Global CFO Signals

Braced for a bumpy ride

Q4 2015 Deloitte Member Firms' CFO Surveys: Belgium, Central Europe, Japan, Netherlands, North America, Russia, Switzerland, and United Kingdom

DTTL Global CFO signals
February 2016

About the DTTL Global CFO Program

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

About Deloitte Member Firm CFO Surveys

Twenty-six Deloitte member firms' CFO surveys, covering 60 countries, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. They are not, nor are they intended to be, scientific in any way, including the number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed populations but does not necessarily indicate economic or industry-wide perceptions or trends. Further, the focus, timing, and respondent group for each survey may vary. Please refer to "About Deloitte Member Firms' CFO Surveys" (page 13) for member firm contacts and information on the scope and survey demographics for each survey.

About DTTL's Global CFO Signals

The purpose of DTTL's *Global CFO Signals* report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the fourth-quarter 2015 CFO surveys from Deloitte member firms in the following geographies:

Belgium: Cautious investment toward growth

Central Europe: Looking ahead with confidence and caution

Japan: Levels of uncertainty still high

Netherlands: Fundamentals remain strong

North America: Betting on North America despite concerns

Russia: Business recovery is complicated

Switzerland: Uncertainty overshadows outlook

United Kingdom: A cautious start to 2016

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

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Contents

Global CFO Signals

CFO sentiment Q4 2015

Braced for a bumpy ride

As CFOs enter 2016, there are several specific overhangs affecting outlooks in the eight country/regional reports in this edition of *Global CFO Signals*. Consider, for example:

- Concerns about the pace of the global recovery and renegotiation of the UK's membership in the European Union are weighing on business sentiment among British CFOs. Optimism fell through 2015 and ended the year at its lowest level since the second quarter of 2012, when Europe was in recession.
- In North America, the upcoming US presidential election is looming large, with about half of CFOs believing it will impact future US economic performance.
- Among Japan's CFOs, a gradual economic recovery is anticipated, but further decline in the Chinese economy is seen as one huge risk to that scenario.
- Meanwhile, in Russia, the continued devaluation of the ruble and increased government regulation, are just two of the reasons why only 27% of CFOs are optimistic about their financial prospects, down from 37% last survey.

These factors were affecting country-specific optimism even before the current bout of global market volatility. And given that the surveys were conducted prior to those gyrations, "the factors may be even more magnified now," notes Ira Kalish, Chief Global Economist for Deloitte Touche Tohmatsu Limited.

Still, many CFOs surveyed remain confident about their own companies' prospects and future growth. In Central Europe, 40% expect an increase in margins, capital spending, and employment. Some 80% of North American CFOs say investing for growth remains a top cash use. And Belgium's CFOs will focus on expansionary strategies in 2016, although productivity/efficiency and on-going cost control remain high priorities.

Going forward, however, there remain several common overhangs, says Kalish, citing China, the strength of the US dollar, and uncertainty over oil prices. But the good news is that interest rates shouldn't be on the list—a fact that should provide CFOs continued access to capital and, hence, the ability to grow. There may be incremental rate movements, says Kalish, "but at the end of the day, we will still have easy monetary policy."

How does CFO sentiment in Q4 2015 break down? The following is a synopsis by region:

Americas

In North America, CFOs remain optimistic this quarter—just a little less so. This quarter's net optimism[1] index of +10.7 may be the 12th consecutive positive reading, but it is below last quarter's +14.2 and now sits at the lowest level in three years. But in contrast to their declining sentiment, CFOs' expectations for revenue, earnings, and capital spending are up from their Q2 2015 lows. CFOs again voiced concerns about China. Overall, though, there seems to be a belief among many CFOs that North America (the US in particular) can continue to shoulder the burden of economic growth in 2016—despite interest-rate increases and the upcoming election.

Asia-Pacific

While CFOs in Japan do foresee a slow recovery, more than half (52%) view the level of uncertainty as high or very high. Some of the factors—aside from China—contributing to that perception include “terror risks abroad,” “monetary policies in the US and EU,” ”political instability in Europe,” and “further decline in commodity prices.” Those factors contributed to a net pessimism of -23%, Still, most CFOs are expecting sales and earnings growth trends to continue. It is worth noting, however, that the percentage who expect declining sales/earnings increased by 13 percentage points, indicating a widening of negative perceptions over future growth.

