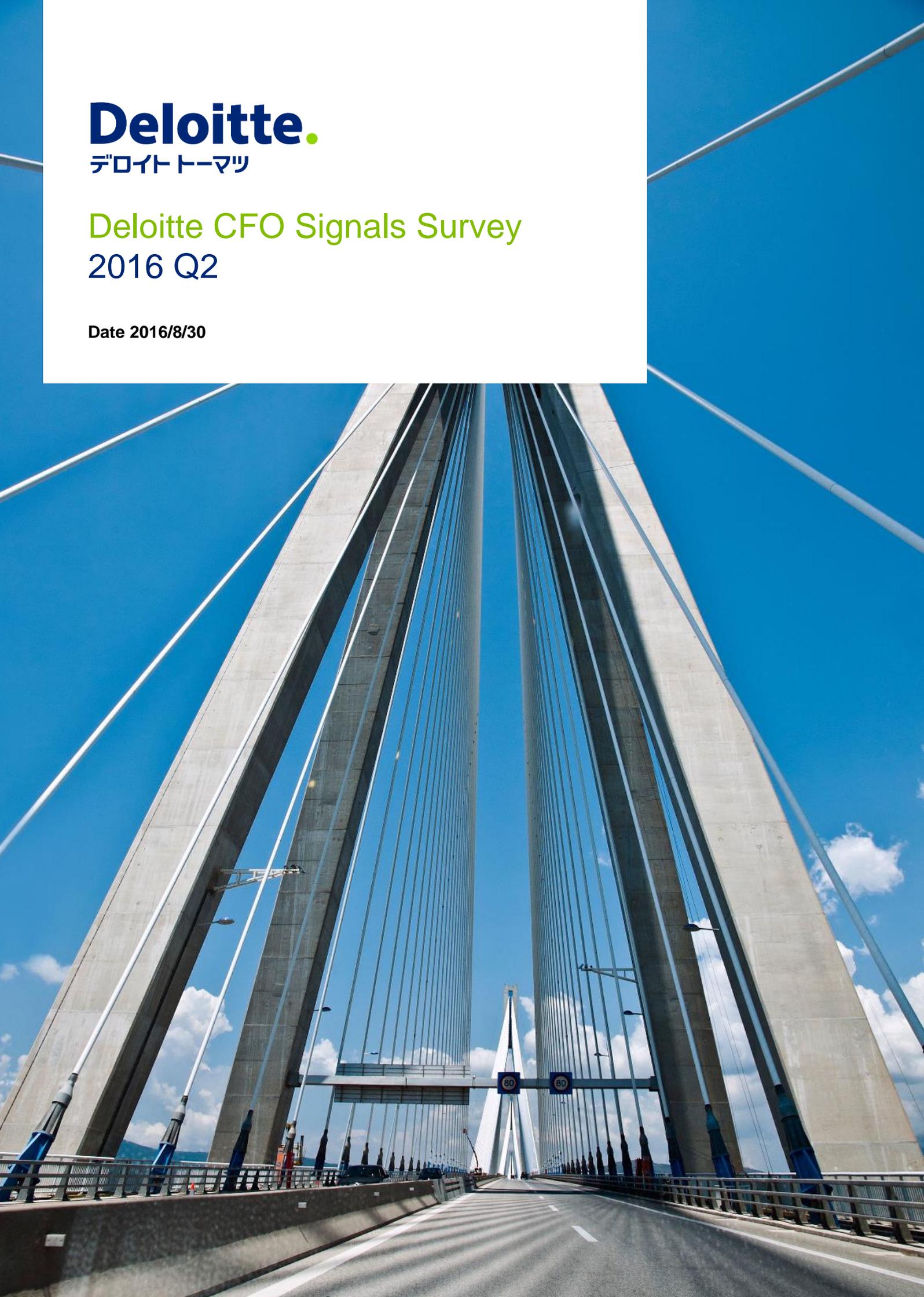


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Deloitte CFO Signals Survey
2016 Q2

Date 2016/8/30



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About Deloitte CFO Signals

Deloitte CFO Signals is a CFO opinion survey conducted by Deloitte periodically at the global level in cooperation with the member firm from each country. The responses obtained from the CFO survey are gathered and analysed by Deloitte professional specialists, then distributed as the "Signals" by the CFO. The questionnaires in the survey are comprised of globally conducted "survey on the economic environment" and "survey on the hot topic" tailored to each region. The first survey was conducted in Japan in last August, and this fourth survey. "the survey on the economic environment" investigates chronological change of views of CFOs, as well as the latest prospects at the time of the survey. In addition to this regular survey, an opinion survey regarding a baseline scenario and the risk scenario in a macro viewpoint were also conducted. As the hot topic in this survey in Japan, finance business partnering is featured. This survey was conducted from June 2016 to July 2016, obtaining the answers from the CFO of 30 companies. We are sincerely grateful for your cooperation.

