

# M&A Market in Russia in 2009

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# Introduction



***Thomas Dix***  
***Partner,***  
***Head of Transactions***  
***& Restructuring***

We are delighted to share with you KPMG's latest annual Russian M&A Survey.

During 2009 the Russian M&A market demonstrated a significant decrease in deal activity. Nevertheless, we saw several large transactions, particularly in the oil and gas sector. Distressed deals also gained increasing prominence.

The crisis not only dried up liquidity, but also resulted in an increase in the perception of risk in relation to Russia. The latter particularly affected foreign investors.

With a difficult year behind us, we expect a significant increase in M&A activity in 2010 and, with post-crisis stabilization, a pick up in both inbound and outbound investments.

We hope you find this publication useful.



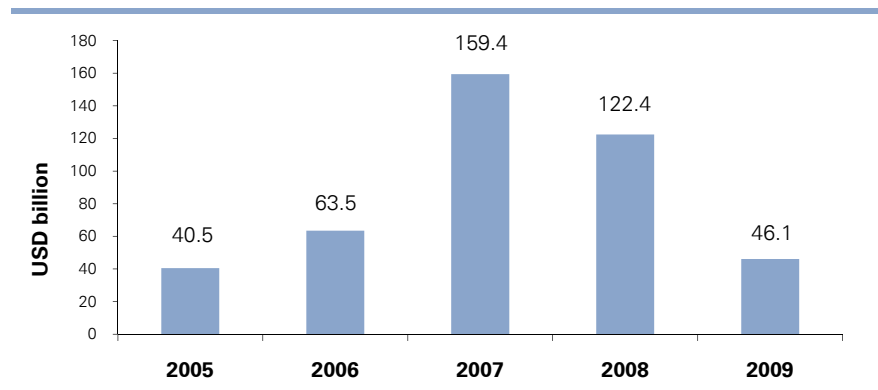
***Robert Vartevanian***  
***Partner,***  
***Head of Mergers***  
***& Acquisitions***

# M&A in Russia 2009



As a result of the economic crisis the Russian M&A market significantly declined in 2009, reaching a transaction volume of USD 46.1 billion<sup>1</sup>. This is 62% below the level of 2008 and 71% below the level of 2007, with the M&A volume falling back to approximately the level of 2005.

Graph 1. M&A Transaction Volume, 2005–2009



Source: KPMG analysis

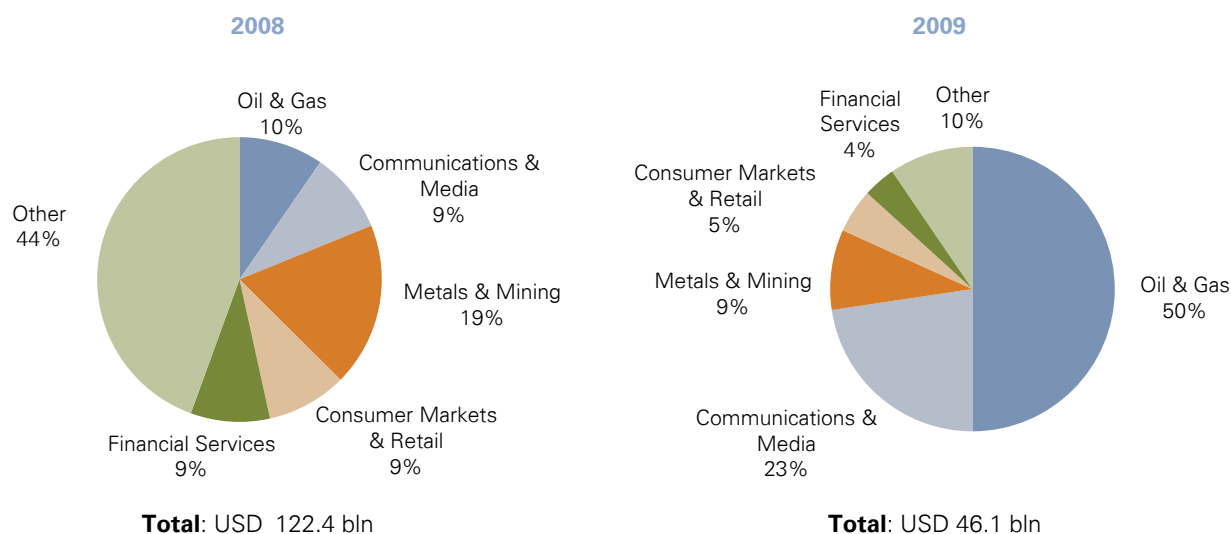
The key drivers for this significant decline were the high level of uncertainty about the future economic development with the onset of the crisis, a strong increase in risk aversion, a lack of funding as a result of the liquidity crunch, and a significant gap in valuation expectations between buyers and sellers.

Among the sectors showing the largest decline in M&A activity were the consumer markets & retail, financial services and metals & mining sectors, which were also among those most impacted by the crisis. The transaction volume in each of these sectors declined by approximately 80% compared to 2008.

Contrary to the overall trend, the M&A volume in the oil & gas sector increased, growing by nearly 100%. This strong increase was primarily driven by large one-off strategic deals, including very significant acquisitions by Gazprom, Gazprom Neft and Surgutneftegaz. As a result of this, the oil & gas sector became the most important M&A sector in 2009, accounting for approximately half of the total transaction volume. The communications & media sector was the second most important M&A sector in 2009, accounting for slightly over 20% of the total transaction volume.

