

Trends and priorities for 2018

Survey of Romanian
Chief Financial Officers



Foreword

Cezar Furtună

Partner
Head of Audit
KPMG in România



This first edition of the survey of Romanian Chief Financial Officers carried out by KPMG in Romania took place at the end of 2017. We aim to identify the current challenges of the Romanian business environment and to provide insight into Romanian CFOs' perspective on the contribution of the finance function to the growth of their companies.

As a key chief executive, the role of the Chief Financial Officer in organizations is crucial in the efficient management of finance and accounting, and capital management, corroborated with their well-defined role in business strategy and data analysis.

The four main issues considered important by Chief Financial Officers within their organizations were the following: maintaining profitability, the battle for talent, and efficiency improvement through automation and taxation.

The role of today's Chief Financial Officers is fundamentally changing. Their activity is not limited to checking figures, revenues and expenditures, since executive directors have higher expectations of the performance of Chief Financial Officers, such as a mix of analytical and operational competencies, cooperation with the other chief executives, diverse experience and proactive involvement in defining and execution of the organization's business strategy.

Operating companies in an increasingly complex environment is a challenge for Chief Financial Officers, who must stimulate innovation and take bold decisions about investments in technology.

We express our appreciation to all survey respondents for their time and interest.

We are here to discuss in depth the findings of this survey and to find together ways to help improve the performance of your organization's finance function.

Contents

4

▶ Main conclusions

5

▶ The economic environment

8

▶ Financial performance of the company

13

▶ Technology and innovation

20

▶ Taxation

25

▶ Methodology

Main conclusions



Optimism about the development of their industry and their own organization

— Chief Financial Officers are optimistic about the development of their industry and their own organization in 2018 compared to 2017.



Growth through intensive and extensive strategies

— A significant proportion of companies (63%) estimate a trend of revenue growth in the next 12 months.
— The most common targeted growth strategies are new product/service launches (29%) or expanding current production capacity (23%).



Four priorities for Chief Financial Officers: profitability, automation, taxation and the battle for talent

—Maintaining profitability (25%)

The main risk factors for increasing profitability are the increase in salary (59%), competition (54%) and the increase in the number of regulations (52%).

—Efficiency improvement through automation (22%)

For 68% of respondents, improving efficiency through automation is a priority on the 2018 agenda. 71% of respondents see obsolete technology as a hindrance to growth and profitability, and nearly 9 out of 10 Chief Financial Officers estimate higher technology costs. Approximately 63% of respondents have invested up to EUR 500,000 in technology, the rest reporting investments in technology that exceed this amount. The main areas targeted for investment in new technologies are the operational area, data management and security and customer experience.

—Tax developments (20%)

There is a lack of predictability in the tax system and the desire for greater stability in the medium and long term. More than half of the surveyed companies consider that tax legislation is arbitrarily interpreted and procedures are difficult to apply, while another 40% complain about lack of dialogue and unpredictability in relations with the tax administration.

There are a number of compliance risks for which companies are interested in an independent external review: tax risk, effectiveness of the internal control system of the financial reporting process, regulatory compliance, and benchmarking of key performance indicators.

—Battle for talent - an ongoing concern (16%)

Recruitment and retention of staff is a high priority in the opinion of 16% of respondents, while 66% of them consider it a priority on the 2018 agenda. Moreover, 40% of respondents estimate a major increase in salary costs over the next 3 years. The increase in salary costs is, in the opinion of 59% of the respondents, a major impediment to increasing the profitability of the organization over the next 3 years.

The economic environment

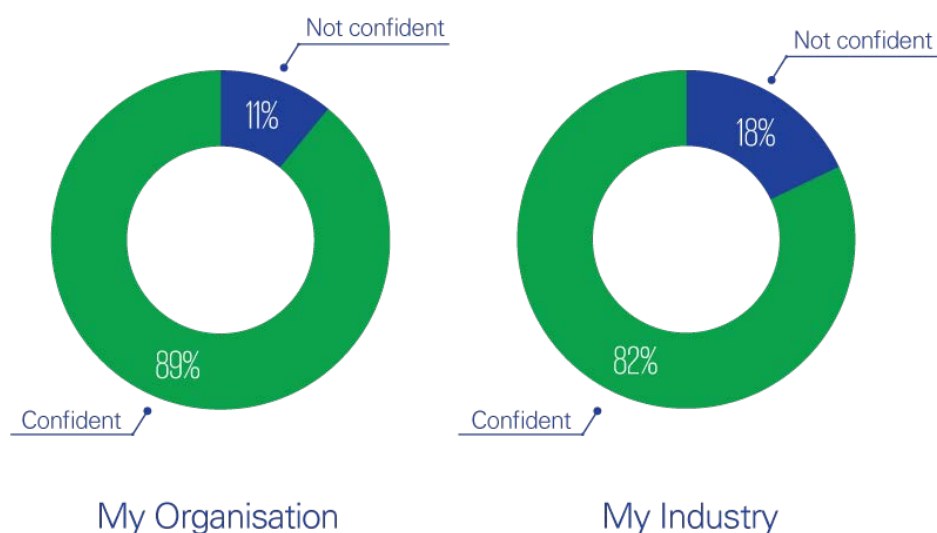
89 %

of respondents are confident about the prospects of their organization in 2018

The main objective of this survey was to identify the current challenges of the Romanian business environment and to provide insight into Romanian CFOs' perspective on the contribution of the finance function to the growth and development of their company. Therefore, the first questions asked were related to the economic environment. Thus we learned that

almost 82% of the sample believe that the industries they work in will perform better or similarly in 2018 compared to 2017 and 89% believe that their businesses will maintain at least their current level or will grow.

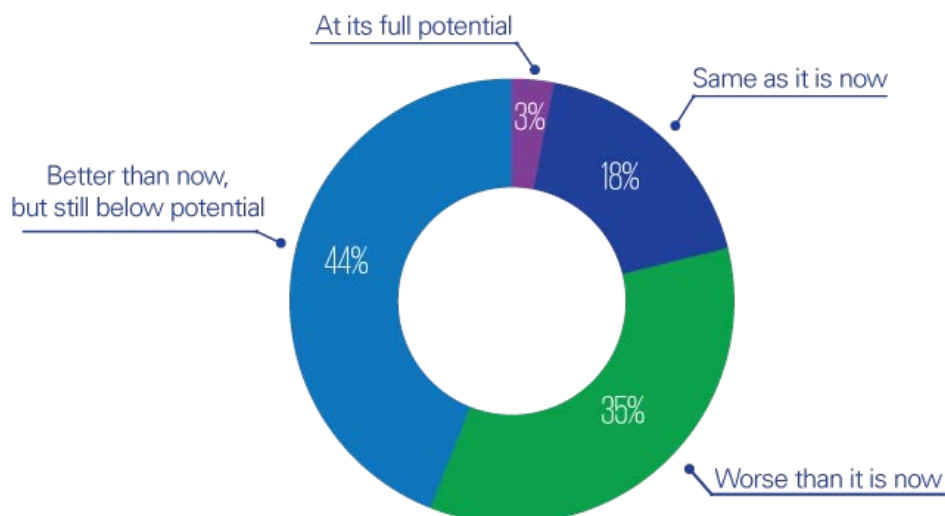
Chart no. 1 - Confidence level for 2018 as compared to 2017 in a positive development of the organization and industry



65%

of respondents believe that the Romanian economy will not deteriorate significantly in the next 2-3 years

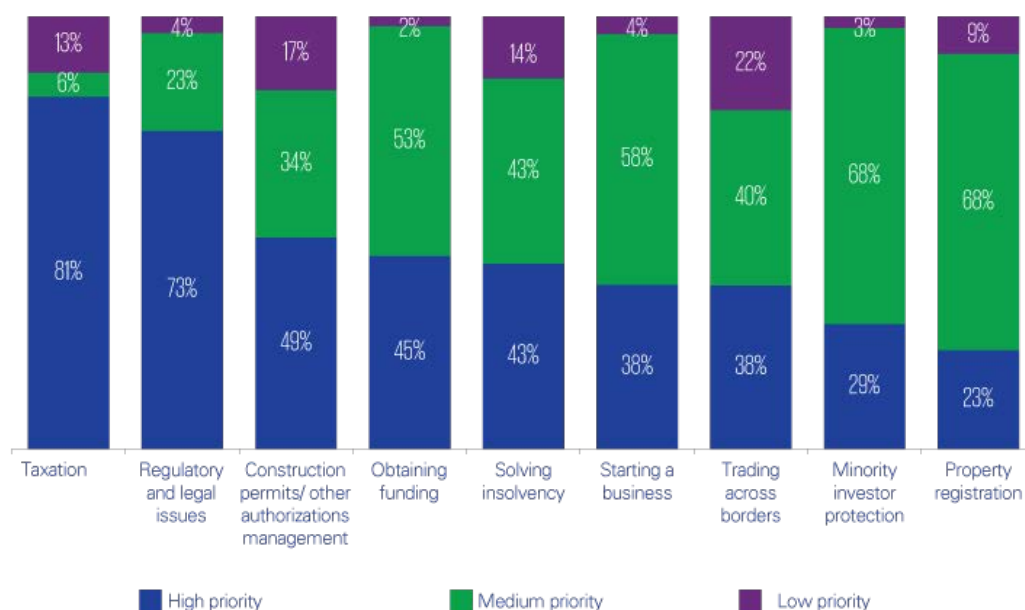
Chart no. 2 - The predicted direction for the Romanian economy in the next 2-3 years



Optimism on the development of the economy seems to be more moderate in relation to the projections for the next 2-3 years. Thus, 44% of the sample believe we will witness higher growth than we are seeing now, while 18% believe performance will be at least equal to the current level.