Deloitte Tohmatsu CFO program
2016/8/30

The **CFO** Program

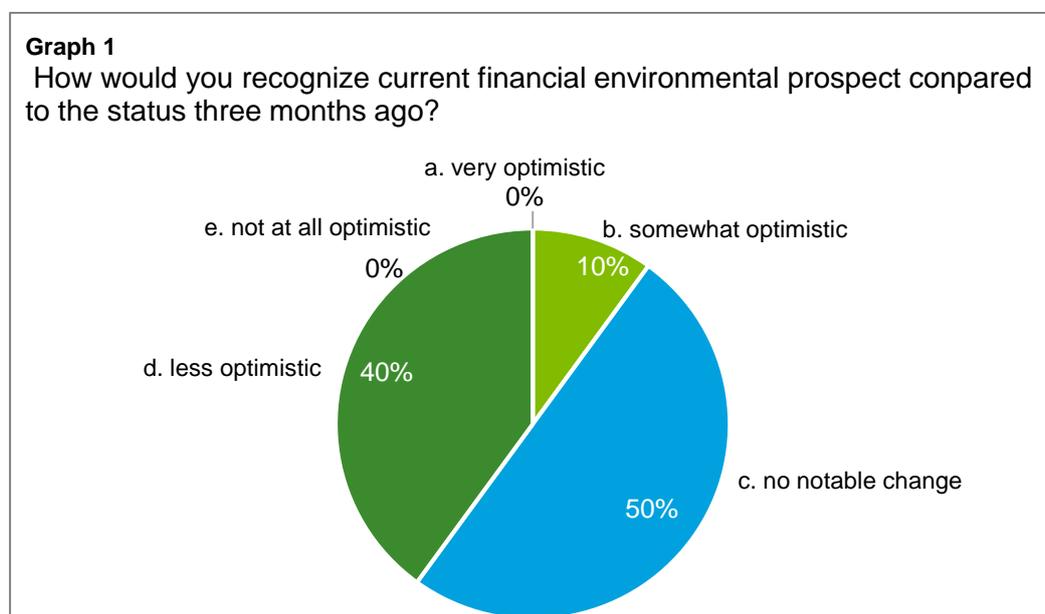


Survey on the economic environment

The Q2 Japan CFO survey asked finance chiefs about their one-year outlook on their companies' financial prospects and macroeconomic conditions, as well as the impact of Japan Bank's negative interest policy and the factors to determine the success of Abenomics.

Financial environment outlook

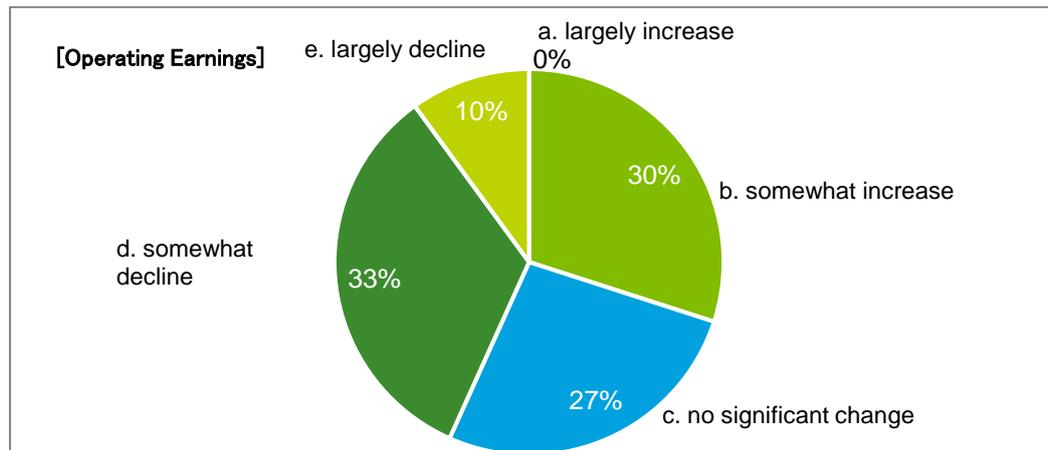
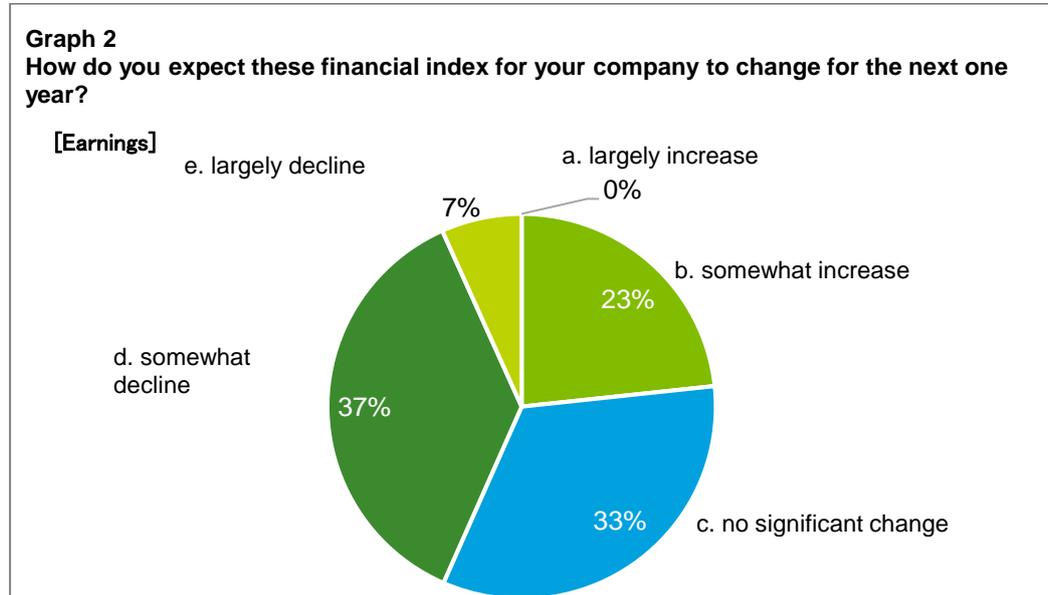
This survey aims to confirm the financial environmental prospect in comparison to the last survey conducted in March. Graph 1 shows the views on the financial environmental prospect compared to the status three months ago.



The result shows that, in general, the future prospect in the surveyed companies are more cautious in comparison with the last survey. Specifically, half of the CFOs answered "(c) no notable change" whereas 40 % responded as "(d) less optimistic". In contrast, "(a) very optimistic" remained same at 0% since the last survey, while "(b) somewhat optimistic" marked 10%. Considering that the cautious views have already been spread by the time of the last survey, the result suggests that companies minding aggravation of the management environment are continuously increasing for last 6 months.

