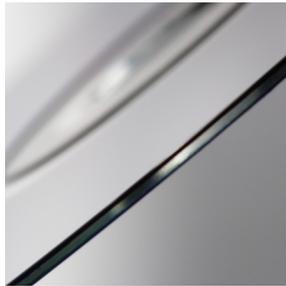




On a slow and steady path of growth

Central Europe CFO Survey 2016



2016 results | 7th edition

The CFO Program

Despite the more pessimistic expectations regarding the economy and the higher risk projections, companies are starting 2016 with an optimistic sentiment and CFOs are expecting a good performance from their companies.

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Introduction

I am pleased to present the latest version of Deloitte's CFO Survey, which measures the views of Hungary's Chief Financial Officers (CFOs) and the business sentiment among them. Similar to previous years, the survey was conducted simultaneously in other Central European countries, as well, so we were able to make a valuable comparison of the views of CFOs in Hungarian and other countries.

In the past period, even more external factors affected the performance of companies and economic trends than in previous years. Companies are faced with increasingly complex challenges and risks and this is why Hungarian CFO's responses in this year's survey are more divisive than ever. Altogether, however, it turns out that despite what they think of future economic trends, they are optimistic about the performance of their own companies even in these difficult times.

I would like to take the opportunity to thank all the CFOs who participated in the survey and for taking the time and contributing to the preparation of this interesting study. Previous survey results demonstrate well that CFOs' expectations for the future proved right and are close to actual trends, and this is why it is particularly interesting to know about CFO's latest predictions of economic and financial trends. I hope that you will find this study an insightful and inspiring read.

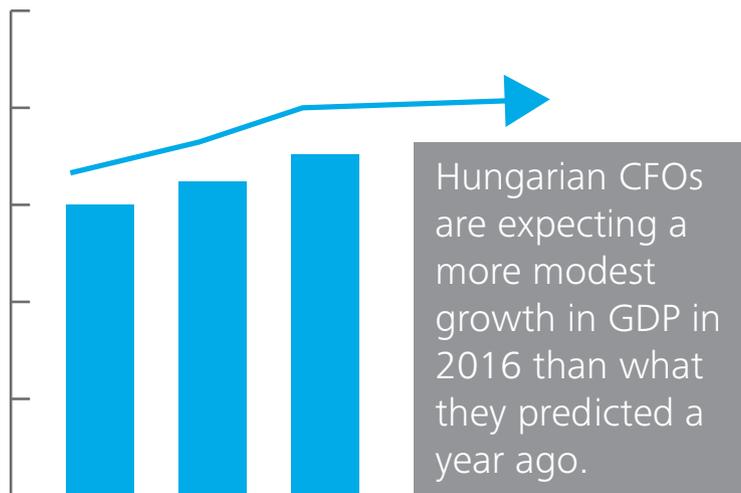


A handwritten signature in blue ink, appearing to read 'Ákos Demeter'.

Ákos Demeter
CFO Programme Leader,
Hungary
Partner, Advisory

Key findings

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Contrary to previous years, unstable corporate and tax laws are, on the average, only no. 3 among factors presenting the toughest challenges for companies.

Again, nearly half of the respondents (48%) expect an increase in the number of mergers and acquisitions

while only 4% of the CFOs predict a decline.

Top risks include market pressure for cutting prices of goods/services and the tightening of business regulations.



Despite the fact that among the countries of the region Hungarian CFOs are, on the average, the most pessimistic about their companies' financial prospects compared to recent past,

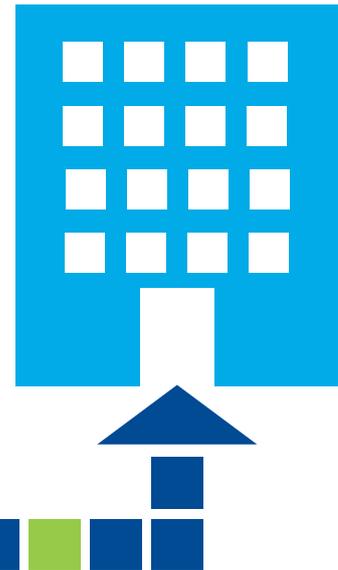
65% are optimistic about FY 2016 and forecast sales revenues to rise.