<sup>1</sup> Based on announced transactions. Announced transactions include pending, partially completed and completed transactions. Transaction values based on publicly reported data.

Graph 2. M&amp;A Transaction Volume by Sector, 2008–2009



Source: KPMG analysis

The largest transaction in 2009 was the merger of VimpelCom and Kyivstar, with a transaction value of USD 5.5 billion, accounting for more than half of the total M&A volume in the communications & media sector. Other very large transactions in 2009 included the acquisition of a 20% stake in Gazprom Neft by Gazprom for USD 4.2 billion, and the purchase of a 25% minus one share stake in Severneftegazprom by E.ON for approximately USD 4.0 billion. Among the top 10 transactions in 2009, seven belonged to the oil & gas sector, three to the communications & media sector.

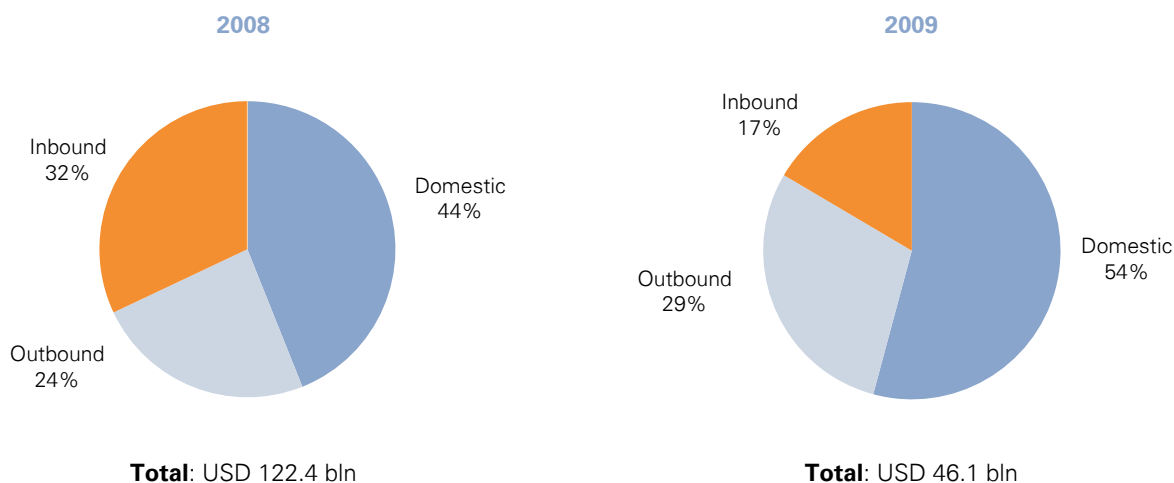
Since the overall market volume fell, but the largest transactions had approximately the same size as last year, the share of the top 10 transactions in the total M&A volume strongly increased. While in 2008 the top 10 transactions accounted for 29% of the total transaction volume, this number increased to 57% in 2009. Without these transactions the decline in market volume would therefore have been significantly larger.

Table 1. Top 10 Transactions, 2009

#	Target	Share, %	Acquirer	Transaction Volume, USD bln	Sector
1	Kyivstar	100.0	VimpelCom	5.5	Communications & Media
2	Gazprom Neft	20.0	Gazprom	4.2	Oil & Gas
3	Severneftegazprom	25.0 - 1 share	E.ON	4.0	Oil & Gas
4	BashTEK	50.3	Sistema	2.5	Oil & Gas
5	Rostelecom	40.0	Deposit Insurance Agency / VEB	2.2	Communications & Media
6	MOL	21.2	Surgutneftegaz	1.9	Oil & Gas
7	SeverEnergiya	51.0	Gazprom	1.6	Oil & Gas
8	Lukarco	46.0	LUKOIL	1.6	Oil & Gas
9	NOVATEK	13.1	Volga Resources	1.6	Oil & Gas
10	COMSTAR - UTS	50.9	Mobile TeleSystems	1.3	Communications & Media

Source: KPMG analysis

Graph 3. Share of Domestic and Cross-border Transactions, 2008–2009



Source: KPMG analysis

As companies generally focus on their home market rather than international expansion in crisis times, the relative share of cross-border M&A declined in 2009, accounting for 46% of the total transaction volume compared to 56% in the prior year. Particularly pronounced was the decline in foreign buyers, with inbound M&A accounting for 17% of the total Russian M&A volume in 2009 compared to 32% in 2008.

## Outlook

For 2010, we expect a noticeable increase in transaction volume. The key drivers for this are likely to include a significant rise in business confidence with the increasing economic rebound, the continued delevering of highly geared corporates via selected disposals, and the growing return of foreign buyers. Rising disposals from the distressed asset portfolios accumulated by the financial sector during the crisis, as well as privatizations by the Russian government, will further contribute to the growth in M&A activity.

We expect the M&A rebound to gain increasing momentum over the course of the year. It is, however, likely to take several years until the pre-crisis level of M&A activity is reached again.

