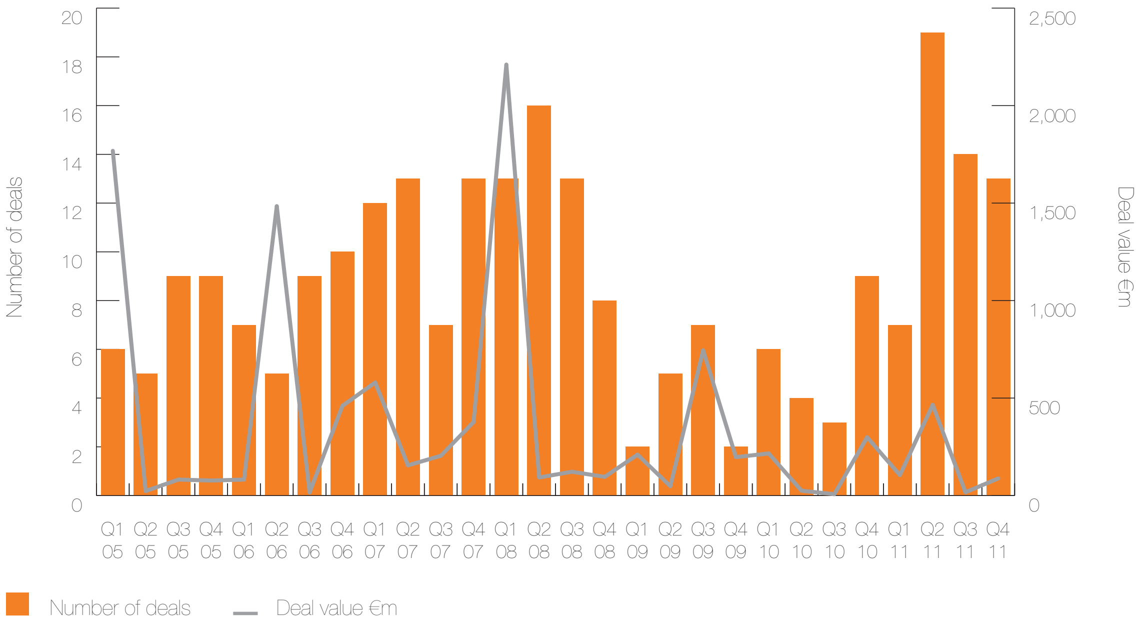
M&A review

Overview

M&A activity in the Baltic region has proved resilient despite global uncertainty. *In 2011 Estonia, Latvia and Lithuania saw a total of 53 deals worth a combined €675m come to market, an increase from 22 deals worth €547m in 2010.* The second quarter of 2011 saw the highest deal volume since 2008, with 19 transactions and a total deal value of €465m. Microsoft's €6.3bn acquisition of Skype, originally an Estonian start-up, also made the year memorable by putting the Baltic region on the radar of international acquirers.

The Baltic M&A market is actually outperforming the broader Central and Eastern European M&A market, which saw a modest increase of 5% in both value and volume terms from 2010 to 2011, to 637 deals worth €80.4bn from 608 worth €76.4bn. *Deal value in the Baltic region, however, has more than doubled over this time, with an impressive 140% increase,* while deal volume has increased by approximately 23%.

Baltic M&A Trends



After an encouraging first half of the year for Baltic countries, which collectively saw two deals over €100m, turbulent market conditions may have dissuaded more ambitious dealmaking. Nevertheless, there has been some interesting high value cross-border activity, including US-

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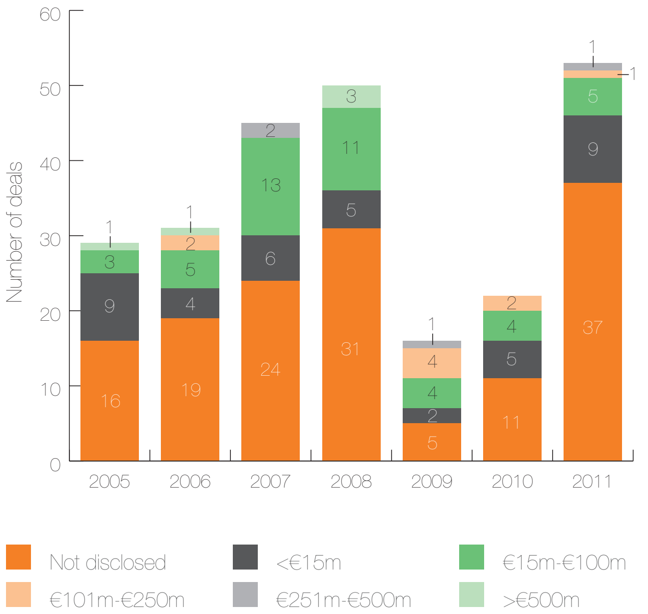
based Molycorp's €63m purchase of a controlling stake (90%) in the Estonia-based rare-metal producer AS Silmet. The deal, which allows Molycorp to feed carbonates from the company's US mines to its Estonian unit, was one of two acquisitions in the Baltic market by US companies this year.

