Baltic & Belarus M&A Monitor

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mergermarket

RAIDLA LEJINS & NORCOUS

Contents

Foreword

Despite significant global headwinds, M&A activity in Lithuania, Latvia and Estonia proved to be relatively robust during 2012, with the number of deals only slightly lower than in 2011. This resilience reflects the economic outperformance of the region, with all three countries registering growth at a time when much of Europe is stagnating or in recession. This bodes well for 2013, as a pickup in global confidence is likely to translate into higher investment in the Baltics, with the region having now demonstrated that its growth trajectory is sustainable and resilient.

In Belarus there are also encouraging signs that dealmaking could be set for a period of sustained momentum, with activity potentially kick-started by a pilot programme for the sale of state assets. The programme is being administrated by the World Bank and has seen eight medium-sized state owned enterprises indentified for sale through a process designed to conform to international best practices and attract strategic investors. A successful programme could see many more state assets come to the table, including some sizeable assets in the energy sector that are likely to attract significant interest and healthy valuations.

In the Baltics, headline deals for the year include Citigroup taking a 15.7% stake in Estonian ferry operator Tallink for €117m through its Baltic Cruises Holding subsidiary, and Scandinavian telecommunications operator TeliaSonera agreeing to acquire a 19.8% stake in Lithuania's Teo LT for €98m. The former deal makes Baltic Cruises the second largest shareholder in the firm and can be viewed as a vote of confidence in the region's tourism sector, while the latter deal was part of a wave of TMT dealmaking and cements TeliaSonera's control of the business.

Indeed, consolidation in the TMT sector was one of the most prominent trends of 2012, with the TMT sector accounting for 17% of deals by volume. The 2011 acquisition of Skype, which was founded in Estonia, for €6.3bn by Microsoft is a factor behind this increase in activity and the Baltics is now showing real promise as an incubating area for technology start-ups. Also in evidence was a recognition of the region's ideal positioning as a manufacturing hub to serve the whole of Europe, with industrial firms across a range of different sectors acquired during the year by strategic investors from Russia, Scandinavia and Western Europe.

Private equity activity in 2012 proved to be relatively muted in comparison to the previous year. However, 2012 did herald the launch of the Baltic Innovation Fund (BIF), which aims to invest €100m into private equity and venture capital over the next four years. This launch follows in the footsteps of the successful Joint European Resources for Micro to Medium Enterprise (JEREMIE) initiative and looks likely to help build momentum, with many strong companies that had previously not considered this approach, now thinking about how they could benefit from outside capital.

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Global review

In the first nine months of 2012 global M&A activity was significantly down on the previous year. However, a strong fourth quarter meant the value of deals during the year as a whole came in 8% above figures for 2011. Although volume for the year fell by 2%, the strength of the fourth quarter bodes well for 2013 and can be attributed to signs of reduced volatility in the eurozone along with greater certainty about the future direction of the US following the re-election of President Barack Obama.

The average value of deals in 2012 came in at €256m. This was below the peak of €271m seen in 2006, but represents a sizeable increase on the average of €230m seen in 2010 and 2011. Strong global commodity prices drove consolidation in the energy, mining & utilities sector, which accounted for the largest proportion of deals by volume at 25.7%. However, the higher average size of deals in the industrials & chemicals space meant that this sector accounted for the greatest proportion of deals by value, accounting for around a fifth of all activity (as it has consistently for the past five years).

In Europe, deal values for the year came in 3% higher, while volumes were down by 7%. This meant that worldwide, Europe accounted for 31% of deals by value in 2012 and 40% by volume, which is similar to levels seen in 2010 and 2011. Since this time, deal activity in Western Europe has flatlined, but activity in Central & Eastern Europe has been steadily rising. Last year was another good year for the region with deal values coming in 18% above those in 2011, and sitting at their highest level since 2007 – volumes came in 14% lower, however.

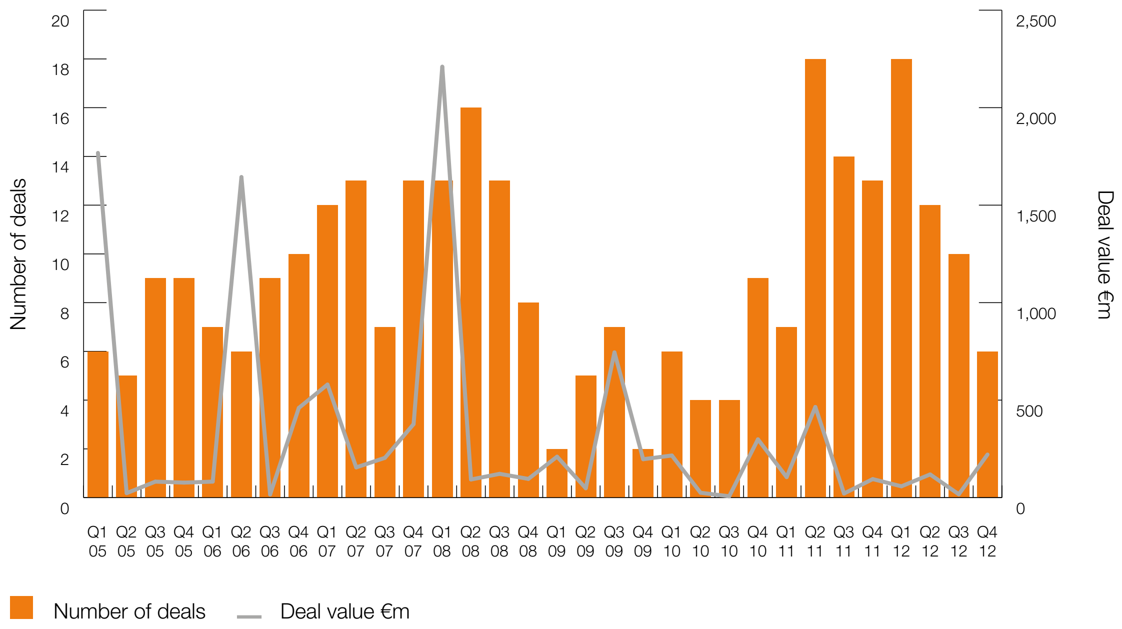
This growth was part of a trend towards increasing dealmaking in emerging markets, with activity outside of hard-hit developed markets helping to sustain M&A in the post-crisis landscape. In 2012 the value of deals transacted in emerging markets accounted for a record proportion at 26% of global M&A, up from just 12% in 2005.

