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Global CFO Signals

Still reluctant to spend

Q1 2016 Deloitte Member Firms' CFO Surveys: Argentina, Austria, Belgium, China, Finland, France, Germany, India, Ireland, Italy, Japan, Middle East, Netherlands, North America, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and United Kingdom

DTTL Global CFO Signals
May 2016

About the DTTL Global CFO Program

The Deloitte Touche Tohmatsu Limited (DTTL) Global Chief Financial Officer (CFO) Program is a CFO-centric strategic initiative that brings together a multidisciplinary team of senior Deloitte member firm partners and experienced professionals to help CFOs effectively address the different challenges and demands they experience in their role. The DTTL Global CFO Program and network of Deloitte member firms harness the breadth of Deloitte member firms' 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-eight Deloitte CFO surveys, covering more than 60 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 industrywide perceptions or trends. Further, the focus, timing, and respondent group for each survey may vary. Please refer to "About Deloitte Member Firms' CFO Surveys" (page 28) for member firm contacts and information on the scope and survey demographics for each survey.

About DTTL's Global CFO Signals

The purpose of DTTL's *Global CFO Signals* report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the first-quarter 2016 CFO surveys from Deloitte member firms in the following geographies:

Argentina: Growing optimism about governmental reforms

Austria: Investment may decline sharply

Belgium: Optimism fades, but growth ambitions hold

China: Achieving growth under the "New Normal"

Finland: Hiring on the rise

France: A very cautious optimism

Germany: The new reality: digital and volatile

India: Optimism persists

Ireland: Cautious optimism amid uncertainty

Italy: Cautious optimism

Japan: Surging uncertainties

Middle East: Tempered outlook across the region

Netherlands: CFOs cautious about Brexit

North America: A rough start to 2016 sparks concerns

Norway: Steeled for challenging times

Portugal: Fasten your seatbelts

Spain: Global economic uncertainty threatens Spain's recovery

Sweden: Domestic strength; international uncertainty

Switzerland: CFOs see a brighter outlook

Turkey: Optimistic, yet cautious

United Kingdom: Brexit tops risks list

*All numbers in the North American survey with asterisks are averages that have been adjusted to eliminate the effects of stark outliers.

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Global CFO Signals

CFO Sentiment Q1 2016

Still reluctant to spend

In any fiscal quarter, there are typically several overhangs weighing on CFOs' outlooks. And in the Q1 2016 edition of *Global CFO Signals*, there are two big ones:

- The UK's membership in the European Union goes up for a vote on June 23, and the uncertain outcome is causing consternation about the ripple effects a vote to exit might have on the region;
- Meanwhile, the outcome of the November US Presidential election is already causing angst, particularly around the potential for de-globalization that could undermine business.

Add in other ongoing risk factors, such as the strength of the US dollar, fluctuating oil prices, uncertainty over monetary policies, and indecisive elections (think Ireland and Spain), and there are numerous reasons why nine of the 21 surveys and regions reporting cite negative net optimism, and others report cautious net optimism.

Still, there are plenty of reasons to be positive, according to the Deloitte Global Economist Network, which operates in nine countries. After all, capital remains accessible; there are signs of strength in emerging markets; and recent volatility in financial markets and the Chinese currency has subsided. In addition, says Ian Stewart, chief economist, Deloitte UK: "By and large, the consumer sector seems to be holding up."

What doesn't add up, according to the economists, is the lack of investing in several countries. In North America, for example, capital spending expectations fell drastically from 4.9% to just 1.7%—eclipsing the previous low of 4.2%. UK CFOs also have taken a step back with a net balance expecting decreases in Capex over the next 12 months. And while, the story is brighter in Europe, expectations have softened, with 20% expecting Capex decreases.

What could be happening, of course, is that "companies may not see opportunities for profitable investment," says Ira Kalish, chief global economist for DTTL. Another theory: companies are taking a wait-and-see approach toward how technology will impact their business models. Or, says Chris Richardson, chief economist for Deloitte Australia, "hurdle rates may simply be too high."

Whatever the reason, there is still not a comfort level to unleash the financial power sitting on many corporate balance sheets, and with risk appetite declining in many countries (including India) there is no telling when that might be.

How does CFO sentiment in Q1 2016 break down? What follows is a synopsis by region:

Americas

An undercurrent of fear over the sustainability of the strong North American economy combined with a very rocky financial start to 2016 clearly shook CFOs' outlooks. Their performance expectations fell sharply to levels at or near new survey lows, and their confidence in their companies' longer-term prospects is on the verge of turning net-negative for the first time in some three years. Still, CFOs remain positive about the strength of the North American economy, although confidence in its trajectory slipped.

Meanwhile, in the one South American country reporting—Argentina—CFO outlooks have turned around due to optimism toward newly elected President Mauricio Macri's economic policies.

Asia-Pacific

Of the three countries reporting in Asia-Pacific—China, India, Japan—only India reports positive net optimism. And, in fact, some 94% of India's CFOs express confidence in the Indian economy long-term. In Japan, though, CFOs are wary of "further deceleration of the Chinese economy" and problems with the "Abe government's policy management." Such concerns have led to almost 42% of CFOs reporting decreased optimism, and 80% reporting uncertainty as "high" or "very high." Meanwhile, in China, where CFOs are adapting to the "New Normal," half are less optimistic about economic prospects compared with the last three months, and almost 60% ranked further economic turmoil as the top risk factor. But going forward, says Xu Sitao, Deloitte China's chief economist, China's economic changes, particularly toward the renminbi, will not have the same "impact to global financial markets" as last summer.

Europe

There remains much diversity in the outlooks across Europe, even as the region enjoys a modest recovery. As reported in the latest *European CFO Survey,* CFOs in eurozone countries are once again more optimistic about the financial prospects for their companies than their non-eurozone peers. Still, they share similar concerns, particularly politics and geopolitics, which seem to weigh heavily on sentiment in a number of countries, including the UK and Germany, and are the most commonly cited risks to future growth. Rising perceptions of external uncertainty have been accompanied by risk appetite falling sharply and CFOs reporting increased pressures on operating margins. When uncertainty is high, firms prioritize cost control, and that is what is happening across Europe.

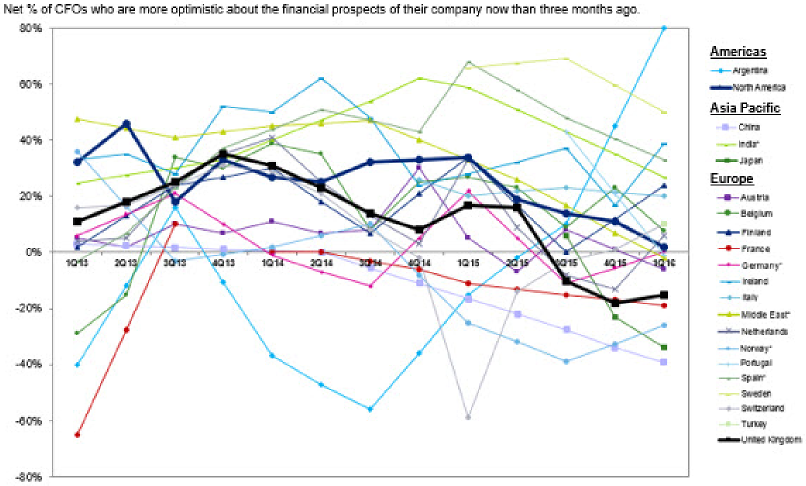
Middle East

Traditionally, perceptions are divided across the Middle East, with Gulf Cooperative (GCC) nations reporting higher levels of optimism compared with countries in North Africa and the Levant. Not this quarter. Across the board, optimism fell—down to its lowest level since the survey began in 2009 (net -2%). Factors weighing on CFOs include uncertainty (71% rate it "high" or "very high") and economic growth worries. And given that optimism and risk appetite seem to be correlated with energy prices, finance leaders appear to be operating in a holding pattern, while GCC governments seek to decrease their reliance upon energy-related revenues. A net 38% *do* expect energy prices to be higher in six months, however, which could change attitudes.

According to the Deloitte economists, however, oil prices are not returning to $100+ levels any time soon. That gives CFOs the opportunity to incorporate lower prices into forecasts. And combined with continued accessibility to capital, low interest rates, and solid demand, that might just give them the comfort to spend again.

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.

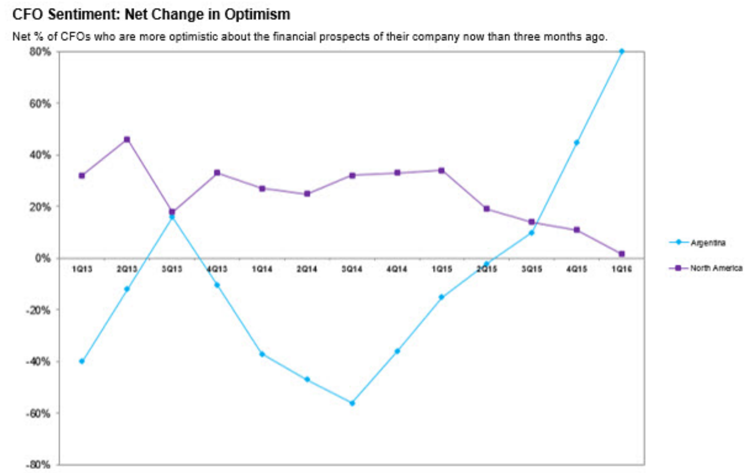
Please note that the surveys conducted vary in timing, sample size and demographic of respondents. As such, these survey responses may not be a statistically accurate representation of the countries / regions identified. Please refer to the end of this publication for information on the scope and survey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

Global CFO Signals

Optimism by the regions

Americas

In North America, this quarter's net optimism[1] of +1.7 is the 13th consecutive net-positive reading, but it is well down from last quarter's +10.7 and sits at its lowest level since Q4 2012. Meanwhile, the story is much different in Argentina (the only South American country reporting), where a new Administration, which is unveiling a series of economic reforms, has buoyed CFO optimism.



