



Global CFO Signals

Turbulent Times

**Q4 2011 Deloitte Member Firm CFO Surveys:
Australia, Austria, Belgium, Ireland, Middle East,
Netherlands, North America, Switzerland, and the
United Kingdom**



About the DTTL Global CFO Program

The Deloitte Touche Tohmatsu Limited (DTTL) Global CFO Program aims to position Deloitte member firms *“to be recognized as the pre-eminent advisor to CFO.”* Recognizing that the CFO's role has evolved rapidly over the last few years, the Program focuses on building relationships and eminence and has successfully captured the attention of the CFO community through surveys, forums, and executive-development programs. The Program has also produced a rich library of intellectual property, newsletters, and podcasts used to deliver key insights to CFOs in many different countries.

About Deloitte Member Firm CFO Surveys

Nineteen Deloitte member firm CFO surveys, covering 35 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. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population 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 23) for member firm contacts and information on the scope and survey demographics for each survey.

About DTTL Global CFO Signals

The purpose of the DTTL Global CFO Signals report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the fourth quarter 2011 CFO surveys from Deloitte member firms in the following geographies:

- **Australia:** CFOs still nervous
- **Austria:** Waiting and...?
- **Belgium:** 2012: A difficult year
- **Ireland:** Reaction to budget 2012
- **Middle East:** Optimism turns to pessimism
- **Netherlands:** Adapting to a new reality
- **North America:** Europe casts a long shadow
- **Switzerland:** A return to recession?
- **United Kingdom:** Priorities for 2012: Cash and costs

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Global CFO Signals

CFO Sentiment in Fourth Quarter 2011

By many accounts, 2012 may turn out to be a difficult year. Thanks to continuing sovereign debt troubles in the Euro zone, social upheaval in the Middle East, dwindling global demand, and global concerns over economic uncertainty, CFO optimism remained at low levels almost worldwide during the fourth quarter of 2011. Moreover, this weakening sentiment dampened CFO expectations in many countries.

The situation is particularly pronounced in Europe. In the UK, in fact, CFOs have no doubt that the biggest threat to their businesses in 2012 comes from a potential breakup of the European Union. Almost 40% of CFOs see a high probability that one or more member states will leave the single currency in the course of 2012. UK CFOs believe that a collapse of the Euro would have its most severe effects on UK business through financial channels – by causing a new credit crunch and by driving major swings in asset prices and exchange rates. In Belgium, 76% of CFOs report that the Euro crisis is impacting their companies negatively, and in Switzerland, the pessimistic outlook is compounded by the perception that the Swiss Franc is overvalued and by fear of a drop in demand.

Elsewhere, CFOs are far from immune from Europe's troubles. In North America, for example, while the focus appeared to turn back toward growth in Q4, CFOs remain worried that the debt crisis might not be contained and that a spillover might threaten consumer and capital markets throughout the world. In Australia, European uncertainty continues to place pressure on the cost and availability of local credit. And in the Middle East, on-going conflicts in their own region are impacting CFOs' optimism, which reached its

lowest point in two years. Little wonder that throughout the world, uncertainty is taking a toll on CFO attitudes toward both their country and company prospects.

Europe

The gloom is being felt across much of Europe. In Switzerland, for example, 53% of CFOs expect a recession in 2012, and their financial outlook for their own companies has decreased for the third consecutive quarter. In Belgium, 62% of CFOs expect lower revenues and 79% expect lower margins this year. And in Austria, half of CFOs still believe the economy will get worse and only 15% expect sales to rise in the next 12 months.

If there is good news, it is that many CFOs see things as less pessimistic than last quarter. For example, in the Q3 survey, 60% of Austrian CFOs expected their economy to get worse and only 10% expected sales to rise. And in the Netherlands, where CFO optimism has declined for three consecutive quarters, it remained negative on balance, but improved slightly. There appear to be real signs of hope in Ireland, however, where 43% of CFOs said their companies had actually returned to growth by the end of 2011. Still, many European CFOs are not taking any chances and continue to shore up their balance sheets and reduce their appetites for risk.

Middle East

Meanwhile, in the Middle East, a net 68% of CFOs reported an above average level of financial and economic uncertainty facing their businesses. That market uncertainty is negatively

impacting the outlook for operating cash flows over the next 12 months, and a net 46% do not believe now is a good time to take greater risk onto their balance sheets. The outlook in the region is complicated not only by the current social and political upheaval, but also by the potential for additional “Black Swan events.”

North America

In North America, CFO optimism remains low with only 27% reporting a more positive outlook, and finance chiefs continuing to trim some of their near-term expectations in response to the uncertain environment. In fact, CFOs tempered their expectations for year-over-year revenue growth and their projections for domestic hiring. On the bright side, CFOs have raised their projections for year-over-year capital spending and their outlook on earnings growth. Yet, they remain cautious about any real recovery taking hold: only 30% of CFOs expect their home economies to be in better shape a year from now and only about 10% expect conditions to be markedly better three years from now.

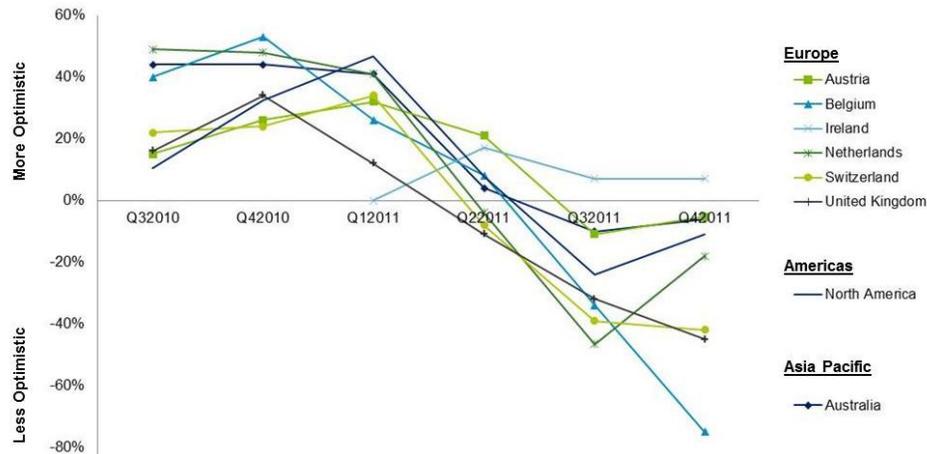
Asia Pacific

Such caution is shared among CFOs in Australia, where almost 80% consider global economic uncertainty to be above normal and CFO optimism remains flat. The effects are particularly evident in corporate expectations with 45% of CFOs expecting revenue to decrease over the next year and 45% also expecting lower margins. In response, 62% of CFOs predict they will cut discretionary spending this year.

