# Global CFO Signals

## Retrenching again

**Second quarter 2012 Deloitte member firm CFO surveys:** Australia, Austria, Belgium, India, Ireland, Middle East, Netherlands, North America, Spain, Switzerland, and the United Kingdom

Deloitte Global CFO Signals
August 2012

## About the Deloitte Global CFO Program

The Deloitte Touche Tohmatsu Limited ("DTTL" or "Deloitte") Global Chief Financial Officer (CFO) Program is a CFO-centric strategic initiative that brings together a multidisciplinary team of senior partners and experienced professionals to help CFOs effectively address the unique challenges and demands they experience in their role. The Deloitte Global CFO Program and network of Deloitte member firms harness the breadth of Deloitte's capabilities to deliver forward thinking perspectives and fresh insights to help CFOs manage the complexities of their role, drive more value in their organization, and adapt to the changing strategic shifts in the market.

## About Deloitte member firm CFO surveys

Twenty-three Deloitte member firm CFO surveys, covering 38 countries, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. They are not, nor are they intended to be, scientific in any way, including the number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed populations but does not necessarily indicate economic or industry-wide perceptions or trends. Further, the focus, timing and respondent group for each survey may vary. Please refer to "About Deloitte member firm CFO surveys" (page 27) for Deloitte member firm contacts and information on the scope and survey demographics for each survey.

## About Deloitte's *Global CFO Signals*

Deloitte's *Global CFO Signals* report provides highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the second quarter 2012 CFO surveys from Deloitte member firms in the following geographies:

**Australia**: The glass half full?

**Austria**: Rejoiced too soon?

**Belgium**: Corporations turn defensive

**India**: Balancing act

**Ireland**: Growing uneasy

**Middle East**: Regional tensions rife

**Netherlands**: Raring to go ... or not?

**North America**: Playing defense again

**Spain:** New delays on recovery

**Switzerland:** Uncertainty dominates

**United Kingdom**: Confidence triple dips


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# Global CFO Signals

## CFO sentiment in second quarter 2012

What a difference a quarter makes. If it looked like CFOs globally shook some of their gloom in the first quarter of 2012, that may have been an illusion. Pessimism is back again — in force.

Continuing worries associated with the Eurozone debt crisis, fears of potential slowdowns in China and India, and renewed concerns about the U.S. economic situation collided to make CFOs rethink their positive vibes. Moreover, that reversal of sentiment has led to renewed retrenchment, with CFOs focusing on defensive strategies, such as cutting costs and bolstering cash flow — and making contingency plans for whatever happens next, particularly in the Eurozone.

In fact, in this issue of *Global CFO Signals*, which features surveys from 11 geographies, CFO optimism has decreased markedly in the majority of countries that track sentiment since their last surveys. The main exception is the Middle East, but even there political tensions in the region have tempered CFOs' optimism.

That negative outlook is having a decided effect on future expectations. In the U.K., CFOs now see almost a one-in-two chance of a year-on-year decline in corporate profits over the next year. And in North America, where CFOs' expected earnings growth has outpaced revenue growth for nine consecutive quarters — due in large part to finance's adeptness at efficiency gains — only one in three CFOs polled believes that can be sustained for more than another year.

As always, there are important regional differences to note. What follows is a synopsis of CFO sentiment by region based on Deloitte member firm CFO surveys:

### North America

In North America, after a brief period of renewed optimism, CFOs' worries returned to the forefront. That explains why CFOs' optimism took another hit this quarter — particularly in the U.S. After two quarters in negative territory (-24 percentage points in 3Q11, -9 in 4Q11), net optimism for the continent turned positive last quarter at +48. Although still positive on a continental basis, U.S. net optimism reverted to zero, and overall, only 39% of North American CFOs report a more positive outlook. In response, CFOs appear to be hunkering down and focusing more on industry- and company-level issues where they have more control. Still, they are not shying away from growth, particularly in existing markets, and their capital investment expectation of 11.4% is among the highest in the last two years.

### Europe

In Europe, where the debt crisis seems to continue unabated, the uncertainty is having long- and short-term implications. In Belgium, for example, CFOs are no longer more optimistic about their companies' prospects than they are for the economy in general. In fact, only 20% of CFOs expect demand for their products and services to improve before year-end, compared to 60% in Q1. In Switzerland, where only 20% of CFOs are more optimistic this quarter, a net balance of 7% say that the financial situation of their own company has deteriorated compared to three months ago. Meanwhile in the UK, CFO optimism saw its sharpest decline since the inception of the survey (2007) — its third major decline in five years — and there, as well as across the continent, defensive strategies are back at the forefront.

## Middle East

In the Middle East, more than half of CFOs say they are somewhat or significantly more optimistic about their company's prospects. But that is down from 72% in the first half of 2011. The price of oil and market growth in that region continue to bolster optimism. But political tensions in the region, coupled with the Eurozone crisis, are giving some finance chiefs pause, with 74% of them rating the general level of external financial and economic uncertainty as either above normal or at a high level. Little wonder that CFO priorities for the next 12 months include increasing cash flows and cash balances, or that almost three quarters of them do not believe this is the right time to take more risk onto their balance sheets.

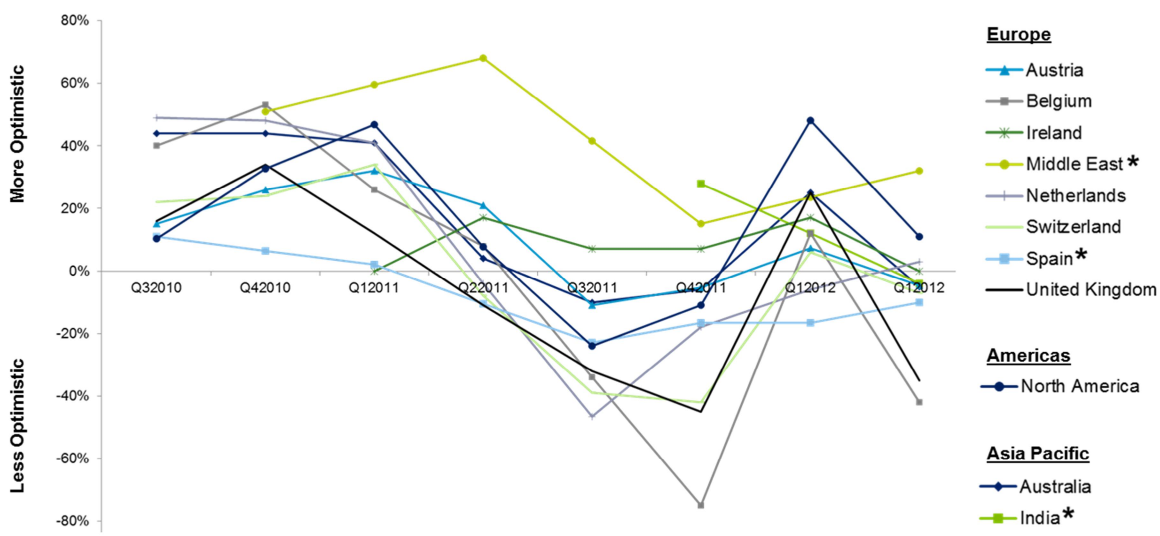
## Asia Pacific

Finally, in Asia Pacific, CFO sentiment is somewhat mixed. In India, 31% of CFOs report a more optimistic outlook than in the previous quarter, but in Australia, only 16% are more optimistic than they were three months ago. In addition, business uncertainty hit its highest level in more than a year in Australia, with 87% of CFOs saying it was above normal. Still, the tough times have driven companies there to innovate: two-thirds of Australian CFOs say it is a priority to introduce new products and services or expand into new markets.

At the halfway point of the year, such positive indicators seem few and far between. Yet, while CFOs are not feeling particularly confident about the external environment, they are continuing to leverage their strengths in an all-out effort to stay balanced in a rocky universe.

**CFO Sentiment: Net Change in Optimism**

Net % of CFOs who are more optimistic about the financial prospects of their company now than three months ago.




