

CFO Survey

Romania | February 2014

The results of this edition of the survey reinforce the view that the financial environment remains volatile. This means that, despite improving macro-economic indicators, most CFOs remain cautious. These are not easy times, and our respondents' answers clearly reflect this. However, they do feel matters have improved since the last two issues of the survey, giving us hope that there is light at the end of the tunnel. I believe that Romanian CFOs will have a challenging task to find the right balance between short-term profitability pressures on one hand, and investment in growth through innovation, new markets, system improvement and talent pools on the other.



Cautious optimism for 2014

It is my pleasure to welcome you to the results of the fifth edition of the Deloitte Central Europe CFO Survey for Romania. This report addresses the views of and issues affecting Romanian finance executives, and compares their sentiments with those of CFOs from other countries in the region (Albania & Kosovo, Bosnia & Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Serbia, Slovakia and Slovenia).

The results of this edition of the survey reinforce the view that the financial environment remains volatile. This means that, despite improving macro-economic indicators, most CFOs remain cautious. These are not easy times, and our respondents' answers clearly reflect this. However, they do feel matters have improved since the last two issues of the survey, giving us hope that there is light at the end of the tunnel. I believe that Romanian CFOs will have a challenging task to find the right balance between short-term profitability pressures on one hand, and investment in growth through innovation, new markets, system improvement and talent pools on the other.

The current Deloitte CFO Survey identifies some of the main priorities and concerns envisaged for 2014 by senior Romanian finance managers, and I hope that you will find it both interesting and useful. I would also like to take this opportunity to invite you to take part in our next edition, which is scheduled for next September.

A handwritten signature in black ink, appearing to read 'Ahmed Hassan', with a long horizontal line extending from the end of the signature.

Ahmed Hassan
Country Managing Partner
Deloitte Romania

Key trends and findings:

- CFOs operating in Romania are more optimistic about the future than in the survey last May, when it comes both to the companies they lead and overall economic growth. 92.6% of participants expect that the Romanian economy will continue to grow in 2014, with 51.9% expecting slow growth (up to 1.5% year-on-year) and the remaining 40% anticipating a moderate advance (between 1.5% and 3%).
- Most respondents (81.4%) consider risk levels to be high or above normal; however, we can perceive a slight improvement in risk sentiment as compared to the previous two editions of the report, when 90% of respondents agreed with these statements. This elevated level of uncertainty might have been driven by Romania's high dependency on the Eurozone, both economically and financially, amid a general trend of deleveraging and increasing the protectionism of domestic economies.
- The last three surveys showed constant improvements in CFOs' expectations, suggesting that an upward trend is gaining ground. CFOs this time expressed more confidence when it comes to their own companies – the majority of respondents (56%) are fairly optimistic about their financial prospects, up from the previous CFO Survey when the greatest share (45%) was cautious about their companies' near future. The share of pessimistic CFOs has also decreased, down to 7% from 15% in May 2013 and 19% in December 2012.

- Achieving revenue growth in current and new markets is still the number one priority for most respondents. There has been an interesting increase in CFOs' intentions to penetrate new markets, with 58.3% of them placing this at the top of their agenda as compared to 47.7% a year ago. At the same time, reducing direct and indirect costs continues to be a key priority for the majority of respondents. The most concerning aspect of the survey findings is the low importance given to new investments, which have slipped down the league table of companies' objectives.
- There has been no visible shift since the previous survey in CFOs' perceptions regarding borrowing from banks, due to banks' widespread desire to reduce debt levels. The majority of CFOs (59%) continue to believe that bank credit is difficult to obtain, while the remainder see it as normally available.
- Although CFOs remain dubious about the accessibility of credit, there has been a significant change in their expectations regarding financing costs over the next 12 months. Now, almost 40% of respondents believe that credit interest rates are likely to decrease in Romania over the next year, compared with just 20% who shared this view six months ago
- Most surprisingly, Romania-based CFOs seem to have become the most optimistic in the whole CE region in terms of the falling costs of lending (38.5%); six months ago they were among the most pessimistic in the region (20%) and surpassed only by Polish (36%), Croatian (24%) and Hungarian ones (21%).
- Business remodelling and restructuring remain significant priorities for 85% of respondents, a high level that is matched only by Hungary.

Report overview

Optimism about the economic outlook has improved lately, due to the better-than-expected performance of Romanian exports, industry and agriculture, which are likely to push the GDP real growth rate towards 3% in 2013. However, it is possible that business sentiment might slightly deteriorate again in the aftermath of recent hikes in excise taxes and the introduction of a 1.5% tax on non-residential assets. Still, Romania benefits from strong key macro-economic indicators: low public external debt (which has stabilised below 40% of GDP), a moderate consumer inflation rate (CPI stood at 1.55% at end-2013), and a low level of the twin deficits: current-account (around 1.5% of GDP) and budget shortfall (approx. 2.5% of GDP) in 2013.

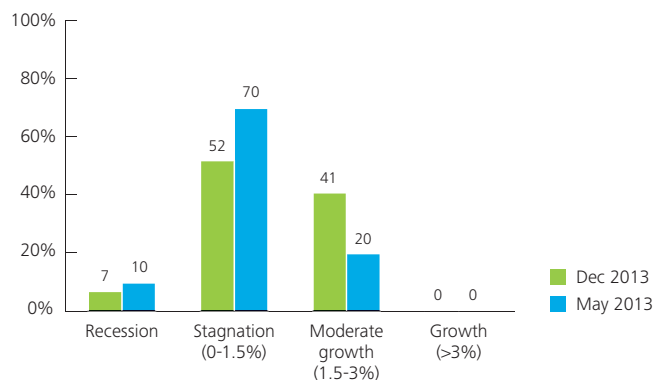
Other factors to consider when balancing the positives and negatives include the emergence of a growing SME sector, an expected increase in EU funding over the next decade, as well as the need to plug gaps in infrastructure through investment and development projects. In addition, the levels of education in Romania continue to be relatively good, feeding local competitiveness.

The sentiment of Romanian CFOs has improved in most of the areas targeted in the survey, Romania now ranking among the most optimistic countries in Central Europe. However, we should be cautious before relying on a new growth trend, as the higher fiscal burden could still harm business sentiment. The most concerning aspect of the survey is the CFOs' reluctance to make new investments. This could seriously affect potential GDP growth in the long term, unless the trend is rapidly reversed by implementing effective governmental measures to stimulate local investments.

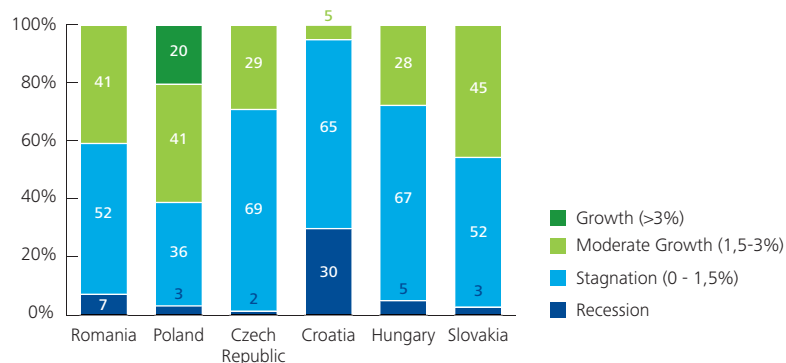
The survey main findings

When it comes to their companies' prospects and growth expectations for the economy as a whole, Romanian CFOs express increased optimism for 2014 compared to previous surveys. The positive nature of Romanian CFOs' sentiment in the current survey was surprising, ranking among the most optimistic in the region. 92.6% of participants expect that the Romanian economy will continue to grow in 2014, with 51.9% expecting slow growth (up to 1.5% year-on-year) and the remaining 40% anticipating a moderate advance (between 1.5% and 3%). Elsewhere, expectations for higher Romanian unemployment levels over the next 12 months have decreased significantly, from 55% of respondents in May to 48.1% at the end of 2013. This is because stagnant domestic demand has been replaced by an increase in external demand for Romanian goods.

Graph 1: Local CFO's expectations for Romanian GDP growth in 2014



Graph 2: Central European CFOs' expectations for their countries' GDP growth in 2014

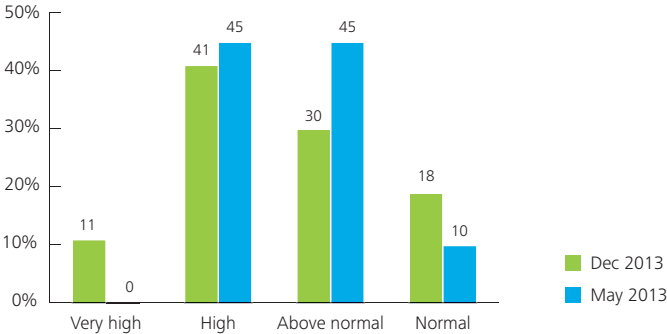


Most respondents (81.4%) still consider risk levels to be high or above normal. However, we do notice a slight improvement in risk sentiment since the May 2013 edition of the report (when 90% of respondents agreed with these statements).

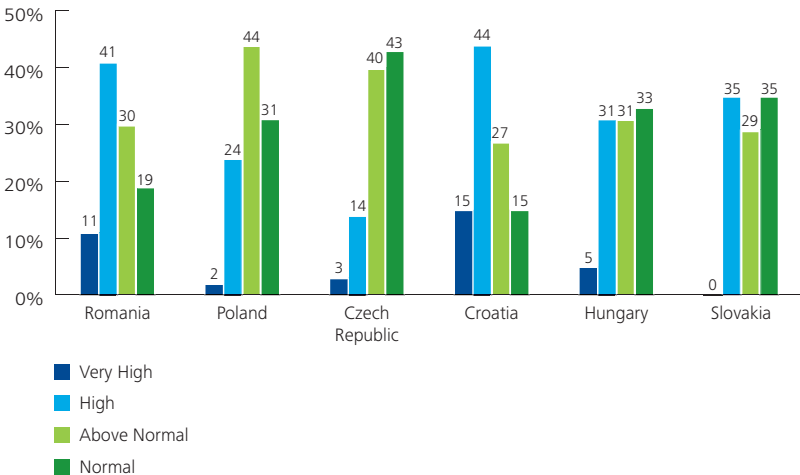
This elevated level of uncertainty might have been driven by Romania’s high dependency on the Eurozone, both economically and financially, amid a general trend of deleveraging and increasing the protectionism of domestic economies.

