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Looking ahead with confidence and caution
Central Europe CFO Survey 2016

2016 results | 7th edition

The CFO Program

2016 will be a year of economic and financial stabilization for Central European countries.
This means that CFOs have for some time perceived the situation across the region as stable, which translates into their positive expectations for the future development of their companies.

Contents

Introduction

2016 will be a year of economic and financial stabilization for Central European countries – that is the main conclusion to be drawn from the findings of the seventh edition of the CFO opinion poll carried out by Deloitte in CE countries. Last year's edition yielded similar findings. This means that CFOs have for some time perceived the situation across the region as stable, which translates into their positive expectations for the future development of their companies.

This year's edition saw the introduction of the CFO Confidence Index, an indicator of the overall optimism of CFOs, which is described in the first chapter of the report. The index is made up of three sub-indices that reflect the opinions of the respondents regarding three key areas – the state of the economy, the conditions for doing business and the health of Central European companies.

The subsequent chapters of the report present our in-depth analysis of these issues.

While the forecasts for GDP growth and changing levels of unemployment are relatively optimistic, the majority of CFOs stated that the ongoing Greek crisis may destabilize the Euroland and have a negative impact on the markets. The previous editions of this study have shown that CFOs provide reliable predictions of the GDP growth figures for their countries; this year's forecasts of GDP growth therefore lead us to believe that the region's economy will stabilize further.

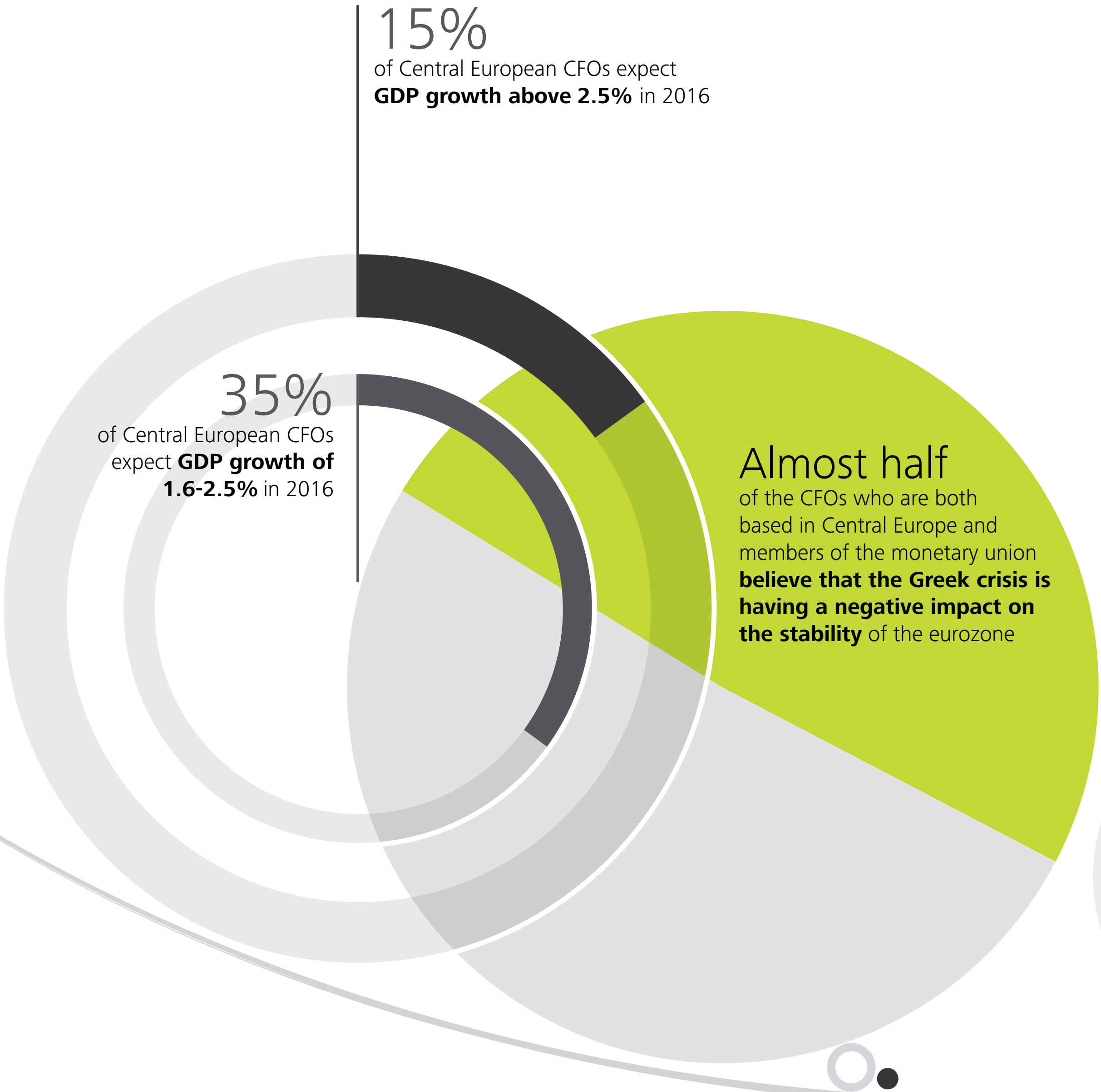
The third chapter describes CFO attitudes about the conditions for doing business and the immediate environment affecting companies. Uncertainty in the market is decreasing, which will have a positive impact on companies' willingness to invest and expand into new markets. However, operating expenses may also increase.

The report's final chapter outlines participating CFOs' predictions for the health and growth prospects of their companies. Respondents express great optimism in these areas, with the majority expecting increases in turnover, capital expenditure, workforce numbers, margins and an enhanced capability for companies to service debt. Nevertheless, internal funding is still considered to be the most attractive source of investment capital. This may mean that, although optimistic, CFOs retain a healthy dose of caution and wish to avoid taking unnecessary risks.

When looking at this year's results, there is a clear difference between CFOs' confidence regarding their own business growth vs. the business environment in which they operate. This leaves us with a couple of questions; will CE companies succeed over a longer period while the economic environment is relatively adverse or, will we see them suffer a delayed adverse impact in the future if the economic environment does not improve?

Gavin Flook
CE CFO Program Leader
Deloitte Central Europe

Key findings



65%

predict that their **companies will increase turnover** within the next 12 months

40%

anticipate an **increase in margins, capital expenditure and employment**

52%

of respondents described the current level of **financial and economic uncertainty as normal**, a fall of 20 percentage points from the previous year

71%

of participating CFOs feel that **now is not a good time to take large investment risks**

52%

of Central European CFOs predict **increased M&A activity** in the year to come

51%

of respondents stated that the **financial health of their companies has improved** in the last six months

Methodology
About the data

The findings discussed in this report represent the opinions of 489 CFOs based in 11 Central European countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia.

The survey was conducted between August and October 2015.

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 10 countries who appear in both editions.

References to editions of the Deloitte CFO Survey covering Western and Central Europe are based on the 2015 edition for which interviews were conducted in 15 European countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Switzerland and the United Kingdom.
The report is available online:

http://www.deloitteresearchemea.com/survey-pdf/deloitte-e-cfo-survey-q3-2015.pdf

The findings discussed in this report represent the opinions of

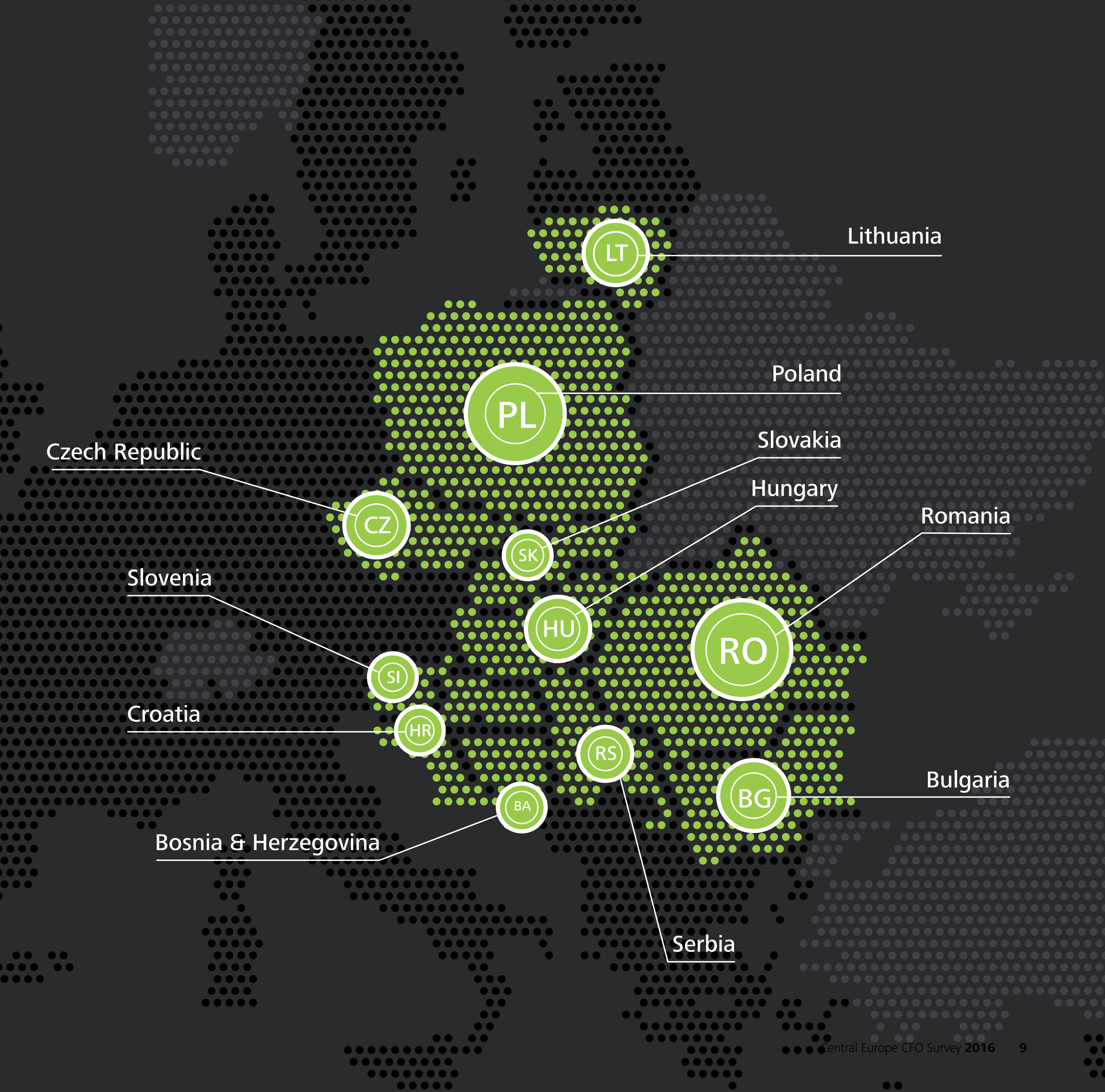
489 CFOs

based in

11 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) and Slovenia (SI).

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


Lithuania
LT
Poland
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Czech Republic
CZ
Slovakia
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Hungary
HU
Romania
RO
Slovenia
SI
Croatia
HR
RS
BG
Bulgaria
BA
Bosnia & Herzegovina
Serbia

CFO Confidence Index

Introducing the CFO Confidence Index

The Deloitte CE CFO Confidence Index consists of three sub-indices that reflect the optimism expressed by CFOs about three issues: economic processes; the business environment; and the development prospects of their companies.

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

The Economy Confidence Index includes questions relating to unemployment levels and the situation in Greece.

The Business Environment Confidence Index includes questions relating to uncertainty, risk, access to loans, operational expenses, the M&A market and the availability of candidates for positions in financial departments.

The Company Perspective Index includes questions relating to companies' financial condition (revenue, debt-servicing capabilities, capital expenditure, margins) and employee numbers.

Positive expectations despite looming downturn

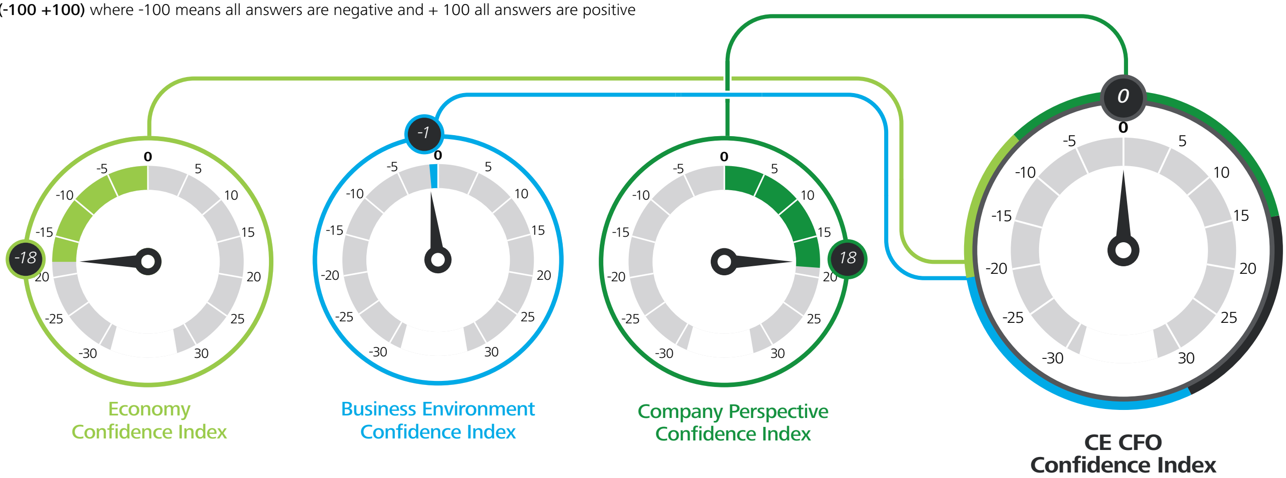
Participating CFOs expressed somewhat cautious opinions regarding the future changes they expect. The CFO Confidence Index stood at 0, meaning that the respondents expressed balanced opinions and are hoping for stability in 2016.

They demonstrated much greater optimism when asked about the future development of their companies. The region's CFOs share an optimistic outlook on their companies' future financial health and employee numbers (Company Perspective Confidence Index). The same cannot be said about their predictions for the economy, however, where they are pessimistic about the future. This is mainly due to the ongoing Greek crisis (Economy Confidence Index). The discrepancy between the two indices is over 36 points, attesting to the major differences in opinion between the two issues. This should be considered as proof of the fact that, despite a looming economic downturn, CFOs are not expecting the performance of their companies to suffer.

Moreover, CFOs are confident that their companies will be able to continue developing in a slightly unfavorable business environment. The Business Environment Confidence Index stood at -1.

Change for the better in tough time

scale (-100 +100) where -100 means all answers are negative and + 100 all answers are positive



