10th year of Slovak CEO Survey 2019

pwc.com/sk

The availability of key abilities during period of populism and slower growth will be decisive as regards success

PwC and the Forbes Magazine surveyed the challenges CEOs are facing this year

127 CEOs in Slovakia responded

pwc

Forbes

The quality of education in Slovakia has caused a slowdown in the introduction of new technologies and has reduced Slovakia's competitiveness

Alex Šrank
Country Managing Partner
PwC

Every technological revolution brings tension in society, companies face the consequences of populism and become dependent on the competitive quality of education provided by the public sector. Leaders who invest in education and are able to handle social responsibility and thus contribute to the respect for education and facts, and to a reduction of populism and, as a result, to the development of society, will be able to attract more talent and better succeed in business. In our survey, CEOs stated that the introduction of artificial intelligence will cause a bigger revolution in business and society then the Internet. Today, we can already observe the implementation of automation by our clients using software robots with some elements of artificial intelligence. Mass implementation has the potential to cause dramatic changes to the labour market and to the competitiveness of businesses and even countries.

It is essential to our small open export-dependent economy that we are part of this global competitive trend. Already now, we can perceive the potential impact of the transition to electric mobility on the strategically important automotive industry. Very soon, concerns may arise about shared corporate service centres.

The only answer is the ability to move on towards higher added value quicker than the competitors. This must be supported by educating technological talent. Even though our Bratislava "silicon mountain" of FEI, FIIT and MatFyz are still producing high-quality graduates, the truth will show out in comparison. The fact that half of all the students of Informatics at the University in Brno are from Slovakia is not a good sign in this context. According to the latest OECD study, as many as 15% of Slovak students, approximately 36,000, studied at universities outside the country, which is more than for any other country, except for Luxembourg and Iceland. Recently, I had the opportunity to talk to an enthusiastic Chancellor, Dean and Sub-dean of one of the Slovak Technical Universities and the issue is not that they do not know what they want, they know this exactly, but they do not have appropriate conditions. As regards the effectiveness of allocating funds and the control of their use, the public sector must, as a minimum, get closer to the standards that are normal in the private sector in Slovakia.

Not all the impacts of technologies are about a bright tomorrow. It seems that countries are not able to deal with the emerging populism and the challenging of facts strengthened by social networks with individually-targeted lies and distorted facts and other cyber threats. Societies are closing themselves into media bubbles of republicans and democrats, leavers and remainers, or system and anti-system and are not communicating with each other and elections themselves can change into races in the most radical mobilisation of my tribe.

Existing business agreements are being challenged under the influence of a growing populism and firms must prepare for diversification of the sales market. An increase of the labour tax burden cannot be a magic source of budget balancing and be used every time when needed, as we will lose our competitiveness. In general, populism ranks very high among CEOs' concerns.

After some years, the time of cost optimisation is returning and we will see businesses implementing new technological tools. If people performing simpler replaceable activities are displaced, this will strengthen populist and protectionist movements. PwC's survey found Slovakia ranks first in the share of jobs replaceable by automatisation and robotisation, as many as 44% of jobs are potentially replaceable, in particular manual and administrative work.

Eventually, all industrial revolutions brought mankind progress, prosperity and a standard of life that previous generations were unable to imagine. Businesses have always had to adapt to new conditions with agility. The pressure of global competition and the fundamental change of the business model of many industries and services in combination with the ability of businesses to absorb changes, which is not unlimited, will ensure that CEOs will not be bored in the near future.

DATA, DATA, DATA

Juraj Porubský
Šéfredaktor magazínu Forbes

When the crisis hit in 2018, businesses started to introduce dietary programmes. In good times some fat is always gained. Just remember last Christmas. Only a few of us, the most disciplined, resisted the excess of Christmas cakes.
The post-crisis CEO surveys in Slovakia showed that cost saving and effectiveness improvement projects were top management's main priorities. Revenues have decreased and costs had to adapt to this trend.

In recent years, cuts have receded from the top priorities. As managers learnt the lessons of the crisis, they have not allowed their businesses to fatten too much. Therefore, the question is, what will they do if economic growth slows? The trust of Slovak leaders in growth over the next three years has dramatically decreased, from 40% to 15%.

And, of course, diet programmes will again come to the fore. However, I believe that firms will try to be smarter. They will seek to introduce effectiveness in all their activities. They will seek to design new processes to save money and create a more effective base for the future.

Data is essential. Currently, the amount of data firms have is extensive and its proper evaluation and use can bring greatly improved results. Businesses have learnt that fighting against what the data shows is like running against the wind.
I recently read that data is the new oil. The most valuable businesses in the world are tech businesses and regarding their work with data, they have undoubtedly far surpassed the majority of us. If, until now, due to the strong economy some firms overlooked the power of data, no-one can afford such a luxury in a period of poor growth. Data analytics will be a key tool of all successful CEOs.

Content

CEOs anticipate a growth slowdown

Threats are changing – populism and low availability of key skills in the CEE region dominate

Data and analytics are among declared priorities, but are yet to be realized

CEOs believe that artificial intelligence will have a greater impact on business than the Internet

The survey reveals three major trends

Most CEOs expect economic growth will slow and are making preparations for cost cutting

In the last two years, we observed that global business leaders, and those in Slovakia, were extremely optimistic about the growth of their firms and the economy. This year, however, we saw a record increase in pessimism. More than half of Slovak CEOs expect a slowdown in global economic growth. For global leaders, this figure is one third and almost one third in the CEE. Confidence in the growth of firms has also dropped. 43% of Slovak CEOs believe their businesses will grow over the next 12 months, compared to 53% last year. The confidence of Slovak business leaders in the growth of their firms over the next 3 years has dropped dramatically, from 40% to 15%.

Nationalism and populism are disrupting the previously reliable cornerstones of the business environment and international trade

CEOs in Slovakia are aware of business threats and consider populism, the increasing tax burden, protectionism, and overregulation as the biggest ones. The percentage of business leaders concerned about populism is twice as high in Slovakia than the global average. In contrast, trade disputes are of concern to a third of CEOs globally, whereas only one fifth of Slovak CEOs are extremely concerned about them.

Knowing how to work with information and data

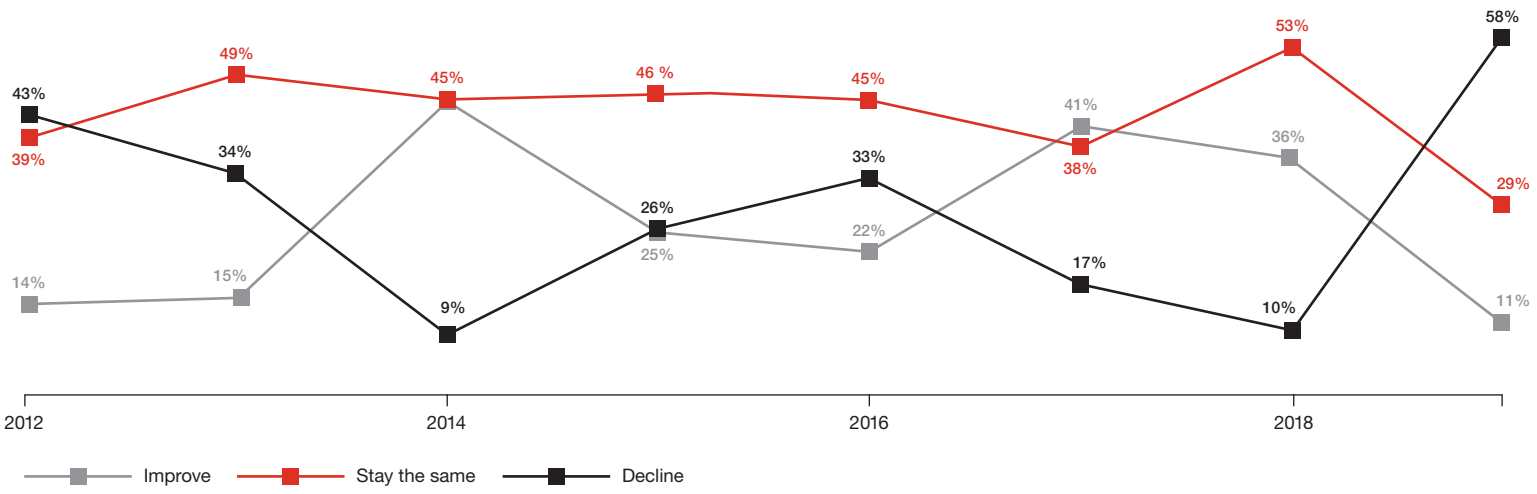
In addition to geopolitical risks, CEOs are working on their company's' weaknesses. Companies possess huge amounts of data that can assist them in making better decisions. However, they are not able to sufficiently utilize and interpret the flood of data. There is a lack of skilled talent to turn data into value. One of the remarkable findings from this survey is that despite the billions of dollars invested in data analyses, the gap between the information CEOs need and information they actually receive has not changed in the last 10 years.

