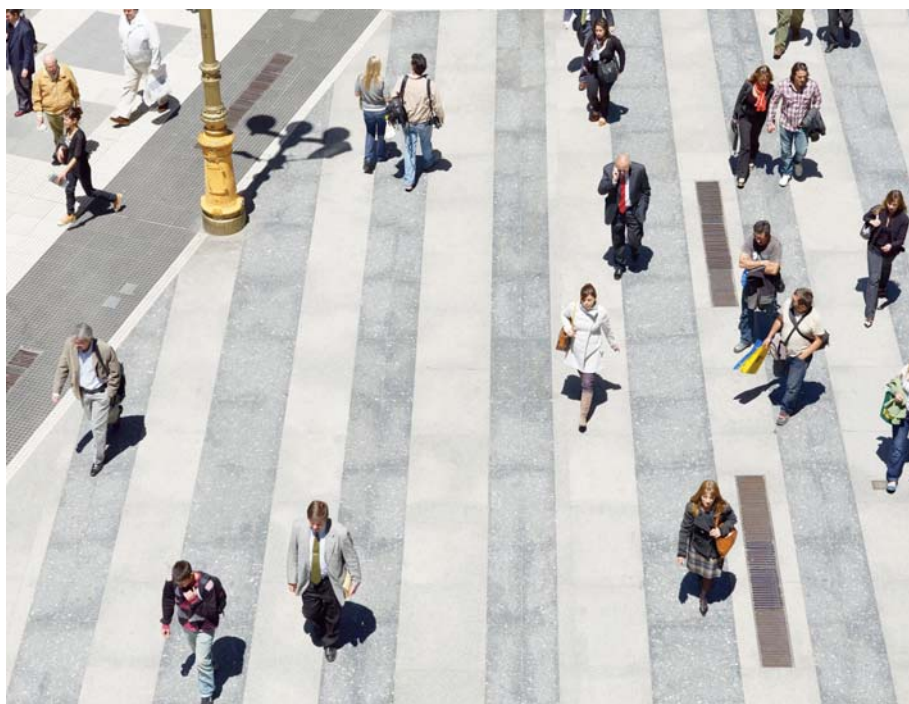


Central and Eastern Europe Economic Scorecard

A sustainable future in a great region







The region of Central and Eastern Europe experienced huge change over the last two decades. Its successful transition from a state-run, inefficient and closed economic system to a developing and competitive market economy was a genuinely historical achievement.

It was possible only thanks to the determination of economic reformers, the courage of domestic and foreign investors and the entrepreneurial spirit of so many people right across the region.

Until recently, the region was seen as a clear winner in the globalisation process. Today, as global economic power shifts from West to East and from North to South, new challenges are emerging. The region not only needs to continue to close the development gap with Western Europe, but also to compete globally.

A key element of the growth strategy for Central and Eastern Europe will continue to be the creation of a favourable environment that attracts investors, encourages innovation and supports successful businesses. The scorecard presented in this report is a tool for comparing various aspects of the business environment in the countries of the region. It may be useful not only in attracting new investment, but also in indicating areas where further structural reforms or other initiatives may be beneficial.

We hope you will find the report valuable.

Olga Grygier-Siddons
Chairman, PwC Poland

Robin Barnett
British Ambassador to Poland

Introductory Remarks

The markets of Central and Eastern Europe offer attractive potential for internationally minded businesses. Each of the markets has something to offer, yet is characterised by different levels of development.

The constant promise of Central and Eastern Europe offers a balance between growth and risk, which is increasingly palatable in today's business environment. The region offers attractive outsourcing opportunities as well as a market of over 100 million consumers.

Whether you are looking for sales, outsourcing or investment opportunities, a careful and detailed analysis of the region is required.

We have created an economic scorecard for the region, which enables you to benchmark opportunities against your own specific development requirements.

The CEE Scorecard is aimed at enabling you to make an initial assessment of the opportunity and the showcases of companies, which have been successfully exploring the region for years, illustrate the potential of your company's growth in CEE.

We would be pleased to take you through the process in more detail.





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Abbreviations:

CEE – Central and Eastern Europe

CEE North – Baltic states, the Czech Republic, Hungary, Poland, Slovakia

CEE South – Bulgaria, Croatia, Romania, Slovenia

EU – European Union

Northern Europe – selected countries for comparison (Germany, Sweden, United Kingdom)

Southern Europe – selected countries for comparison (Greece, Portugal, Spain)

Emerging Markets – selected countries for comparison (Brazil, Mexico, South Africa, Russian Federation, Thailand, Turkey, Ukraine)

GDP – Gross Domestic Product

PPP – Purchasing Power Parity

IMF – International Monetary Fund

WEF – World Economic Forum

Introduction

Over the last two decades, marked by a difficult transition from a Soviet-type centrally planned economy to a free market model, the countries of Central and Eastern Europe (CEE) have experienced very different phases of development. At the beginning they resembled a 'promised land' for investors, offering very low labour costs coupled with relatively high skills. There were excellent opportunities linked to privatisation and a virgin emerging market of over 100 million consumers.

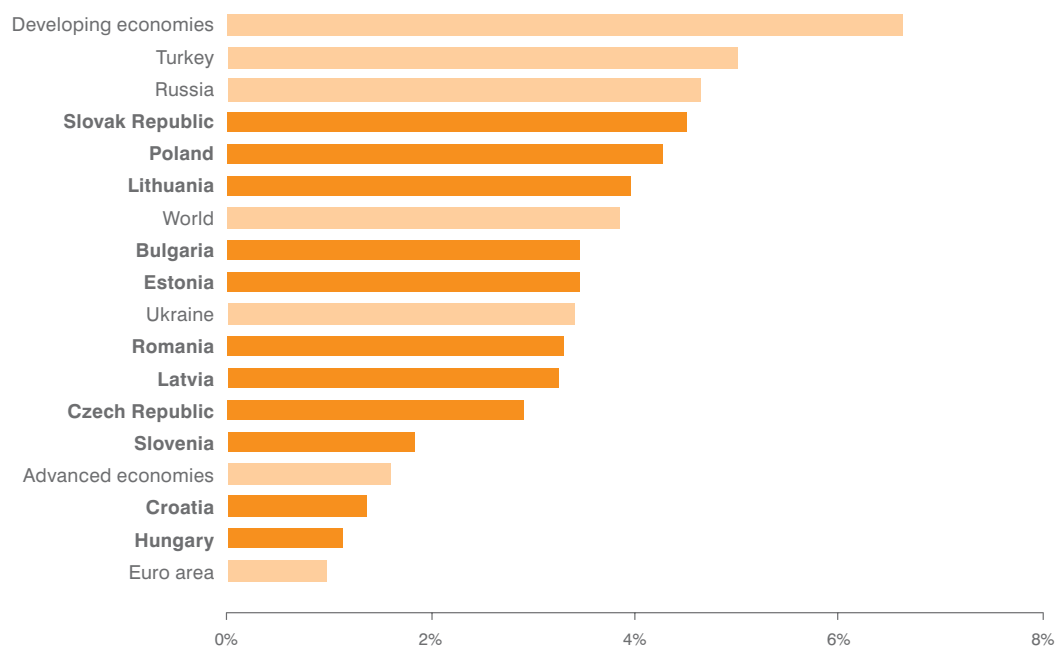
Moods deteriorated as the economic transition proved more difficult than expected and some of the investors' hopes did not materialise. After a painful restructure followed by the enlargement of the European Union (EU) in 2004-2007, once again a rapid growth started to overtake investors' worries and

persistent everyday problems connected with running a business.

Then came the 2008 global financial crisis and once again the pendulum swung, black clouds loomed on the horizon and the CEE countries started to be suspected as the 'subprime borrowers' of Europe. What is a reasonable and honest assessment of the development potential of Central and Eastern Europe today?

First of all, it should be noted that despite many of the current challenges, the majority of the countries in the region have been achieving considerably higher growth rates over the long run than their West European neighbours – *see Graph 1 below*. In some ways, they can be seen as near shore Emerging Markets – lower potential but less risk.

Graph 1. Average GDP growth rates, 2003-2012 (CEE countries and their neighbours)



Source: IMF

It is important to point out that the CEE countries today face a double challenge in the context of future growth opportunities:

- On the one hand, the countries in the region are considerably poorer than the countries of Western Europe. The average GDP per capita in the CEE region, adjusted for purchasing power parity (PPP) to eliminate the impact of price differences across countries, was equal to 57% of the Euro area average GDP per capita in 2012. Therefore, a clear long-term objective of the CEE countries needs to reduce this gap by achieving continuously higher rates of growth than in the Euro area.

- On the other hand, during the lasting global financial crisis the countries of the CEE region have had to pursue a very cautious economic policy in order to avoid a possible destabilisation of their finances, an excessive debt built-up, a loss of financial credibility and market competitiveness.

- The slowest GDP growth, only marginally faster than in the Euro zone, has been observed over the last decade in debt-ridden Hungary and Croatia, while the biggest fluctuations in annual growth rates ranging from +11% to –18% have been reported in Latvia and Lithuania.

We have created an economic scorecard to illustrate the key economic indicators in the CEE countries and compared them with their most important neighbours (Ukraine, Turkey, Russia, Eurozone) – see *Table 1 below*. The CEE countries are divided into two subgroups: CEE North and CEE South.

What can be done to address the double growth challenge which lies ahead of CEE?

Table 1. Main economic indicators: CEE countries and their key competitors, 2012

	Population (millions)	GDP per capita (US\$, PPP)	Total GDP (billions of US\$)	Inflation rate
Czech Republic	10.6	27 191	196	3.3
Estonia	1.3	21 713	22	4.2
Hungary	10.0	19 638	127	5.7
Latvia	2.0	18 255	28	2.3
Lithuania	3.0	21 615	42	3.2
Poland	38.9	20 592	488	3.7
Slovakia	5.4	24 249	92	3.7
Slovenia	2.1	28 195	46	2.6
Total CEE North	73.3	21 894	1 041	3.8
Bulgaria	7.3	14 312	51	2.4
Croatia	4.4	17 810	57	3.4
Romania	21.3	12 808	169	3.3
Total CEE South	33.0	13 806	278	3.1
Total CEE region	106.3	19 387	1 318.1	3.6
Neighbours				
Ukraine	45.5	7 374	176	0.6
Turkey	74.9	15 001	794	8.9
Russia	141.9	17 709	2 022	5.1
Euro area	331.4	34 116	12 197	2.2

One of the best solutions is to create a business-friendly environment which supports growth. This would be attractive for domestic and international investors alike. The CEE countries should base their development on their current and emerging sources of competitive advantage.

Every effort should be made to support and strengthen the growth potential through institutional reforms, better conditions for running a business, efficient resource development as well as better macroeconomic and social fundamentals for growth.

In a nutshell, the countries of CEE should try to maximise the return from their assets and reduce the shortcomings that may hamper their development. In our Economic Scorecard report we have selected and analysed five key determinants for growth in the region – see Graph 2.

