



The road to recovery in CEE



Management survey about the impacts of the economic crisis:
Summary of results

Roland Berger
Strategy Consultants

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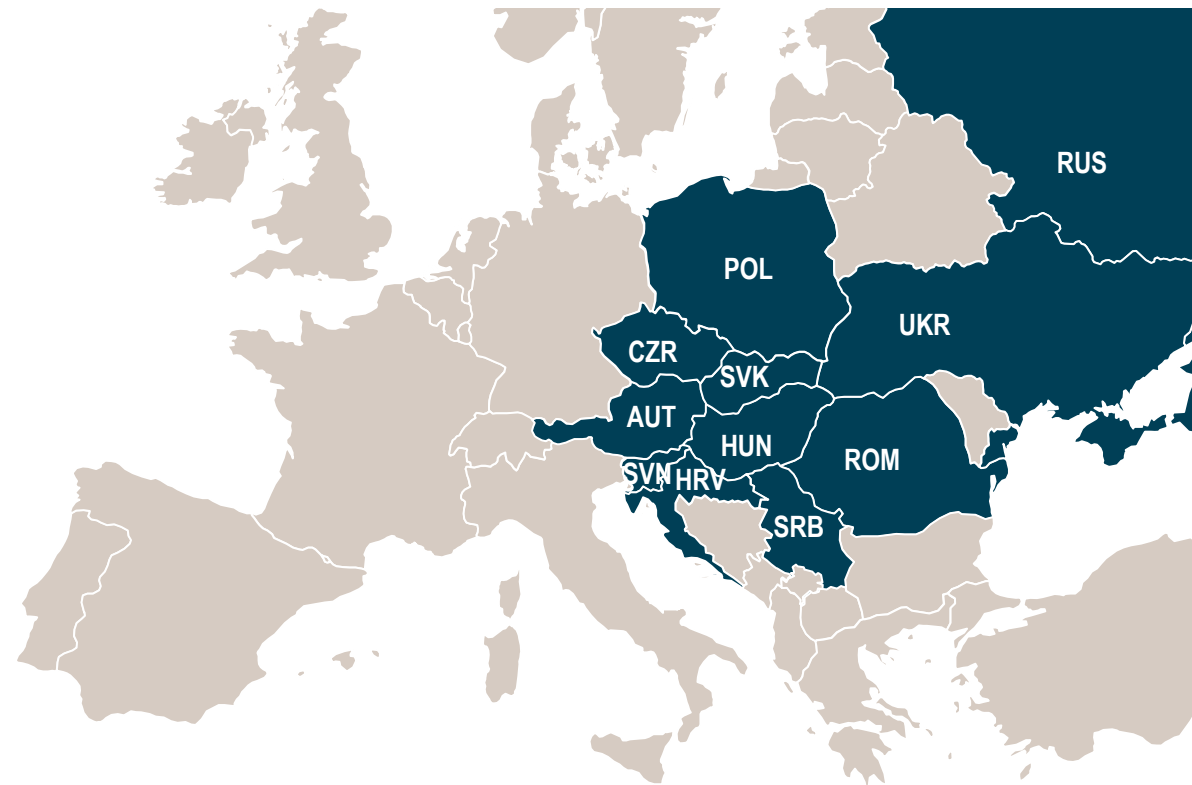
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Introductory remarks

Introductory remarks

- > In September 2009, Roland Berger Strategy Consultants conducted for the third time an online survey among 330 senior managers about the economic crisis and its consequences for Central and Eastern Europe
- > Objective of the survey was to get a snapshot of the managers' mood and to show their expectations for the business years 2009 and 2010
- > The analysis included the kind of effects companies have experienced and the kind of measures that have been taken or planned so far
- > The questionnaire also covered the importance and implementation quality of the national measures implemented to reduce the crisis effects
- > Managers were also asked about the expected recovery time of their industry and their own company
- > Results of this survey were compared with the outcome of the last study in March 2009

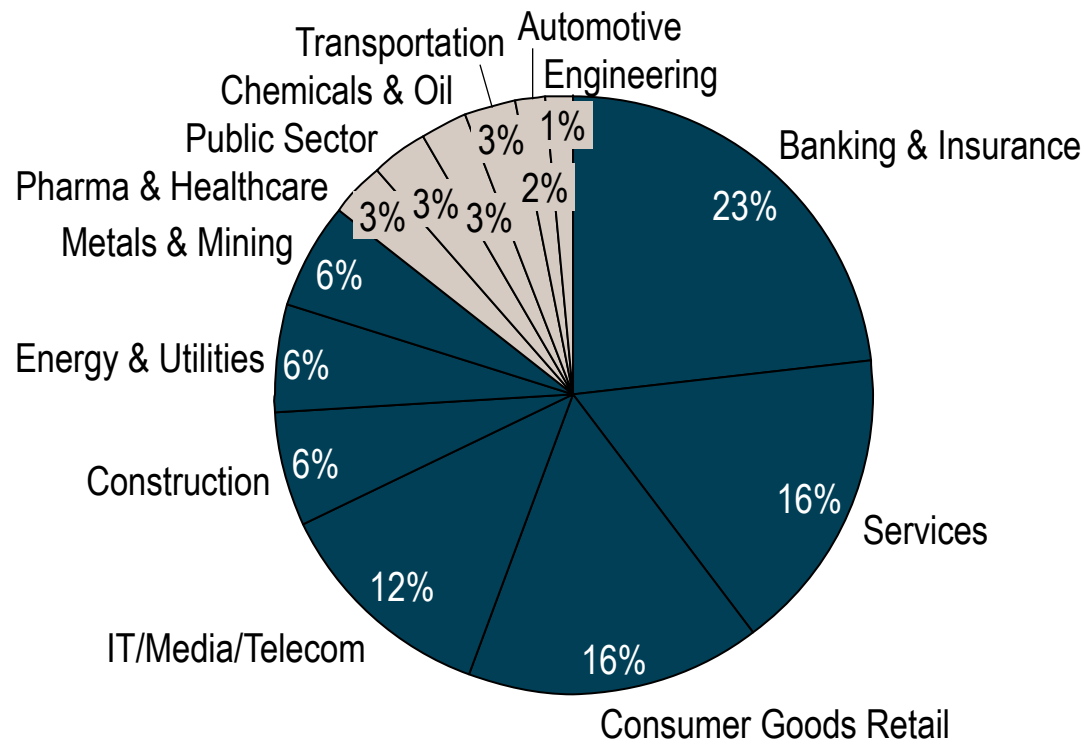
Eleven countries in Central and Eastern Europe were surveyed – More than 330 managers participated in this study



COMMENTS

- > The study was conducted in eleven countries
- > Austria acts as an example for a Western European economy
- > Central and Eastern Europe was represented by Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia
- > CIS was represented by Russia and Ukraine

Overall, thirteen industries represented in the database – Significant number of responses achieved in seven sectors



COMMENTS

- > Overall, managers from thirteen different industries participated
- > Significant number of responses were generated in seven sectors: Banking & Insurance, Services, Consumer Goods/Retail, IT/Media/Telecom, Metals & Mining, Energy & Utilities and Construction

A. Summary of overall results

Key findings of the study by country

- > Despite increasing price pressure, 20% of **Austrian** managers believe in a recovery until the end of this year
- > There is still dull ambience in **Croatia**, the mood barometer stayed **pessimistic** also this time. 80% of the managers expect even further significant decline in GDP growth. Additionally, there is great dissatisfaction with the governmental actions and also payment behavior of customers is worsening
- > **Czech** managers are **satisfied with the governmental crisis management** and expect a recovery in line with the GDP growth. Major problems are still declining sales, worse payment behavior and financing difficulties
- > The strong optimism in **Hungary** is more likely **wishful thinking** and is less reflected in macroeconomic forecasts. Managers believe to be able to outperform the GDP growth and expect a recover until June 2010
- > Price pressure is experienced more often and the problem of declining sales is still significant, but the **optimistic** attitude of the **Polish** managers was confirmed again. Governmental measures are regarded as mostly well implemented
- > **Romanian** companies have **less difficulties in financing** but are facing an **increasing** number of **bankruptcies**
- > The **growing optimism** in **CIS** can be explained by less pressure on commodity prices and increasing order entry. However, increasing bankruptcies cause massive problems for companies and there is great dissatisfaction with the governmental crisis management

Key findings of the study by industry

- > Increased customer bankruptcies are still one of the major sector specific problems in the **Banking & Insurance** industry. Interestingly, price pressure is experienced again as less important
- > The **Construction** sector is careful, but more optimistic than six months ago. Accordingly, 50% of the companies expect a recovery already in June next year. Financing difficulties remain, however
- > Declining sales is doubtless the most important issue on the management agenda in the **Retail** sector. However, 70% of the companies hope now already on some growth. The companies reacted to the crises with operative measures so far, but strategic issues have not yet been raised
- > The mood in the **Energy & Utilities** industry is now neutral: "let's wait and see". Even hiring was stopped only at 50% of the companies
- > The **IT/Media/Telecom** industry belongs to the most pessimistic sectors. Accordingly, a real recovery from the crisis is expected later than in other industries. Over 50% of the companies continue their investments
- > Due to increasing demand and better prices for commodities there is more optimism in the **Metals & Mining** sector now. High share of lower sourcing costs seems to be a sector specific effect of the crisis
- > At spring, the **Service sector** was the only industry with some hope. This positive attitude was strengthened until September even further

Roland Berger conclusions

- > **Continued uncertainty does not justify inactivity:**
CEE companies need to focus on adapting their structures and implementing strategic measures – standing still is most dangerous option. Increased discipline in finishing what has been started is called for
- > **Companies should prepare for another tough 12 months:**
Expectations clearly show another tough year ahead – despite first improvements. However, small growth rates in 2010 will not compensate high declines of 2009
- > **The upcoming 12 months will see a divide between CEE companies:**
 - Those having done their homework should quickly start looking forward (market consolidation, M&A, sales initiatives, penetration of new markets)
 - Those still timid about adapting to the crisis will need significant restructuring, or will be restructured by someone else

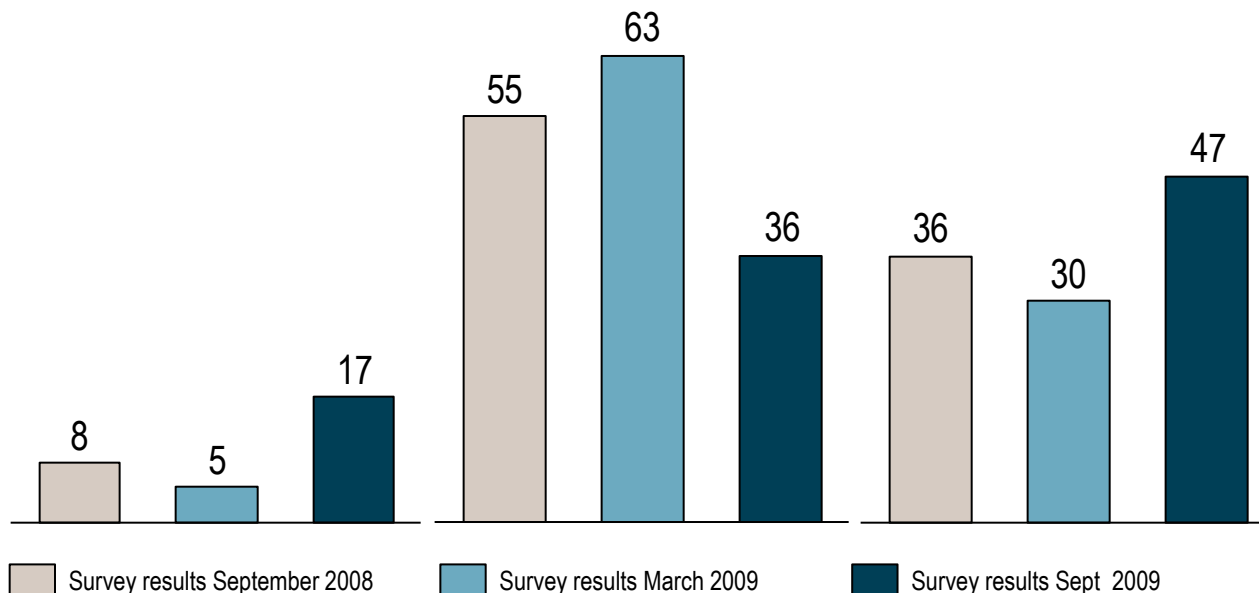
Two main developments since March: Slight increase in optimists, but significantly more uncertainty

What is your general assessment of the current economic situation in Europe? [in % of answer frequency¹⁾]

We have reached the bottom/it will get better

Situation will still get worse

Situation is still unclear



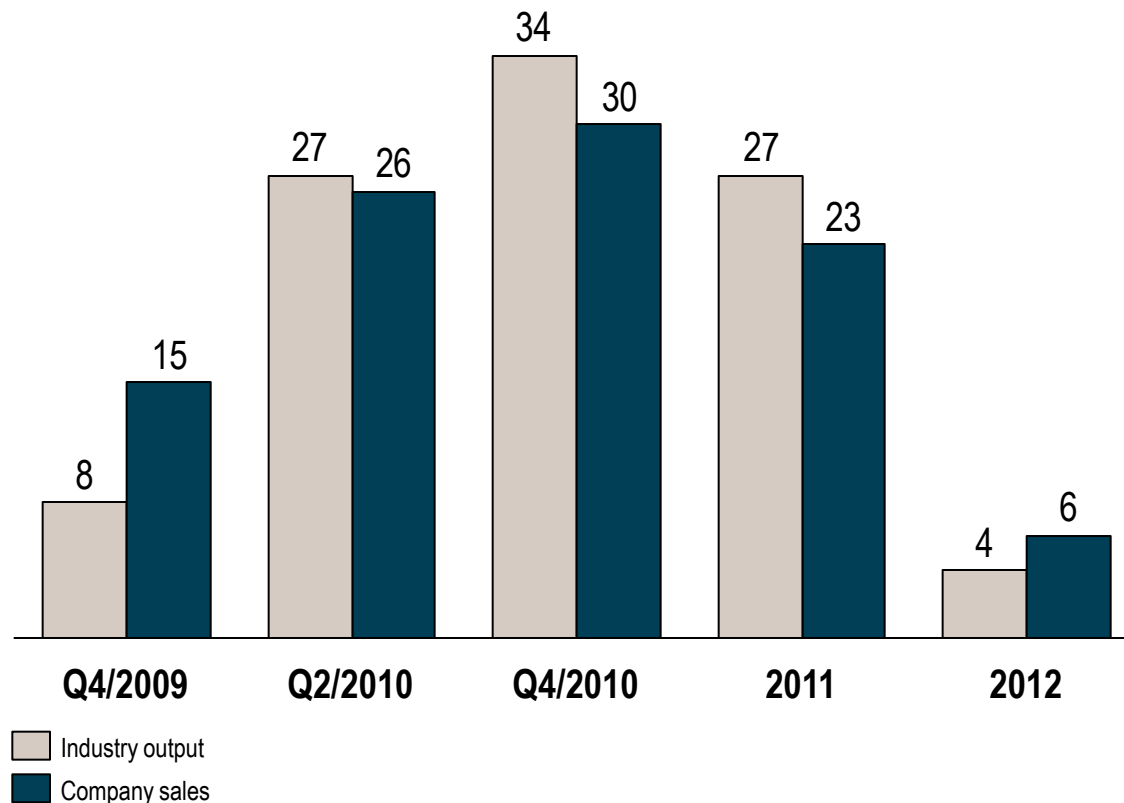
1) "No answers" not included

COMMENTS

- > Optimistic expectations tripled (17%) in comparison with the survey results in March 2009
- > Around 50% of the managers are neutral according to the motto "wait and see"