It is obvious that the materialization of the trends estimated by the respondents will largely depend on the development of important macroeconomic indicators, such as inflation, the exchange rate and domestic demand.

Chart no. 3 - Issues requiring priority attention from the Government





Taxation is perceived as an area of particular importance. It has a pronounced dynamic character, with frequent changes with an impact on business efficiency, the tax burden and budget planning.

The ideal fiscal environment is stable in the long run, has proper implementation and well timed changes of legislation and efficient and accessible payment systems. In the context of recurrent changes to the Fiscal Code, in the absence of a predictable approach by the authorities, finance departments need to invest more time and resources, thus having less time left for operational activities.

As seen above, in relation to the Government's role in the economic and

business environment, an overwhelming majority of respondents indicate that taxation (81%) and regulatory and legal matters (73%) require priority attention from the Government.

This result can be interpreted in particular in the context of the recent amendments to the Fiscal Code. We recall the shift of compulsory social contributions from the employer to the employee, which had at least an administrative impact on all employers and employees.

Moreover, a large number of companies that were paying corporate income tax found themselves in the situation where they now fall under the conditions for paying the income tax on micro enterprises due to the major changes in the maximum revenue limit.

Financial performance of the company

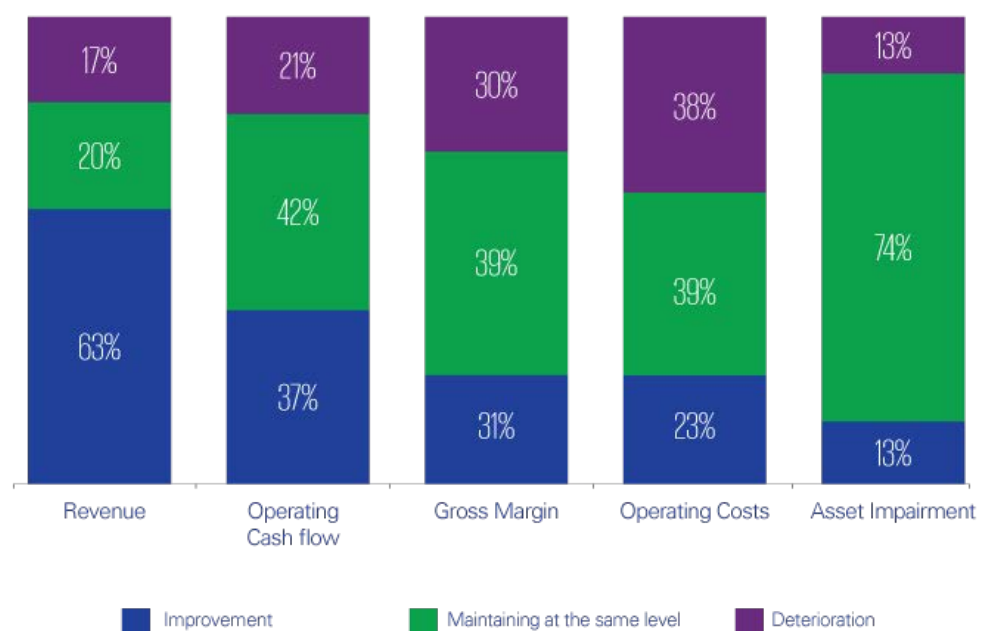
63 %

of respondents expect an improvement in revenue, while only 37% expect an increase in operating cash flows

Nearly two-thirds consider that revenue will increase in the next year and 37% believe that operating cash flows will improve. Respondents estimate a slower collection of receivables, compared to the estimated revenue growth rate, which could be attributed to more relaxed payment terms that support the increase in turnover.

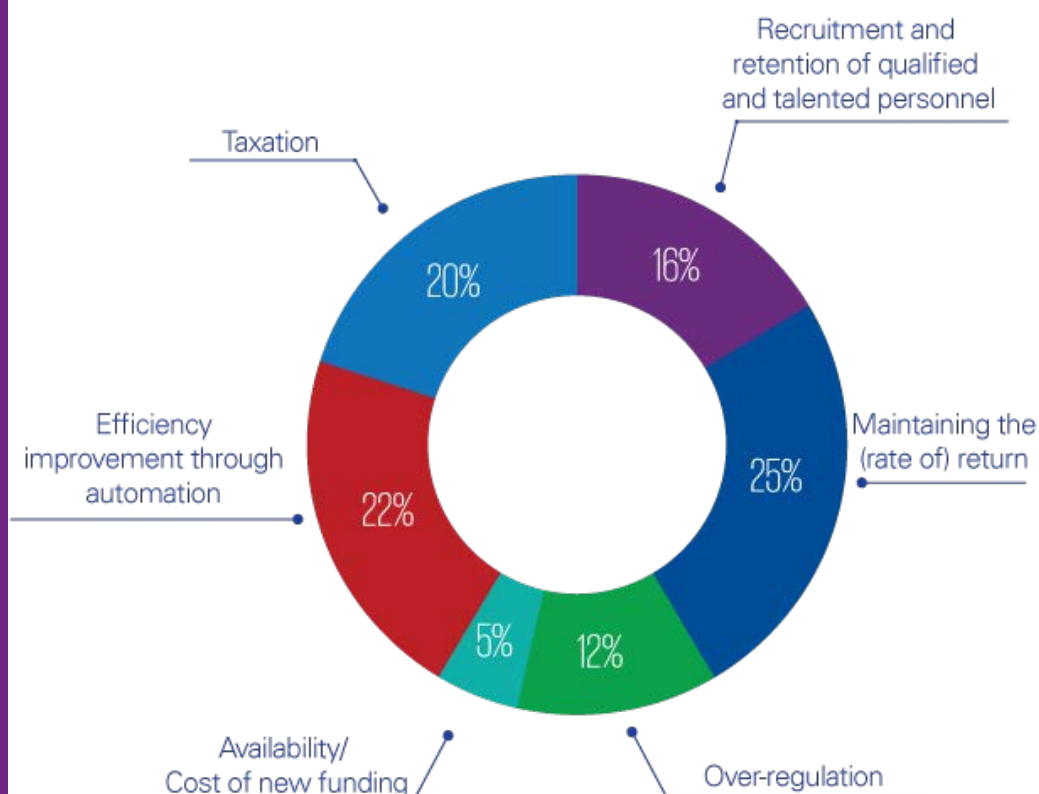
The projected trend for operating costs is, to the same extent, deterioration or maintenance at the same level, while asset impairment is expected to remain at the same level. Just as operating costs, especially salary costs, are considered a major impediment to profitability growth, companies are considering strategies to improve efficiency or outsource services.

Chart no. 4 - Assessment of the development of the company's financial performance indicators in 2018



The main issues faced by finance executives are maintaining profitability, fighting for talent, and improving efficiency through automation and taxation

Chart no. 5 - Main priorities of Chief Financial Officers



The main priority of 25% of respondents is maintaining the company's profitability. They consequently place high value on strategies to increase profit by raising revenue and reducing costs. They look for the most advantageous financing solutions, as well as ways to manage the company's resources as efficiently as possible, leading to the most satisfactory rates of return.

At the same time, they recognize that qualified and talented staff contribute to maintaining sustainable returns

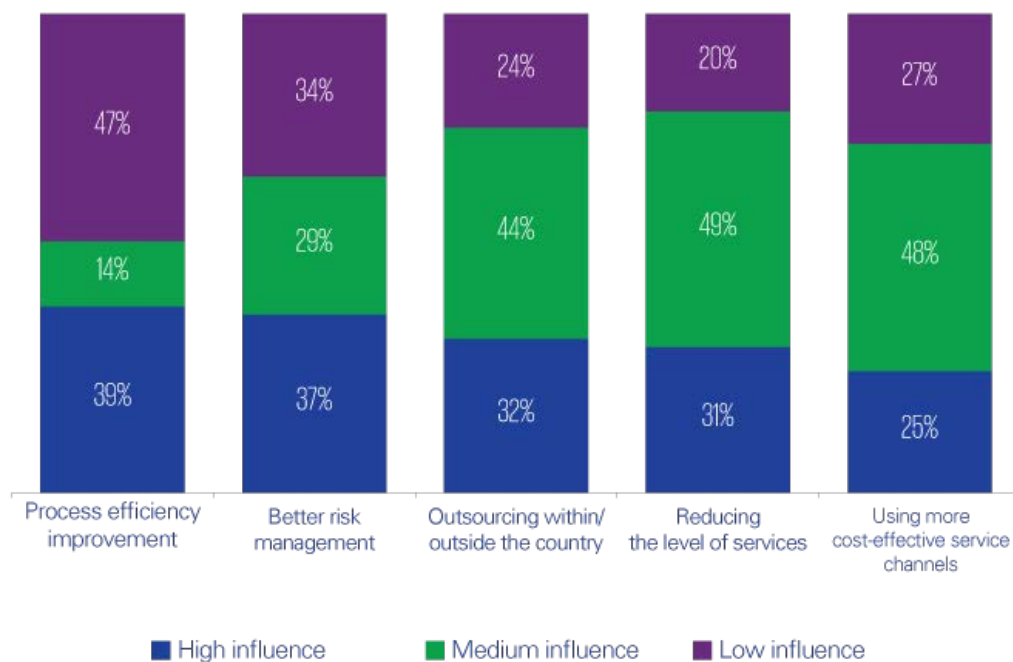
Another priority of finance executives (22%) is also related to cost reductions

and increasing efficiency: integration of automated processes into economic activity. As mentioned in the "Technology and Innovation" section, technology plays an increasingly significant role in organizations, leading to efficiency improvements.