Global private equity activity in 2012 was down on 2011 levels, with the number of deals down by 9.0% and the value of deals down by 1.8%. Exits from private equity came in ahead of 2011 on a value basis with a rise of 5.8%. However, there was a shortage of buyout activity, with new PE investments down by 10% in volume terms and 2.3% in value terms. This was despite a surge in the number of secondary buyouts, which increased by 26% in value terms on the previous year.

Baltic M&A review

Baltic M&A activity proved resilient in 2012 with a total of 46 deals coming to market in comparison to the 52 in 2011, representing a decline of 12%. While this still represents a strong year by historical standards, much of this activity took place in the first half of the year and M&A activity declined in the second half of 2012. This is likely to have been a result of external factors, with dealmaking suppressed due to renewed concerns surrounding a break-up of the eurozone. However, with the future of the eurozone now looking more secure, a gradual improvement in confidence should support dealmaking in 2013, particularly when aligned with the fundamentals of the region, including strong GDP growth, a booming technology sector and increased recognition of the region's advantages as a low cost manufacturing hub.

Baltic M&A Trends



Geography

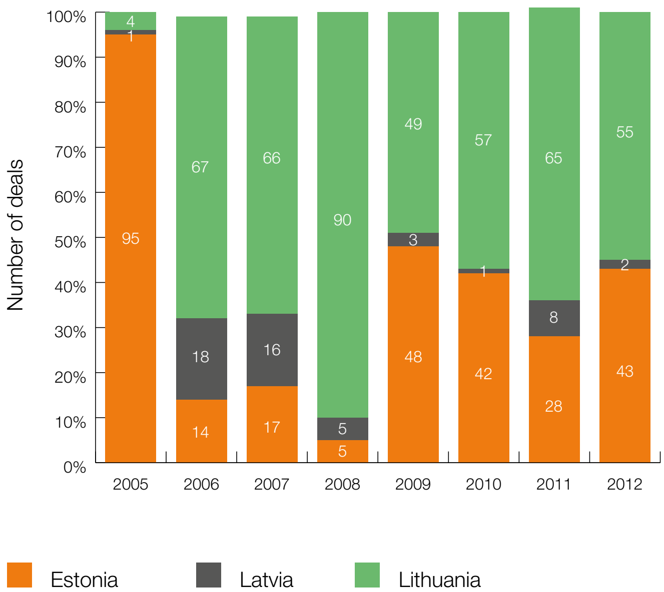
Up until 2008 dealmaking across the region was fairly evenly split between Estonia, Latvia and Lithuania. However, since 2009 Latvia has consistently ranked below the other two markets with the lead position regularly alternating between Lithuania and Estonia. In 2012 Estonia accounted for the highest number of deals by volume

Baltic M&A review

at nearly 50% of regional transactions, bolstered by a large amount of activity in the technology sector. However, with the two largest deals of the year taking place in Lithuania, this country accounted for 55% of all deals by value. Latvia was again comparatively less active accounting for 21% of deals by volume and just 2% by value.

In value terms, overall M&A activity in 2012 was well down from its 2011 level. However, with the majority of deals being of undisclosed value it is hard to draw firm conclusions from these figures. The available data points to a trend towards smaller deals, and at the higher end of the market there was limited appetite for the large deals seen prior to the financial crisis, with only two deals worth over €100m and no deals worth more than €250m.