*A trend line has been plotted for this country as the survey is conducted on a semi-annual or annual basis.

*Please note that the surveys conducted vary in timing, sample size and demographic of respondents. As such, these survey responses may not be a statistically accurate representation of the countries/ regions identified. Please refer to the end of this publication for information on the scope and survey demographics for each participating survey.*

# Global CFO Signals

## CFO priorities: A global perspective*

### A matter of control

The retreat of optimism is manifesting itself in defensive business strategies for many CFOs. In Australia, for example, where 73% of CFOs say that the current uncertainty will negatively affect discretionary spending, increasing cash flow, organic expansion, and cost reduction are seen as high priorities for the rest of the year. In North America, many CFOs are focusing less on new markets, and more on working capital, inventories, and efficiency gains. And in the UK, CFOs are focusing on cutting costs and bolstering cash flow, like they did in late 2008. There are no guarantees, of course, that any of these measures will be enough to thwart the damage already inflicted. In Belgium, for example, CFOs continue to fall even further behind on budgets: 60% now report financials are behind budget, up from 40% in the first quarter. Plus, there is always the possibility that things could get worse, which may require a whole new set of responses. After all they have been through, some CFOs seem ready for anything at this point. Only 2% of Austrian CFOs, for example, say they are ill prepared for another economic crisis.

### No appetite for risk

Many CFOs agree that now is not the time to be taking more risk onto their balance sheets — and given their cash holdings, they probably don't have to. In Australia, for example, only 23% of CFOs think now is a good time to take on risk, the lowest level since the survey began, and in the Netherlands the figure is only 8%. CFOs in the Middle East continue to view risk negatively with 72% saying now is not the time to take more on, despite the fact that 60% expect levels of mergers and acquisitions (M&A) to increase in that region. There is a bit of a disconnect in Switzerland, though, where a large majority — more than 80% — have said they don't want to increase risk levels for the last four quarters (much of it driven by the currency risk posed by the strong Swiss Franc), yet this quarter a small majority have gone ahead and increased those risks. Other countries, such as Ireland, have been actively deleveraging with 43% of respondents expecting debt on the balance sheet to decrease over the next three years. And while reducing leverage may not be a top priority in the UK, neither is adding any despite the fact that for the first time since the survey began, a net balance of CFOs report that credit is cheap.

*Based on Deloitte member firm CFO surveys

## Eyeing government reform

All politics is local as they say, and the second quarter CFO surveys reinforced that old adage. Not surprisingly, many of the reforms CFOs weighed in on concerned efforts to stem the ongoing European debt crisis. In Spain, for example, for the first time in the survey, CFOs' perception of government reform is positive, with 62% of respondents saying the measures are effective. Similarly, over half of Irish CFOs believe their government has had some positive effect on fiscal and economic matters — a statistic gathered right after the passing of a May referendum on the European Union (EU) fiscal compact. Many of their neighbors are hoping the reforms work as well, but not all are convinced. In Belgium, 40% of CFOs assign a high likelihood of one or more member states leaving the Eurozone by the end of the year; and Swiss CFOs put the chances at 55% over the next five years. In response, many are increasingly making preparations in case a member leaves or if there is a breakup in the Eurozone: in the UK, for example, 28% of CFOs say their plans for coping with a breakup are "all made" or "at an advanced stage" compared to 18% in March.

## Finance stretched even more

Globally, the last quarter has been trying at best for CFOs. In Australia, for example, CFOs have had to allocate 55% of their time to controlling and operating their business ("steward" and "operator") as opposed to 45% on implementing strategy and driving change ("strategist" and catalyst"). Ideally, however, they would like to reverse that trend and spend 56% of their time as a "strategist" or "catalyst" and 44% as a "steward" or "operator." Swiss CFOs already have that allocation, with 54% of their time focused on the strategist and catalyst roles and 47% on steward and operator. Still, when asked what priorities currently rank highest, 79% of Swiss CFOs say controlling (accounting and regulatory skills) as compared to 63% three years ago. Meanwhile in North America, CFOs report that the softer skills are gaining in importance, but that excessive workloads and responsibilities are a top stress for 23%. And given those increased workloads, what skills do CFOs look for in a successor? CFOs say that the most important traits are centered on their ability to work effectively with others — particularly the CEO — and to contribute to strategy development.

# Deloitte member firm CFO Surveys:

# Second quarter 2012 highlights

# Australia
# The glass half full?

## Uncertainty rules

CFO optimism in Australia has tumbled back into negative territory. After bouncing back in the first quarter, confidence has fallen back to late-2011 levels, when European concerns escalated significantly. More than 60% of CFOs said the outlook for the financial prospects of their company had not changed in three months, reflecting an acceptance that uncertain times are here to stay.

CFOs' confidence levels continued to be undermined by global developments. European sovereign debt was a central issue, affecting the confidence of 88% of CFOs in some way, while 79% were concerned about a potential Chinese slowdown. More than half of CFOs were concerned about U.S. economic uncertainty.

However, an issue closer to home had the most-significant effect. Some 84% of CFOs said uncertainty over Australian government policy negatively affected optimism — up from 79% in the third quarter of 2011. Moreover, 36% of CFOs said that political uncertainty significantly affected optimism — higher than any other factor. This uncertainty was reflected in the fact that nearly two-thirds of CFOs expected operating costs to rise, and more than half expected margins to decline. Hiring was expected to remain unchanged (52%) or decline (39%).

Finally, while CFOs' appetite for risk has remained low for the past 12 months, the number of respondents who saw this as a good time to take risk onto their balance sheets sank to just 23% — the lowest level since this survey began.

### Highlights from the Q2 2012 Australian CFO Survey:

- Business uncertainty hit its highest level in more than a year, with 87% saying it was above normal.
- Only 16% of CFOs are more optimistic about their companies' financial prospects than they were three months ago. Some 21% are less optimistic, and 63% reported no change.
- The most significant factors facing companies' financial prospects are the European sovereign debt issues, Australian government policy uncertainty, and the potential slowdown in China.
- Only 23% of CFOs think now is a good time to take on more risk– the lowest level in the history of the survey.
- The key business strategies for the year ahead include organic expansion, cost reduction, and increasing cash flow.
- CFOs are split on the value of the Australian dollar in a year's time: 61% predict it will be worth between USD $0.90 and USD $1, whereas 35% expect it to be worth between US$1 and US$1.20.

## Companies hunker down

Uncertainty was also manifested in CFOs' attitudes to business strategies, as companies focused on internal operational issues. Some 73% of CFOs indicated that current uncertainty would negatively affect discretionary spending; increasing cash flow, organic expansion, and cost reduction was seen as high priorities for the rest of the year.

Balance sheet strategies remain defensive, with corporations less likely to be expanding by acquisition or increasing capital expenditure than they were a year ago. This poses serious concerns, given Australia's economic growth relies on capital expenditure by businesses. Indeed, Deloitte Access Economics estimates it accounted for all of the economic growth in Australia in the 2011-12 financial year.

On a brighter note, challenging times have driven companies to innovate. Two-thirds of CFOs said it was a priority to introduce new products and services, or expand into new markets.

## Market confidence takes a hit

CFOs clearly expect corporate activity to remain stagnant in the immediate future. More than a third of CFOs expected no change to M&A levels or the All Ordinaries Index in the next 12 months. Further, more than half of CFOs predicted no change in bond issuance, financial leverage, bank borrowing, inventory levels, and dividends or share buybacks.

More than 50% of the CFOs surveyed thought Australian balance sheets were optimally leveraged, whereas a substantial minority believed they were still underleveraged. The net percentage of CFOs looking to raise debt dropped to 8%, equaling the lowest level since this survey began.

CFOs' views on equity valuations have also become more moderate. Nearly three-quarters of CFOs felt equity is undervalued in line with recent share market movements, while one-quarter of respondents described valuations as fair.

## Funding challenges continue

Internal funding remained the most-attractive option for CFOs, with 68% of respondents describing it as somewhat or very attractive. The appeal of corporate debt and equity dropped sharply.

