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CFO Global Insights

Diverging attitudes in the face of volatility?

First Quarter 2011 Deloitte CFO Surveys: Austria, Australia, Belgium, Ireland, Japan, Middle East, Netherlands, Norway, North America, Spain, Sweden, Switzerland, and United Kingdom.

Deloitte CFO Global Insights
May 2011

About the Deloitte Global CFO Program

The Global CFO Program aims to position Deloitte member firms to be the preeminent advisor to the 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 CFO Surveys

Eighteen CFO surveys, covering 34 countries around the world are conducted on a quarterly, bi-annual, 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 of each member firm's survey may vary. For more information and to access these CFO surveys, please refer to the Index at the end of this publication.

The surveys conducted vary in timing and respondent group. As such, these survey responses may not be a statistically accurate representation of the countries or regions identified. Please refer to the end of this publication for information on the scope and survey demographics for each participating survey.

About Deloitte CFO Global Insights

The purpose of the Deloitte CFO Global Insights report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the first quarter 2011 CFO Surveys from Deloitte member firms in the following territories:

- **Austria**: *Returning to normal*
- **Australia**: *A show of resilience*
- **Belgium**: *Call for caution*
- **Ireland**: *A new beginning?*
- **Japan**: *… and this time we were lucky!*
- **Middle East:** *Resilient optimism in the face of uncertainty*
- **Netherlands:** *External conditions limit optimism*
- **Norway**: *Positive outlook*
- **North America**: *Companies are focused on generating post-recovery momentum*
- **Spain**: *Confidence in recovery, unfinished business*
- **Sweden**: *Growth is stabilizing*
- **Switzerland**: *Sustained confidence*
- **United Kingdom**: *Optimism down, risk appetite up*

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CFO Global Insights

CFO Sentiment in First Quarter 2011

The first quarter of 2011 was marked by volatility and dramatic changes to the environmental and geopolitical landscape of the world. On March 11th, a devastating tsunami, triggered by a magnitude 9.0 earthquake struck the eastern coast of Japan killing over 14,000, with 10,000 still unaccounted for. The extent of the devastation has been estimated to cost over USD 300 billion, a figure which may cripple one of the world's largest economies. While many Japanese companies are still assessing the full impact of the disaster, CFOs are shifting their attention to key recovery measures, including maintaining a consistent power supply and re-establishing supply channels.

Significant political uprisings came to a head in the Middle East, including the fall of Egypt's Hosni Mubarak, conflict in Libya, and protests throughout Tunisia, Bahrain, Syria and Yemen, among others. With the majority of the world's known oil reserves residing in this region, the political instability has led to sharp increases in oil and commodity prices.

Although these unsettling events have unquestionably weakened the growth in optimism of most respondents globally, on balance, CFO sentiment in the first quarter still reflects an optimistic outlook.

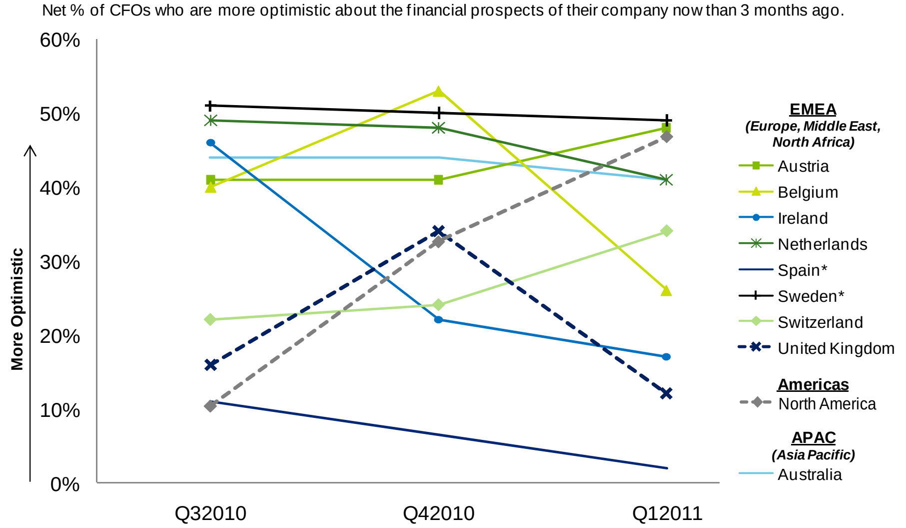
U.K. and North America

A dichotomy has emerged between CFO sentiment in the U.K. and North America. Whereas in previous quarters, the net change in optimism among CFOs in both economic centers appeared aligned, Q1 2011 took a sharp divergence. While North American sentiment continued to trend in a positive direction, British outlook dropped significantly, with optimism falling to the lowest levels in two years. Although the cause for this divergence in attitude on both sides of the pond is not clear cut, there are several factors that likely played a role in the responses received in Q1 2011.

In North America, CFO optimism was buoyed by improving assessments of both the macro-business environment and company-specific factors. Unemployment slowly fell in the U.S., as GDP forecasts continued to rise throughout the first quarter. In contrast, the U.K. economic outlook weakened in the first quarter as U.K. consumer confidence fell and incomes remained under pressure from slow wage growth and high inflation. Furthermore, the unexpected 0.5% decline in fourth quarter U.K. GDP growth added to concerns about the strength of the recovery and promoted a wave of downgrades to 2011 GDP forecasts.

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.



*A trend line has been plotted for this country as the survey is conducted on a semi-annual basis. Actual data only available for Q32010 and Q12011.
NB: Comparative survey data was not available for the following participating countries: Japan, Middle East, and Norway

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.

Undoubtedly, events in the news during each survey period also had an impact on the sentiment expressed by CFOs. The U.K. survey period (March 11th – 28th), which coincided with the conflict in the Middle East, elevated oil prices and Japan's earthquake and nuclear crisis, likely contributed to the cautious sentiment exhibited. The North American survey period (February 14th – 25th) fell just before the Japanese earthquake, which may help explain the sizable improvement in optimism; however, this positive outlook still reflected CFO sentiment amidst the beginnings of the Middle East uprisings and rising oil prices. Beyond economic outlook and news events, there may be other factors shaping this dichotomy. Perhaps U.K. CFOs are better able to anticipate changes in commodity prices and input costs, which would suggest that in Q2, North American reaction would follow a weakened sentiment. Or, perhaps cash flow is playing a larger role in CFO's perceptions of their company's prospects. Although perceived credit availability is improving in the U.K., many U.S. corporations are cash heavy and well positioned to capitalize on attractive investments. Only time will tell how CFOs in each region will ultimately assess the longer term prospects of their companies in this new, more turbulent, climate.

Eurozone

With the exception of a few countries, growth in optimism declined amongst CFOs in the Eurozone. Trending with U.K. sentiment, this drop in optimism likely reflects growing concern over rising inflation and input prices. Several countries indicated a significant decline, which may be largely due to country-specific factors. CFO optimism in Spain continued to wane as the country faced a crippling unemployment rate north of 20% and an overwhelming lack of confidence in the Spanish government's ability to improve economic conditions. In Belgium, rising input costs, automatic wage indexation and higher than average inflation are probable reasons for the drop in optimism. Lastly, in Ireland, uncertainty in the domestic economy, lingering from the country's multi-billion euro bail out in the fourth quarter of 2010 is the likely cause for the continued stagnation of optimism amongst CFOs.

Asia Pacific

On February 24, 2011, the Australian Federal government announced a framework to implement a carbon tax, coming into effect on July 1, 2012. As the country continues to protest and debate the proposed tax, the vast majority of CFOs surveyed expect this new tax to increase costs across the board for Australian consumers and make Australia less competitive globally. Despite the regulatory changes and suite of geopolitical disasters within the country and abroad, CFOs are enjoying a period of good performance and this is contributing to increased confidence and a renewed appetite for risk.