Change for the better in tough time

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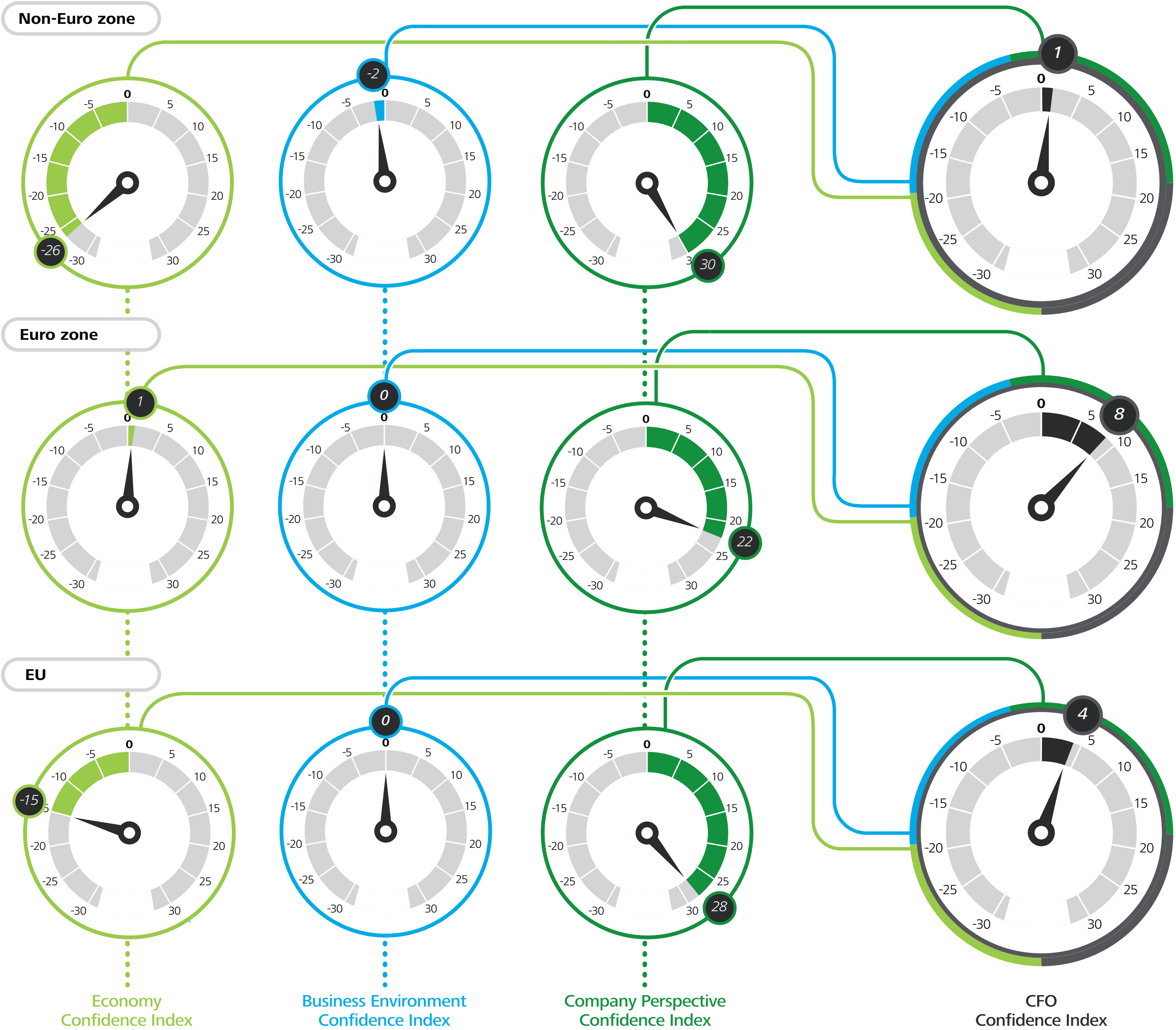
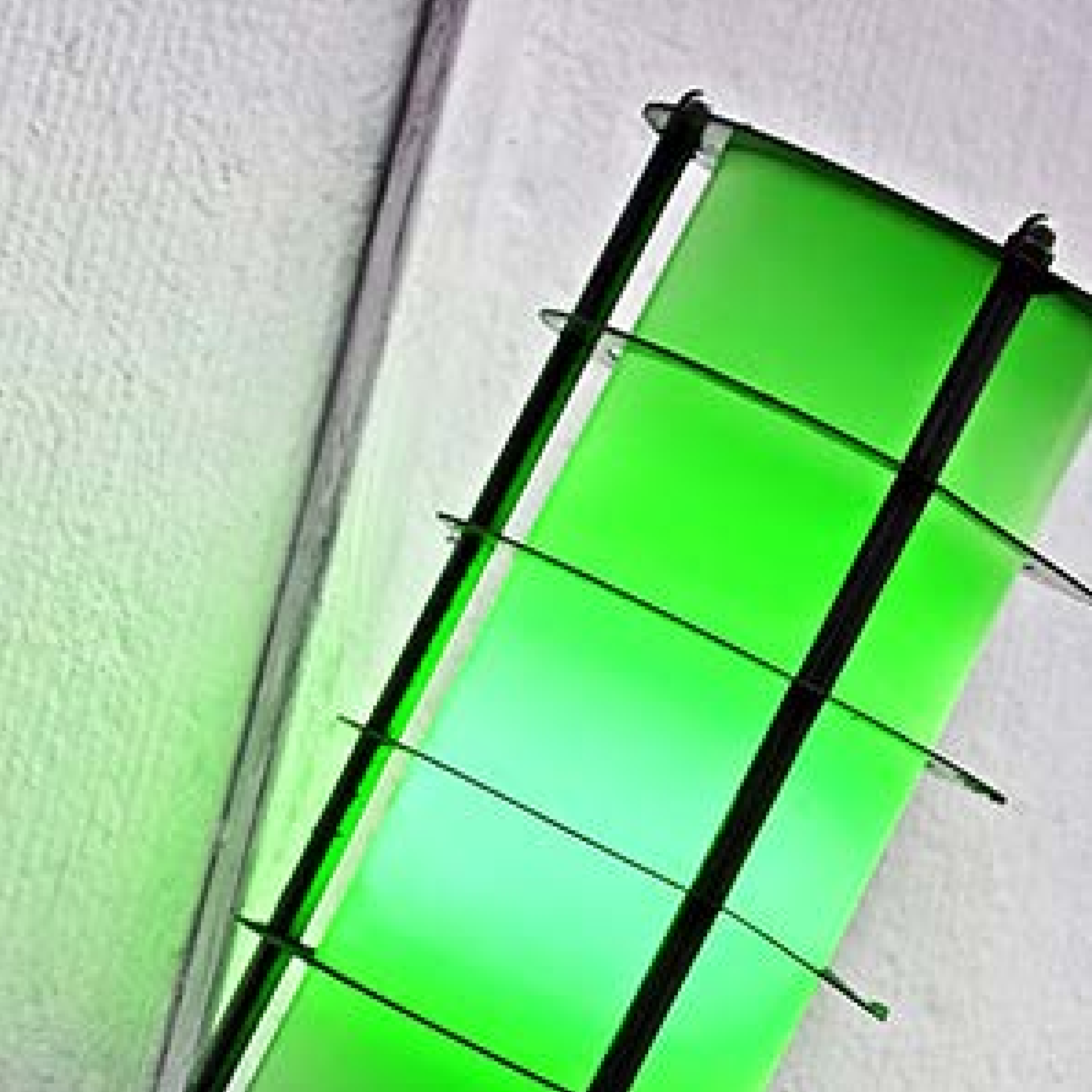


Central European CFOs from countries in the eurozone continue to be more optimistic than their counterparts from other countries.

Those based in the eurozone are more confident about the stability of the economy.

However, the two groups have largely similar views regarding the business environment and the development prospects of their companies – both groups are very optimistic about the future development of their companies.



Economic outlook

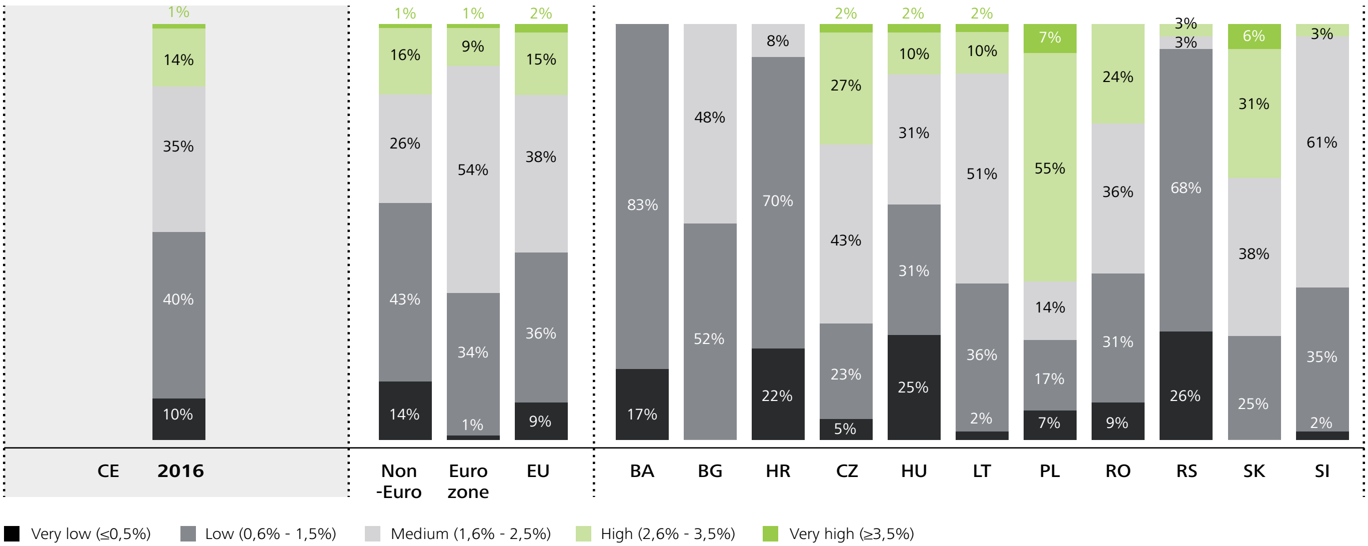
While participating CFOs are more optimistic about the future of the economy than they were a year ago, their forecasts are only mildly positive.

GDP growth increased during 2015 in most of the countries included in the study. The region's CFOs believe that this trend will cool off in the year ahead.

Their predictions about unemployment levels are slightly more optimistic than in the last survey, with most expecting unemployment to decrease. The Greek crisis, which many CFOs predict will have a negative impact on the stability of the monetary union, is curbing optimism. It is interesting to note that such fears are mainly expressed by CFOs based in countries that are not members of the eurozone.

Moderate GDP growth in 2016

CFOs expectations for the country economic GDP growth for the 2016



The CFOs made different predictions about GDP growth in the year ahead. While exactly 50% forecast a slow rate of growth that will not exceed 1.5% of GDP, a third predict moderate growth of up to 2.5%. The remaining 15% expect that GDP growth in their own countries may be as high as 3.5%.

The participating CFOs based in Balkan countries (Bosnia and Herzegovina, Serbia and Croatia) are the most pessimistic in this regard, with over 90% predicting that economic growth will be very slow.

There were minimal differences between the opinions voiced by the CFOs from the eurozone and non-eurozone countries. Those Central European based in the former group (Lithuania, Slovakia and Slovenia) are somewhat more restrained in their predictions: 54% of them forecast moderate growth while 34% claim that it will be slow or very slow.

Polish CFO were most optimistic in their predictions – over 60% expect Poland’s GDP to grow rapidly in 2016.

GDP growth predictions for 2015

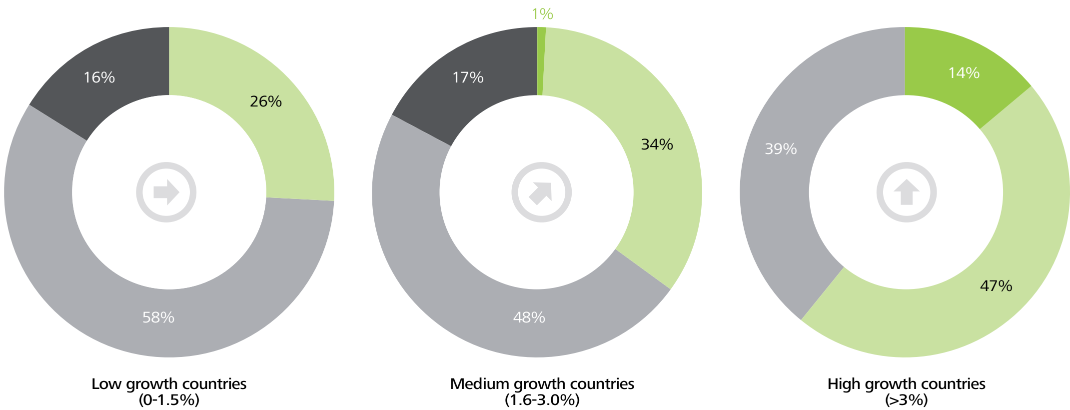
A comparison of participating CFOs' GDP growth predictions for 2015 with statistical data from the second quarter of 2015 shows that 34% accurately predicted GDP growth in their countries.

58% of the CFOs based in countries with slow GDP growth in 2015 made accurate predictions, while 34% of those based in countries with moderate growth rates were correct in their forecasts. Only 14% of the CFOs based in countries with fast-growing economies were able to accurately predict the GDP growth rate – however, none of them expected a recession.

Our analysis does not provide any evidence that the CFOs based their predictions of GDP growth on past economic indicators only. For example, the countries which grew most rapidly in 2015 (Bosnia and Herzegovina and Bulgaria) were expected to experience a slow or very slow rate of GDP growth.

It is worth noting, in accordance with Eurostat data from the second quarter of 2015, that none of the countries included in the study had a negative GDP growth rate in 2015, while the economies of eight countries improved over 2014 (see table 1).

CFOs' expectations for their countries' GDP growth in 2015* vs. actual Q2 growth in 2015



*in 2015 edition of the study the cafeteria in the question was somewhat different

Growth (>3%) | Moderate growth (1.5-3%) | Low growth (0-1.5%) | Recession (<0%)

The highest rate of GDP growth was achieved by countries that are not members of either the EU or the eurozone (Serbia and Bosnia and Herzegovina). At the other end of the scale, the most severe economic slowdown took place in Lithuania and Slovenia, both members of the monetary union. Hungary also experienced serious economic difficulties in 2015.

It should be pointed out that the forecasts made by CFOs for 2016 were only partly based on the currently available GDP growth data.

Over 1/3 of the CFOs accurately predicted GDP growth for 2015

	Country (Central Europe)	GDP growth 2014*	GDP growth 2015 (Q2)*	Change (Q22015-2014)	GDP growth 2015 Q2
BA	Bosnia and Herzegovina	1.4	4.4	3	Very high
BG	Bulgaria	1.7	2.2	0.5	Medium
HR	Croatia	-0.4	1.3	1.7	Low
CZ	Czech Republic	2	4.4	2.4	Very high
HU	Hungary	3.6	2.4	-1.2	Medium
LT	Lithuania	2.9	1.3	-1.6	Low
PL	Poland	3.4	3.6	0.2	Very high
RO	Romania	2.8	3.7	0.9	Very high
RS	Serbia	-1.8	2.2	4	Medium
SK	Slovakia	2.4	3.1	0.7	High
SI	Slovenia	2.6	0.7	-1.9	Low

**Source: Eurostat*

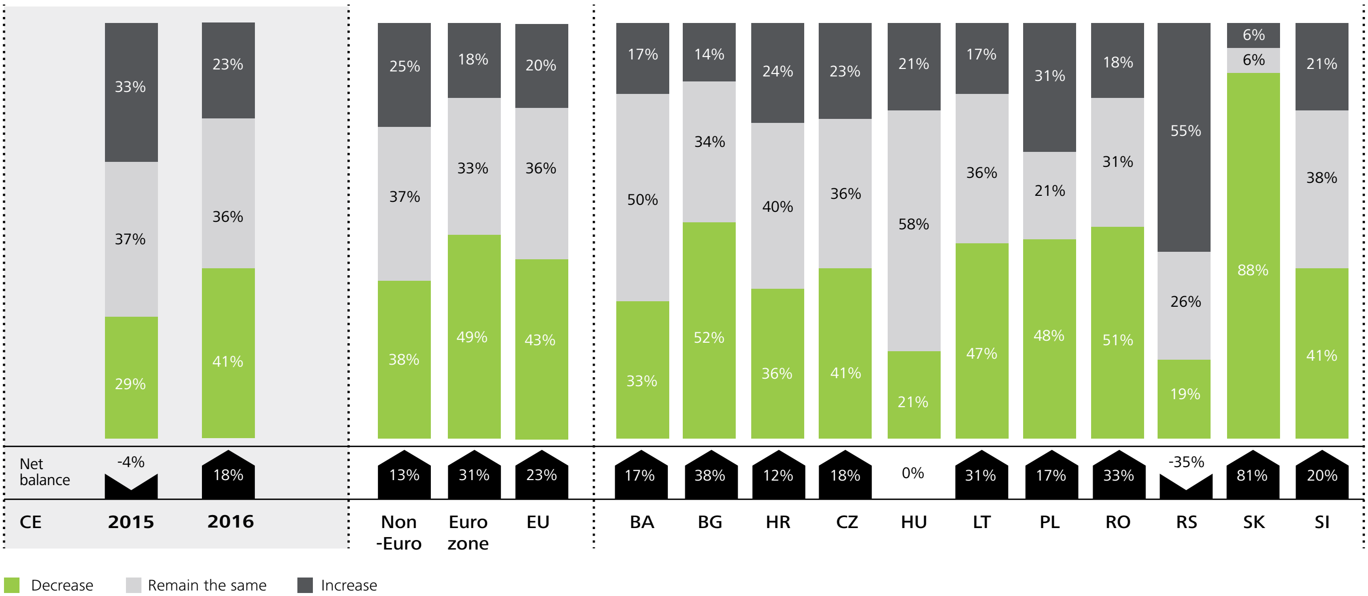
Falling unemployment levels are on the rise

Participating CFOs view the changes that are taking place in the labor market with optimism. Four out of eleven predicted that unemployment in their countries will fall in 2016. Just 23% foresee a rise in unemployment while 36% predict no change. This marks a significant change from last year's edition of the study. The net balance indicator has risen by 23 percentage points compared to 2015, which means that CFOs are much more optimistic about the issue of unemployment.

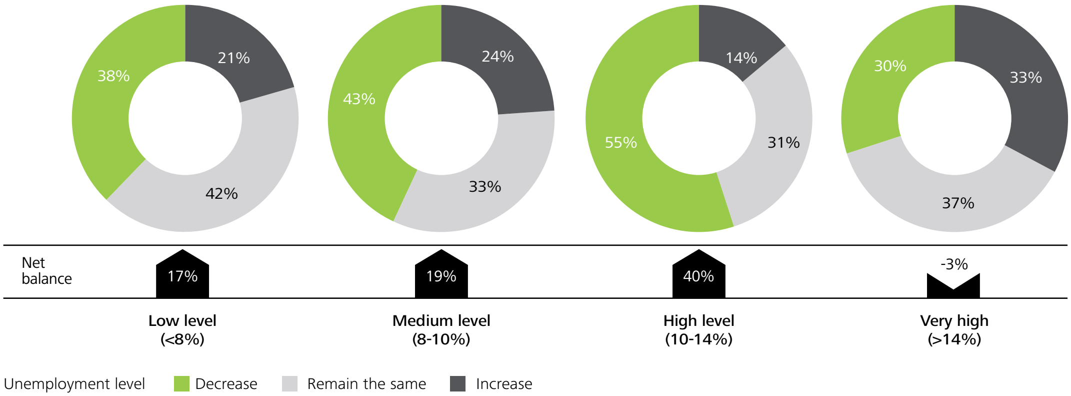
Those based in countries outside monetary union are somewhat more pessimistic than their eurozone counterparts. There are exceptions to this rule, however like Hungary (outside the Eurozone), where CFOs are not expecting the level of unemployment in their country to change.

It is worth noting that the CFOs are mostly expecting the labor market to stabilize – one third of the respondents from most countries included in the study predict no change in the level of unemployment.

