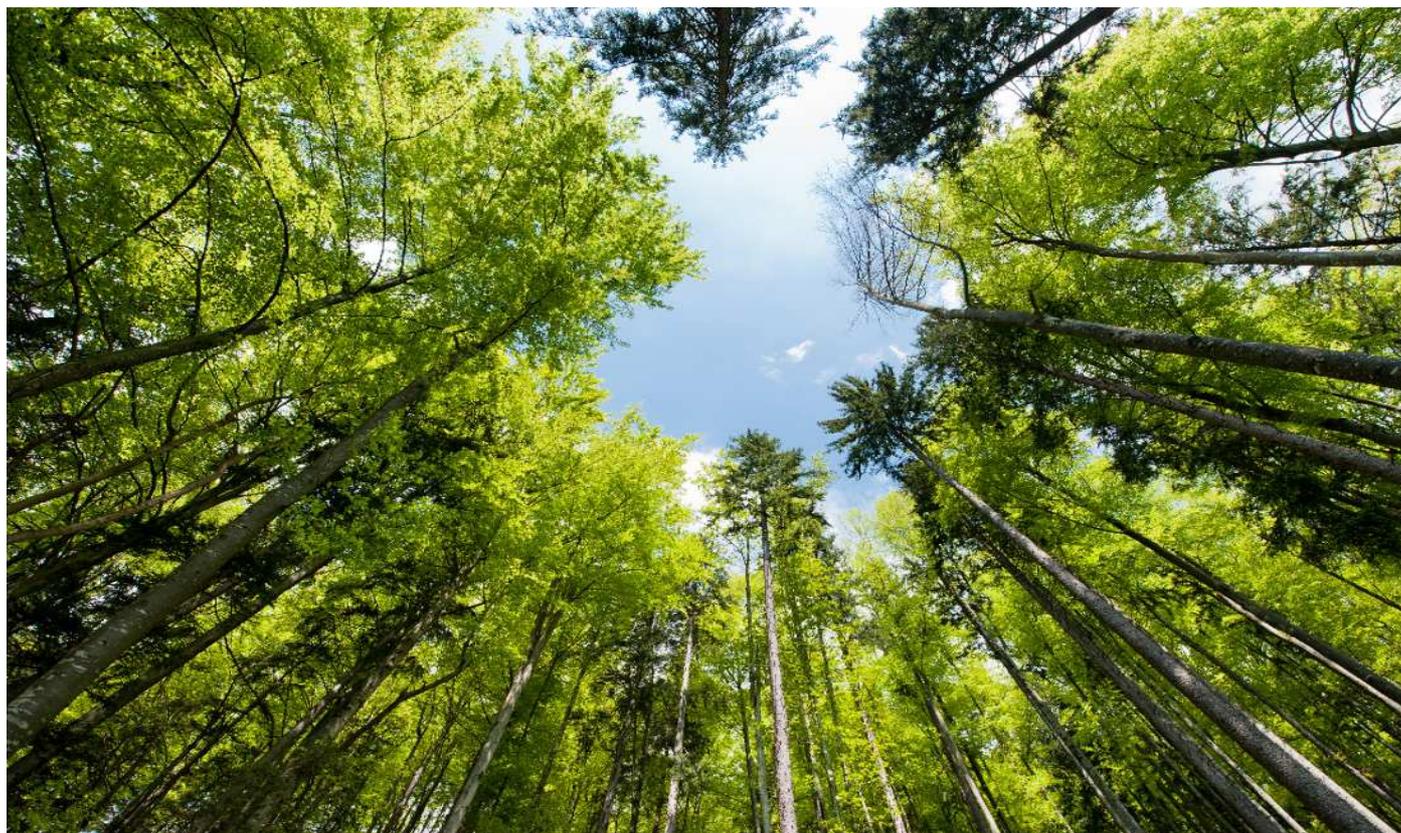


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Deloitte CFO Signals Survey Report

Q1 2018

May 11, 2018

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About Deloitte CFO Signals

Deloitte CFO Signals is a survey conducted globally at regular intervals by Deloitte to find out what is on the minds of Chief Financial Officers (CFOs). After every survey, the answers of CFOs are compiled and analyzed by Deloitte's experts and published as "Signals" from CFOs.

The survey consists of a survey on the economic environment, which is used globally every time, and a topical survey, whose content differs by country.

The first survey in Japan was taken in August 2015, and we are now reporting on its 10th edition.

Regarding the survey on the economic environment, we analyze chronological changes in CFOs' thinking as well as their latest forecasts at the time of the survey. In addition to the recurring questions, this time we also asked macro-level questions on the Japanese economy and possible risk scenarios affecting the world's major countries. As for Japan-specific topics, we chose to ask CFOs about issues related to accounting processes, initiatives to improve them, and future prospects.

This edition of the survey was conducted in April 2018 and received responses from the CFOs of 33 companies.

Thank you for your cooperation.

