

Press release

7 April 2009

CEE Equity Strategy: markets remain volatile, but bottom sounds realistic

- Equities again weighted as neutral
- Overweight Austria, Czech Republic, cautious on Poland, Russia attractive but risky
- Low capital intensity combined with low gearing ratio and higher expected return on capital employed (ROCE) make Technology, Healthcare and Oil & Gas interesting

The impacts of the global financial and confidence crisis have wormed their way into the real economy. Still, the extreme slide of the equity markets over a period of more than 1 ½ years was clearly exaggerated, say Erste Group analysts. *“We believe that stock markets may at least further stabilise in Q2 and we therefore set our global equity weighting to neutral - for the first time since Q4 2007. The lows of early March 2009 still might be tested again. Overall, caution continues to be required and we are keeping an overweighting in cash,”* says Fritz Mostböck, Head of Group Research.

Erste Group Asset Allocation Q2 2009

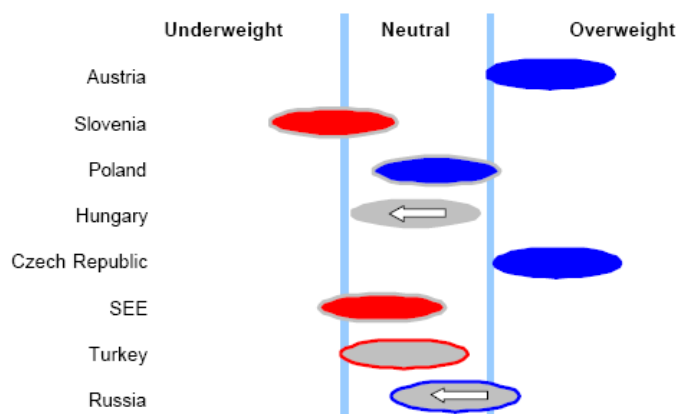
| | |
|--------|-------------|
| Cash | Overweight |
| Bonds | Underweight |
| Stocks | Neutral |

Although the economic outlook remains gloomy Erste Group analysts rate as overly bearish the reaction to the supposedly dramatic situation in CEE. While fund flow data for February is still negative (particularly for emerging Europe markets), in March money market funds experienced substantial outflows and money got directed into equity again. *We continue to see markets as volatile, although we would see the notion of them having found a bottom as realistic, at least. For the region, we expect returning liquidity to focus first on the biggest markets,* says Henning Esskuchen, Co-Head of CEE Equity Research at Erste Group

Country allocation

Compared to the last quarter's country allocation (overweight **Austria, Czech Republic**) Erste Group analysts have become even more cautious on **Poland**. If one would want to play SEE, they would again point to **Romania**, although stressing the risk of high volatility. With returning risk appetite, **Russia** has been benefiting strongly, additionally supported by better commodity prices, **Russia** could post further gains. Risk remains high, however.

Erste Group Allocation Proposal



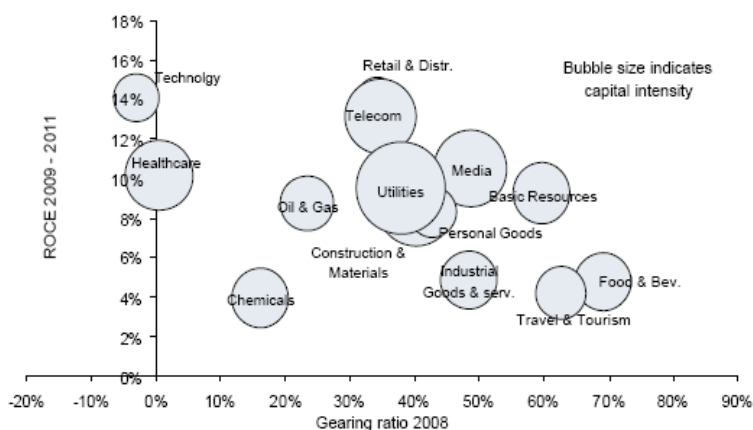
Arrows indicate deviation from pure model results; Source: Erste Group

Sector allocation

Erste Group analysts see current environment weighing on indebted companies. High financing needs will burden the free cash flow to equity and thus continue to dampen equity valuations even in the case of companies with more stable business models.

To put it simply, in times of high costs of capital, capital intensive stocks are losers. We would favour stocks with low capital intensity, low gearing ratio and rather high expected return on capital employed (ROCE) development for 2009-2011, says Esskuchen.

Capital intensity, internal financing strength, gearing ratio*



*sector based on Erste Group Research coverage; Source: Erste Group Research

Considering those criteria **Technology**, **Healthcare** and **Oil & Gas** look interesting. **Telecoms** would also look interesting, but the rather high capital intensity is a drawback. Despite their capital intensity, **Utilities** also offer stable ROCE for 2009-2011 and the overall gearing ratio seems reasonable to us.

On the other side of the board, although **Media**, **Basic Resources** and **Personal Goods** seem to have a satisfactory internal financing capacity over the period 2009-2011, their gearing ratio does not look too convincing. Similarly, despite their rather modest capital intensity, stocks in **Chemicals**, **Industrial Goods and Services**, **Travel and Tourism**, and **Food and Beverages** post low expected ROCE development for 2009-2011. Furthermore, apart from **Chemicals**, the gearing level of the others seems quite high and indicates a rather weak balance sheet quality.

Outlook

Erste Group analysts estimate restored trust in the financial sector is a prerequisite for a stable recovery and would consider as good indicators for that:

- rising velocity of money (signalling a pickup of economic transactions),
- accelerated loan growth and
- declining credit spreads

For the time being, the signs that financial markets are on a path of lasting improvement are still weak. Companies' debt security issuance has continued to increase. Erste Bank analysts state it might be that companies expect the environment to worsen further and want to make sure to have enough liquidity, as further downgrades, would lead to rising refinancing costs.

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