1 CEOs anticipate a growth slowdown

Business leaders in Slovakia have dramatically changed their opinion on the development of the global economy

QUESTION

Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?



The percentage of Slovak CEOs who believe global economic growth will decline has increased from 10% last year to 58% this year. On the other hand, the percentage of CEOs who believe that global economic growth will improve has dropped from 36% last year to 11% this year. Data was collected from December 2018 to February 2019, when the forecasts of analysts were already partially known.

CEOs in Slovakia are more pessimistic than CEOs globally and in Central and Eastern Europe

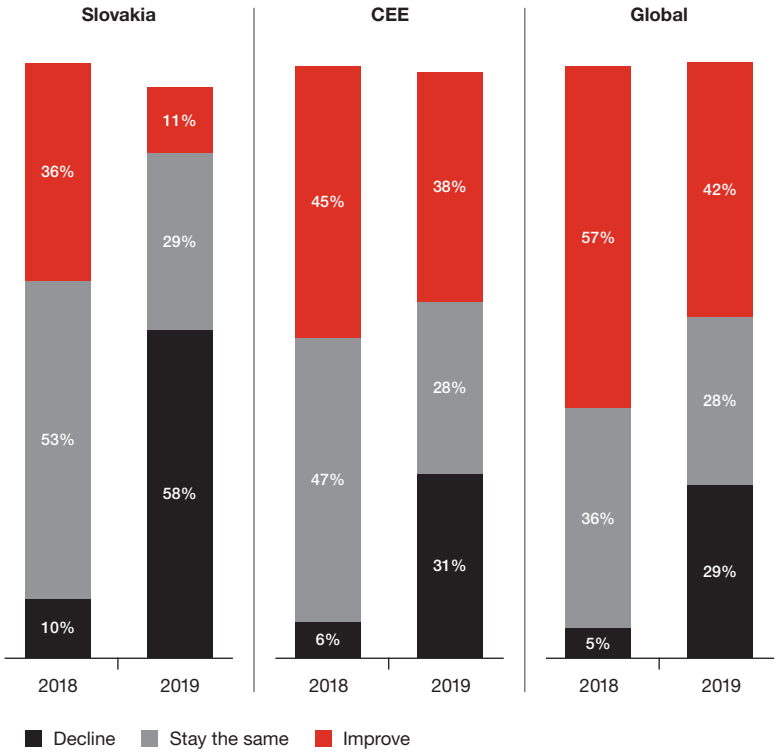
QUESTION

Do you believe global economic growth will improve, stay the same, or decline over the next months?

As regards global economic growth, Slovak CEOs are more pessimistic than their colleagues in CEE and globally. More than half of Slovak CEOs (58%) expect global economic growth to decline, with only 29% of global business leaders and 31% of CEOs in the CEE having the same opinion.

The radical change in the expectations of CEOs as regards a sharp decline in global economic growth was similarly expressed by business leaders globally, in the CEE, and in Slovakia. The number of CEOs who expect the global economy will decline is about five times higher than in the previous year.

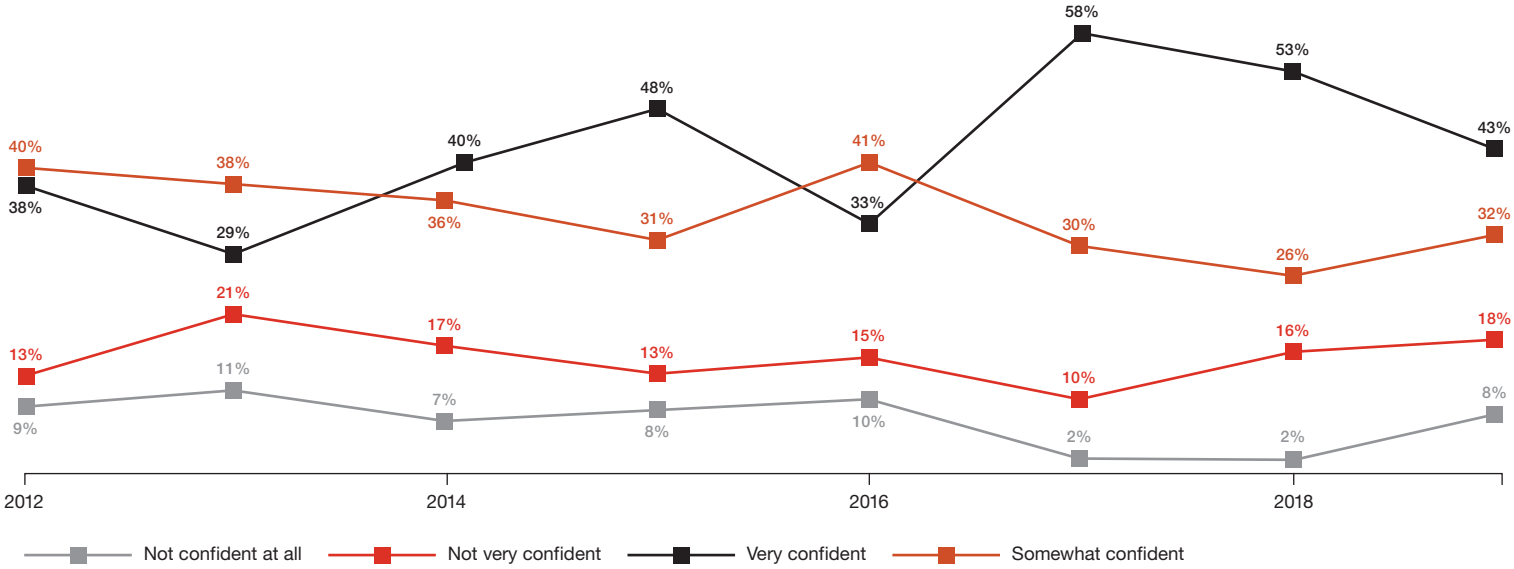
However, Slovak CEOs were more pessimistic both last year and in the current survey. Twice as many (11%) of them anticipated a decline last year, compared to business leaders globally and in the CEE.



Firms' growth confidence of CEOs in Slovakia declined, but expectations about increasing the number of employees stayed the same as in the last year

QUESTION

How confident are you about your organisation's prospects for revenue growth over the next 12 months?



Confidence in the growth of firms has also dropped. 43% of CEOs in Slovakia believe their businesses will grow over the next 12 months, compared to 53% last year. Since 2012, the average for this parameter is also 43%. There was a dramatic decline in the confidence of Slovak business leaders in the growth of their firms over the next 3 years, from 40% last year to 15% this year.

51%

of CEOs plan to increase staff number – the vast majority only moderately (53% in 2018)

16%

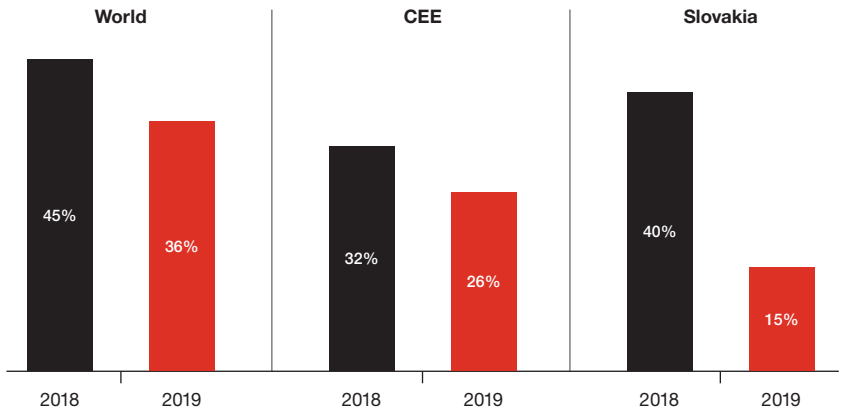
of CEOs expect staff reductions (14% in the last year)

Growth confidence declined, most markedly for the next three years

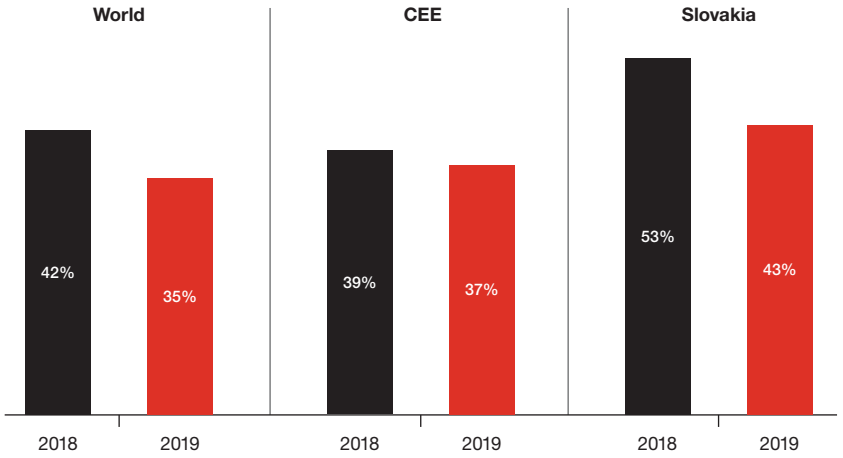
It has been proven that diversity can help firms achieve better economic results and in current labour market conditions, diversity support initiatives are an effective tool for the improvement of business performance. However the introduction of diversity support measures is only in its infancy in Slovakia. Diversity support initiatives are mostly dealt with by HR functions and are mostly applied to make businesses more attractive on the labour market. However, diversity at work must be supported by top management and managed properly to function at a firm.

