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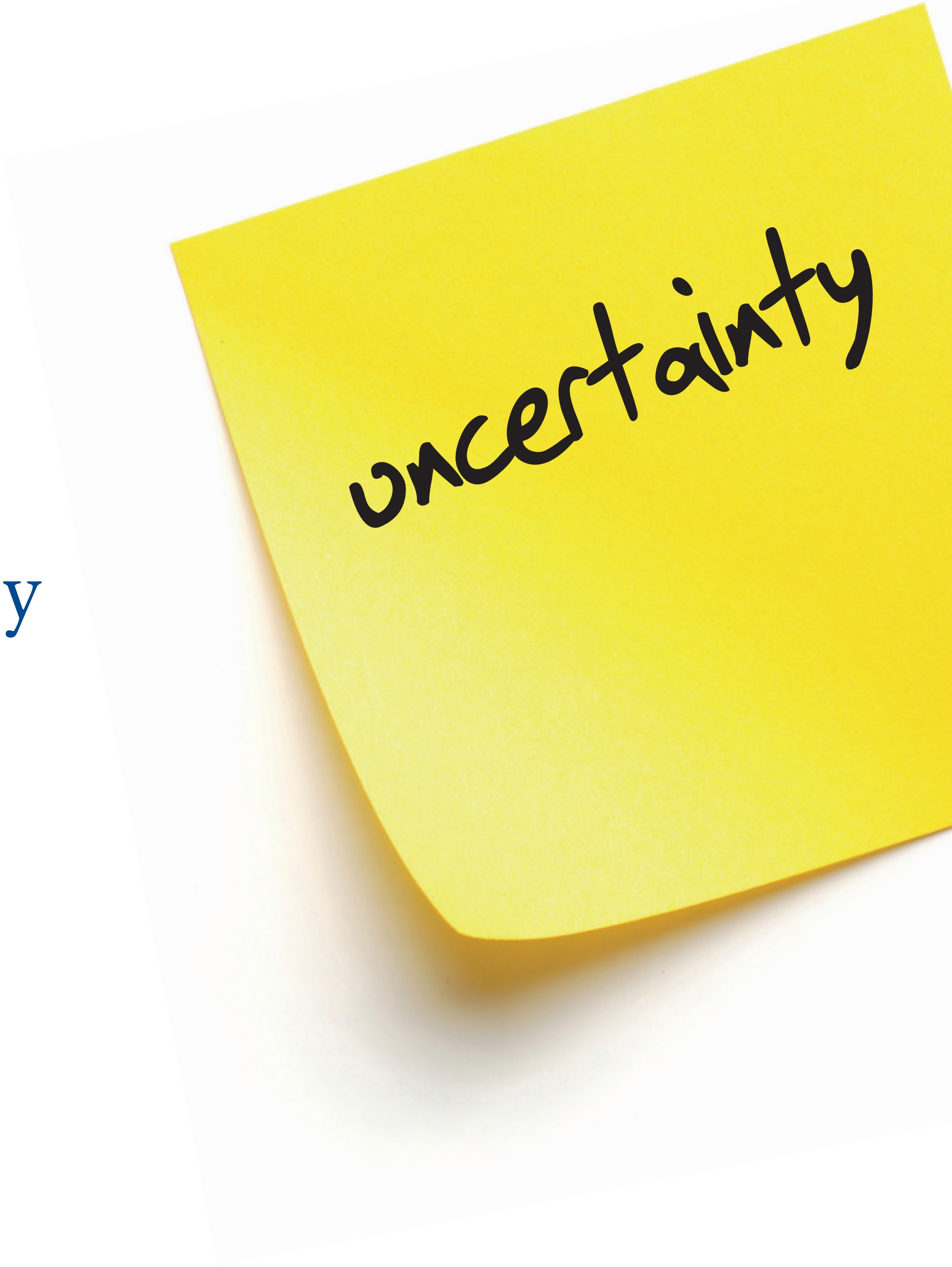


CFO Survey
Romania

3rd Edition, November 2012

Tighter credit and political "noise" will slow investment and corporate spending and could damage consumer confidence over the next two-to-five month period.

Companies also complain about and comment on down-trading, which makes Romania a good test case for introducing affordable innovation.

Foreword

Welcome to the third edition of the Deloitte CFO survey for Romania, which once again records CFO sentiment across a range of economic and business issues. It also sets our respondents' views within the context of their peer groups from Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Slovakia and Slovenia.

While there are several metrics in which sentiment has clearly improved since the last survey, the general tone of the findings is downbeat – close to one in five respondents is less optimistic now about their companies' financial prospects and most believe credit will continue to be hard to come by.

Similarly, on the economic front, a further rise in unemployment is expected, while the proportion of CFOs anticipating stagnant GDP growth (81%) is significantly up from last time. However, despite those looking for moderate growth falling from 21.4% to 14.3%, Romania remains a "star" of the region with a less negative outlook than many of its peers.

As analysts predict a return to +3% growth still being as far off as 2015, this is a fascinating moment for Romanian CFOs as they strive to ensure that their companies are well-placed to benefit. In that light, I hope you find this report a useful and interesting read.

