



Positive business environment

Central Europe CFO Survey 2017

2017 results | 5th edition

Serbia

The **CFO** Program

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Recent developments show that economic recovery continues to gain momentum, with projected increase of GDP in 2017, with narrowed current account deficit following stronger exports supported by past investments.

Introduction



Nada Sudić
Partner
Deloitte Serbia

I am pleased to welcome you to this year's edition of the Deloitte CFO survey conducted in Serbia for the fifth time and in 11 other CE countries for the eighth time.

One of the key objectives of our survey was to better understand the current mind-set of CFOs in today's economic context in order to identify actions and challenges that companies are facing today.

I would very much like to thank those CFOs who participated in our survey – I am grateful for their generosity in giving us their time and their insight in the views they expressed.

I hope that you find this material interesting and useful, and would like to invite you to take part in the next survey to be held in October 2017.

Methodology

About the data

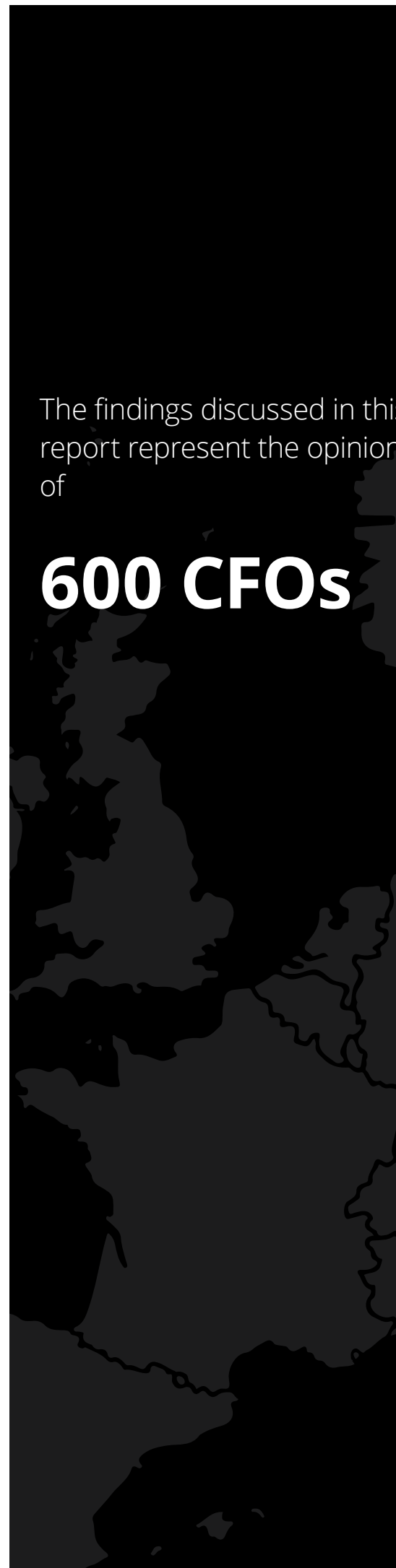
The findings discussed in this report represent the opinions of almost 600 CFOs based in 12 Central European countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

The survey was conducted between August and October 2016.

This report represents the opinions of the CFOs from Serbia.

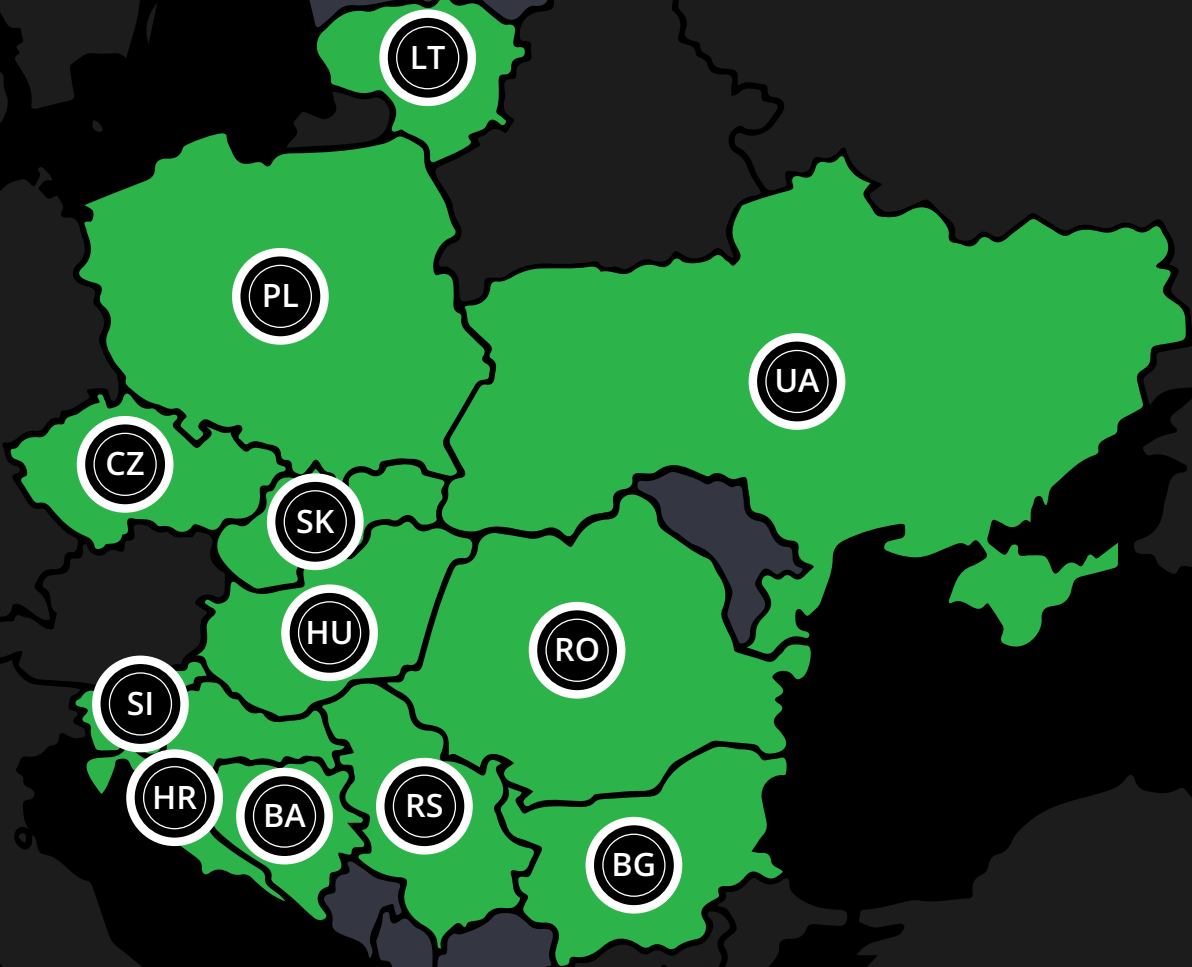
The findings discussed in this report represent the opinion of

