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Global deal environment set to deteriorate in 2008, claims KPMG's *Global M&A Predictor*

KPMG Corporate Finance's Global M&A Predictor forecasts a continued fall in global merger and acquisition activity (M&A), in both average deal size and the number of deals into the second half of 2008. While a similar KPMG survey predicted a gradual decline earlier this year, now all indicators are pointing at a marked fall in the market, across all regions and sectors. Simonyi Tamás, Director of Corporate Finance at KPMG in Hungary expects continuing decrease of M&A activity in the CEE region as well.

According to Simonyi M&A activity decreases perceptibly in the CEE region as well, as only a few privatisation transactions remained in the new EU member states and those are significantly hindered by political considerations.

“The main trend is that although the economic growth of the region is still considerable, in several areas it is slowing down, which leads to the cooling of the euphoric acquisition atmosphere, while in some countries (e.g. the Baltic states) the business community is stunned by the fall in growth rates, the increase in inflation and the dramatic deterioration of balance of payments figures. The corporate sector is not yet in a situation where some companies would be so weak that their owners would decide to “sell before it becomes late”. At the same time buyers – with regard to the downward trend – do not want to pay the prior-year prices any more even for attractive companies. All this results in much more difficult price negotiations concerning the transactions, and elaboration of other terms and conditions – primarily risk mitigation stipulations – of the deals need a much higher degree of creativity and willingness to compromise,” Simonyi said.

“The situation in the CIS countries, mainly in Russia, Azerbaijan and Kazakhstan remains to be different. In these countries the opportunity of prompt enrichment from raw materials keeps company valuation and merger activity at high level. In countries importing raw materials (Ukraine, Belorussia, etc.) although there are still extensive market opportunities, the price increase of production factors, the decline in the banks' willingness to finance and the peak of the property market foreshadow decrease in company values. In these countries sellers are yet reluctant to acknowledge that 'times of plenty' are likely to be over and rather choose to keep their holdings than suffer any loss of prestige in their profession due to publishing a less splendid selling price”, added Simonyi.”

According to Stephen Barrett, Global Chair, KPMG's Corporate Finance practice, market conditions for M&A transactions will continue to deteriorate.

“We had hoped that the gradual decline seen earlier this year could be maintained but now all indicators are pointing at a marked fall in the market, across all regions and sectors. Last year we correctly called the top of the global M&A market, with a gradual plateau in activity offset by continued growth in Asia Pacific. Now, however, our latest forward-looking statistics suggest that the next 12 months will become increasingly difficult for transactions right across the globe.

Key findings:

- *Further reductions likely to occur in levels of both deal value and volume, with KPMG's forward looking corporate valuations down 10 percent compared to six months ago*
- *For the first time since it began, KPMG's Predictor shows a decrease in both 'appetite' (forward valuations) and 'capacity' (estimated net debt to EBITDA) for M&A activity (see fig. 1)*
- *Previous pockets of regional resistance likely to give way to broad-based fall in deals across all regions and sectors*

Notes to Editors: KPMG's *Global M&A Predictor* tracks 12 month forward Price to Earnings (PE) multiples and estimated net debt to earnings before interest, tax, depreciation and amortization (EBITDA) ratios to track and establish the potential direction of M&A activity.

KPMG's *Global 1,000* comprises 1,000 of the largest companies in the world by market capitalization, with a representative weighting of countries and sectors, to help ensure appropriate inclusion. A Global 1,000 panel of KPMG firms' professionals sits every half-year and reviews the constituents of the index to seek to ensure that it remains reflective of global changes in regional and sector weightings.

The data is sourced from FactSet, the corporate earnings estimates data provider. KPMG calculates 12 months forward PE ratios (expressed as a multiple) for each qualifying company of the 1,000, and aggregates these into regions and sectors to aid comparison. This valuation tool is used due to its transparency, the ready availability of data and widespread acceptance in the investment community. Our PE's test for "paper capacity" i.e. the relative ability of companies, sectors and regions to originate deals using shares only.

Net debt to EBITDA is calculated using estimates from FactSet, again by each company in our 1,000, and is a respected ratio that indicates capital structure and financial gearing. This ratio tests for "debt capacity" – that is, the relative ability of companies, sectors and regions to originate deals using debt only.