Pieter Wessel
Partner
Deloitte Romania

Key trends and findings:

- Uncertainty grows amid few prospects of GDP recovery
- Companies focus on improving liquidity while driving increased revenues
- Cautious outlook underlies desire to reduce debt levels
- Appetite for bank-borrowing and raising equity falls
- Support for business restructuring grows

Prospects "bleak" for Romanian companies

Romania's macroeconomic prospects are being strongly affected by developments in the eurozone. The overall outlook of participating CFOs is fairly bleak, rating the country's economic and financial uncertainty as predominantly high (48%) and above normal (24%).

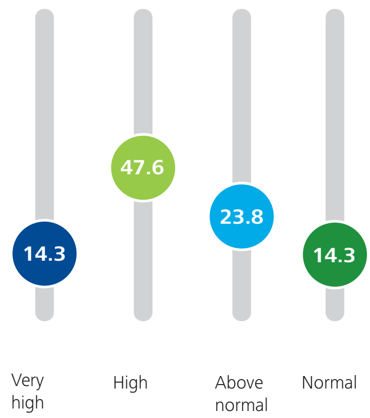
Notably, almost a third of Romanian respondents operate in the Consumer Business sector, which connects them directly to the sentiments felt by local buyers of goods and services. Another third works in Business Services, meaning they echo the feelings of the B2B segment, which is also challenged by liquidity problems and pressure on the bottom line.

Political tensions and risks related to economic growth and the banking sector continue to dampen Romania's economic recovery. On the upside, Romania seems to be committed to the continued implementation of economic reforms under the two-year IMF standby facility (USD 4.8bn) agreed in March 2011.

In its latest review, the IMF acknowledged the positive progress made in reducing the budget deficit but the steps ahead still include the privatisation of state enterprises and other major reforms targeting key areas such as Energy, Health and Transportation.

In response, Romania's CFOs see little prospect for GDP recovery: over 80% of respondents expect GDP to stagnate in 2012, maintaining the same level of confidence as in the previous survey.

Graph 1: Perceived general level of external financial and economic uncertainty



The CFOs' financial expectations for their companies also remain mainly unchanged from last time. But on a broader perspective, future investments in infrastructure, increased domestic demand and more EU funding may improve the business and macroeconomic outlook in the long term. CFO perceptions therefore show some slight improvement, with several companies expressing enhanced confidence: over a third of the survey respondents are optimistic or very optimistic about the financial prospects of their companies.

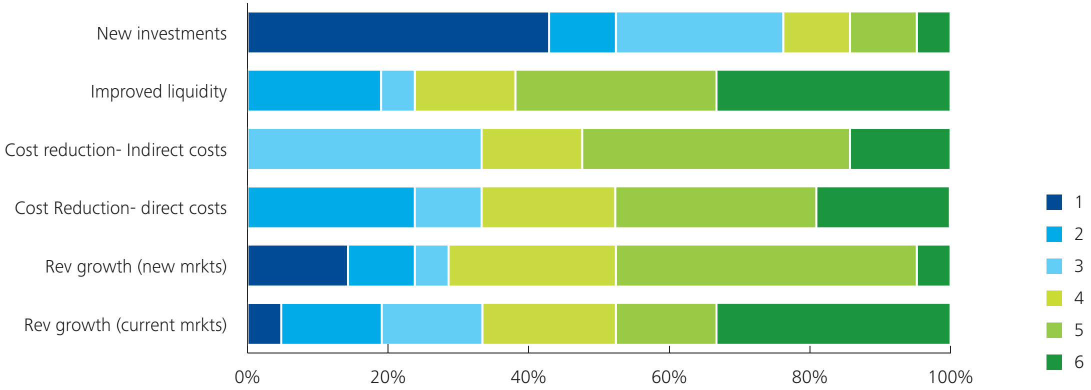
Graph 2: CFOs' expectations for Romanian GDP growth for the year ahead

Operating in uncertain times

CFOs remain largely risk averse and cautious for the moment. Most CFOs (86%) do not plan to take greater risk onto the company's balance sheet, indicating increased pessimism compared to the previous edition of the CFO survey. However, although the majority of respondents are maintaining the same cautious approach to risk as in previous months, 19% of them feel less optimistic about the financial prospects of their companies

The somewhat pessimistic trend is reflected by a similar attitude shown in foreign investors' approach to the Romanian economy. Statistics indicate that over the last six to eight months inflows of private capital as well as foreign direct investment (FDI) have been weak, while Western banks have not increased their exposure to Romanian subsidiaries. The appetite of foreign investors to buy RON-denominated bonds and securities has also been subdued and existing holdings have been sold off to quite a significant degree.

Graph 3: What is your company's business focus for the next 12 months?
(1-least important, 6-most important)



It would, however, be premature to presume a loss of interest by foreign players in the Romanian economy. The country remains "the star of the region" and is ranked as the sixth priority market in Central and Eastern Europe. In addition, FDI for Romania during the first nine months of this year totaled EUR 1.1 bn, up by 29% over the same period for 2011; this marks the first increase in foreign capital in Romania since 2008.