Most managers expect a recovery at the end of 2010 or later

Expected recovery time [in % of answer frequency]

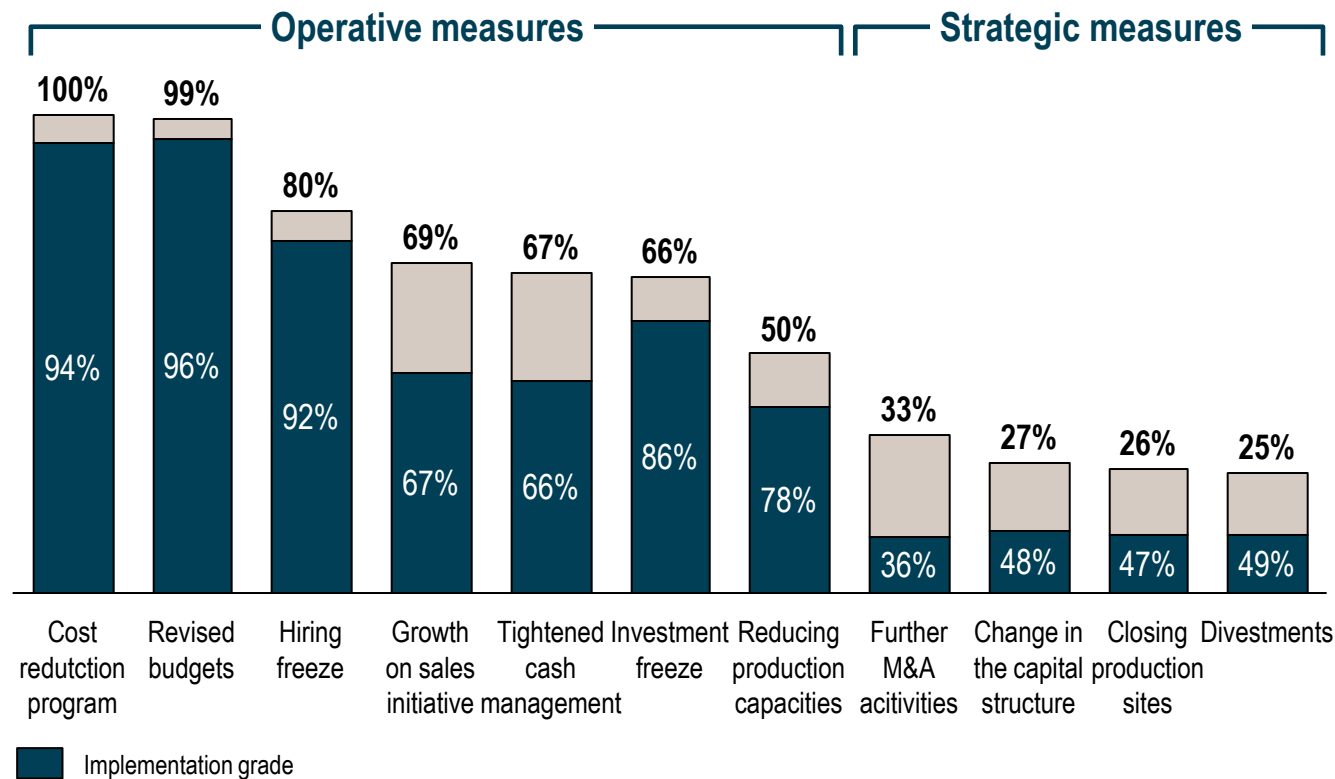


COMMENTS

- > No real difference between the growth projections regardless the level of countries, industries or companies
- > It seems to be a consensus on the timeline of the recovery with the peak at the end of 2010
- > Two thirds of managers therefore expect the crisis to last for another 12 months or longer

Main focus on operative measures, implementation of strategic measures remains low

Popularity of actions to react to the crisis
[multiple answers possible, in% of answer frequency]

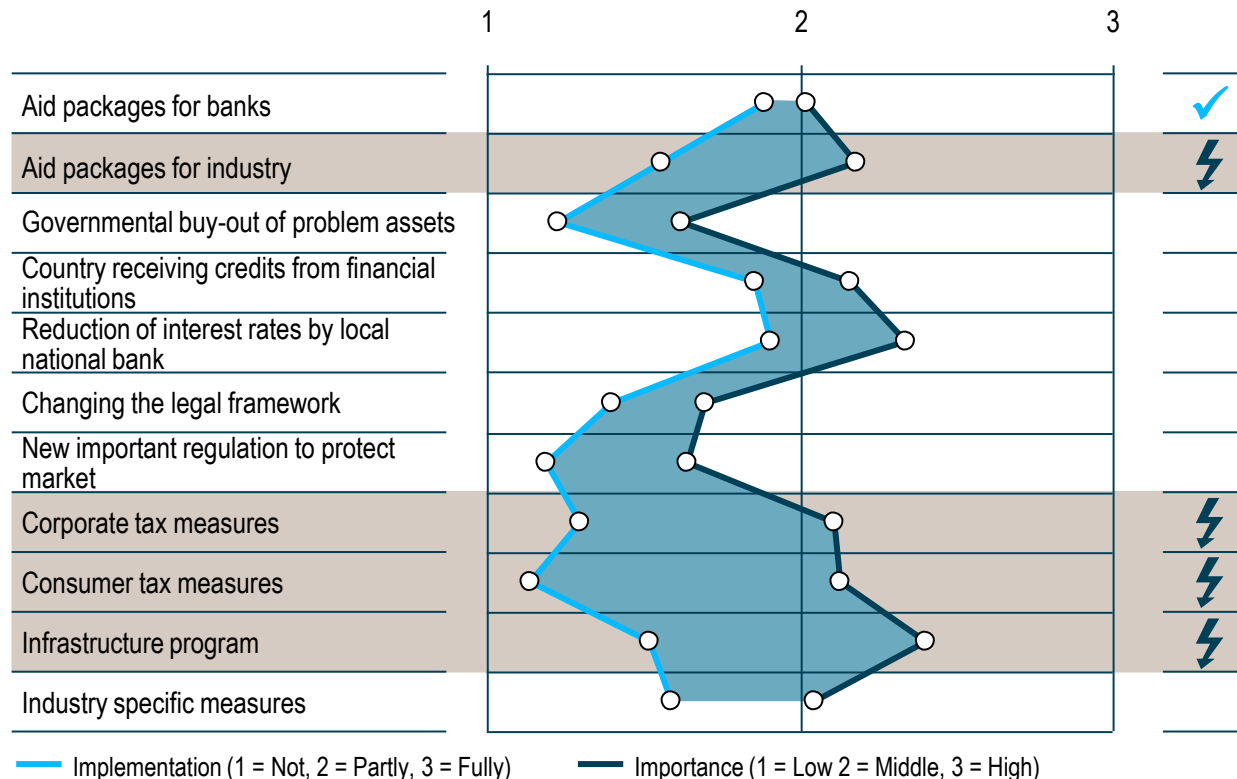


COMMENTS

- > Popularity of Growth and sales initiatives increased by 10%-points, but other measures have almost identical popularity than in March
- > Quick hits are mostly done, but strategic measures are still neglected
- > Overall, the implementation rate has developed positively

Still poor implementation of governmental actions: tax measures, infrastructure, industry programs are often criticized

What kind of measures have been implemented in your country to fight the crisis? How important are they? [Average value]











COMMENTS

- > Implementation rate is still behind the suggested importance by the CEE-managers. Exception are aid packages for banks, where no further action is needed
- > The greatest dissatisfaction is again because of the discrepancy of importance and implementation of corporate and consumer tax measures as well as industry aids and infrastructure programs

Managers especially in Croatia and Ukraine remain unsatisfied with the measures taken by the government

What kind of measures have been implemented by the government to fight the crisis? How important are they?¹⁾

	AUT 	CRO 	CZR 	HUN 	POL 	ROU 	RUS 	UKR 
Aid packages for banks	✓		✓	✓	✓		✓	⚡
Aid packages for industry		⚡	✓	⚡	✓	⚡		⚡
Governmental buy-out of problem assets			✓		✓		⚡	⚡
Country receiving credits from financial institutions	✓				✓		✓	
Reduction of interest rates by local national bank		⚡	✓		✓			⚡
Changing the legal framework		✓			✓			
New important regulation to protect market	✓	⚡						⚡
Corporate tax measures	⚡	⚡		⚡	⚡	⚡	⚡	⚡
Consumer tax measures	⚡	⚡	⚡	⚡	⚡	⚡	⚡	⚡
Infrastructure program		⚡	⚡		⚡	⚡	⚡	
Industry specific measures		⚡						⚡

⚡ If gap between importance-implementation rate greater than 0.6 ✓ If gap between importance-implementation rate less than 0.2

COMMENTS

- > Breaking down the results to national level, some countries are even satisfied with the measures
- > Nevertheless, Croatian and CIS managers still complain on aid packages for industry, high interest rates and industry specific measures

B. Economic development

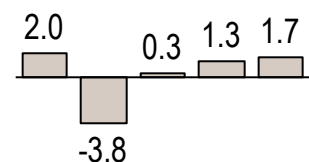
Since the last study in March 2009, macroeconomic data and forecasts for the CEE region have significantly improved

- > Until 2007, **CEE** countries enjoyed remarkable GDP growth rates and **have been the main growth region** of Europe. They were the catalyzer for the economic upturn in Western Europe as well
- > However, the region was **not immune to the crisis**. Until our last survey in **March 2009**, the **stock market** indices **declined by** up to 70%, **national currencies lost their value** vs. EUR up to 30%. Also **GDP** growth forecasts turned **negative**
- > However, in **September 2009**, the **indices** were already **in upswing**, although still not reaching their former level. Also all **national currencies** – with the exception of the Ukrainian Hryvnia – have significantly **increased their value**
- > As for **GDP** growth, 2009 was a tough year for all countries. The situation worldwide was so turbulent, that **forecasts** have been **revised** several times. Nevertheless, despite the first slightly positive figures for 2010, a real **recovery** is projected only **from 2011** in CEE

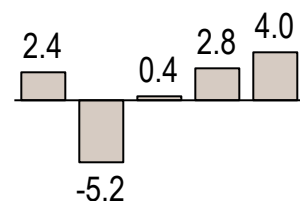
Negative GDP expectations for all CEE countries in 2009 – Rebound to previous growth levels will take several years

Real GDP forecast [% real change p.a.]

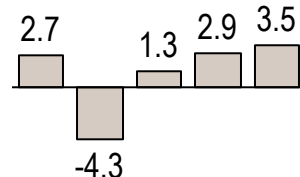
Austria



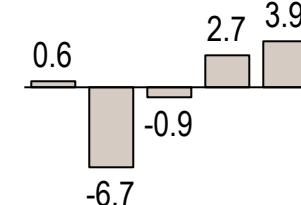
Croatia



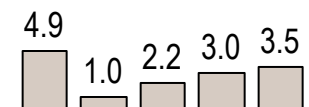
Czech Rep.



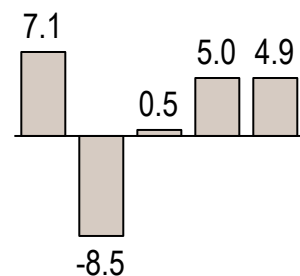
Hungary



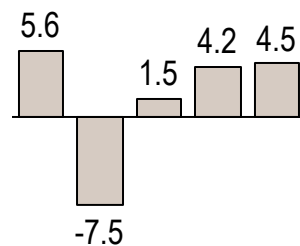
Poland



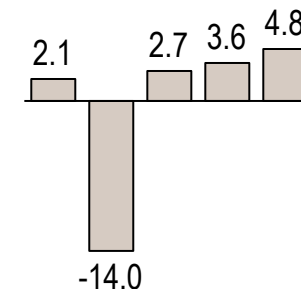
Romania



Russia



Ukraine



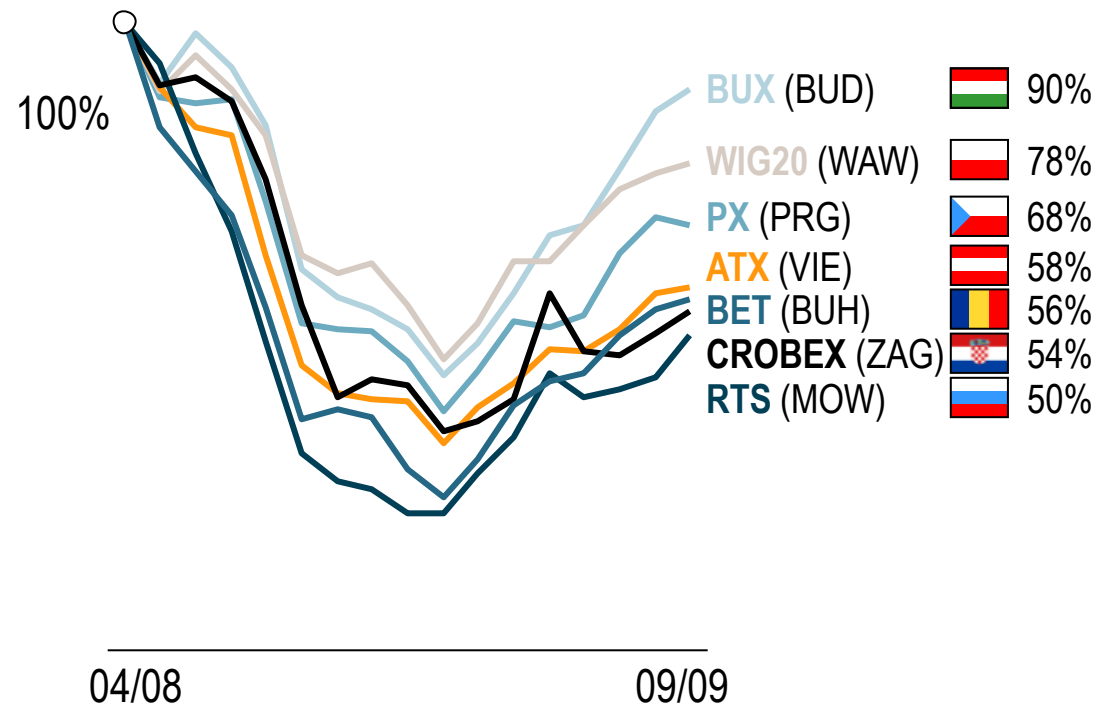
COMMENTS

- > For 2010, GDP growth is almost negligible, or even negative
- > Recovery is expected in most countries only in 2011