Europe

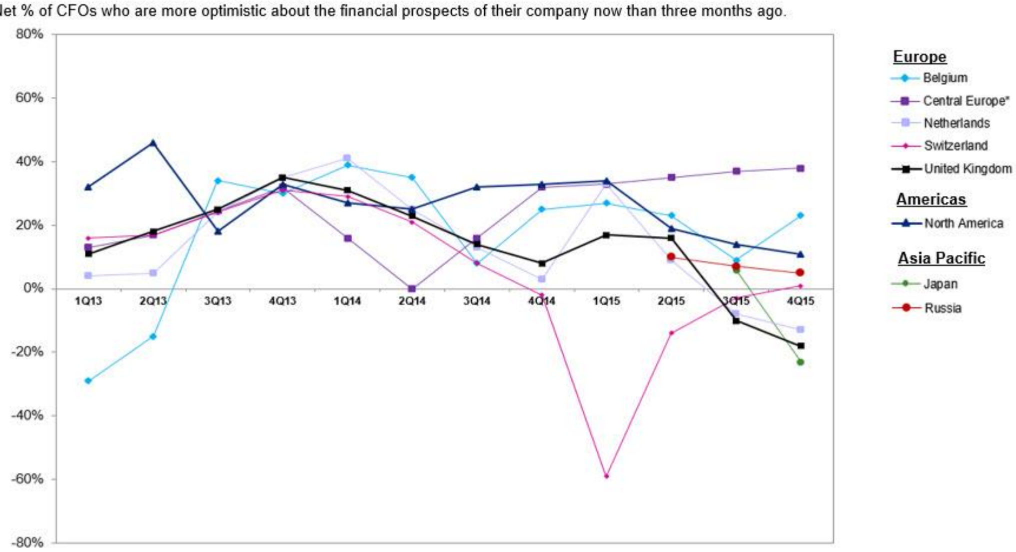
CFO sentiment in Europe regressed most notably in the UK this quarter. Shrinking optimism is very apparent in CFOs’ risk appetite: down to 37% in the fourth quarter, from 47% in the third quarter and a peak of 72% in late 2014. Moreover, CFOs’ strategies have turned markedly more defensive, with cost control topping their list of priorities for the first time in more than a year. Elsewhere, however, optimism among Belgium’s finance chiefs has rebounded, and now the vast majority expect revenues, operating margins, and profit before taxes to increase in 2016. A increasingly upbeat story can also be found in Switzerland, where despite still adjusting to the removal of their exchange-rate floor, almost half (45%) of CFOs rate their company’s prospects over the next 12 months as positive. Meanwhile, in Central Europe, which has 11 countries reporting, finance chiefs are somewhat more optimistic about the future of the region’s economy than last survey, but remain concerned about Greece’s potential to destabilize progress. They are, however, positive in their outlooks for margins, capital expenditures, and hiring. Finally, in Russia, which remains in recession, multiple barriers to business development continue to dampen CFO optimism. In fact, the survey shows that by the end of 2015, the negative effect of sanctions rose by seven percentage points to 64%, while exchange-rate fluctuations continue to be a major concern for most companies (73%).

What’s next?

Add the increase in market volatility to these multiple overhangs and the first quarter of 2016 might challenge the outlooks of many CFOs surveyed. In fact, says Kalish: “I would not be surprised if their outlooks were a little more pessimistic.” Time to brace for a bumpy ride, indeed.

CFO Sentiment: Net Change in Optimism

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



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

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

Global CFO Signals

By the numbers

Risk appetite

Risk appetite is being curbed in some countries. In the UK, the proportion of CFOs who think now is a good time to take risk onto the balance sheet fell from 47% in Q3 2015 to 37%. Likewise, in Switzerland, it has fallen since the end of 2014, and now only 20% believe this is a good time to take greater risk. In both Central Europe and Russia, risk appetite stands at 29%, but in Russia that is up from 14% in Q1 2015.

Uncertainty

Uncertainty continues to be a factor in decision-making. In Switzerland, almost three-quarters (73%) of CFOs say that the level of financial and economic uncertainty facing their business is high, while 52% of Japan's CFOs see it as high or very high. In Russia, meanwhile, the aggregate level of uncertainty regarding strategic decision-making rose by 14 percentage points during 2015 and now stands at 73%.

