The CEE Stock Exchange Group and its Capital Markets 2012/13
Table of Contents

CEE Stock Exchange Group
- 2012: One Step Closer to CEESEG’s Vision
- Four Stock Exchanges – One Strong Alliance
- Joint Projects at the International Level
- One Data Feed, Thirteen Markets
- Index Portfolio

Budapest Stock Exchange
- Hungary: Macroeconomic Outlook
- The Largest Companies on the Budapest Stock Exchange
- Key Figures of the Budapest Stock Exchange

Ljubljana Stock Exchange
- Slovenia: Macroeconomic Outlook
- The Largest Companies on the Ljubljana Stock Exchange
- Key Figures of the Ljubljana Stock Exchange

Prague Stock Exchange
- Czech Republic: Macroeconomic Outlook
- The Largest Companies on the Prague Stock Exchange
- Key Figures of the Prague Stock Exchange

Vienna Stock Exchange
- Austria: Macroeconomic Outlook
- The Largest Companies on the Vienna Stock Exchange
- Key Figures of the Vienna Stock Exchange

This Cursor indicates hyperlinks either in the document or to specific websites.
2012: One Step Closer to CEESEG’s Vision

Another major milestone achieved

2012 was the fourth year of cooperation between the stock exchanges of Budapest, Ljubljana, Prague and Vienna which together form the CEE Stock Exchange Group (CEESEG). The Xetra® implementation at the Prague Stock Exchange in December 2012 brought the four Group members one step closer towards integration – three out of four members are now running on the same trading system – and also closer to the shared vision of giving all trading members easy access to the regional markets via one common trading platform. The example of the Ljubljana Stock Exchange, where Xetra® was installed two years earlier, shows that the implementation of an internationally recognized trading system attracts foreign trading members, and, consequently, increases the share in total trading volumes of international trading members. Cross membership is therefore another medium-term project we are simultaneously working on.

Other joint projects already finalized since the Group’s formation include the establishment of a central holding company (CEESEG AG), the bundling of data vending operations in the ADH data feed of the Vienna Stock Exchange for all Group members, and the creation of many new products, especially indices. In 2012 alone, 17 new indices were added to CEESEG’s index portfolio.

Highlights from Budapest, Ljubljana, Prague and Vienna

Numerous projects were successfully brought to completion at each of the four member exchanges. The approval of the general shareholder’s meeting to replace the current trading system by Xetra® marks the most important highlight of the Budapest Stock Exchange (BSE) in 2012. Based on the general shareholders’ meeting’s decision a new market maker model is also planned. Following the successful launch of the BETA Market in 2011, trading in foreign equities improved in 2012 with the listing of new shares, futures contracts and the entry of a new market maker.

The Ljubljana Stock Exchange (LJSE) continued the intense efforts to promote Slovene issuers and stimulate trading by acquiring members and international investors. Special attention was devoted to the premium segment, Prime Market, to which the new blue chip, reinsurer Pozavarovalnica Sava d. d. (SAIVA RE), was transferred in April 2012. Further activities include the intensive promotion of Slovene issuers by organizing investor conferences and webcasts. All these activities yielded the first visible results in the year 2012. The share of remote members in total turnover (excluding block trading) rose from 1% in 2010 to approximately 16% by 2012.

For the Vienna Stock Exchange 2012 was an excellent year in the area of corporate bonds with an even larger number of issues than the year before: 29 new corporate bonds plus one tap issue were floated with an outstanding volume of EUR 6.5 billion (2011: 23 corporate bonds, EUR 3.3 billion). Another highlight was the completion of an update of the Xetra® trading system that has been in use at the Vienna Stock Exchange since 1999. In November 2012, the latest version of this state-of-the-art trading platform went live. The updated version features numerous functional enhancements.

Stock market performance better than sentiment

Although the media was dominated by the economic crisis and speculation about sovereign default and the possibility of the euro zone’s collapse, international stock markets performed surprisingly well in 2012. In some cases they even posted double-digit growth, e.g., the ATX (Austrian Traded Index) of CEESEG member Vienna Stock Exchange climbed 26.94%. All in all, performance was much better than sentiment on the markets. This was particularly true for the second half of the year.

For 2013, macro-economic experts forecast a further moderate recovery of the economy. Especially CEE countries are expected to achieve better growth rates at lower levels of state debt. In the present market environment, stock investments have a clear edge over other asset classes.
Four Stock Exchanges – One Strong Alliance

The CEE Stock Exchange Group (CEESEG) comprises the four stock exchanges of Budapest, Ljubljana, Prague and Vienna. CEESEG is the largest group of exchanges in Central and Eastern Europe. The primary goal of the Group is to improve liquidity on the member stock exchanges by providing easier access to local markets and products.

The holding company CEESEG AG

The four stock exchanges are subsidiaries of equal standing within the central holding company, CEESEG AG, which is responsible for the Group’s strategic and financial management as well as for the administration of the subsidiaries. The business operations of the four regional markets are run by the member exchanges under their independent management.

At the international level, CEESEG coordinates joint measures to increase the visibility of the four markets and to acquire professional market participants such as data vendors and index licensees, institutional investors and trading participants for the member exchanges.

The organizational structure of the CEE Stock Exchange Group combines the benefits of the home market principle – listed companies enjoy wider recognition and greater media interest in their own countries – with the requirements of international capital markets.

News from CEESEG AG in 2012

CEESEG AG successfully completed the takeover procedure of the Ljubljana Stock Exchange and became a 100% owner of the LSE in May 2012. It now holds 100% of the exchanges of Ljubljana and Vienna. CEESEG also owns 50.45% of the Budapest Stock Exchange and 92.74% of the Prague Stock Exchange.

On 1 March 2012, there was a change to the Management Board of the Group. Petr Koblic, Chairman of the Management Board of the Prague Stock Exchange, joined the Management Board of CEESEG AG as a new member and succeeded Heinrich Schaller who left the management boards of the Vienna Stock Exchange and the CEE Stock Exchange Group. The Vienna Stock Exchange is now jointly run by Michael Buhl and Birgit Kuras and the exchange holding company CEESEG AG is managed by Michael Buhl and Petr Koblic. Michael Buhl has been on the Management Board of CEESEG AG since January 2010 when it was founded.