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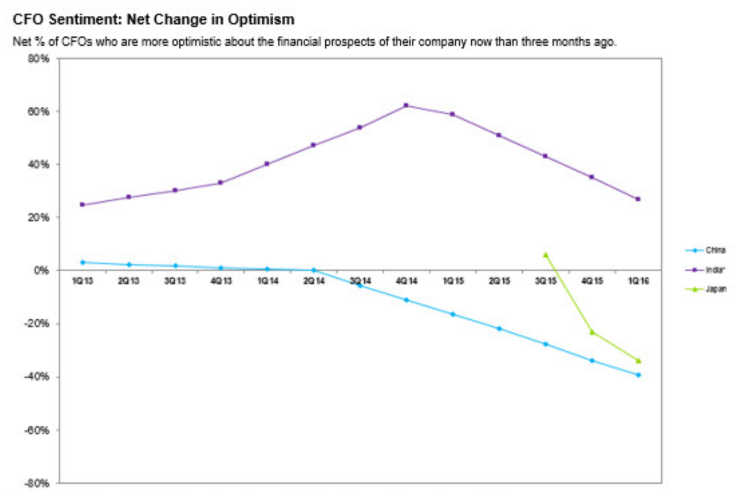
Asia/Pacific

Optimism in India remains positive (albeit less so than a year ago) largely due to governmental reforms that have been well received. Some 42% of Japan's CFOs, however, report decreased optimism thanks to surging uncertainties. And in China, only about 11% of CFOs report being more optimistic about economic prospects, citing further economic turmoil and detrimental governmental policies as risk factors.



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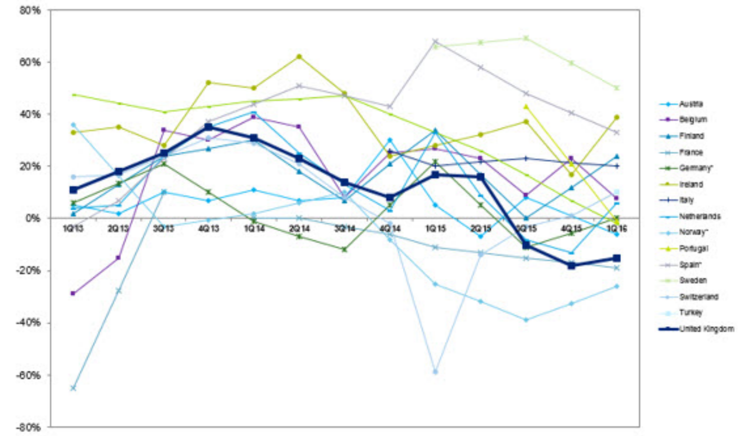
Europe

As reported in the recent *European CFO Survey*, CFOs in eurozone countries are once again more optimistic about the financial prospects for their companies than their non-eurozone peers, reflecting the continued modest economic recovery in the eurozone. CFOs in Sweden are the most optimistic of those reporting (net +50%), while CFOs in Norway are the least optimistic (net -26%), reflecting their heavy dependence on natural resources.

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.



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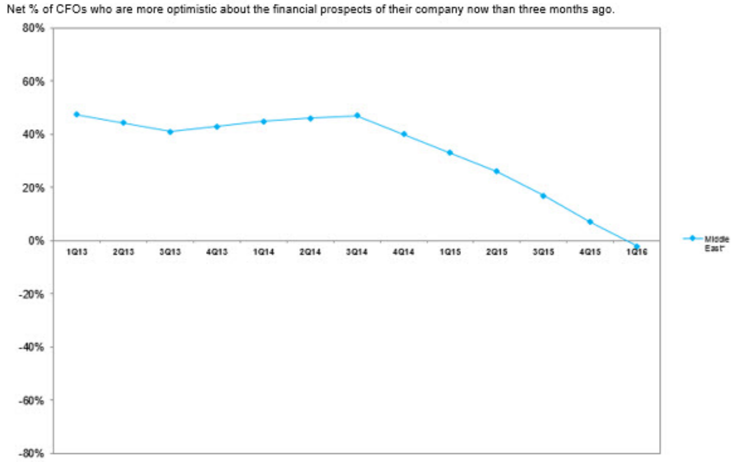
Middle East

This quarter CFO sentiment in the Middle East reflects a more consistent outlook among the eight countries reporting. Optimism stands at a net -2%, which is down from +26% the last time CFOs in the region were surveyed (Q2 2015). What seems clear, however, is that optimism—as well as risk appetite—seems to be correlated with the drop in energy.

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.



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Global CFO Signals
By the numbers

Risk appetite

Despite available credit and continued low interest rates, risk appetite is tempered at best. A sharp spike in uncertainty caused by political events has led to particularly big drops in risk appetite in the UK (net -50%) and Portugal (net -70%). Italy is the only European country, in fact, where a majority of CFOs are willing to take risk onto their balance sheet (net +18%). Meanwhile, in the Middle East, risk appetite seems to be correlated with energy prices, and 83% of CFOs say now is not a good time to take on risk.

Uncertainty

Uncertainty continues to dampen CFO decision-making. Throughout Europe—with the exception of Norway—CFOs report a higher than normal level of uncertainty. And in Germany, CFOs' perception of economic and financial uncertainty has risen to its highest level in four years and is approaching that of the euro crisis in 2012. Elsewhere, more than 80% of Japan's CFOs currently rate the level as "high" or "very high" (up from 52%)," as do 75% of CFOs across the Middle East.

Metrics

Revenue expectations fell slightly in many European countries, with the sharpest decline (-23 pp) in the UK over the last six months. The outlook for revenues is most positive in Italy, Sweden, Ireland, and Spain. Meanwhile, the outlook on margins has deteriorated in 10 of the 13 European countries reporting that asked the question. And in North America, earnings expectations, which had rebounded from their survey low from Q3 2015 to 8.3%* last quarter, fell to a new survey low of 6.0%* this quarter.

Hiring

There is good news on the hiring front in India, where almost 36% of CFOs expect to hire, and throughout many European countries. The outlook is particularly strong in Italy and Ireland – two countries that saw among the sharpest rise in unemployment following the financial crisis of 2008-09. In the UK, however, hiring is at a three-year low, with only 18% of CFOs expecting to increase headcount in the next 12 months. Meanwhile, in North America, expectations declined sharply to 0.6%, matching the survey low.

Corporate strategy

Reining in costs seems to be a common focus for 2016. Cost control or cost reduction were one of the top two priorities for CFOs in 13 of the 14 European countries that asked about strategic priorities. Even in countries where the economic outlook is relatively positive, for example Sweden and Ireland, the focus on cost remains. Similarly, in China, where revenue growth was cited by 77% of participants as one of the top three business focuses, it was closely followed by cost reduction at 73%. In North America, though, only 28% claim a bias toward cost reduction, while more than half say they are biased toward revenue growth.

CFO priorities

In the short term, India's CFOs cite internal controls (65%) and compliance (61%) as top priorities. In North America, a pervasive theme is a focus on helping their companies perform well in a shifting business environment. And the development of data analytical skills is a top priority for 44% of Germany's CFOs.

Deloitte Member Firm CFO Surveys:

First Quarter 2016 Highlights

Argentina

Growing optimism about governmental reform

Inflation and FX concerns

The latest CFO Survey in Argentina asked for opinions in five areas: role of the CFO, the finance organization, the company, the industry, and the economy. As for economic concerns, the top there were social/expenses/investment politics (31%), inflation (19%) and the exchange rate (17%).

When asked about their attitudes toward the government's ability to enact or maintain effective economic policies that could affect their businesses, 90% of respondents were optimistic, while another 10% expressed certainty. While it is clear that companies' attitudes can change after a Presidential election, Argentina still has many challenges to face in the next months.

Optimism improves

As for their overall level of optimism, CFOs were influenced by both internal and external factors and showed improvement in their outlooks. In fact, 30% of CFO reported being more optimistic this quarter (compared with 8% last survey), while 15% indicated less optimism, down from 23%; 50% did not report any notable change.

Company/industry/finance concerns

CFOs indicated establishing or adapting strategy as their companies' top concern, followed by improving and maintaining margins (dealing with government regulation almost disappeared compared with last survey). As for industry concerns, government regulation/legislation still topped the list, followed by pricing trends and market expansion. The top challenges in the finance department included providing metrics, information and tools needed for business

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Highlights from the H1 2016 Argentina CFO Survey:

- Some 80% of CFOs are more optimistic about overall business conditions, and 20% did not report any notable change.
- The top job stresses cited were talent (skills or quantity) (23%), initiatives with relevant change (M&A, TI, etc.) (13%), and pressures to achieve planned results (13%).
- In the next 12 months, CFOs' main strategic focus will be on growth/preservation of income, followed by issues related to financing and liquidity.
- Argentina's CFOs report leaning more toward their steward roles (32%) in this survey, followed by strategist (26%).

decision-making (16%) and guaranteeing the reasonableness of financing, liquidity and capital costs (16%).

As for making decisions in each of these areas, participating CFOs said they possess the highest degree of influence on capital expenditures, the selection of projects and initiatives, and communication with shareholders.