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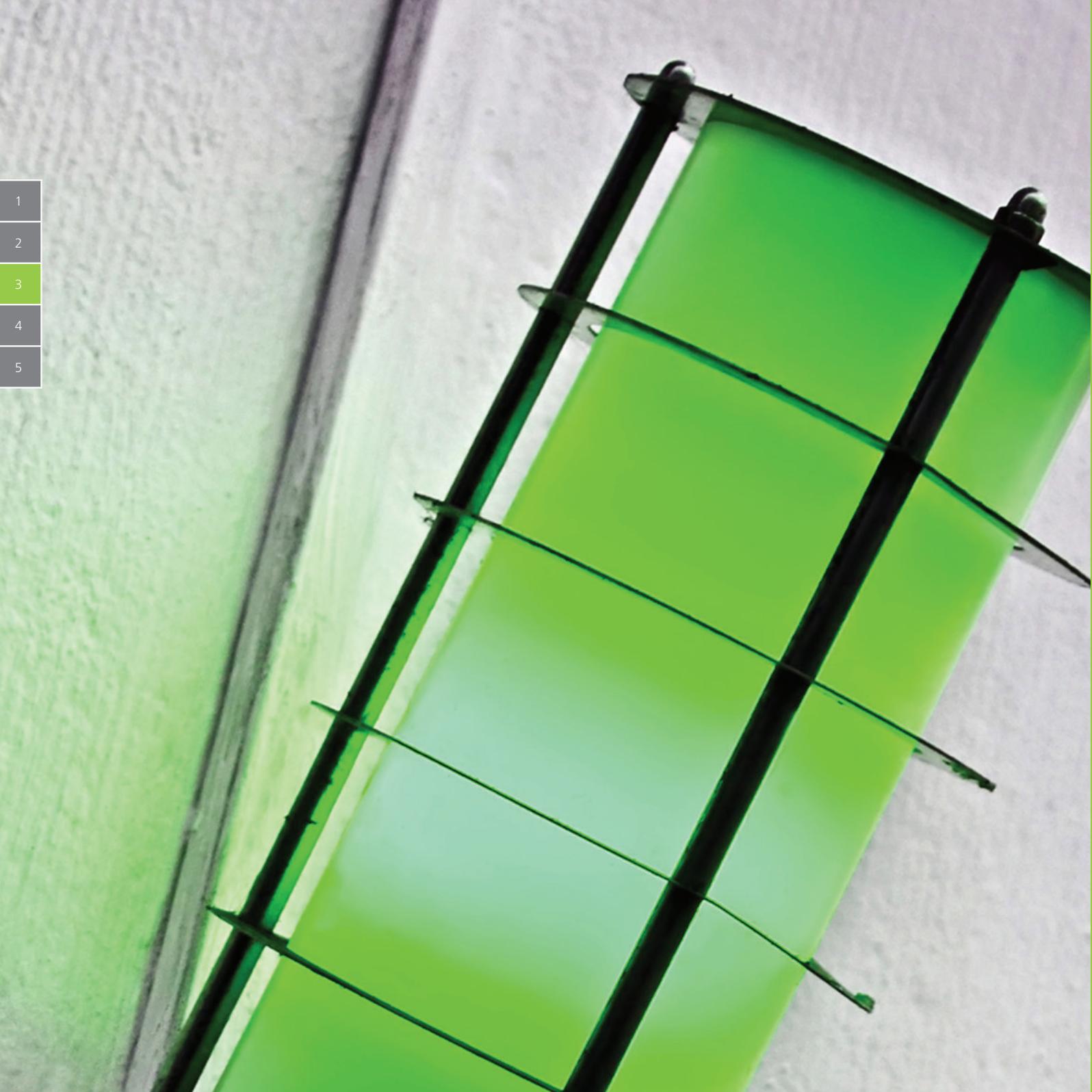
The dominant majority of CFOs (70%) still do not expect a lack of expertise in the financial sector



although they find the recruitment of career starters a growing problem.



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Economic outlook

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Economic outlook

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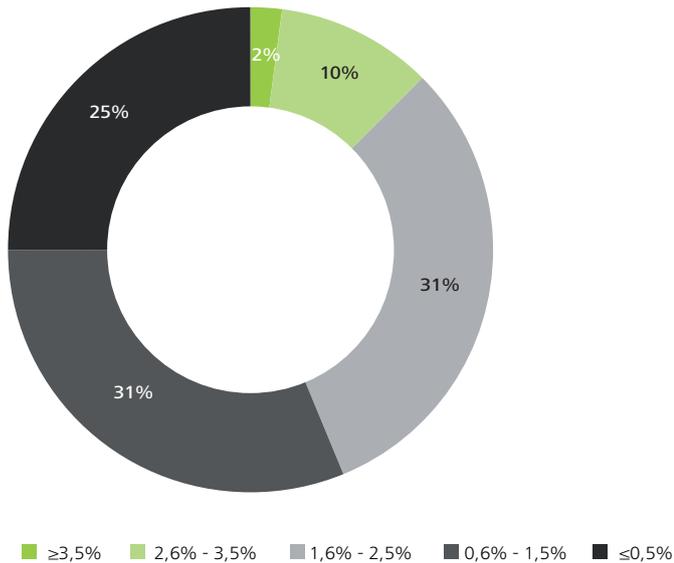
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Economic growth