Most CEE stock markets have bounced back since Q1 2009 – but remain significantly lower than before the crisis

Impacts of the crisis on CEE

Development of stock exchanges last 12 months

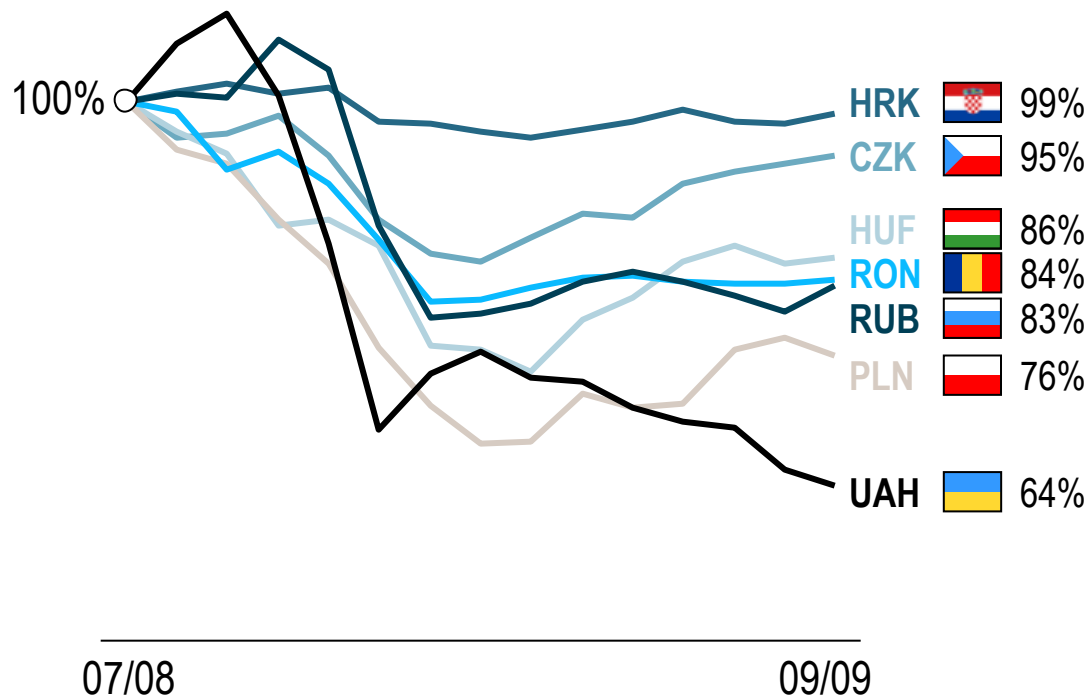


COMMENTS

- > Similar stock market development for the whole CEE/CIS region with a decline of 50% to 70% until February 2009
- > Meanwhile the indices are in upswing mood, but their recovery quality is quite different. E.g. the Russian index has only 50% of its former value, while the Hungarian BUX is soaring

Also currency devaluation as slowed, but most currencies remain under pressure

Exchange rate development vs. EUR [%]

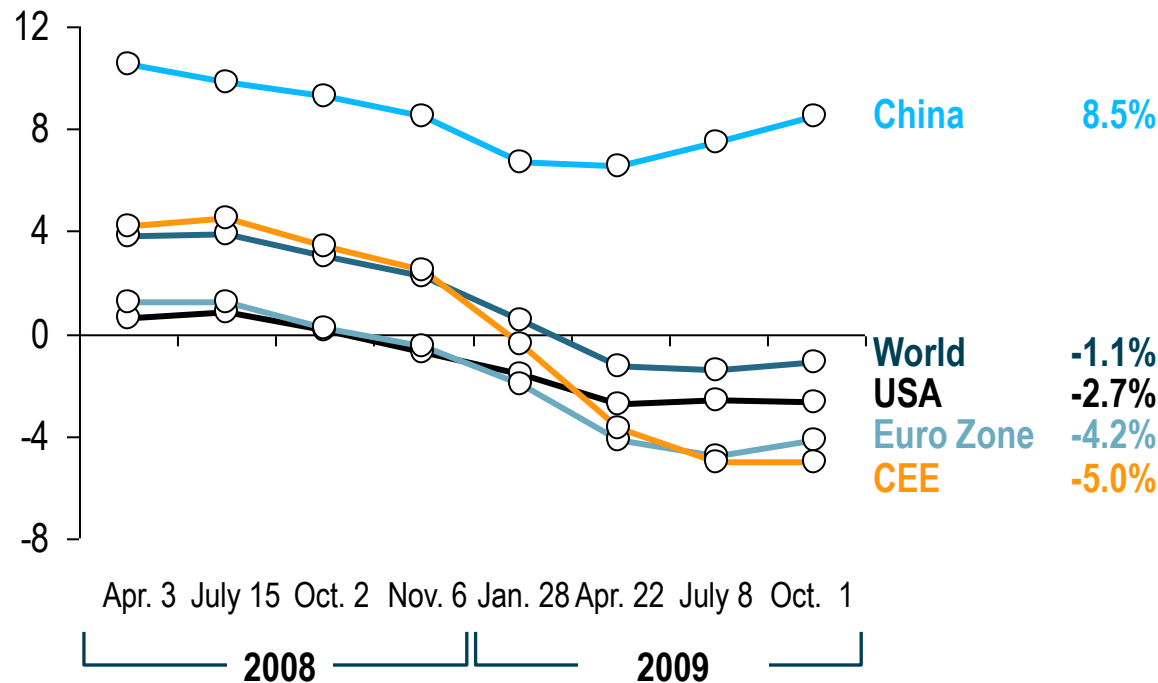


COMMENTS

- > Since summer 2008, the Croatian Kuna and the Czech crown are the only regional currencies that kept or regained their value. In the other countries, the national currencies have since not reached their former value
- > Significant risks expected esp. by retail banks (eg through FX lending)

On a global level, 2009 GDP forecasts are stable or even slightly improving since April

GDP forecast revisions for 2009 [% real change p.a.]

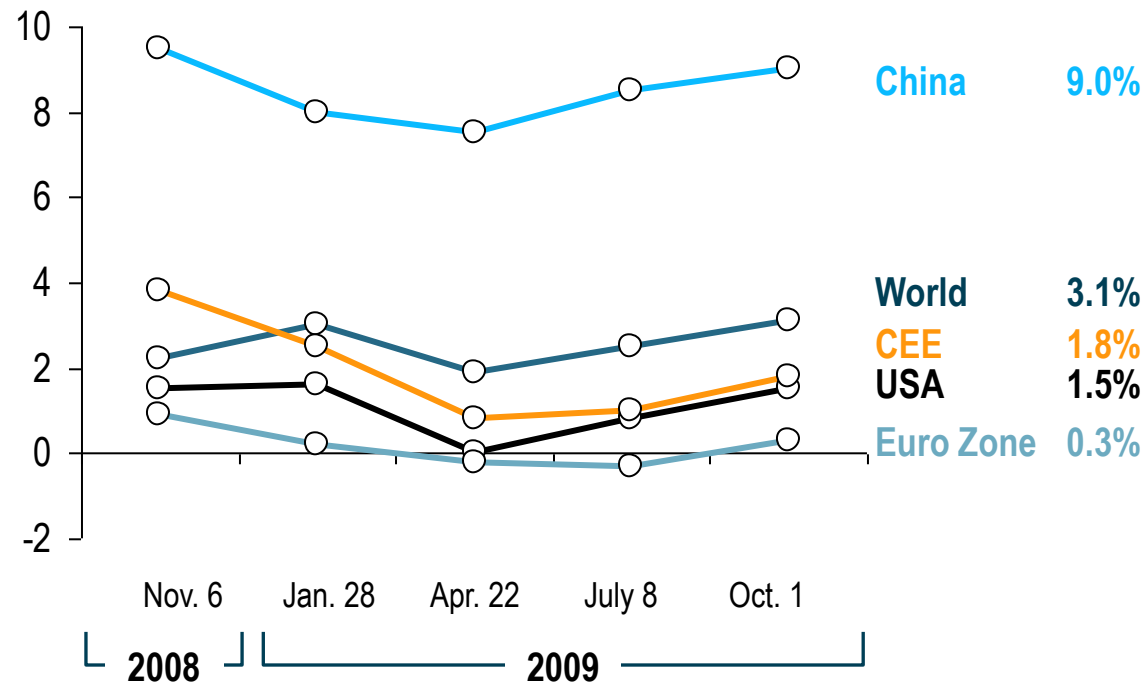


COMMENTS

- > In the previous years, GDP growth forecasts were revised by the IMF typically once or twice a year
- > However, Since April 2008 IMF announced eight times changes in their estimates on GDP for 2009

Especially 2010 GDP expectations have improved since April

GDP forecast revisions for 2010 [% real change p.a.]



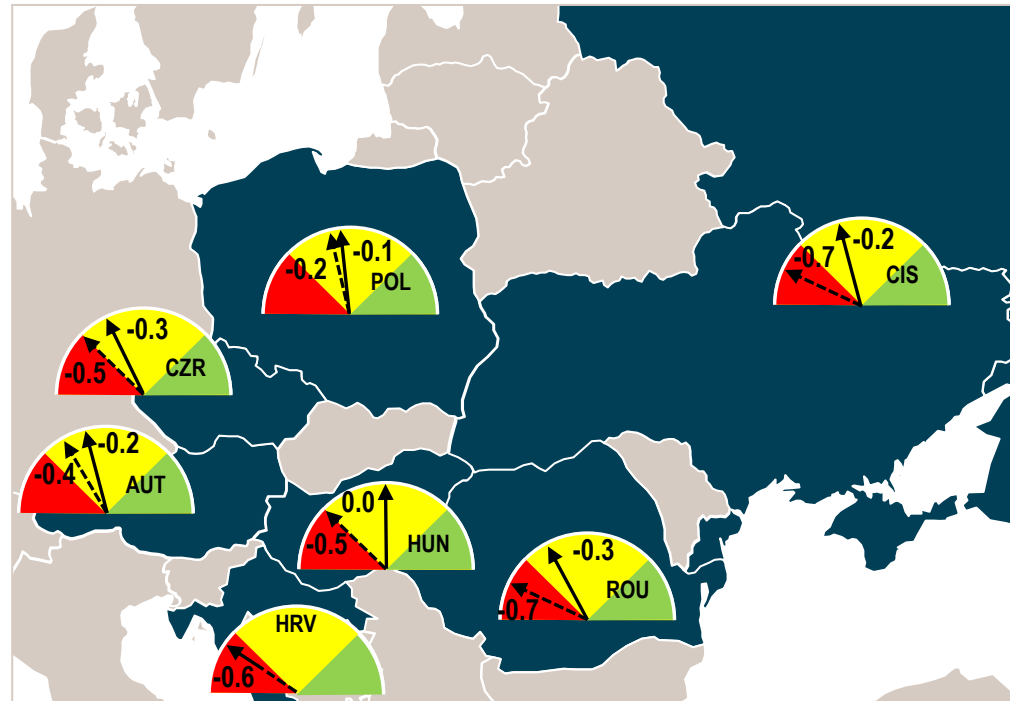
COMMENTS

- > The global economy is beginning to pull out of the recession, but stabilization is uneven
- > Economic growth in 2010 is now projected to be higher than forecasted in the World Economic Outlook of the IMF in April
- > Financial conditions have improved more than expected

C. Study results at country level

The improving attitude confirmed also on country level – Only Croatian managers remain pessimistic

Mood barometer by country [average value]









1 ... We have reached the bottom, it will get better ---> March 2009 -> Sept 2009
 0 ... Situation is unclear
 -1 ... Situation will still get worse

COMMENTS

- > With the exception of Croatia, the mood barometer developed positively in all analyzed countries
- > In Poland, the optimistic attitude of March was confirmed also in September
- > The positive attitude of Hungary is more likely wishful thinking, which is less reflected in macroeconomic results

Companies in all countries are making progress on operative measures – But strategic actions remain weak across the region

Popularity of measures by country (multiple answer possible)
[in % of answer frequency]

							CIS	
	Austria	Croatia	Czech Rep.	Hungary	Poland	Romania	CIS	
Operative measures	Cost reduction program	100%	94%	93%	100%	100%	98%	100%
	Revised budgets	81%	100%	100%	95%	100%	100%	100%
	Hiring freeze	73%	88%	75%	73%	91%	76%	80%
	Growth or sales initiative	70%	72%	64%	64%	61%	69%	65%
	Tightened cash management	76%	75%	54%	55%	65%	60%	75%
	Investment freeze	62%	88%	71%	64%	61%	51%	60%
	Reducing production capacities	59%	44%	50%	41%	43%	49%	50%
Strategic measures	Further M&A activities	38%	38%	43%	23%	22%	29%	35%
	Changes in the capital structure	24%	28%	25%	14%	30%	20%	45%
	Closing production sites	19%	38%	36%	27%	17%	24%	20%
	Divestments	22%	31%	39%	23%	26%	18%	10%

 Top three most used measure  Three least used measure

COMMENTS

- > Cost reduction program, revised budgets and hiring freeze are the top three most used measure in the countries analyzed
- > Strategic measures are avoided in all analyzed country regardless the nationality

Despite the increasing price pressure, 20% of the Austrian managers believe in a recovery already until the end of this year