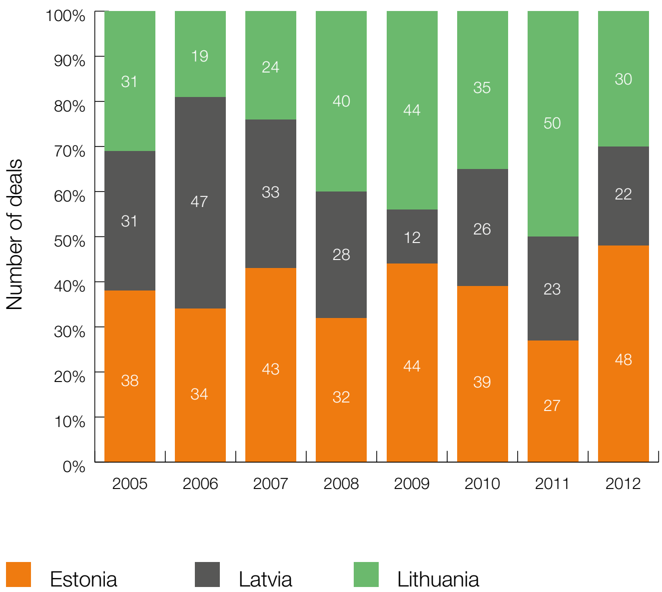
Baltic M&A country split by value



The largest deal of the year saw Citigroup acquire a 15.7% stake in Estonian ferry operator Tallink for €117m through its Baltic Cruises Holding subsidiary. Baltic Cruises purchased a 7.8% stake held by two other Citigroup affiliates and acquired a further 7.9% from three other shareholders, including Estonian transport company Infortar (which retains a 36% stake). The deal makes Baltic Cruises the second largest shareholder in Tallink and can be viewed as a vote of confidence in the region's tourism sector, which is being bolstered by growth in local spending power as well as higher tourist arrivals from across Europe, with visitors from both Western Europe and Russia having grown substantially over the past ten years.

The second largest deal of the year was also in the leisure sector with locally listed Ukio Bankas taking control of Lithuania-based property developer Zalgirio Sporto Arena, in a deal worth €104m (LTL357m), from borrowers who had pledged the company as collateral. Although Ukio Bankas' share price dipped shortly after the announcement, indicating limited appetite for the deal among investors, Ukio Bankas insisted that the move will allow it to pursue 'development and implementation of the real estate project carried out by the company' and can be viewed as an long-term show of faith in the potential of Lithuania's consumer and real estate sectors.

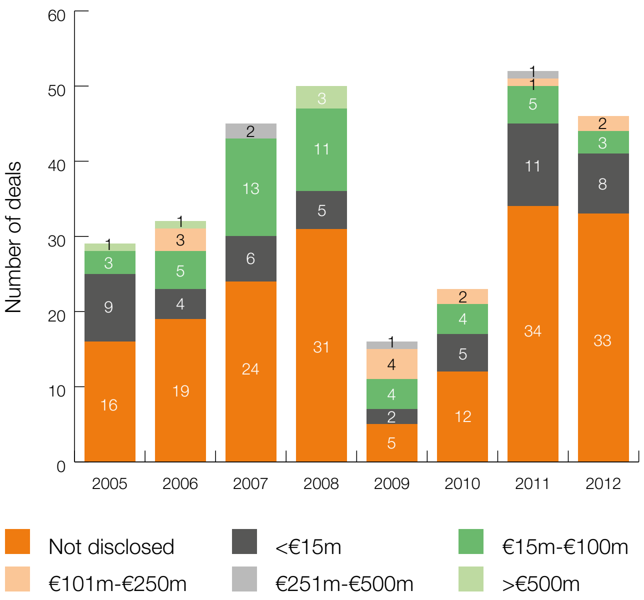
Baltic M&A country split by volume



Baltic M&A review

The third largest deal of 2012 saw TeliaSonera agree to acquire a 19.8% stake in Teo LT from asset manager East Capital and other shareholders for a consideration of €98m. The transaction was part of a wave of TMT activity in the region and cements TeliaSonera's control of the business. The move also represents a commitment to Lithuania's IT sector, which is well positioned to develop in line with the country's move towards a knowledge-based economy with technology at its heart.

Annual deal size split by volume



Sectors

In 2011, the consumer sector dominated deal flow by volume, but in 2012 the highest number of deals took place in the areas of manufacturing and technology. Acquisitions within the technology sector are the standout story of 2012, with the Baltic region now showing real promise as an incubating area for technology start-ups. The 2011 acquisition of Skype, which was founded in Estonia, for €6.3bn by Microsoft is a factor behind this increase in activity, with funds and companies taking note of the firm's success and exploring other opportunities within the region. Fittingly, Estonia was the location of the most number of TMT deals but Lithuania and Latvia were also targeted for acquisitions, pointing towards a regional trend for deals emanating from growth in the technology sector.

In Estonia, telecommunications was a key target for cross-border acquisitions. French electronic equipment manufacturer Eolane acquired the Estonian manufacturing unit of Finland's Elcoteq. The Estonian operation, Elcoteq Tallinn, employs around 200 people and the transaction will allow Eolane to expand on its operations in the Northern European markets. Also in the telecommunications sector, Swedish group Tele2 acquired Estonian firm Televorgu for SEK225m (€25.41m), while US-based Xilinx acquired Estonia's Modesat Communications, a company that develops communication technology and equipment for network equipment manufacturers. Web-focused companies were also in demand with Netherlands-based MIH Allegro acquiring a 32.6% stake in Moonfish Media, an internet group focused on online classifieds and auctions, and Finland's Alma Media acquiring CV-Online Estonia, the leading internet recruitment service company in the Baltic countries.