 **Business performance prospect**

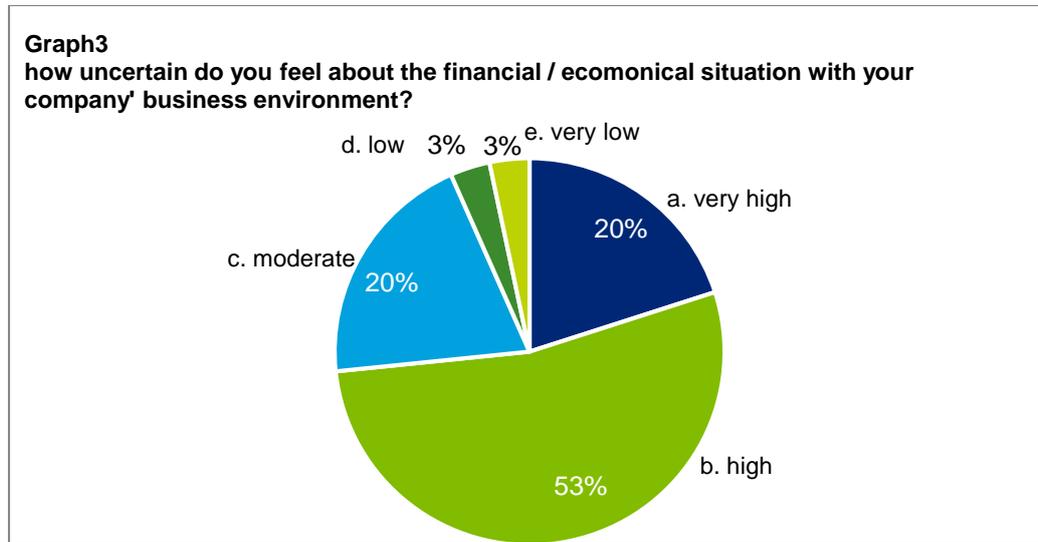
CFOs' outlooks regarding business performance for the next coming year, a prolonged period of sales and earnings growth seem to reach a turning point. Graph 2 shows the views on the prospects of performance for the next one year.



In terms of earnings, CFOs to expect an increase, either largely (a) or somewhat (b), decreased to 23% from 43% in Q1, whereas 44% expect either largely decrease (e) or somewhat decrease (d), were 37% in Q1.

In addition, 43% of CFOs expect operating earnings to decline, exceeding those expecting an increase (30%) for the first time since this survey began. By looking at the result, corporate earnings sentiment has begun to deteriorate.

The uncertainty for business remains at a high level sequentially. Graph 3 shows the views on the level of the financial / economic uncertainty.



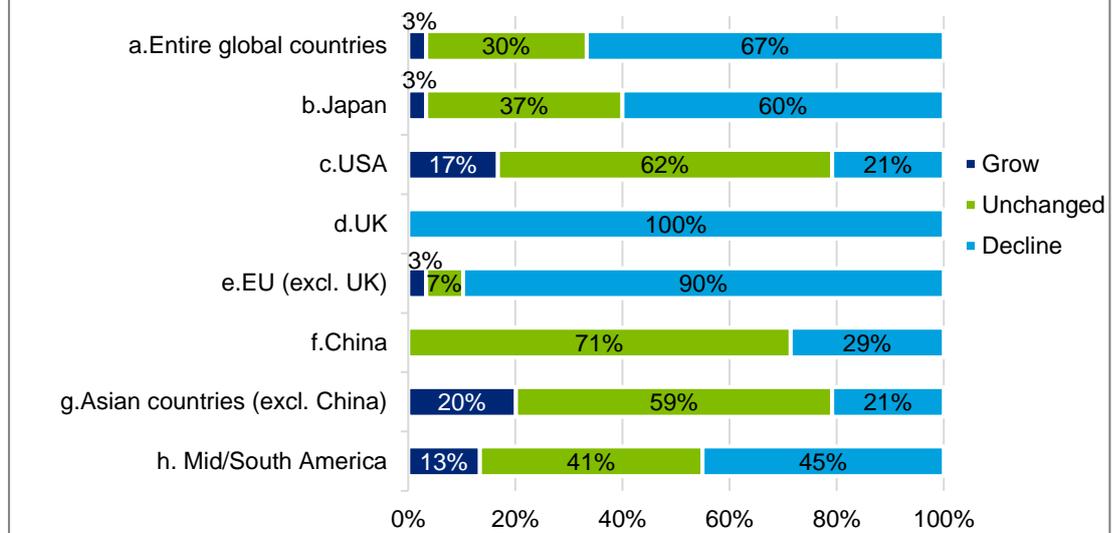
The result indicates that uncertainty remains at a high level, with 73% of CFOs viewing current levels as either “(a) Very high” or “(b) High.” Particularly, “(a) Very high” reaches 20% resulting in more than double the number in comparison with the last survey (8%).

 **Prospect of global economy and economies in major countries**

Graph 4 shows the views on whether the global and major economies/regions will grow or decline in the second half of 2016, specifically in comparison with the first half.

The most significant characteristic is the overall cautious outlook, whereas the prospect toward UK, Europe, and Japan were particularly pessimistic. Particularly, the prospect.

Graph 4
what is your prospect for the global and major regions' economic growth for the second half of 2016?



For the UK economy, pessimism has spread rapidly following the referendum voted to leave EU, which was also the time this survey was conducted with all respondents expect the growth rate to decline. Considering the fact that UK economy enjoy a steady growth before referendum , it could be said that CFOs in Japan regard this Brexit referendum to pose significant adverse impact in the UK.

It should also be noted that cautious views toward the rest of Europe also spread quickly. In fact, 90% of CFOs responded that European economies will face declining growth rate. The result here shows slightly different views from the actual trend of the European economy, which sustains its stability after the referendum. It seems to reflect the growing concerns over political instability and immigration problem in European countries, rather than EU's economic situation itself.