Deloitte Tohmatsu CFO Program
May 11, 2018

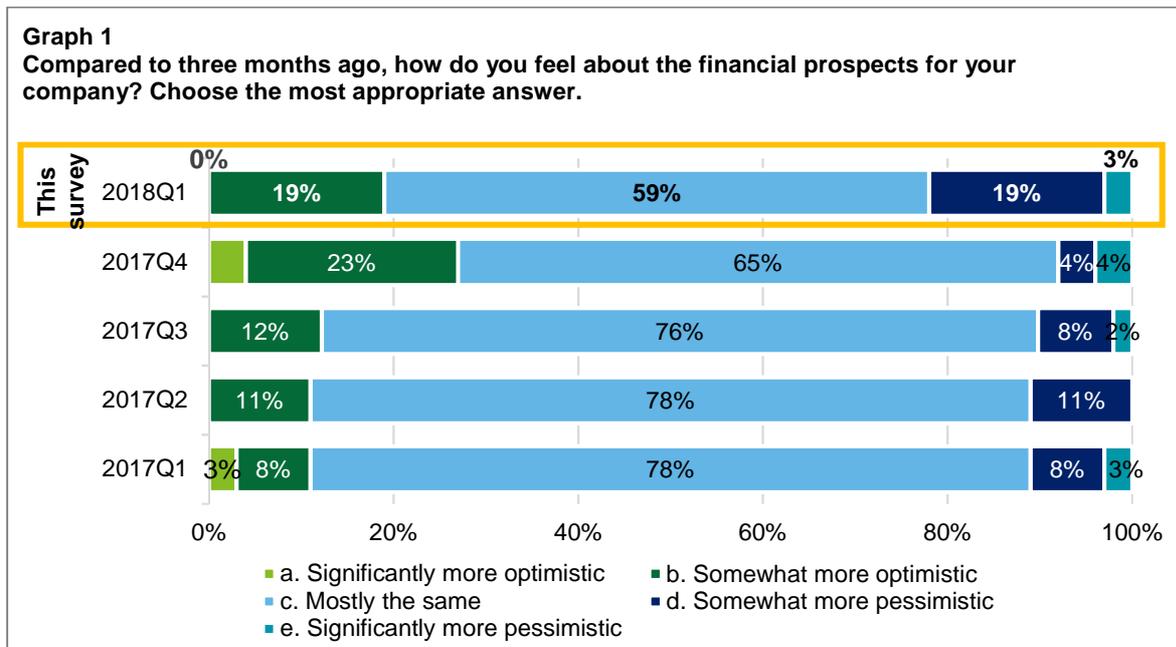
The **CFO** Program



Survey on the economic environment

Financial environment prospects

There has been a retreat from optimism in companies' financial prospects

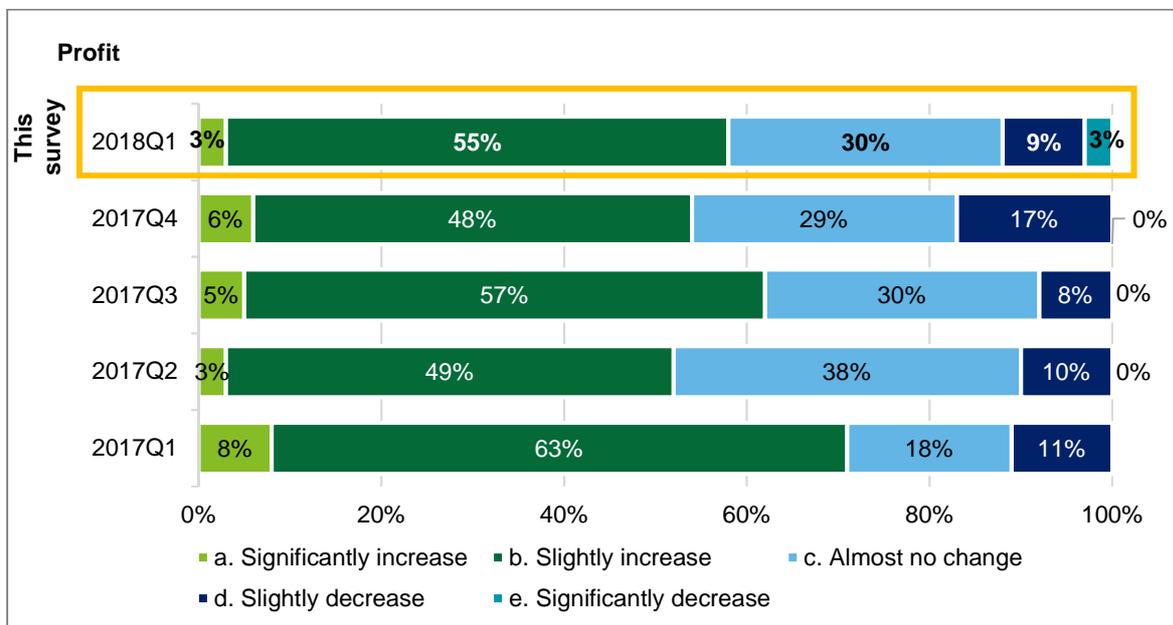
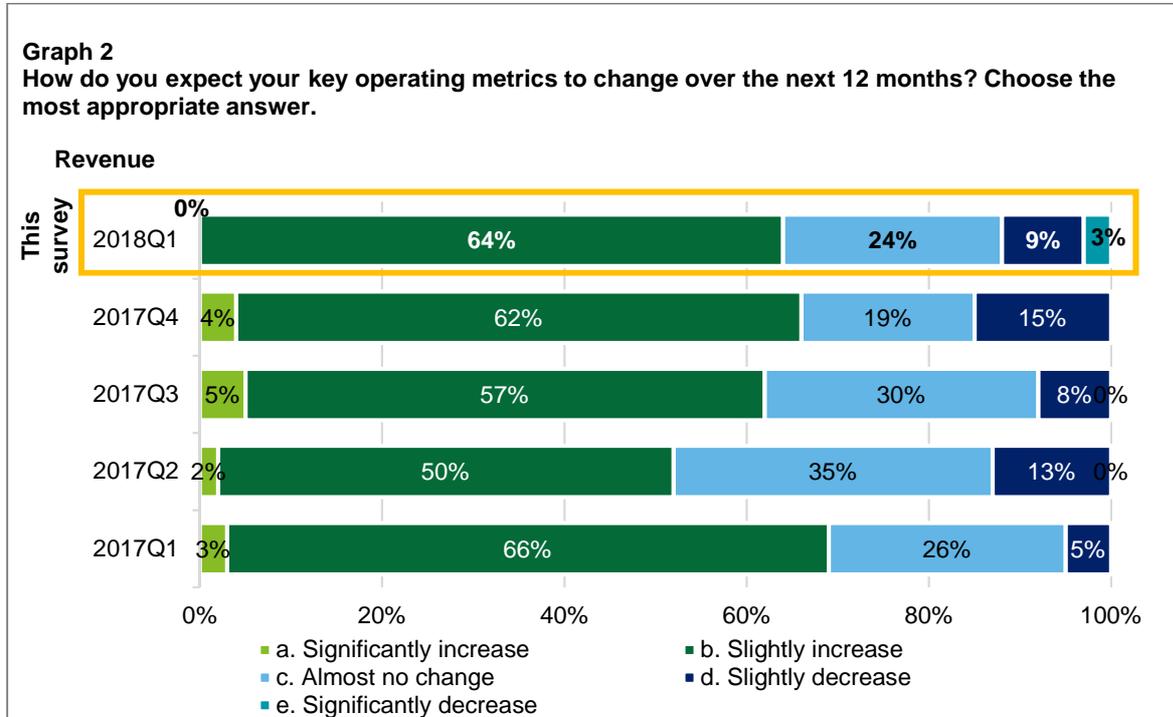


Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. In this survey, financial outlook has worsened compared to the previous quarter. Responses of "significantly more optimistic" or "somewhat more optimistic" totaled only 19%—a significant decrease of 27% from the previous survey (2017Q4). Conversely, "somewhat more pessimistic" and "significantly more pessimistic" responses totaled 22%—a major increase from 8% in the previous survey. There are several possible reasons for this worsening financial outlook. First, since February, domestic and global stock prices have fallen drastically, and continued appreciation of the yen has increased feelings of instability in the financial markets. Second, the Abe administration's approval rating has fallen due to the Moritomo Gakuen scandal (allegations of cronyism) and other factors, and the risk of instability in internal Japanese politics has increased. Another possible reason is that the US's extreme protectionist trading policies, e.g. with the Trump administration's import tariffs, has increased the risk of negative effects on the Japanese and global economies. These elements are expected to peel away the positive effects Abenomics has brought thus far and to have a negative influence on the economy by generating fierce opposition between countries. In the previous 2017Q4 survey, financial outlook had improved significantly with rising stock prices and the passing of tax reduction bills in the US, but it seems that even that improved outlook is threatened by the changes in the business environment in the first quarter of 2018.



Business performance outlook

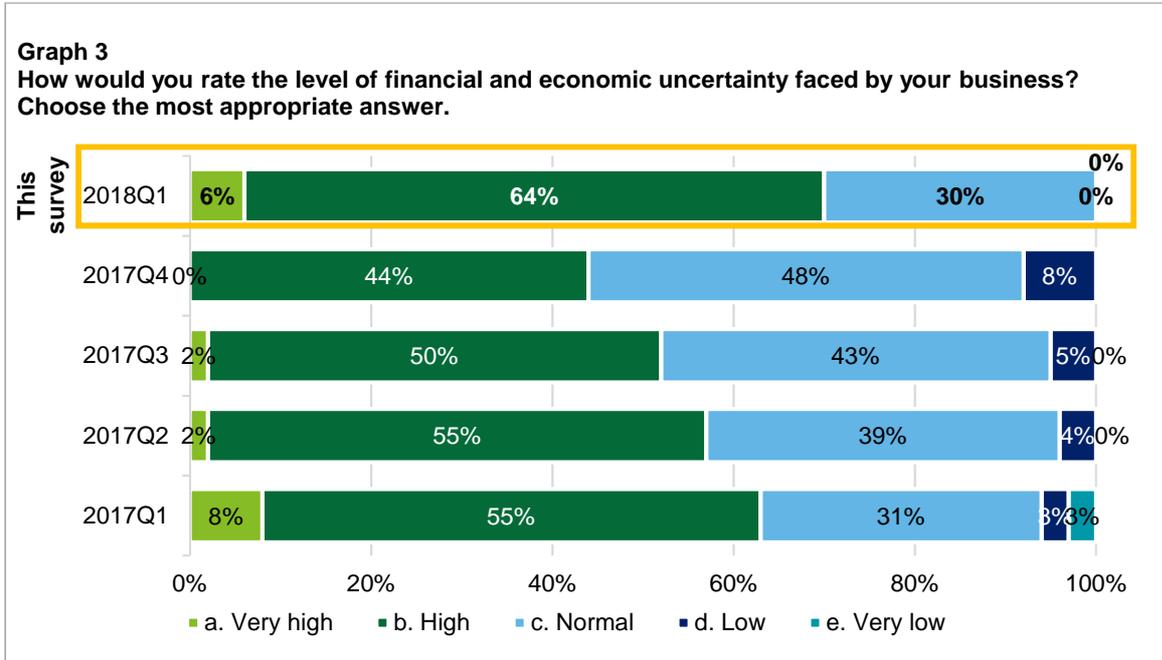
Revenue outlook remains the same; costs also remain high



Graph 2 shows CFOs' outlook for their company's financial performance (revenue and profit) over the coming year. A total of 64% expected revenue to either "significantly increase" or "slightly increase," which is only slightly less than the 66% in the previous survey, and the general trend remains the same. Despite a pessimistic outlook on the external environment, CFOs have maintained a stable, mostly optimistic outlook on revenue. At the same time, a total of 58% expected profits "significantly increase" or

“slightly increase”—a marginal improvement over the 54% in the previous survey. Nevertheless, the percentage of respondents in this survey who expect profits to significantly increase after costs have been deducted is less than the percentage in the 2017Q4 survey who expected revenue to “significantly increase.” This suggests that despite increases in revenue, costs are expected to continue to exert strong downward pressure on profits. This is likely a reflection that business costs are expected to rise as a result of soaring materials costs, labor shortages driving up wages, and similar factors. Although performance outlook seems relatively optimistic overall as in the previous quarter, it appears that CFOs continue to see costs as an issue.

