CFO Survey - 3. Quarter 2016

Rising optimism ahead

Deloitte/SEB

Contents

Executive summary (I/II)

Rising optimism backed by more available financing

- The CFO Index is pointing upwards achieving a value of 55.6 in October, which is up 2.2 points from the lowest level ever recorded in June. The index is however below the historical average, entailing a cautious optimism going forward. Comparing with the similar Swedish survey, it is clear that Norwegian CFOs now are more positive than the Swedish.
- Compared to 6 months ago, all financing sources (bank loans, bonds and equity) are now more readily available for Norwegian CFOs, resulting in limited refinancing risk. Bank loans are still preferred, however, the bond market seems to open up, as attractiveness and availability of bond funding is increasing for the first time since the oil crises emerged in the fall of 2014.

Economic prospects improving across industries, however the oil sector is lagging

- The survey is recording the strongest optimism since Q1-13. However, the oil industry is still not out of the dark as net optimism is still negative, revenues and margins are expected to decline, and headcount is expected to decrease, despite current job losses exceeding 40,000 in the sector since Q3-14.
- CFOs in financial services are more optimistic compared to 6 months ago, likely due to increased comfortability with their loan portfolio towards companies in the oil sector and recent stabilization in interest margins.

Rising optimism ahead

Executive summary (II/II)

Defensive strategies and balance sheet strengthening are main priorities

- Norwegian CFOs are preferring defensive strategies going forward, making cost reduction and organic growth their main priorities.
- Aggressive strategies are becoming less of a priority for Norwegian CFOs reflecting less willingness to increase risk with remaining uncertainty in the Norwegian economy. Financial positions are reported to be weaker than in previous surveys, explaining why available cash flow is increasingly used for debt reduction rather than acquisitions. This results in historically low expectations for M&A activity in the coming 6 months.

A shift in major concerns

- Decreasing domestic and foreign demand still represents the main concerns for Norwegian CFOs, however decreasing significantly from the levels registered in previous surveys. Foreign competition, currency volatility and interest rates emerge as more major concerns, assumingly caused by the NOK appreciation seen recently.

Positive stock market expectations

- We observe positive stock market expectations as a net share of 29% of the CFOs sees the OSEBX higher over the next 6 months. The expectations are likely supported by improving economic prospects and record low interest rates leading to low returns in alternative investments.