CFOs' last-year predictions about this year's GDP figures were fairly accurate while this year responses varied considerably. In line with higher external risks, they expect a more modest increase altogether compared to the previous year. One quarter of the CFOs predict recession while the rest of the respondents are divided between expecting stagnation and increase.

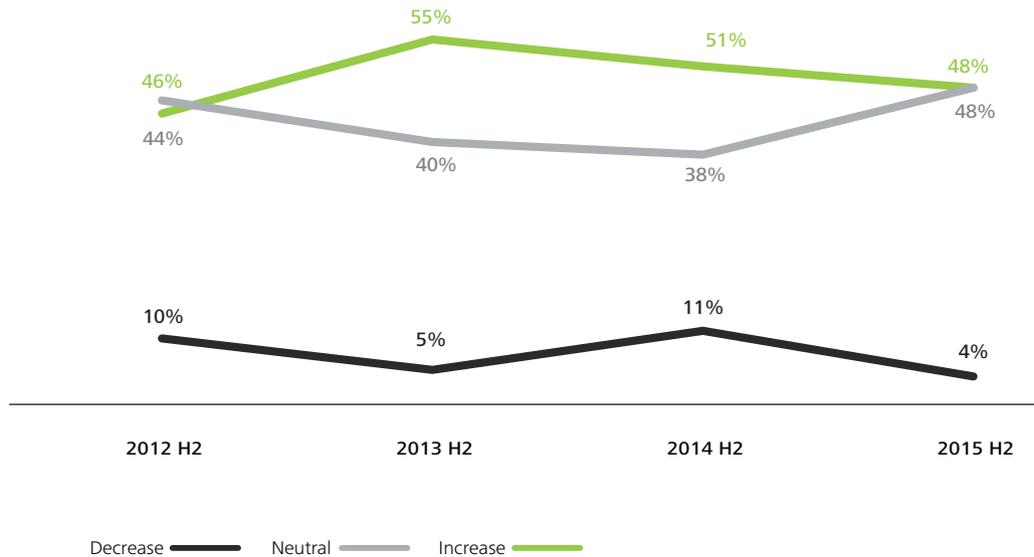
CFOs expectations for the country economic GDP growth for the year 2016



Mergers and acquisitions

There is no significant change to what CFOs' think about the number of mergers and acquisitions; they continue to report positive forecasts. Nearly half of the respondents predict growth for the next year, too, while about the same number of respondents do not expect change. Predictions of growth on average are coming as no surprise, there was a significant growth in the number of transactions in 2015, as well.

Over the next 12 months how do you expect levels of M&A to change in Hungary?

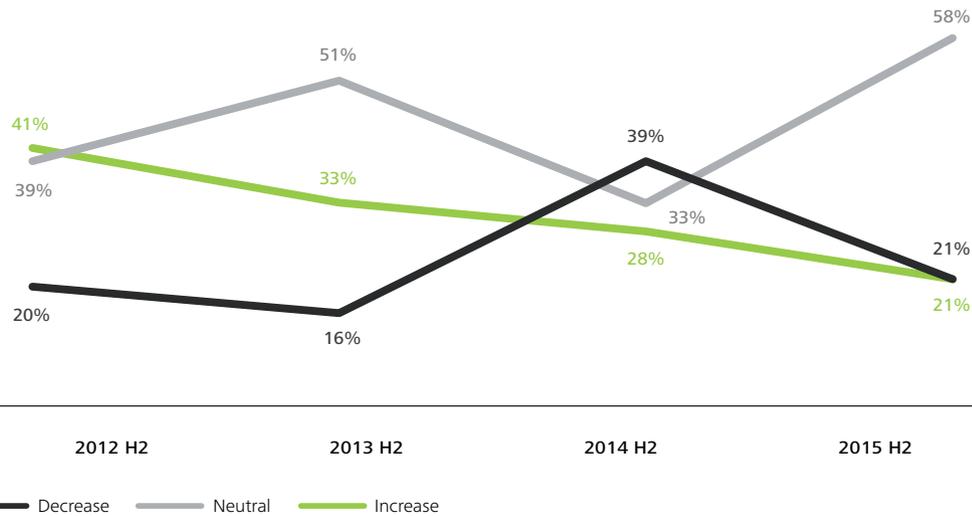


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Unemployment

In line with GDP forecasts, CFO's expectations about the rate of unemployment are also less optimistic than last year in spite of the fact that actual figures show a slight recovering trend in Hungary. The proportion of respondents who predict no change jumped up to 58% while the rest of the CFOs participating in the survey varied significantly.