Tighter credit and political "noise" will slow investment and corporate spending and could damage consumer confidence over the next two-to-five month period.

The economic context combined with the deteriorating political risk over the summer led to a sharp plunge of the Romanian currency. The RON has tumbled to 4.5 against the Euro and most analysts expect some stabilisation around this level.

Romanian politics have been volatile for many years (if not decades). Without thorough political resolution, and with parliamentary elections due in December, there is growing concern that policy and reform will be grid-locked for the remainder of this year and into the opening months of 2013.

Where Romania's companies are focused

According to a recent report from the CEEMEA Business Group, Romania ranks top in the CEE region for problems with receivables, ahead of Hungary and Belarus. Unsurprisingly, for the next 12 months, companies are concentrating on improving liquidity and reducing costs (especially indirect ones). Despite general macroeconomic uncertainty, CFOs are still considering increasing company revenues, through both current and new markets and by looking out for new opportunities.

On the downside, new investments remain marginal, as respondents seek for the moment to secure their returns on existing investments and to minimise the financial risks they face.

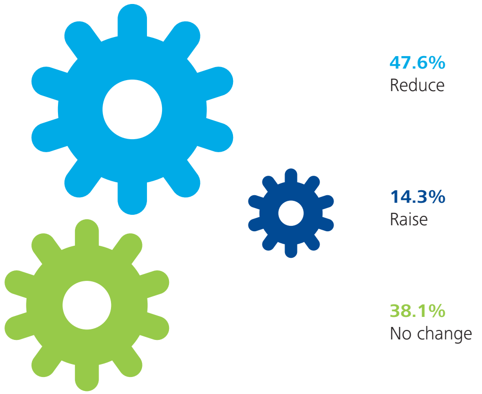
Companies also complain about and comment on down-trading, which makes Romania a good test case for introducing affordable innovation.

One quite worrying trend involves the prospects for export and trade growth; Romanian growth will inevitably come under sustained pressure given that some 72% of its exports head for the eurozone, where even stronger economies like Germany and France are beginning to show signs of weakness.

CFOs target lower gearing

While in the last survey no priority was given to changing gearing levels, CFOs have now shifted towards a more defensive position. This sees 48% of finance managers aiming to reduce their gearing levels in the next 12 months, while 38% are not planning to take action on this front. Although 2011 showed a somewhat increased level of optimism among Romanian executives, according to the Deloitte Business Sentiment Index launched last October, it seems that the way 2012 has evolved has not supported this approach.

Graph 4: CFO's plans for the level of gearing in the following 12 months



New credit looks hard to come by

Turning to credit availability, finance is perceived as limited and most CFOs see obstacles in the way of obtaining new credit.

Romania's exposure to foreign banks, together with a rise in non-performing loans, is contributing to an alert banking environment. While most CFOs expect financing costs to increase, the percentage of respondents with this opinion is substantially lower than in the previous survey, released this February (66.7 % versus 90%).

However, if credit tightens over coming months due to Western banks repatriating assets and demanding higher rates, consumer and corporate spending could be damaged.

Borrowing and equity finance appetites fall

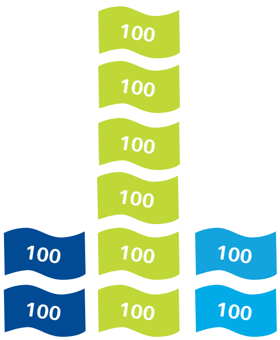
A lack of finance may constrain development and put a question mark over further sources of funding.

However, companies' appetite for bank borrowing continues to fall, with just 14.3% of CFOs indicating that it is an attractive funding alternative for the next 12 months, compared to over 17% in the previous edition.

On the other hand, fewer CFOs seem keen on raising equity as an option; only 23.8% of them identify it as an attractive source of funding, compared to almost half (46.7%) last time.

This perception might have a negative effect over the medium and long term, since a more developed stock market would also contribute to the further growth of domestic institutional investors across a range of funds, which would provide additional liquidity.

Graph 5: Currently bank borrowing as a source of funding is



14.3% Attractive

66.7% Neither attractive nor unattractive

19% Unattractive

Graph 6: Currently equity raising, as a source of funding is

23.8% Attractive

33.3% Neither attractive nor unattractive

42.9% Unattractive

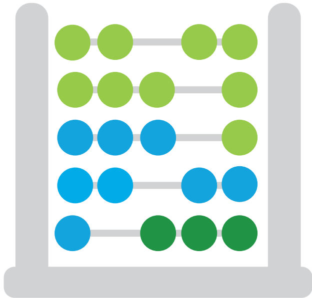
Improved ability to service debt

A significant percentage of respondents expect that their companies' ability to service debt will slightly improve or remain the same. Overall, general expectations are slightly more optimistic now, with a combined 47.6% of CFOs expecting an improvement (versus 40% in the previous survey, in February).

However, the everyday challenges they face and their own cautious approach are making some CFOs a little pessimistic, with 14.3% of them now expecting a slight decrease in their ability to service debt, compared to 13.3% at the beginning of the year.

