

Business Sentiment Index

Central Europe / 1st edition / September 2009

Do great minds think alike?
Views from executives
in Central Europe



Deloitte.

Introduction

Deloitte Business Sentiment Index goes a long way in discovering the current thinking of senior executives – and what their concerns and aspirations are for their companies.



I am pleased to introduce the first Deloitte Business Sentiment Index (DBSI) – a groundbreaking survey of the views of leading corporate executives from the largest organisations across Central Europe (CE).

The report highlights the findings from the survey conducted during the Summer of 2009 with these executives, who have the greatest influence on the future direction of the Central Europe economies. Their responses to the carefully-selected set of questions about the current and future business environment – ranging from employment prospects and payment trends to new product development and capital expenditure – have been collated into an index which will be an invaluable and regular “barometer” for the prospects of the CE region, inviting comparison across national boundaries and industrial sectors.

The report focuses not on the “hard facts” of statistics and balance sheets, but on the equally important and often underrated personal beliefs of senior management professionals.

In addition, the report focuses firmly on the future by asking executives for their predictions for the prospects for the economy and companies over the long term. As a result, I have every confidence that in time the Deloitte Business Sentiment Index will become a good indicator of economic and business development and an essential resource for companies and professionals across all sectors in Central Europe.

A handwritten signature in black ink, appearing to read 'B. Seres', written in a cursive style.

Bela Seres
Managing Partner
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Executive summary



The Deloitte Business Sentiment Index could not have come at a more appropriate time, as Central Europe takes a mixed view towards recovery instead of reminiscing over the years of plenty of the past decade.

The findings for the first index show there is a wide gulf between the responses and outlook of professionals by country, with Poland consistently the most optimistic in its attitude to the future. True, Poland is a well-established economy in the region, and is therefore more equipped perhaps to “weather the storm” than less mature economies, such as Croatia, but the significant differences between its upbeat answers compared to its more pessimistic partners in the index suggest this may herald a new era in the business dynamics of Central Europe, with Poland pulling away for good from its neighbours.

For instance, 60.5% of Polish executives feel their workforce will remain stable; over half (52.1%) believed the economy will improve over the next six months, and 76.7% believe the financial prospects for their companies will improve. These headline figures suggest Polish professionals have an impressive level of confidence that fortunes are about to change for the better for the Polish economy and its companies.

Compare these bullish outlooks, however, with other countries’ outlooks on the same issues: only around 30% of professionals in the Czech Republic believe workforces will stay the same; an enormous 89.7% of Croatian executives feel the economy will deteriorate, and in Romania, 23.1% of those surveyed believe the financial prospects of their companies are bleak.

The index finds the responses of the countries to be in line with the reaction to life after such a bruising year for the global economy: a mixture of negative and slightly positive views combining to balance out in an overall expression of caution for the short term.

With the responses of Poland, however, and more upbeat cross-country forecasts on crucial issues for growth such as the availability of credit (for instance, Croatia and Czech Republic, on balance, show 58.6% and 67.7% of their professionals respectively still believe credit is available), the index paints a broader picture of some signs of optimism to temper this caution.

This could mean that companies approach the next financial period by regrouping and assessing the damage caused by the recession. This may trigger proactive business activity such as renewed M&A interest - for example, companies disposing of their non-core activities, withdrawing from countries or cutting product lines in order to reduce their debt levels and therefore starting to generate M&A activity again.

Overall, the Deloitte Business Sentiment Index amounted to 97 in this first edition (with the index scale being 0 to 200). We will use this as a benchmark figure for future waves of the index (with the next edition due in December 2009) in order to build up a bank of sentiment figures for comparison and analysis. The value 97 has been calculated as a result of the relative impact of the overly positive sentiment of business leaders from Poland (with their positive responses pulling the index upwards) balanced out by companies from Croatia and Czech Republic (whose predominantly negative responses pulled the index downwards), and with the three other countries polled in the index scoring around the mid-point.

Our findings show significant differences in outlook between the countries surveyed, which underlines the importance of a country-by-country approach to recovery and a reminder that complacency has no place in the markets of the region.

Overall highlights

The survey findings show interesting differences in individual country outlooks.

Economy prospects

In total, over 40% of those surveyed feel that the general prospects of the economy will deteriorate over the next six months, with just over a quarter (26.8%) believing that it will improve.

- The worst expectations are in Croatia, Czech Republic and Slovakia, whereas over half of professionals from Poland (51.2%) believe the economy will improve.

Company prospects

In contrast, the professionals surveyed about the future financial prospects of their companies were more optimistic, with a positive result of 45.8% of respondents compared to a negative of 15.3% of those surveyed.

- The most positive feelings about financial prospects are in Poland (76.7%), Slovakia (56.7%) and Hungary (48.4%).

Credit availability

Almost two thirds of the total (57.9%) believed credit was available to them, with the best situations reported in Poland (72.1 % positive) and Czech Republic (67.7% positive).

Payment terms

Despite the natural concern that companies would take a long time to repay in times of recession, the majority of those surveyed did not feel there to be any danger of not being paid back by debtors. Only Croatia, compared to the other countries, reported significant delays in payment.

Sales revenue

Most of those surveyed were optimistic that sales revenues would increase (41.1% of the net total) over the next 12 months, compared to 4.2% thinking that they would reduce significantly.

Launching new products

Well over half (56.8%) were optimistic of launching new products or services in the next 12 months – although Czech Republic reported both positive and negative responses of 45.2% for the likelihood of new product launches.

Changes in workforce over next 12 months

Over half of respondents (52.1%) expect their workforce not to change in the following year, with the most confident of stability in the workforce being Poland (60.5% of those surveyed in the country). The worst situation seems to be in Croatia and Czech Republic, the best in Hungary.

Spending on capital goods

Two fifths (40.5%) of respondents expect their spending on capital goods to stay unchanged.