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



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



Comparing the forecasts made by participating CFOs with government unemployment data yields some interesting results. The CFOs based in countries that have low or moderate levels of unemployment were more optimistic in their predictions than the official figures.

The CFOs based in countries with the highest unemployment rates (Slovakia, Lithuania and Bulgaria) were the most optimistic. The vast majority of respondent CFOs expect a decrease in unemployment. However, this does not hold true for countries with a very high level of unemployment, where CFOs expect the high existing rates to remain unchanged or even to increase further. This group includes the Balkan countries – Bosnia and Herzegovina, Serbia and Croatia.

Unemployment rate (based on 2014 data)

	Country (Central Europe)	Unemployment rate (2014)*	Unemployment level
BA	Bosnia and Herzegovina	31.7	Very high
BG	Bulgaria	11.4	High
HR	Croatia	17.3	Very high
CZ	Czech Republic	6.1	Low
HU	Hungary	7.7	Low
LT	Lithuania	10.7	High
PL	Poland	9	Medium
RO	Romania	6.8	Low
RS	Serbia	20.8	Very high
SK	Slovakia	13.2	High
SI	Slovenia	9.7	Medium

**Source: Eurostat*

The crisis in Greece: its impact on Central Europe

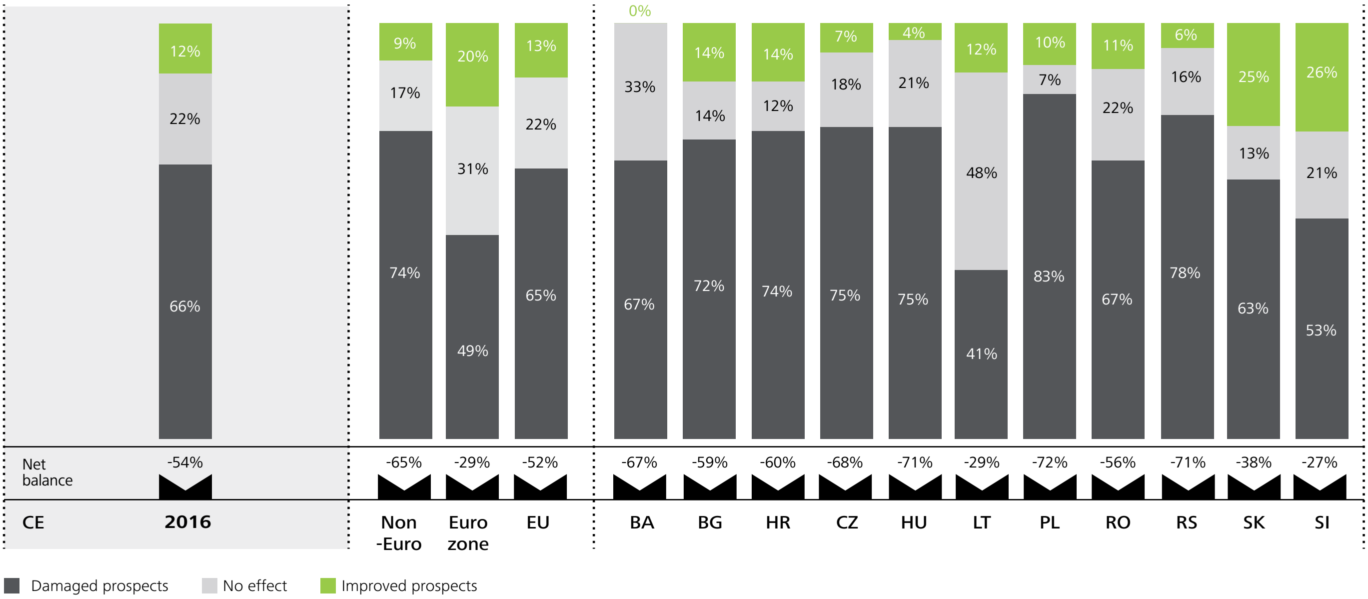
In the opinion of 66% of the CFOs, the state of the Greek economy is hindering efforts to establish a stable and well integrated monetary union.

It is worth examining how CFO opinions are affected by whether or not their country is a member of the eurozone. It turns out that only half of those CFOs from CE-based eurozone members think that the Greek crisis will have a long-term negative impact on the unity of the monetary union; one in three do not predict the crisis to have any significant impact, while one in five go so far as to claim that the crisis will have a positive impact on the integration of the union. Lithuanian CFOs are particularly relaxed about the crisis.

The answers given by those CFOs based in CE countries that are part of the eurozone are very similar to those of CFOs from Western Europe, 40% of whom have stated that the Greek crisis will have an adverse effect on the unity of the monetary union[1].

[1]http://www.deloitteresearchemea.com/survey-pdf/deloitte-e-cfo-survey-q3-2015.pdf

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





Business environment outlook

The surveyed CFOs are feeling less uncertain about the market than they were a year ago, which has a positive effect on their forecasts for investment and the development of their companies. Falling uncertainty levels also translate into positive forecasts for the M&A market, which is predicted to continue growing throughout the year to come.

Despite this decline in uncertainty, respondents do not believe that loans are more readily available. Their opinion has not changed in this regard since the last edition of the survey – most respondents do not expect any changes.

They are concerned, however, that the operational expenditure of companies will rise. There are worries about increasing price pressures, the looming recession and falling demand for goods and services.

Economic uncertainty falls significantly

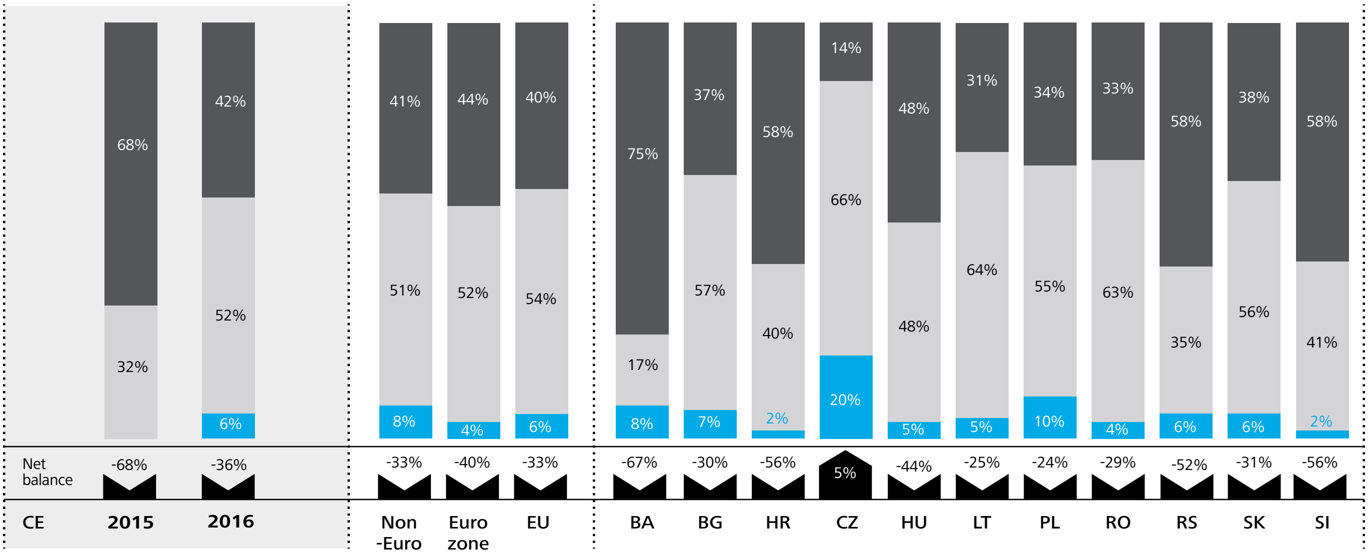
The number of CFOs who regard the level of economic uncertainty as high has fallen significantly compared to the 2015 survey. A normalization of economic uncertainty is expected in the near future.

The most stable economic conditions were reported by CFOs based in the Czech Republic, Poland, Lithuania and Romania.

The level of uncertainty felt by Central European CFOs was consistent regardless of whether or not their countries were in the eurozone. Opinions regarding the level of economic uncertainty was 72% higher than in the CE region[2].

[2]http://www.deloitteresearchemea.com/survey-pdf/deloitte-e-cfo-survey-q3-2015.pdf

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



in 2015 there was no option "low level of uncertainty"

Low level of uncertainty · Normal level of uncertainty · High level of uncertainty

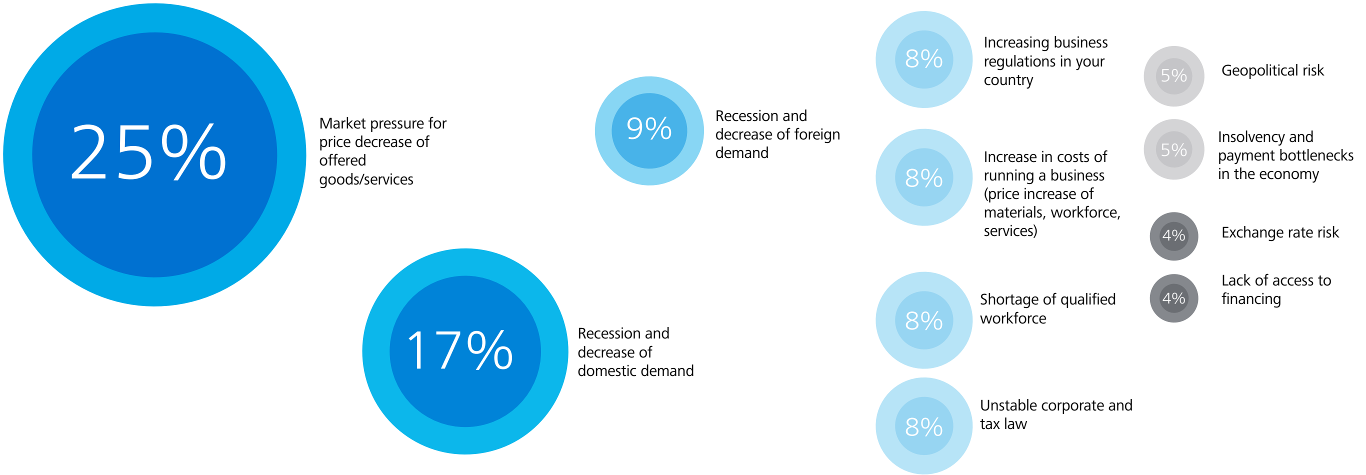
Different sectors, different risks

The factors posing the greatest threats to companies operating in the CE region are "price pressure and increasing competition" and "falling demand and an overall recession" – both were listed by 40% of the CFOs who took part in the study.

On the other hand, the availability of capital, unfavorable foreign exchange rates, payment gridlocks and geopolitical risk were the least frequently cited reasons for concern.

The most serious perceived threats for business differ from sector to sector and reflect the major challenges faced by companies within each one. Finance sector CFOs, for example, are most often concerned by a lack of domestic demand, whereas falling exports are a worry for CFOs in the manufacturing sector. The technology sector may be suffering from a lack of human capital, while energy and mining companies are likely to be hampered by increasingly stringent regulations. CFOs working in the consumer business, business services and construction industries all pointed to downward pressure on prices as the biggest threat to their business.

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



Which of the following factors are likely to pose a significant risk to your business over the next 12 months?
Top 3 risks

Financial Services

28% Recession and decrease of domestic demand

23% Market pressure for price decrease of offered goods/services

17% Increasing business regulations in your country

Consumer Business

34% Market pressure for price decrease of offered goods/services

32% Recession and decrease of domestic demand

9% Unstable corporate and tax law

Technology, Media, Telecommunication

21% Shortage of qualified workforce

17% Market pressure for price decrease of offered goods/services

9% Recession and decrease of domestic demand

Energy, Utilities, Mining

24% Increasing business regulations in your country

22% Market pressure for price decrease of offered goods/services

11% Recession and decrease of foreign demand

Business & Professional Services

32% Market pressure for price decrease of offered goods/services

16% Insolvency and payment bottlenecks in the economy

16% Recession and decrease of domestic demand

Manufacturing

19% Recession and decrease of foreign demand

17% Market pressure for price decrease of offered goods/services

16% Shortage of qualified workforce

Construction & Real Estate

27% Market pressure for price decrease of offered goods/services

23% Recession and decrease of domestic demand

10% Recession and decrease of foreign demand

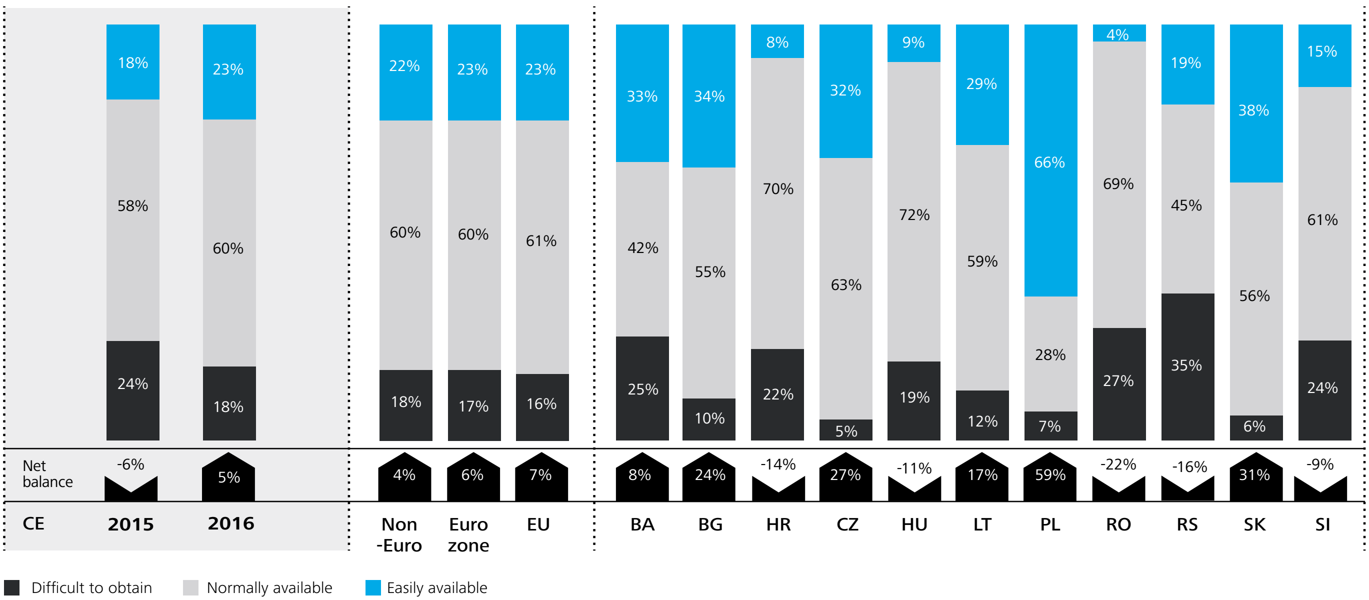
Little change in the availability of credit

As in the last survey, the majority of Central European CEOs do not foresee any major changes in the availability of credit for companies.

This view is universal across all countries included in the study except Poland, where loans are perceived to be widely available (with a net balance of 59%).

At the same time, participating CFOs say there are no major differences between eurozone and non-eurozone countries in the availability of loans.

How would you rate the overall availability of new credit for companies nowadays?



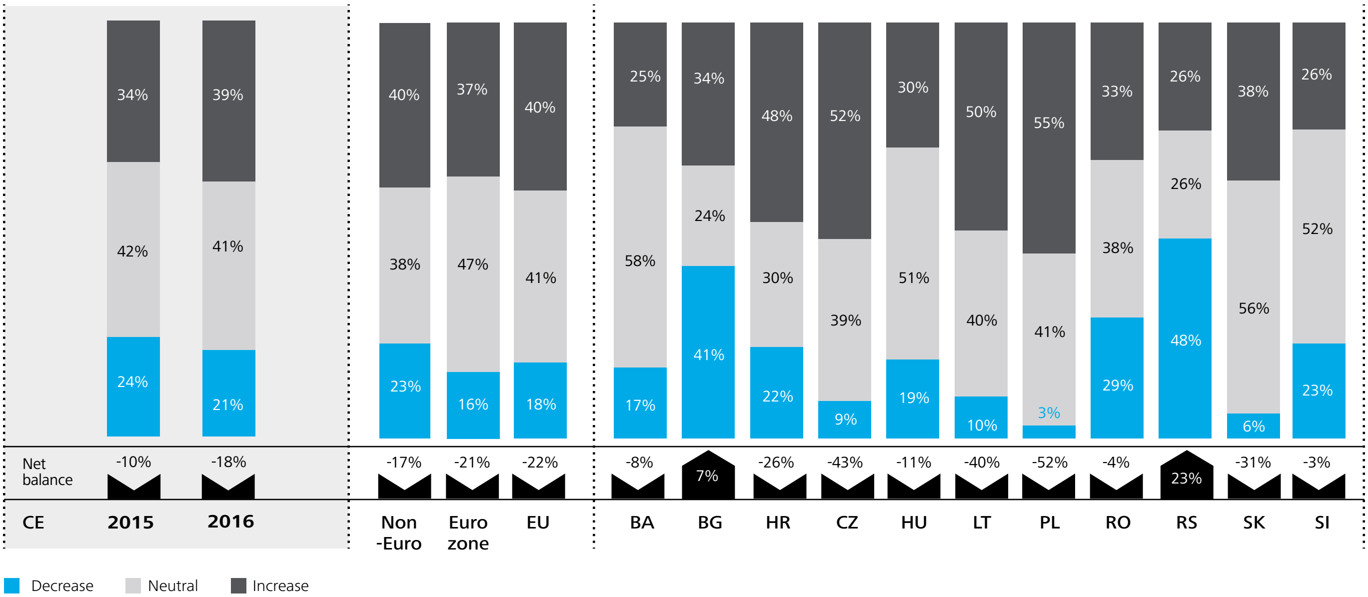
Financing costs expected to increase

Close to 40% of Central European CFOs expect financing costs for companies to increase over the next 12 months, marking an increase of nearly five percentage points over the previous edition of the study. On the other hand, more than 20% of respondents expect a decrease in financing costs. The majority continue to predict no significant changes in this area, meaning they expect the financial condition of their companies to stabilize.