CFO Global Insights

CFO Priorities - A Global Perspective

1. Growth

Growth remained the top priority for CFOs globally in the first quarter of 2011. Within North America[1], the beginning of 2011 appeared to mark a turning point in the economic recovery for large-company CFOs. With capital supply and efficiency gains largely accounted for, companies now appear focused on growth in a post-recession environment. New products and services, acquisitions and foreign market expansion are expected to be the key drivers behind this growth. Across EMEA (Europe, Middle East and Africa)[2], growth through product and market expansion tops the agenda for the majority of CFOs, with a focus on both raising capital expenditures, as well as making strategic acquisitions. Similarly, CFOs in Australia are focused on expansion, primarily driven by organic growth through existing markets and sectors, as well as significantly increasing capital expenditures.

2. Acquisitions

With improved access to capital in most economic regions, and with the risk appetite of CFOs consistently increasing around the world, it is no surprise that strategic acquisitions top the priorities list for many CFOs globally. However, despite expectations of increased M&A activity in 2011, there is concern that activity will be constrained by several key factors. In North America, CFOs are wary of unleashing the more than USD 2 trillion in collective balance-sheet cash that has remained on the sidelines since the recession. This limited spending appears to be the result of concerns about the economy and consumer demand, industry regulation, and a shortage of attractive investment opportunities. In EMEA, CFOs continue to expect M&A activity to increase in 2011, with the improving economic outlook and availability of financing. However, the ability for companies to secure targets with the right strategic fit and at the right price is increasingly becoming the limiting factor for CFOs. A similar story is unfolding in Australia, where the majority of CFOs intend to pursue M&A opportunities in 2011 but cite that the greatest hindrance to undertaking an acquisition has been the inability to identify a suitable target.

3. Cost control

CFOs around the world view expected rising input or raw material costs as a key risk this quarter. CFOs on all continents are feeling the pressure of an impending margin squeeze, as the price of oil and other commodities continue to climb, cost reduction tactics from the post-recovery stage have been realized, and the threat of inflation looms. Consequently, controlling costs to maintain current operating margin levels has become a top priority for CFOs across all regions.

4. Risk mitigation

International financial market instability, natural disasters and political unrest have created a host of risks that CFOs must now manage and hedge against as part of their ongoing operations. In North America, market risk continues to be a key focus area, with commodity prices and inflation on the rise, and the fear of a 'double dip' still lingering. Further, slow economic growth and stubborn unemployment are elevating competition for domestic growth and as such, companies are increasingly looking to new geographies for sustained growth. Within EMEA, operating risk, highlighted by rising oil prices and the threat of inflation are pushing CFOs to maintain a strong focus on controlling costs and increasing cash flow. In Australia, regulatory risk tops the agenda for most CFOs, with the proposed introduction of a carbon tax. Nearly all CFOs predict increased costs for consumers as a result of carbon pricing and a decrease in operating margins. Further, Australian CFOs anticipate changes in consumption and investment behaviors to reflect the impact of carbon pricing, with increased demand and investment in low carbon and renewable energy across all industries.

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[1] In Q1 2011, North America was represented by: Canada, USA and Mexico.
[2] In Q1 2011, EMEA was represented by: Austria, Belgium, Ireland, Middle East, Netherlands, Norway, Spain, Sweden, Switzerland, and U.K.

Austria

Returning to normal

Optimism despite concerns over rising inflation

Compared to 2009 and 2010 survey findings, Austrian CFO's are considerably more positive in their view on the Austrian economic outlook. In particular, 65% of participants generally expect an improvement in economic conditions for 2011. The majority of the economic indicators for 2011, such as economic climate, investment climate and domestic sales are seen more favorably than last year. However, 90% of CFO's are concerned about inflation and expect a slight to considerable increase in rates. The Austrian Traded Index (ATX), which includes the 20 largest Austrian stocks, is expected to only record minor gains in 2011.

A positive outlook for Austrian companies but lower M&A activity

The financial outlook for Austrian companies is expected to improve to last year's conditions. General company related indicators, such as revenue, investments, personnel and credit availability, display a positive tendency. Sales expectancy has improved significantly since 2009 and 75% of CFO's anticipate revenue growth for 2011. Also, there is an increased willingness to invest and to recruit. Further, credit availability has improved, which should lead to enhanced liquidity. Surprisingly, only M&A activity falls out of the positive picture. Growth through acquisitions is expected to lose importance for the rest of the year according to this quarter's survey.

Hot topics for Austrian CFO's remain unchanged from last year

The priority of major topics of Austrian CFO's for 2011 is almost equal to those of last year. Cash flow/liquidity tops the list, followed by controlling, talent management, banks/investors confidence and finally cost reduction. A reduced importance is observed for topics that are especially relevant in times of crisis, such as cost reduction. On the other hand, talent management and governance, risk & compliance gained importance for Austrian CFO's compared to last year.

Credit-availability improves but its importance as a form of financing remains unchanged

Despite the positive economic outlook, the importance of equity increased slightly according to the survey, while the significance of credit facilities as a form of financing remained unchanged for 2011 compared to last year. However, credit availability is seen more positively by Austrian CFO's for 2011. In preceding years, the majority of the interviewees still viewed credit availability as limited, which is not surprising given the after-effects of the financial crisis. Closely related to the positive outlook of credit availability are future capital expenditures. Thus, investment decisions have become increasingly important as part of the corporate strategy in the future.

Highlights from the Q1 2011 Austrian CFO Survey:

- Despite concerns over rising inflation, Austrian CFOs are more optimistic about the economic outlook in 2011 compared to 2010.
- Austrian companies are expecting to increase their revenues in 2011, consistent with their expectations of improving economic conditions.
- Credit-availability improves to previous years but the importance of equity rises.
- Austrian CFOs have become more willing to undertake capital expenditures, compared to the findings of 2009 and 2010.
- Surprisingly, growth through acquisitions is observed to lose importance for the rest of the year according to this quarter's survey.
- Hiring is clearly back on the agenda of CFOs with almost 50% of respondents indicating that they plan to hire in the next few months.

Recruiting back on the agenda

The economic upswing is clearly reaching the labor market with recruiting back on the agenda. Almost 50% of the interviewees responded that they plan to hire within the coming months. This is a significant rise since 2009 when only 14% were willing to recruit. Hence, the overall job situation seems to be noticeably improving in Austria.

Searching for cost savings

95% of the participants expect a slight to major rise in energy prices, such as crude oil, natural gas and electricity, which is a significantly higher figure than last year's. As such, cost savings are becoming increasingly important. However, given the increased expectations for recruitment, the potential for cost savings in salary and wages is less important for Austrian CFO's than in previous years. Moreover, marketing and sales expenses are not expected to see significant cuts. R&D, accounting and finance & controlling do not show much cost saving potential either, according to participants. Only about 5% of the interviewees believe in unrealized potentials which remained the same in 2010 and 2009. In contrast, 60% regard procurement to have the greatest cost saving potential followed by organization/administration and logistics/transport, as second and third place, respectively.

Australia
A show of resilience

Improving attitudes to risk

The Deloitte CFO Survey shows an increase in the risk appetite and confidence of CFOs. This quarter, for the first time since Q1 2010, more than half (52%) of CFOs surveyed said it was a good time to take greater risk onto their balance sheets. CFOs also continue to have confidence in the underlying strength of their business, with 81% expecting an increase in operating cash flow over the next 12 months. This outlook for growth and investment is further reinforced by the fact that 61% of CFOs are planning to increase capital expenditure in 2011. While there has been a decline of 4% in the net % of CFO levels of optimism, this is minimal given the extent of natural disasters both nationally and globally as well as the unrest in the Middle East. The fact that 54% of CFOs are more optimistic about the financial prospects of their business now than they were 3 months ago (compared to 48% in the last quarter) reflects the underlying resilience of Australian businesses and provides a strong platform for the remainder of 2011.