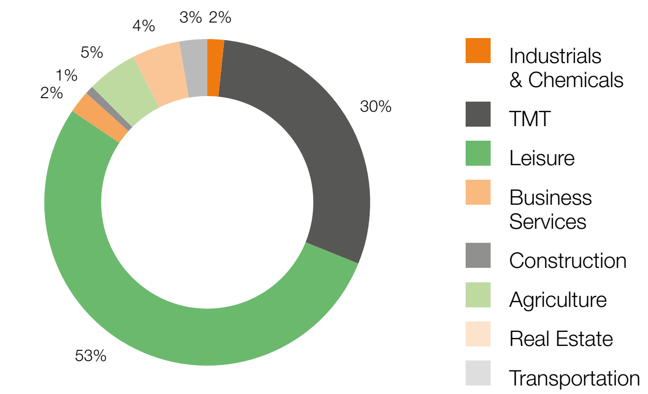
As already highlighted, Lithuania saw one of the largest technology deals with Sweden's TeliaSonera agreeing to acquire a 19.8% stake in telecommunications firm Teo LT. This move boosts TeliaSonera's stake in the firm to 88% and is in line with TS's strategy of increasing its ownership of its core holdings.

Looking at smaller deals (that do not meet mergermarket's inclusion criteria) there was also consolidation among domestic internet service providers with Lithuania's Baltnetos Komunikacijos buying Oslo products and among IT infrastructure providers with Lithuania's Atea buying BMK. Meanwhile in the web sector, Finnish e-business firm Soprano Oyj TS took a 51% stake in Estonian e-commerce software provider Pipfrog, and Scandinavian media group Schibstedt continued to build on its acquisition of Latvian internet news site TVNET with the purchase of two smaller internet sites.

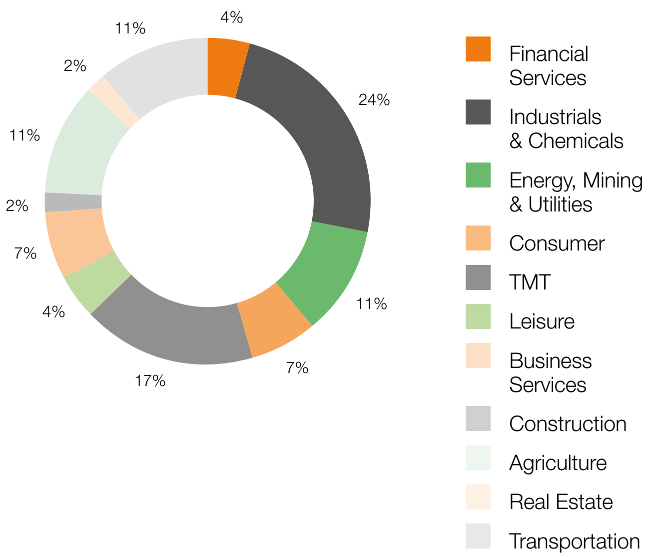
Outside of technology, the Baltics are also gaining recognition as a relatively low-cost manufacturing and service hub

Baltic M&A review

Baltic M&A sector split by value, 2012



Baltic M&A sector split by volume, 2012



well positioned to serve the whole of Europe. This was demonstrated by a number of the deals within the industrials & chemicals space. Belgium's Van Genechten Packaging acquired the remaining 50% stake in Latvia's VG Kvadra Pak, which produces folding cardboard boxes and has clients across Central & Eastern Europe and Scandinavia. Russian printing company Tipografski Kompleks Deviz purchased Estonia-based printing company Uniprint to enhance its footprint in Russia and other European markets. Severstal Trade consolidated its position in Severstallat acquiring the remaining 15.84% stake in Severstallat, the leading steel products manufacturing company in the Baltics.

Polair, a Russian manufacturer of refrigeration equipment, acquired a 31.2% stake in Lithuania-based Snaige for €7m to boost its overall holding to 91.1%, having acquired a 59.9% stake in 2011. Snaige produces refrigeration equipment for the domestic Lithuanian market but also exports to Russia and the Commonwealth of Independent States. Meanwhile, Finland-based supplier for engineering machinery Komas (a portfolio company of PE firm CapMan) acquired the Estonian component manufacturing operations of Cargotec as part of CapMan's buy and build strategy.

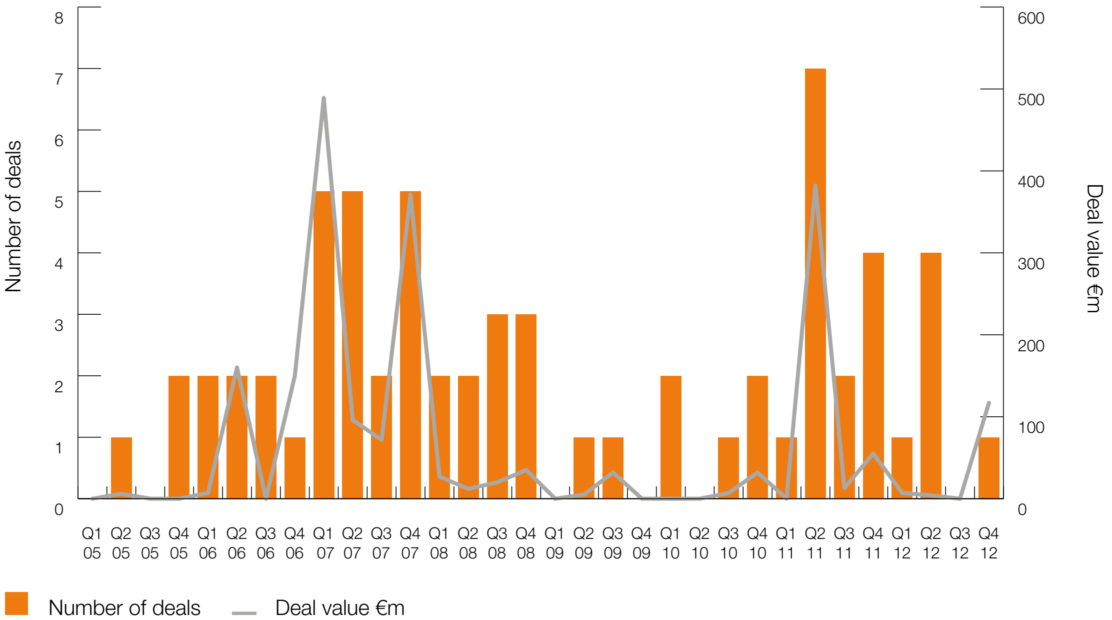
In Estonia, commercial real estate also started to show the first signs of recovery. Listed company Baltika divested its commercial real estate, Ärimaja divested its two office buildings, Cougar divested its Sikupilli shopping mall and East Capital acquired commercial real estate in the outskirts of Tallinn for almost €24m.

