

European Expansion, The Impact on Capital Markets

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- “Stock Drain” – Market for EE Issues in Europe and the US
- Retail Investor Base – Emigre Investors is a Bigger Force Than Onshore Investors
- Strategy Choices: Domestic Exchanges Should Focus on New Issues, EE Market Regulators and Brokers Should Focus on Building Domestic Institutional and Retail Investor Base

Market Cap and Liquidity Ranking as of 5/31/01

Country	Volume	MC, \$ m	Volume / MC, %
Russia	9'726.2	55'293.3	3.52
Turkey	38'928.9	45'898.2	16.96
Poland	3'682.8	28'954.5	2.54
Czech Rep	1'427.0	9'946.0	2.87
Hungary	2'222.9	9'796.4	4.54
Croatia	34.2	2'684.6	0.25
Slovenia	206.6	2'356.2	1.75
Ukraine	99.3	2'073.9	0.96
Estonia	83.1	1'671.9	0.99
Romania	99.6	1'367.0	1.46
Lithuania	48.0	1'246.1	0.77
Slovakia	435.2	567.7	15.33
Latvia	37.1	457.6	1.62
Bulgaria	19.6	446.1	0.88
Total	57'050.5	162'759.3	7.01

Trading volumes are in USD for the first 5 months of 2001
 MC as of 5/31/01, Volume / MC based on Monthly volume

Source: Skate (www.skatefn.com)

Market Cap Ranking as of 5/31/01, Stocks

Rank	Company	Country	MC, \$mln
1	Surgutneftegaz	Russia	10200
2	LUKOIL Oil Company	Russia	9876
3	Gazprom	Russia	9806
4	TPSA	Poland	7277
5	YUKOS Oil Company	Russia	7225
6	Unified Energy System	Russia	4281
7	Turkcell	Turkey	3495
8	MATAV	Hungary	3251
9	Pekao	Poland	3001
10	Cesky Telecom	Czech	2859
11	Mobile TeleSystems	Russia	2791
12	Sabanci Holding	Turkey	2590
13	Norilsk Nickel	Russia	2500
14	Koc Holding	Turkey	2448
15	Yapi Kredi B	Turkey	2187

Source: Skate (www.skatefn.com)

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European Emerging Markets

- European Emerging Equity Markets are still negligible in size and liquid only for a small basket of blue chip stocks, with top 15 stocks contributing to about 50% of total market cap of 14 regional markets
- Six EU Accession Countries have a combined market cap about equal in size to one of Turkey or Russia
- European Emerging Markets are only interesting from their sovereign and benchmark corporate debt side, and also from new issues origination perspective, while current stock markets are dull and too difficult to earn money on

Does Anybody Need EE Stocks?

- Facing limited domestic sources of capital in late 90s, Eastern European stocks en masse implemented ADR / GDR programs in the last 5 years and are long available to international Qualified Institutional Buyers (depending on stock and country – even to a general public)
- The problem is that nobody cares – average monthly trading volumes for EE stocks (excluding Russia) at EU, UK and US stock exchanges are \$ 100 M for 13 countries

Trading @ Domestic Vs Foreign

	Volume Jan-May 2001, \$ m	
Country	Abroad	Domestic
Croatia	2.99	34.2
Czech Rep	43.72	1'427.0
Estonia	0.40	83.1
Hungary	215.75	2'222.9
Latvia	0.01	37.1
Poland	36.27	3'682.8
Russia	2'585.92	9'726.2
Slovakia	1.53	435.2
Slovenia	2.99	206.6
Turkey	177.89	38'928.9
Total	3'067.45	56'784.0

Source: Skate (www.skatefn.com)

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Émigré Stocks & IPOs

- Some companies just ignored local infrastructure and were developing their stock markets outside of the home country since day 1 – VIP, MBT, GLDN
- Almost no IPO activity from the region except for some recent Warsaw technology and media new issues

Retail Investor Base

- WorldBroker estimates that there are over 600,000 online investing individuals in the region, of which the largest proportion (about 100,000) is based in Turkey but was hit with the market crisis there
- Most of region's active online investors have accounts with US, UK or German online brokers (affinity groups) and are rather cautious about big portfolio allocations to their home markets

Strategy Choices

- Stock Exchanges – focus on building diversified portfolio of traded instruments (MICEX) and on new smaller issues (Warsaw SE)
- Regulators – build domestic institutional and retail investor base through reforms of pension / collective investment industry, and through simplified e-commerce and tax codes