Over the next 12 months how do you expect levels of unemployment to change in Hungary?

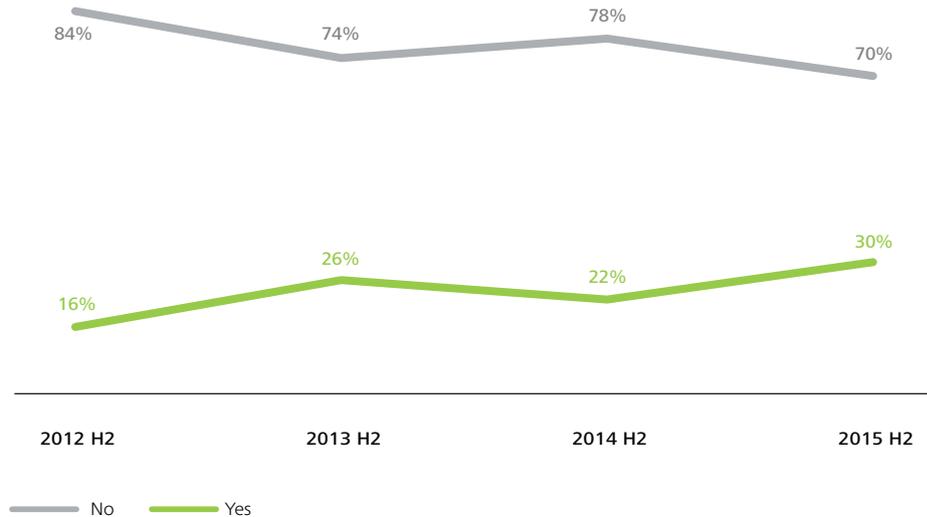


Financial talents

29% of CFOs think that the number of employees will rise at their company in the following 12 months while 52% predict no change in this field. Although a dominant majority of the respondents continue to think that there will be no shortage in financial expertise in the coming year, this proportion is also down from previous years.

When they had to specify where they expected the most serious lack of expertise, similar to previous results, they clearly pointed at middle level managers (58%). At the same time, it is important to note that the proportion of respondents who believe that the recruitment of ideal career starter employees is a challenge increased significantly from previous years.

Do you expect talent short ages in the finance area over the next year?





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Financial outlook

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Financial outlook

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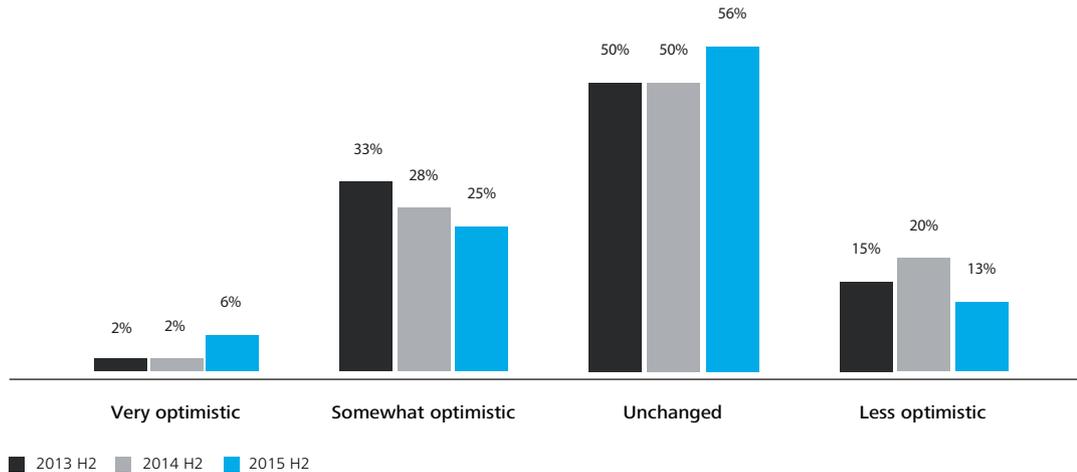
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Financial prospects

Hungarian CFOs still do not foresee a highly positive change to the financial prospects of their own companies as opposed to other countries of the region. Besides Slovakia, the Hungarian net balance was the lowest despite every second respondent giving a neutral answer. I.e. in their opinion, the financial prospects of their companies have not changed compared to the past three months. Only 31% gave an optimistic response, which is considered a low proportion compared to the regional average.

