

Hungary Report 2003

Introduction

Welcome to the 2003 Central & Eastern European Mergers & Acquisitions Survey. Each year, in the frame of the research for this survey we have been assessing the changes of the M&A markets in the region. This year we have studied over 1,100 publicly disclosed, private-sector deals as well as over 300 privatisations in nine countries: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Slovenia.



This regional survey grew out of PricewaterhouseCoopers' efforts to study the Hungarian M&A market. From our first full year of tracking transactions in 1997, market activity has increased from 70 deals annually to a high of almost 250 transactions in 2000. Following a serious downturn in 2001, the Hungarian M&A market did not experience a significant recovery in 2002.

In 2003 we find promising, yet contrasting developments in the Hungarian M&A market. On the one hand estimated market value significantly increased, the market saw several multi-million transactions and a general increase of targets' values. Cross-border M&A transactions also took off in terms of value. On the other hand, the number of transactions decreased considerably.

These trends in some ways reflect global developments of decreasing numbers of transactions but stable total value coupled with larger frequency of mega-deals. However, this year our findings show that the M&A market in Hungary was more in line with the developments of Central & Eastern Europe. We find several positive signs of a possible recovery. Nevertheless, it remains doubtful whether the coming year will see an immediate growth in transactions.

Key findings

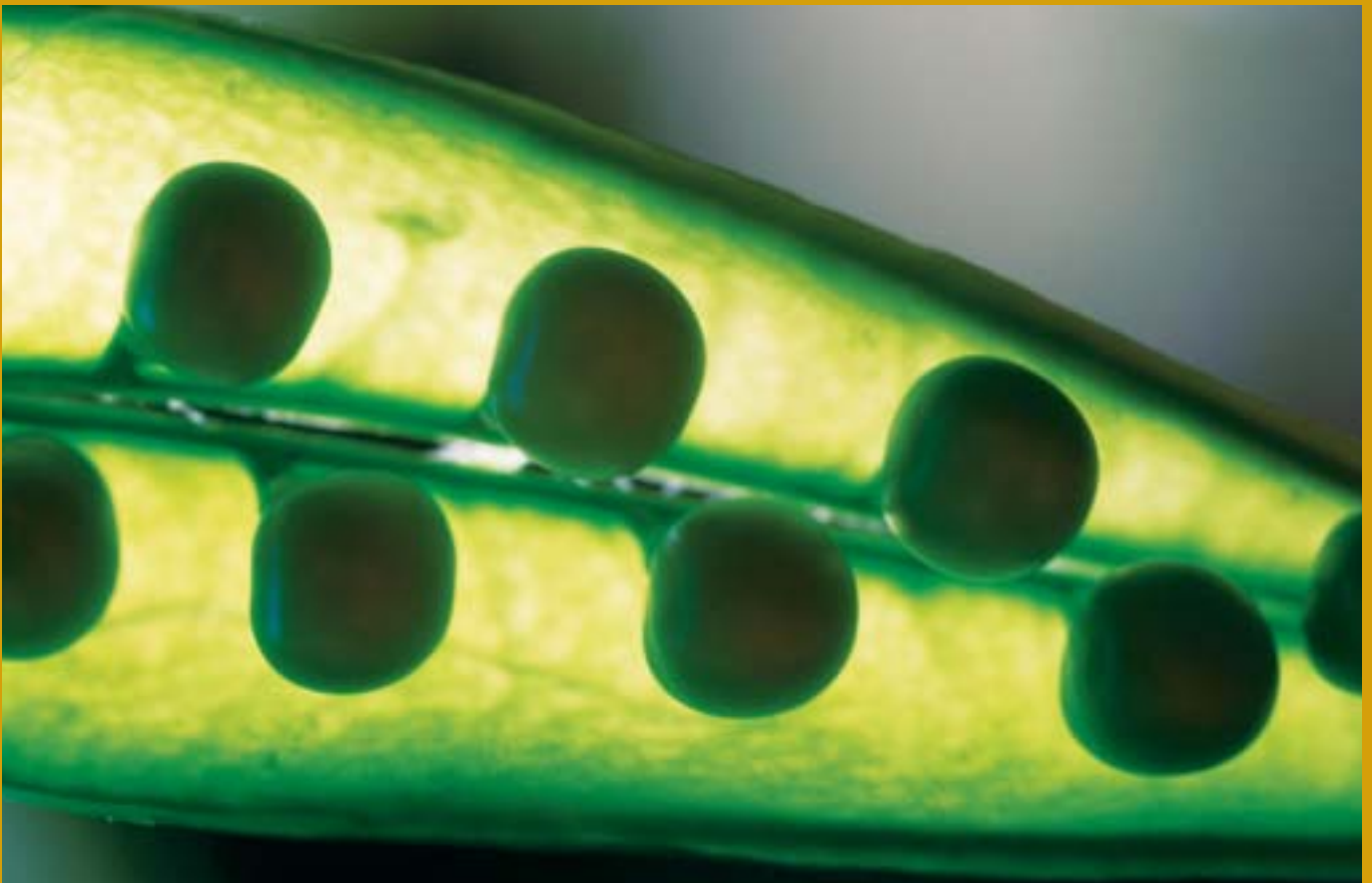


- The estimated M&A market value in Hungary increased compared to 2002. Total deal value equaled USD 2.6 billion in 2003, a 36% growth on 2002.
- However, the number of transactions that closed in 2003 was 128 representing a 29% decrease in activity compared to 2002. The number of transactions has been decreasing since 2000, when a record of 244 transactions took place (considering our research started in 1997). Hungary ranks fourth in the region in terms of deal volume.
- The increase in market value is mostly attributable to the increased value of deals. Average disclosed deal size was USD 33.5 million, much higher than in 2002 (USD 14 million). There were four large transactions above USD 100 million, presented in table 1.
- Smaller transactions also represented higher values. The average deal size of transactions below USD 100 million increased to USD 13.8, which is the highest value since 1997. The average value of all transactions in Hungary is similar to that of the region as a whole (USD 33.5 million and USD 39.1 million, respectively).