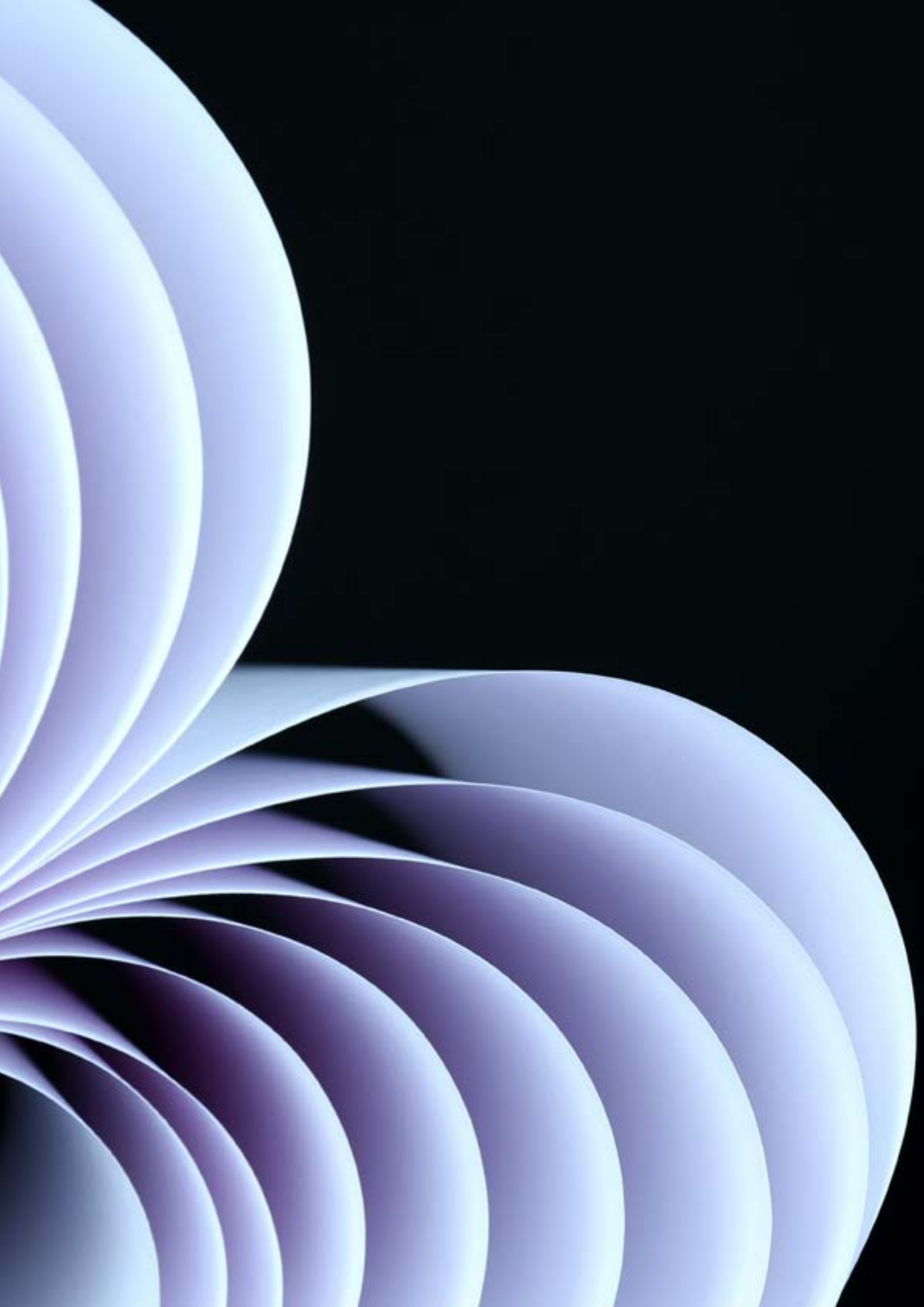
600 CFOs



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- | | |
|--|--|
|  Bosnia and Herzegovina |  Poland |
|  Bulgaria |  Romania |
|  Croatia |  Serbia |
|  Czech Republic |  Slovakia |
|  Hungary |  Slovenia |
|  Lithuania |  Ukraine |





Key findings



Only 23% of survey respondents believe that the unemployment rate will increase to some extent over next 12 months.



Cost control is likely to be a high priority for 72%, taking into consideration an expected increase in production costs and workforce costs.



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



With regard to the financial prospects of their companies, more than 62% of respondents have declared they are optimistic.

Economic outlook

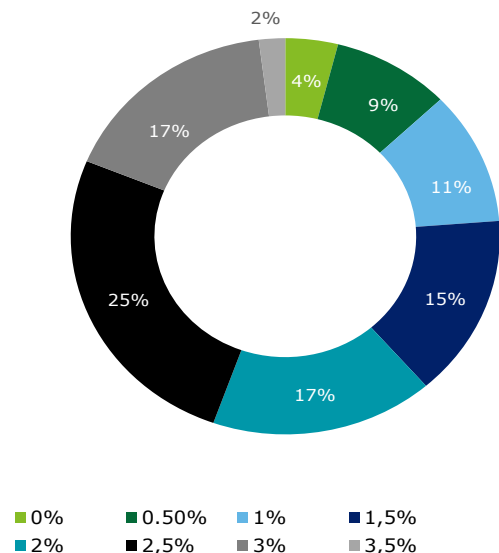
The Serbian economy improved noticeably in the third quarter of 2016 and GDP growth outpaced the previous quarter's increase. More needs to be done, however. The Government must continue focusing on ensuring economic and financial stability, fostering employment and raising living standards. Fiscal consolidation, ongoing public sector reform and reform of the business environment have created certain foundation for growth and it is certain that these economic improvements will lead to further positive outlook prospects on our future.

GDP Growth