They are illustrated by the five indices below:

Access to Markets Index

– access to global markets and domestic market dynamics;

Resources for Growth Index

– assessment of the three main assets that can be transformed into value added: people, capital, and knowledge;

Cost Competitiveness Index

– ratio between the cost and the quality of labour;

Growth Sustainability Index

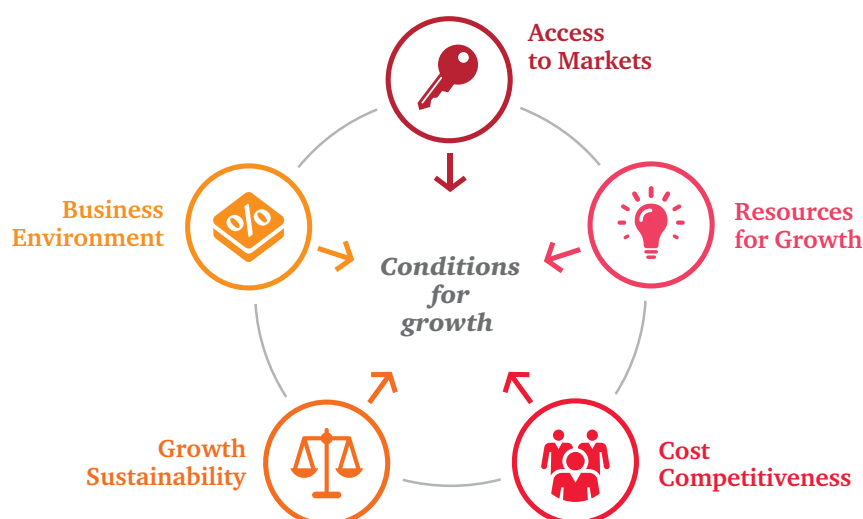
– financial, political and environmental sustainability of rapid GDP growth;

Business Environment Index

– assessment of institutions, tax system, infrastructure and overall transparency of the economy.

The value of the five indices observed in the CEE countries (CEE North and CEE South) is then compared with the same indices estimated for a group of selected Emerging Market Comparators (Brazil, Mexico, South Africa, Russian Federation, Thailand, Turkey, Ukraine), Southern Europe Comparators (Greece, Portugal, Spain) and Northern Europe Comparators (Germany, Sweden, United Kingdom). All indices have the values from 0 to 10. Details about the construction of the indices are presented in the Analytical Methodology section.

Graph 2. Conditions for growth in CEE countries



RABEN

Why CEE?

When Ewald Raben, the successor of the Dutch Raben family business moved to Poland in 1991 in order to develop international transport links between the Netherlands and Poland, he quickly understood that the need for logistics and transport in the country and in the entire region was enormous. Back then, hardly anyone in Poland understood what logistics meant. For Raben it was a challenge but also a great opportunity.

Our CEE success story

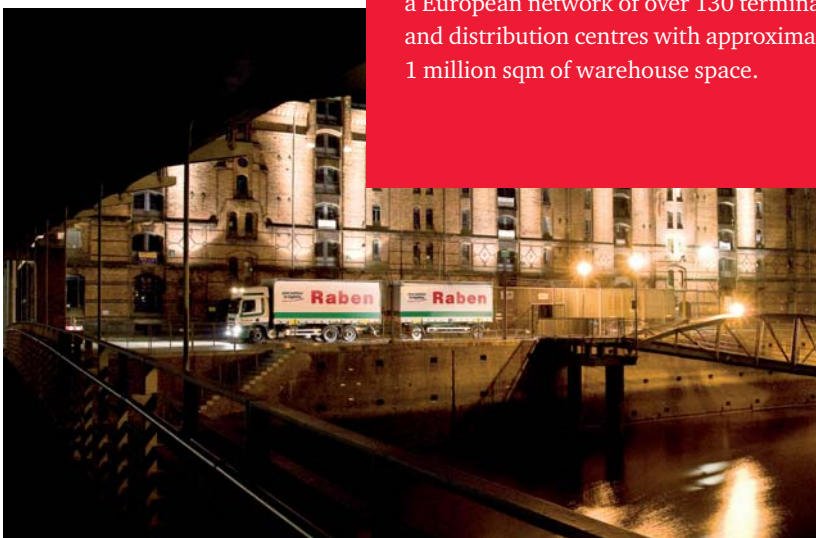
Set up in 1991, the Polish branch employed only 12 people. Today, Raben Group, one of Europe's largest logistics companies with 8,000 employees across the continent, is managed from its HQ in Poland, which has 4,500 employees alone. Since 2003, the company has opened branches in the Ukraine, Lithuania, Latvia, Estonia, Germany, the Czech Republic, Slovakia and Hungary.

Raben Group's revenue skyrocketed from €5 million in 1991 to nearly €1 billion in 2012. The company now constitutes a European network of over 130 terminals and distribution centres with approximately 1 million sqm of warehouse space.

Raben Group offers a wide range of services – everything you need to sell your product in Emerging Europe, not just international distribution, as it was at the beginning, but also a national service delivering right to the customer's door. The company provides contract logistics and global multimodal distribution as well.

ForeCEEing the future

Raben Group has built the foundations of modern logistics in the CEE region. In the last two years, the company has concentrated on an integration process. In 2011, Raben Group acquired German Road Network and all Wincanton's operations in the Czech Republic, Hungary, Poland and Slovakia. Raben Group will now develop organically and further investments will aim at improving processes and reducing costs. We will concentrate on expanding and optimising our services to accomplish our vision "To Become a Leader Everywhere We Are".



Access to Markets

The Access to Markets Index is composed of two subindices, which are aggregated with equal weighting:

1. Access to Global Markets

(participation in regional trade blocs, policies impacting free trade, diversification of export mix, level of integration into the global value added chain).

2. Domestic Market Dynamics, mapped alongside the average rate of market growth over the last decade.

The Access to Markets Index is illustrated in *Graph 3*.

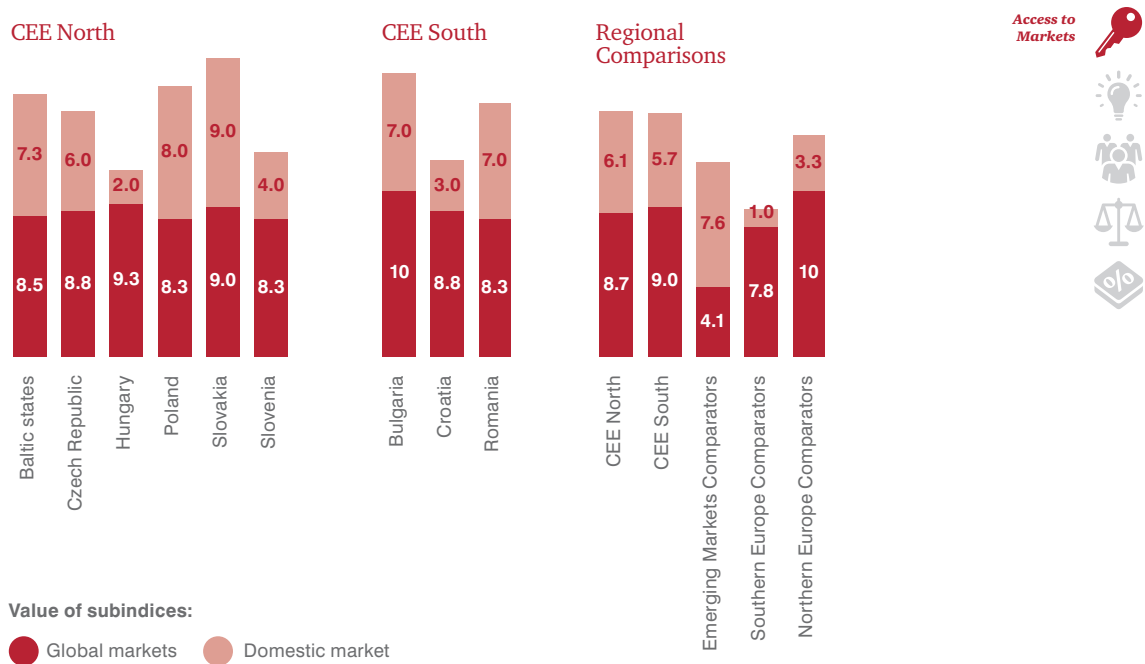
CEE access to global markets in the case of CEE North and CEE South subregions is well established. This is mainly accounted for by EU membership that secures a full and unrestricted connection with the world's single largest trading bloc.

The high level of CEE integration into the global value added chain as illustrated by the high level of FDI held, primarily by the multinational corporations, is worthy of note and a precursor of future development potential. Access to Global Markets is only slightly worse than in Northern Europe and better than in Southern Europe. The above profile provides the CEE countries with a major advantage over countries from the current Emerging Markets.

The top performing markets are Slovakia and Poland, while the weakest performers are Hungary, Croatia and Slovenia. On average, the CEE region offers an investment attractiveness, which is much higher than in Northern Europe, significantly better than recession-ridden South Europe and is only just surpassed by the Emerging Markets.

Altogether, the Access to Markets Index in the CEE region has a higher value than in all other discussed areas. In the CEE North subregion, it is particularly elevated in Slovakia and Poland, while in the CEE South subregion, Bulgaria is the performer. The weakest score is given to Hungary, Croatia and Slovenia.

Graph 3. Access to Markets Index



TESCO

Why CEE?

When the Central European countries were establishing themselves as market economies in the mid-1990s, consumers wanted more choice, quality and brands. The potential for long-term growth outstripped many other markets and we knew we could successfully bring our knowledge and experience of modern retail to the region. We entered Hungary in 1995, then Poland, Slovakia and the Czech Republic a year later.

Our CEE success story

Currently, we have almost 1,200 stores in our Central European markets, and all our businesses in the region are supported by a world-class distribution hub for general merchandising and clothing in Slovakia. With over 400 stores and nearly 30,000 employees serving more than 5 million customers every week, Poland is Tesco's largest CEE market.

In Poland, we also work with over 1,500 local suppliers to stock our stores. In fact, our Polish food has become so popular that we even stock it in more than 500 UK supermarkets, further benefitting our suppliers.

Online grocery home shopping is on offer in all our Central European businesses and we have just started 'Click and Collect', so that customers can order online and pick up the order in store. We know that we can use our Group skill and scale to design things once, get them right, and implement them many times across the region. For example, it took us several years to develop online grocery home shopping in the UK, but we have rolled it out across Central Europe in a matter of months.

While food lies at the heart of what we do, customers also appreciate the other products and services that are unique to Tesco. Our customers love our F+F clothing brand, and Tesco Mobile is available in three of our Central Europe markets, giving our customer great choice and value.

ForeCEEing the future

We know that we have to be responsive to our customers' needs and the changes in their lives. That is why we want to become Central Europe's first true multichannel retailer, and why we are always looking for opportunities to unlock the potential of operating across these four neighbouring markets.



Resources for Growth

The Resources for Growth Index is composed of three subindices, which are aggregated with equal weighting. The key assets are identified and analysed in the context of their potential to contribute to economic value-added.