Table 1: The transactions above USD 100 million in 2003

Ranking	Bidder	Seller	Target	Value (USD m)
1.	MOL Rt.	Slovintegra AS, Slovbena AS	Slovnaft AS (31.6%)	352
2.	GMT Communications Partners, AIG Emerging Europe Infrastructure Funds	Vivendi Universal SA	Vivendi Telecom Hungary Rt.	340
3.	Private Investor	Trizec Canada Inc.	TriGranit Development Corp. (50%)	110
4.	MOL Rt.	NK Yukos	West Malobalykskoye OOO. (50%)	100

- The disclosure rate of the value of transactions rose to approximately 30% in 2003, compared to 20% in 2002. This value has been around 30% in Hungary since 1997. However, the ratio of transactions with a disclosed value remains low compared to the whole of the region with an average of 42%.
- The proportion of domestic transactions involving both a Hungarian target and a Hungarian bidder with regards to deal numbers increased to 60% in 2003 from 52% in 2002. This value remains lower than the 67% proportionate share for the entire region.
- In connection with the increased weighting of domestic deals, the proportion of transactions involving foreign investors decreased to 31% in 2003 from 43%. This is still higher than the average of 34% in the region. The number of inward transactions in Hungary decreased in absolute terms as well, from 78 in 2002 to 44 in 2003. However, the total approximate value of inward transactions has increased by 50%.
- The largest number of inward transactions to Hungary was originated from Germany and Austria (each representing seven transactions). The German transactions in 2003 included a number of large transactions such as the acquisition of Hungarian publishing house HVG by Westdeutsche Allgemeine Zeitungsverlags E Brost & J Funke. US investors were also active in 2003 with six transactions. Other inward transactions originated in the Netherlands, France, the United Kingdom, Spain, and Russia.
- There were seven outward transactions initiated from Hungary in 2003. Although this is equal to the number as in 2002, total value invested abroad is estimated to be around USD 460 million, up from 2002 (approximately USD 50 million). In line with previous years' trends, most of these transactions involved targets within the countries of the region: Croatia, Poland, Russia, Slovakia and Slovenia. Hungarian oil company MOL was the largest outward investor of 2003.
- Manufacturing remained the most active industry sector in 2003, however, its ratio in terms of deal count (14%) is considerably lower than in the whole region (22%). 17 transactions took place in the Media sector in 2003, and its proportion of all transactions increased to 12% from 8% in the former year. This ratio is also higher in comparison to the entire region (where the share of transactions in the Media sector equals 6%). The proportion of IT transactions in Hungary (11%) also surpassed the regional average (6%). Another active industry was Food and Beverages (with 12% of the transactions), which, however does not show significant differences to the preceding year nor the overall regional average.
- Out of the 128 transactions completed in Hungary the ratio of transactions involving strategic investors was 85%. In case of the remaining share of transactions bidders were investment companies, private equity funds and private investors.



Privatisation

The privatisation process started in the early 90's in Hungary, which was one of the first countries in the region to engage in large-scale privatisations. The value of privatisations was the highest in 1995, when privatisation income

reached about USD 3.83 billion¹. In 2003 seven privatisations took place, listed in Table 2. The total value of privatisations is estimated at USD 560 million. In addition to companies sold by the Hungarian state, Hungarian companies were

active players in privatisations across the region. The value of Hungarian corporations' investment in foreign privatisation is approximately USD 850 million.

¹ Source: Reuters Information

Table 2: Privatisations in Hungary in 2003

Ranking	Bidder	Target	Value (USD m)
1.	Erste Bank der Oesterreichischen Sparkassen AG	Postabank és Takarékpénztár Rt.	459.6
2.	Bayerische Landesbank Girozentrale	Konzumbank Rt.	49.5
3.	Elbit Medical Imaging Ltd	Hajógyári Sziget Vagyonkezelő Kft. (66.79%)	10.7
4.	Belvárosi Ingatlanok Ingatlanfejlesztő és Ingatlanhasznosító Kft.	Belvárosi Irodaház Kft.	5.3
5.	Fúzió-Pharma Rt.	Fégarmy Rt.	1.1
6.	E.On Hungária Rt.	Dunaújvárosi Szennyvíztisztító Szolgáltató Kft.	n.a.
7.	Arago Befektetési Holding Rt.	Forrás Rt. (30.43%)	n.a.

In Hungary in 2003 the total number of transactions including both private-sector mergers and acquisitions as well as privatisations was 135. Based on this, PricewaterhouseCoopers estimates the value of the transactions market to be USD 3.2 billion.

Further information

Complete findings for the region are presented in the Central & Eastern European Mergers & Acquisitions Survey 2003. These findings and all country reports are available at www.pwc.com/hu.

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