Metrics

Expectations for certain growth metrics remain upbeat. North America's CFO expectations for revenue growth rose to 5.9%, significantly up from last quarter's 4.4%. Among Belgium's CFOs, the vast majority expect revenues, operating cash flow, profit before taxes, and operating margins to increase in 2016. Switzerland's CFOs indicated an increased willingness to expand capital spending and hiring, and 69% of Dutch CFOs expect an increase in operating cash flow. Still, while a majority of the UK's CFOs expect corporate revenues to improve, the outlook is at its weakest in two-and-a-half years.

% Interest rates

Interest rates are being watched closely. In the UK, though, almost two-thirds of CFOs say rates would have to rise more than 100 basis points before their businesses cut planned investment or employment. Some 56% of Switzerland's CFOs do not expect rates to rise before 2018, and 17% believe they will not rise until at least 2019. In Belgium, 60% of CFOs believe the long-term euro rates will increase only slightly in the next 12 months. And in North America, interest-rate concerns are substantial, but below last quarter.

Corporate strategy

Cost control is being eyed by many. In the UK, for the first time in a year CFOs rate cost reduction as their top priority for the next 12 months and also place greater emphasis on other defensive strategies, such as increasing cash flow and reducing leverage. Among Russia's CFOs, the top two strategies are restructuring costs and reducing costs. However, in North America, there was a reversal. The last two quarters indicated a shift toward cost reduction, but this quarter shows a slight shift back toward growth.

M&A activity

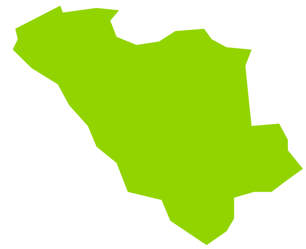
The M&A outlook is mixed. Some 79% of the Netherlands' CFOs expect M&A activity to increase in the next 12 months, and 48% expect their own companies to make a deal. Of the 63% of North America's CFOs who expect to complete deals, 60% point to scale efficiencies. Among Central Europe's CFOs, 52% expect an increase in activity. In the UK, however, only 19% of CFOs are prioritizing expanding by acquisition.

Deloitte Member Firm CFO Surveys:

Fourth Quarter 2015 Highlights

Belgium

Cautious investment toward growth



Satisfied with government policy

After a temporary fallback in the satisfaction level with Belgian economic and financial policy making over the last three quarters, CFOs have regained the level reached in Q4 2014.

The general high rating of financial and economic policy making goes in line with the CFOs appreciation and importance of individual policies. Monetary and labor market policies are viewed as very important and appropriately set by the government, whereas the government has not met the high expectations the CFOs had last year on taxation policy.

As for their own companies, Belgium's CFOs remain optimistic and are budgeting for growth in 2016. Some 80% of CFOs expect their topline to grow in 2016, while 70% plan to increase operating margins and profits as well. And to support that growth, CFOs walk the talk: capital expenditure and hiring are significantly up as compared to last year's outlook.

Focused on expansion

CFOs will focus on the implementation of expansionary strategies in 2016, while productivity/efficiency and ongoing cost control remain high on the priority list.

As in recent years, the overall economic growth and the organization's competitive position in the market top the list of concerns for 2016. Shortage of skilled labor started to trouble CFOs in 2015, and continues to be pertinent in 2016. Other major concerns relate to uncertainty in the political environment (changes in regulation, eurozone, and EU stability).

Highlights from the Q4 2015 Belgium CFO Survey:

- CFO net optimism remains solidly positive, with 41% of CFOs reporting being optimistic, and 19% reporting being pessimistic.
- Some 60% of Belgium's CFOs believe that long-term euro interest rates will increase slightly in the next 12 months.
- Two-thirds of CFOs report that their organizations have made or outperformed their financial budgets.
- The vast majority of CFOs expect their companies' revenues, operating cash flow, profit before taxes, and operating margins to increase in 2016.

Academia, policy makers, and central bankers often voice strong opinions on the benefits from a weaker euro for the Belgian and the Eurozone economy. CFOs tend to take a much more balanced perspective: overall about 50% of CFOs prefer a stronger Euro. Not only local companies, also many corporates with strong export businesses outside the Eurozone are not in favor of a weak euro.

Funding remains cheap and available

Overall, financing is available and all sources of funding remain attractive. Corporate debt and bank borrowings were reported to be slightly less attractive compared to previous quarters, whereas equity and internal financing are more attractive.

In fact, internal financing will be a preferred source of funding for most organizations. Taking into account the overall availability and low perceived cost of bank borrowing, 40% of CFOs intend to raise bank borrowing in 2016.