Romania ranks fourth among Central Europe countries in terms of external financial and economic uncertainty. CFOs’ opinion that companies in Romania are more exposed than most to external risks might have been brought about by the fact that 70% of Romania’s exports are to EU countries and 91% of banking assets belong to foreign banking groups.

Graph 3: Romanian CFOs’ opinions on the general level of external financial and economic uncertainty facing their businesses



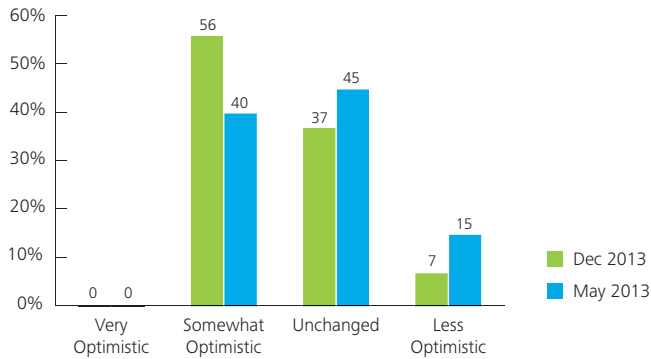
Graph 4: Central European CFOs’ opinions on the general level of external financial and economic uncertainty facing their businesses



CFOs' expectations continually improved during 2013, so we might conclude that an upward trend is gaining ground. CFOs expressed more confidence when it comes to their own companies; the majority of respondents (56%) were fairly optimistic about their financial prospects, up from the previous CFO survey when the largest share (45%) was cautious about their companies' near future. The share of pessimistic CFOs has also decreased, down to 7% from 15% in May 2013 and 19% in December 2012. Part of this improved business sentiment may be attributed to a more stable political environment, which was a major concern during the last six months of 2012. Another driver of positive expectations is the better-than-expected performance of Romanian exports, which despite the difficult business environment rose by 9% during 2013.

CFOs operating in Romania are among the most optimistic in terms of improved financial prospects for their companies, trailing only Bosnia & Herzegovina and Serbia among the 13 surveyed countries.

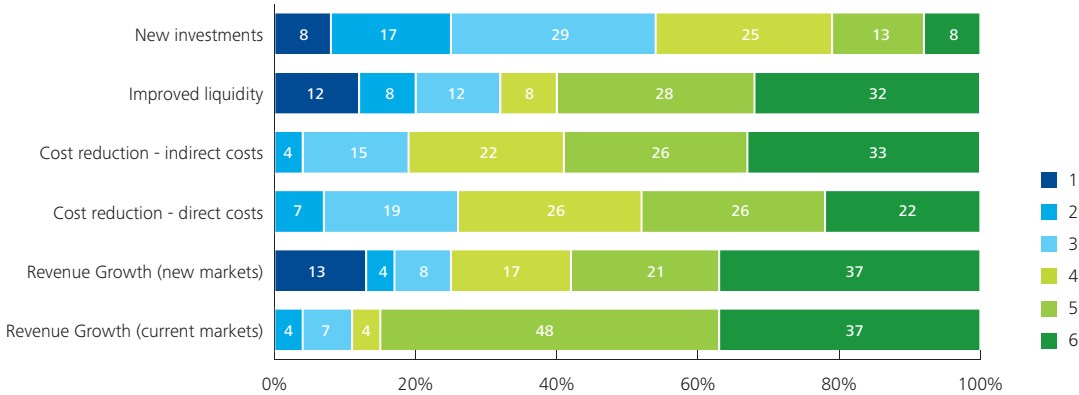
Graph 5: CFOs' views on their companies' financial prospects compared with six months ago



Achieving revenue growth in current and new markets is still the number one priority on the agenda of most respondents. Penetrating new markets is considered an interesting target by 58.3% of the CFOs, as compared to 47.7% a year ago. This increasing interest in new markets might be directly linked to the fact that EU countries, our main trading partners, are likely to stagnate in the medium term, whereas emerging markets appear set to maintain robust GDP growth rates.

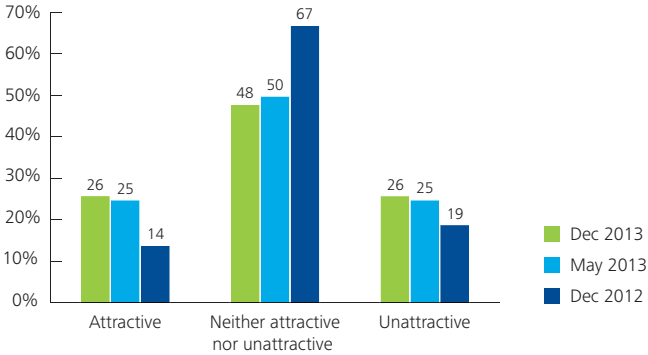
At the same time, reducing direct and indirect costs continues to be a key priority for the majority of respondents. The most concerning aspect in the survey remains the relatively low importance given to new investments, which has consistently lost ground as an objective in the last few editions of the survey.

Graph 6: Companies’ business focus for the next 12 months (1 - least important to 6 - most important)



There has been no apparent change in CFOs' perceptions of bank borrowing since the previous survey, underlying the consolidation of banking deleveraging. Given the fact that interest rates have decreased significantly both locally and globally in the past year, there should have been a revival in corporate lending – but this hasn't been the case in Romania. Lending is therefore most probably contracting due to banks' low appetite for risk and for financing the real economy.

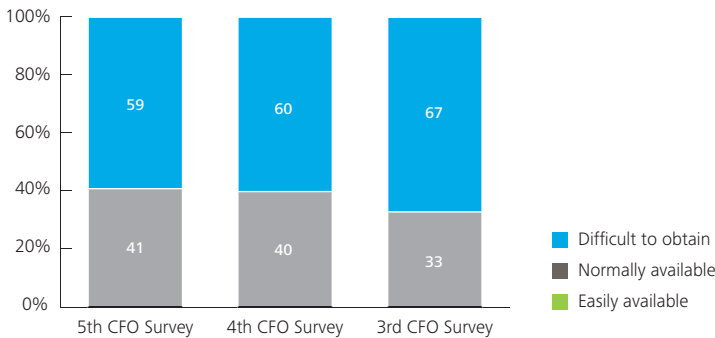
Graph 7: CFOs' attitudes to bank borrowing as a source of funding



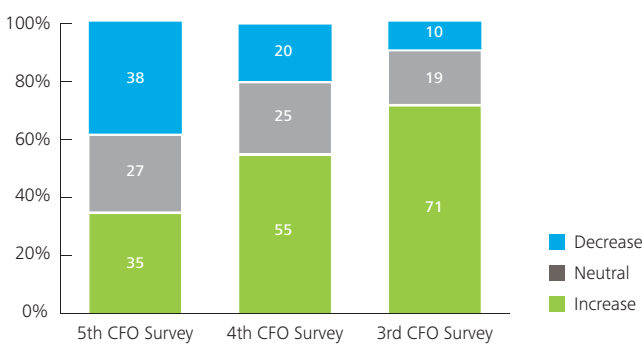
The majority of CFOs also continue to share the same view of credit availability as in the previous survey, with 59% of the respondents believing that credit is difficult to obtain; the remainder consider bank financing to be normally available. No respondents believe loans are easily available, even though some companies have solid growth perspectives and a robust financial position.

Although CFOs remain dubious about credit accessibility, there has been a significant change in their expectations regarding the costs of finance over the next 12 months. The greatest share of respondents (38.5%) believes that interest rates are likely to decrease in Romania over the coming year, up from just 20% who shared this view six months ago.

Graph 8: How CFOs rate the overall availability of new credit for companies



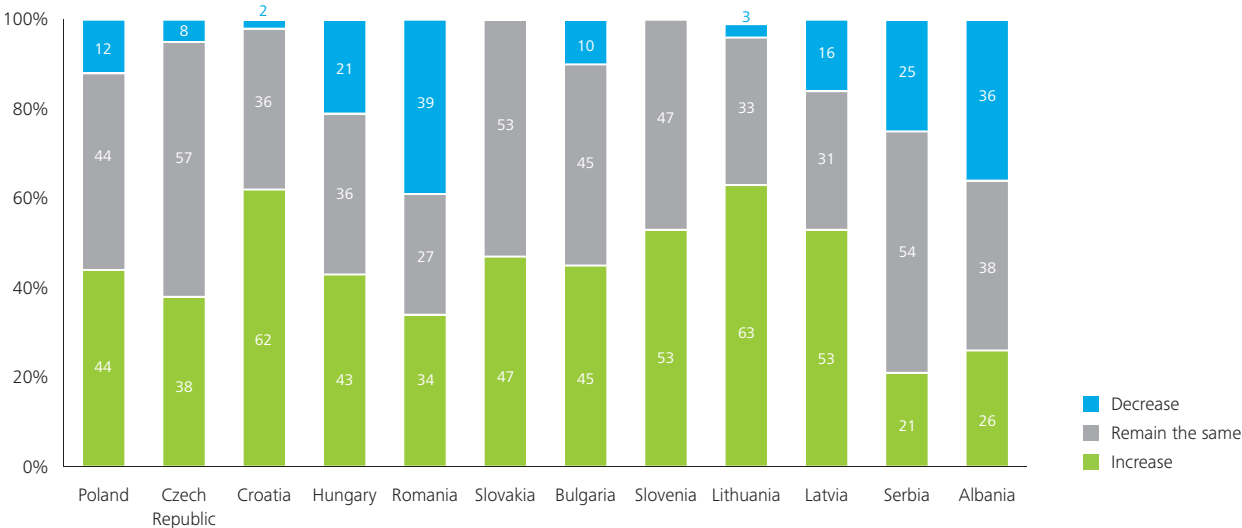
Graph 9: How CFOs expect the costs of finance for companies in Romania to change over the next 12 months



A radical change of expectations took place in the December 2013 survey, as Romanians CFOs were the most optimistic in the whole region in terms of falling lending costs; six months before, they were ranked among the most pessimistic in the region, after only Slovenia (73.4%), Lithuania (70.9%) and Estonia (55.7%).