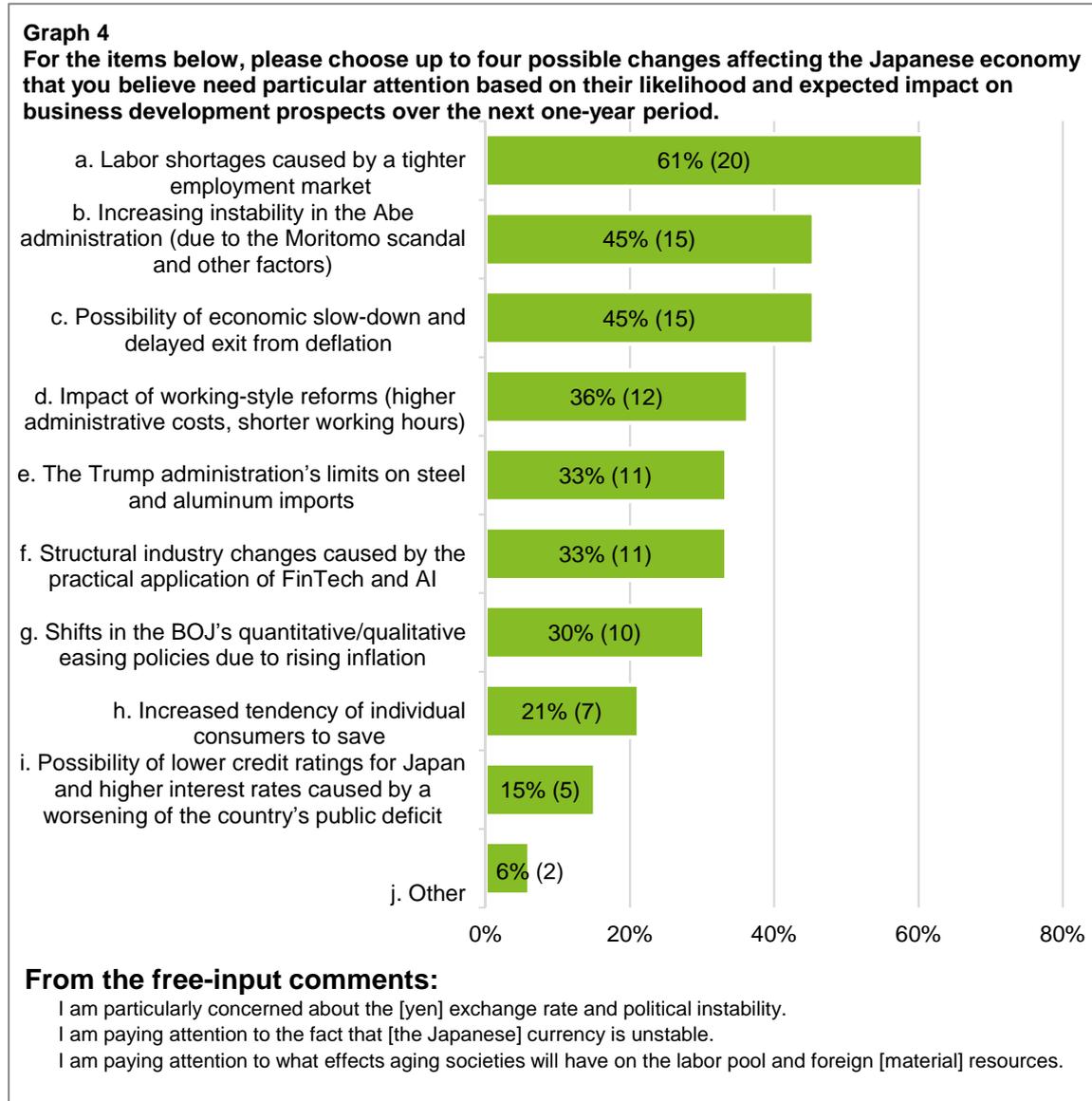
Uncertainty has increased significantly



Graph 3 shows CFOs' perception of financial and economic uncertainty. A total of 70% of respondents said that uncertainty was "very high" or "high"—a significant increase from 44% in the previous survey. This is the highest level since 2016Q4 (when Trump won the 2016 US presidential election). As mentioned in Graph 4 on the next page, possible reasons for increased uncertainty are: falling stock prices and appreciation of the yen, growing instability within the Abe administration, and the US's increasingly protectionist trade policies. Another possible factor in increasing uncertainty is that the Trump administration continues hiring and firing high-ranking cabinet members, leaving hardliners occupying important diplomatic positions. In the previous 2017Q4 survey, there was a major retreat from uncertainty due to expectations of accelerated economic growth, as well as domestic and international political events such as the US passing a tax reform bill, and expectations of long-term stability after Abe's victory in the general election. However this optimistic outlook was not to last. Financial and economic uncertainty are likely to continue in the future, given the financial market and political factors at play here.

 **Key change factors in the Japanese economy**

Focus on increasing instability in the Abe administration and possibility of economic slowdown