Central Europe
Looking ahead with confidence and caution

Moderate GDP outlooks

The seventh Deloitte Central Europe (CE) CFO report contains survey results from 11 countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, and Slovenia.

The CFOs made different predictions about GDP growth in the year ahead. While 50% forecast a slow rate of growth that will not exceed 1.5% of GDP, a third predict moderate growth of up to 2.5%. The remaining 15% expect that GDP growth in their own countries may be as high as 3.5%.

The participating CFOs based in the Balkan countries (Bosnia and Herzegovina, Serbia, and Croatia) are the most pessimistic, with more than 90% predicting that economic growth will be very slow. Polish CFOs, on the other hand, were the most optimistic, with 60% expecting that country's GDP to grow rapidly in 2016.

Uncertainty falls significantly

The number of CFOs who regard the level of economic uncertainty as high has fallen significantly compared to the 2015 survey. A normalization of economic uncertainty is expected in the near future. The most stable economic conditions were reported by CFOs based in the Czech Republic, Poland, Lithuania, and Romania.

Central European CFOs are concerned, however, that the financing costs for companies will rise. Increasing price pressures, the looming recession and falling demand for goods and services are seen as major challenges throughout 2016.

Also, the Greek crisis is curbing optimism. In the opinion of 66% of the CFOs, the state of the Greek economy is hindering efforts to establish a stable and well-integrated monetary union.

Highlights from the 2016 Central Europe CFO Survey:

- Some 35% of Central European CFOs expect GDP growth between 1.6%-2.5% in 2016.
- More than half (52%) of respondents describe the current level of financial and economic uncertainty as normal, a drop of 20 percentage points from 2015.
- To 66% of the CFOs, the state of the Greek economy is hindering efforts to establish a stable and well-integrated monetary union.
- Some 40% of Central Europe's CFOs anticipate increases in margins, capital expenditures, and employment.

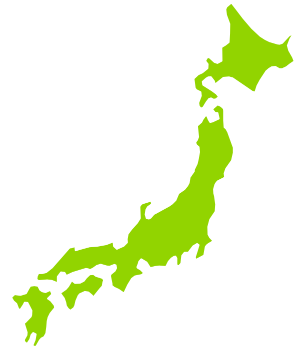
Improving prospects and metrics

More than half of participating CFOs stated that the financial condition of their companies had improved over the last six months. This marks a slight increase over the previous study. A low percentage of CFOs say that their situation is getting worse.

Respondents were particularly optimistic about revenue increases, with 65% expecting revenues to continue growing over the next 12 months. A significant proportion also expect the future to bring improved margins (40%), increasing capital expenditure (41%) and increased hiring (37%).

When looking at this year's results, there is a clear difference between CFOs' confidence regarding their own business growth versus the business environment in which they operate. This leaves a couple of questions; will CE companies succeed over a longer period while the economic environment is relatively adverse or, will we see them suffer a delayed adverse impact in the future if the economic environment does not improve?

Japan
Levels of uncertainty still high



Highlights from the Q4 2015 Japan CFO Survey:

- The percent of Japan's CFO who report being pessimistic about financial prospects rose from 12% in Q3 to 26% this quarter.
- More than half of CFOs believe the level of uncertainty in Japan is "high" or "very high."
- Almost all (94%) of CFOs expect a "gradual economic recovery" in Japan.
- Japans CFOs agreed that overseas events would most likely trigger certain baseline scenarios in their country's economy.

Concerned about future earnings

The Q4 Japan CFO survey asked questions regarding the one-year outlook on the financial situation and business performance, and baseline/risk scenarios of the Japanese economy for 2016. Participants were also asked to select triggers for different scenario from various domestic and overseas risk events.

Regarding their companies' financial prospects compared to three months ago, 71% of CFOs responded "unchanged." However, compared to the previous survey, the percentage answering "slightly pessimistic" surged to 26%, while those answering "slightly optimistic" substantially declined.

As for their outlooks for business metrics over the next year, most respondents expect sales and earnings growth trends to continue. But the percentage who expect declining sales/earnings increased by 13 percentage points since the previous survey. Therefore, it can also be said that negative perceptions toward future earnings are expanding.

Companies also continue to see a high level of uncertainty. In fact, 52% view current levels as either "high" or '"very high," while the remaining CFOs regard it as "normal." Thus, compared with the previous survey, uncertainty remains high among Japan's companies.