We can only hope that these are the early signs of a lending revival in Romania. A significant percentage of respondents (34.6%) are still pessimistic about changes to loan interest rates over the next 12 months, but it is encouraging that their share decreased from 55% six months ago.

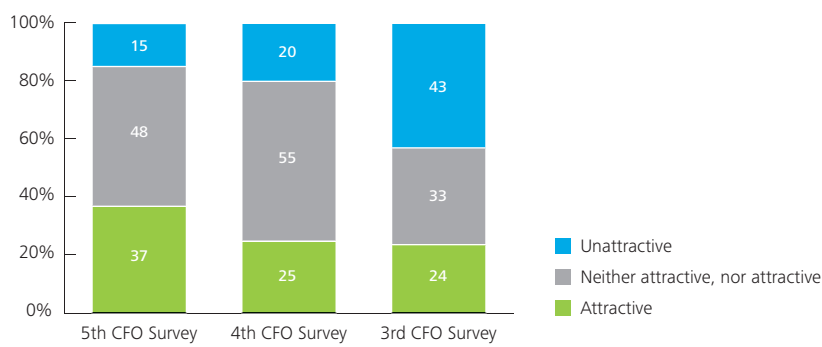
Graph 10: In your view how are financing costs for companies in your country likely to change over the next 12 months?



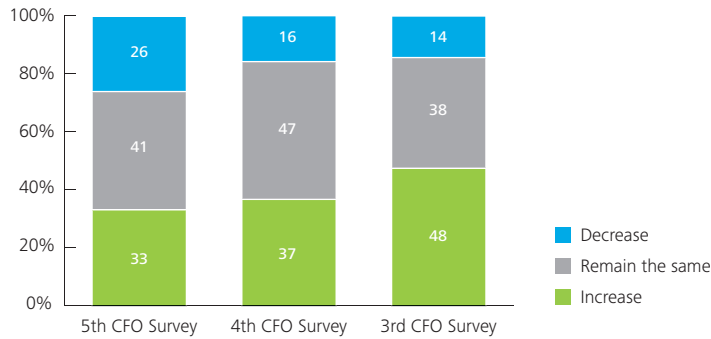
Finance executives are more favourably disposed to issuing shares than in previous surveys; 37% of them showed interest in raising equity (notably higher than May's 25% or the previous December's 23.8%). In addition, the share of those who consider raising equity to be unattractive for their business fell to 14.8% from 20% six months earlier and 42.9% at the end of 2012.

Unlike the improving sentiments for most of the challenges identified in the CFO survey, expectations for the ability of companies to service their debt over the next three years have deteriorated; the share of CFOs anticipating a negative trend increased by 10 percentage points since the last survey to 26% currently. 40.7% of respondents do not expect their companies' medium-term capacity to service debt to change, while just 33.3% expect an improvement, down from 47.6% one year ago.

Graph 11: CFOs' attitudes to raising equity as a source of funding



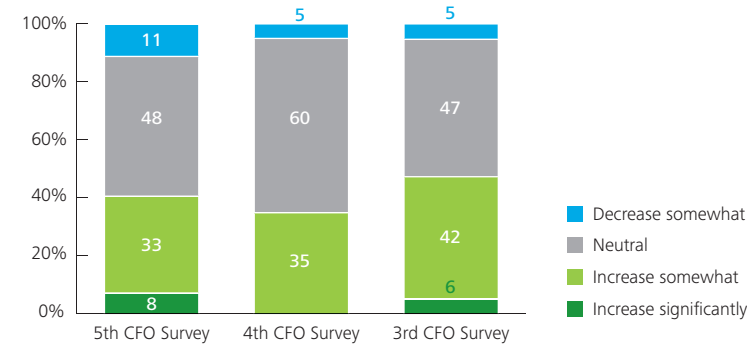
Graph 12: How CFOs expect their ability to service debt to change over the next three years



Market consolidation at a regional level is still expected in the year to come, according to more than half the survey participants in all respondent countries. There are also higher expectations that local M&A activity will intensify – over 40% of local CFOs share this view, versus only 35% in the previous survey. Still, Romanian CFOs are very cautious when it comes to M&A in 2014; only those in Serbia are more pessimistic, where just 25% of CFOs expect M&A levels to increase over the next year. This negative opinion should not be surprising, however, since Romanian fiscal policy remains highly unpredictable. Based on both the activity and transaction values in the first six months of 2013, the Romanian M&A market is expected to show a decline in 2013 compared to 2012. Business confidence and Foreign Direct Investments (FDI) remain the primary drivers of M&A activity, but given the recent declines in FDI and the continued European economic uncertainty, it is not surprising to see that domestic consolidation activity is becoming more prominent.

This is particularly evident in the banking sector, where several smaller transactions were concluded in 2013. However, Romania remains “crowded” relative to the size of the market, meaning consolidation is long overdue.

Graph 13: How CFOs expect levels of M&A activity to change in Romania over the next 12 months



In terms of volume, the financial and banking sector could be described as the “star” of 2013 with several transactions. However, IT, agriculture, manufacturing and retail industry were also some of the most targeted sectors during the year. The number of transactions in the energy sector is reducing, due to the current volatility in the industry’s legislative environment.

The slight improvement in nominal growth rates of local GDP and the slow recovery of the Eurozone might not translate into an immediate M&A impact on Romania. However, the country is highly likely to remain an attractive target for M&A, but future development in the local market depends on decisions made in the business and political environment, which could support the strengthening of Romania’s competitiveness at a regional and even global level. This goal would require a shared commitment to generating the solid growth rates that would help Romanian companies catch the eye of potential investors.

Central European economic and business overview

“May you live in interesting times...”

Introduction

The famous old Chinese curse “May you live in interesting times” has a powerful grip on the economies of Central Europe (CE) as the region’s CFOs strive to steer their companies to ultimate success through the obstacles of uncertainty, volatility and rapid global economic change.

But in interesting times, winning financial strategies depend more than ever on timely and relevant information. That’s why we’re so pleased to publish this report including the CE CFO Confidence Index, which summarises the perspectives of around 600 CFOs from 13 countries across Central Europe. While we all have daily access to abundant (and often conflicting) forecasts from analysts, academic economists, journalists and politicians we believe it’s just as valuable to understand what practicing CFOs have to say.

The shift of business impetus from the developed to the developing world has been seen as the principal driver of global change over the last decade. That said, the current re-industrialisation of the US and the deceleration in developing countries suggests the picture is not as clear-cut as believed. So the big question for business leaders in Central Europe is: “Can the region grow into one of the new centres of economic influence?”

We don’t attempt to provide a definitive answer in this report. Rather, building on past editions, we try to show how short-term plans and expectations are evolving to give the region’s largest companies a context for their decision-making. In this way, we hope to contribute to their success and so help the region exert the greater gravitational pull to attract business influence to CE.

The good news is that optimism for company prospects has become more widespread than pessimism over the six months since the last survey. On the down side, the majority of CE CFOs believe the time has not yet come to take more risk on to company balance sheets. The key business priority for CFOs might sound simple: to increase revenues. But, in the interesting times we are experiencing in Central Europe, simple does not translate into easy-to-achieve.

Key findings

- The CE CFO Confidence Index shows signs of optimism among nearly 600 CFOs from companies across 13 countries, which are experiencing volatility and external financial uncertainty
- Despite signs of optimism, the majority of CFOs in Central Europe believe that the time has not yet come to take more risk on to company balance sheets
- CFOs in CE hold divergent views on their priorities for the next 12 months
- Many CFOs plan to reduce gearing levels, associated with a corresponding expectation of higher financing costs
- While talent shortages are not of concern to most participating CFOs, there are opportunities for experienced financial professionals around the region
- The top priority for next year, shared by many CFOs in Central Europe, is simply to grow their revenues

About the fifth CE CFO Survey

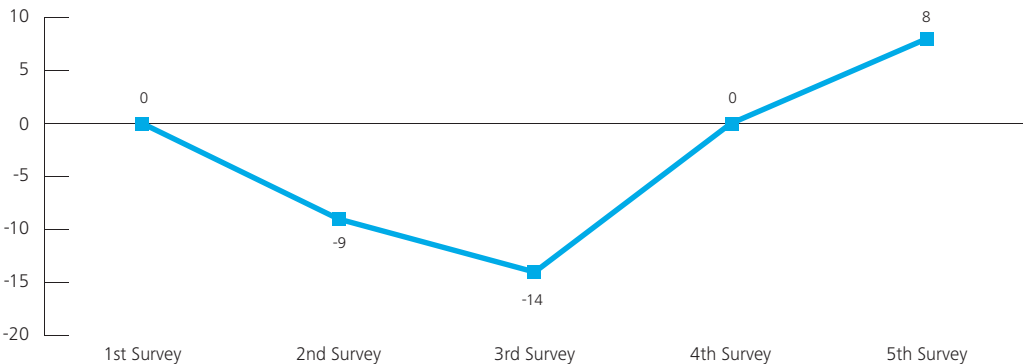
The report compares the expectations of CFOs from 13 Central European economies (Albania and Kosovo, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia). It is based on the answers of 580 CFOs from a broad range of industries who responded to our survey in October and November 2013. The survey captures shifts in CFOs' opinions on factors including risks, GDP growth and financing priorities. It has become a benchmark for agile decision-making that takes into account the financial attitudes of major corporations across Central Europe.