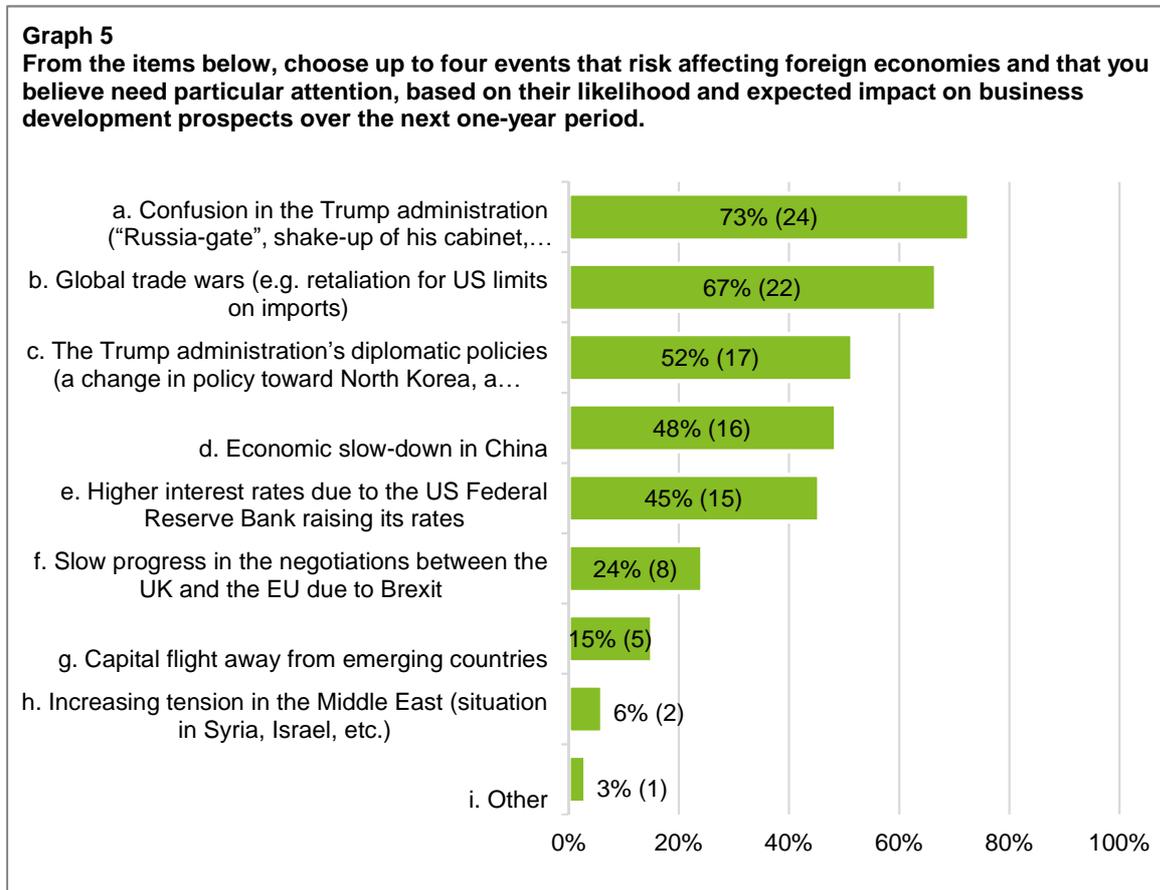
Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when planning business development over the next one-year period.

Just as in the previous 2017Q4 survey, “labor shortages caused by a tighter employment market” was the top answer, followed by the new choice of “increasing instability in the Abe administration”. The third place answer of “possibility of economic slow-down and delayed exit from deflation” has increased significantly in degree of attention from its previous ranking of sixth place. Recently, “labor shortages caused by a tighter employment market” is always the top answer to this question, so we can infer that CFOs continue to regard securing labor capabilities as an issue. As indicated in other questions, we can also see that “increasing instability in the Abe administration (due to the Moritomo scandal)” has

suddenly surfaced as an item of major concern for CFOs. We should also note that more respondents are selecting choices that up until now had been ranked at a lower level of concern on this survey, such as “possibility of economic slowdown and delayed exit from deflation.” “The Trump administration’s limits on steel and aluminum imports,” which was also a new point of focus, entered the rankings in fifth place. The results of this most recent survey suggest that, in addition to the labor shortage, increasing instability in Japanese internal politics is worsening CFOs’ outlook on the Japanese economy.

€ Key change factors in the global economy

Confusion within the Trump administration and its international trade wars are viewed as risks