Likelihood of M&A activity

In all the countries company acquisitions are very unlikely, as 60% of responses were negative. The most pessimistic responses came from Slovakia (70% extremely unlikely of takeover activity), the most optimistic ones from Poland (7.7% likelihood).

Regulatory environment

Over three fifths (61%) of respondents believe that the regulatory environment will remain unchanged.

Special question: EU funds availability

A quarter (25.5%) of respondents believe EU grants are fairly or easily available, but twice as many (51.6%) felt the grants were fairly or very hard to obtain. The worst availability of EU grants seems to be in Romania and Slovakia.

Conclusions

Although the survey finds the majority of respondents are at best cautious, or (as seems to be more the case) very pessimistic about the state of the global and regional economy, there do seem to be the first signs that the recession is coming to an end in the Central Europe countries surveyed.

True, the general sentiment index is negative, but a large group of companies that view the situation for their own operations fairly optimistically. Hopefully, they will undertake positive actions to drive their companies forward, which will then influence the economy accordingly and stimulate investment demand, which will in turn speed up the growth rate of the GDP and economic recovery overall.

But we're not out of the woods yet. The effects of such an enormous crash are still being felt, and it is those economies which stretched themselves too thinly in times of plenty which are suffering accordingly as markets begin to rebalance. Employment levels will have to react accordingly to productivity slowdowns and job losses will be inevitable in many of the countries surveyed.

On a more positive note, compared to other economies, including "safer" bets such as the UK and US, CE enjoys a degree of comfort from the presence of the EU and its purse. Yes, some of the region's constituents, such as Croatia, are struggling, but with others such as Hungary stabilising at the point of low or no growth there is a case for believing that economies have no further left to fall and will therefore have to begin the steep climb towards recovery, no matter how slowly.

We wait with interest to see how CE regains its footing – and have every confidence that despite the predictions of market experts and the media it will maintain its status as a major player in the global financial markets.

And of course, there's the case of Poland – with consistently positive responses to the questions posed, Polish executives gave every indication that the country will emerge not just as the most important player in Central Europe but also as a significant force in the global markets.

If these predictions hold true, we should be looking toward positive integers emerging and not a sea of minus signs over the next few months (even if those plus signs are only followed by single digits). One of the lessons learnt from this global financial crisis should be that economies are more measured in their recovery plan and future strategies.



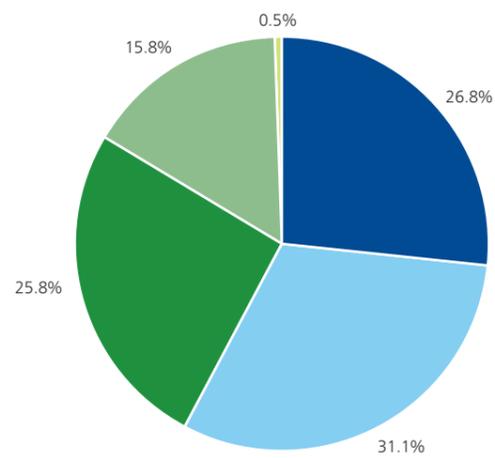
Key findings

Cautious optimism – but still some cause for concern

The findings which follow illustrate the range of opinions in the six countries surveyed.

Question 1: In 6 months' time, do you expect the general prospects of your country economy to have?

Figure 1: Percentage of opinions

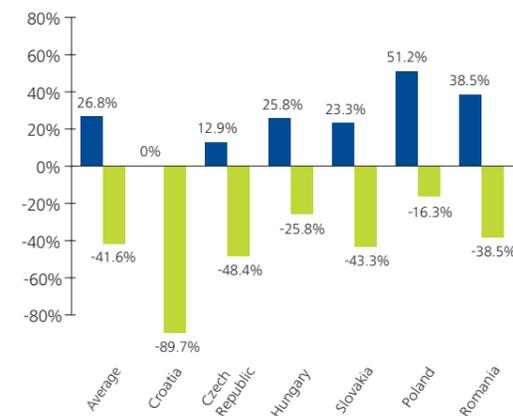


- Improved somewhat
- Stayed the same
- Deteriorated somewhat
- Deteriorated significantly
- Don't know

Question 1 Highlights

- The worst expectations are in Croatia, where 89.7% of the responses were negative.
- Czech Republic and Slovakia also have very pessimistic expectations.
- Responses from Poland, on the other hand, were very optimistic, with 51.2% expecting improvement.
- The overall expectations are that the country economies are going to either deteriorate or stay the same.
- Of additional interest is that no country believed their economy would "improve significantly".

Figure 2: Predictions on the economy by country (next 6 months)



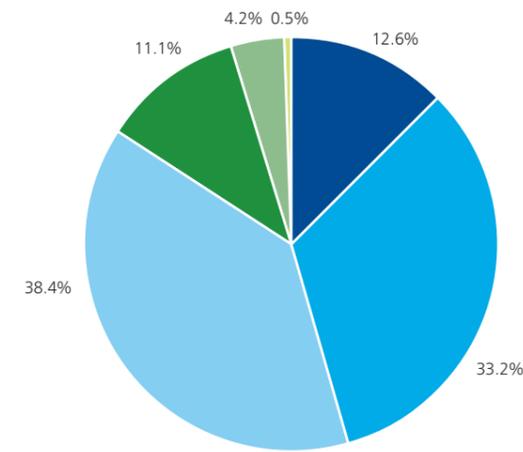
- Positive
- Negative

Many market experts and commentators believe the region is in serious trouble following the global crash, so it's therefore no surprise that the business leaders surveyed are rather negative about the state of the economy at the moment.

The Polish economy looks to be in the best position compared to the other countries surveyed and this is supported by the results of the survey, which found Poland's top managers the most optimistic about the general economic environment.

Question 2: Generally speaking, how do you feel about the financial prospects for your company now? Are your feelings...

