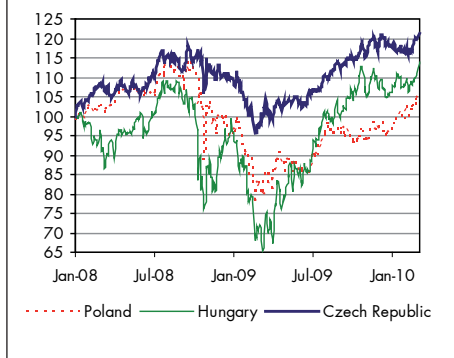


CEE Weekly Bond Markets Outlook

Issue 8/2010

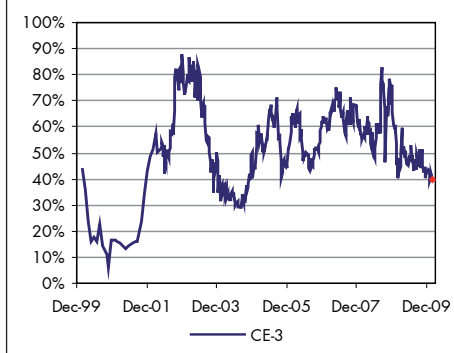
5 March 2010

Performance of 7-10y bond indices



Source: EFFAS, Bloomberg, Raiffeisen RESEARCH

RZB Convergence Index



Composite (GDP-weighted) index for PL, HU & CZ
Source: Thomson Reuters, Raiffeisen RESEARCH

Forecast

	current	Jun-10	Sep-10	Dec-10
Poland				
PLN	3.91	3.80	3.75	3.65
1m-rate	3.4	3.6	3.8	4.2
5y bond	5.4	5.7	5.9	6.0
10y bond	6.0	6.2	6.3	6.4
Hungary				
HUF	266.6	285.0	275.0	275.0
1m-rate	5.8	5.8	5.7	5.8
5y bond	6.6	7.5	6.6	6.6
10y bond	7.2	7.9	7.0	6.9
Czech Rep.				
CZK	25.8	25.4	24.8	25.0
1m-rate	0.9	1.1	1.3	1.8
5y bond	3.2	3.3	3.7	3.8
10y bond	4.0	4.1	4.4	4.5
Romania*				
RON	4.09	4.10	4.05	3.95
1m-rate	5.6	6.4	6.3	6.0
5y bond	7.0	7.4	7.2	6.9
10y bond	7.0	6.7	6.6	6.5
USD	1.36	1.42	1.39	1.35

Currencies per 1 EUR

*forecasts under revision

Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendations (1-month horizon)

Neutral PLN bonds; Neutral HUF bonds; Neutral CZK bonds; Buy RON bonds;
Sell TRY Bonds

Highlights

- **Poland** – The perception of the market that the debt situation will turn out to be better than expected in 2010 will be gradually substituted by worries about higher interest rates.
- **Hungary** – More positive global market sentiment could drive another setback on the long end of the Hungarian yield curve, and therefore we take neutral stance for the time being, before recommending to sell them in the weeks to come.
- **Czech Republic** – Next week will be full of important domestic macroeconomic data releases. The final release of the GDP data for Q4 2010 will attract strong attention.

Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
08-Mar					
CZ	Foreign trade balance	Jan	10.0	CZK bn 2.8/10.0/15.8	2.8
TR	Industrial output, yoy	Jan	24.0	% n.a./16.2/n.a.	25.2
09-Mar					
HU	Industrial output, yoy	Jan	3.0	% n.a.	-1.4
CZ	CPI, mom	Feb	0.1	% 0.1/0.2/0.4	1.2
CZ	CPI, yoy	Feb	0.7	% 0.6/0.8/1.1	0.7
CZ	Unemployment	Feb	10.3	% 9.8/10.0/10.3	9.8
10-Mar					
HU	Real GDP, yoy	Q4	-4.1	% n.a.	-7.1
RO	CPI, yoy	Feb	4.5	% n.a.	5.2
HR	PPI, yoy	Feb	3.2	% n.a.	3.0
11-Mar					
HU	CPI, yoy	Feb	5.9	% 5.7/5.9/6.2	6.4
HU	Trade balance	Jan	50.0	EUR mn n.a.	375.0
CZ	Real GDP, yoy	Q4	-4.2	% n.a.	-4.1
TR	Current account	Jan	n.a.	USD bn n.a.	-3.2
12-Mar					
PL	Current account	Jan	-1119.0	EUR mn n.a.	-1034.0
CZ	Current account	Jan	10.5	CZK bn -12.5/4.4/11.0	-11.3
RO	Industrial output, yoy	Jan	7.5	% n.a.	8.3
RO	Foreign trade balance	Jan	n.a.	EUR mn n.a.	-242.0