Annual deal size split by volume



The majority of Baltic M&A deal flow in 2011 has come from transactions with undisclosed value, mainly in the Agriculture and Consumer spaces. One notable example is RMK Timberland Group's purchase of Estonian forestry asset owner Eifi OU for an undisclosed value – a staple deal in a traditionally core Baltic industry. Deal volume in the sub €15m range has also held up fairly strongly, particularly among domestic businesses.

Geography

Historically, M&A volume in the Baltic region has been almost evenly split across Estonia, Latvia and Lithuania. But the balance shifted in

M&A value and volume split by country

% of M&A by value and volume

2011, with Lithuania representing more than half of Baltic M&A deal value. It is also worth noting that aggregate deal volume in Lithuania has more than doubled since 2011, and value has more than trebled. Lithuania accounted for 63% of Baltic deal value in 2011, due largely to the €361m acquisition of Lithuanian pharmaceuticals company AB Sanitas by Canadian company Valeant Pharmaceuticals International. The deal reflects Valeant's strategy of expanding into markets with

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high growth potential and minimal direct competition, and it highlights the importance of the Lithuanian market to strategic acquirers. Shortly after acquiring Sanitas, Valeant, which has a marketing business in the Czech Republic and sells products in Poland and Russia, announced its €350m purchase of PharmaSwiss – a Swiss pharmaceuticals company with a strong presence across Central & Eastern Europe.

The acquisition of Sanitas reflects a broader trend of international expansion. Inbound M&A volume into the Baltics has more than doubled over the past year, with companies from the US, the Netherlands and Russia putting nearly €100m into Baltic acquisitions over the summer. German acquirers have also actively targeted Baltic businesses in the Agriculture, Construction and Leisure industries. For example, The EVENT Hotel Group's acquisition of the Radisson Blu Hotel Tallinn was part of the company's strategy to take advantage of increasing demand in the Baltic Leisure industry.

Another foreign strategic buyer, Roquette Freres, the French starch and starch derivatives producer, acquired a 50% stake in Lithuanian starch manufacturer AB Amilina, which boasts half-year sales figures of up to €40m. The deal enables Roquette Freres to more efficiently serve the Northern and Eastern European markets while also allowing AB Amilina to develop its export activities.

Furthermore, inbound deals by Russian acquirers re-emerged in 2011 with three acquisitions in Latvia centering on the Consumer and Financial Services sectors, and one Consumer deal in Lithuania. In the Lithuanian deal, Russian refrigerator manufacturer Polair acquired a 60% stake in AB Lithuanian Snaige from financial investors, KJK Fund SICAV-SIF, Amber Trust SCA SICAF-SIF, Firebird Republics Fund and Firebird Avrora Fund for €20m.

Domestic M&A has also increased in volume, with deal flow up by two thirds from 2010 to 2011. Both Latvia and Lithuania have seen a strong comeback in domestic deals this year, a signal that confidence within these economies is slowly being restored. A prime example of this comes from Lithuanian IT infrastructure company UAB Atea Baltic, which in 2011 acquired IT equipment maker UAB Elsis IT for €4m. UAB Atea Baltic is the Lithuanian unit of Atea, the public Norway-based IT infrastructure group, which itself is eyeing more acquisitions in the Baltic market in 2012.

Country spotlights

Estonia

Estonia, which accounts for 33% of value and 37% of volume in the Baltic region, has seen some notable consolidation in its banking industry this year, with interests in two Estonian banks changing plans among foreign investors. In December, Ukrainian bank Ukrselhosprom PCF acquired a majority stake in Marfin Pank Eesti from Cyprus-based Marfin Popular Bank for €7m – following a similar deal in November, which saw Swiss financial services group RLS Finance SA acquire a 44% stake in Eesti Krediidipank from the Bank of Moscow.