The cost of credit has fallen following two months of consecutive interest rate cuts, yet 25% of CFOs still found credit hard to obtain. Some 45% of CFOs believed the cost of new credit has been driven by changes in margins as opposed to market or bank base rates.

Almost 60% of CFOs said they would support the development of a significant domestic bond market in Australia, with one-quarter of respondents saying they would definitely use it and more than half saying they would possibly use it. Price and availability of funds are the key factors that would make a bond market attractive, according to CFOs.

## CFOs focus on strategy

CFOs have allocated 55% of their time over the past year to controlling and operating their business (steward and operator roles) and 45% to implementing strategy and driving change (strategist and catalyst roles). Ideally, CFOs would like to reverse these percentages. Most CFOs count treasury and investor relations among their direct reports; if indirect reports are also included, most CFOs are also responsible for information technology (IT), risk management, and strategy.

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# Austria

# Rejoiced too soon?

## Negativity takes hold

After the positive expectations last quarter, Austrian CFOs are assessing the market development for this quarter negatively again. Whereas in the last quarter about 85% of CFOs were expecting a stable or improving economic situation, more than 40% in the current quarter believe that the economy will decrease. Moreover, about 24% of the CFOs anticipate a recession or economic crisis compared to 14% last quarter. Nevertheless, only 2% of the CFOs feel ill prepared for an economic crisis.

The negative expectations also extend to their views on the Austrian Traded Index (ATX): Whereas 36% in the last quarter forecasted an increase, only 24% of CFOs in this survey expect a rise of the ATX. However, they display a much more positive mood toward inflation than last quarter. Only 30% of CFOs believe in an increase of the inflation rate —the lowest level since the first survey. Even 27% of the CFOs are expecting a decrease of the inflation rate within this quarter.

## Sales expected to suffer

Compared to the positive results of the previous quarter, revenue expectations are strongly declining in this survey. More than 25% of the CFOs think that their companies will have a lower sales volume. This is more than double the amount of the last quarter, and one of the worst values ever. Also the number of CFOs expecting an increase in revenue has declined significantly (from 56% to 41%). At least 30% believe there will be no change in revenues in the near future.

### Highlights from the Q2 2012 Austrian CFO survey:

- After positive expectations last quarter, the economic climate is viewed more negatively again due to issues in the Eurozone.
- More than 40% in the current quarter believe economic conditions will deteriorate; about 24% of anticipate a recession or economic crisis.
- Austrian CFOs consider market conditions uncertain, but only about 2% think they are ill prepared for an economic crisis.
- CFOs view credit availability optimistically, and nearly 50% believe future credit costs will be lower.
- Almost 30% anticipate a declining inflation rate.
- About 40% of CFOs expect an increase in their sales volume; more than 30% expect sales to remain flat.

Also the expectations concerning the investment climate in general and the planned investment activities went down. Compared to 21% in the last quarter, currently 36% of the CFOs anticipate deterioration whereas only 9% expect an improvement of the investment situation. More than 30% of the companies think of a reduction of their investment activities. Although the percentage of CFOs who have planned to enhance their previous levels of investment decreased from 37% to 31%, at least one third of the CFOs are still willing to counteract the economic downturn with investing activities.

## Cloudy on credit availability

Credit availability is showing positive signals, but this indicator is not showing clear improvement trends. On one hand, the percentage of CFOs who believe in a very high availability of loans increased (13% to 15%) and the percentage of CFOs who believe in a very low availability of loans decreased (15% to 10%). On the other hand, this quarter more CFOs (from 15% to 25%) classify the availability of credits as unlikely and fewer (19% to 17%) classify it as likely. Interestingly, not only is credit availability seen positively, but credit costs are also expected to go down. In fact, 46% of the CFOs are expecting lower credit costs in the near future.

## M&A not so much

Overall — typical for Austria — M&A is not in the focus of managers. For most of the CFOs, mergers and acquisitions have a minor importance (about 50%) and nearly 30% of them take a neutral position on M&A activity.

## Retreating on jobs

The jobs outlook also took a hit this quarter. Whereas in the last survey 32% of the CFOs planned to increase their workforce, in this survey only 21% are willing to hire more employees. Also the percentage of CFOs who want to reduce staff rose from 20% to 25%. This is nearly the amount reached in the fourth quarter of 2011, when the economic crisis started. Nevertheless, 54% of Austrian CFOs plan to keep their employment levels constant. Because of the expected worse economic situation and the rising labor costs, an increase in unemployment may be expected. In the end, however, it is quite difficult to predict how the CFOs will react on a worsening of the future economic situation.

## Enforcement on the horizon

Most CFOs believe in the implementation of an enforcement agency in Austria. At least 51% think the implementation will be realized within the next three years, and 43% estimate that the implementation will be achieved after 2015. Only 6% can imagine that an enforcement agency will never be realized in Austria. Still, 70% of the CFOs take a neutral position. The reason for these results could be the uncertainty in general and may indicate a need for more information.

# Belgium
## Corporations turn defensive

### Mood swings

Things were looking up again in the first quarter of the year. Many Belgian CFOs seemed to have shaken much of the gloom displayed at the end of last year. But the increase in CFO optimism could not be sustained. CFOs are again significantly less optimistic today about the financial prospects of their own companies than they were three months ago. In fact, CFO optimism saw its sharpest fall since the survey started in Q1 2009.

The underlying causes of Europe's debt crisis – uncompetitive economies and indebted governments– remain, and will not be solved in the short run. The future of the Eurozone remains at risk. Consumer demand is far from reassured and projections for growth for many of the European countries — but also the U.S. — are challenged. High growth economies such as China are slowing down as well.

CFOs expectations on the timing of the recovery of the Belgian economy have been pushed back by at least half a year. And unlike the previous quarters, CFOs are no longer more optimistic about the prospects for their own company than for the economy as a whole. Today only 20% of CFOs expect demand for their company's products and services to improve before the end of this year — down from 60% three months ago. Twenty-five percent anticipate a very slow recovery and see no significant improvement before 2014. Not a surprise that the economic recovery is the CFOs main concern, next to securing their competitive position in the market.

### Poor performance and outlook

Close to 60% of Belgian CFOs now report that the actual performance of their company is lagging behind the budget, up from 40% at the end of the first quarter. To put this into a longer term perspective: in 2010 only 20% of CFOs reported worse-than-expected performance in the second quarter, in 2011 it was 30%. Today, this percentage has doubled compared to 2011. On average, CFOs expect only marginal top line growth and further decreasing operating margins going forward. Taking into account that CFOs were already very pessimistic in the fourth quarter of 2011 — when many prepared their 2012 budgets — these second quarter results illustrate the significant challenges many companies face.

**Highlights from the Q2 2012 Belgium CFO survey:**

- The general level of economic and financial uncertainty has gone up again in the second quarter. CFOs are significantly less optimistic today about the financial prospects of their own organizations than they were three months ago.
- Only 20% of CFOs expect demand for their products and services to improve before the end of the year — down from 60% three months ago.
- Halfway through the year, 60% of surveyed CFOs report financials are behind budget, up from 40% at the end of the first quarter.
- Overall, CFOs are not overly concerned with external financing; 40% currently perceive credit as costly and hard to get.
- CFOs remain focused on defensive strategies such as boosting cash flow and cutting costs.
- Although 40% believe one or more countries might leave the Eurozone in the next 12 months, only a quarter reports that their company is changing its plans to deal with the risk of the euro stress.

## No appetite for risk

Belgian CFOs do not think the time is right to take on additional risk on the balance sheet. Risk appetite has plummeted back to the low levels reported in the first quarter of 2009.

In addition, fewer CFOs plan to reinvest surplus cash back into the business. With financial and economic uncertainty significantly above normal levels, CFOs remain focused on defensive balance sheet strategies such as boosting cash flow and cutting costs. CFOs see hiring and discretionary spending declining over the next year. Still, in search of growth and to avoid stagnation, expansion into new markets or products remains important for more than one third of the respondents.