A price on carbon

CFOs expect the introduction of a price on carbon to change consumption and investment behaviors. 73% anticipate it will drive increased investment in low carbon and renewable energy and 76% expect it to drive demand for low carbon products. When asked about the likely impact of a price on carbon, 84% of CFOs said they expect it to make Australia less globally competitive. 44% felt that the price on carbon would not impact financial performance while 52% believed that there would be a negative impact. There was a more universal view on the overall impact of a price on carbon, with 98% of CFOs predicting consumers would face increased prices. A similar number (95%) believed corporate profit margins would also decline, possibly indicating that companies would not be passing on all costs to consumers. These results underline the variation in the impact of a price on carbon across sectors, as well as the importance of the ongoing compensation debates for emissions-intensive trade exposed entities.

Priorities, strategies and growth

While 52% of CFOs intend to pursue M&A opportunities over the next 6 months (compared to 50% in Q4 2010), the main driver of growth will be organic expansion, especially in existing sectors (96%). When asked what the greatest hindrances to undertaking an acquisition were, 45% identified a lack of suitable targets and 27% identified the pricing expectations of vendors. The fact that only 6% identified debt financing as the greatest issue, indicates the increase in access to credit for Australian corporates.

Highlights from the Q1 2011 Australian CFO Survey:

- CFOs remain confident about the financial prospects of their companies, while their appetite for risk continues to strengthen.
- 61% of CFOs expect to increase capital expenditure – 26% significantly so.
- 73% of CFOs expect the price on carbon to drive increased investment in low carbon and renewable energy and 76% expect it to drive a demand for low carbon products.
- The proposed price on carbon will impact financial performance, but the majority of CFOs see minimal impact on asset values and investment plans.
- Nearly all CFOs predict increased costs for consumers as a result of a price on carbon (98%) and see a decrease in margins (95%).
- Organic expansion will be the main driver of future growth, especially in existing markets/sectors.
- Most CFOs (87%) are factoring in an interest rate rise by the end of 2011 with the largest group (34%) expecting the rise in Q3 2011.
- M&A activity is expected to rise with 52% of CFOs likely to pursue opportunities in the next 6 months.

Views on equity and debt

87% of CFOs expect the Reserve Bank of Australia (RBA) to increase interest rates in 2011. 29% believe this increase will be in Q2 2011, 34% in Q3 and 24% in Q4. 13% do not expect interest rate to rise until 2012. Bank borrowing remains an attractive source of external funding for Australian corporates and the appeal of corporate debt improved over the last quarter. 41% of the CFOs said their demand for new credit has increased in the last 12 months and 53% expect demand for credit to continue increasing in the next 12 months. Only 4% anticipate a decrease in their company's demand for new credit in the year ahead.

Belgium
Call for caution

CFOs had entered 2011 in a buoyant mood with a new focus on growth and revenue, but have left the first quarter in a somewhat more cautious mood. CFO caution coincides with the increased uncertainty at the global political and economical forum, fuelled by the crisis in the Middle-East and the nuclear crisis in Japan.

In the second half of 2010, Belgian CFOs were hardly considering an economic double dip scenario, a situation in which the economy would fall into a new recession following last year's strong economic recovery. Today however, as was the case in the first half of 2010, over 20% of CFOs evaluate the possibility of a double dip scenario as high. Also, elevated energy prices and increased inflation have moderated the continuously strengthening optimism that we have witnessed since the beginning of 2009. Overall CFOs remain optimistic about the financial perspectives of their own organization, but growth in optimism has dropped markedly from the highs in the third and fourth quarter of 2010.

Improving risk appetite

Half of our respondents reported demand for their products and services had already accelerated in the second half of 2010. An additional 25% expect demand to pick in 2011. That the mood is cautious, but far from negative, is also reflected in the further steady increase in the risk appetite of CFOs. Many surveyed organizations have decreased the financial risk on their balance sheet over the past 12 months. The majority of CFOs report the balance sheet is currently appropriately leveraged. 40% report it is again a good time to take on additional risk on the balance sheet.

Inflation concerns

As opposed to some initial fears of deflation the recent past, Belgian inflation increased significantly in the past year, reaching 3.5% year on year in February – just prior to the launch of the first quarter survey. The Federal Planning Bureau predicts similar inflation percentages going forward. Most CFOs however expect inflation to be lower – 2 to 3% - and hence somewhat closer to the ECB's target of just under 2% for the Eurozone's target inflation.

Rising wages, input costs and interest rates are key concerns

Contrary to the countries that do not have automatic wage indexation, the biggest reported threat of inflation in Belgium is by far higher labor costs. The upside is that – again as opposed to countries that do not have automatic wage indexation – Belgian CFOs see a squeeze on consumer spending power as a minor threat. Rising input or raw material costs are the second most important threat of inflation. Rising interest rates leading to a rise in the cost of capital close the top three.

Debt remains more attractive than equity

All forms of financing remain attractive, although as in the previous quarters, bank borrowing and corporate debt are rated as far more attractive than equity. Credit is still widely available, but it seems as if the continuous improvement of credit conditions in the past 2 years might come to a soft landing: interest rates are rising, the cost of credit is increasing again and half of the surveyed CFOs expect further price increases and more stringent lending terms going forward.

Highlights from the Q1 2011 Belgium CFO Survey:

- CFOs have ended the first quarter in a more cautious mood than when they started, recognizing the increased uncertainty at the global economic and political level.
- Confidence in the balance sheets has increased and optimism remains solid, resulting in continuously growing appetite to take on additional risk on the balance sheet.
- Inflation is expected to remain higher than the ECB target level of close to 2% for the Eurozone, fuelling fear of higher labor cost and cost of raw materials and inputs.
- Financing remains attractive and bank credit is widely available, but higher prices and more stringent lending terms are expected in the next 6 months.
- Expansion is high on the agenda and revenue projections are optimistic. But cost increases and higher interest rates as a consequence of inflation might put pressure on margins.

Growth on the agenda

With the growing confidence in the balance sheet, the continued optimism on the demand side and the availability of attractive financing, expansion is high on the corporate agenda. Making acquisitions, organic growth and increasing capital expenditure are increasingly popular strategies.

The vast majority of CFOs are bullish about revenue growth over the next 12 months, still in line with the results of the previous surveys. Expectations on margins however have tempered in the first quarter: concerns about inflation and the resulting increases in labor costs, raw materials and higher interest rates might leave little room for margin increases. Cash flow management and cost reduction remain the top priority for Belgian CFOs throughout 2011.

Ireland
A new beginning?

Stabilization in profit and revenue

Overall there is a positive outlook for revenue for Q1 2011. A significant 40 % of CFOs believe revenue will increase in the next six months with a further 37 % predicting revenue will remain stable. Only 3 % of respondents expect revenue to increase significantly. There is a 4 % drop in CFOs who expect revenue to decrease significantly. When asked about prospects for profitability, CFO outlook is somewhat different than for revenue over the next six months. The number of CFOs who believe profitability will increase has dropped overall by 8 % but still remains high at over a third of respondents. In line with this change in perspective there is an overall 5 % increase in the number of CFOs who believe profitability will decrease. These changes in opinion on profitability could be a reflection of rising costs such as oil and the underlying lack of confidence in the domestic economy that still remains. However, there is a 4 % increase in CFOs who predict that profitability will remain unchanged. Cost management has returned to the top three financial challenges facing CFOs. This return suggests that there are still some cost cutting and efficiency programs to further implement. Last quarter there was a sense that CFOs had their houses in order but this change may be a reflection of rising costs such as oil due to the disruption in the Middle East.

More credit available – but at what cost?