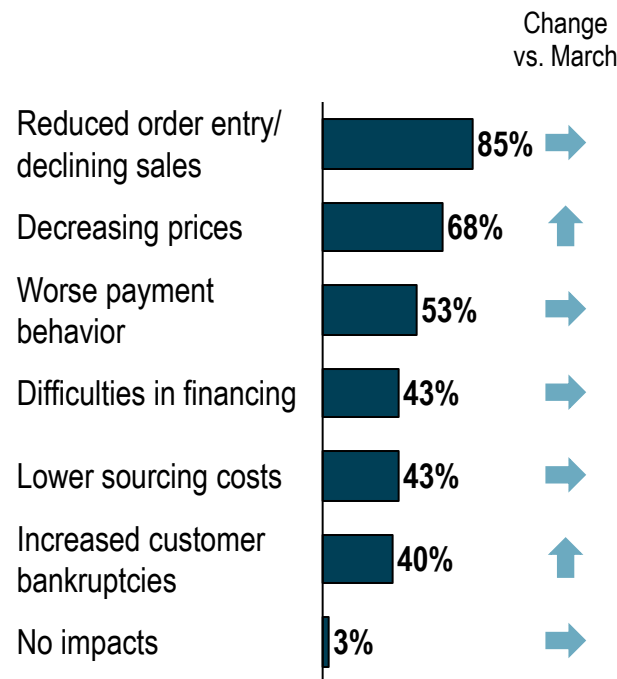


Austria

KEY FINDINGS

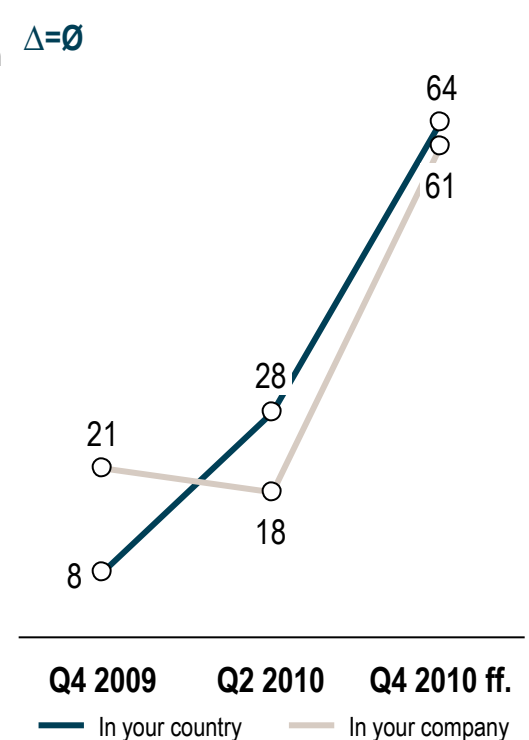
- > Austria belongs to the few countries where managers are satisfied with the governmental measures taken to fight the crisis. Like everywhere, only tax measures still seem to be an issue
- > Besides the reduced order entry and declining sales, the increasing price pressure causes the major problems in Austria
- > 20% of the managers believe that the recovery of their company will start at the end of this year

Which are the most significant effects you have already felt in 2009?¹⁾



1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

When do you expect a recovery from the current crisis?²⁾



There is dull ambience in Croatia: further decline of GDP growth expected, dissatisfaction with the governmental actions

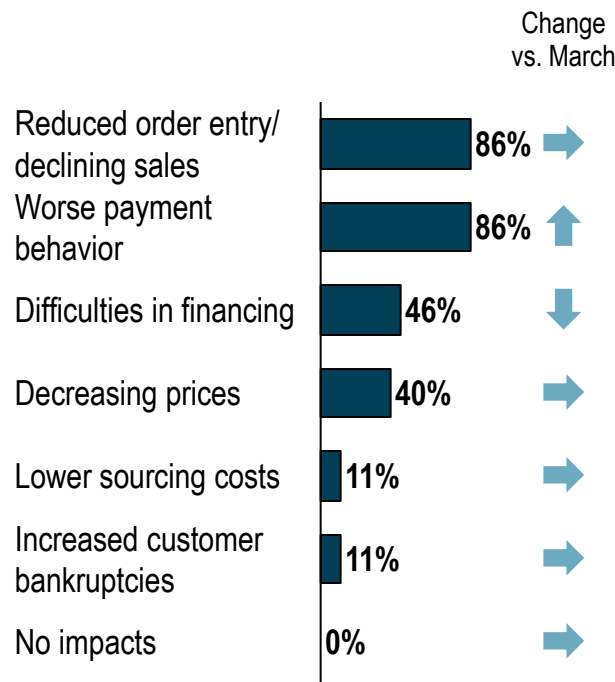


Croatia

KEY FINDINGS

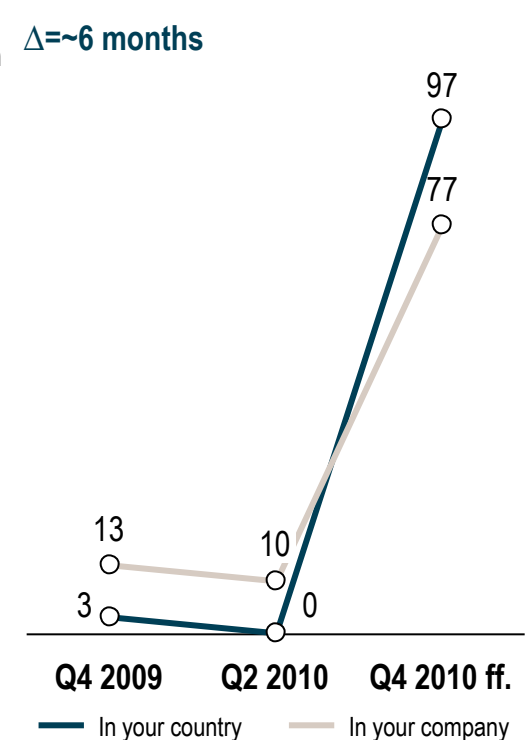
- > The mood in Croatia stayed pessimistic in September as well. Accordingly, 80% of the managers expect further decline in GDP up to 5-10%
- > However, 20% of the companies believe to be able to outperform the declining GDP
- > There is great dissatisfaction due to lacking governmental actions: high interest rates, destructive tax measures, insufficient industry and infrastructure programs are often criticized
- > Despite the increasing worse payment behavior, bankruptcies are rare, which is also due to the (lacking) local legal framework

Which are the most significant effects you have already felt in 2009?¹⁾



1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

When do you expect a recovery from the current crisis?²⁾



Czech managers are satisfied with the governmental crisis management and expect a recovery in line with the GDP growth

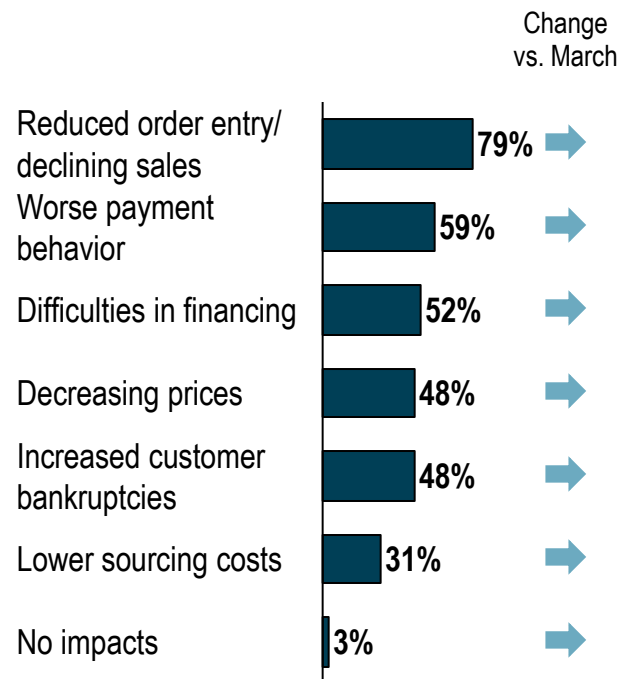


Czech Republic

KEY FINDINGS

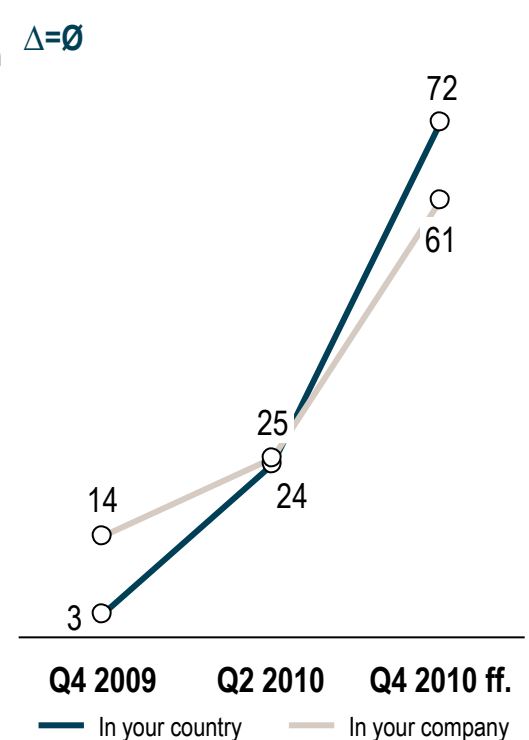
- > The Czech government was quite successful in the opinion of the managers in handling the crisis
- > The importance of the major problems stayed almost identical with the results in March
- > Czech managers believe in a similar timeline of the recovery both for the company and the country

Which are the most significant effects you have already felt in 2009?¹⁾

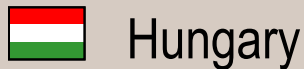


1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

When do you expect a recovery from the current crisis?²⁾



The positive attitude in Hungary is more likely wishful thinking and is less reflected in macroeconomic forecasts

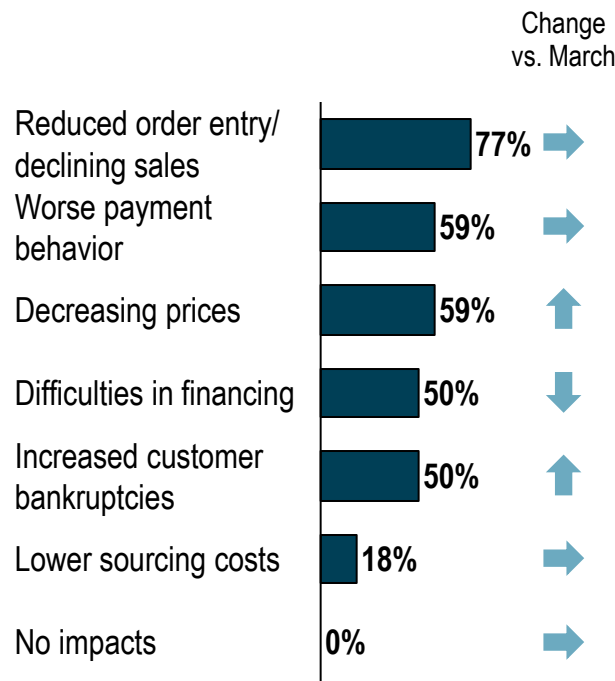


Hungary

KEY FINDINGS

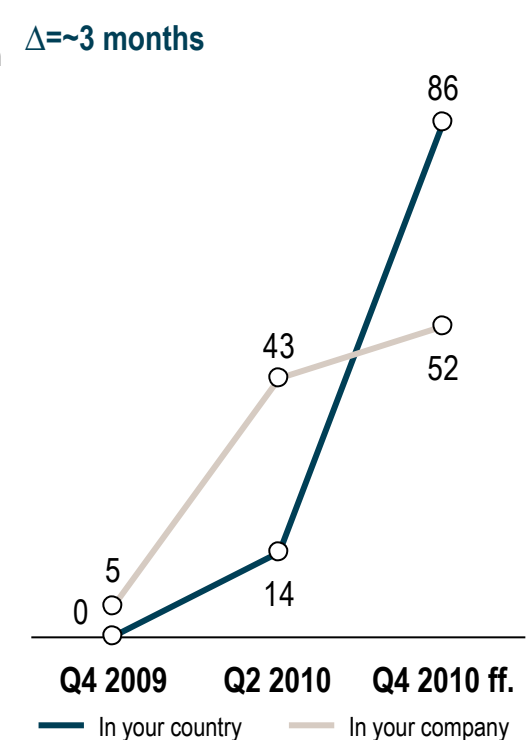
- > The mood barometer showed a positive note in Hungary, which is more likely wishful thinking and less reflected in macroeconomic data and forecasts
- > 50% of the Hungarian managers expect a recovery of their own company already until June 2010, far before the recovery of the GDP
- > Financing difficulties seem to be less important than half year ago

Which are the most significant effects you have already felt in 2009?¹⁾



1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

When do you expect a recovery from the current crisis?²⁾



Like before, Polish managers are very optimistic – The problem of decreasing prices seems to be increasing, however

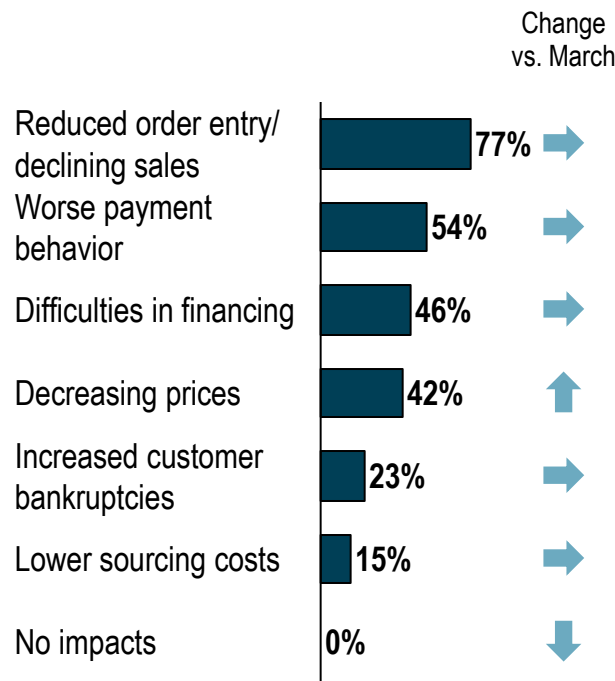


Poland

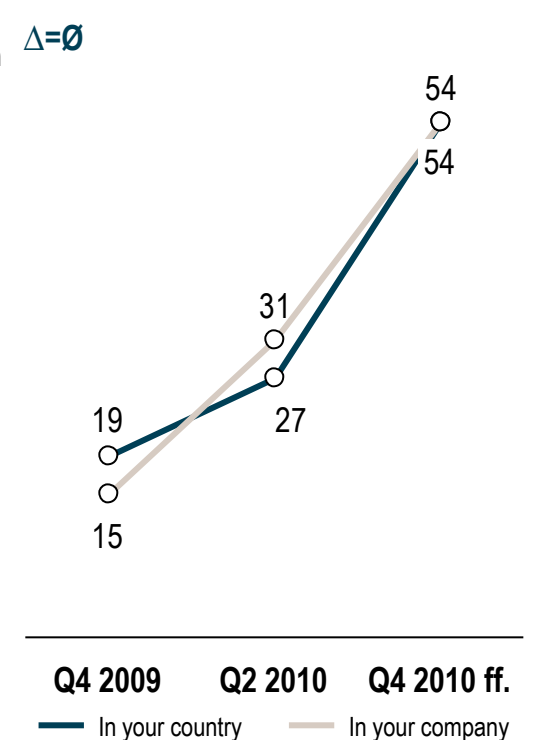
KEY FINDINGS

- > The former optimistic attitude of Polish managers on the crisis was confirmed also in September
- > The governmental measures are regarded as mostly well and adequately implemented
- > Polish managers are realistic and expect a recovery in line with the forecasted GDP
- > Decreasing prices are now much more important than in March