## Credit conditions weaken

The attractiveness of the major forms of financing — equity, bank borrowing, and corporate debt — has lowered somewhat compared to the first quarter. On balance, bank borrowing is perceived as neither attractive nor unattractive. Although overall Belgian CFOs are not overly concerned with external financing, 40% currently perceive credit as costly and hard to get. Macroeconomic uncertainty and the outlook for demand appear to have greater influences on capital spending than the availability of finance. Going forward two-thirds of CFOs anticipate harder pricing and/or lending terms for bank borrowing.

## Euro worries continue

The Euro crisis is not over, according to Belgian CFOs. More than 40% of the survey respondents assign a high rating to the likelihood of one or more member states leaving the Eurozone in 2012, and a quarter reports that their company is changing its plans to deal with the risk of the euro stress.

Although one out of three CFOs expects a significant impact on their business in the event of one or more member states leaving the euro, only 6% of the respondents expecting at least some effect from this event, consider themselves well prepared for this event. Almost 30% of those respondents, mainly representing large organizations, have made some preparations.

# India
# Balancing act

## Competing decisions

Caught between the need to curb inflation and the necessity to spur economic growth, the Indian government is indeed on a tight-rope walk over economic dilemmas. The balancing act has never been as crucial in recent times as it is now, as highlighted by the decisions below:

- Control inflation by maintaining the current interest level or ease lending to fuel growth;
- Increase subsidies for necessary commodities such as oil, fertilizers, etc., or cut back on spending to curb fiscal deficit;
- Continue leveraging capital accounts to strengthen the rupee or allow a weakening rupee to increase exports;
- Tax corporations to reduce budget deficits or provide corporate incentives to spur employment.

The situation is worsened due to events, such as continued financial worries in the U.S. and Europe, and domestic issues, such as sub-optimal monsoon, widening fiscal deficit, and the rating downgrade of India by credit rating agencies.

How the government formulates policy decisions in the coming months, and consequently reinforces confidence in the Indian economy, needs to be observed. In light of this, the Indian CFO survey for H1 2012 shows CFOs' concerns for India's macroeconomic outlook and its impact on future industrial growth and organizational sustenance.

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**Highlights from the H1 2012 Indian CFO survey:**

- Half of CFOs expect inflation to increase, gross domestic product (GDP) growth to slow down, and industrial growth to stagnate.
- Some 43% consider political inefficiency the most important cause of concern.
- Half of the CFOs surveyed expect capital-raising activities and accessing foreign markets to hedge risks to surge.
- More than 30% believe their organizations will perform better going forward, while 35% are apprehensive about poor performance.
- Low consumer demand, domestic political uncertainties, and declining exports are seen as key challenges going forward by 72% of CFOs.
- Some 35% expect macroeconomic factors to stabilize, while 15% expect an improvement.

## Macroeconomic concerns dominate

Inflation has risen to 7.25% (June 2012) from 6.5% (December 2011), and GDP growth has staggered to an all-time low of 5.3% in recent times. While the government strategizes to deal with current dilemmas, additional challenges such as the implications of General Anti-Avoidance Rules, retrospective tax, etc., increasingly deter investment. CFOs are apprehensive about the macroeconomic indicators, with almost half of them expressing concern for the future as evident from the survey results. In fact, 47% of respondents expect inflation to worsen, 46% expect GDP growth rate to taper further, and 45% expect industrial growth to slow down. On average, 35% expect stabilization, while only a minority (15%) expects improvement of the current state.

The presidential elections were held during the period of the survey, along with a change in the finance ministry. The result was uncertainty among

CFO sentiments, with 40% of respondents indicating that political direction towards economic reforms is a major cause of concern. CFOs expected the government to lay down effective policies that would control inflation and spur consumption. However, India's consumer spending has been at its weakest in seven years. Due to this, 25% of the CFOs identified decreasing consumer demand as one of their organization's key challenges followed by rising input costs, and fluctuating exchange rates.

### Industrial growth apprehensions

Industrial production in India decreased 1.8% in June 2012, and the reduction is being attributed to lack of reforms and regulatory hurdles. On average, 60% of CFOs expressed concern over industry regulations, inflationary pricing trends, and changing cost structures. Some 34% rank industry regulations as their top concern for the future.

The ramifications of the annual budget continue to generate not-so-positive sentiments. CFO concerns stem from increased rates for excise duty and service tax, which many viewed as indirect causes of price, as well as input cost increases. The survey indicates that only 8% anticipate improvement in the industrial growth, while 59% expect a slowdown. CFOs from industries such as industrial goods (heavy machinery, petroleum, and precious metal), media and technology, commodities, and hospitality and entertainment, are more concerned than others, primarily due to fears that the increase in raw materials and other input costs will increase market prices, which in turn will aggravate the issue of slowing consumer demand and low profitability. On the other hand, CFOs who expect improvement in industrial outlook primarily based in the healthcare, life sciences, and energy sectors. Their optimism can be attributed to inherent demand for their goods (fertilizers and power/fuel respectively), government subsidies, and tax exemptions offered by the budget for these sectors.

### Organizational performance

Compared to last quarter when 47% of CFOs were optimistic about the performance of their organizations, currently only 31% are; 35% are still apprehensive about poor corporate performance. Of the CFOs with an optimistic outlook, 83% say that it is primarily due to internal and/or company-specific factors, such as products and/or services, operations, financing, assets, etc. In contrast, 79% of the CFOs who report a negative outlook attribute it to external factors such as economic, government, regulations, market trends, etc.

CFOs are under dual pressure. Revenue sustenance is a challenge due to lower consumer demand (domestic *and* international). At the same time, sustaining profitability is an issue due to increased input costs, higher corporate tax (industry specific), a weakening rupee, and higher cost of capital. The supply of specialized or skilled resources is another key operational challenge, reported by a third of the respondents.

### Moving forward — a challenge

Based on the survey findings and associated sentiments on economic indicators, CFOs are faced with the need to continue revenue growth/preservation, as well as implement cost containment initiatives. In addition, their future strategies may need to include accessing foreign markets to hedge risks, delivering better consumer solutions and/or products, increasing resource and/or capacity/productivity, streamlining operations, and ensuring prudent investments on business projects. Such practices may help them tailor business models that adapt swiftly to changes in the global economy.

# Ireland
# Growing uneasy

## Optimism at all-time low

Last quarter's rise in Irish CFO optimism seems to have been short lived. CFOs are less optimistic this quarter, with 20% of CFOs stating that they are optimistic about their companies' financial prospects, compared to 33% in Q1. This puts net CFO optimism at zero, a drop of 17% since last quarter, and an all-time low since the survey began in Q1 2011.

Interestingly, the decline in overall optimism is not reflected in expectations on turnover and profitability. CFOs' expectations for increased turnover in the next six months are broadly in line with those of last quarter at 51%. Some 46% of CFOs are expecting an increase in profitability in the next six months, with 20% of CFOs expecting a decrease, compared to 17% last quarter. The rising demand in the export market is likely to be the leading contributor to positive expectations of turnover and profitability.

## Confidence dips

Irish CFOs' confidence in their companies' ability to grow in the current climate has fallen, with net 26% of respondents indicating that they have already returned to growth. This is a decline of 18% from last quarter. Negative sentiment continues with net 4% of Irish CFOs believing that the Irish economy has returned to growth this quarter, down 2% from the previous quarter.

More than 90% of CFOs do not believe that the economy will return to growth before Q1 2013. Responses show that CFOs have a positive view of their companies' growth prospects ahead of the economy's overall growth prospects. While this relationship has stayed constant over the last year, this quarter the results are starting to close that gap.

### Highlights from the Q2 2012 Irish CFO survey:

- Some 52% of CFOs think the government has had a positive effect overall on fiscal and economic matters.
- This quarter, only 20% of CFOs state that they are optimistic about their company's prospects, compared to 33% in Q1.
- Net 81% of respondents say credit is costly despite record low European Central Bank (ECB) rates.
- More than 20% believe that the global recession is one of the top external challenges facing their organization.
- More than a quarter of CFOs indicate that their company has already returned to growth.
- Almost 60% of CFOs surveyed believe that it is important for sustainability programs to be part of the CFO agenda.