Alica Pavúková
Partner, Assurance Leader

How confident are you about your organisation's prospects for revenue growth over the next 3 years? (only „very confident" shown)



How confident are you about your organisation's prospects for revenue growth over the next 12 months? (only „very confident" shown)



The readiness of firms and their ability to respond to the constantly changing business environment are essential to future success. Geopolitical uncertainty, overregulation and cyber threats are a reason for some businesses to consider a strategy change.

Juraj Tučný
Partner

QUESTION

How have trade conflicts influenced your business model and growth strategy?

45%

of CEOs do not plan to modify their operating model or the growth strategy for their firm;

18%

of CEOs are adjusting their supply chain and sourcing strategy;

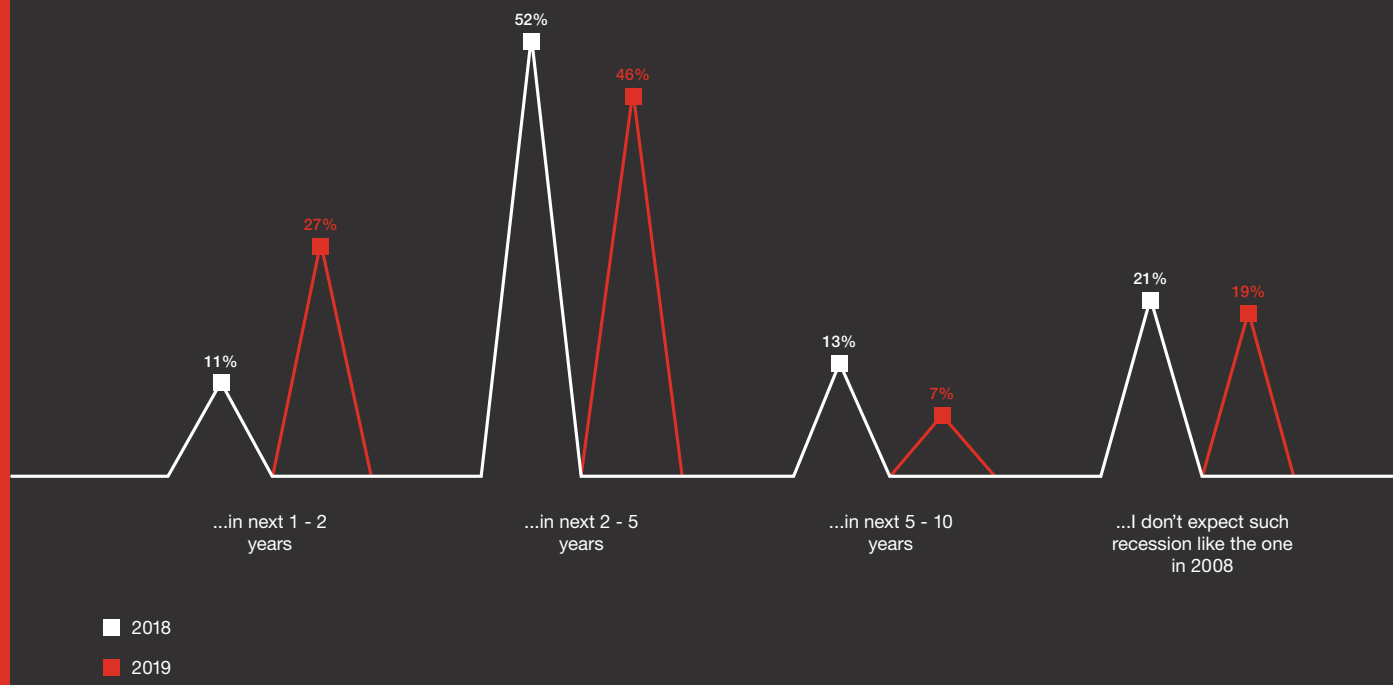
10%

of CEOs are transferring their growth strategy to new territories.

The number of CEOs expecting a recession/crisis in the next 2-3 years has almost tripled

QUESTION

In last years Slovak economy has grown, do you expect the recession/ crisis ...?



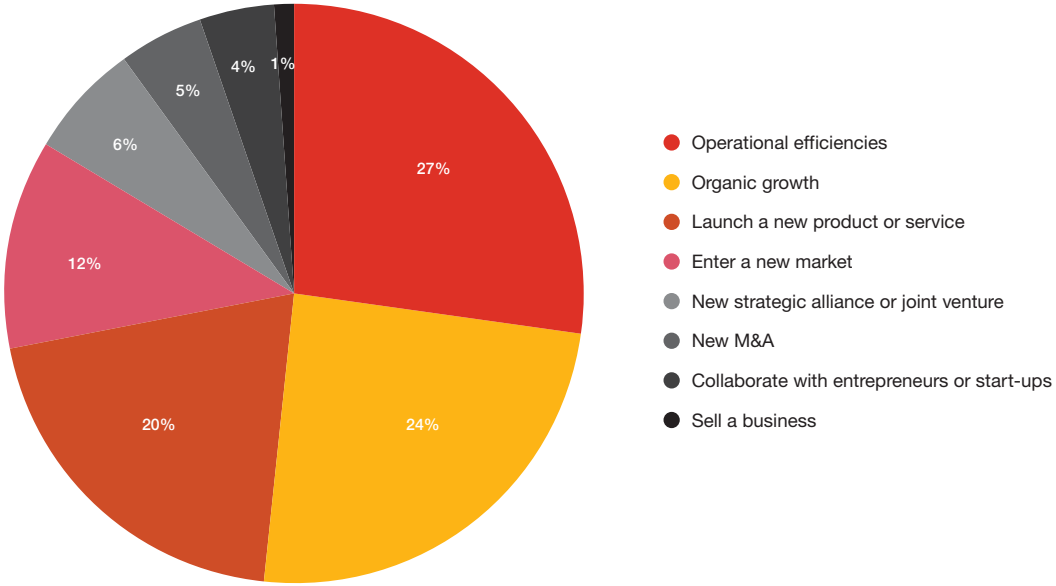
The probability that another crisis will come from the banking environment is much lower today, when compared to 2008, especially due to tighter regulation, constant bank testing, and, in many cases, also due to behavioural changes at certain banks.

Martin Gallovič
Partner

Cost cutting is on the agenda again, fewer leaders are relying on growth

QUESTION

Which of the following activities, if any, are you planning in the next 12 months in order to drive revenue growth?



While last year, a third of Slovak business leaders relied on organic growth of their revenues, this year the figure is one quarter. Cost-cutting initiatives, the importance of which has declined over the last two years, have started to dominate again in firms' business plans in Slovakia and worldwide. However, one fifth of CEOs are also relying on launching new products and services, and one tenth on entering new markets. Last year, a half of business leaders planned mergers or acquisitions, whereas this figure dropped to one third this year.