Which are the most significant effects you have already felt in 2009?¹⁾



When do you expect a recovery from the current crisis?²⁾



1) Multiple answers possible 2) In % of answer frequency
 ↓ If change ≤ -5 → If change $-5 < x < 5$ ↑ If change ≥ 5

Romanian companies have less difficulties in financing but are facing an increasing number of customer bankruptcies

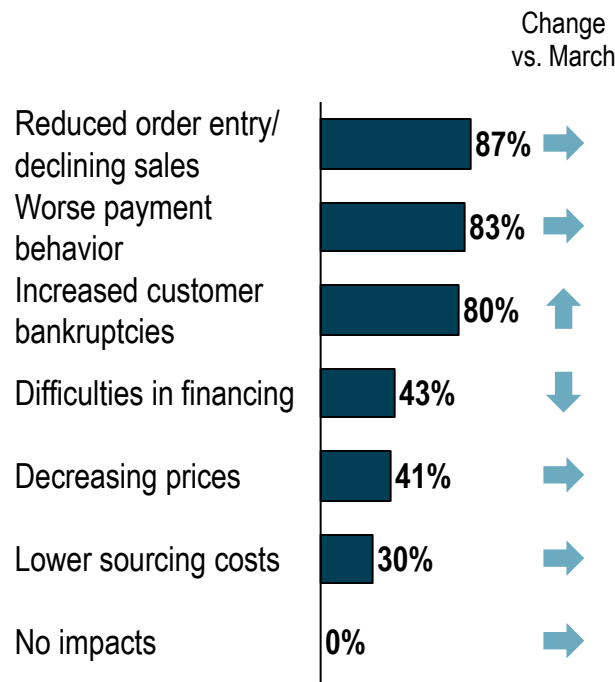


Romania

KEY FINDINGS

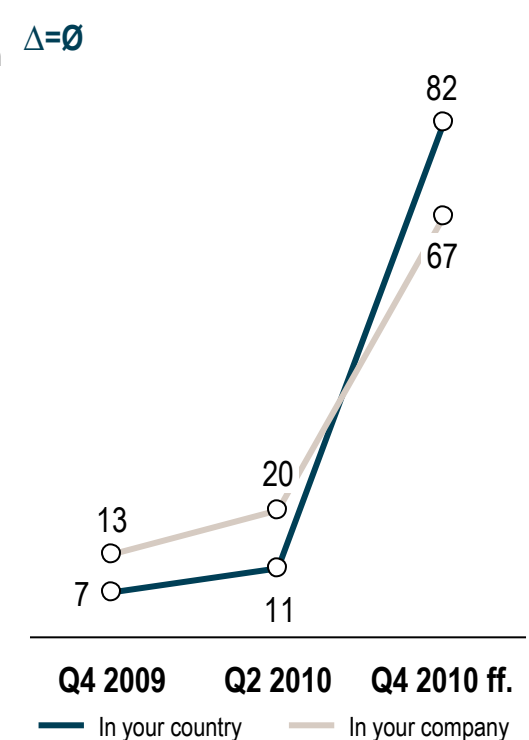
- > More aid packages for industries, more favorable corporate and consumer tax measures as well as infrastructure programs are still missed among the governmental measures in Romania
- > Recovery of the own company is expected more or less in line with the forecasted GDP growth
- > Difficulties in financing decreased, but the number of customer bankruptcies further increased and causes massive problems for companies

Which are the most significant effects you have already felt in 2009?¹⁾



1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

When do you expect a recovery from the current crisis?²⁾



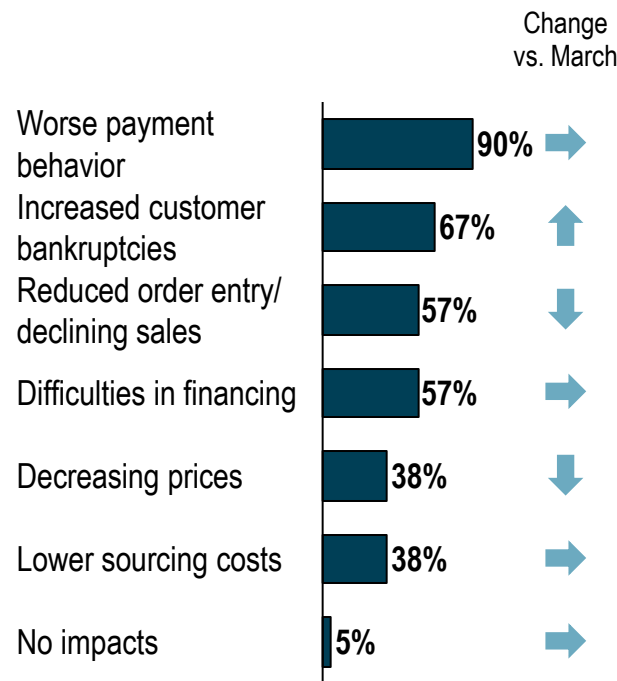
The growing optimism in CIS can be explained by less pressure on commodity prices and increasing order entry

CIS

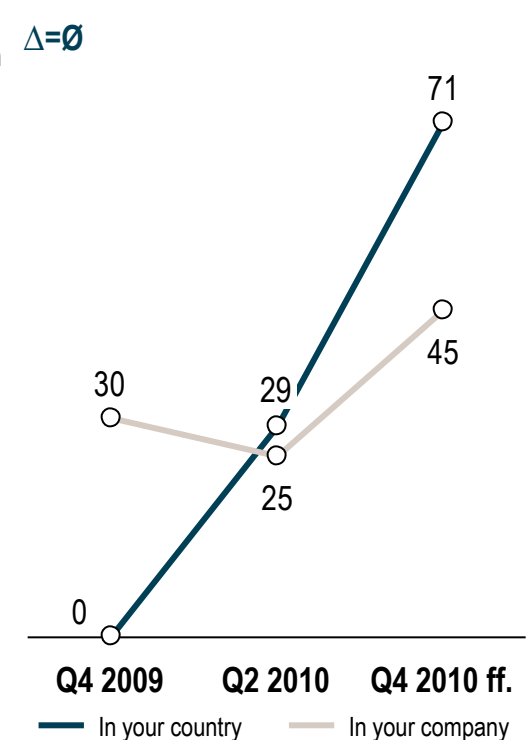
KEY FINDINGS

- > The growing optimism showed by the mood barometer in CIS can be explained with the increasing commodity prices and higher order entries
- > However, there is great dissatisfaction with the governmental crisis management
- > There are very heterogeneous expectations on the GDP growth for next year, but 30% of the managers believe in outperforming the country's performance
- > Increasing bankruptcies cause massive problems for companies

Which are the most significant effects you have already felt in 2009?¹⁾



When do you expect a recovery from the current crisis?²⁾

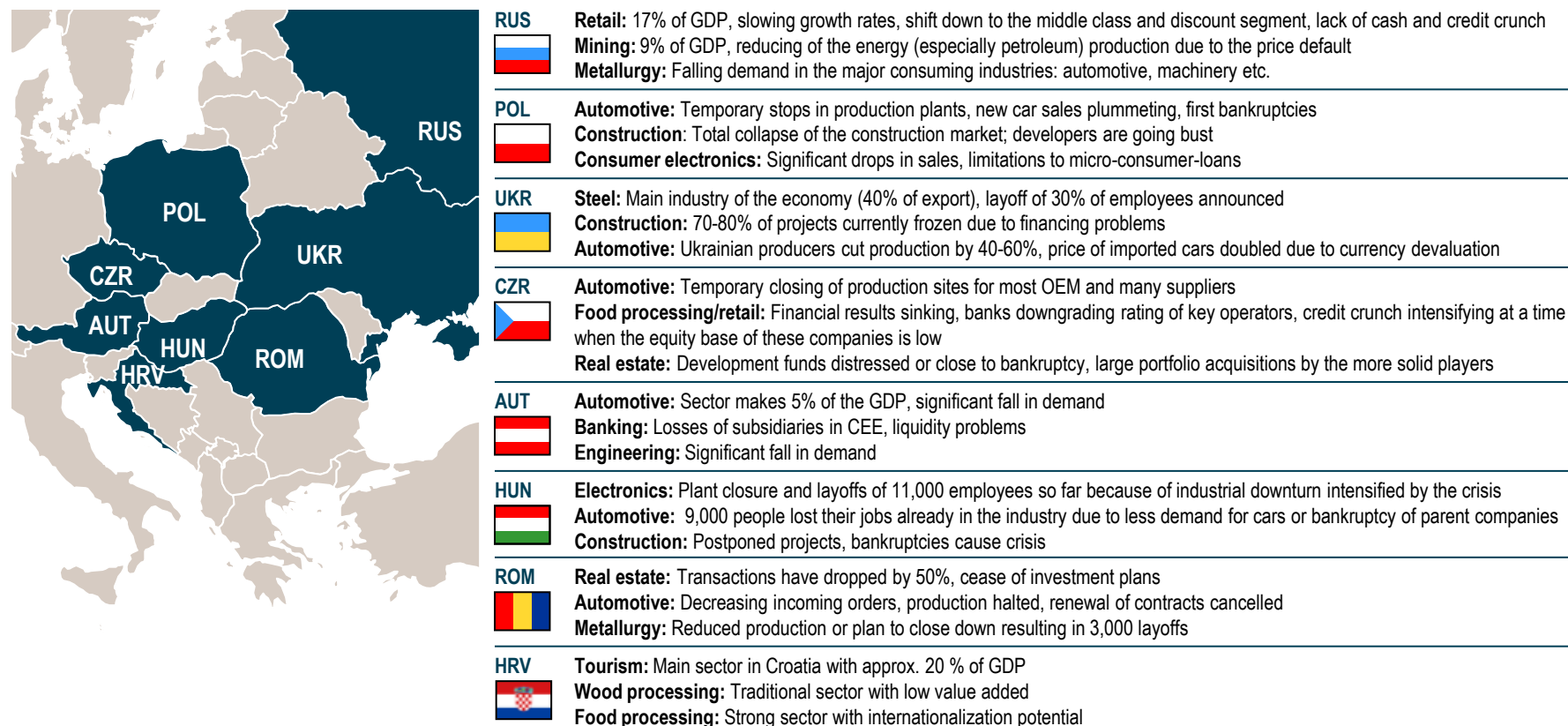


1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

D. Study results at industry level

In CEE, real estate and automotive industries are the most commonly affected sectors by the crisis

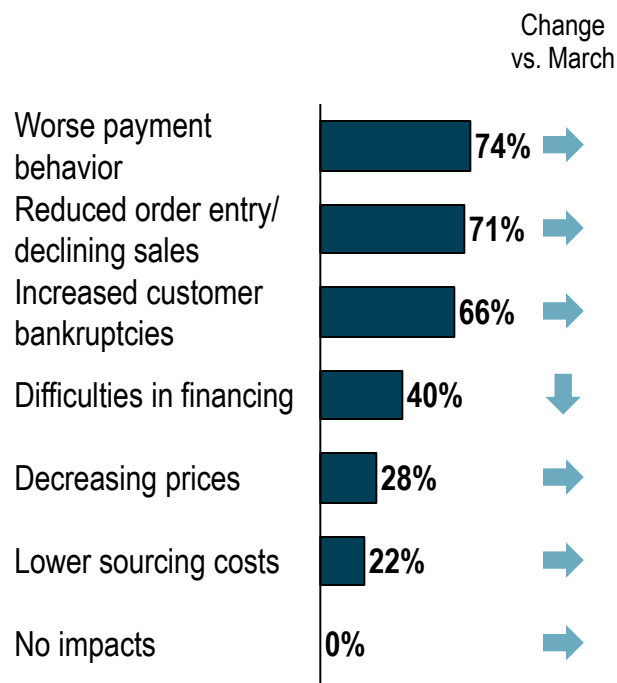
Top three crisis affected sectors by country



Financial sector expects recovery in more than 12 months – Refinancing has improved