Rising optimism ahead

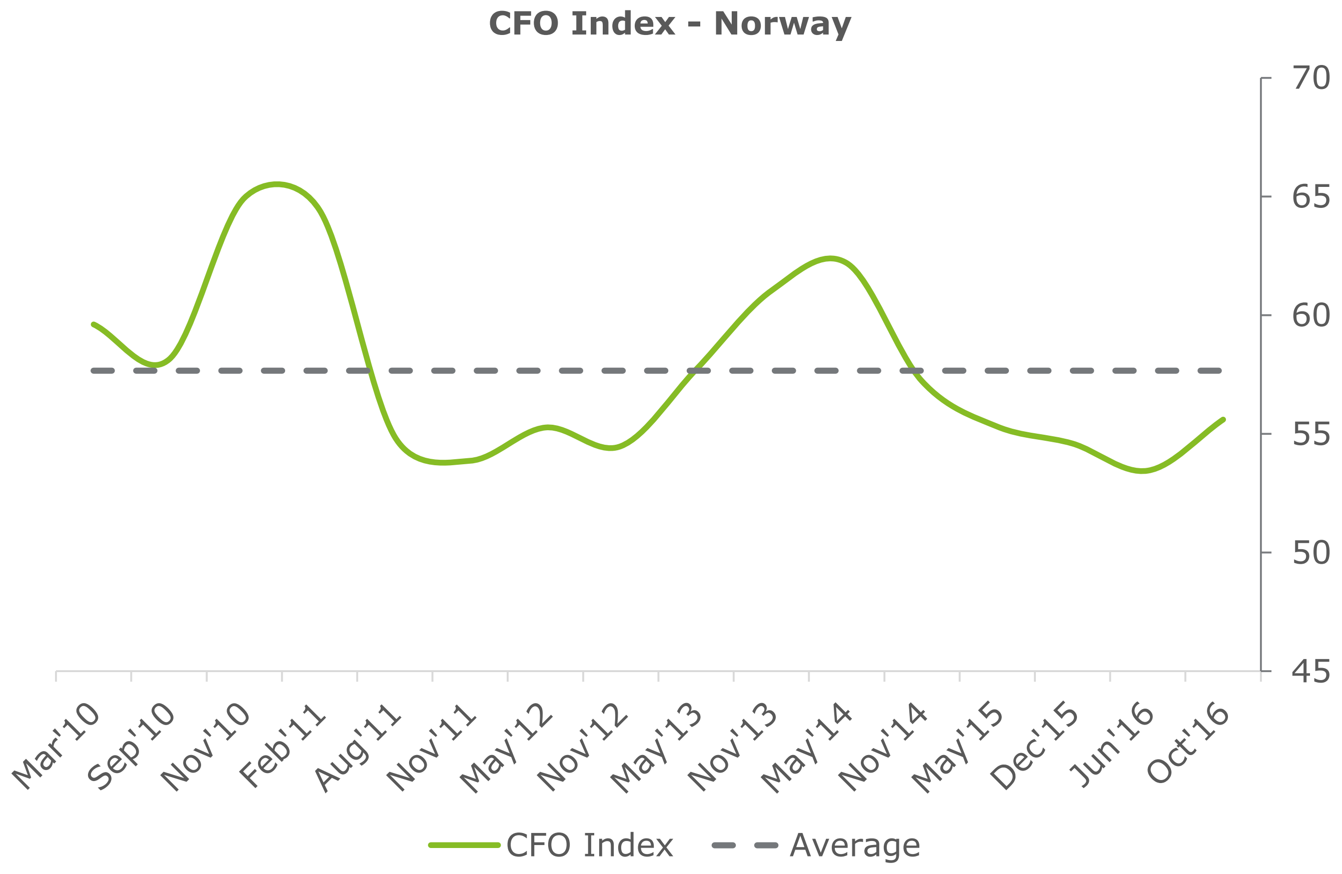
CFO Index

More positive to the macro outlook

The CFO index for October 2016 gets the value 55.6, which is an increase of 2.2 from the bottom level 53.4 we saw in June this year. Despite the clear improvement, we still consider the level to be below average and an indication of a cautious outlook.

Looking at the individual sub factors in our index, it is interesting to see that CFOs have become more optimistic about macro indicators like business climate, banks lending willingness, credit spreads and the stock market development. However, when it comes to their own company's financial position and profitability expectation they are now more sceptical, coupled with the concern for slightly more default risk among their counterparts.

The conservative and prudent response to this is found in their answers regarding strategy going forward, where we see increased focus on lower capex, fewer employees and debt repayment going forward.

