



Positive expectations in a testing time

Central Europe CFO Survey 2017

8th edition

The **CFO** Program

Contents

Introduction	05
Key findings	06
Methodology	08
CFO Confidence Index	11
Economic outlook	13
Business environment outlook	25
Company growth outlook	43
CFO Role	57
Contacts	63



As last year, CFOs are clearly more confident about the future of their own organisations than the wider business environment in which they operate. This time, however, they are significantly more positive about their countries' economic prospects.

Introduction



Gavin Flook
CE CFO Program Leader
Deloitte Central Europe

CFOs across Central Europe are looking ahead to the next year with increased confidence, bolstered by 2016's accelerating growth rates and falling unemployment in most countries across the region.

This predominating trend sets the context for the findings of this eighth edition of the Deloitte Central Europe CFO survey report, building on the perceived stability of the economic environment that we have reported for the last two years.

This year's edition includes the second CFO Confidence Index, which again indicates the overall positivity of our respondents' outlook for the year ahead. This is covered in detail in the first chapter of this report, and shows a significant 29-point rise in economic confidence over last year. While this optimism is not fully reflected in their expectations for the business environment, most CFOs nonetheless anticipate a good year ahead for their own companies.

Chapter 2 covers the economic outlook for the region, and once again reflects such optimistic attitudes with CFOs collectively anticipating positive growth rates for all countries covered by the report. In a new question this year, we asked CFOs about their opinions on Brexit. While the response was mixed – with opinions split between positive and negative expectations – there was some shared ground in expectations of restricted workforce mobility and decreased export opportunities.

In Chapter 3, we investigate the outlook for the business environment in which our CFOs operate. This is widely seen as uncertain, leading many respondents to resist any urge to take more risk on to their balance sheets. The greatest proportion of respondents feel that attracting suitably qualified employees and downward pricing pressures will be among the most pressing challenges they face.

Despite such concerns, CFOs are highly optimistic in their expectations for their own businesses during 2017. Chapter 4 describes their confidence in their companies' ability to operate successfully in a testing business environment. Part of this confidence appears to be based on their continuing risk-aversion and the strict cost controls they plan to implement, complementing the rising revenues that many anticipate during the year ahead.

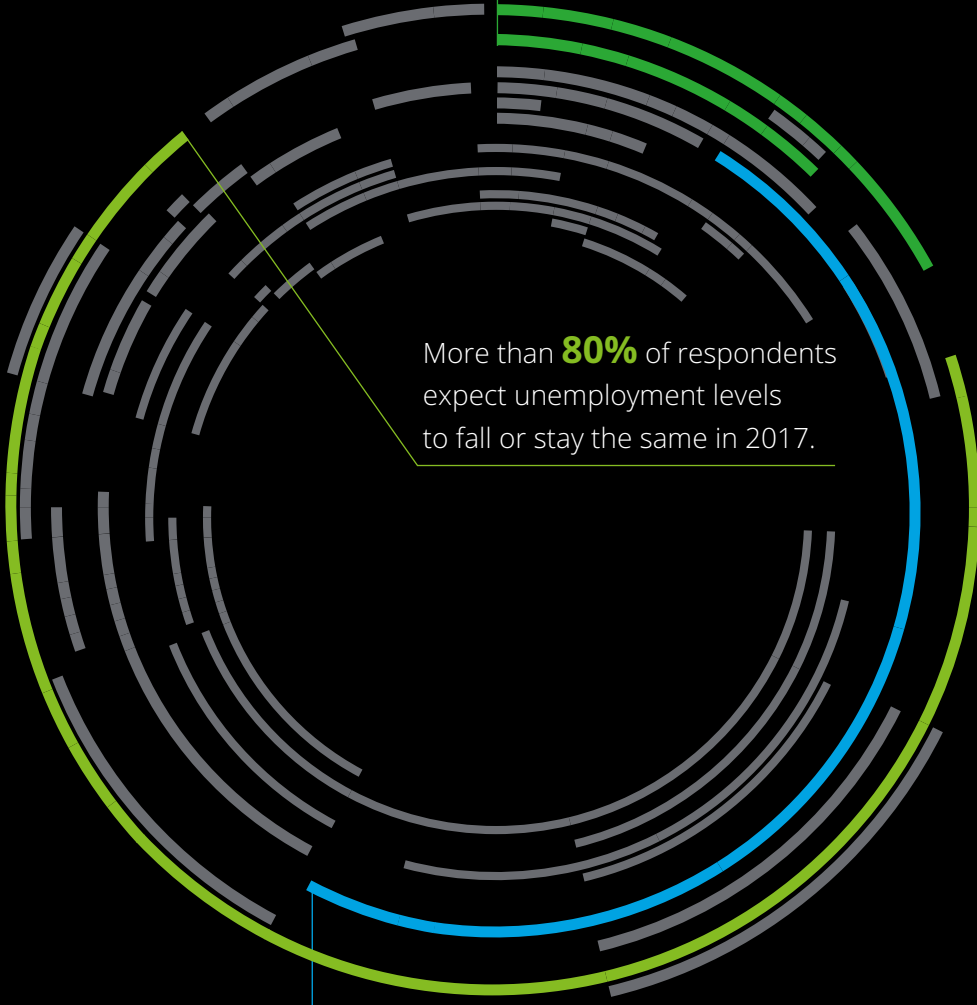
In the last chapter of the report, we look more closely at CFO responsibilities and our participating CFOs' own attitudes to them. Which do they see as most important? To what extent is the CFO role still purely finance-oriented? How much emphasis do they place on system control and supervision? And how do their views differ between sectors and according to their company revenue levels or proportion of foreign investment?

As last year, CFOs are clearly more confident about the future of their own organisations than the wider business environment in which they operate. This time, however, they are significantly more positive about their countries' economic prospects. It will be very interesting to see how their expectations are reflected by the events across our region of the next 12 months.

Key findings

Economic outlook

CFOs are very optimistic about GDP growth in 2017 – **21%** expect growth of more than 2.6% and **41%** growth between 1.5 and 2.5%. **None** of the CFOs expected negative GDP growth rates.

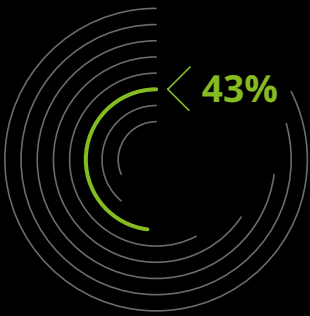


More than **80%** of respondents expect unemployment levels to fall or stay the same in 2017.

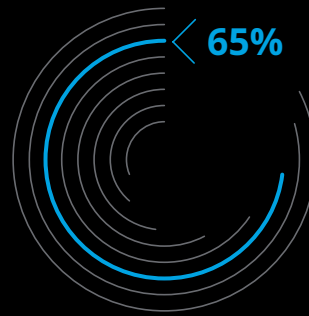
73% of CFOs expect the Consumer Price Index to rise over the next 12 months.

Business environment outlook

CFOs from European Union countries are more pessimistic about the consequences of Brexit (**58%**) than those from eurozone countries (**22%**). Their greatest concerns are around changes in EU regulations.



The level of uncertainty is unchanged from last year, with **43%** of respondents rating the business environment as highly uncertain.



65% of CFOs do not believe this is a good time to take more risks.

Company growth outlook



While CFOs see the shortage of qualified candidates as the greatest challenge to their businesses in 2017, **42%** expect the number of employees in their companies to increase.



82% of CFOs expect workforce costs to increase.



Despite the expected good financial situation, CFOs remain cautious: **71%** expect their company revenues to rise over the next 12 months, but **31%** rank cost control as their biggest priority for 2017.



Methodology

About the data

The findings discussed in this report represent the opinions of almost 600 CFOs based in 12 Central European countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

The survey was conducted between August and October 2016.

The expression "Euro zone" used on the charts and infographics in this report refers to the surveyed Central European countries who adopted the European currency, and "Non-Euro zone" countries refers to the other surveyed CE countries. The expression "EU" used on the graphs and infographics in this report refers to surveyed Central European countries who are full members of the European Union.

Some of the charts in the report show results as index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither positive nor negative are deemed to be neutral. Due to rounding, responses to the questions covered in this report may not aggregate to 100.

Some findings include a comparison with those in the previous edition of the survey, based on a sample of 11 countries who appear in both editions.

The Deloitte Central Europe CFO Confidence Index consists of three sub-indices that reflect CFOs' optimism (or lack of it) about three key issues: economic processes (the Economy Confidence Index); the business environment (the Business Environment Confidence Index); and prospects for the development of their companies (the Company Perspective Index).

The sub-indices are a mean of the net balance index for selected questions. The main index is a mean of the sub-indices and assumes values between - 100 and 100, with - 100 meaning that a given CFO provided only pessimistic answers and 100 meaning only optimistic ones.

The Economy Confidence Index is based on questions concerning economic growth, unemployment and the Consumer Price Index (CPI).

The Business Environment Confidence Index is based on questions concerning uncertainty, risk, operational expenses, the attractiveness of different sources of funding and opinions about the M&A market. The Company Perspective Index is based on questions concerning the company's future, financial condition (revenue, debt-servicing capabilities, capital expenditure and margins), its predicted level of gearing and employee numbers.

The findings discussed in this report represent the opinions of

600 CFOs

based in

12 Central European countries:

Bosnia and Herzegovina (BA), Bulgaria (BG), Croatia (HR), the Czech Republic (CZ), Hungary (HU), Lithuania (LT), Poland (PL), Romania (RO), Serbia (RS), Slovakia (SK), Slovenia (SI) and Ukraine (UA).

The report was prepared in cooperation with Mateusz Trochymiak, Expert in Institute for Labour Market Analyses.

- 
- A map of Eastern Europe with country codes in white circles. The highlighted countries are: Lithuania (LT), Poland (PL), Ukraine (UA), Czech Republic (CZ), Slovakia (SK), Hungary (HU), Romania (RO), Slovenia (SI), Croatia (HR), Bosnia and Herzegovina (BA), Serbia (RS), and Bulgaria (BG). The map is set against a dark grey background.
- | | | | |
|----|------------------------|----|----------|
| BA | Bosnia and Herzegovina | PL | Poland |
| BG | Bulgaria | RO | Romania |
| HR | Croatia | RS | Serbia |
| CZ | Czech Republic | SK | Slovakia |
| HU | Hungary | SI | Slovenia |
| LT | Lithuania | UA | Ukraine |

LT

PL

UA

CZ

SK

HU

RO

SI

HR

BA

RS

BG

CFO Confidence Index

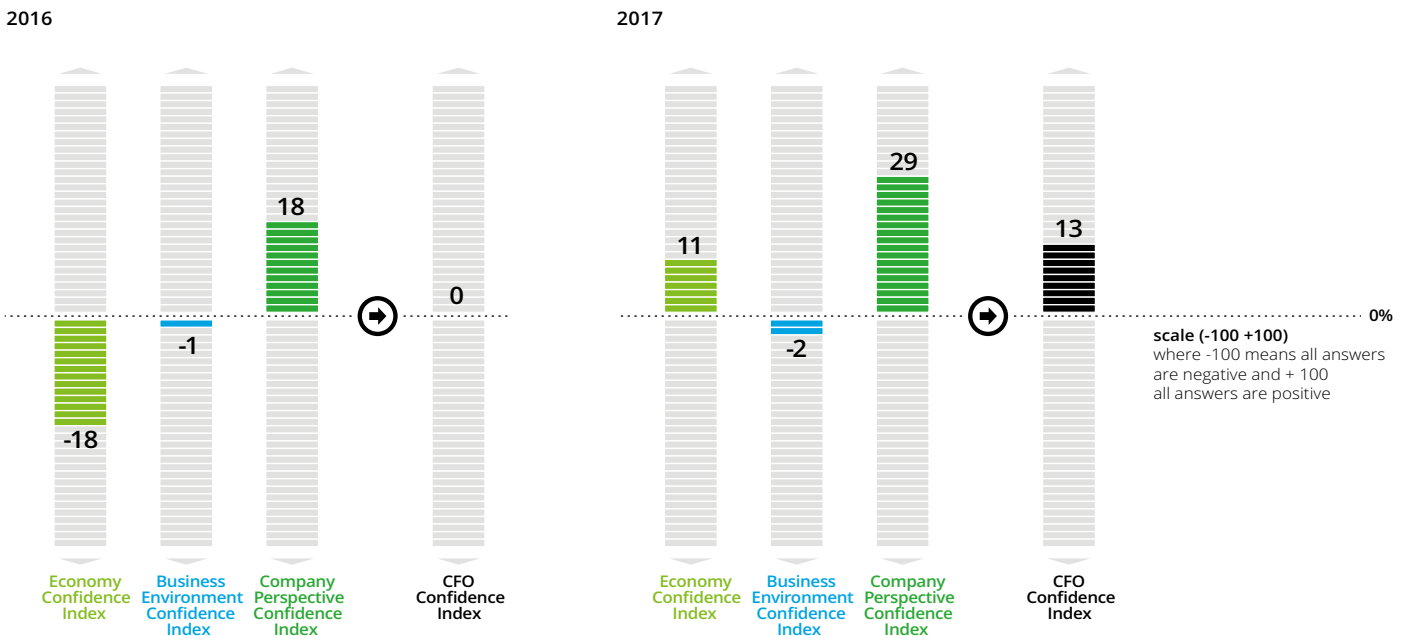
CFOs are clearly optimistic about the changes they anticipate in 2017. The CFO Confidence Index has a positive value of 13, which stands in sharp contrast to last year's more pessimistic predictions.

We can observe the biggest change in the participating CFOs' outlook on the economy. The index has risen by an impressive 29 points, indicating a striking change in attitudes. The economic situation continues to improve, leading to improving expectations for the future.

Predicted changes in the business environment show little change. The CFOs are very cautious about the future, and their optimism has deteriorated slightly since last year (-1 point compared to 2016). This means that although they expect the economy to improve, they anticipate almost no change in the business environment of Central European countries.

However, CFOs are optimistic about their companies' prospects in 2017. Despite the unfavourable institutional environment, they expect positive change to take place in their companies and their overall condition to improve. Participants are even more optimistic in this regard than they were last year (with an increase of 11 points over 2016).

Positive expectations in a testing environment.





"The countries of Central and Eastern Europe may end up bearing a more than proportional risk of financial instability in the European Union. A messy Brexit, and potentially similar attempts by others, may hit peripheral EU countries harder, as these newer members stand to benefit more from a larger and more stable union. In a way, I see some – but not all – Central European countries as more stable than their western counterparts. Most of them pursued sound and reformist economic policies. Some of the smartest countries, such as Poland and the Czech Republic, did not rush to join the eurozone, enabling them to weather the storm somewhat better than the rest of us."

Peter Groznik, CFO, Gorenje d.d.

Economic outlook

The economic growth rate in Central European countries accelerated in 2016, and most countries in the region saw falling unemployment. These economic improvements are leading to a positive outlook on the future.

Unlike the previous year, CE-based CFOs are optimistic about the future for the economy: the Economic Confidence Index rose to +11 in 2017, up from -18 in 2016.

Negative GDP growth is not expected in any of the countries covered by the research. CFOs predict average GDP growth of 1.9%.

The CFOs we questioned for the 2016 survey expected a higher rate of GDP growth than was achieved during the year. However, growth during the third quarter of 2016 surpassed their predictions.

CFOs also expect such positive changes to have an impact on unemployment rates, with the majority of respondents predicting a larger fall than we saw the previous year.

Most CFOs expect Consumer Price Index to rise in 2017. There was widespread agreement among CFOs from all countries, sectors and sizes of company on this issue and on their expectations for GDP growth and falling unemployment.

This year we asked the CFOs for their opinions on the consequences of Brexit. The responses were mixed. It appears that the severity of the consequences they predict depends more on the sectors in which their companies operate than on whether or not they are based in member-states of the EU or eurozone. The CFOs of companies in the Life Science and Consumer Business sectors are the most worried, while those in the Energy, Utilities, Mining and Public sectors expect Brexit to bring positive changes.

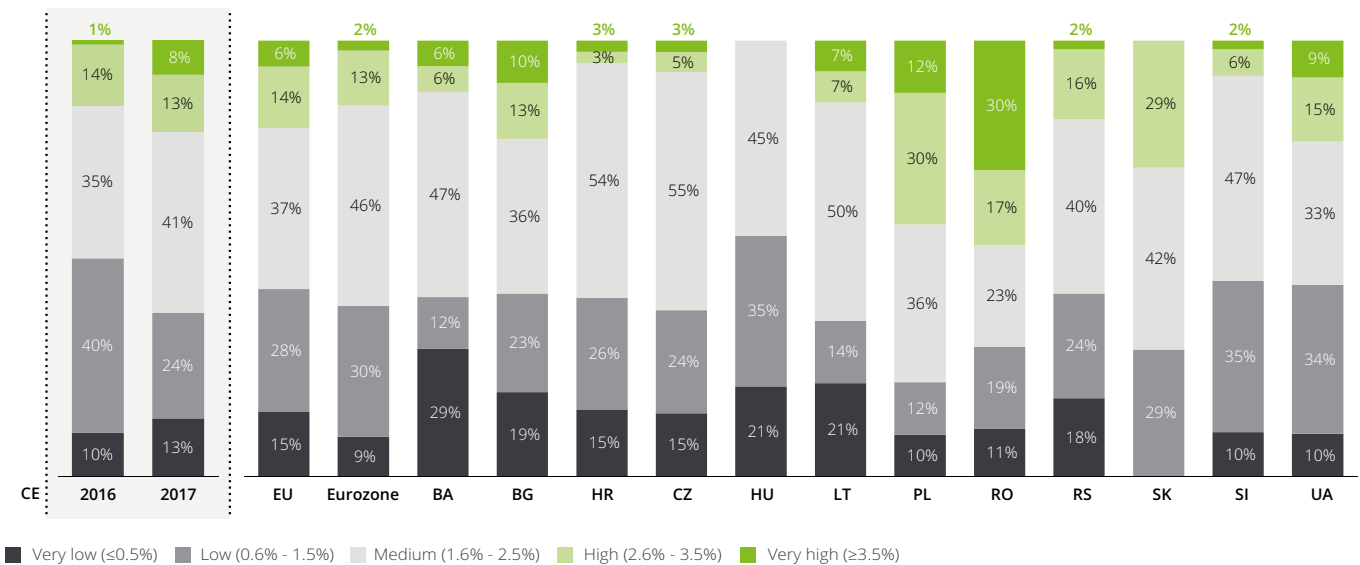
The two most frequently mentioned consequences of Brexit were restrictions in workforce mobility and decreased export opportunities due to tariff barriers.

CFOs expect GDP growth

The CFOs' expectations for GDP growth are much more optimistic than they were last year. The mean predicted GDP growth (on a scale from -5% to 5%) is 1.9%. Over 21% of the respondents believe that GDP growth in 2017 will reach 2.6% or more, which marks a 6 percentage-point increase over 2015. The largest group in the survey (41%, 6 percentage points more than last year) expects moderate GDP growth (1.6%-2.5%), while 37% predict slow growth (<0.5% - 1.5%).

Romanian and Polish CFOs are particularly optimistic about economic growth, with 47% and 42% respectively expecting GDP growth of over 2.6%. Hungarian and Slovenian CFOs are the least optimistic about the future, with 56% and 45% respectively expecting GDP growth of 1.5% or less. CFOs in eurozone countries expect GDP growth of 1.4%, compared to 1.7% expected by those from EU member states.

What is your expectation for the country economic GDP growth for the year 2017?



The rising optimism of participating CFOs is caused by the improving economies of CE countries (Figure 1). The economies of all of the countries included in the study grew during the third quarter of 2016 at a rate of growth that was significantly higher than CFOs expected in the previous survey. Only Lithuanian (51%), Czech (43%), Hungarian (31%) and Slovakian (31%) CFOs were close to being on the mark with their predictions last year. Those based elsewhere underestimated the GDP growth ultimately achieved by their countries.