Latvia

Latvia has been the least prominent Baltic state in terms of M&A deal value: the country's top five deals amount to €52m in value, significantly lower than the top five deals in Estonia and Lithuania which total €190m and €425m, respectively. But Latvia still represents one-quarter of Baltic M&A volume and continues to see smaller-scale consolidation among retailers. One of the biggest local deals was a joint investment by AXA Private Equity and Resource Partners, which together acquired a majority stake in Baltcom, Latvia's largest cable television operator. Other notable deals include the acquisition of Pure Food by Belgium group Puratos, BaltCap's investments into SIA Runway, one of the leading business process outsourcing providers, the acquisition of local car dealer AB Adam Auto by Amserv Group (via Hansa Auto), and the majority stake acquisitions of AS Valmieras Piens and AS Rigas piena kombinats (two of the largest Latvian dairy processing companies) by Russian investors.

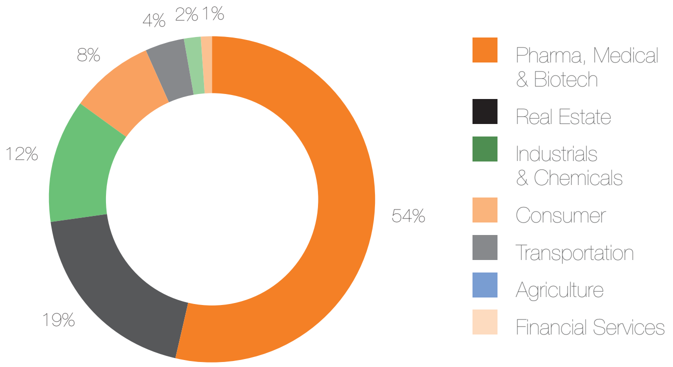
Lithuania

Lithuania's M&A market has seen its fair share of Consumer sector deals over the course of 2011, though some deals have been easily overshadowed by the high profile AB Sanitas acquisition. As is the case across the Baltic region, foreign investors have been at the forefront of this trend. Notable deals include Polair, the Russian appliance manufacturer, acquiring AB Snaige for €20m from a group of US-based and Luxembourg-based private equity funds, and AB Swedbank acquiring a majority stake in AB Alita, a Lithuanian alcoholic beverage company. On the domestic front, UAB Gintarine Vaistine purchased UAB Saulegrazu Vaistine in a €4m deal that combined two of Lithuania's major pharmacy chains.

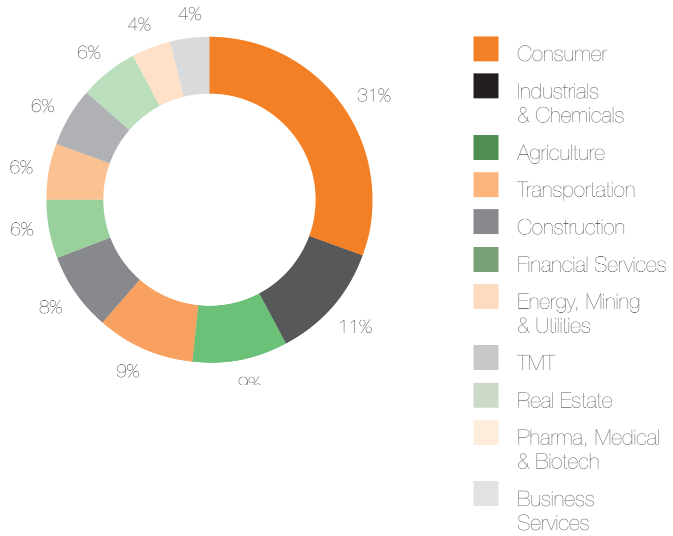
M&A review

Sectors

Baltic M&A sector split by value, 2011 YTD



Baltic M&A sector split by value, 2011 YTD



In terms of specific sectors, Baltic M&A volume has been highest in the Consumer sector, which accounts for 32% of deal volume to date. Deal flow has also been high in the Industrials & Chemicals and Construction markets, which account for 13% and 11% of all volume so far in 2011. In terms of value, the Pharma, Medical & Biotech sector accounts for more than half (54%) of aggregate M&A deal value in 2011, followed by the Real Estate and Industrials & Chemicals industries which represent 19% and 12%, respectively. It should be noted that the large market share of the Pharma, Medical & Biotech industry is underpinned by the €361m acquisition of AB Sanitas, the Lithuanian pharmaceuticals group acquired by Canada-based Valeant Pharmaceuticals International.

