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CEE Update #2

The effects of the global financial & economic crisis on the CEE region and it’s advertising industry Vol. 2

June 2009

Preliminary Remark

The impact of global economic crisis has fully reached Eastern Europe. Increased unemployment, weak currencies, decreased industrial production and reduced exports are descriptive for the current situation in this region.
Most people are consuming less than earlier, especially durable goods have noticed a significant decline.

Consumer are very aware of the fact that a recession is going on so they put their emphases on out-of-home to in-of-home consumption, from national brands to private labels and from supermarkets to discounters. They worry about their financial situation and increase spendings on low cost products.

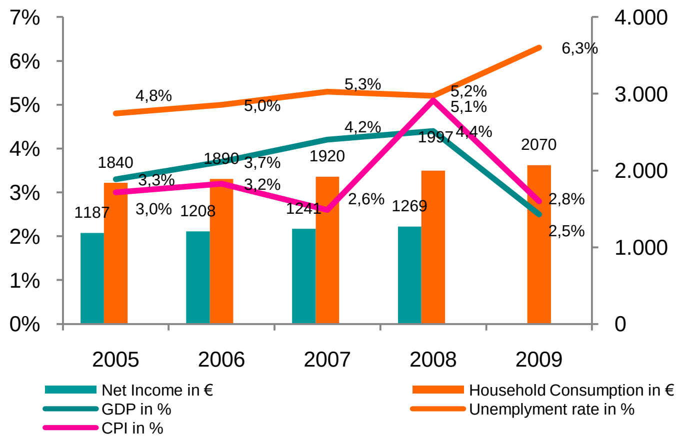
Due to job losses and wage cuts consumers in CEE region are in general more price sensitive and promotion oriented. Also it is a fact that consumers tend to locate their savings in gold or other non recession-dependent goods.

However the crisis is not going to last endless and consumer know that. Despite all economic indicators consumers are still continuing to purchase goods however their preferences and expectations changed.

Market Snapshot – Economic Key Data

Although the financial and economic crisis afflicted all countries in CEE region, it has to be mentioned that not all countries suffer equally. States like Czech Republic and Slovakia are exposed to lower stresses and strains due to the fact that they have a greater policy flexibility. Hungary, Croatia and Ukraine will face the most meaningful downwards pressure on economic growth, because these markets have continuing financial gaps.

Austria



Economy

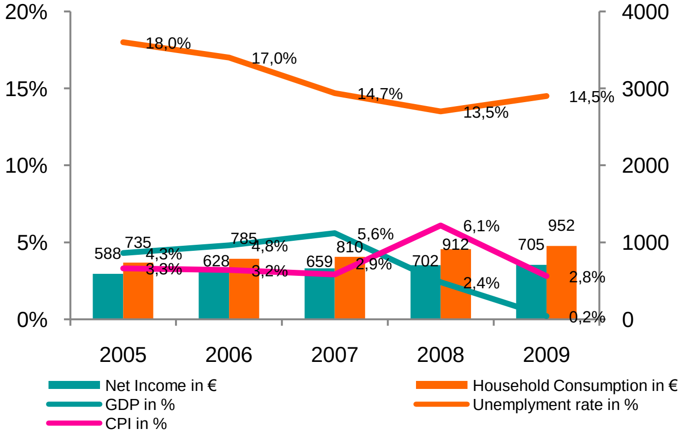
The economy(GDP) diminished at about 4%, which is the expected average cutback in the Eurozone. The unemployment rate experienced a boom with 6,3% - 6,6%. Through the detention of purchasing power the inflation reached a significately low level at 1,1%. Experts estimate a recovery of economic indicators not until 2010.

Consumer:

Compared to end of 2008 consumers seem to be less pessimistic and tend to accommodate with the changed climate. However, they re-consider their consumption more carefully but do not reject to consume at all. Out-of-home consumption is reduced while they tend to care for a the creation of a nice atmosphere back home.

In regards to day-to-day consumption, consumers tend to buy at discounters but do not reduce the amount of purchased goods (28% do shop more at this premises).

Croatia



Economy

GDP development is worse than expected. Private consumption is much weaker than last year same period, due to the fact that domestic demand is much slower spreading. Manufacturing activity fell by 15% and industrial production decreased by 13%. The growth outlook remains poor.

Consumer:

There is a significant growth in the share of local, Croatian, brands – their consumption increased by 3,5% compared to last year same period.