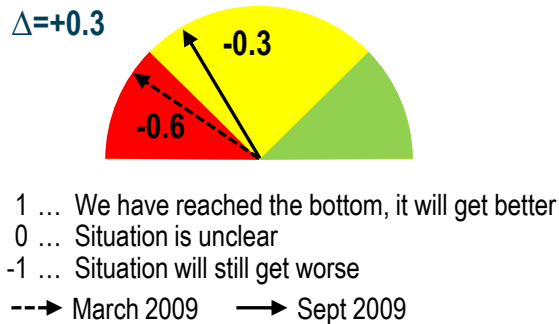
\$ Banking & Insurance

Which are the most significant effects you have already felt in 2009?¹⁾

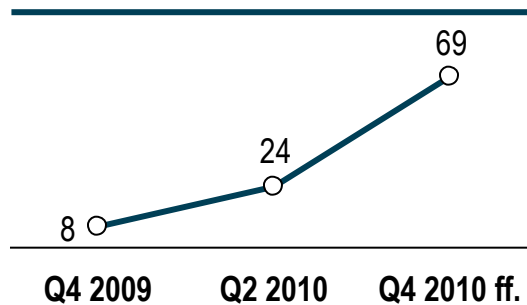


1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

Mood barometer



When do you expect a recovery from the current crisis?²⁾

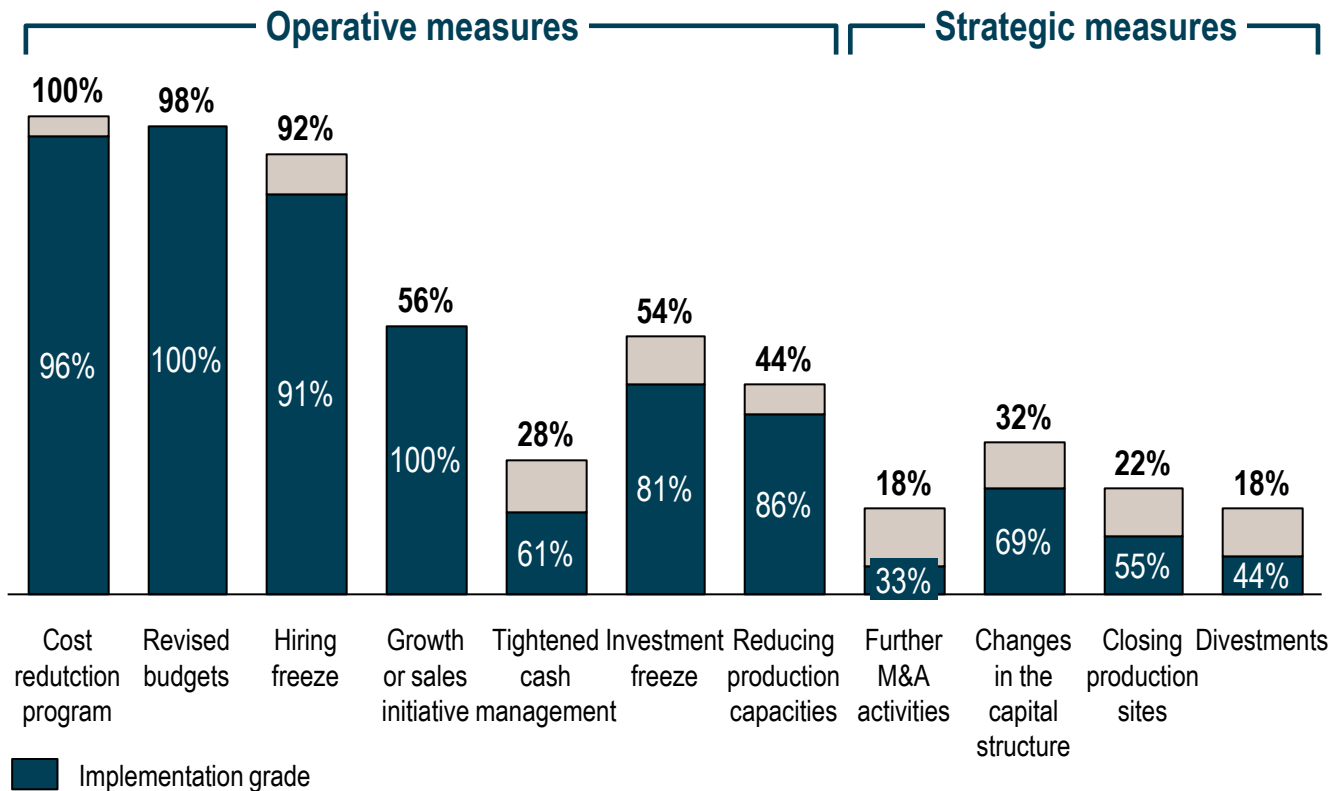


KEY FINDINGS

- > Improved mood – at low level – and slightly deuced uncertainty in the financial sector
- > However, significant recovery not expected before Q4 2010, so another tough 12 months ahead
- > Bankruptcy of customers, and therefore defaulting loans expected as main risk

Top three operative measures are implemented well in the sector, but tightened cash management is less popular

\$ Banking & Insurance – Popularity of actions



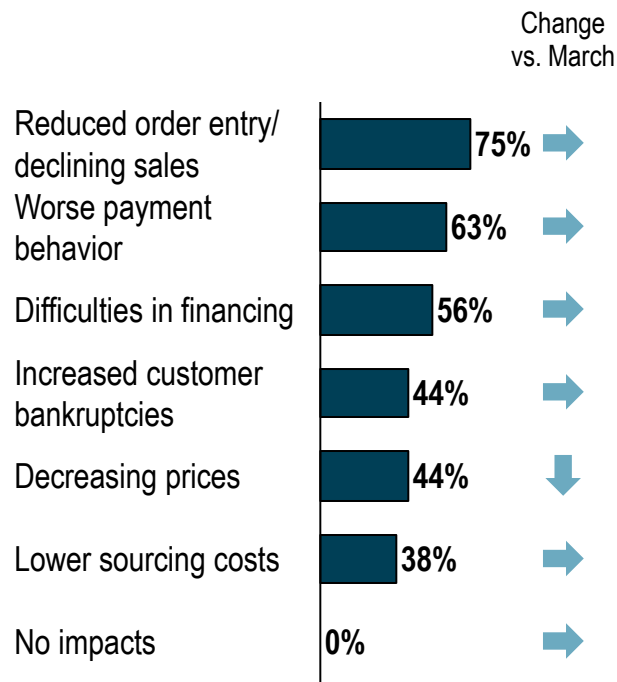
COMMENTS

- > Quick hits, like cost reduction programs, revised budgets, hiring freeze are almost completely done, but especially tightened cash management is less popular and
- > Overall, the implementation rate has developed positively compared to March

The Construction sector is still careful but more optimistic – Financing difficulties are a sector specific, important problem

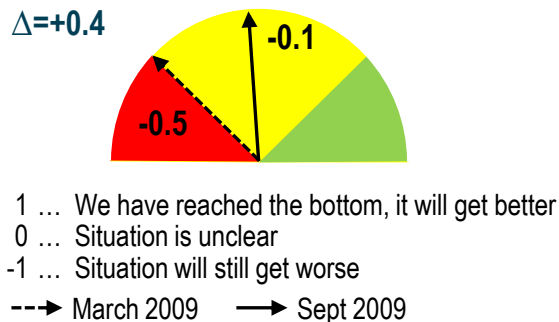
Construction

Which are the most significant effects you have already felt in 2009?¹⁾

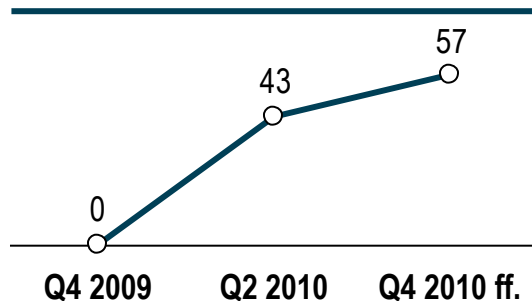


1) Multiple answers possible 2) In % of answer frequency
 ↓ If change <=-5 → If change -5<x<5 ↑ If change >=5

Mood barometer



When do you expect a recovery from the current crisis?²⁾

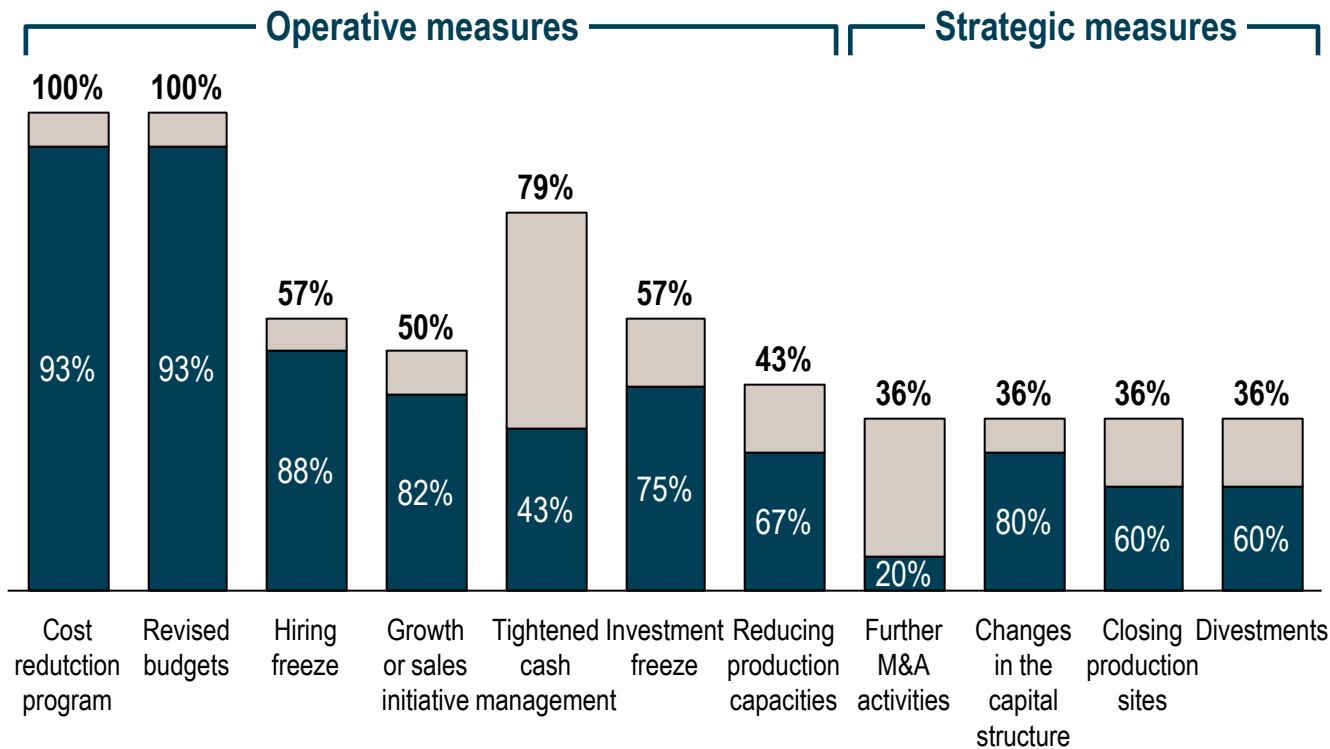


KEY FINDINGS

- > As can be expected, financing difficulties belong to the most important problems in the Construction sector
- > The industry is still careful with bright forecasts, but the mood barometer is now significantly more positive than in March
- > Accordingly, almost 50% of the companies expect a turn in the current crisis already in June next year

Implementation of tightened cash management and M&A activities are far below the target in the Construction industry

 Construction – Popularity of actions



 Implementation grade

COMMENTS

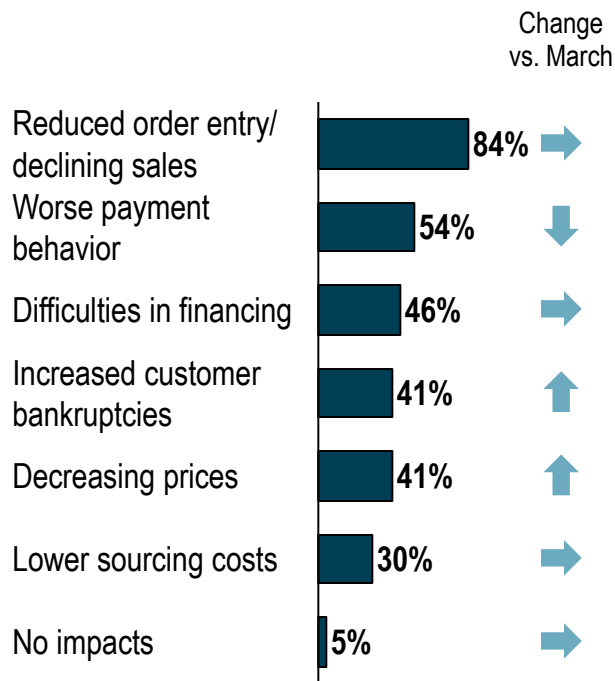
- > The sector focused so far especially on the implementation of cost reduction, budget revising, hiring freeze and changes in the capital structure
- > Implementation grade of further M&A activities as well as tightened cash management are far below target

Declining sales are the most critical issue in the Retail sector



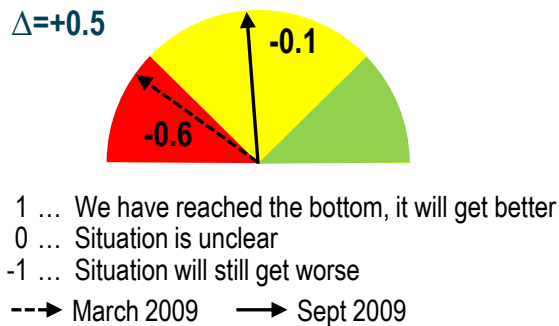
Consumer Goods/Retail

Which are the most significant effects you have already felt in 2009?¹⁾

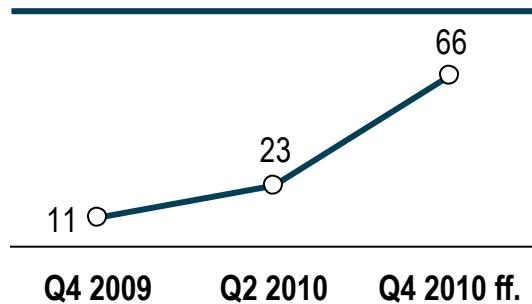


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Mood barometer



When do you expect a recovery from the current crisis?²⁾

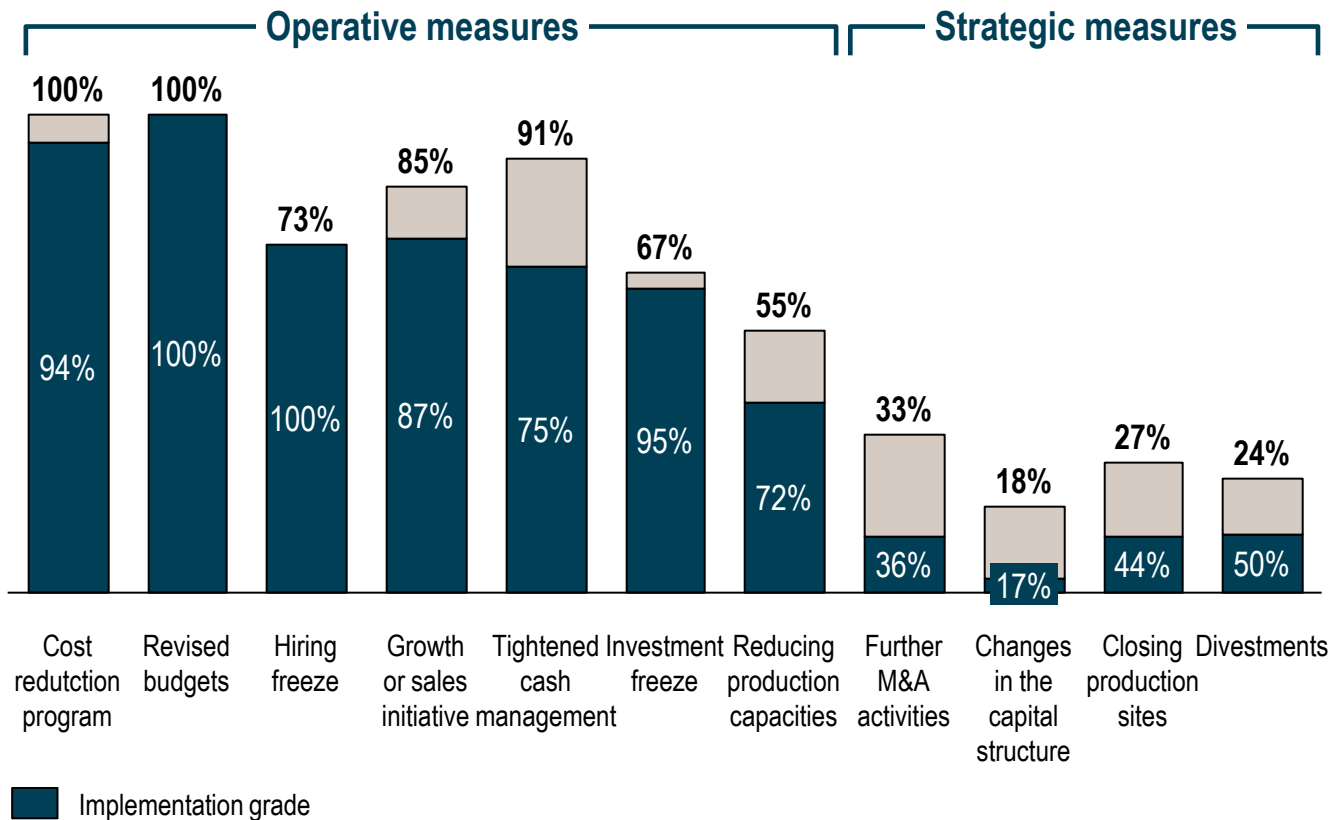


KEY FINDINGS

- > Declining sales is doubtless the most important issue on the management agenda in the Consumer Goods/ Retail industry
- > Still, the mood barometer has improved since March
- > But a significant recovery is not expected before Q4 2010

