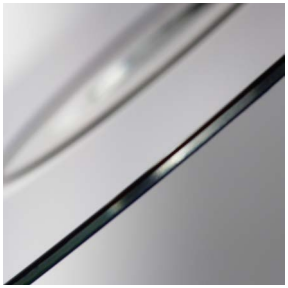
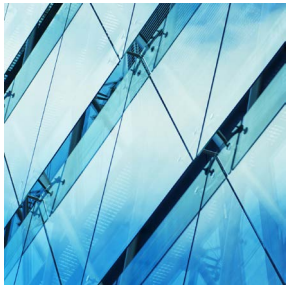
Deloitte.

On a slow and steady path of growth
Central Europe CFO Survey 2016







Slovenia

2016 results | 7th edition

The CFO Program

Contents

Key findings:

- Optimism continues among CFOs, although caution remains.
- The focus in 2016 will be on revenue growth.
- A rise in focus on more aggressive strategies such as new investments.
- Significant increase in availability of new credits.
- Companies have changed their traditional foreign trade partners.
- Excessive government involvement is still seen as an obstacle to growth.

Optimism is still accompanied with some caution. Slovenia is out of the recession, but it seems that domestic consumers continue to feel its consequences and have not regained the trust in the market just yet, as recession and decrease of domestic demand are the factors that are most likely to pose a significant risk to the surveyed companies.

Introduction

Slovenia in 2015: optimism continues

Last year CFOs in Slovenia showed optimism for the first time after years of negative forecasts. This optimism continues in 2016, but caution remains. CFOs showed positive expectations in Slovenian GDP growth and decreased unemployment, but remain doubtful about domestic demand and the definite end of recession.

Some of the key perceptions found in the fifth edition of the Deloitte CFO Survey in Slovenia (the seventh to cover Central Europe) include:

- Positive expectations for the growth of Slovenian GDP;
- Continued focus on revenue growth and sharpened focus on more aggressive strategies such as new investments;
- FDI and banking sector recovery are the most important growth factors for the 2016;
- Uncertainty dropped as 50% more of CFOs perceive economic uncertainty as normal;
- Significant increase in availability of new credit;
- Expected increase of revenues over the next 12 months;
- No shortage of Slovenian talent in finance.

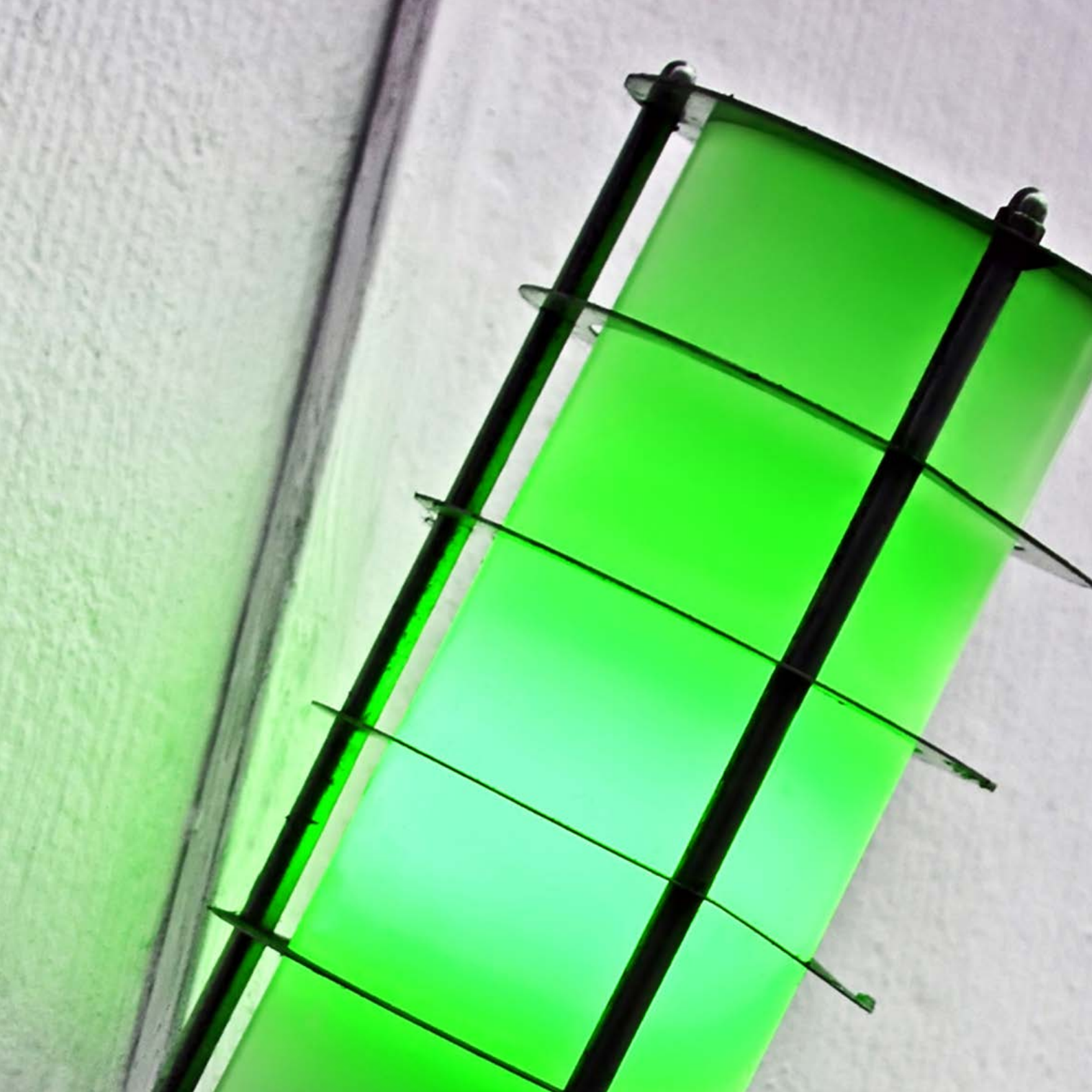
Expectations with respect to which foreign markets will be the most important for Slovenian companies in the next 12 months have changed since last year. German-speaking markets will remain significantly important, but have lost one third of the votes. Russia, China, Japan and India will become more important trading partners.