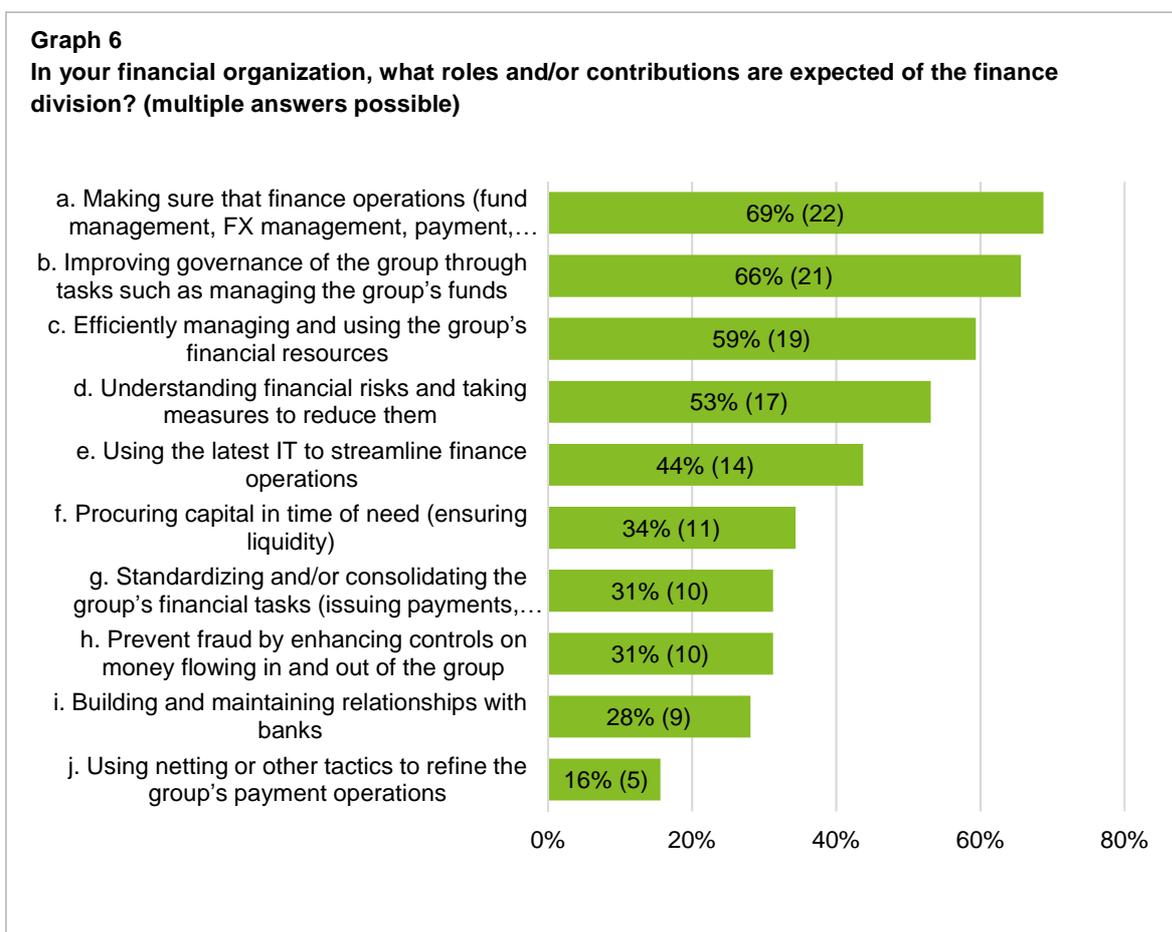


Graph 5 shows what trends in the global economy are most closely watched by CFOs when planning business development over the next one-year period. In response to North Korea's declaration that it will denuclearize the Korean peninsula, we have removed "increasing tensions on the Korean peninsula" from the list of options and replaced it with "global trade wars (e.g. retaliation for US limits on imports)". As a result, the top three responses this time were: 1) "Confusion in the Trump administration ('Russia-gate', shake-up of his cabinet)" (#2 in the previous survey), 2) "Global trade wars (e.g. retaliation for US limits on imports)", and 3) "The Trump administration's diplomatic policies (a change in policy toward North Korea, a revision of the Iran Nuclear Deal, etc.)", which was also a new choice in this survey. All of these points of focus relate to issues within Trump administration itself, its diplomatic policies, or its trade policies. We can see that CFOs feel the events of early 2018 such as the Trump administration's reversal of its policy on North Korea, its replacement of cabinet positions with hardliners, and its import restrictions will have a major impact on the global economy in the future. During the period of this survey, events such as US air strikes on Syria continue to disturb the global economy. CFOs will probably continue to watch the actions of the Trump administration.

Opinion survey on financial management

Role(s) of the finance division

Recently, business expansion into new markets, cross-border M&A, and similar trends means that even Japanese companies are turning their attention toward initiatives to enhance financial management on a global level. In this survey, we asked CFOs about the expected roles of the finance division in Japanese companies, their financial management systems, progress on initiatives toward global financial management, and financial risk monitoring and reporting.

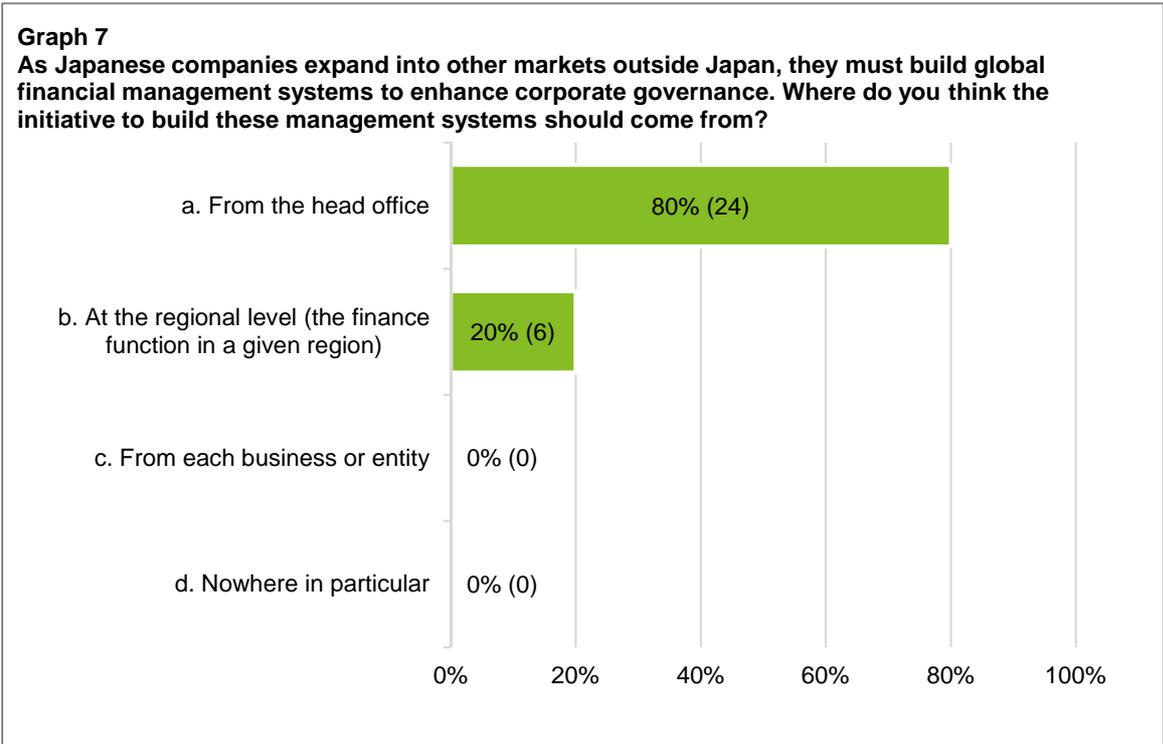


Graph 6 shows responses on what roles are expected of the finance division. In first place was “making sure that finance operations (fund management, FX management, payment, etc.) are carried out properly”, chosen by 69% of respondents, which gives us a fairly good understanding of how Japanese companies traditionally view the role of the finance division. The finance division in Japanese companies is generally charged with routine tasks such as fund settlement and foreign exchange settlement, and this is in stark contrast to non-Japanese companies that employ highly-skilled talent in their treasury divisions. Conversely, from looking at the responses that follow from second place and below (“improving governance of the group through tasks such as managing the group’s funds”, “efficiently managing and using the group’s financial resources”, and “understanding

financial risks and taking measures to reduce them”), it appears that in recent years, more and more Japanese companies are working to enhance their financial management on a global level and therefore expect their finance divisions to handle tasks such as developing and executing strategies to improve and streamline the entire group’s finance operations, and creating policies on which banks to deal with.

 **Global financial management structures**

Next, we asked CFOs where leadership should come from when building a global financial management system.