About the author

This part of the report was prepared by Dr Michał Zdziarski, Research Director, Warsaw University Executive MBA, exclusively for Deloitte Central Europe. Dr Zdziarski's research interests include strategy, finance, leadership and international business.

Signs of optimism

Graph 1: CE CFO Confidence Index



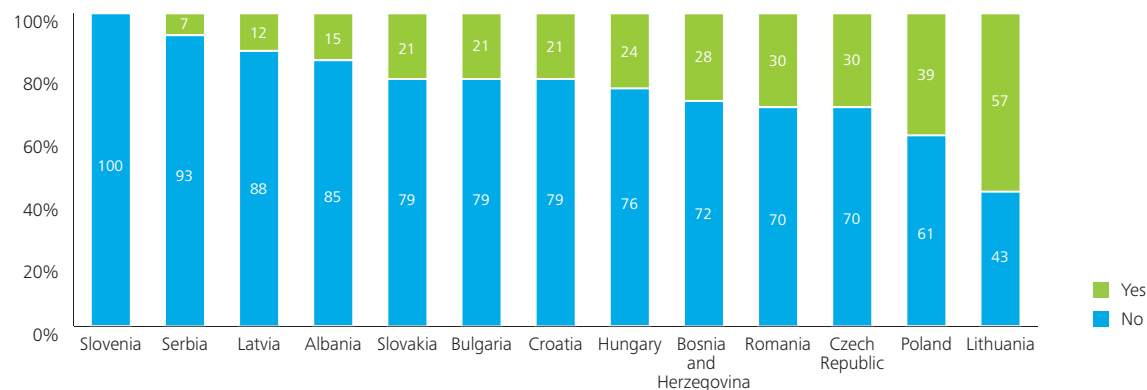
We have developed the CE CFO Confidence Index¹ to track the evolution of CFO sentiments regarding their companies' financial prospects across many sectors and geographies. We have taken into account accumulated opinions from five major economies in the region: Poland, the Czech Republic, Romania, Hungary and Slovakia, which jointly represent close to 80% of CE's aggregated GDP. We have weighted the influence of CFOs' sentiments from different countries by the relative size of their economies, to best represent the overall expectations for changing regional dynamics.

The 22-point increase in the CE CFO Confidence Index between the third and fifth editions signals the growing optimism of the region's finance professionals. The level of confidence now is the highest of all editions of the survey we've undertaken since its launch in June 2011, into a region that was already affected by the global slowdown. Therefore, we propose to conservatively interpret the current levels of CFO confidence as a sign of cautious optimism.

¹ The CE CFO Confidence Index is calculated based on net optimism – the difference between the percentage of CFOs who are optimistic about the financial prospects for their company compared with six months ago and those who are pessimistic, weighted by the proportion who believes that conditions remain unchanged. We calculate the index based on results from five major economies of the Central European region, which between them have a 78% share of the total GDP of all analysed countries. Net optimism is then weighted by product of individual country (GDP) to produce the index for the overall region. The results from the first Deloitte CE CFO Confidence Index are taken as base data.

Staying on the safe side

Graph 2: CFO views on whether this a good time to take greater risk on to company balance sheets



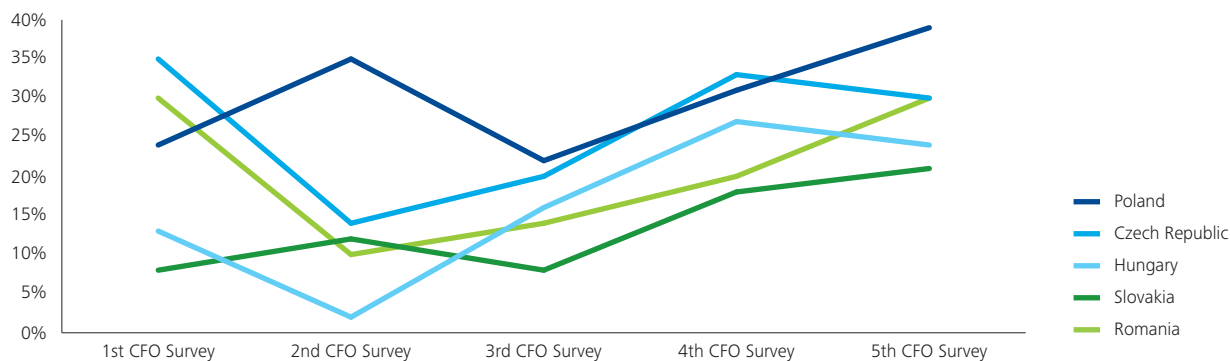
The majority of CFOs in all countries except Lithuania believe that now is not the time to take greater risks on to company balance sheets. The diversity of opinion on risk-taking across the region is notable: in Slovenia, no CFOs at all believe that their company should increase its risk exposure; 57% of Lithuanian CFOs, meanwhile, are willing to leverage their growth potential. It is also worth noting the relatively high proportion of CFOs who appear ready to take more risk in the three largest economies of the region: Poland (39%), the Czech Republic (30%) and Romania (30%). These countries' combined share of the total GDP of the Central European region is over 60%,

and there is a corresponding difference in the size of the business operations of our respondents. In the two following countries, fewer CFOs are willing to increase risk levels – Hungary at 24%, and Slovakia at 21%.

Results across Central Europe are far from the six-year high in optimism expressed by UK CFOs. With 54% of them bullish about taking greater risks, Ian Stewart, Chief Economist at Deloitte, expects UK corporations to significantly increase their capital expenditure over the next 12 months.

² The Deloitte CFO Survey UK. 3rd Q results.

Graph 3: Percentage of CFOs choosing now is a good time to take greater risk on to company's balance sheets

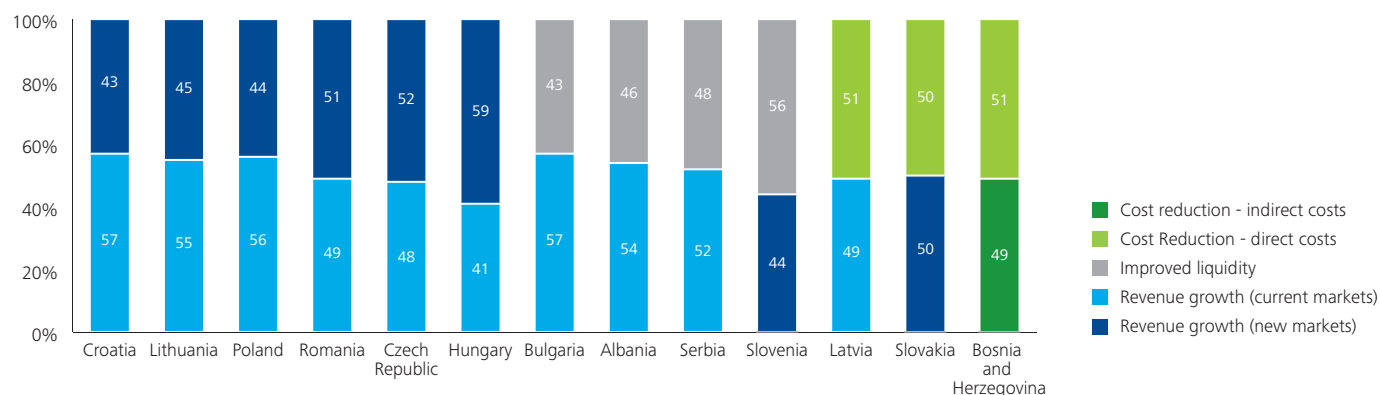


Comparing the risk-aversion findings across all five editions of the Deloitte CE CFO Survey, we can see that the proportion of CFOs in Poland, Hungary and Slovakia that believe now is a good time to take greater risk on to the balance sheet has increased by more than 10% since the first survey in June 2011. In Romania the proportion has returned to the 30% level that we also saw in the first survey. This recovery follows a steep decrease in the second edition, to only 10% of Romanian respondents. The Czech Republic is the only country where the proportion of CFOs willing to take greater risks has decreased; it has fallen by close to 5% over last two and a half years, while remaining on the relatively high level of 30%.

The overall trend from the five largest countries is towards an increased proportion of CFOs who are willing to take more risks. Maybe the time to increase risks has not yet arrived, but we are getting closer to a more endemic mood of expansionary investment. In interesting times like the present, it is necessary to make a decision: should we take greater risk now, hoping to maximise the benefit of grabbing investment opportunities ahead of the curve? Or should we instead take a conservative approach and minimise the chance of making losses if the trend goes into reverse?