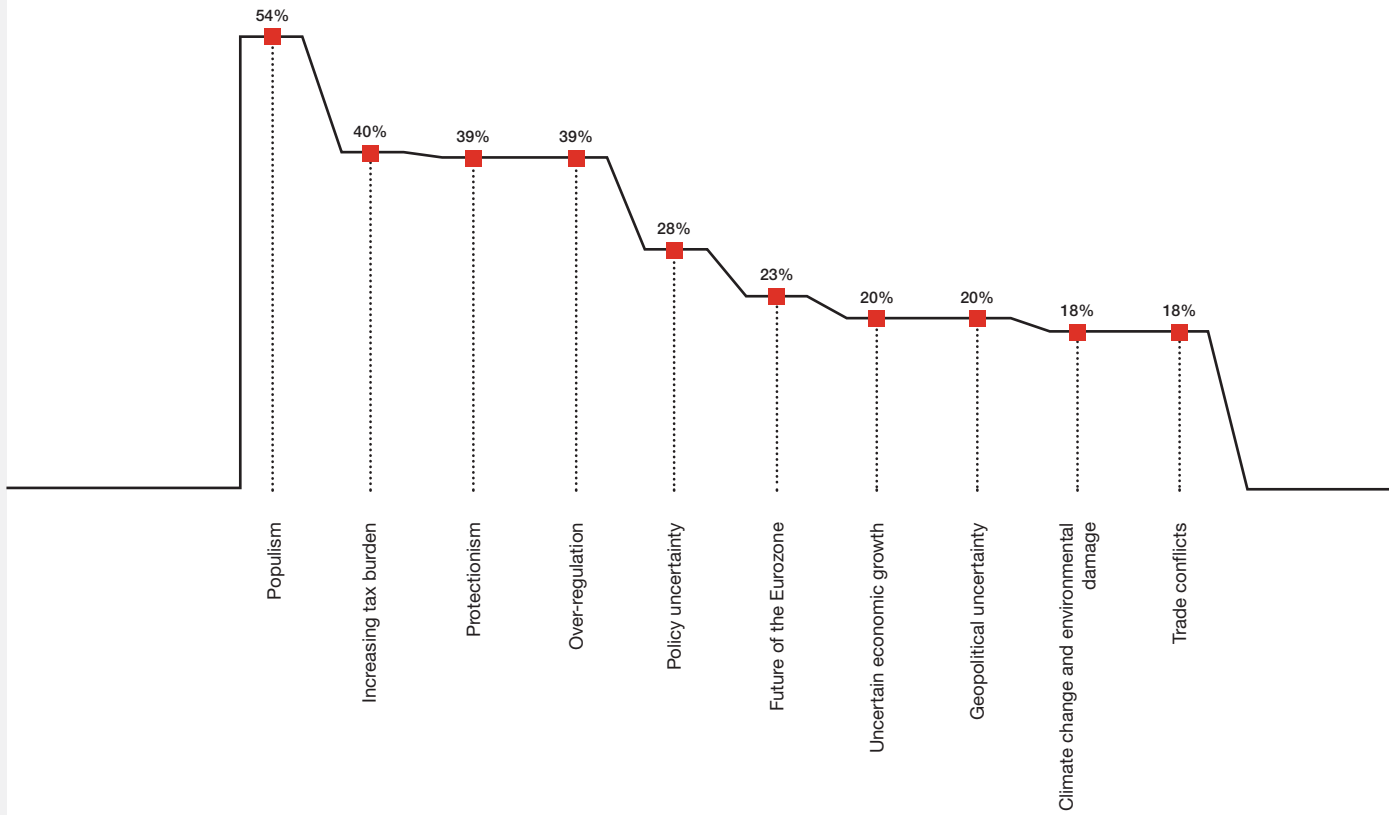
2 Threats are changing – populism and low availability of key skills in the region dominate

Slovak CEOs consider populism and the increasing tax burden as the biggest threats to business

CEOs in Slovakia are aware of business threats and consider populism, the increasing tax burden, protectionism, and overregulation as the biggest ones. The percentage of business leaders concerned about populism is almost twice as high in Slovakia than the global average (54% vs 28%). In contrast, trade disputes are a cause of concern for a third of CEOs globally, but only one fifth of Slovak CEOs are extremely concerned about them. Protectionism is perceived as a threat by business representatives and is making them prepare alternative scenarios. Business threats differ in each region, but political uncertainty and populism are ranked high globally. The availability of key skills ranks as high in the CEE, Africa, and Asia and Pacific.

QUESTION

How concerned are you, if at all, about potential economic, policy, social and environmental threats to your organisation's growth prospects? (only „extremely concerned" shown)



QUESTION

How concerned are you, if at all, about potential economic, policy, social and environmental threats to your organisation's growth prospects? (only „extremely concerned" shown)

North America
1. Cyber threats – 45%
2. Trade disputes – 44%
3. Protectionism – 38%

Western Europe
1. Over-regulation – 33%
2. Populism – 30%
3. Political uncertainty – 30%

CEE
1. Availability of key skills – 51%
2. Geopolitical uncertainty – 35%
3. Political uncertainty – 34%

Latin America
1. Populism – 60%
2. Over-regulation – 53%
3. Policy uncertainty – 50%

Africa
1. Policy uncertainty – 49%
2. Availability of key skills – 45%
3. Over-regulation – 43%

Middle East
1. Geopolitical uncertainty – 53%
2. Cyber threats – 38%
3. Policy uncertainty – 35%
3. Speed of technological change – 35%

Asia-Pacific
1. Trade conflicts – 38%
2. Availability of key skills – 35%
3. Protectionism – 34%

The global economy is changing. CEOs worldwide expect economic growth to decline, which will require companies to adapt to new challenges and find new opportunities.

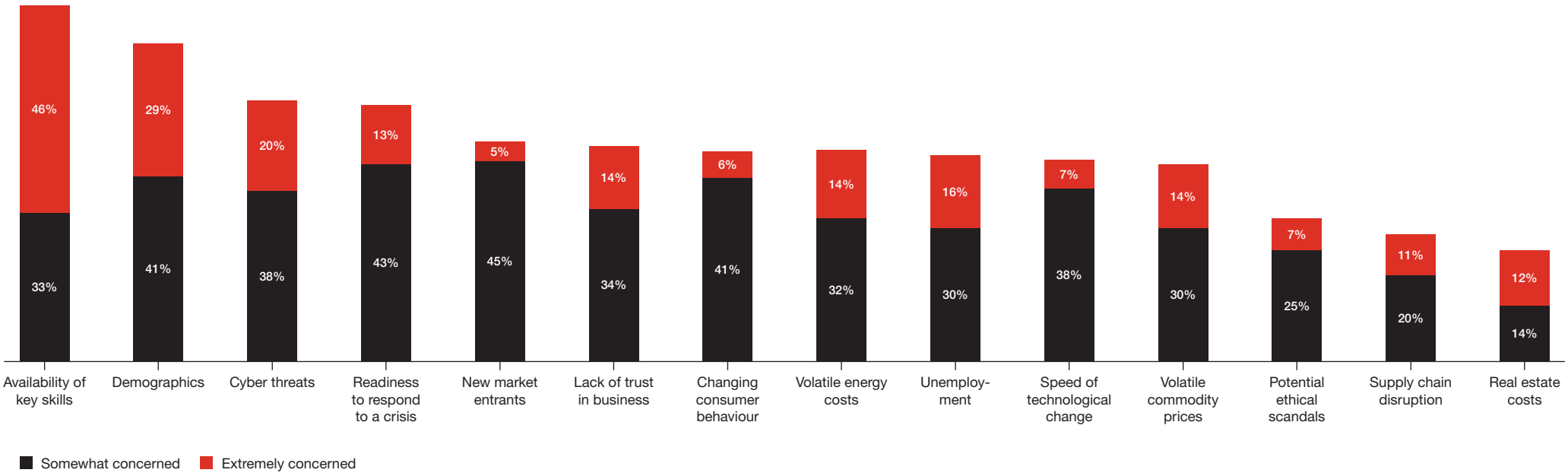
James D. Miller
Partner

The biggest threats relate to human resources – availability of key skills and demographic shifts

QUESTION

How concerned are you, if at all, about potential business threats to your organisation's growth prospects?

CEOs in the CEE and in Slovakia see the biggest threat for business in the availability of key skills. Demographic shifts, which are already affecting the labour market, ranked second. For several years, the top perceived threats have remained the same. In Slovakia, there is still a high demand for skilled employees, a low unemployment rate, and many young people are leaving the country to work or study abroad. The labour market is being joined by a younger generation, which is smaller in numbers and has inadequate education levels and work habits. Employers are hampered by increasing staff costs, investments in employee training and recruitment campaigns. Cyber security increased from the 9th to the 3rd greatest threat for Slovak CEOs. Last year, 43% of them considered cyber security as a threat, compared to 58% this year, although this type of threat was perceived as greater in other regions (North America and Western Europe) in past years.