Figure 1. Predictions of GDP Growth in 2016 vs real GDP Growth in 2016¹²

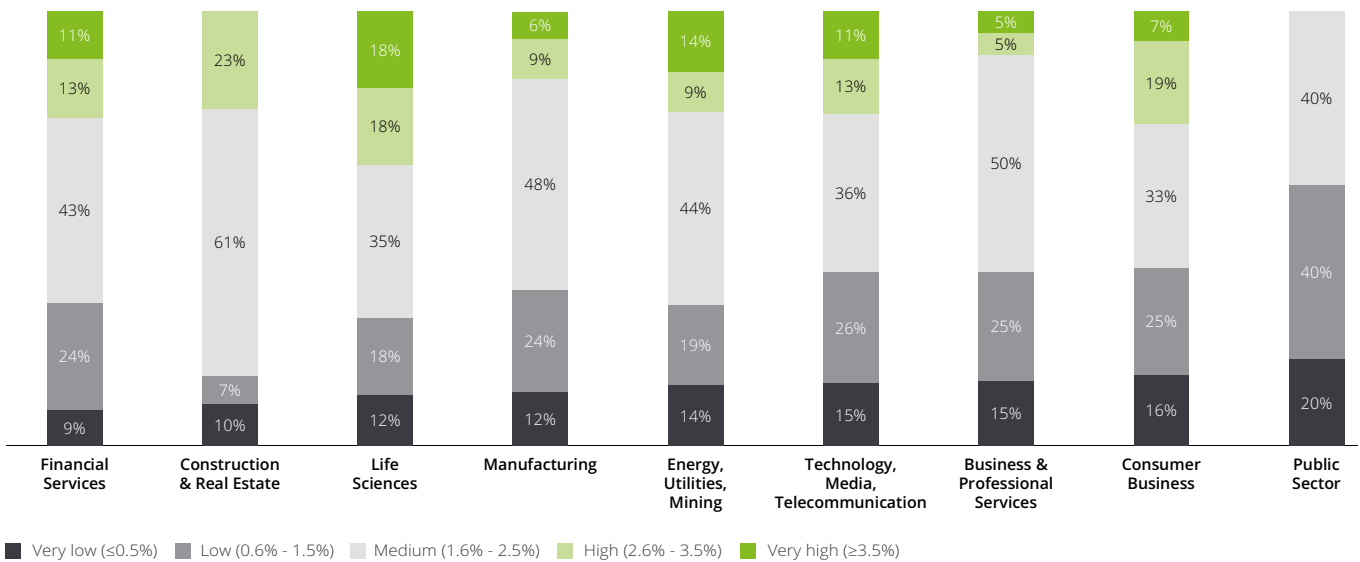
Country	Expected 2016 GDP					GDP Growth Q3.2016
	Very low (≤0.5%)	Low (0.6% - 1.5%)	Medium (1.6% - 2.5%)	High (2.6% - 3.5%)	Very high (≥3.5%)	
Bosnia and Herzegovina	17%	83%	0%	0%	0%	2.3%
Bulgaria	0%	52%	48%	0%	0%	3.5%
Croatia	22%	70%	8%	0%	0%	2.8%
Czech Republic	5%	23%	43%	27%	2%	1.9%
Hungary	25%	31%	31%	10%	2%	2.0%
Lithuania	2%	36%	51%	10%	2%	1.7%
Poland	7%	17%	14%	55%	7%	2.5%
Romania	9%	31%	36%	24%	0%	4.4%
Serbia	26%	68%	3%	3%	0%	2.5%
Slovakia	0%	25%	38%	31%	6%	3.0%
Slovenia	2%	35%	61%	3%	0%	2.7%

1 Ukraine didn't participate in the previous edition of survey.

2 Data obtained from: <http://pl.tradingeconomics.com/country-list/gdp-annual-growth-rate> (accessed November 2016).

The CFOs of Life Science and Financial Services companies were the most optimistic about future GDP growth (with 36% and 24% of respondents respectively predicting it to exceed 2.6%). Public Sector CFOs were the most pessimistic, with 60% anticipating GDP growth of 1.5% or less.

What is your expectation for the country economic GDP growth for the year 2017?



Unemployment will continue to fall

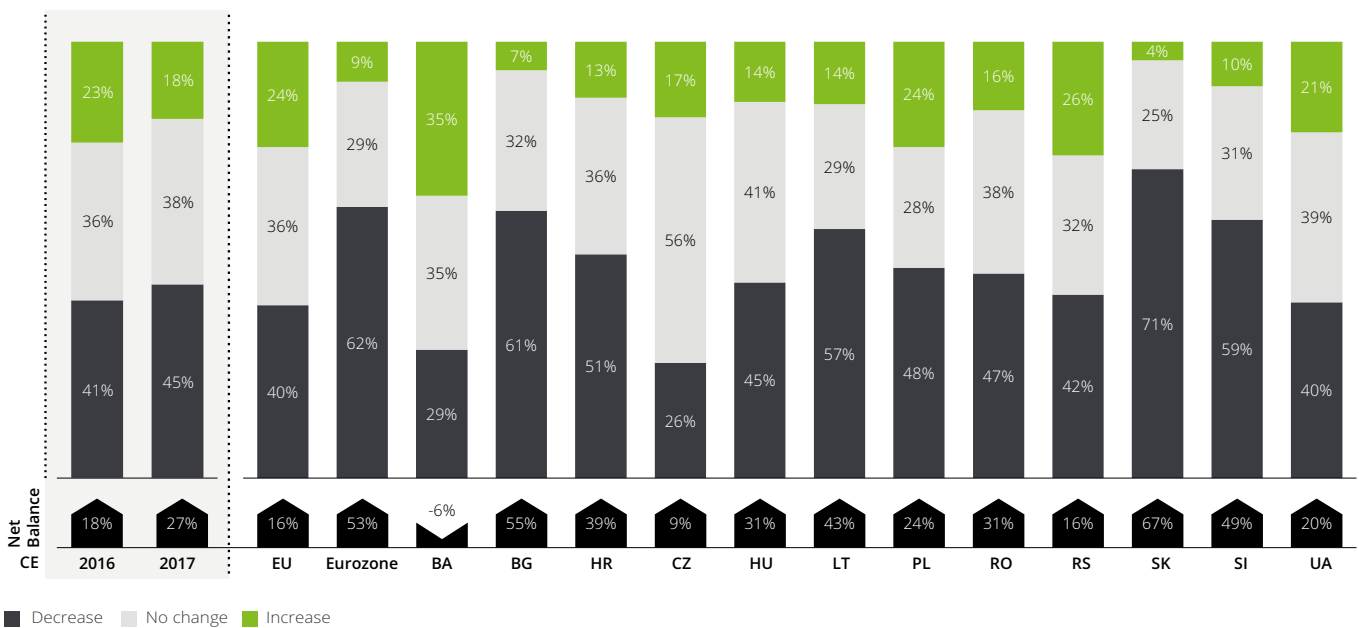
Similarly to last year, CFOs expect unemployment levels to fall. Only one in five respondents predicts that unemployment will rise, and 38% believe that it will remain stable. The Net Balance index has grown by 9 percentage points from last year, indicating the growing optimism of CFOs.³

CFOs from most countries in the study are optimistic about unemployment, with those from Slovakia (71%) and Bulgaria (61%) expecting the biggest falls. CFOs

from Bosnia and Herzegovina are the only ones making negative predictions (with a -6% Net Balance), which might be a result of the country's very high and growing unemployment rate (41%)⁴. CFOs from countries with the healthiest job markets – the Czech Republic and Hungary (both with 5% unemployment rates) – have the most positive view of the employment situation. They have Net Balances of 9% and 31% respectively, and do not expect the situation to change (56% and 41% respectively).⁵ We should also note a

difference in the opinion of CFOs from the eurozone and the EU: the former are much more optimistic (with respective Net Balances of 53% and 16%).

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



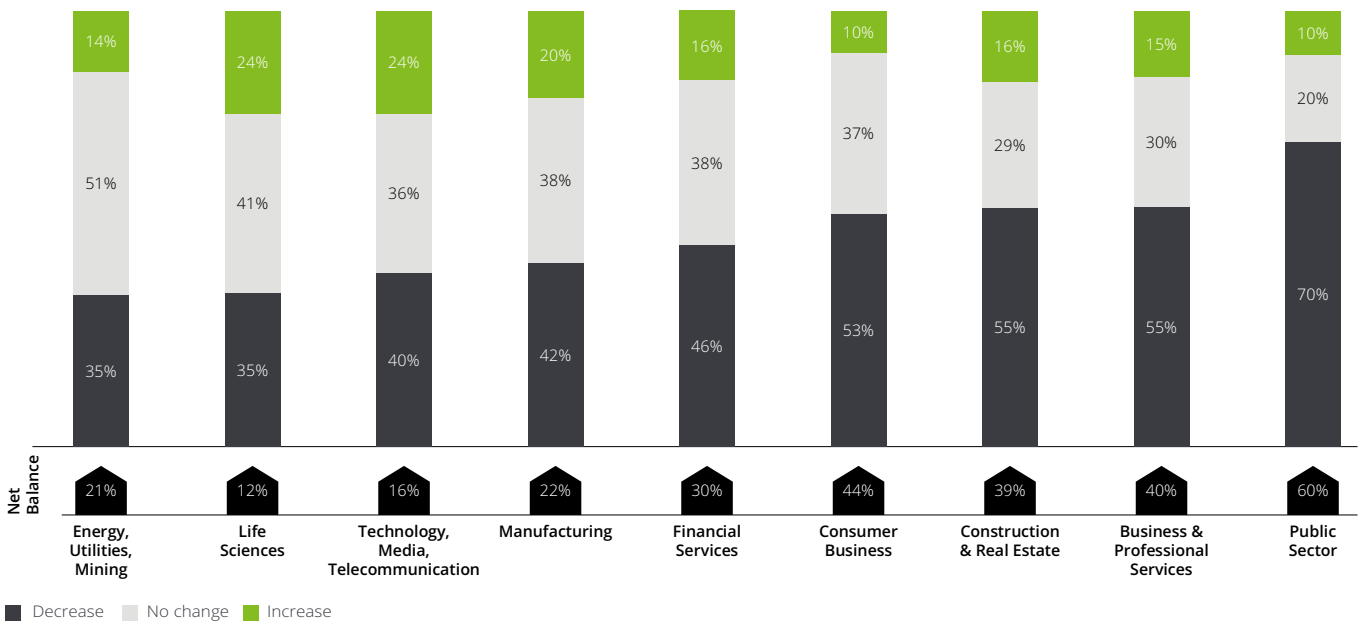
³ Net Balance = positive answers - negative answers. Net Balance above "0" always means positive opinion, net balance below "0" always means negative opinion.

⁴ Data obtained from: <http://pl.tradingeconomics.com/country-list/unemployment-rate> (accessed November 2016).

⁵ Ibid

Public Sector CFOs continue to have the most optimistic expectations regarding unemployment levels (with a Net Balance of 60%), followed by those from the Business & Professional (40%) and Consumer Business (44%) sectors. Most Energy, Utilities, Mining CFOs expect unemployment levels to remain stable (51%), while those from Technology, Media, Telecommunications and Life Sciences (with Net Balance of 16% and 12% respectively) are the most pessimistic about the future.

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

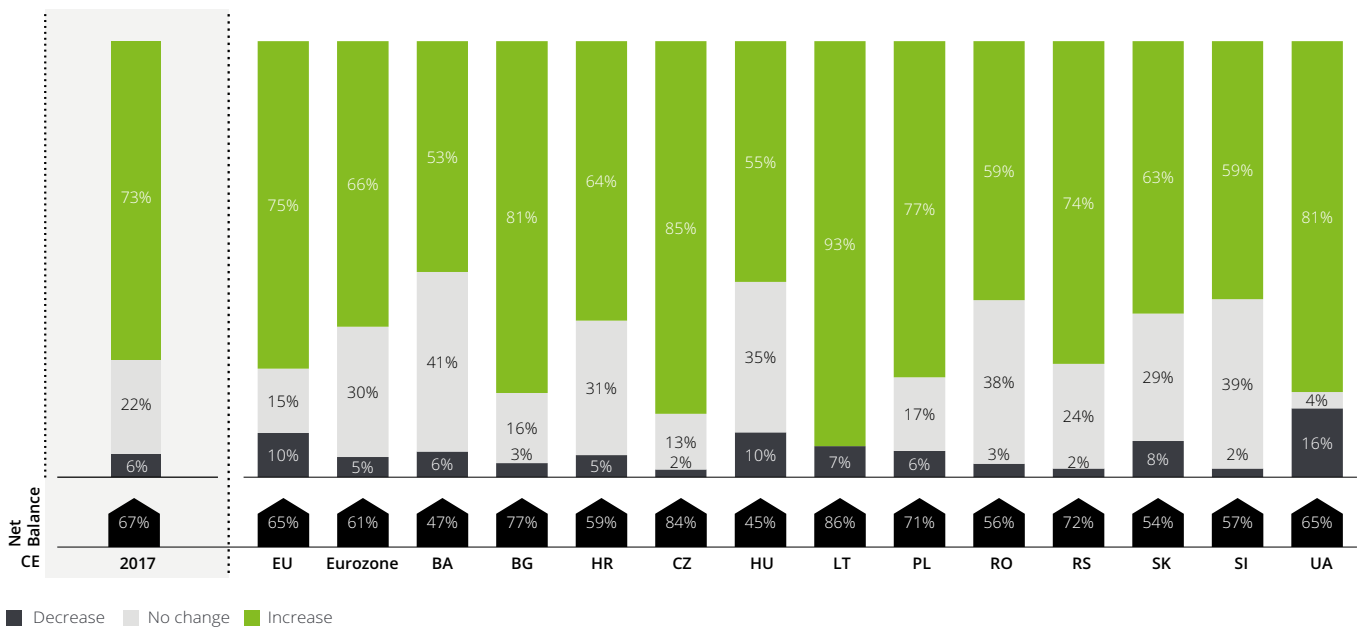


Consumer Price Index expected to rise

Almost 73% CFOs expect Consumer Price Index to rise over the next year. These expectations are consistent with the position of the CE countries within the business cycle and rising commodity prices. Relatively low expectations of falling CPI may suggest declining worries about deflation. The rapid growth of the CPI usually means that we can expect an inflation. However CFO's predicaments not necessarily means that situation will go in this direction – the increasing year by year CPI is rather natural situation.

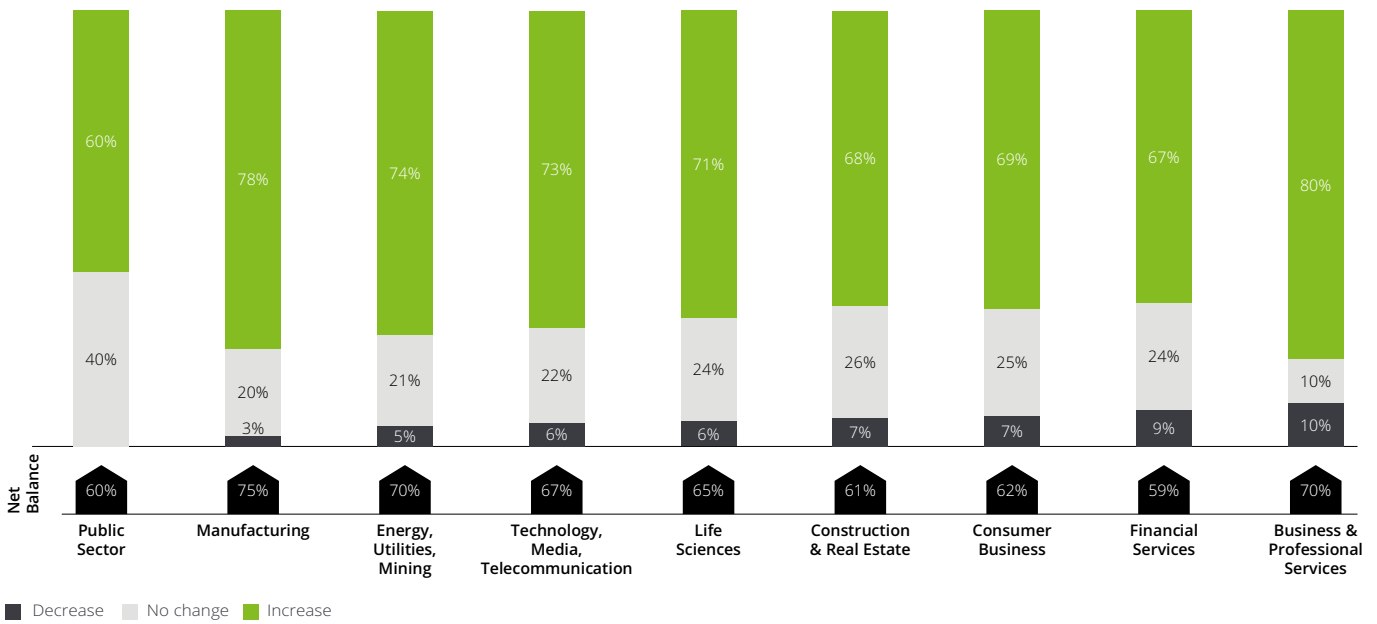
There were no major differences between the opinions of CFOs from different countries – all of them expect the CPI to rise. Those from Bosnia and Herzegovina were somewhat more cautious in their approach (with 41% expecting no change), as were their peers from Slovenia (39%) and Hungary (35%). Lithuanian and Czech CFOs were expecting rises in CPI (93% and 85% respectively).

Over the next 12 months how do you expect CPI (Consumer Price Index) levels to change in your country?



CFOs from all sectors expect CPI to rise over the next year. However, those from the Public Sector were more restrained in their opinions than CFOs from other sectors, with 40% expecting no change.

Over the next 12 months how do you expect CPI (Consumer Price Index) levels to change in your country?



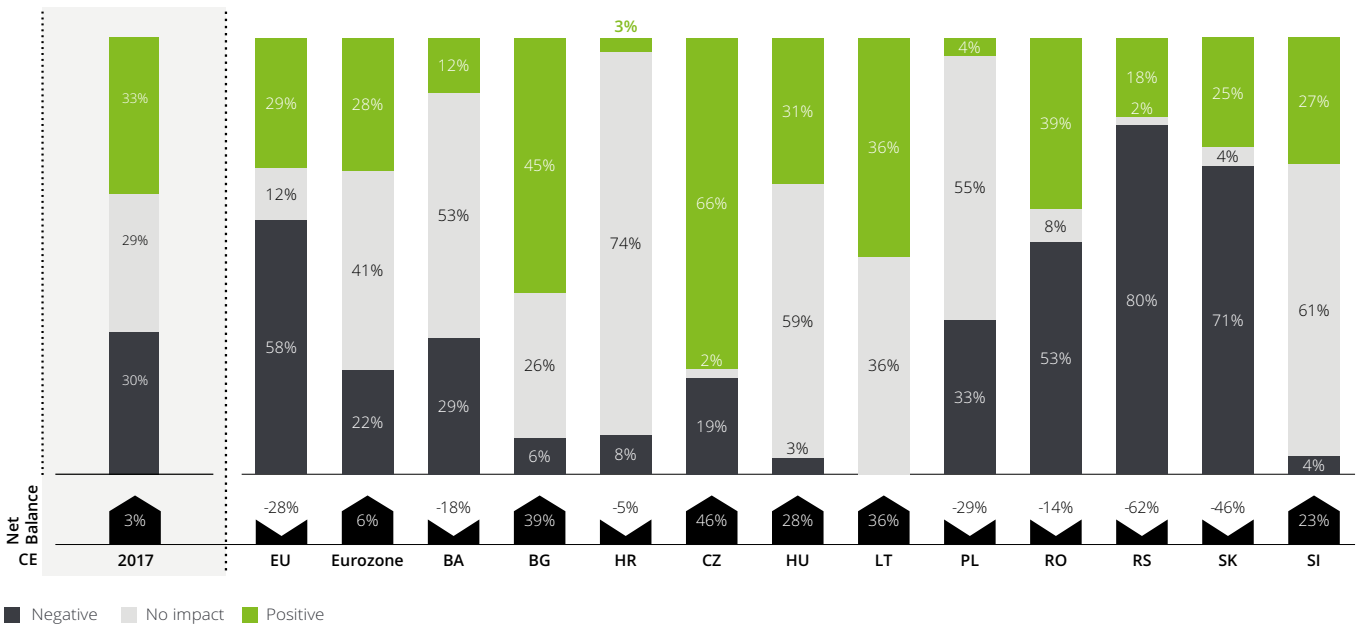
CFOs have differing opinions on the consequences of Brexit

CFOs hold varying views on the possible consequences of the UK leaving the European Union. Close to 33% expect Brexit to deliver positive outcomes, while 30% predict the opposite. In addition, almost 29% believe that it will not affect their companies.