Impacts of "Abenomics" considered

Asked about baseline scenarios for Japanese economy, a staggering 94% of CFOs expect a "gradual economic recovery" to continue, while none expect to see "economic deceleration." On the other hand, with respect to risk scenarios, 79% of respondents have assumed the "simultaneous economic slowdown and deflation" scenario. During the survey period, the Japanese economy according to the Bank of Japan, has been faced with steady inflationary pressure mainly due to changes of companies' price-setting behavior. In contrast, survey respondents are focusing on deflation rather than stagflation risk.

Possible risk scenarios

Regarding possible events that could lead to Japansese risk scenarios, all respondents agreed that overseas factors would be likely triggers. In other words, participants believe that the self-sustained economic recovery will continue in Japan as long as no trigger events occur aboard. Hence, surveyed companies do not seem to be concerned about the Japanese economy itself.

As for specific triggers, most companies regard "further deceleration of Chinese economy" as the most probable. Other overseas factors, such as "terror risks abroad," "monetary policies in US and EU," "political instability in Europe," and 'further decline in commodity price," also attracted a relatively large number of respondents.

Netherlands
Fundamentals remain strong

Improving prospects

According to the December forecast of CPB Netherlands Bureau for Economic Policy Analysis economic growth in the Netherlands will be more than 2% in 2015 and 2016—the first time since the credit crisis started in 2008. This growth is driven by increasing household consumption and investments as well as higher export levels. However, economic growth in the third quarter of 2015 was only 0.1%, reported national statistics office CBS.

In response, some 69% of CFOs rate the general level of external financial and economic uncertainty facing their business as above normal—compared with 84% last quarter. This level of uncertainty is the slightly below the average of 63% over the past four quarters.

At the same time, the percentage of CFOs who are optimistic about the financial prospects for their company remained stable at 28%. Some 52% expect higher revenues over the next 12 months, whereas about 45% expect to reduce their workforces in 2016 (up from 38%).

Risk appetite stabilizes

Bank borrowing is seen as the favored source of corporate funding by 59% of CFOs (up from 44%). This metric is mainly driven by the low interest levels. Corporate debt is considered as an attractive source of funding by exactly half of the CFOs, while equity has remained the least popular source of external funding.

Meanwhile, falling sentiment and rising perceptions of external uncertainty led to a sharp drop in risk appetite in from 54% to 21% in Q3 2015. Now, this metric has stabilized, with almost a quarter of CFOs (24%) saying that now is a good time to be taking greater risk onto their balance sheets.

Highlights from the Q4 2015 Netherlands CFO Survey:

- Optimism among CFOs of Dutch companies about the financial prospects of their companies was stable this quarter at 28%.
- Almost a quarter (24%) of CFOs say now is a good time to be taking greater balance-sheet-related risks, up from 21% in Q3 2015.
- Some 52% of CFOs expect their company's revenues to increase over the next 12 months, up from 44% last quarter.
- Almost half of the surveyed CFOs expect to complete at least one acquisition in 2016.
- Twenty-one percent of CFOs expect a decline in operating cash flow, the highest level since Q1 2014.

Still bullish on cash flows and M&A

Some 21% of CFOs expect a decline in operating or free cash flows over the next 12 months. This is the highest level since Q1 2014 and considerably higher than the previous quarter (8%).Nonetheless, the percentage of CFOs who expect their cash flows to increase was up from 64% in Q3 2015 to 69% now.

Given low interest rates, available financing, and strong balance sheets, growth through M&A is still a viable option. The outlook for corporate M&A activity came in at 79%—versus 90% one year ago. Moreover, some 48% say that their companies will realize one or more acquisitions over the next 12 months, while 38% will sell assets and/or subsidiaries.

North America
Betting on North America despite concerns

Considerable optimism in plans

Last quarter, despite some positive global economic reports, CFOs voiced concerns about the impact of global volatility and slowing Chinese growth—and this was *before* the pummeling of Chinese and US equities in late August.

Still, this quarter's survey, which focused on CFOs' business outlook for 2016, revealed considerable optimism in their expectations and plans. And overall, there seems to be a belief among many that North America (and the US in particular) can continue to shoulder the burden of economic growth again in 2016—despite interest rate increases and a US presidential election that appears already on many minds

In fact, this quarter's net optimism[1] index of +10.7 is the 12th consecutive positive reading, even though it is below last quarter's +14.2 and now sits at the lowest level in three years. Sentiment is particularly weak in the Manufacturing and Retail/Wholesale industries.