Regional view – divergent needs, different priorities

Graph 4: Company business focus over the next 12 months. Top two priorities



Comparing the top priorities for CFOs over the next 12 months by country, we see three distinct groups, which we have called:

- Growth-seeking
- Stability-seeking
- Cost advantage-seeking

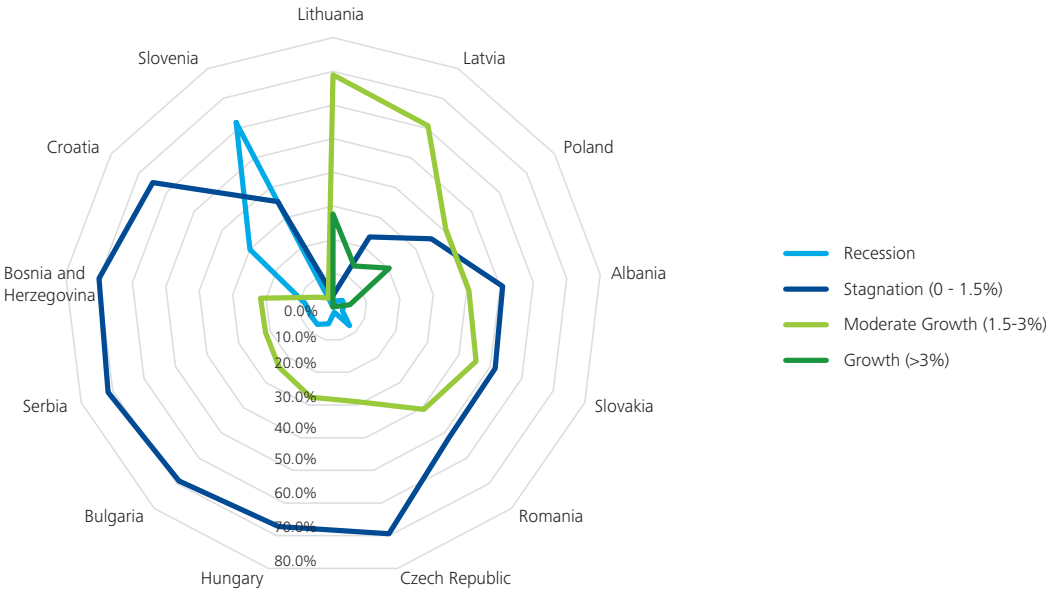
CFOs' top priorities in growth-seeking countries are almost equally divided between two revenue-growth alternatives: growth from current markets or from new ones. The growth-seeking group of countries is the most numerous and includes the largest economies in the region: Poland, the Czech Republic, Romania and Hungary as well as Croatia and Lithuania. In these countries factors like austerity, cost control and improving liquidity are out, and expansion priorities are clearly in.

In the next group of countries, all located in the south of the region, improving liquidity is one of the two top priorities. While seeking revenue in current markets is the primary challenge in Bulgaria, Albania and Serbia, this might be hard to achieve – CFOs expect stagnation in all these markets. Even more challenging might be growing revenues from new markets, which is the second priority for CFOs in Slovenia. Their expectation of recession in their home market leaves them with no other alternative.

The group of countries seeking cost advantage is the least homogeneous, as indirect cost reduction is accompanied by three disparate priorities: revenue growth from existing markets in Latvia; direct cost reduction in Bosnia and Herzegovina; and revenue growth from new markets in Slovakia.

It's all about growth

Graph 5: CFOs' expectations for their countries' GDP growth in 2014



In general, CFOs report that where growth is currently weak or absent, the situation is not expected to reverse in any dramatic way. Some signs of improvement are expected by CFOs operating in four countries – Lithuania, Latvia, Poland and Albania – where the dominant best estimate is for moderate annual growth of between 1.5 to 3% of GDP. In these four countries alone, relatively small groups of CFOs expect growth to exceed 3% in 2014.

The dominant expectation for the region is stagnation (between 0 and 1.5%), chosen most frequently by CFOs in nine countries. Recession is clearly the consensus view for Slovenian economic prospects in 2014.

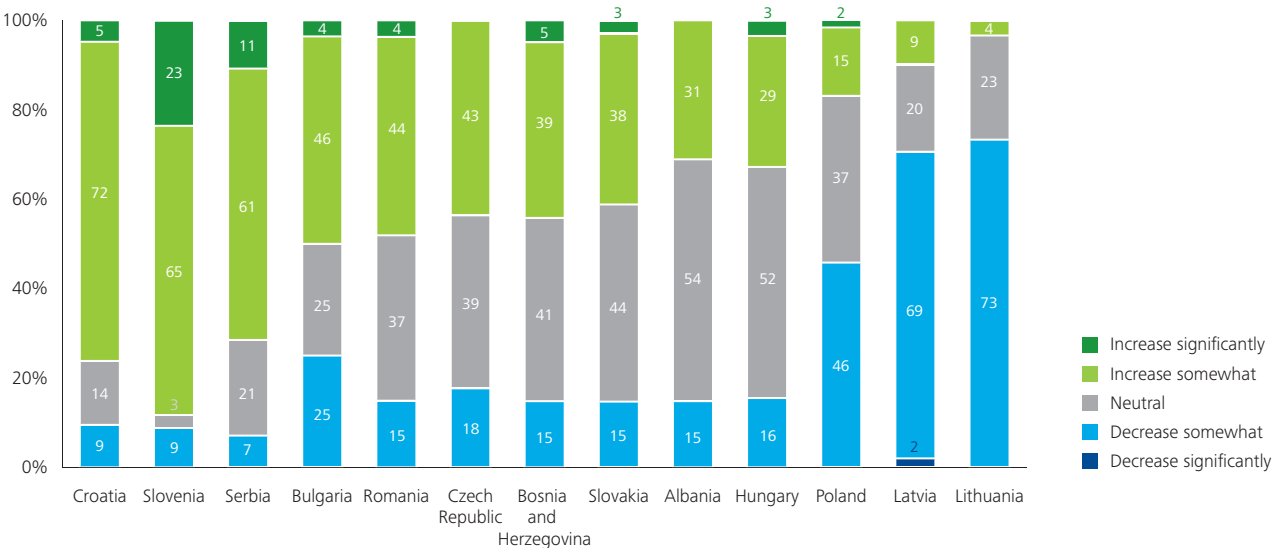
Overall, therefore, the region's waters of economic prosperity remain unsettled. It will be critical to learn in the next few months what would be more transferable among countries in the region – the moderate economic growth expected in Poland, Latvia and Lithuania, or the recession that Slovenia is going through.

The prospects for employment

GDP growth is again the key factor when we look at expected changes in unemployment. The expected moderate growth in Lithuania, Latvia and Poland corresponds with anticipated decreases in the levels of unemployment in these three countries. In all other countries, CFOs expect fewer opportunities for job

seekers and current employees. In Slovenia, which remains in recession, the largest proportion of CFOs expect a significant increase in unemployment levels, and any expectations of a significant increase in employment will need to wait for GDP to grow faster than 3%.

Graph 6: How CFOs expect levels of unemployment to change in their countries over the next 12 months

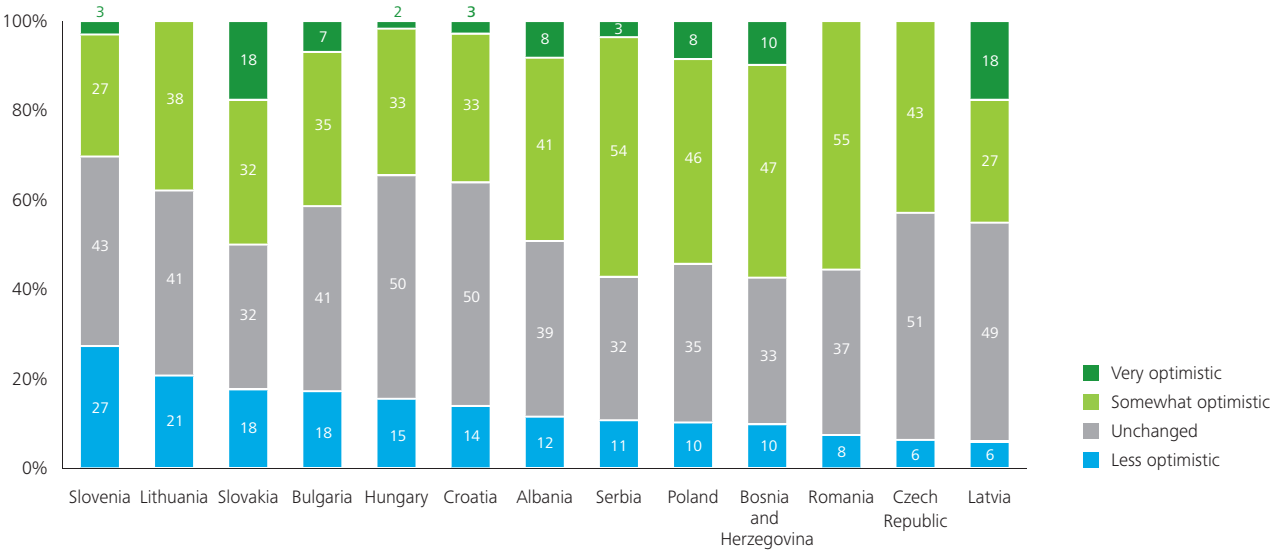


Financial prospects compared to six months ago

CFOs are much more optimistic about their own companies' prospects in the next six months than for the GDP growth outlook of the countries in which they are located. In all countries, more CFOs have become more optimistic about their company prospects in the next six months than have become less optimistic. Even in troubled Slovenia, expectations of continuing recession do not translate into pessimistic views on companies' financial prospects;

this is perhaps thanks to growth from new markets and exports that might compensate for the weakness of the domestic market. In several markets, there is a net difference of over 40% between 'very/somewhat optimistic' CFOs and their less optimistic peers. These countries include Poland, Romania and Serbia, as well as Bosnia and Herzegovina. CFOs have clearly learned to operate their companies in stagnant, troubled economies.