It comes as no surprise that CFOs from EU countries have a pessimistic view of the possible consequences of Brexit (with a Net Balance of -28%). This contrasts with the opinions of eurozone CFOs who expect it to have no impact at all (41%). There

are also significant differences between neighbouring countries. For example, Polish CFOs either do not expect any changes to follow in the wake of Brexit (55%) or expect what changes there are to be negative (with a Net Balance of -29%). Czech CFOs, on the other hand, mostly believe that Brexit will result in positive outcomes (46%). Such conclusions show that CFOs' opinions on the likely impact of Brexit on their business are not determined by their countries' membership of the eurozone or the EU.

How will the Brexit negotiations between the EU27 and the UK impact your business?

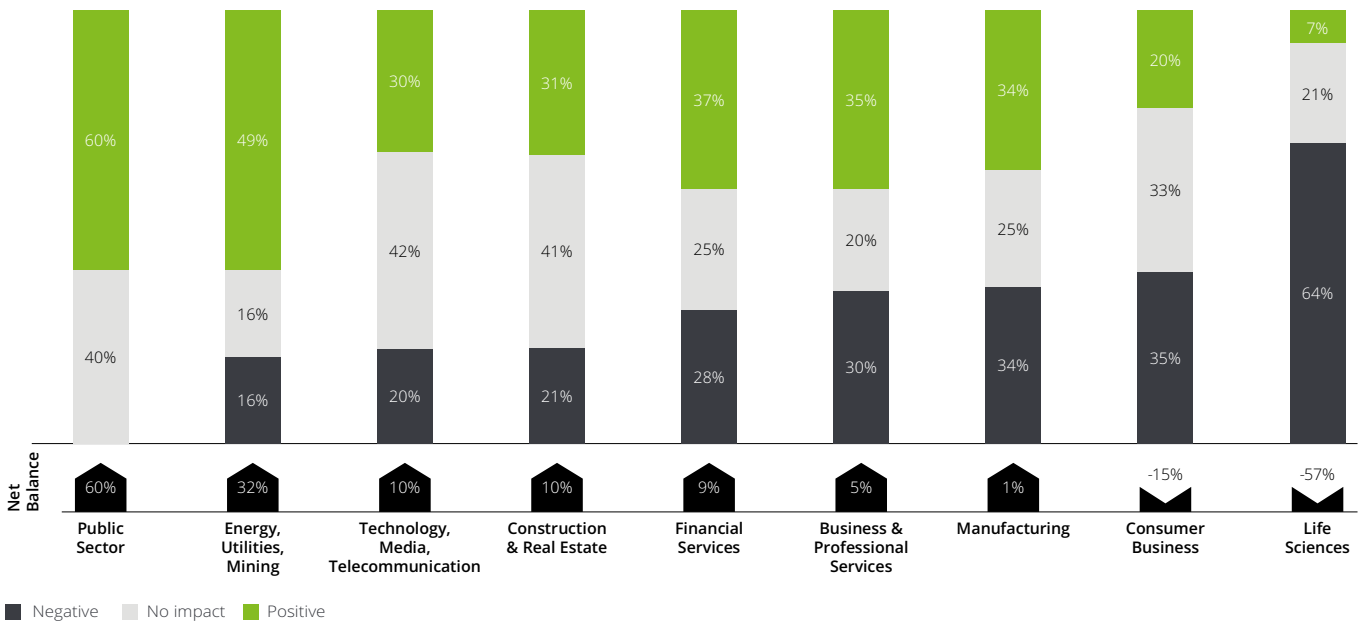


For this question we do not present the results for Ukraine due to the insufficient number of responses.

The opinions of the participating CFOs vary greatly from sector to sector. Those from the Public and Energy, Utilities, Mining sectors are the most optimistic (with Net Balances of 60% and 32% respectively). Life Sciences and Consumer Business CFOs are the most worried about the possible negative consequences of Brexit (showing Net Balances of -57% and -15% respectively). Most CFOs from the Technology, Media, Telecommunications and Construction & Real Estate sectors do not anticipate any consequences for their businesses (42% and 41% respectively).

Participants from companies operating in other sectors have mixed opinions on Brexit.

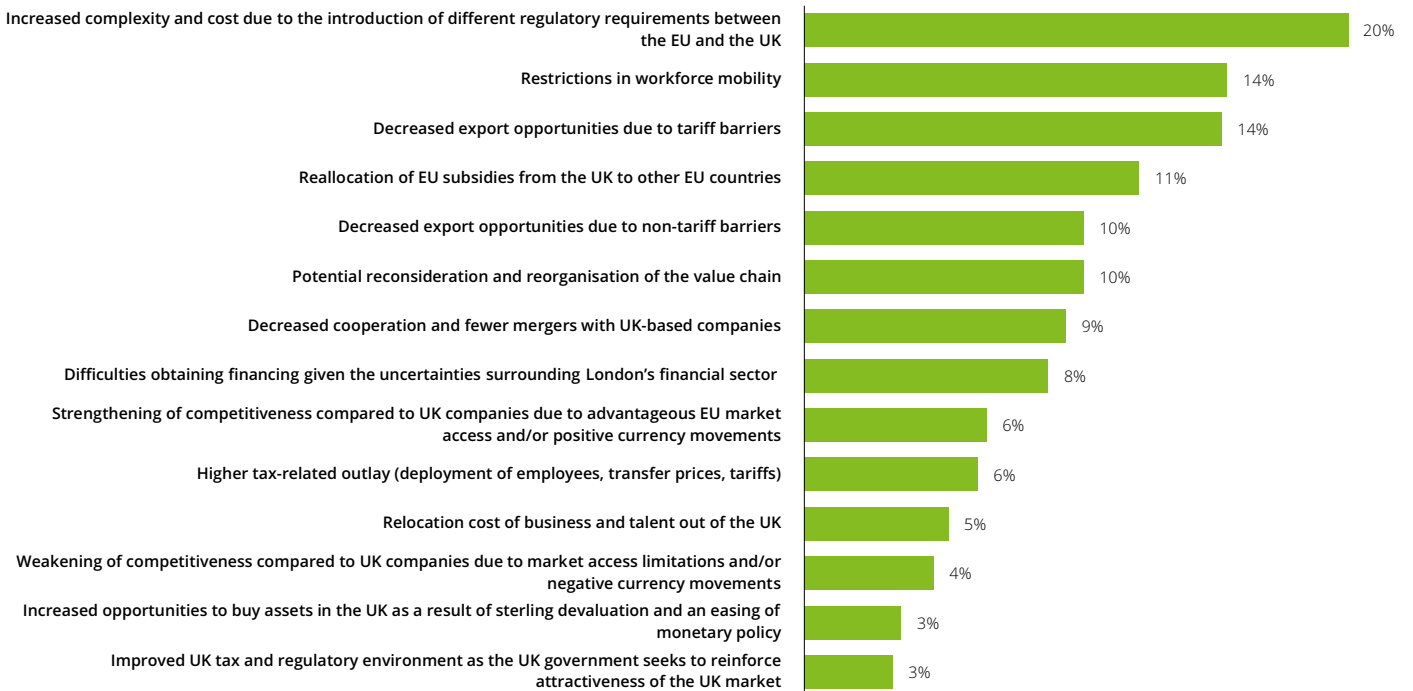
How will the Brexit negotiations between the EU27 and the UK impact your business?

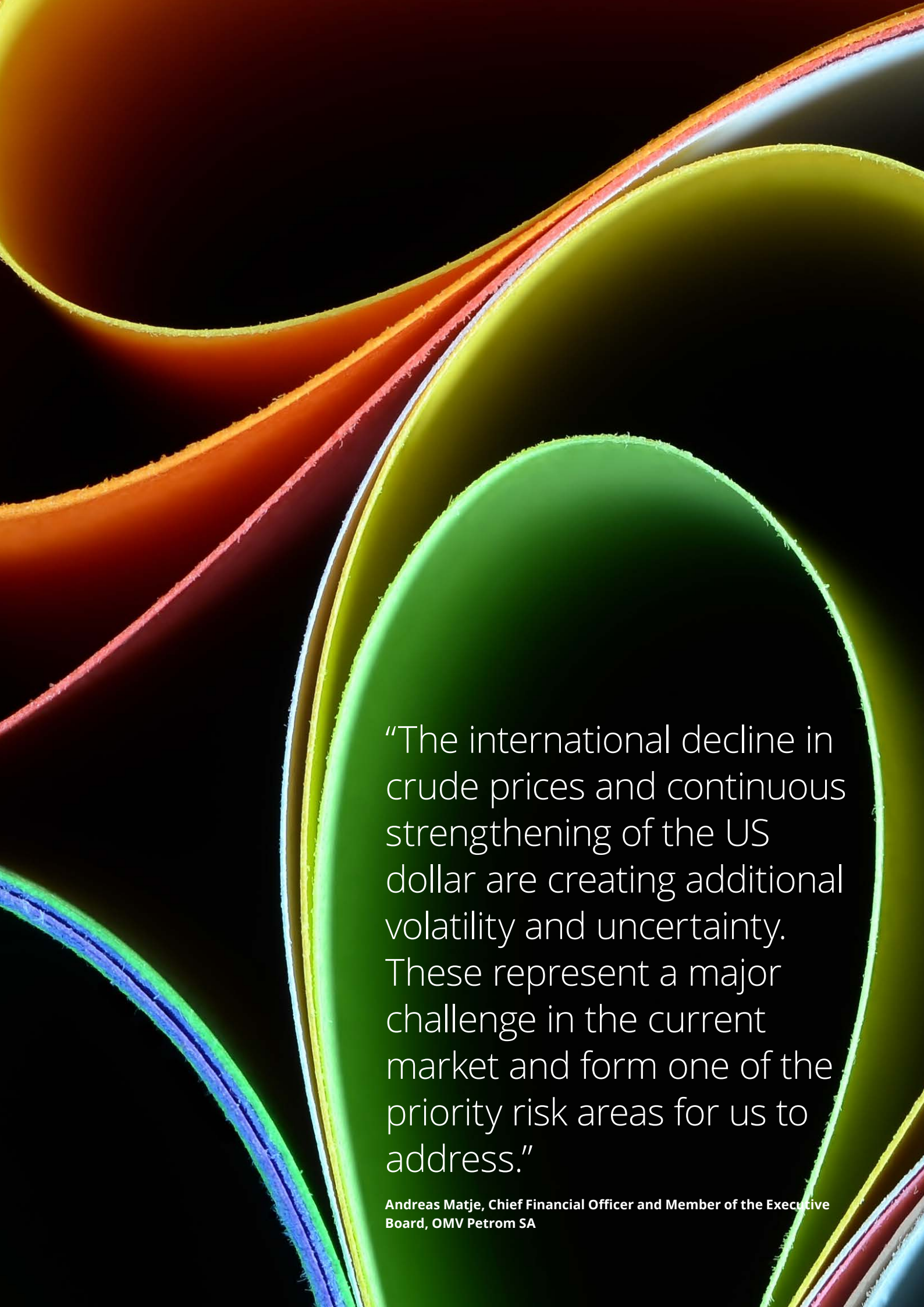


One-fifth of CFOs are concerned that Brexit may lead to increased complexity and cost due to the introduction of different regulatory requirements between the EU and the UK. 14% of respondents expect restrictions in workforce mobility and decreased export opportunities due to tariff barriers. Only 3% expect improvements in the UK's tax and regulatory environment as the UK government seeks to reinforce the attractiveness of the UK market. A similar proportion anticipates increased opportunities to buy assets in the UK

following some devaluation of sterling and an easing in monetary policy.

How do you think your business would be affected if the UK leaves the EU?





“The international decline in crude prices and continuous strengthening of the US dollar are creating additional volatility and uncertainty. These represent a major challenge in the current market and form one of the priority risk areas for us to address.”

Andreas Matje, Chief Financial Officer and Member of the Executive Board, OMV Petrom SA

Business environment outlook

The business environment remains uncertain and is not encouraging firms to take risks. Many CFOs are concerned about forthcoming changes in economic law and tax law that may have a negative impact on their company bottom lines.

CFOs feel the downward market pressure on the price of the goods and services they offer will be one of the most important factors to affect their businesses. The shortage of qualified workers continues to be the biggest challenge facing companies in the Business & Professional Services, Technology, Media, Telecommunications and Consumer Business sectors. This shortage is being caused by an ongoing shift towards an employee's market, making it difficult to attract specialists in certain fields.

The risks outlined by participating CFOs translate into concerns about rising costs, particularly workforce and production costs. Despite being worried about the changes in tax law, most CFOs do not expect taxes to rise. They are more concerned about increasingly stringent regulation and the challenges that this can cause.

Internal financing continues to be the most feasible source of capital for companies. While most CFOs also spoke positively about other financing sources, such as corporate debt and equity, they did not necessarily consider these to be the best solutions for their own companies. The perceived feasibility of a given financial instrument is largely dependent on the sector within which a given company operates. For example, equity was rated highly by CFOs in the Technology, Media, Telecommunications sector, but received little support from the

CFOs of finance companies. CFOs also like the idea of EU funds, but admit that they are not a source of financing that their companies would take advantage of. CFOs in the Public Sector are the exception here, as a large proportion of EU support is targeted at public institutions.

Much like last year, participating CFOs expect the M&A market to continue growing.

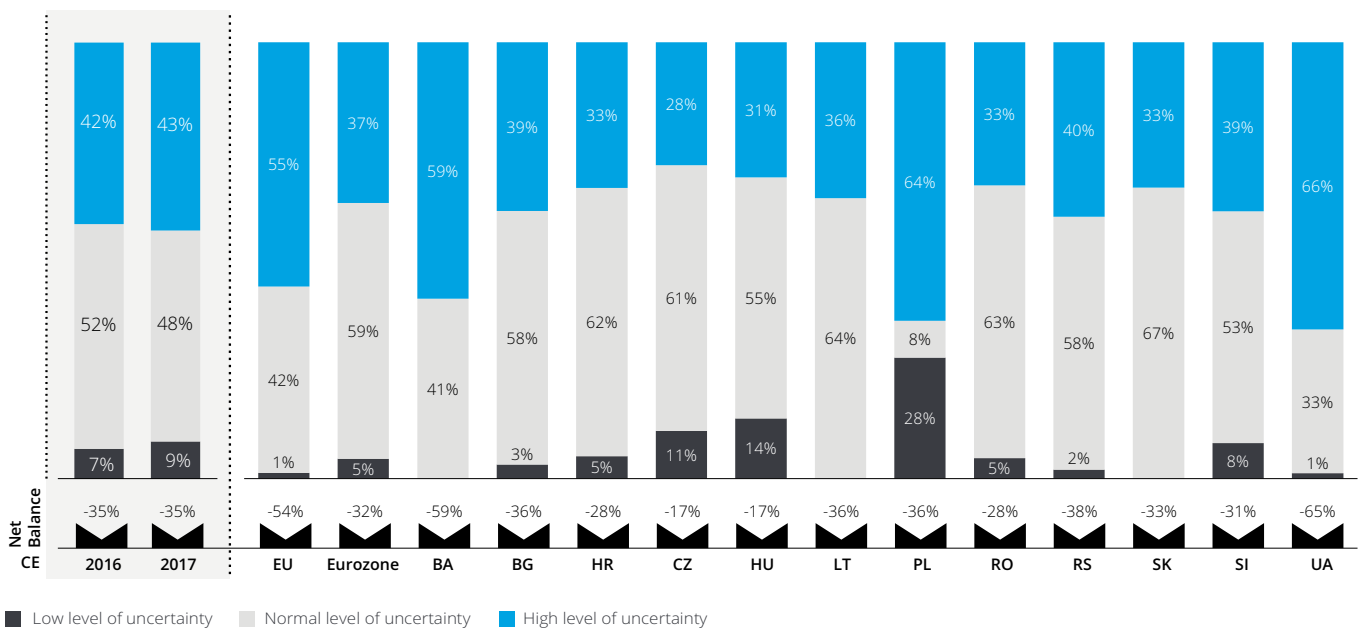
CFOs expect the business environment to remain uncertain

Like last year, CFOs still consider the business environment to be uncertain (with a Net Balance of -35%). It is worth noting, however, that opinions are mixed on this matter. Almost half of all respondents (48%) said they find the level of uncertainty acceptable.

CFOs from most countries across the region had similar opinions on the level of uncertainty. It is worth noting that the majority of respondents in almost all countries said that the current level of uncertainty should be considered normal. Those from Ukraine and Bosnia and Herzegovina are the most negative about the level of uncertainty (delivering Net Balances of -65% and -59% respectively). While Polish CFOs had very mixed opinions,

most of them still felt that the level of uncertainty is high. The majority of CFOs from EU countries also see the situation as uncertain with 55% claiming that there is a high level of uncertainty. This contrasts with the views of eurozone CFOs, who believe that the level of uncertainty is moderate (59%).

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



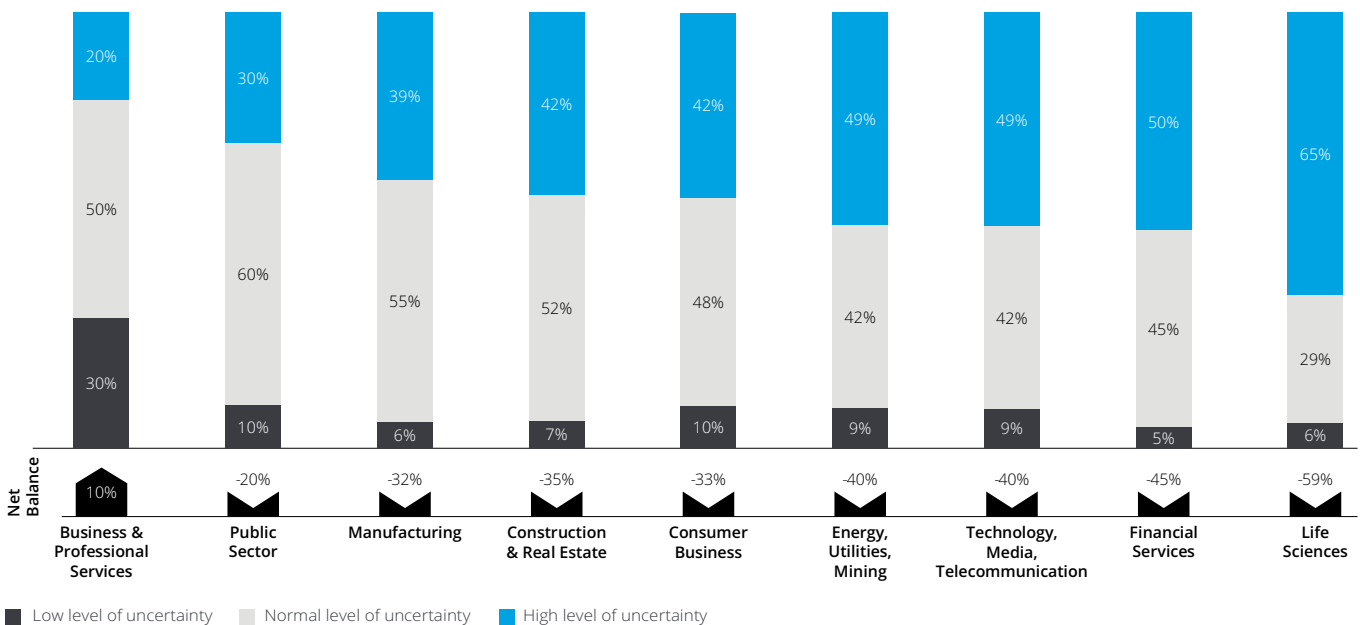
The way CFOs assess the business environment differs between sectors. The highest level of uncertainty was reported by CFOs in Life Sciences (with a Net Balance of -59%), Financial Services (-45%), Technology, Media, Telecommunications (-40%) and Energy, Utilities, Mining (-40%). CFOs in the Business & Professional Services sector are the only ones in positive territory (with a Net Balance of

10%). It is worth noting that, with the exception of those from Life Sciences, 40% or more of the respondents considered the current situation to be normal.