Serbia's overall economic activity, measured in GDP and indicated in permanent prices, saw an estimated 2.744 % growth in 2016 compared to 2015, the National Statistical Office announced at the end of December 2016. When it comes to GDP growth in 2017, over 80% of participants expect it to be at between 0% and 2.5%. About 9% of survey respondents expect Serbian GDP growth to be limited to 0.5%, while 26% consider it to be around 2.5%, which again confirms more optimism

from participants on the economic outlook for this year. Recently, the World Bank has increased its projection for Serbia's economic growth (GDP) in 2017 to 2.8%, half a percentage point higher than the forecast made in June last year. However, GDP is likely to slow as political uncertainty rises ahead of planned presidential elections in Q2.

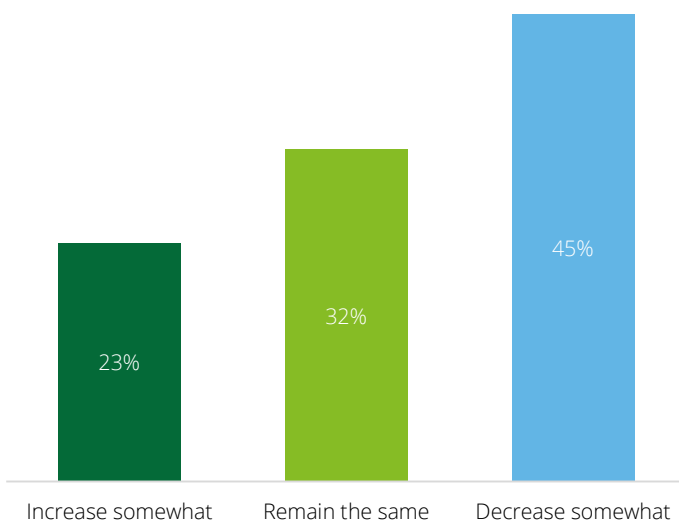
CFOs' expectations for the country economic GDP growth for 2017



Unemployment

Contrary to last year's results, when more than half of the respondents (55%) believed that the level of unemployment would increase in 2016, the prognosis for 2017 is more optimistic. Only 23% of the survey respondents believe that the unemployment rate will increase to some extent over next 12 months. This optimistic change in CFOs' expectations is in line with achieved macroeconomic indicators in 2016, and a positive economic outlook for 2017, more flexible labour market and a projected increase in employment levels, primarily in construction, processing, mining and the trade industry.