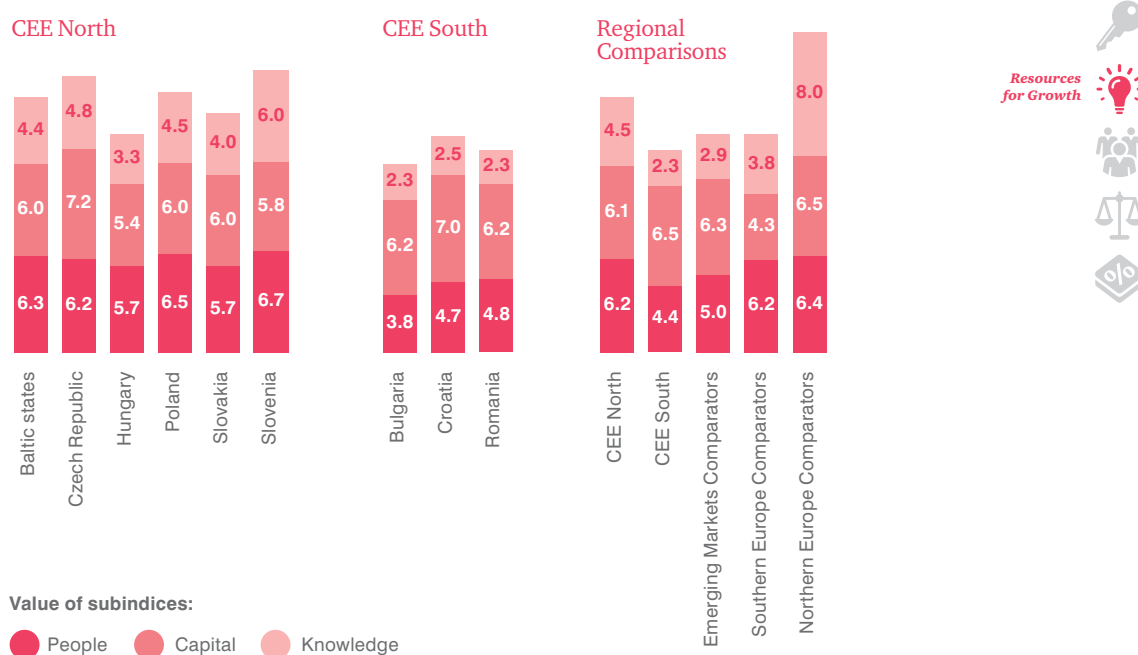
- 1. People, or human capital** (demographic potential and prospects, level of education, scope and standard of health services);
- 2. Capital** (saving and investment rates, development of the financial services market, access to credit);
- 3. Knowledge** (role of innovation in the economy; size and scope of R&D activities; levels of digital inclusion and availability of technical and science students).

The results are presented in *Graph 4*.

The development of human capital (People) is well advanced in the CEE North countries and is similar to the levels obtained in Northern and Southern Europe. Unfortunately, the human capital component is underdeveloped in the CEE South subregion, with the index value below the level observed in the compared Emerging Markets. The weakest point of the whole CEE region is characterised by unfavourable demographic trends, particularly the prospects of a rapidly ageing society and the ongoing hazard of a falling birth rate.

Education levels are quite satisfactory in CEE North countries but much weaker in the South. A similar remark can be made about the health status.

Graph 4. Resources for Growth Index



The highest values of the People subindex in the region are observed in Slovenia, followed by Poland, the Baltic states and the Czech Republic; the lowest ones are found in Bulgaria (with a forecasted fall in the population by 15% by 2030).

The availability of development capital in the CEE region is satisfactory, despite only modest saving rates, especially if compared with the developing economies of East Asia. This factor is, at least partly, compensated by high inflows of FDI, satisfactory development of the financial services sector (particularly the banking sector) and a relatively low cost of credit. The value of the Capital subindex in both CEE North and CEE South is similar to the values observed in Northern Europe and the Emerging Markets and much

higher than in Southern Europe, with a particularly high score recorded in the Czech Republic.

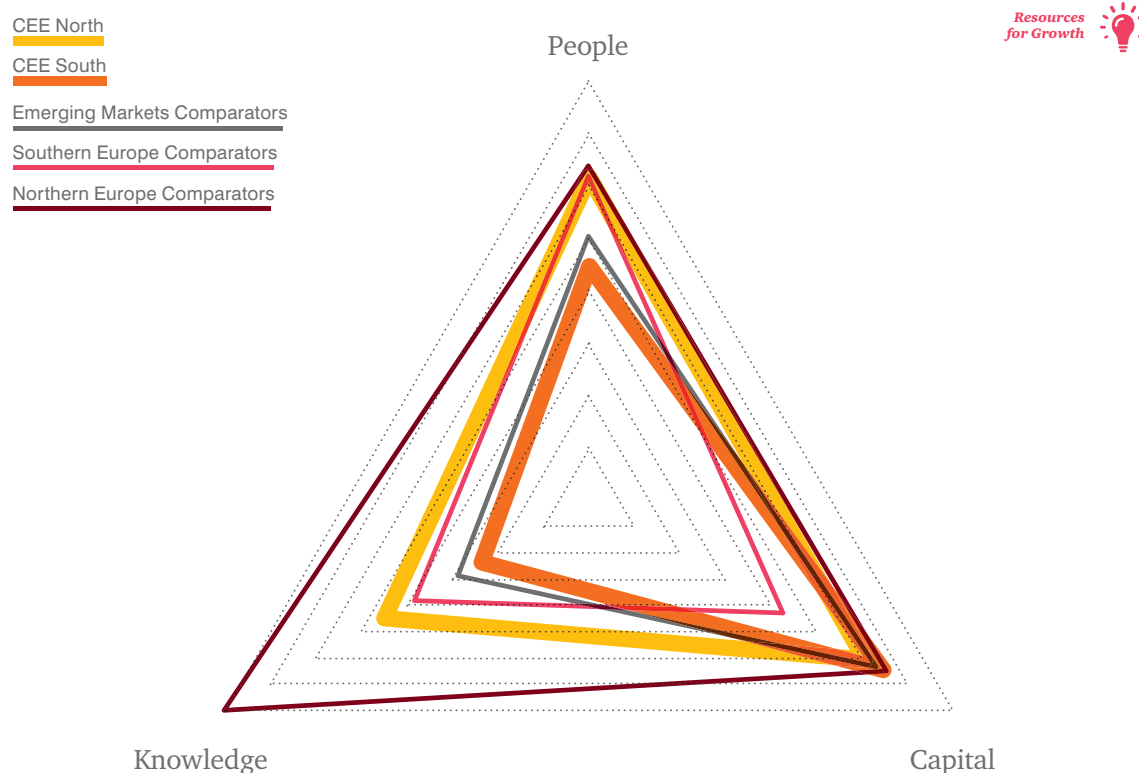
The Knowledge subindex flags up the biggest gap with established EU markets. While the average score recorded in the CEE North countries is only half of that in Northern Europe, it is better than in Southern Europe. The score of the CEE South subregion falls behind all compared regions. The best performer in the CEE region is Slovenia, followed by the Czech Republic; the worst ones are Bulgaria, Romania and Croatia.

The overall Resources for Growth Index in the CEE North subregion falls well behind Northern Europe and in the case of CEE South is also behind Southern Europe and the Emerging Markets.

The best scores in the CEE region are recorded in Slovenia, Czech Republic, Poland and the Baltic states.

The strengths and weaknesses of the CEE countries in the area of the Resources for Growth, relative to the other compared regions, are clearly presented in *Graph 5*. CEE North and CEE South outperform Southern Europe and match the other regions in the area of the Capital availability. In the area of People, CEE North matches its rivals, while CEE South does not keep up the pace together with the Emerging Markets. In the area of Knowledge, both CEE North and CEE South are significantly outperformed by Northern Europe.

Graph 5. Relative strengths and weaknesses of CEE countries determinants of the Resources for Growth Index



POLSKIBUS. COM

Why CEE?

While investigating the opportunities given by the Polish Government's privatisation of the state owned PKS companies (local public transport providers), Sir Brian Souter, a Scottish businessman, the co-founder and major shareholder of Stagecoach PLC, identified a gap on the intercity express public transport market. The Polish Government had invested heavily in the national road network and had a detailed programme for the future but there was no coherent national network of public transport operations, the quality of services provision was low and the sector – fragmented and underinvested.

Our CEE success story

With a bright red livery and distinctive branding, Polskibus.com was born in June 2011. The €400,000 Van Hool AstroMega and Altano vehicles with leather reclining seats, air-conditioning, wheel chair access, catering and toilet facilities, unlimited Wi-Fi access free of charge, experienced and well-trained drivers as well as the online booking system quickly convinced prospective passengers. With the motto: "Fast, Cheap and Comfortable", the company

has grown to serve 19 major Polish cities and 4 European capitals and within the first two years of operation over 3.5 million tickets were sold.

A recent survey of 14,000 of our customers produced a satisfaction rating of over 99%. With our coaches as our travelling billboards and our drivers as our ambassadors, we are now recognised not only as a good and reliable operator but also as a good employer, having created over 400 new jobs.

ForeCEEing the future

Two years after its formation and with over €30 million already invested, Polskibus.com now operates 68 vehicles with a further 25 new vehicles ordered for delivery before the end of 2013. Sir Brian Souter and Souter Holdings Poland have recently announced another €30 million investment in the development of the business in the very near future. We also plan to develop new products and services both within Poland and the surrounding countries.



Cost Competitiveness

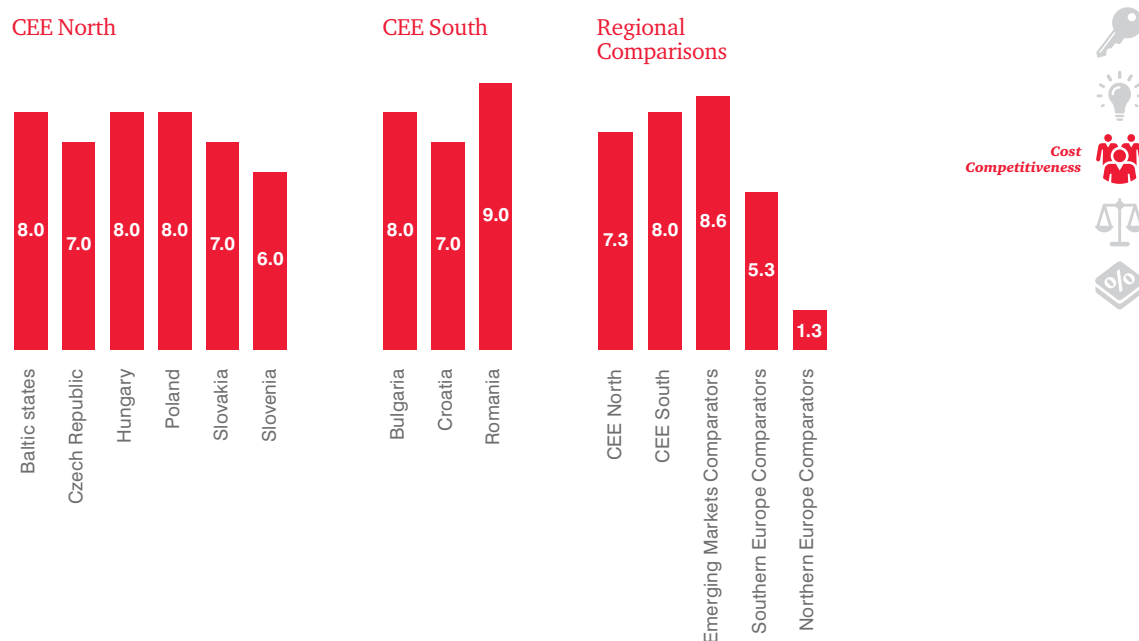
The Cost Competitiveness Index measures the ratio between the cost and the quality of labour or, in other words, the cost of acquiring a unit of human capital. It is a much more meaningful indicator of competitiveness than just the cost of labour, as the quality of labour may vary significantly among the countries.