Joint Projects at the International Level

The four CEESEG partner exchanges have finalized a number of short and medium-term projects aimed at shifting the regional markets into the focus of international market participants. This goal is achieved by facilitating access to the four local markets. Major milestones include, e.g., the bundling of data dissemination for all Group members and the implementation of the Xetra® trading system at CEESEG’s member exchanges in Ljubljana and Prague.

A highlight of the year 2012 was the launch of the Xetra® trading system at the Prague Stock Exchange on 30 November 2012. Prague joined the other Group members, the Vienna Stock Exchange and the Ljubljana Stock Exchange, on which Xetra® has been in use since 1999 and 2010 respectively. The implementation of Xetra® at the Prague Stock Exchange marks yet another major step towards the Group’s integration. Three out of four members are now running on a common trading system. The Budapest Stock Exchange’s changeover to Xetra® is scheduled to follow in 2013.

In accordance with the Xetra® implementation plan, a key element of our efforts is to enable the cross membership of national and international trading members. The stock exchanges of Vienna and Ljubljana were the first ones to commence with cross membership. The Xetra® introduction at the Ljubljana Stock Exchange increased the number of foreign trading members to five. Cross membership also involves the harmonization of all relevant membership contracts and the standardization of all trading rules as far as possible.

Furthermore, we are currently also evaluating the possibilities of setting up a common clearing system for all CEESEG members. Our long-term goal is to harmonize the market segments, the general terms and conditions of business as well as clearing and settlement.

Road shows at all major financial markets

Apart from these medium to long-term projects, the Vienna Stock Exchange on behalf of CEESEG has been organizing investor conferences jointly with banking partners and listed companies at all major financial centers of the world. The purpose is to give the companies listed on the Group’s member exchanges an opportunity to present themselves to an audience of international investors and to increase their visibility.

In 2012, five investor conferences took place in London, Milan, New York, Paris and Zurich. 60 companies participated, and more than 300 meetings with approximately 190 investors were held. The road shows organized in 2012 garnered great interest, as clearly demonstrated by the trend towards bigger conferences: More companies and investors participated, and there were more meetings on average.

An extensive road show program to major international financial centers is planned again for 2013.

A study conducted by the financial information provider, Ipreo, highlights the importance of road shows to promote international presence. The top investors that own shares in the companies listed on the member exchanges of the CEE Stock Exchange Group are primarily international institutional investors from the US (33.6%), UK (18.6%), Austria (9.8%), France (5.3%), and Germany (4.7%).

Wide network of exchanges in CEE

The four CEESEG members not only cooperate closely with each other, but have established a wide network comprising a large number of stock exchanges in Central and Eastern Europe. The Group has unique CEE know-how that is appreciated by some 180 trading members, international investors, approximately 250 data vendors and more than 100 index customers worldwide.
One Data Feed, Thirteen Markets

The CEE Stock Exchange Group provides professionally processed real-time price data and market depth data from the regional financial markets via the ADH data feed of the Vienna Stock Exchange. Vendors can easily access the market data of all four CEESEG partner exchanges of Budapest, Ljubljana, Prague and Vienna.

In May 2012, the Belgrade Stock Exchange’s data was added to the ADH data feed after it had joined CEESEG’s data vending alliance in 2011. Currently, the price data of five additional exchanges from the region of Central and Eastern Europe which cooperate with the CEE Stock Exchange Group – Banja Luka, Belgrade, Bucharest, Macedonia and Sarajevo – are part of the ADH data feed. This creates easy access for vendors to the market data of nine CEE stock exchanges via a single access point.

Additionally, the data of three power exchanges are also included: EXAA Energy Exchange Austria, CEGH Gas Exchange of the Vienna Stock Exchange and POWER EXCHANGE CENTRAL EUROPE in Prague.

Following the signing of an agreement on data vending cooperation with the Montenegro Stock Exchange, a thirteenth market will be included shortly. Data vendors can subscribe to the prices of the Montenegro Stock Exchange via the ADH data feed of the Vienna Stock Exchange. They use their existing lines to receive the data in the same format and structure as all other market data disseminated via ADH.

CEESEG has received many positive responses to its “one-stop-shop” approach that fits clients’ needs and the current trend towards lean, cost-saving, and more efficient solutions, as clients prefer to subscribe to the data of several markets. Data sent via the ADH data feed is viewed on over 23,000 terminals in trading rooms around the world.

More information is available from the Market Data Services business unit of the Vienna Stock Exchange.

Index Portfolio

The CEE Stock Exchange Group is well known worldwide as the expert for indices with a reference to Central and Eastern Europe and the CIS (Commonwealth of Independent States). It calculates and disseminates some 90 indices that represent the national, regional and sector-specific developments in Austria, CEE and CIS. Within the CEE Stock Exchange Group, this task is carried out by the Vienna Stock Exchange, which has worked in the area of index licensing for many years and has gained a solid position as a global player based on its index expertise.

16 markets covered by CEESEG’s indices

The CEE Stock Exchange Group specializes in index calculation for the markets of Austria, Eastern and Southeast Europe, Turkey as well as Russia and China. Overall, the CEE Stock Exchange Group covers 16 markets with its range of indices and is globally the most widely recognized provider for the region. Apart from the national, regional and sector indices, CEESEG also calculates other theme and style indices like fundamental indices, short indices, total return indices, dividend point indices, top dividend indices, leverage indices and distributing indices for the region as well as the sustainability indices CEERIUS and VÖNIX.

Broad range of Group indices

Since the official start of the CEE Stock Exchange Group several blue chip indices have been launched that track companies listed on the stock exchanges of Budapest, Ljubljana, Prague and Vienna. These indices include the CEETX – a tradable index composed of the 25 most actively traded stocks with the highest market capitalization of the member exchanges – and the CEESEG Composite Index, a benchmark index made up of the stocks of the four leading indices of the Group’s member exchanges (ATX, BUX, PX and SBITOP). Other Group indices comprise the CEETX Fundamental, four CEESEG sector indices as well as three CEESEG top dividend indices.