Operative measures in the Retail sector are well implemented, but strategic issues are still neglected

 Consumer Goods/Retail – Popularity of actions



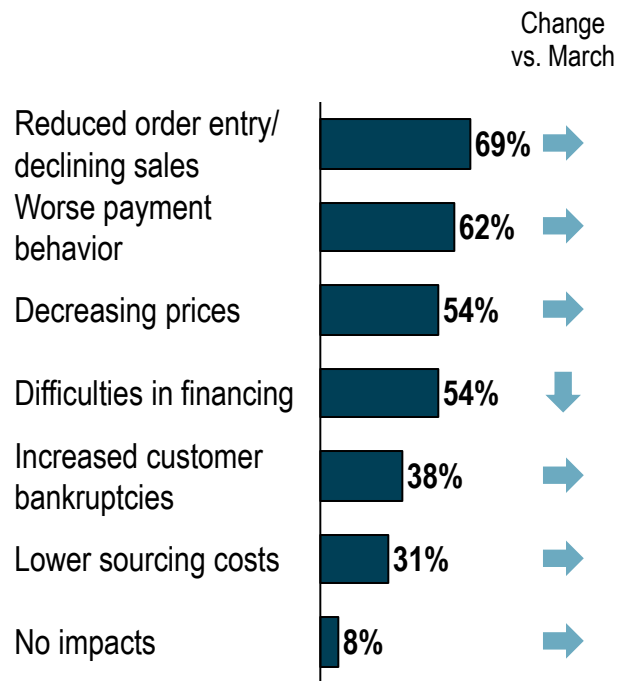
COMMENTS

- > Comprehensiveness and implementation quality of operative measures are quite good in the Consumer Goods/Retail sector
- > Strategic measures are even less often on the agenda in the Retail industry than in other sectors

Crisis impacts on the energy sector remain mostly unchanged, financing crunch has reduced

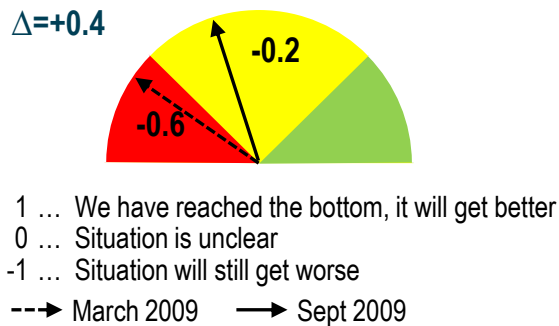
Energy & Utilities

Which are the most significant effects you have already felt in 2009?¹⁾

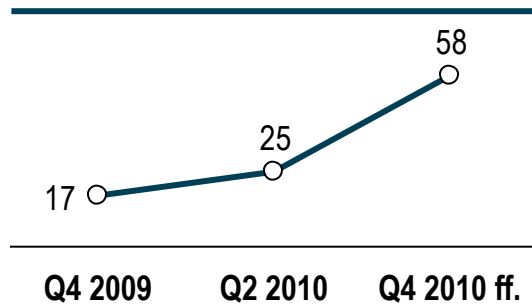


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Mood barometer



When do you expect a recovery from the current crisis?²⁾

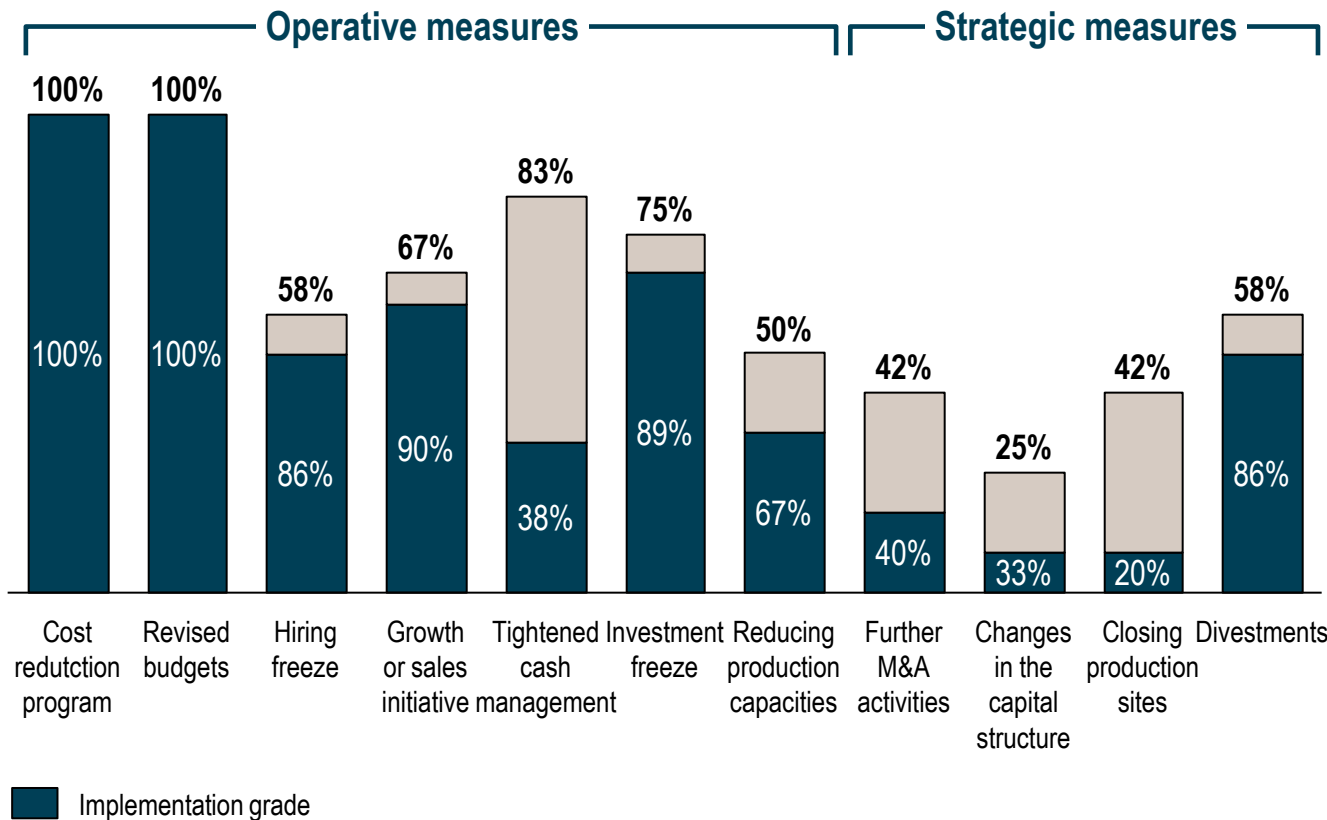


KEY FINDINGS

- > Improving, but still cautious mood in the energy sector
- > Recovery mostly expected after Q4 2010
- > Reduction in sales and worse payment behaviour remain key problems

Tightened cash management is an important issue, but remains poorly implemented

Energy & Utilities – Popularity of actions



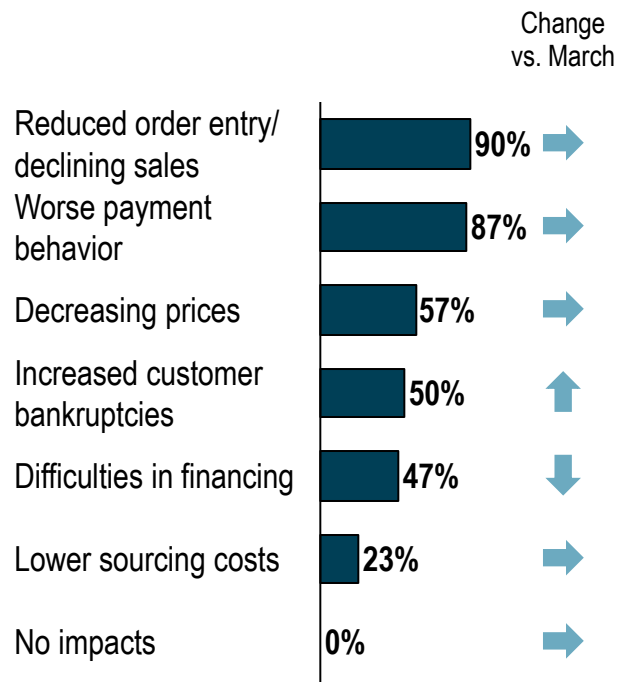
COMMENTS

- > Despite the crisis, hiring was stopped only at 50% of the companies. Also growth or sales initiatives are only started rarely (25%)
- > Tightened cash management seems to be an important issue and was planned by 83% of the companies, however the implementation remains poor

Significant sales decline experienced in the IT/Media/Telco sector

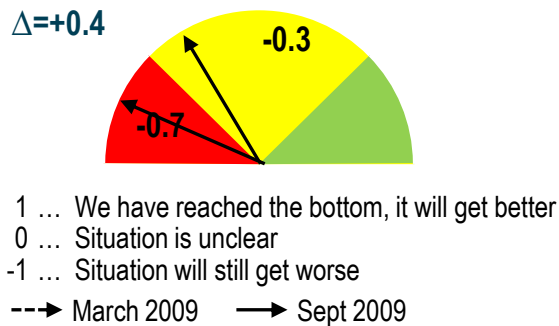
IT/Media/Telecom

Which are the most significant effects you have already felt in 2009?¹⁾

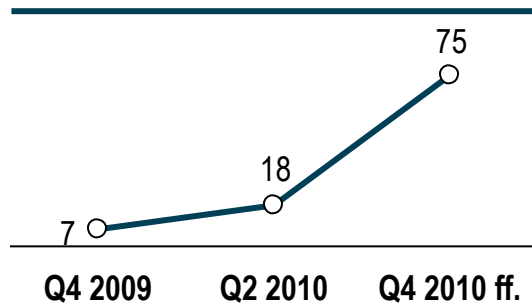


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Mood barometer



When do you expect a recovery from the current crisis?²⁾

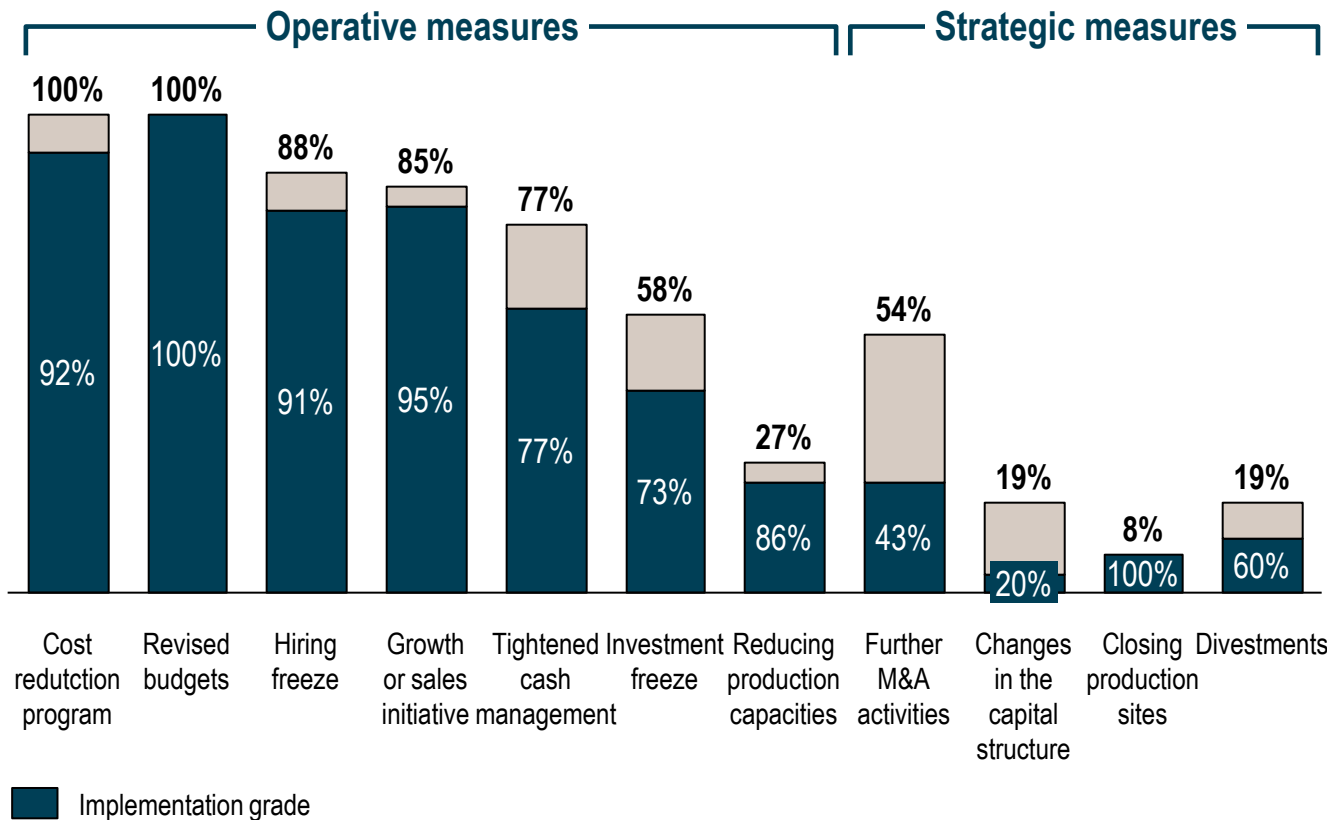


KEY FINDINGS

- > The attitude in the IT/ Media/ Telecom industry remains poor
- > Also the expected recovery time is the latest of all sectors
- > Key problems remain reduced order entry and worse payment behaviour