By comparing both sets of forward looking ratios, with sectors and regions weighted by market capitalization, KPMG's *Global M&A Predictor* attempts to identify changes over time that could imply trends in appetite for deals and indeed capacity for deals. It also attempts to compare and contrast sector regions to highlight possible areas of deal flow. (Note: Net debt/EBITDA ratio calculations are not relevant for financial services and property sectors. These sectors have therefore been excluded from this analysis.)

KPMG's Corporate Finance practices provide a range of independent, investment banking advisory services internationally and comprise more than 2,000 investment banking advisory professionals operating in 62 countries. KPMG's Corporate Finance provides strategic advisory and deal management services covering: acquisitions and disposals; mergers and takeovers; valuations and fairness opinions; structured and leveraged financing; private equity strategies; initial and secondary public offerings; joint ventures and transaction alliances.

Figure 1:

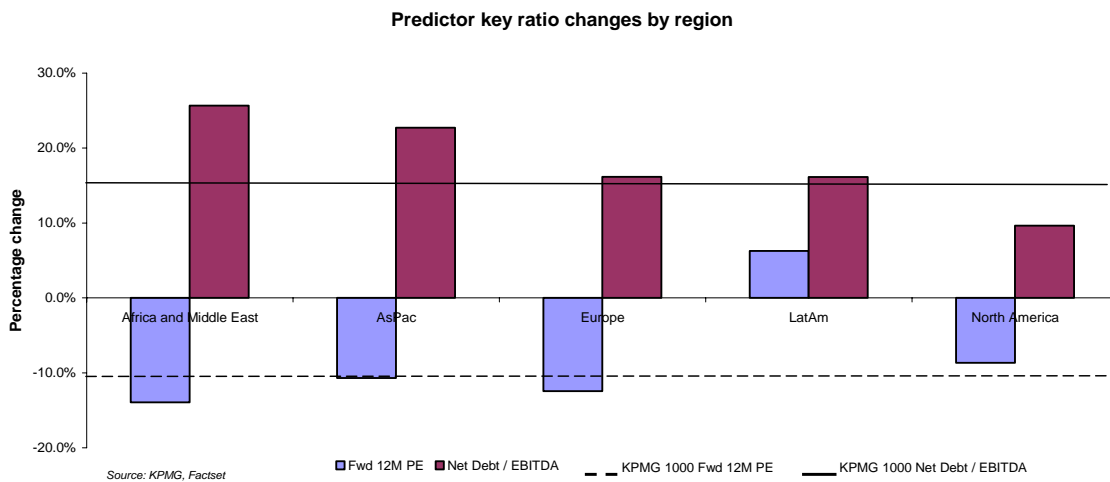
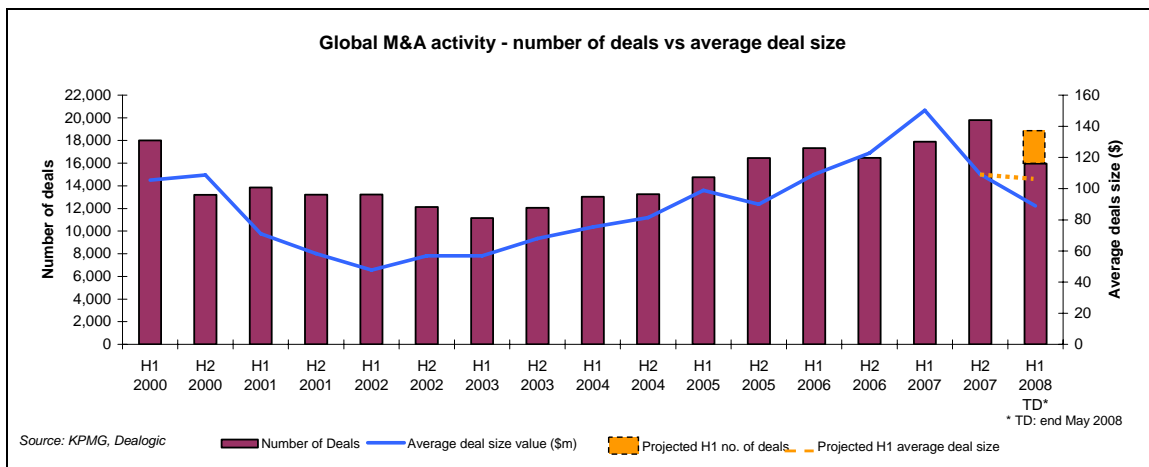


Figure 2:



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