Underlying for structured products with a reference to CEE

A total of 135 issuers use the indices calculated and disseminated by the CEE Stock Exchange Group as underlyings for certificates, warrants, ETFs (exchange-traded funds) and other structured products. Worldwide, most structured products with a CEE reference are based on these indices.

In-depth data

The performance of most of the indices of CEESEG can be viewed at www.indices.cc. For professional market participants, the internet platform also offers additional information on index adjustments, index committee decisions, watch lists, and a trading calendar.

Index portfolio broadened by 17 new indices in 2012

2012 was again a particularly active year in the area of indices. 17 new indices were added to CEESEG’s index range. Nine new leverage indices based on the ATX, the CEGE and the RDX were launched in February. As the outcome of a unique cooperation project between the stock exchanges of Istanbul and Vienna, the IBTX (Istanbul Traded Index) and IBTX Banking were added to the index portfolio in September. The IBTX is additionally calculated as a total return index and a net total return index. Two new performance indices, the SETX Total Return and the SETX Net Total Return were launched in October. December, finally, saw two new distributing indices, the ATX Distributing and the ATX Top Dividend Distributing.

- Some 85 indices from a single source
- Globally recognized as an expert for CEE and CIS indices
- Excellent knowledge of regional capital markets
- Attractive underlining for structured products
After the expected drop of real GDP of around 1.4% in 2012, there might be a further moderate decline in 2013. An IMF agreement may only come in the case of a strong deterioration of the forint or government bond market, which was not the case at the beginning of 2013. We might see further rate easing by the Monetary Policy Council (MPC) in 1H 2013 (from 5.75%). The greatest risk, however, is a possible radical change of the central bank policy in 1H 2013.

Economic outlook

After the Hungarian economy grew slightly in 2010 and 2011, driven by exports and fiscal easing, preliminary figures indicate a contraction of 1.4% in 2012 due to euro area weakness and strong fiscal austerity. The government’s controversial and unpredictable economic policy remains a burden on growth, which is apparent when one looks at the poor investment figures. Given that expiring “crisis” taxes have to be replaced in 2013 by other measures, the fiscal policy bias is not going to be very expansive. A mild economic decline of 0.4% in 2013 may be expected also due to the lack of investments (only around 10% to 17% of GDP), a trend caused by the difficult lending market and the high degree of uncertainty regarding economic policy. For 2014, we estimate only a moderate rate of 0.8% in real GDP growth.

Real GDP (growth y/y %)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012e</th>
<th>2013f</th>
<th>2014f</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (growth y/y %)</td>
<td>0.9</td>
<td>-6.8</td>
<td>1.3</td>
<td>1.6</td>
<td>-1.4</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Fixed capital formation (growth y/y %)</td>
<td>2.9</td>
<td>-11.1</td>
<td>-9.5</td>
<td>-3.6</td>
<td>-6.5</td>
<td>-4.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Private consumption (growth y/y %)</td>
<td>-0.2</td>
<td>-5.6</td>
<td>-3.3</td>
<td>0.4</td>
<td>-2.0</td>
<td>-1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Trade balance (% of GDP)</td>
<td>-1.1</td>
<td>2.6</td>
<td>3.3</td>
<td>3.4</td>
<td>4.3</td>
<td>4.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-7.3</td>
<td>-0.2</td>
<td>1.1</td>
<td>0.9</td>
<td>1.7</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>CPI (average y/y)</td>
<td>6.1</td>
<td>4.2</td>
<td>4.9</td>
<td>3.9</td>
<td>5.7</td>
<td>4.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>7.8</td>
<td>10.0</td>
<td>11.2</td>
<td>10.9</td>
<td>10.8</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>General budget balance (% of GDP)</td>
<td>-3.7</td>
<td>-4.6</td>
<td>-4.2</td>
<td>4.3</td>
<td>-2.8</td>
<td>-2.6</td>
<td>-2.7</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>73.0</td>
<td>79.8</td>
<td>81.8</td>
<td>81.4</td>
<td>78.4</td>
<td>78.7</td>
<td>78.4</td>
</tr>
<tr>
<td>Foreign debt to GDP (%)</td>
<td>116.9</td>
<td>150.1</td>
<td>143.1</td>
<td>132.1</td>
<td>124.6</td>
<td>117.1</td>
<td>110.4</td>
</tr>
<tr>
<td>Industrial production (y/y %)</td>
<td>0.0</td>
<td>-17.8</td>
<td>10.6</td>
<td>5.4</td>
<td>-0.7</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Retail sales (growth y/y %)</td>
<td>-1.6</td>
<td>-5.3</td>
<td>-2.1</td>
<td>0.2</td>
<td>-2.0</td>
<td>-1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>LCY/EUR average</td>
<td>251.3</td>
<td>280.6</td>
<td>275.4</td>
<td>279.2</td>
<td>288.5</td>
<td>285.0</td>
<td>282.5</td>
</tr>
<tr>
<td>LCY/USD average</td>
<td>171.8</td>
<td>202.3</td>
<td>208.1</td>
<td>200.9</td>
<td>231.0</td>
<td>235.5</td>
<td>235.4</td>
</tr>
</tbody>
</table>

Despite the weakness of the economy, we expect the trade surplus to widen marginally in 2013, after rising to just slightly more than EUR 7 billion in 2012. The principal reason is sluggish domestic demand. As household consumption and investments are expected to decline further, import growth could remain subdued and is expected to underperform exports despite the still not too encouraging external outlook. However, the trade surplus will be partly offset by income outflows. After the EUR 0.9 billion current account balance in 2011 (0.9% of GDP), the surplus probably widened to around EUR 1.7 billion in 2012, and we now expect it to expand to EUR 2.2 billion in 2013.