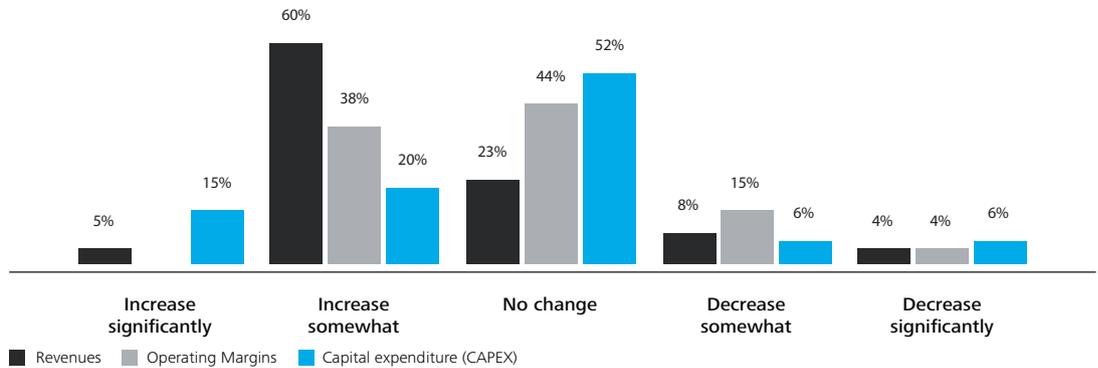
Compared with 6 months ago, how do you feel about the financial prospects for your company?



The fact that the financial prospects of their companies did not shift to a positive direction, does not mean they are pessimistic about the financial standing of their companies for the coming year. Despite the less positive economic outlook, 65% of the companies expect their sales revenue to rise in the following 12 months while only 13% are counting on declining sales figures.

Nearly half of the respondents (44%) do not expect any change to profit margins while the rest of the survey participants think that a recovery is more likely. 35% of CFOs believe that the amount spent on investments are more likely to rise although most of them (52%) do not predict any change in this field.

In your view, how are the [revenues/operating margins/capital expenditures (CAPEX)] for your company likely to change over the next 12 months?

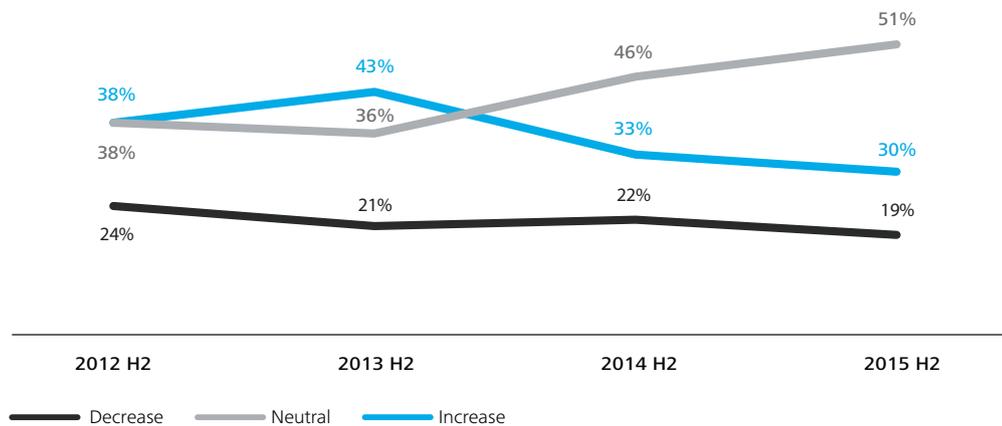


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Costs of finance

Although the companies participating in the survey have different credit quality and risk profiles it seems clear from this year's results that a majority of the companies (51%) expect financing costs to remain unchanged in the following 12 months. The proportion of respondents expecting the financing costs to rise is slightly declining while only 19% predict them to increase.