Figure 3: Percentage of opinions



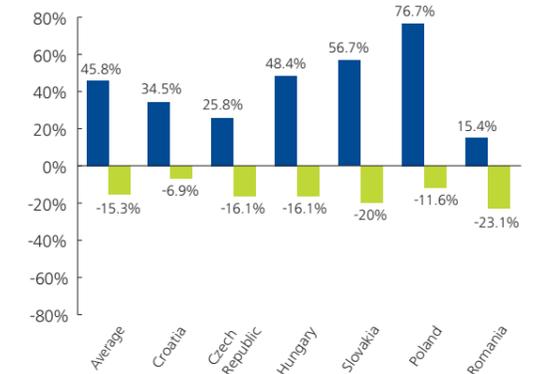
- Definitely positive
- Fairly positive
- Balanced mixed
- Fairly negative
- Definitely negative
- Don't know

Question 2 Highlights

- The most positive feelings about financial prospects are in Poland (76.7%), Slovakia (56.7%) and Hungary (48.4%).
- As for the industries, the best results are in Energy and Resources with 61.3% of positive answers.

The majority of professionals surveyed were optimistic about the financial prospects of their company, with the most bullish those in Poland and the most pessimistic those in Romania. Such a disparity may be due to continued strong consumer demand in Poland, which has helped to sustain the positive growth rate despite the global recession. However, in Romania, consumer expenditure fell by over 12%, one of the largest declines in the EU.

Figure 4: Current financial prospects for company



- Positive
- Negative

It is quite common for companies to be much more optimistic about their own operations than about the general economic environment. Despite the outwardly cheerful outlook of many of the top managers about their company's prospects, many industrial companies in CE actually saw year-on-year sales down 25-40% by the end of Q1 2009. The collapse has moderated but now many companies are reporting flat sales at this bottom level.

Question 3: How do you rate the present availability of credit for your company?

Figure 5: Percentage of opinions

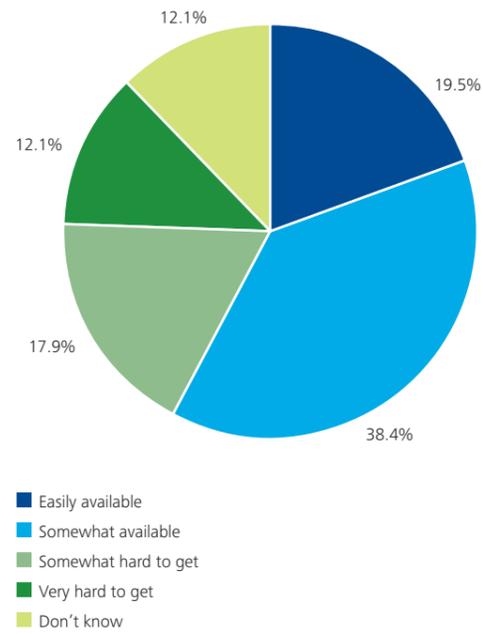
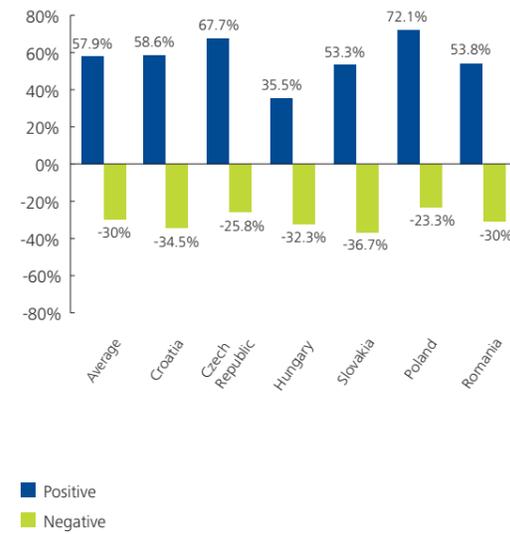
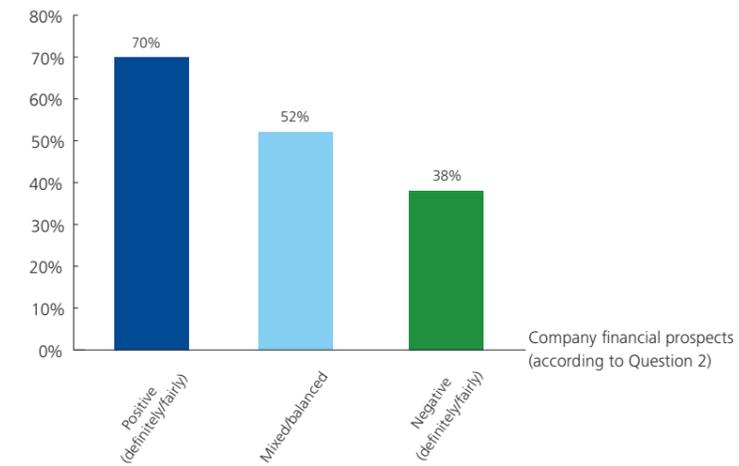


Figure 6: Current availability of credit



Bank credit availability is highlighted in three groups according to company financial prospects

Figure 7: Bank credit availability



Question 3 Highlights

- Overall, credit is quite easily available in all countries and industries, as 57.9% of responses are positive.
- The best situation is in Poland (72.1% positive) and Czech Republic (67.7% positive).

Many companies state that credit is available or they are able to finance investment from their own profits which they have built up in past years. This is an

important point – many companies worldwide faced this crisis with a good cash/profit position so they had layers of fat to eat into. Of course, there is a limit to how long that “fat” will last.

The results of the survey bear out this mainly upbeat outlook: companies are, on the whole, pleased with the present availability of credit. Although in Hungary there is a little uncertainty about credit, in Poland it remains easily available.

To explore these findings further, we looked at the responses based on joint consideration/correlation of many variables. On one such analysis, we found credit availability is generally higher among companies with positive financial prospects (70% of them declare credit is “easily” or “somewhat” available).