Private Equity

Private equity activity has rebounded from its lowest points in 2009 which saw only two deals valued at €37m. Private equity deals in 2011 total 13 worth €411m, compared to five worth €39m in the previous year.

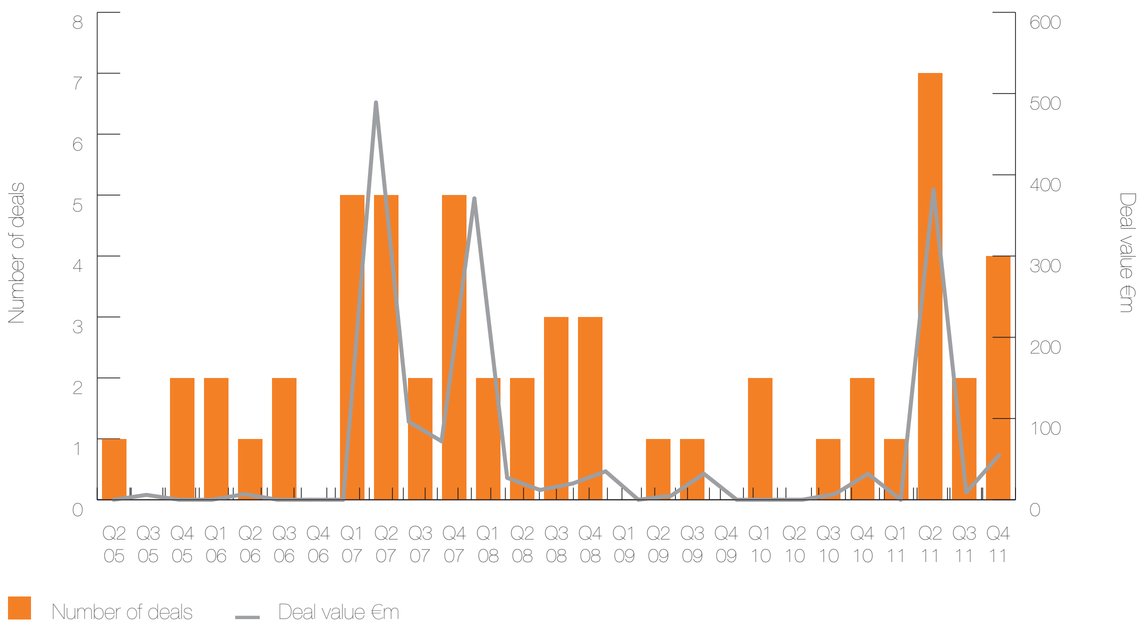
Private equity firm BaltCap has been particularly active in the Baltic region, due in part to support from the JEREMIE funds. Over the course of 2011, the firm took a 60% stake in Lithuania-based building utility systems company UAB YGLE, made an undisclosed investment in Lithuanian fitness chain Impuls LTU, a Baltic business process outsourcing company SIA Runway, as well as invested €1.5m in a Latvian IT company SIA AGroup. In December, BaltCap exited one of its investments by selling a significant minority ownership stake in Tallinna Pesumaja, an Estonian textile rental and laundry service provider, to a group of local private investors. This year also saw BaltCap close its acquisition of Lithuanian transport infrastructure company UAB Kelprojektas, which was announced in November 2010.

Elsewhere, private equity and venture capital portfolio companies are using support from their parent firms to pursue acquisitions. BaltCap is also providing financial support for another deal, announced in July, which saw Estonia-based healthcare company MediCap Holding acquire UAB SORPO, a privately held scientific laboratory based in Lithuania. In the venture capital sphere, SEB Venture Capital backed the acquisition of UAB Mikrovisatos TV by UAB Cgates, the Lithuanian broadband, cable TV and fixed line business. SEB Venture Capital also strengthened its presence in the Baltic region by acquiring two Lithuanian bakery businesses, Molupis and Mentora, which together have a turnover exceeding €10m.

