

Ukrainian M&A market – the most promising sectors in 2008

SOKRAT[↑]

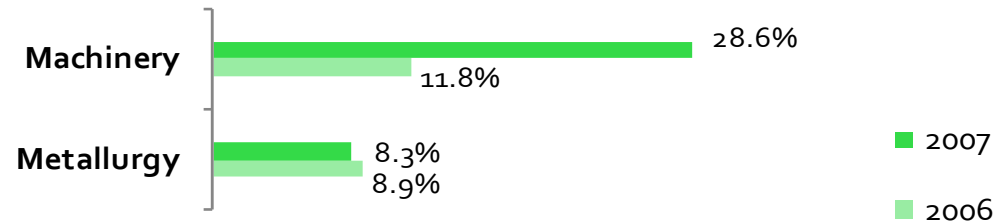
Andrey Ganzetskiy
Vice-President, Investment Banking

March 2008

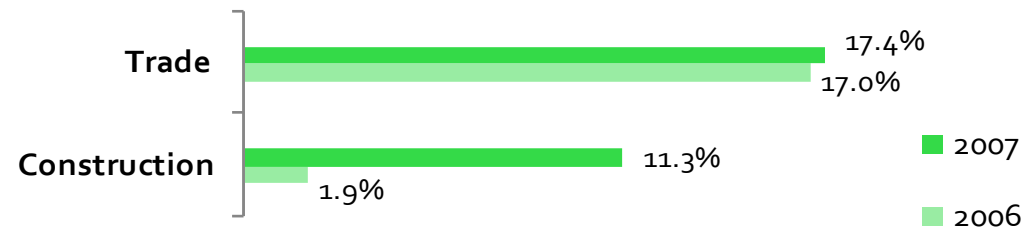
- > Ukraine. Summing up 2007. Economic outlook
- > Retail
- > Pharmaceutical
- > Insurance

2007 was a successful year for the Ukrainian economy with 7.3 % Real GDP growth achieved due to:

- Growth in export oriented industries



- Domestic industries



- In terms of demand, GDP was strongly supported by private consumption

- personal demand had grown 29.9 %YoY in 2007
- salaries surged 34.5 %YoY
- capital investments of the corporate sector – 29%YoY in 2007

Continuation of current macroeconomic trends should parlay into good performance in 2008 – **6.9 %** YoY, GDP growth

- The slight slowdown in GDP growth likely linked to slower growth in steel & chemical industries
- Growth in trade will slow down due to gradual reduction in the rate of growth of consumer credit
- Machinery, construction and agriculture will be the main engines of economic growth in 2008

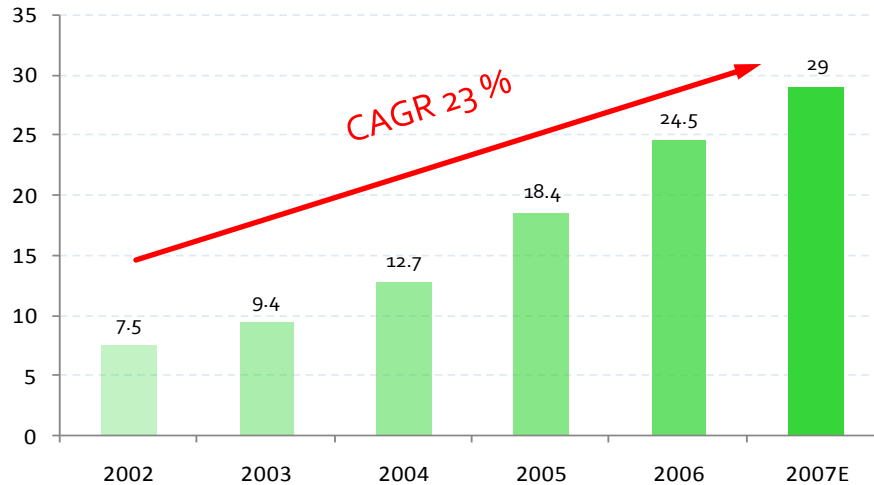
Key Indicators

	2005	2006	2007F	2008F	2009F	2010F
GDP, USD bln	86.1	106.5	140.5	176.2	205.5	231.7
Real GDP growth	2.7%	7.1%	7.3%	6.9%	6.4%	6.0%
Real Industrial Growth	3.1%	6.2%	10.2%	8.2%	7.1%	6.0%
Average Salary, USD	157.3	206.2	268.1	352.0	422.4	485.8
CPI YoY	13.5%	9.1%	12.8%	13.8%	10.1%	7.1%
Current Account, % to GDP	2.9%	-1.5%	-4.3%	-5.3%	-6.4%	-7.6%
Financial Account, % to GDP	9.3%	3.8%	11.2%	9.8%	8.8%	8.1%
UAH/USD FX Rate Average	5.12	5.05	5.05	5.00	5.00	5.00

Source: State statistic Committee of Ukraine, Sokrat estimates

> Retail Industry

Retail Sales, \$ bln.

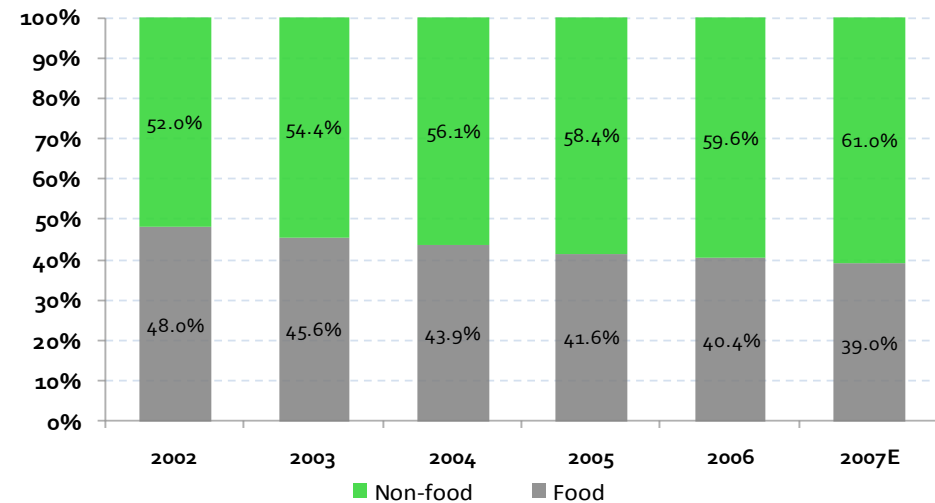


Retail turnover in Ukraine has been driven by:

- GDP growth at 9.7 % average (2005-07)
- Real salary growth at 18.8 % average (2005-07)
- Retail loans growth at 140 % average (2005-07)

Rise of economic well-being clearly accelerates a shift towards non-food in overall expenditures of consumers