So Croatian consumers tend to be more price-oriented but also turning towards well known products they know.

Source: www.osteuropa-infoseite.de, www.europe-re.com, , Thomson Financial Datastream, wiiw , Statistik Austria

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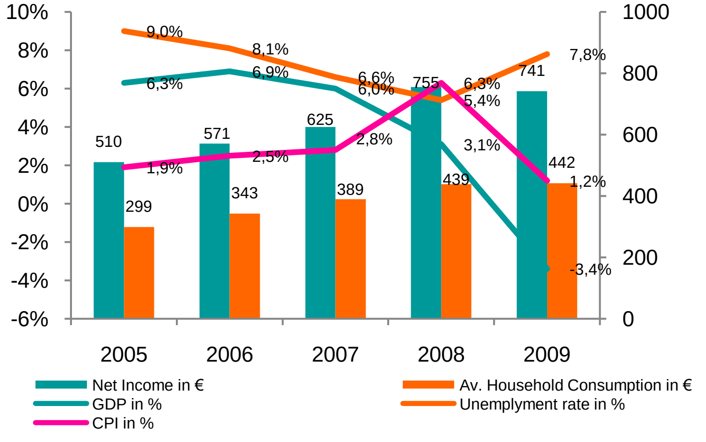
Czech Republic



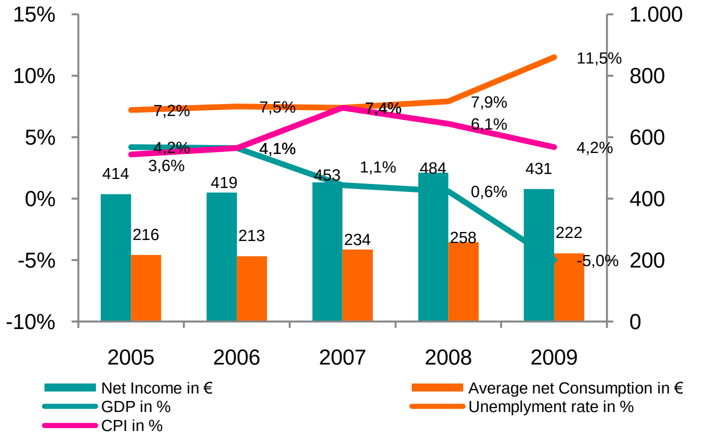
Economy

The sharp GDP breakdown is caused by immense fall in exports (approx. -24%). Due to this fact industrial companies lowered their demand for investment and capacity utilization was reduced to a minimum. Czech car production industry was strictly limited, too. This widespread decline in economic activity compared from Q4 2008 to Q1 2009 implicated an increase in unemployment rate.

Consumer:

There seems to be no significant reaction of consumers to crisis yet. Small cars sales has increased in Q1 in favor of the mid and higher classes as a results of heavy promotions. Even travel agencies seems to be selling (and advertising) as usual.

Hungary



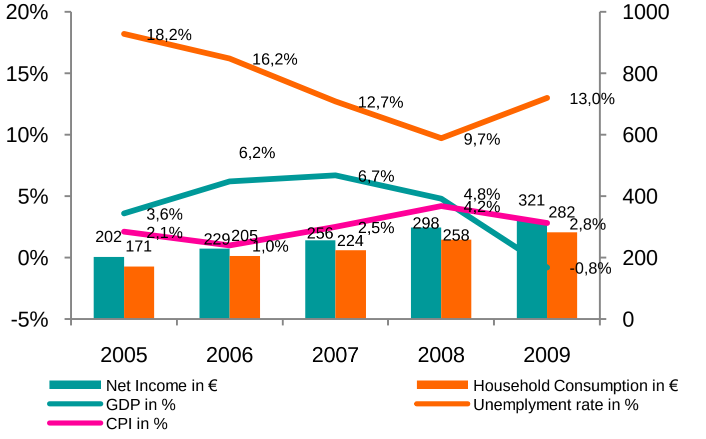
Economy

The Hungarian GDP slowdown is driven by fading domestic and external agriculture demand. Due to bad labour market conditions and a very weak HUF Hungarian economy was hit hard during the crisis. Hungarian government has the pressure to reduce external financial gap by restrictive monetary policy. It is expected that Hungarian economy will stay weak during 2010.