Bond auctions

		ISIN	Coupon	Maturity	Volume
10-Mar					
TR	6m reference T-bill	n.a.	n.a.	08 Sep 2010	n.a.
TR	4y fixed rate T-bond	TRT060814T18	11.00%	06 Aug 2014	n.a.
11-Mar					
HU	3y T-bond	HU0000402466	7.50%	24 Oct 2013	HUF 25 bn
HU	5y T-bond	HU0000402268	8.00%	12 Feb 2015	HUF 15 bn
HU	15y T-bond	HU0000402383	6.00%	24 Nov 2023	HUF 10 bn



**Raiffeisen
RESEARCH**

RZB Group

Local currency bonds

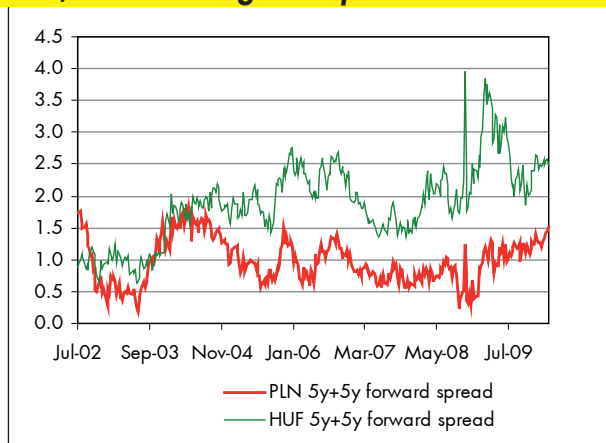
Market overview

CEE local currency bond market snapshot

04/03/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Jul 12	0.00	89.22	4.91	404	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.40	5.41	324	4.4
PLN 10y Gov. Bond	25/ Oct 19	5.50	96.56	5.98	285	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.36	6.08	214	11.4
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	103.58	6.35	504	3.3
HUF 5y Gov. Bond	12/ Feb 15	8.00	106.12	6.51	435	4.3
HUF 10y Gov. Bond	24/ Jun 19	6.50	95.77	7.13	400	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	90.51	7.10	336	9.3
Czech Republic						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.50	1.06	19	1.5
CZK 5y Gov. Bond	11/ Apr 15	3.80	103.10	3.13	98	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	107.50	4.00	87	7.3
CZK 15y Gov. Bond	25/ May 24	5.70	108.80	4.83	109	9.9
Slovakia						
SKK 2y Gov. Bond	4/ May 12	0.00	96.14	1.85	97	2.2
SKK 5y Gov. Bond	11/ Feb 14	4.90	108.21	2.67	52	3.7
SKK 10y Gov. Bond	12/ May 19	5.30	110.39	3.93	80	7.3
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.91	4.86	246	3.1
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.41	5.92	280	6.0
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.73	6.37	506	0.6
RON 5y Gov. Bond	5/ Mar 12	6.50	100.09	6.45	430	1.8
Turkey						
TRY 2y Gov. Bond	16/ Nov 11	0.00	86.17	9.14	827	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	102.60	10.51	836	3.5
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.00	10.75	762	6.5

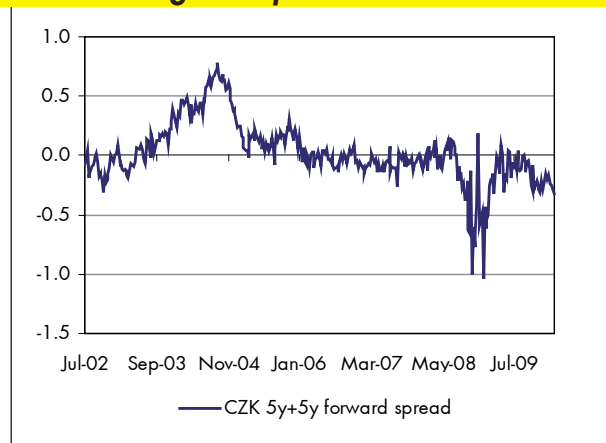
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