Automation reduces the risk of errors, reduces the execution time of operations, takes over some of the staff's responsibilities, and leaves more time to solve strategic issues. Although automation involves considerable initial cost (depending also on the industry concerned), variable costs decrease significantly afterwards.

Half of the respondents believe that the launch of new products and services or the expansion of current capacity are basic prerequisites for growth

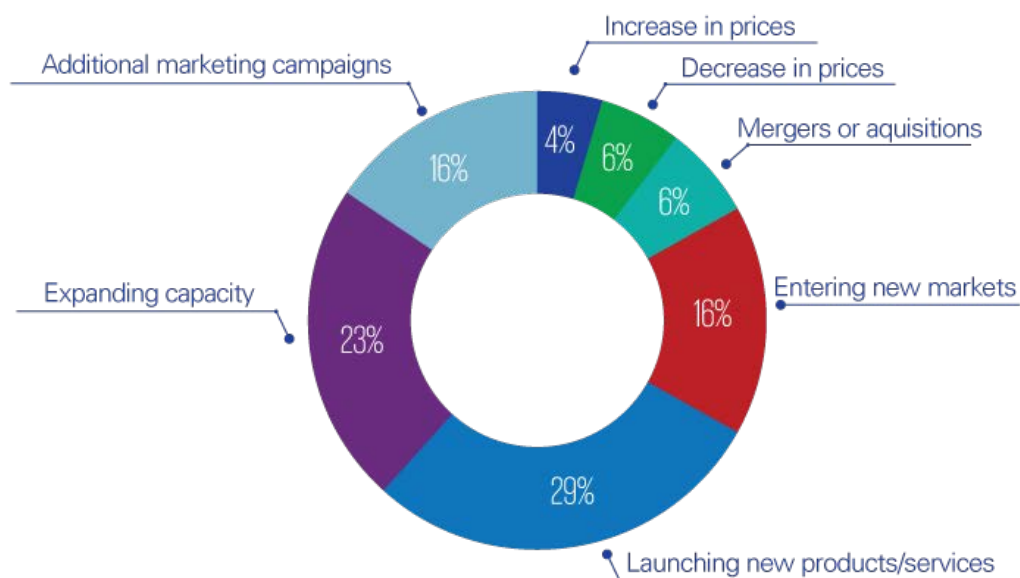
Chart no. 6 - Cost management strategies over the next three years



Most respondents believe that improving process efficiency and better risk management will be the most effective cost management strategies for the

next three years, while there is a general expectation that new, innovative and relevant strategies will be developed to tackle these issues.

Chart no. 7 - Growth strategies for the next year



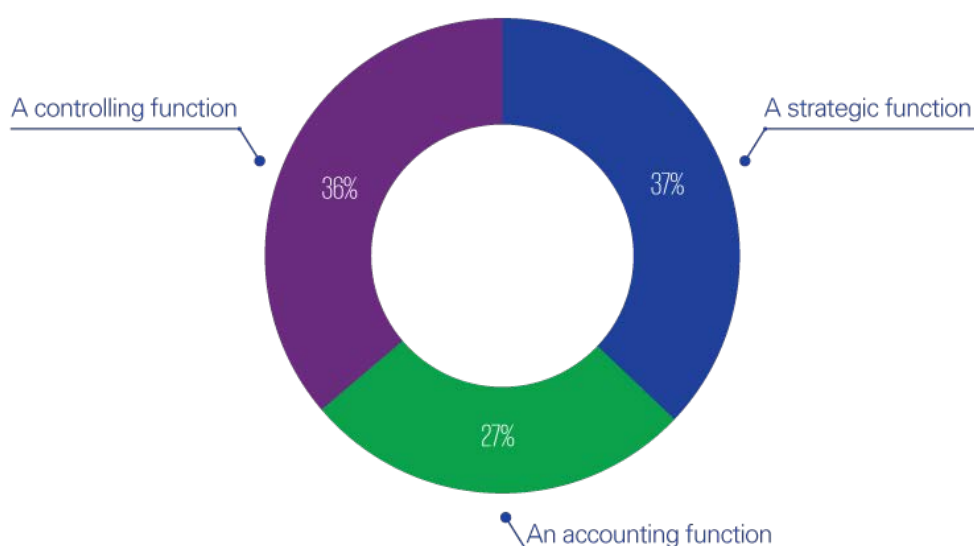
The two main growth strategies for the next year are based on the launch of new products/services and

capacity expansion to facilitate an anticipated increase in demand for products and services

7of10

Chief Financial Officers consider finance function as a strategic or control function

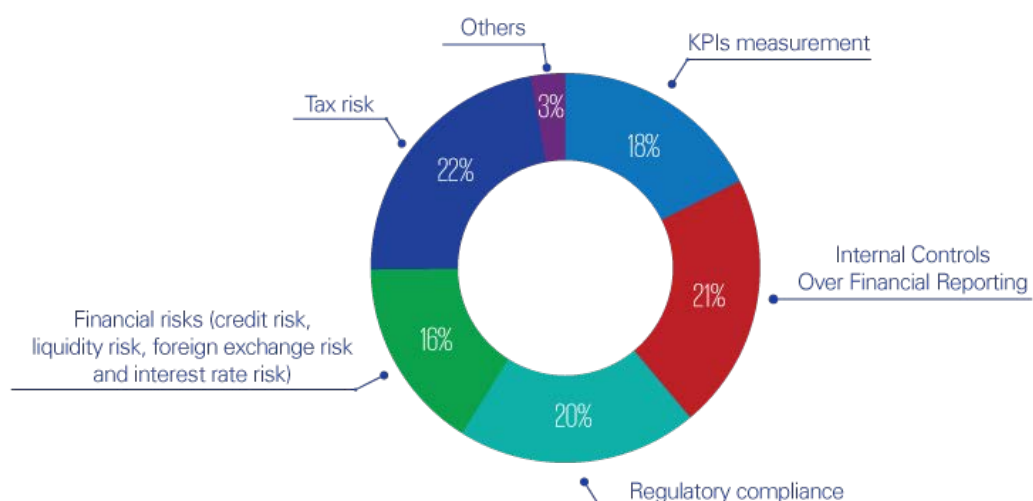
Chart no. 8 - Role of the financial function within the organization



More than ever, leaders in finance and the companies they represent operate in a more volatile global economy, presenting new challenges to Chief Financial Officers, but also new opportunities.

Today's finance team is expected to add significant value beyond the traditional cost management and finance control roles.

Chart no. 9 - Risks that will generate the need for independent external verification



As the role of the finance function expands, Chief Financial Officers seek additional assurance that the organization's goals are being achieved. The areas of the greatest concern are taxes, internal control over the financial reporting process, regulatory compliance and measurement of key performance indicators.

Business decisions are based on data, often gathered from multiple sources. In many respects, the quality of the decision is a function of the quality of the data underlying the decision. There is a general concern among decision-makers that the data used for decision making may be inaccurate or irrelevant. In response to this, Chief Financial Officers consider obtaining independent assurance

63%

of respondents believe that tax, regulatory or internal control matters will require independent verification

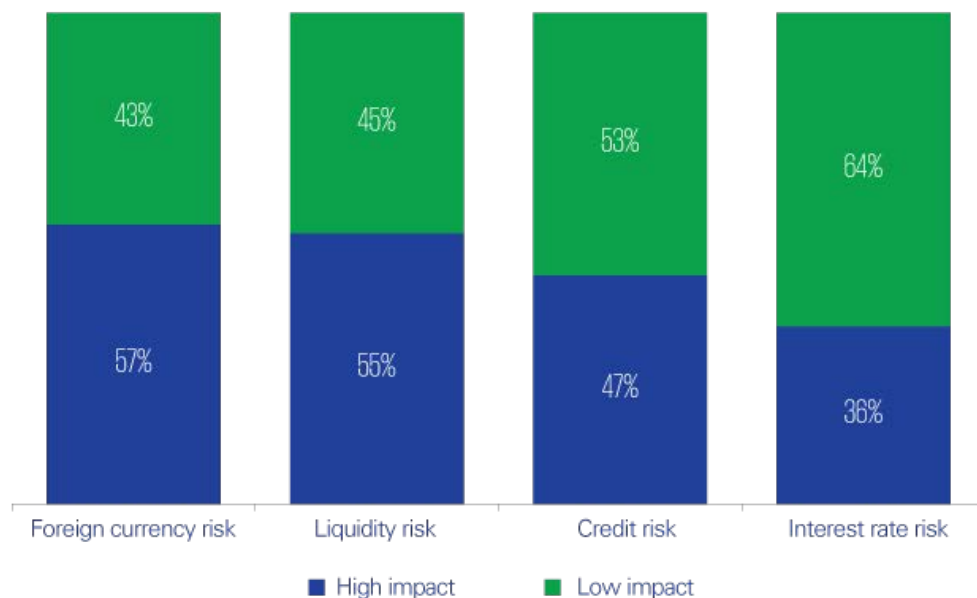
“Regulations have become increasingly complex and organizations are seeking to ensure that the requirements for compliance with these regulations are understood, as well as their possible impact, and that there is comfort in terms of remedial measures implemented.”