CFOs identified government policies as top of the list of obstacles facing Slovenian economic development. Opinions on the privatization of state-owned companies made in the recent year are not flattering, as a majority of CFOs think that the State did not act with due care and diligence during the sale, and it could have found more suitable buyers.

Optimism is still accompanied with some caution. Slovenia is out of the recession, but it seems that domestic consumers continue to feel its consequences and have not regained trust in the market just yet. The recession and a decrease in domestic demand are factors that are most likely to pose a significant risk to the surveyed companies.

Despite this slight optimism, there is room for improvement for the Slovenian government, which needs to implement measures to help Slovenian companies. According to CFOs' answers, taking a step back from the economy and taking a step towards more favorable tax legislation could be a good start. Making business in a more supportive environment might undoubtedly help Slovenian companies to gain more self-confidence and become even more optimistic.

Yuri Sidorovich
Managing Partner, Deloitte Slovenia



Economic outlook

Economic outlook

After recording growth of 3% in 2014, the Slovenian economy continued to recover in the first half of 2015. The slowdown in growth compared to last year will primarily be a result of the dynamics in government investment. As a result of revisions to national accounts and stronger realization in the first half of 2015, the Bank of Slovenia's projections of economic development have been revised upwards. GDP is forecasted to increase by 2.7% in 2015 and 2.3% in 2016, with growth averaging in excess of 2% in 2017. The main drivers of economic recovery will be export and private consumption; the somewhat weaker growth in 2016 will be mainly attributed to reduced government investment as planned within the 2014–2020 financial perspective.

Slovenia continued to outperform the euro area as a whole in terms of growth in the first half of 2015. GDP growth stood at 2.7%, with the export sector making the principal contribution. In September, the ECB reduced its forecast for this year's growth in the euro area by 0.1 percentage points to 1.4%. Consensus forecasts for the euro area and Germany were also slightly lower, while the forecasts for Slovenia's other main trading partners remained unchanged.

Although domestic demand will strengthen slightly faster, the export sector will remain the key factor in economic growth. Export growth in the first half of 2015 was higher than expected, which resulted in higher estimated annual growth, and indicates further increase in market shares of Slovenian exporters. Growth in industrial production will remain at a level of around 5%, in line with export growth (5.6%), while stronger demand on the domestic market means that exposure to fluctuations in foreign demand will be slightly lower than in previous years.

In the first half of 2015 the growth in employment was stronger than expected since the labor market gradually improved in 2014, although structural weaknesses remained on the labor market. Employment was up 1.6%, the largest rise since 2008. At the end of October 2015, there were 107,488 registered unemployed persons, which is 7.3% less than in October 2014. According to Slovenian Institute of Macroeconomic Analysis and Development (IMAD) the labor market will continue to recover in the next two years; in addition to economic growth, employment trends will also be impacted by demographic factors. Wage growth slowed sharply in 2015 as a result of its adjustment to deflation, as well as a result of the change in the breakdown of employment. Recovery in 2015 in purchasing power is primarily occurring via an increase in employment.

In October 2015, Slovenia recorded an annual inflation rate of 0.8%. The inflation projection for 2015 is down 0.5 percentage points on the previous projection, as a result of a fall in core inflation and a fall in energy prices. Inflation is expected to gradually increase over the next two years, as commodity prices rise gradually and private consumption strengthens, but will remain below the monetary policy target level until 2017. Similar factors impacted the euro area, which in October 2015 recorded 0.1% annual inflation.

The situation within the banking system is stabilizing gradually, despite further decline in loans to the corporate sector. In the first three quarters of 2015 loans to domestic non-banking sectors (EUR 1.2 bn) shrank less than in the same period last year. Household deleveraging moderated. Loans to enterprises and non-financial institutions, which are also deleveraging abroad, were a tenth lower than a year earlier. Banks' deleveraging abroad also slowed. Their net repayments totaling EUR 800 m in the first eight months, were approximately 45% lower than a year before. Household and government deposits expanded in the nine months to September 2015, but negative trends were recorded at the end of the third quarter. Deterioration in the quality of bank claims has eased in recent months.

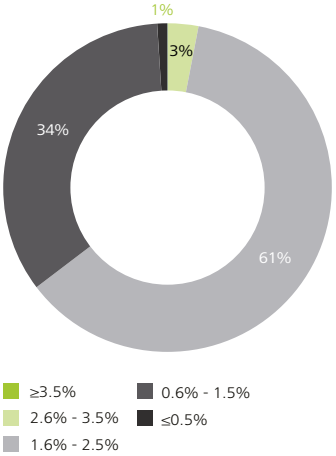
GDP growth – CFOs' expectations

In terms of CFO expectations for Slovenian GDP growth in 2016 the majority of Slovenian CFOs (61%) agree with Bank of Slovenia's consensus forecasts (GDP growth between 1.6% and 2.5%), while 34% are more pessimistic and believe that the Slovenian economy will generate a moderate growth from 0.6% to 1.5% in 2016. This is a significant improvement over last year's survey, when 61% of CFOs expected stagnation in 2015.

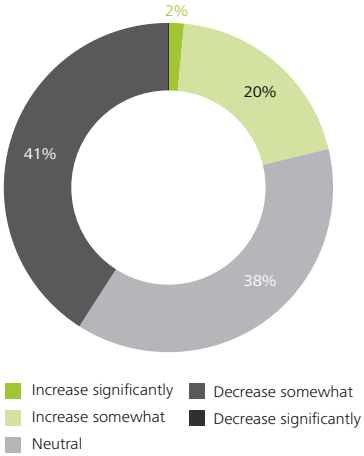
Unemployment – CFOs' expectations

Expected levels of unemployment are comparable to last year's. In the next 12 months 41% of CFOs expect unemployment to decrease somewhat (an increase from 35% in late 2014), 38% expect it to remain the same, while 20% opted for unemployment to increase somewhat.