Consumer

In Hungary, where the decreasing consumption of goods started before the financial crisis already, people spend less money on meat, milk, detergents and roast coffee while the market for basic food products like pasta, cheese and yoghurt seems to experience an incline. Wine and spirits pass through a slight increase in their consumption.

Poland



Economy

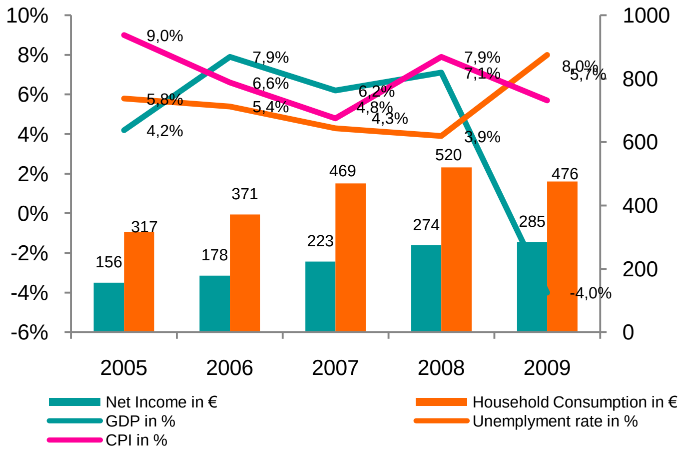
The slowdown in real wages and increased job insecurity caused the curb of real private consumption and beyond this the reduction of the GDP. Based on the fact that the PLN was one of the hardest hit currencies, the exports boosted in the past quarter. Banks tightened their lending conditions so in Poland today is no credit expansion like the years before.

Consumer

In Poland it seems that consumer do not feel threaten by crisis yet. Even the car market grew by 7,2% in Q1, the household market by 2,6%.
Although the consumer behaviour did not change a lot in Poland the citizens still seem to be afraid of the consequences of the recession. In a survey accomplished by GfK Polonia 83% are afraid of price rises, 61% are afraid of rising interest rates and 51% think that their purchasing level will decrease .

Source: www.osteuropa-infoseite.de, www.europe-re.com, , Thomson Financial Datastream, wiiw , Statistik Austria

Romania



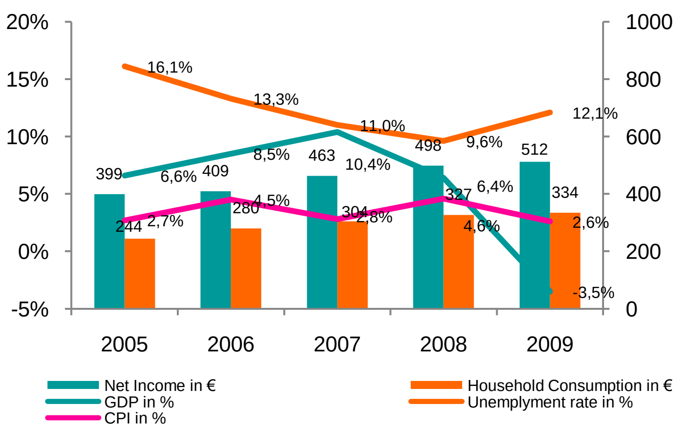
Economy

The contraction of domestic demand and household consumption caused the GDP to fall. Romanian household consumption is under pressure due to rising unemployment , lower wage growth and tighter credit conditions. Also exports faced a decrease of 25% and industrial production of 15%. On the strength of strategic investment projects supported by EU the Romanian economy is expected to return to growth in 2010.

Consumer

In past years consumption from Romanian user increased heavily. In 2008 consumption diminished and so the demand for goods just increased slightly by 3,4%. Since the global economic crisis reached Romania, consumers started to buy less but did not reduce their demand in quality (and branding). So in Romania consumer don't want to abdicate premium products and are willing to pay more for them, however, in order to optimise their expenditure, they have to reduce the amount of purchased goods. Although the effects of recession were perceptible, trade continued to grow and so the FMCG market, mainly though discounters and hypermarkets. In Romania the number of people who think that they will be able to save money did not change significantly. (20% in January vs. 22% in October).

Slovakia



Economy

Due to € adaption exporters are not benefiting any more from exchange rate depreciation, however cost of debt is lower instead. The stagnating manufacturing sector and the significant decrease in industrial production caused a recession and a slowdown in trading. Domestic demand remained positive by due to falling inflation. Although the economy is stagnating, the banking sector is in ok shape as Slovakia has the lowest loan/deposit ratio.