Finally, the economic turbulence appears to be taking a toll on CFOs themselves. In the Middle East, for example, CFOs are still finding themselves spending more time in the operator and steward roles than they feel they should. In Australia, CFOs say their boards' demands are driving an increase in analysis and reporting. And in North America, CFOs say they need talent with stronger analytical skills, political acumen, and macro-economic knowledge to deal in this environment. Indeed, the only thing that seems certain is that this is not an easy time to be a CFO.

CFO Sentiment: Net Change in Optimism

Net % of CFOs who are more optimistic about the financial prospects of their company now than 3 months ago.



NB: Comparative survey data was not available for the Middle East. 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 in Fourth Quarter 2011



Growth is hard to achieve

Despite a continued focus on growth among many CFOs, achieving it amid the current economic uncertainty seems to be a Herculean challenge. Take Australia, for example. While 96% of CFOs cite organic growth as a priority, 45% also expect their operating margins to decline this year. In Belgium, 79% expect lower margins and in Switzerland, 81% do. Still, it is not all bad news. In Ireland, 43% of CFOs said their companies would return to growth by the end of 2011, up from 40% who predicted it the previous quarter. Also in North America, the focus on growth continues with 53% of companies' strategic focus on revenue growth/preservation. In addition, the top challenges CFOs cite for their finance organizations, such as influencing decisions related to strategy and operational priorities, suggest a renewed focus on bolstering growth. One crucial factor for any future growth according to CFOs in the Netherlands is innovation, and finance's role in fostering it, they say, should be to formulate organizational goals and set key performance indicators.



Credit concerns continue

Fear of a possible credit crunch in 2012 seems to be taking hold among some CFOs. In Belgium, for example, bank borrowing is already perceived costly and difficult to obtain, while stricter capital requirements for banks are expected to lead to harder pricing and lending terms going forward. In the UK, credit availability deteriorated at the fastest rate since the credit crunch in September 2008. There are similar stories in Austria, where only about a quarter of CFOs believe there is high availability of capital, and in the Middle East, where almost half of CFOs perceive new credit availability more difficult to secure when compared to Q1. For Australian CFOs, the answer seems to be internal funding with 74% of them rating it a more attractive choice than bank borrowing, corporate debt, and equity issuance. The decline in credit availability is not a result of rising credit costs in Switzerland, however. Quite to the contrary, credit costs there are considered to be at their lowest levels since the survey began in 2009.



Focusing inward

Given the external uncertainty, some CFOs are focusing on what they can control. In Switzerland, for example, that means cost reduction and increasing cash flow. Likewise in Belgium, reducing costs in the next 12 months was cited as a top priority by 38% of CFOs, and in North America, CFOs lowered their hiring expectations to 1.0% – the lowest in the survey’s history – and just half project gains. In Australia, it appears CFOs are taking this opportunity to make productivity improvements. In the last year, 85% of CFOs took action on staff training and development and 84% invested in new information and communications technology. And in the UK, almost 20% of CFOs believe that the difficult environment will help them implement overdue changes to their businesses.



Now is not the time for risk

Risk aversion seems to be the rallying cry among CFOs for 2012. In Australia, for example, almost three-quarters of CFOs say now is not the right time to be taking more risk onto their books, representing the highest level since the survey began in 2009. Similarly, in the Middle East, almost half of CFOs do not believe now is a good time to be taking on greater risk. And in Switzerland, a full 90% consider it inappropriate to increase risk levels right now. Instead, CFOs there and in the Netherlands are reducing the financial risk levels on their balance sheets. That is not to say, however, that CFOs would not capitalize on a good opportunity if one presented itself. In the UK, for example, a third of CFOs think the weakness in the economy will provide opportunities to acquire assets at low valuation and 30% think weaker competition provides a chance to expand market share. Financial conservatism, it seems, has to coincide with good business decisions no matter what the environment.

Deloitte Member Firm
CFO Surveys:
Fourth Quarter 2011
Highlights

Australia

CFOs still nervous



Outlook for 2012

Concerns about the global economy remain at the forefront of many CFOs' minds, with more than a third identifying global economic uncertainty as their key concern for the coming year and 79% saying the level of uncertainty was above normal.

The latest survey, covering the fourth quarter of 2011, indicated that CFOs are taking a conservative approach to managing their balance sheets. Almost three-quarters (73%) said that now is not the right time to be taking more risk onto their books, representing the highest number since the survey began in 2009.

Instead, CFOs are focused on improving cash flows and organic growth rather than longer term investments or acquisitions.

Uncertainty hampers growth

While 96% of CFOs said organic growth was one of their key priorities, it is likely this will be difficult to achieve given the current economic climate, particularly when 45% of CFOs said they expect their operating margins to decrease over the next year.

This ongoing uncertainty is hampering the growth prospects of many companies, with the majority (84%) of CFOs reporting they had no plans to increase staff numbers over the next 12 months.

In this challenging environment there are some signs that CFOs are focusing on productivity improvements. In the last year, 85% of CFOs took action on staff training and development and 84% invested in new information and communications technology. However, with less than half (44%) of CFOs undertaking process improvements over the last 12 months, further scope for productivity improvement may exist.

Highlights from the Q4 2011 Australian CFO Survey:

- Global economic uncertainty is the greatest concern for 36% of CFOs in 2012, with 79% reporting that uncertainty was above normal.
- CFOs expect a difficult year ahead with decreases in revenues, operating margins, discretionary spending, and hiring; operating and financing costs are expected to increase.
- Optimism continues to stay flat. While 26% of CFOs are more optimistic about their financial prospects than three months ago, 32% are now less optimistic.
- Expanding organically, increasing cash flow, and reducing costs are the most popular business strategies for CFOs in the coming year.
- Some 73% of CFOs believe now is not a good time to take on risk, up from 55% in the previous quarter.