Clemente Kiss
Director for
Regulatory Affairs,
Audit & Assurance
KPMG in Romania

on the accuracy and relevance of the data underlying key decisions.
The existence of external assurance

can provide independent understanding, reliability, technical and industry expertise.

Chart no. 10 - Impact of financial risks on the organization



Respondents believe that currency and liquidity risks have the highest impact on a company's business, while interest rate risk has the lowest impact

Between January 2017 and February 2018 the, the local currency (RON) depreciated by 3% in relation to the Euro.
Moreover, following this survey, there has been a significant increase in the ROBOR index (i.e., the ROBOR 3M index has doubled to around 2% per annum).

Managing currency, interest rate and liquidity risk using a variety of metrics offers companies potential benefits in the following areas:

- Low income volatility
- Improving cash flow forecasting
- Improving the capacity of forecasting and measuring foreign currency exposure and liquidity shortage
- Protection against interest rate variations for interest-bearing assets and liabilities by concluding forward rate agreements, swaps or interest rate options

Technology and innovation

“KPMG is committed to building a culture of innovation and learning, especially within our audit practice. We work with universities, regulatory authorities and cutting-edge technology organizations to improve our people's skill sets, to develop new capabilities to increase the quality of the audit and build the foundation of trust that is the cornerstone of our profession.”

Aura Giurcăneanu
Partner,
Audit & Assurance
KPMG in Romania

Technology has become an integral part of the strategy of any organization that wants to maintain, discover or improve a competitive advantage, and the digital age brings with it many opportunities that we generically call “technology”.

Organizations see automation as a way to improve efficiency. Moreover, concern related to this area was ranked second among respondents, by 22%, after maintaining profitability.

Chart no. 5 bis - Main priorities of Chief Financial Officers

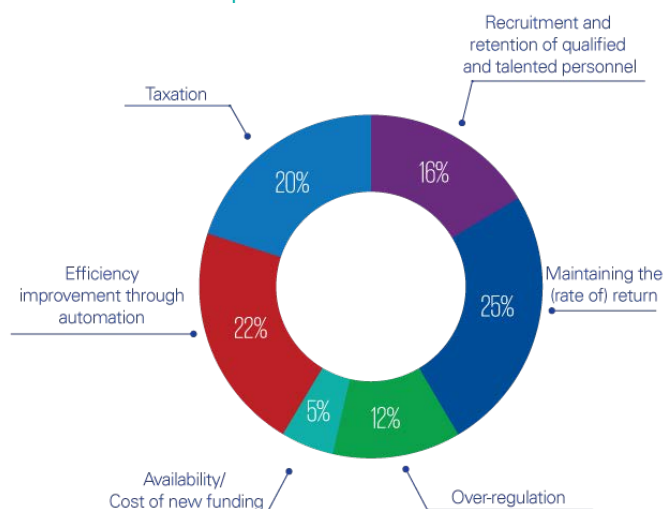
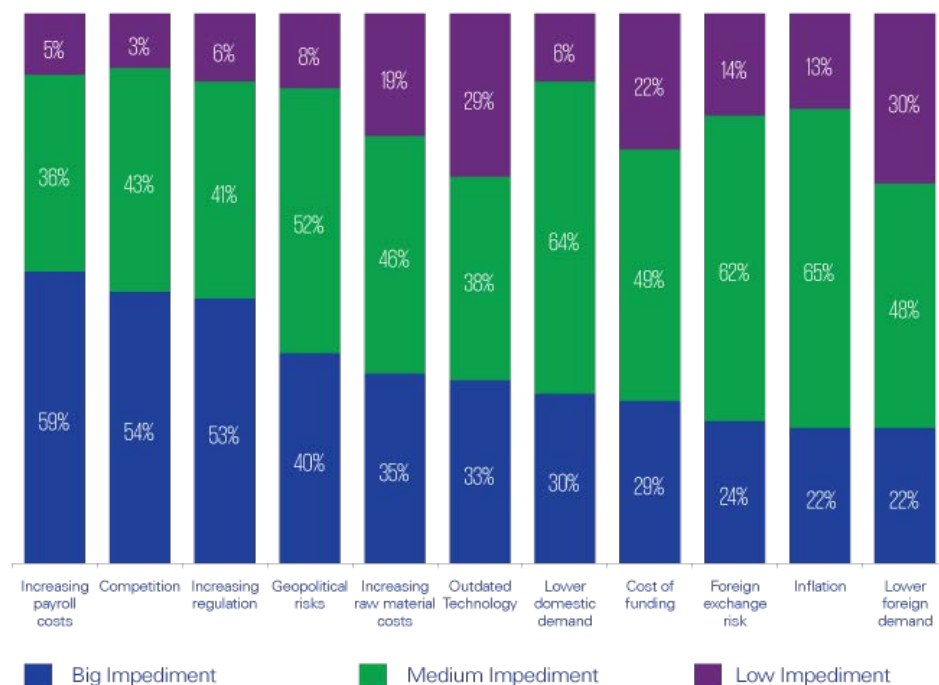


Chart no. 11 - Impediments in increasing profitability of the organization over the next 3 years



7 out of 10

Chief Financial Officers consider outdated technology as an important impediment to growth and profitability

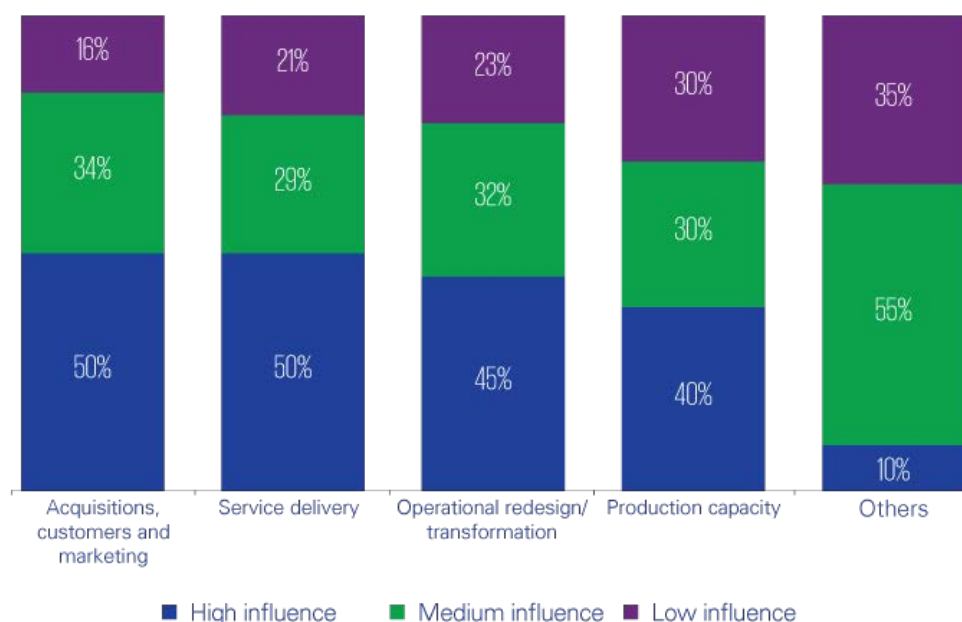
87%

of respondents estimate an increase in technology costs.

In the same context, over a three-year horizon, outdated technology is seen by 71% of respondents as one of the main impediments to the growth and profitability of the organization. Thus, it is not surprising that the top two priorities of the organizations surveyed

are the acquisition of product and operations technology and data management and security. In the context of rising employee wage costs, a strategy of many companies is process automation.

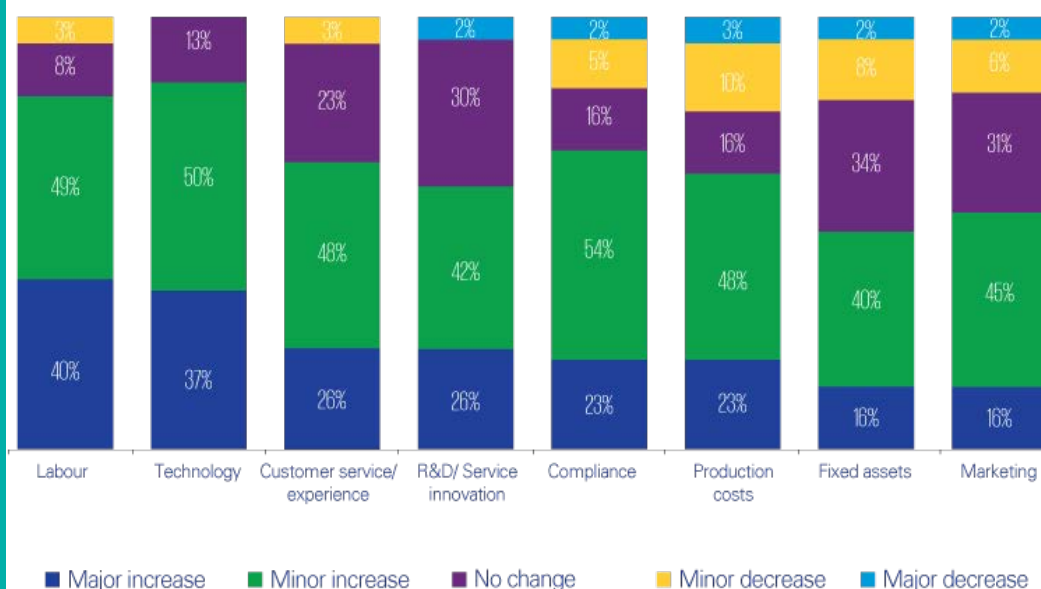
Chart no. 12 - The main directions of investment to support the growth of the organization



The trend is also supported by the expectations of the respondents in relation to cost structures at firm level. Thus, over 87% estimate an increase in technology costs and over two thirds an increase in research and development and innovation services.