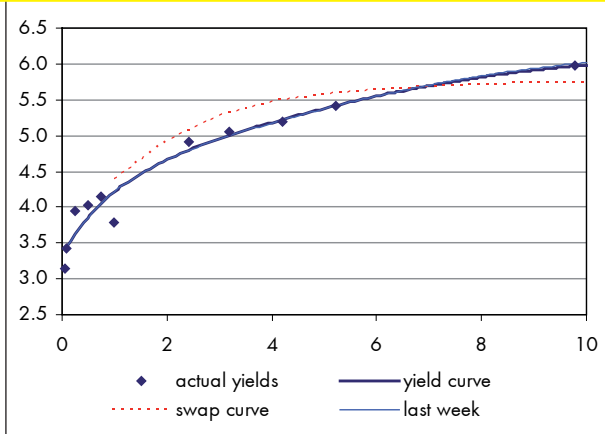
Poland

Strong demand despite looming rate hikes

(P)review of key economic figures/events

01 Mar 10	PMI	Feb 52.4 (Jan 51)	better than expected
02 Mar 10	GDP, real, % yoy	Q4 3.1% (Q3 1.7%)	domestic demand with positive growth for 1st time since Q4 2008
12 Mar 10	Current account, EUR mn	Jan -1119 (Dec -1034)	

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

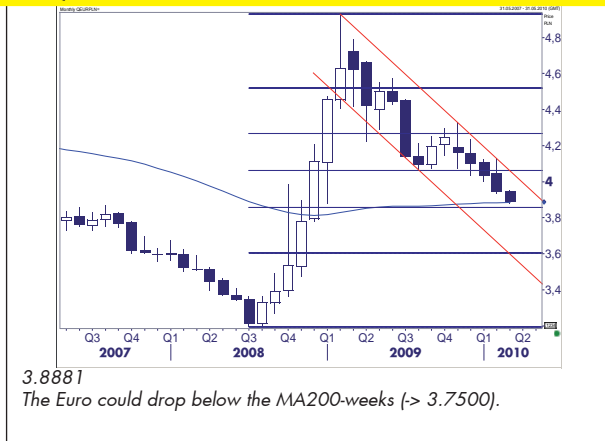
Money market focus

MM rates	1m	3m	6m	12m
Actual	3.42	3.94	4.03	4.24
Change from last week	0.00	0.00	-0.01	0.00
Forecast Jun-10	3.60	4.20	4.25	4.50
Forward rates	3x6	6x9	9x12	
	4.14	4.37	4.45	
Change from last week	-0.02	-0.01	0.03	

Bond market focus

	2y	5y	10y	20y
Actual	4.91	5.41	5.98	6.08
Change from last week	-0.01	-0.02	-0.02	0.05
Forecast Jun-10	5.30	5.70	6.20	6.20
Spread to bunds	403.6	324.4	284.7	214.2
Change from last week	1.2	-6.9	-1.7	-0.9
Spread to swaps	4.9	23.6	-16.3	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

In a switch tender on Wednesday, Poland sold papers with maturities in 2015, 2019 and 2029 in exchange for bonds maturing in 2010. The amount sold was PLN 4.76 bn and according to the director of the debt department of the MoF demand for the bonds amounted to PLN 8 bn. This once again underpins the strongly positive attitude on the Polish bond market, which is also reflected in declining secondary market yields. The MoF also announced that in Q2 a USD-denominated Eurobond worth USD 1.5 bn will be issued as part of the EUR 3 bn financing needed for the rest of 2010. There was no significant news on the economy, aside from the better-than-expected PMI for February, indicating accelerating economic activity in the manufacturing sector.

Market outlook

The NBP inflation projection published last week showed an increase in the inflation rate in 2012 beyond the upper target band of 3.5% yoy, and this week NBP governor Slawomir Skrzypek (usually regarded as a "dove") said that the MPC should consider tightening its policy in light of the long-term inflation forecasts. This and other comments by MPC members make a rate hike even more probable. The perception of the market that the debt situation will turn out to be better than expected in 2010 will be gradually substituted by worries about higher interest rates and an accelerating economy. Moreover, the recent run-up of the zloty creates potential for correction should the conditions on the global market deteriorate even slightly. We therefore confirm our short-run "neutral" recommendation for Polish bonds.