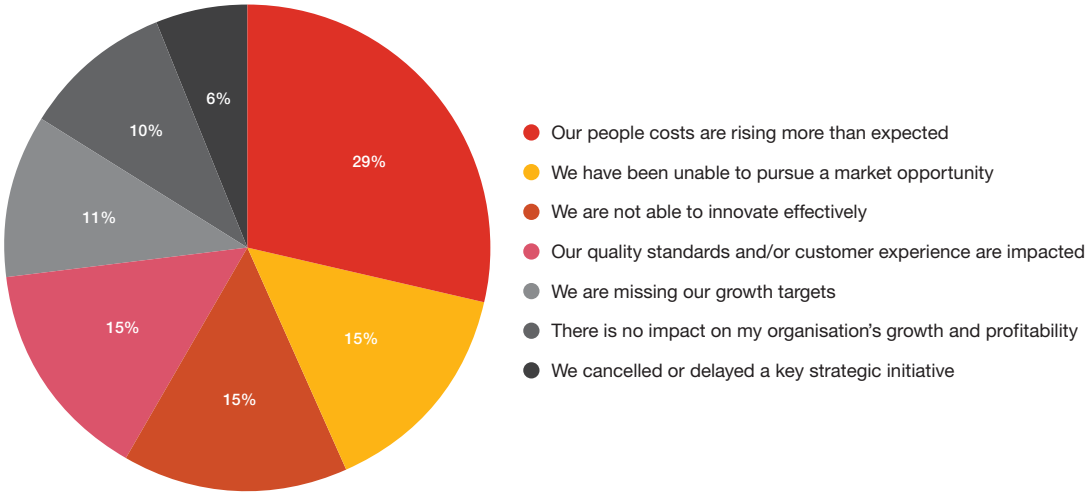


CEOs in Slovakia and globally state that the unavailability of key skills affects their growth prospects

Of the 79% of CEOs concerned about the availability of key skills, one third stated that staff costs rose more than expected, 15% were not able to introduce innovations effectively, 15% were not able to respond to a market opportunity, and 15% stated that it affects their quality standards and customer experience.

QUESTION

What impact is availability of key skills having on your organisation's growth prospects?



QUESTION

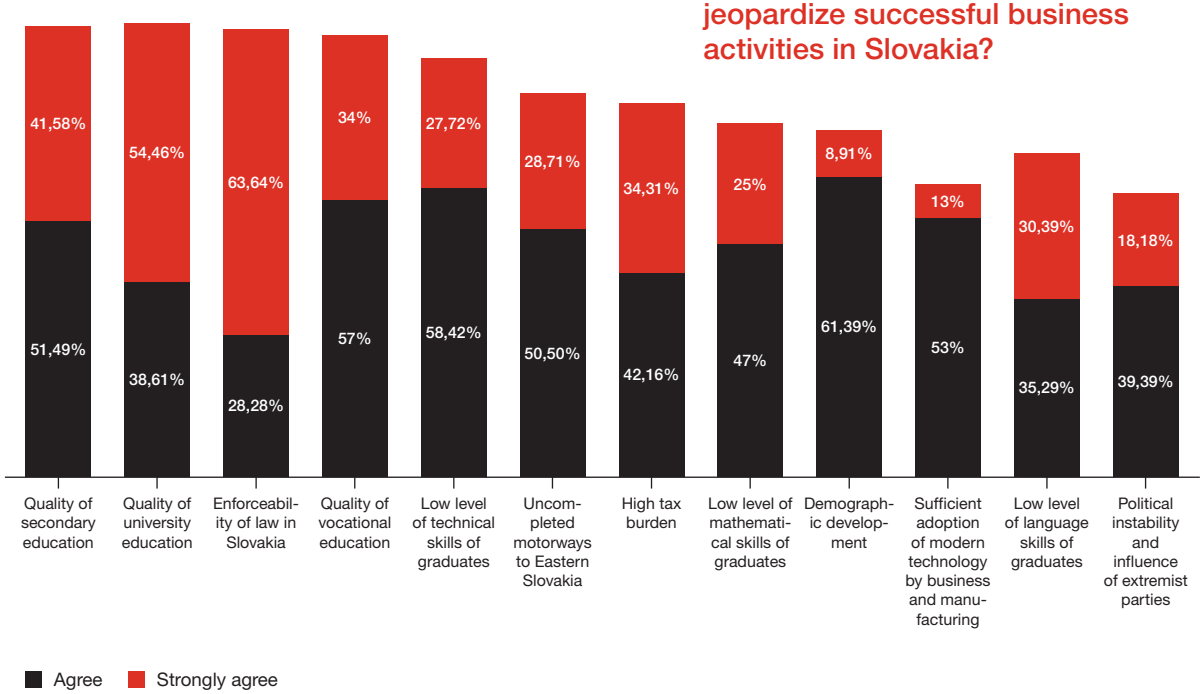
Which of these is the most important to closing the skills gap in your organisation?

The quality of secondary and university education is considered a bigger threat to the success of firms in Slovakia than law enforcement

For several years, law enforcement was the most important threat in the Slovak CEO Survey, followed by the quality of education. This year, the poor quality of education is perceived as the biggest threat. Poor education also occupies other high positions in the ranking, i.e. the quality of vocational education and the low level of technical skills of graduates. Uncompleted motorways moved up to the middle of this year's ranking due to the lack of progress in this field over the last 12 months. The increasing tax burden has had a stable place in the ranking after education for several years. Other matters of concern are the low level of mathematical skills of graduates, followed by demographic development. The last three threats in the ranking include insufficient adoption of modern technology by business and manufacturing, the low level of language skills of graduates, and political instability and the influence of extremist parties.

QUESTION

Which of the following factors could jeopardize successful business activities in Slovakia?



Digital transformation, one of the ways of improving productivity, requires new skill sets, and the importance of HR change management continues to increase. The ability to recruit the best people and to retain talent remains a priority. Dealing with these topics goes beyond discussions about salary levels, which are already becoming an ever greater challenge for the automotive sector in Slovakia.

Jens Horning
Partner, CEE Automotive Leader

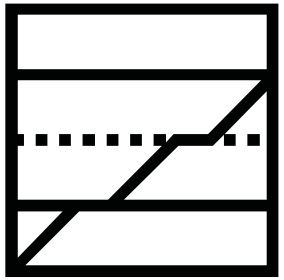
The quality of secondary and university education is considered a bigger threat to the success of firms in Slovakia than law enforcement

Service centres, employing up to 40 thousand people, were attracted to Slovakia for its highly qualified workforce, but their future development depends on increased numbers of skilled graduates and the same willingness to employ foreign workers that we see abroad.

Asif Khoja
Partner

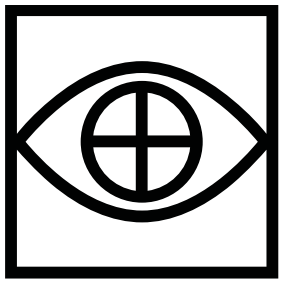
Most important global trends

1. Technological progress
2. Shift in global economic power
3. Demographic shifts



Most important success factors for the Slovak economy and society:

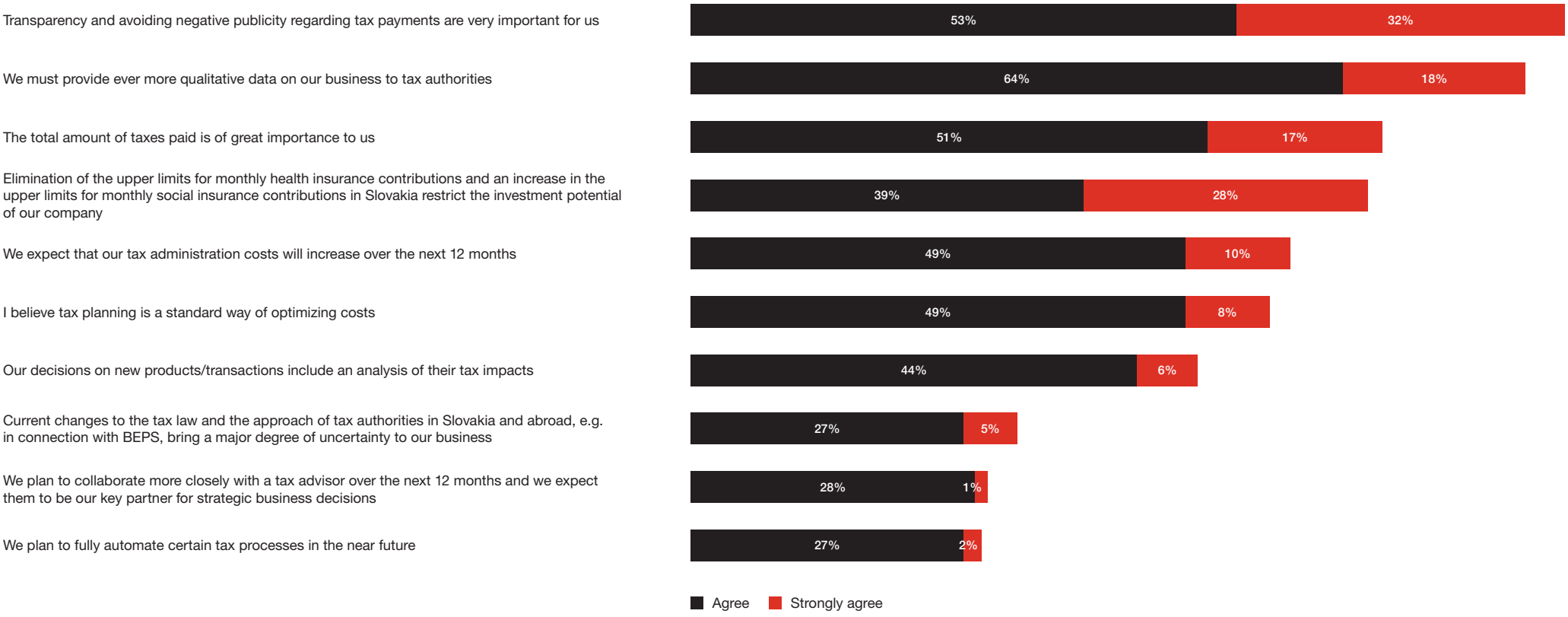
1. Skilled, educated, and adaptable workforce
2. Trust of population in liberal democracy and the free market
3. Simple, stable, and effective taxation



Transparency and avoiding negative publicity regarding tax payments are the most important tax-related issues for Slovak CEOs

QUESTION

To what extent do you agree with the following tax-related statements?