Funding issues

Internal funding continued to be the most attractive choice (74%), while bank borrowing, corporate debt, and equity issuance were viewed as less attractive options by many CFOs. This is due to the flow-on effect of European uncertainty, which continues to place pressure on the cost and availability of local credit.

While 41% of CFOs still believe Australian corporate balance sheets are under-leveraged, more than half think that Australian balance sheets are optimally leveraged.

M&A appetite suppressed

CFO expectations for an increase in merger and acquisition activity have hit the lowest levels since the survey commenced, with only a net 45% of CFOs expecting more M&A in the year ahead.

CFOs have shown a consistently high appetite for growth since 2009 as companies anticipated an improvement in economic conditions. However, the expected upswing has yet to materialize. The appetite for expansion through M&A activity began to decline last year as many CFOs started to reconsider their view with continued uncertainty in the markets.

New demands on finance

CFOs are well prepared for a number of new demands facing them in 2012. For example, companies are getting ready for the introduction of the carbon price and are taking the necessary steps to prevent strikes under the 'two strikes rule' for executive remuneration.

CFOs also reported an increase in the analysis, questioning, and understanding of issues they deal with, as demanded by their boards and committees in response to the general levels of economic uncertainty.

Many also reported a larger number of tax reviews and audits undertaken by the Australian Taxation Office, and more noted an increase in the time and resources required to manage tax issues.

Austria

Waiting and....?



Economic worries curbed a bit

The economic outlook among CFOs in our latest survey is still gloomy, but there seems to be a positive trend for the upcoming months: whereas in the last quarter about 60% of the CFOs expected a worsening of the economic situation in Austria, only 50% in current quarter's survey still believe that. Moreover, only about 25% of CFOs expect a recession or economic crisis, compared to 42% in the last quarter. Also, the number of CFOs who feel prepared for a crisis increased by 10%, and only 6% do not feel sufficiently prepared for it.

Lower revenue expectations

Furthermore, only 43% (50% in the last quarter) of CFOs believe the inflation rate will climb mildly, whereas 25% say the rate will decrease. These expectations are also reflected in the domestic sales with 15% (10% last quarter) of the CFOs thinking that the sales in Austria will rise. The most positive results are coming from the Austrian Traded Index (ATX): in the current survey 32% of the managers forecast an increase compared to 20% in the last quarter. This sharp increase combined with 39% who anticipate that the ATX will remain stable, leads to positive expectations for the ATX, also confirmed by positive outlooks on the financial results of many ATX companies.

Highlights from the Q4 2011 Austrian CFO survey:

- Austrian CFOs are still negative, but showing signs of slight optimism toward the economic outlook compared to last quarter. They are very cautious in their forecasts and expectations.
- Austrian companies are expected to slightly increase their revenues in the coming months.
- Credit availability is seen as worse and the costs for loans are expected to increase.
- Hiring is at the level of the last quarter; dismissals decreased.

Credit availability decreases again

Against the economical prospect, only about 25% of the CFOs believe in a high availability of loans (9% of them believe in very high availability). That is a further decrease of about 5% compared to the beginning of 2011. In contrast to the last quarter, fewer CFOs expect a decline in the cost of credit. In fact, 16% even think that low credit costs are very unlikely.

Employment expectations brighten

The economy development and not very optimistic expectations for the coming months are also reflected in the job market, which is not supposed to grow very strongly. Again 20% of Austrian CFOs want to employ new staff and 20% want even to cut staff in the next months (compared to 25% in the last quarter). The majority CFOs (60% in total) wants to hold the number of employees at the same level. This underlines the cautious position of most finance chiefs in the current survey.

Slightly higher revenues expected

Compared to the last quarter, 40% of CFOs think that their companies will have higher sales volume, and 38% believe that there will be no change in revenues. This means that 22% of Austrian CFOs expect a decrease in revenues. Although expectations in the general investment climate are just slightly better, about 8% of the CFOs are going to invest significantly more in the next few months.

M&A activity steady

Similar to last quarter, 46% of CFOs are not thinking about merging with or absorbing another company. On the other hand, the number of CFOs for whom mergers and acquisitions play a major role increased slightly.

Belgium

2012: A difficult year



Macroeconomic background unsteady

Deteriorating sentiment and speculation about the Euro zone's future continue to unsettle markets. At the same time, dwindling global demand and a yet-to-be-solved sovereign debt crisis are posing significant recessionary pressures, especially in the peripheral nations of the European Union. In Belgium specifically, the economy contracted in the third quarter and growth rates for 2012 have been reviewed downwards. In addition, at the time of the survey, the Di Rupo I federal government was in the process of being formed.

CFO optimism plummets

One of the key indicators of the Belgian CFO survey is CFO optimism and in the fourth quarter it decreased to unprecedented levels since the launch of the survey in 2009: the net percentage fell to -75%, down from +8% in the first quarter and -34% in the second. Uncertainty remains high, and more than 80% of CFOs are less optimistic now compared to three months ago. Almost all assign a high probability to a second consecutive quarter of economic contraction – hence a recession scenario. The economic recovery is the top concern of Belgian CFOs and 2012 appears to be a very difficult year. Austerity is the key theme. The public sector will cut back expenses, and consumers buying power is under pressure. Almost half of the CFOs expect a deep recession and do not expect demand for their products and services to pick up before 2013. Higher interest rates and access to capital complement the top three CFO concerns.

Highlights from the Q4 2011 Belgium CFO survey:

- CFO optimism for the financial prospects of their own organization decreased to unprecedented levels since the launch of the survey in 2009.
- Half of CFOs report their organization will not make their 2011 budget. On average, revenues still increased, but margins have eroded.
- Revenues are expected to decrease in 2012 for 62% of surveyed organizations; 79% project further erosion of margins.
- Appetite for risk is very low. The focus is on costs and cash flow. Expansionary strategies, including capital expenditure, hiring, and M&A go down significantly.
- A credit crunch cannot be ruled out for 2012. Bank borrowing is already perceived costly and difficult to obtain, while stricter capital requirements for banks are expected to lead to harder pricing and lending terms going forward.