“Legislative changes can lead to distortions in the food trade market. As new legislative initiatives have been introduced across Central Europe, I’ve noticed that in Romania, besides neglecting the free market principles, a lack of real consultation, poor deployment plans, inconsistent guidance and short implementation deadlines.”

Lucian Vilău, VP Finance and Indirect Procurement, CFO, Mega Image

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



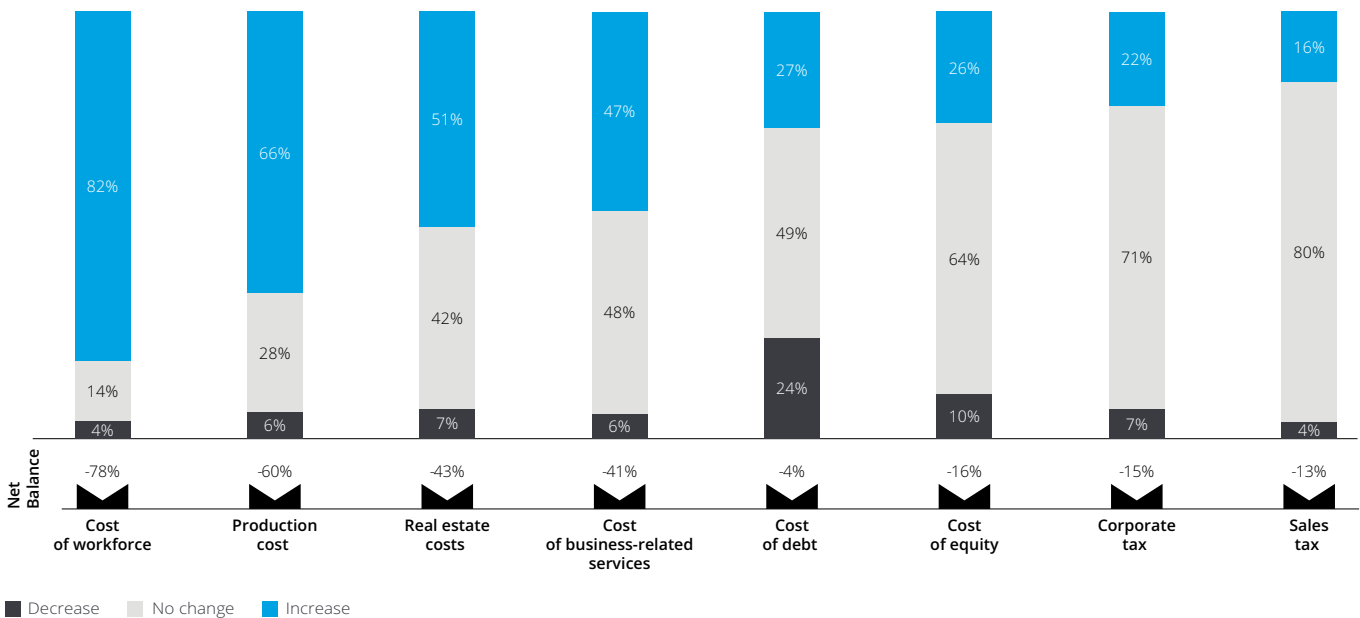
CFOs expect rising workforce and production costs

CFOs expect almost all costs to rise. The greatest proportion (with a Net Balance of -78%) expect workforce costs to rise, which may be related to difficulties in attracting qualified employees. Increase of production costs are also expected (Net Balance -60%). Many respondents also expect rising costs for real estate (Net Balance of -43%) and business-related services (-41%). Sales tax, corporate tax and the cost of equity are all expected to remain stable, with 80%, 71% and 64% respectively holding that opinion.

“The risks that have grown most in recent years include higher operating expenses and the increasing significance of regulatory issues in Europe, which are demanding more of the CFO’s time and efforts. Looking ahead to future risks, the limited availability of qualified employees is set to push employment costs upwards.”

Mirosław Pyrzyña, Vice-president, Group CFO, Konsalnet Holding S.A.

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



Predictions about costs did not differ significantly between sectors. The greatest proportion of CFOs from Financial Services and Consumer Business companies expect increases in workforce costs. They do not expect corporate and sales taxes to rise significantly, and they think that other types of cost will increase or remain stable. Life Sciences CFOs do not expect corporate or sales taxes to rise significantly. However, they do predict growing workforce, production and business-related service costs. CFOs in the

Technology, Media, Telecommunications and Manufacturing sectors also expect workforce costs to rise. They also predict a large increase in production costs, but expect that corporate tax, sales tax and the cost of equity will not change significantly. The CFOs of Energy, Utilities, Mining companies expect rising workforce and production costs, with corporate and sales taxes remaining stable. Construction & Real Estate CFOs do not expect any major changes and predict that corporate and sales taxes, the cost of debt and that

of business-related services will remain largely unchanged.

Business & Professional Services CFOs hold a similar view of the future and do not expect any significant increase in corporate or sales taxes, real-estate costs, the cost of debt and the cost of equity. However, they do expect workforce costs to increase. Similarly, Public Sector CFOs predict that corporate tax, cost of debt and sales tax will decrease, but do foresee increasing workforce costs.

Figure 2. In your view how are costs for companies in your country likely to change over the next 12 months?

		Financial Services	Consumer Business	Life Sciences	Technology, Media, Telecommunication	Energy, Utilities, Mining	Manufacturing	Construction & Real Estate	Business & Professional Services	Public Sector
Cost of debt	No change	47%	45%	54%	49%	31%	56%	55%	73%	56%
	Net balance	0%	-12%	-15%	-2%	13%	-14%	5%	0%	22%
Cost of equity	No change	58%	63%	46%	64%	49%	66%	75%	87%	56%
	Net balance	-24%	-22%	-23%	-22%	-10%	-8%	-25%	-13%	-22%
Cost of workforce	No change	18%	19%	0%	9%	15%	11%	30%	13%	22%
	Net balance	-76%	-79%	-69%	-69%	-80%	-83%	-50%	-73%	-78%
Real estate costs	No change	41%	42%	31%	42%	36%	43%	40%	67%	22%
	Net balance	-41%	-52%	-39%	-40%	-54%	-47%	-40%	-7%	-56%
Corporate tax	No change	66%	65%	69%	78%	74%	78%	65%	87%	67%
	Net balance	-26%	-17%	-31%	-13%	-10%	-12%	-5%	0%	33%
Sales tax	No change	79%	71%	75%	84%	82%	85%	75%	100%	67%
	Net balance	-16%	-17%	-25%	-16%	-18%	-5%	-5%	0%	11%
Cost of business-related services	No change	45%	49%	23%	42%	51%	50%	60%	47%	33%
	Net balance	-50%	-42%	-62%	-53%	-33%	-37%	-30%	-40%	-22%
Production cost	No change	32%	26%	23%	33%	21%	20%	45%	47%	22%
	Net balance	-50%	-65%	-62%	-62%	-64%	-71%	-45%	-40%	-33%

Internal financing and bank borrowing remain the most attractive sources of company financing

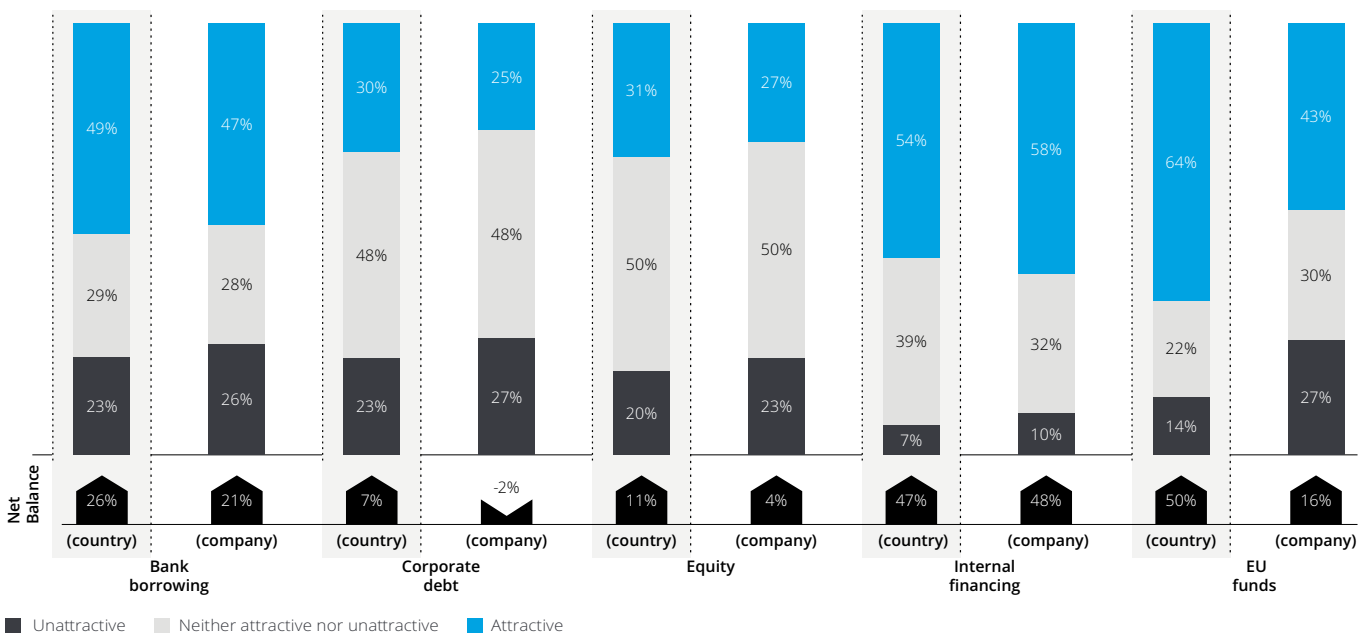
Similarly to the questions concerning risks, CFOs were asked about the attractiveness of different sources of financing, both for all companies in their countries and for their own individual companies. This question was based on the assumption that CFOs may perceive some financing sources as feasible and available to certain companies, but not necessarily appropriate for the organisations that they represent.

As it turned out, their assessment of the various sources of financing was very

similar in both instances. Internal financing is still the most attractive source of capital (with a Net Balance of 47% for all companies in a given country and 48% for the respondents' own companies). Bank borrowing (returning a Net Balance of 26% for all companies in a given country and 21% for the respondents' companies) was also considered attractive. Most CFOs, meanwhile, had a neutral opinion about equity (11% for all companies and 5% for their own). CFOs were also somewhat neutrally disposed to corporate debt, but

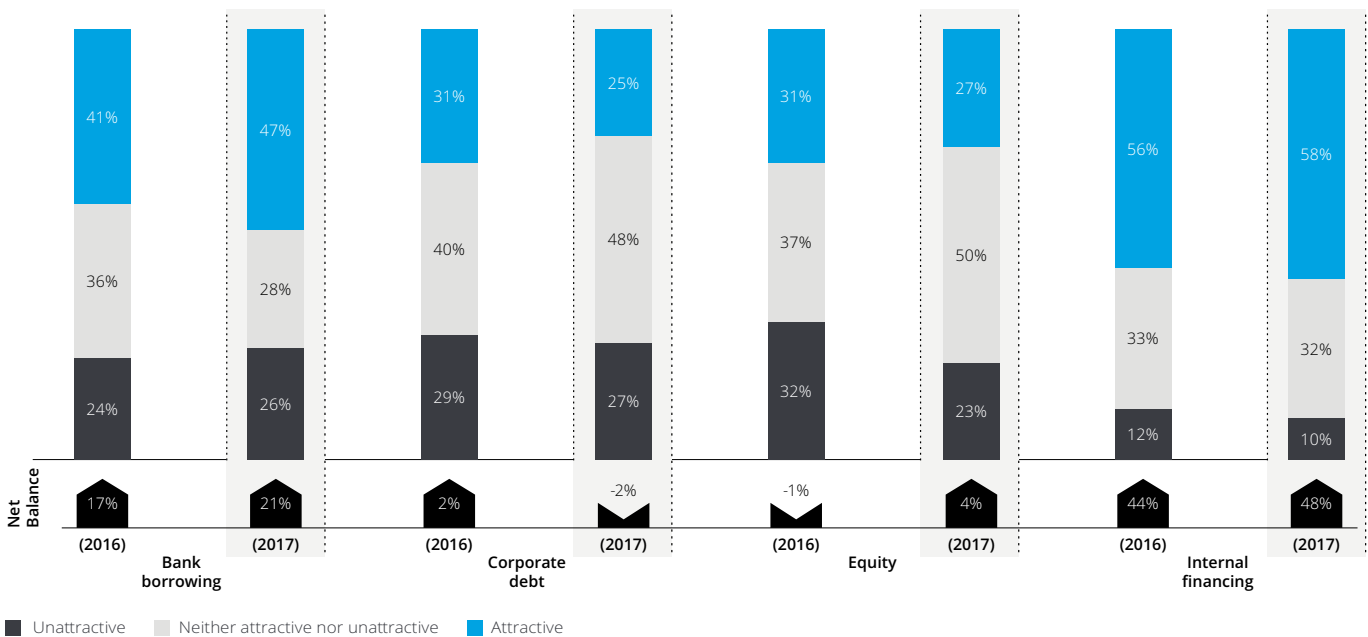
tended to view it as unfeasible for their companies (with a Net Balance of 7% for all companies in a given country and -2% for the respondents' companies). EU funds were the subject of mixed opinions. While many CFOs considered them attractive in general (with a Net Balance of 50%), they are not necessarily seen as suited to the needs of the CFOs' companies (16%). This is mainly due to EU funds being aimed at small and medium-sized enterprises, which make up only a small proportion of our respondents.

How would you rate the attractiveness of investment sources for companies in your country?/
How do you currently rate the attractiveness of different sources of funding for your company?



When we compared this year's assessments of individual sources of financing with last year's results,⁶ there were no notable discrepancies. Bank borrowing (which showed a Net Balance increase of 3% percentage points), equity (+5%) and internal financing (+4%) were considered slightly more attractive this year. While corporate debt is seen as less attractive, the difference is insignificant (-4%).

How do you currently rate the attractiveness of different sources of funding for your company? (compared with last year's results)



⁶ In the previous edition of the study we didn't ask the question: „How would you rate the attractiveness of investment sources for companies in your country?“ We didn't also ask about the attractiveness of the EU funds.

CFO opinions on the various sources of financing vary greatly between sectors. The CFOs of Financial Services companies believe that EU funds, while not particularly feasible for their own companies, are very attractive options for country organisations. They still see internal financing as the most attractive source of capital.

Consumer Business CFOs, meanwhile, take a neutral view of corporate debt, both in relation to their own companies and all other companies in their countries. However they take a negative view of the

usefulness for their companies of equity and see it attractive for other companies. As in the Financial Sector, internal financing is the most attractive option.

Life Sciences CFOs see internal financing as the most attractive means of obtaining capital. There is little difference in how they rate the suitability of other means of financing for their own companies and all others in their countries.

Technology, Media, Telecommunications CFOs continued to hold neutral attitude to corporate debt as a source for enterprises

in the country and negative for their company. They see equity and EU funds, meanwhile, as attractive for their own companies, but as neither attractive nor unattractive for other businesses from their countries. Here too, internal financing was felt to be the most attractive source of capital.

While CFOs from Energy, Utilities, Mining companies see equity as an attractive source of financing for the enterprises in their country, they do not feel it is as attractive for their companies.

Figure 3. How do you currently rate the attractiveness of different sources of funding for your company? (by sectors).

		Financial Services		Consumer Business		Life Sciences		Technology, Media, Telecommunication		Energy, Utilities, Mining	
		Country	Company	Country	Company	Country	Company	Country	Company	Country	Company
Bank borrowing	Neither attractive nor unattractive	29%	34%	20%	23%	8%	29%	33%	31%	31%	33%
	Net balance	58%	22%	18%	19%	15%	12%	5%	4%	18%	21%
Corporate debt	Neither attractive nor unattractive	38%	43%	46%	45%	31%	47%	51%	49%	44%	35%
	Net balance	17%	1%	8%	-6%	39%	29%	0%	-11%	21%	19%
Equity	Neither attractive nor unattractive	19%	43%	28%	56%	40%	53%	29%	44%	14%	44%
	Net balance	67%	11%	33%	-6%	40%	24%	45%	9%	45%	14%
Internal Financing	Neither attractive nor unattractive	54%	39%	37%	34%	39%	12%	24%	27%	44%	40%
	Net balance	38%	44%	54%	44%	62%	76%	49%	55%	56%	47%
EU funds	Neither attractive nor unattractive	19%	37%	28%	43%	40%	29%	29%	17%	14%	18%
	Net balance	67%	-4%	33%	2%	40%	29%	45%	8%	45%	27%

While the CFOs of Manufacturing companies see equity as the most attractive source of capital for other companies, they regard it as neither attractive nor unattractive for their own companies. They consider internal financing to be the most attractive source and they see corporate debt as unattractive for their own companies and the companies in their country.

CFOs from the Construction & Real Estate sector regard internal financing as the most attractive source of capital for their companies. They also see EU funds as attractive, albeit for other companies. The same holds true for equity.

Respondents from the Business & Professional Services sector see equity and EU Funds as unattractive for their companies. They believe, however, that equity and EU funds may be attractive to other companies.

Public Sector CFOs consider EU funds to be the most attractive source of financing, both for their own organisations and for others in their countries.

		Manufacturing		Construction & Real Estate		Business & Professional Services		Public Sector	
		Country	Company	Country	Company	Country	Company	Country	Company
Bank borrowing	Neither attractive nor unattractive	33%	26%	25%	23%	20%	25%	33%	20%
	Net balance	28%	26%	25%	39%	40%	15%	0%	0%
Corporate debt	Neither attractive nor unattractive	54%	55%	40%	48%	73%	45%	22%	40%
	Net balance	-4%	-11%	30%	0%	0%	5%	-11%	0%
Equity	Neither attractive nor unattractive	29%	51%	18%	52%	0%	55%	11%	50%
	Net balance	46%	1%	71%	-3%	73%	-5%	67%	50%
Internal Financing	Neither attractive nor unattractive	36%	28%	30%	32%	53%	40%	44%	40%
	Net balance	44%	52%	50%	48%	33%	20%	33%	40%
EU funds	Neither attractive nor unattractive	29%	33%	18%	32%	0%	25%	11%	10%
	Net balance	46%	32%	71%	4%	73%	5%	67%	70%

Current conditions do not encourage risk-taking

Like last year, CFOs do not see the current times as very favourable for doing business. However, they are somewhat more optimistic this year, with a Net Balance of -29% compared to -42% last year.