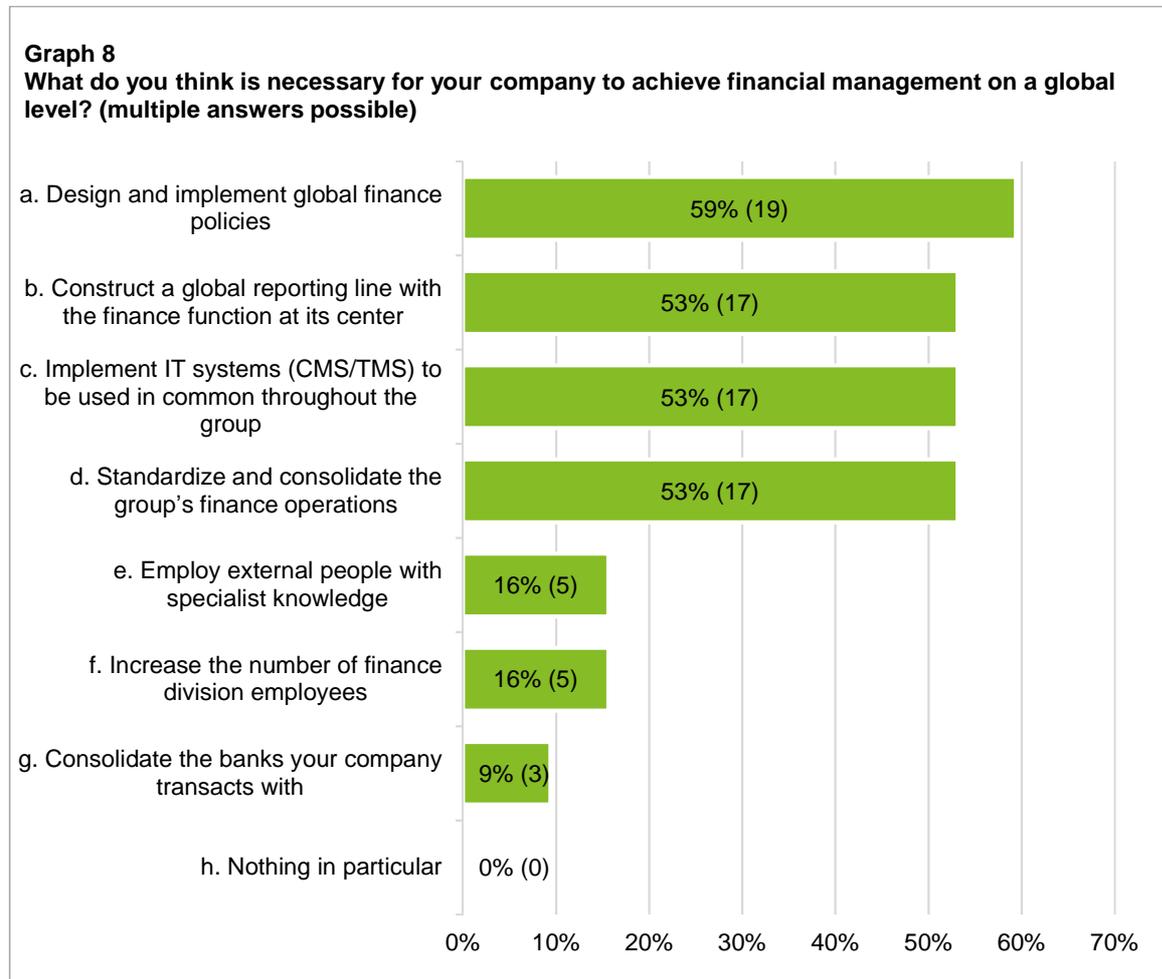


Looking at Graph 7, we see that 80% of respondents felt that the head office should take the initiative in building a global financial management system. This answer suggests that head offices see continued discoveries of accounting fraud at foreign subsidiaries that were acquired through M&A or similar means, and consequently feel they cannot adopt a policy of non-interference when it comes to financial management of global subsidiaries. As before, it seems that the general way of thinking is that financial management should not be left to regional or individual entities, but rather the responsibility lies with head office. In particular, it appears that upper management wants fund management, which is vital to a company’s business activities, to be carried out under the guidance of head office.



Initiatives toward financial management on a global level

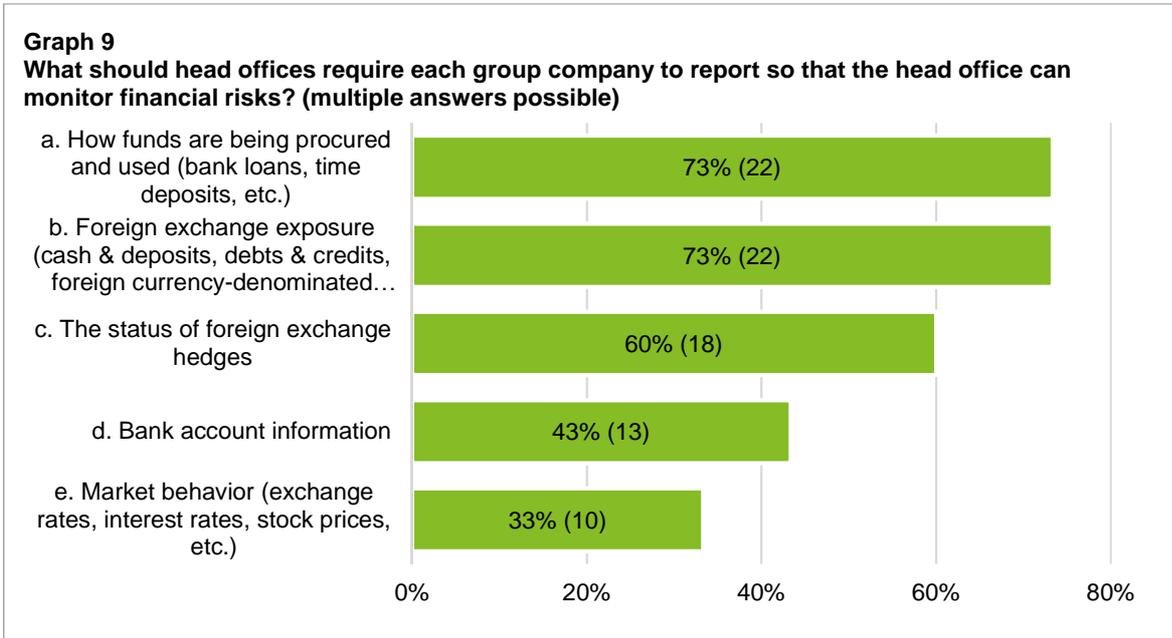
The next question asks about the issues in achieving financial management on a global level.