# Sector Analysis

## Metals & Mining Sector

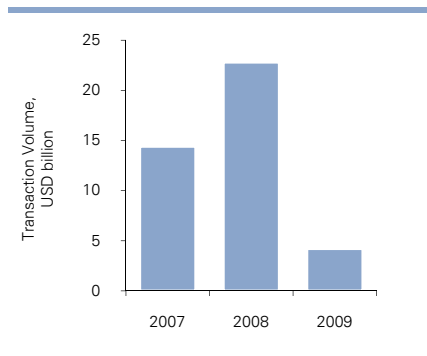


### M&A in the Metals & Mining Sector, 2009

Total transaction volume USD 4.2 bln

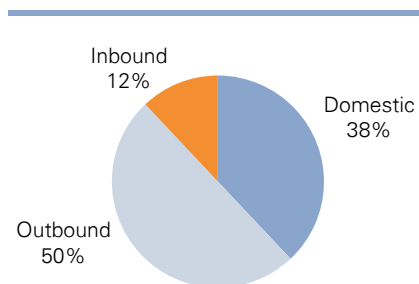
Share of total market 9.1%

Graph 4. M&A in the Metals & Mining Sector, 2007–2009



Source: KPMG analysis

Graph 5. Cross-border M&A in the Metals & Mining Sector, 2009 (% of total transaction volume)



Source: KPMG analysis

The metals & mining sector has been among the sectors most affected by the crisis. The strong fall in metal prices (with the notable exception of the gold price, which was hardly impacted by the crisis), combined with significant declines in demand and the difficult funding environment, strongly impacted many companies in the sector. In several cases, only the liquidity provided by the Russian government prevented bankruptcies.

In line with the difficult business conditions, the M&A volume in the metals & mining sector significantly declined in 2009, falling by more than 80% compared to the previous year.

The largest transaction in the metals & mining sector in 2009 was the acquisition of a 37% stake in Polyus Gold, the gold mining company, by Wandle Holdings for approximately USD 1.3 billion. In addition, there were also three other gold-related transactions among the top 10 metals & mining transactions in 2009, including the acquisition of KazakhGold by Polyus Gold for USD 269 million and the acquisition of Three K Exploration & Mining by Polymetall for USD 235 million. Uranium accounted for two of the top 10 transactions, with the acquisition of the assets of Effective Energy by ARMZ for USD 470 million and the acquisition of a 50% stake in Karatau by Uranium One for USD 446 million.

Table 2. Top 10 Metals &amp; Mining Sector Transactions, 2009

#	Target	Share, %	Acquirer	Transaction Volume, USD mln
1	Polyus Gold	37.0	Wandle Holdings	1,249
2	Bluestone Coal	100.0	Mechel	568
3	NS Group	49.0	TMK	508
4	Effective Energy	100.0	Atomredmetzoloto (ARMZ)	470
5	Karatau	50.0	Uranium One	446
6	KazakhGold	50.0	Polyus Gold	269
7	Three K Exploration & Mining	100.0	Polymetal	235
8	Vanadiy-Tula	90.8	NTMK	108
9	Zolotrudnaya Kompaniya Mayskoye	100.0	Investor Group	105
10	Dalpolimetall	50.0	Russian Mining Company (RGRK)	100

Source: KPMG analysis

As in many other sectors, the relative share of domestic M&A activity increased in 2009. In the metals & mining sector this increase was particularly pronounced, with the relative share of domestic M&A nearly quadrupling from 10% to 38%. Outbound M&A, however, still accounted for the largest share of the transaction volume, at just over 50% compared to 66% in 2008.

## Outlook

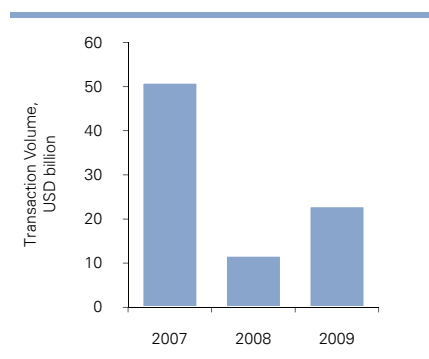
Having recovered from their crisis period lows, the outlook for the prices of various metals is forecast to be one of mixed fortunes in 2010. It is likely that prices of steel products will significantly strengthen during 2010 on the back of continuing demand from China, while base metals are expected to pull back slightly from current levels as the pace of restocking by Chinese manufacturers declines and as the market refocuses on the high levels of stocks of certain base metals. Gold and precious metal prices are forecast to remain strong during 2010, as investors see value in the yellow metal as a safe haven against instability and inflation. Overall, many companies in the metals & mining sector should experience increased revenues in 2010 from both a price and volume perspective.

Before the start of significant new acquisitions many metals & mining players are likely to focus on the delevering of their balance sheets. At the same time, particularly those companies with lower gearing are likely to take advantage of M&A situations with attractive prices.

## Oil & Gas Sector



Graph 6. M&A in the Oil & Gas Sector, 2007–2009



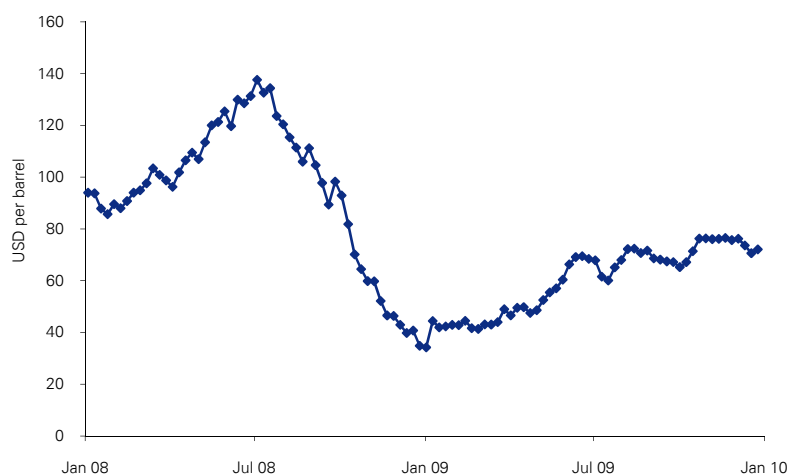
Source: KPMG analysis

Following the drastic fall of the oil price in the second half of 2008, 2009 saw a steady rise during most of the year. Nevertheless, the peak in the oil price in November 2009 was 44% below the maximum level in 2008.