Regarding the Japanese economy, 60% of CFOs expect it to decline, and only 3% expect a growth. When this survey was conducted, the ruling coalition was triumphant in the Upper House election over the argument of pros and cons of Abenomics. This result could indicate that the cautious views on Japanese economy could not be wiped away even with the economic policy of the Abe Administration raised at the Upper House election.

As for the other countries, most CFOs expect their economies to maintain a relatively stable growth rate. US and Asian countries (excluding China) resulted in virtually the same outcome. In other words, the growth rates of second half of 2016 in these countries are regards to "rise" by approximately 20% of the respondents, while 60% expects "no significant change", and the remaining 20% regards it to "decrease". Viws on the South/Central American Countries are slightly more cautious

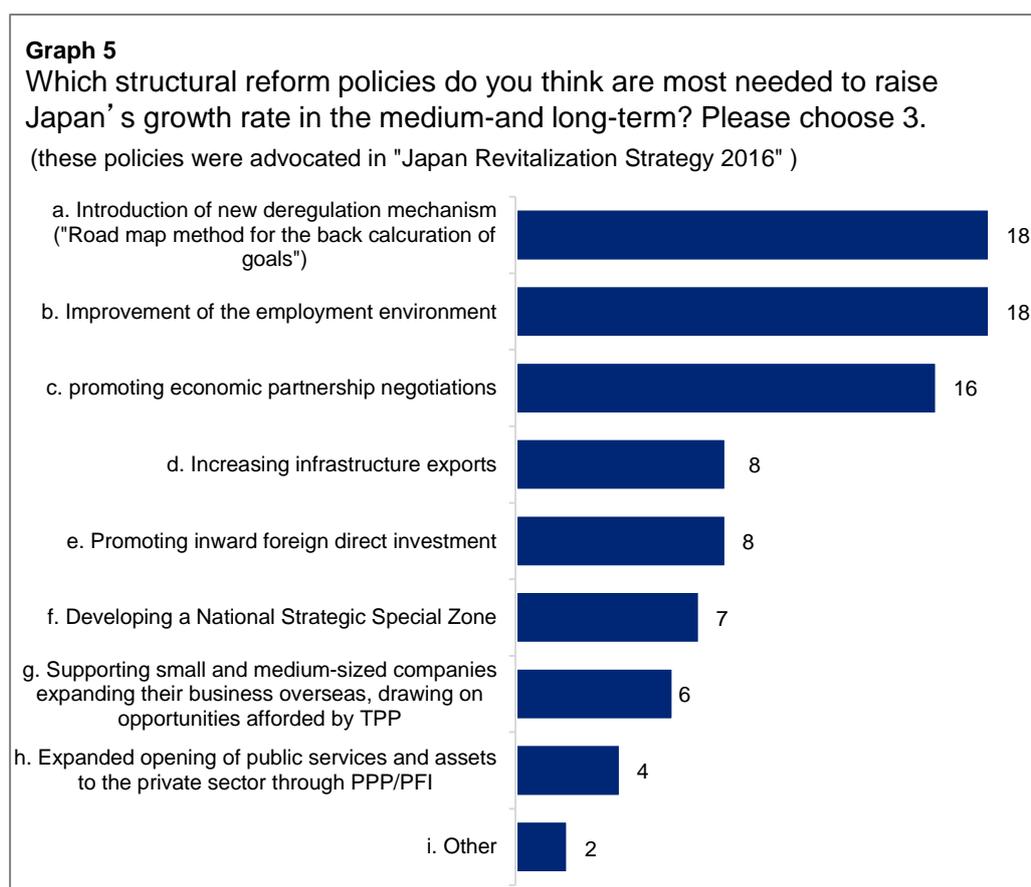
with 44% expecting to "decrease", but are not overall pessimistic with 13% responding "rise". As the background, the stabilization of recent crude oil price, settlement of real economy in Asia, South/Central American Countries, and decrease of risks entangled with a sudden rise in interest rates of FRB seems to support this result.

Lastly, regarding the views on China's economy, 29% of respondents answered "decrease", while 71% answered "did not change". No respondent answered "rise". It would be hard to tell whether if this result implies a sense of stability toward Chinese economy or pessimism toward it for not expecting further growth, it can be said that Japanese senior managements remain cautious on China.

In the survey at the beginning of this year, "slowdown of economy" was not regarded as a baseline scenario to Japanese economy, while "further slowdown of Chinese economy" predominantly attracted attention as a trigger of risk scenario. This result suggests that cautiousness toward Japanese economy is spreading since the beginning of the year, and "European factor" is now regarded as a trigger of the risk scenario, in addition to Chinese economy.

 **Structural reforms needed for the Japanese economy The restructure policy that is found for Japanese economy**

Graph 5 shows the answers of CFOs on what structural reform policies are most needed to raise Japan's growth rate in the medium-and long-term. Multiple answers were allowed for this survey. The policies shown below are the main measures advocated in "Japan Revitalization Strategy 2016" that the Abe Administration devised.



The largest response was "(a) Introduction of new deregulation mechanism ("Road map method for the back calculation of goals")" and "(b) Improvement of the employment environment", followed by "(c) promoting economic partnership negotiations", showing much higher expectation toward these 3 than the other policies. In terms of deregulation, more CFOs seek a new approach that clearly specifies the economic benefits, instead of the "traditional" approach of "f. Developing a National Strategic Special Zone".

It is interesting to note that (b) also attracted quite a few attention. It implies that many CFOs feel the need to change the long working hours, as well as to promote employment of women and the elderly, which undoubtedly would contribute to the growth of Japanese economy, but also feels that they need a concrete policy to support them to realize it.