Analysts: Marcin Grotek (+48 22 585 29 44)
Marcin Kopzynski (+43 1 71707 1423)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	3.91	3.80	3.75	3.65
Change from last week	2.0%			
USD/PLN	2.87	2.81	2.64	2.63
Change from last week	3.2%			

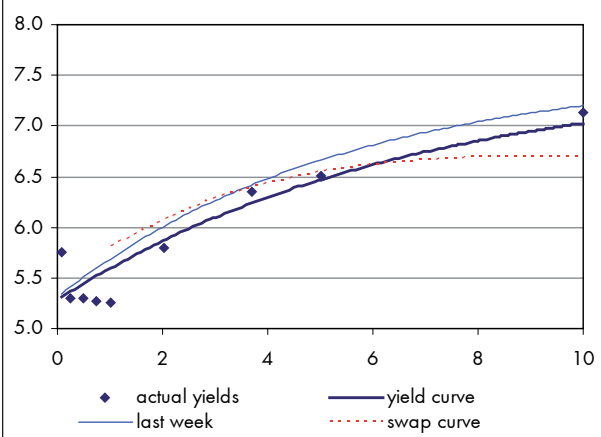
Hungary

Positive sentiment - for now

(P)review of key economic figures/events

09 Mar 10	Industrial output, % yoy	Jan 3.0 (Dec -1.4)	
10 Mar 10	GDP, % yoy	Q4 -4.1 (Q3 -7.1)	Preliminary figure was -4.1%
11 Mar 10	CPI, % yoy	Feb 5.9 (Jan 6.4)	Inflation expected to decelerate in the course of 2010

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

Last week, the Hungarian forint also participated in the regional rally, strengthening nearly 2% versus the euro and reaching levels not seen since November 2009. The driver for this rally was PLN appreciation and improving sentiment on the international markets, due to the latest Greek news on the announced austerity measures. HGB yields also retreated lower by another 10-30bp amidst increased foreign demand, and the market is pricing another 25bp rate cut in the coming months.

Market outlook

More positive global market sentiment could drive another setback on the long end of the Hungarian yield curve, and therefore we take NEUTRAL stance for the time being, before recommending to sell them in the weeks to come. We do not see the current HUF appreciation as being sustainable, as there is no fundamental improvement behind it. We expect EUR/HUF to climb back towards 280 in the months to come as tensions about the unachievable 3.8% deficit target are going to escalate. The mandate of two Monetary Council members expired last week. Taking into consideration that two relatively dovish members left, the tone of the council with the remaining seven members is likely to turn slightly conservative, and therefore the likelihood of another rate cut is rather limited, in our view.

Analyst: Matyas Kovacs (+36 148 44 874)
Wolfgang Ernst (+43 1 71707 1500)

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.75	5.75	5.74	5.71
Change from last week	-0.03	-0.02	-0.02	-0.03
Forecast Mar-10	5.9	5.8	5.7	5.8

Bond market focus

	3y	5y	10y	15y
Actual	6.35	6.51	7.13	7.10
Change from last week	-0.13	-0.29	-0.15	-0.15
Forecast Mar-10	7.2	7.6	8.0	7.9
Spread to bunds	503.5	434.9	400.2	335.8
Change from last week	-16.3	-33.4	-17.2	-22.4

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	266.61	285.0	285.0	275.0
Change from last week	1.3%			
USD/HUF	195.33	211.1	200.7	197.8
Change from last week	2.5%			

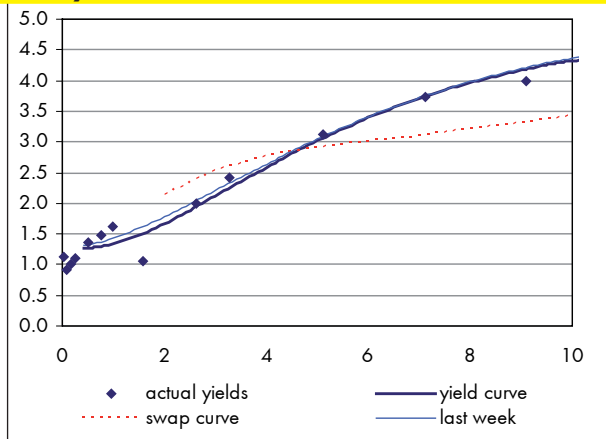
Czech Republic

Bond issuance calendar more slim in Q2

(P)review of key economic figures/events

24 Feb 10	5y T-bond auction	Strong demand for 5y government bond
03 Mar 10	10 T-bond auction	Volume of CZK 6 bn to be offered in reopening of April/2019 issue