Transparency and avoiding negative publicity regarding tax payments are the most important tax-related issues for Slovak CEOs

81% of CEOs agree on providing more qualitative data on their business to tax authorities, and the total amount of taxes paid is of great importance to 67% of them. However, transparency and avoiding negative publicity regarding tax payments are the most important tax-related issues for 85% of CEOs in Slovakia. Two thirds of business leaders state that the elimination of the upper limits for monthly health insurance contributions and an increase in the upper limits for monthly social insurance contributions in Slovakia restrict the investment potential of their companies. Half of the CEOs stated that their decisions on new products or transactions include an analysis of their tax impacts.

59%

CEOs expect that their tax administration costs will increase over the next 12 months

Placing burdens on selected industries and categories of businesses does not contribute to the development of a favourable business environment. The tax and contribution burden in Slovakia is one of the highest in Europe, mostly due to high labour taxes. Current tax policy is still directed towards increasing this disproportion. The abolition of contribution caps results in a reduction of Slovakia's competitiveness, particularly regarding products and services with higher added value. A simple and transparent tax system is one of the most important factors for investors when making decisions.

Christiana Serugová
Partner, Tax and Legal Services Leader

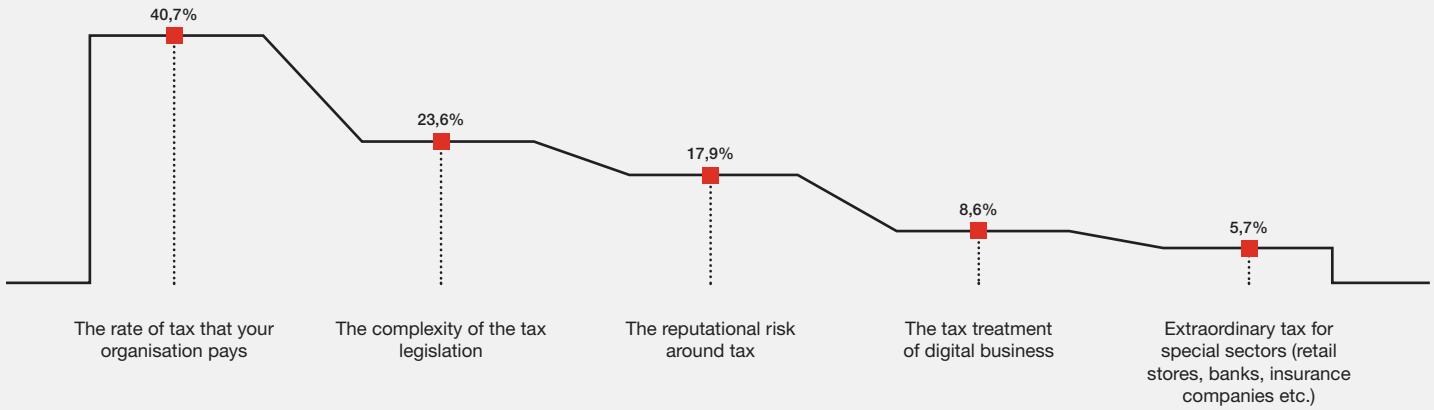
The standardisation of business processes is a prerequisite for their automation. However, the complexity of tax legislation is preventing businesses from making progress in this area. Almost half of firms in Slovakia expect implementation of the automation of tax processes in the near future. However, as many as two-thirds of firms expect increased tax administration costs next year.

Dagmar Haklová
Partner

QUESTION

What specifically about the increasing tax burden are you concerned about?

We observed an increasing tax burden on companies in Slovakia throughout the year, including the introduction of the controversial special levy on retail chains, non-life insurance tax, and the introduction of recreational vouchers. Business leaders are most concerned about the complexity of tax legislation, the amount of taxes and levies that organizations have to pay, and extraordinary taxes for special sectors.



3 Data and analytics are among declared priorities, but are yet to be realized

CEOs above all lack data about their customers' and clients' preferences and needs

QUESTION

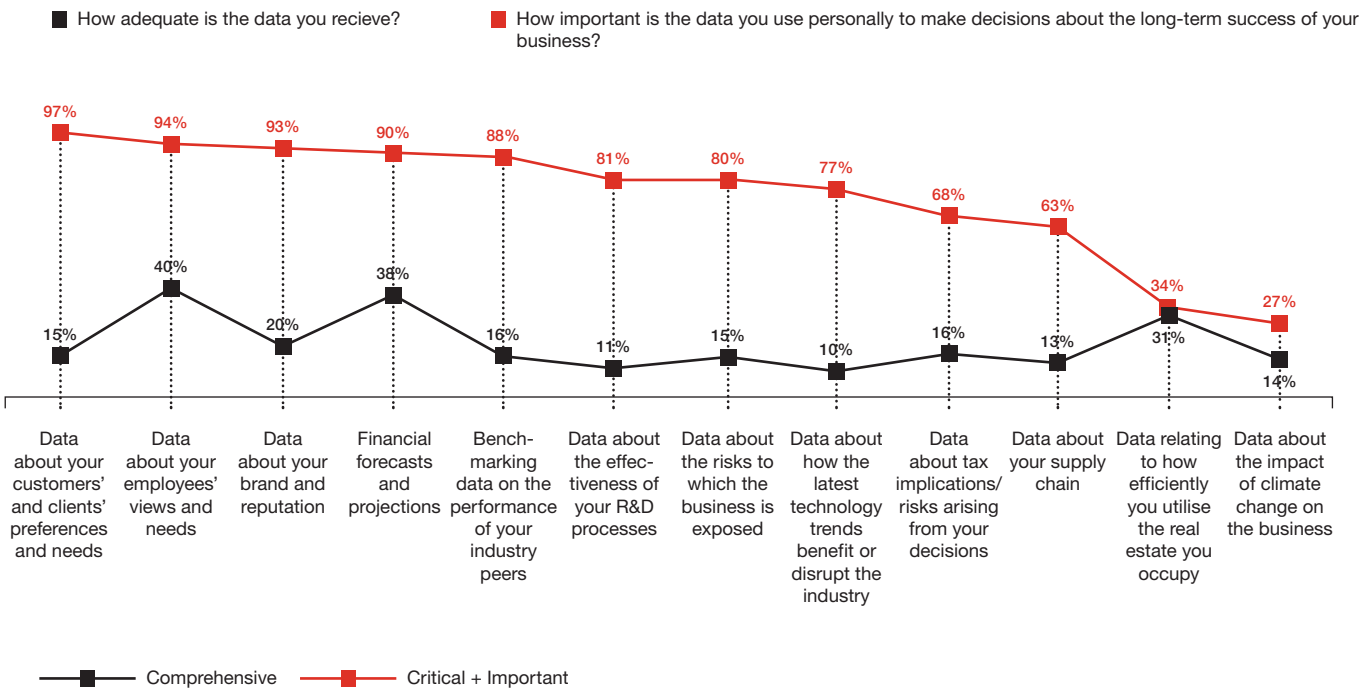
How adequate is the data you recieve and how important is the data that you personally use to make decisions about the long-term success of your business?

CEOs need high-quality data to make good decisions. However, it has been apparent for a long time that they are not receiving data in the required quality. Over the last ten years, the gap between data CEOs require and what they recieve has not changed for CEOs globally. Nine out of ten CEOs stated that the most important data for making decisions includes data about the preferences and needs of their customers and clients, data about their employees' views and needs, data about their brand and reputation, financial forecasts and projections, and benchmarking data on the performance of their industry peers.

Only four CEOs out of ten stated that they receive comprehensive data about their employees' views and needs, financial forecasts and projections, and data on how efficiently they are utilizing the real estate they occupy. Data on how efficiently they utilize the real estate they occupy is the only data stated below that meets their decision-making needs as regards quality.

The respondents identified the reasons why CEOs do not receive the information they require most often as the unwillingness of customers and clients to share it, poor data reliability (such as errors and incomplete data), not making fixed data available and a lack of data sharing. One-tenth of respondents also stated insufficient analytical talent and the inability to quantify external information.