Private Equity

Private equity activity in 2012 proved to be relatively muted. While there were a number of smaller acquisitions, only six deals met mergermarket's criteria for inclusion, compared to 14 in 2011. With a reduction in PE activity evident across Europe, the factors underpinning this decline were unlikely to have been localised to the Baltics and instead reflect volatility in the eurozone, which has now subsided, as well as continued difficulties raising financing.

Baltic M&A review

Private equity buyout & exit trends



Deals that managed to traverse this weak background are therefore notable and include Swedish investment firm East Capital Explorer and Estonia-based BaltCap buying a 40% stake in Estonian construction firm TREV-2 for €4m, the management buyout with the support of ABLV Private Equity of Latvia-based DIY chain DEPO DIY for an undisclosed price from BaltCap, and the management buyout of Latvia-based charter plane operator SmartLynx Airlines in a deal worth €7m.

On a more positive note, 2012 saw the launch of a new investment vehicle, the Baltic Innovation Fund, that aims to invest €100m into private equity and venture capital over the next four years. The project is supported by the European Investment Fund with the goal of providing equity investment into small and medium-sized enterprises to boost growth. Figures from the Estonian Private Equity and Venture Capital Association indicate that over 80% of PE deals in the region are currently below €5m while PE investment relative to GDP in the Baltics is seven times below the European average. The project could therefore alter the PE landscape, and set the stage for more large deals in 2013 and beyond.

Outlook

Economic growth in the Baltic region is expected to easily outperform Western Europe, with the IMF forecasting growth for 2013 of 3.0% in Lithuania, 3.5% in Estonia and Latvia, but just 0.5% in the EU. To 2017, GDP growth across the Baltic region is expected to average 3.7% versus 1.6% in the EU. With the EU accounting for the majority of exports for the Baltic countries, any improvement in the outlook for the eurozone should bode well for even stronger growth over the next five years, with positive implications for M&A activity.

Sector	Estonia	Lithuania	Latvia	Overall
Industrials & Chemicals	6	4	2	12
TMT	5	4	1	10
Consumer	4	1	3	8
Transportation	1	1	4	6
Construction	1	2	2	5
Energy, Mining & Utilities	1	4		5
Pharma, Medical & Biotech	4			4
Business Services		2	1	3
Financial Services	1		1	2
Leisure		1		1
Defence		1		1
Agriculture	1			1
Real Estate	1			1
Overall	25	20	14	59

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.

Latvia was the Baltic country hit hardest by the global financial crisis, with the economy contracting by 18% in 2009 (compared to 14-15% for Lithuania and Estonia) and taking longer to return to growth. However, over the past two years Latvia has been the region's strongest performer, with economic growth of 5.5% in 2011 and 4.5% in 2012. So far this has not translated into outperformance in terms of M&A activity but with the country now having demonstrated its resilience its seems likely that Latvia will account for a higher proportion of deals, particularly if the country's goal of joining the eurozone in 2014 looks likely to be met.

Outlook

With the outlook looking relatively positive from an economic perspective, the key factor underpinning dealmaking is likely to be the attractiveness of individual Baltic companies relative to firms elsewhere in the world. In this regard, 2012 pointed to the areas that are most likely to attract investment. A relatively small and declining population means that the consumer sector, although supported by rising incomes, is likely to attract only limited amounts of external investment, with M&A instead driven by the consolidation of existing players. However, the region is showing real momentum in building a knowledge-based society centred around technology, while at the same time also offering an ideal position as a manufacturing and services hub for exporting across Europe, and it is these twin engines of growth that can be expected to drive M&A activity in future years.

This is borne out by the mergermarket heat chart, which shows the highest number of companies available for sale in the industrials & chemicals and TMT sectors. These two sectors stand well ahead of the consumer sector in third and transportation in fourth. The heat chart suggests that Estonia could again account for the highest number of deals in 2013, with 24 companies listed for sale, compared to 20 in Lithuania and 14 in Latvia. While still trailing the other two markets Latvia is not far off the pace, supporting the idea that the country may be increasingly on the radar of investors.

In the PE space, there is also room for optimism. As well as the boost from the launch of the Baltic Innovation Fund, the region should benefit from its comparatively positive GDP growth outlook at a time when much of Europe remains in recession or stagnation. Many PE funds are sitting on large amounts of dry powder and the positive underlying economic backdrop could make the Baltics increasingly attractive as a relatively low risk option for funds running up close to investment deadlines.