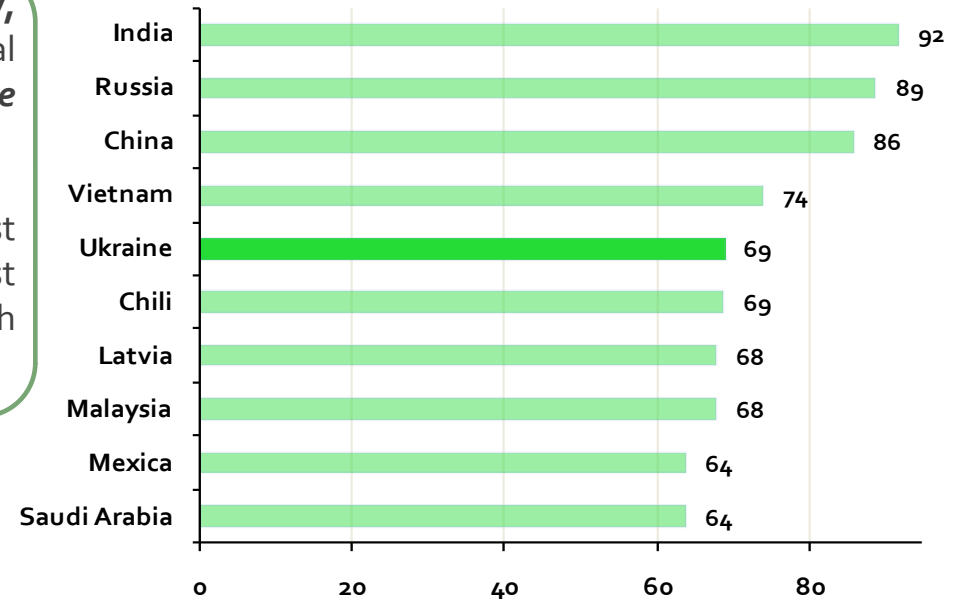
Sales in Ukraine, %



Source: State statistic Committee of Ukraine

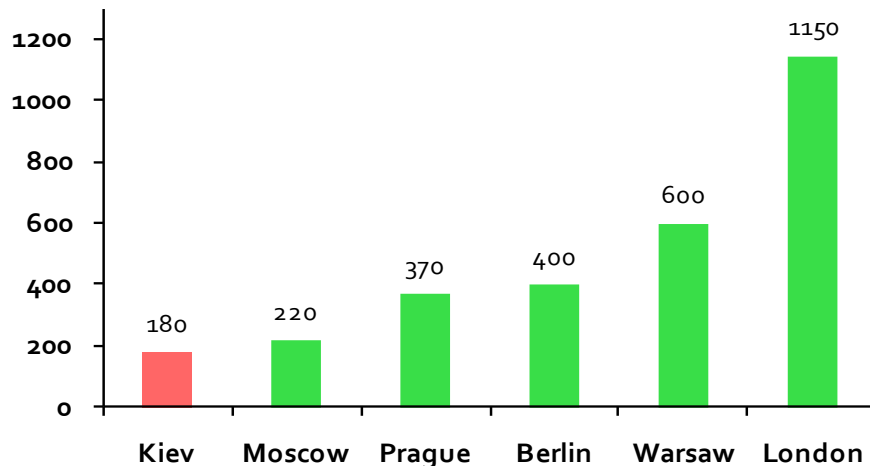
- According to international experts A .T. Kearney, Ukraine, with it's growing economy and substantial market fragmentation, *is one* of the *most attractive* retail markets for global retailers
- In it's **Global Retail Development Index** for the last three years, A.T. Kearney has placed Ukraine in 5 most attractive retail markets to enter (3rd place in 2005, 4th place in 2006, 5th place in 2007).

Index of emerging markets attractiveness (2007)



- Ukraine has the lowest level of trade area per capita among other countries in Eastern Europe

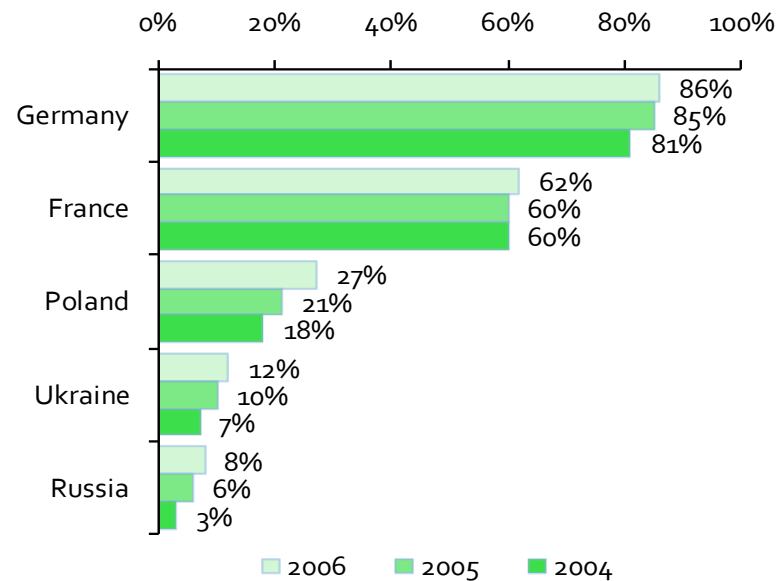
Trade area (sq.m) per 1,000 inhabitants (2007)



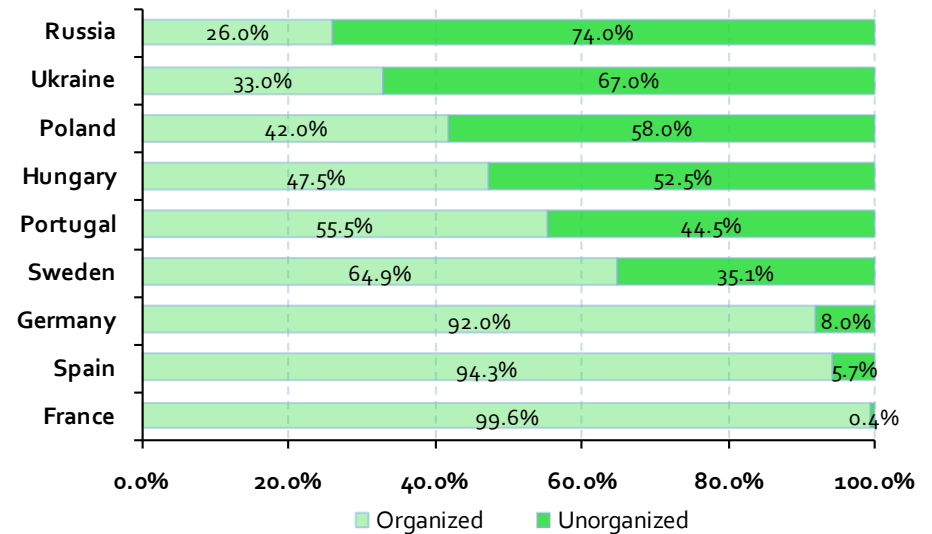
Source: A.T Kearney, 2007

- Food retail in Ukraine is still fragmented
- Consolidation has already commenced. The leading retailers increase their market shares and presence in different retail formats via acquisitions
- Ukraine is slowly achieving the *indexes* of eastern and central Europe but far behind West Europe
- Organized trade share is increasing backed by growing consumer welfare in all regions of Ukraine

“Top 5” share in total food sales, %



Share of organized vs. unorganized trade in selected countries, % (2006)



Source: Euromonitor international, Companies data

Market concentration is still very low: Top 5 food retailers control around 12 % of the market, while the same indicator for CEE and EU peers varies from 40% to 60%

Managing Company	Chain name	Format	# of stores '07	Net Sales, \$ mln (2006)	Market share by Sales, %
Metro C & C	Metro	Hypermarket	16	772	3.15
	Silpo	Supermarket	138		
Fozzy Group	Fozzy	Hypermarket	4	750	3.06
	For a	Discounter	81		
Furshet	Furshet	Supermarket	82	481	1.96
ATB-Market	ATB	Discounter	185	408	1.67
Kviza-Trade	Velyka Kishenya	Supermarket, hypermarket	44	295	1.65
Total			550	2.7 bln	11.49

Consolidation via Mergers and Acquisitions for *local players*:

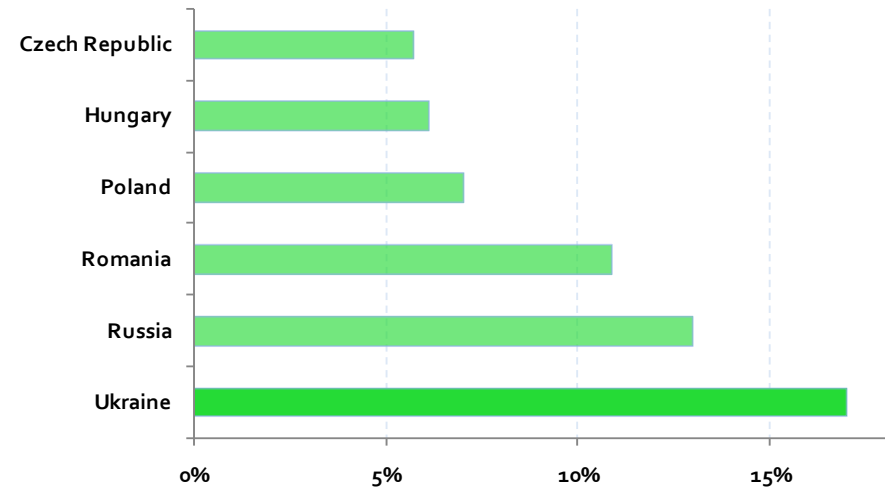
- Rapid regional expansion provides competitive advantage
- Relatively low costs for integration
- Limited availability of appropriate sites for stores development