Despite the crisis, more than 50% of the companies in the industry plan to continue their investment and M&A activities

IT/Media/Telecom – Popularity of actions



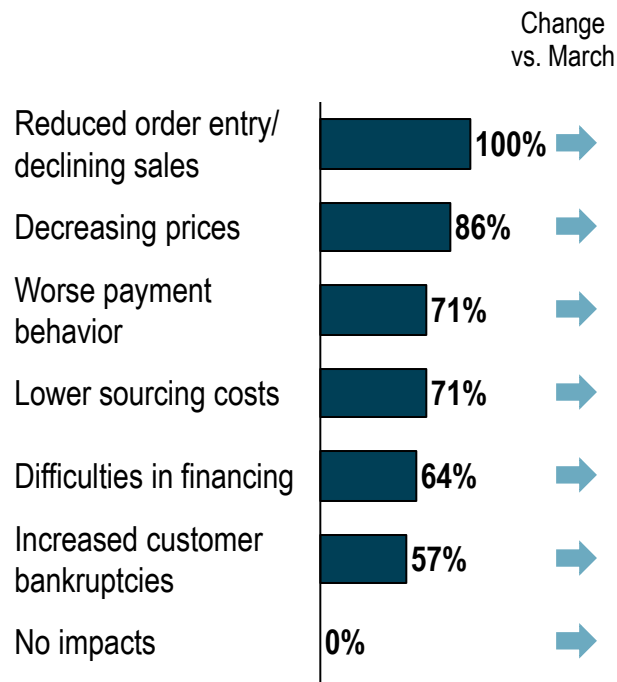
COMMENTS

- > Strong focus on operative measures with mostly good implementation rates
- > Tightened cash management and investment freeze are still neglected
- > Strong focus on M&A activities

Increasing demand and better prices have significantly improved the outlook in the metals & mining sector

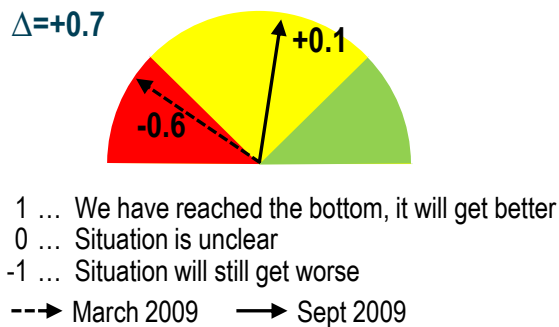
Metals & Mining

Which are the most significant effects you have already felt in 2009?¹⁾

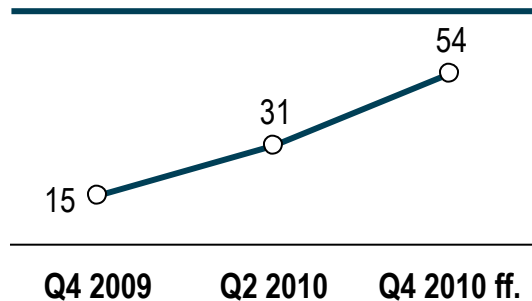


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Mood barometer



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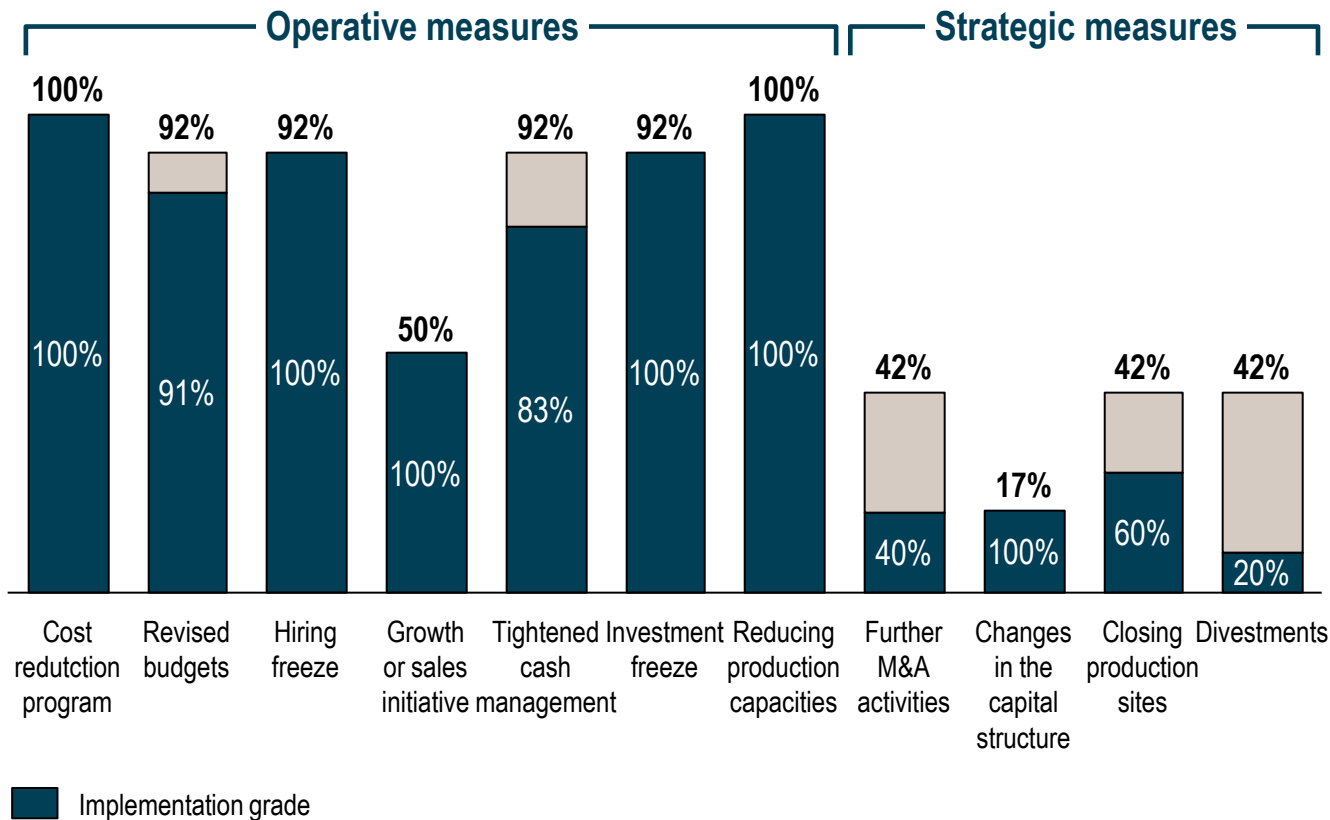


KEY FINDINGS

- > In total this sector has been strongly hit, with significant effects at all levels
- > However, strong increase in outlook since March – mostly due to rebound of prices and end of destocking effects
- > Almost 50% already expect a recovery during the first half of 2010

The metals & mining sector has reacted the strongest to deal with the crisis – but only at operative level

Metals & Mining – Popularity of actions



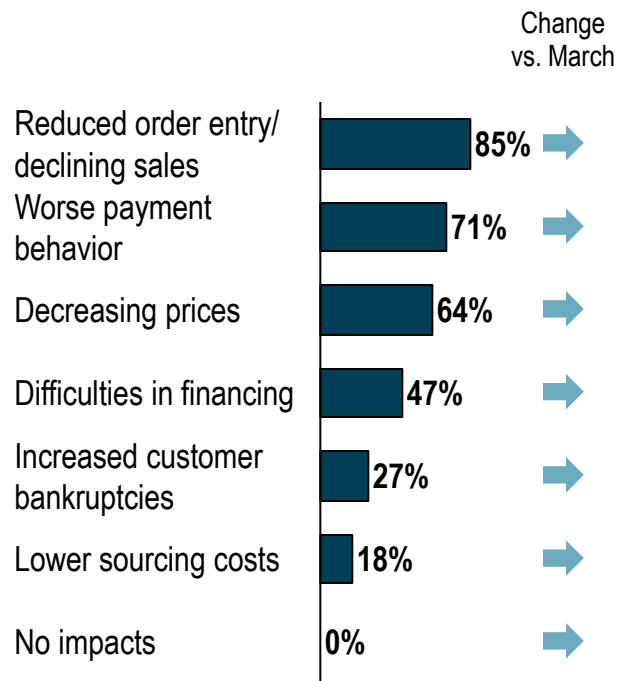
COMMENTS

- > Operative measures have been taken by almost 100% of all companies in the Metals & Mining sector
- > The only exception is growth or sales initiatives, where there is still room for improvement
- > Strategic measures remain underdeveloped

Service sector mostly unchanged since March, slightly improving outlook

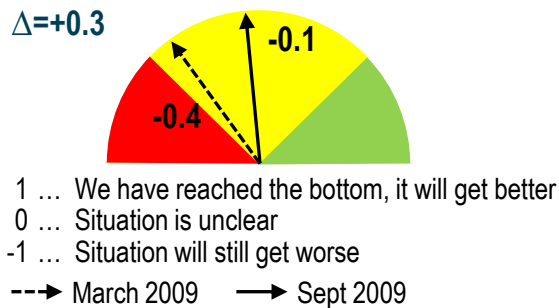
Services

Which are the most significant effects you have already felt in 2009?¹⁾

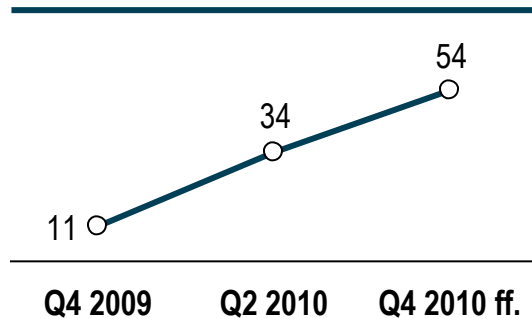


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Mood barometer



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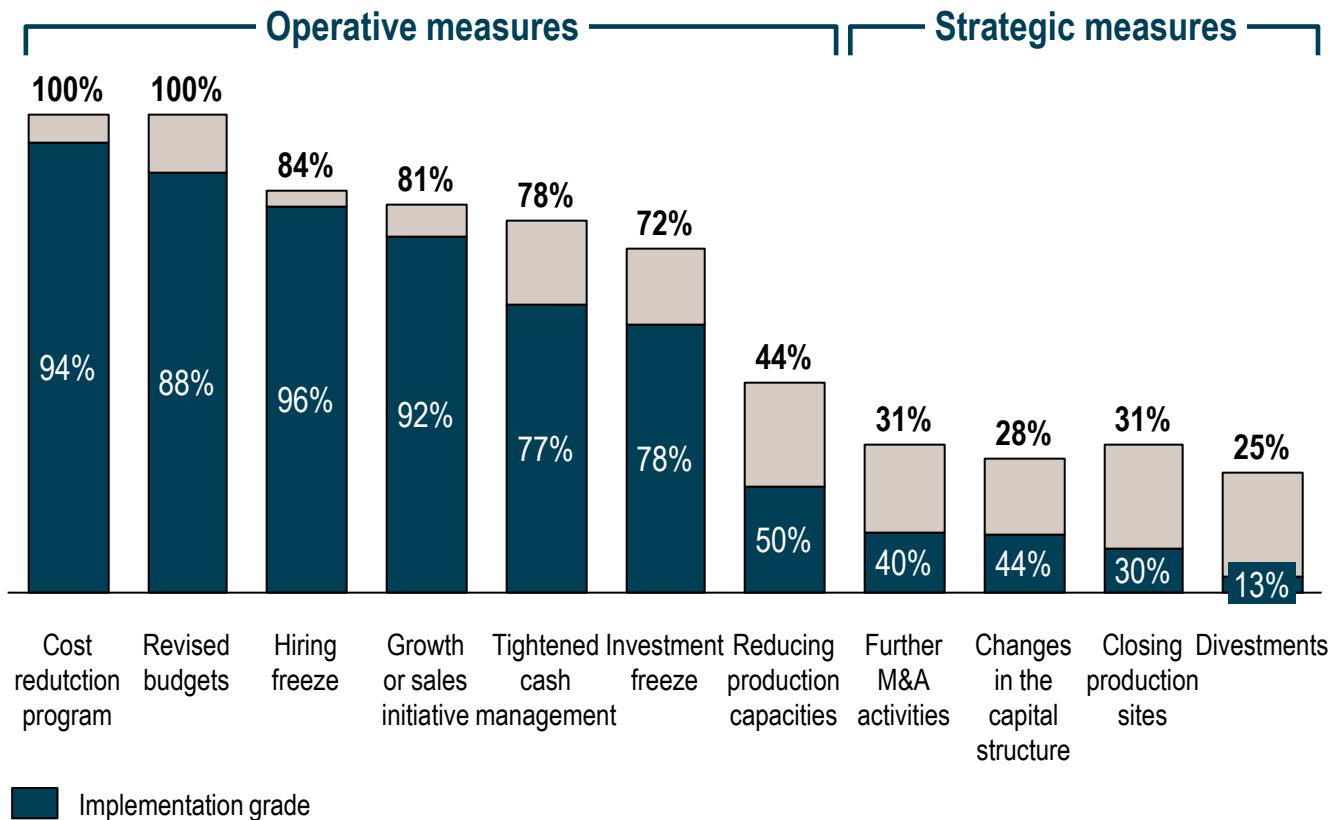


KEY FINDINGS

- > There are no real changes in the most significant effects the industry realized compared to March
- > Almost 50% already expect a recovery during the first half of 2010
- > Reduced order entry and worse payment behaviour remain the most critical issues

Implementation of actions remains average – strategic measures strongly neglected

Services – Popularity of actions



COMMENTS

- > Operative measures are done in line with the overall average of the surveyed industries
- > Strategic issues and their proper implementation remain neglected

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Our local management team is available to discuss restructuring, performance and growth issues



Krzysztof Badowski
Partner (POL)

+48 (22) 32374 14
krzysztof_badowski@pl.rolandberger.com



Constantin Kinsky
Partner (CZE, SVK)

+420 () 210 219 550
constantin_kinsky@cz.rolandberger.com



Rupert Petry
Partner (AUT)

+43 (1) 536 02 101
rupert_petry@at.rolandberger.com



Uwe Kumm
Partner (RUS, UKR, CIS)

+49 (30) 399 27-3534
uwe_kumm@de.rolandberger.com



Frigyes Schannen
Principal (HUN)

+36 (1) 30170 77
frigyes_schannen@hu.rolandberger.com



Vladimir Preveden
Partner (HRV, SEE)

+385 (1) 4804 840
vladimir_preveden@hr.rolandberger.com



Codrut Pascu
Partner (ROU)

+40 (21) 30605 00
codrut_pascu@ro.rolandberger.com