At the same time, improving efficiency through automation is a high priority for 2018 (68%), next to personnel retention (66%), while almost half have identified the same direction in the development and / or implementation of IT systems in financial processes.

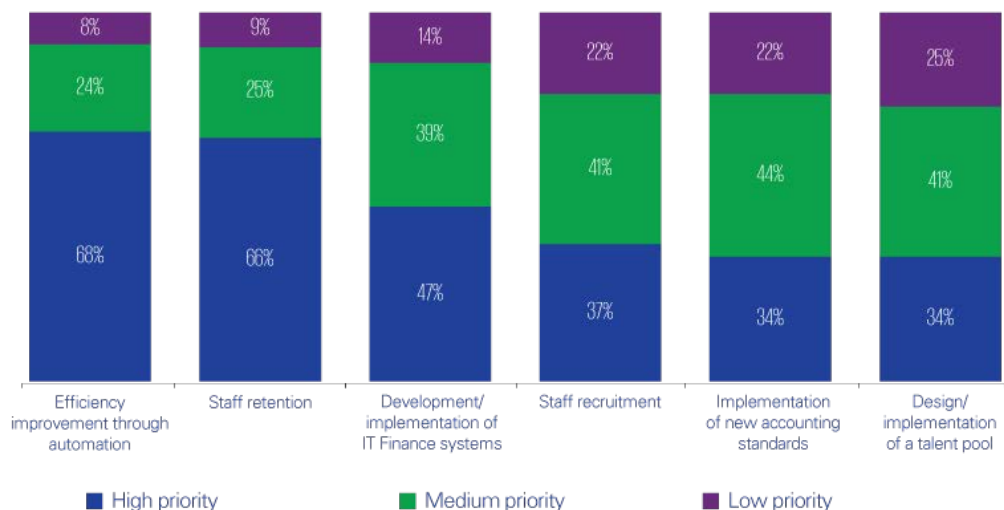
Chart no. 13 - Estimated cost developments over the next three years



“Increasing wage costs does not always contribute to increasing the efficiency of processes within a company. Changing the way of thinking and traditional models of outsourcing and resource technology is considered by companies as part of the development strategy to increase productivity and profitability.”

Nicoleta Rusu
Director,
Audit & Assurance
KPMG in Romania

Chart no. 14 - Priorities for 2018



Within the growth strategies of the companies surveyed, the launch of new products and services has the largest share (29%).

21% of respondents indicated that the main purpose of investments in technology will be product development and operations.

Chart no. 7 bis - Growth strategies for next year

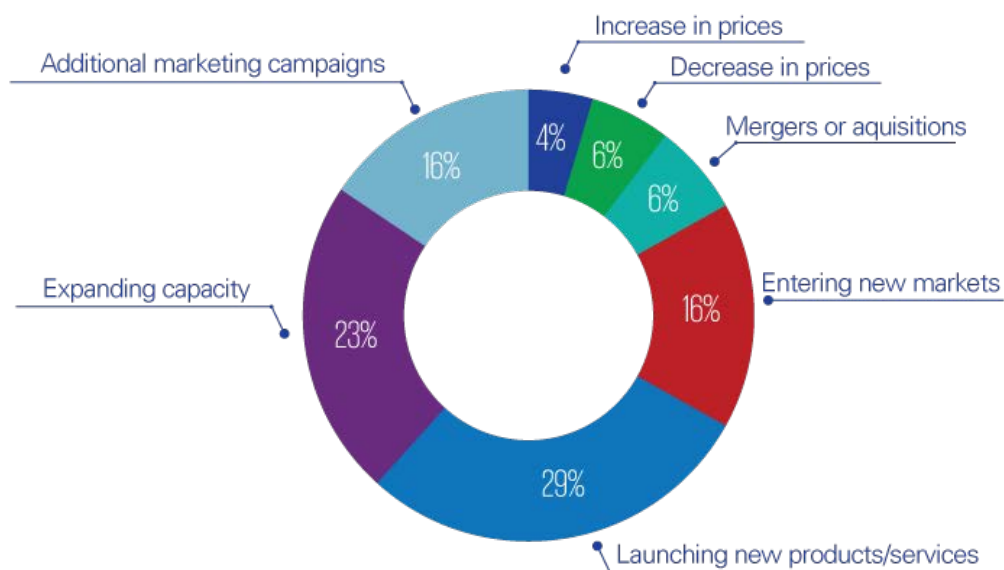


Chart no. 15 - The level of investment in technology in the last year

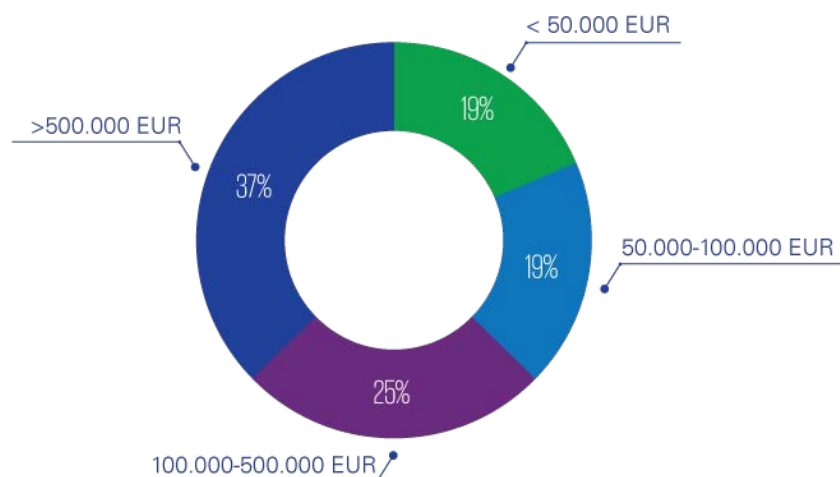




Chart no. 16 - Priority issues for investments in technology

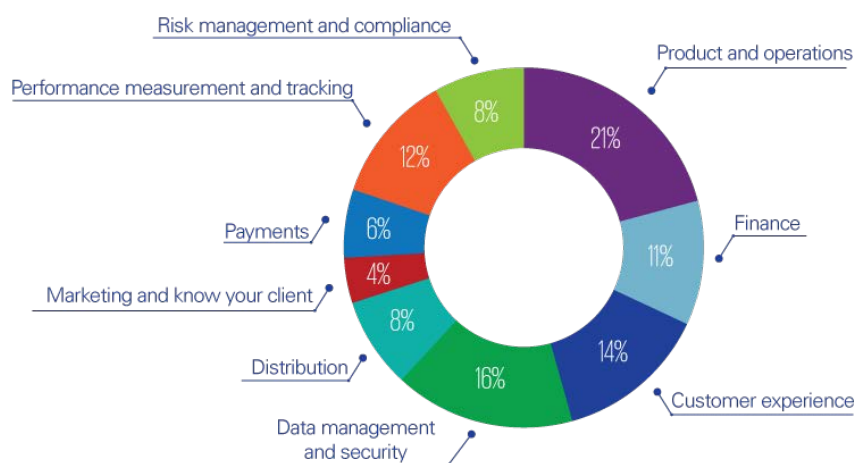
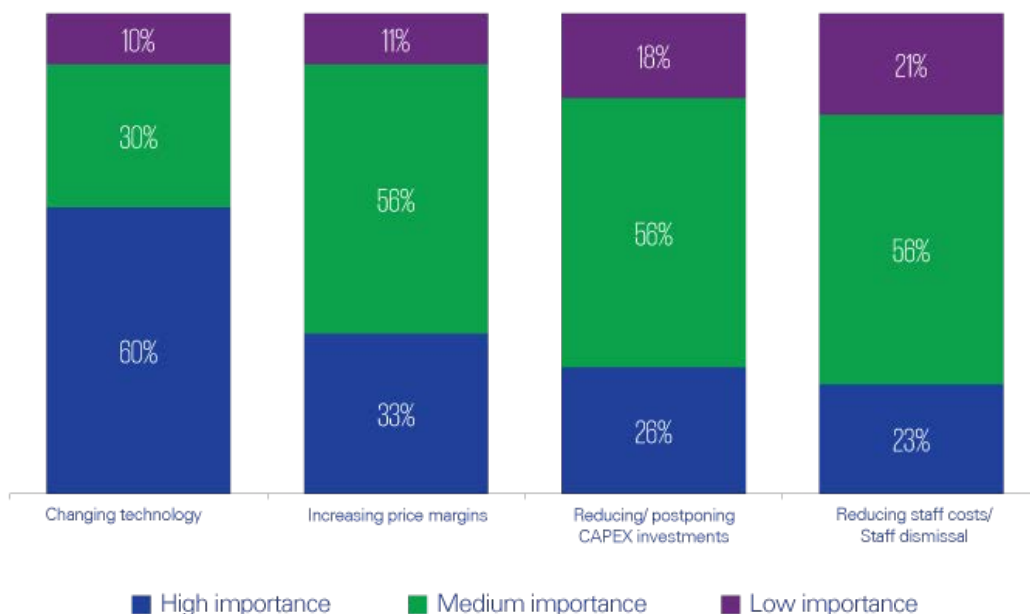


Chart no. 17 - The main levers to be accessed in difficult economic conditions



This focus on technology investments is also very clear when analyzing the amounts spent by organizations in this area.