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



Expected change in Slovenian level of unemployment over the next 12 months



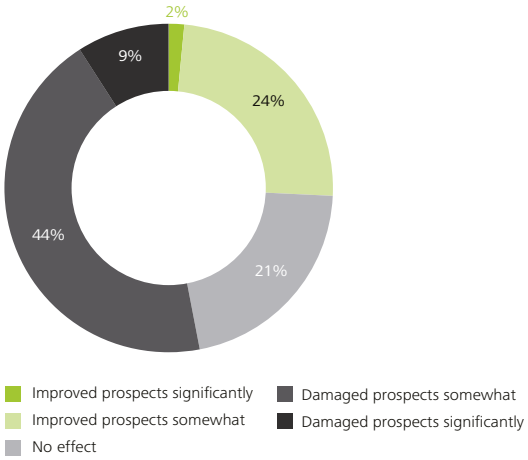
Crisis in Greece

The Greek crisis that kept politicians busy in the summer of 2015 has fueled particularly negative sentiments among business leaders according to the responding CFOs. When asking them on how events in Greece have affected the EU's monetary union in the longer term, 53% of CFOs said recent events have damaged prospects for creating a stable and integrated European monetary union. Only 26% believe the solution of the Greek crisis has improved prospects.

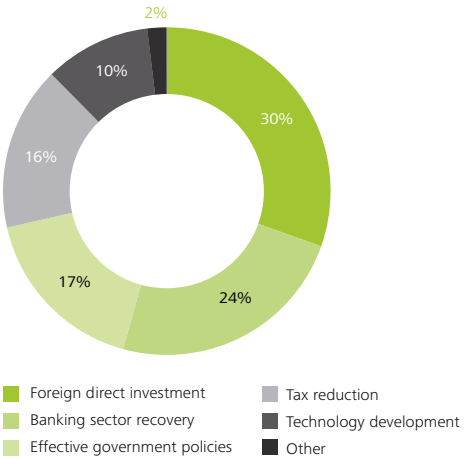
Growth factors & obstacles

Foreign direct investment (FDI) remains the most important growth factor of the Slovenian economy also in 2016, followed by banking sector recovery, and effective government policies. The latter was chosen as the second most important in the late 2014 survey, followed by tax reduction. The most significant change compared to the survey carried out in 2014 relates to the banking sector recovery that gained 16 p.p. in late 2015 survey.

Impacts of the events in Greece in the last months on changed prospects for achieving a stable and closely integrated European monetary union in the longer term



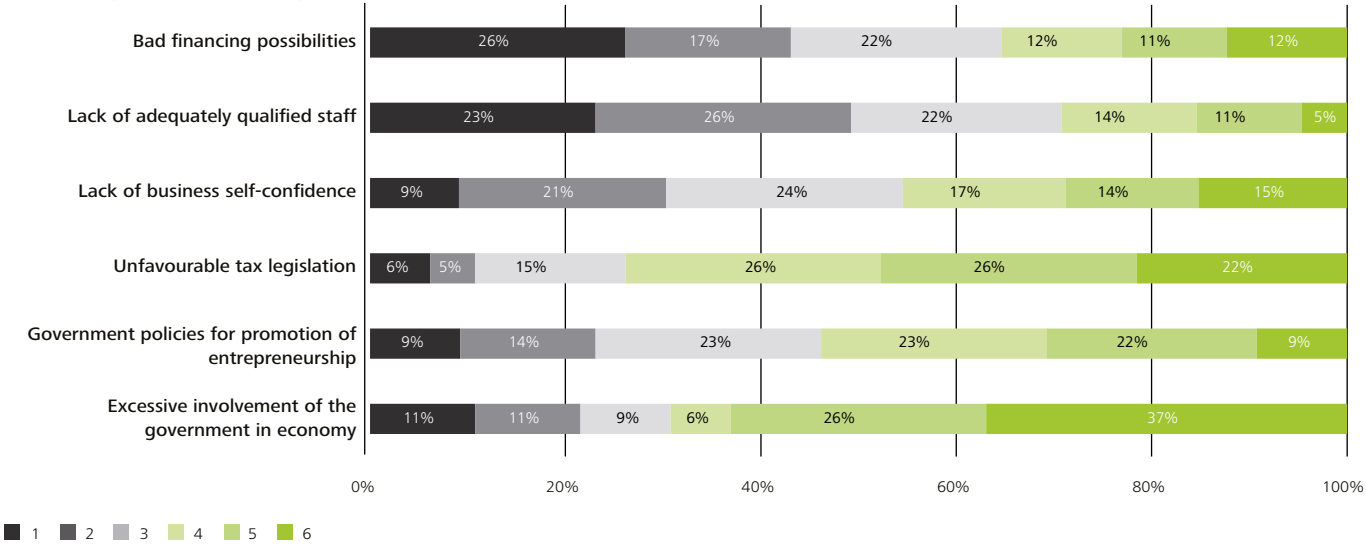
Most important growth factors for the Slovenian economy during the next 12 months according to CFOs



Slovenia

Excessive involvement of the government in economy remains atop the list of most important obstacles to Slovenian economic development as identified by CFOs in late 2015, although this percentage has fallen since 2014 from 43% to 37%. The second most important obstacle to economic development of the country is unfavorable tax legislation (22%) followed by a lack of business self-confidence (15%). The structure of the most important obstacles remains similar to last year. CFOs continue to perceive staffing issues as the least important issue affecting Slovenian economic development.

CFOs' views of the most important obstacles to Slovenian economic development (1 - least important, 6 - most important)



Foreign direct investment (FDI) remains the most important growth factor of the Slovenian economy also in 2016 as well as excessive involvement of the government in economy remains atop the list of most important obstacles.