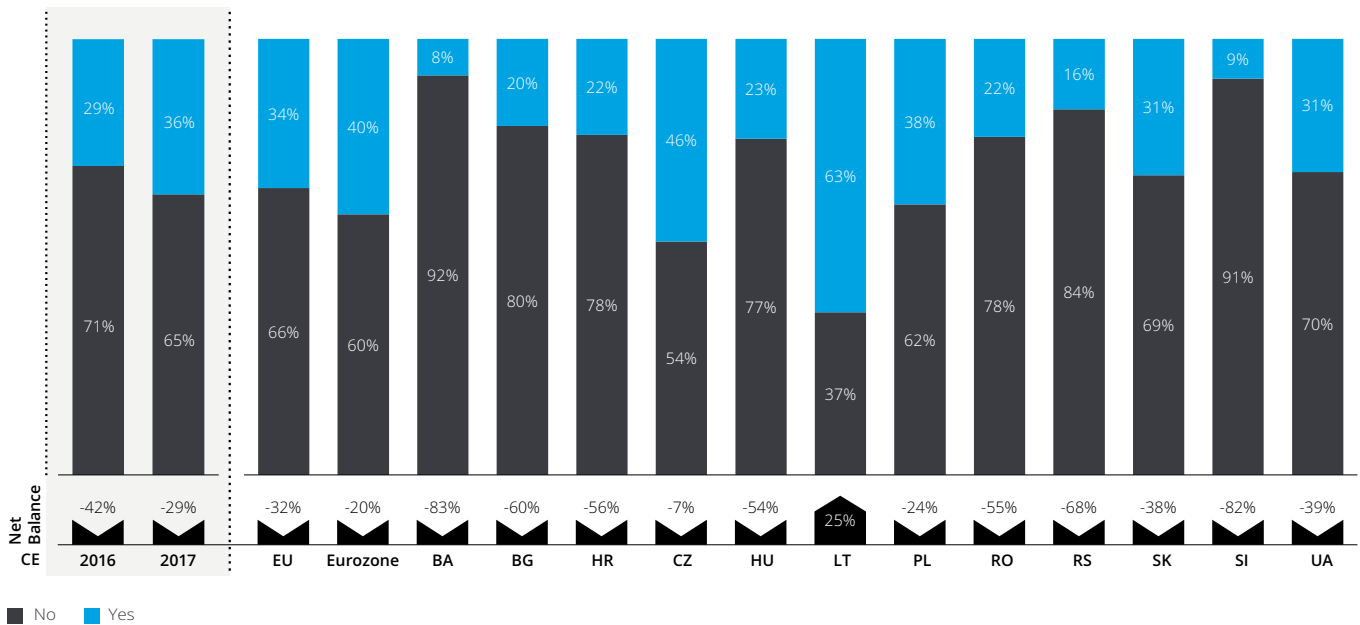
Risk assessment is unilaterally dependent on the CFOs' perception of the uncertainty level (i.e. there is no interdependence between the two factors). Almost 56% of respondents who stated that this is a good time to be taking more risk also see the current level of uncertainty as low,

whereas 31% think that uncertainty is high. When it comes to their view of the current uncertainty level, the opinions of those respondents stating that this is not a good time to be taking greater risk were split. This means that perceived uncertainty is not a factor that significantly determines their assessment of risk.

While there were some exceptions, CFOs from most countries had similar opinions on their willingness to take risks. Those from Bosnia and Herzegovina and Slovenia were particularly pessimistic (with Net

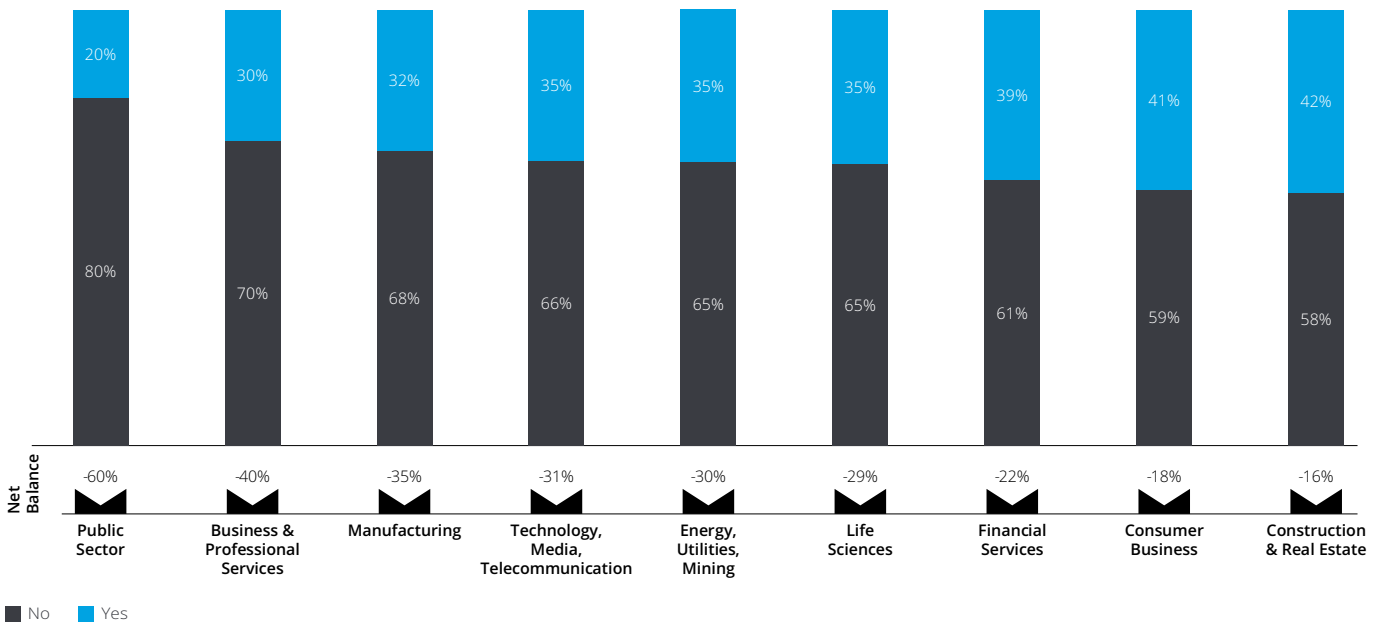
Balances of -83% and -82% respectively). Lithuanian CFOs were the only ones with a positive approach to risk-taking (Net Balance 25%).

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



The CFOs of Public Sector organisations are significantly the most negative in their assessment of business risk (Net Balance of -60%). CFOs from the Construction & Real Estate, Consumer Business and Financial Services sectors continue to have the least pessimistic views on the issue (with Net Balances respectively of -16%, -18% and -22%).

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



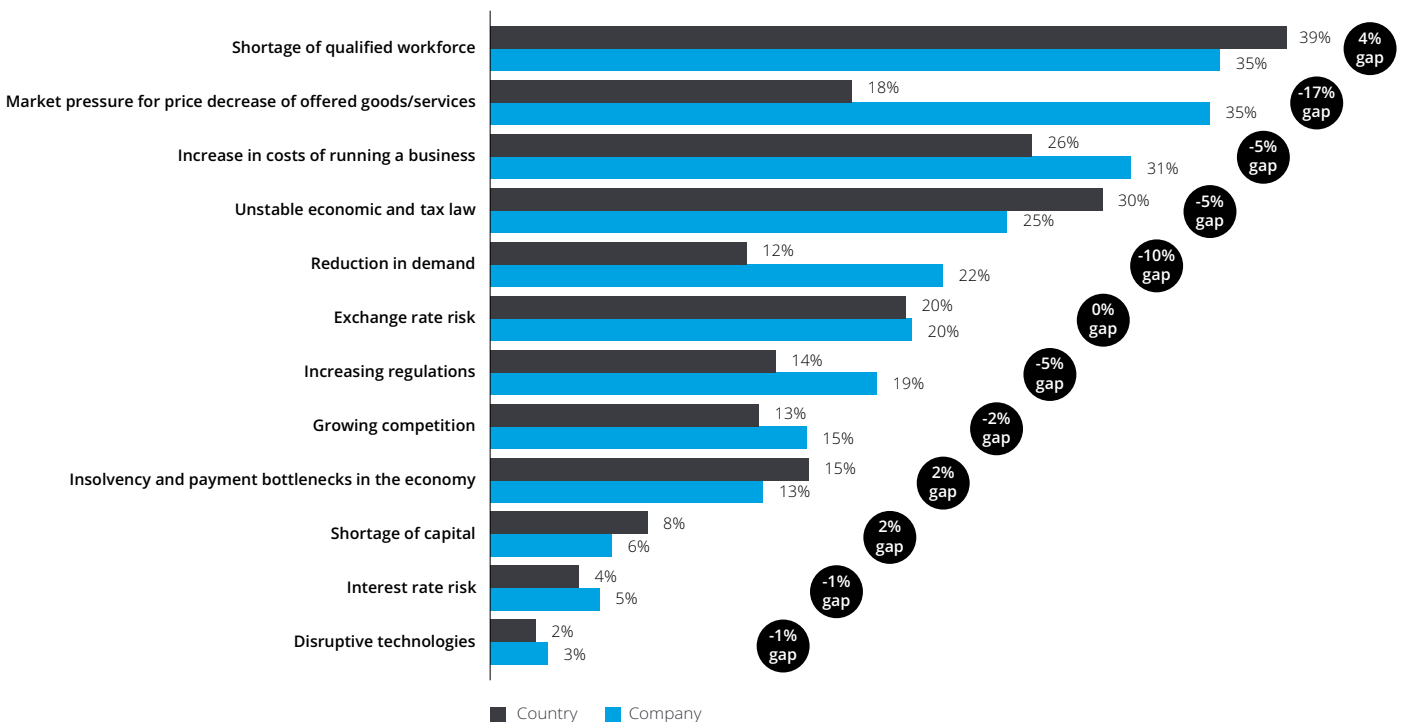
The shortage of qualified candidates and downward market price-pressure on goods and services continue to be the biggest challenges companies face

The questions concerning risk focused on two areas: the threats that companies face in the respondents' countries; and the threats that CFOs consider likely to have an impact on their own companies. We based these questions on the assumption that, to assess the condition of their companies, CFOs use information collected with the specific aim of assessing the condition of the company and its overall position. In

doing so, they rely to a lesser extent on intuition and news from the market, both of which can be used when assessing the broader economic conditions. This approach makes it possible to gauge the extent to which the individual types of risk are driven by a given country's inherent economic characteristics, and which pose a real threat to companies.

The CFOs were relatively consistent in their opinions. The shortage of qualified candidates remains the biggest threat to the economy and to individual companies (respectively 39% and 35%). This is to some extent connected with the shift to an 'employee's market' and the difficulties companies have in retaining employees. However, most CFOs believe that downwards pricing pressures pose

Which of the following factors are likely to pose a significant risk to your business/ to companies in your country over the next 12 months?



a bigger threat to their companies than to the economy as a whole (35% and 18% respectively). The increase in the costs of running a business is seen as a relatively major threat for companies and the economy alike, with 31% of CFOs stating that this is a major threat to their own companies and a further 26% saying that it affects all companies in their country.

Unstable economic and tax laws represent another type of risk selected by respondents, although this is perceived more as a threat to all companies in a given country than specifically to each respondent's own company (30% and 25% respectively). This contrasts with the CFOs' optimistic expectations for GDP growth. Falling demand is another risk factor that is worth noting, one which the CFOs expect to mainly affect their own companies (22% compared to 12%). A shortage of capital (8% and 6%), interest rate risk (4% and 5%) and disruptive technologies (2% and 3%) were the least commonly selected threats. This is the case with the respondents' own companies and with all companies from their countries.

Upon further analysis of the types of risk selected by participating CFOs, we discovered an interdependence between the shortage of qualified candidates and the expected changes in workforce costs. Many of the CFOs who claimed that there is a shortage of qualified candidates also stated that workforce costs are set to rise. This interdependency was the strongest among the types of risk that directly concerned the respondents' own companies. This means that the expected fall in the supply of highly-qualified employees is accompanied by predictions of growing workforce costs.

“One of the main risks facing the telecom industry is the impact of a highly competitive market with strong pricing pressures. We're continuously adapting to meet these challenges, focusing on new products and services and continually optimising our operational costs.”

Aleš Aberšek, CFO, Telekom Slovenije d.d.

We have also verified what cost changes are expected by those CFOs who consider the increasing costs of running a business to be one of the main risks they face. The vast majority of respondents identifies the cost of the workforce as the most important contributory factor in increasing the costs of running a business. Other factors include production costs, indicated by three-quarters of CFOs, real-estate costs (chosen by 50%) and the cost of business-related services (50%).

CFOs in different sectors hold radically different views on the various types of risk they face. Representatives of the Financial Services sector, for example, are most concerned about more stringent regulation and downward pressure on prices of the goods or services they offer, which they consider mainly as threats to their own companies. Financial Services CFOs do not perceive a shortage of qualified employees as a major issue for their organisations.

The CFOs of Consumer Business companies see pressure on pricing as a major threat, although they consider it to be an even bigger threat to all companies in their individual countries. They also frequently mentioned the shortage of qualified workers (affecting both the respondents' companies and their economies as a whole) as well as the increasing costs of running a business.


For Life Science CFOs, downward price pressures, increasing regulation, the growing costs of running a business and unstable economic and tax laws are still the most dangerous direct threats. Apart from the last in the list, all of these threats apply more to the respondents' companies than to the wider economy.

The shortage of qualified employees, affecting both the respondents' companies and the economy as a whole, is seen as a major threat within the Technology, Media, Telecommunications sector. Here too, CFOs stated that downward pressure on pricing is one of the bigger threats to their companies, but not necessarily to the economy as a whole.


While opinions among Energy, Utilities, Mining CFOs were very mixed, they too see pressure on prices as a very important threat to their companies (but not always to the wider economy). They maintain that unstable economic and tax law is the biggest issue affecting all companies in their countries.

The growing costs of running a business and the shortage of qualified workers are considered to be the biggest challenges, both for the CFOs' own companies and for all companies in a given country. CFOs also stated that downward pressures on the price of goods and services is one of the bigger threats their companies face.


CFOs in the Construction & Real Estate sector listed other types of risk, the most important being reduction in demand, but that only applies to their own companies. The exchange-rate risk and unstable economic law and tax law were also frequently mentioned. CFOs of Business & Professional Services companies consider the shortage of qualified employees and the increase in costs of running a business as the most important threats both to their own companies and the wider economy. As in other sectors, downward market pressure on prices was also considered a threat, but mainly to the CFOs' own companies. Public Sector CFOs considered the increasing costs of running a business as the biggest threat to their organisations. They also identified the shortage of qualified workers and downward pressure on prices as issues that affect the wider economy. It is worth mentioning that respondents from all sectors had similar views on the impact that downward pressure on prices is having on their own companies and the broader economy: i.e. that it affects the latter more than the former. We may therefore conclude that this factor is more important than it might seem at first glance.

 **Financial Services**


Company	Country
55% Increasing regulation	35% Shortage of qualified workforce
42% Market pressure to decrease the price of goods/services	42% Unstable economic and tax law
35% Unstable economic and tax law	35% Increasing regulation

 **Consumer Business**

Company	Country
48% Market pressure to decrease the price of goods/service	32% Increasing costs of running a business
45% Shortage of qualified workforce	41% Shortage of qualified workforce
40% Increasing costs of running a business	36% Unstable economic and tax law

 **Technology, Media, Telecommunication**

Company	Country
58% Shortage of qualified workforce	55% Shortage of qualified workforce
44% Market pressure to decrease the price of goods/services	33% Unstable economic and tax law
29% Increasing costs of running a business	22% Exchange rate risk

 **Energy, Utilities, Mining**


Company	Country
35% Market pressure to decrease the price of goods/services	35% Unstable economic and tax law
33% Increasing regulation	28% Shortage of qualified workforce
30% Increasing costs of running a business	28% Increasing regulation

 **Business & Professional Services**


Company	Country
75% Shortage of qualified workers	65% Shortage of qualified workers
55% Market pressure for price decrease of offered goods/services	35% Increase in costs of running a business
35% Increase in costs of running a business	32% Market pressure for price decrease of offered goods/services

 **Manufacturing**

Company	Country
46% Increase in costs of running a business	50% Shortage of qualified workers
46% Shortage of qualified workers	35% Increase in costs of running a business
39% Market pressure for price decrease of offered goods/services	26% Unstable economic and tax law

 **Life Sciences**

Company	Country
47% Market pressure to decrease the price of goods/services	29% Shortage of qualified workforce
41% Increasing regulation	29% Insolvency and payment bottlenecks in the economy
35% Increasing costs of running a business	41% Unstable economic and tax law

 **Construction & Real Estate**

Company	Country
42% Reduction in demand	29% Unstable economic and tax law
39% Exchange rate risk	26% Shortage of qualified workers
36% Unstable economic and tax law	26% Exchange rate risk

 **Public Sector**

Company	Country
70% Increase in costs of running a business	50% Shortage of qualified workers
30% Market pressure for price decrease of offered goods/services	40% Market pressure for price decrease of offered goods/services
30% Unstable economic and tax law	40% Increase in costs of running a business

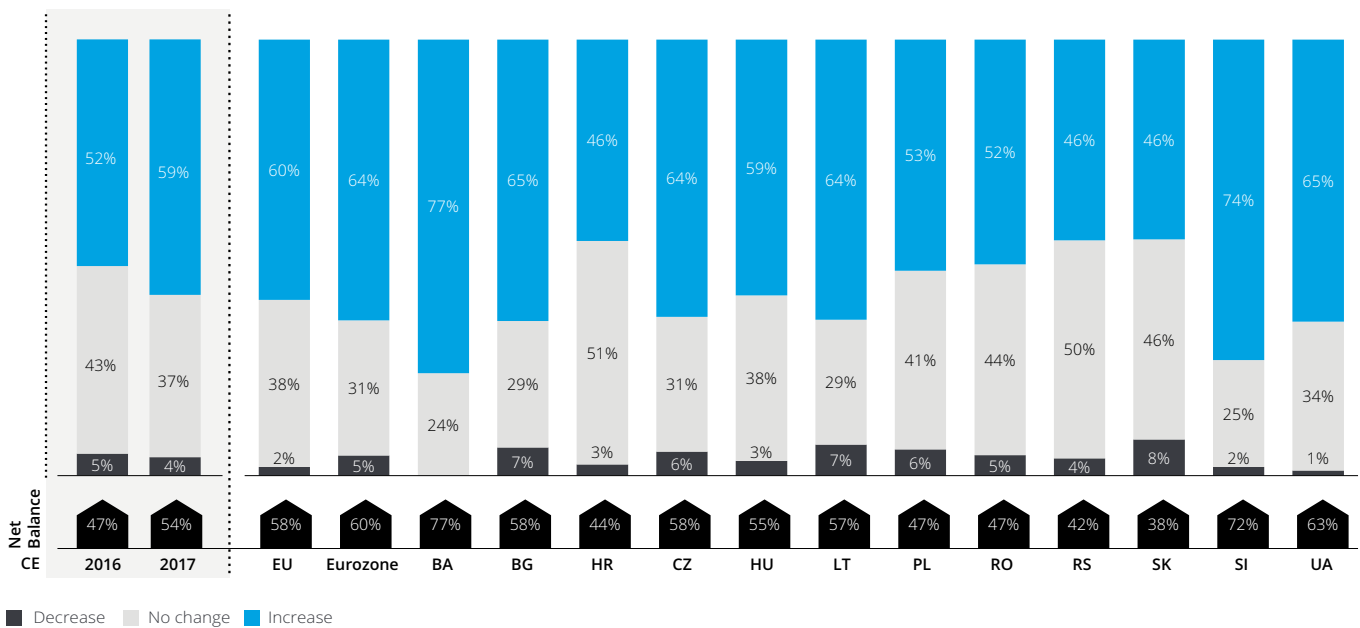
CFOs expect M&A levels to rise in the year ahead

As last year, most CFOs expected the level of M&A activities to rise in the year ahead (with a Net Balance of 54%, up from 47% last year).

Most Croatian (51%) and Serbian (50%) CFOs feel the M&A level will not change.