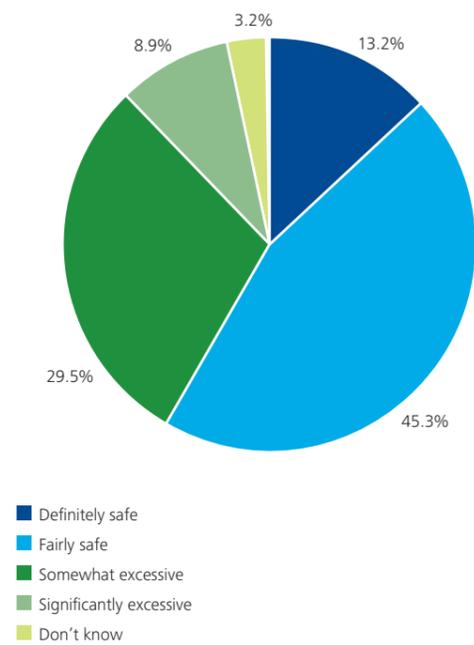
Most probably these good financial prospects result in a better position regarding banks’ expectations related to credit. However, from the banks’ point of view, they always have to give credit as this is their main source of business, even during the crisis

(safe treasury bonds would not cover total possible demand from banks), and credit to large companies in good shape is among the safest lending (relative to credit to small companies, and non-mortgage covered loans to consumers).

This correlation between credit availability and financial prospects is most evident in Poland, Slovakia and Croatia, which may suggest bank credit policies in these countries are slightly more related to companies’ actual financial prospects.

Question 4: Looking in general at your company's debtors and outstanding dues – how would you evaluate the time they are currently taking to pay? Is the average number of days of payment...

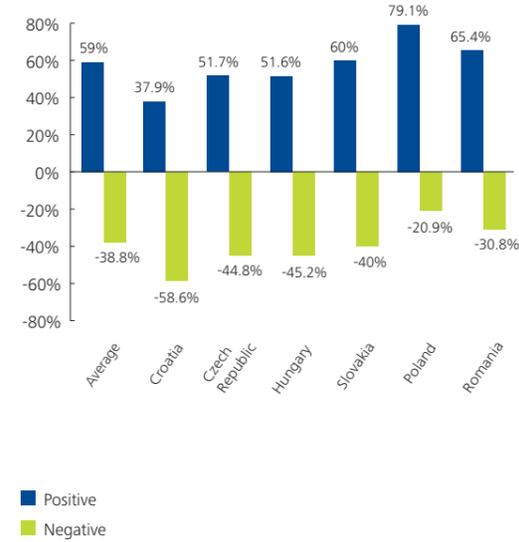
Figure 8: Percentage of opinions



Question 4 Highlights

- Countries where there don't seem to be significant delays in paying include Poland with 79.1% of positive answers and Romania with 65.4% of positive answers.
- The country with most significant delays in payments is Croatia.
- The industry sector with the fewest problems is Energy and Resources.

Figure 9: Accounts receivable: Payment by debtors

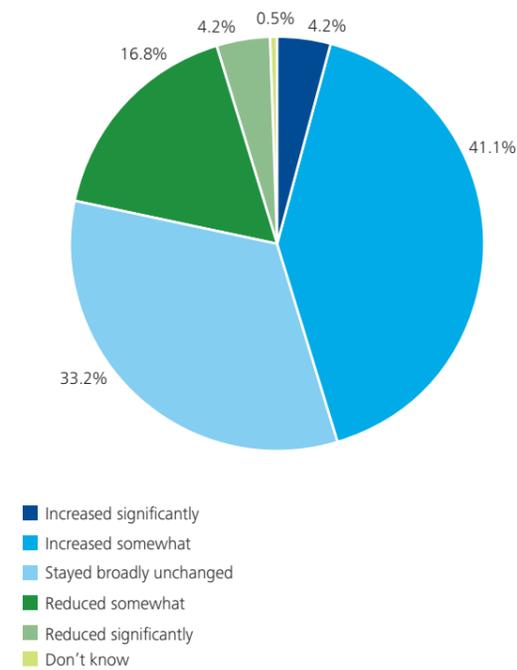


Deloitte found that in Poland it takes usually more than three months to recover liabilities from debtors – in the case of larger companies the period is a bit shorter but generally not shorter than two months. Fortunately this doesn't seem to be causing problems, as almost 80% of companies in Poland indicated that retrieving liabilities is good.

The worst situation concerning liabilities is in Croatia, where consumer expenditure fell very significantly in the last year, demand for exports is expected to continue to fall, and foreign investments are expected to be significantly reduced.

Question 5: In 12 months' time do you expect your revenue from sales to have...

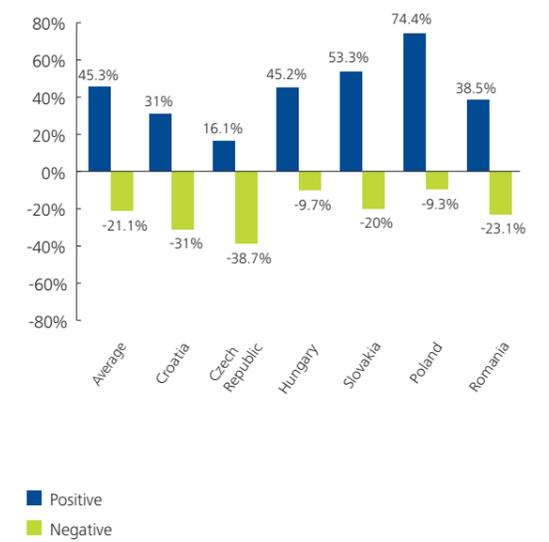
Figure 10: Percentage of opinions



Question 5 Highlights

- Only 21% of respondents expect their revenues to reduce.
- The only pessimistic country is Czech Republic, where only 16.1% of responses were positive.
- Poland is the most optimistic country, as 74.4% expect their revenues to increase and only 9.3% to decrease.