According to economic theory, this ratio plays a crucial role in shaping out growth potential. The lower the cost per unit of the human capital, the higher the cost competitiveness of a country in the globalised world; the higher the country's attractiveness for investors seeking low production costs and eventually, the higher the growth potential.

The results are presented in *Graph 6*.

The value of the Cost Competitiveness Index in the CEE region is favourable, particularly if compared with Northern and Southern Europe. The index has a particularly high value in the CEE South subregion, almost matching the score for the Emerging Markets. In CEE North, the value is lower but also quite high, as the moderate cost of labour is paired with a decent quality of human capital. The best performer in the CEE region is Romania, followed by Bulgaria, Poland, Hungary and the Baltic states.

Graph 6. Cost Competitiveness Index



ROLLS -ROYCE

Why CEE?

Poland was extremely successful in its economic transformation at the beginning of the 1990s and has also been since the EU enlargement in 2004. The country is an undisputed leader in the region and has ambitions to become one of the most important countries on the continent. The large number of technical universities, with their tradition in graduating a significant number of well-educated and talented engineers each year, clearly differentiates Poland from other countries in this part of the continent. All that also puts the Polish economy in a solid position and a place-to-be for Rolls-Royce. As a result, over the years Poland has become a hub for Rolls-Royce's activity in Central and Eastern Europe.

Our CEE success story

Innovative solutions and the technological sophistication of products are common features that describe Rolls-Royce's involvement in the Polish market but just as Poland benefits from Rolls-Royce, the company makes direct use of the highly skilled Polish engineers. The company opened a service centre in the Port of Gdynia, which employs around 50 people.

That facility gives a boost for the overhaul and shipbuilding industry on the Polish coast. It also provides repair and maintenance services for Rolls-Royce energy equipment in the country. Recently, Rolls-Royce has opened the Engineering Services Centre in Kraków, which employs over 70 specialists in engineering design and supply chain management, mainly for the marine, energy and aviation industries. It is worth noting that both centres are managed by Polish engineers and technical staff.

ForeCEEing the future

We see that in Poland there is a common understanding that the country's future prosperity will depend on the development of the advanced technology sector and that a huge emphasis on innovative manufacturing can bring competitive advantages to the Polish economy. It is a further investment in this area that can create highly sustainable economic value and Rolls-Royce firmly shares this approach. The company's commitment to Poland is an important element of its growth strategy in Central & Eastern Europe, with clients present in all areas of its operations.



Growth Sustainability Index

The Growth Sustainability Index is composed of three subindices, aggregated with equal weightings:

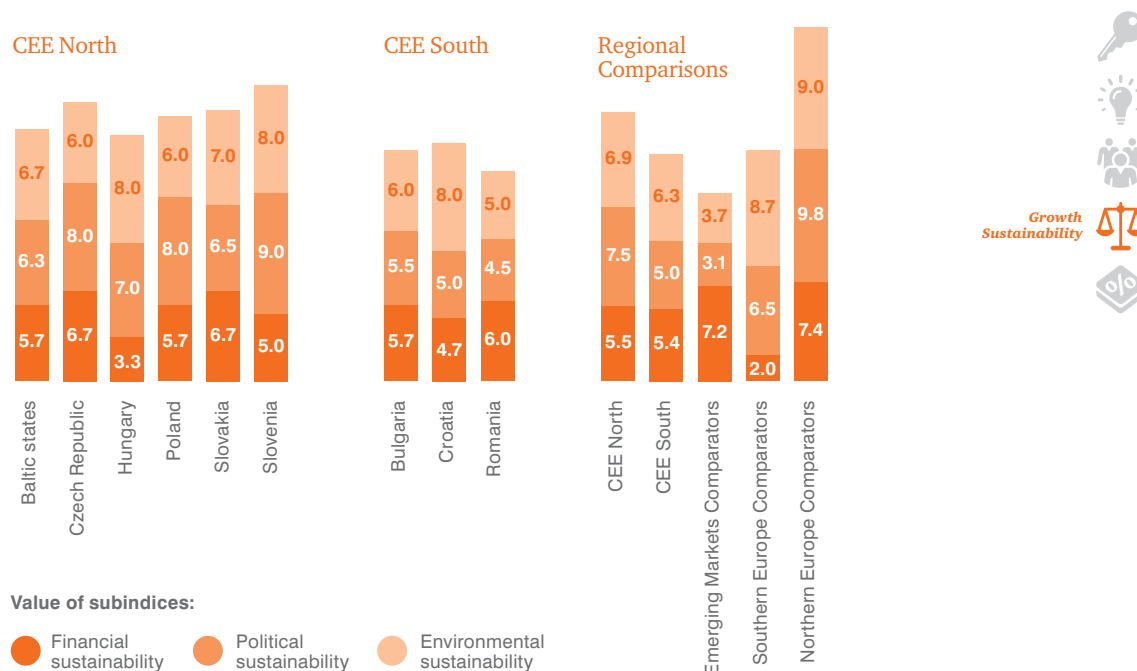
- 1. Financial Sustainability**
(level of government indebtedness, level of net foreign indebtedness, indicators of the stability of the banking sector).
- 2. Political Sustainability**
(assessment of political stability and political freedom).
- 3. Environmental Sustainability**,
approximated with carbon dioxide emissions per unit of GDP.

The results are presented in *Graph 7*.

The average level of Financial Sustainability, similar in both the CEE North and CEE South subregions, is left behind Northern Europe and the Emerging Markets (mainly because of a relatively high net foreign indebtedness), but favourably distinguishes itself from the debt-ridden Southern Europe. The best performers in the CEE region are the Czech Republic and Slovakia. Please note, that the banking sector looks reasonably stable in all the countries of the region, except for Slovenia.

The Political Stability of the CEE North subregion is pretty high, while in the CEE South countries the value of the Political Stability subindex is much lower (but still significantly higher than in the Emerging Market group). The best scores for Political Stability are reported for Slovenia, Poland and the Czech Republic.

Graph 7. Growth Sustainability Index



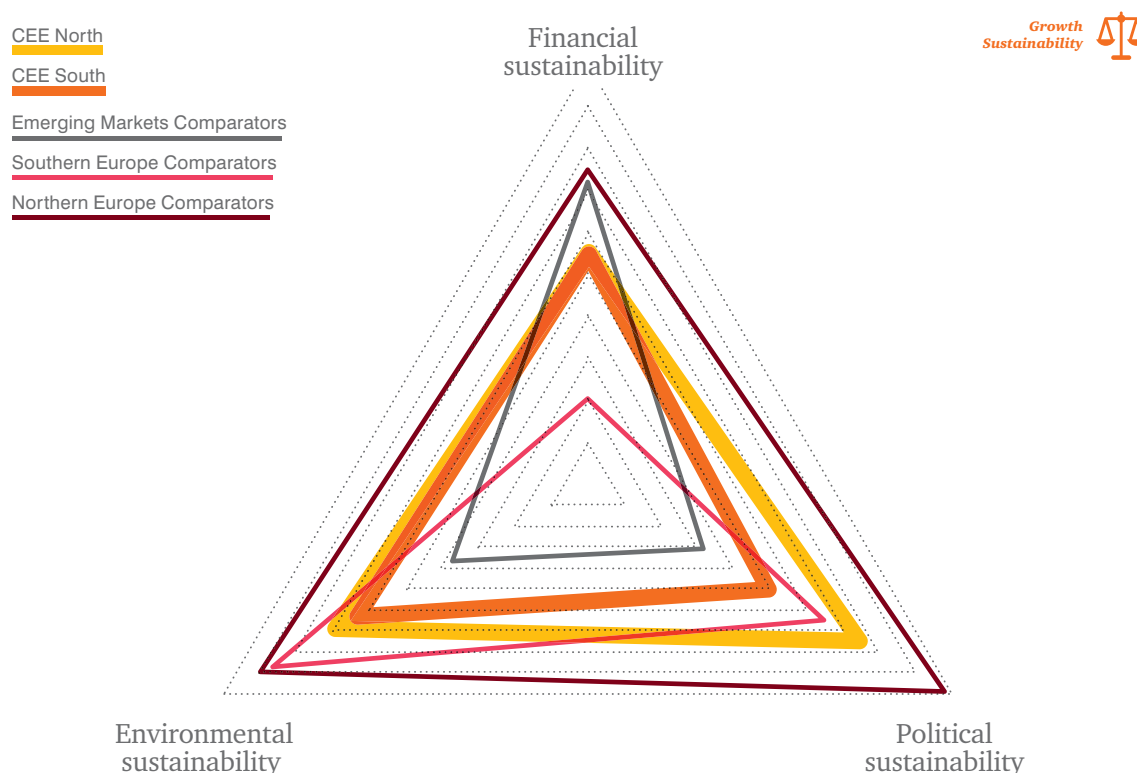
The Environmental Sustainability of growth in the CEE countries raises some concerns, particularly in the context of accepting the proposed radical climate policy of the EU. The value of the index in both the CEE North and CEE South subregions lags behind Northern Europe and Southern Europe, exceeding only the value for the Emerging Markets. The best performers are Slovenia, Hungary and Croatia.

Altogether, the Growth Sustainability Index in the CEE region shows a significantly lower value than in Northern Europe but higher than in Southern Europe and in the Emerging Markets. The score for the CEE North subregion is higher than for CEE South and the best performers are Slovenia and the Czech Republic.

The strengths and weaknesses of the CEE countries in the area of the Growth Sustainability, relative to other compared regions, are presented in *Graph 8*. In the area of the Financial Sustainability both CEE North and CEE South show decent results, lagging behind Northern Europe and the Emerging Markets but greatly outperforming Southern Europe.

In the areas of Political Sustainability and Environmental Sustainability, the indices for CEE North show moderately worse results than in the case of Northern Europe, match the score of Southern Europe and greatly outperform the Emerging Markets. The results for CEE South are considerably worse in the area of Political Sustainability but better than in the Emerging Markets.

Graph 8. Relative strengths and weaknesses of CEE countries: determinants of the Growth Sustainability Index



ASTRA -ZENECA

Why CEE?

Poland is an important market for AstraZeneca and a crucial place to conduct its R&D activities. Currently, the value of the Polish clinical research market exceeds €200 million and the country remains the biggest market in the region (including the Commonwealth of Independent States countries), hosting 12% of the research conducted in the region.

Key motivators for clinical research in Poland are the population, effective patient recruitment, the high quality of research conducted and a good infrastructure. The researchers' and medical staffs experience and the reliability of the data gathered and processed is also an important element.

Our CEE success story

Poland is home to one of the biggest AstraZeneca clinical departments, which allows doctors and patients to participate in numerous international research programmes and gives access to the latest medical discoveries. The Polish Clinical Research Division is highly active within the Clinical Research Region Central-Eastern Europe, Middle-East and Africa framework.

It collaborates with around 200 different centres (clinics, hospital departments, community health facilities and general practitioners) across the country, conducting research studies involving over 2,000 patients every year.

In 2011, AstraZeneca set up a new team in Poland, which is involved in the planning and coordination process of the global clinical research. The Warsaw Clinical Research Operations Centre is one of five such AstraZeneca units in the world. It coordinates and oversees proceedings of clinical research conducted around the world.