Labor market conditions are expected to remain relatively unchanged in 2013 versus the previous year. The average rate of unemployment is forecast at 10.8%, similar to the level of 2012. The labor market participation rate should increase further, which is a positive sign, but private sector employment is not expected to increase in 2013. In fact, a slight decrease in private sector employment cannot be ruled out, similarly to 2012. The rise in employment according to official statistics is partly attributable to the higher number of state-subsidized jobs in 2012.

As for inflation, the government’s actions will have a major impact on prices just like in 2012 when consumer prices edged up 5.7% on average. In 2013, we expect inflation to decline, because the VAT increase of 2012 will no longer be felt and we will also see household energy prices drop by 10% (by government order). The increase in excise taxes and the financial transaction tax are intended to counteract these effects. All in all, we expect inflation to reach 4.4% in 2013. While we perceive some downward risks due to potential cuts to household energy prices by the government, our forecast is still well above the 3% central bank target. This said, it will still not prevent the MPC from slashing the policy rate further, by 75bp to 5% by the end of 1H 2013, given the sluggish economic activity, which recently became a major element of the rationale of the MPC’s external members (these members were nominated de facto by the government). The greatest risk regarding the Hungarian market is clearly a change at the head of the central bank in March 2013.

Fiscal outlook

Until the end of 3Q 2012, the ESA deficit was only 1.8% of GDP, while the cash-flow-based deficit in the central budget (excluding municipalities) was only 2.1% of estimated GDP for the full year 2012. Accrual-based figures and municipality figures will be disclosed in February and March 2013. However, the ESA-based budget deficit almost certainly did not reach 3% of GDP and we also believe there is a risk that our 2.8% deficit forecast is somewhat pessimistic. Against this backdrop, we believe the chances are high that the deficit will stay below 3% of GDP in 2013 as well if the cabinet does not start to increase spending prior to the 2014 elections. In the first half of 2013, we believe that it is more likely that Hungary will get out of the Excessive Deficit Procedure (EDP), which started in 2004.
Equity market outlook

The Hungarian leading index, BUX, posted a moderate gain of 7.06% in 2012, while average daily turnover deteriorated further. The good news is that, by the end of 2012, the activity of investors had livened up and the market showed something of a recovery in terms of the value of the index as well as in trading volumes. It seems that, after the bad years, the times ahead will be better.

The major aim of the Hungarian government is to end the EDP with the European Commission. In the last two or three years, most of the government’s actions were motivated by this objective and most of the costs were paid by corporations, including most stocks listed on the BSE. After the crisis taxes were abolished at the end of 2012, other taxes were introduced in almost the same amount for companies. The difference compared to the previous one(s) is that some of these taxes can be passed onto customers, at least partially. After the above-mentioned steps, the government communicated that it does not intend to carry out any further major changes to the taxation system. A possible end of the EDP significantly decreases the probability of further burdens on companies, unless the government expects companies to pay the election bill, i.e., by increasing budget spending prior to the elections. A potential drop in the probability of another measure against corporations decreases the risk costs on the Hungarian market.

The Hungarian equity market is trading significantly below its historical P/E average like numerous other equity markets. In the case of decreasing premiums from domestic and international sources, the valuation of the market will get closer to its historical levels. This suggests a solid double-digit increase of the Hungarian stock market in 2013, with a possible recovery in turnover, too.

The Largest Companies on the Budapest Stock Exchange

The BUX is made up of the most actively traded blue chips of the Budapest Stock Exchange.

The BUX includes the following companies:
- Appenin Plc
- CIG Pannonia Life Insurance Plc
- EGIS Pharmaceuticals Plc
- ESET MEDIA Plc
- FHB Mortgage Bank Co Plc
- Gedeon Richter Plc
- Magyar Telekom Plc
- MOL Plc
- OTP Bank Plc
- PannEgy
- Synergion information Systems plc

Erste Group Research
Hungarian Research Team
Key Figures of the Budapest Stock Exchange

Equity market capitalization 2008 to 2012

Market capitalization in euro was higher at the Budapest Stock Exchange at year-end versus the previous year. Since the current level of equity market capitalization in local currency is just slightly above the level of the end of 2011, the 7.6% rise may be attributed to the 6.6% appreciation of the local currency. Although there were some new issues in 2012, they did not have any significant effect on the capitalization.

Domestic equity trading 2008 to 2012

Following a good start at the beginning of the year, the value of domestic equity trading turned into a decline and hit the bottom in late summer. A share of 55% of trades were concluded in the first half of the year, and by the end of 2012, the share had dropped by 38% compared to the like period of the previous year amounting to EUR 8.4 billion (single count). Nonetheless, BSE’s certificates market performed well: Apart from achieving EUR 250 million in turnover, products with new underlyings became available for trading in 2012.

Trading volume of national and international members 2008 to 2012

In 2012, the activity of both national and international trading members declined significantly. The tendency of the previous years continued, with a slight increase being seen in the share of international trading members. Domestic members, however, still played the main role on both the spot and the derivatives markets. International trading members remained active only on the spot market, generating 19.5% of the turnover.

New share issues 2008 to 2012

One company, Business Telecom Plc., joined BSE’s equity market in 2012 through a technical listing of its shares. In addition, Masterplast Plc. brought new shares to the floor as a secondary public offering with a value of EUR 4.2 million. The total value of the share capital increases was EUR 23.6 million divided equally between the two halves of 2012.
Slovenia: Macroeconomic Outlook

GDP data in 3Q 2012 once again disappointed with -3.3% y/y and the outlook for the coming quarters is not overly optimistic. The continued decline of the construction sector and a troubled state-owned banking sector remain the main concern. On the positive side, first reform efforts in the pension system and plans to set up a bad bank have been implemented.