The expectation to "(g) Supporting small and medium-sized companies expanding their business overseas, drawing on opportunities afforded by TPP" were relatively small. As both Democratic / Republican candidates in U.S. presidential election show negative posture towards TPP, the management of Japanese companies lessened their expectation to TPP, while growing more Interest in economic cooperation with Asian countries (RCEP, Japan, China and South Korea FTA)

 **Future point of interest attention point**

Through this survey, the risk of aggravation of the macroeconomic environment to affect corporate earnings began to appear. Particularly, it should be noted that the prolonged period of sales and earnings growth have reached a turning point. The entanglement of the aggravation of the external environment and profit aggravation with the cautiousness and atrophy of business sentiment may be another burden of Japanese economy.

Survey on finance business partnering

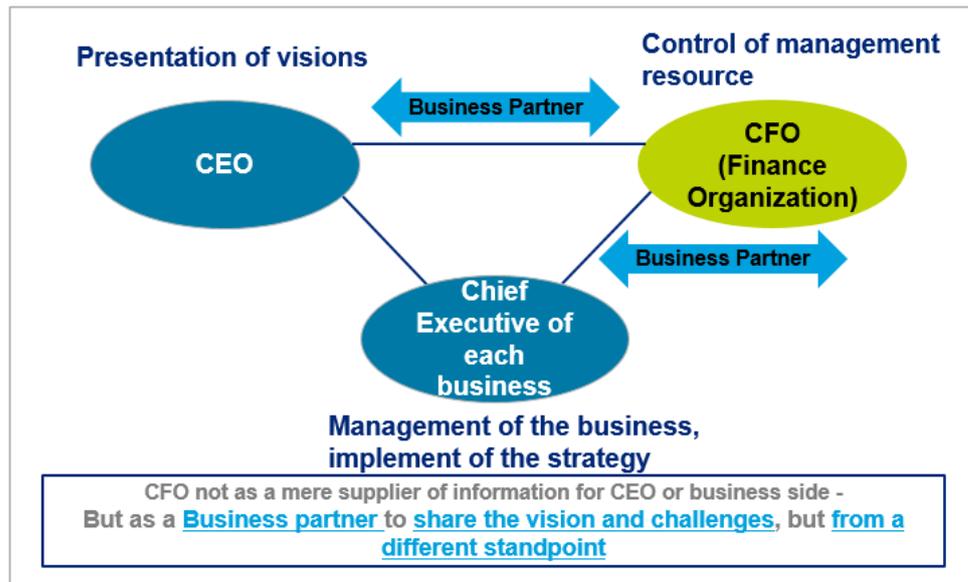
Due to the advancing systematization and streamlining of accounting procedures, the ability of Finance, not only to grasp intricate numbers correctly and rapidly, but also to participate in strategy planning and provide insight for better decision-making in business is becoming a critical need. This is, so to speak, a role as a "business partner" for the actual operations in order to support corporate earnings and values.

However, in many organizations Finance is still regarded as a mere "operator", and no clear pathways to become otherwise are defined.

This survey aims to look into the actual status of finance business partnering in order to help CFOs to have better understanding of this role and to break down the challenges to achieving it.

The key points of the survey is as follows.

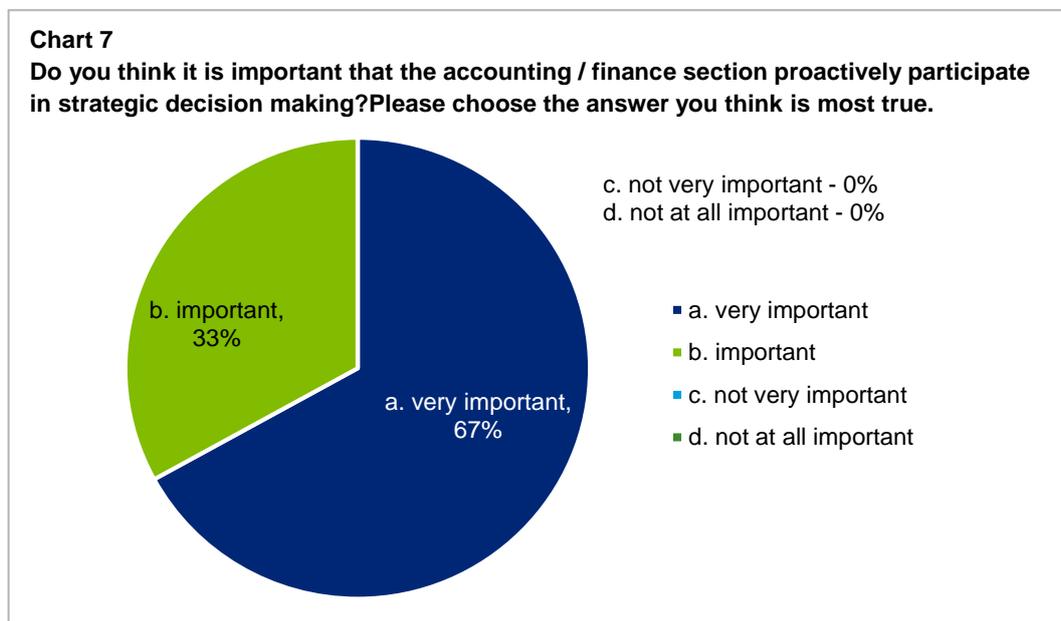
- While most CFOs think that the accounting / finance section should proactively participate in strategic decision making in the future, only 60% of CFOs answered that they are involved in decisions from the very initial stage
- The area CFOs regards as important to participate in from an initial stage diverges into many branches, but focuses on M&A, new business development, and capital investment planning in particular. On the other hand, recognitions of the importance of sales strategies such as a segment or the channel choice, and contributions to decision making in the everyday operation including procurement, production, research and development are rather low, and the actual commitment is also restrictive.
- There are some obstacles for the Finance section to position itself to be involved in decision making - Nearly half of the CFOs pointed out that excessive manual labor curbs efficiency, and 30% recognizes lack of skills in the accounting section.
- Understanding the strategy and business models are skills that are highly regarded by the CFOs as being important for the staff in the accounting / financing section to acquire. Leadership and negotiation skills were also regarded as being necessary.
- In order to become finance business partners, most CFOs answered that they plan to maintain the system to promote efficiency to create surplus energy and better the data maintenance, 80% is planning to implement a rotation scheme between business sections and the adoption from the outside in less than three years.