Source: Companies data, Sokrat estimates

Expected trends in retail sector development

- GDP per capita growth will drive consumer spending on food (in value terms)
- Increasing households' welfare will change consumer preferences and buying habits towards modern retail formats and higher quality/price goods;
- Modern retail formats (hyper-/ supermarkets, C&C) are expected to account over 50% by 2010 at expense of old-style formats' share decrease, open markets in particular;
- Development opportunities will attract international chains to Ukraine, which will enter the retail market by acquiring local retailers (Auchan Group already leading the way with acquisition of 20% equity stake in Furshet chain, ranked 3rd in terms of sales volume in Ukraine in 2006)

Estimated CAGR of retail sales in 2007-2010 in selected CEE countries, %



Source: Economist Intelligence Unit, Sokrat estimates

Buyer	Year	Target	Estimated deal value, in Euro million	Number of stores	Format	Trade area, in thousand sq. m
Auchan Group	2007	Furshet (20% stake)	93.0	74	supermarket	120
Fozzy Group	2006	Panych	12.6	12	discounter	10
	2006	CG	9.3	3	supermarket	3
	2005	Maksi	3.5	1	hypermarket	8
	2005	Da! Market	n/a	10	supermarket	8
	2005	VAM	n/a	3	supermarket	5
	2004	Tiko-market	1.6	2	supermarket	2
	2003	Dnepryanka	n/a	38	discounter	20
Furshet	2006	Susid	n/a	13	supermarket	14
Kviza-Trade	2004	Begemot	n/a	4	supermarket	5
Perekrestok	2005	Spar-Ukraine	5.6	5	supermarket	6
Eko-Market	2007	Dastore	8.1	4	supermarket	9
	2005	Simpatik	2.6	1	supermarket	2

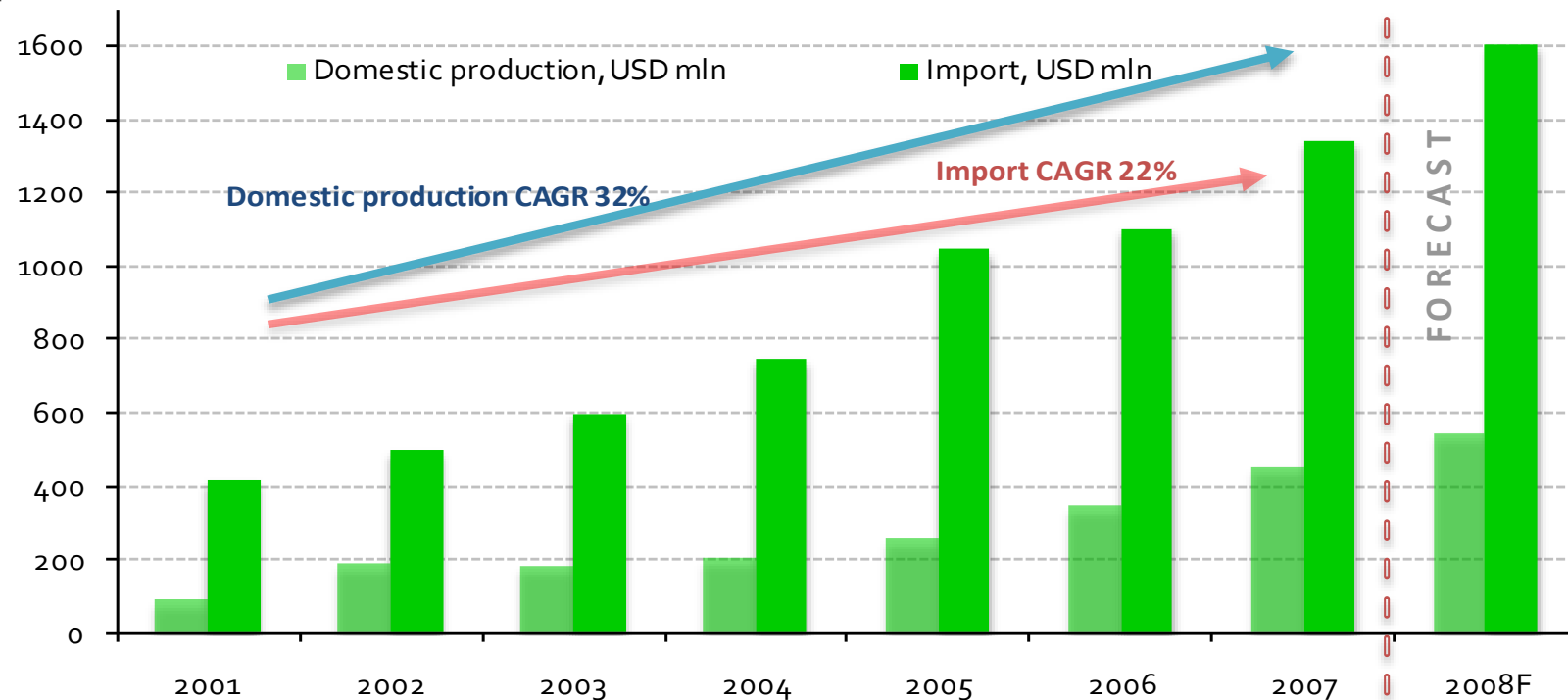
- Auchan Group was the first international chain, which entered Ukrainian market by acquiring a stake in national retailer in March 2007. Russian retailer Perekrestok, who has bought supermarkets from Spar-Ukraine was another foreign retail chain that entered the local acquisition market. All other deals in Ukrainian food retail sector up to this represent the expansion of national retailers, which often prefer acquisition strategy to organic growth due to lack of attractive land plots for new hyper- and supermarkets.

Source: Companies data, Sokrat estimates

> Pharmaceutical Industry

Low market concentration

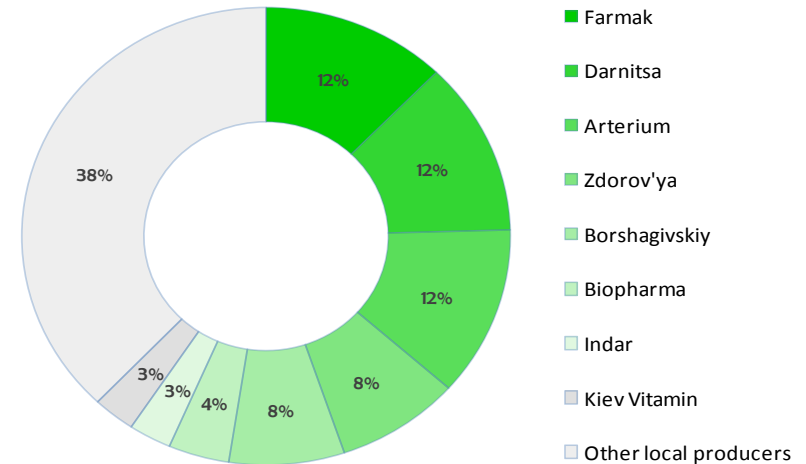
- Total domestic production is around USD 450 mln in 2007
- Import volumes total almost USD 1,340 mln in 2007 and are expected to grow 19% in 2008
- Domestic consumption – USD 1,650 mln
- Export – USD 150 mln



Source: SMD, Pharexpert, Pharmstandard, ISI Emerging markets

- Pharmaceutical market includes 575 producers while the share of top-10 local companies exceed 65% of the market;
- The majority of local companies still do not have GMP certificated production due to shortage of financing funds and technologies.