The region's burgeoning tech sector is proving to be particularly attractive for venture capital funds and 2012 saw a number of such smaller deals (that do not meet mergermarket's criteria for inclusion in the main database) with private equity firm BaltCap buying an undisclosed stake in Latvian IT infrastructure design and management company Clusterpoint and also buying an undisclosed stake in Latvian vending machine software company Vendon Ltd. Also in 2010 PE firm Entrepreneurs Fund Management bought an undisclosed stake in Estonia-based Fits.me Biorobotics, a developer of virtual fitting rooms for online apparel retailers.

Outside of these two sectors, M&A is likely to be driven by strategic deals in sectors where there are clear advantages to be had from economies of scale, with agriculture, food production and retail all looking ripe for consolidation. There is also likely to be M&A activity due to sales by strategic investors, with some multinational firms looking to focus on their core operations and therefore exiting the Baltic region. This trend is exemplified by the 2012 sale by France's Veolia of its waste services unit in Estonia and Lithuania to Tallinn-based Alexela Energia.

Spotlight on Belarus

M&A in Belarus is currently limited as 70-75% of the economy is controlled by the state. Many large strategic companies remain under government ownership and, while there is some private equity activity, these deals remain relatively few and far between. However, this could be set to change as there is currently a pilot privatisation programme taking through the new Belarusian National Agency of Investment and Privatisation, which was established in May 2011. The programme is being administrated by the World Bank and is backed by a trust fund established by the Ministry of Finance of Austria. As part of the pilot programme, eight medium-sized state owned enterprises have been indentified for sale, and the process is designed to conform to international best practices and attract strategic investors.

The companies being sold are grouped into three pools of assets, and the government is currently searching for financial advisers for each pool. The first pool consists of two food companies, Minsk Margarine Factory and Konfa Confectionery Factory, and was assigned to Ernst & Young in December 2012. In 2013 the government is expected to assign advisers for the remaining two pools, covering six companies such as the Baranovichi Reinforced Concrete Products Plant, the construction firm Belsantekhmontazh-2, gas network firm Belgazstroy, and Medplast, a producer of medical instruments. Once all the advisers are in place the process of finding investors is expected to go ahead, with deals likely to occur from the middle of 2013.

A successful pilot programme could eventually see a raft of large state assets brought to the table, and Belarus's minister of economy Nikolai Snopkov has previously stated that the government will listen to approaches for any state owned company, with the exception of those that cannot be privatised by law, such as the defence sector.

Belarus's strategic union with Russia means that Russian firms are likely to acquire any large strategic companies put up for sale. For example, gas transportation company Beltransgaz was sold to Russian energy major Gazprom for US$2.5bn in 2011 and other strategic firms will be reserved for Russian buyers. However, for private companies and within industries of less strategic importance, firms from the Baltics and Scandinavia (and in particular Finland and Sweden) are likely to play a role in any M&A activity. Firms from these markets have shown an interest in Belarus, and in particular in the construction, retail and logistics sectors. These companies are attracted to the fact that competition levels in Belarus are relatively low and there are many niches presenting promising investment opportunities.

Up until now, these investors have generally adopted a conservative attitude towards Belarus because of the political risk stemming from the unpredictable actions of the government in the past. Political stability is probably still the biggest factor preventing investment but the political environment is now relatively stable and any further improvement is likely to result in a significant increase in investment.

Q&A

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

Sven Papp (Estonia): Over the past 12 months there has been a slight decrease in activity in terms of volumes. However, there are no signs of desperation and while activity is slightly down there are still transactions being done.

The main factor affecting sentiment is the knock-on impact from uncertainty in the EU and the global economy. Investors are playing a game of 'wait and see' to see how the situation is finally resolved. However, there is also a feeling that the worst is now over and there is optimism for the year ahead.

Dr Irmantas Norkus (Lithuania): Towards the end of 2012 we started to see a pickup in activity and this has continued into 2013, with some companies consulting advisers on putting assets up for sale and others making public statements about their intention to offload or acquire other assets.

While some multinationals, such as France's Veolia, have decided that the Baltics is not core to their strategy and have offloaded units, there are others, such as Scandinavia's TeliaSonera, that have been buying up assets. Scandinavian companies in particular see the Baltics as one of their home markets and are therefore very unlikely to reduce their focus. Sales by multinationals also represent a good opportunity for local firms to consolidate their operations and build scale.

Guntars Zile (Latvia): Subdued activity in Latvia during 2012 was partly because some investors intentionally postponed closing deals because of a beneficial change in the tax regime from January 2013 which eliminates capital gains tax on the sale of shares. That said, during 2012 quite a large number of small deals closed, worth less that €5m, and there is certainly plenty going on in the venture capital field.

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Dr Irmantas Norkus, Managing Partner, Lithuania

What are your expectations for 2013?

Dr Irmantas Norkus (Lithuania): Despite a strong 2011, investors were generally cautious towards the Baltics in 2012 and wanted to see how the region would react to the pressure of a weak Euro area. With the Baltics managing to again deliver strong growth, many investors are now convinced that growth in the Baltics is sustainable and resilient.