CFO's awareness and the reality

Chart 7 and 8 shows result of the survey regarding consciousness and the actual situation about the accounting/ financing section.

While most CFOs think that it is important for finance to participate in the decision making of the company, it is not always realized in reality.

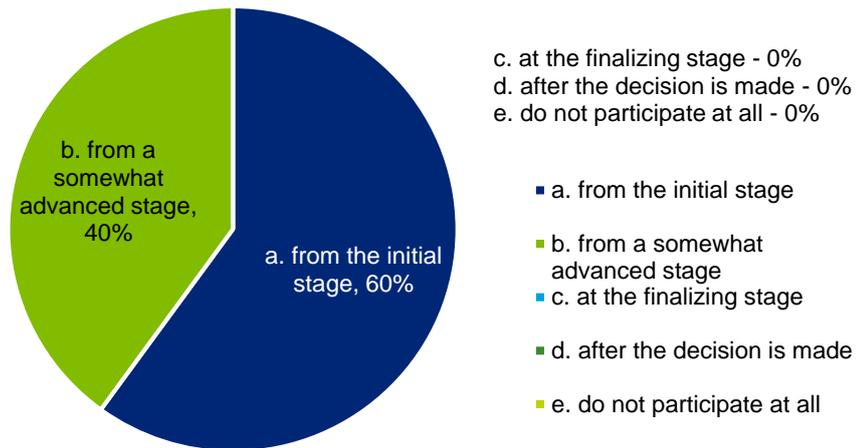


To the question regarding the participation of the finance function in the decision making, all answers were either “very important” or “important”.

On the other hand, 40% of CFOs answered that they get involved from a somewhat advanced stage, rather than from the initial stage. There is a gap between CFOs' concern about the importance of involvement in decision making and how early the Finance function is involved.

Chart 8

In the case of being involved in such decision making, which stage does the accounting / financing section participate from? Please choose the answer you think most true.



This gap may imply that a lot of things might have to be improved before successful Finance Business Partnering can be achieved.

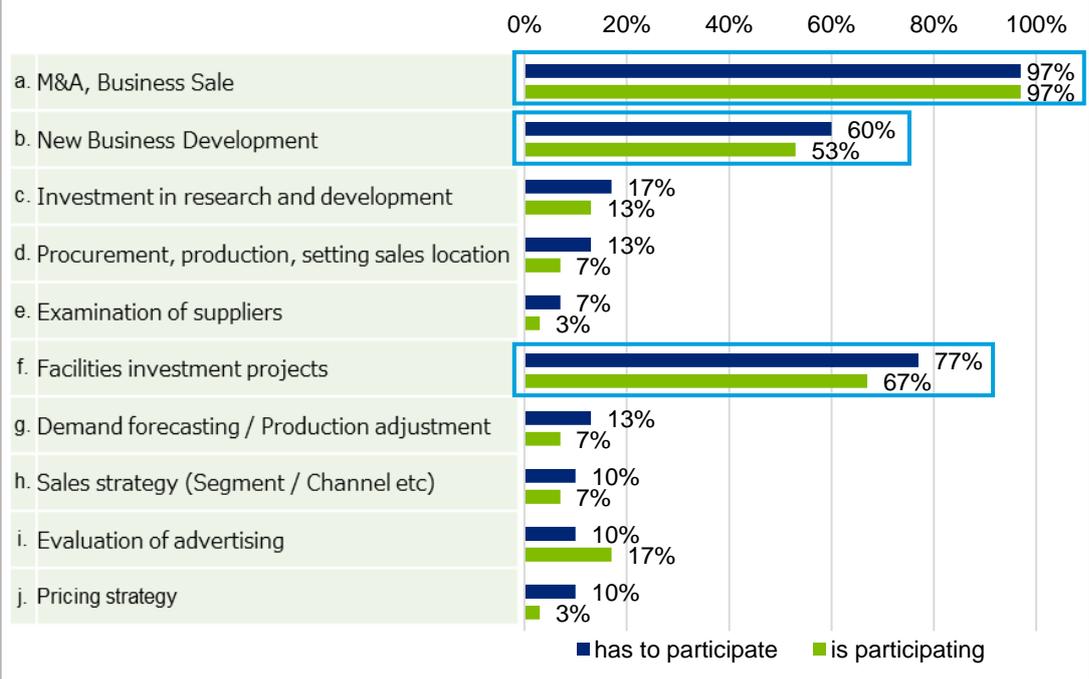
 **Participation in planning to the decision-making place**

Chart 9 is a list of activities that CFOs feel are important for the Finance function to participate in, and actual participations for each activity.

There is no big gap between recognition of the importance and actual participation, however, there are significant differences between the level of interest and participation in the activities.

Chart 9

Which areas do you think Finance has to participate in from the initial stage? Do you actually participate from its initial stage?