Figure 11: Revenue from sales (12 month outlook)



Companies around the world are waiting for the end of summer to gauge what happens to their sales in September and the fourth quarter of 2009. Happily, the survey found that revenue from sales is generally expected to return to growth in the next 12 months in Central Europe. Poland and Slovakia have especially good expectations. In the former, this is probably due to the good general economic prospects, while in Slovakia, it is most likely due to the expected reverse of the downward trend in exports, which is the engine of its economy.

Question 6: How do you feel about prospects for launching new products or services by your company over the next 12 months?

Figure 12: Percentage of opinions

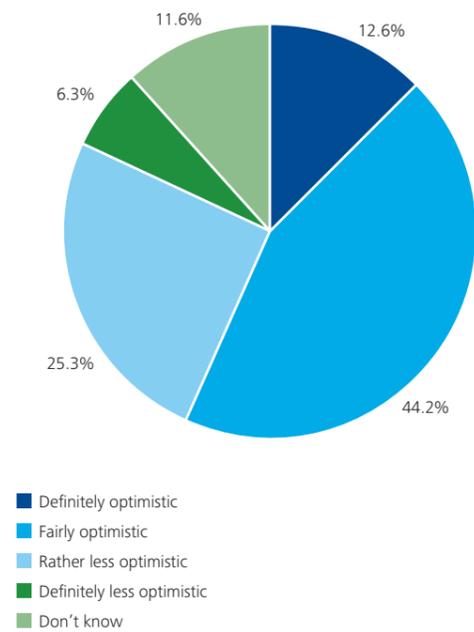
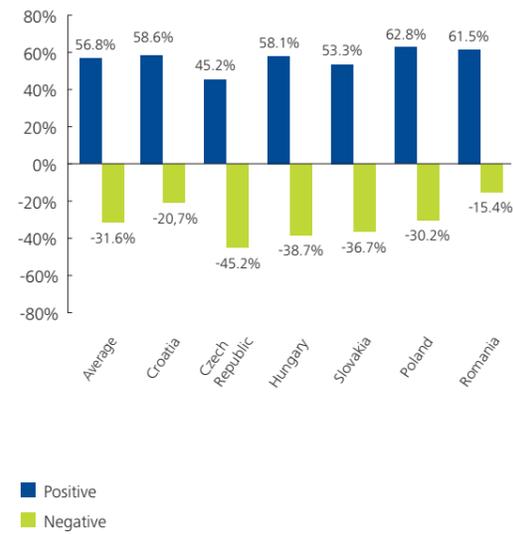


Figure 13: Prospect for launching new products/services (next 12 months)



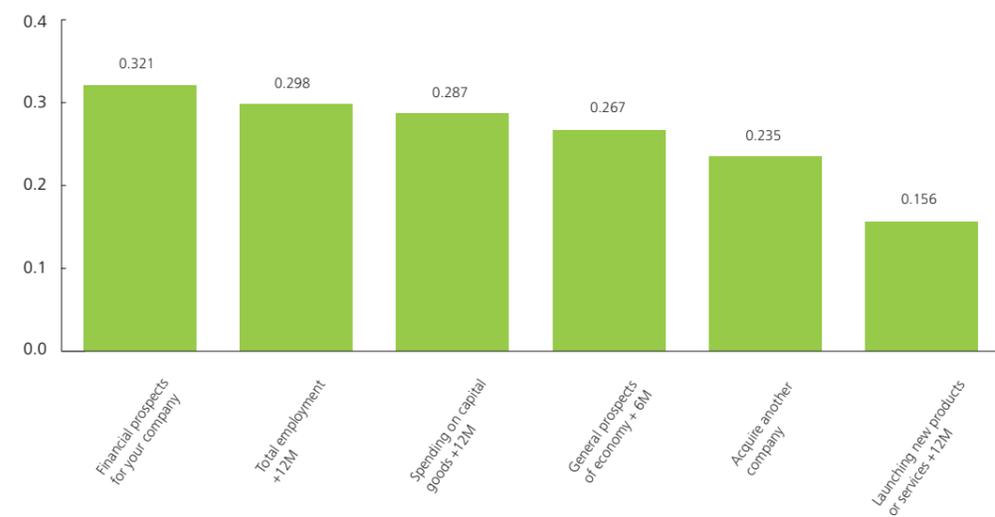
Question 6 Highlights

- In all industries and countries respondents are fairly optimistic about the prospects for launching new products.
- The only exception is Czech Republic, where both positive and negative responses are at 45.2%.

The climate for introducing new products should be a leading indicator of renewed economic activity. According to the results, the majority of respondents viewed the climate for introducing new products fairly optimistically. The best opinions were in Romania and Croatia. These two countries, however, have the largest "product gap" in the EU. In Romania it is due to the relatively low level of GDP, while in Croatia there is still a need for new products as it has a relatively young market economy.

Q5 vs. Q6 comparative: Do prospects for launching new products and services drive prospects for sales increase? What are the variables that correlate with sales prospects?

Figure 14: Correlation coefficient between sales expectations and other variables



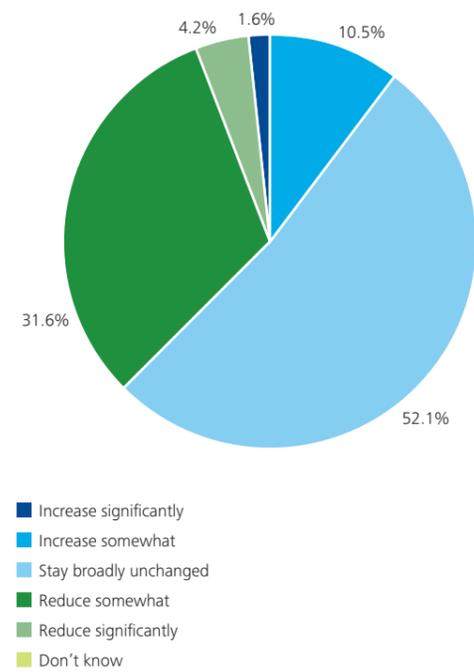
Optimism about launching new products and services proved to be related to expectations about sales. This last variable was, however, correlated to an even higher extent with other variables (in fact, this variable is correlated with most of the other variables, which is understandable, as the revenue from sales is the ultimate goal of business activity).