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



Business Environment Outlook

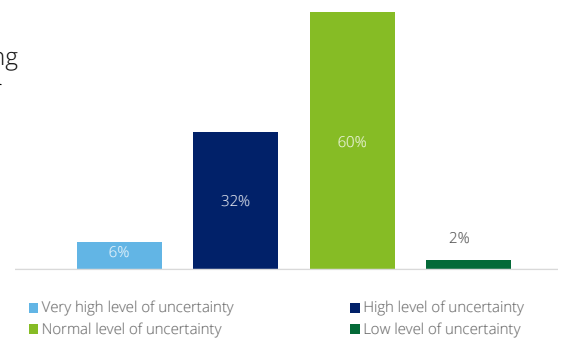
External risks

Overall, 62% of CFOs think that the general level of external financial and economic uncertainty that their businesses are facing is at a normal or even low level risk. Compared to 2016, when 58% of CFOs' thought that the general level of external financial and economic uncertainty was very high or high, CFO Survey 2017 shows that the general level of external financial and economic uncertainty has had a declining trend. Recent developments show that economic recovery continues to gain momentum, with a projected increase of GDP in 2017, with a narrowed

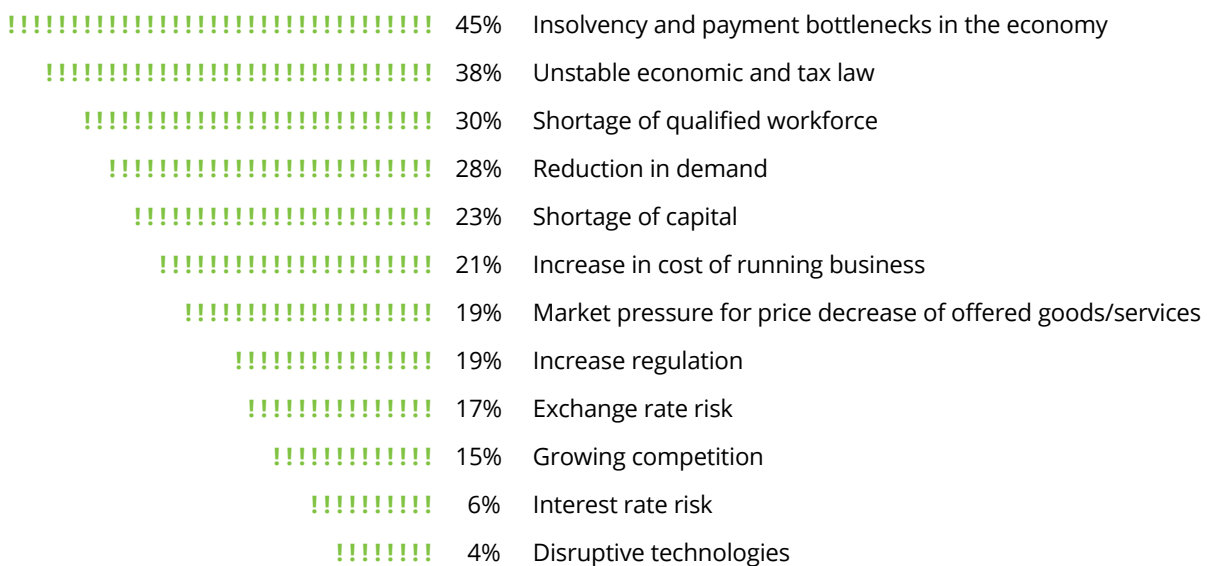
current account deficit following stronger exports supported by past investments.

Despite the overall positive economic outlook, insolvency and payment bottlenecks in the economy, a shortage of a qualified workforce, reduction in demand and shortage of capital remain top factors recognized by CFOs as posing significant risks to their businesses over the next 12 months.

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



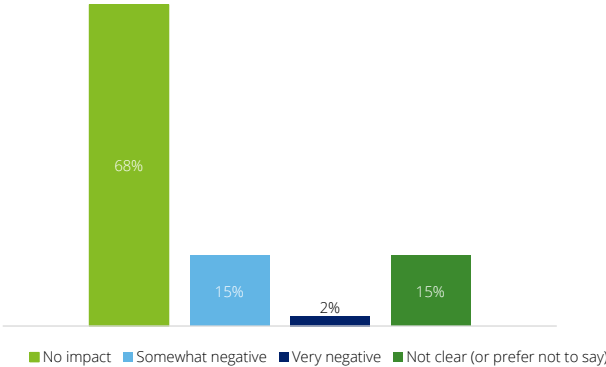
Which of the following factors are likely to pose a significant risk to companies over the next 12 months?