Disappointing results for 2011

Financial results for 2011 were disappointing. Whereas CFOs had started the year in an optimistic mood, 50% of CFOs now report their organization will not make its 2011 budget. To put things in perspective: at the end of 2010, only 12% of CFOs reported budgets would not be achieved. For the average organization, revenues still increased in 2011 (net % of +33), but significantly less than planned (net % of +67). Operating margins showed a marked decrease for the average organization (net % of -28%), while CFOs had on average budgeted higher margins for the year. On average, organizations increased hiring in 2011, illustrating the positive expectations many organizations still had in the first quarter of the year.

Negative financial outlook

Going forward, CFOs do not expect the financial outlook to improve. On the contrary, 62% expect lower revenues and no less than 79% expect lower margins. Lower cash flows are also expected, and as a consequence, cost reduction is once again on top of the corporate agenda. Investments and hiring will reportedly be reduced.

No appetite for risk

Within the current economic and financial context, risk appetite keeps decreasing and is now almost back at the low level of the recession in 2009. Capital expenditure will decrease and also expectations for mergers and acquisition activity plummeted. With low-risk appetite and focus on costs and cash flow, financial conservatism is the dominant theme.

On a positive note, most organizations have strengthened their balance sheets in the past few years, and most CFOs report balance sheets are now adequately leveraged – and not over-leveraged as was the case at the end of 2008.

Ireland

Reaction to budget 2012



Close eye on EU developments

The Euro zone remains in a state of crisis with many of the key issues unresolved and European leaders still unable to agree a common approach. However, it does appear that the end game is in sight for the Euro crisis one way or another as key decisions on EU budgetary control will have to be made in the next three to six months. Whether or not these changes will require a referendum from the Irish public remains to be seen. But the survey results show a majority of 85% of CFOs would be against giving the EU control over national budgets, showing little support for such a move among Irish business leaders.

Business as usual at home

Despite the external concerns, 43% of CFOs state that their company had returned to growth by the end of 2011. This is broadly in line with last quarter's results, where 40% of responding CFOs believed their company had already returned or would return to growth by the end of 2011. The economy as a whole has been slower to return to growth, however the outlook for the near future is positive with 29% of CFOs believing the economy will return to growth in 2012 and 68% believing growth will return in 2013.

When comparing results quarter on quarter, we can see that CFOs have a more positive view on their own growth prospects when compared to the economy as a whole and that CFOs' confidence in their own companies continues to rise steadily. Although the opinion of CFOs is that the economy will return to growth, the number who believe it already has is still low (4%) and down 8% from this time last year.

Highlights from the Q4 2011 Irish CFO survey:

- Some 67% of CFOs believe it will be 2013 before the economy returns to growth, pushing recovery further into the future.
- Net 57% of CFOs consider short-term interest rates to be high.
- Net 18% consider commercial real estate to be still overvalued.
- Net 38% of CFOs believe that credit is hard to get.
- 85% are against ceding control of the national budget to the EU.
- More than half of CFOs surveyed believe the Government has performed positively in relation to economic and fiscal matters.
- Almost three-fourths believe that the Government has had success in positively restoring fiscal stability.

Positive prospects

CFOs' perception of their companies' financial prospects compared to three months ago remains somewhat positive with 33% stating they are optimistic about financial prospects. However, net confidence remains considerably lower than that of Q2 where net 16% of CFOs were optimistic in comparison with net 7% for Q3 and the current quarter. This is in line with CFOs' expected decreases in turnover.

Credit environment remains challenging

CFOs perceive that overseas banks are ahead of domestic banks in the improvement of credit availability to businesses. Domestic banks have been slower to recover. However, looking forward, sentiment toward 2013 is positive with 87% of CFOs expecting improvements by then.

Yet, while the overall trend in the perception of credit availability has seen improvement since Q1 2010 (23%), obtaining credit remains a challenge for CFOs with a net 38% of CFOs stating it is hard to get. Results also show that the perceived cost of credit remains high, with a slight decrease of 6% in net perception in Q4 2011. Despite government and EU attempts to improve this situation, it is clear that raising finance is still a significant hurdle for CFOs.

There has been little change in funding preferences among Irish CFOs during 2011. Domestic banks, followed by overseas banks and equity offerings have consistently been the preferred sources of funding. Corporate bonds, leasing, and reduced dividend payments lag significantly behind the top three preferences. Continued unrest in global markets may be responsible for the decline in equity as a preferred method of funding since the first half of this year. Just 14% of CFOs favored equity, falling by almost half from 25% in Q2 2011.

Budget 2012: CFO reaction

The Government unveiled its first budget in December 2011 and our survey posed a number of key questions on this, as well as gauging CFO reaction to a number of key indicators on the Program for Government. Only 8% of CFOs believe that the Government has had a positive effect on the cost of credit while 20% of CFOs surveyed believe that the Government has had a positive influence on the availability of credit. However, the majority of CFOs have indicated that the Government has had no impact on these criteria – cost (60%) or availability (65%). Despite the priority given to these areas by the Government, CFOs seem to believe there has been little successful influence to date. Improving these two factors will be imperative in fostering growth in the domestic economy. 73% of CFOs believe that the Government has had success in positively restoring fiscal stability, encouraging further FDI (42%), and stimulating employment and job creation (39%).

Eventful year for uncertainty

Q4 2011 was an eventful close to an eventful year. Many issues in the Euro zone remain unresolved, the impacts of which continue to be felt. The findings show that while operating in an uncertain environment is now the norm for Irish CFOs, they have adjusted to this new reality, and are ensuring that their organizations do as well.

Middle East



Optimism turns to pessimism

Falling confidence

CFO optimism plummeted the last six months of 2011. In Q1 optimism had reached an 18-month peak with a net 67% reporting more optimism than they had felt six months prior. This declined to a net 15% as of Q4, the lowest reported optimism since the inception of the survey more than two years ago. The decline in positive sentiment is further reflected in expectations for operating cash flow to be generated over the coming 12 months. A net 47% expect operating cash flows to increase, down from a net 82% in Q1 2011. CFO concerns over continued social upheaval and conflict unfolding remain across the Middle East region. CFOs in the Q1 2010 survey were advised to consider the potential for “Black Swan events” occurring in the region which could disrupt business plans and perhaps create new business realities as a result.