## Market risks remains

Market uncertainty is the main external financial challenge for CFOs with 30% ranking this as their top challenge. Some 22% of CFOs are concerned with the challenge of global recession and low growth.

The past six months have seen a decline in CFO confidence in the Eurozone, with 37% saying that a break-up is quite likely, up from 12% in Q3 2011. This is despite the recent passing of the Fiscal Stability Treaty Referendum. In an equal and opposite reaction, the views of a break-up being quite unlikely have decreased to 25% from 57%. This result could be related to the timing of this survey which occurred before the EU summit at the end of June. It will be interesting to re-examine this metric to see if changes to policy, and their implementation, have increased CFO confidence in the future of the euro.

## Still no easy credit

The perception that the cost of credit is high has grown this quarter, with net 81% of respondents stating that the overall cost of new credit is high, despite the continued record low ECB interest rates. Perception of the availability of credit remains poor, with net half of CFOs surveyed stating it is hard to get.

Comparing Irish results with selected EU countries for the same questions, Ireland ranked worst in class, with Irish-based CFOs perceiving cost of credit to be the highest and credit the hardest to get. This analysis highlights difficulties Irish companies face in competing with other EU companies. It also provides some background to the increasing trend to using overseas banks as a source of funding instead of local banks.

While Irish banks remain the overall preferred source of funding, this has declined by 17% in the past 12 months, perhaps a reflection of the ongoing banking crisis at home. Correspondingly, the use of overseas banks has increased in popularity among CFOs to 26% bringing the gap between preference for domestic and overseas funding, down from 37% a year ago to just 14% this quarter. Use of corporate bonds as a funding method continues to grow, rising to 13% from 7% last quarter.

## Weighing in on sustainability

This quarter, in conjunction with Business in the Community Ireland, the Irish CFO survey looked at CFOs' views on various aspects of sustainability.

What is clear is that CFOs are increasingly becoming involved in the management, measurement, and reporting of companies' sustainability programs. In fact, 93% of CFOs believe there is a direct link between sustainability programs and business performance. Moreover, 58% of CFOs noted that it was extremely important or important for sustainability programs to be part of the CFO's role, with merely 6% of CFOs deeming it unimportant.

Specifically, the Irish CFOs identified sustainability as having the strongest effect on long-term value creation, compliance, risk management, and building trust. Although CFOs link sustainability to business value and risk management, interestingly, 5% of CFOs surveyed believed sustainability to have an effect on M&A activity and/or investment analysis. At a time where rating agencies are requiring more information regarding firms' sustainability practices, indexes such as the Dow Jones Sustainability Index and the Financial Times Stock Exchange (FTSE) FTSE4GOOD index measure and rank firms corporate responsibility standards. This should be an area of increasing focus for CFOs.

Sustainability programs typically focus around the five pillars of corporate responsibility, namely; marketplace, workplace, environment, community, and sustainability communications reporting and governance. Almost 30% of CFOs believe that the marketplace, including supply chains and customers, are the areas of sustainability most relevant to their role as CFO. This is followed by 24% who cited the workplace as the relevant area.

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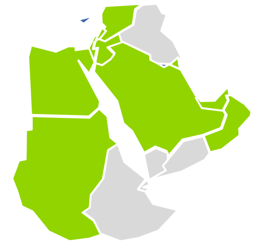
# Middle East
## Regional tensions rife



### Optimism tempered

In the Middle East, CFO optimism for the first half (H1) 2012 remains somewhat low compared to earlier surveys, primarily due to the political tensions in the region and the crisis within the Eurozone. Factors that kept the CFOs in the Middle East somewhat more optimistic are rising oil prices and regional market growth. Overall, however, 52% of CFOs are somewhat or significantly more optimistic about their own company's prospects compared to the last survey. That is down from 72% in the first half of 2011.

### Priorities for the future

Over the next 12 months, CFOs are focused on reducing costs and increasing cash flow. Disposing of assets and capital expenditure are not high priorities. In fact, some 35% of the CFOs expect free cash flow to increase by up to 10%, primarily driven by increasing revenues.

Some 60% of the CFOs expect the levels of M&A activity in the Middle East and North Africa (MENA) region will increase. This is up from 43% in 2011. The respondents are most likely to use existing cash or operating cash flow to fund these transactions. However, only 38% of the CFOs would look into acquiring in a new geographical region. This focus on potential acquisitions stems from the view of almost 50% of CFOs that equity values are somewhat undervalued; 27% believe they are at fair value.

### Facing uncertainty

A combined 74% of the CFOs rated the general level of external financial and economic uncertainty as either above normal or at a high level. Due to this level of uncertainty, when asked if it is a good time to be taking greater risk with their balance sheets, 72% of the respondents said "no."

### Highlights from the H1 2012 Middle East CFO Survey:

- More than half (52%) of CFOs are somewhat or significantly more optimistic about their own company's prospects compared to the last survey — down from 72% in the first half of 2011.
- CFOs continue to have a "risk off" attitude toward protecting their balance sheets. Still, some 45% of CFOs expect the total debt on their balance sheets to increase a little over the next three years.
- Some 60% of CFOs expect the levels of M&A in the MENA region to increase, up from 43% in 2011.
- Priorities for the next 12 months increasing cash flows and cash balances, as well as selective acquisitions, funded internally.

### Cash is king

Some 45% of the CFOs expect the total debt on their balance sheets to increase a little over the next three years, with the expectation that their ability to service their debt to slightly increase or remain the same.

When asked to rank their debt reduction strategies over the next three years, CFOs cited utilizing cash reserves as the top strategy, followed closely by asset sales and equity issuance.

# Netherlands

## Raring to go … or not?

### Fragile outlook

According to CBS Statistics Netherlands, the economic growth in the first quarter compared with the previous quarter (Q4) has been adjusted upwards by 0.5%. As a result, instead of shrinking by 0.2%, the Dutch economy grew by 0.3%; technically, the Dutch economy went out of recession.

The economic outlook remains fragile, however, and a new recession is looming. According to CPB Netherlands Bureau for Economic Policy Analysis figures published in June 2011, Dutch GDP is expected to shrink by 0.75% in 2012. A slight recovery is forecast for 2013: a growth in GDP of 0.75%, an adjustment of -0.5% compared with the previous outlook.

Against this backdrop, Dutch CFO optimists and pessimists are almost equally divided about the financial prospects of their own companies: the net score hovers around the zero mark. More than half of CFOs expect their cash flow to increase (69% in Q1). Almost one third of CFOs expect their cash flow to remain unchanged over the next 12 months (only 6% in Q1).

### Looking for growth

As far as their priorities for the next 12 months, CFOs remain consistent in striving for organic growth as their most-prioritized strategy. Other expansion strategies, such as introducing new products, expanding into new markets, or expanding by acquisition, are less of a priority. Organic growth is followed in priority by increasing cash flow. Increasing capital expenditure decreased as a priority, undoing the rise of the previous quarter.

**Highlights from the Q2 2012 Dutch CFO survey:**

- CFO optimists and pessimists are almost equally divided about the financial prospects of their own companies: the net score hovers around the zero mark.
- Almost one third of CFOs expect their cash flow to remain unchanged over the next 12 months (6% in Q1).
- CFOs remain consistent in striving for organic growth as their most-prioritized strategy for the next 12 months.
- Risk appetite has dropped to low levels again: a mere 8% of CFOs think now is a good time to be taking greater balance sheet-related risks.
- The overall sentiment regarding availability and cost of credit remains negative.
- Corporate debt is perceived to be the most attractive source of funding. However, all funding sources have become less attractive.
- Around 41% of CFOs expect M&A levels to increase in the next 12 months, representing a drop in perception.
- CFOs rate their company with a moderate 6.8 in terms of cybersecurity.

### Risk appetite drops

Risk appetite once again dropped to the low levels last seen in the third quarter of 2011 and early 2009. Only 8% of CFOs think now is a good time to be taking greater balance sheet-related risks. But no great shifts can be observed in the levels of financial risk CFOs are willing to take on their balance sheets.