Those CFOs who are based in non-eurozone countries are slightly more optimistic about the future financing costs for of their companies. Serbian and Bulgarian CFOs are the most optimistic (with net balances of 23% and 7% respectively).

Polish, Czech and Lithuanian CFOs are the most pessimistic (showing net balances of -52%, -43% and -40% respectively).

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

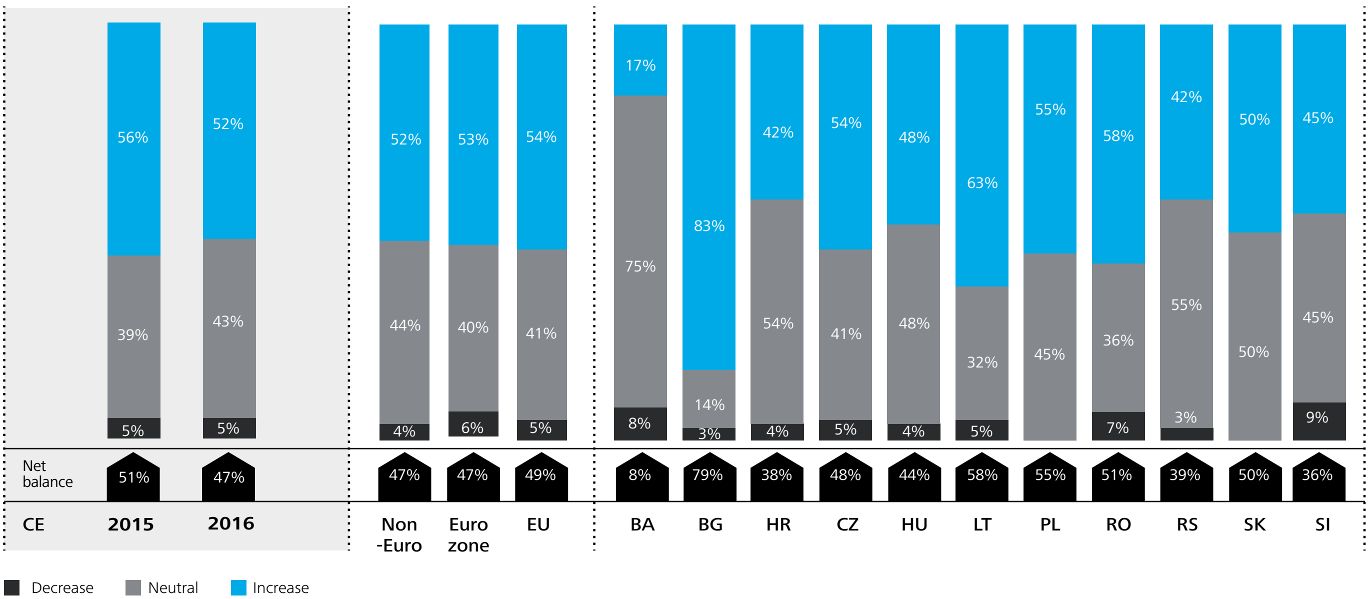


Continued growth expected for M&A markets

Similarly to the last edition of the survey, 50% of participating CFOs believe that the M&A market will grow over the next 12 months. At the same time, 43% of them anticipate that it will remain unchanged. The continuing optimism over the Central European mergers and acquisitions market may be caused by the ongoing growth underway in the world's largest M&A markets[2].

[2] http://www2.deloitte.com/content/dam/Deloitte/uk/Documents/corporate-finance/deloitte-uk-m-and-a-index-q4-2015.pdf p. 13-15

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



Talent is no cause for concern

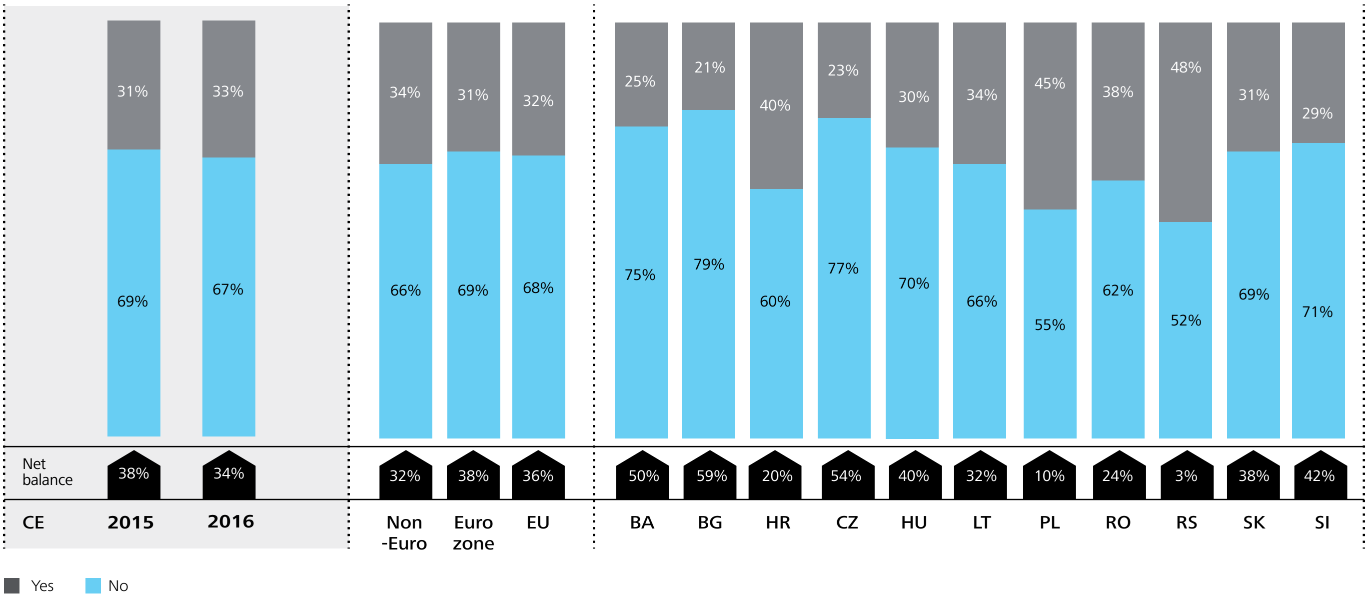
Like in the last edition of the CE CFO survey, over two-thirds of participants do not expect a shortage of suitable finance professionals in the year to come.

The greatest concerns were voiced by CFOs from Serbia (48%), Poland (45%) and Croatia (40%). Only a third of CFOs in the remaining countries expect difficulties when searching for suitable candidates to fill finance positions.

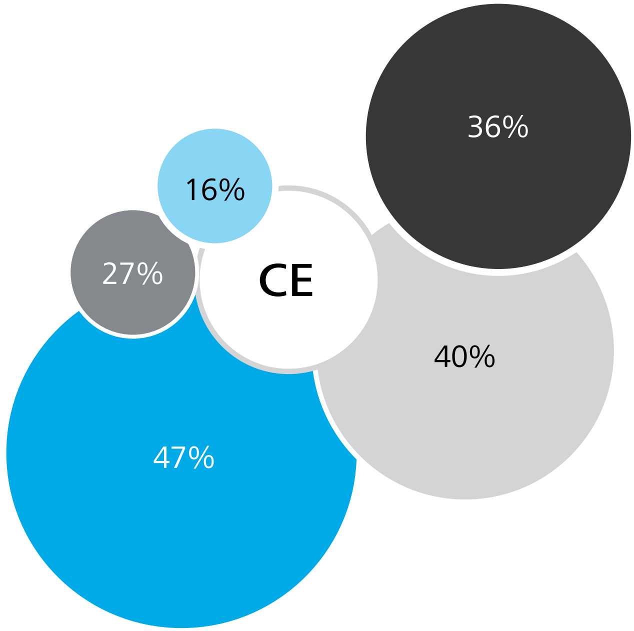
Those CFOs who foresee difficulties in finding appropriate talent for finance jobs are mainly concerned about the lack of mid-level (47%) and senior (40%) professionals. They also expect a shortage of top-level candidates (36%). Some CFOs, a slightly higher percentage than last year, are also expecting a shortage of entry-level candidates – graduates and junior professionals. Labor market experts emphasize that the biggest problem today is not the shortage of employees, but rather their lack of qualifications[3].

[3] http://d2mtr37y39tpbu.cloudfront.net/wp-content/uploads/2015/08/DUP_GlobalHumanCapitalTrends2015.pdf

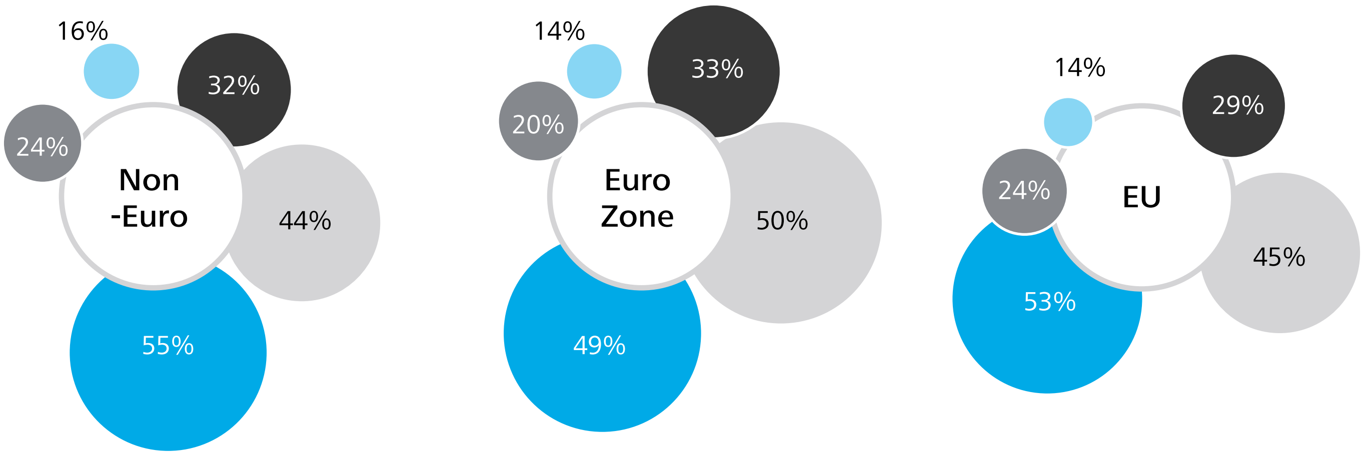
Do you expect talent shortages in the finance area over the next year?



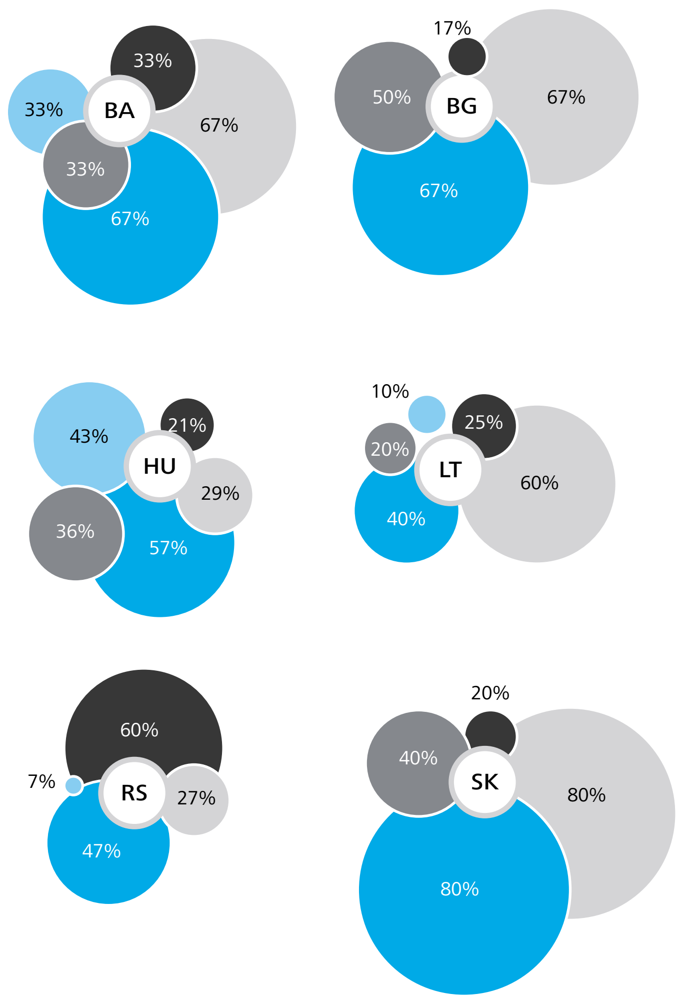
CFOs from different countries show a diverse range of opinions regarding the challenges that will be met when attempting to fill finance positions in the years to come. The concerns of Croatian, Serbian and Slovenian CFOs about a possible future lack of suitable top management candidates make them stand out from the rest.



Where do you expect significant shortages in talent in finance over the next year?



Top Level | Senior Level | Middle Level | Junior Level | Graduate Level employment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8%
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PL
54%
31%
24%
24%
RO
59%
24%
47%
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7%
RS
27%
47%
20%
40%
SK
80%
80%
32%
53%
26%
SI
11%

Company growth outlook

Despite their somewhat pessimistic predictions for the economy and their moderate optimism regarding future conditions for doing business, the majority of Central European CFOs are expecting their companies to grow. They believe that the financial condition of their companies has improved during the last six months and that this will soon translate into higher revenues. Most respondent CFOs expect an improvement in margins and capital investments as well as an increase in employee numbers.

The priorities of companies have not changed significantly since last year. Expanding within their current markets and branching out into new ones are still their primary goals. At the same time, respondents believe that 2016 will not be a good year for taking investment risks, and this may discourage companies from exploring new markets or increasing their innovation budgets.

While CFOs expect that their companies' ability to service debt will improve, very few are planning to take out additional loans.
They therefore consider internal funding to be the most feasible source of investment capital, although other sources may also be taken into consideration. Bank loans are seen as a good source of investment capital, mainly by companies operating in eurozone countries.

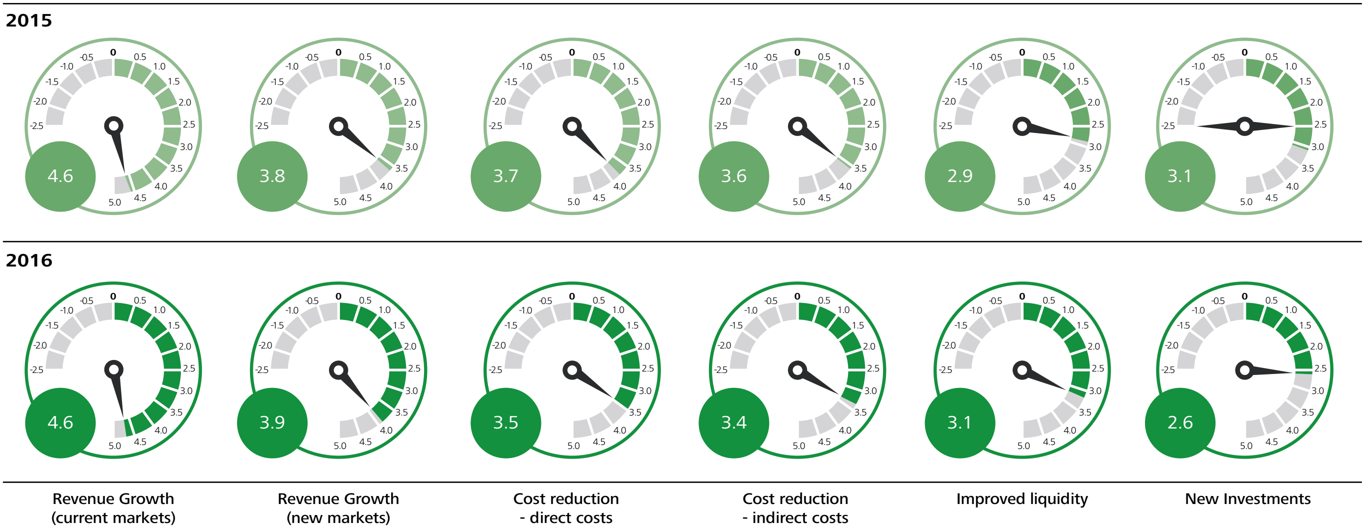
Strategic priorities are stable, but new investments are gaining in importance

Much like last year, increasing revenues from their current markets will be the most important element of companies' strategies in 2016. The next two most important elements, listed by an almost equal percentage of respondents, are expanding into new markets and cutting spending, both direct and indirect.

Improving liquidity was less frequently listed than last year, meaning that companies are no longer so concerned with payment gridlocks and have access to more funds. New investments have gained slightly in importance, currently standing as a key priority for 15% of Central European CFOs.