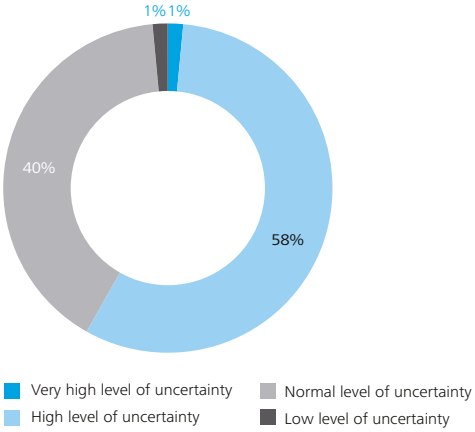
Business environment outlook

Business environment outlook

External risks

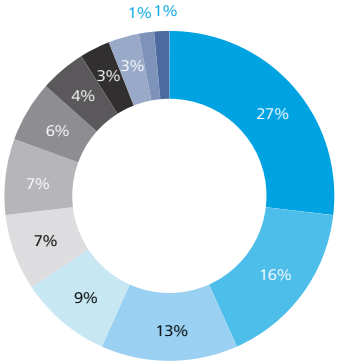
When asked about how they would rate the general level of external financial and economic uncertainty facing their businesses, most of the CFOs (58%) told us it is high or very high. It seems that the scale of uncertainty has been decreasing compared to our previous CFO surveys. Moreover, the share of CFOs who view the level of uncertainty as very high fell to 2% from 10% in late 2014 and 29% in late 2013. 40% of surveyed CFOs feel like their business is facing normal level of uncertainty, which is a considerably higher percentage than in our late 2014 survey (23%) and late 2013 survey (12%). Compared to other CE countries participating in the 2015 survey, the share of Slovenian CFOs who see uncertainty as high or very high (2%) is the lowest among all 10 countries.

General levels of external financial and economic uncertainty



When asked about the factors that are likely to pose a significant risk to the CFOs' companies over the next 12 months, most of the CFOs (27%) responded with recession and a decrease in domestic demand. According to macroeconomic indicators, Slovenia is out of the recession, but it seems that the domestic consumers continue to feel its consequences and have not regained trust in the market just yet. This factor was chosen by the 15% of the surveyed CFOs in the CE region as the second factor that is most likely to pose a significant risk, right after market pressure for the price decrease of offered goods/services. The latter was chosen as the main factor by 25% of the CE CFOs and 13% of Slovenian CFOs. For Slovenian CFOs, recession and the decrease of foreign demand (16%) came in second, but only 8% of surveyed CFOs in CE see it as a threat or a significant risk to their companies.

Factors that are likely to pose a significant risk to the CFOs' companies over the next 12 months



- Recession and decrease of domestic demand
- Recession and decrease of foreign demand
- Market pressure for price decrease of offered goods/services
- Unstable corporate and tax law
- Lack of access to financing
- Other
- Insolvency and payment bottlenecks in the economy
- Exchange rate risk
- Increase in costs of running a business (price increase of materials, workforce, services)
- Geopolitical risk
- Shortage of qualified workforce
- Increasing business regulations in your country

Financing

Continued gradual stabilization of the situation in the banking system is assumed for 2016 according to IMAD. The capital adequacy of the Slovenian banking system is increasing and was among the highest in the euro area in the last quarter of 2014 (at 17.3%). The banks continue to reduce their liabilities to foreign parties, which contracted EUR 13 bn to EUR 5.4 bn between September 2008 and the end of July 2015. In October 2015, this was only approximately 13% of the banking system's total assets, which ranks Slovenian banks among the least indebted in comparison with other banks in the euro area. The amount of maturing liabilities to foreign banks will continue to decline gradually.

Financial results in the banking system are improving, mainly as the result of lower impairments and provisions created, which are partially off-set by a decrease in net interest income.

Further deleveraging of the corporate sector and the stabilization of the banking system

Despite the more stable situation in the banking system and the establishment of conditions to boost lending activity with improved availability of new cheaper credit, bank loans to the economy are not yet rising in 2015; an improvement in these trends is expected only in 2016.

In the first seven months of 2015, the volume of corporate and NFI loans at domestic banks fell by around EUR 700 m. The volume of new loans during this period was also below the volume in the same period of 2014. Despite the decreased lending activity, almost 80% of CFOs assess new credit as normally or easily accessible.

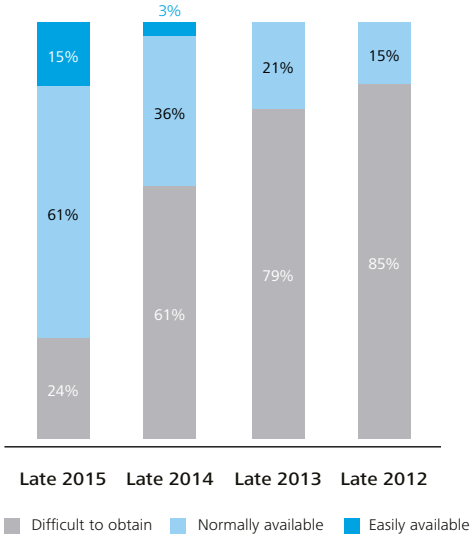
The volume of household loans declined in the summer of 2015 due to the slowing growth in housing loans according to IMAD. In the first eight months of 2015, the total volume of loans increased by about EUR 50 m. Only the volume of housing loans is on the rise (EUR 118 m), driven by new lending for housing purposes. The decline in consumer loans and loans for other purposes is gradually slowing.

Findings of the CFO survey have confirmed the overall situation of the Slovene banking system, as Slovene CFOs start to see bank loans as an attractive source of funding again.

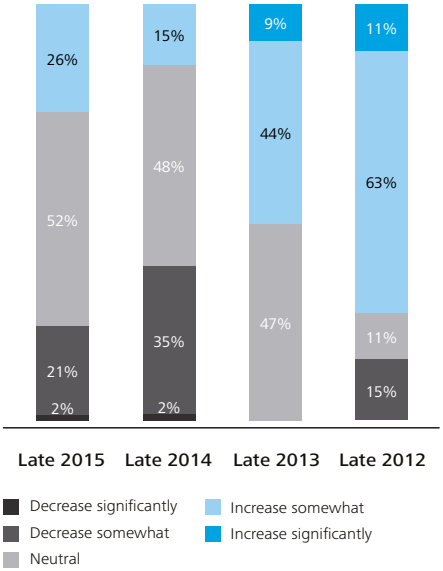
Surveyed CFOs confirmed the more stable situation in the banking system and the establishment of conditions of lending activities according to IMAD, with a significant change in opinion in availability of new credits for their companies. Compared to the late 2014 survey the share of participants who believe loans are not difficult to obtain has almost doubled. 15% of surveyed CFOs consider availability of new credits as easily available, which is strongly encouraging compared to just 3% from late 2014 survey. Only 24% of CFOs see new credits as difficult to obtain, which is a significant decrease compared to the previous years.