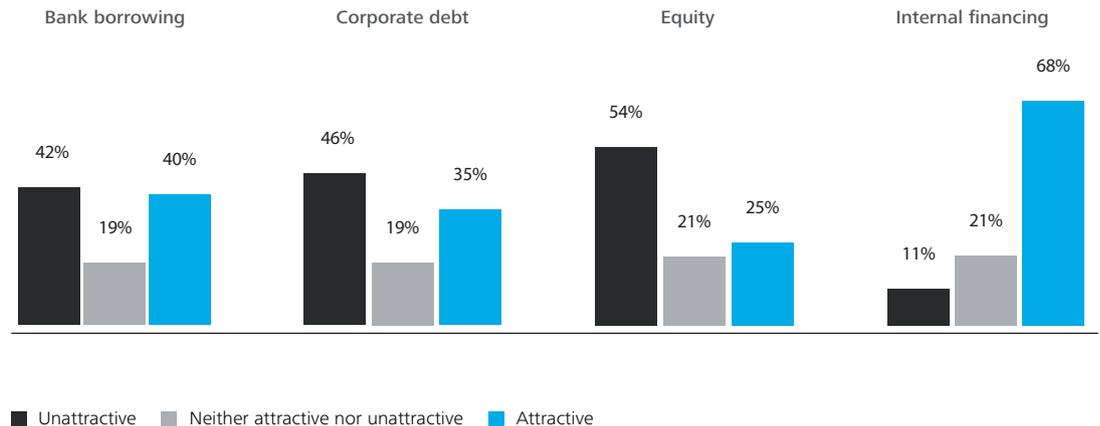
In your view how are financing costs for companies in Hungary likely to change over the next 12 months?