Consumer

In Slovakia signs of consumer side reactivation are already visible, there is an increase of the factor "consumer confidence" of 6,7% May 09 vs May 08.

With the adaption to the Euro and with decreasing value of neighbouring countries currencies, Slovaks have the opportunity to gain from cross-border purchases. Cross-border purchases increased by 83% (compared to previous year). On the other side domestic purchase decreased by 17% which put additional pressure on GEDP development.

Source: www.osteuropa-infoseite.de, www.europe-re.com, , Thomson Financial Datastream, wiiw , Statistik Austria

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Advertising Market Development Jan- April ‘09 vs ‘08

Market	Media	08YTD	09 YTD	Change in % 09 vs 08
Austria Euro in '00	TV	216.814	205.808	-5%
	Print	519.183	482.767	-7%
	Radio	67.295	62.860	-7%
	OOH	60.941	58.788	-4%
	Cinema	3.909	3.328	-15%
	Online	25.507	29.085	14%
	Total Spend	**893.648**	**842.636**	**-6%**
Croatia Kn in '000	TV	1.031.925	1.271.892	23%
	Print	482.883	426.955	-12%
	Radio			
	OOH	94.412	37.507	-60%
	Cinema			
	Online	22.713	15.122	-33%
	Total Spend	**1.631.934**	**1.751.475**	**7%**
CZ CZK in '000	TV	8.591.684	8.987.385	5%
	Print	5.897.822	5.179.395	-12%
	Radio	989.060	992.364	0%
	OOH	1.345.904	785.436	-42%
	Cinema			
	Online			
	Total Spend	**16.824.470**	**15.944.580**	**-5%**
Hungary HUF in '000	TV	110.065.843	78.267.895	-29%
	Print	35.948.159	21.948.832	-39%
	Radio	12.482.742	7.653.205	-39%
	OOH	13.247.769	8.334.432	-37%
	Cinema	213.911	322.274	51%
	Online	5.172.745	4.282.518	-17%
	Total Spend	**177.131.169**	**120.809.156**	**-32%**
Poland PLN in '000	TV	3.223.384	3.358.918	4%
	Print	1.409.471	1.263.703	-10%
	Radio	629.324	610.099	-3%
	OOH	390.411	411.792	5%
	Cinema	108.411	123.215	14%
	Online			
	Total Spend	**5.761.000**	**5.767.728**	**0%**
Romania RON in '000	TV	4.850.506	4.744.704	-2%
	Print	446.601	413.668	-7%
	Radio	144.010	145.905	1%
	OOH			
	Cinema			
	Online			
	Total Spend	**5.441.117**	**5.304.277**	**-3%**
Slovakia Euro in '000	TV	236.114	204.855	-13%
	Print	58.584	55.302	-6%
	Radio	20.253	24.221	20%
	OOH	22.683	23.969	6%
	Cinema	435	788	81%
	Online			
	Total Spend	**338.069**	**309.135**	**-9%**

Top 10 Spender - development of advertising investments – YoY Q1 2008 vs Q1 2009

Austria			
Company	Q1 '08	Q1 '09	Change (in %)
NEWS GesmbH	14.323.901	7.532.614	-47,4%
SPAR	12.778.595	13.323.754	4,3%
HOFER	11.886.737	12.399.349	4,3%
XXXLutz	11.026.666	16.172.881	46,7%
ÖSTER. LOTTERIEN	10.632.077	7.525.564	-29,2%
MOBILKOM AUSTRIA	9.345.935	11.226.324	20,1%
QUELLE	8.137.874	8.364.313	2,8%
T-MOBILE	7.454.465	13.080.488	75,5%
ONE	7.447.498	4.498.440	-39,6%
MEDIA MARKT	7.032.592	5.076.754	-27,8%

Currency: EUR

Croatia			
Company	Q1 '08	Q1 '09	Change (in %)
VIP NET GSM	46.926.855	22.426.782	-52,2%
T-MOBILE HRVATSKA	38.297.726	36.131.817	-5,7%
L'OREAL	33.653.374	28.497.548	-15,3%
EUROPAPRESS H.	31.962.277	28.989.754	-9,3%
TELE2 D.O.O	31.223.604	30.842.305	-1,2%
PROCTER & GAMBLE	30.814.247	20.894.838	-32,2%
KONZUM	26.702.848	29.880.578	11,9%
COCA COLA CO.	22.033.067	20.358.965	-7,6%
PODRAVKA GRUPA	21.424.423	19.875.445	-7,2%
HRVATSKA LUTRIJA	20.196.155	20.717.127	2,6%