Slovenian CFOs expect financing costs for their companies to enhance over the next year as 26% of participants are expecting increase of financing costs, compared to 15% of CFOs sharing that opinion in the late 2014 survey. The percentage of surveyed CFOs who believe the financing costs will decrease or decrease significantly has shrunk since 2014 by 14 p.p., but still looks promising compared to late 2013 survey, when not even one CFO believed this. The number of surveyed CFOs whose financing costs are not likely to be changed over the next few months has been stable in the past three years.

Overall current availability of new credits for Slovenian companies



Expected changes in financing costs for companies over the next 12 months

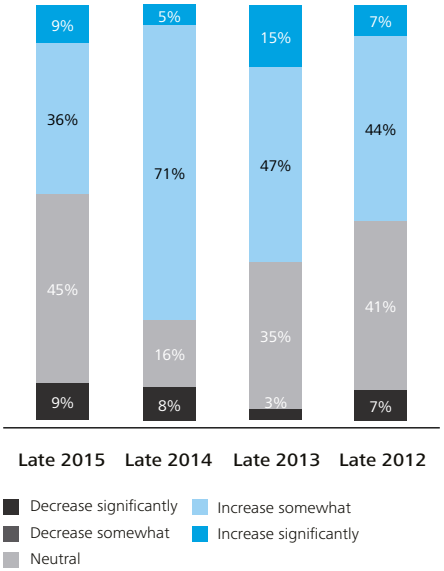


M&A market

Participating CFOs expect that the market will further consolidate in the next 12 months as 45% of CFOs expect increase in M&A levels. However, the share of those has decreased significantly from the last year's survey when an increase was expected by 76% of the participants. On the account of visible decrease, 46% of participants expect the levels of M&A will remain on the same level as in 2015.

The opinion of CFOs expecting a significantly lower increase in the M&A activity is most likely aligned with the unsuccessful privatization process of Telekom Slovenije and Cinkarna Celje, which raised many questions regarding the further commitment of the Slovenian government to continue privatization of the state-owned companies.

Expected changes in M&A levels in Slovenia over the next 12 months

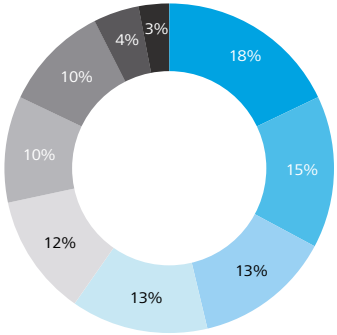


With respect to the privatization of state-owned companies made in the recent year, only 26% of the CFOs believe that the procedures were good and companies were sold to suitable buyers.

However, the diversity of answers implies that privatization could have been done better. Most CFOs (18%) share the opinion that the State did not act with due care and diligence in the sale, as it could have found more suitable buyers.

On the list of 16 state-owned companies that were planned to be sold, only five still remain – Adria Airways, Aero, Unior, Trimo and Gospodarsko razstavišče. In 2015 Radenska, Žito, Laško Group and Delo (to mention a few) were sold.

Privatization of state-owned companies made in the recent year



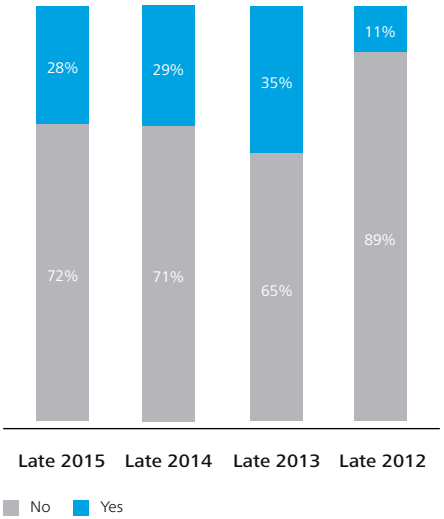
- The State did not act with due care and diligence in the sale, as it could have found more suitable buyers.
- Sales procedures were not transparent nor appropriate.
- In most cases the companies were sold to suitable buyers.
- The proceeds received from most sales were good.
- The privatisation of some companies was hasty and unnecessary.
- The State did not act with due care and diligence in the sale, as it could have negotiated better proceeds.
- Other
- Companies were sold at a time that was suitable for sale
- Sales procedures were transparently and appropriately conducted.

Human Capital (Talents in finance)

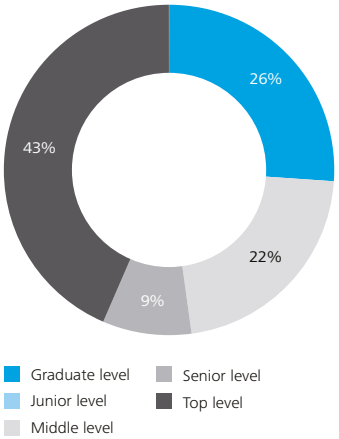
The surveyed CFOs still expect no shortage of talent in finance in Slovenia over the next year. The proportion of CFOs believing this bounced back in late 2014 (71%) from 65% in late 2013, and stayed on the same level in late 2015 survey (72%). Based on the above it seems that most Slovenian CFOs' companies participating in the survey can find employees with adequate knowledge and talents to perform financial roles, despite the high unemployment still playing its part.

However, surveyed CFOs that foresee a shortage of finance personnel during the next year believe that the shortage will occur among top level management as 43% share this opinion. This is a high increase when compared to the late 2014 survey where only 25% expected the shortage in top level management. Almost no change in shortage is predicted for graduate level compared to the late 2014 survey (25%), while for 2016 no junior level shortage is foreseen at all (13% for 2015).