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	0.92	1.11	1.36	1.61
Change from last week	-0.02	-0.03	-0.03	-0.05
Forecast Mar-10	1.1	1.2	1.3	1.7
Forward rates	1x2	3x6	6x9	9x12
Change from last week	-0.04	-0.03	-0.18	0.04

Bond market focus

	2y	5y	10y	15y
Actual	1.06	3.13	4.00	4.83
Change from last week	-0.05	-0.03	-0.06	-0.03
Forecast Mar-10	1.9	3.3	4.1	4.9
Spread to bunds	19.2	98.0	87.0	108.6
Change from last week	-11.1	-7.8	-8.7	-10.2
Spread to swaps	121.4	-9.7	-41.3	n.a.

EUR/CZK



25.764
The price has crossed its support line -> drop towards 24.700.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The Czech Ministry of Finance announced that it plans to issue CZK denominated government bonds worth CZK 32 bn in the second quarter 2010. Compared with Q1 the amount is CZK 10 bn lower. The figure also looks small considering the gross borrowing requirements for the whole year 2010 of CZK 280 bn. One part of the equation is the potential issue of Eurobonds that could reach a volume of around EUR 3 bn. Anyway, the issuance of CZK denominated government bonds will likely increase in the second half of the year. Nevertheless, in a short-term perspective the announcement was supportive for the bond market and the latest 10-year bond auction was very successful. Its bid/cover ratio increased to 2.25 from 1.21 reached in the previous auction of the same bond in January.

Market outlook

Next week will be full of important domestic macroeconomic data releases. Our quite optimistic forecast on exports and industrial output for January is matching with the market consensus and, thus, we do not expect a strong impact for the market if it is fulfilled. CPI inflation is likely to have remained low in February. The final release of the GDP data for Q4 2010 will attract strong attention as the first estimate was much weaker than expected and the GDP deviated strongly from the gross value added. An upward revision of the flash estimate would not be a big surprise for us and the structure of GDP, especially the development of domestic consumption, could affect market expectations. For the time being we stick to our neutral recommendation for Czech government bonds.

Analysts: Michal Brozka (+420 221 141 498)

Walter Demel (+43 1 71707 1526)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/CZK	25.76	25.4	24.8	25.0
Change from last week	0.7%			
USD/CZK	18.88	18.8	17.5	18.0
Change from last week	1.9%			