Declining growth expectations

While the MENA (Middle East and North Africa) region continues to outperform other regions of the world in terms of GDP growth rates, nonetheless expectations for 2012 were revised downward from 4.2% to 3.6% per the latest 2011 IMF World Economic Outlook report. The only country registering a significant upward revision was Saudi Arabia from 3.0% to 3.6%.

Those expectations were also reflected in the CFO survey. For example, a net 68% of CFOs reported an above average level of financial and economic uncertainty facing their business. A net 59% cited market risk as the category of risk worrying them the most, which is up from 31% in Q1. A net 46% of CFOs do not believe now is a good time to be taking greater risk on to their balance sheets, which is up from a net 5% in Q1. A net 7% of CFOs are likely to be issuing new debt on their balance sheets over the next 12 months which is down from 52% in Q1.

Highlights from the Q4 2011 Middle East CFO survey:

- CFO optimism has reached its lowest point in two years in the face of uncertainty regarding the external environment.
- Market uncertainty is negatively impacting the outlook for operating cash flows over the next 12 months.
- The market outlook indicates slowing growth expectations as well as a high level of market risk.
- Expectations for M&A activity in the coming 12 months have reached a two-year low.
- CFOs feel most major sources of funding are less attractive than they were in Q1 2011. This correlates with the expected slowdown of GDP in the region.

M&A at two-year low

Expectations regarding the levels of M&A activity reached a two-year survey low in Q4. A net 40% of CFOs reported an expected increase in M&A over the coming 12 months, down from a net 63% in Q1 and a net 82% in Q3 2009.

Less attractive funding sources

Bank borrowings, equity, and external debt sources of funding have each declined in attractiveness between Q4 and Q1 among CFOs. Bank borrowings were viewed as attractive by a net 45% (Q1 68%) followed by equity with a net 11% (Q1 38%) and corporate debt 29% (Q1 61%).

Regarding cost and availability of credit, a net 20% of CFOs view new credit as costly down from a net 58% in Q1. While cost may have improved, new credit availability has become more difficult to secure, according to 48% of CFOs compared to 23% in Q1.

Looking further ahead, a net 57% of CFOs believed that the availability of debt capital will increase over the next three years. This may be an unreasonable expectation given that an approximate \$12 trillion to \$15 trillion in corporate debt globally is due for maturity over the next three to five years.

A net 56% of CFOs believe their company's weighted average cost of capital will increase over the next three years. In an uncertain market environment, it is a reasonable expectation that a number of risk premiums have the potential to increase during that period.

The role of the CFO

Four Faces of the CFO: Average % of time spent

Four Faces Role	Last year	Coming year	Ideal
Strategist	32%	40%	44%
Catalyst	29%	34%	38%
Operator	44%	41%	39%
Steward	45%	40%	37%

CFOs were surveyed regarding the amount of time spent in the various roles of a CFO. In an uncertain market environment it becomes increasingly critical that CFOs spend more time in their roles as strategists and catalysts in order to stay ahead of an often fast-paced changing environment and to properly analyze and address the potential risks and opportunities that may arise as a result of such changes.

As noted above, CFOs are still finding themselves spending more time in the operator and steward roles than they feel they should. One of the constraints CFOs may have in fulfilling their responsibilities as strategists and catalysts is the perceived lack of authority/support provided from the Board/CEO to be effective in these roles. Fifty-two percent of CFOs viewed lack of authority/support as a constraint to fulfilling their role as strategists while 55% felt the same in their role as catalysts.

Netherlands

Adapting to a new reality



General economic outlook fearful

In 2011, the Euro crisis has been the main issue in the financial mindsets of European policy makers and financial institutions, and continues to be so. Greece received an additional package of funds from the other Euro countries in the last quarter of 2011, to avoid default. This did not stop worries over the survival of the Euro, however. Banks and other financial institutions are negotiating large depreciations on their claims against Greece.

This quarter, banks continued to store record figures for overnight deposits at the European Central Bank (ECB), an indicator that mutual trust between banks is low. Banks are still reinforcing their balance sheets, which will impact the cost and availability of credit. Banks are very risk averse in their assessments of granting new credits to companies. Their willingness to take high (balance-sheet related) risks is low. In December, the ECB provided the Euro area banks with an extra three-year lending facility worth 489 billion Euros to expand credit.

Last December, CPB Netherlands Bureau for Economic Policy Analysis published its fourth forecast of the Dutch economy in 2011 and beyond. According to this forecast, the Dutch economy is projected to shrink by 0.5% in 2012, under the assumption that although the European debt crisis will not be resolved quickly, it will not escalate any further.

During the last quarter of 2011, the ECB twice lowered the interest rates, each time by 0.25%. The interest rate on the main refinancing operations was 1.5% in October, 1.25% in November, and has been 1.0% since December 14.

Highlights from the Q4 2011 Dutch CFO survey:

- CFO optimism remains negative. However, the sentiment was less negative than the previous quarter.
- More than half of CFOs still expect an increase in corporate cash flow over the next 12 months.
- Striving for organic growth stays the most prioritized strategy to exercise. Increasing cash flow gains priority.
- The overall assessment of the conditions regarding the availability and cost of credit remains negative.
- The continuing decline in the risk appetite has abated. The appetite for risk rises to the level seen in 2011 Q2.
- Corporate debt is perceived to be the most attractive source of funding. The sentiment on bank borrowing turns negative.
- One-third of CFOs expect M&A levels to increase in the next 12 months.
- More than 80% of CFOs assess the strategic relevance of innovation to be crucial to very crucial, when striving for growth or the continuation of their company.

This is the new normal

CFOs are still fairly gloomy about their financial prospects compared to three months ago. The sentiment indicator remains negative. However, the indicator is climbing again, as though CFOs are adapting to a new reality of uncertainty and a harsh financial and economic climate.

One of the growing business priorities is to increase the cash flow. More than 50% of CFOs expect an increase of their company's cash flow over the next 12 months.