Raising finance continues to be a key challenge facing Irish businesses. This quarter's survey results reveal that CFOs continue to consider the cost of new credit for Irish corporates to be high with this percentage remaining almost identical to the Q4 2010 survey results. However, despite the negativity in this regard, CFOs have signaled some improvement in the availability of credit from – 48 % in Q4 2010 to - 31 % this quarter. It is also worth noting that while the cost of credit has risen slightly over the past 12 months there has been an increase of 30 % in the net perception of availability of credit. It will be interesting to see if this trend continues in future surveys.

Exchange rate risk on the rise again

When asked about risk 35 % of CFOs identified exchange rate risk as the highest risk to their companies' balance sheets. Having peaked at 54 % in Q1 2010, it appears that volatility on global markets is increasing yet again as a cause for concern among CFOs. In contrast, the valuation of assets is perceived as less of a risk to company balance sheets with a 5 % decline since Q4 2010. The net perception of risk surrounding the valuation of assets has dropped considerably over the last year, having dropped from 62 % in Q3 2009 to 0 % in Q1 2011. Market risk, the underlying risk of operating in a market that is common to companies, has remained the predominant worry among CFOs since Q3 2010 and this trend has continued into Q1 2011. However, Q1 2011 marks a slight decline in the perceived concern of market risk to 57 % since its highest point at 60 % in Q4 2010. Until international financial markets stabilize, it is likely that market risk will remain the dominant concern among CFOs, while strategic (19 %), operational (8 %) and financial risk (16 %) continue to remain less of a concern in comparative terms.

Highlights from the Q1 2011 Irish CFO Survey:

- 40 % of CFOs believe revenues will increase in the next six months with a further 37 % predicting revenues will remain stable over that period.
- 62 % believe that their company has already returned to growth or will have returned to growth by the end of 2011.
- 75 % of respondents believe debt on their balance sheets will remain the same or decrease.
- 35 % of CFOs identified exchange rate risk as the highest risk to their companies' balance sheets.
- 78 % of respondents feel the new government will have a positive impact on international confidence in our economy.
- 76 % believe the new government will have a positive impact on political reform and on job creation.
- 57 % of respondents believe that rising fuel costs will result in them having to increase the price of the goods/ services they provide.

New government gets positive response

At the end of 2010 it was clear that an election would be called early in 2011. The start of the quarter saw a period of political turbulence including changes of party leadership, a breakdown in the coalition government and a multi-party agreement to expedite the passage of the Finance Act 2011. Following this, the then Taoiseach Brian Cowen sought dissolution of the Dáil prompting an early election. In the election at the end of February, Fianna Fáil lost its position as the largest party in the Dáil for the first time since 1927. After reaching a coalition agreement, Fine Gael and Labour then entered government in early March with Enda Kenny elected as Taoiseach. The results of our survey show that change has been overwhelmingly welcomed by Irish CFOs. 78 percent of respondents feel the new government will have a positive impact on international confidence in our economy.

Japan

… and this time we were lucky!

The 3/11 Triple Disaster

On March 11, 2011, a devastating tsunami, triggered by a magnitude 9.0 earthquake struck the eastern coast of Japan, killing over 14,000, with 10,000 still unaccounted for. The degree and extent of destruction caused by the earthquake and resulting tsunami was enormous, causing damage to four of Japan's nuclear power plants and leaving 4.4 million households without electricity. The H1 2011 Japan CFO Survey aimed to capture CFO sentiment in the wake of this disaster, now known as the 'Triple Disaster'.

Note: On 13 April 2011, the Japanese government announced that they increased the severity level of the Fukushima incident from a level 5 to 7. The survey took place between 28 March and 12 April, 2011 and does not reflect this information.

Impact on revenue and profitability

For many CFOs and financial executives, determining the impact of the Triple Disaster on revenue and profitability will not be a simple task. At the time of the survey, many participants indicated that they were still assessing what the impact would be to their companies' revenue and profitability and could only provide directional input. Overall, the expectations on revenue growth are bleak. 77% of surveyed participants anticipate a revenue decline between 1 – 25%. On the contrary, energy companies expect revenue increases in 2011, due to the elevated demand for energy supply in Japan, resulting from the ongoing nuclear power disruptions.

The expected negative impact on profitability for 2011 appears to be greater than revenue declines. 82% of participants surveyed expected a decline in profits, with 23% of participants surveyed indicating an expected drop in profitability of 21 – 50%. Companies within the TMT and Automotive industries report the highest declines in revenue and profitability, largely due to supply chain disruptions and the need for alternative suppliers.

Impact on business operations

Surprisingly, 64% of those surveyed do not expect the Triple Disaster to significantly impact their daily operations. Only 25% of CFOs and financial executives indicated that their companies would be scaling back operations, largely due to damaged facilities and ongoing power shortages that have hindered regular operating hours. Unsurprisingly, the companies that have reported an impact to operations primarily fall in the manufacturing and retail sectors.

The most significant disruptions to the supply chain channel appear to be related to missing or delayed supplies and the search for alternative suppliers. Although the full extent of the supply chain impact has yet to be seen, continued power outages are preventing companies from operating with 'business as usual'. Moreover, changes to operating hours, shifts and workplaces are being considered and for many companies, have already been implemented. The impact on company personnel was fortunately limited, with 76% reporting no impact on their staff. However, potential longer term issues are beginning to arise for foreign companies within Japan. It will be increasingly difficult to motivate and incent foreign talent to take on assignments in Japan, due to the uncertainties related to the Fukushima nuclear plant and potential decline in overall quality of life in Tokyo. This threat may worsen the already existing shortage of talent in many areas of operations, especially in finance and accounting.

Highlights from the H1 2011 Japanese CFO Survey:

- Many participants are still assessing what impact the Triple Disaster will have on their top line revenue.
- 77% of surveyed participants anticipate a revenue decline between 1 – 25%.
- The biggest concern expressed continues to be unreliable power supply which has forced companies to change their office hours, workplaces and regular shifts.
- The most challenging areas to re-build for companies are supplies and suppliers, customers and intermediaries.
- Only 44% of companies surveyed had business continuity plans in place, making it a key priority for crisis improvement moving forward.

Recovery measures

Even in the face of aftershocks, companies are optimistic on a speedy recovery. 68% of those surveyed expect their Japanese subsidiaries to fully recover within the next six months. This expectation appears aligned with the opinion that most Japanese subsidiaries surveyed suffered only limited damage to their business and do not expect the Triple Disaster to significantly impact daily operations.

However, this optimism is not reciprocated on expectations of a Japanese economic recovery, with 19% of participants citing a recovery in six months. The recurring reason cited for this delayed recovery is: **power**. Across industries, CFOs and financial executives indicate power supply as the key concern for the Japanese economy to bounce back. Closely related, the time and effort required to re-build Japan's infrastructure including roads, facilities, communities, distribution networks, and a reliable power supply, will be significant.

Level of preparedness and looking forward

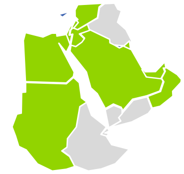
Half of the surveyed companies had crisis management teams in place and 44% had business continuity plans, at the time of the Triple Disaster. However, only 12% of surveyed companies appeared to perform actual tests and exercises to physically rehearse and prepare for an earthquake or disaster. Therefore, it is unsurprising that only 11% of CFOs and financial executives surveyed felt that their companies were highly prepared for the Triple Disaster, with the majority indicating that their companies were somewhat prepared. Given this, business continuity planning is among the key improvement priorities for Japanese subsidiaries moving forward.

Six key areas for post mortem crisis improvement were identified:

1. Business continuity plan development
2. Policy and guideline development
3. Implementing regulars tests and exercises
4. Technology upgrades
5. Location re-considerations
6. Emergency supplies

Middle East

Resilient optimism in the face of uncertainty



Resilient Optimism...