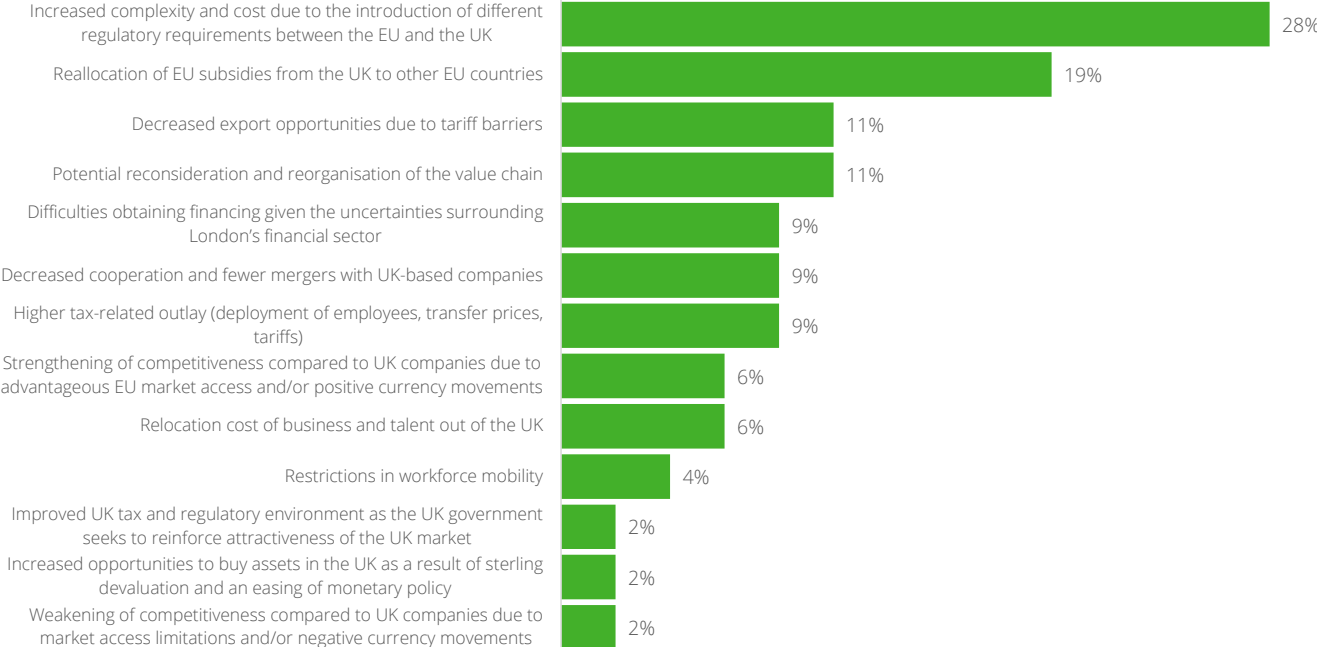
Potential consequences of Brexit

The hottest topic amongst economist the world over in the second half of 2016 is Brexit and its effects on different markets in EU and non-EU countries. A majority of survey respondents (68%) think that Brexit negotiations between the EU27 and the UK will not affect their business, while 15% think that they will have a somewhat negative influence, whilst just 2% expect a very negative impact on their business.

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



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

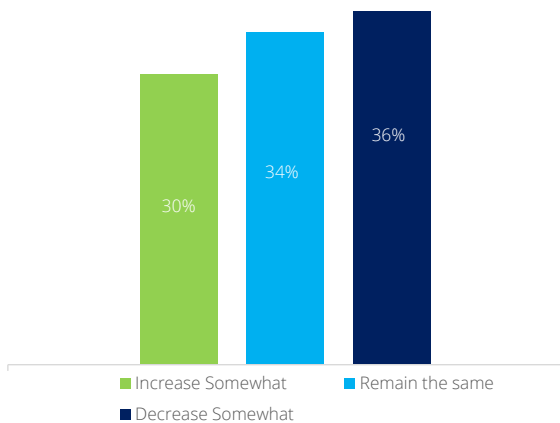


Financing

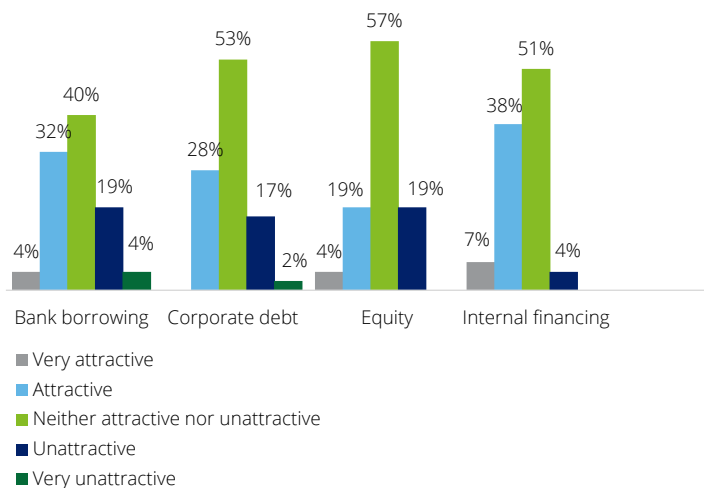
The expectation of CFOs' with respect to the trend of financing costs for the next 12 months is relatively uniform. Namely, 36% of CFOs in Serbia believe that overall financing costs will be more favorable in 2017 as compared to 2016, whilst 30% think that financing costs will increase slightly, and 34% believe that financing costs will remain the same. Such a view is probably attributable to the fact that although expectations are that the level of market interest rates will remain stable, bolder exchange rate flexibility by the NBS might affect the movement of finance costs upwards or downwards.