Expectations of talent shortages in the finance area over the next year



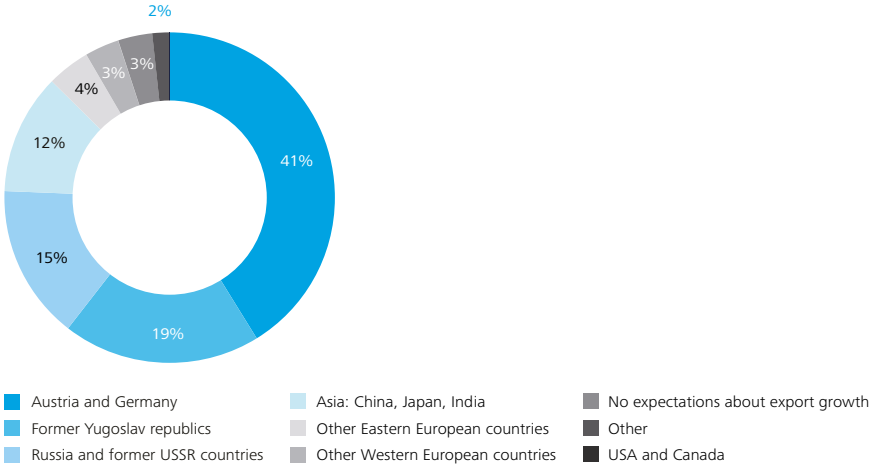
Areas of shortages among finance personnel over the next 12 months



Trade partners

According to the opinion of participating CFOs, German-speaking markets will be of significant importance to the Slovenian economy in the next 12 months. In the late 2015 survey 41% of respondents see Austria and Germany as being the most important foreign markets for Slovenian companies (same % as in the late 2013), which is a decrease from 62% in the late 2014 survey. The decrease from 2014 was driven by the increased importance of Russia and former USSR countries, as well as Asian countries like China, Japan and India as the most important foreign markets. This grew from 2% in late 2014 survey to 15% and 12% in the late 2015 survey respectively. Former Yugoslav republic countries are considered as the most important at 19%, which is down from 28% a year ago.

Expectations of which foreign markets will be most important for Slovenian companies in the next 12 months



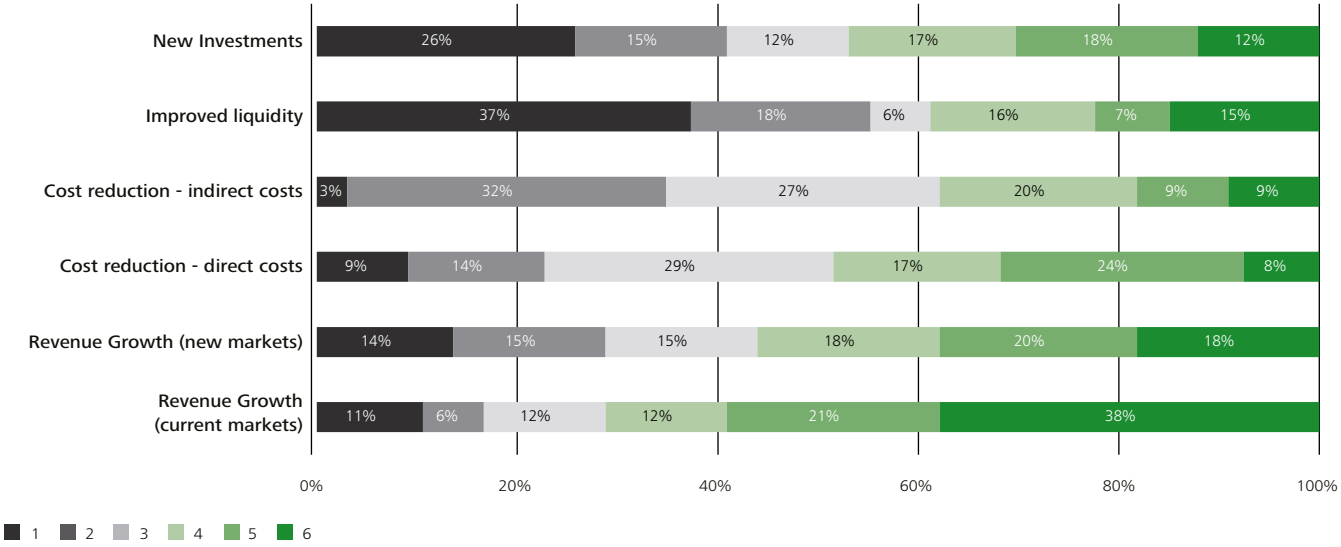
Company growth outlook

Companies growth outlook

Priorities and risk appetite

Growing revenues, primarily from current markets or from new markets – an expansionary strategy - remains the top priority for CFOs. Improved liquidity, which was most important during the recession, has significantly decreased in 2014 (8%) and continues the trend in late 2015 survey as 37% of CFOs selected it as least important. However, they have sharpened their focus on more aggressive strategies such as new investments.

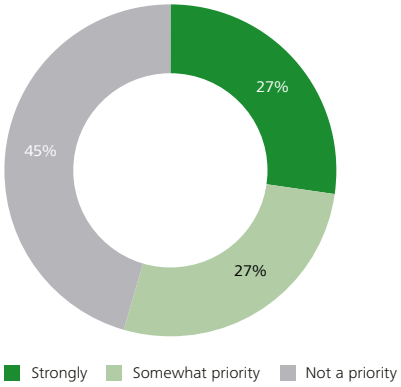
Business focus for the next 12 months (1 - least important, 6 - most important)



Remodeling and restructuring seems to be of a strong priority or somewhat a priority for more than half (54%) of the surveyed companies in the next 12 months. Our survey carried out in late 2014 showed similar results, as every fourth CFO saw remodeling and restructuring as a strong priority and had the same share of those who thought of it as a moderate priority. CFOs' view on the priority of restructuring can be backed up with several examples done in the last year, including Cimos, Tuš, Trimo, Avtotehna, Sava, Perutnina Ptuj and Paloma.

Despite an improvement in optimism regarding the financial prospects of surveyed companies and the increase in percentage of CFOs that deem the uncertainty is at a normal level, 2015 respondents saw a rise in investor risk aversion. CFOs moved away from taking greater risks onto their companies' balance sheet. Compared to the late 2014 survey, this percentage of CFOs almost halved in late 2015 survey from 16% to 9% in 2015. This result suggests that CFOs in Slovenia remain cautious and conservative.