Increasing revenues from their current markets is the most important strategic goal for companies operating in all countries included in the study. Only two countries do not also share the next two key priorities of expanding into new markets and reducing expenditure. These are Poland and Bosnia and Herzegovina, where expanding into new markets was considered to be less important than new investments.

Strategic priorities for next 12 months - 2015 vs 2016 (average rank on 1-6 scale)

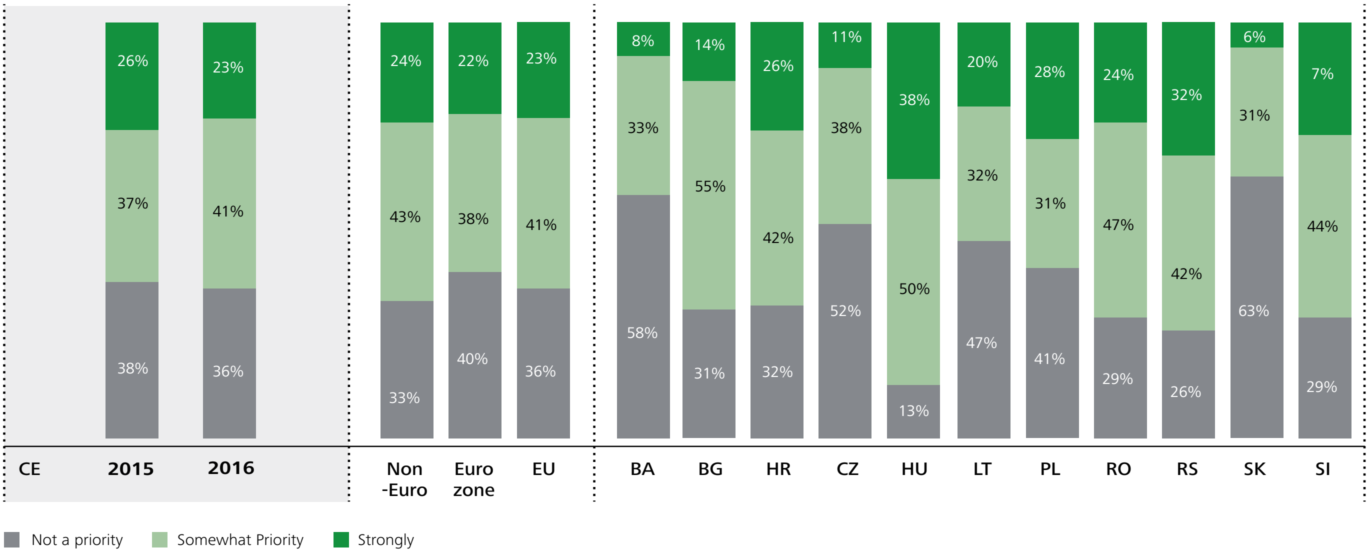


2016 priorities: remodeling and restructuring

Companies' plans for restructuring have not changed much since last year. Only one in four of participating CFOs consider restructuring to be a priority, and one in three do not foresee a need for it in the near future. This may be because they expect their companies to be in a good financial position.

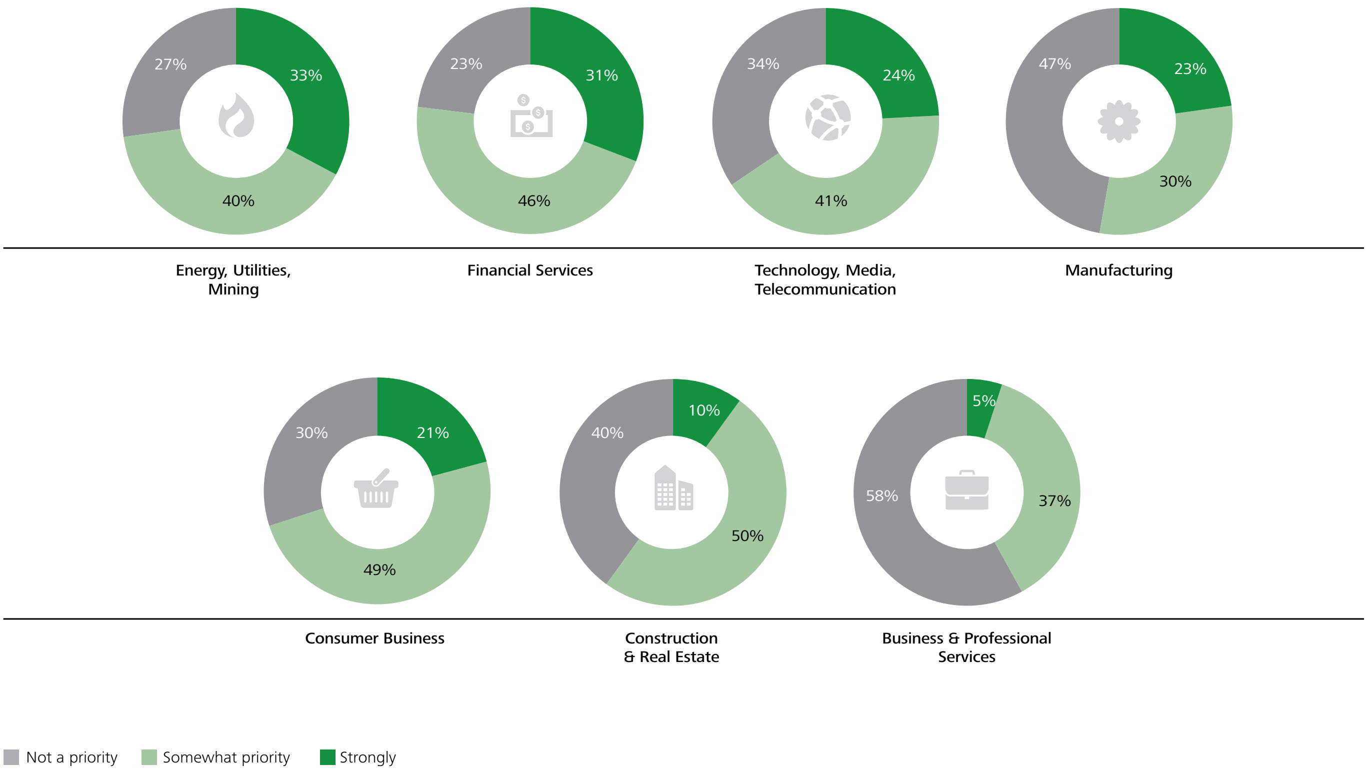
Restructuring is seen as more of a priority by companies operating in Central European countries outside the eurozone that have the most rapid economic development. There is a particularly high perceived need for restructuring in Hungary and, to some extent, in Serbia. CFOs from the remaining countries either regard restructuring as less of a priority or, as in the Czech Republic, Slovakia, Lithuania and Bosnia and Herzegovina, do not consider it to be a priority for 2016.

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



CFOs of companies operating in the Business & Professional Services and Manufacturing sectors are the least likely to push for restructuring in the next 12 months. The most pressing need for restructuring is felt by CFOs of Financial Services and Energy, Utilities & Mining companies. Companies operating in both these sectors will need to adapt to the more stringent regulations that will soon be coming into force. This is because companies in the Financial Services sector are facing an increasing number of regulations aimed at increasing transparency and supervision across the finance market. The Energy, Utilities & Mining sector, meanwhile, is being affected by the international movement to protect the environment and prevent climate change, which is impacting on the operations of companies in Central Europe.

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



More reward without risk?

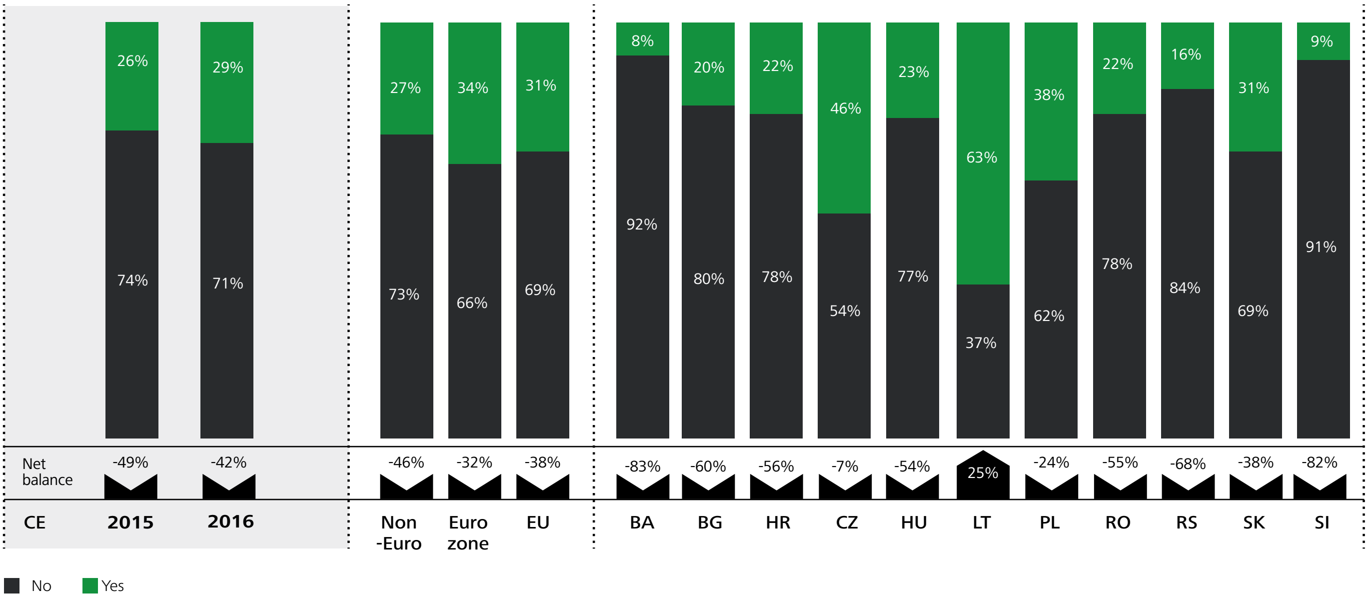
Like last year, participating CFOs are taking a cautious approach to any investments and the risks associated with them. While the vast majority are of the opinion that now is not a good time to take major investment risks, their appetite for risk has grown since last year. Only Lithuanian CFOs are optimistic and moderately willing to take risks (with a net balance of 26%).

Central European CFOs (from eurozone and non-eurozone countries alike) have a similar approach to investment risk to that of their Western European counterparts (the net balance equating to -37% for eurozone countries and -28% for non-eurozone countries)[1]. A significant discrepancy between eurozone and non-eurozone countries was visible in the results of both studies.

The CFOs of Construction & Real Estate companies are the least willing to take investment risks (showing a net balance -54%), whereas those of Technology, Media and Telecommunication companies are the most likely to do so (with a net balance of -24%). They also remain cautious about taking unnecessary risks, however.

[1] http://www.deloitteresearchemea.com/survey-pdf/deloitte-e-cfo-survey-q3-2015.pdf, p.7

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



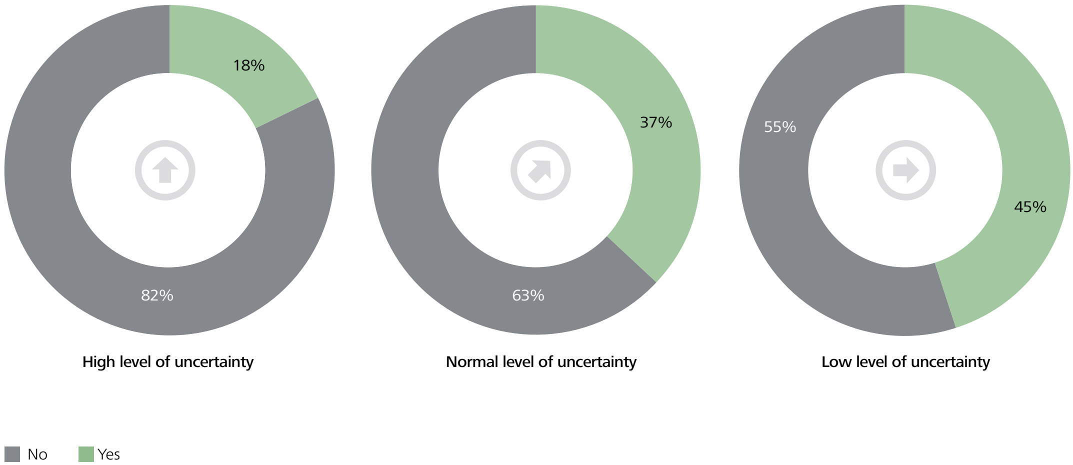
Is this a good time to be taking greater risk onto your company's balance sheets?

High uncertainty curbs appetite for risk

There is a significant link between the level of perceived uncertainty and willingness to take risks – the higher the uncertainty, the less likely one is to take risks.

Almost half the CFOs in countries with a low perceived level of uncertainty were willing to take greater risks. In the case of countries with a normal level of uncertainty, only one third of participating CFOs would be willing to accept a higher level of risk. In countries with a high perceived level of uncertainty, only 18% of respondents would be willing to do so.

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



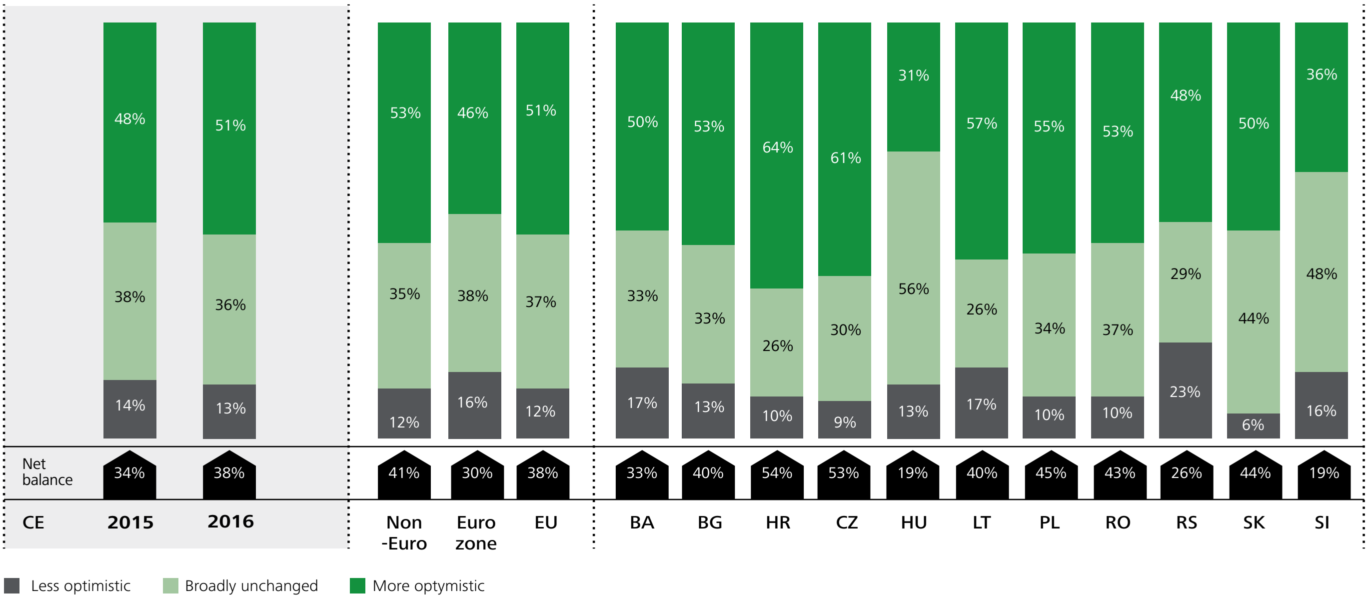
A more positive financial outlook

More than half of the participating CFOs stated that the financial condition of their companies had improved over the last six months. This marks a slight increase over the previous edition of the study. A low percentage of CFOs say that their situation is getting worse, indicating an improvement in the health of Central European companies.