In the context of macroeconomic uncertainty, the desire for an increased ability to service debt may be attributed to the cautious attitude of many Romanian companies.

Graph 7: CFOs' expectations about their ability to service their debt over the next 3 years



0% Increase a lot

47.6% Increase a little

38.1% Remain the same

14.3% Decrease a little

Slow growth is set to continue

The trend of Romanian GDP is downwards, as in other countries across continental Europe. According to CEEMEA Business Group, Romania, like nearly all other European markets, might see weaker growth this year (0.9%) than in 2011 (2.5%) while at 2.0% 2013 would still be slower-paced than 2011.

According to the National Institute of Statistics, Romanian GDP decreased by 0.6 pc in Q3 2011, compared to the similar interval of 2011, and by 0.5 pc against the previous quarter, so economic growth at nine months was limited to 0.2 pc, indicating a risk of stagnation, if not recession in 2012.

The majority of CFOs (81%) expects stagnation for the current year, as opposed to the 71.4% who expressed this view in the last survey. Similarly, the percentage of CFOs expecting moderate growth for 2012 has fallen from 21.4% to 14.3%. However, in this respect, Romanian finance managers remain some of the most optimistic in the region.

A special focus is currently targeting agriculture, as the contribution of agricultural production to overall GDP numbers is extremely important, especially given the recent wave of foreign investors interested in entering or expanding their businesses in this area.

Romania is one of the main world players in several crops, both in terms of the sector's output and the size of the area cultivated. As a result, many foreign investors are already tapping into the potential of Romanian agri-businesses.

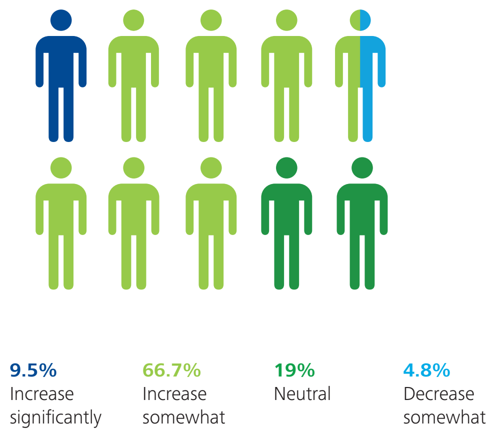
Given the current state of Romanian agriculture – highly fragmented, comprising small farms with little financial resources, experience, low yields and product quality – heavy investment is needed. This year's drought only made matters worse, as there is little hope of salvaging a major proportion of Romanian crops. Projects in this area are encouraged, as the Romanian Government and the EU both give subsidies for initial investments to establish a business.

More unemployment is expected

According to the CEEMEA Business Group, Romania ranks third in the region for companies planning staff cuts, after Hungary and the Czech Republic. It also rates No 6 for planning to increase headcount. The apparent discrepancy is easily explained by different business sectors performing better/ worse than others and with some companies at the extremes reporting either negative sales trends or double-digit growth.

The Deloitte-surveyed CFOs say they expect an increase in Romanian unemployment, with 9.5% believing it would increase significantly (a view nobody held in February).

Graph 8: Expected levels of unemployment in Romania over the next 12 months



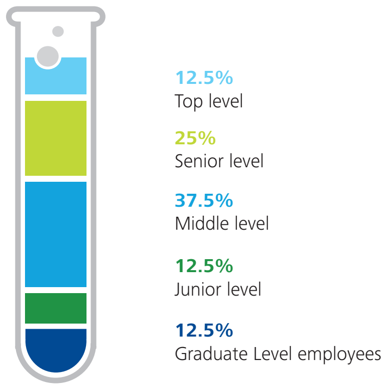
Worries for mid-level finance talent

In line with these labour market expectations, 57% of the CFOs expect talent shortages in the finance area, especially at middle and senior management levels (37.5% and 25% respectively).

Staying with talent, other challenging issues that the CFOs identify include sustaining engagement or morale as the most pressing one (picked by 27.1% of the respondents). Developing leaders and succession planning comes second with 16.9%, while creating career paths places third, with 13.6%. Overall, respondents depict a somewhat demotivated and limited finance workforce, currently more concerned by dealing with economic and business challenges through their day-to-day actions rather than putting things into perspective and implementing long-term strategies, both for their companies and their career paths.

Graph 9: CFOs' view if there will be talent shortages in the finance area over the next year

Graph 10: Area of expected significant shortages in talent in finance over the next year

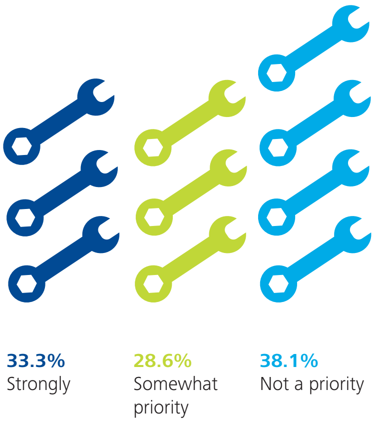


Remodel or play it safe?