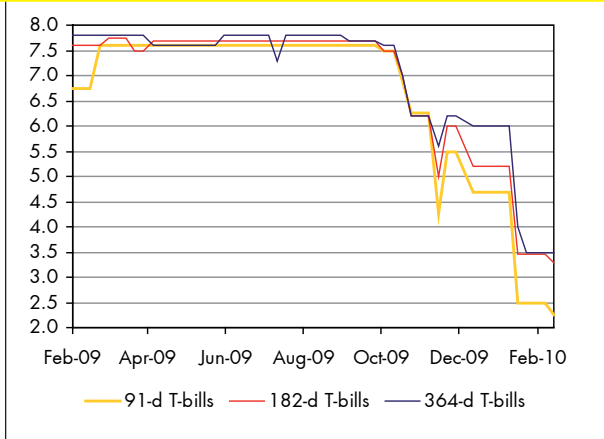
Croatia

Negative trend in retail sales slows down

(P)review of key economic figures/events

03 Mar 10	Industrial output, % yoy	Jan 1.5 (Dec -5.8)
10 Mar 10	PPI, % mom	Feb 0.4 (Jan 1.3)
10 Mar 10	PPI, % yoy	Feb 3.2 (Jan 3.0)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In line with our expectations, the decrease in retail sales slowed in January, amounting to 8.5% yoy in real terms (7.8% nominally). This is primarily the result of last year's high base, considering that in January 2009 retail sales fell 13.7% yoy. And the unfavourable trends in retail will continue, due to weaker credit activity, further declines in goods imports and especially the lower disposable income of households, which is affected mostly by the negative trends on labour market. At the beginning of 2010, the number of unemployed reached nearly 310,000, and at the end of last year net monthly wages started to fall at the annual level. Additional downward pressure on household consumption is coming from consumer pessimism, caused by the growing uncertainty on the labour market. Since we expect the negative outlook for the labour market to persist in H1 2010, retail sales results should be modest, although the rate of decline should be much lower than in 2009. Moreover, household income will be exposed to higher inflationary pressures (higher energy prices). This again brings us to the conclusion that structural changes are needed to encourage investments, production and exports, since the Croatian economy is too dependent on consumption. The latest flash estimate for real GDP in Q4 2009 showed that the contraction of economic activity continued. Real GDP shrank by 4.4% yoy, and finally 5.8% yoy in 2009 as a whole, with household consumption likely contributing the most.

Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.08	1.78	2.47	3.35
Change from last week	0.01	0.15	0.19	0.06
T-bills actual	n.a.	2.25	3.30	3.50

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.264	7.40	7.40	7.45
Change from last week	-0.2%			
USD/HRK	5.33	5.48	5.21	5.36
Change from last week	-0.7%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The low level of EUR/HRK in recent days was the result of a HRK 3 bn government bond maturing next week and the issuance of a new government bond. At the weekly and monthly level, we expect to see depreciation pressures on the kuna, with the rate moving towards 7.30.

Analysts: Ivana Juric (+385 1 61 74 349)
Zrinka Zivkovic-Matijevic (+385 1 61 74338)

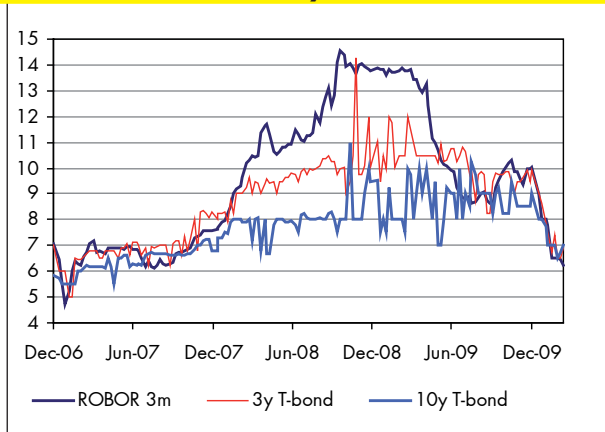
Romania

Low investments in Q4

(P)review of key economic figures/events

10 Mar 10	CPI, % yoy	Feb 4.5 (Jan 5.2)
12 Mar 10	Industrial output, % yoy	Jan 7.5 (Dec 8.3)
12 Mar 10	Foreign trade balance, EUR mn	Jan n.a. (Dec -242)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy RON T-bonds

Market comment

The statistical office just released the details on the dynamics of GDP components in Q4 2009. Historical data for 2008-2009 were also revised. More importantly, the model used to seasonally adjust the gross data was recalibrated, and the new procedure resulted in important changes in the quarterly growth rates for the last two years. For instance, the new data show that real GDP fell 1.5% qoq in Q4, after advancing slightly in Q3 by 0.1% qoq (previously reported as a decrease of 0.6% qoq). However, the current dynamics of GDP components (i.e. consumption, investments, GVA in industry) seems to be at odds with the information provided by the other indicators with monthly frequency. The quarterly contraction in real GDP in Q4 was not as bad as the headline figure indicated, because it largely reflected a statistical base effect: the strong increase in agricultural output in Q3 2009 helped also GDP, by creating a higher reference base for Q4. While investments have contracted rapidly over the last three quarters (Q2-Q4), it seems that the decline in consumption eased substantially as compared with the beginning of 2009 (data from the statistical office even showed an increase in consumption both in Q3 and in Q4). The data substantiated our expectations that economy bottomed out in Q4 and we are looking for positive quarterly rates in the next period.