Fulfilling the strategist role

In this environment, CFOs reported a fairly balanced distribution of time among their four roles with a slight inclination toward steward (32%), followed by strategist (26%), catalyst, and operator (21% each). If they were to leave their jobs, the top triggers remain the same: a) for a CEO role, b) a similar role with better pay and benefits, or c) for better work/life balance.

Austria

Investment may decline sharply

Highlights from the Q1 2016 Austria CFO Survey:

- Approximately 37% of CFOs plan to invest significantly more over the next year (49% in Q4 2015); 20% of CFOs plan to decrease investment over the next 12 months (14% in Q4 2015).
- Some 70% of Austrian CFOs don't expect the TTIP to impact their companies.
- The index gauging stock price sentiment is negative for the first time since Q4 2014.
- Some 27% of CFOs noted significant pessimism about the availability of financial prospects.

Declining investment expectations

Since the first quarter of 2015, the index value measuring investment activity rose constantly to a level of 36% at the end of 2015. Currently, the index dropped by 19 percentage points and now stands at a level of 17%. This decline is attributable to CFOs being less enthusiastic about investment over the next 12 months: 37% of CFOs plan to invest significantly more over the next year, whereas, in Q4 2015, this figure was at 49%. Moreover, 20% of CFOs plan to decrease investment over the next 12 months, compared with 14% at the end of Q4 2015.

Similarly, the negative trend concerning the investment climate in Austria was apparent when benchmarking against other regions. In Q4 2015, Austria was leading the country ranking with an index value of 23%. During the current quarter, lower investment enthusiasm has dropped the index to 5%. Austria is ranked fifth among countries analyzed, while the US ranks first.

Pessimistic share price outlook

Although the relative majority of CFOs (48% this quarter; 55% in Q4 2015) view a neutral development of share prices (ATX) in the next 12 months, the proportion of those who expect a positive ATX development has continued to decline (20% this quarter; 24% in Q4 2015). In the index assessment of the ATX outlook, there has been a 14% deterioration relative to last quarter, dropping to -12%. Thus, the index gauging stock price sentiment is rated negative for the first time since Q4 2014.

Financial prospects swing negative

The index value for the pervasiveness of financial prospects reached 18% in Q4 2015, which was the highest level seen to date. In the current survey, the index dropped by 32% to -14%. This decline was driven by 27% of CFOs who noted they are significantly pessimistic about the availability of financial prospects.

The index for sales growth expectations over the next 12 months remained at a constant 24%. Similarly, operating margin expectations remain stable, with a continued sense of pressure to grow (-14% now; -13% as of Q4 2015).

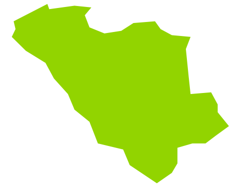
Little concern about the TTIP

Some 70% of Austrian CFOs don't expect the Transatlantic Trade and Investment Partnership (TTIP) to affect their companies; 20% see considerable advantages, while only 6% speak of great benefits. Austrian CFOs view the reduction of trade barriers and an increase in legal certainty with the US as benefits to the TTIP.

Just 4% of CFOs surveyed expect disadvantages resulting from the partnership. Such risks associated with the TTIP include the softening or reduction of already established standards and the lack of quality control.

Belgium

Optimism fades, but growth ambitions hold



Terror attacks shock Belgium

On March 22, 2016, terrorist suicide bombers attacked the Brussels airport and the metro station Maelbeek in the European quarter of Brussels. As these attacks took place toward the end of the first quarter survey period, the potential effect is only to some extent reflected in the results.

In the first quarter, however, rising concerns about European Union (EU) stability and eurozone weaknesses already fed through to CFO perceptions of uncertainty. Although the CFO community remains on average optimistic about the financial prospects of their organizations, the downward trend that started two years ago persists. Similarly, the performance-to-budget ratio declined for the fourth consecutive quarter, and more than 40% of surveyed organizations lag behind budget at the end of the first quarter.

Focus on expansionary strategies

Corporations' main focus is on expansionary strategies. Whereas defensive strategies remain important, more than two-thirds of Belgian corporations acknowledge expansionary strategies are, in general, highest on the priority list. In addition, expectations **on** headcount, discretionary spending, and capital expenditure have gradually increased over the past two years and this trend continues. In fact, more than half of our survey respondents report increasing capital expenditure remains a priority.

Top-line, bottom-line growth plans

Close to 70% of the surveyed organizations expect top-line revenue (68%) and cash flow (65%) to grow over the next 12 months. Half of them (52%) expect margins to grow as well.

Highlights from the Q1 2016 Belgium CFO Survey:

- Close to 70% of the surveyed companies expect top-line revenue and cash flow to grow over the next 12 months. Half of them expect margins to grow as well.
- Some 40% of companies report financials are behind budget at the end of the first quarter.
- Risk appetite remains high. Almost 50% of CFOs say now is a good time to take risk onto the balance sheet.
- More than two-thirds of CFOs would benefit from the TTIP.

Funding available and attractive

All major forms of external financing—bank borrowing, corporate bonds, and equity—are rated attractive. Bank borrowing has not been reported more available and less expensive at any time since the launch of the survey in 2009. Balance sheets look healthy overall, and financial leverage has not been lower since 2009 either. Many corporates are cash rich and have internal financing options available.

Politics setting appropriate priorities

CFOs remain positive about the way in which the government is setting the priorities for financial and economic policymaking. Compared to one year ago, CFOs are markedly more positive about the way in which policies will contribute to the long-term success of business. In particular, policy domains related to taxation, labor market, training and education, and financial regulation are more positively evaluated than they were a year ago.

China

Achieving growth under the “New Normal”

Highlights from the H1 2016 China CFO Survey:

- Further economic turmoil/recession is considered the top risk factor by more than half of respondents.
- More than 70% of surveyed CFOs report that their companies have made adjustments in response to the New Normal.
- Revenue growth and cost reduction are the top business focuses for enterprises over the next year.

Economic perceptions decline

Since 2009, China’s economy has roughly doubled, emerging as a superpower that drives global economic expansion. While Chinese leadership is now embracing slower and more moderate economic growth—which many describe as China’s “New Normal”—expectations are that China will remain a global economic leader in the medium- and long-term. The China CFO Survey seeks to gauge the views of CFOs on their economic perception, business focus, and risk strategies in the “New Normal.”

Over time, CFOs have grown less optimistic about the economic outlook. Of the CFOs surveyed, 50% felt worse about the economic outlook over the past three months, and only 10.9% grew more optimistic. Meanwhile, 57.8% of CFOs ranked further economic turmoil/recession as the top potential high risk factor, followed by detrimental governmental policies/regulations.

More than 70% of respondents have made adjustments in view of China’s New Normal. Addressing the change in a proactive manner has become one of the countermeasures taken in the New Normal.

Competition is top challenge

When considering industry challenges facing enterprises in the New Normal, some 21.3% of CFOs believe that competition is number one, and more than 67% ranked it as one of the top three.

Market growth and structures were ranked second, which reflects that industry growth potential and structural changes, to some degree, have put pressure on some surveyed enterprises. A significant proportion also expressed concerns about talent, which implies that talent competition and effective human resource management have become an important challenge.

Revenue growth concerns cited

At a corporate level, CFOs have reached consensus on major challenges facing internal management. Revenue growth potential, framing and/or adapting strategy, and talent received the most votes for top challenge, as well as more than 50% of total votes for the top three major challenges. In the context of a continuous economic slowdown, increasingly fierce competition may have negative impacts on revenue growth potential, making it the primary challenge for most enterprises.

In response, more than half of the surveyed CFOs consider revenue growth as the primary business focus, and more than 77% regard revenue growth as a top three business focuses. Cost reduction is the second major business focus, earning more than 73% of total votes.

Regarding challenges facing finance departments, more than 65% believe that the primary one is to provide metrics, information, and tools needed for sound business decisions.

Finland
Hiring on the rise

The “hopefuls”

The biannual Deloitte/SEB CFO survey draws a picture of Finnish companies’ short-term intentions that is more courageous and optimistic than the spirited debate around the competitiveness of the Finnish economy might suggest. The survey data from Finnish CFOs aggregates a sentiment that companies based in Finland are increasingly willing to hire more employees (25% hiring more) and continue to make strategic investments at an equal level both in Finland (20%) and abroad (21%). The survey suggests that the willingness to make investments will be translated into action, as 33% of the Finnish CFOs are pushing for more capital expenditure, leading to an increase from the 20% figure seen six months ago.

The CFO survey indicates that Finnish CFOs are “The hopefuls.” They stand out as some of the most optimistic among surveyed countries in the Deloitte European CFO Survey. The financial prospects of Finnish companies have remained in the top-tier every spring since 2014. The spring of 2016 is no exception, as the optimism surpasses that of Germany, Italy, UK, and the Netherlands, among others. However, the survey results from Finland are below Sweden and Ireland, who are also among the countries that will be able to reap the benefits from the possible TTIP treaty.

Uncertainty on the horizon

Change for better will be slow in Finland, as the growth of the global economy remains uncertain. The sample companies in Finland are mostly relying on steady, yet slow, organic growth (71% list organic growth as the highest priority), and this growth is dependent on the development of the Finnish and Nordic economies (the primary growth market for 55% of the companies). Furthermore, this spring is not seen as a great period for taking more risk on company balance sheets, according to 64% of Finnish CFOs.