The volume of crude oil extracted in Russia during 2009 amounted to 494.2 million tonnes, a slight increase (1.2%) on 2008. As a result of this increase and a reduction in oil production by Saudi Arabia, Russia became the world's largest oil producer in 2009. The five largest oil companies in Russia, Rosneft, LUKOIL, Surgutneftegaz, TNK-BP and Gazprom Neft, accounted for approximately 75% of this volume.

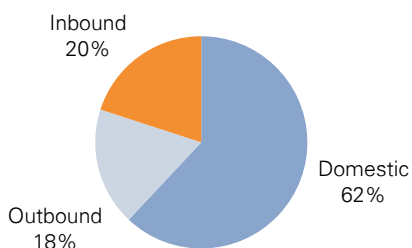
The proportion of export and domestic consumption volumes changed slightly in 2009. Approximately 240 million tonnes were refined on the domestic market, a 0.5% decrease compared to 2008, and approximately 250 million tonnes were exported, a 3.3% increase on 2008.

Graph 7. Urals Crude Oil Price, 2008–2009



Source: KPMG analysis

**Graph 8. Cross-border M&A in the Oil & Gas Sector, 2009**  
(% of total transaction volume)



Source: KPMG analysis

Contrary to the general decline in the M&A market in 2009, the transaction volume in the oil & gas sector increased by 95% to USD 23.0 billion. As a result, the share of the oil & gas sector in the total Russian M&A volume increased drastically, from 10% in 2008 to 50% in 2009. This increase primarily was driven by several large one-off strategic deals, including very significant acquisitions by Gazprom, Gazprom Neft and Surgutneftegaz.

The largest transactions in 2009 included the following:

- Gazprom exercised a call option acquired in 2007 and purchased 20% of Gazprom Neft from ENI for USD 4.2 billion and 51% of SeverEnergia from a consortium of ENI and Enel for USD 1.6 billion;
- Sistema announced that it would increase its approximately 30% shareholding in BashTEK to 100% ownership, in order to build a vertically integrated petroleum company. In early 2009, Sistema purchased approximately 50% in BashTEK for USD 2.5 billion from the previous owners, and is currently negotiating with the remaining minority shareholders;
- E.ON acquired a 25% stake in Severneftegazprom, the operator of the Yuzhno Russkoye gas field in Siberia, in exchange for a 49% interest in Gerosgaz. The latter owns a 2.9% stake in Gazprom;
- A private Russian investor, via Volga Resources, acquired a 13% stake in NOVATEK from its management for approximately USD 1.5 billion. This transaction was accompanied by the sale of a 51% stake in Yamal LNG (indirectly owned by the same Russian investor) to NOVATEK for USD 650 million;
- Gazprom Neft acquired a controlling stake in Sibir Energy for USD 1.0 billion, strengthening Gazprom Neft's resource base in Western Siberia, increasing its shareholding in the Moscow Refinery Plant, and adding two retail networks in Moscow and the Moscow region (circa 170 gasoline stations) to its existing network;
- LUKOIL acquired the remaining 46% stake in the Lukarco joint venture from BP for USD 1.6 billion.

The majority of transactions in 2009 in the oil & gas sector were domestic, with the share of cross-border transactions declining to 38% compared to 69% in the prior year. Inbound transactions accounted for only 20% of the total transaction volume, a decrease from 28% in 2008. The largest inbound transactions in 2009 included the acquisition of TNK-BP's oil field services unit by Weatherford for USD 489 million, and the acquisition of a 45% stake in Nobel Oil by the China Investment Corporation for USD 100 million, as well as the abovementioned acquisition of a stake in Severneftegazprom by E.ON.

Outbound transactions accounted for 18% of the total transaction volume in 2009, compared to 41% in the prior year. The largest outbound transactions included the abovementioned acquisition of a stake in Lukarco by LUKOIL; Surgutneftegaz's acquisition of a 21% stake in MOL, the Eastern European oil & gas company, for approximately USD 1.9 billion; and LUKOIL's acquisition of a 45% stake in a Dutch refinery from Total for USD 725 million.

Table 3. Top 10 Oil &amp; Gas Sector Transactions, 2009

#	Target	Share, %	Acquirer	Transaction Volume, USD mln
1	Gazprom Neft	20.0%	Gazprom	4,200
2	Severneftegazprom	25.0%	E.ON	3,959
3	BashTEK	50.0%	Sistema	2,500
4	MOL	21.0%	Surgutneftegaz	1,852
5	SeverEnergiya	51.0%	Gazprom	1,600
6	Lukarco	46.0%	LUKOIL	1,600
7	NOVATEK	13.0%	Volga Resources	1,555
8	Sibir Energy	32.5%	Gazprom Neft	1,000
9	Total Raffinaderij Nederland	45.0%	LUKOIL	725
10	Yamal LNG	51.0%	NOVATEK	650

Source: KPMG analysis

## Outlook

We expect the Russian majors to continue to be key players in the M&A market in the oil & gas sector. Their acquisition appetite is likely to significantly correlate with the oil price.