Thus, 37% of surveyed companies say they spent over 500,000 euros on technology acquisition/ implementation in 2017, and 25% invested amounts between 100,000 and 500,000 euros.

In addition, 90% of respondents stated that replacing technology has the potential to support companies in difficult economic times.

The specific operational uses of future technology investments will be mainly in product development, data management and security, as well as in customer experience

Ways to support investment in technology and innovation

- Tax incentives such as tax exemption for employees involved in Research & Development and Innovation projects
- Additional deduction of 50% in the calculation of the corporate income tax on Applied Research and Technology Development expenses

Innovative accounting applications

"Accounting robots"

“

Advanced technologies make it possible to automate the recording of over 80% of invoices without human intervention. How? With the help of artificial intelligence, we can identify the set of accounting rules, analyzing 1-3 years of accounting history, and our advanced robots read the invoices and apply the hierarchy of rules, then enter the data in any accounting system. Thus, efficiency increases 10 times, with an average of 200,000 invoices a year per person compared to the current average of no more than 20,000 invoices a year per person.

”

Cristina Ionescu

Director,
Technology and Innovation
KPMG in Romania

— An accounting robot can significantly reduce administration costs and error margins currently recorded in accounting.

— The invoicing process can be quite expensive.

— On average, organizations incur costs of up to EUR 10 per invoice in terms of operation, validation, correction and storage of data.

— Most invoices are received electronically (in PDF) or by e-mail and their operation means document printing and manual recording in accounting.

— The ability of a robot is to collect data from multiple formats and convert them into a document easy to import into any accounting system.

— The invoice recording process by the accounting robot is typically automated in the four steps shown below.

What can an accounting robots be used for in the invoicing process?

1. Reception of incoming invoices

The Accounting Robot receives all incoming invoices and recognizes each digital format. PDF invoices are swiftly translated into digital invoices and are imported into the platform.

2. Enrichment and validation of information

Considering the interaction with all the other operating systems, the robot consults relevant legislation, VAT rules and applicable taxes, as well as pending orders and validates the information from the invoice received. Invoices that do not meet the requirements are forwarded to a supervisor for validation or immediately returned to the issuer.

3. Automatic book of invoices

Invoices are booked automatically as well. The invoices are correctly linked to the corresponding cost center and ledger account. This process is possible due to the robot's permanent learning ability based on previous rules and historic information collected while processing data, which leads to correct booking of complex invoices (containing information to be allocated to several cost centers/ledger accounts).

4. Import of invoices directly to your ERP

The final step is that of automatic import to your ERP. The robot ensures that each invoice is booked according to the correct booking rules. Integration is available for all existing financial-accounting systems



Taxation

To achieve sustainable economic growth, there must be a close link between companies and state authorities. The legislator together with the tax authorities must create an easy and efficient environment.

The Romanian tax environment is constantly changing, regulations and authorities' approaches are not always clear, and therefore, as the results of the study reveal, tax issues have become an important point on the agenda of the people who run the finance departments of today's companies.

Facing the growing complexity of the tax environment and the related regulations requires innovative approaches that go beyond the task of "filling in" some forms,

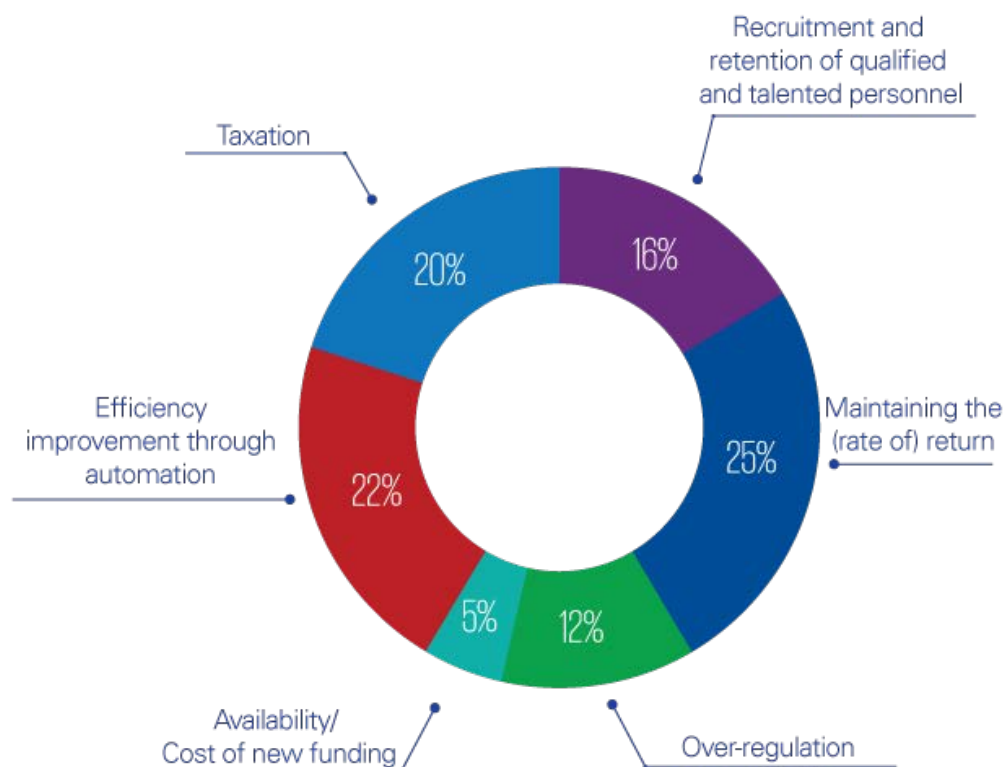
irrespective of the taxes to which they relate.

Furthermore, over the last 5 years, increased attention has been paid worldwide by international authorities (e.g. the OECD and DGTAXUD) to taxes, especially direct taxes, and, more specifically, income tax.

Furthermore, these tax changes at international level (Anti-BEPS measures ("BEPS-Base Erosion and Profit Shifting"), as well as the European Anti-Tax Evasion and Country by Country Reporting Directives have begun to be transposed into Romanian legislation, generating more tax information to assimilate, in addition to changes made by domestic legislation.

Taxation is one of the major priorities of Romanian Chief Financial Officers.

Chart no. 5 bis - Main priorities of Chief Financial Officers



20% of respondents consider taxation an essential priority on their agenda. Many of the companies surveyed said that they wanted

to use technology to improve efficiency. Approaches can include various solutions that streamline the company's tax administration.

The app that checks the VAT number of all your customers and suppliers in one click