Some 80% of CFOs think now is not a good time to take greater balance-sheet related risks. However, due to increased external economic and financial uncertainty, CFOs experience higher balance-sheet related risks.

Again, all sources of funding are perceived to be less attractive compared to last quarter. Corporate debt remains the most favored source of funding. However, the indicator is heading fast in the direction of the zero point, where CFOs are equally positive or negative.

CFOs' expectations for both M&A and private equity levels remain low this quarter. One third of CFOs expect M&A levels to increase in the next 12 months.

Innovation is key to growth

CFOs want to stay in control of their cash flow. However, today's business environment is characterized by a high economic uncertainty that CFOs have to deal with. Any opportunities for minor cutbacks and other reductions have been seized over the past quarters. These measures can no longer be expected to provide the solution for continuing the daily business or even when striving for growth. A policy of reform is in place and innovation can be a significant pillar.

Over 80% of CFOs assess the strategic relevance of innovation to be crucial to very crucial, when striving for growth or the continuation of their company during these current economic hard times. Innovation is prioritized high to very high by some 70% of CFOs on the agenda of the board. Innovation has to be followed up in order to be effective. It is important that organizational goals are set, and KPI's are formulated to monitor its progress and effectiveness. Innovation has to be concretized in order to be effective and what is being preached needs to be practiced.

What is the role of a CFO regarding innovation? Most organizations struggle to concretize innovation. CFOs can contribute to helping their organization structure innovation by setting organizational goals and formulate KPIs. Only then will an organization be able to monitor and track the evolvments and results of innovation.

North America

Europe casts a long shadow



All eyes on the Euro zone

Remarkable volatility in the macro-business environment clearly rattled CFOs last quarter. After six straight quarters of mostly positive sentiment, large-company CFOs turned decidedly pessimistic thanks to the combined impacts of the U.S. debt deal, the downgrading of U.S. Treasuries by Standard & Poor's, rising sovereign debt troubles in Europe, global economic malaise, and governments' continuing struggles to find solutions.

Little has improved this quarter. Sovereign debt issues in the Euro zone escalated this quarter. Employment languished, fueling increasingly-visible social unrest. And governments' struggles to address those financial and social challenges underscored the elusiveness of the solutions required to generate long-term improvement. Little wonder that economic risks and sovereign debt issues were named among the most worrisome risks by nearly all CFOs this quarter.

Those macroeconomic risks have also put a damper on CFOs' growth plans. Last quarter we saw a distinct defensive shift in focus from growth toward competition in current markets and more modest revenue, earnings, and investment expectations. And while the focus appeared to turn back toward growth a bit this quarter, CFOs remain in a conservative mood amid worries that the debt crisis might not be contained and that a spillover might threaten consumer and capital markets throughout the world.

Highlights from the Q4 2011 North American CFO survey:

- Only 27% of CFOs report a more positive outlook, and 38% are less optimistic. The spread between those more and less optimistic improved a bit to -11 percentage points.
- Over the next six months, 83% of U.S. CFOs and 64% of Canadian CFOs expect no change (12% and 28% expect worse conditions, respectively). About 30% of all CFOs expect improvement in a year, and nearly 90% expect it in three.
- CFO expectations are positive, but lower than in the first half of 2011. Expected gains are 6.3%* for sales (6.8% last quarter), 10.1%* for earnings (9.3% last quarter) and 9.6%* for capital spending (7.9% last quarter). Domestic hiring fell to 1.0%*.
- Only about one fifth of companies are providing best estimates and underlying assumptions. About 25% prefer to provide conservative estimates that allow for macro volatility, and nearly 40% are choosing not to provide any earnings guidance at all.

Expectations reflect economic woes

Since the first quarter of this year (when more than 60% of CFOs were reporting increased optimism), quarter-over-quarter optimism has fallen steadily and now sits at just 27%. And in the wake of last quarter's 53% pessimism, 35% of CFOs report no change this quarter and 38% actually report further declines. Net optimism, which turned negative last quarter for the first time, improved from -24 percentage points to -11.

Rising pessimism has clearly taken a toll on business performance expectations. But the relatively good news is that, although year-over-year estimates have been declining, they are still in positive territory. CFOs now project average sales gains of about 6.3%* (down from last quarter's 6.8%* and a new low for this survey), but 87% do expect year-over-year gains. Earnings growth expectations rebounded from their 18-month low of 9.3%* last quarter to 10.1%* this quarter. Projections for U.S. firms were above average at 10.9%* (10.5%* last quarter), with Canada lower at 7.4%* (8%* last quarter).

Mixed on growth and hiring

Despite their pessimistic sentiment, many CFOs appear to expect a brighter future. Few CFOs see economic conditions improving by the middle of 2012, but nearly 90% expect their home economies to be in better shape three years from now.

CFOs say more than half of their strategic focus is on revenue growth, and their focus on new markets rebounded somewhat after a sharp decline last quarter. They are again mentioning the adaptation of strategy and the prioritization of investments among their top challenges. Accordingly, capital investment growth expectations rebounded from 7.9%* last quarter to 9.6%* this quarter and Research & Development spending growth rose to 5.4%*.

Unfortunately, companies' growth plans are not spurring substantial domestic hiring. Although U.S. projections improved from just .33%* last quarter to 1.4%* this quarter, aggregate expectations for North America are just 1.0%* (the lowest on record), and just half of CFOs project gains. Rising expectations for offshore hiring may suggest an increasing focus on foreign growth over domestic growth and/or continuing efforts to reduce costs.

A blurry and bumpy ride

As they consider their companies' near- and longer-term prospects, CFOs continue to monitor governments' impact on global economies and industries. Social policy is the top economic concern for well over half of CFOs (with unemployment just behind at 42%), and regulation is a top industry challenge for roughly the same proportion.

On top of demand-centered worries, CFOs indicate growing concerns about the possible spread of Europe's financial distress to North American banks and a resulting deterioration of capital availability. Accordingly, concerns around both inflation and capital cost/availability rose notably.

Switzerland



2012: A return to recession?