From Graph 8, we can see that most companies feel that the lack of a common group financial management platform (“design and implement global finance policies”, “construct a global reporting line with the finance function at its center”, “implement IT systems (CMS/TMS) to be used in common throughout the group”) is an issue in achieving financial management on a global level. There are still few Japanese companies with policies that apply to the entire worldwide group, and many Japanese companies have only developed rules and regulations that are limited to the head office and other offices within Japan. Establishing a common group financial management platform is the first step toward enhancing financial management on a global level, and CFOs understand that this is what should really be focused on now. It is also extremely interesting that many CFOs’ gave “construct a global reporting line with the finance function at its center” as their number two answer. At leading non-Japanese companies, global financial management of the entire group is carried out based on a reporting line centered on the treasury function. For Japanese companies’ financial management as well, a function-centered reporting line has probably become necessary.

Monitoring financial risks

The following question asks which financial risks head offices should be aware of.

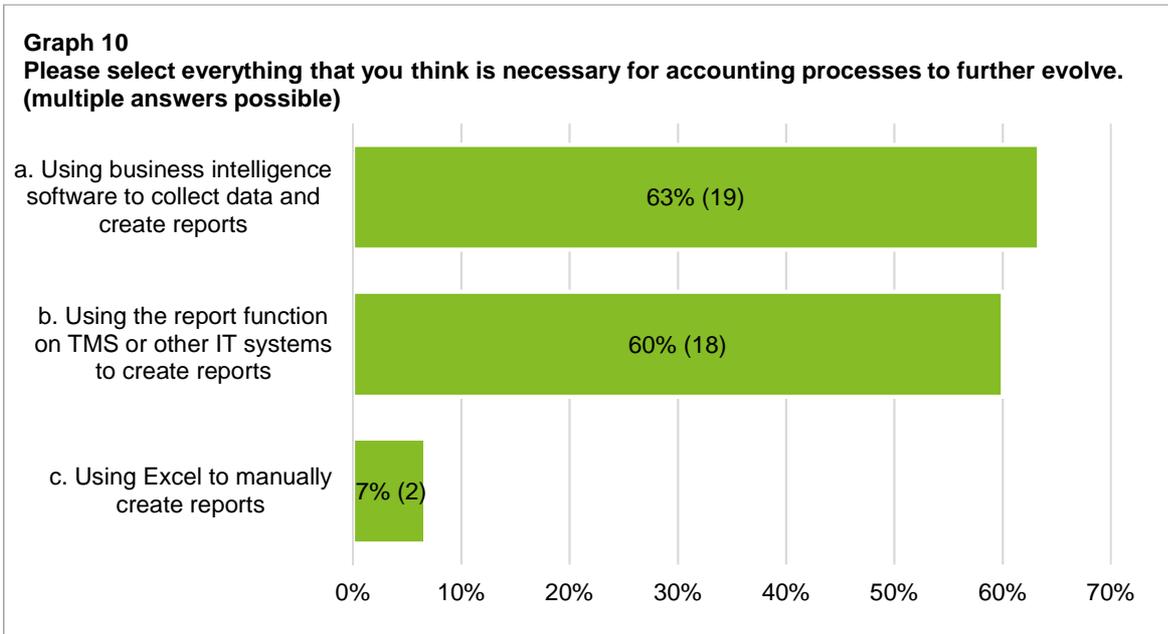


In Graph 9, regarding items head offices required group companies to report on, “bank account information” came in at only 43%, whereas “how funds are being procured and used (bank loans, time deposits, etc.)” and “foreign exchange exposure (cash & deposits, debts & credits, foreign currency-denominated loans, etc.)” were the top responses at 78% and 73%, respectively. From this, we can infer that in recent years, cloud-based treasury management systems (TMS) are becoming more popular in Japan as well, and the technology to view global subsidiaries’ bank information has advanced. At the same time, the only information that present treasury and cash management systems can display is bank account information since that can automatically be obtained from the transacting bank. We can therefore infer that management must receive separate reports on financing, fund usage, and foreign currency hedges. In the future, if Japanese companies are better able to utilize TMSs as a means of managing the entire group’s finances, rather than just for viewing information, group companies would not need to report individually, and TMSs would probably make it possible to centrally manage financial management information.



Reporting data from each group company

Lastly, we asked CFOs about their needs for TMSs and business intelligence software in financial management.



It is generally believed that many Japanese companies rely on Excel for general financial management tasks and analysis and reporting of financial risks. In recent years, more and more companies are implementing TMSs not just to display information but for TMS's true functions of analyzing and reporting on financial risks. However, the analysis and reporting functions of many general-purpose TMSs are too simple to fully meet the needs of particular companies, so they likely often import information from the TMS into Excel to run analyses and create reports. Considering the necessity for flexibility in analysis methods and report content so that they fit the company's needs, we feel that proactive use of business intelligence software in financial management is a potential trend.

What is the CFO program?

The CFO Program is a comprehensive initiative by Deloitte Tohmatsu Group, aiming to provide support to the CFOs of companies that underpin the Japanese economy, add to the capabilities of those CFOs' organizations, and thus revitalize the Japanese economy itself. Professionals with different specializations work together as trusted advisors to help CFOs solve the problems they face. We also endeavor to improve the competitiveness of Japanese businesses by providing CFOs with the latest information, including global trends, as well as networking opportunities across different companies and industries.

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