Highlights from the H1 2016 Finland CFO Survey:

- For the first time in two years (since Q1 2014), Finnish companies have reached a break-even point in hiring; 25% are expecting an increase, while 17% are expecting a decrease.
- Only 21% of the respondents’ companies in Finland will benefit from TTIP.
- CFOs in Finland remain hopeful about the future; 36% are optimistic about their financial position.
- More than half (56%) of CFOs in Finland consider the level of uncertainty to be high. The greatest concerns include demand (70%) and outlook of the Finnish economy (69%).

Altogether, the barometer indicates that, although the optimism is high and the financial performance is improving (capital expenditure, operating margins, and revenues are incrementally increasing), the high level of uncertainty is forcing companies to continue to push initiatives that are mostly defensive in nature. Companies are controlling their costs and focusing on the Nordic markets, which are the most familiar to them.

According to the findings, the fatigue of the Finnish economy will continue, although the push for economic reform at the government level and the change in the global economic climate can quickly turn the tide as companies are willing to invest and hire.

France

A very cautious optimism

Highlights from the H1 2016 France CFO Survey:

- Only 10% of France's CFOs are more optimistic about the financial prospects of their companies.
- Some 55% of respondents believe that the level of economic and financial uncertainty is currently high or very high.
- More than 70% of CFOs do not believe that now is the right time to take on more balance-sheet-related risk.
- Despite their cautious outlooks, almost 30% of France's CFOs expect their companies to hire in the next 12 months.

Downside risks dampen outlook

The seventh France CFO Survey gauged opinions of that country's finance chiefs on the financial and macroeconomic environment, the different factors affecting their decision-making, and the challenges ahead. The survey found overall that only 10% of France's CFOs reported being more optimistic about the prospects for their own companies compared to six months ago.

Driving the decrease in overall net optimism (-19%)are increased downside risks, including challenges from regulations and greater geopolitical risks.

Also driving some of that continued prudence is their perception of uncertainty in the economic environment. Some 55% (down from 68%) of France's CFOs rate the level as high or very high. And in line with their current assessment of the environment, some 71% of CFOs say that now is not good time to take risk onto their balance sheets (down from 78% six months ago).

Moreover, that sentiment is also having a mixed impact on growth metrics. Some 50% of CFOs expect revenues to increase over the next 12 months, up from 42% in the last survey. As for operating margins, though, 26%of them expect increases, while 23% anticipate decreases. And only 26% expect to increase capital expenditures.

Focused on growth *and* costs

With regard to business strategies, France's CFOs seem to be of two minds. Organic growth, cost control, and cost reduction remain the top priorities for French CFOs.

The surveyed CFOs, however, indicated a decreased commitment to growth. Only 26% expect their companies to make capital expenditures in the next 12 months. To finance, the investments they are planning, some 71% of France's CFOs indicate a preference for bank borrowing, while 45% of the survey respondents rate corporate debt as attractive.

Not enthused about TTIP

Only 13% of France's CFOs believe the TTIP, which has been under negotiation between the US and the EU since 2013, will be beneficial to their companies.

Germany

The new reality: digital and volatile

Lower, stabilized outlook

Since last summer, international developments have determined the mood of German CFOs. The Chinese market crashes in September 2015 and January 2016, the turmoil in the Middle East, the refugee crisis, and the conflicts within the EU, including the Brexit threat, have depressed the German business outlook. Despite these difficult conditions, CFOs' moods have stabilized to a lower level since the distinct downturn last fall. CFOs appear to have gotten used to the new reality with the many international and political risks associated with it.

This new reality is visible in CFOs' present risk assessment. While domestic economic risks, such as rising energy costs dominated up to 2015, geopolitical risks are by far the most menacing factor at present, with approximately 59% of CFOs viewing them to be significant. Uncertainty has also risen to the highest level in four years and is approaching that of the euro crisis in 2012, with 52% of respondents believing uncertainty is "high" or "very high." Nevertheless, business and economic prospects have stabilized since the crash last fall. Consequently, the CFO Confidence Index has changed insignificantly and remains in a slightly positive zone.

The digital focus

In terms of strategy, digitalization is at the top of German CFOs' agendas. While the German economy has generally been reticent about investment since the financial crisis, its focus has shifted. Survey respondents are concentrating their investment on information technology and the digital competence of staff. Approximately 44% of respondents believe the development of data analytics skill sets to be a priority, and 63% of CFOs are calling for a better understanding of digital business models by their staffs.

Highlights from the H1 2016 Germany CFO Survey

- Geopolitical developments represent a significant risk for 59% percent of CFOs.
- More than half (52%) of CFOs feel economic uncertainty is currently "high" or "very high."
- The development of data analytic skill sets is a top priority for 44% of CFOs surveyed.
- Some 63% of CFOs are calling for a better understanding of digital business models by their staff.

At the same time, German companies' digitalization strategies are not only targeting internal processes, but are also seeking to improve analytical capabilities, while developing new business models and services. In this sense, digitalization has entered a new phase in which the focus is increasingly on innovation, in addition to the traditional internal focus on processes and transparency.

Digitalization of the organization affects the CFOs and their finance functions. Nearly one-third of CFOs surveyed viewed themselves as proactive shapers of the digitalization strategy for the entire organization (in addition to the finance function), which reflects the changing self-perception of CFOs as strategists. CFOs assess the need for change in their own function as being "high;" however, only one-third of those surveyed consider the finance area to be well-equipped. Employees' understanding of digital business models and analytics skillsets are seen as key developmental topics.

India
Optimism persists

Highlights from the Q1 2016 India CFO Survey:

- Approximately 90% of CFOs are optimistic about mid-term outlook, but 94% of them have also expressed long-term economic confidence.
- Some 54% of CFOs say it is not time to take greater business risks.
- A majority of CFOs (53%) are saying that credit was available at a higher cost, as opposed to a cheaper cost.
- Approximately 63% of CFOs believe they are not susceptible to fraud from third party elements.

Staying hopeful among challenges

Business leaders continue to remain optimistic about the Indian economy. Not only are 90% of CFOs optimistic about the mid-term outlook, but 94% have also expressed long-term economic confidence.

Around 60% of the executives reported an improvement in the ease of doing business in India, while 35% have seen no change. This has been, in part, attributable to the government's willingness to seek feedback from industries on challenges in doing business in India. Close to 60% of the surveyed participants expressed satisfaction on the timeline and effectiveness of government initiatives. Similarly, 60% of CFOs believe there has been an improvement in the investment climate over the past year within India. With the government taking a number of steps to improve the business climate, CFOs seem to believe that the overall climate for investments has improved.

However, 27% of CFOs consider regulatory impediments as the biggest economic challenge, while 20% expressed concern over uncertainty in the tax environment posing risks to the economy. Moreover, even as the government has tried to get rid of a number of hurdles for faster growth, the latest survey shows that there is still some progress to be made. In line with the historical pattern, poor infrastructure (24%) comes up as the biggest impediment to doing business, closely followed by cost/difficulties in compliance (22%).

Technology investment

Approximately 25% of CFOs believe that future investment trends will be governed by innovation and technology. This showcases the changing economic landscape where investment in technology is no longer a choice but a necessity. Key technology changes affecting companies include the need to develop analytic, enterprise mobility, and cloud-based solutions.

Closely behind innovation and technology investment, 24% of CFOs feel investment to expand their company's customer base and market share to be of high importance.

Challenges and performance outlook

Taking a longer term view, 24% of CFOs believe that market expansion will be the biggest challenge in the hyper-competitive landscape, while 23% believe industry regulation and legislation will continue to be a pain point, despite the efforts of the government. These facts show that a concerted effort by policymakers to increase the ease of doing business can help growth jump and provide a stimulus to the economy.

There is uncertainty associated with individual company performance. Approximately 56% of CFOs believed their revenues would increase somewhat, while only 18% believed they would increase significantly over the next 12 months. Accordingly, 42% expect operating margins to increase but, surprisingly, almost 58% believe their margins will remain stable or decline over the next year. However, there was still a silver lining with almost 36% of CFOs expecting to increase headcount, while 35% will be keeping staffing at the same levels.

Ireland

Cautious optimism amid uncertainty

Optimish and political uncertainty

Despite retaining a generally positive outlook, in line with buoyant domestic growth, CFOs in Ireland rate the uncertainty facing their business much higher than they did six months ago (+15%). The main factors driving this were a closely-contested election, which occurred during the survey period, and uncertainty surrounding the UK's EU referendum (Brexit).

Rising perceptions of external uncertainty, caused by political events, are also weighing on risk appetite. Some 61% of Ireland's CFOs do not believe it is currently the right time to take greater risk onto their balance sheets. Yet, despite this weak appetite for risk, Ireland's CFOs show a willingness to invest in CAPEX, with 63% indicating an intention to increase capital expenditure over the next 12 months.

In the face of rising levels of political and economic uncertainty, an air of cautious optimism prevails, with 45% of those surveyed feeling more optimistic about the financial prospects for their organization than six months ago. Moreover, the outlook for revenue growth remains strong for 74% of Ireland's CFOs, a slight increase on Q3 2015.

Cost control remains a top priority

In the current survey, 77% of CFOs believe their corporate strategy is expansionary, up from 65% in Q3 2015. Under a quarter of CFOs now believe their corporate strategy to be defensive. Organic growth continues to be a strategic focus for 52% of Ireland's CFOs in 2016.

A strong focus on cost control is the top priority for 69% of Ireland's CFOs in H1 2016. Coupled with an expansionary outlook and an appetite to increase revenues, this retained focus on cost indicates a desire for value-driven growth.