## Uncertainty high; funding low

When Dutch CFOs are asked to assess the level of external financial and economic uncertainty facing their business, 67% of CFOs rate this level as high to very high, with the “very high” score increasing to 21%, up from 9%. Some 21% of CFOs rate these conditions to be above normal level. Only 13% rate the external financial and economic uncertainty facing their business to be normal or below normal.

As far as their key metrics are concerned, more than 80% of CFOs expect the financing costs to increase for Dutch companies over the next 12 months. More than a quarter of CFOs expect the capital expenditure of Dutch companies to increase — in contrast to the 11% of CFOs who expect to increase their own capital expenditure. Hiring and inventory levels are expected to be reduced.

In terms of funding outlook, the perceived conditions regarding cost and availability of credit are diverging in contrast to the previous quarters. The availability of credit is considered low by most CFOs, but improved as opposed to the last quarter. The perceived level of cost of credit is considered even higher than last quarter. Overall, however, the sentiment remains negative, and all sources of corporate funding are perceived as less attractive than in the last quarter.

## M&A expectations tempered

The economic and political turmoil that sustain the uncertainty on the financial markets prevent the M&A market from recovering to the levels last seen before the crisis. In 2012, up to and including Q2, the number of deals remains just below the level of 2011 in relative terms (46% in number of deals). Going forward, fewer CFOs (41%) expect the M&A activity levels to increase in the next 12 months compared with the last quarter. Only 8% of the CFOs expect the M&A levels to decrease any further from the current level.

## Cyber-security concerns

This quarter’s special topic concerned cyber-security. While 36% of CFOs consider cyber security to mainly be an IT theme, another 38% consider this theme mainly to be an organizational issue.

Still, CFOs do not appear convinced of their own organization’s cyber security. On average, they rate their company with a moderate 6.8 out of 10, implying there is work to be done. Almost 20% of CFOs rate their company with unsatisfactory marks, while 36% give their organizations a score of 8 or higher.

By far, the greatest risk of a potential cyber-attack perceived by CFOs is “loss of reputation among stakeholders.” CFOs also perceive reputational damage to have the greatest effect on the value of the organization, materially or immaterially.

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# North America

## Playing defense again

### CFOs' optimism gains erased

Last quarter's comparative reprieve from terrible news about Europe and the broader global economy yielded a substantial rise in CFO optimism. But CFOs were still voicing strong concerns about slow growth at home, government stagnation, and the potential for renewed global economic volatility. And this quarter's resurgence of uncertainty and bad news confirmed their fears.

Elections are further obscuring the direction of government policy in Europe and North America. Economic performance measures in most regions have soured, Europe's (and the euro's) future has become less certain, and equity markets have tumbled again. Not surprisingly, CFOs' optimism gains were mostly erased this quarter — especially in the U.S. Overall, 39% of CFOs report a more positive outlook; 28% report rising pessimism.

One bright spot up until now has been corporate performance, which has held up despite volatile conditions. But this quarter's survey puts even that in question. While CFOs' projections for year-over-year earnings growth continue to outpace their projections for sales growth — implying that efficiency gains and improved business focus can largely make up for slow revenue growth — this quarter's findings indicate that only one in three CFOs believes their company can sustain this dynamic for more than another year.

### Sales still outpace revenues

Despite their worries, CFOs continue to project improving performance. Sales growth rebounded from a survey-low 5.9%* last quarter to 6.6%* this quarter, but with high variability. And after climbing to 12.8%* last quarter, earnings growth receded to 10.5%* — 12.3%* for the U.S. (down from 14.5%*), 11.7%* for Mexico (down from 15.8%*), and 4.6%* for Canada (down from 6.9%*) — also with high variability.

**Highlights from the Q2 2012 North American CFO survey:**

- In the U.S., net optimism now sits at zero. Sentiment is better in Canada and Mexico, but continental net optimism still fell from +48 points last quarter to +11 this quarter. Overall, 39% of CFOs report a more positive outlook and 28% report rising pessimism.
- Sales growth expectations increased to 6.6%*, up from last quarter's survey-low 5.9%*. Earnings growth is still expected to exceed sales growth, but with a slower growth rate of 10.5%* (versus an expected 12.8%* last quarter). Domestic hiring growth held steady at 2.1%, while offshore personnel (3.8%*) and outsourcing (3.6%*) growth came in higher.
- CFOs say their companies' top three challenges include revenue growth from existing markets (steady at 60%), talent (up seven points to 41%) and prioritizing investments (steady at 32%).
- In response to the coming year-end "fiscal cliff" of pending tax increases and spending cuts, CFOs do not seem particularly worried. About two-thirds say they are not reacting at all, and the remaining third are split when it comes to accelerating and decelerating their investments, hiring, and transactions.

This is the ninth consecutive quarter where CFOs' expected earnings growth has outpaced revenue growth, and recent strength of corporate earnings seems to validate their past perceptions.

How have they done it? CFOs say their companies have been bolstering margins through both strategic and tactical shifts. More than half say they have reduced their focus on lower-margin businesses and/or lower-margin customers, and a remarkable two-thirds say they have raised prices.

* All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

The most common approaches, however, reflect operational blocking and tackling, with more than 80% of CFOs citing a heavy focus on improving process efficiencies in both indirect and direct cost areas.

## Investment holding up

For the time being, though, companies do not appear to be backing off on their capital investments and hiring. Capital investment growth expectations receded this quarter to 11.4% but are still among the highest in the past two years. The driver appears to be a continued focus on business growth, with CFOs saying that about half of their companies' business focus is now on revenue growth and that two-thirds of that growth focus is directed toward existing markets.

Hiring growth expectations remain positive but modest. Having risen from 1.0%* in the fourth quarter of last year to 2.1%* last quarter, estimates held steady this quarter. But companies continue to struggle in finding the right skill sets, and talent-related challenges are now the number three industry-level challenge and the number two company-level challenge. Finance organizations are feeling the effects with 25% of CFOs citing trouble finding and retaining finance talent and 30% citing insufficient support staff.

## Fiscal cliff

The long-term costs of national debt are clearly a concern for CFOs, but even if they could take the national debt into their own hands, it appears their solutions would vary considerably. About 60% of U.S. CFOs advocate substantial spending cuts, but 30% prefer to freeze spending or hold off on major cuts (while formalizing a long-term plan). Moreover, one third of U.S. CFOs prefer to leave taxes unchanged while substantially cutting spending (and 5% say think taxes should be lowered), but nearly 30% prefer raising taxes and substantially cutting spending simultaneously (presumably to speed deficit reduction), and another 8% prefer to raise taxes while only freezing spending.

Whatever their preferred solution, U.S. CFOs are facing a federal "fiscal cliff" of pending tax increases and spending cuts at year-end, and a lack of clarity around what will happen appears to be driving differing conclusions about how to respond. About two-thirds of CFOs say they are not reacting at all to the possibility of spending and tax changes, and the remaining third are split when it comes to accelerating or decelerating their investments, hiring, and transactions.

## Focus on the softer skills

CFOs say they are playing broader and more strategic roles, and that their success is increasingly determined not by their technical competency or industry knowledge, but by their ability to work with others and contribute to strategy development. Specifically, and regardless of industry, CFOs say personal compatibility with the CEO is the most important trait for their successor, and ability to develop internal relationships is second. Experience around financial and strategic planning is next, with industry experience, ownership type, and audit experience finishing at the bottom.

# Spain
# New delays on recovery

## Slow end in sight

In a global environment with limited recovery signs, especially in Spain, the majority of CFOs (90%) still perceive Spain's current economic situation as bad or very bad. In fact, 58% of CFOs expect that Spain's economy will go into recession. Moreover, 73% of CFOs don't anticipate a recovery until the second half of 2013 or later, and 17% of those delay the recovery to the second half of 2014 or later.

At the same time, however, the percentage of CFOs expressing optimism concerning the outlook for their companies' operating income has slightly increased (49%), as has their optimism regarding finance income (40%). However, they do not expect a growth in demand for their companies' products and services before 2013 or later (67%).