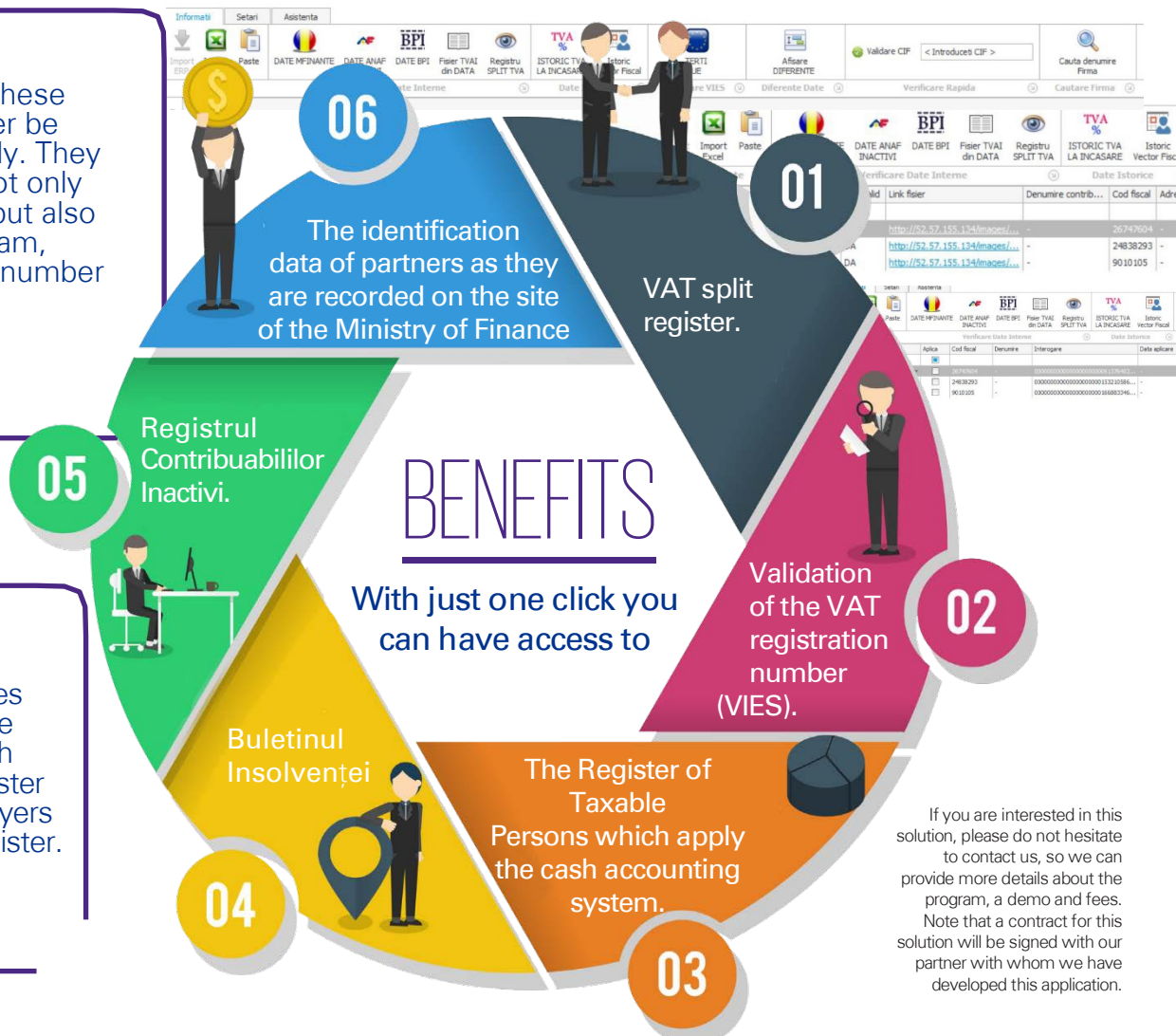
It is very likely that at some stage, your economic activity has been hampered because of the technical restrictions of the Romanian tax authorities' IT system. To support your employees in the financial department who want to speed up the process of verifying the VAT registration numbers of all business partners on the tax authorities' websites, or those who want to prevent situations in which tax inspectors reject the deductibility of significant amounts of expenses and, more specifically, VAT related to these acquisitions

(creating interest and penalties), we bring to your attention an application which is very useful and easy to use.

This application integrates in real time the databases of the Ministry of Finance, the National Fiscal Administration Agency, the Trade Register Office and VIES and generates the history of the VAT registration number or tax identification number you are interested in. All with a single click, in a few seconds.

In this application these codes will no longer be introduced manually. They can be imported not only from an Excel file but also from an ERP program, regardless of their number and individually.

The program gives the option to save print-screens with data for the Register of Inactive Taxpayers and VAT split register.

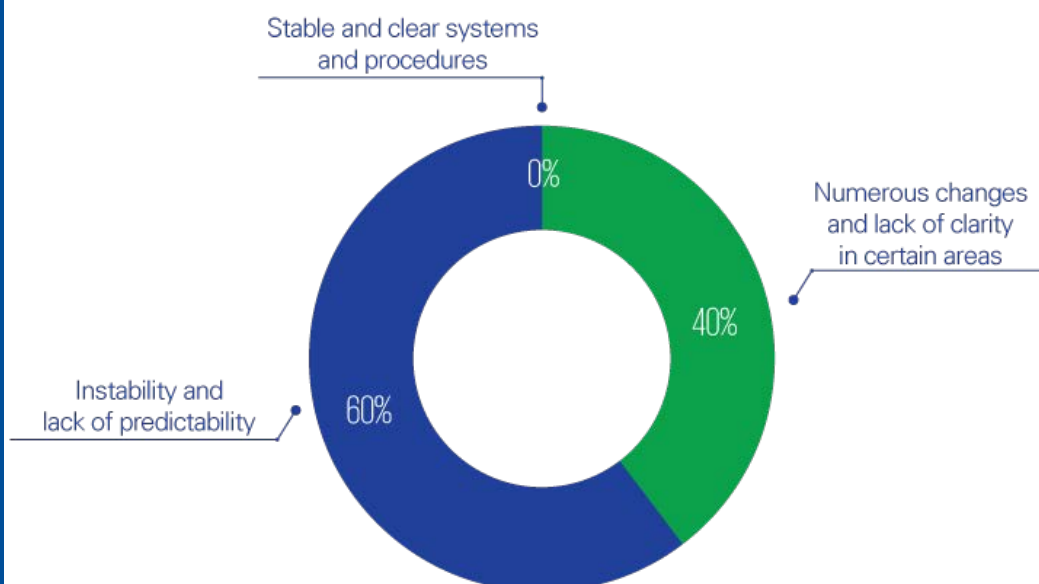


If you are interested in this solution, please do not hesitate to contact us, so we can provide more details about the program, a demo and fees. Note that a contract for this solution will be signed with our partner with whom we have developed this application.

6 of 10

Chief Financial Officers notice instability and a lack of predictability with regard to the tax system

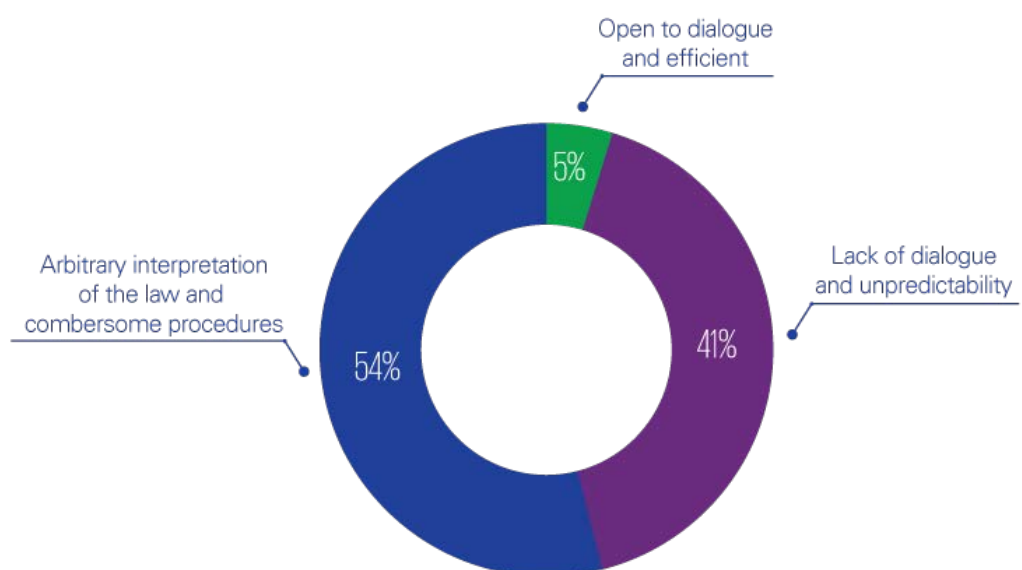
Chart no. 18 - Perceptions of the tax system in Romania



More than half of our respondents want a more stable tax system with predictable legislative changes, implemented correctly and with enough advance warning, introduced after consulting the business community. The remaining 40% of respondents are dissatisfied with

the current state of the tax system, considering that too many legislative changes are implemented and that many of them are unclear and open to interpretation. Thus, the high volume of tax changes makes it difficult to correlate legal provisions with practice.

Chart no. 19 - Perception of the Tax Administration in Romania



Executives with finance and tax functions regard the Romanian tax administration as being unwilling to engage in dialogue and showing an arbitrary interpretation of the law rather than being communicative and effective.

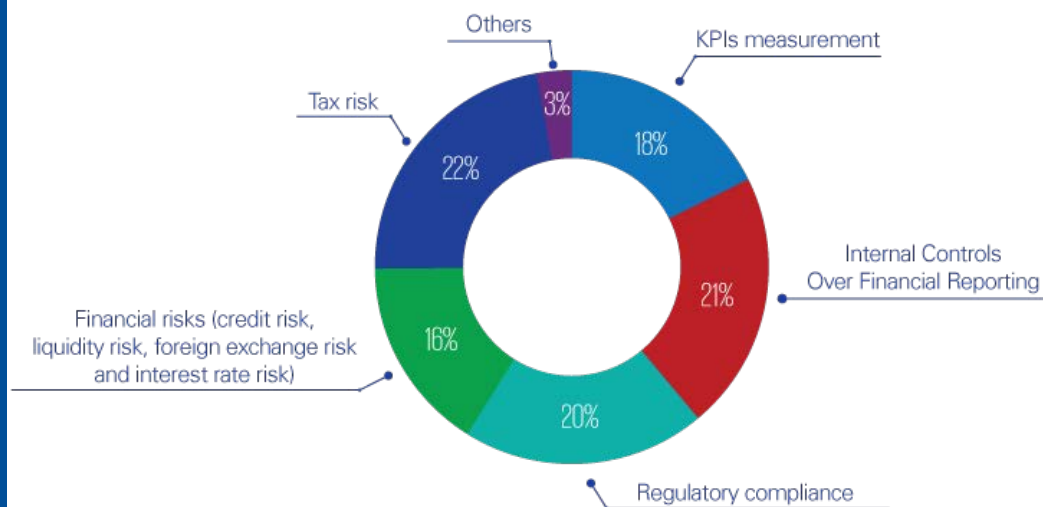
Lack of dialogue and unpredictability were cited by 41% of respondents, even though the duties of tax officials include

communication with and assistance of taxpayers.