Internal financing and bank borrowing remain the most attractive sources of company financing. Compared to last year's survey (26%), 36% of CFOs found that bank borrowing is an attractive source of financing. At the same time, the majority of CFOs are indifferent in terms of using bank borrowings, corporate debt, equity or internal financing.

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



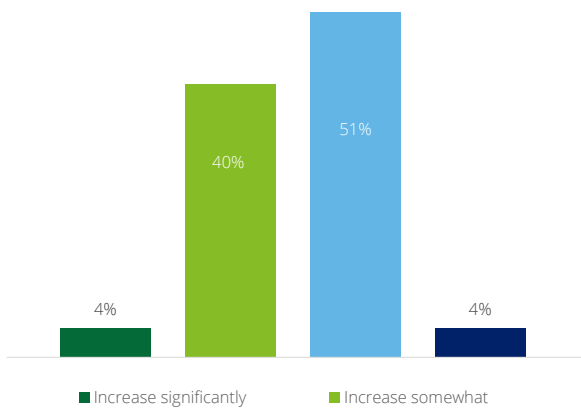
How would you rate the attractiveness of investment sources for companies in Serbia?



M & A market

A general shift in the optimism of CFOs in Serbia is also confirmed by the expected M&A activity in 2017, with 44% expecting an increase in takeovers over the next 12 months (up from the 42% observed in the previous survey, and 32% in 2015). This is in line with a positive business environment outlook for 2017 and increased M&A activities involving foreign investors, as well as local private investors, supported by favorable borrowing costs. ➔

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



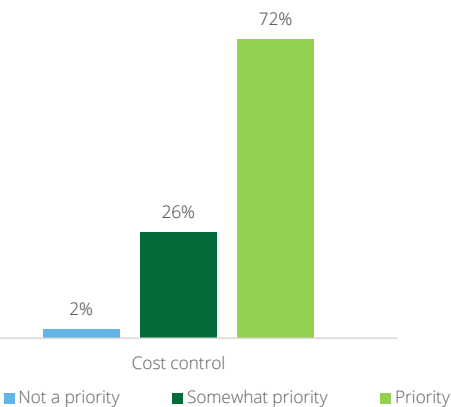


Companies' Growth Outlook

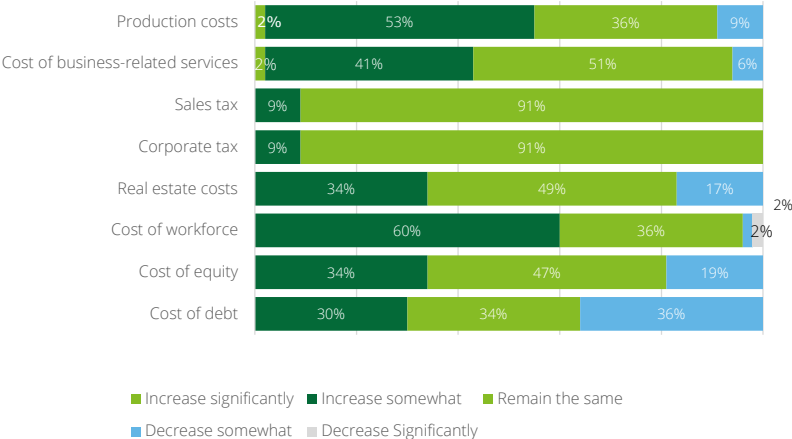
Compared to the 2015 survey results, companies' focus remains consistent. Over the next 12-month period, companies will focus on revenue growth in the current markets and pay attention to the revenue growth in new markets and direct cost reduction. Cost control is likely to be a high priority for 72% of CFOs, taking into consideration an expected increase in production costs (55% of surveyed respondents) and workforce costs (60%).

While one of two CFOs states that cost reduction, either direct or indirect, is likely to be somewhat a priority, over 40% think that cost reduction is likely to be high priority for their business over the next 12 months.

To what extent is cost control likely to be a priority for your business over the next 12 months?



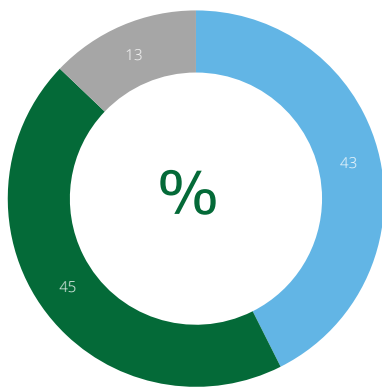
How are costs for companies in Serbia likely to change over the next 12 months?