A more pessimistic attitude

CFOs are becoming more and more pessimistic about the economic outlook for Switzerland. The general optimism from the first half of 2011, which seemed to suggest a feeling of resilience despite a string of negative news (such as the unrest in Northern Africa, the tsunami in Japan, and the debt crisis in the U.S. and Europe), has now been replaced by a more pessimistic attitude. The second half of 2011 saw a worsening of the European debt crisis, unexpectedly sharp downgrades to global forecasts, and new worries about the stability of the global banking system.

The focus for CFOs in 2012 will be on macroeconomic problems such as the European debt crisis, a still fairly strong Swiss Franc, and a decline in domestic and foreign demand. Pressures on operating margins and cost control are also dominant themes for 2012. Yet challenging times can create opportunities. CFOs are not only considering new products or markets, but also taking advantage of the strong Swiss Franc through acquisitions abroad and lower import prices.

The outlook worsens

From the point of view of CFOs, the macroeconomic environment has deteriorated. Some 83% have a negative outlook for the Swiss economy over the next 12 months, compared with 66% the previous quarter. In addition, 65% expect a recession in the next two years, while 53% expect one in 2012.

CFOs are also fairly pessimistic regarding their companies. The financial outlook for their businesses has decreased for the third consecutive quarter. Particularly worrying is the expected decline in revenue and the continuing pressure on operating margins. A net balance of 55% of CFOs expect a decline in revenues over the next 12 months, compared to 45% the previous quarter.

Highlights from the Q4 2011 Swiss CFO Survey:

- CFOs continue to be pessimistic about the macroeconomic environment. 83% have a negative outlook for the Swiss economy.
- Almost two-thirds of surveyed CFOs expect a recession in Switzerland within the next two years; 53% expect one in 2012.
- The majority of CFOs consider the financial prospects for their own company to have worsened since the previous quarter.
- The pressure on operating margins remains particularly high; 87% of CFOs expect operating margins to decrease over the next 12 months. 69% of CFOs expect a decline in revenues.
- For the second consecutive quarter, CFO sentiment regarding credit availability has worsened. However, a net balance of 16% still considers credit to be available.
- Risk appetite continues to decline. 90% of CFOs consider it inappropriate to increase the risk levels on their balance sheets.
- The intervention of the Swiss National Bank last September had a major impact on CFO expectations regarding exchange rates: 88% now expect an exchange rate of at least 1.20 Swiss Franc for the Euro in 12 months.
- The majority of CFOs expect no change in the size of their workforce for 2012. 72% of CFOs predict moderate salary increases.

Regarding operating margins, a net balance of 81% predict a decline (80% the previous quarter). The majority of CFOs plan to respond by cutting costs. Discretionary spending, capital expenditure and hiring are all expected to be cut in the next 12 months.

Corporate funding: mixed emotions

When it comes to corporate funding, opinions appear divided. Even though a net balance of 16% consider credit to still be available, the majority declined by a total of 35% percentage points during the last two quarters. According to the survey, the decline in credit availability is not a result of rising credit costs. Quite to the contrary, credit costs are considered to be at their lowest since the survey began in 2009.

While the net balance of responding CFOs expect an increase in the demand for credit over the next 12 months, the actual number of CFOs expecting an increase is on the decline. If credit availability continues to drop in the coming quarters, and demand remains at the same level, a credit crunch could be a possibility. However, CFOs do not currently view a credit crunch as a serious risk in the next 12 months.

Numerous economic risks

As in previous quarters, external risks such as weaker foreign demand, the strength of the Swiss Franc, and the stability of the financial system are CFOs' main concerns. One rising risk factor is a potential drop in domestic demand.

Given the many perceived risks, it is not surprising that corporate risk appetite is falling. Some 90% of CFOs are not in favor of increasing the risks on their balance sheet at this point in time.

Strong Swiss Franc

The Swiss Franc remains a dominant risk despite the adoption of an exchange rate floor by the Swiss National Bank (SNB) in September. The SNB's action has strongly influenced the exchange rate expectations of CFOs, with 88% now expecting an exchange rate of at least 1.20 Swiss Franc/Euro in the next 12 months. Prior to the implementation of the floor only 27% expected this exchange rate. CFOs cite the intervention of the SNB as the most significant reason for their change in expectations. Nevertheless, around two-thirds of CFOs still consider the Swiss Franc to be overvalued.

On average CFOs are using an exchange rate of 1.22 Swiss Franc/Euro in their yearly budgeting process for 2012, which is even slightly lower than the expected rate of 1.25. As long as the SNB can successfully defend the exchange rate floor of 1.20, this calculation would reduce the probability of negative exchange rate shocks. On the other hand, a weaker Swiss Franc would have a positive impact on many companies. Eighty-two percent of CFOs believe the SNB can successfully defend the exchange rate floor.

Cautious on hiring

When it comes to new hiring, CFOs are also more cautious than in the previous year. Fifty-two percent plan to maintain their workforce at the same level in 2012, while 30% are planning an increase and 18% expect a reduction. Salary expectations are similar with 72% of CFOs expecting a moderate increase in salaries compared to 83% in the previous year.

United Kingdom

Priorities 2012: Cash & costs



Is something bad about to happen?

In the fourth quarter, UK CFOs left no doubt that the biggest threat to their businesses in 2012 comes from a breakup of the Euro area. Some 33% cited fears for the future of the Euro area, making it the biggest single concern. Second on the list, however is a recession. In fact, CFOs are working on the assumption that the UK is likely to fall back into recession, and on average they see a 54% chance of the UK suffering a 'double dip'. Most expect the period of weakness to be prolonged, lasting for more than a year. Other stresses include pressure on margins and cash flow, financial stress, and uncertainty. In fact, 56% of CFOs rate the level of uncertainty facing their businesses as being "high" or "very high." As one respondent put it, "Everyone is waiting for something very bad to happen."

Strengthening balance sheets

The CFO survey illustrates the corrosive effect of uncertainty on corporate spending. Some 87% of CFOs believe this is a bad time to be taking additional risk onto their balance sheets. Similar to what happened in late 2008, CFOs are reacting to a tough climate by strengthening their balance sheets. The financial strategies of UK corporations have reversed in the last year. CFOs entered 2011 with a focus on expanding into new markets and increasing capital spending; they enter 2012 with a focus on cutting costs and increasing cash flow. Companies which derive a high proportion of revenues outside the UK are more optimistic and have a more expansionary stance than their UK-focused counterparts. But those pinning their hopes for growth on a big increase in corporate spending in the UK may be disappointed.