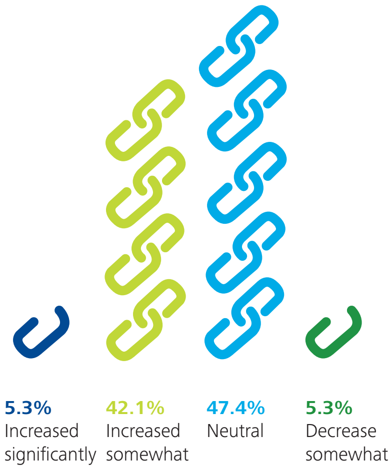
Restructuring may be a solution for some CFOs. Two opposing categories of companies were identified: "play-it-safers" (38%), which don't see business remodeling or restructuring as a priority, and those who make this the top priority on their business agenda (33%, twice the percentage reported six months ago).

CFOs' perception of the future M&A market is little changed, oscillating between neutral and positive expectations. Some privatisations of state-owned companies have been put on hold. In parallel, the state has launched a program to select and recruit private managers (CXOs) for strategic firms operating in public sector.

Graph 11: CFOs' attitudes towards restructuring and remodelling over the next 12 months



Graph 12: CFOs' expectations about the levels of M&A in their country



Central European comparative

This section of the report compares the expectations of the Chief Financial Officers from the eight Central European countries that participated in the survey (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovenia and Slovakia). It highlights the key differences between the views expressed in Romania and the other seven countries. It is based on answers of 362 CFOs from broad range of industries.

Central Europe's CFOs are markedly less optimistic than they were early in 2012 when Deloitte last surveyed their opinions. It is interesting to note that this increasingly pessimistic outlook among finance professionals, who mainly work in large corporate enterprises, matches that highlighted in the recent Deloitte survey of Private Equity practitioners, whose confidence is at the third lowest ebb of any time in the last decade.

There are several key factors to which this broad-based decline in optimism can be attributed – the continuing crisis in the key export markets of the eurozone, worries about recession in some CE countries and a slowdown in growth in others.

Whatever the reasons – and all these and more have a role to play – the results appears to be greater financial and economic uncertainty, reduced expectations of growth, expectations of higher unemployment and more.

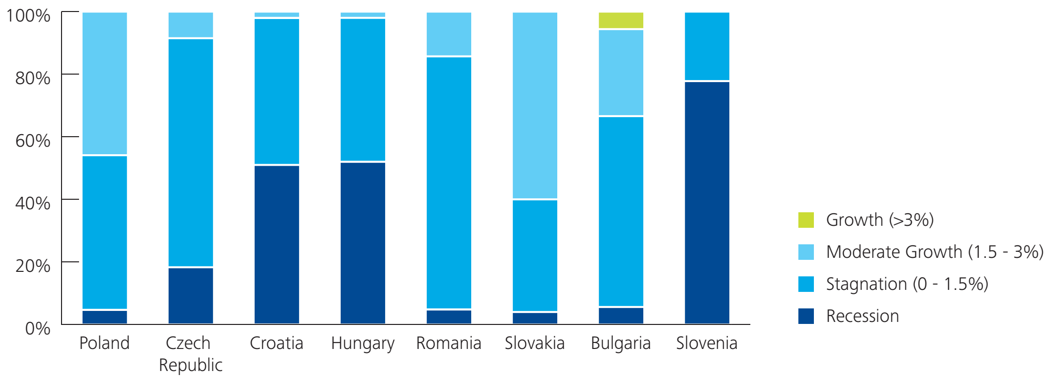
But no picture is exclusively black or white – for while Polish and Slovenian CFOs are the most pessimistic about the prospects for their own companies compared to 6 months ago, there are distinct signs of optimism among those in the Czech Republic, Croatia, Romania, Slovakia and, most particularly, Bulgaria where 67% of respondents believe their prospects are better than in early 2012.

CFOs’ expectations for their countries’ growth in GDP during 2013

While CFOs from the eight surveyed countries of the CE region have different expectations for their countries’ GDP growth, most of them are expecting a slowdown in economic activity for the year ahead. Whereas Slovenia, Croatia and Hungary are expecting a return to recession, Poland, the Czech Republic, Romania and Bulgaria are expecting 2013 to be a year of a minimal growth and stagnation (0 – 1.5% growth).

Slovenia is the most pessimistic of the countries in the region; after a slight recovery in the last year, its CFOs are expecting the situation to worsen, with almost 80% expecting recession in the year ahead. Export-driven Slovakia on the other hand is the most optimistic country, with 60% of its CFOs expecting moderate economic growth (1.5 – 3%).