Buoyed by a sharp run up in oil prices during the first quarter of 2011 and the announcement of a series of large government expenditure programs, CFO optimism has reached an 18 month high since the first CFO Survey was conducted in the third quarter of 2009. This is despite the cautionary news flow which has included the Japanese earthquake and resulting nuclear crisis, and the waves of social upheaval and conflict unfolding across the Middle East region. CFOs in the March 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 opportunities.

The market outlook: Inflation on the horizon?

Viewed as a whole, the market outlook among CFOs has appeared to have taken an increasingly inflationary posture where the prospect of hard assets such as real estate will benefit, while financial assets such as equities and government bonds will be challenged against a backdrop of rising interest rate pressures.

Financing the corporate sector – Realistic expectations?

While CFOs rate both the cost and availability of new debt favorably (58% and 37% respectively), they do not believe now is a good time to issue debt (a net unfavorable view of 25%). Interestingly, when asked to look forward over the next 12 months, CFOs are more likely to issue debt rather than equity, indicating that there may be other factors, besides the cost and availability of debt, that are hindering CFOs from borrowing today. The hesitation expressed in debt financing may be related to the uncertainty around inflation and the resulting impact on interest rates. Looking forward over a three year period, CFOs view raising equity capital as most favorable, with 67% expecting the availability of equity capital to improve.

Over the long term horizon, in the next three to five years, CFOs have expressed some interesting expectations regarding debt as a source of financing. A net 61% expect the availability of debt capital to increase over the coming five years. Most CFOs (72%) plan to take advantage of this accessibility by increasing debt on their balance sheet within the first three years. However, it appears that the longer term expectations on the cost of debt may not be as positive; with the majority of CFOs (62%) indicating that their company's weighted average cost of capital is expected to increase over the same time period. The threat of rising longer term interest rates appears consistent with CFOs' expectations, with a mere 29% of CFOs planning to refinance more than 25% of the debt on their balance sheet over the next three years.

When asked to rank their debt reduction strategies over the next three years, CFOs cited asset sales as the top strategy (30%), followed closely by utilizing cash reserves (28%) and equity issuance (25%).

Highlights from the H1 2011 Middle Eastern CFO Survey:

- CFO optimism has reached its highest point in 18 months in the face of uncertainty regarding the external environment.
- Risk appetite remains averse but has steadily improved.
- The market outlook indicates inflation on the horizon.
- Social unrest and military conflict are viewed as high impact risks.
- Credit remains costly but availability continues to improve.
- CFOs face a tsunami of global debt maturities over the coming three to five years and need to determine their financial strategy now to ensure future success.
- CFOs are strategically focused on improving cash flow, organic growth and reducing costs.

CFOs adopting cautious growth strategies

CFOs are focusing their priorities on expansion, with 41% of CFOs indicating growth, either organically or through new market expansion, as a top priority. Consistent with this theme, 34% of CFOs indicate that they are planning for M&A activity over the coming 12 months, while 37% are seeking a joint venture or strategic alliance.

Another key priority noted by CFOs was increasing cash flows over the next 12 months, which will likely be utilized to support expansionary plans, with 46% of CFOs expecting to execute their transactions using existing capital. Another 43% of CFOs intend to go to the market for financing.

Netherlands
External conditions limit optimism

General economic environment
During the first quarter of 2011 the interest rates of the European Central Bank were still low at the level of 1% for the main refinancing operations. On 7 April 2011, the Governing Council of the European Central Bank decided to increase the key ECB interest rates by 0.25%, after having maintained them at historically low levels for almost two years. The interest rates on the main refinancing operations, the marginal lending facility and the deposit facility are now 1.25%, 2.00% and 0.50% respectively. The growing fear of rising inflation levels is palpable. The ECB stresses: “All in all, it is essential that the recent price developments do not give rise to broad-based inflationary pressures over the medium term.”

CFO Survey
The financial optimism among CFOs seemed to stabilize at a higher level during the fourth quarter of 2010. However, the external conditions were unfavorable and thus influenced trade and daily business. As a result, the level of optimism has decreased again.

Although less CFOs expect their companies’ cash flow outlook to increase over the next 12 months compared with last quarter, overall more than half the CFOs expect an increase. After years of cost reduction programs and with the price levels of materials on the rise, margin pressure is tight. This requires corporates to find need new ways to optimize their cash flow. Options are to further reduce working capital, execute segmentation analyses of clients or products in order to optimize margin, or focus on pricing strategies.

The risk appetite returned to former levels after a rise in the last quarter. 21% of the CFOs consider now to be a good time to be taking greater balance sheet related risks. Undeniably, the conditions mentioned earlier influencing the financial markets, will explain this reset.

Bank borrowing is now perceived as the most attractive source of funding for the first time since the start of this survey. This is most likely explained by the consequences of the credit crunch leading to solvency and liquidity issues at the banks, which meant that bank borrowing became very hard to come by. During the fourth quarter of 2010 a majority of banks in The Netherlands relaxed their standards for approval of loans to enterprises for the first time since 2006, according to the DNB Bank’s Lending Survey of January 2011.

Bank borrowing has traditionally taken the biggest share in the financing mix of most Dutch companies. Because of the credit crunch companies were forced to reform and spread their financing mix to avoid dependence of a single funding source. By now, bank borrowing is becoming more readily available to companies - although somewhat more costly since interest rates are rising again.

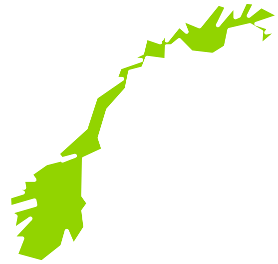
Highlights from the Q1 2011 Dutch CFO Survey:

- For the first time since the start of this survey, bank borrowing is perceived as the most attractive source of funding
- CFO optimism has decreased after two quarters of recovery.
- Risk appetite has returned to former levels – the peak at the end of 2010 did not last.
- Most CFOs expect their free cash flow to rise over the next twelve months.
- Almost half the CFOs assess Chinese takeovers in Europe to create an opportunity for their company.
- If they were to contemplate selling business units, half the CFOs consider a Chinese company to be a serious buyer.

M&A activity of Chinese companies
Over 40% of the responding CFOs consider the Chinese takeovers in Europe to be an opportunity for their company, despite failed attempts, such as the efforts of Xinmao to buy Draka. Several factors, including financing issues and complex regulations for listed companies, prevented the takeover. Nevertheless, the Chinese companies are likely to be fast learners.

A private company will be more willing to invest time to resolve any cultural issues to close a deal with a Chinese buyer successfully when good terms are offered.

Despite the social debate around ownership of Dutch corporates, almost half the CFOs would contemplate selling Chinese buyers company business units.



Norway
Positive outlook

Balance sheet risk unchanged or reduced

The Norwegian economy looks to have recovered well from the financial crisis. Recent quarterly reports have shown improved performance in Norwegian companies, and the market seems healthier than in the last few years. Historically high commodity prices, particularly oil, and a growing demand for Norwegian goods have contributed to a strong growth in the Norwegian stock market. Most CFOs expect this trend to continue and have a positive outlook for their company. Two out of three also believe their company's cash flow will increase during the next year. As the economy has recovered, the financial risk on the balance sheet has, over the past 12 months, remained unchanged or been reduced in four out of five companies. One of the drivers for the reduced risk is stable foreign capital levels and valuations that are approximating levels prior to the crisis.

Access to capital is good

Over the past few years, companies have been reducing debt due to the increased risk of insolvency. The majority of CFOs now view both debt and equity as attractive sources of funding, and state that access to capital is good. Despite this view, two out of three CFOs say the aim for their future gearing level is to maintain status quo or reduce debt levels.