Local producers market structure, USD

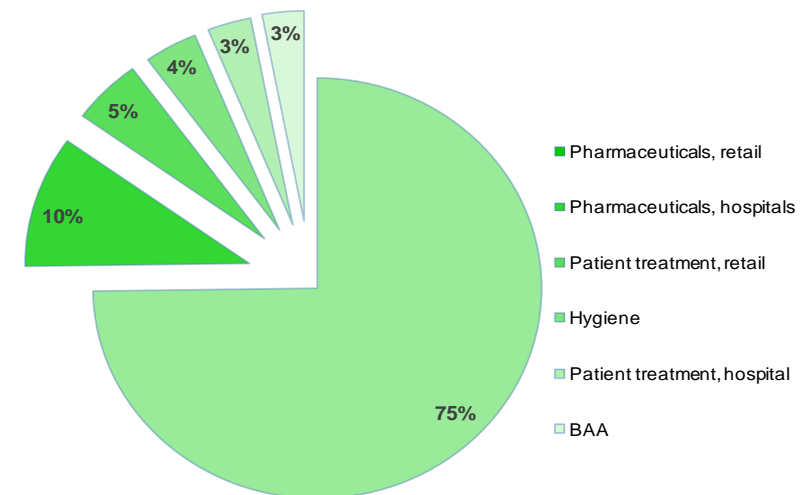


Local GMP certificated production capacities

Company name	Number of production lines	Number of products	Net sales in 3Q 2007, USD mln
Borshagovskiy	3	31	33.2
Farmak	2	14	53.3
Arterium	2	14	52.2
Indar	1	11	12.3
Pharma Start	1	10	4.3*
Darnitsa	1	3	53.3

* Pharma Start launched production in 2004; in 2006 its Net Sales reached USD 3.8 mln

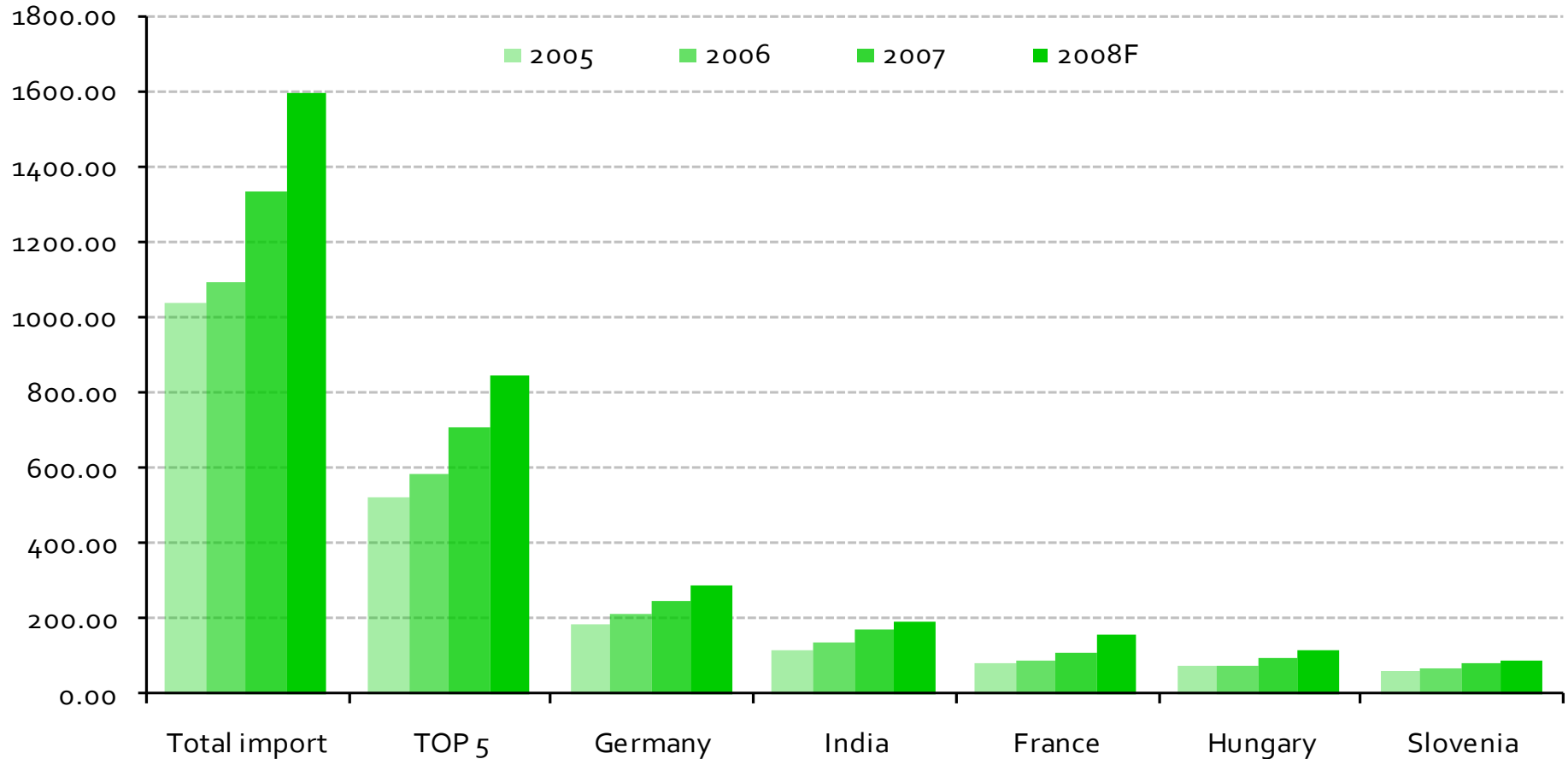
Market structure by products type, USD



Source: Business-Credit, GMP Club, IG Sokrat

Consumption of local and foreign products

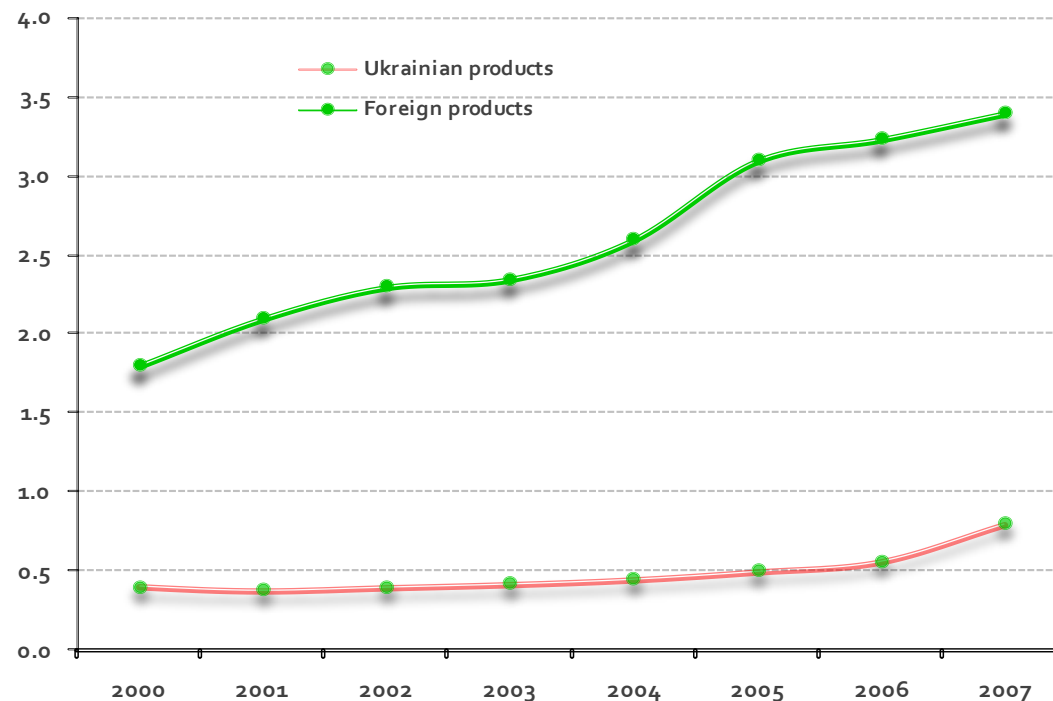
Top 5 importers of pharmaceuticals constitute around 53% of total import volumes. Germany still remains the main supplier with 20% of total volumes.