Currency: HRK

Czech Republic			
Company	Q1 '08	Q1 '09	Change (in %)
PROCTER & GAMBLE	341.787	299.409	-12,4%
VOLKSWAGEN A.G.	287.972	248.506	-13,7%
TELEFONICA O2	254.634	190.285	-25,3%
UNILEVER CR	250.129	354.821	41,9%
VODAFONE	234.949	263.241	12,0%
HENKEL CR	232.956	338.135	45,1%
MOUNTFIELD CS	228.866	229.354	0,2%
L'OREAL CR s.r.o	224.009	306.653	36,9%
RECKITT BENCKISER	213.093	339.177	59,2%
T MOBILE	170.804	225.253	31,9%

Currency: CZK

Hungary			
Company	Q1 '08	Q1 '09	Change (in %)
UNILEVER M	2.148.591	1397.097	-35,0%
PROCTER & GAMBLE	1717.381	2.025.886	18,0%
T MOBILE	1696.763	1290.734	-23,9%
HENKEL	1587.157	1753.179	10,5%
BENCKISER Kft	1461.120	1073.865	-26,5%
BAYER HUNGARIA	1391.206	1422.281	2,2%
T-HOME	1362.469	525.243	-61,4%
VODAFONE M.	1349.455	1059.370	-21,5%
FERRERO	1323.176	908.697	-31,3%
PORSCHE	1271.118	237.611	-81,3%

Currency: HUF

Poland			
Company	Q1 '08	Q1 '09	Change (in %)
UNILEVER POLSKA	70.716	70.272	-0,6%
TELEFONICA CYFROWA	68.779	50.722	-26,3%
POLKOMTEL	58.456	55.845	-4,5%
NESTLE POLSKA	47.351	59.620	25,9%
PROCTER & GAMBLE	42.286	48.874	15,6%
L'OREAL POLSKA	36.777	42.078	14,4%
TELEKOMUNIKACJA P	36.345	20.170	-44,5%
AGORA S.A.	33.781	24.375	-27,8%
PTK CENTERTEL	31.137	47.333	52,0%
AFLOFARM	30.883	35.573	15,2%

Currency: PLN

Romania			
Company	Q1 '08	Q1 '09	Change (in %)
PROCTER & GAMBLE	65.830	37.859	-42,5%
UNILEVER	49.761	31.019	-37,7%
L'OREAL ROMANIA	44.277	19.883	-55,1%
EUROPEAN DRINKS	33.916	24.411	-28,0%
NESTLE	28.109	27.598	-1,8%
ORANGE(MOBIL ROM)	27.048	13.946	-48,4%
KRAFT FOODS	23.737	23.123	-2,6%
VODAFONE	21.556	9.405	-56,4%
COCA COLA CO.	20.707	9.881	-52,3%
DANONE	19.814	17.622	-11,1%

Currency: RON

Slovakia			
Company	Q1 '08	Q1 '09	Change (in %)
ORANGE	11.407	9.587	-16,0%
HENKEL	8.546	6.122	-28,4%
RECKITT BENCKISER	8.428	6.794	-19,4%
T MOBILE	8.324	8.964	7,7%
PROCTER & GAMBLE	7.479	5.142	-31,2%
TELEFONICA O2	7.204	3.955	-45,1%
L'OREAL POLSKA	6.989	6.492	-7,1%
OPAVIA_LU/DANONE	6.106	4.357	-28,6%
NESTLE	5.316	5.495	3,4%
T_COM	5.147	5.918	15,0%

Currency: EUR

Effects on the advertising industry – Updated prognosis FY 2009

It is obvious that in 2009 compared to previous year there are enormous decreases in regards to total advertising investments. The cutbacks are worse than expected to be in November 2008.