Two of three CFOs concluded that it is not a good time to be taking greater risks on a company's balance sheet. However, there is a positive shift in those that believe the opposite (up from 16% in the previous survey). Although 62% of surveyed respondents see current levels of uncertainty as normal or low, their views on taking greater risks were

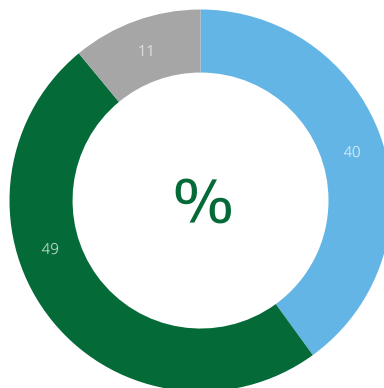
split, meaning that perceived external and economic uncertainty is not a factor that significantly determines CFOs' assessment of risk. ➔

Cost Reduction – Direct Costs



■ Priority ■ Somewhat priority ■ Not a priority

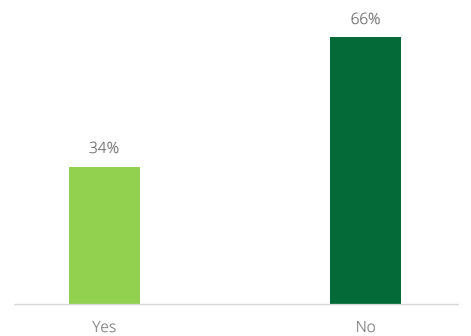
Cost Reduction – Indirect Costs



■ Priority ■ Somewhat priority ■ Not a priority

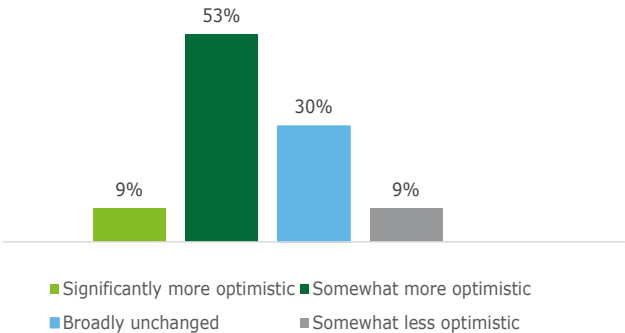
Is this a good time to be taking greater risk onto your company's balance sheets?

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

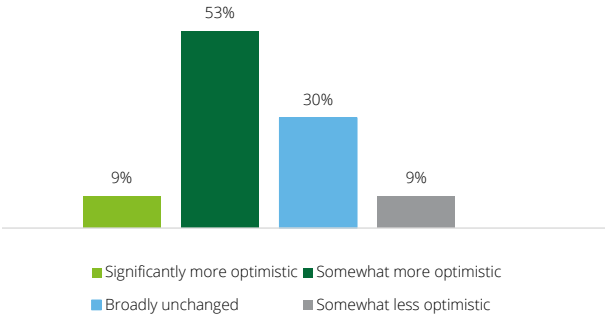


CFOs are more optimistic regarding the financial prospects of their companies compared to the last survey. More than 62% of respondents stated they are optimistic (up from 48% in the previous survey), whilst 30% think that the situation will remain the same. In particular, 68% of CFOs think that revenues will increase and 47% think that operating margins will increase, whilst a majority of CFOs surveyed expect CAPEX and the number of employees to remain unchanged.

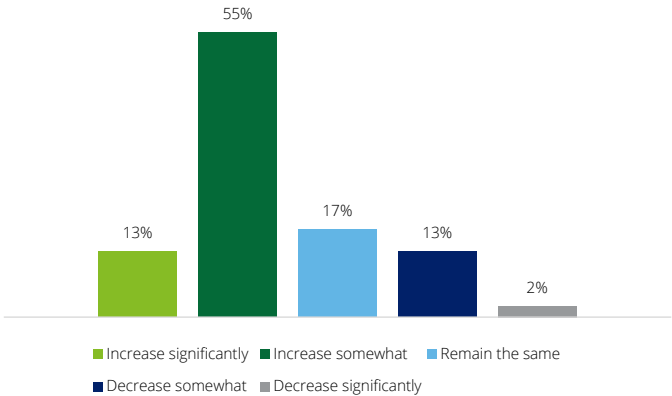
Compared with six months ago, how do you feel about the financial prospects for your company?



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



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

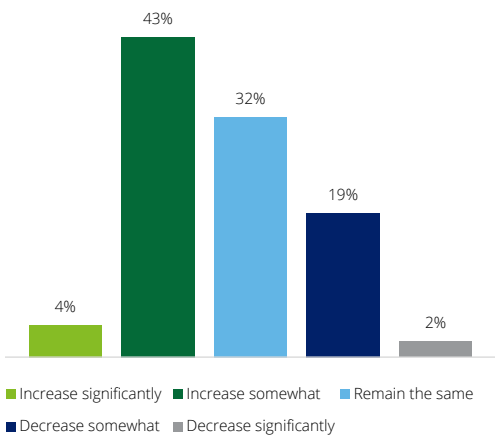


Debt and financing

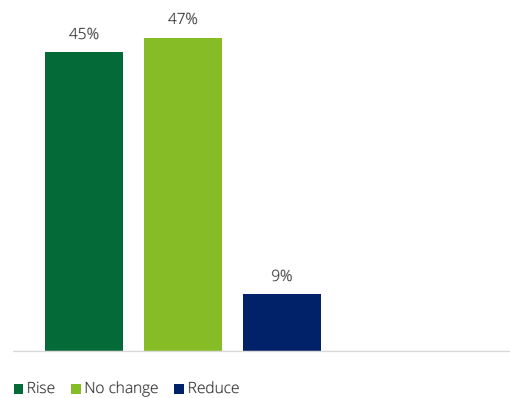
As a source of funding, bank debt is attractive for 36% of CFOs (previous survey, 26%), due to excessive liquidity in EU markets and a record low market interest rate, followed by monetary easing and an NBS cut in the key policy rate twice during 2016. At the same time, the expectation of the ability to service bank debt is that will be an increase to a certain extent (43% of respondents, as compared to 32% in the prior survey), which supports the attractiveness of bank borrowings as a source of funding.