Country at a glance

Official Language: Slovene
Capital: Ljubljana
Area: 20,273 sqkm
Population*: 2,055,496 (2012)
Nominal GDP*: EUR 36,171.8m (2011)
GDP per Capita in PPS (EU-27=100)*: 84 (2011)
Currency: 1 Euro = 100 Cent
Time Zone: UTC+1 CET
UTC+2 CEST (March to October)
Internet Suffix: .si
Official Language: Slovene

Economic outlook

Slovenia’s 3Q GDP figures were again disappointing at -3.3% y/y, underpinning the extremely weak economic situation. This figure comes after a y/y decline of 3.2% (-1.1% q/q) in 2Q 2012. Consequently, the economy slipped into recession in 3Q again with two consecutive quarters of negative q/q growth rates. Gross capital formation in particular was seeing a strong setback in 2012. The structure of weak domestic demand, above all, gross capital formation will prevail in 2013 according to our estimates. The construction sector witnessed the strongest declines and contracted by more than 11% on average in the first three quarters of 2012. This is not overly surprising, given that the construction sector was expanding rapidly with the support of bank lending by the state-owned banking sector before the outbreak of the financial crisis. Although we expect to see some first signs of improvement, especially in the second half of 2013, we still project a GDP decline of 1% y/y in 2013. Only for 2014 do we expect to see a slow return to growth with GDP projected to rise by 1% y/y.

Real GDP (growth y/y %)

As a small, open economy Slovenia relies on exports. The sluggish economic development in the euro zone, where we expect GDP to come in at only -0.1% y/y in 2013, will not afford Slovenia any stronger support. On the one hand, Germany is the main trading partner that accounts for roughly 20% of total exports from Slovenia and has continued to withstand the economic slowdown better than other euro zone countries. On the other hand, Italy, Croatia and Hungary are also important trading partners with an export share for Slovenia of some 20% and these economies are among the weakest in respect to economic growth.

Fiscal outlook

Despite the fact that the parliament recently adopted a pension reform under which the retirement age was raised to 65 or 40 years of national insurance contribution before qualifying for a pension, there are numerous difficulties which still have to be overcome. Threats of referendums by the opposition and the trade unions continued, especially in relation to the creation of a bad bank and the establishment of a state holding to manage publicly owned companies and take care of privatizations. But recently, a court decision – still lead to the deficit goals being missed. For 2013, Slovenia plans to issue two bonds with a volume of about EUR 4 billion in order to recapitalize its banks, according to Finance Minister Sustersic. In particular, the banking sector contains risk potentials which could still make an application for a bailout by the EU/EMS by 2015. The plan includes austerity as well as revenue-boosting measures and is based on conservative GDP estimates. Nevertheless, the possible delay in reform efforts or higher state guarantees or capital injections at state-owned banks could – in our view – still lead to the deficit goals being missed. For 2013, Slovenia plans to issue two bonds with a volume of about EUR 4 billion in order to recapitalize its banks, according to Finance Minister Sustersic. In particular, the banking sector contains risk potentials which could still make an application for a bailout by the EU/EMS.
necessary during 2013. We remain moderately pessimistic about the GDP budget deficit goal staying below 3% in 2013 and about the planned path to a balanced budget in 2015. Pressure from the rating agencies is likely to persist in the coming months and especially S&P’s, but also Fitch, are likely to downgrade Slovenia’s rating in the coming months.

The SBITOP is the blue chip index of the Ljubljana Stock Exchange. Its basket currently includes the following companies: Gorenje, Krka, Mercator, Nova KBM, Petrol, Telekom Slovenije, Zavarovalnica Triglav.

Equity market outlook

After two years in negative territory, the SBITOP ended the year 2012 in positive terrain with a performance of nearly 8%, in line with most other CEE equity markets. Market sentiment was positively impacted by the release of more aid for Greece which resulted in a relief at the front of the European debt crisis. With the mitigation of the “fiscal cliff” risk in the USA investors again favoured risky assets resulting into a surge of stock prices in Ljubljana at the turn of the year.

In general, we expect to see a positive development on the Ljubljana Stock Exchange in 2013. The economic conditions in the euro zone and in the USA are presently not ideal, but they are forecast to improve considerably during the second half of 2013. This should spur confidence among international investors and lead to increased flows of foreign capital into the country. The long-term growth prospects of the Ljubljana Stock Exchange are probably also still intact, thanks to the convergence process.

Wolfgang Ernst and Aaron Alber, Raiffeisen Research, Raiffeisen Bank International
Key Figures of the Ljubljana Stock Exchange

Equity market capitalization 2008 to 2012

Total LJSE equity market capitalization was EUR 4.91 billion at the end of December 2012.

Domestic equity trading 2008 to 2012

The domestic equity trading volume (double count) recorded in 2012 amounted to EUR 605.73 million, with total LJSE trading volume (including bonds and investment funds) amounting to EUR 720.77 million. This translates into an average monthly trading volume of EUR 60.06 million. Total trading volume without block trading amounted to EUR 548.24 million. The large part of turnover was generated by equity trades (84%), while bonds and investment funds contributed a further 15.4% and 0.5%, respectively.

The most actively traded stock on the Prime Market in 2012 was Krka, which stood for 46.6% of all equity deals. The LJSE Prime Market currently lists ten Slovene blue chips, which accounted for 89.5% of the equity trading volume in 2012. The other two largest contributors to equity trading were Mercator, which generated 14.6% of all equity transactions, and Petrol, which contributed a further 8.4%.

Trading volume of national and international members 2008 to 2012

The major share of LJSE trading volume in 2012 was generated by domestic members, which executed 84% of all trades. In December 2012, the LJSE had 18 domestic members and 5 international remote members.

New share issues 2008 to 2012

The adverse market situation was one of the key reasons for the small number of capital increases in 2012 (seven capital increases raised a total of EUR 16.5 million). New listings in 2012 included bonds, which were issued with a total nominal value of EUR 39.5 million, and commercial papers with a total nominal value of EUR 124 million.
The Czech economy has been in recession for almost one year, with the euro zone debt crisis being the main cause. Especially personal consumption has disappointed as the consumer mood was negatively affected by austerity measures. We project a gradual recovery in 2013 for the Czech economy, driven by export growth to the euro zone. Nevertheless, this slow recovery will not be enough to ensure GDP growth on an annual level.