ForeCEEing the future

AstraZeneca intends to continue to develop its R&D activities in Poland focusing on cooperation with government institutions and academic centres. We believe that an effective collaboration between science and the industry as well as transferring knowledge from R&D to industry is an important element of further industrial and economic growth in developed economies.



Business Environment Index

The Business Environment Index comprises an assessment of Government Institutions, the Tax System, Infrastructure and the Transparency of the Economy.

The Business Environment Index is composed of four subindices, aggregated with equal weighting, each of them covering an important area of the business environment:

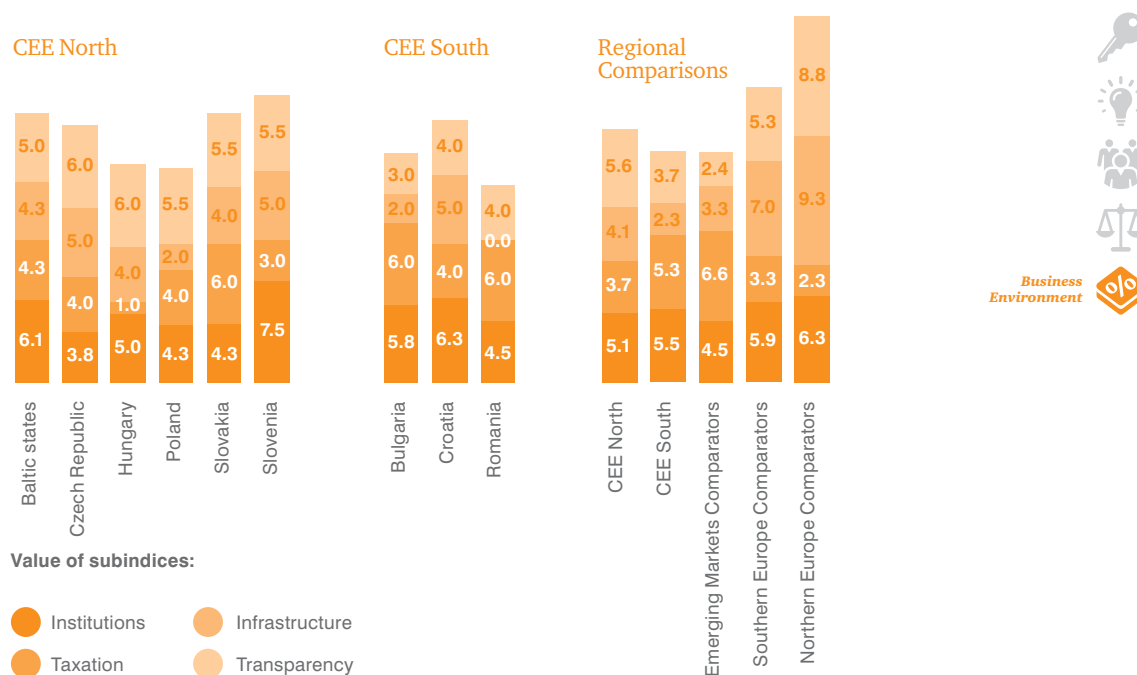
- 1. Government Institutions** (efficiency of the public sector and persistence of red tape);
- 2. Taxation** (overall effective level of taxation in the economy);
- 3. Infrastructure** (average development level estimated with the use of the WEF index);

- 4. Transparency of the Economy** (adversely influenced by corruption and grey market activities).

The results are presented in the *Graph 9*.

Government Institutions – public sector reform is one of the biggest development challenges in the region. This is due to a mix of problems inherited from the pre-transition past coupled with shortcomings in the transition process in the area of institutional development. The Government Institutions subindex in both the CEE North and CEE South countries has a relatively low value, falling well behind Northern and Southern Europe and only moderately higher than in the Emerging Markets group. The best performer in the CEE region is Slovenia.

Graph 9. Business Environment Index



The situation in the area of Taxation is different in the two CEE subregions. The CEE South score looks quite favourable and approaches the one of Emerging Markets, while outperforming all the other groups of countries. Overall, Taxation in CEE North is quite high, mainly due to the developed institutions of the welfare state, albeit still lower than in Northern and Southern Europe. The best performers in this area are Bulgaria, Romania and Slovakia.

Infrastructure is much better developed in CEE North than in the CEE South subregion. Unfortunately, in both cases it is left far behind Northern and Southern Europe and, in the case of CEE South, also behind the Emerging Markets group. The best score in this area is recorded by the Czech Republic, Slovenia, and Croatia.

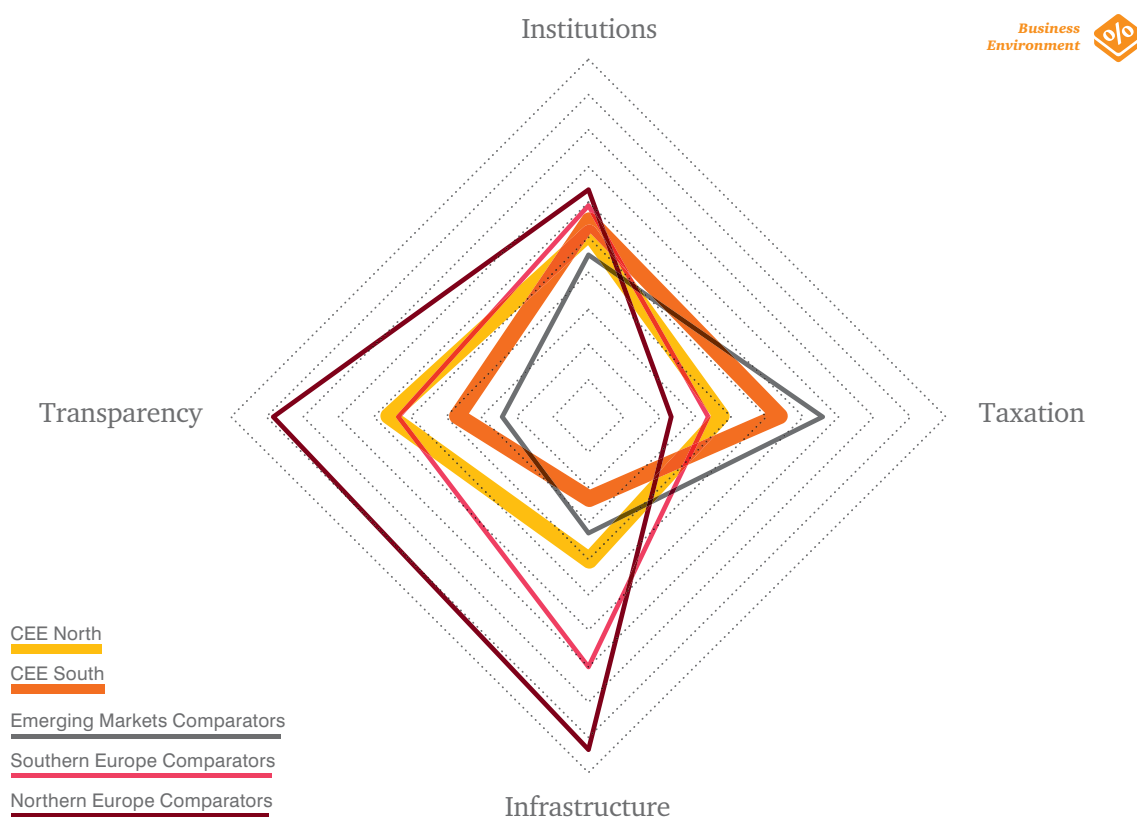
The lack of sufficient Transparency of the Economy is a big challenge in the CEE South subregion, particularly due to the high level of corruption and a widespread shadow economy. The index value for the CEE North subregion, albeit significantly lower than in the case of Northern Europe, looks much better than in all the other discussed regions, including Southern Europe. The best performers in this area are the Czech Republic and Hungary, closely followed by Slovakia, Slovenia and Poland.

The overall Business Environment Index value in the whole CEE region is far behind the levels of Northern and Southern Europe and exceeds the Emerging Markets only in the case of CEE North. The best scores in the CEE region are reported in Slovenia, Slovakia and Baltic states.

The strengths and weaknesses of the CEE countries in the area of Business Environment, relative to other discussed regions, are presented in *Graph 10*.

In the area of Institutions, the CEE region falls behind Northern and Southern Europe. It outperforms both regions in the area of Taxation (particularly the CEE South countries), although it does not match the Emerging Markets in this respect. Infrastructure is a weak point of the CEE region, far behind Northern and Southern Europe, and in the case of CEE South behind the Emerging Markets. Finally, the CEE region is also outperformed by Northern Europe in the area of the Transparency.

Graph 10. Relative strengths and weaknesses of CEE countries: determinants of the Business Environment Index



BUPA

Why CEE?

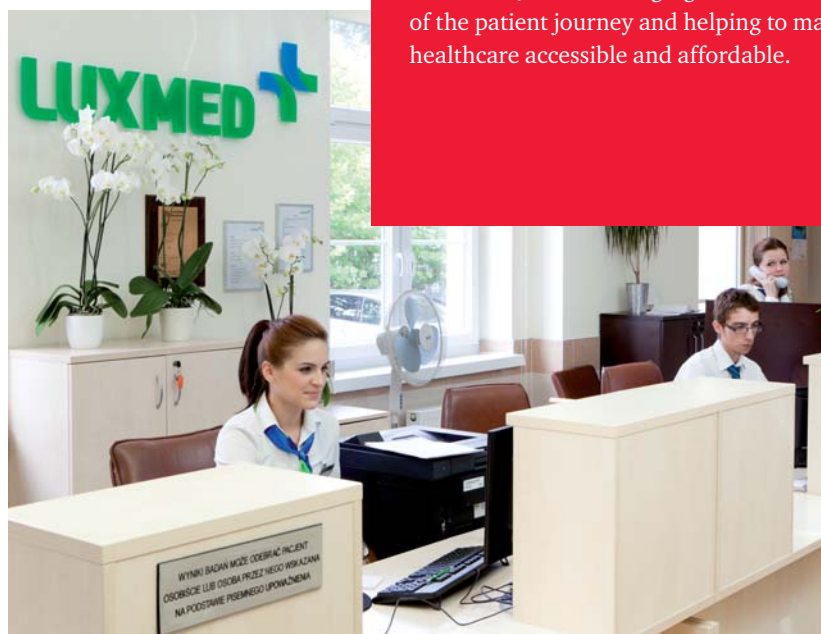
For Bupa, Poland is one of the most attractive markets in Central and Eastern Europe. The country's private healthcare market is developing rapidly – the medical subscriptions sector grew over 20% per annum between 2007 and 2011. Within that same period, private medical insurance was the fastest growing source of healthcare funding at an annual growth of 30%. On top of that, the private healthcare market is forecast to rise at 10% a year until 2016 with revenues set to maintain a double-digit increase for the next five years.

ForeCEEing the future

Bupa is constantly seeking opportunities to enter new markets, where we can offer a real value to our customers, generate a good financial return and benefit the entire Bupa Group. We are currently focused on working with LUX MED's management to ensure a smooth integration of the business. As an international healthcare group, with a constant revenue growth for over a decade, we also have the financial resources to invest in LUX MED to ensure a long-term development. We want to use our international expertise in healthcare to benefit existing and new customers and the entire Polish healthcare system.