Highlights from the H1 2016 Ireland CFO Survey:

- Some 52% of Ireland's CFOs believe that the level of financial and economic uncertainty is high or very high.
- Some 58% of Ireland's CFOs believe an exit of the UK from the EU would negatively impact their business.
- Despite rising levels of uncertainty, 45% of CFOs are more optimistic about the financial prospects of their company than six months ago.
- Cost control remains a priority for 69% of Ireland's CFOs.
- The outlook for hiring is particularly strong, with 68% of CFOs reporting positive employment intentions.

Revenues, employee numbers, and capital expenditures are expected to show the most significant increases over the coming 12 months; these metrics align with CFO priorities for company growth. On the other hand, almost half of CFOs believe that operating margins will not change, enhancing the need for robust cost control and a focus on driving value alongside growth.

Italy
Cautious optimism

Staying positive

The fourth Italy CFO Survey documented finance chiefs' sentiments on market trends, the economic environment, credit availability, risks to the organization, and business focus.

Regarding their outlook on their companies' financial prospects, a net 20% of CFOs are optimistic. In addition, 54% expect to increase hiring in the next 12 months, which is one of the strongest outlooks among the European countries reporting. In fact the outlook for hiring is particularly strong in Italy and Ireland – two countries that saw some of the sharpest rises in unemployment following the financial crisis of 2008-09.

To further growth on a macro-level, the majority of Italian CFOs believes the fight against tax evasion/avoidance should be the top economic policy priority. The elimination of the provinces fell from third to tenth on the list of priorities, however.

High expectations for revenues/margins

As for their own company growth prospects, 82% of CFO respondents expect revenues to increase. In addition, 76% of respondents expect margins to improve, which is the highest among the European countries reporting.

As for business strategies, Italy's CFOs are focused mainly on cost control and cost reduction. Still. 62% of respondents indicated that they plan to make capital expenditures in the next 12 months.

Highlights from the H1 2016 Italy CFO Survey:

- CFO optimism about the financial prospects for their own companies remains among the most positive in Europe. A net 20% of CFOs are optimistic.
- More than 82% of CFOs expect revenues to grow over the next 12 months.
- Italy is the only European country where a majority of CFOs are willing to take risk onto their balance (+18% net balance).
- The outlook for margins is distinctly positive in Italy (+69% net balance).
- Some 54% percentage of Italy's CFOs who expect to increase hiring in the next 12 months.

In line with that, risk appetite is strong among Italy's CFOs, with 59% saying that now is a good time to take risk onto the balance sheet. And for those looking for funding, bank borrowing remains the top choice, with almost half of CFOs rating it as a favorable source of funding.

The picture for corporate debt is quite different, with a net -38% of CFOs voicing negative views.

Somewhat enthused about TTIP

Some 29% of Italy's CFOs believe the TTIP, which has been under negotiation between the US and the EU since 2013, will be beneficial to their companies.

Japan
Surging uncertainties

Highlights from the Q1 2016 Japan CFO Survey:

- Almost 4% of Japan's CFOs indicate pessimism about their financial prospects (12% in Q3 2015; 26% in Q4 2015).
- Some 63% of Japan's CFOs expect revenues to increase.
- More than 80% of CFOs believe the level of uncertainty in Japan is "high" or "very high."
- Negative interest rate policy: 27%—positive impact; 14%—negative impact; 57%—neutral.

Concerned about future earnings

The Q1 Japan CFO survey asked questions pertaining to the financial situation and business performance, the impacts of Bank of Japan's negative interest rate policy, and the success factors for Abenomics. CFOs were also asked to select triggers for different scenarios from various domestic and overseas risk events.

Regarding their companies' financial prospects compared to three months ago, relatively more companies recognized that the business environment has deteriorated recently. Some 41.7% of CFOs reponded "slightly or greatly pessimistic," while those who answered "unchanged" plummeted to 50% from more than 71% in the previous survey.

As for their outlooks on business metrics, most companies expect to maintain their sales and earnings growth trends (63%) over the next year. However, those that responded "somewhat or greatly decrease" have increased to more than 35%. In fact, the number of companies that forecast sales/earnings decreases has continue to rise over the past half year.

Meanwhile, the number of companies that consider the level of uncertainty as high has surged. In fact, a staggering 80% of CFOs view current levels as either "high" or "very high," a significant jump from 52% in the last survey.

Impact of negative interest rates

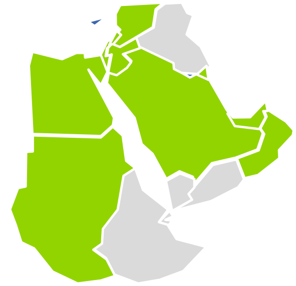
The survey also asked about the impact of the negative interest rate policy introduced by Bank of Japan. For the corporate sector as a whole, more CFOs lean toward positive effects. Moreover, financial measures, such as long-term funding are considered the top priority for many companies to cope with prolonged negative interest rate envrionment. Also, the survey revealed that companies seem to expect the negative interest rate policy to bring instability in the foreign exhange markets, but not necessarily lead to yen depreciation. Finally, this survey could not confirm companies' proactive investment appetites in the wake of negative interest rate policy.

What will make or break Abenomics?

Similar to the previous survey, most companies regard "further deceleration of the Chinese economy" as the most probable risk scenario. In addition, domestic risk factors have substantially increased, particularly " Abe goverment's policy management." This likely reflects the decline in confidence toward Abenomics and his government.

Middle East

Tempered outlook across the region



Highlights from the H1 2016 Middle East CFO Survey

- Net CFO optimism has fallen to its lowest recorded level in the region.
- Almost 75% of CFOs believe the level of external uncertainty is "high" or "very high."
- Top CFO priorities are cost reduction, increasing cash flow, and organic growth.
- CFOs must begin to prepare for introduction of value-added tax (VAT) in Gulf nations by 2018.

Communal uncertainty

Collective skepticism has emerged among Middle East CFOs. Traditionally, perceptions are divided across the region, with Gulf Cooperative Council (GCC) nations reporting higher levels of optimism when compared with countries in North Africa and the Levant. However, GCC states did not remain unscathed from current market and economic conditions.

Regarding their company's financial prospects over the next six months, CFOs' optimism has fallen to its lowest figure since the survey began in 2009 (net -2%).

These sentiments are largely driven by external factors, with 71% of CFOs agreeing that the level of uncertainty in the Middle East is "high" or "very high." Economic growth/outlook overtook geopolitics as the factor most likely to pose a significant business risk over the next six months. Other areas of concern include reductions in demand (foreign and domestic) and currency fluctuations.

Exercising caution

Given the weakened economic sentiment across the region, it appears that CFOs are focusing on the business strategies that fall within the financial steward and operator domains. The top priorities for the next 12 months include cost reduction (net 91%), increasing cash flow (net 76%), and organic growth (net 52%). Further, risk appetite has been curbed, as 83% of CFOs believe it is not a good time to add greater risk onto the balance sheet.

The regional economic effects are mainly attributed to increased geopolitical concerns and decreased energy prices, typically a stalwart of GCC fiscal policy. Looking ahead, a net 38% of CFOs anticipate that energy prices will be higher in six months (at the time of this survey, Brent was valued at $34/barrel), which might shift focus toward more strategic priorities for their Middle East corporations.

As CFOs' optimism and risk appetite seem to be correlated with energy prices, finance leaders appear to be positioning their organizations in a holding pattern while GCC governments aim to decrease their reliance upon energy-related revenues.

Change on the horizon

In an effort to diversify revenues and lower dependence on energy-related income, GCC states have agreed to incorporate value-added tax (VAT) at a rate of 5% in 2018. Of those polled, 93% of CFOs expect to see some level of impact upon their business with the introduction of VAT. Still, almost half of polled CFOs shared that their business has a "minimal understanding" of the range of impacts typically associated with the introduction of VAT. Further, 81% are yet to incorporate VAT considerations into their strategic planning processes.

Netherlands

CFOs cautious about Brexit

Highlights from the Q1 2016 Netherlands CFO Survey

- CFOs' optimism about the financial prospects for their companies was 22% compared with 28% last quarter.
- The percentage of CFOs who rate the current economic situation as uncertain has remained stable at 69%.
- Some 25% of CFOs believe that now is a good time to take greater balance-sheet-related risks, versus 54% one year ago.
- Among the Netherlands' CFOs, 31% expect the level of capital spending to rise, compared with 21% last quarter.
- Forty-four percent of CFOs say that an exit of the UK from the European Union would impact their business negatively.

Uncertainty stable; optimism down

The percentage of CFOs who rate the current economic situation as uncertain remained stable at 69%. At the same time, business confidence deteriorated by 600 basis points with only 22% of the CFOs saying they are optimistic about the financial prospects for their companies compared with three months ago. This is the lowest level since Q3 2011, when business confidence came in at 12%.

CFOs are still positive about prospects for growth, however. A majority (56%) expects higher revenues over the next 12 months, compared with 52% a quarter ago. The percentage of CFOs who expect increased operating margins is up slightly from 34% in last quarter to 36% now. Meanwhile, the level of capital spending has risen from 21% to 31%, while almost one-third of CFOs expect to hire.

Funding issues resolved

It appears that CFOs have taken advantage of this period of available and cheap funding to meet their financing needs, resulting in a decreasing need to attract or renew credit or issue equity. Some 33% of CFOs say that their company is going to renew current credit over the next 12 months, compared with 54% a year ago. Just 20% indicate that new credit must be obtained in contrast to Q2 2015's peak of 48%.

Risk appetite has remained stable for the last three quarters, albeit at a much lower level than one year ago. One-quarter (25%) of CFO believe that now is a good time to be taking greater balance-sheet-related risk, versus 54% one year ago.