Economic outlook

The current economic situation in the Czech Republic can be characterized by two words: stability and weakness. The Czech economy has been in recession for almost one year (thus far, three quarters of negative growth officially). A primary cause of this drop in economic activity is the euro zone debt crisis which is also reducing demand for Czech exports. But this shock is significantly amplified by the restrictive fiscal policy of the Czech government. Therefore, the recession of the Czech economy is even deeper than in the euro zone, despite the fact that the Czech government’s finances are in much healthier condition than the financial situation of most euro zone states. For example, in Q3 2012, GDP fell by 0.3% q/q and 1.3% y/y; and the declines of GDP in 1Q and 2Q were even deeper. A closer look at the structure of GDP reveals that surpluses from net exports do not compensate the decline in consumption in 1Q 2013 where we expect a drop in GDP by 0.3% q/q. Thereafter, the Czech economy is forecast to gradually recover in the course of 2013. The recovery is expected to be driven by export growth, because the economy of the euro zone, which is the dominant trading partner of the Czech Republic, is also predicted to recover in the course of 2013. However, given the relatively low level of production at the end of 1Q 2013, growth will probably not be sufficient to ensure GDP growth on the annual level. Hence, we forecast an annual decline of GDP by 0.2% in 2013 in the light of our outlook for the euro zone economy, which we expect to contract by 0.1%.

Fiscal outlook

In parliament, the Czech government managed to pass the tax bill, which raises VAT by 1pp to 21% and 15%, and the president signed the law so that it came into effect starting from 1 January 2013. The VAT hike is part of the government budget plan to achieve a deficit of below 3% of GDP in 2013. We regard the goal of a deficit of 2.9% of GDP as achievable for 2013. However, due to the church restitution plan of the government, the budget deficit is expected to rise to 4.5% of GDP for 2012, but this is only a one-off effect. The year 2013 should be the last one in which fiscal policy is so restrictive. For the years 2014 and 2015, the Czech government plans to ease the restrictive fiscal policy. It may be viewed as a reaction to the current weakness of the Czech economy. Unfortunately, it took too long to react. The second possible interpretation is that this was only a reaction to the fiscal policy in 2013. The VAT hike is part of the government budget plan to achieve a deficit of below 3% of GDP in 2013. We regard the goal of a deficit of 2.9% of GDP as achievable for 2013. However, due to the church restitution plan of the government, the budget deficit is expected to rise to 4.5% of GDP for 2012, but this is only a one-off effect. The year 2013 should be the last one in which fiscal policy is so restrictive. For the years 2014 and 2015, the Czech government plans to ease the restrictive fiscal policy. It may be viewed as a reaction to the current weakness of the Czech economy. Unfortunately, it took too long to react. The second possible interpretation is that this was only a reaction to the fiscal policy in 2013.
The PX is the official index of the Prague Stock Exchange. It is a capitalization-weighted price index made up of the most actively traded blue chips of the Prague Stock Exchange.

The Czech government remains weak after a series of scandals with a limited ability to enforce further reforms. On the other hand, the government has more or less already enforced the key reforms (tax, pension reform and church restitutions). Hence, the possible loss of majority would not be a tragedy. On 11 and 12 January 2013, the first direct presidential election in the Czech Republic was held. We do not expect any explicit market reaction to that event. On the other hand, the Czech president appoints members of the Board of the Czech National Bank, and can thereby significantly influence Czech monetary policy.

Equity market outlook

In the year 2012, the PX, the leading Czech stock market index, has had to finally say goodbye to its reputation as a defensive index. This is due to changes to the index weightings, which put banks and insurances markedly in the lead with a weighting of roughly 58%. Defensive stocks such as ČEZ and Telefónica C.R. now only account for 31%. Looking at last year’s performance, the significant capital gains of the three heavily-weighted financial companies were enough to push the PX 14% upwards, whereas the two major defensive companies suffered losses in the magnitude of roughly 13% each. The performance of 14% put the PX in the middle of its two counterparts from Hungary (BUX +7%) and Poland (WIG +20%) in 2012.

Due to the open Czech economy, the PX is heavily influenced by international stock market sentiment, and regarding 2013 in general, economic conditions in the euro zone and in the USA are not really good right now, but they should improve considerably during the second half of 2013. In anticipation of the improvement in economic activity, we are looking forward to quite positive developments on both the established markets and CEE markets in 2013.

As regards the PX in detail, the 2013 P/E ratio is 11.6, which may still be considered moderate, and with an expected consensus earnings estimate of around 10% for 2013, the index has moved into one of the top positions in the CEE region. The driving force behind these figures is once again the financial sector, and according to consensus opinion, especially Erste Group Bank will post robust earnings growth, whereas earnings stagnation is expected for Telefónica C.R. and ČEZ. On the other hand, the PX has lost its top spot in terms of dividend yields, as it amounts to “just” 4.9% for 2012e due to the reallocation of index weights.

The Largest Companies on the Prague Stock Exchange

The PX includes the following companies:
- AAA Auto Group
- Central European Media Enterprises
- ČEZ
- Erste Group Bank
- Fortuna Entertainment Group
- Komerční banka
- New World Resources
- Orco Property Group
- PEGAS NONWOVEN
- Philip Morris CR
- Telefónica C.R.
- UNIFETOL
- VIENNA INSURANCE GROUP

The logos below show the five PX companies with the highest trade volumes.

Richard Malzer, Wolfgang Ernst and Vaclav France, Raiffeisen Research, Raiffeisen Bank International

Current account balance (% of GDP)

Inflation outlook & unemployment

n
n
CPI (average % y/y)
Unemployment

However, this is still one of the leading positions in the CEE region, and that is also the moment for the defensive players, as the expected dividend yields for 2012 range from nearly 7% (ČEZ) to almost 12% (Telefónica C.R.). Generally, these figures outperform the yield-to-maturities of the respective corporate bonds (ČEZ) significantly. Due to an improved global economic momentum in 2H 2013 and the robust fundamentals for the PX, we prognosticate a positive development for the index in 2013 with a magnitude of roughly +10%.
Key Figures of the Prague Stock Exchange

Leading index: PX

- Performance 2012: +14.01%
- 5-year performance: -42.77%
- Equity market capitalization: EUR 28.19bn
- Number of listed companies: 29
- Number of trading members: 17
- Number of securities (30 Dec 2012):
  - equity market: 27
  - bond market: 98
  - structured products: 30
  - others (coupons): 24

Legal framework:
- EU Capital Market Legislation
- Capital Market Undertaking Act
- Prague Stock Exchange Rules and Regulations

Equity market capitalization 2008 to 2012

At the end of 2012, the market capitalization of domestic equities was EUR 28.19 billion. The market capitalization of foreign equities amounted to EUR 17.24 billion. The total value of market capitalization was EUR 45.43 billion. Total market capitalization increased by 10.49% over the end of 2011.