Our CEE success story

In 2013, we acquired LUX MED, Poland's leader on the medical subscription market, which also has an extensive footprint in provision. We think that it is a great business, with a strong position on the market, which will provide us with an excellent platform for future growth. We know from our operations in Europe that there are significant advantages with this model, such as bringing better oversight of the patient journey and helping to make healthcare accessible and affordable.



Overall Assessment

The overall assessment of growth potential in the CEE region should be based on the relative strengths and weaknesses in the five areas influencing the countries' investment attractiveness. The most general picture is shown in *Graph 11*, which presents the value of the five indices (Access to Markets Index, Resources for Growth Index, Cost Competitiveness Index, Growth Sustainability Index, Business Environment Index) for the discussed regions.

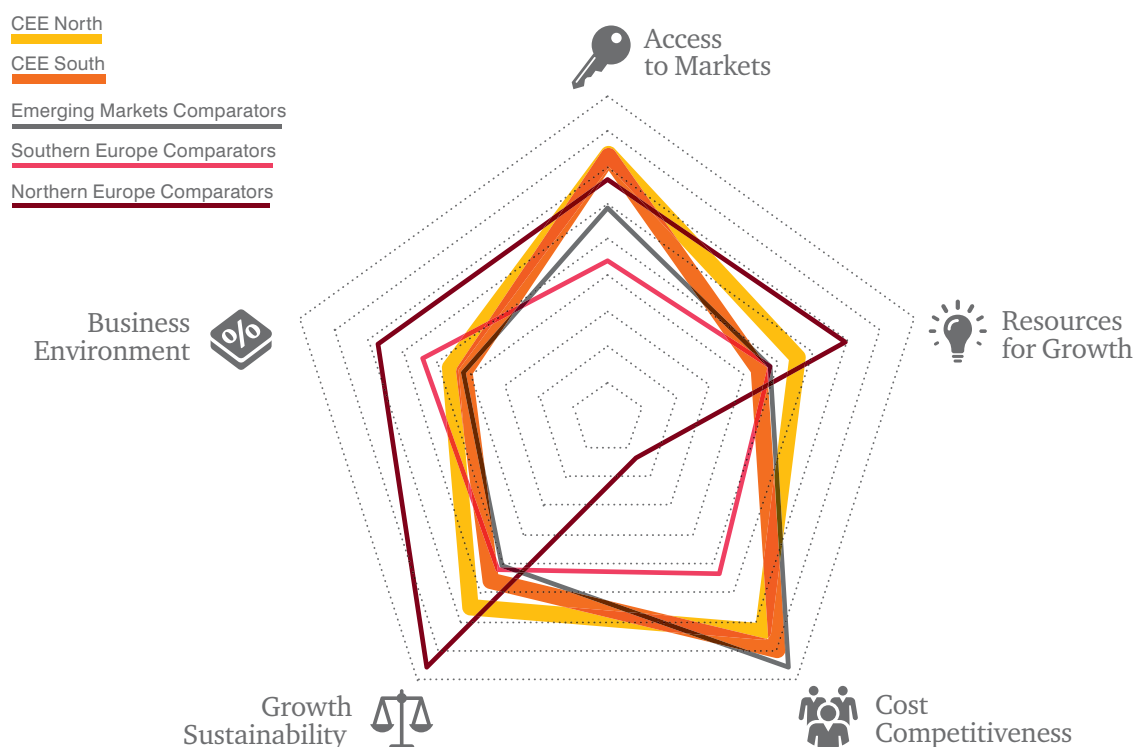
According to the information included in the indices:

- Access to Markets is a valuable asset of the CEE countries which positively distinguishes them from the Emerging Markets and Southern Europe.
- Resources for Growth are somehow limited, particularly in the CEE South subregion. In the CEE North subregion the availability of resources for growth exceeds the other regions except for Northern Europe.
- Cost Competitiveness in the CEE region greatly outperforms Northern and Southern Europe and, after taking into consideration the quality of labour, matches the attractiveness of the Emerging Markets.

- Growth Sustainability in the CEE region looks more solid than in the Emerging Markets and Southern Europe but the index level falls short of the level recorded in Northern Europe.
- In the area of Business Environment, the CEE region is outperformed by Northern and Southern Europe.

A suggested area for policy development is that the CEE countries should concentrate their efforts on improving the business environment and securing their growth stability. Improvements in these areas do not require heavy costs and can be easily translated into a large increase in investment attractiveness.

Graph 11. Relative strengths and weaknesses of CEE countries: determinants of the Growth Conditions



ATKINS

Why CEE?

Atkins has been operating in Poland since 1991. Our attraction to the country was the obvious need for infrastructure improvements for which pre-accession funding was made available from the European Union prior to Poland's entry to the EU. We believed that Atkins' capability and experience was a perfect match for the infrastructure works required.

Our CEE success story

At the start of the company's presence in Poland we focused on the highways network improvements where we quickly established a strong position in both the public and private sectors. Over the years, Atkins Polska has been involved in every major highway built under the Private Public Partnership (PPP). We have conducted major feasibility studies into upgrades of railway lines in the country, provided consultancy support to Tesco, managed and designed upgrades and new petrol stations and retail outlets for Shell, designed and project managed factory facilities for Technicolor as well as implemented a range of other design and consultancy assignments for government agencies and public bodies.

A new Liquefied Natural Gas Regasification Terminal in Świnoujście, in the north-west of the country, the first such a facility in Central and Eastern Europe, the strategically important A1 and A2 motorways and the Environmental Impact Assessment element of a feasibility study into the first High Speed Rail system planned for Poland are our current 'flagship' projects.

ForeCEEing the future

The need for significant infrastructure improvement remains as the Polish population expectations regarding the quality of life and quality of infrastructure are growing. The next EU funding framework will fuel more future projects. That coupled with our talented and highly motivated workforce and massive market opportunities infrastructure, water management, nuclear, thermal power generation and shale gas is a perfect recipe for success. And these opportunities are not confined to Poland but the country is an excellent platform to broaden our activities in the region.



Overall Index of Growth Conditions

It is difficult to construct an aggregated index that describes the growth potential of the CEE countries (Overall Growth Conditions Index), as the areas that influence it may have different levels of importance for an investor considering a specific type of business. Therefore, it is practically impossible to choose a set of weightings which can be credibly applied.

We have, therefore, decided to illustrate how the overall scorecard results change depending on the specific preferences of an investor (weightings applied to various indices). Please note that we have plugged in a specific software tool which enables the selection of the relevant weightings for specific users, thus enabling them to find the optimal solution for their specific needs.

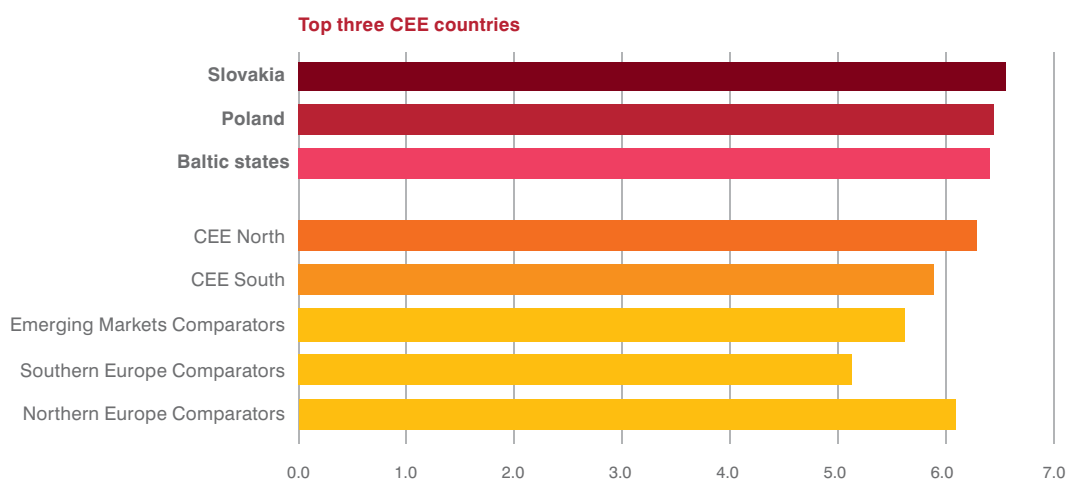
Example 1: Equal weightings (no specific preferences)

In this example, we assume that the investor did not express any specific preference, therefore the weightings applied to all the indices are equal (20%). The scorecard is presented in *Graph 12*:

Scorecard Outcome:

- The top three CEE countries in the context of Growth Conditions are: Slovakia, Poland and the Czech Republic.
- The CEE North subregion outperforms all the other regions, CEE South outperforms all the regions except Northern Europe.

Graph 12. Example 1: Overall Growth Conditions: no specific preference



Example 2: Low cost preference

In this example, we assume that the investor places 50% preference to low production costs, the weightings applied to all the other indices are equal (12.5%).

The scorecard is presented in *Graph 13*:

Scorecard Outcome:

- The top three CEE countries with respect to Growth Conditions are: Romania, Poland and Bulgaria.
- The CEE North and South regions greatly outperform Northern and Southern Europe and fall behind the Emerging Markets.

Example 3: Access to global markets

In this example, we assume that the investor prioritises Access to Global Markets as the most relevant index (no credit given to the domestic market dynamics); the weightings applied to all five indices are equal (20%).

The resulting scorecard is presented in *Graph 14*:

Scorecard outcome:

- The top three CEE countries with respect to Growth Conditions are: the Czech Republic, Slovakia, and Poland.
- The CEE North and South regions outperform all the other regions except Northern Europe.

Example 4: Dynamics of local market preference

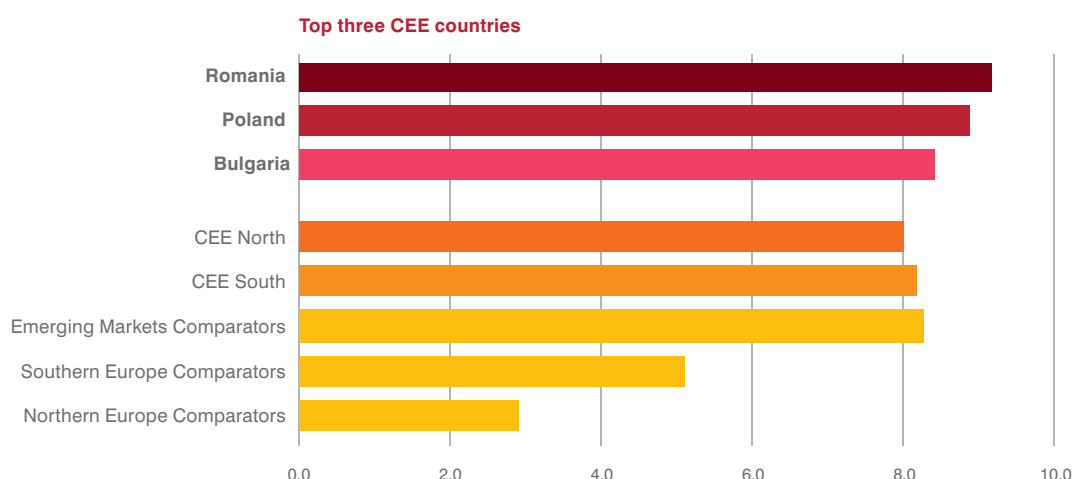
In this example, we assume that the investor takes into account only the local market dynamics component in the Access to Markets Index (no credit given to the access to global markets); the weightings applied to all the other indices are equal (20%).