Source: SMD, Pharexport, Pharmstandard, ISI Emerging markets

Consumers steadily move preferences to more expensive products

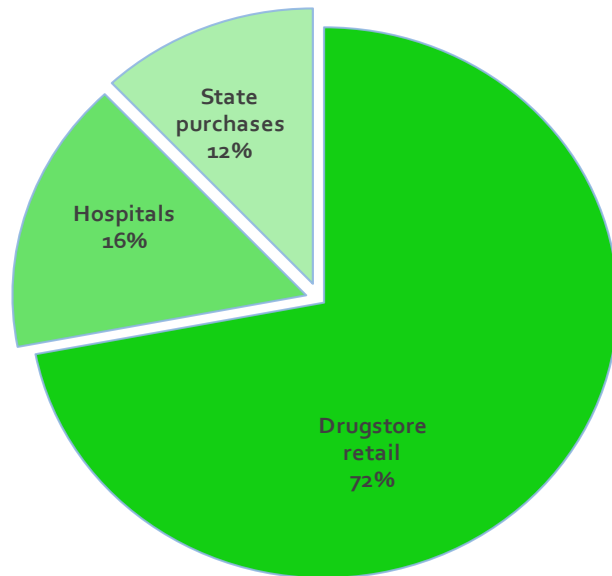
Average price per product package, USD



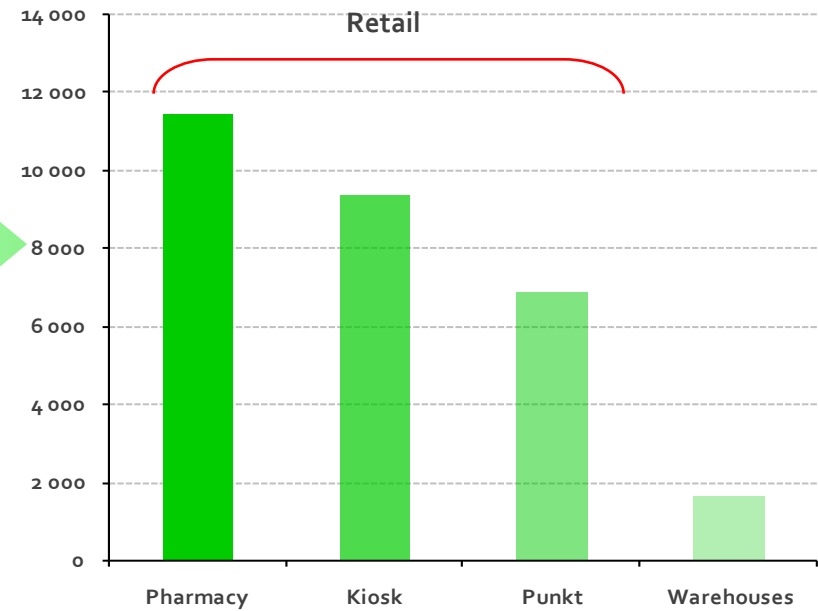
- Market trend demonstrates gradual increase of average prices per product package;
- There is substantial pricing gap between foreign and local products

Source: SMD, Pharexpert, Pharmstandard, ISI Emerging markets

Distribution structure by USD



Distribution channels, units, 2006



Regulatory drugstore retail includes three store formats:

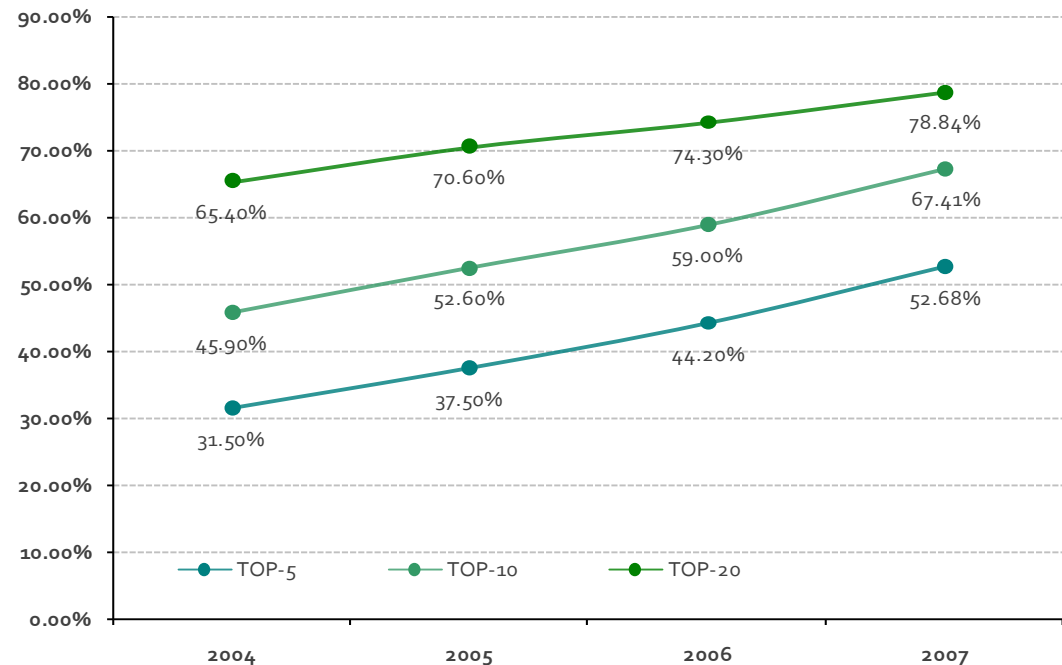
1. Pharmacy (area not less than 46 sq.m.)
2. "Punkt" (area not less than 15 sq.m.)
3. "Kiosk" (area not less than 6 sq.m.)

Source: Business-Credit, IG Sokrat

Foreign industry players show great interest towards Ukrainian pharmaceutical market

- TOP-5 wholesalers hold 53% of total import volume and approx. 75.3% of total wholesale market;
- There is no national distributor in Ukraine, all wholesalers operate on regional basis;
- Price war between wholesalers retain them from significant CAPEX into regional warehouses;
- Low margins and insufficient funds for consolidation makes most of the owners ready to negotiate about sale of the company.

Share of the distributor company groups within the total import (manufacturer prices) in 2004-2007



Retail is not consolidated yet

Pharmacy chains in Ukraine either private or municipal. Municipal chains are located in 1 region, while private chains aim to expand over Ukraine. But still Ukraine has no national retail chain.

Region	Private				Municipal					
	Farmacia	Med-Service	Falbi	Arnika	Farmacia Lugansk	Poltava-Pharm	Farmacia Mykolayiv	Farmacia Dnipropetrovsk	Liki Kirovograda	Farmacia Kiev
Crimea	311	11								
Dnepropetrovsk		63	12					233		
Donetsk				88						
Zaporozhie		21	8							
Kiev city			40							204
Kiev region			7							4
Kirovograd									222	
Lvov			6							
Lugansk					600					
Nikolayev			8				309			
Odessa	222	13	12							
Poltava		2	9			282	1			
Sumy		4	6							
Ternopol			4							
Kharkov		15	6							
Kherson		1	9							
Cherkassy			3							
Chernigov			3							
Total	533	130	133	88	600	282	310	233	222	208