Graph 13: CFOs expectations for the country economic GDP growth for the year 2013

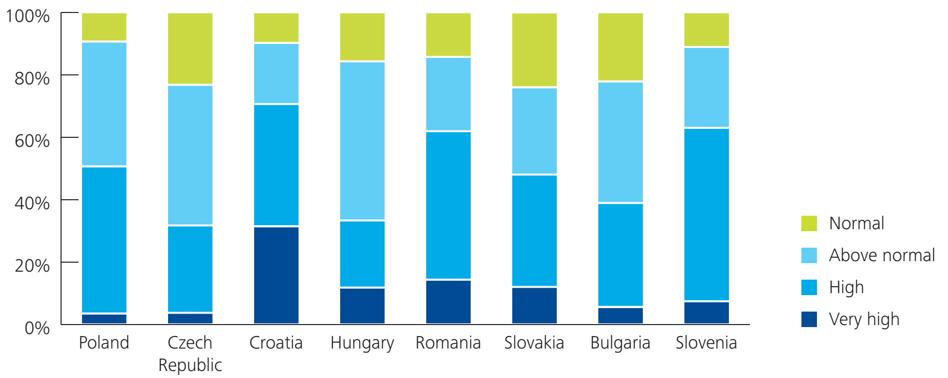


How CFOs rate the general level of external financial and economic uncertainty facing their businesses

CFOs in most countries expect to face high external financial and economic uncertainty. Similar to the last survey, Croatia and Romania (and now Slovenia as well) are the countries where "high" or "very high" levels make up the largest proportion of the poll, possibly reflecting a cautious attitude to the potential financial impacts of external economic conditions.

Croatia, in fact, is the most pessimistic of all six countries, with 31% of respondents expecting "very high" levels of financial and economic uncertainty – a significant increase from the 15% in the last survey. On the other hand (as in the last survey) the Czech Republic is the most optimistic country in the region in this respect, with 45% anticipating "above normal" and 23% "normal" levels of uncertainty.

Graph 14: General level of external financial and economic uncertainty



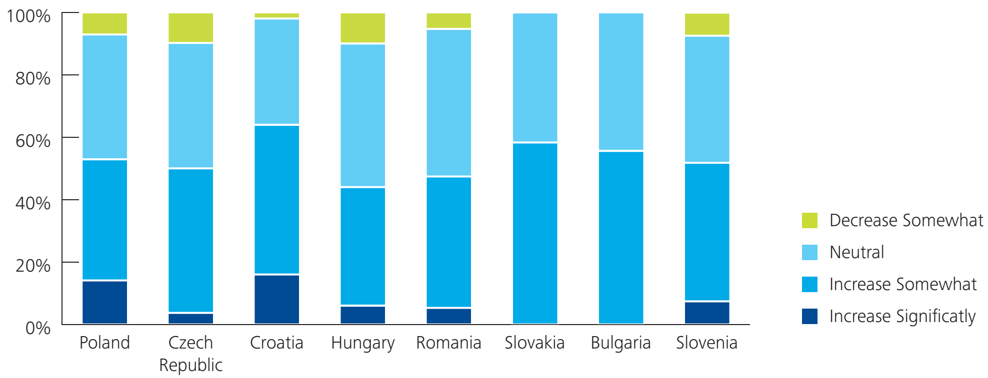
How CFOs expect levels of M&A to change in their countries over the next 12 months

CFOs in five out of the eight countries expect levels of M&A activity to increase during 2013.

However, this expectation may be due to the very low activity levels in CE M&A markets over the last year, meaning that even a slight hike would represent an increase from previous levels.

There has been a significant change in the sentiment of Croatian CFOs, who predicted the smallest increase in the last survey. This time 64 % of Croatian CFOs are anticipating an increase in M&A activity during the upcoming 12 months.

Graph 15: Expected levels of M&A over the next year



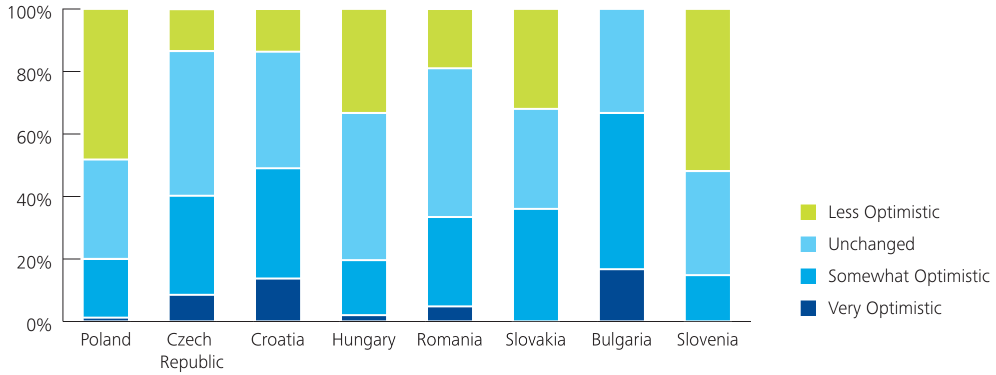
How CFOs feel about the financial prospects for their companies compared to six months ago

CFOs in five of the eight countries expect the financial prospects of their companies to remain unchanged from six months ago. This may reflect their expectation of economic stagnation and the above normal levels of economic and financial uncertainty that they feel. It is unsurprising that CFOs in Slovenia are the most pessimistic, given the deteriorating economic and financial environment in the country.

The majority of Slovene CFOs (52%) are currently "less optimistic" about their companies' prospects than they were six months ago.

The most optimistic CFOs are in Bulgaria, where 67% of respondents are more hopeful about their prospects than six months ago.