## Positive view of government reforms

For the first time since the inception of the survey (July 2009), the Spanish CFOs' perception of the government's reforms is positive, with more than half (62%) considering that the measures adopted in response to the current economic situation as effective. Measures related to payment to civil services suppliers and labor market received the highest approval — 85% and 76% respectively.

The participants think that the government should continue adopting measures related to public expenditure and financial system. But 79% of CFOs said that new tax burdens are having a negative effect on economic activity.

According to those polled, the solution for reducing the risk premium of the peripheral EU countries involves first implementing steps to stimulate the economy and create jobs, and second, the creation of euro bonds.

### Highlights from the H1 2012 Spanish CFO Survey:

- Some 90% of Spanish CFOs consider the present economic situation to be bad.
- Almost three-fourths of CFOs do not expect the Spanish economy to recover until the second half of 2013 or later, and 17% of these say that there will be no recovery until the second half of 2014 or later.
- More than 60% believe that the next 12 months will see a slow recovery in the world economy, whereas 92% consider that Spain will undergo a phase of economic stagnation or recession.
- For the first time since this survey began, 62% of CFOs consider the government's measures to be effective.
- More than 80% of those polled consider public expenditure to be the priority focus for action to overcome the current economic crisis.
- Retention of cash for liquidity is now the top business priority, while investing in new capacity has fallen to second place.
- The two key focus areas for CFOs are to reduce operating costs and to improve the efficiency of the finance function.

## Guarded against risk

The Spanish CFOs' aversion to risk continues, with 75% stating that this is not a good time to assume risks, a percentage that has scarcely changed over the course of these surveys.

About half of those polled believe that liquidity, interest rates, and counterparty risks have increased in the last 12 months. Some 35% of CFOs consider that their cash flow levels will scarcely change in the next 12 months, while 18% even anticipate a downturn, compared with 29%, who expect growth, albeit of less than 10%.

The reduction and/or instability of transactions is viewed by CFOs as the most critical issue for working capital management.

## Difficulty accessing capital

Perception of the equity situation has scarcely changed with respect to the previous survey, with leverage levels still very high. However, only 37% of CFOs aim to reduce the level of their borrowing in their financial statements in the next three years.

The CFOs continue to regard traditional financing sources as increasingly restrictive, very costly (90%), and difficult to access (99%).

Although the percentage of respondents considering that the funding sources are not attractive, should they require funding in the next 12 months, 62% have no doubt that they would resort to bank borrowings.

Optimism regarding M&A increased compared to the previous survey, with 74% considering that the level of corporate transaction activity will increase in the next 12 months.

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## Strategies that work

Despite the current climate of economic instability, CFOs are still seeking to ensure financing, liquidity, and acceptable capital cost levels for their organizations, and they consider that the main challenge of finance function is to influence the business strategy and make an impact on the priorities of their organizations.

Spanish CFOs keep applying corporate and general costs reduction strategies, structure and organization-size optimization strategies, and operating and commercial costs reduction strategies to answer the current economic environment.

# Switzerland
# Uncertainty dominates

## Asking hard questions

The results of the Swiss CFO Survey reflect the hard questions CFOs are asking about the global environment. Growth in the United States is higher than in Europe, but will the U.S. finally manage to revive its job market? Major emerging economies like China and India show signs of slowing down, but will this lead to a “hard landing?” With major parts of Europe in recession, how long will the economies of Germany and Switzerland continue to expand? Will a solution to the euro debt crisis finally be found? And, what is the outlook for the Swiss franc, whose strength and status as a safe haven have proved very challenging for Swiss exporters?

These questions, which primarily reflect macroeconomic risks, have a major effect on the views of CFOs in Switzerland. Even though expectations regarding the economy have improved (33% have a positive outlook) compared to the previous quarter, 36% still expect a recession in Switzerland within the next two years. Moreover, the uncertainty has also affected how CFOs view their own company’s prospects: a net balance of 7% said that the financial situation of their own company had deteriorated compared to three months ago.

## External and currency risks dominate

Currently, Swiss CFOs are mostly worried about external risks. Some 64% view weaker foreign demand as a risk, while 72% expect the ongoing problems in the financial system to pose a significant risk, 19 percentage points more than in the previous quarter. On the other hand, only 37% currently view weaker domestic demand as a risk, down from 58% at the end of 2011.

**Highlights from the Q2 2012 Swiss CFO Survey:**

- Uncertainty is the dominant theme. Only 33% have a positive outlook for the Swiss economy; 28% a negative outlook, and 39% are undecided.
- Some 63% of CFOs expect a decline in operating margins in the next 12 months, while only 6% expect an increase.
- While 63% of CFOs do not view weaker domestic demand as a significant risk for their own companies, a similar number — 64% — see weaker foreign demand as a risk.
- Some 60% of CFOs view strategic uncertainties as the biggest challenge of their jobs.
- Almost 40% of CFOs have made preparations in case of the exit of a euro member or a breakup of the Eurozone.
- The strength of the Swiss franc is seen as a significant risk by 65% of CFOs over the next 12 months.

In addition, currency risks have also been on the rise. Some 65% of CFOs consider the strength of the Swiss Franc to be a major risk over the next 12 months. This is the highest percentage since the survey in Q3 2011, when the Swiss national bank introduced the Swiss franc/euro exchange rate floor. This is also evidenced by the significant shift in exchange rate expectations during this quarter. Only 58% of CFOs expect an exchange rate of at least SF1.20/EUR in 12 months, 31 percentage points less than in the previous quarter.

## Risk appetite remains low

The low risk appetite of companies does not seem surprising given the current risks. This quarter 87% of CFOs said they do not want to increase the risks on their balance sheet, the fourth quarter in a row where risk aversion was above 80%. But for the last five quarters, there has been a slightly positive net balance stating that the risks on their own balance sheet have increased. The ability to control risks (for example, exchange rate risk) seems to have declined, which may be a major reason for the general caution being expressed.

The perceived availability of credit remains positive, while perceived credit costs remains low. Credit conditions in Switzerland compare favorably to those in five other European countries.

## Ongoing euro concerns

Given that the Eurozone is by far Switzerland's most-important trading partner, each deterioration of the euro crisis has an effect on Switzerland, resulting in weaker foreign demand and increasing exchange rate pressure. During this quarter, both are again considered to have become more serious risks. Moreover, CFOs consider that the probability of at least one euro member having to leave the Eurozone is the highest since the survey started asking this question in 2010.

In the CFOs' opinion, even the exit of a relatively small euro member would have a direct effect on some companies. In this scenario, 29% expect a (highly) negative direct effect for their own company. Some 70% state that a Greek exit from the Eurozone would have no or minimal negative impact on their business.

## CFO demands and challenges

The results from this quarter's survey confirm that CFOs now require a complex range of skills. Controlling (accounting and reporting) and financing has become increasingly important over the last three years. On the other hand, the organizing process of the finance function lost some of its importance and only 34% considered it their highest priority.

The dominant challenges facing CFOs now are strategic uncertainties (60%), complex transformation programs (45%), performance pressures (36%), and the changing regulatory environment (34%).  At the bottom of the list is "insufficient internal influence" (4%)

# United Kingdom
# Confidence triple dips

## Seesawing sentiment

The second quarter Deloitte CFO Survey testifies to the impact of macroeconomic and financial uncertainty on sentiment among CFOs and on their business strategies. Once again, worries about recession and a breakup of the euro have knocked business confidence. CFO sentiment has zigzagged over the last year, plummeting on the gathering euro crisis in the second half of 2011, rising in March as the ECB injected liquidity into the banks and, in June, registering its sharpest decline since the survey started in 2007. Therefore, along with the post-Lehman decline, CFO sentiment has seen three major dips in the space of five years.

UK CFOs entered 2012 with a view that a breakup of the euro posed the biggest threat to their businesses. CFOs now see a 36% probability of one or more countries leaving the single currency by the end of this year, up from 26% in March. Major UK-based corporations have stepped up preparations for the possibility of a breakup. Almost 30% of CFOs say their own plans for coping with a breakup of the single currency are "all made" or "at an advanced stage" compared to 18% in March.