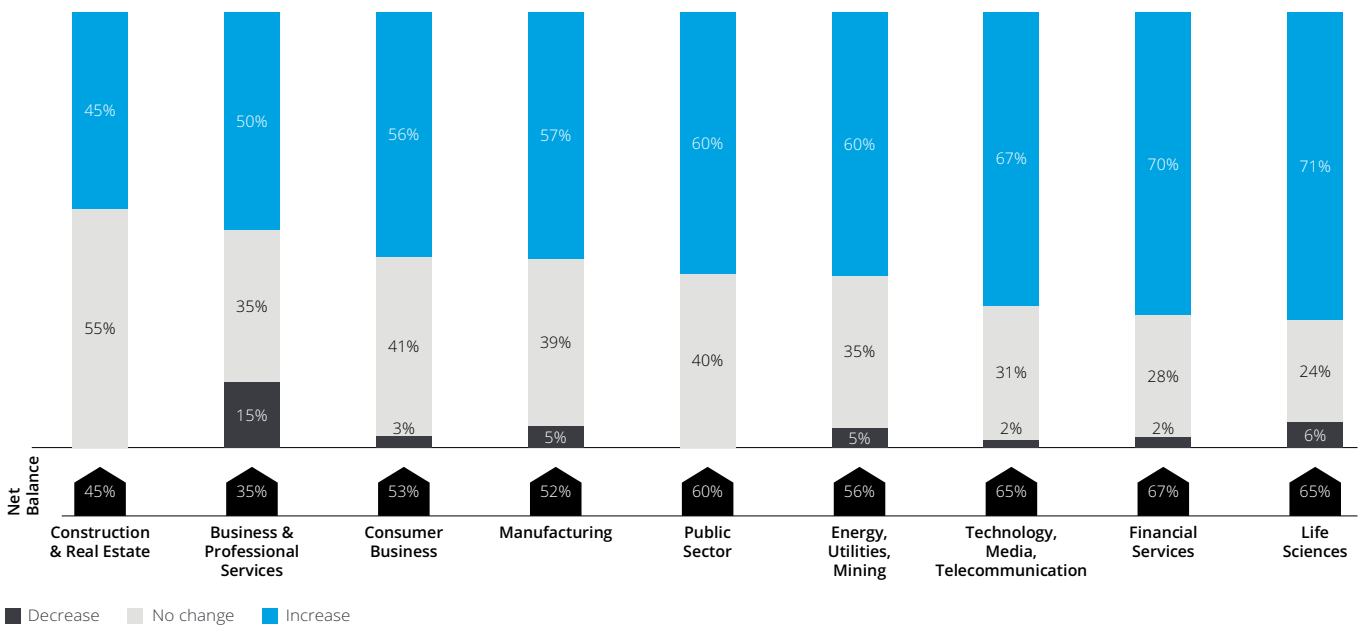
On the whole, CFO opinions regarding the level of M&A were mostly consistent. Those from Bosnia and Herzegovina and Slovenia were particularly optimistic (with Net Balances of 77% and 72% respectively).

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



Life Sciences CFOs are the most positive in their predictions for M&A levels in the year to come, along with those from the Technology, Media, Telecommunications sector (both with a Net Balance of 65%). Most Construction & Real Estate CFOs expect no changes (55%). CFOs in other sectors continue to be optimistic.

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





“The need for digital transformation in the telecom industry makes it crucial that companies are dynamic, agile and have the ability to adapt rapidly to new technologies. Our challenge is to become the leader in this area.”

Aleš Aberšek, CFO, Telekom Slovenije d.d.

Company growth outlook

The year to come will bring growth and financial prosperity. There is definitely more optimism than in previous years as CFOs expect their companies to deal successfully with the challenges caused by a relatively unfavourable business environment. This is not to say that attitudes are overly optimistic. CFOs are aware of the threats and will carefully consider their decisions. For example, despite the predicted growth of companies and rising revenues, the general consensus is that risky decisions should be avoided and spending should be kept in check.

In addition, CFOs from different sectors have diverging opinions. Many Life Sciences and Consumer Business CFOs expect their companies to grow, whereas the majority of those from the Public Sector and the Business & Professional Services, Construction & Real Estate and Financial Services sectors expect the market to stabilise.

Such differences are the result of the uneven growth rates of different sectors. The Life Sciences sector, for example, is flourishing due to increased investment in innovative technologies, while the Construction & Real Estate sector is still trying to recover from the fallout of the financial crisis.

The priorities of CFOs remain similar regardless of sector. As well as keeping expenses under control, which has already been mentioned, their focus is on developing new products and services.

Despite stating that attracting qualified employees will be the most serious challenge in the year to come, CFOs nevertheless expect the workforce of their companies to grow. This is especially true for CFOs of companies in the Technology, Media, Communications and Business & Professional Services sectors. By contrast, Public Sector CFOs expect to see workforce reductions, caused among other factors by government pressure.

The vast majority of CFOs do not expect to see falls in the cost of employment, equity and real estate in the near future. However, plans are in place to reduce production costs, which will most likely be achieved by implementing more effective and innovative production methods. It appears that these planned cost reductions are not directly related to a company's financial position, but rather originate from planned restructuring activities or changes that affect production and the scope of the company's operations.

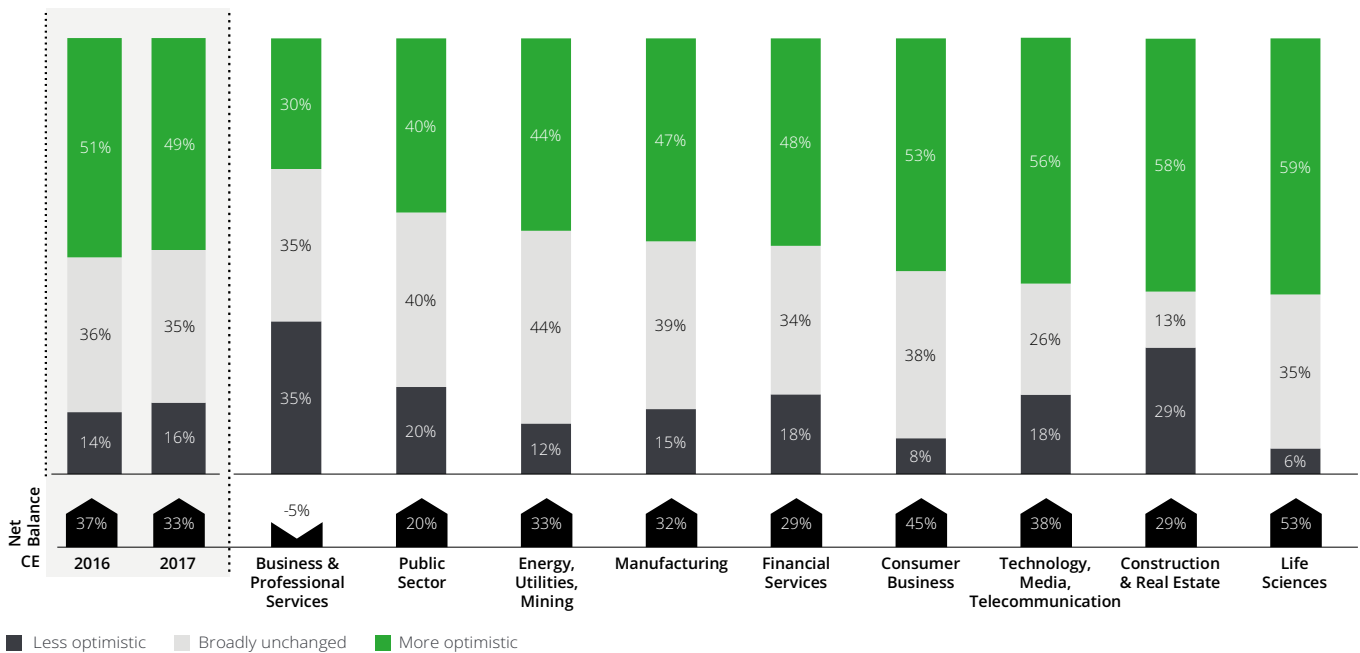
CFOs expect the financial position of their companies to improve

Much like last year, CFOs are convinced that their companies will continue to do well over the next six months. However, they were slightly less optimistic this year (with a Net Balance of 33% compared to 37% in 2016). A further 35% of CFOs do not expect the situation to change significantly.

Attitudes differ from sector to sector. Life Sciences and Consumer Business CFOs are the most optimistic (with Net Balances of 53% and 45% respectively). Opinions are mixed among the CFOs of Business and Professional Services firms (30% are optimistic, 35% are pessimistic) and Construction & Real Estate companies

(58% are optimistic, 29% are pessimistic). The majority of CFOs in other sectors are either optimistic or anticipate no significant change in the situation.

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



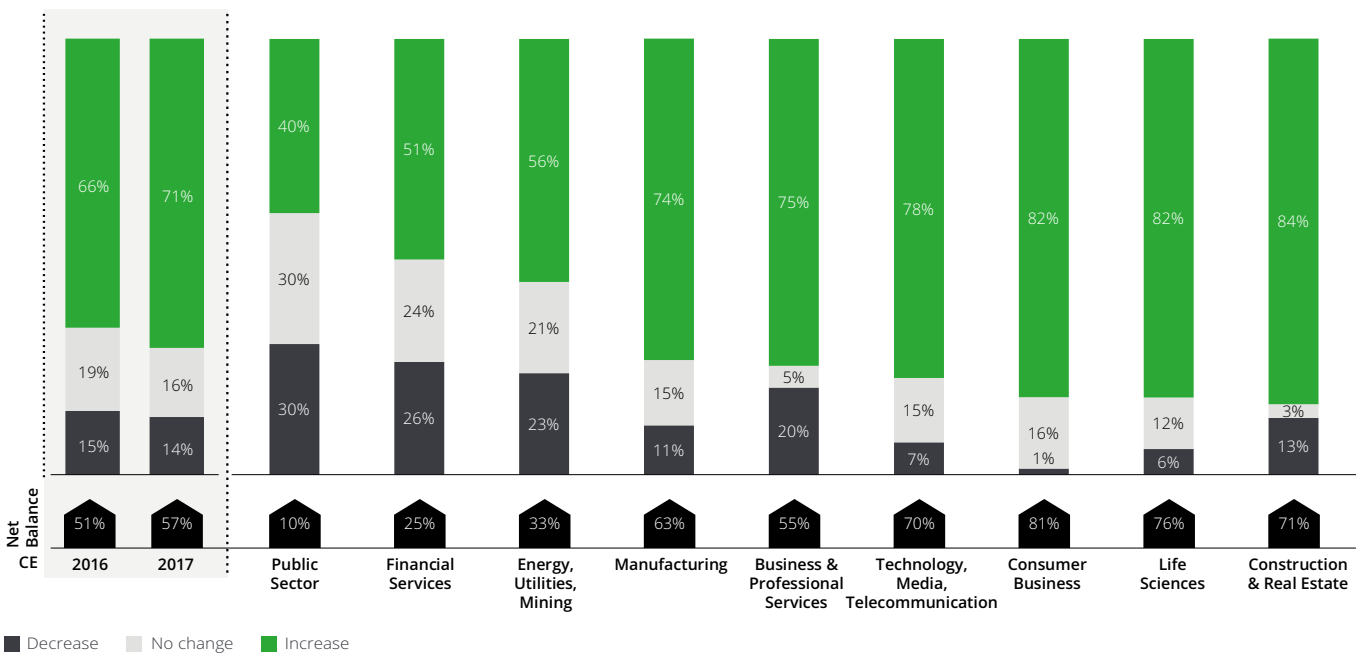
Rising revenues are expected in the year ahead

The majority of CFOs believe that revenues will rise over the next year (with a Net Balance of 57%). This has not changed significantly since the 2016 survey, when the Net Balance stood at 51%.

The CFOs of Consumer Businesses (with a Net Balance of 81%), Life Science (76%), Construction & Real Estate (71%) and Technology, Media Telecommunication (70%) companies continue to be the most optimistic. Those in the Public Sector

(30%) and the Financial Services (26%) and Energy, Utilities, Mining sectors (23%) included the highest proportions of CFOs with a pessimistic outlook. Even though the majority of CFOs look to the future with optimism, Public Sector CFOs have mixed opinions. This is a result of the manner in which organisational budgets are planned in the sector, being largely dependent on state regulations.

In your view, how are revenues for your company likely to change over the next 12 months?

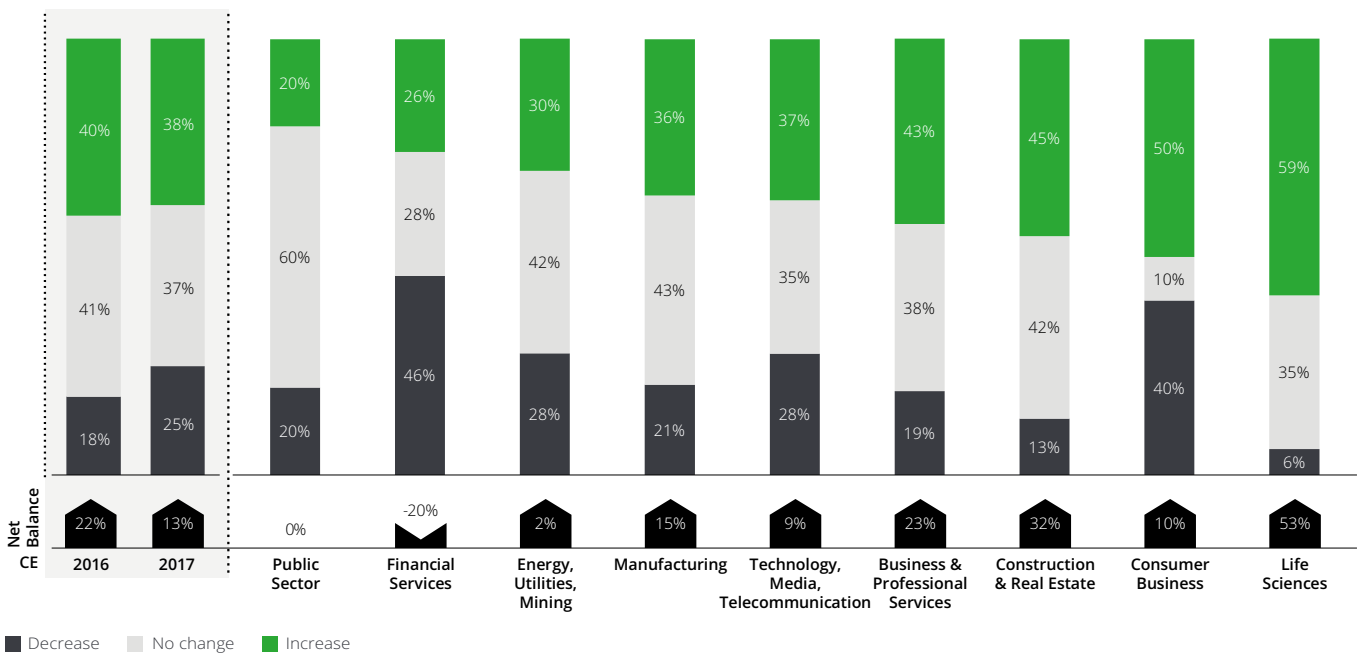


Most CFOs expect operating margins to grow

There has been a slight increase over the last year in the proportion of CFOs with a pessimistic view of future changes in operating margins (25% this year compared to 18% last year). They continue to be in the minority, however, with a Net Balance of 13%.

The largest proportion of Financial Services CFOs (46%) holds a pessimistic view of the future and is expecting a decline in their operating margins. Although the percentage of those with a pessimistic outlook was also high among the CFOs of Consumer Business companies (40%), the overall trends in the sector are optimistic (with a Net Balance of 10%). The CFOs of Life Sciences companies are the most optimistic (showing a Net Balance of 53%).

In your view, how are operating margins for your company likely to change over the next 12 months?

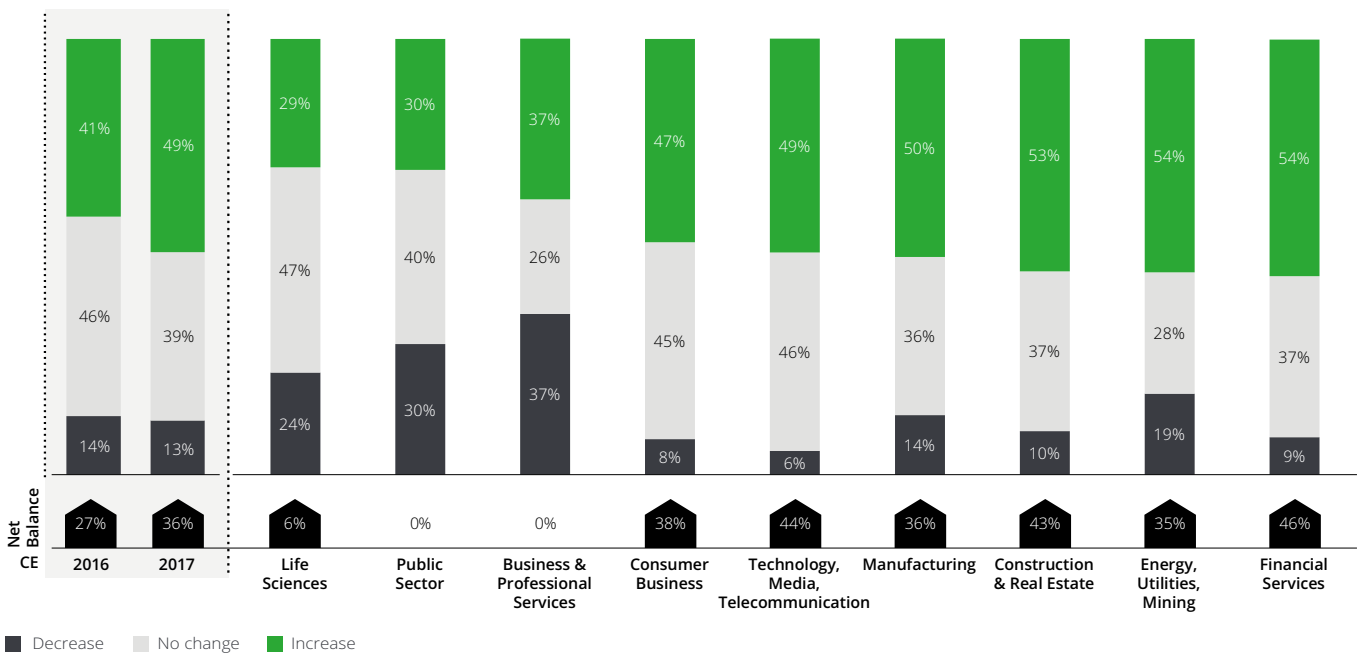


CFOs expect capital expenditure to grow

The percentage of CFOs who expect capital expenditure to grow has increased since last year (49% in 2017 compared to 41% last year).

CFOs from the Business & Professional Services, Public and Life Sciences sectors had the most mixed opinions on the future of capital expenditure (with Net Balances of 0%, 0% and 6% respectively). Opinions were consistent across the other sectors, with the majority of respondents expecting CAPEX to grow.

In your view, how are capital expenditures (CAPEX) for your company likely to change over the next 12 months?



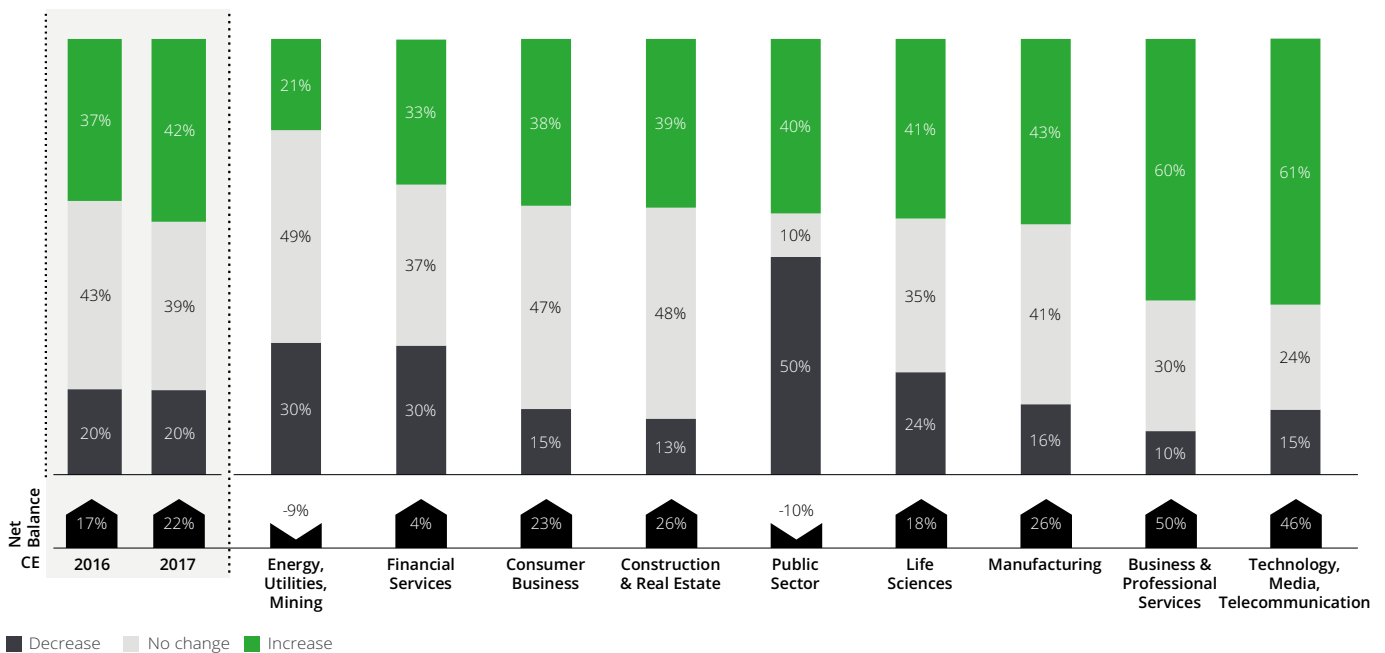
Workforces will expand

There has been little change since last year in expectations for a shift in workforce size. The greatest proportion of CFOs (42%) predicts that their companies' workforces will grow, marking a slight increase over the previous year's 37%.