M&A activity expected to increase

Very few companies plan to issue shares in the next 12 months. Although very few are gearing up, 79% of the respondents, interestingly, expect M&A activity to increase in the next year. This expected increase in activity and the conservative attitude towards gearing, could suggest that companies will take advantage of the easily accessible capital when the need arise, or finance parts of the transaction with retained earnings.

CFOs prefer commercial understanding

Norwegian CFOs experience challenges related to finding and developing future leaders in their own department, who have the necessary composition of skills needed in the organization. The Norwegian Q1 survey looked at what skills CFOs value in future CFOs, and in leaders who report to the CFO. According to the survey, commercial and operational understanding is becoming more important to fulfill the demanding roles of a CFO. In a hiring scenario where applicants have given an equal personal impression, and have demonstrated the necessary technical skills and leadership experience, CFOs are most likely to prefer candidates who have work experience from operations or come from larger audit firms, rather than applicants with overseas work experience or with a career background from an accounting department.

Highlights from the H1 2011 Norwegian CFO Survey:

- 61% of CFOs are more optimistic about the financial outlook of their company than compared to 3 months ago.
- 67% of CFOs expect their company's cash flow to increase in the next 12 months.
- 92% of CFOs expect short term interest rates to increase during the next 6 months.
- In 80% of the companies surveyed, balance sheet risk has been reduced or remained unchanged over the last 12 months.
- 79% of CFOs expect M&A activity to increase in the next 12 months.
- 89% of CFOs view access to bank loans as available, and 62% view financing through equity as attractive.
- 92% of CFOs believe that commercial understanding has become more important for leaders in the finance function over the last few years.

The biggest challenges of CFOs

When asked to describe their biggest challenges, many of the CFOs answered that time, capacity and prioritizing are their main challenges. This could be due to the large workload, variety of tasks and lack of influence to control their own agenda. In addition, a number of CFOs answered that they experience challenges related to controls and compliance.

North America

Companies are focused on generating post-recovery momentum

The fourth quarter of last year appears to mark a turning point in the economic recovery for large-company CFOs. With capital supply and efficiency gains largely accounted for, companies now appear focused on creating their own thrust in a post-recession world.

The shift is reflected in CFOs' more conservative expectations for sales and earnings, which have moderated after several quarters of very strong growth expectations. In addition, companies appear to be making a pronounced shift in focus away from cost cutting and toward revenue growth, with new products and services, newly-acquired entities, and foreign markets seen as major growth drivers.

Expectations continue to stabilize

CFO optimism is rising, buoyed by improving assessments of both the macro-business environment and company-specific factors. Thirty-six percent of CFOs are more optimistic this quarter primarily because of factors external to their companies, and 26 percent are more optimistic primarily because of internal factors.

Although CFOs are largely optimistic, their expectations for sales and earnings are moderating. Last quarter, after two quarters of rising expectations, CFOs began projecting lower year-over-year sales and earnings growth. Although projections rebounded a bit this quarter, they are still more in line with last quarter than with previous quarters -– possibly indicating that 4Q10 marked a dissipation of the recovery's tailwinds and the end of the easiest performance gains.

Shift from recovery to growth

Results from this quarter's survey indicate that many companies are nearing or already beyond a major shift from recovery to growth. CFOs say their companies' strategic focus has shifted toward revenue growth and away from cost reduction and that revenue growth is now their dominant company challenge (revenue growth from existing markets and from new markets rank first and second, respectively). Nearly 30% of CFOs say they are focused on M&A activity and 40% expect revenue from recently or soon-to-be acquired entities to be higher within the next year than it was before the recession.

Looking to foreign markets

Expected sources of new growth are also shifting. Slow economic growth and stubborn unemployment are elevating competition for domestic growth, with pricing trends and new competitive tactics now top industry-level challenges. Consequently, companies are increasingly looking to new geographies for growth.

New challenges and concerns

As companies adjust to post-recovery conditions and look for growth, they are increasingly faced with adapting business strategies and the successful selection and execution of important initiatives. Strategic ambiguity is again the top career stress for CFOs, and finance organizations are heavily focused on influencing strategy and informing business decisions. Potential investment and execution missteps are now among CFOs' top worries.

Highlights from the Q1 2011 North American CFO Survey:

- Capital spending, M&A, and R&D are rising
- Domestic competition and slow growth appear to drive foreign markets focus
- CFOs worry government policy and talent shortages will impede growth
- Uncertainty around regulation and the economy makes fewer investment options attractive; even significant growth won't cure unemployment
- Industry-specific impediments abound, but tax and health care policies are CFOs' most cited barriers to growth
- Rapid and extensive change is raising the need for finance talent
- Companies and CFOs are making the most of shifting opportunities

As global economies continue to recover and competition for resources intensifies, inflation and rising commodity prices are becoming bigger concerns (input price expectations jumped markedly this quarter). CFOs are also increasingly worried about attracting and retaining the talent necessary to execute on growth strategies, with talent availability now a top company- and industry-level concern.

Growth would spur investment, but not necessarily jobs

Despite their growth agendas, companies are wary of unleashing the more than $2T in collective balance-sheet cash that has remained on the sidelines since the recession. CFOs cite continuing concerns about the economy and consumer demand, concerns about industry regulation, and a shortage of attractive investment opportunities as the main reasons for constrained spending. Corporate tax and health care policy are not markedly impacting cash investments.

Companies are also cautious around hiring. In our 4Q10 survey, CFOs indicated they believed a structural shift in employment was taking place, implying that a return to normal revenue levels would not generate a return to normal employment levels. This quarter's results support this assertion, with 70% of CFOs saying a five percent rise in revenue would have little or no impact on their hiring.

Optimism and opportunism

Conditions at home and abroad remain fluid as CFOs and their organizations work through structural changes already altering the business landscape. Since the conclusion of this quarter's survey, political change across the Middle East has escalated and oil prices have risen sharply. And if the scope and evolution of CFO concerns in this survey over the past year is any indication, the rate of change is not slowing.

Despite persistent turmoil and uncertainty, the CFOs in this survey have been predominantly and consistently optimistic over the past year, heavily focused on driving the long-term effectiveness and efficiency of their finance organizations and broader companies. Our 4Q10 findings showed that half of CFOs claim a predominantly "driver" working style, which should serve them well as they continue to help their organizations assess business conditions, revisit strategic choices, and spearhead change.

Spain

Confidence in recovery, unfinished business

Lack of confidence to overcome the crisis

The majority of CFOs continue to perceive the economic situation as bad or very bad, with 89% of respondents sharing this opinion. As for the economic recovery, CFOs continue to delay their expectations of when the key Spanish macroeconomic indexes will improve, with more than 80% of respondents deferring recovery until at least the second half of 2012. However, 97% of respondents believe that that global economic recovery will take place over the next year.

This delay in expectations of an economic recovery creates a dent in the level of business and consumer confidence, which in turn, has slowed the consolidation of a solid climate of recovery.

Slight improvement in the assessment of reform

72% of respondents still believed that the measures taken by the Government in response to the current economic situation are little to very little effective. On a positive note, there has been a slight increase in the level of satisfaction around the effectiveness of the measures taken, rising to 28%, compared to 8% which considered so a year ago.

In this sense, more than 80% of the respondents give top priority to the need for action related to the labor market and on public spending. Measures related to the control of public spending include those concerning the review of the model of competencies of the autonomous communities and the Central State. In labor matters, CFOs are of the opinion that the Government should encourage more active policies for employment generation and a flexible labor market.

Caution prevails

76% of CFOs surveyed do not consider the current economic environment as the right time to assume new risks, virtually the same percentage that considered this in the previous edition of the survey. Furthermore, almost half of the CFOs consider that the risk level has increased with regard to counterparty risk, as well as rising interest rates and commodities, in the latter case heavily influenced by the escalation of oil prices. On the other hand, defaults continue to be a significant risk factor, with 45% of CFOs indicating that there have been no sign of change and 47% believing that it has actually increased. Unsurprisingly, the measures that have been implemented to battle late payments have not had a positive effect for the majority of companies.