But in contrast to their declining sentiment, CFOs' expectations for revenue, earnings, and capital spending growth are up from their 2Q15 lows. (Retail/Wholesale CFOs helped drive the rebounds in all three metrics despite their voicing mostly declining optimism.) In fact, revenue growth expectations rose to 5.9%* from last quarter's 4.4%* and are similar to those from 4Q14 (only Manufacturing and Energy/Resources showed substantial weakness). Earnings growth expectations rebounded from last quarter's survey-low 6.5%* to 8.3%*.

Capital-spending expectations also rebounded this quarter, from last quarter's 4.3%* to 4.9%*, but domestic hiring growth expectations are again sluggish at 1.2%, down from last quarter's 1.4%*.

Highlights from the Q4 2015 North America CFO Survey:

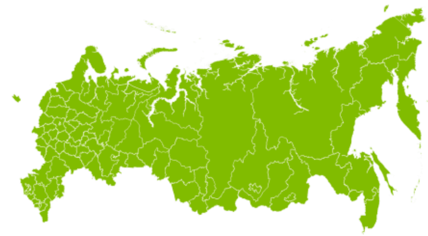
- Continuing a string of 11 straight prior quarters of positive sentiment, net optimism came in at +10.7, down from +14.2.
- Fifty-five percent of CFOs describe North American conditions as good (59% last quarter), and 47% expect better conditions in a year (55% last quarter).
- About 80% of CFOs say investing for growth is a top cash use for 2016, and about 40% cite investing for efficiency gains.
- For the 63% of CFOs who expect deals, there is considerable diversity of purposes, with pursuing scale efficiencies and growth in existing markets were the most mentioned.

Election looms large

CFOs again voiced concerns about China's slowing growth. But this quarter's concerns seemed related more to broader global stagnation and overreliance on the US economy than to struggles in particular regions. In fact, only 27% of CFOs said improvement in North America's economy is dependent on improvement in China's. Moreover, nearly 60% said China is not an important market for them (although 40% of US CFOs said it will be important to five-year growth).

Regarding the US economy, the proportion of CFOs expecting better growth in 2016 is equal to the proportion expecting worse, and the proportions are also equal for those expecting GDP growth above and below 2% through 2017. But US CFOs were more pessimistic, with 30% expecting slower. About half of US CFOs say the 2016 presidential election will substantially affect future economic performance; about 30% say it will not.

Russia
Business recovery is complicated



External factors weigh on outlook

The Russian CFO Survey was designed to gauge CFOs' outlooks on business, financing, risk, and strategies, and to identify trends in the Russian market. The second survey in 2015 found that high currency risks and inflation are continuing to have a negative impact on financial prospects. In fact, 22% of CFOs surveyed stated that their financial prospects had become less optimistic, and 51% do not anticipate changes.

The pessimism is mainly driven by external economic and political factors. Specifically, CFO cited increased government regulation and the Russian embargo on EU food products as having negative impacts. Moreover, the significant devaluation of the Russian ruble is contributing to the deterioration of real income for businesses, which is worsening the financial position of companies, especially on the international market.

At this point, some 36% of respondents do not expect any change in revenue and another 24% expect operating profits to decline. Still, a third of CFOs (33%) expect that the average wage/salary will grow and a fourth of respondents (24%) state that their staffs may increase. But the fact that 66% of surveyed companies are not planning any salary increases suggests that the buying power of Russian consumers will continue to decline (especially relative to the global market).

Rising risks and risk appetite

In general, the second half of 2015 was again characterized by a high level of uncertainty in relation to strategic decision-making. In fact, 73% of the surveyed CFOs view the level of uncertainty facing their businesses as high compared to 62% in the last survey.

Despite this uncertainty, 29% of Russia's CFOs believe that now is a good time to be taking greater risk onto the balance sheet (up from 14%). The factors driving risk appetite include increased production costs abroad, rising barriers to trade, and increased government regulation.

In the second half of 2015, the top three risk factors that dominated early in the year—stress in the financial system, weakness in the ruble, and lower domestic demand—have only strengthened their positions. Two other factors—dwindling operating income and deteriorating cash flow—now join them on the list of risk factors that have the highest influence on business development.