Money market focus*

MM rates	1m	3m	6m	12m
Actual	5.64	6.23	6.31	6.32
Change from last week	-0.58	-0.24	-0.18	-0.17
Forecast Mar-10	6.4	6.5	6.6	6.6
Implicit forward rates	3x6	6x9	9x12	
	6.44	6.26	6.20	
Change from last week	-0.12	-0.18	-0.13	

Bond market focus*

	2y	3y	5y	10y
Actual	6.90	6.90	7.00	7.00
Change from last week	0.40	0.40	-0.21	0.25
Forecast Mar-10	7.30	7.40	7.40	6.70
Spread to bunds	603.3	558.5	483.9	387.2
Change from last week	34.7	-25.4	25.0	22.8

*forecasts under revision

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

T-bond yields decreased marginally last week. We expect them to stabilise at the current levels over the short term, but we see room for additional decreases by the end of this year, in line with the expected cuts in the key rate of the NBR, and we keep our buy recommendation open.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RON	4.09	4.10	4.05	3.95
Change from last week	0.8%			
USD/RON	2.99	3.04	2.85	2.84
Change from last week	2.2%			

Turkey

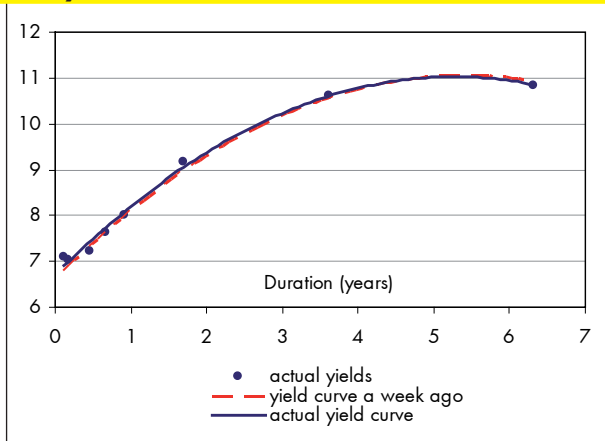
Inflation surprised to the upside

(P)review of key economic figures/events

03 Mar 10	Consumer Prices, % yoy	Feb 10.1 (Jan 8.2)
08 Mar 10	Industrial output, % yoy	Jan 24 (Dec 25.2)
11 Mar 10	Current account, USD bn	Jan n.a. (Dec -3.2)

% mom: Feb 1.45 (Jan1.9), 2010 CBT inflation target of 6.5 unlikely
 % mom s.adj.: Jan 1.0 (Dec 0.7), moderate rebound in industry
 Increase yoy but decrease mom, parallel to trade in January

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

The perception of political tensions between the AKP government and the secularist military and judiciary elites eased in recent days. Two meetings between Prime Minister Taysip Erdogan and General Ilker Basbug, the armed forces chief, showed that problems are (at least) discussed. However, new charges against a four-star general on Monday – so far the highest ranking officer in the recent clampdown – indicate, that the government is likely to continue its course. Thus, we think that political tensions will upset the market periodically in coming months.

In another story, inflation figures for February surprised on the upside. The rate climbed to double digit 10.1% yoy from 8.2% yoy a month earlier. The hike stemmed primarily from rising vegetable prices, tax adjustments and the base effect (especially for the energy component). In accordance with our expectations, the central bank sees headline inflation to stay elevated in Q2-Q3 and decrease only in Q4 of this year. The 2010 inflation target of 6.5% seems increasingly unlikely. Thus, the central bank may be required to increase the key interest rate (from the current low of 6.5%) earlier/more pronounced than so far expected.

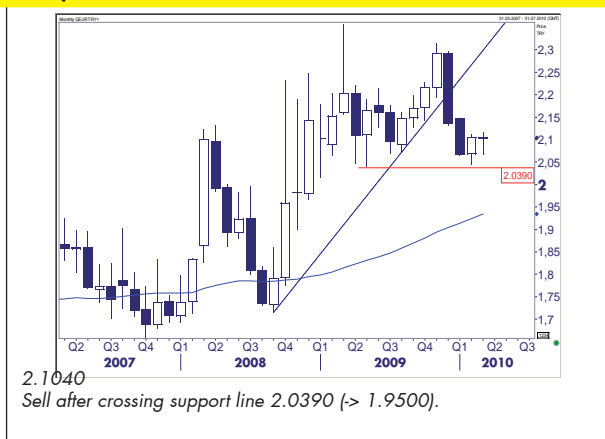
Money market focus

MM rates	1m	3m	6m	12m
Actual	6.50	6.30	6.80	7.40
Change from last week	0.05	-0.24	-0.20	-0.30
Forecast Jun-10	6.93	7.14	7.40	7.98
Implied forward rates	1x2	3x6	6x9	9x12
	6.34	7.38	7.66	8.12
Change from last week	-0.31	-0.16	-0.66	-0.13