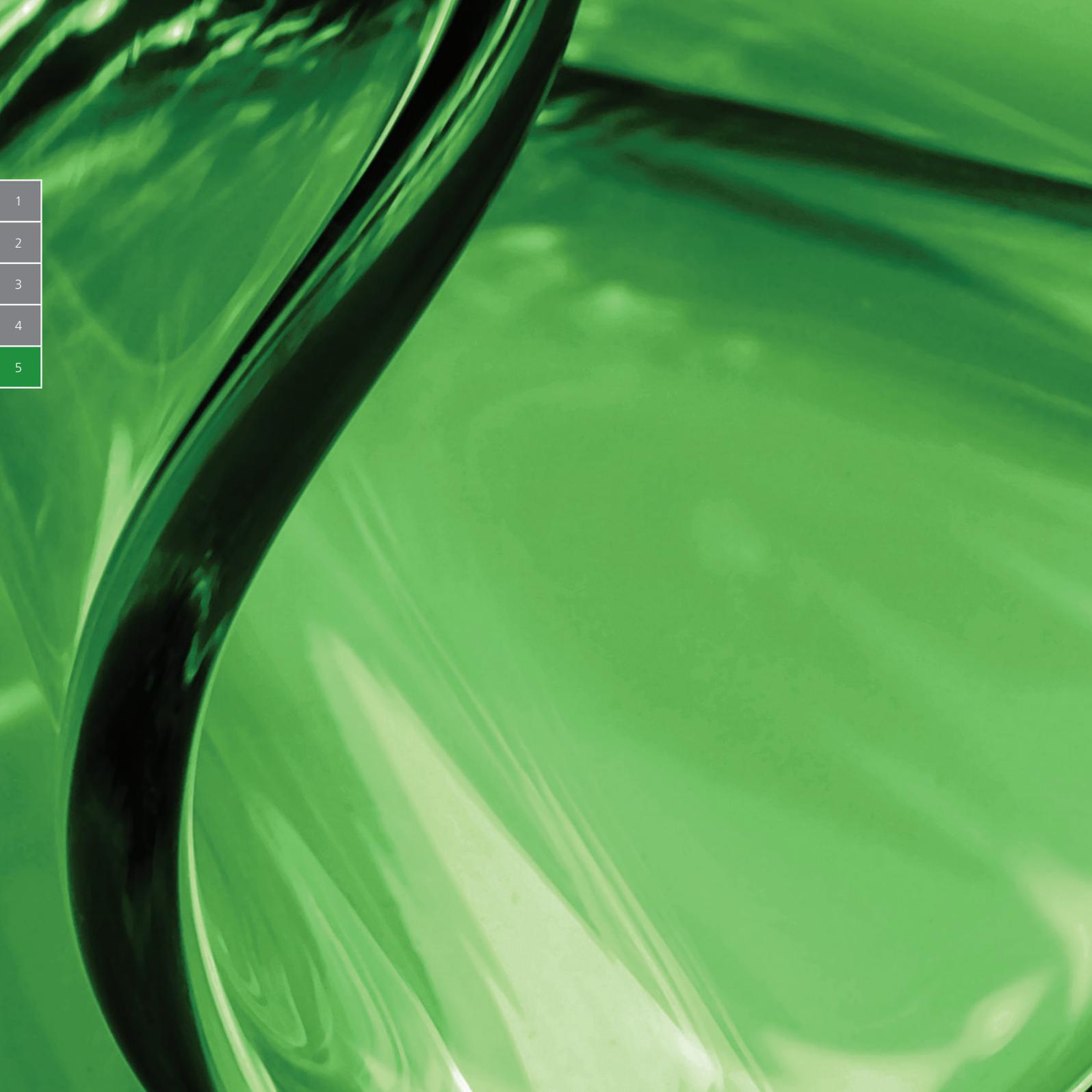


Funding

The general sentiment about changes to finances and the economy is also reflected in the opinion of CFOs about funding opportunities. Although only 19% of the respondents think that it is difficult for companies to access the necessary funding and despite low interest rates, respondents are divided about the attractiveness of bank borrowing and corporate debt as forms of funding. Only one in four Hungarian CFOs rate equity as an attractive source of funding, with 54% rating it unattractive, which is no surprise when in a period where equity markets have been very volatile. Internal financing is seen as an important alternative or complement to bank borrowing.

How do you currently rate [bank borrowing/corporate debt/equity/internal financing as a source of funding for your company?]





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Top challenges and priorities

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Top challenges and priorities

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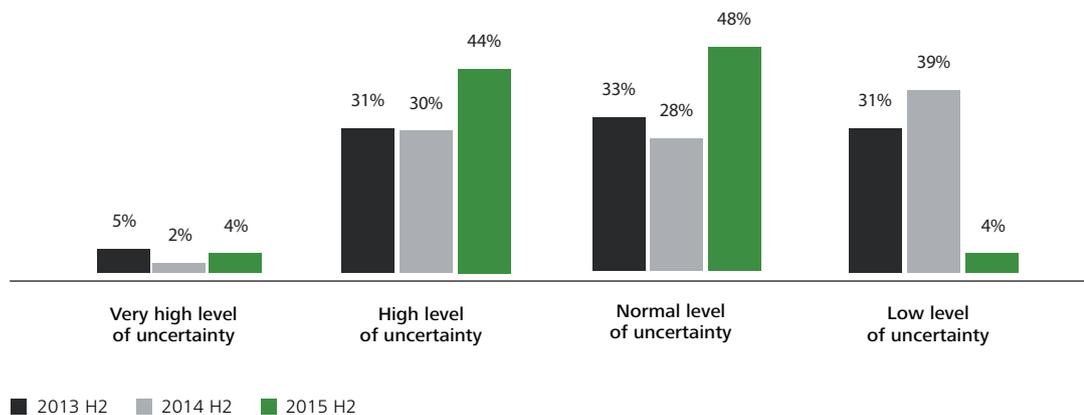
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Level of uncertainty

Unlike in previous years, Hungarian CFOs are more divided about the scale of external financial and business uncertainty affecting their companies. Almost a half of CFOs see uncertainty as high or very high while the other half of the respondents consider its level to be normal. Despite the changes, the perception of a high level of external uncertainty continues to be extremely high compared to other countries in the region.

How would you rate the general level of external financial and economic uncertainty facing your business?



Top 5 challenges in Hungary:



Market pressure for cutting prices of goods/services offered

Tightening business regulations



Unstable corporate and tax law

Recession and decrease of domestic demand

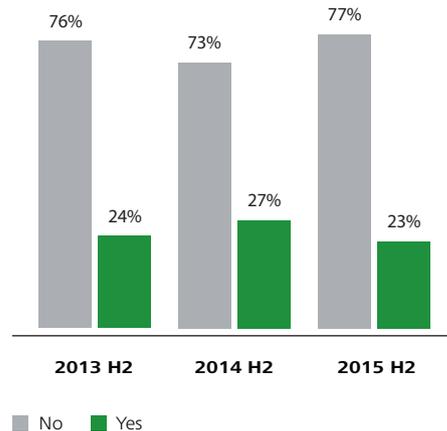


Increase in operating costs (price increase of materials, workforce, services)

Main challenges

Previously, uncertainty was mainly due to the unpredictable tax and legal environment but in 2015 other external factors pose higher risks to companies. This year, we asked CFOs about what factors they think would appear as key risks in the following twelve months. When global recovery has been thrown off course by a series of shocks, fears over external risks dominate the list of key concerns for CFOs. Undoubtedly, the factor threatening most companies is market pressure for cutting prices of goods/services offered. Tightening business regulations ranks second while the unstable (corporate and tax) legal environment ranks only third on the list.