Domestic equity trading 2008 to 2012

In the year 2012, trading turnover in domestic equities reached EUR 15.48 billion. Turnover decreased by 30.61% compared to 2011. Total turnover in 2012 was EUR 19.96 billion.

New share issues 2008 to 2012

The PSE commenced trading in the shares of OCEL HOLDING SE on 30 April 2012, of ENERGOCHEMICA SE on 2 July 2012 (both technical listings), and of Tatry mountain resorts, a.s., as a dual listing on 22 October 2012. Additionally, several capital increases raised a volume of EUR 381.64 million.

Trading volume of national and international members 2008 to 2012

The PSE has 17 members, two of which are foreign: EQUILOR Investment Ltd. with headquarters in Hungary and Ipopema Securities S.A. with headquarters in Poland. The two foreign companies accounted for 4.27% of total equity trading volumes. EQUILOR Investment Ltd. acts as a market maker for the equities of ČEZ, Komerční banka and Telefonica C.R.
Austria: Macroeconomic Outlook

Austria is a stable country both in economic and political terms. The relative strength of its key economic indicators versus the euro area—17 such as the above-average economic growth rate and the very low unemployment rate gives Austria, like most of the region's equity markets, an advantage over major established markets.

Economic outlook

Since the EU's enlargement in 2004, Austria has been viewed as a beneficiary of the EU expansion. In terms of growth, the Austrian economy has been outperforming the euro area average since the introduction of the euro in 2002. We still expect the CEE region to be the growth driver of Europe over the long term due to its enormous catching-up potential.

The dynamic export growth rates highlight the fact that Austria is an open and competitive economy. Since 2002, the Austrian current account has been positive, which confirms the international competitiveness of the country. About one third of its exports go to Germany, while the CEE region accounts for roughly one sixth, Italy for 8%, the BRIC countries for 6%, USA for 5%, and France for 4%.

The Austrian labor market ranks among the top markets of the euro area because of its very low unemployment rate. In October 2012, the rate was 4.3%, which ranks the country as number one in the euro area ahead of Luxembourg. This also means that the Austrian unemployment rate is less than half of that of the EU which was 10.7%. We expect the unemployment rate to increase marginally this year and to remain stable in 2014. Inflation was high in 2011 but started to decline in 2012 (2.9% as of November), thus being above the average euro area inflation rate, which was at 2.2%. Inflation was driven mainly by higher rents and food prices. Excluding the increases in energy, food, alcohol, and tobacco (core inflation), prices rose by 2.8%. For 2013, we expect an inflation rate of 1.9%.

Fiscal outlook

As a consequence of the global economic crisis in 2009, Austria's budget deficit and government debt increased, departing from the Maastricht criteria of 3% and 60% of GDP, respectively—as it did in many other countries as well. Austria is still one of the 15 countries with a triple-A rating from at least two of the major rating agencies. However, reducing government debt and the budget deficit remains the key challenge for economic policy for the coming years. In 2011, the budget deficit of 2.5% of GDP met the Maastricht target. A consolidation package was introduced in 2012, which should additionally counteract any further deterioration of Austria's debt metrics. However, due to the subdued economic growth, the public deficit is expected to increase slightly and to peak in 2013.

As a member of the traditional hard currency block, Austria has written positive history in the monetary union, making it one of the economically successful core countries of the euro zone. This assessment is based on the past ten years of positive current accounts, a sustainable rise in productivity over years, and a generally highly competitive economy and industrial sector. Moreover, unit labor costs have developed moderately along with the increase in production, and in the long-run, inflation has been in line with the European Central Bank’s target. Government bonds with the best ratings should retain their function as safe havens, not least as the European debt crisis is not yet over. However, systemic risk might pose a downside risk, though this is similar for all top-rated euro zone countries.
The ATX (Austrian Traded Index) is the leading index of the Vienna Stock Exchange. Two key criteria for inclusion in the index are free float market capitalization and stock exchange trading volumes.

The ATX includes the following companies:
- AMAG Austria Metall AG
- ANDRITZ AG
- CA Immobilien Anlagen AG
- Converg Immobilien Invest SE
- Erste Group Bank AG
- EVN AG
- IMMOFINANZ AG
- Lafarge AG
- Mayr-Melnhof AG
- OMV AG
- Österreichische Post AG
- Raiffeisen Bank International AG
- RHI AG
- Schoeller-Bleckmann AG
- STRABAG SE
- TELEKOM AUSTRIA GROUP
- VERBUND AG
- VIENNA INSURANCE GROUP AG
- voestalpine AG
- Wienerberger AG