Opting for bank debt despite challenges

71% of CFOs still consider Spanish companies to be overleveraged, although only 37% of respondents indicate that reducing their level of debt as a key objective in the short term. The cost of debt and access to financing from Spanish banks is still considered expensive and difficult to obtain. In fact, 75% of respondents believe that improvement in financing supply and terms will not occur until the second half of 2012.

Highlights from the H1 2011 Spanish CFO Survey:

- 80% of respondents believe that improvements in key Spanish economic indicators will be deferred until the second half of 2012.
- 66% of CFOs believe the global economy will endure a slow recovery in 2011.
- 72% of respondents still believe that the measures taken by the Government in response to the current economic situation have been ineffective.
- To overcome the economic crisis, more than 80% of respondents believe that the Government should take further steps in labor matters, public spending and fiscal policy.
- Measures relating to energy savings are of lower priority in comparison to activities related to the labor market or public spending.
- Nearly half of CFOs believe that the level of risk has increased with regard to counterparty risk, interest rates and raw materials.
- 58% of CFOs consider that the entry into force of Law Delinquency has had no effect on its operations, and even a 29% believe that the impact could have caused negative.
- 71% of CFOs believe that Spanish companies are highly leveraged.

Challenges and strategies of the finance function

CFOs continue seeking to influence the business strategy and the operational priorities of their companies, combining this role with the securing financing to the company and providing financial information. As for the main current occupations of financial officers the most prominent are still all those related to process reduction costs in different areas and organizational restructuring.

Sweden
Growth is stabilizing

Continued optimistic view on financial prospects, slightly less on cash generation

The Q1 2011 Survey shows that prospects for businesses are strong, although indications show growth stabilizing since the last survey in Q3 2010. The majority of CFOs still expressed optimism regarding the financial prospects for their companies, which is in line with the strong macro-economic development in Sweden. The trend is clear in all industries and stretches from small to large corporations. 60% of CFOs expect increasing operating cash flows in their businesses over the next twelve months, while 13% expect a decrease. This represents a decline from the last survey, where 65% of the CFOs expected an increase in operating cash flows and 9% expected decreasing operating cash flows. Companies operating within Services/ Consulting, Retail/Wholesale and Real Estate have the most optimistic view regarding the future. The positive cash flow forecasts are likely to be a combination of increased demand and the effects of implemented/ongoing restructuring efforts and cash management programs in businesses across many industry sectors.

Valuations more closely reflecting fair market values

The general view among the respondents is that Swedish companies are now valued closer to fair values compared to the last survey. The proportion of respondents stating values are fair has increased to more than half (compared to 39% in the last survey) and the proportion stating undervaluation has halved (19% compared to 39% in the last survey). The OMX 30, Stockholm Stock Exchange Index, increased by almost 8% from September to the end of December 2010. In total, the same index increased by 21% in 2010, albeit has decreased by 3% in 2011 to the end of February. The overall increase confirms the CFOs view on the valuation of Swedish companies coming back to pre-financial crisis levels. IPOs have been scarce on the Stockholm Stock Exchange, but quite a few transactions outside the stock market have occurred as private equity had a strong come back from the downturn with significant amounts of committed capital that needs to be put to work, easier credit from banks and portfolio companies in line for exits. In addition, several well-funded industrial companies have communicated a desire to grow by acquisitions. The number of acquisitions increased by 20% in 2010 compared to the previous year, of which industrial companies accounted for the main part. This trend is likely to continue.

Equity financing becomes more attractive

Bank borrowing continues to be seen as the most attractive source of funding by responding CFOs. Even though the market interest rates are increasing the current rates are still comparatively low and with a continuously improved availability of bank borrowings. Respondents state equity is becoming more attractive which would be a natural development following stock market increases and the survey results that companies are more fairly valued or even overvalued.

Highlights from the H1 2011 Swedish CFO Survey:

- Economic growth appears to be stabilizing in 2011
- Bank borrowing continues to be rated as the most attractive source of funding by responding CFOs, which most likely reflects the continued low short-term market interest rates and increased availability of credit.
- The majority of CFOs consider Swedish companies to be appropriately leveraged, reflecting strong balance sheets and economic prospects even though short-term market interest rates are increasing.
- The availability of bank funding continues to improve, compared to the surveys six, twelve and eighteen months ago. This development is in line with other survey results across Europe.
- Respondents state that Swedish companies are valued closer to fair market values and expect significant M&A activity over the next 12 months.
- The view on new share issue has improved significantly, with 44% of respondents considering the present time to be a good time to perform new share issues compared to 22% in the previous survey. However, very few of the CFOs state it as likely their companies will perform a new share issue within the next twelve months.
- This could be the result of a number of relatively unsuccessful IPOs on the Swedish market during 2010 and continued uncertainty for IPOs in the first quarter of 2011, but also as bank funding is less cumbersome and remains fairly cheap.

CFOs appear to have a stronger confidence in successfully raising capital through new share issues. The share of CFOs stating that times are good to raise equity has almost doubled from the previous survey. Given the increased valuations of Swedish companies, both according to survey results and stock market data, the more optimistic view on new share issues is expected.

Improved access trend continues

Difficulties in obtaining bank funding were seen throughout most of 2009. However, the availability of bank funding continues to improve from the last three surveys according to responding CFOs. The proportion of respondents stating the bank financing is “hard to get” has halved (12% compared to 25% in the Fall 2010 Survey and 29% in the Spring 2010 Survey). This development is in line with survey results across Europe. Again, the results confirm that small-size companies face greater obstacles in obtaining funding at acceptable terms compared to large corporations with solid bank relationships and access to the corporate bond markets.

Switzerland
Sustained confidence

The optimism expressed in last quarter's survey has increased even further in Q1. Most CFOs do not seem to be worried about the economic impact of political unrest in North Africa and the Middle East. They also don't appear to be very concerned about potential supply disruptions and soaring commodity and oil prices, the continuing debt crisis in the Eurozone, or rising inflation in some economies.

However, sentiment suffered a small setback during the last week of the survey period, as the long-term impact of the devastating earthquake, tsunami and nuclear crisis in Japan become clearer. It is another tangible threat to add to the long list of economic, political and financial uncertainties that some consider may threaten the sustainability of the economic recovery.

Nevertheless, the global economy continued to improve in the first quarter of 2011. Maintaining it won momentum, the Swiss economy expanded more rapidly than assumed and CFOs continued to focus on growth.

Optimism remains high

81% of CFOs have a positive outlook for the Swiss economy over the next 12 months, the highest level since the survey started in 2009. Confidence about their financial prospects also continues to grow. 84% expect their revenues to increase over the next 12 months.

Equity back in favor, credit conditions good

Equity is back in favor as a source of corporate funding. An increasing number of CFOs believe it is a good time to issue and to raise equity. Bank borrowing and debt raising remain the two most popular forms of external financing. Credit conditions are still seen as very attractive. A clear majority-61%- of the respondents perceive credit as readily available. Credit is still seen as cheap by 56%, but slightly less so than last quarter.

Higher M&A activity expected

A larger majority of CFOs expect increased M&A activity over the next 12 months. Most players will act as buyers which also reflect the rising international purchasing power of the Swiss Franc, with most buyers focusing on the Eurozone.

Business is adapting to the strong Swiss Franc

The Swiss economy has been surprisingly strong, despite the fact that the Swiss France has appreciated far more rapidly than expected. Companies seem to have adapted rapidly to the stronger Swiss France. A majority of 64% do not believe the expected exchange rate will have a significant impact on their profits over the next 12 months. Financial and natural hedging are seen as the two most popular strategies to counter the appreciation of the Swiss Franc.