Lack of transparency is a significant matter of concern, but it appears to be a logical consequence of the rapidity with which high-impact tax decisions are taken – for example the recent shift of social security contributions from the employer to employee.

The fiscal function in an organization is perceived as a particularly important component by over 80% of respondents

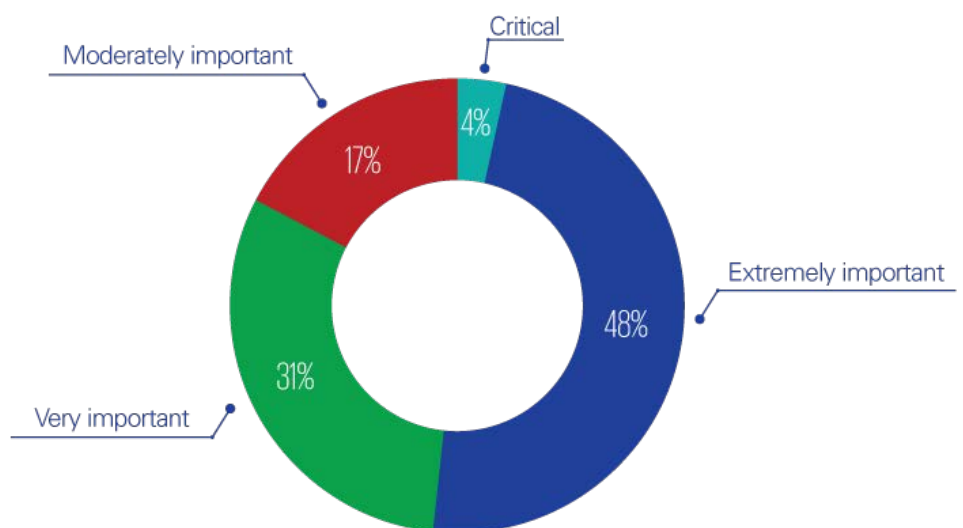
Chart no. 9 bis - Risks that will generate the need for independent external verification



Of all the risks mentioned (tax, financial, internal control, etc.), our respondents believe that tax risk requires increased attention to ensure that the other operational risks are managed appropriately (22%). Thus, respondents confirm the latest statistics indicating that the number of Romanian

companies that have decided to work with a tax consultant has grown as a consequence of the frequent changes in tax and accounting legislation as well as due to the desire of companies to mitigate any risks associated with a function that is not part of their operating activity.

Chart no. 20 - Importance of the tax function for your organization



The tax function in an organization is perceived as an extremely important component by more than 80% of respondents, most likely due to the dynamics and complexity of this area. Recently, much has been discussed about additional tax reporting and compliance requirements faced by organizations in Romania. The function is considered important by the majority of respondents, since tax compliance is necessary for

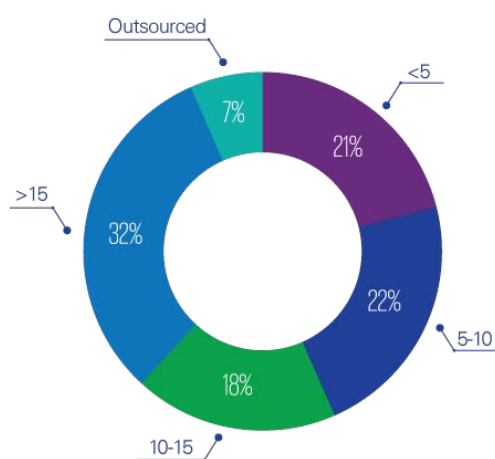
the financial security of a company (correct declaration of obligations and full compliance with legal requirements reduces the chances of possible fines, interest, penalties etc. and increases the efficiency of the use of resources - time, people).

Poor management of the tax function can generate additional expenses (fines, interest, penalties, etc.), and can even lead to insolvency and bankruptcy.

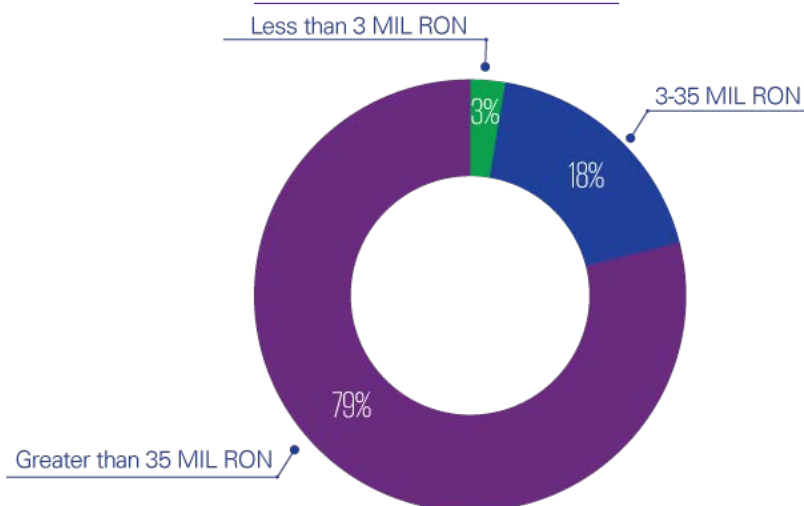
Methodology

The information published in this report is based on a survey conducted amongst 76 Chief Financial Officers and chief accountants from companies in Romania, conducted in the fourth quarter of 2017. The Chief Financial Officers are representatives of companies in industries such as production, banking, automotive, technology, consumer goods, retail, energy, food and beverages, telecommunications, transport and logistics, pharmaceuticals, media, insurance and investment management.

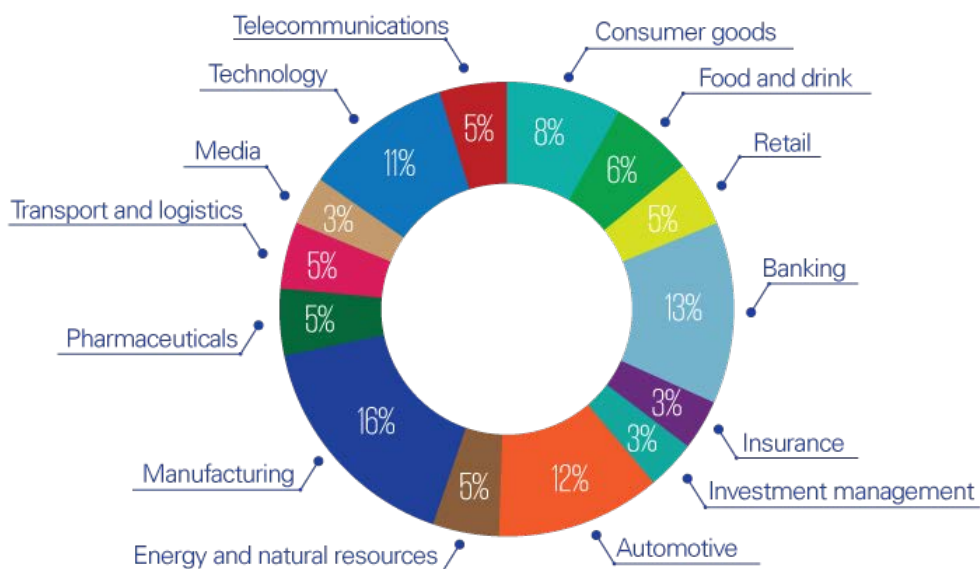
Headcount of Finance function



Company annual turnover



Industry



Contact

KPMG România SRL

București

Victoria Business Park
Șos. București - Ploiești, nr. 69-71
Sector 1, București, 013685, România
P.O. Box 18-191
T: +40 (372) 377 800
F: +40 (372) 377 700
E: kpmgro@kpmg.ro
www.kpmg.ro

Cluj-Napoca

Liberty Technology Park
Str. Gării, nr. 21, Cluj-Napoca
Cluj, România
T: +40 (372) 377 900
F: +40 (753) 333 800
E: kpmgro@kpmg.ro

Constanța

Blv. Mamaia, nr. 208,
Etaj 4, Constanța,
900540, România
T: +40 (756) 070 044
F: +40 (752) 710 044
E: kpmgro@kpmg.ro

Iași

Ideo Business Center
Șos. Păcurari, nr. 138,
Etaj 1, Birou B 105
Iași, 700521, România
T: +40 (756) 070 048
F: +40 (752) 710 048
E: kpmgro@kpmg.ro

Timișoara

Blv. Mihai Viteazu, nr. 30B
Timișoara, 300222
Timiș, România
T: +40 (256) 221 365
F: +40 (256) 499 361
E: kpmgro@kpmg.ro

KPMG Moldova SRL

Chișinău

Blv. Ștefan cel Mare, nr. 171/1, etaj 8
MD-2004, Chișinău
Republica Moldova
T: +373 (22) 580 580
F: +373 (22) 540 499
E: kpmg@kpmg.md

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