Graph 7: CFOs' views on their companies' financial prospects compared with six months ago

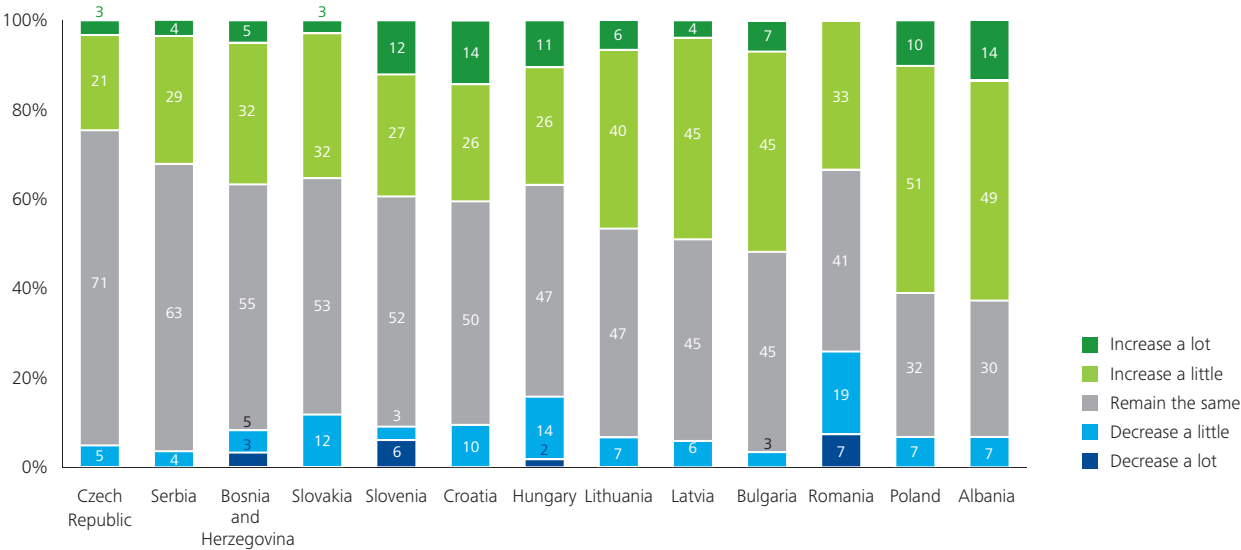


Financial prospects – the long-term view

Most CFOs predict no change in their ability to service their debt, while almost the same proportion expects a moderate improvement over the next three years. Radical changes in companies’ financial performance were indicated only rarely, suggesting that current long-term views on companies’ financial prospects are in fact closer to the expected changes in GDP than they are to anticipated short-term improvements

in companies’ financial performance. While there are notable exceptions of companies implementing a winning strategy in a difficult environment, no company is isolated from its business context. For the majority of CFOs, therefore, the long-term prospects of their companies are grounded in the dynamics of the external environment.

Graph 8: How CFOs expect their ability to service debt to change over the next three years

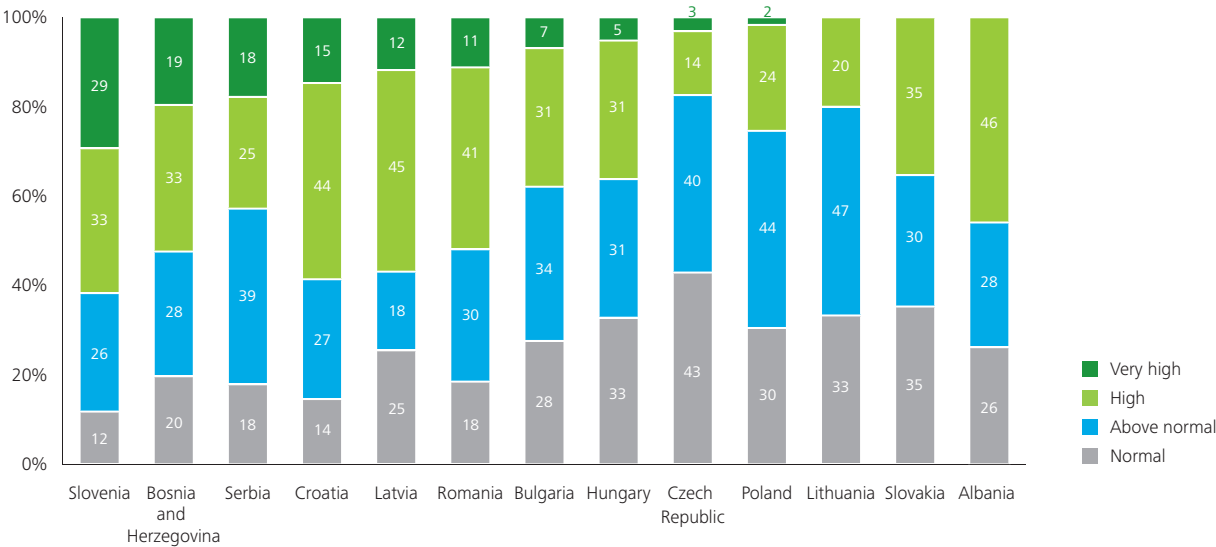


External financial uncertainty – learning to cope with the “New Normal”

The majority of CFOs in the region describe the general level of external financial uncertainty as above normal, high or very high. This majority is as high as 88% in Slovenia and 70% in Poland. This suggests that they do indeed operate in interesting times, when higher uncertainty becomes part of the “new normal” environment.

Many companies react to the situation by withholding investment funds and focusing on quick wins. While this strategy is typical of how to deal with cyclical downward shifts in the economy, there is less clarity about how to manage financial risks in an environment where high levels of external financial uncertainty are normal for the long term.

Graph 9: CFOs’ opinions on the general level of external financial and economic uncertainty facing their businesses

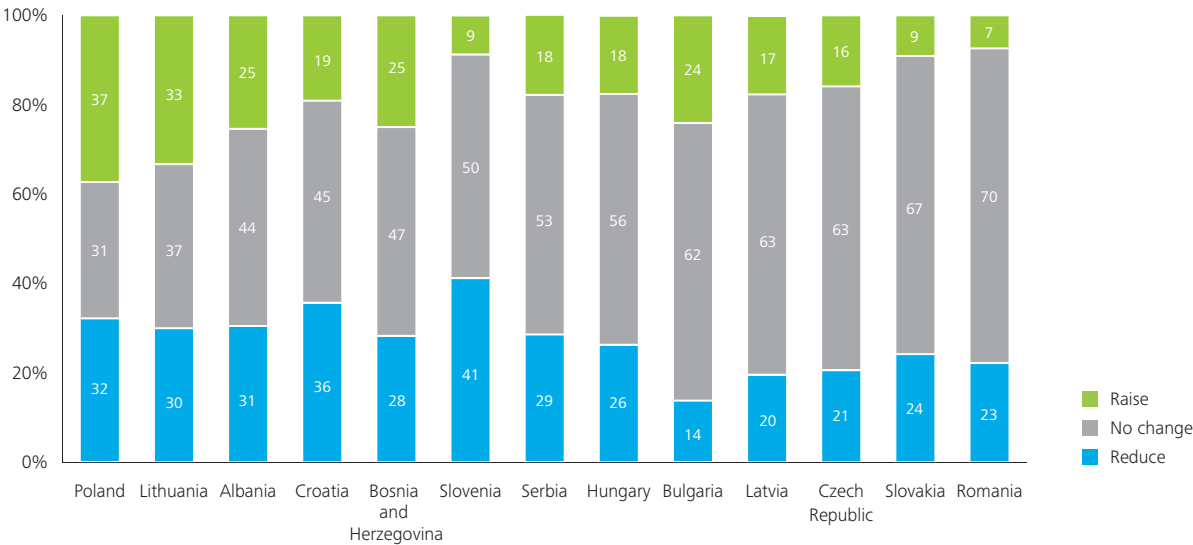


Gearing and costs of finance

Most CFOs remain cautious on the subject of gearing. In seven markets, the clear majority anticipate no change, and in all countries except Poland the largest proportion of CFOs choose this option. The fact that Poland and Lithuania have the largest proportion of CFOs anticipating that gearing will increase corresponds with these two countries also having the highest proportion of CFOs who say that now is

a good time to take greater risks on to the balance sheet. Efforts to reduce gearing will be more common among CFOs based in the southern part of Central Europe: in the troubled economy of Slovenia, as well as in Croatia, Bosnia and Herzegovina, Serbia, Albania and Hungary, plans to reduce gearing are quite common. Overall, reducing gearing is the second most popular strategy after “no change”.

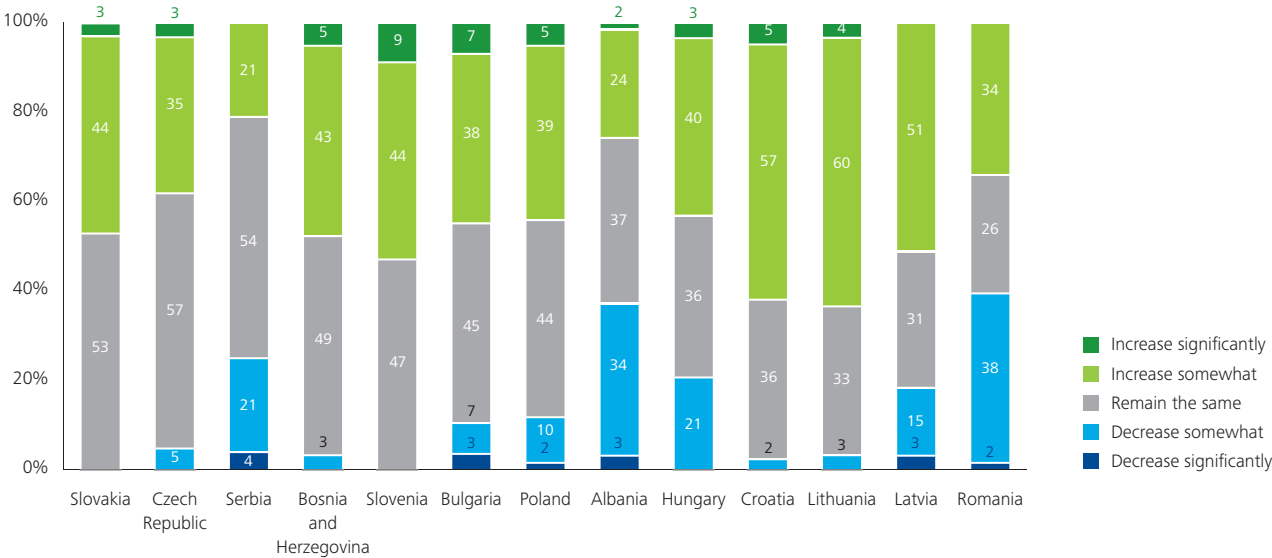
Graph 10: How CFOs anticipate their levels of gearing to change over the next 12 months



Central European CFOs feel that the costs of finance are set to remain the same or to increase somewhat. There are four exceptions, Romania, Albania, Hungary and Serbia, where between 39% and 21% of CFOs believe that interest rates are likely to decrease

somewhat over the next 12 months. Expectations of a significant increase are marginal – the 9% of Slovenian CFOs who expect such a change is the largest group among the entire sample.