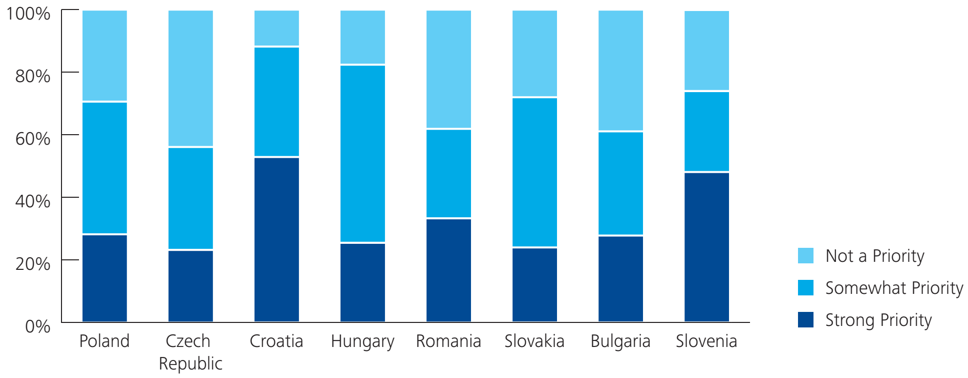
Graph 16: Views on the financial prospects



The extent to which CFOs see business remodeling or restructuring as a likely priority for their business over the next 12 months

When it comes to business remodeling and restructuring, it is difficult to find common ground in the findings identified across the region. Business remodeling seems to be high priority mainly for CFOs in Croatia (53%) and in Slovenia (48%), whereas only 23% of respondents from the Czech Republic see it as strong priority and 44% do not see it as priority at all.

Graph 17: Importance of business remodeling or restructuring over the next 12 months

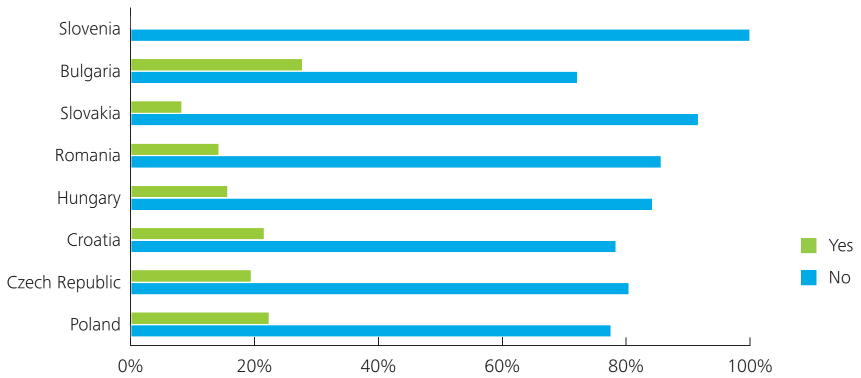


CFO views on whether this a good time to be taking greater risk onto their company balance sheets

For all the countries, this is not seen as a good time to be taking risks. Five out of eight score well over 80% in saying that now is not the moment to assume more risk on their balance sheets, demonstrating a shared sense of risk-aversion across the board.

Slovenia is the most risk-averse of the eight countries, with 100% of CFOs agreeing that this is a time above all for caution. This matches the Slovenian belief that their businesses face high economic and financial uncertainty. The most positive CFOs from any country are Bulgarian, but even here only 28% feel that now is an appropriate time to take more risk.

Graph 18: CFOs' view if now is a good time to be taking risk on company's balance sheets

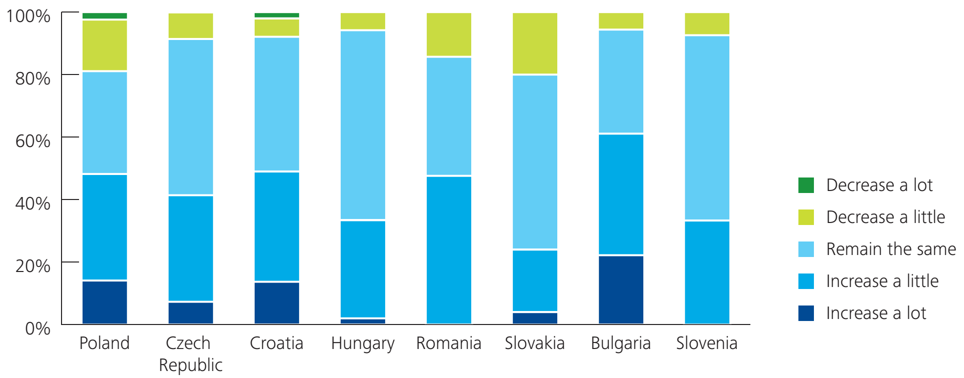


CFO expectations of their ability to service debt over the next three years

Five of the eight countries are in broad agreement in expecting that their ability to service debt will remain largely unchanged over the next three years.

Once again the exception is Bulgaria, where over 60% of our sample anticipate either a moderate or significant increase in their companies' ability to service debt.