Less bullish (again) on M&A

The outlook for corporate mergers and acquisitions activity declined further from 79% in the fourth quarter of last year to 74% now. One year ago, some 96% of CFOs expected higher corporate M&A activity. CFOs also seem to place less weight on growth via acquisitions. The proportion of CFOs whose companies will be involved in an acquisition over the next 12 months, dropped to 37%, down from 48% in the fourth quarter of 2015 and a peak of 71% in Q4 2014.

Special topic: Brexit

On June 23, 2016, the UK public will have an important decision to make: Should the UK remain a member of the European Union (EU), or leave the EU? Given the fact that Dutch companies are having a sizeable exposure to the UK, it is no surprise that 44% of CFOs believe that their companies will be negatively affected by a "Brexit," while 38% say that impact will be little or none.

North America
A rough start for 2016 sparks concerns

Economies and equities cause stir

Last quarter's survey indicated optimism in CFOs' outlooks heading into 2016. Apparently bolstered by confidence that North America could continue to shoulder the burden of economic growth,' expectations for revenue, earnings, and capital investment continued to rebound from their 2Q15 survey lows.

But CFOs also voiced concerns about geopolitical risks, about slowing growth in developed and developing economies, and about a possible global *overreliance* on the US economy. And despite their improving growth expectations, a rising proportion of CFOs began to indicate declining confidence in their companies' longer-term prospects.

That undercurrent combined with a very rocky start to 2016 has clearly shaken CFOs' outlooks.

Sharp declining expectations

This quarter's net optimism[1] of +1.7 is the thirteenth consecutive net-positive reading, but it is well down from last quarter's +10.7 and sits at its lowest level since 4Q12. Sentiment is weakest in Manufacturing, Financial Services, and Healthcare/Pharma, all of which indicate net-negative readings.

Consistent with this sentiment, CFOs' expectations for revenue, earnings, capital spending, and domestic hiring all declined to levels at or near their survey lows. Revenue growth expectations fell to 3.3%*, well off last quarter's 5.9%* and only slightly above the previous survey low from 2Q15. Earnings growth expectations, which had rebounded from their survey low from 3Q15 to 8.3%* last quarter, fell to a new survey low of 6.0%* this quarter. Capital spending expectations posted the most startling decline, falling from 4.9%* to just 1.7%*—eclipsing the previous survey low of 4.2%* by a very wide margin. Domestic hiring growth expectations also declined sharply to just 0.6%,* well off last quarter's 1.2%* and matching the survey low.

Highlights from the Q1 2016 North America CFO Survey:

- Net optimism continued its downward trend falling to +1.7 from +10.7 last quarter.
- Current markets and offerings remain the overwhelming focus for most companies.
- Forty-one percent of CFOs describe North American conditions as good (55% last quarter), and 36% expect better conditions in a year (47% last quarter).
- Thirty percent of CFOs say US markets are overvalued, down sharply from 56%.
- Nearly 75% of CFOs say low oil prices are impacting demand and/or profitability.

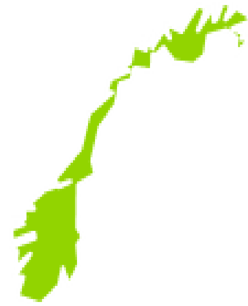
Faltering expectations for North America

Behind these declining growth expectations are assessments of the North American economy that, having been a steadying influence for many quarters, now appear to be faltering. Assessments of current performance are still mostly positive, but confidence in the economy's trajectory hit its lowest level in three years. Among their most worrisome risks, CFOs voiced growing concern about the toll economic and equity market volatility will take on liquidity and on consumers' willingness to spend.

Meanwhile, CFOs' confidence in Europe remains weak, and their assessment of China hit yet another low. Not surprisingly, CFOs this quarter indicated their highest-ever focus on current geographies over new ones (which, for most surveyed companies, means a continued focus on North American markets).

One potential bright spot in CFOs' sentiment: for the first time since we began asking in 1Q15, and in sharp contrast to all prior quarters, more surveyed CFOs believe US equity markets are undervalued than overvalued.

Norway
Steeled for challenging times



Negative sentiment across industries

The Norwegian economy is going through a tough period. Although the declines in sentiment and expectations have begun to level off for the oil industry, the ripple effects of sustained low oil prices have spread to the economy as a whole.

Domestic and foreign demand are still the CFOs' biggest concerns. In addition, access to capital is a growing concern given that the availability of financing is declining. The bond market dried up last year, and the availability of bank financing fell sharply this year. Loan capital is thus not readily available in spite of low interest rates and expectations of further reduced interest rates. The equity market is not an option either.

A natural consequence of this development is conservative business strategies aimed at strengthening liquidity and the balance sheet. This gives greater focus on downsizing/cost cutting and less willingness to take risks. This creates businesses that are more robust and ready to meet a prolonged downturn.

Lower interest rates expected

More than half (56%) of CFOs expect a decrease level of NIBOR the next six months. And overall, 92% expect interest rates to decrease or remain unchanged during the next six months. This is in line with the realization of weaker figures than Norges Bank had previously announced. This is a continuation of the trend from last year, but a distinct shift from previous years' surveys.

At this time, only a net 4% of CFOs think it is a good time to take increased risk onto the balance sheet. In the oil industry, however, a net 56% of CFOs say that financial risk on their balance sheet has increased in the last 12 months. It is clear that the consequences of a sustained low oil prices have now materialized on those companies' balance sheets.

Highlights from the H1 2016 Norway CFO Survey:

- Overall, a net -26% of Norway's CFOs are less optimistic about their companies' prospects this quarter, similar to a year ago.
- More than half of companies in the oil industry expect to reduce headcount.
- Some 44% of respondents cite potential declines in domestic demand (17% in foreign demand) as their biggest financial concern.
- CFOs' main priority for their cash over the next 12 months is debt repayment.

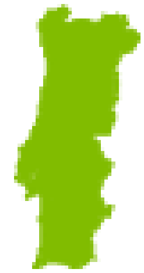
Meanwhile, the attractiveness and accessibility of financing are—for the first time in this survey's history—both net negative. This is a trend that was observed as early as the end of 2014. Reduced activity in the market and low interest rates have probably led to investors moving investments from bond market to the stock market.

Still, the net percentage of CFO expecting increased M&A activity over the next 12 months has remained stable at around 50%.

Not enamored with TTIP

As many as 90 % of CFOs surveyed do not believe the proposed TTIP agreement between the EU and the US, will affect their companies if it becomes a reality.

Portugal
Fasten your seatbelts



Plunging confidence

There has been a sharp drop in confidence for Portuguese CFOs, as 60% of those surveyed are pessimistic about Portugal's economic outlook for 2016. This represents a significant shift from the third quarter of 2015, when 80% of CFOs felt the economic outlook for the next 12 months was positive.

The negative sentiment is also reflected in CFOs' expectations about their companies' financial performance. However, despite the overall pessimism, the majority of CFOs (57%) are still anticipating revenue growth (compared with 74% last quarter). Expectations for key indicators, such as margins, capital expenses, and workforce are also less optimistic, but are still expected to have a modest increase.

Gloomy risk appetite

Looking ahead, Portuguese CFOs seem quite cautious with a low risk appetite; 85% of CFOs were not willing to take more risk. Domestic public policy risk tops the CFOs' fears, as 83% feel it's likely to pose a significant risk for their respective businesses (up from 72% in Q3 2015). Fear of stress in the financial system is a close second (77% and 61% in Q1 2016 and Q3 2015, respectively).

Overall, the sensitivity has intensified for all risk factors, except for foreign political instability, currency fluctuations, and trade barriers, where the likelihood of posing a risk for businesses has decreased.

Controlling costs still the priority

This quarter, working capital management has attracted some additional attention, with 87% of Portuguese CFOs agreeing that it's an important or very important strategy for the next 12 months, surpassing cost reduction strategies (74%). However, on-going cost control remains the CFOs' highest priority (94%). Growth strategies, including acquisition activities, are among the lowest strategic priorities for Portuguese CFOs this time.

Highlights from the 2016 Portugal CFO Survey:

- There was a great break in confidence with 60% of CFOs considering the economic context for the next 12 months to be negative.
- Nevertheless, 57% of CFOs anticipate an increase in revenues at their organizations.
- The risk appetite is low, with 85% of CFOs saying they are not willing to take on additional balance sheet risk.
- Looking ahead to 2016, domestic public policies and stress in the financial system are major concerns for CFOs surveyed.
- Cost control remains the top priority for next year, followed by working capital management (top of mind for 87% of CFOs).

Oil prices bump

According to 30% of the surveyed CFOs, the prolonged fall in oil prices has negatively impacted Portuguese companies. A potential cause would be sizeable exposure to the Angolan economy, which was intensely impacted by the declining price of oil. In any case, for most of the Portuguese companies the effects were neutral or even irrelevant (60%).

Spain

Global economic uncertainty threatens Spain's recovery

Confidence in recovery hits snags

The Spanish economy remains on a favorable trajectory compared with the rest of the eurozone, with an estimated growth of 0.7% quarter-on-quarter in the first three months of 2016. Still, according to forecasts, that growth may experience a gradual slowdown between 2016 and 2017.

In their view, CFOs also see the Spanish economy tightening somewhat. Only 21% of CFOs believe that the Spanish economy will grow in the next 12 months (half that six months ago), while 57% believe there will be a slow recovery (compared to 53% in the last edition).