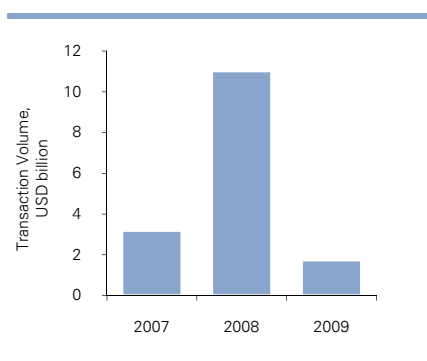
Subject to favorable oil prices, we expect the Russian majors to continue to enter the markets of developed countries via the acquisition of refineries and retail networks, and also to continue to grow their international deposit base by further expanding into markets such as the Middle East, Central Asia and Latin America.

At the same time, we expect further consolidation among the smaller players and the increasing return of foreign investors to Russia.

## Financial Services Sector



Graph 9. M&A in the Financial Services Sector, 2007–2009



Source: KPMG analysis

The economic crisis has had a significant impact on the M&A market in the financial sector. The transaction volume decreased by 84.5% from USD 11 billion in 2008 to USD 1.7 billion in 2009. The key factors contributing to this fall include the following:

- Weak operational performance of Russian banks: at the start of the crisis interbank liquidity dried up very quickly. On one hand this caused immediate problems for the banks themselves, many of which had to apply for Central Bank support. On the other hand it also had a negative effect on the clients of banks, with the number of non-performing loans increasing and it becoming more difficult to roll-over existing loans. This led to significant pressure on the Russian banking sector and negatively impacted the financial performance of banks. Uncertainty regarding the effect of the crisis on banks' loan books also made assessing value very difficult.
- Low appetite of foreign investors: during the past few years inbound cross-border deals were a key driver of the transaction volume in the financial sector. The crisis also had a negative impact on those foreign banks which were in a position to consider an acquisition in Russia. As a result, such potential investors changed their priority to focusing on their existing markets instead of expanding into new territories.

The transactions which took place in 2009 were relatively small in size and limited in number. Many of the deals which occurred included on the buy side either government affiliated entities, or cash rich companies which could take advantage of distressed situations. 2009 saw a significant decrease in M&A pricing levels, with the key contributing factors including the poor quality of assets and expected credit write-offs; the cost and limited availability of capital; reduced profitability; fewer potential buyers; and the lack of affordable funding.

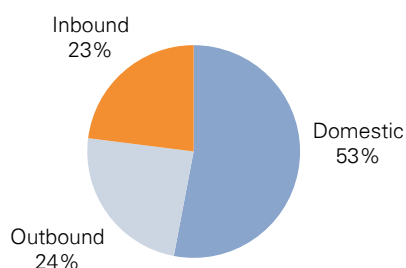
Outside the top 10 deals domestic consolidation occurred in 2009. Distressed market conditions and Central Bank regulatory demands in relation to increasing capital requirements were the main drivers behind the consolidation process.

Table 4. Top 10 Financial Services Sector Transactions, 2009

#	Target	Share, %	Acquirer	Transaction Volume, USD mln
1	VEFK Bank	100.0	Deposit Insurance Agency / NOMOS Bank / OTKRITIE	296
2	BPS-Bank	93.3	Sberbank	281
3	BUSINESS ALLIANCE	10.0	White Nights Finance	222
4	Troika Dialog	33.0	Standard Bank	200
5	Promsvyazbank	11.8	European Bank for Reconstruction and Development (EBRD)	160
6	Prominvestbank	75.0	VEB	156
7	OTKRITIE	20.0	VTB	150
8	Russian Capital	100.0	Deposit Insurance Agency	95
9	TRUST National Bank	51.0	Rosneft	82
10	Bank of Cyprus credit portfolio	100.0	UNIISTRUM BANK	71

Source: KPMG analysis

Graph 10. Cross-border M&amp;A in the Financial Services Sector, 2009 (% of total transaction volume)



Source: KPMG analysis

## Outlook

We expect a higher level of M&A activity in the banking sector in 2010. Although liquidity has not yet fully returned to the market, the majority of banks are in a much better position than 12 months ago. Loan portfolios are more transparent and non-performing loans have been identified. Work-out programs are being executed and banks are better prepared for the new reality.

A more stable situation will be the basis for an improving M&A climate. However, we do not expect activity and pricing to return to the 2008 levels in 2010. This could take another two to three years. We foresee the following M&A trends occurring in 2010: consolidation and cross-border M&A.

### Consolidation

- More than 1,000 banks currently operate in Russia, but the 200 largest banks account for more than 90% of Russian banking sector assets. Consolidation is likely to occur more frequently at the level of small- and medium-sized banks, as well as among niche banks. It is estimated that the number of banks could drop to 500 within 5 years; some analysts foresee a drop to 250. The regulative initiatives of the Central Bank in relation to increasing capital requirements for banks will continue to contribute to consolidation.

### Cross-border M&A

- Exits: some international banks have reviewed their strategies and may consider an exit from the Russian market. These decisions will trigger M&A opportunities for either local or international banks wanting to enter the market or grow their market share.
- Market entry: as the global economy starts to show increasing signs of recovery, we expect an increase in foreign investment into the Russian banking sector. Those international banks who did not achieve their aim of acquiring a Russian bank prior to the crisis, and who still have a strategic interest in the Russian market, are in a unique position to buy in order to execute their strategy in the current market conditions.