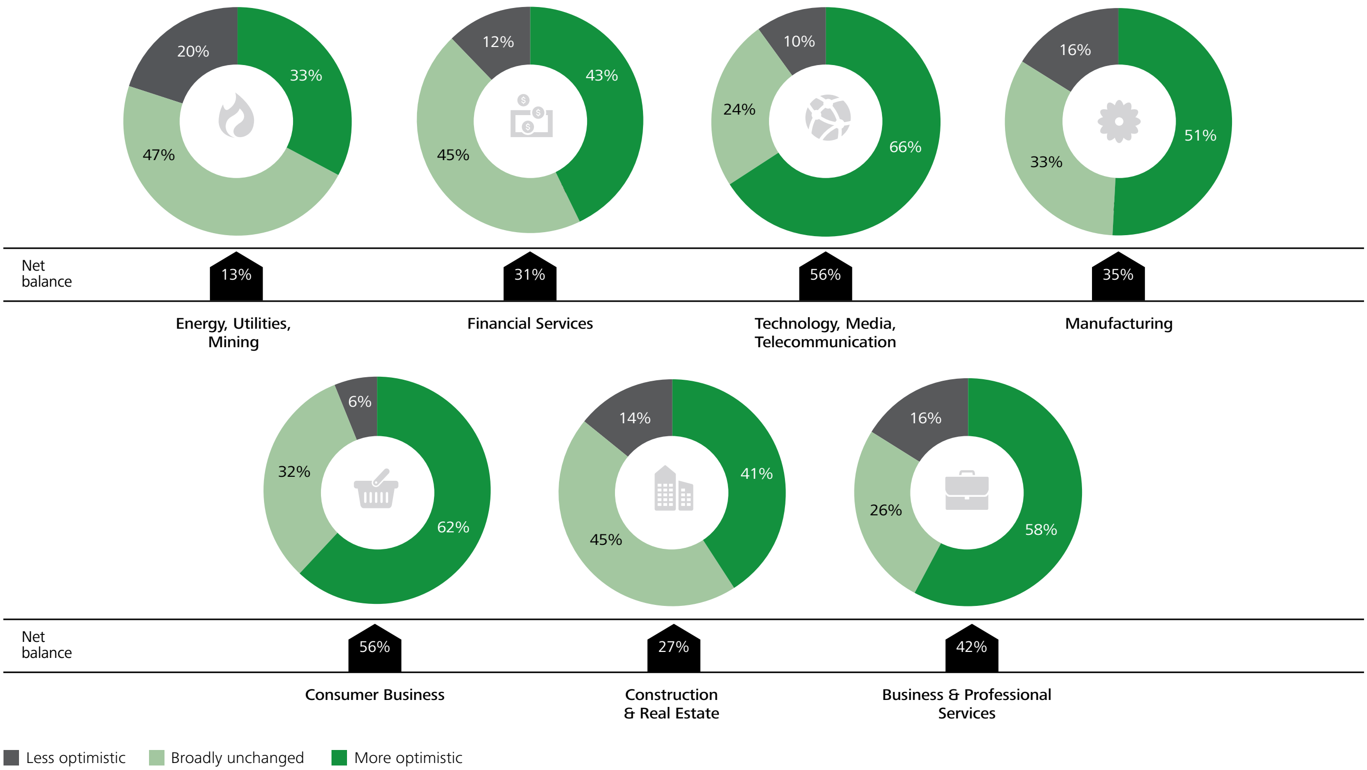
There were no notable differences between the opinions of CFOs based in eurozone and non-eurozone countries. Hungarian CFOs, only 31% of whom are optimistic about the future, clearly stand out among their counterparts from other countries in the region. Croatian CFOs are the most optimistic – 64% predict better future development prospects for their companies.

When examining individual sectors of the economy, the greatest improvements in conditions and development prospects over the next six months are expected in the TMT (66%) and Consumer Business (62%) sectors. The least positive prospects are anticipated by the CFOs of Energy, Utilities and Mining companies (33%).

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



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

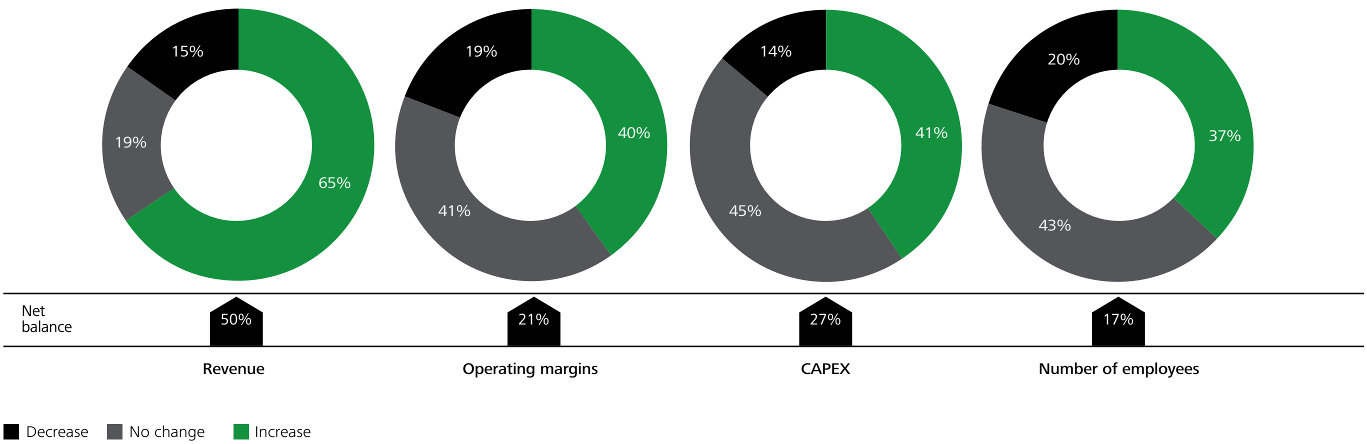


Financial health – positive changes are ahead

The majority of participating CFOs are optimistic about the future financial health of their companies.

Respondents were particularly optimistic about revenue increases in the year to come, with 65% expecting revenues to continue growing over the next 12 months. A significant proportion of participants also expect the future to bring improved margins (40%), increasing capital expenditure (CAPEX) (41%) and growing employee numbers (37%).

Changes expected over next 12 months

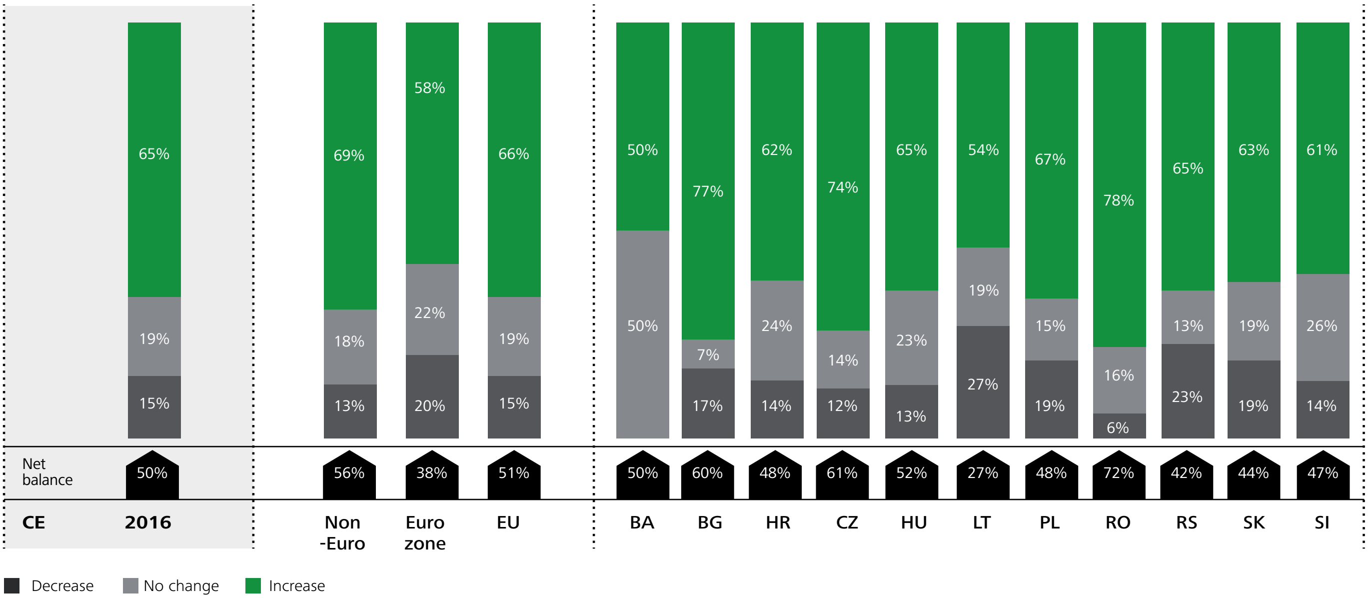


Revenue growth

Participating CFOs based in eurozone and non-eurozone countries alike are expecting revenues to rise in the year ahead. CFOs from Romania, the Czech Republic, Bulgaria, Hungary and Bosnia and Herzegovina are particularly optimistic in this regard. Their forecasts are not markedly different from those of Western European CFOs. In the EMEA CFO Q3 2015 study, the net balance of non-eurozone countries was slightly lower at 50%, whereas eurozone countries had a net balance of 36%. We can therefore deduce that CFOs from Central European eurozone members are more optimistic in their predictions of revenue growth than their counterparts from other eurozone countries.

The most optimistic CFOs are those from companies in the Consumer Business, Manufacturing, Construction & Real Estate and Business & Professional Services sectors. On the other hand, more than one in five CFOs working in the Financial Services and TMT sectors expect the revenue of their companies to decline in the year to come. Those from the Energy, Utilities & Mining sectors are the most pessimistic – a third expect their revenue to fall.

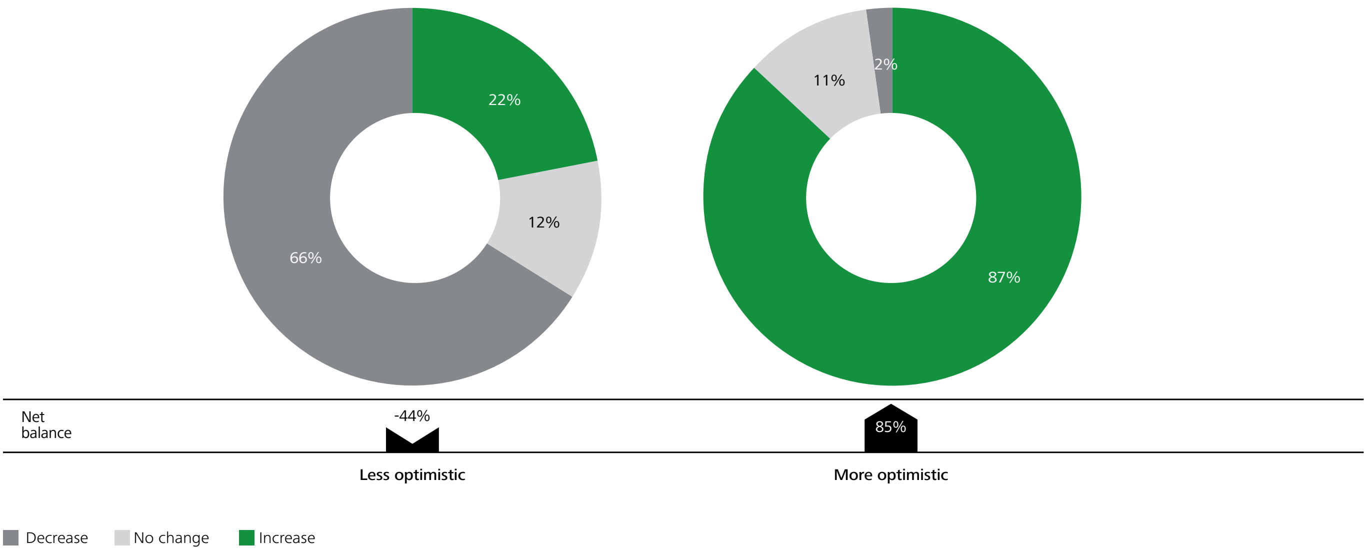
Revenue change over next 12 months by countries



Revenue change over next 12 months sector

Those CFOs who claim that the condition of their companies has improved over the last six months are more likely to have a positive future outlook. They are very optimistic about revenues in the coming year: 87% expect further revenue growth during the next 12 months. The CFOs who claim that their companies enjoyed financial stability over the last six months are also optimistic about future revenues.

Revenue change over next 12 months by level of optimism with current financial prospects

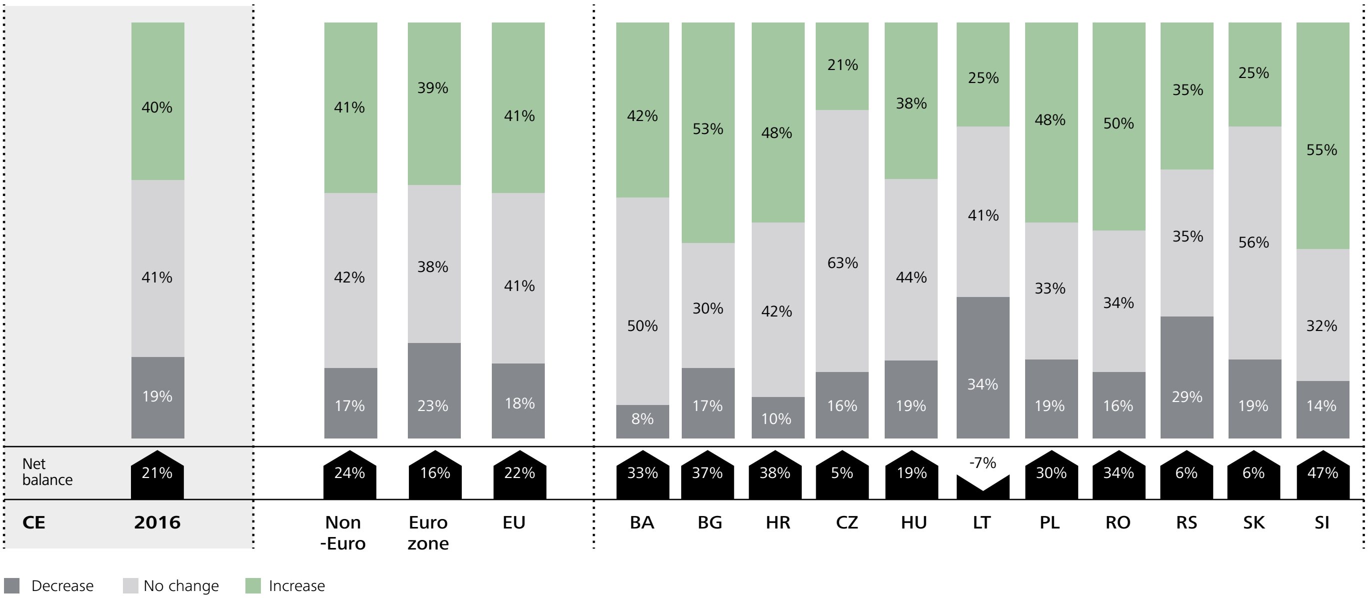


Operating margins

Participating CFOs expect margins to improve: 40% forecast that margins will grow over the next 12 months, while a similar percentage believes that margins will remain stable. These opinions are similar to those expressed by CFOs from eurozone countries. While Slovenian, Romanian, Croatian, Bulgarian and Polish CFOs are very optimistic in this regard, those from Lithuania and Serbia are the most pessimistic.

The highest percentages of CFOs anticipating improved margins are from companies in the Consumer Business and Business & Professional Services sectors (with a net balance of 52% and 31% respectively). The lowest percentages of CFOs expecting such a change are from the Technology, Media & Telecommunications and Energy, Utilities & Mining sectors (with a net balance of - 17% and -7% respectively).

Operating margins change over next 12 months by countries



Operating margins change over next 12 months by sector

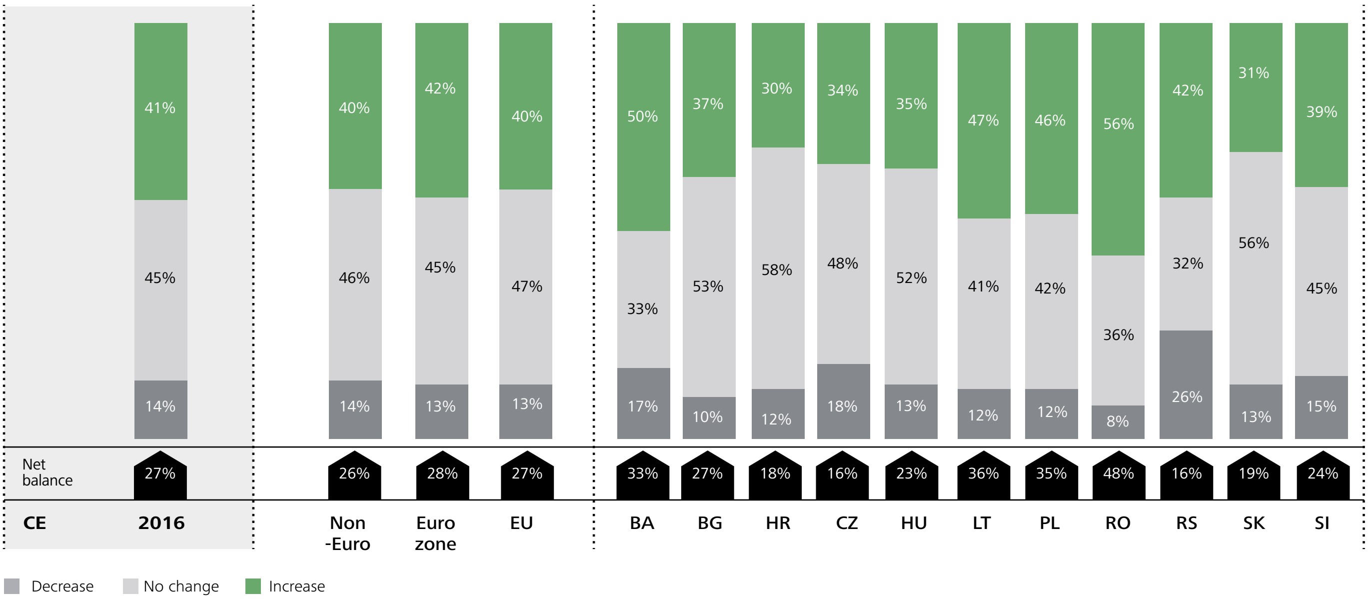
CAPEX

Participating CFOs expect capital expenditure to increase (41%) or remain stable (46%) within the next 12 months. Only a few expect CAPEX to decrease. The highest percentages of those predicting increases in capital expenditure are from Romania, Lithuania, Poland and Bosnia and Herzegovina.

Opinions do not differ much between Central European CFOs based in eurozone and non-eurozone countries. The net balance value was also similar to the results of the EMEA CFO Q3 2015 study, in which the net balance for eurozone countries was 28% (22% for non-eurozone countries).

Increasing capital expenditure is expected mainly by CFOs employed in the Manufacturing and Energy, Utilities & Mining sectors (with net balances of 23% and 20% respectively). CFOs working in other sectors expect CAPEX to remain stable throughout the year to come.