Highlights from the Q1 2011 Swiss CFO Survey:

- Optimism stayed at a high level in the first quarter and CFOs are upbeat about revenues.
- CFO sentiment about credit availability is at its highest level since the survey started in 2009. Credit costs are still rates as low.
- Equity is seen as an increasingly attractive form of financing.
- CFOs have become more positive about undertaking capital expenditure and hiring new staff.
- CFOs are increasingly willing to take on greater risk.
- Sentiment about M&A activity is high, with a 77% CFO expectation of an increase in M&A activity over the next 12 months.
- CFOs do not expect the strong Swiss Franc to be a major problem in the next 12 months.
- Inflation expectations are creeping up. CFOs expect an average annual rate of inflation of almost 2% in two years' time.

Do not intervene

A large majority -83%- believe that neither the Swiss Government nor the Swiss National Bank should intervene to counter the effects of the appreciation of the Swiss Franc against the Euro.

Rising inflation expectations

Despite the stronger Swiss Franc, inflation expectations have been creeping up. CFOs now expect an inflation rate of almost 2% in two years' time.

United Kingdom
Optimism down, risk appetite up

Weakening optimism

The mood of optimism with which CFOs entered 2011 has weakened in the latest CFO Survey. CFOs remain, on balance, positive, but our optimism indicator has dropped back to the lowest level in two years. Such caution fits with the news flow during the survey period, between 11th and 28th March, which coincided with conflict in the Middle East, Japan's earthquake and nuclear crisis, and an elevated oil price. In the UK, inflation rose and the Budget focused attention on impending tax rises and cuts in public spending.

CFOs remain cautious about the recovery. On average, they attach a 29% probability to the chance of a double dip in the economy. The fact that controlling costs is a high priority for CFOs suggests they are alive to downside risks.

Rising risk appetite

Lower levels of optimism have not, however, dented CFOs attitudes to risk. On the contrary, risk appetite has risen to the highest level since the survey started in the third quarter of 2007, with 41% of CFOs saying that this is a good time to take risk on to their balance sheets. Risk appetite is strongest among the largest companies surveyed.

While optimism responds to news flow, high levels of risk appetite seem to reflect longer term and more positive views on the strength of corporate balance sheets, the opportunities available to companies and financial conditions.

Expansion on the agenda

In a sign of growing confidence about balance sheets, opinion among CFOs has shifted towards raising leverage for the first time since 2008. Large corporates are also pursuing growth strategies. Expansion is the top corporate priority for CFOs over the next 12 months. Making acquisitions and raising capital expenditures are increasingly popular strategies. And, for now at least, financial conditions are favorable for larger companies. Our measure of corporate credit availability has risen to the highest level since the Survey started in 2007. CFOs see bank borrowing and bond issuance as being as attractive to corporates as they were in 2007, well before the credit crunch.

Margin growth threatened

Corporate profits have rebounded strongly from their lows. But high inflation and the prospect of higher interest rates may be limiting the scope for further margin growth. CFOs are less confident than the Bank of England that inflation will decline over the next two years. Most CFOs think there is a less than even chance of inflation falling back to its 2.0% target in 2 to 3 years. CFOs' principal concerns about inflation relate to the way in which it raises input costs and threatens margins. The first rise in UK interest rates is also in sight with two thirds of CFOs expecting the Bank of England to raise rates by September.

Highlights from the Q1 2011 British CFO Survey:

- CFO optimism has dropped to the lowest levels in two years.
- Risk appetite has risen sharply – probably reflecting a positive view on long term opportunities and the strength of large company balance sheets.
- Leverage is coming back into favour.
- CFOs' top priority is expansion, whether by introducing new products or services or expanding into new markets.
- The scope for large gains in profit margins seems to be reducing.

The result is that CFOs have become less positive about prospects for margin growth. Indeed, the balance of CFOs expecting margins to rise over the next 12 months has dropped from +21% to +3%, suggesting that there is only a modest scope for margin expansion.

CFOs' optimism has taken a knock. But big corporates expect revenue to rise over the next 12 months and are increasingly seeking growth opportunities through expansion, raising capital spending and acquisitions. With inflation at elevated levels, CFOs think that margins are unlikely to expand at the heady rates seen in 2010.

Deloitte CFO Surveys

About Deloitte CFO Surveys

Eighteen CFO surveys, covering 34 countries around the world are conducted on a quarterly, bi-annual, 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 may vary.

The following summarizes the survey scope and population of the participating member firms for this quarter. Member firm CFO Surveys can be accessed by clicking on the **country/region name**, where available.

Region	Country	Frequency	Survey Scope and Population
Europe, Middle East and Africa (EMEA)	**Austria**	Quarterly	Conducted in March 2011, 130 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 20% have revenues in excess of €1 billion and 40% have revenues greater than € 100 million.
	Belgium	Quarterly	Conducted between 22 March and 8 April 2011, a total of 48 CFOs participated, covering a variety of industries. 51% of the participating companies have revenues of over € 1 billion, 29% earn € 100 million to € 1 billion, and 20% earn less than € 100 million.
	Ireland	Quarterly	Conducted in March 2011, this survey included participation from CFOs of listed companies, large private companies and Irish subsidiaries of overseas multinational.
	Middle East *(UAE, Kuwait, Qatar, Jordan, Egypt, Saudi Arabia, Syria, Sudan, Bahrain, Lebanon, Oman)*	Annual	Conducted in March 2011, this survey included participation from 117 respondents, representing both listed and non listed companies in the Middle East. Annual turnover of the participating companies are as follows: > $1 billion (8%), $500 million - $999 million (29%), $100 million - $499 million (32%), < $100 million (31%).
	Netherlands	Quarterly	Conducted between 23 March and 19 April 2011, a total of 37 corporate CFOs, representing a net turnover per company of approx. €1.8billion, completed the survey, categorized as follows: < €100 million (8%), €100-499 million (41%), €500 – 600 million (16%), €1 – 4.9 billion (24%), > €5 billion (8%), and unknown (3%).
	Norway*	Bi-Annual	Conducted in April 2011, a total of 95 CFOs and financial executives participated, representing a wide range of both industries and company sizes.
	Spain	Bi-annual	Conducted between 21 March and 8 April 2011, a total of 142 CFOs of which one third belong to companies or groups listed in the Spanish market and/or companies or groups listed on international markets, with 39% belonging to companies whose turnover is in excess of € 500 million.
	Sweden	Bi-annual	Conducted in February 2011, the CFOs who responded represent companies across all industries, with an annual turnover of SEK 100 million or more.
	Switzerland	Quarterly	Conducted between 28 February and 21 March 2011, 88 CFOs participated, with 30% representing listed companies and the remaining 70% representing large private companies.
	United Kingdom	Quarterly	Conducted between 11 March and 28 March 2011, 137 CFOs participated, including the CFOs of 46 FTSE 100 and 46 FTSE 250 companies. A total 105 UK listed companies were surveyed, representing a combined market value of £728 billion, or approximately 37% of the UK quoted equity market.
Americas	**North America** *(Canada, Mexico, United States)*	Quarterly	Conducted between 14 February and 25 February 2011, 77 CFOs participated from across the United States, Canada, and Mexico. The sample includes CFOs from public and private companies that are predominantly over $3 billion in annual revenue. Participation is open to all sectors except for government.
Asia Pacific (APAC)	**Australia**	Quarterly	Conducted between 18 March and 1 April 2011, a total of 85 CFOs participated, representing businesses with a combined market value of approximately $397 billion or 26% of the Australian quoted equity market.
	Japan* (foreign companies only)	Quarterly	Conducted between 28 March and 12 April, 57 CFOs and financial executives of foreign companies in Japan participated in this survey. 43% of the survey participants represent companies with revenue of greater than ¥100 billion.

*****Please contact the Global CFO Program to obtain further details on these surveys.