## Consumer Markets & Retail Sector

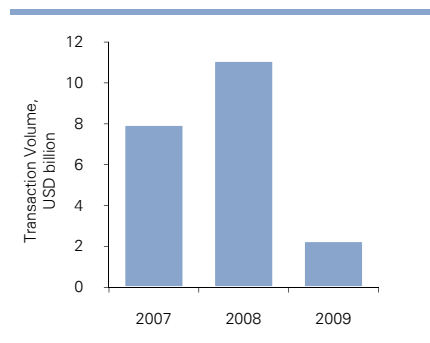


### M&A in the Consumer Markets & Retail Sector, 2009

Total transaction volume USD 2.3 bln

Share of total market 5.0%

Graph 11. M&A in the Consumer Markets & Retail Sector, 2007–2009



Source: KPMG analysis

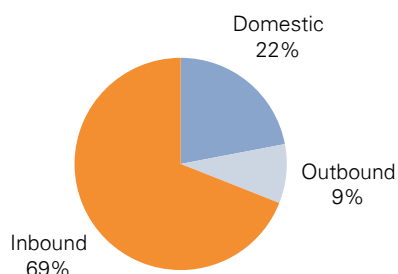
The crisis significantly impacted the Russian consumer markets & retail sector, with consumers becoming much more price sensitive, banks substantially reducing consumer financing, and prices for imported goods strongly increasing due to the ruble devaluation. M&A activity in the sector strongly declined, with the transaction volume falling by 79% compared to the prior year.

Table 5. Top 10 Consumer Markets & Retail Sector Transactions, 2009

#	Target	Share, %	Acquirer	Transaction Volume, USD mln
1	Russian Alcohol	58.0	Central European Distribution Corporation (CEDC)	871
2	Eldorado	50.0	Prvni Privatizacni Fond (PPF Group)	300
3	Paterson	100.0	X5 Retail Group	275
4	Lenta	35.4	VTB Capital / TPG Capital	111
5	Infolink	50.0	Colussi	100
6	Narico Holdings	100.0	Mobile TeleSystems	85
7	Zdorovye Lyudi	100.0	Sergey Nizovtsev / Aleksey Batulin	80
8	Concordia	60.0	Formant Investments	78
9	Rolf Import	40.0	Mitsubishi Motors	72
10	Copecrest Enterprises	15.0	Central European Distribution Corporation (CEDC)	70

Source: KPMG analysis

Graph 12. Cross-border M&A  
in the Consumer Markets & Retail  
Sector , 2009  
(% of total transaction volume)



Source: KPMG analysis

## Food Retail

In 2009 the Russian food retail sector faced significant challenges. As most Russian food retailers historically financed their long-term investments in new stores via short-term loans, substantial liquidity problems arose when many banks became unwilling to further prolong these loans. Combined with the decrease in consumer spending, this caused a general slowdown in the sector's development and bankruptcies of weaker players.

The clear preference of consumers for low-priced goods contributed to the popularity of discounters and traditional food markets. The relatively more expensive supermarket format, which also did not benefit from the economies of scale of hypermarkets, therefore turned out to be most vulnerable to the crisis. Contrary to the expectations of market analysts, consolidation was however limited due to the low availability of financing and the scarcity of targets with the right mix of a well-established brand, a sufficiently large business and an acceptable level of debt.

Following the onset of the crisis the Russian food retail sector showed a strong trend for 'debt-driven' transactions, where financial institutions obtained control over their debtors' business in connection with debt restructurings. Sberbank, for example, became the controlling shareholder of Mosmart. A 15% stake in Seventh Continent was also transferred to its creditors as part of the restructuring of the debt of its shareholder.

## Non-food Retail

Non-food retail faced similar problems to food retail and also followed the trend of 'debt-driven' transactions. For example, PPF Group and Generali obtained a stake of 50% plus 1 share in Eldorado Russia via a partial conversion of Eldorado's debt, and Alfa-Bank obtained control over the Banana-mama chain.

Automobile retail in 2009 faced a particularly strong decline in demand, with sales frequently falling by more than 50% as a result of the fall in consumer confidence, price increases due to the ruble devaluation and increases in import duties, and the scarcity of car financing. In this environment some foreign car manufacturers assisted their Russian distributors via investments. Mitsubishi, for example, acquired a 40% stake in Rolf Import, and Kia purchased 100% of Sokia. Otherwise there was little M&A activity in the automobile retail space.

In mobile retail Mobile TeleSystems followed VimpelCom's example of the prior year and forward integrated into retail via the acquisition of Eldorado Center, Salon Svyazi Eldorado, Telefon.ru, and Teleforum.

In pharmaceutical retail the only significant M&A transaction was the management buy-out of the retail chain Zdorovye Lyudi from Natur Produkt.