Bond market focus

	1m	1y	2y	5y
Actual	7.11	8.00	9.18	10.63
Change from last week	0.15	0.21	0.19	-0.07
Forecast Jun-10	n.a.	7.98	9.13	10.45

EUR/TRY



Market outlook

Next week's industrial output figure will likely rise moderately. We expect around +1% mom increase in seasonally adjusted terms. Like in the previous month, yoy growth will be much stronger (above 20%) due to the base effect. The current account deficit will as well increase in yoy terms, given the some recovery of imports in comparison to weak 2009.

Analysts: *Andreas Schwabe* (+43 1 71707 1389)
Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus*

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	2.10	1.98	2.07	2.09
Change from last week	0.2%			
USD/TRY	1.55	1.46	1.52	1.54
Change from last week	0.2%			

*forecasts under revision

Raiffeisen Zentralbank Österreich AG, Vienna Global Markets

Head of Sales: Stefan Weiser Tel: +43 1 71707 3974
 Head of International Sales: Luca Scalzini Tel: +43 1 71707 3981
 Head FI Sales (AUT/GE/LIE): Hans Retzl Tel: +43 1 71707 3300
 Head of MM & FX Sales: Richard Quinn Tel: +43 1 71707 3904
 Corporate Sales: Wolfgang Kalinka Tel: +43 1 71707 3959

Belgrade: Raiffeisenbank a.d. Serbia

Treasury: Branko Novakovic Tel: +381 11 2207 131

Bratislava: Tatra banka, a.s.

Treasury: Miroslav Paracka Tel: +421 2 5919 1386
 Sales: Milan Cavoječ Tel: +421 2 5919 1212

Bucharest: Raiffeisen Bank S.A.

Treasury: Cristian Sporis Tel: +40 21 306 1210
 Sales: Razvan Szilagyi Tel: +40 21 306 1205

Budapest: Raiffeisen Bank Zrt.

Treasury: Gabor Liener Tel: +36 1 484 4304
 Sales: Zsolt Matolcsi Tel: +36 1 484 4840

Kiev: Raiffeisen Bank Aval

Treasury: Vladimir Kravchenko Tel: +380 44 490 8808

Maribor: Raiffeisen Krekova banka d.d. Slovenia

Treasury: Thomas Schindl Tel: +386 1 475 7841

Minsk: Priorbank JSC Belarus

Treasury: Andrey Filazafivich Tel: +375 17 289 9312

Moscow: ZAO Raiffeisenbank Austria

Treasury: Sergei Monin Tel: +7 495 721 9922
 Sales: Arsen Manoukian Tel: +7 495 721 9978

RZB London Branch

Sales: Luca Scalzini Tel: +43 1 71707 3981

Raiffeisen Centrobank AG, Vienna

Equity Capital Markets

Head: Wilhelm Celeda Tel: +43 1 515 20 402
 Sales: Klaus della Torre Tel: +43 1 515 20 472

Prague: Raiffeisenbank a.s.

Treasury: Vit Brdlik Tel: +420 221 141 145
 Sales: Michal Michalov Tel: +420 221 141 830

Pristina: Raiffeisen Bank Kosovo JSC

Treasury: Berat Isa Tel: +381 38 226400 129

Sarajevo: Raiffeisen BANK d.d. Bosna i Hercegovina

Treasury: Sanja Korene Tel: +387 33 208 372

Sofia: Raiffeisenbank (Bulgaria) EAD

Treasury: Evelina Miltenova Tel: +359 2 91985 441

Tirana: Raiffeisen Bank Sh.a. Albania

Treasury: Joan Canaj Tel: +355 42 275 510 1122

Warsaw: Raiffeisen Bank Polska S.A.

Treasury: Mirosław Winiarczyk Tel: +48 22 585 26 00
 Sales: Adam Pers Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.

Treasury: Ivan Zizic Tel: +385 1 46 95 076

Editor:

Raiffeisen RESEARCH GmbH
 A-1030 Vienna, Am Stadtpark 9
 Tel.: +43 1 717 07-1521

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Head of Raiffeisen RESEARCH:

Peter Brezinschek (1517)

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