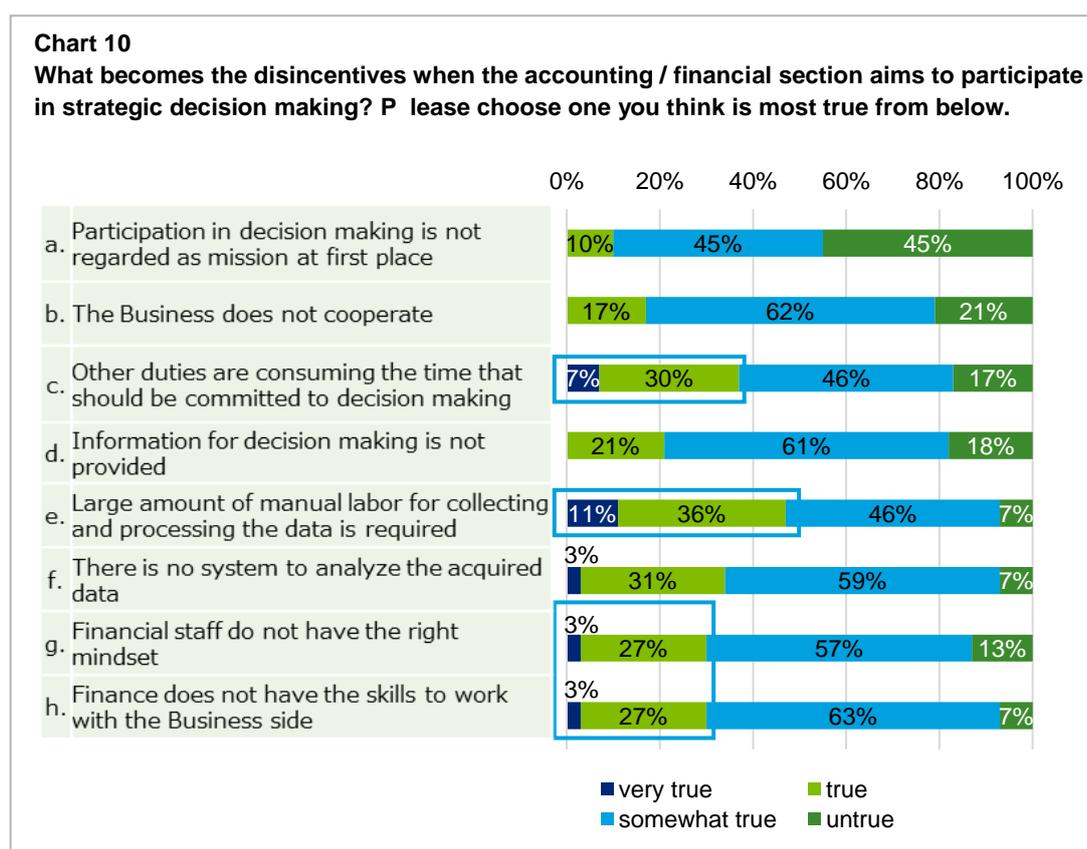
M&A / business sale-offs, facilities investment projects and new business development are the 3 main activities that CFOs think are important for accounting / financial section to participate in. Furthermore this is also the activities the financial section participates in in reality.

On the other hand, for the activities where interest is low, such as marketing, sales, research and development, production, and procurement, the financial section also have lower participation.

It can be assumed that Finance chooses to participate where it has an impact to the Profit / Loss or the cashflow rather than where it is possible to have strong influence on the decision making.

Challenges and bottlenecks for the finance organization

Chart 10 shows what challenges are being the bottlenecks when the finance function participates in decision making of the Business. Incapability of grasping or utilizing data is one of the main bottlenecks.

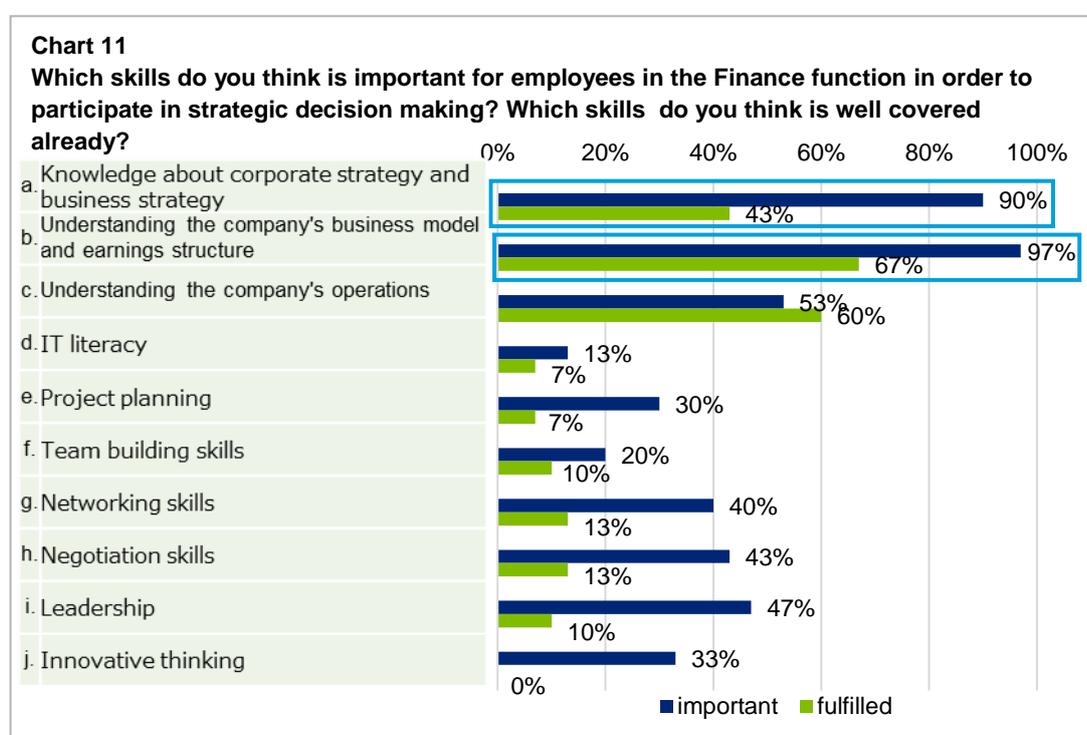


It can be seen that a major bottleneck for participating in strategic decision making is the large amount of manual labor needed to collect and process the required data. Furthermore, it is implied that other duties (assumably the regular tasks of accounting or settling accounts) takes time from contributing to strategic decision making.