The surveyed CFOs also see slowing growth in the Economic and Monetary Union (EMU), with 68% considering a slow recovery or growth, compared with 79% six months ago. Globally, only 6% believes that the global economy will grow over the next 12 months, while more than half (54%) expects a slow recovery.

The impact of global economic uncertainty on Spanish companies continues to lead the list of most worrisome risks valued by CFOs (66%, up 14 percentage points from the last edition). Second, 48% cite uncertainty in fiscal policy (33% six months ago), probably due to recent political instability and the lack of a formal government.

Meanwhile, the decline in oil prices continues to have a negative impact: 86% of respondents cite the evolution of oil prices as the first variable affecting the Spanish economy—not surprising considering that Spain is a net importer.

Optimism above European average

In the current environment, CFOs are more pessimistic about their companies' prospects: 30% have a less optimistic view of operating results and 23% toward financial results. Still, the optimism of the Spanish CFOs remains above the average among all Europeans.

Highlights from the H1 Spain CFO Survey:

- Economic prospects are more pessimistic: 79%, 68% and 54% believe Spanish, EMU, and global economies will experience a slow recovery or growth, respectively.
- Better expectations for business indicators: 72% expect increased revenues, 50% expect increased operating margins, and 40% expect decreased financial costs.
- The most worrisome risk remains the fragility of the global economic recovery (66%).
- Spain's CFO view new financing as cheap (57%) and easy to get (65%).

Expectations of growth in demand for products and services in Spanish companies improved slightly. Now 64% of respondents believe that there has already been an increase or one will occur in the next six months (compared with 60% last survey).

In addition, 72% of respondents expect increased revenues over the next 12 months, and a half expect increases in operating margins.

As for business priorities, CFOs remain clearly focused on increasing productivity and efficiency (70%). Cost control is second, with 50% considering it a priority. In third and fourth place (49% and 41%, respectively) are organic growth and the launch of new products and services.

Finally, CFOs still seem optimistic about obtaining external financing: 57% believe that new funding is low cost (39% six months ago), and 65% believe it is easy to get (compared with 54% in the last survey). In both cases, cost and accessibility, these are the highest percentages of all editions of the survey.

Sweden

Domestic strength; international uncertainty

Highlights from the H1 2016 Sweden CFO Survey:

- The Swedish CFO index has a value of 55.3 versus 55.9 in fall 2015, which reflects slightly less positive expectations.
- Business condition expectations deteriorated for the first time in a year and a half.
- Some 62% of Sweden's CFOs believe the level of M&A activity will stabilize over the next 12 months.
- Assuming a cash surplus, CFOs would prefer to use the funds to pay down debt (38%).

Strong Swedish economy

The Swedish economy is putting on a strong show. Growth surged to 4.1% in 2015 and indicators such as increasing employment, growing residential investments, and higher residential consumption point to continued strong performance. However, in light of this data, the Swedish CFO index fell for the first time in a year and a half, albeit rather marginally to 55.3 from 55.9 in the 2015 fall survey. This was driven by reductions in business climate, financial position, lending willingness, and counterparty default risk expectations.

Worries continue

It is evident that the increased CFO worries identified in previous surveys are starting to materialize; there are signs that global macroeconomic concerns are gradually imposing real effects on some of these companies' performance. In the current survey, the top two concerns of CFOs include order bookings ("intake") and economic- and politically-related factors. Moreover, as mentioned previously, business outlook has fallen slightly, after increasing for two straight reports.

There is also a greater divergence among sectors; more domestic-oriented sectors, such as consumer business and transport, as well as real estate, generally have a more positive outlook, especially compared to manufacturing companies with a global presence and financial services with their heavy regulatory agenda and a digitization trend that is putting pressure on business models and pricing power.

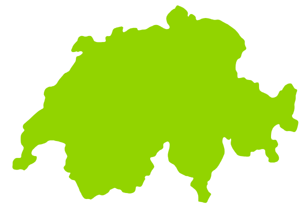
Among corporate priorities, it is clear that more than previously, CFOs prefer to "wait and see" and not to engage in change activities until the situation becomes clearer. Notably, 47% of CFOs are focused on "reducing costs," primarily through "process efficiency improvements"—likely areas that are perceived as owned by the company and thus easier to control than other areas. Within this context, 20% of CFOs expect to reduce headcount in the next six months; 23% expect to add staff.

Increased global uncertainty

In early 2016, uncertainty regarding the strength of the global economy mounted as industrial activity faltered in many places. The US economy ended 2015 on a weak note and worries about the Chinese economy have affected financial markets. Also, the decline in oil prices has intensified financial market volatility. This increased uncertainty is also reflected in the Deloitte/SEB survey, where a clear plurality of CFOs view external financial and economic uncertainty as higher than normal (36%) versus lower than normal (4%).

It is evident that Swedish CFOs are increasingly worried about the future, but in comparison with their peers elsewhere in Europe, external financial and economic uncertainty is still perceived as much lower.

Switzerland
CFOs see a brighter outlook



Improved company prospects

After the turbulent start to 2015, caused in large part by the continuing strength of the Swiss franc, the mood of Swiss CFOs improved over the course of the year. The slump gradually gave way to a slow, but steady, recovery that continued in Q1 2016. Although the economic outlook for Switzerland is still viewed negatively by a small majority of CFOs, companies' prospects have turned more positive (9 percentage points more optimsitic than Q3 2015).

The outlook for the Swiss economy remains subdued, however, despite improving over the past three quarters. One-in-four CFOs are optimistic about the Swiss economy, while 28% are pessimistic, and 13% expect to see a recession in the next two years.

Corporate expectations

The revenue outlook improved in Q1 2016, with 64% predict rising revenues, and 18% expecting decreases. Still, the battle against eroding margins continues in Switzerland. Over the next 12 months, only 28% of CFOs expect operating margins to grow, while 41% expect them to shrink. While strategic cost control and reduction measures remain high on the agenda for many CFOs, expansionary measures are also being adopted. Organic growth was the second most mentioned strategy (61%). Expansion into new markets and new products and services are also considered strategic priorities.

EU and US free trade/Brexit/Schengen

CFOs were asked about the impacts of three potential developments on Swiss companies: a possible free trade agreement between the EU and the US (TTIP), the UK's possible exit from the EU (Brexit), and the potential end to the Schengen agreement.

Highlights from the Q1 2016 Switzerland CFO Survey:

- The strength of the Swiss franc and geopolitical risks remain at the top of the list of CFOs' perceived risks over the next 12 months.
- Since the removal of the exchange rate floor in Q1 2015, the perceived level of economic and financial uncertainty among CFOs has remained very high (69%).
- CFOs continue to view bank borrowing as the most attractive form of financing. However, equity is rated negatively by the majority (net balance -14%), a clear reaction to the stock market slowdown in the first quarter.

TTIP and Brexit would only indirectly impact Switzerland. But CFOs (still) appear relatively relaxed about the proposed trade agreement and Brexit, with some 80% of respondents anticipating no impact on their own company.

An end to Schengen would have more direct consequences for Switzerland, although fewer than for EU member states (because Switzerland is not a member of the European Customs Union, goods are still subject to customs inspection at Swiss borders even under Schengen). An end to the Schengen agreement is viewed with greater concern, with 44% of CFOs expecting negative consequences for their companies. Only 1% expect to gain from such a scenario, and 55% anticipate no effect.

Turkey

Optimistic, yet cautious

Optimistic revenue prospects

Turkey's economy grew by 4% in 2015 in local currency; not as bullish as 2010 and 2011, but well above 2014's 2.9% growth rate. The economic growth for 2016 is projected at 3.5%, according to the World Bank.

Within this environment, 34% of companies expect their financial prospects to improve (compared with six months ago), while 24% think otherwise. In addition, most CFOs (36%) say their companies will increase their workforce (18% expect a decline), despite the recent unemployment rate set above 11%.

Meanwhile, the proportion of CFOs who believe their revenues will increase over the next 12 months stands at 71%; only 11% expect decline. The optimistic outlook prevails over operating margin prospects, with 60% of CFOs expecting improvement, well above the 17% who expect the opposite. In order to achieve that, the strategic focus will be on cost management. Turkey's CFOs surveyed name cost control and cost reduction as their top two initiatives in 2016.

Uncertainty reduces risk appetite

Some 67% of Turkey's CFOs believe the level of uncertainty is high. This notion is mainly fueled by geopolitical risks as Turkey borders a considerable number of countries engaged in armed conflict and hosts some three million refugees. The second top risk is the high volatility of Turkish lira (TL). This is why an overwhelming majority of the CFOs (94%) believe it is not a good time to be taking greater risk on their balance sheets. This view is also reflected in their investment decisions. Still 40% of the CFOs state their capital expenditures are likely to increase. With decreasing interest rates and increasing demand in some key export markets, this might still change for the better.

Highlights from the H1 2016 Turkey CFO Survey:

- Almost three-quarters of Turkey's CFOs expect their companies' revenues to increase within the next 12 months.
- The recent increase in the minimum wage has placed "rising labor costs" among the top five risks of CFOs.
- The proportion of CFOs who think now is a good time to take risk onto the balance sheet is only 6%.
- Expansionary strategies are still on the agenda, but cost management is the top priority.
- Only 19% of the CFOs see corporate debt as an attractive source for external financing.

Reluctant about bank borrowing

Bank borrowing is not viewed as an attractive source of funding. Only 38% of CFOs are willing to borrow further, while 35% do not favor it. This is mainly because the companies are already heavily leveraged with bank loans.