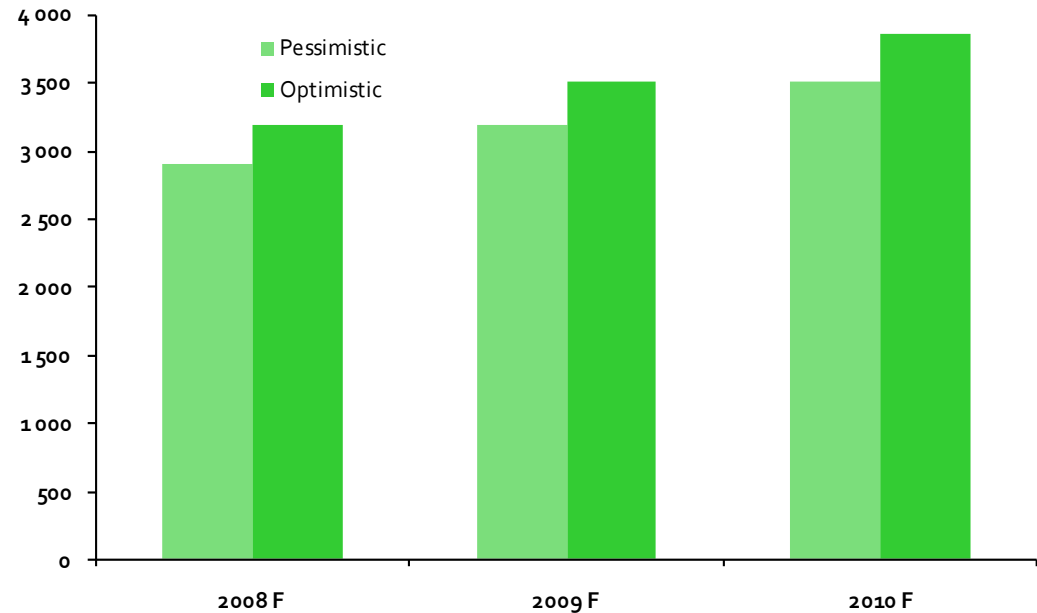
Source: IG Sokrat

High growth rate and low consolidation offer strategic players the unique opportunity to enter the market

Key growing factors of the market in the nearby future are:

- Growing medical insurance volumes;
- Introduction of new innovative drugs by local producers;
- New foreign entrants in the market will accelerate modernization of local production and development;
- Growth of disposable income in the country will move consumers' preferences to more expensive products, resulting in increasing market share of innovative drugs.

Forecast of pharmaceutical consumption in Ukraine, USD mln

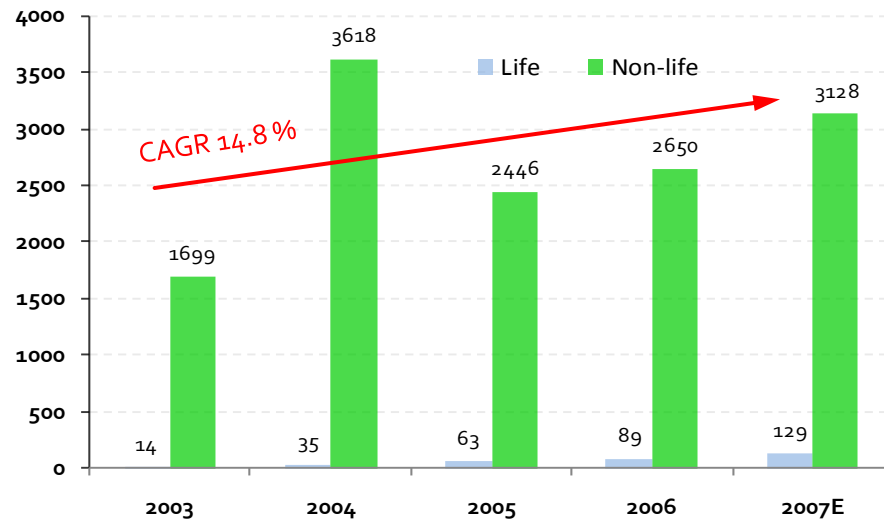


Source: SMD, Pharexpert, Pharmstandard, ISI Emerging markets

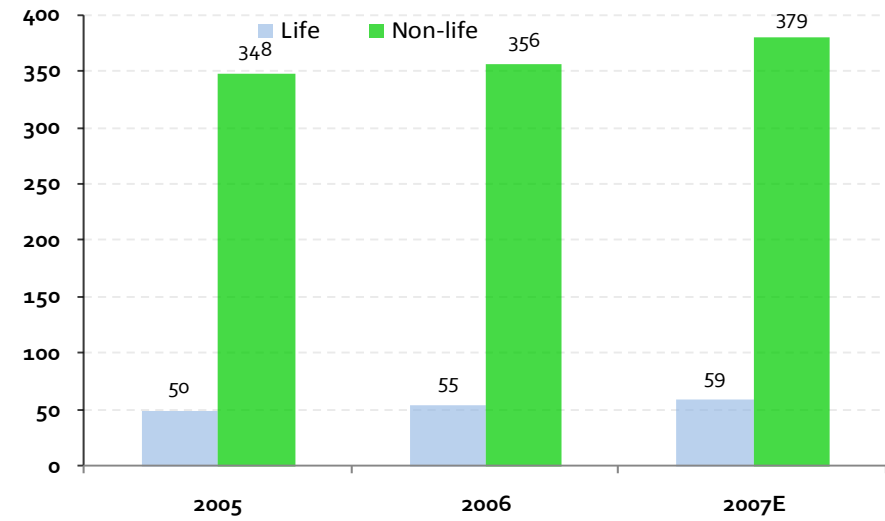
> Insurance Industry

- ↑ Insurance market has increased 84 % during 2003-2007
- Total value of Insurance premiums collected in 2007 reached \$ 3.2 bln, where more than 95 % belongs to non-life insurance companies
- Total number of Insurance companies functioning in Ukraine in 2007 – 438

Insurance premiums, \$ mln



Number of Insurance companies in Ukraine



Source: SSC, WBIII

Insurance types	2003	2004	2005	2006
Life insurance	13.7	35.1	62.7	89.3
Risk insurance, incl.	1699.4	3618.0	2445.9	2649.5
Voluntary personal insurance	69.0	77.9	101.5	143.2
Voluntary property insurance	1450.4	3123.2	2054.4	2200.9
- including financial risks insurance	833.3	1687.1	791.6	682.5
Voluntary third-party liabilities insurance	84.6	294.6	92.2	97.2
Private compulsory insurance	86.2	105.7	181.7	189.0
- vehicles owners ` liabilities insurance	n/a	45.5	109.1	114.5
State compulsory insurance	9.2	16.5	16.1	19.1
Total	1713.1	3653.1	2508.6	2738.8

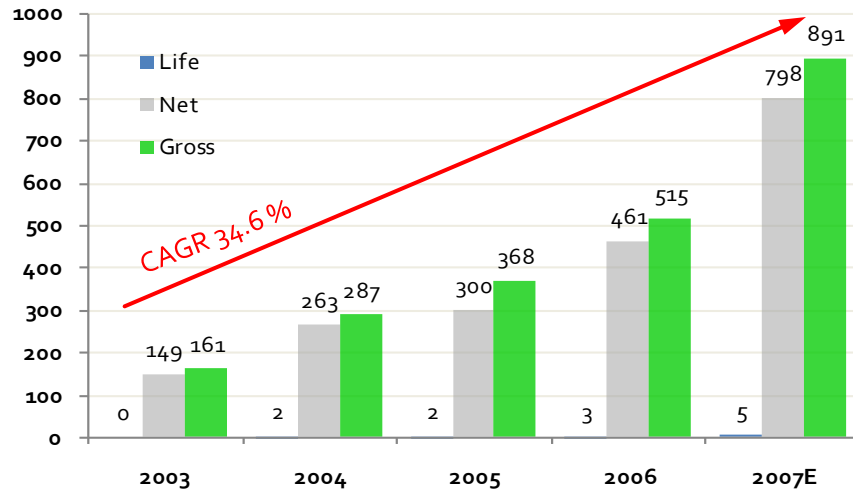
Insurance market has grown and became more attractive to strategic investors. Among growth leaders are:

- Life insurance **+42.4%**
- Voluntary personal insurance **+41.1%**

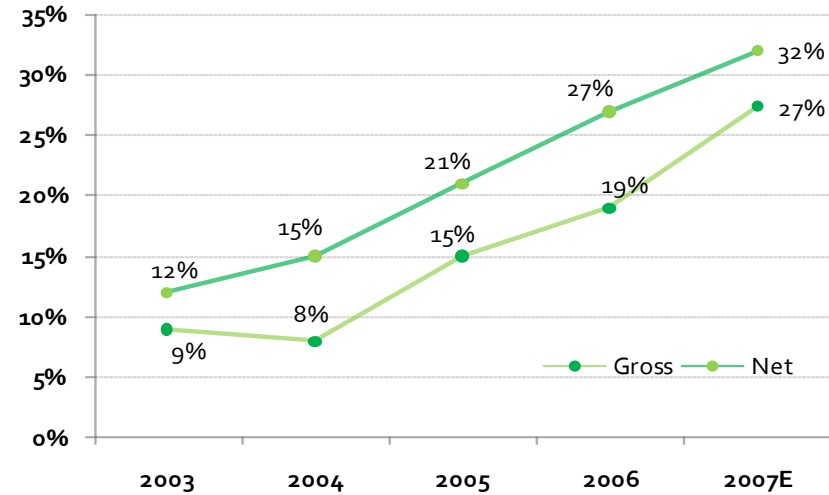
While financial risks insurance was among outsiders with **-13.8%**

Source: SSC, WBIII

Payments structure, \$ mln



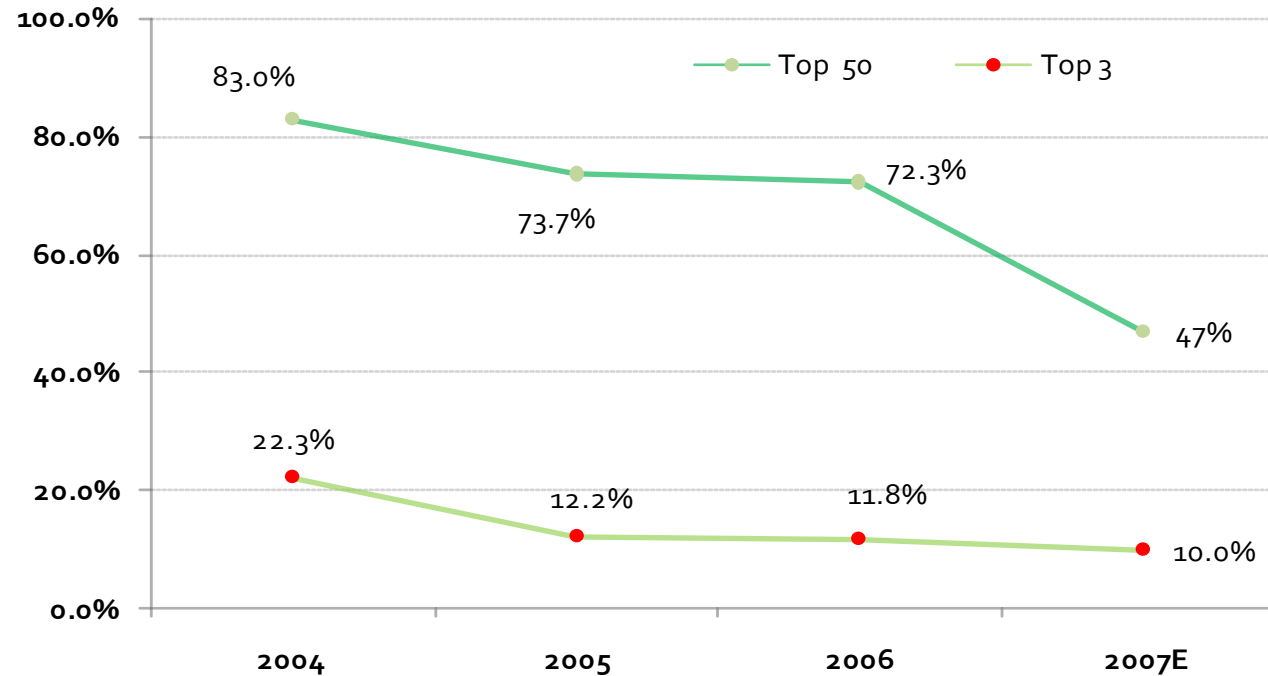
Payments to premiums ratio, %



- All in all, the level of gross insurance payments in Ukraine has reached 27 % in 2007 that indicates a positive tendency in increase of insurance payments
- Level of net insurance payments in Ukraine comprised 32 % in 2006 that shows real growth of actual payments
- The volume of insurance compensation has increased 5.53 times since 2003

Source: SSC, WBIII

Level of Concentration, %



- Ukrainian Insurance market has fragmented recently. "Top 3" companies control about 10 % of total market
- Government has favorable attitude towards concentration and consolidation
- Steps undertaken: 1) Increase in requirements to share capital
2) Toughening in requirements to reserves

Source: SSC, WBIII

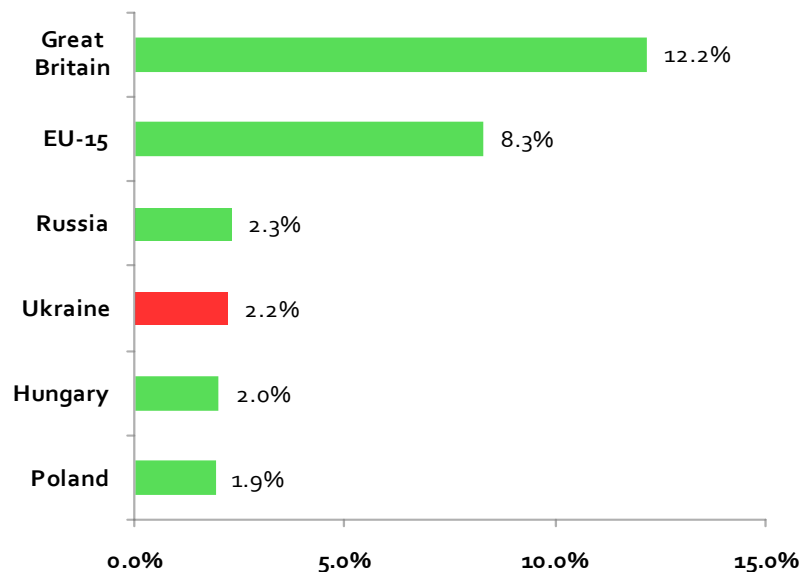
Ukrainian **insurance market** is the one of most **dynamic and perspective** sectors of Ukrainian economy. Significant growth potential attracts not only Ukrainian equity, but foreign strategic investors as well.

All in all, in our view, following trends will prevail in a short run:

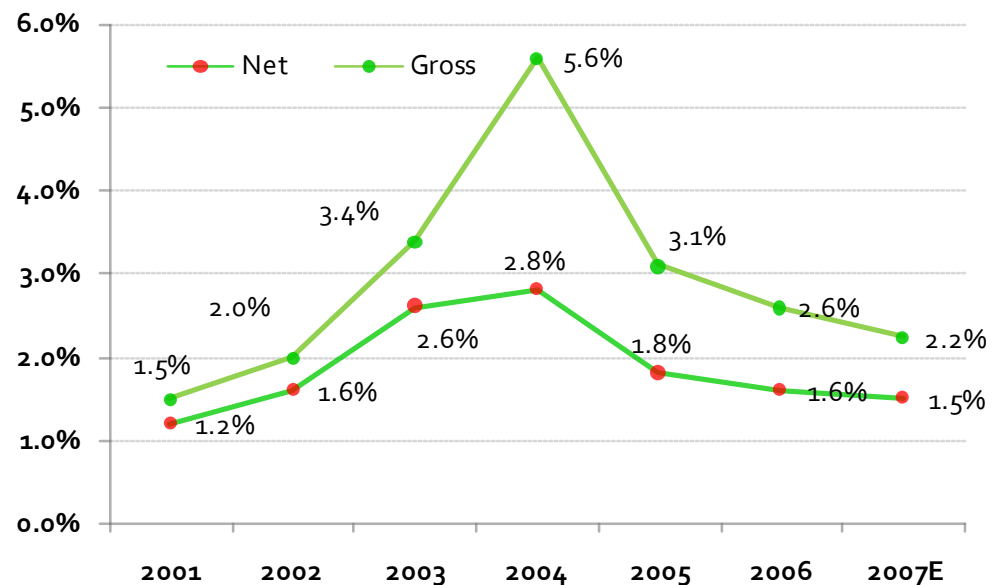
- active development of sales channels, increase in importance of retail sales, operations with private individuals;
- development of personal-type insurance, increase in activity in life insurance;
- increase in competition between local insurance companies and insurance companies with foreign investment, increase in number and share of the latter;
- increase in number of services rendered by Ukrainian insurance businesses;