CAPEX change over next 12 months by countries



CAPEX change over next 12 months by sector

CFOs anticipate workforce growth

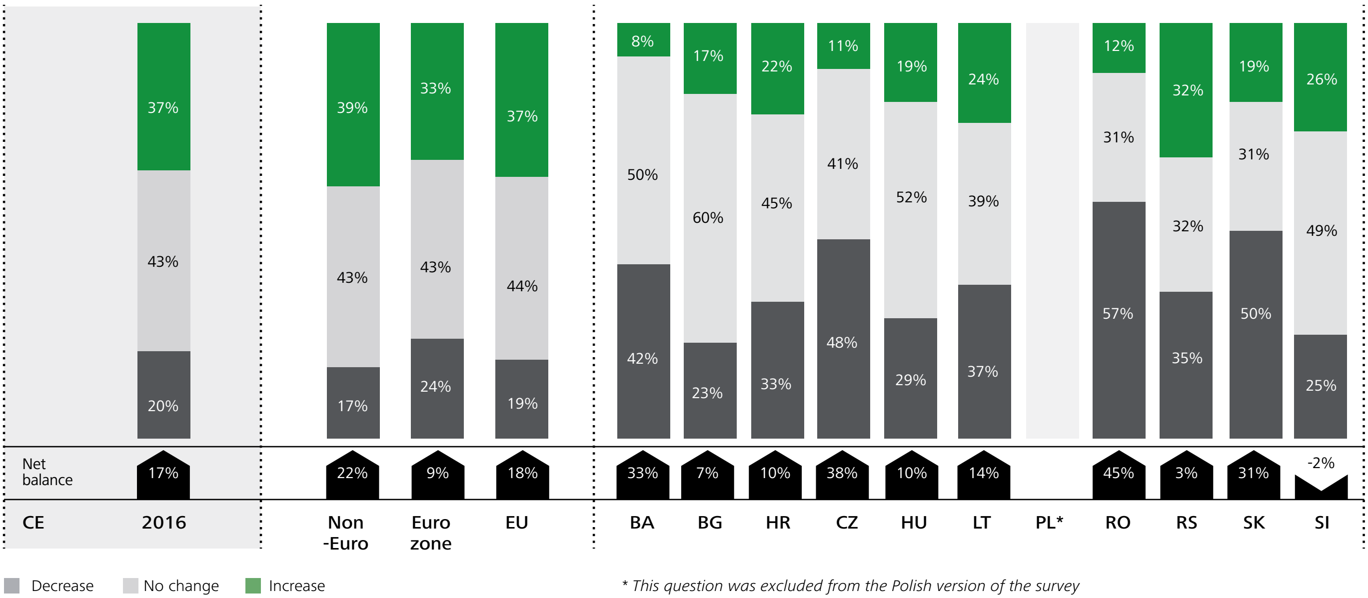
CFOs participating in the study expect their companies to take on employees, with the majority of respondents expecting workforce numbers to remain stable (43%) or increase (37%). Only one in five expect layoffs in the year ahead. This data is consistent with the answers concerning company restructuring, which can often involve layoffs or changes in employment structure.

CFOs based in CE non-eurozone countries are more optimistic about employment than their counterparts from outside the eurozone. Romanian, Czech and Slovakian CFOs are particularly optimistic, with roughly half expecting workforce numbers to increase.

The results of this study are similar to those of the EMEA CFO Survey Q32015, in which the net balance stood at 11% in eurozone countries and 18% in non-eurozone countries.

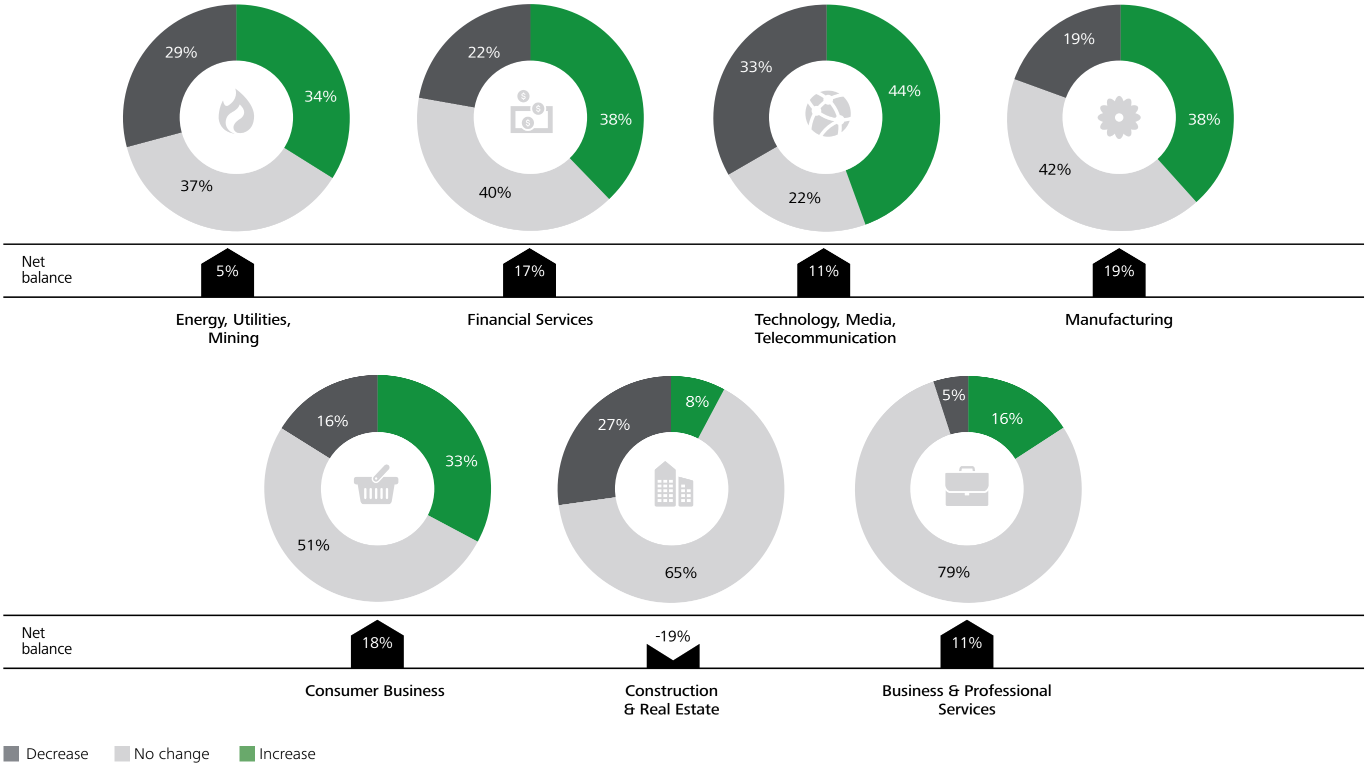
Of the sectors included in the study, the most rapid changes are expected to take place in the TMT sector, where 33% of CFOs expect workforce numbers to fall and 44% anticipate increased employment. Very different answers were given by CFOs from the Business & Professional Services and Construction & Real Estate sectors, with 75% and 65% respectively expecting workforce numbers to remain stable.

Change in number of employees over next 12 months by countries



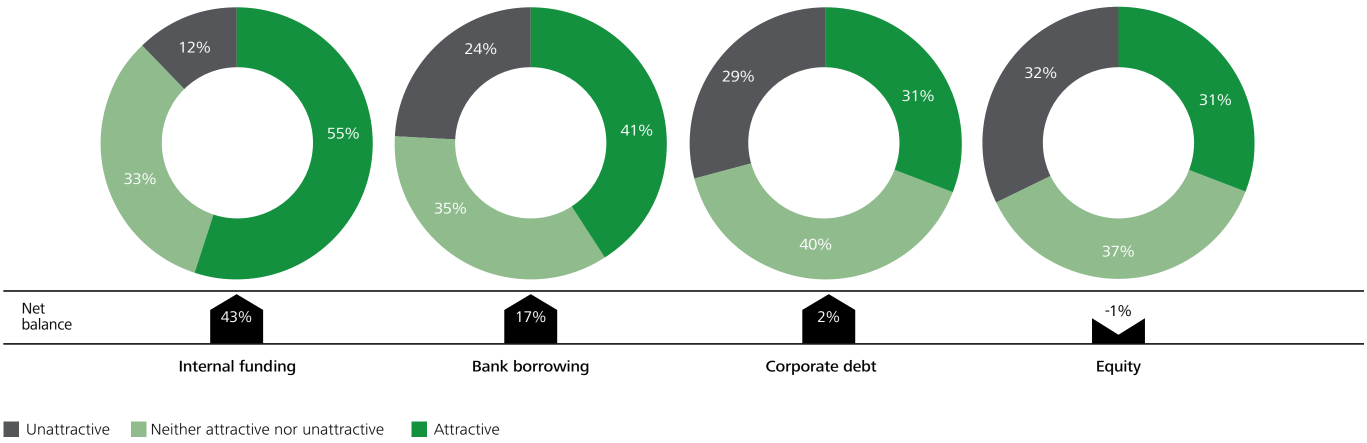
* This question was excluded from the Polish version of the survey

Change in number of employees over next 12 months by sector



Funding outlook

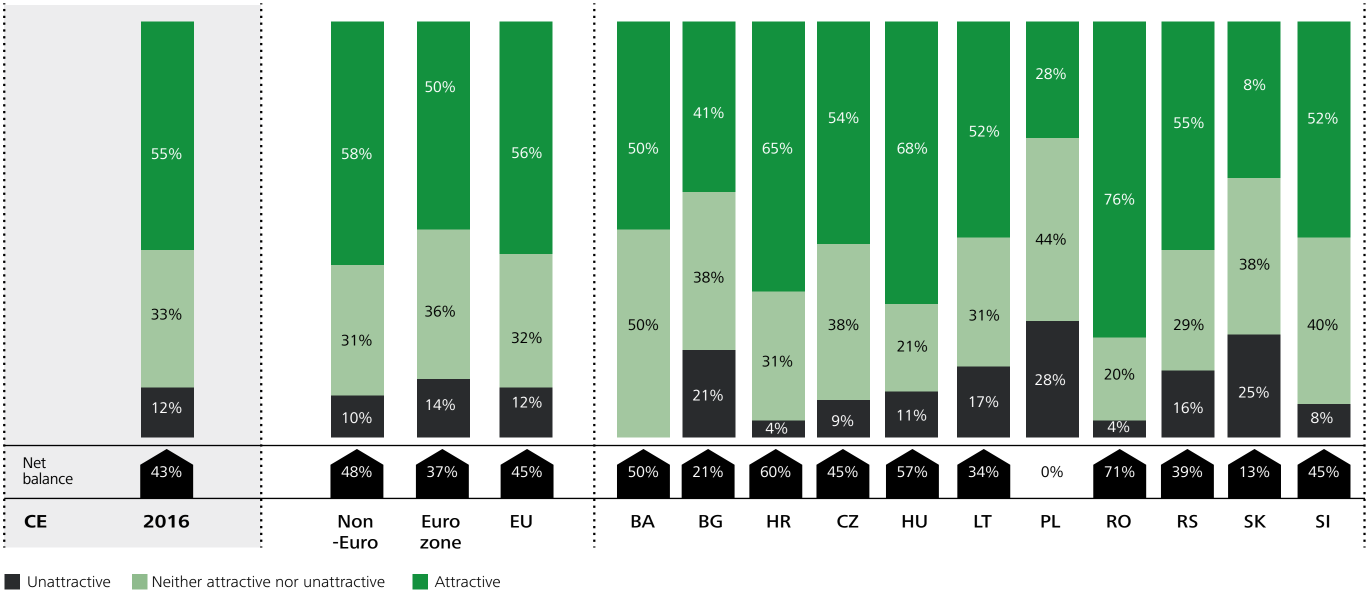
How do you currently rate sources of funding for your company?



Respondent CFOs see internal funding as the best source of investment capital, with a net balance of 43%.

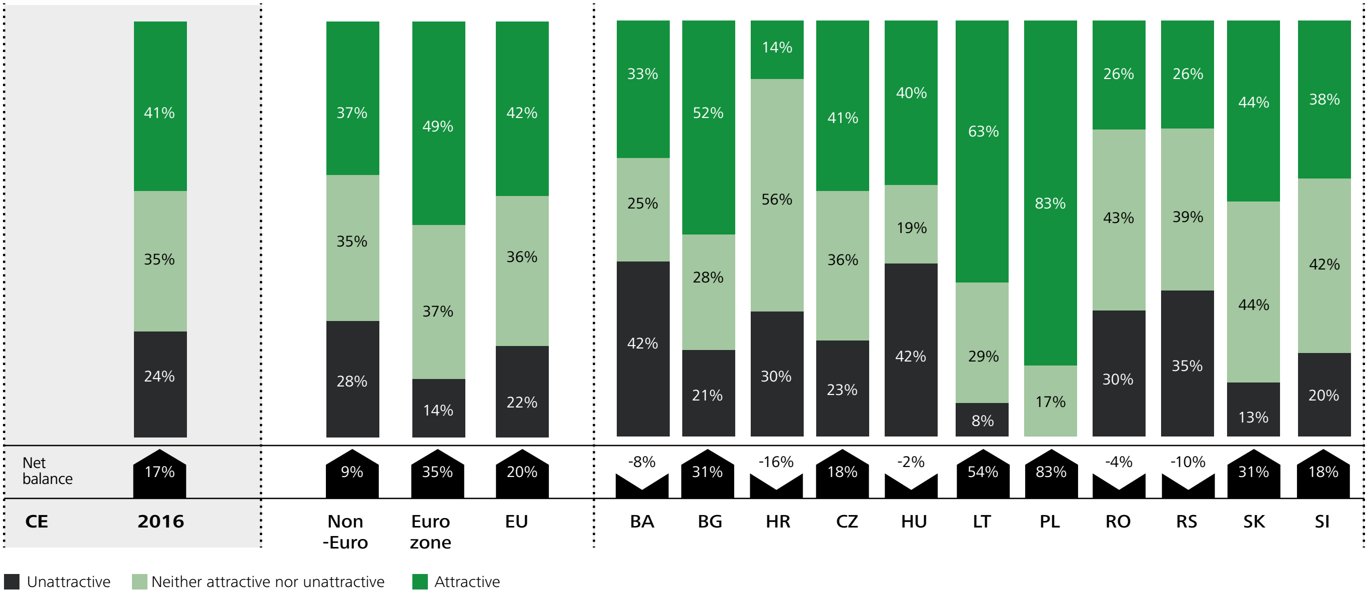
These results differentiate surveyed Central European countries from those included in the EMEA CFO Survey Q3 2015, according to which bank loans are currently the most attractive source of investment capital (with a net balance of 53%).

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



The majority of CFOs in almost all countries (the exceptions being Poland, Slovakia and Bulgaria) see internal funding as an attractive source of investment capital.

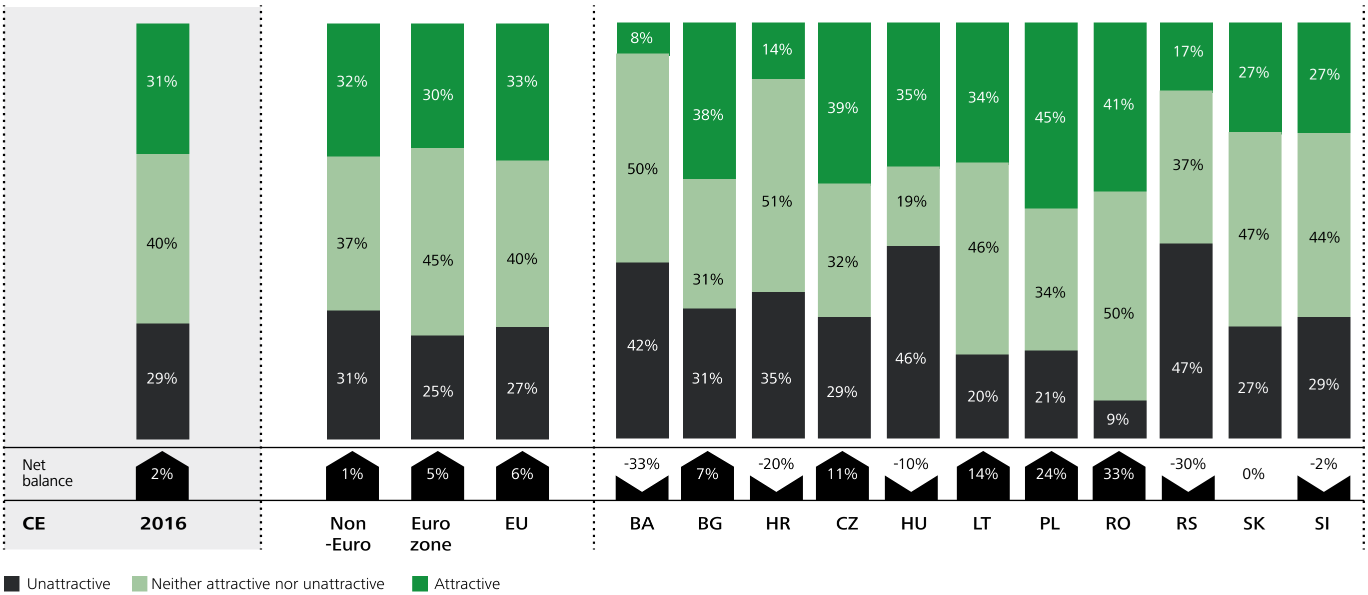
How do you currently rate bank borrowing as a source of external funding for corporates?