The two top variables, company financial prospects and total employment are not directly stimulating sales in 2010.

It is possible also to look for more than one variable that are jointly related to target variables (in this case: revenue from sales). Using this approach, it was found that in the largest share of companies, increased sentiment for sales (over 12 months) is among businesses that BOTH feel good about current financial prospect AND are optimistic about new product/services launch. In this group, as many as three quarters of companies feel optimistic about sales (compared to only 45% of the total sample).

Question 7: How do you expect your firm's total workforce to change in size over the next 12 months? Will it...

Figure 15: Percentage of opinions

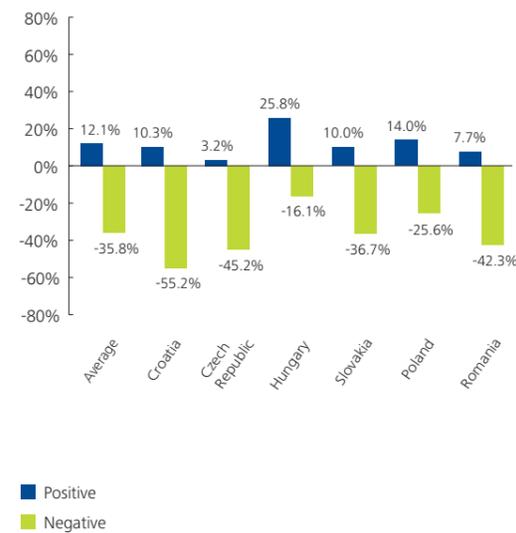


Question 7 Highlights

- 52.1% of respondents don't expect their workforce to change in the following year.
- However, over one third (35.8%) expect their workforce to reduce over the next 12 months.
- 12.1% expect to hire new employees.
- The worst outlook seems to be in Croatia and Czech Republic, the best in Hungary.

Every company is looking at their headcount as they try to cut costs. So far, headcount reduction has not been excessive among companies in CE, with up to half of those surveyed not making cuts or at least deep ones. The survey found that employment in large companies is expected to stay unchanged or decline.

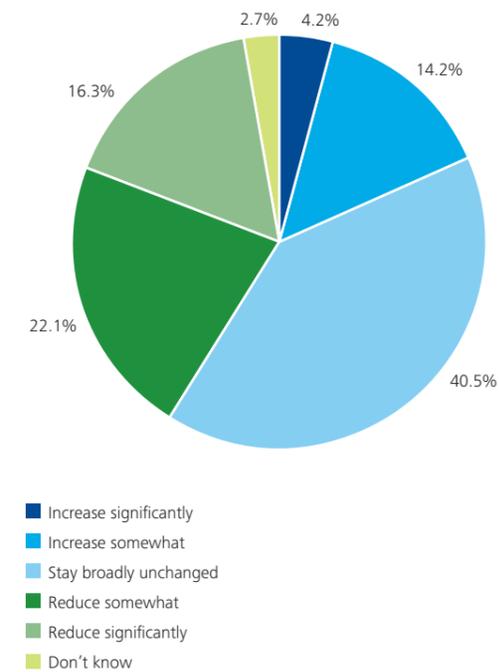
Figure 16: Views on workforce size



The most significant drop in employment is expected among the largest companies in Croatia, Czech Republic and Slovakia. In these countries, unemployment was relatively low in reaction to the crisis, but the negative responses reflect the fact that their employment levels will have to adapt to the present volume of production – which is now much lower. Hungary, where over 10% of the labour force is currently unemployed, is the only country among those surveyed where further lay-offs are not expected.

Question 8: Compared with the last 12 months, how do you expect your firm's spending on capital goods (equipment, IT systems, new buildings) to change during the next 12 months? Will it...

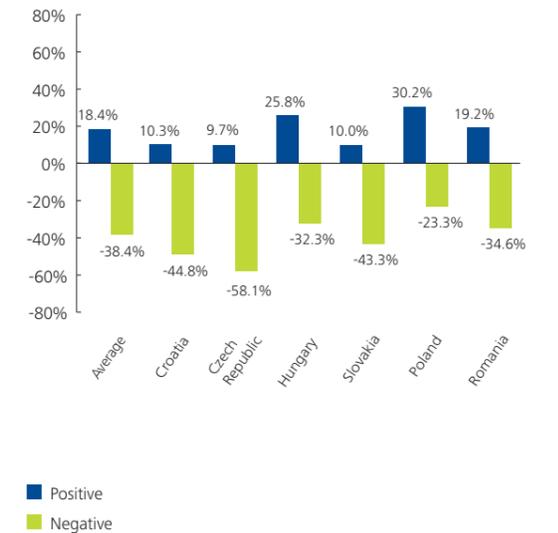
Figure 17: Percentage of opinions



Question 8 Highlights

- Reductions are mostly expected in Czech Republic (60%), Slovakia (43.3%) and Croatia (44.8%).
- Poland is the only country where there is more respondents expecting an increase of spending compared with those expecting a decrease.