M&A review

AB Invalda, the Lithuanian private equity group, was also an important player in 2011. The group celebrated a successful exit from Sanitas, reporting a net standalone gain of €59.3m by selling the business to Canada-based Valeant Pharmaceuticals International after an eight year buy and build campaign. AB Invalda benefitted from holding a strategically appealing company, which will give Sanitas an ideal platform for growth in the Central and Eastern European region and an abundant portfolio of branded generic products. The transaction also gave a significant boost to the pharmaceutical industry's share of the M&A market: indeed, the Pharma, Medical and Biotech sector accounted for 54% of total Baltic deal value in 2011, even while accounting for less than one-tenth of deal volume. The Sanitas deal was followed closely by AB Invalda's investment into a leading Lithuanian agricultural business, UAB Litagra, in which it acquired a 36.9% stake valued at €11m.

Private equity buyout & exit trends



Outlook

Economic growth figures in the Baltic region have outstripped most other European countries in 2011 and, after taking painful steps to reduce public and private debt in 2009, the region is well braced for what lies ahead.

Unsurprisingly, growth projections have been revised downwards in the light of Europe's unfolding debt crisis and the economic contraction that will surely result in certain states. The implications of this should not be underestimated: trade with the EU accounts for 61% of Lithuania's exports, 66% of Estonia's and 70% of Latvia's, so the continued recovery of Baltic nations is not solely in the hands of their own governments.

Increasing the availability of liquidity to SME's is recognised as an important driver of progress in the Baltic economies. To this end, the creation of the Joint European Resources for Micro to Medium Enterprises (JEREMIE) will make financing more available to SMEs, in portions up to €3m in size.

The JEREMIE initiative, backed by the European Investment Fund, has already paved the way for increased deal flow. Estonian private equity firm BaltCap, for example, has drawn from JEREMIE for its recent investments including in Lithuanian fitness chain Impuls LTU, announced in October, and its €1.5m investment in Riga-headquartered IT company SIA AGroup.

Foreign private equity groups are also playing an important role in the market. Last summer US venture capital firm Bain Capital Ventures took a majority holding in infrastructure software firm ZeroTurnaround, acquiring all of the shares held by Estonia-based software maker Webmedia Group. Last year, Webmedia Group, who provided seed funding to ZeroTurnaround in 2007, received a €7m investment from Polish buyout group Enterprise Investors to enable expansion. In May 2011 the company entered the Finnish market through the purchase of Oulunsalo-based CCC Corporation Oy - an acquisition that increased Webmedia Group's revenue in for the year to €40m and its operating profit to €4m.

Baltic firms with strong cash positions or support from private equity will have the luxury of cherry-picking their acquisitions in 2012. These businesses will be able to grow market share in preparation for a gradual improvement in the global economy.

In the mid-term, volatility in Europe will surely affect the health of the Baltic M&A market: domestic deals could suffer if exports fall and damage cash flow, and inbound M&A may still be stifled if foreign firms face difficulties in their home territories. Additionally, financing even justified deals could remain a challenge as European banks face higher borrowing costs and struggle to meet stricter capital requirements. These factors have already weight heavily on deal flow in the broader CEE region, where valuation concerns have put a damper on stock market and IPO activity, and on banks' willingness to support new deals.

There are reasons to be optimistic when it comes to the M&A market. There may be an especially strong pipeline for deals in Lithuania, according to the mergermarket Heat Chart,

Outlook

which shows a high volume of companies for sale in the Consumer and Energy industries. Latvia also appears to be warming up, with new opportunities cropping up across a wide range of sectors – most notably Industrials & Chemicals, TMT and Financial Services.

Estonia appears to be a cooler market when it comes to potential M&A deal flow, but it should be noted that some of its major M&A drivers may not be reflected on the Heat Chart, which tracks only 'Company for sale' stories. An important driver of Estonian M&A will likely come from exits on the part of large international players. These businesses have found it difficult to maintain a presence in the small and closely knit Baltic community, and as a result may seek to exit their holdings to local players.

The picture is hardly clear-cut for 2012, but 2011 activity suggests businesses across the Baltic region are well positioned for growth in the near term. Increased SME funding and interest from overseas firms will be powerful deal drivers in 2012, and competition could increase as international acquirers see their peers benefiting from acquisitions in Estonia, Latvia and Lithuania.