Activity in 2012 was also impacted by the high number of deals seen in 2011, which meant that many investors needed to reload and were focused on implementing the mergers conducted in the previous year. While the Baltics is growing

Q&A

dynamically there are not enough players to sustain very high levels of M&A activity every year and it is natural for a strong year to be followed by a slightly weaker year.

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>
> *Dr Irmantas Norkus, Managing Partner, Lithuania*

Guntars Zile (Latvia): Currently, overall sentiment is good, with Latvia offering a stable political environment, a promising economic outlook and the prospects of joining the Euro in 2014. All this combined means that there are currently a lot of investors looking for good targets.

For Latvia, joining the Euro is important as it acts as proof of quality about the local operating environment for investors and provides assurances that the situation is stable. However, it is not a magic bullet as there is still the problem of local businesses being somewhat closed to outside investment.

Sven Papp (Estonia): This year we expect for the trend to change and see a pickup in the number of deals. However, it may take until the second half of 2013 to build real momentum.

Activity is likely to be driven by further sales by international players, such as the sale by France's Veolia of its waste services unit in Estonia and Lithuania to Tallinn-based AS Alexela Energia. While the unit was performing well and had healthy margins, Veolia, like many multinationals, was looking to divest such assets to focus on their core holdings and core markets. With the Baltics representing a relatively small market, even a profitable firm delivers only marginal net profits for large multinationals.

We can also expect to see further local consolidation within particular industries such as food, retail and agriculture, which all look ripe for consolidation. Meanwhile, a generation shift among owners is likely to trigger divestments of some family businesses, especially in view of the continuing tough environment for smaller companies.

What are you expectations for the region's technology sector, which has recently been in high demand from overseas investors?

Guntars Zile (Latvia): In Latvia there is a surge in venture capital funds trying to find good targets, and at that level there is plenty of money available. The main problem is one of good targets. There are a lot of good companies but they need to be educated about the benefits of outside investment, and on this front things are improving every year.

> The success of technology firms has inspired a lot of start-up activity and excitement, both locally and internationally. This trend is continuing with the sector supported by the regulatory environment.
>
> *Sven Papp, Partner, Estonia*

Dr Irmantas Norkus (Lithuania): Although a lot of the excitement surrounding the technology story has been focused on Estonia the sector is also very important in Lithuania. While it accounts for a larger proportion of Estonian GDP the sector is actually larger in Lithuania in nominal terms, in line with Lithuania's larger economy. Multinational firms such as Barclays and Danske Bank have established their IT back offices in Lithuania, with firms attracted by relatively low labour costs and the highly skilled workforce, and with the Baltics educational system consistently producing talented engineers.

Sven Papp (Estonia): The success of technology firms has inspired a lot of start-up activity and excitement, both locally and internationally. This trend is continuing with the sector supported by the regulatory environment – Estonia offers 0% corporate income tax and easy procedures to establish companies, for instance. There are still some questions about the proportion of these start-ups that can be commercialised but it is certainly a good example of success at a time when activity in other sectors remains relatively subdued.

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>
> *Guntars Zile, Partner, Latvia*

Does the launch of the Baltic Innovation fund set the scene for a more dynamic PE sector over coming years?

Dr Irmantas Norkus (Lithuania): The launch of the Baltic Innovation Fund (BIF) is important and follows in the footsteps of the successful Joint European Resources for Micro to Medium Enterprise (JEREMIE) initiative. JEREMIE funding has supported the activities of three Baltic private equity firms, BaltCap, LitCapital and Practica Capital, which generally conduct transactions worth €3-5m. These firms have been doing 10-12 transactions per year in Lithuania alone and this level of activity can be expected to continue in 2013 and be bolstered further by the launch of the BIF. While Baltic companies had previously been wary about accepting outside investment the success of the JEREMIE initiative has led to a rapid change in attitudes and there are now a lot of good companies looking for investment.

Sven Papp (Estonia): The potential injection of €100m into the private equity space is certainly a huge amount for the Baltic region and firms are definitely gearing up for the launch of the BIF. This is another reason for optimism in 2013 and there is likely to be strong competition for the investment.

Guntars Zile (Latvia): One of the benefits is that there has been a lot of public information about the fund, which is prompting companies that had previously not considered this approach to think about how they could benefit from outside capital.

Country spotlights

Estonia

In 2012 Estonia accounted for 43% of M&A value and 48% of volume in the Baltic region. The acquisition of a 15.7% stake in Estonian ferry operator Tallink by Citigroup for €117m underlines the generally positive sentiment towards the country from many international investors. More broadly, M&A was driven by deals in the technology space, with Estonia currently at the forefront of the Baltic's emergence as a regional technology hub. Notable deals included Swedish group Tele2 acquiring Estonian firm Televorgu for SEK 225m (€25.41m) and US-based Xilinx buying Estonia's network equipment developer Modesat Communications. Online classified business Moonfish Media and online recruitment firm CV-Online Estonia also attracted the interest of overseas bidders. On the domestic front there was consolidation among agriculture firms, including the acquisition of rapeseed producer Werol Tehased by Baltic Agro for €8m and in the alternative energy sector with wood pellet producer Flex Heat Eesti, wind farm operator Freenergy and thermal energy producers Tallinna Kute and Erakute all acquired by domestic competitors.