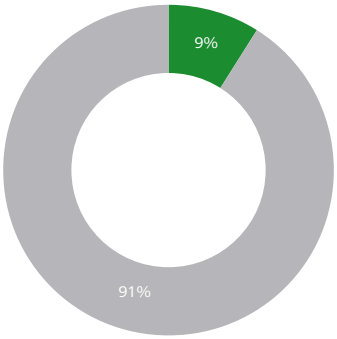
Expectations of the extent to which business remodeling / restructuring is likely to be a priority over the next 12 months



This indicator is the lowest among the group of 10 countries that took part in the latest edition of the survey. In CE region 27% of CFOs feel positive about taking greater risk on to their companies' balance sheets.

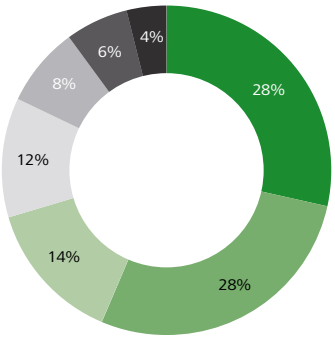
Structure of CFOs' main challenges their financial function is facing did not change much in the last three years. 28% of CFOs regard the reduction of operating costs as their main challenge. This is closely followed by the need to upgrade business processes (28%). Bad debt recovery remains in third place (15%). Debt restructuring has decreased by 50% as compared to the late 2014 survey and is now the challenge that is least picked among CFOs.

CFOs' views on whether now is a good time to be taking greater risk on to their companies' balance sheets



Yes No

CFOs' view on the main challenges they currently face



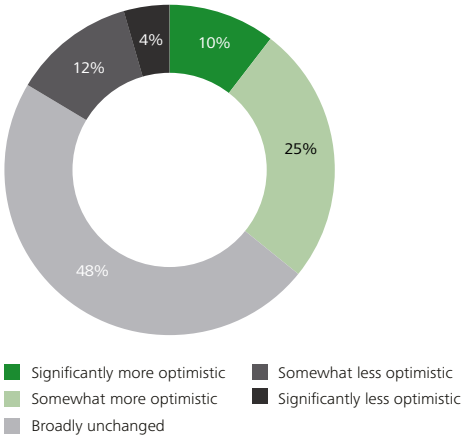
Reduction of operating costs
Upgrading of business processes
Bad debt recovery
Searching for new financing options for new investments
Balance sheet assets evaluation (impairment of assets)
Debt restructuring
Other

Growth forecast

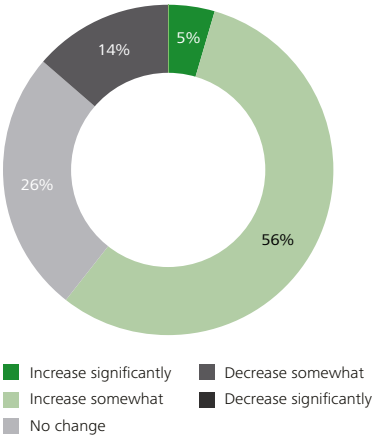
CFOs' outlook on the financial prospects of their companies did not change significantly in comparison to the survey carried out in 2014. It is not completely comparable since this year's survey asks them about the financial prospects compared to six months ago, while surveys in previous years compared them with 12 months ago. This might also be the reason why 48% of the surveyed CFOs feel like financial prospects of their companies' remained broadly unchanged, while 36% of them expressed optimism. The share of CFOs that feel less optimistic is 12%, followed by 4% who are significantly less optimistic in terms of financial prospects for their companies. Compared to the CE results, Slovenian CFOs are the second least optimistic, after Hungary (31%). Slightly more than half of CFOs in Central Europe have expressed optimism about the financial prospects for their companies compared with six months ago (51%), which is a slight increase compared to 2014 (48%).

For 2016, 61% of CFOs are expecting increase in revenues which is broadly in line with their focus for the next 12 months. Only 14% of respondents expect revenues to decline. On the CE level, the share of CFOs expecting an increase is even higher (66%).

Outlook on financial prospects compared with 6 months ago



Expected change of revenues over the next 12 months

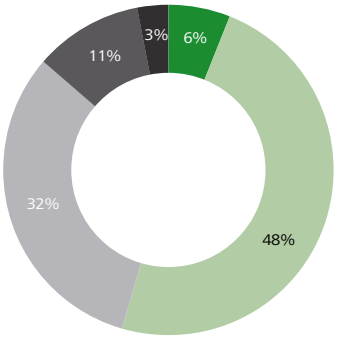


Consistent with expected increase in revenues, 55% of Slovenian CFOs expect increase of operating margins and the same share of CFOs (14%) expect its decrease.

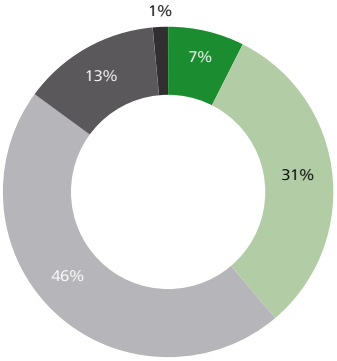
46% of CFOs do not expect change in capital expenditures (CAPEX) in 2016. This is comparable with the CE results, while on the Central European level more participants expect growth (41%).

Half of the surveyed CFOs don't expect any change in the number of employees. The share of companies that intend to employ (25%) and those that will be laying off (27%) is evenly divided.