Rising employment is most expected by the CFOs of companies in the Technology, Media, Communications (61%) and Business & Professional Services (60%) sectors. Public Sector CFOs, by way of contrast, are very pessimistic – half are predicting

layoffs. The majority of those from the Construction & Real Estate, Consumer Business, Manufacturing, Financial Services and Energy, Utilities, Mining sectors expect their workforces to remain stable. However, with a Net Balance of -9%, the number of pessimists outweighs the number of optimists in the Energy, Utilities, Mining sector.

In your view, how is the number of employees for your company likely to change over the next 12 months?



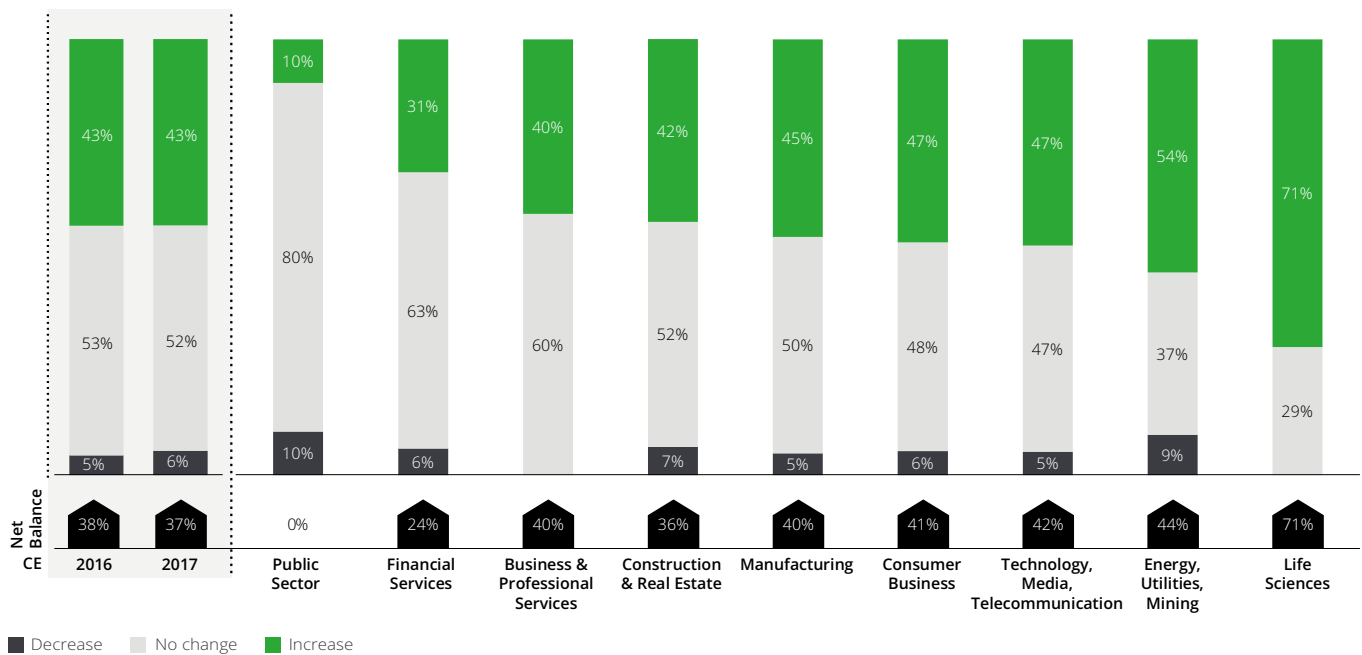
CFOs stay optimistic about the future ability of their companies to service debt

Like last year, CFOs are optimistic about the future abilities of their companies to service debt. The majority of respondents claim that these capabilities will either remain unchanged (52%) or improve (43%). Only a small percentage of CFOs expect them to decline (6%).

Life Sciences CFOs had the most optimistic view of their companies' future abilities

to service debt (71%) followed by those from Energy, Utilities, Mining (54%) companies. CFOs from other sectors did not expect any major changes to take place in this area. Most Public Sector CFOs predict no change in the debt-servicing capabilities of their organisations, as do CFOs from the Financial Services (63%), Business & Professional Services (60%) and Construction & Real Estate (52%) sectors.

Over the next three years, you expect your ability to service your debt to:

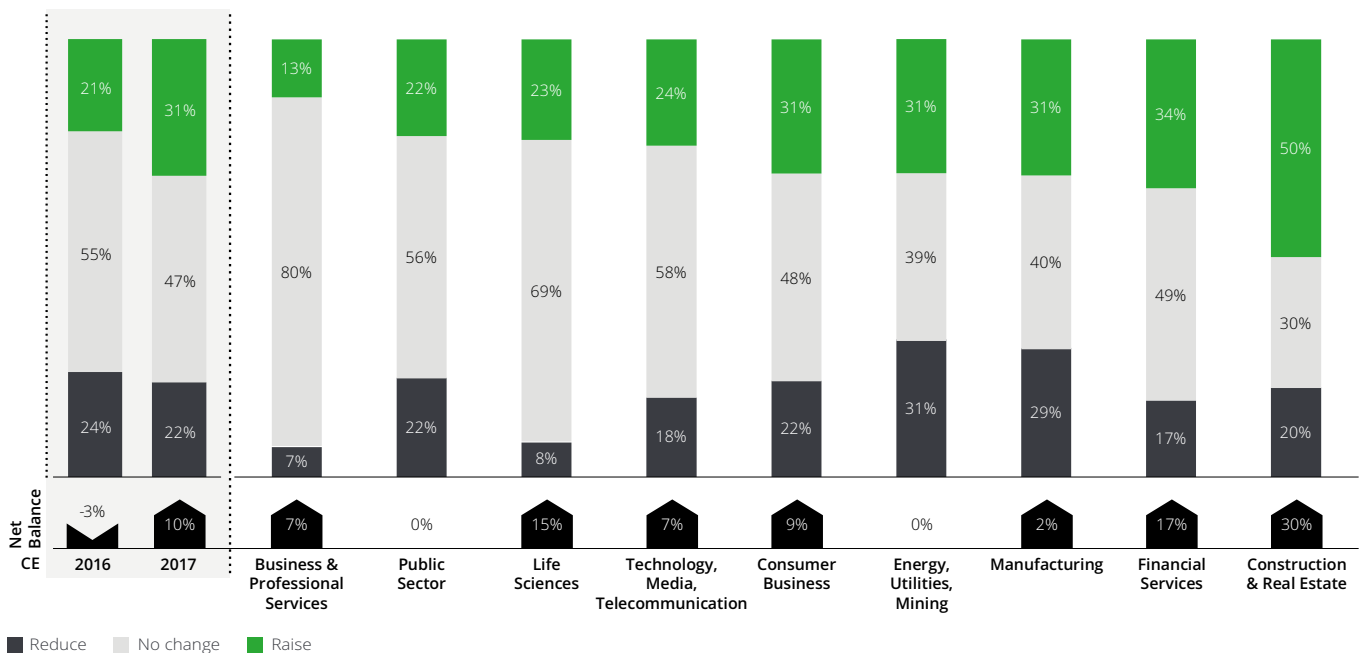


CFOs are likely to increase the level of their companies' gearing over the next year

CFOs will be more willing to raise their gearing levels next year (with a Net Balance of 10% compared to -3% last year). The percentage of respondents claiming that the level of gearing will not change has decreased (47% this year compared to 55% last year).

Construction & Real Estate CFOs are the most optimistic about the future level of gearing (with a Net Balance of 30%). CFOs from the other sectors, particularly Business & Professional Services (80%), Life Sciences (69%), Technology, Media, Telecommunication (58%) and the Public Sector (56%) mostly felt that the level of gearing would remain unchanged.

What is your aim for your level of gearing over the next 12 months?



Controlling costs and introducing new products/services will be the priorities over the next year

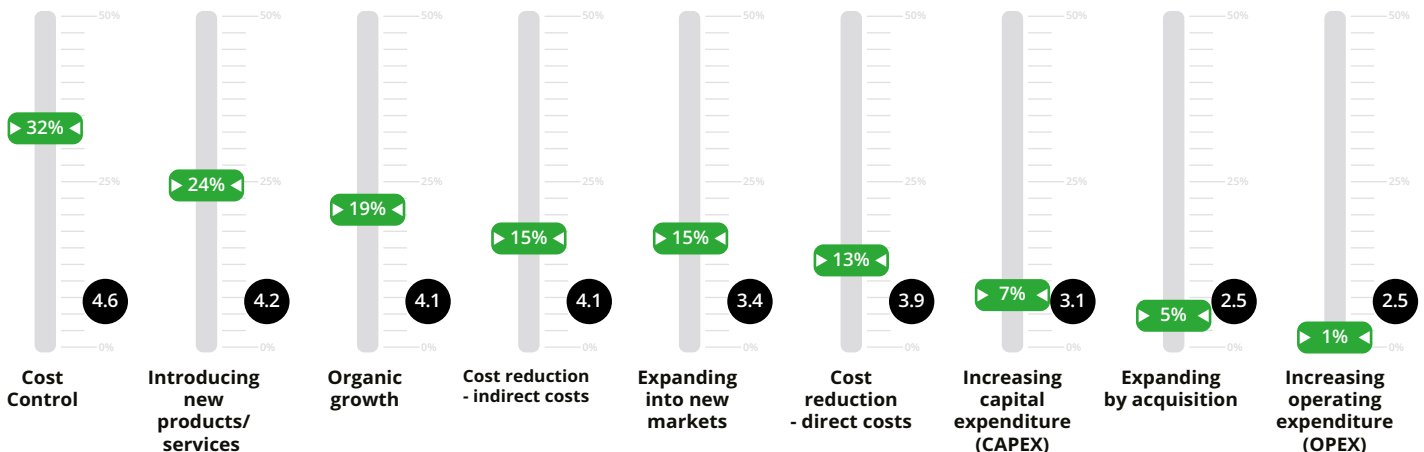
Cost control will be the most important priority for CFOs over the year to come, with 32% of respondents ranking it with a 6 on a 1 to 6 scale. Its average ranking was 4.6. Selling new products and services is the second most important task identified (with 24% placing it top and with an average ranking of 4.2). CFOs will also focus on growth (19% and 4.1). CFOs see increasing operating expenditure (1% and 2.5), expanding by acquisition (5% and 2.5) and increasing capital expenditure (7% and 3.1) as the least important focus areas. Expanding into new markets is considered less important than it was last year (down by 8 percentage points and with an average ranking that's down by 0.5). On the other hand, cost reduction (both indirect and direct) is considered more important than last time. Support for indirect costs rose

by 8 percentage points and its average ranking increased by 0.7. For direct costs, these increases stood at 5 percentage points and 0.4 respectively.

We analysed the CFOs' statements to verify to what extent their strategies are dependent on the financial prospects of their companies. It emerges that the optimism or pessimism of the CFOs had no influence on the mean ranking of their companies' priorities. We could see a slight dependency in the case of all three cost categories (indirect/direct cost reduction and cost control), whereby those CFOs with a pessimistic view of their companies' prospects see these categories as more important than those with an optimistic attitude.

We also compared the CFOs' assessment of their priorities with their perceptions of risk. Similarly to the financial prospects above, the mean rankings of company priorities did not differ on the basis of each CFO's opinion about whether or not the current environment encourages risk-taking. Again, a slight dependency was observed in the case of all three cost categories (indirect/direct cost reduction and cost control). Here, those CFOs claiming that the current situation does not encourage risk-taking see these categories as more important than those who think that risks will be worth considering.

Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?
Top Priority



● Average

CFOs have very similar priorities regardless of sector.

Cost control is one of the most important priorities in all sectors, the only exception being the Business & Professional Services sector. Introducing new products/ services is also a priority in the Financial Services, Life Sciences, Technology, Media, Telecommunications, Business & Professional Services sectors. The CFOs of Consumer Business, Construction & Real Estate and Business & Professional Services companies will also focus on

organic growth. CFOs from the Public Sector and Energy, Utilities, Mining companies see the reduction of indirect costs as a priority.

Figure 4. Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months. (Average rank on a scale of 1-6)

Average	Financial Services	Consumer Business	Life Sciences	Technology, Media, Telecommunication	Energy, Utilities, Mining	Manufacturing	Construction & Real Estate	Business & Professional Services	Public Sector
Expanding into new markets	2.7	3.1	2.3	3.9	2.8	4.1	3.9	3.7	2.0
Organic growth	4.3	4.7	3.9	4.3	3.6	3.9	4.0	4.5	2.4
Expanding by acquisition	2.2	2.6	2.3	3.3	2.6	2.3	1.9	2.5	1.3
Introducing new products/services	4.4	4.3	4.2	4.7	2.8	4.4	3.5	4.3	3.9
Increasing capital expenditure (CAPEX)	3.0	3.0	2.5	2.7	3.5	3.3	3.6	2.5	3.3
Increasing operating expenditure (OPEX)	2.2	2.4	2.2	2.3	2.2	2.7	2.2	2.7	3.6
Cost reduction - direct costs	4.0	3.7	2.9	3.6	3.5	4.3	3.6	3.5	4.6
Cost reduction - indirect costs	4.0	3.9	3.7	3.8	4.0	4.3	3.7	3.7	4.8
Cost control	4.6	4.7	4.0	4.5	4.5	4.8	4.3	4.1	5.1

CFOs are planning to cut the costs of business-related services and production

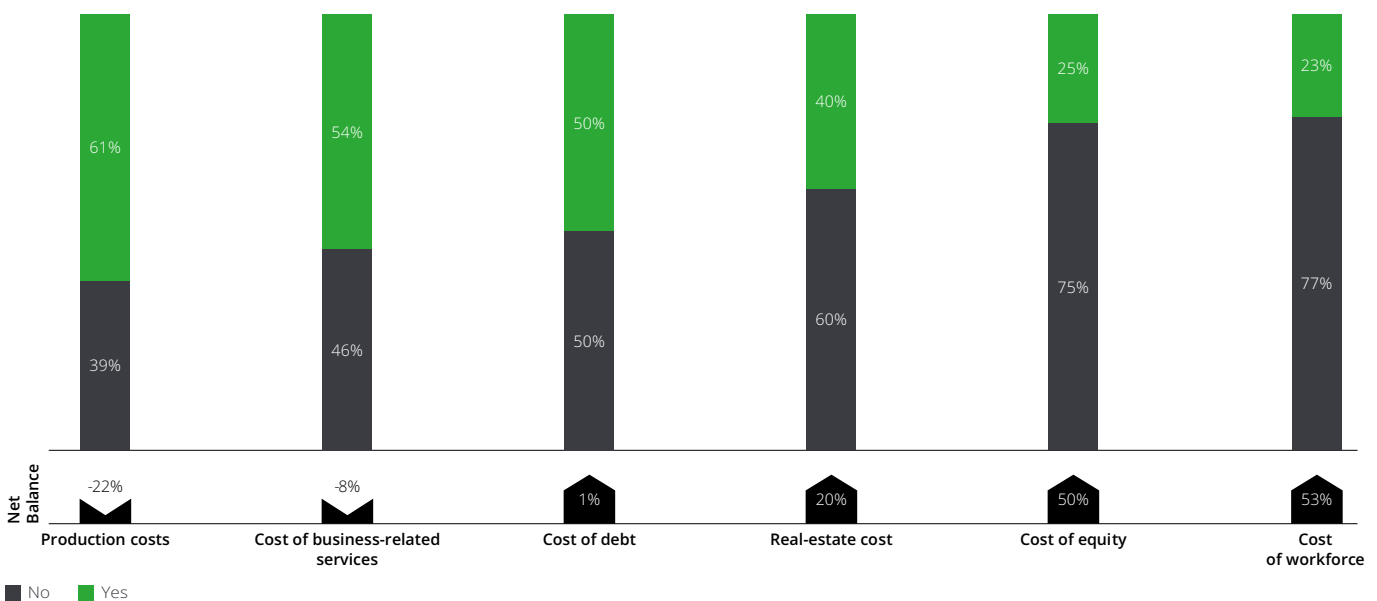
The vast majority of CFOs do not expect to cut the costs of the workforce (77%), equity (75%) or real estate (60%) in the near future. However, the CFOs have different plans for the cost of debt and cost of business-related services. The great majority are likely to cut production costs (61%).

CFOs are planning to cut costs regardless of their view of the company's financial condition and expected revenues. We can see a relatively weak interdependency in the cost-of-workforce category – CFOs who are optimistic about their companies' future revenues are less likely to reduce costs than those who have a more pessimistic view of the future.

In the case of workforce costs, we can conclude that cost-cutting may be a result of planned layoffs rather than any worsening of companies' performance.

In summary, planned cost reductions are not directly related to companies' financial position. The causes of the reductions may lie elsewhere – for example, in planned restructuring or changes that will affect production and the scope of the companies' operations.

Does your company plan to reduce expenses in the next 12-months?



CFOs are not planning to reduce the cost of their workforces in most sectors. Cost-cutting is most likely to take place the Financial Services (38%), Life Sciences (39%) and Public (44%) sectors. CFOs had slightly more mixed opinions concerning real-estate costs. The majority of companies in Financial Services and the Public Sector (61% and 67% respectively) are planning to reduce the costs of real estate. This contrasts with companies from the Business & Professional Services sector (where only 20% are planning to reduce costs of real-estate) and those from the

Manufacturing (28%), Technology, Media, Communications (36%) and Construction & Real Estate (40%) sectors.

Plans to reduce the costs of debt were made by the majority of CFOs from the Financial Services (60%) and Construction & Real Estate (60%) sectors. On the other hand, a third of Public Sector and Business & Professional Services CFOs are planning to reduce the costs of debt. Plans for the cost of equity are similar among CFOs from all sectors, with most planning not to reduce it.

CFOs from most sectors also share similar plans regarding the cost of business-related services. The only exceptions are CFOs from Life Sciences (where 69% are planning to reduce costs), the Public (67%) and the Technology, Media, Telecommunications (62%) sectors.

Plans to reduce production costs are most common among Manufacturing (81%) and Construction & Real Estate CFOs (60%).

Figure 5. Does your company plan to reduce expenses in the next 12-months? (by sectors)

	Reduce	Financial Services	Consumer Business	Life Sciences	Technology, Media, Telecommunication	Energy, Utilities, Mining	Manufacturing	Construction & Real Estate	Business & Professional Services	Public Sector
Cost of workforce	Yes	38%	22%	39%	24%	23%	17%	15%	20%	44%
	No	62%	79%	62%	76%	77%	83%	85%	80%	56%
Real-estate cost	Yes	61%	43%	46%	36%	49%	28%	40%	20%	67%
	No	39%	57%	54%	64%	51%	72%	60%	80%	33%
Cost of debt	Yes	60%	48%	46%	44%	54%	44%	60%	33%	33%
	No	40%	52%	54%	56%	46%	57%	40%	67%	67%
Cost of equity	Yes	25%	23%	39%	22%	36%	24%	16%	20%	11%
	No	75%	77%	62%	78%	64%	76%	84%	80%	89%
Cost of business-related services	Yes	52%	53%	69%	62%	54%	48%	50%	47%	67%
	No	48%	47%	31%	38%	46%	52%	50%	53%	33%
Production costs	Yes	54%	42%	54%	46%	56%	81%	60%	40%	44%
	No	46%	58%	46%	55%	44%	19%	40%	60%	56%

The background features a central point from which numerous overlapping, semi-transparent geometric shapes radiate outwards. The colors transition from cool tones (purple, blue, green) at the top to warm tones (yellow, orange, red) at the bottom, creating a dynamic, sunburst-like effect.