Given the current economic outlook, companies are hesitant to increase their debt burden, unless they have no other option. In the case of borrowing in TL, this view may change given that interest rates may decline. In the case of borrowing in foreign currencies, companies do not prefer to have open positions, as fluctuations in exchange rates in recent months indicate a volatility risk and the price of borrowing may be higher than expected. Still, foreign currency loans are growing at a faster rate compared with TL loans.

According to the survey, Turkey's CFOs have similar unfavorable views on corporate debt, while equity and internal financing are seen as much better sources of cash.

United Kingdom
Brexit tops risks list

Support for remaining in the EU

This quarter's CFO Survey is the first to be conducted since the announcement that the UK's EU membership referendum will take place on June 23, 2016. It shows a marked rise in support for the EU among CFOs. Some 75% of CFOs say they believe it is in the interests of UK business for the UK to remain in the EU, up from 62% in the fourth quarter of 2015. Approximately 8% of CFOs favor leaving the EU, up from 6%. The EU scores high marks with CFOs for its beneficial effects on UK exports, inward investment, and financial services. At the opposite end of the scale, only 15% of CFOs think UK business and the UK economy benefit from the EU's legal, regulatory, and compliance framework.

The dominant concern for CFOs is the forthcoming EU referendum. It tops the corporate worry list, eclipsing longstanding concerns about emerging markets and growth in the euro area. While CFOs see rising risks attached to the referendum, concerns around other major macroeconomic categories of risk (for example, deflation, economic weakness in the euro area, weak demand in the UK, etc.) have reduced or remained unchanged in the last three months.

Spreading uncertainty

Growing concerns about Brexit seem to be behind a marked increase in CFO perceptions of financial and economic uncertainty. It now stands at levels last seen in early 2013, at the tail end of the euro crisis. Risk appetite has also suffered, with the proportion of CFOs saying that now is a good time to take risk, dropping from 51% to 25% in the last year.

With the storm clouds gathering, CFOs have maintained a focus on reducing costs and increasing cash flows. Enthusiasm for expansion has taken a knock too. Corporates are pulling in their horns, with expectations for hiring and capital spending at three-year lows

Highlights from the Q1 2016 UK CFO Survey:

- Three-quarters (75%) of CFOs say they believe it is in the interests of UK business for the UK to remain in the EU; 53% of CFOs have not made Brexit contingency plans.
- Introducing new products and services or expanding into new markets—an expansionary strategy—remains the top priority for CFOs (43%).
- Defensive strategies, such as increasing cash flow and reducing costs, have strengthened.
- With the Bank of England carefully considering the timing of its first post-crisis rate rise, CFOs report a modest tightening in financing conditions.
- A majority of CFOs surveyed (60%) expect lower inflation, either negative or between 0 and 1.5%.

Despite growing concerns about the forthcoming EU referendum, 53% of CFOs say they have not made, and are not in the process of making, contingency plans for a possible UK exit from the EU. Some 26% say they have made, or are making, such plans. It may be that the continued, albeit narrowing, lead for the "remain" camp in the opinion polls, means that many corporations see a UK exit from the EU as being a fairly low probability event.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty-eight Deloitte Member Firm CFO Surveys, covering more than 60 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 firms' CFO surveys can be accessed at www.deloitte.com/cfoconnect.

Member firm	Contacts	Frequency	Survey scope and population
Argentina	**Claudio Fiorillo** Partner +54 11 4320 4018 cfiorillo@deloitte.com	Biannual	Conducted during April 2016 over a four-week period; 67% of the CFOs who participated represented private companies, 58% are local, and 66% represented businesses with annual revenues of less than US $1 billion.
Austria	**Mag. Gerhard Marterbauer** Partner +43 1 537 00 4600 gmarterbauer@deloitte.at	Quarterly	Conducted between March 20, 2016 and April 13, 2016; 104 CFOs and financial executives participated, representing a board range of industries. Of the participating companies, 35% have revenues in excess of €1 billion, and 19% have revenues greater than €500 million.
Belgium	**Thierry Van Schoubroeck** Partner, Finance Transformation + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between March 18, 2016 and April 6, 2016; 64 CFOs completed the survey. The participating CFOs are active in a variety of industries.
China	**William Chou** National Managing Partner China CFO Program +86 10 8520 7102 wilchou@deloitte.com.cn	Biannual	Conducted between January and March, 2016; 49% of participants were CFOs, 21% were finance directors, and 16% were vice presidents. Most respondents were from consumer business and products, manufacturing, and construction; others were distributed among various industries.

Finland	**Tuomo Salmi** Partner, CFO Program Leader +358 (0)20 755 5381 tuomo.salmi@deloitte.fi	Biannual	Conducted between March 1, 2016 and April 12, 2016; 45 CFOs participated; some 76% of the companies have an annual turnover of more than €100 million.
France	**Pascal Colin** Partner +01 40 88 29 62 pcolin@deloitte.fr	Biannual	Conducted between January and March 2016; 1,490 CFOs participated from major companies and business affiliates.
Germany	**Rolf Epstein** Partner, CFO Program + 49 (0) 69 97137409 repstein@deloitte.de	Biannual	Conducted between February 23, 2016 and March 15, 2016; 115 CFOs from major German corporations took part in this CFO survey. Some 72% of CFOs are from companies with revenues of more than €500 million, and 46% have revenues of more than €1 billion.
India	**Porus Doctor** Partner, Regional Leader Internal Audit +912261855030 podoctor@deloitte.com	Annual	The report is based on responses from 309 CFOs (versus 102 in 2015) comprising from small-to-large scale companies, with revenues spanning from INR < 500 crores to > 2500 crores; and their employee base varying from < 500 to > 20,000 employees. (Rs 1 crore = approximately US$ 150,000.)
Ireland	**Daniel Gaffney** Director +35314172349 dgaffney@deloitte.ie	Biannual	Conducted in September/October 2015; CFOs of listed companies, large private companies, and Irish subsidiaries of overseas multinational companies participated.
Italy	**Mariangela Campalani** Director Tel: +39 02 83326114 mcampilani@deloitte.it	Biannual	Conducted between February and March 2016, this survey included participation from approximately 160 respondents. The majority of companies involved in the survey came from the following sectors; Manufacturing (31%); Retail/Consumer Products (12%); Banking (10%).
Japan	**Masanori Shinoda** Partner **+81 80 4367 7938** **mshinoda@tohmatsu.co.jp**	Quarterly	Conducted between March 21, 2016 and April 15, 2016; 36 CFOs completed the survey. The participating CFOs are active in variety of industries, representing listed companies and relevant private companies.
Middle East *(Saudi Arabia, UAE, Qatar, Bahrain, Oman, Kuwait, Yemen, Egypt,*	**James Babb** Partner Deloitte & Touche M.E. +0097143768808 jbabb@deloitte.com	Biannual	Conducted in the second quarter of 2016, this survey included participation from 88 respondents, representing both listed and non-listed companies in the Middle East. Annual turnover of the participating companies are as follows: less than $100m

South Sudan, Jordan, Syria, Lebanon, Iraq, Palestine & Libya)			(24%); $100m - $499m (31%); $500m - $999m (16%); $1bn - $2.49bn (13%); greater than $2.5bn (16%).
Netherlands	**Frank Geelen** Partner; CFO Program Lead +31 (0)6 2239 7053 fgeelen@deloitte.nl	Quarterly	Conducted March 3-26, 2016; 36 CFOs representing a net turnover per company of approximately €2.3 billion completed the survey. The responding companies can be categorized as follows: publicly listed (36%), family owned (11%), privately owned (22%), state or government owned (8%), and other (22%).
North America (U.S., Canada, Mexico)	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between February 8**,** 2016 and February 19, 2016; 118 CFOs participated from across the United States, Canada, and Mexico. Seventy-two percent of respondents represent CFOs from public companies, and 83% are from companies with more than $1 billion in annual revenue.
Norway	**Andreas Enger** Partner, Financial Advisory +47 958 80 105 aenger@deloitte.no	Biannual	Conducted March 1-9, 2016; 98 CFOs participated from across Norway. All respondents represent CFOs from the 500 biggest companies in Norway.
Portugal	Jorge Marrão Partner, CFO Program Leader + 351 210422503 jmarrao@deloitte.pt	Biannual	Conducted between March 15 and March 30, 2016, the survey was sent to CFOs of private and public companies of several industries. The participating CFOs (67) represent the largest companies in Portugal (85%>€100M and 15%>€1.000M).
Spain	**Jesús Navarro** Partner +34 91 514 50 00 jenavarro@deloitte.es	Biannual	Conducted in March 2016; 98 CFOs participated from companies or groups listed in the Spanish market and/or companies or groups listed in international markets, and non-listed companies. Of the participating companies, 30% have revenues in excess of €500 million, and 48% have more than 500 employees.
Sweden	**Henrik Nilsson** Partner +46 73 397 1102 henilsson@deloitte.se	Biannual	Conducted in March 2016; participating CFOs represented a selection of the 200 largest companies in Sweden.
Switzerland	**Dr. Michael Grampp** Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between February 29, 2016 and March 29, 2016; 116 CFOs participated, representing listed companies and relevant private companies.

Turkey	**Cem Sezgin** Partner, CFO Services Leader + 90 (212) 366 60 36 csezgin@deloitte.com	Biannual	Conducted in February 2016, 167 CFOs from leading Turkish corporations and representing all industries took part in the survey. The majority of CFOs were from companies with revenues above €500 million, while SMEs were also well represented in the survey.
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted March 8-21, 2016; 120 CFOs participated, including CFOs of 20 FTSE 100 and 55 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of companies listed overseas. The combined market value of the 84 UK-listed companies surveyed is £360 billion.