In addition, even though the ratio is rather low, 30% of the CFOs answered that they are concerned about the lacking mindset for supporting decision making among the employees of the Finance function. While (a) shows 90% of CFOs regards their participation in decision making as being important for the organizations, (g) implies the gap of awareness between CFOs and other employees in the Finance function.

Ability considered to be important for finance to participate in decision making and current fill rate

Chart 11 shows which skills the CFOs think is most important for the employees in the finance function for supporting strategic decision making. While skills like strategic and analytical thinking or understanding of business are highly valued, persons with such skills seems to be in short supply.



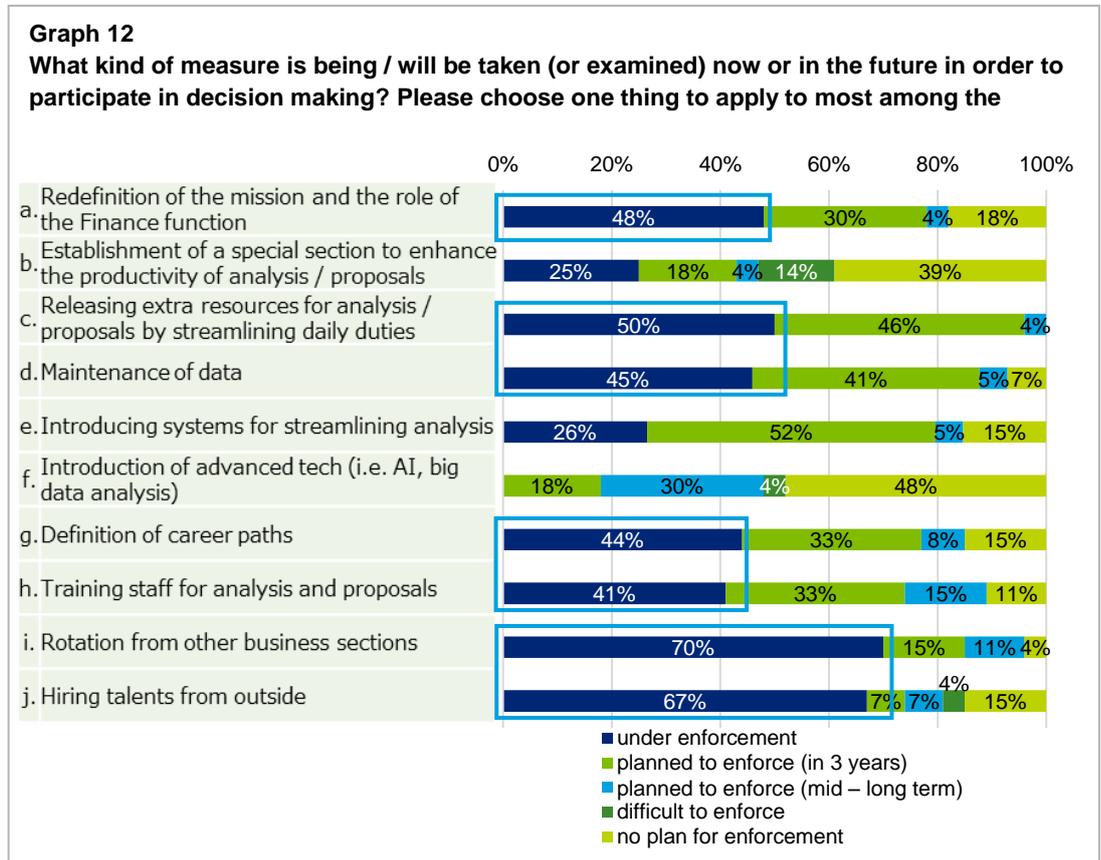
The items most significantly regarded as being important yet unfulfilled are; "knowledge about corporate strategy and business strategy" and "understanding the company's business model and earnings structure". In contrast "understanding the company's operations" is regarded both as important and fulfilled. It could indicate that CFOs think that deepened strategic and structural understanding is needed.

The items regarded as being less important but where improvement is still needed is the ability to network, negotiate and take leadership.

The low scores on items which require proactiveness, namely (e) -(j), may indicate a rather passive working style of employees in the Finance functions, even though they understand the company's business and are good at handling numbers.

Improvement measures for the accounting and finance function

Chart 12 shows a list of improvement measures for finance organizations. In advanced companies, infrastructure of acquiring and analysing data efficiently is being deployed, while implementing operational reforms in order to secure the time for participating in strategic decision making is also being carried out. Hiring talents externally seems to be also a positive option for these companies.



Height of the consciousness that is going to create the time when a lot of companies which I work on maintenance, analysis power improvement of data including information system introduction to plan contribution, a proposal to strategic decision making or are going to wrestle push forward duties reform, and a finance talented person can contribute to business more can be grasped.

Many CFOs feel the needs to refine the career models and training practices of their organizations, or acquire of staff from other business sections, as well as to hire talents from outside, to raise organizational ability.

In addition, although many CFOs answered that commitment to strategic decision making has been already defined as a mission for finance function, many are also working on the redefinition of their missions and roles, indicating the CFOs' eagerness for doing more strategic decision making.

What is CFO Program

Deloitte's Chief Financial Officer (CFO) Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands.

What is Deloitte CFO Signals

The CFO Program's quarterly CFO Signals surveys track the thinking and actions of leading CFOs. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. Our goal is to explore top-tier CFO issues, in four predominant areas: business environment, company priorities and expectations, finance priorities, and personal priorities.

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