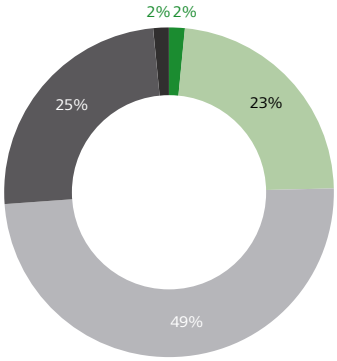
Expected change of operating margins over the next 12 months



Expected change of CAPEX over the next 12 months



Expected change in number of employees over the next 12 months



Increase significantly | Increase somewhat | No change | Decrease somewhat | Decrease significantly

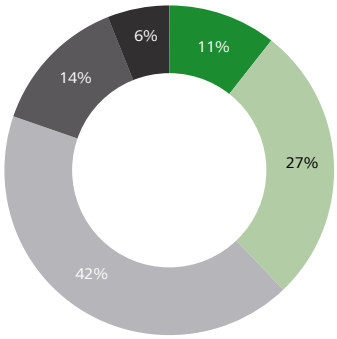
Debt & Financing

Bank loans are an attractive source of funding again

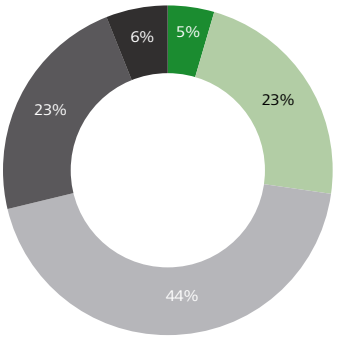
38% of surveyed CFOs stated that bank borrowings are attractive or very attractive, compared to 21% in the 2014 survey and 6% in the 2013 survey. Even though loans seem to be more accessible, the proportion of CFOs who perceive bank borrowings to be unattractive still remains at a relatively high level (20%). The percentage of participants that find bank borrowing neither attractive nor unattractive remained unchanged in the surveys from 2012 to 2014. In the 2015 survey it has decreased by 4 p.p. to 42%. Answers from the Slovenian CFOs are very aligned with their counterparts from Central Europe, though CFOs from Central Europe see bank borrowings by 3 p.p. more attractive than Slovenian CFOs (41% of CE CFOs see bank borrowings attractive or very attractive).

Raising corporate debt is attractive or very attractive to 28% of participating CFOs, 44% do not see it as attractive or unattractive, while 29% rate it as somewhat unattractive or very unattractive. On the CE level, the share of CFOs who find raising corporate debt as unattractive is the same as what was expressed by CFOs in Slovenia, though the share of those who see it as attractive is slightly higher (31%).

Current attractiveness of bank borrowing as a source of funding



The attractiveness of raising corporate debt as a source of funding



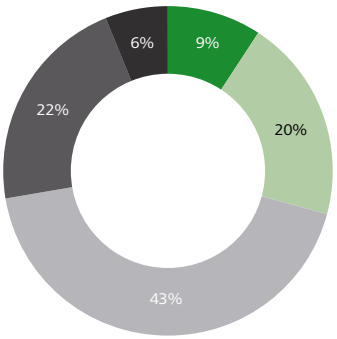
Very attractive | Attractive | Neither attractive nor unattractive | Somewhat unattractive | Very unattractive

Slovenia

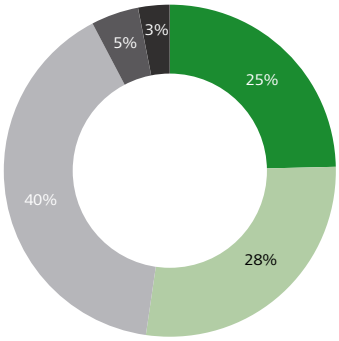
Previous surveys from late 2012 to late 2014 revealed a downward trend of the attractiveness of equity as a source of funding. In the 2015 survey, this trend has changed with an increase of CFOs' responding that equity is an attractive or very attractive source of funding for their companies. Since the overall availability of new credit and the attractiveness of bank borrowing as a source of funding has significantly increased, this is rather unexpected.

Internal financing as a source of funding is attractive or very attractive to 53% of participating CFOs. Only 8% of participants see it as unattractive or very unattractive.

The attractiveness of raising equity as a source of funding



The attractiveness of internal financing as a source of funding



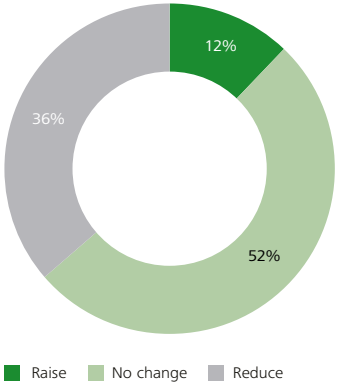
Very attractive | Attractive | Neither attractive nor unattractive | Somewhat unattractive | Very unattractive

Most CFOs in Slovenia remain cautious on the subject of gearing with only 12 % of participants that are aiming for a raise. Results mirror the proportion of CFOs who say that now is a good time to take greater risk on to the balance sheet. The share of CFOs that are aiming for a reduction in their level of gearing has increased by 4 p.p. compared with the 2014 survey. Effort to reduce gearing within CE CFOs is the strongest in Slovenia (36%), followed by Poland (34%) and Bosnia and Herzegovina (33%).

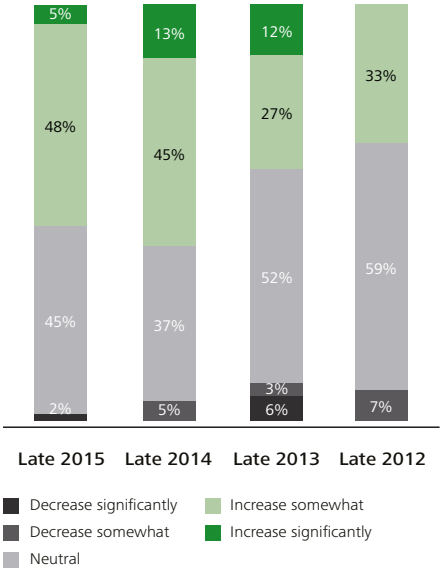
Rising financial costs

While optimism among CFOs and their ability to service debt was increasing throughout the past three years, it cooled somewhat in the 2015 survey. 53% of participating CFOs expressed confidence that the ability of their companies to service debt will improve in years to come (compared to 58% in late 2014). Decreased confidence consequently increases the share of CFOs who believe that the ability to service their debt will remain the same at 46% (from 37% in the 2014 survey). A minority (2%) of the participants expected their ability to service debt to worsen.

Expected change of level of gearing for companies over the next 12 months



Expected changes in companies' ability to service debt over the next three years



Slovenia

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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.

The figures in this report have been rounded to the nearest whole number (percentage) and calculation of percentages may be based on underlying, unrounded figures. As a result, there may be rounding differences and numbers may not add up to 100%.