Graph 11: How CFOs expect the costs of finance for companies in their countries to change over the next 12 months

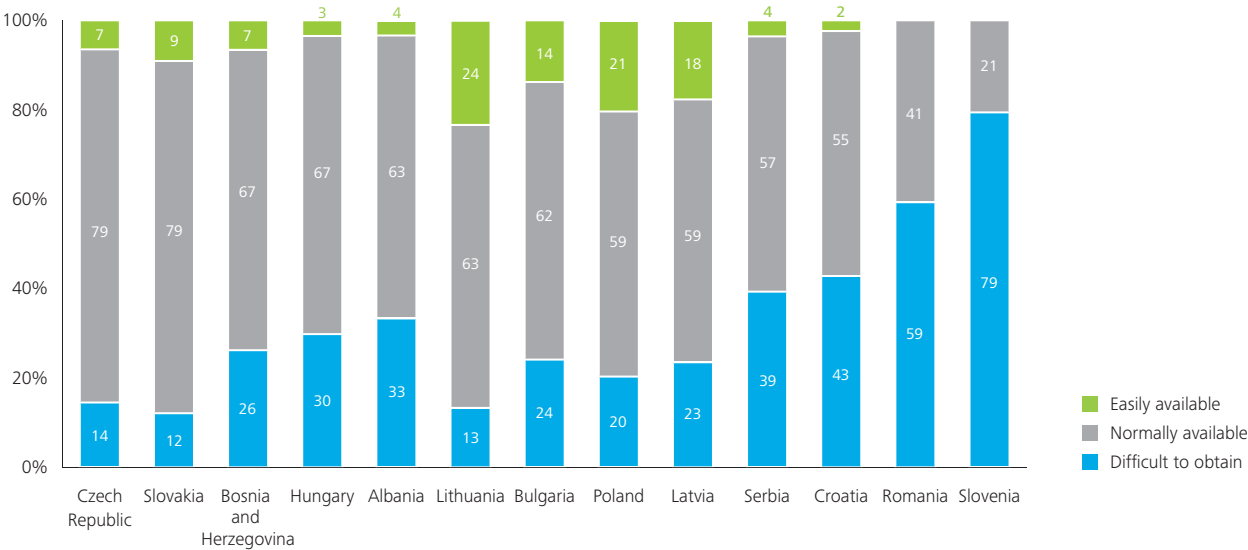


Availability of new credit

Most CFOs in our survey see new credit as “normally available”. The story is different in Slovenia and Romania, where 79%, respectively 60%, of CFOs have difficulties in accessing credit. Compared to last year, credit availability has improved notably in Hungary, and it is less of an issue even to 8% of Slovenian CFOs than it was then.

While 6% more Polish CFOs than last time find credit easily available, 5% also find it more difficult to obtain. Such results suggest that the region’s largest economy is set for an increase in those companies using M&A activity to restructure and seek new efficiencies.

Graph 12: How CFOs rate the overall availability of new credit for companies

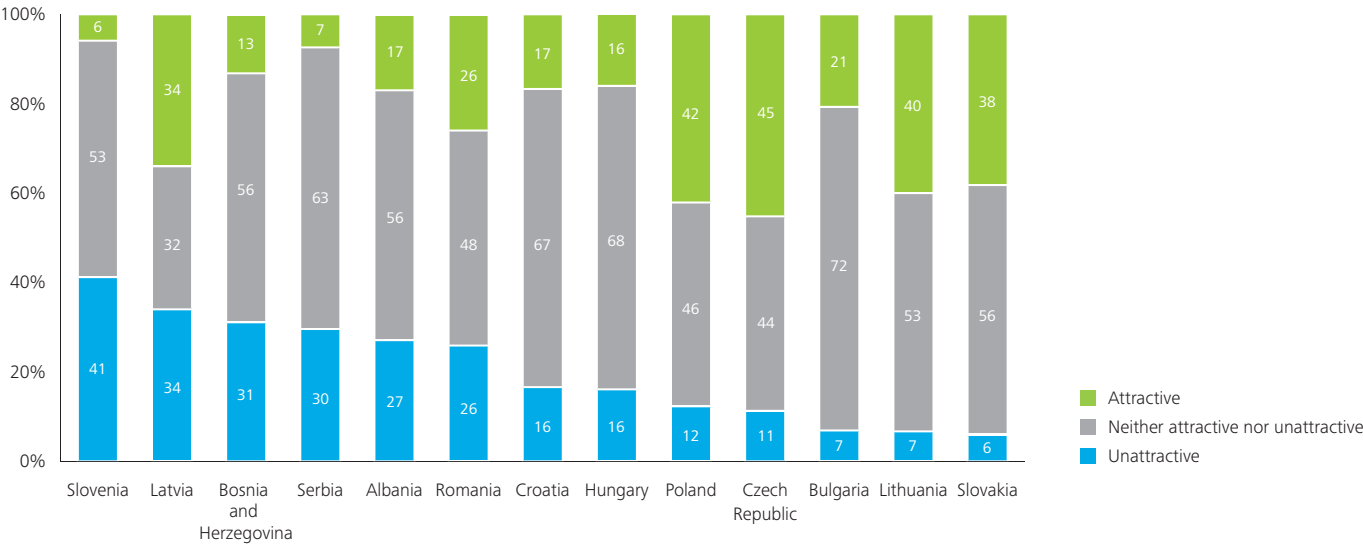


Funding alternatives

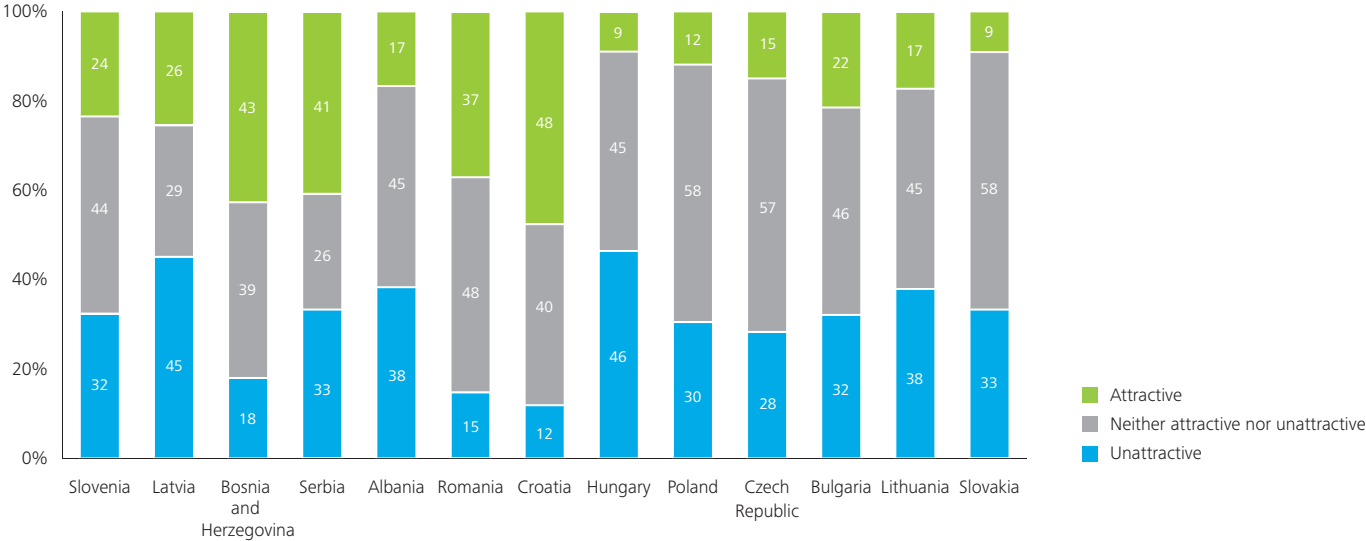
There is quite a diversity in the perceived attractiveness of bank borrowing versus equity finance among CE countries. In Poland, the Czech Republic and Slovakia, CFOs regard equity raising as a less attractive option for funding their plans than bank borrowing.

The opposite holds true for CFOs from Serbia, Bosnia and Herzegovina, Slovenia, Croatia and Romania – countries where availability of new credit is often more restricted. In the remaining three countries, there is a less clear-cut orientation towards bank credit rather than equity raising.