The resulting scorecard is presented in the *Graph 15*:

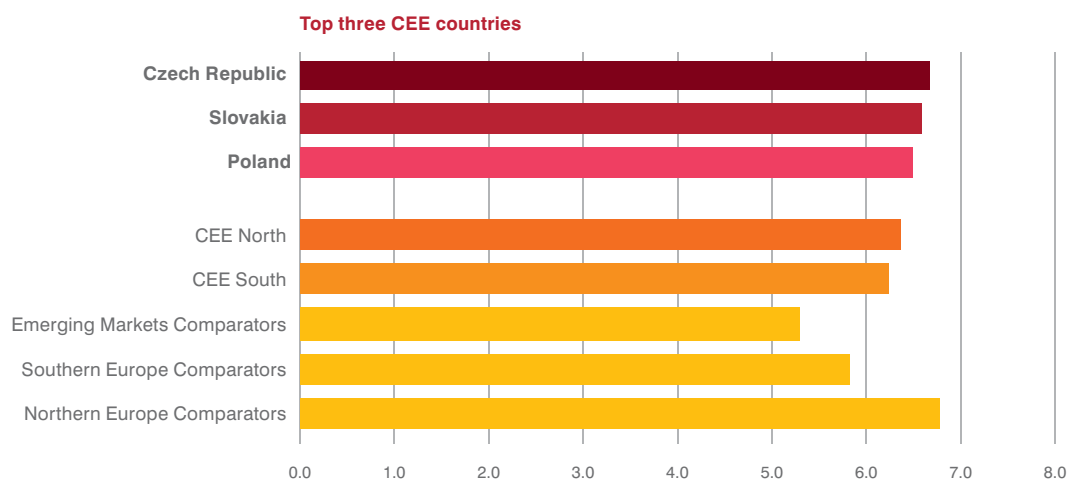
Scorecard Outcome:

- The top three CEE countries with respect to Growth Conditions are: Slovakia, Poland and the Baltic states.
- The CEE North subregion outperforms all the other regions (Emerging Markets only slightly) and CEE South outperforms all the regions but the Emerging Markets.

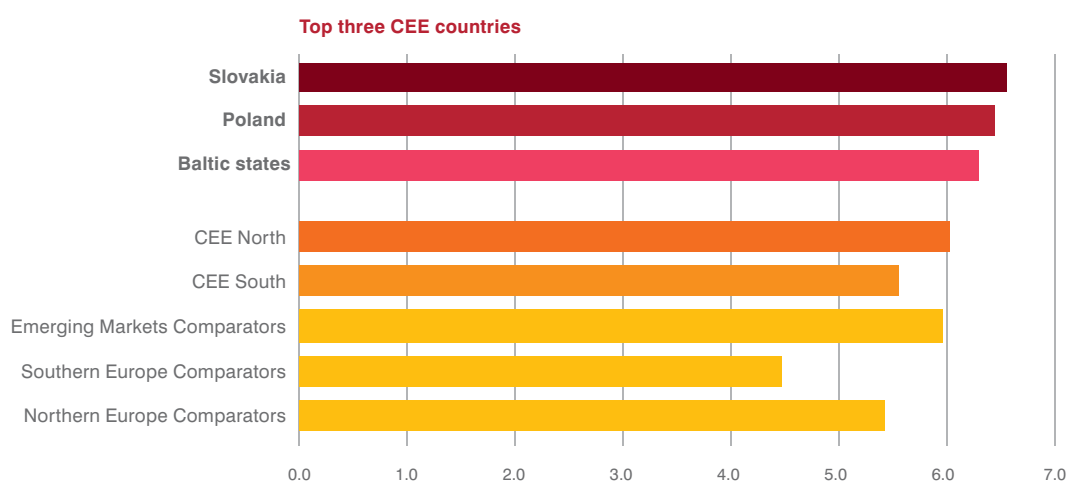
Graph 13. Example 2: Overall Growth Conditions: low cost preference



Graph 14. Example 3: Overall Growth Conditions: access to global markets preference



Graph 15. Example 4: Overall Growth Conditions: dynamics of local market preference



Why CEE?

HSBC has been operating in Poland since 1990. Initially, as HSBC Investment Services, and since 2004 as HSBC Bank Polska, we have acted as an adviser and lead manager in over 40 transactions with a total value of €5 billion. In 1997 we began our business in the Czech Republic. Today, in both markets, HSBC is an established provider of financial services, offering a range of wholesale banking services for corporate and institutional customers.

Our CEE success story

Central and Eastern Europe is a developing market with a growing international connectivity and a lot of opportunities for business development. With a constant change in the shape of the global economy, we believe that Poland and the Czech Republic have significant strengths necessary to take advantage of these trends. This view is backed up by our regular experience with non-CEE companies from different parts of the world being interested in local opportunities and with the success of CEE businesses in realising growth in exports also to faster growing regions outside of the EU.

ForeCEEing the future

In a short-term perspective, Poland and the Czech Republic may face some short-term headwinds due to the ongoing uncertainty in the euro zone, which is CEE's key trading partner, as well as the growing concerns about the development of emerging markets.

However, the future is set to be bright for both these economies. HSBC's economists recognise them as two of the key 'Economies of Tomorrow', with Poland ranked 25th and the Czech Republic ranked 49th in the 2050 Economic League Table.



Growth Conditions and the Size of the Economy

Apart from the conditions for growth (measured by the five indices: Access to Markets, Resources for Growth, Cost Competitiveness, Growth Sustainability, Business Environment Index) investors, depending on their preferences, may take into account the size and scale of the economy in the CEE countries.

This aspect is particularly important if a relatively large investment aimed at exploiting the domestic market is considered, or if the availability of a relatively large supply of appropriately

skilled labour is important for the success of the investment project.

On the other hand, these factors may prove to be irrelevant if a project is of a reduced scale and the market size/availability of the labour is not seen as a problem. We have paired the Growth Conditions component of the scorecard with the overall size of the economy to obtain a full picture of the investment attractiveness of CEE countries.

The comparison is presented in *Graph 16*. The size of the population is mapped against the Overall Growth Conditions (calculated with no specific investor's preference, see Example 1). The size of the bubble corresponds to the size of the market (GDP).

As the graph clearly shows, when the Overall Growth Conditions are calculated with no specific investor preference and mapped against specific country economies, Slovakia, Poland, the Baltic

States and the Czech Republic offer the best development prospects. However, if the size matters, Poland clearly outperforms Slovakia and the Baltic states and, to some degree, also the Czech Republic.

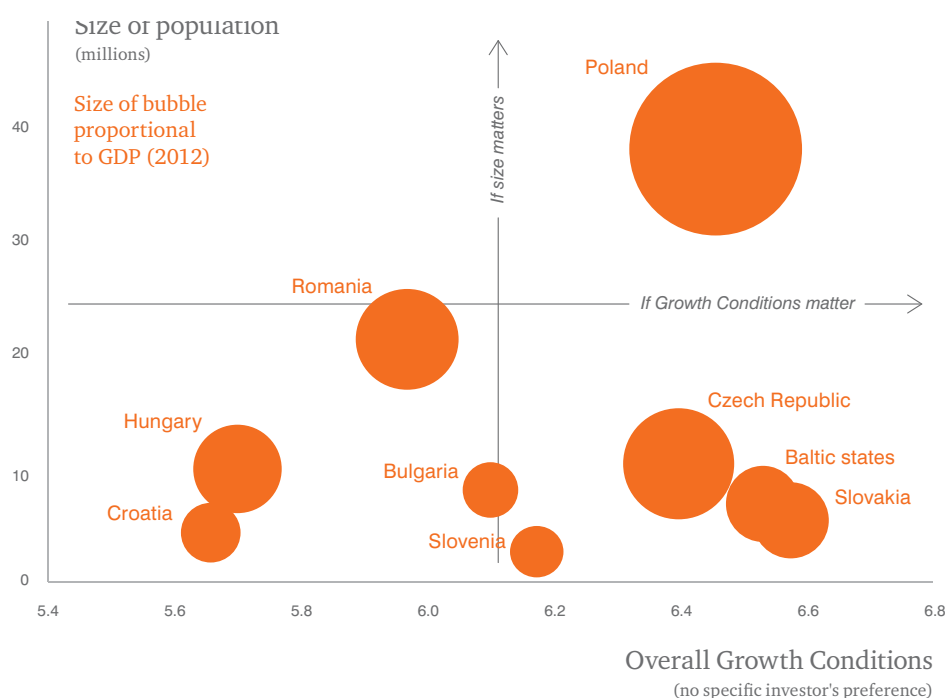
Obviously, the results change to some degree if other weightings are used for the calculation of the Overall Growth Conditions.

Scorecard Comparison Outcome:

- The top four markets with regard to Growth Conditions and Size of the Economy are the Czech Republic, Slovakia, Poland and the Baltic States.
- If size matters, Poland clearly outperforms the Czech Republic, Slovakia and the Baltic States.

The results change to some degree if other weightings are used for the calculation of Overall Growth Conditions.

Graph 16. Growth Conditions versus market size in CEE countries



Source: PwC, IMF

PROVIDENT

Why CEE?

In 1997, when Provident arrived in Poland, quick cash loans which the company offered were not available. The market research we had done prior to our entry showed there was a high demand for such products in the country. We saw prospects for a long-term growth of our business due to Poland's well-established and stable economic environment and rapidly -developing economy.

Our CEE success story

After 16 years of Provident's presence in Poland, we operate some 80 branches and 160 offices across the country. We have provided 10 million loans to over 820,000 customers and 9 out of 10 claim to be satisfied with our services. Our success is based on a close and long-term relationship with our customers. We respond to their needs instantly and adapt our products to serve them better. This year we have expanded our offer. Currently, we also provide loans to micro firms, our loyal customers can now take a loan up to €2,400 and all loans can be paid off within a longer period – up to 90 weeks.

Provident Polska is a part of International Personal Finance (IPF), listed on the London Stock Exchange as one of the 250 largest companies (FTSE-250). In March 2013, the company started a secondary listing on the Warsaw Stock Exchange. We believe that not only will it help attract new shareholders to invest in the Group which is delivering growth in all our markets in Europe and Mexico but also reflects our confidence in our Polish home credit business.

ForeCEEing the future

With our head office in the UK, we operate in seven countries: Poland, the Czech Republic, Slovakia, Hungary, Romania and Mexico. In July 2013, we started our quick cash loan business in Lithuania and are also planning to enter Bulgaria by the end of the year. We are constantly looking at other neighbouring markets and systematically developing the range of our products. We focus on emerging markets where demand for credit is rising and customers are relatively underserved.