Highlights from the Q4 2011 UK CFO Survey:

- CFO optimism continues to be dismal with just 4% of CFOs saying they are more optimistic about the financial prospects for their companies than they were three months ago.
- The biggest concern for UK CFOs in 2012 is the risk of a breakup of the Euro.
CFOs are pricing in a UK recession and expect the economy to remain weak for a prolonged time.
- Some 87% of CFOs believe this is a bad time to take additional risk onto their balance sheets.
- The profit cycle is turning. Some 70% of CFOs expect profit margins to decline in 2012.
- Financial stress is affecting the supply of credit to large corporations. Credit availability has deteriorated at the fastest rate since the credit crunch of 2008.

Impact on profits and spending

In fact, a majority of CFOs also expect corporate revenues and operating margins to decline in 2012. A turbulent macro backdrop has led to a significant scaling back of CFOs' expectations for corporate expenditure. CFOs think 2012 will bring a squeeze on capital expenditure, hiring and discretionary spending.

The UK Office for Budget Responsibility (OBR) forecasts that business investment will be one of the major drivers of GDP growth over the next few years, rising at a faster rate than in the last decade. CFO caution on the outlook for capital spending in 2012 suggests that this increase in corporate expenditure may well be delayed.

Wary of financing

Financial stress has also made CFOs more wary of all three main forms of external finance. Bond issuance and bank borrowing remain the most favored forms of finance, but are less so than at any time in the last year. Equity issuance is firmly out of favor with CFOs. It is less popular today than in early 2009 when the FTSE 100 dropped close to the 3,500 mark.

Do not waste a good recession...

Despite the uncertainties, 48% of CFOs think troubled times create new opportunities for their businesses. One-third see opportunities to acquire undervalued assets; 30% think weaker competition provides a chance to expand market share; 19% believe that a difficult economy gives them a chance to implement overdue changes to their businesses. And some foresee new sources of demand. In fact, 12% of CFOs plan to develop new offerings to meet needs created by a difficult macro environment.

Future of the Euro

December's summit of Europe's leaders failed to dispel market anxieties about the future of the Euro. On average UK CFOs see a 37% chance that one or more members of the single currency will leave the Euro in 2012.

For CFOs the biggest concerns about a break-up of the Euro relate to the financial and political implications. Thirty-eight percent of CFOs believe a breakup would restrict their access to credit and capital. CFOs also see significant risks to their businesses from shifts in the value of assets and liabilities if new currencies are brought in, from unrest in Euro area countries and from swings in exchange rates.

These factors are seen as posing a greater threat to UK businesses than a weakening of activity in the UK or softer export demand. Fourteen percent of CFOs see weaker export demand as posing a significant threat, the same proportion as those who worry about the effect of a Euro breakup on supply chains.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firm CFO Surveys

Nineteen CFO surveys, covering 35 countries around the world, 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.

Member Firm	Contacts	Frequency	Survey Scope and Population
Australia	Stephen Gustafson Partner +61 (0) 2 9322 7325 sgustafson@deloitte.com.au	Quarterly	Conducted between December 8, 2011 and January 13, 2012; 73 CFOs participated, representing businesses with a combined market value of approximately AUD \$332 billion or 24% of the Australian-quoted equity market.
Austria	Mag. Gerhard Marterbauer Partner +43 1 537 00 4600 gmarterbauer@deloitte.at	Quarterly	Conducted in January 2012; 257 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 23% have revenues in excess of €1 billion, and 40% have revenues greater than €100 million.
Belgium	Thierry Van Schoubroeck Partner + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between November 24, 2011 and December 9, 2011; 47 CFOs completed the survey. The participating CFOs are active in variety of industries, 35% of the participating companies have a turnover of over €1 billion, 37% of between €100 million and €1 billion, and 28% of less than €100 million.
Ireland	Shane Mohan Partner +353 1 417 2543 smohan@deloitte.ie	Quarterly	Conducted in December 2011; CFOs of listed companies, large private companies, and Irish subsidiaries of overseas multinational companies participated.
Middle East <i>(UAE, Kuwait, Qatar, Jordan, Egypt, Saudi Arabia, Syria, Sudan, Bahrain, Lebanon, Yemen, Oman)</i>	James Babb Partner Deloitte & Touche M.E. +0097143313211 jbabb@deloitte.com	Biannual	Conducted in October 2011, this survey included participation from 84 respondents, representing both listed and non-listed companies in the Middle East. Annual turnover of the participating companies are as follows: > USD \$1 billion (13%), USD \$500 million – USD \$999 million (15%), USD \$100 million – USD \$499 million (37%), < USD \$100 million (35%).

Member Firm	Contacts	Frequency	Survey Scope and Population
Netherlands	Jan de Rooij Partner +31 (0) 6 5336 6208 JandeRooij@deloitte.nl	Quarterly	Conducted between December 15, 2011 and January 13, 2012; 39 CFOs, representing a net turnover per company of approximately €2.3 billion, completed the survey. The responding companies can be categorized as follows: less than €100 million (5%), €100–499 million (33%), €500–999 million 19%), €1–4.9 billion (31%), more than €5 billion (12%).
North America <i>(U.S., Canada, Mexico)</i>	Greg Dickinson N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between November 14, 2011 and November 29, 2011; 84 CFOs participated from across the United States, Canada, and Mexico. Over 70% of respondents represent CFOs from public companies, and over 75% are from companies with more than USD \$billion in annual revenue.
Switzerland	Dr. Michael Grampp Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between November 28, 2011 and December 16, 2011; 96 CFOs participated, with 25% representing listed companies and the remaining 75% representing large private companies.
United Kingdom	Ian Stewart Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between December 7, 2011 and December 19, 2011; 94 CFOs participated, including the CFOs of 32 FTSE 100 and 32 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 71 UK-listed companies surveyed is £440 billion, or approximately 26% of the UK quoted equity market.

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