Strategies remain mostly defensive

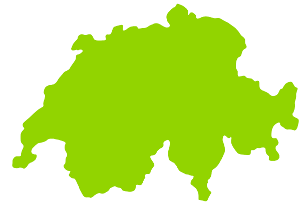
The top three strategies CFOs are focused on over the next 12 months remain the same as in H1 2015: ongoing cost restructuring, cost-cutting, and organic growth. In this survey, however, CFOs also elevated "increasing cash flow" to a top strategy.

Highlights from the H2 2015 Russia CFO Survey:

- Overall, 27% of Russia's CFOs view their financial prospects as optimistic, down from 37% last survey.
- Some 29% of CFOs consider now to be a good time to take risk onto the balance sheet.
- Almost three-quarters of CFOs (73%) rate the level of uncertainty as high, up from 62% in H1 2015.
- More than half (51%) of Russia's CFOs cited Russian/Chinese relations as a factor influencing their business, and 78% of them view it positively.
- The negative effect of sanctions increased to 64%, while currency issues have the highest negative impact at 73%.

Switzerland

Uncertainty overshadows outlook



Highlights from the Q4 2015 Switzerland CFO Survey:

- Some 33% of CFOs rate the prospects for the Swiss economy as negative over the next 12 months, while 24% remain positive.
- An increasing majority of Switzerland's CFOs (58%) expect revenues to increase, while just 22% expect them to decrease.
- Switzerland's CFOs currently see geopolitical risk as the greatest risk to their company, cited by 70% of respondents. Other risks cited include the strength of the Swiss franc and increasing regulation within Switzerland.
- A majority (56%) do not expect Swiss interest rates to rise before 2018, and 17% do not think they will rise until 2019.

Economic outlook stabilizes

Swiss CFOs' expectations for economic growth remain largely unchanged from Q3 2015. A small majority is still pessimistic about Switzerland's economic prospects over the next 12 months (33% versus 24% who are optimistic). However, compared with the drastic fall in optimism in Q1 2015, expectations have recovered.

A similar picture emerges with regard to growth forecasts for 2015 and 2016, with CFOs expecting a downturn in the Swiss economy stopping short of negative growth. The picture emerging from other major economies is mixed: while growth in China, South Africa and, particularly, Brazil and Russia is expected to be lower than in 2013/14, it is expected to pick up in the US and, especially, in the eurozone. However, recovery in the eurozone is from an extremely low base and is accompanied by a range of downside risks.

As for interest rates, more than half (56%) do not expect an increase until 2018, with 17% believing they will not rise before 2019. Their expectations for exchange rates and inflation also remain largely unchanged.

Corporate outlook positive longer term

Regarding their companies' financial prospects, those too have stabilized quarter on quarter, but are still nowhere near the record highs seen in 2013. For a large majority of Swiss CFOs (59%), their rating of their company's financial prospects is unchanged from Q3, while 21% are more optimistic and 20% more pessimistic (a net balance of 1%).

Looking forward over the next 12 months, CFOs are more positive. Almost half (45%) rate their company's prospects as positive, with only one in five rating them as negative. CFOs are similarly optimistic about growth in revenues, and there is a greater willingness to increase capital expenditure.

Limited risk appetite

Over the past four quarters, Swiss CFOs have rated the level of economic and financial uncertainty as high. In Q4 2015, 73% rate it as high, slightly down from Q3 (75%). No CFO rates the current level of uncertainty as low.

Swiss CFOs' risk appetite has been falling markedly since the end of 2014 and has stabilized at a low level in Q4 2015. A full 80% of CFOs do not believe this is a good time to be taking greater risk onto their company's balance sheet, and only one in five has any appetite for risk. Meanwhile, geopolitical risk has risen to the top of the list of CFOs' perceived risks to their company: it is up 11 percentage points on Q3 2015, undoubtedly as a reaction to the terrorist attacks in Paris.

United Kingdom
A cautious start to 2016

Skepticism is apparent

UK CFOs are downbeat about the outlook for growth in the euro area in 2016 despite a stronger-than-expected acceleration in activity seen in the region in 2015. Indeed, CFOs are more pessimistic about prospects for the euro area this year than for emerging market economies. CFO sentiment is most positive on the US and the UK economies. Nonetheless, doubts about the pace and sustainability of the global recovery are weighing on sentiment. CFO confidence fell through 2015 and ended the year at its lowest level since the Q2 2012, when the euro area was in recession.