The deleveraging process is deteriorating, with only 9% of CFOs wanting to continue reducing their gearing ratios compared to 26% the year before. On the other hand, 45% of participants plan to increase their gearing ratios to support the expanding business on new markets and introducing new products and services, and potentially fund external growth through M&As.

How do you currently rate bank debt as a source of funding for your company?



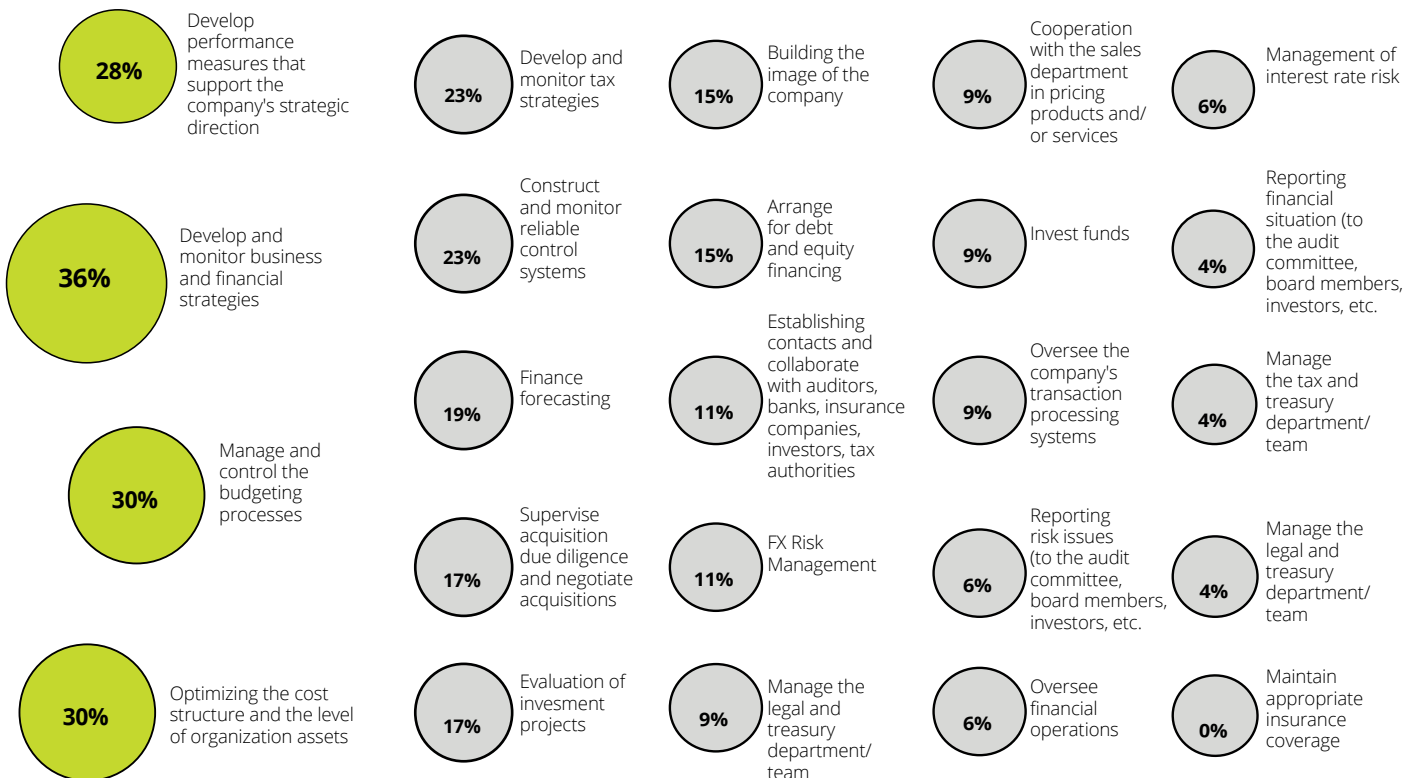
What is the aim for your level of gearing over the next 12 months?



Role of the CFOs

Developing and monitoring business and financial strategies seems to be the most challenging responsibility to fulfill for Serbian CFOs, along with managing and controlling the budgeting processes, optimizing the cost structure and the level of organization assets and developing performance measures that support the company's strategic direction. Least challenging for the CFOs is to maintain appropriate insurance coverage.

Which of the following responsibilities are the most challenging to fulfill?



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