Methodological Annex

Table 1. Construction of indices

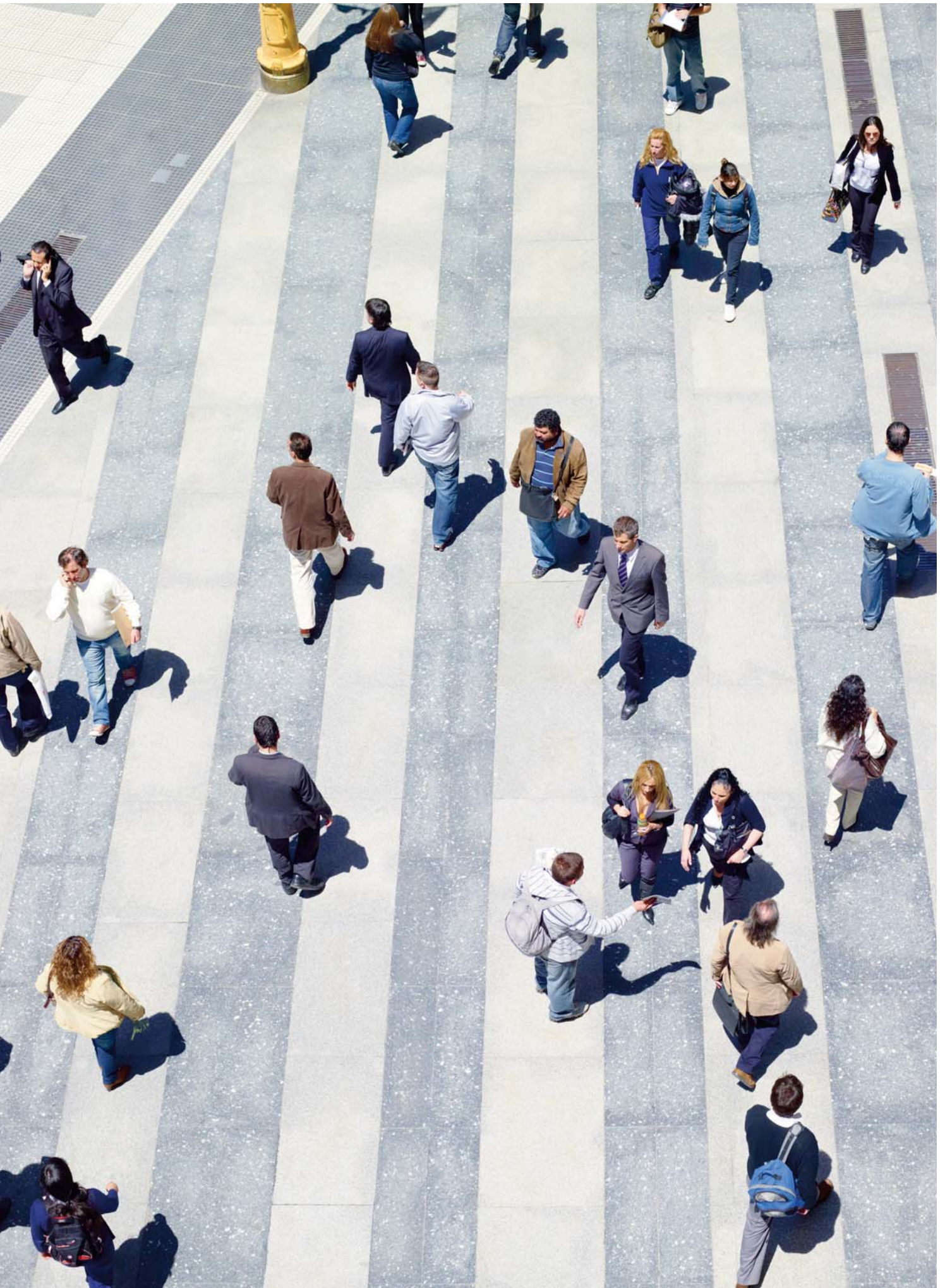
Index	Share of subindices	Description	Valuation of original measure	Source of original data	Comments
ACCESS TO MARKETS INDEX					
Global Markets	50%				
Access to Global Markets		The index is based on the countries' membership in international organisations: EU, NAFTA, ASEAN, WTO. The membership in given organisations provides the following values to the original measure: EU=10, NAFTA=8, US/EU Free Trade Agreement=6, Regional Free Trade Agreement=4, WTO membership=2	The higher the better	PwC analysis	
Trade Freedom		The index is based on the Trade Freedom measure of Heritage Foundation. (2013 data)	The higher the better	Heritage Foundation	
FDI Stock		The index is based on the stock of Foreign Direct Investment in the country as the percent of GDP in 2012.	The higher the better	UNCTAD data for FDI and IMF data for GDP	
Export Diversity		The HHI (Herfindahl-Hirschman Index) of export concentration based on the OECD data on Trade in Value Added. The OECD data on Trade in Value Added measure the estimated actual value of exported goods in value added of destination countries. The measure we use is a proxy for dependence on the countries' exports on the total demand in a limited number of the largest trade partners.	The lower value the better	OECD data on Trade in Value in Value Added	Standard trade data were used for: Croatia and Ukraine
Local market	50%				
Local market potential		The index is based on the average GDP growth rate for the period between 2003 and 2012. It illustrates the long-term growth potential of the local market.	The higher the better	IMF	
RESOURCES FOR GROWTH INDEX					
People	33%				
Population		The index based on the total percentage growth of the population between 2010 and 2030, according to the UN forecast.	The higher growth rate the better	UN demographic forecast	
Old Age Dependency		The index based on the forecasted share of 65+ persons in the total population in 2030.	The lower share the better	UN demographic forecast	

Index	Share of subindices	Description	Valuation of original measure	Source of original data	Comments
PISA mathematics		The index based on the PISA 2009 results for mathematics. PISA is an international study run by the OECD every 3 years. It evaluates education systems worldwide by assessing 15-year-olds' competencies in the key subjects: reading, mathematics and science.	The higher result the better	OECD	The value have been assumed based on other results for: South Africa and Ukraine
Total Students		The index based on the share of students participating in tertiary education in the country's total population.	The higher share the better	UNESCO institute for statistics	The shares have been estimated based on other results/sources for: South Africa, Russia, Thailand Italy and Germany
Secondary Enrollmen		The index based on the share of students participating in secondary education in the country's total population.	The higher share the better	UNESCO institute for statistics	The shares have been estimated based on other results/sources for Brazil and Greece.
Infant Mortality		The index based on the infant mortality rate data as published by United Nations Statistics Division. (2011 data)	The lower the better	UN Statistics Division	
Capital	33%				
Saving rate		The index is based on the share of savings in the countries' GDP. (2012 data)	The higher share the better	IMF	
Investments		The index is based on the share of investment in countries' GDP. (2012 data)	The higher share the better	IMF	
Stock Exchange		The index is based on the relation of value of traded shares to the countries' GDP. (2010 data)	The higher share the better	CIA World Factbook for the value of traded shares and IMF for GDP	The maximum value of the index has been given to the countries, where the value of shares raded has been at least equal to the average of the Northern European countries.
Lending Rate		The index is based on the Commercial banks average lending rate. (2012 data)	The lower the better	CIA World Factbook	
Credit to GDP		The index is based on the relation of the stock of domestic credit to the countries' GDP. It is assumed that the average relation (around 100% of GDP) is the optimal one. Too low a value of domestic credit means an underdevelopment of financial markets. Too high a value is equivalent of an overleveraged economy. Hence, the final measure is the distance to the 100% value. (2010 data)	The lower the better	CIA World Factbook or the value of domestic credit and the IMF for GDP	

Index	Share of subindices	Description	Valuation of original measure	Source of original data	Comments
Knowledge		33%			
WEF Competitiveness Index		The index is based on the Global Competitiveness Index issued annually by the World Economic Forum. The index is based on a wide set of data and ranges from 1 (the worst result) to 7 (the best result). (2012-2013 data)	The higher the better	World Economic Forum	
Digital inclusion Index		The index is based on the share of internet users in the total population. (2011 data)	The higher the better	International Telecommunication Union	
R&D expenditures		The index is based on the OECD /Eurostat data	The higher the better	OECD and Eurostat	The value has been assumed based on other results for: Thailand and Ukraine
Technical Students		The index based on the share of students of engineering and sciences in the country's total population.	The higher share the better	UNESCO Institute for Statistics	The shares have been estimated based on other results/sources for: South Africa, Russia, Thailand, Italy and Germany
COST COMPETITIVENESS INDEX					
Cost of human capital		The index is based on the relation of the costs of labour (measured by GDP per capita) to the value of the human capital. The value of the human capital is approximated by the value of the Resources for Growth index, subindex: People (see above) (2012 data for GDP per capita)	The lower the better	PwC analysis and IMF data	
GROWTH SUSTAINABILITY INDEX					
Financial Sustain-ability		33%			
Public Debt		The index is based on the relation of Public Debt to countries' GDP. (2012 data)	The lower the better	IMF	
Net Foreign Debt		The index is based on the relation of the Net International Investment Position of the country to its GDP. (2012 data)	The lower the better	PwC calculations based on IMF data	The value of index has been set to 10 for all countries with net investment position higher than "0" (net lenders to the world)
Loans to Deposits		The index is based on the relation of outstanding loans to outstanding deposits in the countries' commercial banking sector. (2011 data)	The lower the better	IMF	

Index	Share of subindices	Description	Valuation of original measure	Source of original data	Comments
Political Sustain-ability	33%				
Political stability		The index is based on the value of the Economist Political Instability Index. (2009 data)	The lower the better	The Economist Intelligence Unit	
Environ-mental Sustain-ability	33%				
CO ₂ emissions		The index is based on the number of kilograms of CO ₂ emission per 1 USD of GDP measured at Purchasing Power Parity. Average of 2005-2009 data.	The lower the better	UN Statistics Division	
BUSINESS ENVIRONMENT INDEX					
Institutions	25%				
Starting Business		The index based on the ease of starting a business measures used by the World Bank in the annual Doing Business ranking. The average of average deviations from the world mean of individual indicators is used. These are: number of procedures to start a business, time, cost, minimal capital requirements. (2012 data)	The lower value the better	World Bank Doing Business Database	
Getting Credit		The index based on ease of getting credit measures used by the World Bank in the annual Doing Business ranking. The average of average deviations from the world mean of individual indicators is used. These are: strength of legal right index, depth of credit information index, public registry coverage, private bureau coverage. (2012 data)	The higher the better	World Bank Doing Business Database	
Paying Taxes		The index based on the ease of paying taxes measures used by the World Bank in the annual Doing Business ranking. The average of average deviations from the world mean of individual indicators is used. These are: number of payments per year, time spent on tax procedures, size of profit tax, labour tax contributions, other taxes, total tax rate. (2012 data)	The lower the better	World Bank Doing Business Database	
Enforcing Contracts		The index based on the measures of contract enforcement used by the World Bank in the annual Doing Business ranking. The average of average deviations from the world mean of individual indicators is used. These are: time to resolve disputes, costs of judicial procedures, number of procedures. (2012 data)	The lower the better	World Bank Doing Business Database	

Index	Share of subindices	Description	Valuation of original measure	Source of original data	Comments
Taxation	25%				
Government Revenue		The index based on the share of government revenues in GDP. (2012 data)	The lower share the better	IMF	
Infrastructure	25%				
WEF infrastructure measure		The World Economic Forum index for infrastructure development. (2012-2013 data)	The higher the better	World Economic Forum	
Transparency	25%				
Corruption		Transparency International Index of Corruption. The index assumes the lowest values for highly-corrupted countries and higher values for uncorrupted countries. (2012 data)	The higher the better	Transparency International Data	
Shadow Economy		The share of the shadow economy in GDP estimate for 2012. (2007 values)	The lower the better	The Shadow Economy and Work The Shadow Economy and Work in the Shadow: What Do We (Not) Know? IZA Discussion Paper DP 6423	



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