Sector	Estonia	Latvia	Lithuania	Overall
Agriculture	2			2
Business Services		1	7	8
Construction	1	1		2
Consumer		6	11	17
Energy/Mining/Utilities	3	1	9	13
Financial Services		7	4	11
Government	1	1	1	3
Industrials and Chemicals	1	10	8	19
Leisure	1		1	2
Pharma/Med/Biotech		1	3	4
Real Estate	1		2	3
TMT	1	8	7	16
Transportation	2	4	5	11
Total	13	40	58	111

Hot
10
8
4
2
1
0
Cold

The mergermarket Heat Chart is based on 'company for sale' stories tracked by mergermarket over 01/01/2011 to 31/12/2011. Deal opportunities are captured according to the dominant geography and sector of the target company.

Q&A

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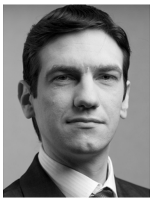

Guntars Zile
Partner
Raidla Lejins & Norcous
Riga office

Sven Papp
Partner
Raidla Lejins & Norcous
Tallinn office

What does the current M&A landscape look like in your respective countries right now?

Sven Papp (Estonia): A recovery in the market is very evident. Our economy is only twenty years old, so the companies are young and not very large. This creates attractive opportunities for private equity, particularly mid-sized funds, which can target consolidating sectors like IT, healthcare and telecom. In this respect, the JEREMIE initiative has been an important component of the M&A market. JEREMIE has underpinned many of the private equity transactions announced in recent years. Estonia joining the euro in 2011 has also been an important driver: investors had previously kept their distance from Estonia, and a lot of funds had internal policies that barred investments in Estonian equities. This has since changed, and we have seen a considerable improvement in investor confidence.

Elijus Burgis (Lithuania): It remains to be seen how financial crises and economic uncertainty will impact the Lithuanian market. But M&A activity so far has been resilient. Of course, the first quarter is always slow as people are still determining their strategies for the year. Yet we continue to close transactions and initiate new ones. Despite the lingering feeling of the eurozone crisis, the Greek debt crisis and the general economic meltdowns of 2011, we do not see this as an exceptionally pessimistic year for Lithuania – but of course we will all have to wait and see how the rest of the year develops.

Guntars Zile (Latvia): In Latvia we saw some slowdown in M&A in autumn reflecting the global economic uncertainty. The deal volume showed a general tendency to decrease although the number of the deals has remained relatively high. Given the uncertainty still facing other parts of Europe we may hope that investors will be more comfortable investing in Baltic businesses, which are not as directly exposed to the European crisis and which have already showed remarkable resilience during the latest severe crisis period. Going forward, we will wait to see how the global economic climate develops, and how the Latvian government proceeds with privatisation and public-private partnership (PPP) projects.

In Lithuania, we currently have three or four projects running simultaneously, including nuclear plants, grids connecting to Sweden and liquefied natural gas (LNG) terminals under construction. These projects increase banks' willingness to finance significant state-run, long term projects and this willingness spills over into smaller M&A transactions as well.

Elijus Burgis, Vilnius office

What factors are influencing investor sentiment in the Baltic region?

Sven Papp (Estonia): Estonia is becoming increasingly appealing to the international M&A community. The acquisition of Skype by Microsoft obviously helped the visibility of Estonia, and investors are realizing the longer-term prospects of Estonia's IT sector. The sector is exceptionally progressive in Estonia – indeed this is one of the few markets where wifi is a publically available service – and it continues to generate young, innovative, attractive IT businesses. This year we saw several awards given to Estonian start-ups at the international forum Seedcamp, a London event that hosted entrepreneurs and start-ups from around the world. This triggered a sort of "Estonia mania" in the tech community.

Q&A

Given the uncertainty still facing Western Europe, investors will likely be more comfortable investing in Baltic businesses, which are not as directly exposed to the European crisis. Going forward, we will wait to see how the global economic climate develops, and how the Latvian government proceeds with public-private partnership (PPP) projects.

Guntars Zile, Riga office

Guntars Zile (Latvia): In Latvia we have seen improved investor confidence from the private equity community. One of the most significant transactions of the last year was the investment in Baltcom by AXA and Resource Partners, which marked their first joint investment in Latvia. As with any first-time investment, this should stimulate competition and place Latvia on the radar of other foreign investment firms. We also may see the revival of PPP projects that were suspended during the crisis, which would breathe some life into the construction industry and stimulate future deal flow in the sector.