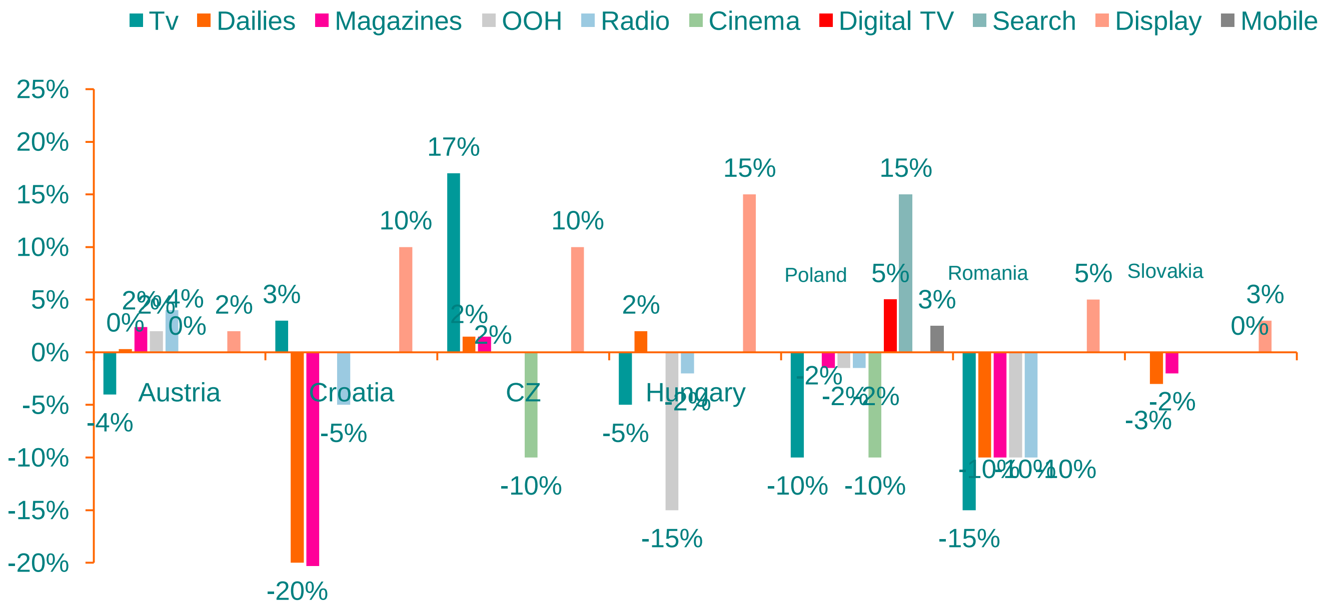
The sensitive industries, as the most susceptible industry in times of crisis, are impacted most. Resilient industries which are seen as staples of modern life, are less influenced by the crisis, anyhow even in this industry the crisis is perceptible. Only stable market, where the FMCG and Telecommunication sector is included, stayed more or less on the same spending level of 2008.

	Sensitive Industries		Resilient Industries		Stable Industries	
	2008	2009	2008	2009	2008	2009
Austria	-25%	-25%	-5% - -10%	-5% - -10%	0%	0%
Croatia	-10%	-20%	0%	-5%	5%	5%
CZ	-25%	-25%	0%	0%	5%	5%
Hungary	-5%	-25%	0%	-15%	5%	4%
Poland	1%	-18%	2%	-3%	3%	4%
Romania	-5%	-30%	0%	-20%	10%	-10%
Slovakia	-10%	-20%	0%	-10%	10%	-5%

As predicted, Online is the only media which is not affected but actually profits by the crisis. OOH and Print suffer most from overall Advertising Spending decrease.

	TV			Print / Radio / OOH / Cinema			Online		
	Optimistic	Realistic	Worst Case	Optimistic	Realistic	Worst Case	Optimistic	Realistic	Worst Case
Austria	0%	-7%	-12%	-5,0%	-10%	-20%	35%	20%	10%
CZ	10%	4%	-2%	0,5%	-1%	-15%	40%	25%	5%
Croatia	-5%	-10%	-15%	-10%	-20%	-40%	10%	5%	0%
Hungary	-12%	-14%	-16%	-17%	-20%	-25%	10%	5%	0%
Poland	-4%	-8%	-15%	-8,0%	-12,0%	-20,0%	20%	13%	4%
Romania	-10%	-20%	-30%	-10%	-20%	-40%	20%	10%	0%
Slovakia	-10%	-15%	-18%	0%	-10%	-20%	20%	10%	5%

Expected Media Inflation 2009



Status: May 2009

Appendix: Categorisation of Industries

Sensitive Industries	Automotive, real estate and related, financial services, retails
Resilient	Telcos, health and beauty (“accessible indulgences”)
Stable	FMCG

Thank you