Business confidence has also been hit by the UK's return to recession. On average, CFOs see roughly a one-in-two chance of the recession continuing to the end of this year or for the economy to hit a "triple dip" recession within the next two years.

### Highlights from the Q2 2012 UK CFO Survey:

- CFO confidence has seen the biggest decline since the survey started in 2007 — its third major decline in five years.
- On average, UK CFOs attach a 36% probability to one or more members of the single currency leaving the euro by the end of the year.
- CFOs see macroeconomic uncertainty and the outlook for demand as being far greater influences on capital spending than the availability of finance.
- CFOs have reacted to a weaker and more uncertain economic outlook by adopting more defensive strategies. Cost control and boosting cash flow are CFOs' top balance sheet priorities for the next 12 months.
- Economic uncertainty is hitting corporate activity. CFOs expect hiring and capital spending to decline in the next year.

## On the defensive

With the economy back in recession, corporations are reacting by cutting costs and bolstering cash flow, as in late 2008. Defensive balance sheet strategies are to the fore. Compared with a year ago, CFOs are more focused on reducing leverage and disposing of assets — and less likely to be making acquisitions or undertaking capital expenditure.

As for their profit outlooks, CFOs have become more negative. They now see almost a one-in-two chance of a year-on-year decline in UK corporate profits over the next year. In addition, CFOs see hiring, capital spending, and discretionary spending declining over the next year.

## Credit and investment drivers

For the first time since the survey began in 2007, a net balance of UK CFOs reports that credit is cheap. Although credit availability as deteriorated, overall credit conditions for large corporate do not seem to be especially stringent.

Still, the cost and availability of finance do not appear to have been major influences on recent changes to CFOs' investment plans. In fact, only 4% of CFOs cited the cost or availability of finance as having influenced recent changes to investment plans. Instead, economic uncertainty (40%) and expected demand both within the UK and abroad (42%) have played a greater role.

## Domestic caution

Since Q2 2011, the Deloitte UK CFO Survey has segregated the panel of respondents by exposure to geographical markets and found that UK-facing businesses pursue more defensive strategies than their international counterparts. Despite the sharp slowdown in Europe, that trend has not changed. The top priority for international companies that derive 70%–100% of their revenues from outside the UK is introducing new products and services (45%). By contrast, the top priority for UK-facing companies is increasing cash flow (46%).

On average, companies in the sample derive 52% of their revenues from outside the UK. This reliance on external revenues may explain CFOs' enthusiasm for making acquisitions or capital spending abroad. Some 30% rate this a strong priority; 34% as somewhat a priority.

Still, economic uncertainty remains a big constraint on corporate expansion. The challenge for UK-based companies is to find sources of growth in a volatile macro environment.

# Deloitte member firm CFO surveys

## About Deloitte member firm CFO surveys

Twenty-three Deloitte member firm CFO surveys, covering 38 countries, are conducted by Deloitte member firms on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each member firm's survey varies.

The following summarizes the survey scope and population of the participating member firms for this quarter. Member firm CFO surveys can be accessed at www.deloitte.com/cfoconnect.

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| Member firm | Contacts | Frequency | Survey scope and population |
|---|---|---|---|
| **Australia** | **Stephen Gustafson**<br>Partner<br>+61 (0) 2 9322 7325<br>sgustafson@deloitte.com.au | Quarterly | Conducted between June 15, 2012 and June 29, 2012; 80 CFOs participated, representing businesses with a combined market value of approximately AUD $317 billion or 23.61% of the Australian-quoted equity market. |
| **Austria** | **Mag. Gerhard Marterbauer**<br>Partner<br>+43 1 537 00 4600<br>gmarterbauer@deloitte.at | Quarterly | Conducted in July 2012; 155 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 23% have revenues in excess of €1 billion, and 69% have revenues greater than €100 million. |
| **Belgium** | **Thierry Van Schoubroeck**<br>Partner<br>+ 32 2 749 56 04<br>tvanschoubroeck@deloitte.com | Quarterly | Conducted between May 31, 2012 and June 27, 2012; 60 CFOs completed the survey. The participating CFOs are active in variety of industries, 23% of the participating companies have a turnover of over €1 billion, 53% of between €100 million and €1 billion, and 26% of less than €100 million. |
| **India** | **Sanjoy Sen**<br>Senior Director<br>+91 (040) 6670 5734<br>sanjoysen@deloitte.com<br><br>**Sachin Sondhi**<br>Senior Director<br>+91 (040) 6619 8710<br>sacsondhi@deloitte.com | Quarterly | Conducted in between July 18 and July 31, 2012, this survey included participation from approximately 136 respondents, 48% of whom represented Indian companies, 45% from companies headquartered outside India, and 7% headquartered in India. Annual turnover of the participating companies are as follows: < Rs 500 Cr (49%), Rs 500-1,000 Cr (13%), Rs 1,001-5,000 Cr (25%), > Rs 5,001 Cr (13%). |
| **Ireland** | **Shane Mohan**<br>Partner<br>+353 1 417 2543<br>smohan@deloitte.ie | Quarterly | Conducted in June 2012; CFOs of listed companies, large private companies, and Irish subsidiaries of overseas multinational companies participated. |

| Member firm | Contacts | Frequency | Survey scope and population |
|---|---|---|---|
| **Middle East**<br>*(UAE, Kuwait, Qatar, Jordan, Egypt, Saudi Arabia, Syria, Sudan, Bahrain, Lebanon Yemen, Oman)* | **James Babb**<br>Partner<br>+0097143313211<br>jbabb@deloitte.com | Biannual | Conducted in May 2012, this survey included participation from 93 respondents, representing both listed and nonlisted companies in the Middle East. Annual turnover of the participating companies are as follows: > $1 billion (20%), $500 million — $999 million (15%), $100 million — $499 million (34%), < $100 million (31%). |
| **Netherlands** | **Jan de Rooij**<br>Partner<br>+31 (0) 6 5336 6208<br>JandeRooij@deloitte.nl | Quarterly | Conducted between June 15, 2012 and July 5, 2012; 39 CFOs representing a net turnover per company of approximately €2.5 billion, completed the survey. The responding companies can be categorized as follows: less than €100 million (8%), €100–499 million (28%), €500–999 million (23%), €1–4.9 billion (18%), more than €5 billion (18%), and unknown (5%). |
| **North America**<br>*(U.S., Canada, Mexico)* | **Greg Dickinson**<br>N.A. CFO Survey Director<br>+1 213 553 1030<br>gdickinson@deloitte.com | Quarterly | Conducted between May 14, 2012 and May 29, 2012; 93 CFOs participated from across the United States, Canada, and Mexico. Three fourths of respondents represent CFOs from public companies, and over 77% are from companies with more than USD $1B in annual revenue. |
| **Spain** | **Jesús Navarro**<br>Partner<br>+34 91 514 50 00<br>jenavarro@deloitte.es | Biannual | Conducted in April 2012; 131 CFOs participated; 25% from companies or groups listed in the Spanish market and/or companies or groups listed in international markets. Of the participating companies, 50% have revenues in excess of €100 million, and 40% have more than 500 employees. |
| **Switzerland** | **Dr. Michael Grampp**<br>Chief Economist<br>+41 44 421 68 17<br>mgrampp@deloitte.ch | Quarterly | Conducted between May 29, 2012 and June 18, 2012; 118 CFOs participated, with 35% representing listed companies and the remaining 65% representing large private companies. |
| **United Kingdom** | **Ian Stewart**<br>Chief Economist<br>+44 020 7007 9386<br>istewart@deloitte.co.uk | Quarterly | Conducted between June 15, 2012 and June 29, 2012; 137 CFOs participated, including the CFOs of 39 FTSE 100 and 57 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of major companies listed overseas. The combined market value of the 105 UK-listed companies surveyed is £620 billion, or approximately 34% of the UK quoted equity market. |