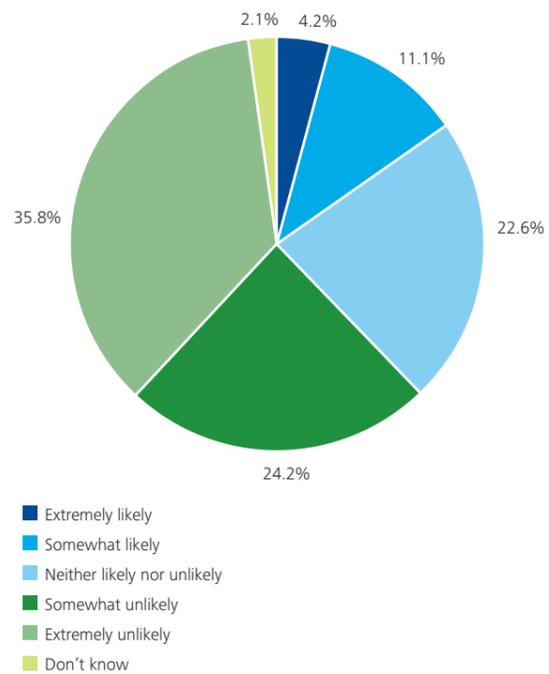
Figure 18: Firms spending on capital goods (12 month outlook)



Investment demand is a very important indicator of economic sentiments, but only in Poland are senior managers optimistic about investment perspectives for the forthcoming year. Poland, however, is an exception, as it is buoyed by strong consumer demand, which is a driving force of the economy. In other countries, companies are in a much more difficult position, because they cannot rely on strong demand from the consumer sector. Slovak and Czech business leaders report the worst situation. These economies rely strongly on exports and at the moment (taking into account the current very weak external demand) they seem to have over-invested.

Question 9: Would you say that a decision by your company to acquire another company over the next 12 months is...?

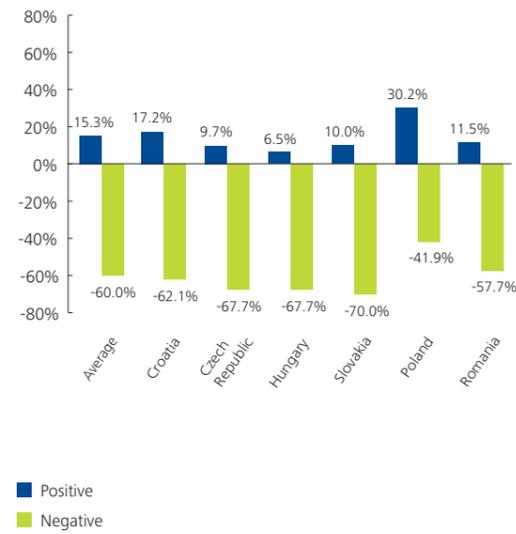
Figure 19: Percentage of views



Question 9 Highlights

- In all the countries company acquisitions are very unlikely, as 60% of responses were negative.
- The most pessimistic responses came from Slovakia, the most optimistic ones from Poland.

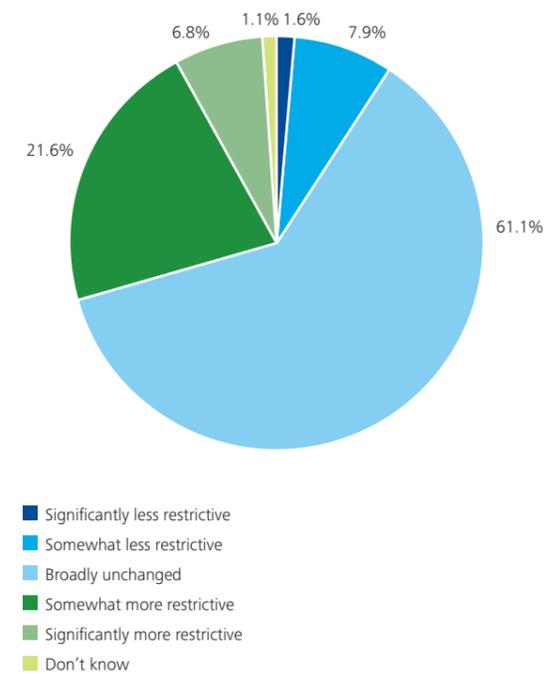
Figure 20: Asset Acquisition (12 month outlook)



Although a crisis gives a very good opportunity to acquire new companies, respondents report that it is rather unlikely that they will make any takeovers in the next 12 months. The only country indicating the possibility of company takeovers is Poland, which of all the countries surveyed, is in the strongest economic position. In all of the other countries, which have suffered significantly from the crisis and where the companies are struggling for survival, the probability of any takeovers in the immediate future is very small.

Question 10: Do you generally expect the regulatory environment for your company in your country in 12 months' time to be...?

Figure 21: Percentage of views

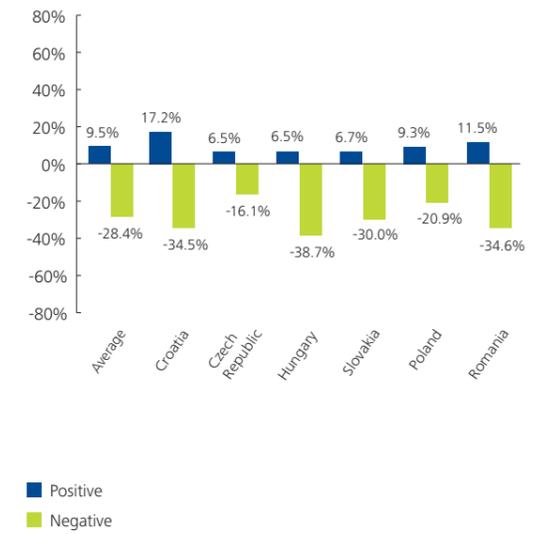


Question 10 Highlights

- 28.4% believe regulation will become more restrictive in the next 12 months.
- 61.1% of respondents believe that the regulatory environment will stay unchanged.
- The country with the most negative outlook for any changes in regulation is in Hungary, where 38.7% of respondents expect the regulatory environment to become more restrictive.

Almost 90% of those surveyed are pessimistic about any regulatory changes or easing of regulatory practices.