Latvia

Over recent years M&A activity in Latvia has lagged behind Estonia and Lithuania and this continued in 2012 with the country accounting for just 2% of value and 22% of volume. There was generally a shortage of large strategic deals and activity during the year was sustained by consolidation within the media sector, including the acquisition of television broadcaster Latvijas Neatkariga Televizija by Sweden's Modern Times Group, and by a number of deals in the private equity and venture capital space. These included the management buyout of SmartLynx Airlines, the investment in DIY chain DEPO DIY by ABLV Private Equity in support of another management buyout, and the purchase of an undisclosed stake in Latvian IT infrastructure company Clusterpoint by BaltCap.

Lithuania

Lithuania accounted for 55% of M&A value and 30% of volume in the Baltic region in 2012. Two of the top three largest deals of the year took place in the country, with Ukio Bankas taking control of Lithuania-based property developer Zalgirio Sporto Arena and TeliaSonera agreeing to acquire a 19.8% stake in Teo LT for €98m. There was overseas interest in the oil and gas sector, with Chevron Corporation buying a 50% stake in oil deposit licence holder LL Investicijos and Poland's LOTOS Geonafta buying a 50% stake in oil and gas producer Manifolda. As in previous years, there was also continued consolidation in agriculture, with Linas Agro Group taking a 50% stake in agricultural supply distributor Dotnuvos projektai and also buying an 87% stake in the Labunavos Agricultural Company, which produces meat, dairy and grain.

Major deals 2012

Estonia

- Advising AS Tallink Grupp and AS Infortar in the sale of 15.73% of shares in Tallink to Baltic Cruises Holding L.P.
- Advising N-Trans in the sale of its shares in Global Ports to APM Terminals.
- Advising Norwegian company Reitan Servicehandel AS in the €130m acquisition of over 1000 R-Kiosk convenience stores operating in Estonia, Finland and Lithuania.
- Advising RLS Finance SA in connection with the acquisition of shares in AS Krediidipank, an Estonian bank, and obtaining of permission for acquisition of a qualifying holding from the Estonian Financial Supervisory Authority.
- Advising UKRSELHOSPROM PCF LLC in connection with the acquisition of shares in MARFIN PANK EESTI AS, an Estonian bank, and obtaining of permission for acquisition of a qualifying holding from the Estonian Financial Supervisory Authority.
- Advising the sale of two landmark office buildings on Pärnu road to EfTEN Kinnisvarafond AS with a value of €18.5m.
- Advising Baltika AS, one of the largest fashion retailers, in the sale of Baltika Quarter to OÜ Kawe Invest.
- Advising Uponor and KWH Group in creation of JV company by merger of their infrastructure businesses.
- Advising Cougar Sikupilli in the transfer of its business unit (real estate and related assets and liabilities) of Sikupilli Shopping Centre in Tallinn.
- Advising one of the most successful start-ups in Estonia – ZeroTurnaround – in the sale of its shares to Bain Capital Ventures.

Major deals 2012

Latvia

- Advising Severstal Trade Ges.m.b.H. in the acquisition of a 15.84% shareholding in AS Severstallat from SIA Holdinga Kompanija FELIX. As a result of the transaction Severstal Trade Ges.m.b.H. has become the sole owner of AS Severstallat, holding 100% shares in the company.

- Advising ABLV Private Equity Fund 2010 KS in the management buyout transaction where ABLV Private Equity Fund 2010 KS acquired a 25% shareholding and supported SIA DMT Pluss in the increase of its shareholding from 28% to 75% in SIA DEPO DIY – the leading cash and carry chain in Latvia.

- Advising CAE, a global leader in modelling, simulation and training for civil aviation and defence, in the transaction where CAE sold one of its Latvian companies – SIA Training Centre Holdings – to AS Air Baltic Corporation.

Lithuania

- Advising a subsidiary of AB Linas Agro Group, the Lithuanian-based international agricultural group with a consolidated turnover above €290m, in acquiring the controlling stake in Labunavos agricultural company.

- Advising AB Linas Agro Group in increasing its stake in UAB Dotnuvos projektai, a Lithuanian market leader in seed processing and trading as well as in constructing grain storage facilities.

- Advising Reitan Servicehandel, a Norwegian company with the aggregate turnover of €1.9bn, in its acquisition of a retail chain network (R-kioski, R-kiosk and Lietuvos spauda kiosks) through a share deal, the value of which was €130m.

- Advising the national Estonian postal company Eesti Post in the acquisition of Unipakas UAB, one of the leading parcel delivery companies in Lithuania.

About Raidla Lejins & Norcous

Raidla Lejins & Norcous is a leading pan-Baltic provider of legal services with independent offices in Vilnius, Riga, Tallinn and Minsk. With a total staff of 165 professionals, of whom over 130 are lawyers, it renders comprehensive legal services to local, regional and international legal entities, including multinational enterprises, international banks and financial institutions.

Raidla Lejins & Norcous has a well-developed network of relationships with leading law firms both in the West as in the East. 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. Its clients include many leading regional and international companies, banks and financial institutions. The 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 a 'one-stop concept' – coordinated assignment handling. The firm's core values reflect utmost attention to responsiveness, dedication, efficiency and care for clients in all aspects of its work.

Raidla Lejins & Norcous is consistently top ranked by all major global directories: Chambers Global, Chambers Europe, PLC Which Lawyer?, The Legal 500, as well as IFLR1000, the guide to the world's leading financial and corporate law firms, and the specialised international transactions directory mergermarket.

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

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