Almost half of all leaders in Slovakia believe their firms' ability to adopt decisions based on data and analytics is better than their competitors. One-third believe their decision-making based on data and analytics is about the same and only 15% of CEOs stated that their ability to make decisions based on data and analytics lags behind their competitors.



The information that CEOs need the most, such as information about customers, staff, industry, and science and research, is also the information they most lack. The availability of data has improved in recent years, but new data sources have also emerged which has resulted in the requirement to analyse additional data. Data analysts are, and will continue to be, the most valued staff at companies. CEOs must make data analyses a real and not only a declared priority.

Ivo Doležal
Partner

Cyber threats ranked in the top three threats in Slovakia for the first time

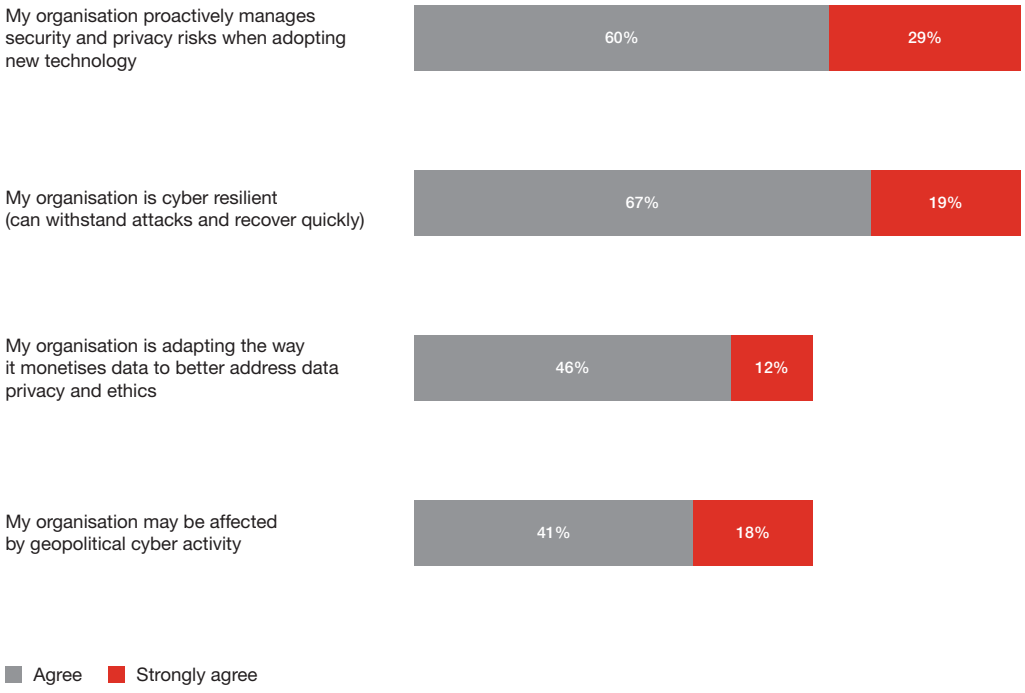
QUESTION

To what extent do you agree or disagree with the statements below ...

Cyber security is currently one of the most discussed topics and, together with data analytics and overall data protection, it creates the basic framework for a secure business. CEOs' objectives must include a constant effort to increase security at their firms.

Peter Havalda
Partner

Cyber threats ranked among the three top threats in Slovakia for the first time, whereas in North America this issue has been viewed as one of the top threats for several years. 89% of firms state they manage security and privacy risk proactively when adopting new technology, but only one-third (29%) believe this strongly.



4

CEOs believe that artificial intelligence will have a greater impact on business than the Internet

CEOs' views differ on whether artificial intelligence will destroy or create more jobs

QUESTION

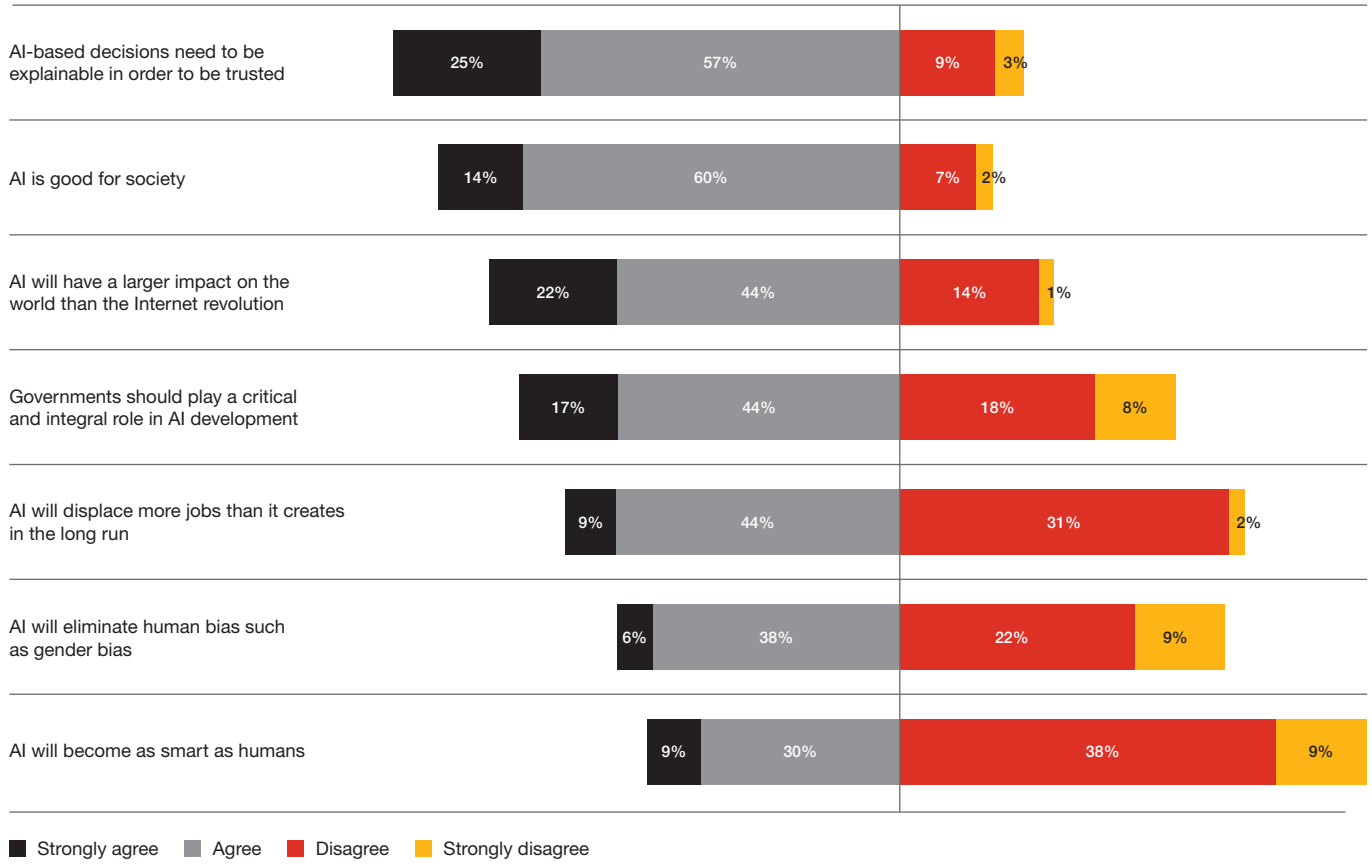
How strongly do you agree or disagree with the following statements about artificial intelligence (AI)?

61%

of CEOs in Slovakia stated that in the following five years, AI will significantly change the way they do business (strongly agree plus agree).

AI is becoming ever more popular in business and operations. Many companies have been running pilot schemes to define the best use of AI. AI is just starting and the big wave is still to come. The question for companies will be whether they have the capacity to attract and maintain talent that has the required special skills.