Erste Group Research

Development in CEE and its impact on Austria

The economic development of Central and Eastern Europe is of crucial relevance for the Vienna Stock Exchange. Some 85% of the most important companies (weighted by market capitalization) in the blue chip index, ATX, are heavily engaged in CEE and generate the majority of their sales and earnings in the region. That said, the CEE economies have experienced some wide fluctuations in economic development, but overall their performance in 2012 was relatively solid despite the re-appearance of the crisis (which also applies to the euro zone). The markets covered by Erste Group Research (CEE8) grew by an estimated weighted average of +0.6% in 2012 (euro zone -0.4%). In 2012, some CEE8 countries slid into recession again due to weakening global demand. But the CEE countries should not be seen as a homogenous cluster of economies. The bandwidth for country-specific performance is significant as shown by a growth rate of -1.8% in Croatia and 2.4% in Poland in 2012. For 2013, Erste Group Research expects real GDP growth of +1.4% for the CEE8 (versus +0.4% for the euro zone). This means the CEE region is more resilient to the downturn, but cannot avoid the contagion effect. Due to the sound fundamentals of the region, growth in CEE will pick up rapidly with a recovery of external demand. Government debt in CEE is significantly lower than the EU/euro zone average. The exception of Hungary and Croatia if state guarantees are included, the countries meet the Maastricht criterion on public debt less than 60% of GDP. As the Austrian market is heavily dependent on CEE economies, the second positive factor is that CEE countries on average are still showing satisfactory growth figures (CEE8: 2013e +1.3%, 2014e +2.2%). Furthermore, the ATX still boasts an attractive valuation compared to its peers and is historically backed by robust double-digit earnings growth rates for 2012e and 2013e. Austrian shares are also much more attractive than government bonds in terms of returns (versus Austrian 10-year government bond yields). Overall, Erste Group Research expects a further moderate development of Austrian equities for 2013.

Equity market outlook

The year 2012 was a very good one for the Vienna Stock Exchange. Overall, the Austrian Traded Index (ATX) showed a positive performance of almost 27% in the past year. The only question mark was the still very low trading volumes. The two Austrian banking groups and industrial companies Andritz, AMAG and RHI were among the top five performers. While institutional investors – domestic as well as international – remain active at trading volumes well below pre-crisis levels, they have basically remained underinvested, as a result of the uncertain global financial market environment. High deficits and overall levels of government debt caused further unrest in the financial industry, but Central and Eastern European markets benefited in general compared to the major established markets in this respect.

Inflation outlook & unemployment

The real outcome after the crisis for Central and Eastern Europe (CEE) – all in relative terms – is that total government debt levels in most of the main countries are below or far below the euro zone average and the Maastricht limit of 60% of GDP (except Hungary and Croatia). As the Austrian market is heavily dependent on CEE economies, the second positive factor is that CEE countries on average are showing satisfactory growth figures (CEE8: 2013e +1.3%, 2014e +2.2%). Furthermore, the ATX still boasts an attractive valuation compared to its peers and is historically backed by robust double-digit earnings growth rates for 2012e and 2013e. Austrian shares are also much more attractive than government bonds in terms of returns (versus Austrian 10-year government bond yields). Overall, Erste Group Research expects a further moderate development of Austrian equities for 2013.

Erste Group Research
Key Figures of the Vienna Stock Exchange

Leading index
ATX

Performance 2012
(30 Dec 2011 – 30 Dec 2012)
+26.94%

5-year-performance
(30 Dec 2007 – 30 Dec 2012)
-46.79%

Equity market capitalization
(30 Dec 2012)
EUR 80.43bn

Number of listed companies
99

Number of trading members
96

Number of securities
(30 Dec 2012)

- equity market
106
- bond market
3,626
- structured products
5,300

Legal framework
Stock Exchange Act,
EU Capital Market Legislation,
Code of Conduct according to OECD standards, General Terms and Conditions of the Vienna Stock Exchange

Equity market capitalization 2008 to 2012
The positive performance of the leading index, ATX, reflects the development of market capitalization: It rose from EUR 65.68 billion as of year-end 2011 to EUR 80.43 billion on the last day of trading of 2012. This translates into a gain of 22.45%.

Domestic equity trading 2008 to 2012
Equity trading stagnated or dropped on most international stock exchanges in 2012. Trading volumes in money terms on the Vienna Stock Exchange for domestic stocks was EUR 35.86 billion (EUR 2.99 billion on the monthly average) which is a decrease of almost 40% versus the previous year.

New share issues 2008 to 2012
In 2012, three capital increases – UNIQA, HTI and InterCell – were carried out that raised fresh capital amounting to EUR 0.52 billion. There were no new listings or SPOs. However, the primary market for corporate bonds was again extraordinarily active. There were 29 new listings plus one tap issue and the volume of funds raised broke a new record of EUR 5.5 billion.

Trading volumes of national and international members 2008 to 2012
In 2012, seven new trading participants – all of them international firms – were admitted to the Vienna Stock Exchange as direct trading members. As of year-end, 58 of the 96 trading members were foreign firms. They continue to account for more than two-thirds of total trading volume in equities with a share of 67.21%.
Editorial Information

Media owner and publisher: Wiener Börse AG
Place of publication: 1014 Vienna, Walnerstrasse 8
Concept and design: be:public Werbung Finanzkommunikation GmbH
Place of production: Vienna
Responsible for the contents: Wiener Börse AG; January 2013
Translated by: CAMELS – Capital Markets English Language Services, Edith Vanghelof
Copy deadline: 30 December 2012

We have prepared this report with the greatest possible care and have checked the data. Nonetheless, rounding, typographic or printing errors cannot be ruled out. Differences may occur due to the automated calculation of the sums of rounded amounts and percentages.

We hereby explicitly point out that the data and calculations given in this report are historic values and do not permit any conclusions to be drawn regarding future performance or value stability. No claim is made as to completeness. The information given in this publication does not constitute any investment advice or investment recommendation by Wiener Börse AG. The macroeconomic outlooks have been prepared by Erste Group Bank and Raiffeisen Bank International. Their reports are marketing publications and have not been prepared in compliance with any legal provisions intended to promote the independence of financial analyses; neither is this report subject to the ban on trading subsequent to the release of financial analyses.

All of the information on the companies contained in this brochure has been obtained from the companies themselves and has not been checked as to its correctness by Wiener Börse AG. Therefore, Wiener Börse AG does not assume any liability for the correctness of said data.

This publication is protected by copyright law. Wiener Börse AG retains all rights, especially the right to the dissemination, duplication, translation, reprinting and reproduction by means of photocopy, microfilm or other electronic processes as well as the right to store the data on data storage devices – also in the case of only partial realizations; all of the aforementioned shall be the exclusive right of Wiener Börse AG.