- Ukrainian insurance market has significant growth potential
- Current nominal ratio of insurance premiums to GDP is 2.2 % (including “non-classic” insurance) compared to EU countries where it is 8.2 % , shows growth potential of Ukrainian Insurance segment more than four times
- The largest growth is expected in life-insurance and personal insurance segments

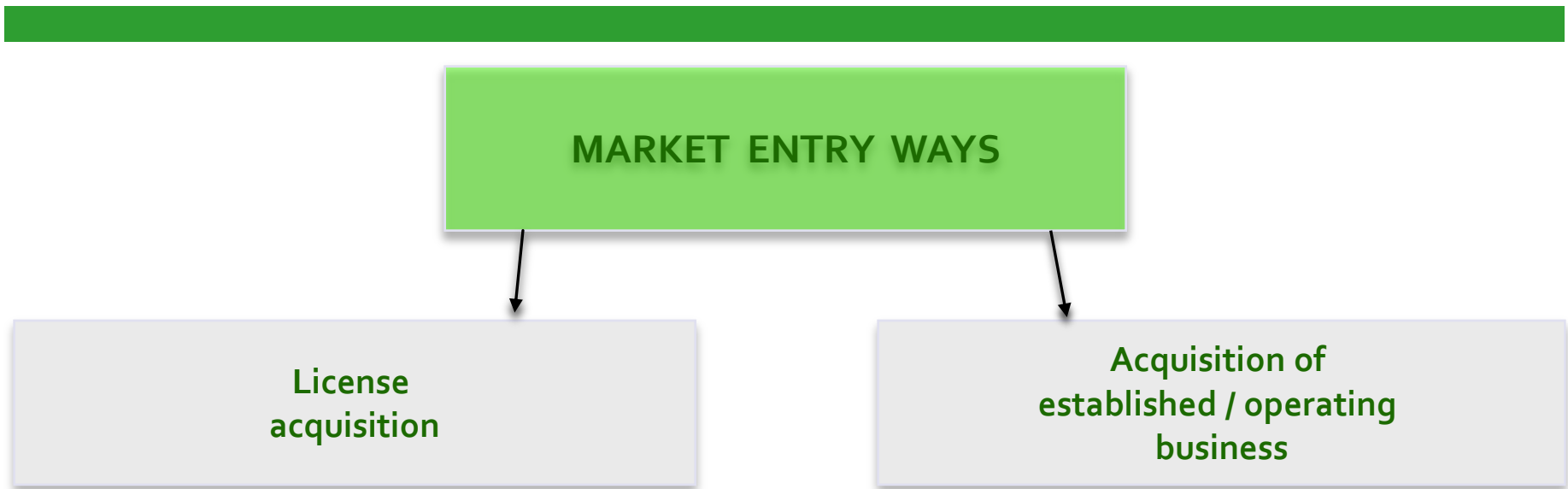
Insurance premiums to GDP ratio, %



Insurance premiums to GDP ratio dynamics, %



Source: WBIII, Sokrat estimates

**Way No. 1**

Acquisition of small insurance companies with “clean” track record and small turnovers, or even without them.

Way No. 2

Acquisition of operating insurance companies with significant market share.

Buyer	Country	Year	Target	Share, %	Capitalization, \$ mln	Deal value, \$ mln
Bank TuranAlem (BTA)	Kazakhstan	2006	Oranta	59.4%	65.2	39
Rosgosstrah	Russia	2006	IFD Capital	100.0%	n/a	n/a
UNIQA Group Austria	Austria	2006	Kredo Classic	35.0%	12.85	4
Wiener Stadtische Allgemeine	Austria	2006	Globus	51.0%	n/a	n/a
Generali Group	Italy	2007	Garant-life	51.0%	90	46
Lemma Kosmos Limited	United Kingdom	2007	Lemma	24.0%	483	116
Bank TuranAlem (BTA)	Kazakhstan	2007	Oranta	25.0%	400	100

- Substantial amount of transaction with market leaders took place during 2006-2007
- M&A activity in Ukrainian Insurance sector reached more than \$ 310 millions in 2006-2007
- Strategic investors' interest increase towards "big" and "medium" insurance companies is expected

Source: Bloomberg, Sokrat estimates

*IG Sokrat is one of the most honored companies,
with vast experience in every segment of corporate finance.*

We are very pleased to welcome them as our partners.

Michael Gibbons, CEO at Brown Gibbons Lang & Company (USA),
Global M&A chairman.


Our investment banking department provides a wide range of services on the equity market. Our team is comprised of highly skilled professionals, with working experience in the Big 4 consulting companies as well as western investment banks.

Owing to numerous successful deals, we have formed a wide network of contacts both among leading Ukrainian groups and Western financial investors and multinational corporations, and have proven our ability to be effective even in sub-standard and complex deals.

We always consider all possible means of familiarizing our clients with the maximum range of investment opportunities. And one of the major advantages, which allows us to provide high quality services, especially in cross-border deals, is our membership of Global M&A – a leading partnership of independent M&A consultants.


Contact us in order to receive consultation on following:

- financing (IPO, private placement, debt financing)
- purchase or sale of controlling or minority stakes in a business
- mergers
- participation in the privatization of Ukrainian companies
- deal structuring, tax and legal consultancy
- real estate deals
- investment research, target search and valuation




Rautaruukki Oyi

Acquisition of painted zinc steel producer




Broker
2006




REHAU

Acquisition of steel profiles producer



Broker
2006




RESO Garantia

Acquisition of life insurance company



Financial Adviser, broker
2006




BUNGE

Investment consulting, increasing stake at Oleyna (TM) business




Investment Adviser, broker
2005




BBH AB

Consolidation of stakes in JSC Slavutych and JSC Lvivska Pyvovarnia on behalf of the client




Exclusive Broker
2002




AllSeeds Ukraine Holding

Preparation of financial model, preparation for the audit according to the IAS




Investment Adviser, broker
2006




Insurance Company ASKA - Life

Investment consulting, Portfolio management advising




Investment Adviser
2006



Halychyna Oil Refinery

Organisation of an auction for sale of 33% stake



Lead Manager
2006



Polish-Re

Attraction of a strategic investor for JSC Skide-West



Financial Consultant, Broker
2002




United Grain Company

Acquisition of a controlling stake in JSC "Novoalekseevskiy kombinat khliboproductiv" with subsequent sale to a strategic investor



Exclusive financial consultant
2003



Bank Forum

Strategic consulting under the IPO preparation procedure



Investment Adviser
2006



League of the Insurance Organizations of Ukraine

Organization of a tender and sale of stake in CJSC Maksima, CJSC Ukrinstrakh



Exclusive financial partner, investment adviser
2003



CJSC KRAZ

Sale through tender of 40% stake in JSC Tokmak stamping plant



Financial consultant for organization and carrying out the tender
2003




JSC Insurance Company UkrSotsStrakh

Controlling stake consolidation




Financial Adviser, Broker
2003




League of the Insurance Organizations of Ukraine

Acquisition, restructuring and subsequent sale to a strategic investor of the stake in JSC Asko-Medsevis




Exclusive financial partner, investment adviser
2002




Insurance Group Nordens A.S.

Acquisition and subsequent sale to a strategic investor of JSC IC Alkona




Investment consultant on sale of the controlling stake
2002



Ukrainian Aluminium Ltd (subsidiary of the Russian Aluminium)

Acquisition of a 5% stake in JSC Mykolayiv Aluminium Plant on the stock exchange



Broker
2002

Investment Group Sokrat

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