## *Food and Beverage Production*

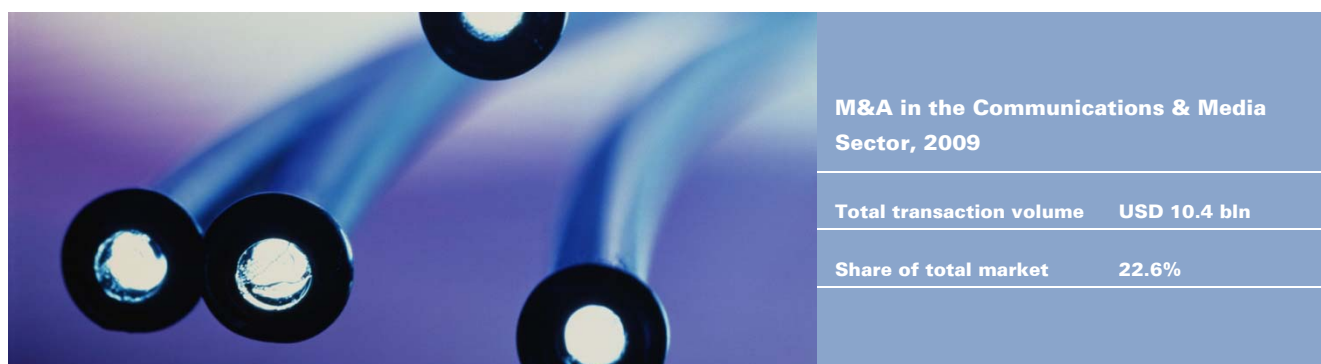
Compared to many other segments, the Russian food and beverage production sector weathered the crisis comparatively well due to the relative stability of consumer demand for food and beverage products. While consumers frequently switched to less expensive retail chains and substituted some 'premium' class products with 'middle' or 'economy' class products, leading to a reduction in the margins of food and beverage producers, the effect of this was not so severe as to cause many distressed M&A transactions. At the same time, many potential investors remained very cautious due to the general uncertainty in the market and the lack of liquidity. M&A activity in the Russian food and beverage production segment in 2009 was therefore limited. The most significant transactions were two investments by Polish CEDC in the vodka production segment. This segment is currently seen as particularly attractive by many investors, due to various government measures targeting illegal and low-quality vodka production which are likely to reduce competition, as well as the low level of market consolidation. Other transactions in the food and beverage production area in 2009 included the sale of Baltimor's ketchup production assets to Unilever and the sale of a majority stake in a semi-finished meat products plant in Kaliningrad by a large Brazilian food processor to Formant Investments.

### Outlook

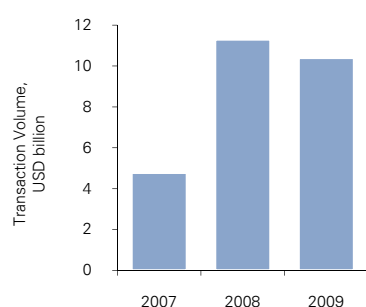
In 2010 we expect the retail sector to gradually recover, facilitated by the projected upturn in the economy, growing consumer confidence and improved supplier payment discipline. In the short-term, further distressed transactions are likely to occur. Once the economy returns to growth, banks will also seek to sell the retail stakes they obtained via debt restructurings, which will trigger the next round of ownership changes. Over the medium term, we also expect an increasing return of foreign investors and private equity houses.



## Communications & Media Sector



Graph 13. M&A in the Communications & Media Sector, 2007–2009

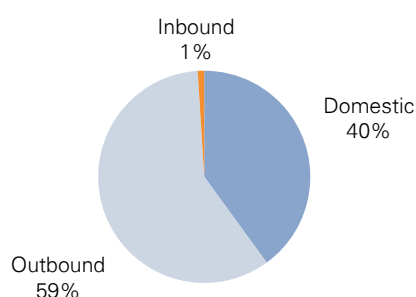


Source: KPMG analysis

The communications & media sector did not suffer from the economic crisis as significantly as many other industries. While both fixed line and mobile operators experienced a decline in the rate of revenue growth in comparison with prior years, the main industry players managed to approximately maintain their level of profitability as a result of effective cost cutting initiatives in response to changes in the economic environment.

In spite of the crisis, telecoms operators continued with their investments into new technologies. The 'Big 3' mobile operators have been focused on the further development of their 3G services in Moscow and other regions. At the same time, Skartel has launched 4G mobile internet services using WiMAX technology under the 'Yota' brand in five large Russian cities including Moscow. Mobile operators are also currently considering investments into alternative long-term evolution (LTE) technology. Fixed line operators are continuing the regional penetration of broadband services.

Graph 14. Cross-border M&A in the Communications & Media Sector, 2009 (% of total transaction volume)



Source: KPMG analysis

The M&A volume in the communications & media sector decreased in 2009 by 8% compared to 2008, to a total of USD 10.4 billion.

The largest transaction, accounting for almost 53% of the total 2009 transaction volume in the communications & media sector, was the merger of VimpelCom in Russia and Kyivstar in Ukraine, with a transaction value of approximately USD 5.5 billion.

Other large transactions include the acquisition of a 40% stake in Rostelecom by the State Deposit Insurance Agency and VEB from KIT Finance Bank for approximately USD 2.2 billion, as well as the acquisition of a controlling stake in COMSTAR - UTS by Mobile TeleSystems from Sistema, the ultimate controlling shareholder of both companies, for approximately USD 1.3 billion. The latter transaction can be seen as Mobile TeleSystems's response to VimpelCom's acquisition of Golden Telecom a year ago, demonstrating a good example of the continuing telecom convergence. This convergence strategy is being pursued by the leading telecom operators and envisages the provision of a full range of telecommunications services (fixed-line, mobile internet and other value-added services) by universal operators.