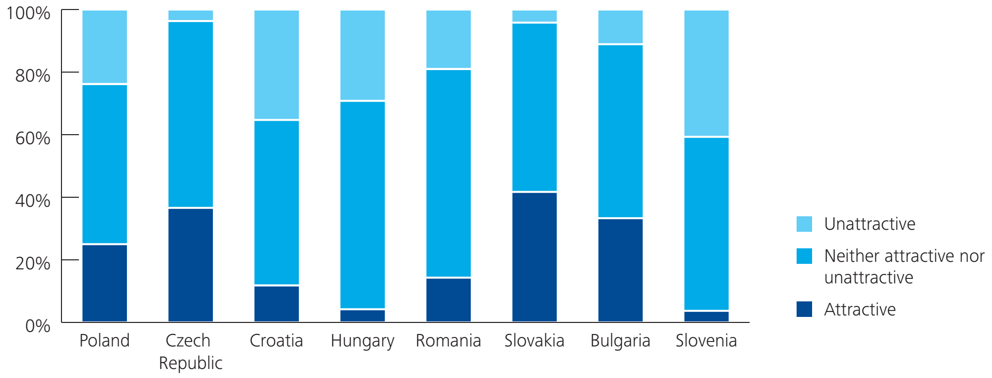
Graph 19: Expected ability to service their debt over the next 3 years



CFO attitudes to bank borrowing as a source of funding

Most respondents are neutral in their attitude to banking finance as a source of funding, with more than 50% of CFOs in each country viewing it neither attractive nor unattractive. As in the last survey, it is in Slovakia and the Czech Republic that CFOs have the most positive approach to bank financing (42% and 36% respectively). This can be explained by the traditional relationship banking model in their countries. The most negative attitude is in Slovenia, where around 41% find it unattractive.

Graph 20: Attractivity of bank borrowing as a source of funding

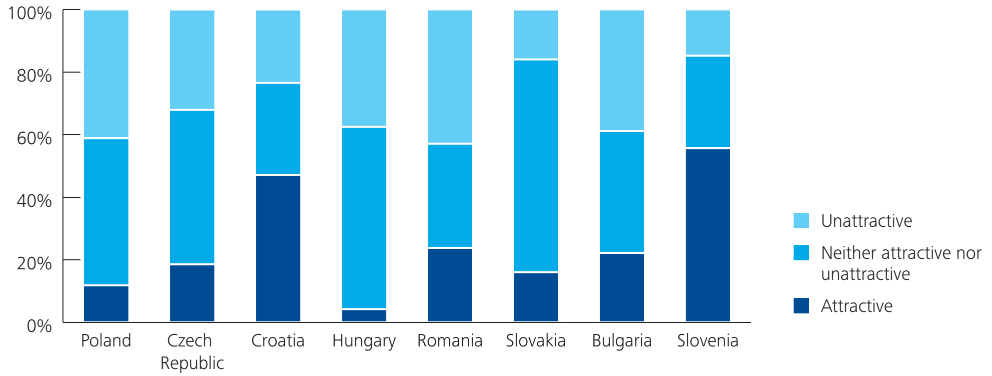


CFO attitudes to raising equity as a source of funding

Similarly to their attitudes to bank borrowing, most CFOs are also neutral regarding the use of equity as a source of funding. This may reflect the fact that for many this is not a good time to raise money, regardless of its source.

However, there are significant differences between the countries. CFOs in Slovenia and Croatia are the strongest supporters of raising funds through equity sales (56% and 47% respectively), while a high proportion of Romanian, Polish and Bulgarian CFOs see it as unattractive.

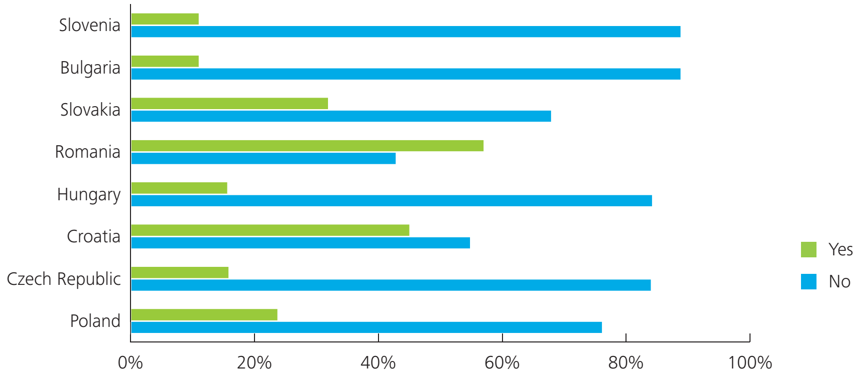
Graph 21: Attractivity of equity raising as a source of funding



CFO views on talent in finance

The great majority of the surveyed CFOs are not worried about a prospective lack of talent and do not expect talent shortages in the finance area in the upcoming year. The only exception is in Romania, where 57% of respondents expressed their concern about the issue. The shortages in Romania are expected mainly on the middle management level.

Graph 22: Expected talent shortage in the finance area



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Methodology

The 3rd CE CFO survey took place between 1st of September and the 1st of October 2012. A total of 362 CFOs across 8 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.