Elijus Burgis (Lithuania): In general, one of the most important factors driving M&A is the availability of finance: we have predominantly Scandinavian banks, many of which are in a good position to finance deals. In some cases banks will compete to finance transactions, which is a very positive sign for M&A. At the same time we also have a lot of new investment funds, including, most recently, two venture capital (VC) funds and one so-called angel fund investing in smaller companies. There is also a push to create a more investor-friendly regulatory landscape: for example, Lithuania is running a campaign called New Luxembourg. This is a package of legal acts aimed at improving the regulatory and tax framework for the establishment of new funds. If these initiatives are successful, we expect more fund managers to move into the region and increased deal activity as a result.

What are your expectations for 2012?

Guntars Zile (Latvia): In Latvia we expect to see some of the larger companies trying to consolidate their positions. Companies that own minority stakes in local subsidiaries, for example, are buying additional stakes to achieve clean 100% ownership. We saw this recently with a large Russian industrial company buying out a minority shareholding in a Latvian company – one of the top 20 Latvian companies by turnover. The same thing is happening with a few other clients, who are taking advantage of reasonable prices to buy out.

Sven Papp (Estonia): Exit activity could increase in the near term, driven largely by international businesses. Estonia is a small market, and a difficult one for big global companies to navigate, particularly because it takes significant managerial efforts to keep their businesses running in the region. As a result, we expect to see more divestments, which should create new opportunities for local or Scandinavian investors.

Elijus Burgis (Lithuania): Investor confidence is also increasing in Lithuania, thanks to major developments in energy and infrastructure. We currently have three or four projects running simultaneously, including nuclear plants, grids connecting to Sweden and liquefied natural gas (LNG) terminals under construction. There is also Polink, a railway link to Poland, which is progressing at a good speed. The financing environment is indirectly influenced by these projects because it allows for greater investor confidence. It increases banks' willingness to finance significant state-run, long term projects and this willingness spills over into smaller M&A transactions as well.

Our economy is only twenty years old, so the companies are young and not very large. This creates attractive opportunities for private equity, particularly mid-sized funds, which can target consolidating sectors like IT, healthcare and telecom. In this respect, the JEREMIE initiative has been an important component of the M&A market.

Sven Papp, Tallinn office

About RLN

Raidla Lejins & Norcous is a leading pan-Baltic provider of legal services with independent offices in Vilnius, Riga and Tallinn. With a total staff of 140 people, of whom over 100 are lawyers, it renders comprehensive legal services to local, regional and international legal entities, including multinational enterprises, international banks and financial institutions.

Since May 2004 Raidla Lejins & Norcous law firms have joined forces with Roschier, a leading law firm in Northern Europe with offices in Helsinki and Stockholm, to form RR Alliance – a cross-border cooperation of approximately 250 lawyers in five jurisdictions in Northern Europe. This Nordic-Baltic law firms network has years of experience to offers cross-border solutions based on uniform quality and best practices of international standard, by premier law firms in each jurisdiction.

Raidla Lejins & Norcous also has long-term professional relationship with leading law firms in the UK, the US and Nordic countries. The firm is a member of Ius Laboris, the leading Global Alliance of Labour and Employment law practitioners with 2,500 lawyers specialising in all areas of law relating to human resources.

The firm has a very strong local client base and international ties, it's clients include many leading regional and international companies, banks and financial institutions. Firm's substantial domestic and international practice focuses on mergers and acquisitions, banking and finance, corporate advisory, dispute resolution, competition, real estate and construction, intellectual property and employment law.

Clients are offered solutions based on premier legal expertise in each jurisdiction, uniform quality and best practices of international standard and "one-stop concept" – coordinated assignment handling. The firm's core values reflect utmost attention to responsiveness, dedication, efficiency and care for client in all aspects of its work.

In the annual Financial Times/mergermarket European M&A Awards held in London in December 2011 Raidla Lejins & Norcous was awarded the title of the Legal Advisor of the Year in the Baltics.

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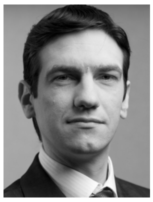

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