Figure 22: Regulatory environment (12 month outlook)



Following the series of 10 questions, we asked participants from the Eurozone one final question. For future surveys this "additional question" will be on an issue of particular topical interest.

Additional Question: How do you evaluate the present availability of new EU grants for your company? Are they...

Figure 23: Percentage of views

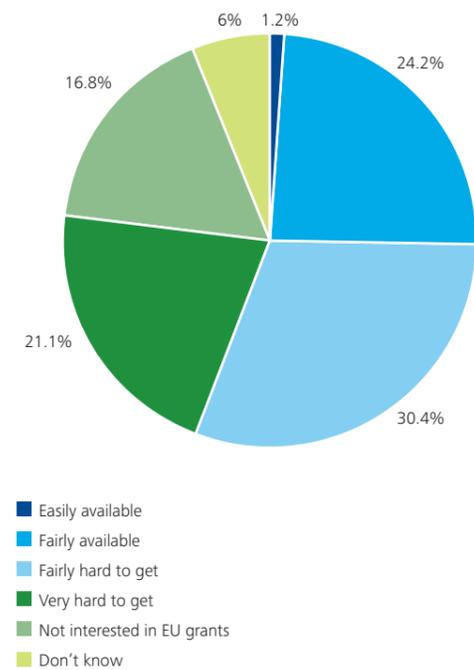
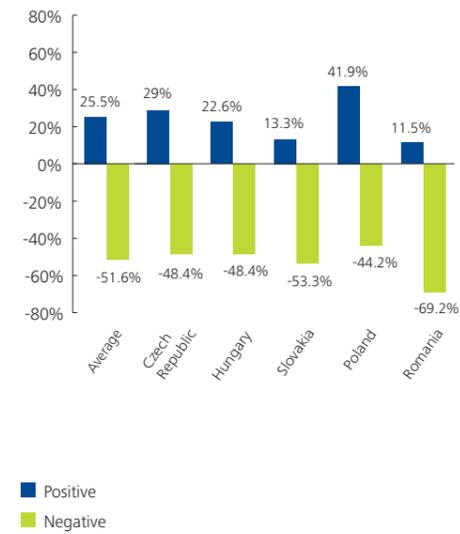


Figure 24: Availability of EU grants



Additional Question Highlights

- 25.6% of respondents feel EU grants are either fairly or easily available, but twice as many (51.9%) believe they are fairly or very hard to obtain.
- The worst availability of EU grants seems to be in Romania and Slovakia.
- This question does not apply to Croatia as it is not yet a member of the EU.

Multilateral funds and credits to CE will rise substantially in 2009-10 and EU funding will continue to play an important role in contributing to infrastructure development and expansion in the region's municipal authorities. EU funding is an important positive distinction for CE, as many other regions do not have a similar funding body (e.g. Asia, Latin America, etc.).

Around half (51.9%) of those surveyed felt EU funds are hard to attain – with 16.9% not interested at all in EU grants. Almost a quarter (24.4%) felt they were relatively easy to obtain.



Appendix: Our approach

Methodology – At a glance



- A series of telephone interviews were conducted.
- We interviewed either CEOs and/or CFOs professionals.
- Sample size: N=190.
- Fieldwork administration: July 23rd - August 10th, 2009.
- Data collection method: Telephone interviews (95% of the sample).
- Languages of data collection: local/English.

The results are based on a quantitative survey of the Directors (CXO level) of 190 companies from Poland, Hungary, Croatia, Czech Republic, Romania and Slovakia. We invited the sample drawn among the 200 largest companies in each country.

The research tool consisted of 10 single choice questions about the current situation or their expectations about the future. The sample represents a good balance of region's largest companies with respect to industry, source of capital (44% local vs 56% foreign capital), turnover and the job role of the respondent (37% CEOs, 44% CFOs and 19% other members of the board). Regarding the legal status, 65% are stock companies (of which fewer than 20% are listed on the local stock exchange).

Respondents were drawn from the following sectors:

- Automotive
- Banking
- Technology
- Media and Telecommunications
- Consumer Business
- Insurance
- Construction
- Energy and Resources.

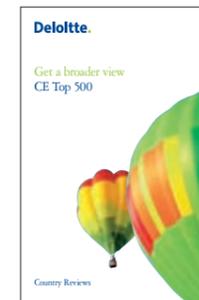
Additional resources



Deloitte CE Top 500 report

The Deloitte Central Europe (CE) Top 500 report ranks the 500 largest companies in the region and draws on the knowledge and insights of Deloitte's professionals along with renowned economists and academics to provide a valuable regional commentary on current business and industry trends. The report makes a special focus on seven industry sectors and provides analysis of the dramatically differing corporate results seen between Q1 2008 and Q1 2009. Overall, it provides an in-depth and wide-ranging insight of the latest Central European developments and is an essential tool for understanding the wider dynamics at play across the region.

For more information go to www.deloitte.com/cetop500



CE Top 500 Country-by-Country report

This report, covers 18 states across Central Europe is a vital component of the Deloitte CE Top 500 programme. The report gives the reader a rapid executive overview of the main political, social and economic forces at play in each country and also gives a commentary on the current performance and future prospects of the region as a whole.

For more information go to www.deloitte.com/cetop500



Global Economic Outlook 3rd Quarter 2009

In past months, pundits worried about when the economy would bottom out, what policies would cause such an event to transpire, and whether government policymakers were up to the task. Today, the zeitgeist has shifted toward a discussion about the shape of the recovery.



Global powers of the consumer products industry 2009

Following on from last year's highly successful inaugural report, Global Consumer Business, Deloitte has produced a study ranking the world's 250 largest consumer products companies. Similar to last year, this report includes regional and product category break-downs, as well as an expanded Q-ratio section. However, this second edition of the report also includes a section on strategies for the changed economy that speaks to Deloitte's value proposition for the industry.

More information on our recent publications can be found at www.deloitte.com

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