“The responsibilities and role of the CFO have definitely changed in recent years. Besides automatically implying financial expertise, they have been shifted by technological developments and digital disruption away from the traditional role of the ‘steward’ towards that of the ‘strategist’, particularly in terms of how to create and optimise added value.”

Tomislav Rosandić, Member of the Board and Group CFO, HEP

How the region's CFOs see their responsibilities

As the first section of this document has shown, CFOs from companies in a wide range of industrial sectors and countries throughout Central Europe have a generally positive view of the immediate future for their own organisations.

In general, however, they don't feel this way because of the prevailing climate for doing business.

Rather, they are optimistic for the future despite the business environment, with widespread expectations of downward pricing pressures and recruitment challenges preventing most respondents from seriously contemplating taking additional risk on to their balance sheets.

However, a sharp rise in CEO optimism over the 12 months since the last survey in this series suggests that respondents are confident in their and their teams' abilities to carry out their responsibilities in a way that underpins the future prosperity of these companies.

In this section of the report, therefore, we look more closely at these responsibilities and our participating CFOs' own attitudes to them. Which do they see as most important? To what extent is the CFO role still purely finance-oriented? How much emphasis do they place on system control and supervision? And how do their views differ between sectors and according to their company revenue levels or proportion of foreign investment?

CFO responsibilities

In the questionnaire, participating CFOs were asked to rank the importance of a number of professional tasks on a 1 to 10 scale, with 1 being the least important. This has enabled us to create a ranking of the tasks that CFOs see as most important.

We must first emphasise that only 2% of CFOs did not provide a ranking for at least one of the 24 categories on our list, as these were not part of their responsibilities. We may therefore conclude that the list closely reflects the typical scope of a CFO's responsibilities.

We grouped CFOs' main tasks into four categories that reflect the professional profiles of our respondents. We analysed individual tasks in terms of the similarities in the activities and roles that the CFOs are required to perform in each company.

The four following categories therefore reflect the different functions that the CFO undertakes for his or her company:

- The "Finance and business management" group includes tasks relating to the management of the company's budget and financial risk.
- The "Control and supervision" group includes those tasks related to overseeing individual processes in the company, including financial processes.
- The "Representative and support functions" group includes tasks relating to representing the company and supporting other teams within it.
- Finally, the "Employee management" group includes tasks related to managing the teams that report to the CFO.

"The business strategy of Zagrebački Holding can be summed up as follows: constantly striving to maintain the image of Zagreb City as a warm-hearted host – the sort you never think about because it always does its work so well. And the role of the finance department is simply to provide logistical support and to partner with management in achieving this strategy."

Marica Dusper, Head of Finance, Zagrebački Holding

FINANCE AND BUSINESS MANAGEMENT TASKS

- Develop and monitor business and financial strategies
- Manage and control the budgeting processes
- Finance forecasting
- Reporting financial situation
- Reporting risk issues
- Arrange for debt and equity financing
- Optimizing the cost structure and the level of organization assets
- Develop and monitor tax strategies
- FX Risk Management
- Investment funds
- Management of interest rate risk
- Maintain appropriate insurance coverage

EMPLOYEE MANAGEMENT TASKS

- Manage the accounting department/ team
- Manage the tax and treasury department/ team
- Manage the legal department / team

CONTROL AND SUPERVISION TASKS

- Develop performance measures
- Construct and monitor reliable control systems
- Oversee financial operations
- Evaluation of investment projects
- Supervise acquisition due diligence and negotiate acquisition
- Oversee the company's transaction processing systems

REPRESENTATIVE AND SUPPORT FUNCTIONS

- Cooperation with the sales department in pricing products/services
- Building the image of the company
- Establishing contacts and collaborate with auditors, banks, insurance companies, etc.

The survey findings

Responsibility analysis

Responsibilities associated with managing the company's finances continue to be the main priority for CFOs. While other responsibilities, such as overseeing the company's processes, managing the team and representing the company, are important they are not mission-critical.

CFOs from the Business & Professional Services sector are the only ones in the survey to see controlling and overseeing the company's processes as more important than managing its finances.

Representing the company is important for the CFOs of Financial Services and Life Sciences companies. Public Sector CFOs, on the other hand, consider it as the least important of their tasks.

Tasks that relate to team management are not a priority for most CFOs. However, the less revenue generated by the company, the more important the CFOs consider these tasks to be.

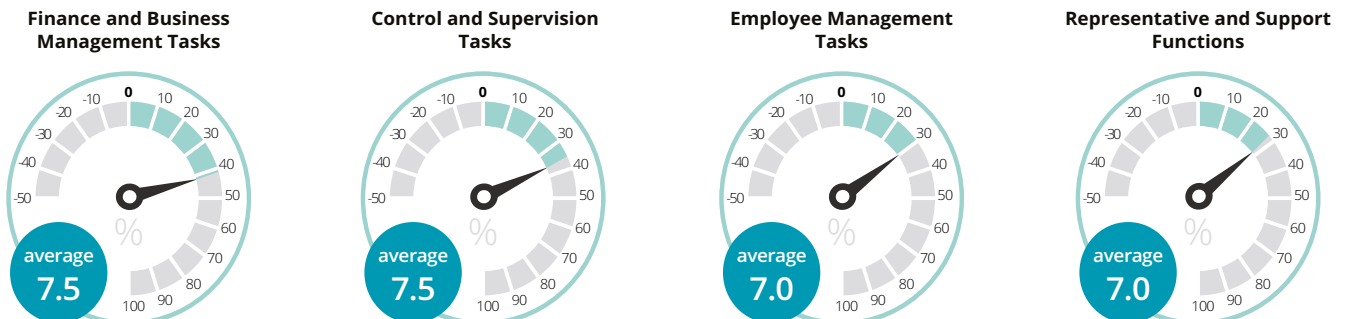
Representing the company was seen as considerably less important by CFOs of companies with a share of foreign investment that stands at 50% or more.

Our respondents perceive tasks relating to finance operations and managing company budgets as the most important (41% consider them a priority, allocating a mean score of 7.5). Controlling and supervision tasks ranked second (36% with a mean of 7.5). Representing the company and team management are the two lowest priorities (respectively 29% weighing in with a mean of 7.0 and 30% with a mean of 7.0).

“The most important responsibility for a CFO is to ensure financial stability and flexibility. At OMV Petrom, ensuring a strong balance sheet will enable us to continue investing in line with our strategy.”

Andreas Matje, Chief Financial Officer and Member of the Executive Board, OMV Petrom SA

The proportion of 9 or 10 scores for each category of tasks



There are different hierarchies of CFO responsibilities in each sector. Perhaps unsurprisingly, tasks that relate to managing the company finances have the highest priority in the Financial Services sector. However, one might find it surprising that the second most important priority in this sector is representing the company. Financial sector CFOs also view tasks associated with control and supervision as less important than CFOs from other sectors.

Respondents from the Consumer Business sector held largely similar views to other CFOs, the only difference being that they considered "employee management tasks" as the least important category. The same holds true for the Energy, Utilities, Mining sector.

The prioritisation of their professional tasks as rated by the CFOs is similar in the Life Sciences and Financial Services sectors. It is worth noting, however, that CFOs from both sectors rated tasks associated with managing finances, control and supervision and team management below the scores of other respondents (by 9, 10, and 7 percentage points respectively).

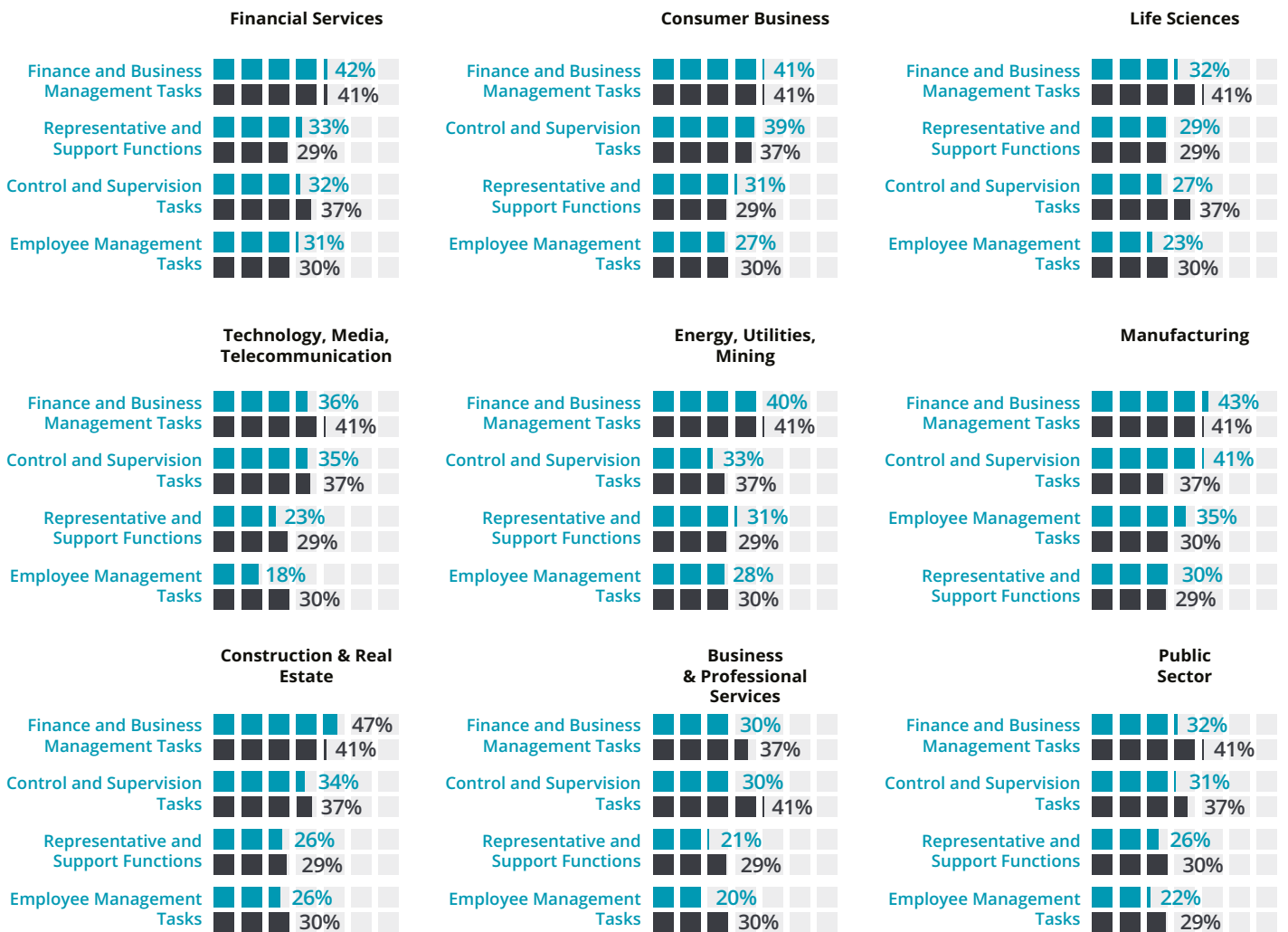
The CFOs of Technology, Media, Telecommunications companies view finance management and control and supervision tasks as their most important responsibilities. They also ranked tasks related to representing the company and team management the lowest of all sectors (by 6 and 12 percentage points respectively).

The views of CFOs from the Manufacturing sector are generally consistent with the views of all CFOs, although they ranked team management tasks slightly higher (by 5 percentage points).

Managing company finances is a priority for Construction & Real Estate CFOs. In addition, they consider it far more important than do the other CFOs, while attaching considerably less importance to other tasks.

CFOs from the Business & Professional Services sector see the control and supervision of their companies' processes as their most important tasks. However, CFOs from this sector attached less importance to these tasks than did other CFOs.

Ranking the importance of task-categories by sector. Top priority (% of 9+10 rates)



■ Sector ■ All companies

Public Sector CFOs had similar priorities to those generally held by CFOs. However, they ranked the importance of each group of tasks slightly lower.

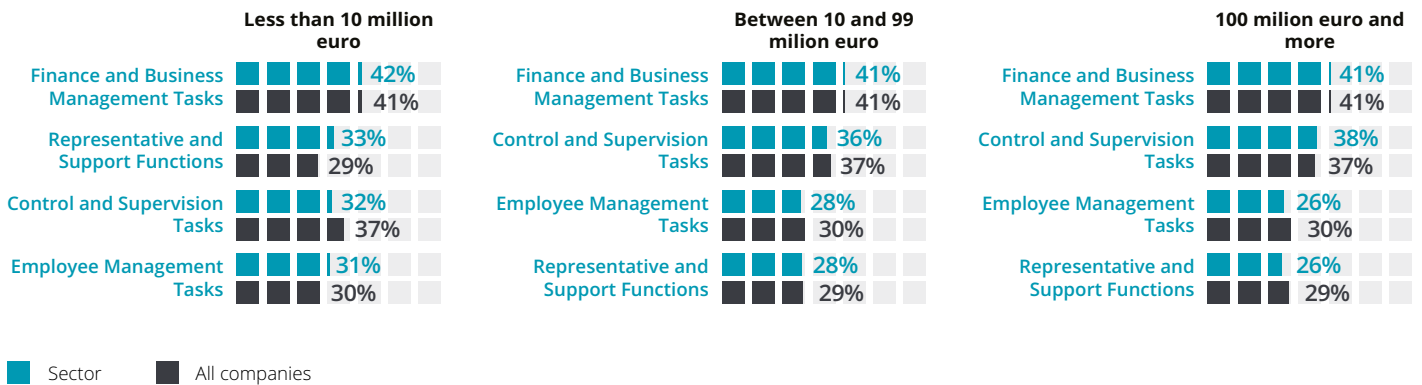
The priorities of CFOs differed depending on the revenue of their companies. Our analysis shows that representing the company was significantly more important among those companies with the lowest revenues, whereas tasks related to control and supervision were seen as less important.

Priorities were similar among the CFOs of those companies with higher revenues. We did observe, however, that the higher the revenues, the less importance the CFO attaches to tasks relating to team management and company representation. This is caused by the higher degree of specialisation and the greater responsibility for their organisations' finances held by the CFOs of high-revenue companies.

“Constant changes in the fiscal regulatory environment are driving us to become increasingly flexible so we can adapt faster to new demands than ever before.”

Lucian Vilău, VP Finance and Indirect Procurement, CFO, Mega Image

Ranking the importance of task-categories by revenue. Top priority (% of 9+10 rates)

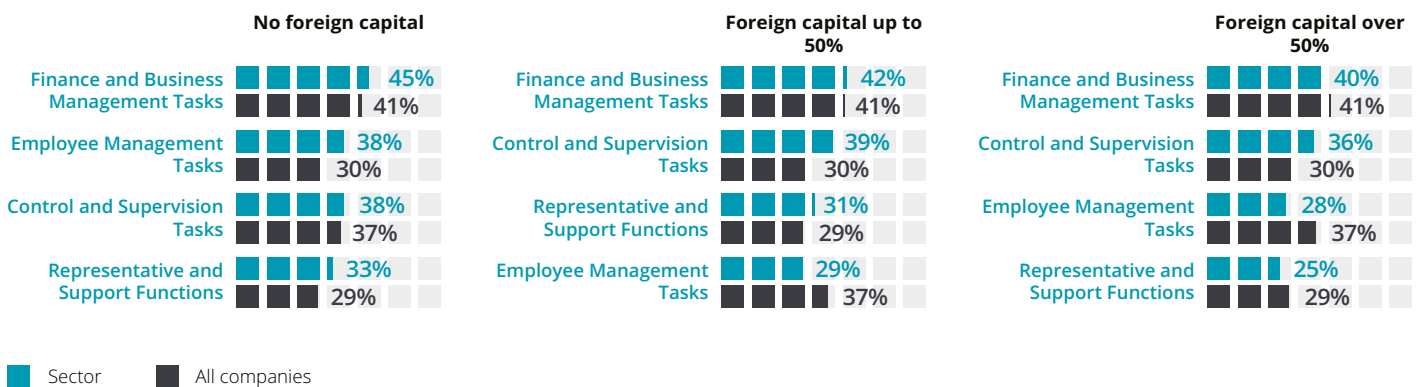


Managing company finances remains the biggest challenge for CFOs, regardless of the share of foreign capital in their companies. We also observe that CFOs of Polish companies attach more importance to team management tasks than CFOs whose companies are financed with foreign capital. Representing the company was considered considerably less important by the CFOs of companies with a 50% or greater share of foreign capital.

“The key responsibilities of the CFO are wide-ranging, from the efficient management of financial and current assets, to ensuring the accuracy of financial statements and continuously monitoring the company’s financial performance. They’re key to the business’s ability to achieve its planned results, to deliver profit and to meet short and long-term shareholder expectations.”

Aleš Aberšek, CFO, Telekom Slovenije d.d.

Ranking the importance of task-categories by proportion of foreign investment. Top priority (% of 9+10 rates)



“The most important responsibility for me as CFO has been building a cohesive team of colleagues who share the same vision and understand the same priorities. Without such an exceptional team, it would not have been possible to make progress towards achieving our two priorities of reducing debt and centralising all financial functions across the Group.”

Peter Groznik, CFO, Gorenje d.d.

Contacts

Gavin Flook

Central Europe CFO Programme
Leader
gflook@deloittece.com

Magdalena Cielecka

Central Europe CFO Programme
Project Manager
mcielecka@deloittece.com

Local contacts

Bosnia & Herzegovina

Sabina Softić

Partner, Audit
ssoftic@deloittece.com

Irina Nevstrujev-Zarić

Assistant, Clients & Markets
inevstrujevzaric@deloittece.com

Bulgaria

Todor Todorov

Director, Financial Advisory
ttodorov@deloittece.com

Dessislava Kirkova

Manager, Clients & Markets
dkirkova@deloittece.com

Croatia

Marina Tonžetić

Partner, Audit
mtonzetic@deloittece.com

Višnja Matković

Manager, Clients & Markets
vmatkovic@deloittece.com

Czech Republic

Martin Tesar

Partner, Audit
mtesar@deloittece.com

Tomas Prejda

Marketing Manager, Audit
tprejda@deloittece.com

Hungary

Zsuzsa Kigyos

Director, Consulting
zkigyos@deloitteCE.com

Gabriella Jenei

Manager, Clients & Markets
gajenei@deloittece.com

Lithuania

Simonas Rimašauskas

Director, Audit
srimasauskas@deloittece.com

Justina Daukšaitė

Senior Coordinator, Clients & Markets
jdauksaite@deloittece.com

Poland

Krzysztof Pniewski

Partner, Finance Transformation Leader
kpniewski@deloittece.com

Dominika Piotrowska-Skwarło

Manager, Clients & Markets
dpiotrowska@deloittece.com

Romania

Ahmed Hassan

Country Managing Partner
ahhassan@deloittece.com

Anca Serban

Coordinator, Clients & Markets
anserban@deloittece.com

Serbia

Nada Sudjic

Partner, Audit
nsudjic@deloittece.com

Aleksandra Gregovic

Manager, Clients & Markets
agregovic@deloittece.com

Slovenia

Barbara Žibret Kralj

Partner, Audit
bzibretkralj@deloittece.com

Zala Praprotnik

Manager, Clients & Markets
zpraprotnik@deloittece.com

Slovakia

Ivan Luzica,

Partner, Consulting
iluzica@deloitteCE.com

Robert Krajnak

Coordinator, Clients & Markets
rkrajnak@deloittece.com

Ukraine

Vladimir Vakht

Partner, Consulting leader
vvakht@deloitte.ua

Nazar Farmaha

Senior Manager, Finance transformation
leader
nfarmaha@deloitte.ua



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu Limited. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities. The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through nearly 6,000 people in 41 offices in 18 countries.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional advisor. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte provides audit, consulting, legal, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 244,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.