Meanwhile, support among CFOs of the UK's largest corporates for staying in the EU has narrowed, mirroring a drift toward greater skepticism on the part of the UK public in the second half of 2015. A clear majority of CFOs continue to favor remaining in the EU, but those expressing unqualified support fell from 74% in the second quarter to 62% in the fourth quarter. Just 6% of CFOs favor leaving.

Outlook dampens risk appetite

Corporate risk appetite often reflects trends in financial markets. Thus, the decline in the FTSE100 UK equity index since last summer has been accompanied by a softening in corporate risk appetite. The proportion of CFOs who think now is a good time to take risk dropped to 37% in the fourth quarter, down from 47% in the third quarter and a peak of 72% in late 2014.

Such large moves in risk appetite feed through to the way in which companies run their finances. CFOs' balance sheet strategies have become more defensive, with a sharper focus on cost control which now tops CFOs' list of priorities. Meanwhile CFOs are placing less weight on growth through acquisitions and on capital spending.

Highlights from the Q4 2015 UK CFO Survey:

- CFO optimism is at its lowest level since Q2 2012 when the euro area was in recession and gripped by concerns that the single currency might break up.
- To 37% of UK CFOs now is a good time to take greater risk onto balance sheets, down from 47% last quarter.
- CFO expectations for growth in revenues is still positive, but their outlooks for revenues and margins are at their weakest in two-and-a-half years.
- For the first time in a year, CFOs rate cost reduction as their top priority (44%), followed by introducing new products/services or expanding into new markets (38%).

Ready for interest rate increases

In recent months uncertainties, especially in emerging markets, have prompted the Bank of England to push back the timing of UK interest rate rises. The consensus in financial markets in mid-December was that the Bank will start raising interest rates in the second half of 2016. The pace of tightening is expected to be gentle, with three-month interest rates rising by a total of about 100bp, from a current 0.6% to 1.6% at the end of 2018. The corporate sector seems well positioned to cope with this sort of trajectory, with 64% of CFOs reporting that a 100bp rate rise would have no effect, or a positive effect, on their plans for investment or employment.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty-six Deloitte Member Firm CFO Surveys, covering 60 countries, are conducted by Deloitte member firms on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each member firm's survey varies.

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

Member firm	Contacts	Frequency	Survey scope and population
Belgium	**Thierry Van Schoubroeck** Partner + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between December 10, 2015 and January 8, 2016; 70 CFOs completed the survey. The participating CFOs are active in variety of industries. Some 21% of the participating companies have a turnover of more than €1 billion, 43% of between €100 million and €1 billion, and 37% of less than €100 million.
Central Europe *(Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, and Slovenia)*	**Gavin Flook** Partner, CFO Program Leader +420 234 078 930 gflook@deloitteCE.com	Annual	Conducted between August 2015 and October 2015; 489 CFOs from 11 countries (see list) and a broad range of industries participated.
Japan	Masanori Shinoda Partner +81 80 4367 7938 mshinoda@tohmatsu.co.jp	Quarterly	Conducted between December 7, 2015 and January 15, 2016; 33 CFOs completed the survey. The participating CFOs are active in variety of industries, representing listed companies and relevant private companies.

Member firm	Contacts	Frequency	Survey scope and population
Netherlands	**Frank Geelen** Partner; CFO Program Lead +31 (0)6 2239 7053 fgeelen@deloitte.nl	Quarterly	Conducted December 3-24, 2015; 29 CFOs representing a net turnover per company of approximately €3.2 billion completed the survey. The responding companies can be categorized as follows: publicly listed (48%), privately owned (14%), family owned (14%), state or government owned (7%), and other (17%).
North America *(US, Canada, and Mexico)*	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between November 11, 2015 and November 20, 2015; 112 CFOs participated from across the US, Canada, and Mexico. Seventy-six percent of respondents represent CFOs from public companies, and 82% are from companies with more than USD $1 billion in annual revenue.
Russia	**Lora Zemlyanskaya, Ph.D.** Research Centre Leader, Deloitte & Touche CIS +7 (495) 787 06 00 (x2299) lzemlyanskaya@deloitte.ru	Biannual	Conducted in October 2015; 45 CFOs participated, representing several industry groups in Russia.
Switzerland	**Dr. Michael Grampp** Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between November 18, 2015 and December 14, 2015; 123 CFOs participated, representing limited companies and relevant private companies.
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between November 11, 2015 and December 2, 2015; 137 CFOs participated, including CFOs of 24 FTSE 100 and 62 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of companies listed overseas. The combined market value of the 99 UK-listed companies surveyed is £374 billion.

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