Graph 13: Currently, CFOs believe bank borrowing as a source of funding is:



Graph 14: Currently, CFOs believe raising equity as a source of funding is:

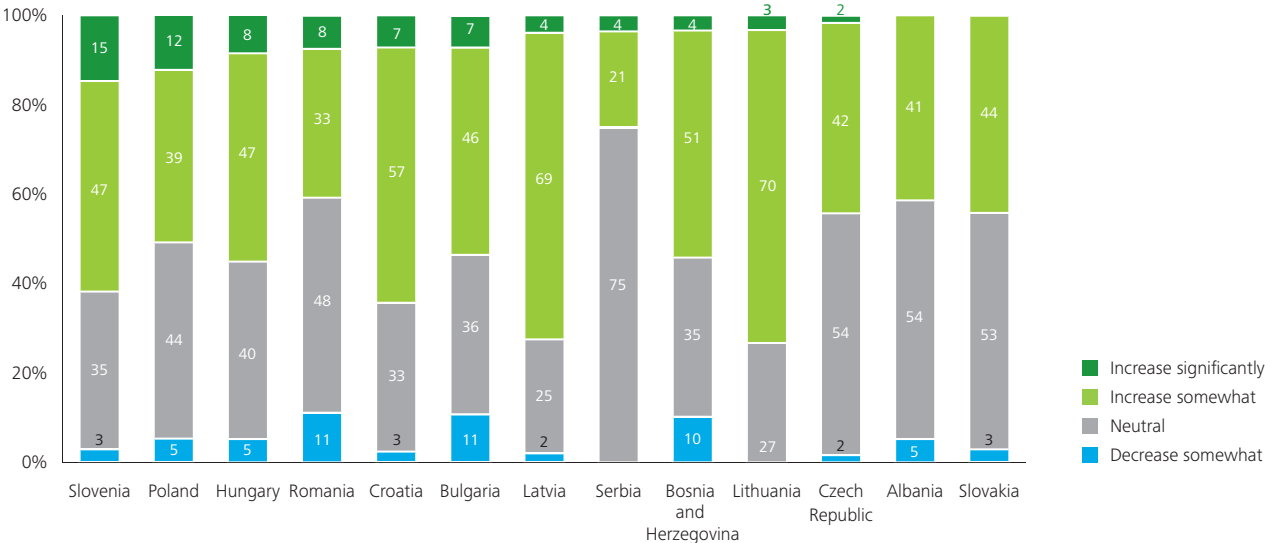


Mergers, restructuring and remodelling

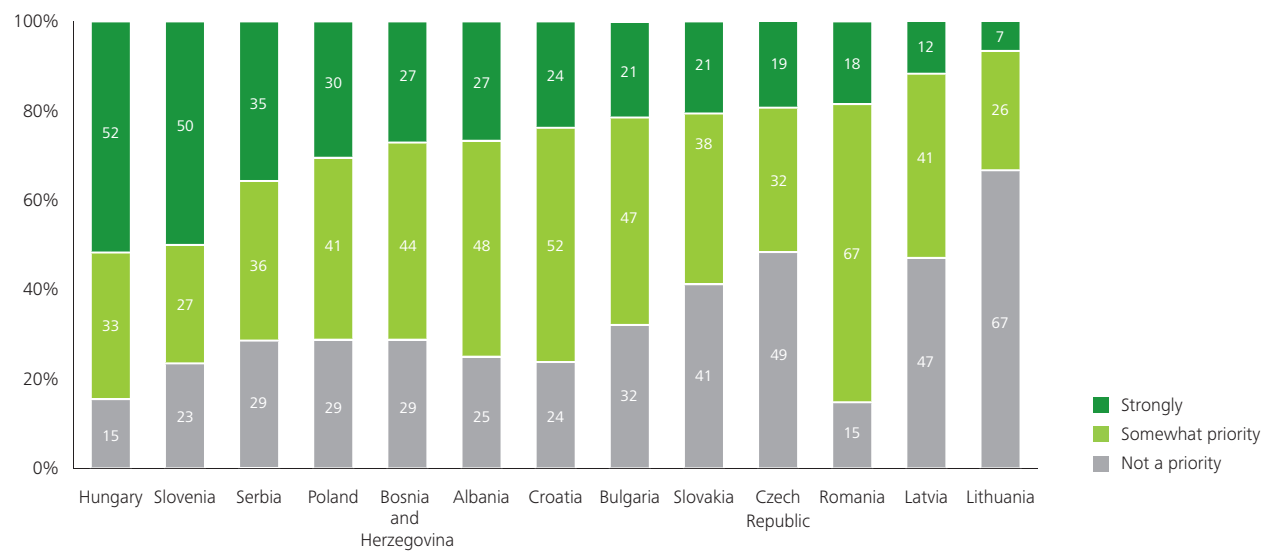
CFOs will lead a great deal of restructuring/remodelling and M&A over the next year. Restructuring/remodelling will be strong priority for more than 50% of CFOs in all countries except Lithuania, where expected growth is not necessitating major internal efficiency initiatives. This level of restructuring/remodelling is impressive, as much has already been done in most CE markets in the last few years. The expected

increase in M&A activities in most markets is another means of seeking efficiency savings in times where the simple goal of revenue growth can be difficult to achieve organically. Slovenia and Poland, currently at very different stages of the economic growth cycle, will see much activity in both mergers and restructuring.

Graph 15: How CFOs expect levels of M&A activity to change in their countries over the next 12 months



Graph 16: To what extent business remodelling or restructuring is likely to be a priority over the next 12 months

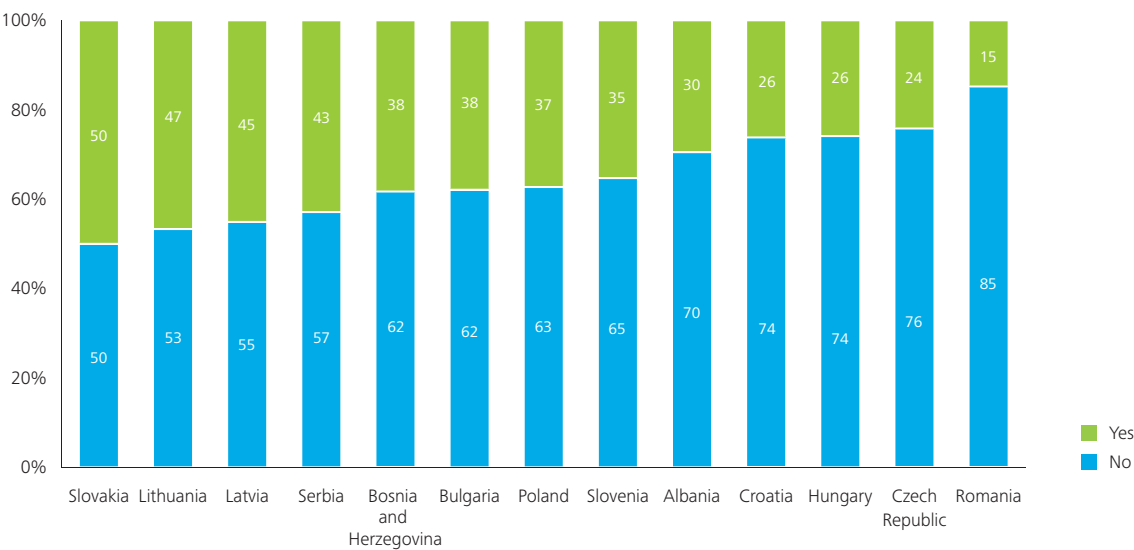


Talent shortages and prospects for finance professionals

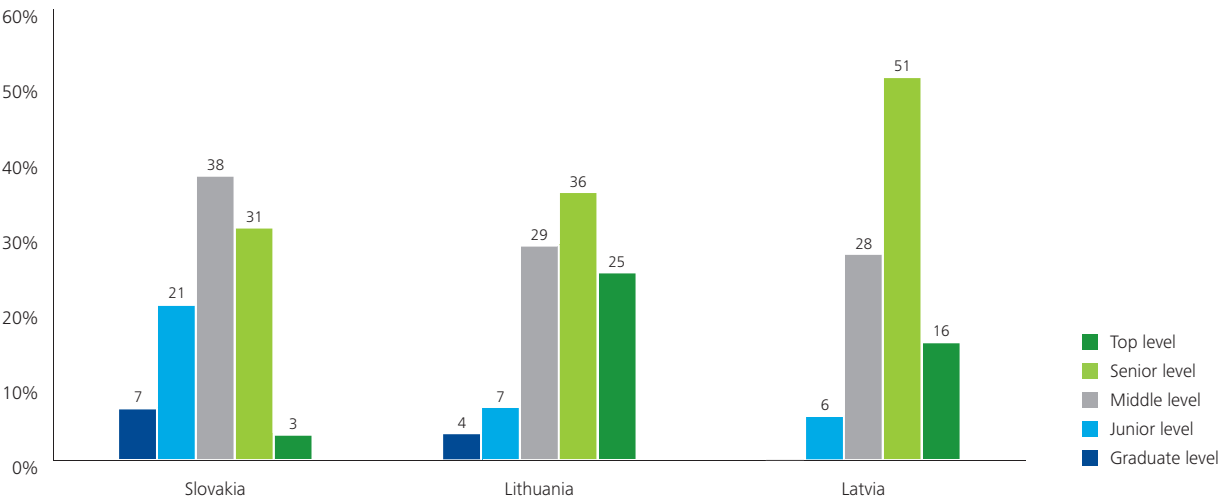
The majority of CFOs in the region do not expect any talent shortages in financial roles. There is a considerable variation in views, however, with some promising prospects for experienced finance professions in

Slovakia, Lithuania and Latvia where middle and senior-level finance executives are more in demand than in any other country in Central Europe.

Graph 17: Whether or not CFOs expect talent shortages in the finance area over the next year



Graph 18: Expected talent shortages in finance over the next 12 months - top 3 countries



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Methodology

The 4th CFO Survey took place between the 18th of February and the 1st of April. A total of 668 CFOs across 13 countries completed our survey. The survey is divided into two parts, first - local analysis based on responses from Romania and the second part is based on all the responses across the region. Not all survey questions are reported in each bi-annual survey. If you were interested to see the full range of questions, please contact ifiserova@deloitteCE.com.

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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