Table 6. Top 10 Communications &amp; Media Sector Transactions, 2009

#	Target	Share, %	Acquirer	Transaction Volume, mln USD
1	Kyivstar	100.0	VimpelCom	5,516
2	Rostelecom	40.0	Deposit Insurance Agency / VEB	2,164
3	COMSTAR - UTS	50.9	Mobile TeleSystems	1,272
4	Facebook	3.5	Digital Sky Technologies	300
5	Moscow City Telephone	3.1	COMSTAR - UTS	247
6	Zynga Game Networks	n.a.	Digital Sky Technologies	180
7	Eurotel	100.0	Mobile TeleSystems	110
8	Yandex	9.0	Baring Vostok Capital Partners / Tiger Global Management / UFG Asset Management	100
9	Alfa Telecom Turkey	62.2	Henri Services / Nadash International Holdings	90
10	RBC Information Systems	51.0	Onexim	80

Source: KPMG analysis

The top 10 transactions include two transactions by private equity funds: Digital Sky Technologies acquired a 3.5% stake in the social network Facebook for USD 0.3 billion, and a consortium consisting of Baring Vostok Capital Partners, Tiger Global Management and UFG Asset Management acquired a 9% stake in Yandex, the internet search engine company.

Outbound transactions accounted for 59% of the total M&A volume in 2009 in the communications & media sector, primarily reflecting the VimpelCom / Kyivstar transaction. This represents an almost fivefold increase compared to the prior year. The share of domestic transactions declined from 83% in 2008 to 40% in 2009.

## Outlook

For 2010 we expect a key driver of M&A activity in the communications & media sector to be the consolidation of regional telecom operators (MRKs) by Rostelecom. In October 2009 the board of directors of Svyazinvest, which holds a controlling stake in Rostelecom, approved a reorganization strategy which is planned to be completed in 2011. Svyazinvest also recently announced plans to pursue acquisitions of small and medium-sized regional operators to increase its subscriber base and to further expand into new regions.

Mobile operators are likely to continue penetrating existing markets and to consider further expansion into other developing markets. For example, VimpelCom is seeking international acquisitions (e.g. in South-East Asia and Africa) and Mobile TeleSystems has announced its intention to expand its services across the Russian regions and to obtain access to telecoms infrastructure via the acquisition of regional fixed line operators. TeliaSonera and Altimo also recently announced that they are considering merging their direct and indirect interests in Megafon and Turkcell, to create a new company to be listed on the NYSE.

# KPMG in Russia and the CIS



2009		No. of deals
<b>1.</b>	<b>KPMG</b>	<b>260</b>
2.	JP Morgan	250
3.	Goldman Sachs	240
4.	PricewaterhouseCoopers	229
5.	Morgan Stanley	222
6.	Credit Suisse	210
7.	Rothschild	206
8.	UBS	203
9.	BoA Merrill Lynch	198
10.	Deutsche Bank	192

2008		No. of deals
<b>1.</b>	<b>KPMG</b>	<b>390</b>
2.	JP Morgan	357
3.	Goldman Sachs	316
4.	Credit Suisse	315
5.	Citi	314
6.	Merrill Lynch	307
7.	UBS	306
8.	Morgan Stanley	298
9.	PricewaterhouseCoopers	284
10.	Rothschild	269

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KPMG's reputation is based on our values and our code of conduct, which have taken shape over more than 150 years.

KPMG member firms can be found in over 146 countries. Collectively they employ more than 140,000 people across a range of disciplines.

KPMG has been working in Russia for almost 20 years, and our essential principle has always been to use the firm's global intellectual capital, combined with the practical experience of our local professionals, to help leading companies to achieve their goals.

KPMG has had a permanent representation in Moscow since 1990. During recent years KPMG in Russia and the CIS has been one of the fastest growing practices in KPMG worldwide.

In 2009 KPMG was awarded as Financial Advisory Firm of the Year in Russia by ACQ Finance Magazine.

In the CIS, KPMG now has offices in Moscow, St. Petersburg, Yekaterinburg, Nizhny Novgorod, Novosibirsk, Rostov-on-Don, Almaty, Astana, Bishkek, Kiev, Donetsk, Yerevan and Tbilisi, employing together approximately 3,000 people.

Sustaining and enhancing the quality of this professional workforce is KPMG's primary objective. Wherever we operate we want our firms to be employers of choice.

## Contacts

### Thomas Dix

Partner, Head of Transactions & Restructuring, Financial Services  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [ThomasDix@kpmg.ru](mailto:ThomasDix@kpmg.ru)

### Robert Vartevanian

Partner, Head of Mergers & Acquisitions  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [RobertVartevanian@kpmg.ru](mailto:RobertVartevanian@kpmg.ru)

### Thomas Beck

Director, Mergers & Acquisitions, Energy & Natural Resources and Industrial Markets  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [ThomasBeck@kpmg.ru](mailto:ThomasBeck@kpmg.ru)

### Karina Cameron

Director, Transaction Services, Consumer Markets  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [KCameron1@kpmg.ru](mailto:KCameron1@kpmg.ru)

### Leonid Balanovsky

Partner, Transaction Services, Energy & Natural Resources  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [LBalanovsky@kpmg.ru](mailto:LBalanovsky@kpmg.ru)

### John Kallaway

Partner, Head of Corporate Finance, Metals & Mining  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [JKallaway@kpmg.ru](mailto:JKallaway@kpmg.ru)

### Herbert Schiller

Director, Transaction Services, Building, Construction & Real Estate  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [HerbertSchiller@kpmg.ru](mailto:HerbertSchiller@kpmg.ru)

### Lilia Zaitseva

Director, Transaction Services, Communications & Media  
Tel: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [LiliaZaitseva@kpmg.ru](mailto:LiliaZaitseva@kpmg.ru)

### Head Office, Russia and the CIS

Naberezhnaya Tower Complex, Block C  
10 Presnenskaya Naberezhnaya,  
Moscow 123317  
Telephone: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [moscow@kpmg.ru](mailto:moscow@kpmg.ru)