Is this a good time to be taking greater risk onto your company's balance sheets?



Risk appetite

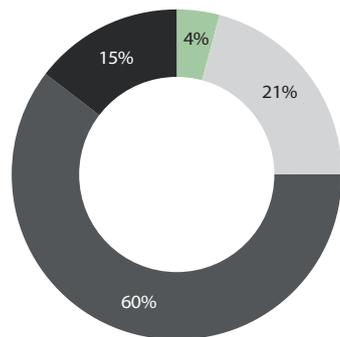
The high level of risk appetite is well reflected in the fact that similar to previous years the number of respondents who find the coming period unfit for undertaking risks is extremely high. At the same time, the impact of the current economic climate forces CFOs to avoid risks not only in Hungary but also in other countries of the region.

Greek crisis

Politicians and business leaders talked a lot about the Greek crisis in summer 2015. The negotiations between the government of Greece and the lenders of the Euro zone about reducing the state debt have started but a basic condition is that Greece should fulfil the conditions of the bailout.

The risks affecting the Euro zone affect companies, too. Therefore, this year the CFO survey assessed Hungarian CFOs' opinions about the prospects of stability and unity of the European Monetary Union. Three quarters of the respondents think that the events damaged prospects while only 21% believe that they had no impact.

To what extent have events in Greece in the last months changed the prospects for achieving a stable and closely integrated European monetary union in the longer term?



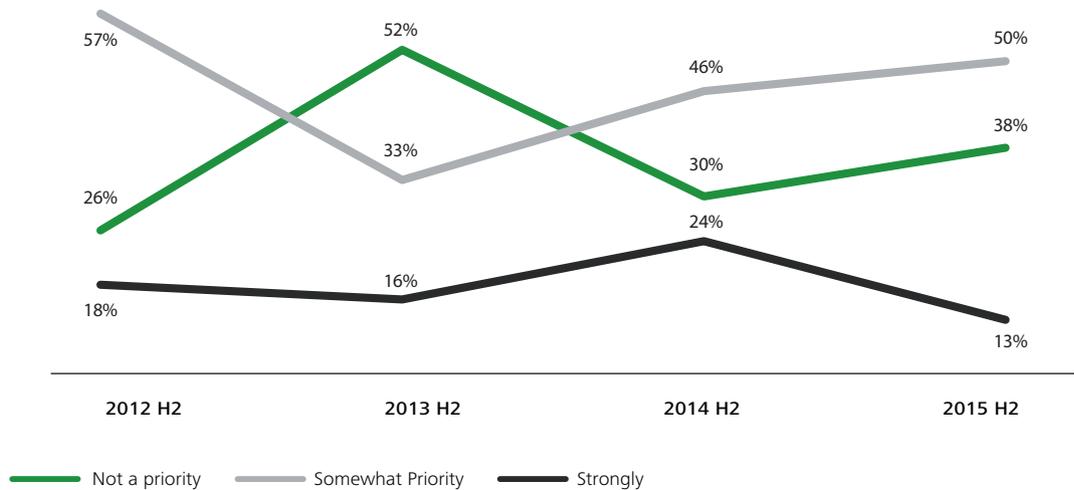
- Improved prospects significantly
- Improved prospects somewhat
- No effect
- Damaged prospects somewhat
- Damaged prospects significantly

Priorities in strategy

It comes as no surprise that increasing the sales revenue is first priority for almost all companies although increasing sales not only on the domestic but also on new markets is also among top priorities. Cutting costs is also of key importance as expressed by more than half of the respondents. Despite the high risks, 5% of the companies find it highly important and 30% find it important to seek new investments.

The number of companies that will redesign and restructure business processes as a strategic goal slightly increased from the previous year while for only 13% of the respondents do not find this to be a priority, which is the lowest proportion compared to the other countries of the region.

To what extent is business remodelling or restructuring likely to be a priority for your business over the next 12 months?



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We would like to thank all participating CFOs for their efforts in completing our survey. We hope the report makes an interesting read, clearly highlighting the challenges facing CFOs, and providing an important benchmark to understand how your organization rates among peers.

About the survey

The 7th CE CFO survey was conducted between August and October 2015. The findings discussed in this report represent the opinions of 489 CFOs based in 11 European countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia.

Deloitte CE CFO survey is a “pulse survey” that provides CFOs with information regarding their peers’ thinking across a variety of topics. It is not, nor is it intended to be, scientific in its number of respondents, selection of respondents, or response rate—especially within individual industries.

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