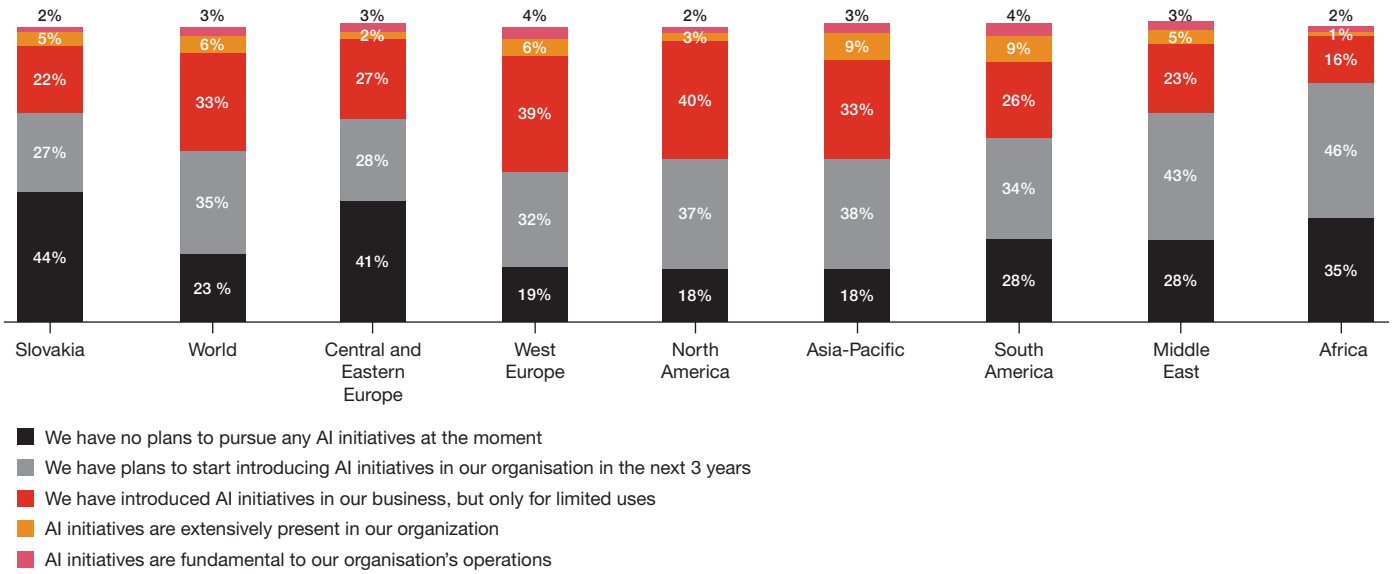
Karsten Hegel
Partner, CEE Financial Services Leader



Despite their statements and plans the majority of firms have not implemented any AI-related initiatives

QUESTION

How strongly do you agree or disagree with the following statements about artificial intelligence (AI)?



CEOs in Slovakia expect that governments will be active in introducing AI, as regards preparing strategy and policy for the expected impact on society and introducing initiatives accelerating development and the use of AI and will not slow its deployment with measures preventing the replacement of staff by AI. On the contrary, they expect governments to offer assistance to staff replaced by AI and incentives to organisations for retraining displaced staff.

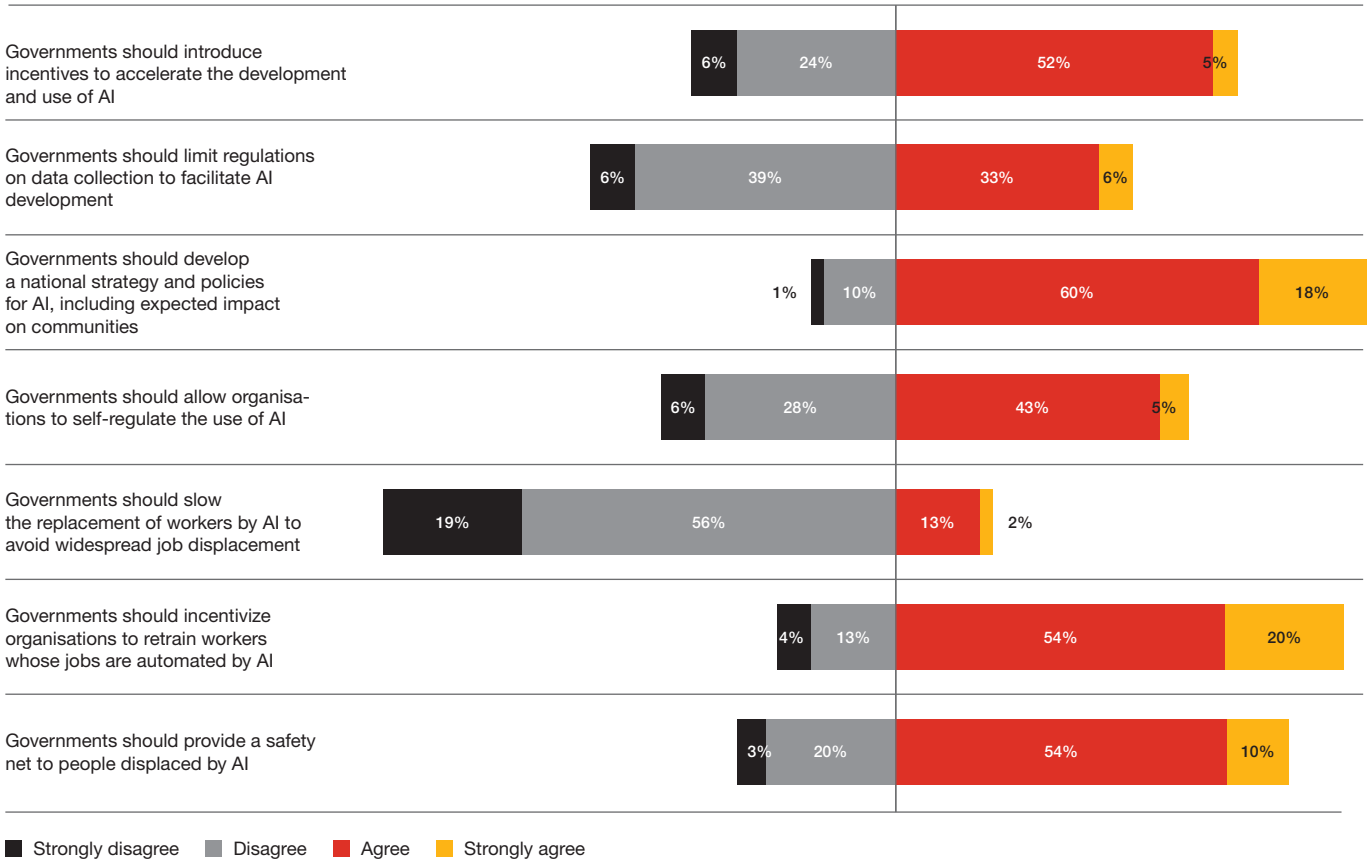
CEOs expect governments should introduce incentives to accelerate the development and use of AI

QUESTION

How strongly do you agree or disagree with the following statements about artificial intelligence (AI)?

In Slovakia, automation and new technologies could replace the highest number of jobs in the world: as much as 44% by 2035. This change in business and society will be so great that governments must start preparing national strategies and policies now to address the expected effect on societies, not only to support technologies and education, but also staff retraining.

Martin Šikulaj
Partner



Characteristics of companies which participated in the Slovak CEO Survey 2019

46%

of CEOs participating in the survey have worked at least one year outside their home country

25%

of firms represented in the survey have 500+ staff

24%

are firms managed by their owners

41%

of firms are family-owned (at least 32% of voting rights)

38%

of respondents manage firms with revenues exceeding EUR 30 million

11%

of CEOs participating in the survey were women

The 10th Annual Slovak CEO Survey was conducted by PwC, a consultancy firm, in cooperation with the Slovak edition of the Forbes Magazine. The CEOs contacted replied via an on-line or printed questionnaire from 5 December 2018 to 6 February 2019.

127 CEOs of companies operating in the Slovak market participated in the survey from various industries: financial services (banking & insurance), industrial manufacturing, construction, automotive, retail & distributive wholesale, consumer goods, transportation & logistics, information technology, telecommunications, energy & utilities, and other sectors.

The data for the 22nd Annual Global CEO Survey was collected in October and November 2018. 1378 CEOs participated in the survey, the sample is weighted by national GDP to ensure that CEOs are fairly represented across all major regions and the results were published during The World Economic Forum in Davos held in January 2019.

About Forbes
Forbes Slovakia is a monthly Slovakia's country edition published by the Barecz & Conrad Media, s.r.o. under a licence agreement with Forbes Media LLC. Forbes Media encompasses Forbes, the largest business media brand worldwide, Forbes.com, and 32 licensee editions. See www.forbes.sk for more information.

About PwC
At PwC, our purpose is to build trust in society and solve important problems. We are a network of firms in 158 countries with more than 250,000 people who are committed to delivering quality in assurance, advisory, and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

www.pwc.com/sk/en/ceo-survey

Contacts

PwC Bratislava
Karadžičova 2, 815 32 Bratislava
tel.: +421 2 593 50 111

PwC Košice
Aupark Tower, Protifašistických bojovníkov 11, 040 01
Košice tel.: +421 55 32153 11

Alex Šrank
Country Managing Partner
PwC
alexander.srank@pwc.com

Juraj Porubský
Editor-in-Chief
Forbes Slovakia
juraj.porubsky@forbes.sk

Mariana Butkovská
Marketing & Communications Leader
PwC
mariana.butkovska@pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2019 PwC. All rights reserved. In this document, PwC refers to PricewaterhouseCoopers Slovensko, s.r.o., PricewaterhouseCoopers Tax, k.s., PricewaterhouseCoopers Advisory s.r.o., and PricewaterhouseCoopers Legal, s.r.o., which are member firms of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.