Bank loans are considered the most attractive source of investment capital by CFOs from Poland and Central European eurozone countries.

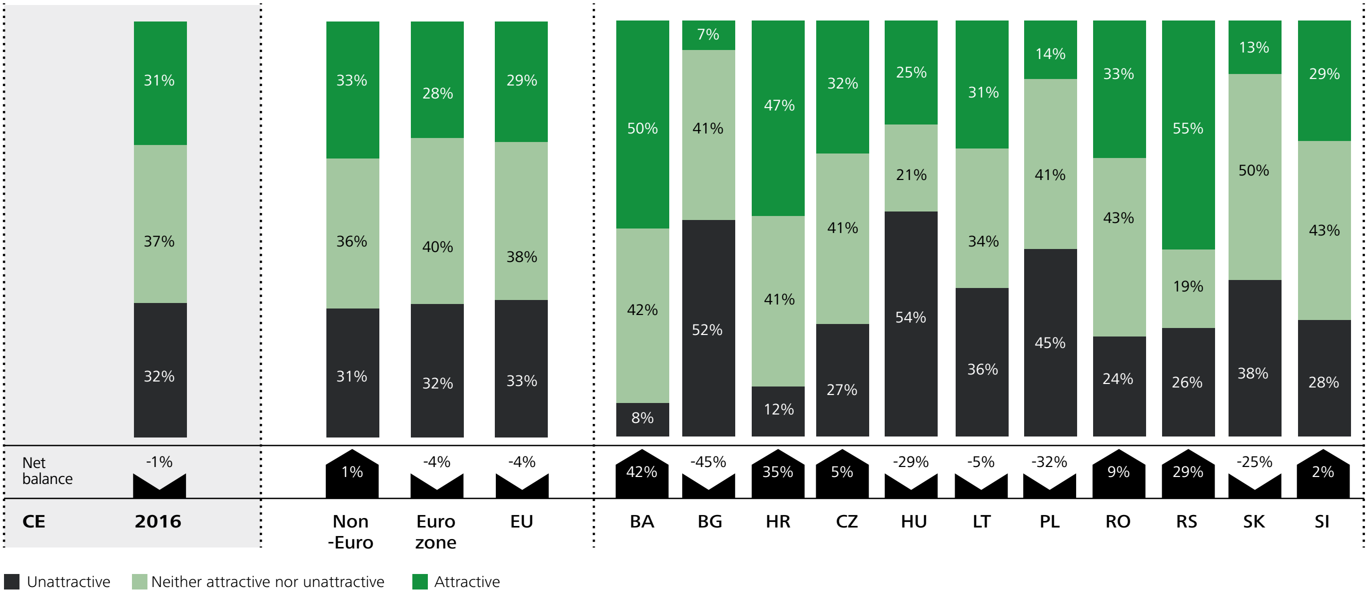
The great majority of Croatian, Romanian and Serbian CFOs see bank loans as less attractive.

How do you currently rate corporate debt as a source of external funding for corporates?



Corporate debt and equity are regarded as the least attractive sources of investment capital. Answers were consistent among CFOs based in eurozone and non-eurozone participating countries alike. CFOs from two Balkan countries (Bosnia and Herzegovina, Croatia and Serbia) are particularly negative regarding corporate debt as a source of investment funding.

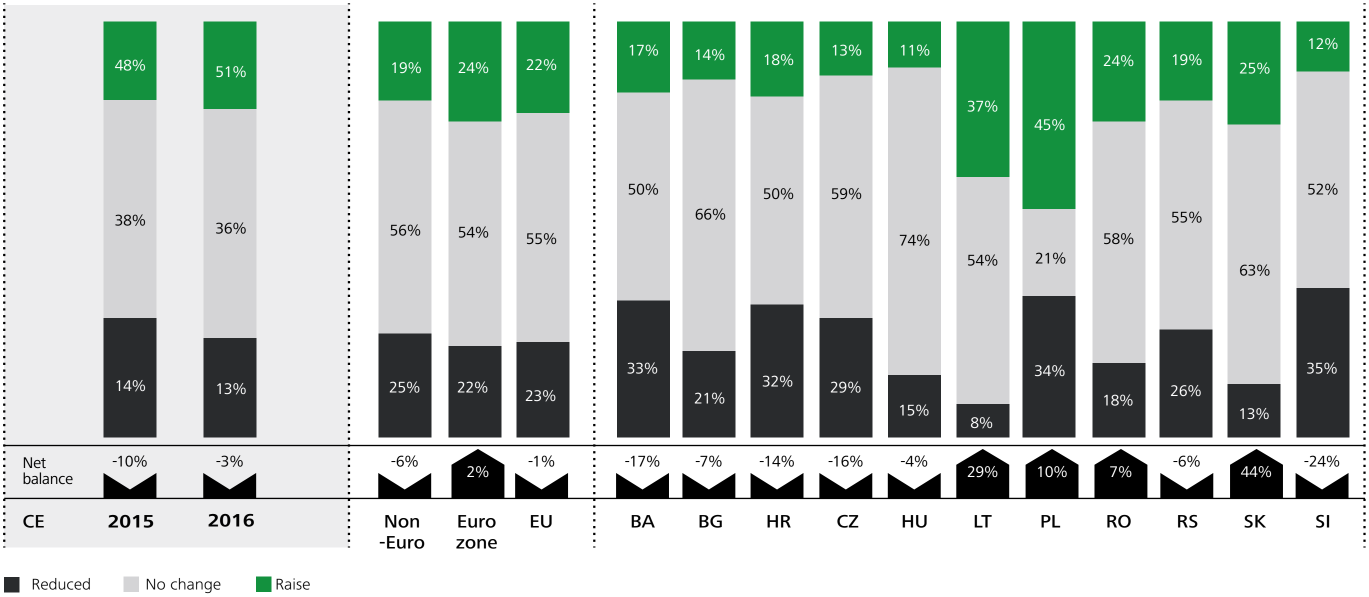
How do you currently rate equity as a source of external funding for corporates?



Similarly to corporate debt, CFOs' opinions on equity do not differ between those based in eurozone and non-eurozone Central European countries. This source of investment capital received the lowest rating from CFOs based in Bulgaria, Slovakia and Poland.

Increased gearing levels are unlikely

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



Despite many indicators attesting to the growth of companies, the majority of participating CFOs predict that their organisations will not increase their gearing levels over the next 12 months.

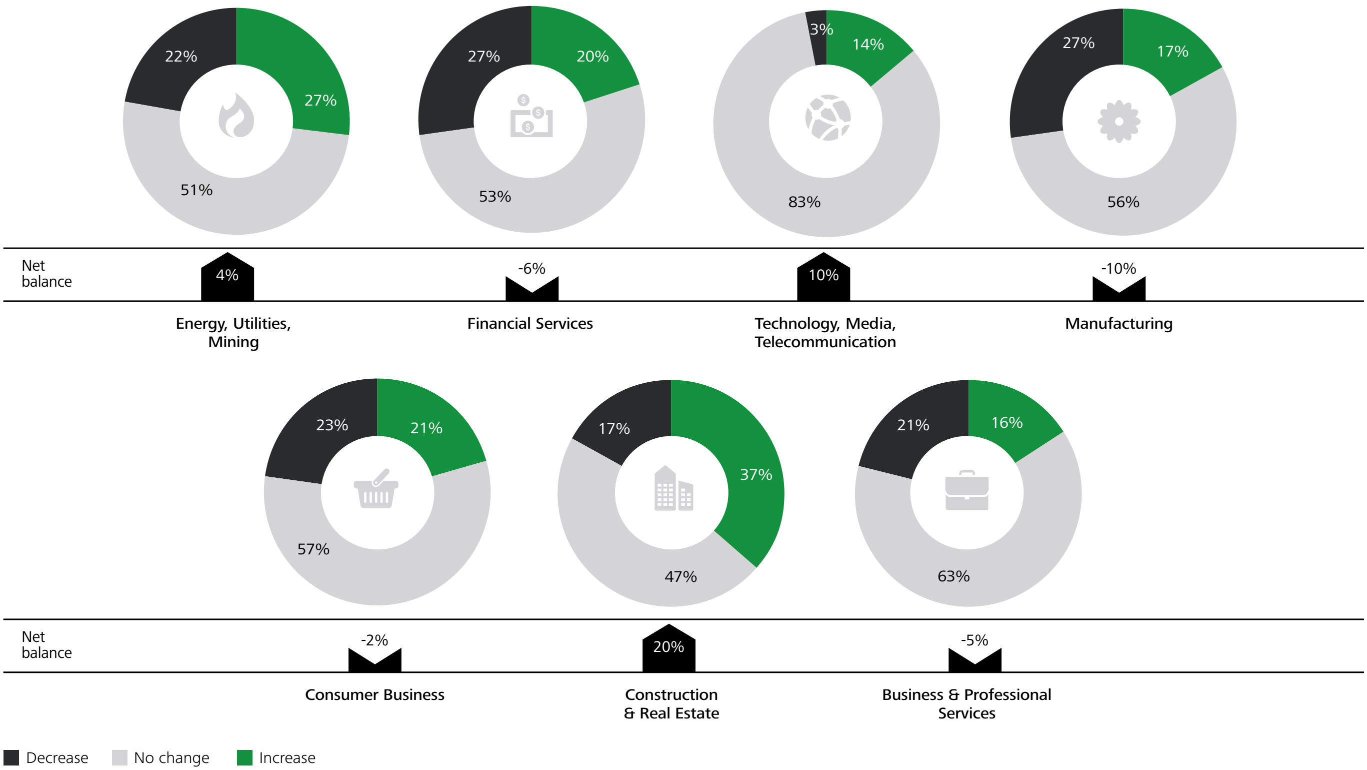
A smaller percentage of CFOs than last year, meanwhile, is planning to reduce the level of gearing.

A particularly strong tendency to increase debt was observed among CFOs from Poland, the region's biggest economy, where 45% are planning to take out additional loans. However, this trend is balanced by the fact that 34% of Polish CFOs are planning to reduce debt in the year to come.

CFOs from other CE countries have differing approaches towards debt. Lithuanian and Slovakian CFOS, for example, are mostly planning to keep debt at the current level or take out additional loans. Those from Slovenia, Bosnia and Herzegovina, the Czech Republic and Croatia, meanwhile, are planning to reduce debt.

CFO attitudes toward increasing debt are not influenced by whether or not their countries are members of the European Union or eurozone.

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



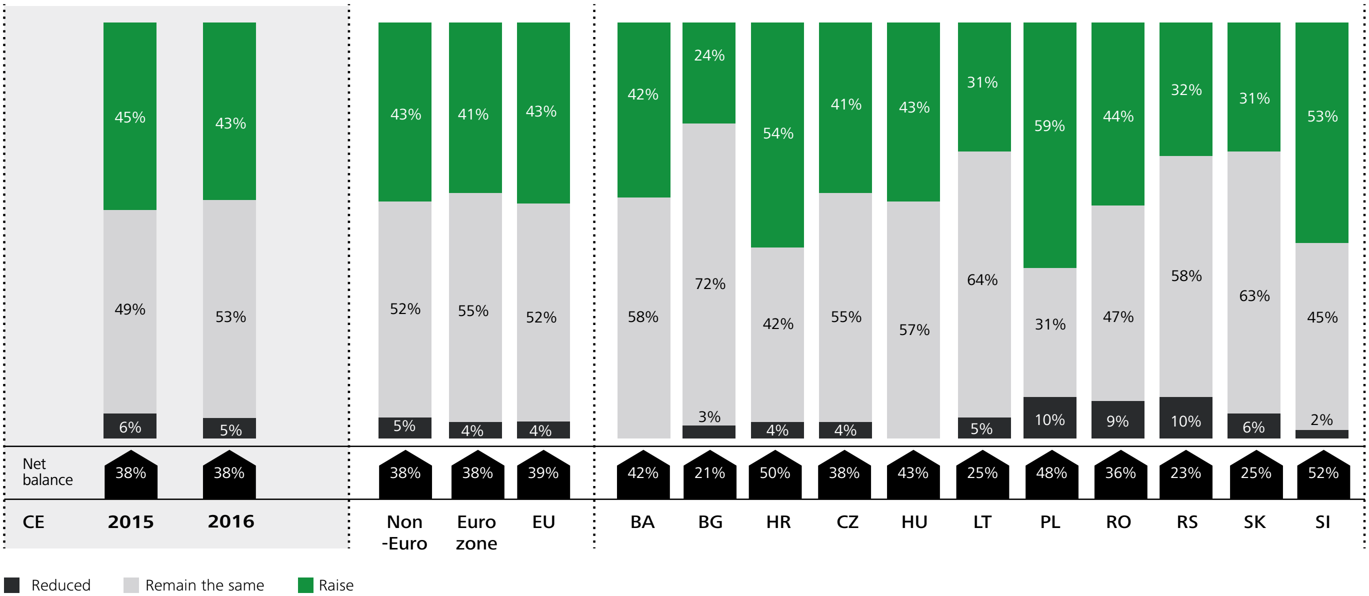
A comparison of all the sectors represented in the survey demonstrates that CFOs of Construction & Real Estate companies are the most willing to take out new loans. However, it is worth noting that the majority of CFOs across all sectors are planning to maintain their companies' current debt levels. This trend is particularly visible in the TMT sector.

Improved capabilities for servicing debt

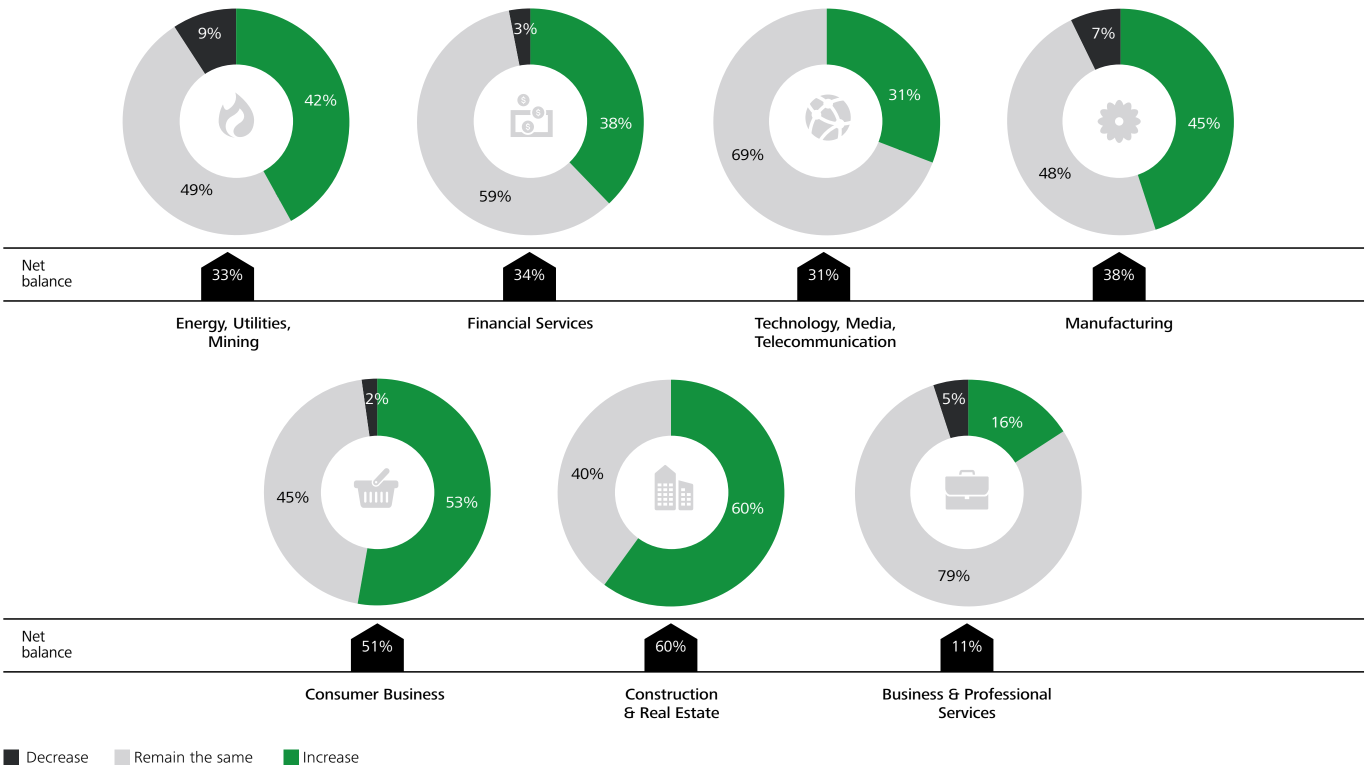
Participating CFOs believe that success in developing their companies and keeping liabilities stable will improve their organisations' abilities to service debt within the next three years. They remain unwaveringly optimistic in this regard – more than half the respondents (53%) do not expect debt-servicing capabilities to change (53%), while a slightly lower percentage expect their companies to perform better in this area.

CFO attitudes to the debt-servicing capabilities of their companies are not influenced by whether or not their countries are members of the European Union or eurozone. Polish, Slovenian and Croatian CFOs are the most optimistic, with almost half of them believing that the debt-servicing capabilities of their companies will improve over the next three years.

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



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



The CFOs of companies operating in the Construction & Real Estate and Consumer Business sectors are particularly optimistic about their organisations' ability to service debt. By way of contrast, the majority of CFOs of TMT and Business & Professional Services companies do not expect any changes in this area.

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We would like to thank all participating CFOs for their efforts in completing our survey.

We hope the report makes an interesting read, clearly highlighting the challenges facing CFOs, and providing an important benchmark to understand how your organization rates among peers.

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