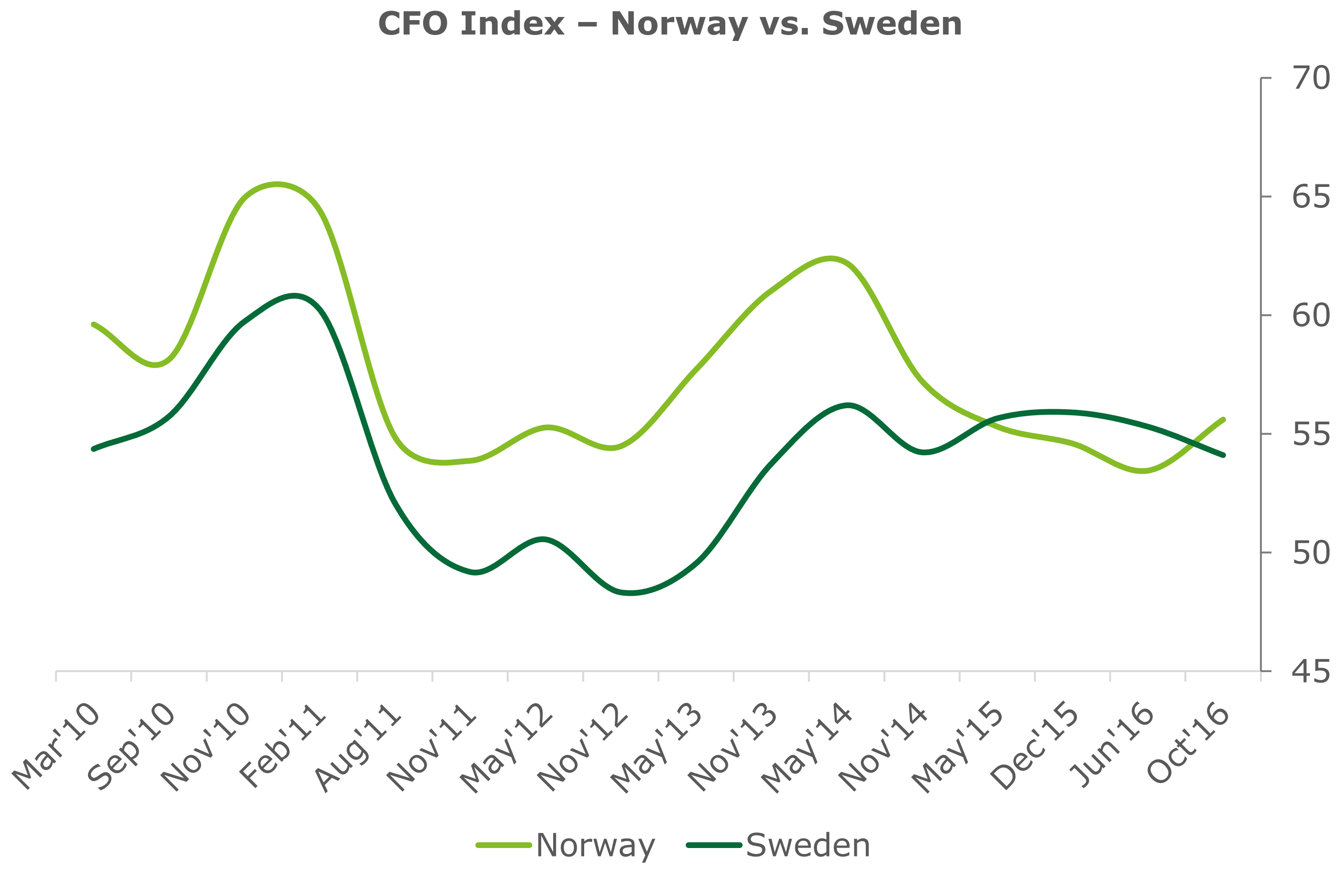


Norwegian CFO Index compared to the Swedish survey

Swedish CFOs more pessimistic

After three consecutive CFO surveys where the Norwegian CFOs came out more pessimistic than their Swedish counterparts, the situation has turned back to «normality» again. The weaker oil price and the adverse effect on selected industries has played an important part in this development. With some more positive oil price development recently, the optimism seems to be returning for most Norwegian CFOs this time.

In evaluating sub factors, it is interesting to see that a smaller share of Norwegian CFOs are positive to the business outlook than Swedish CFOs. Despite this disadvantage for the Norwegian CFO index, the Swedish CFOs are more concerned about their own financial position, which is weighing down the overall index compared to the Norwegian index.



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Optimism is rising among Norwegian CFOs compared to six months ago

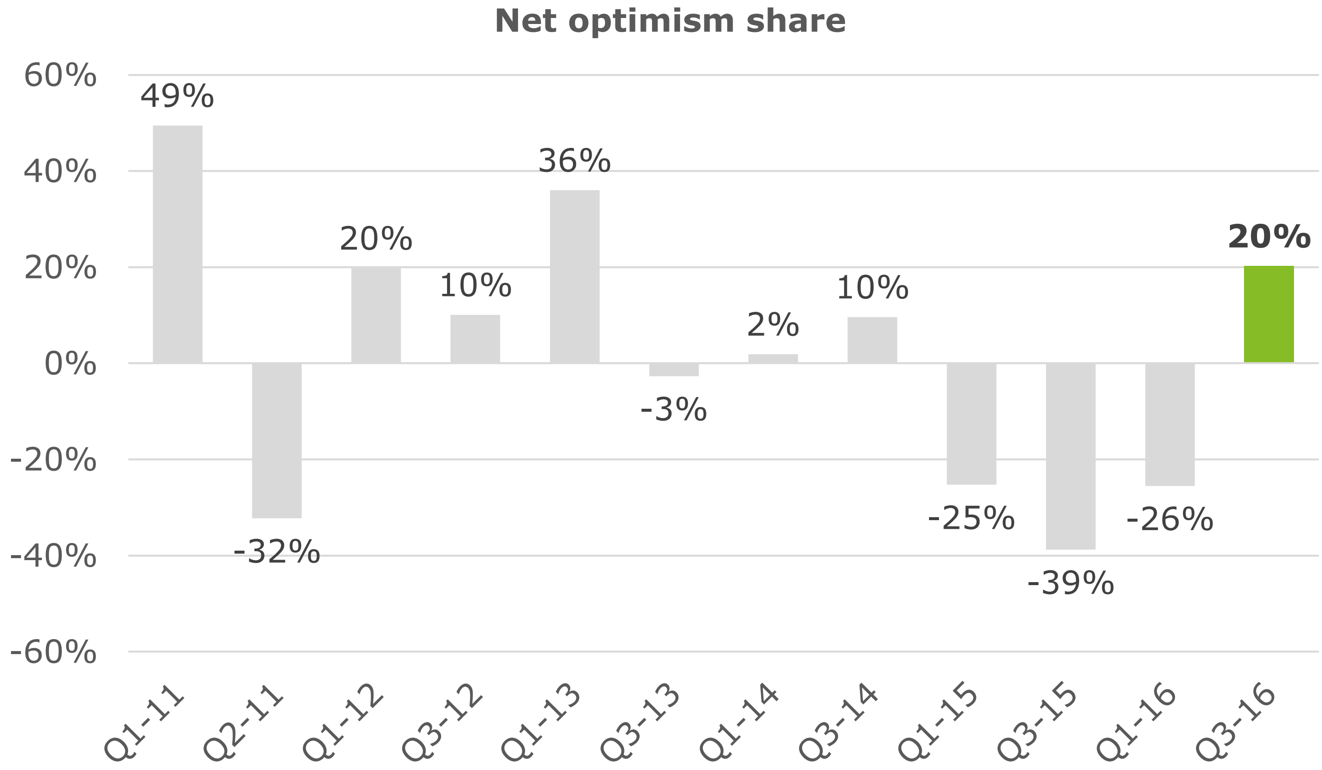
Strongest optimism since Q1-13

A net share[1] of 20% of the CFOs are more optimistic about financial prospects compared to six months ago.

The more positive view is probably driven by the fact that selected statistics seem to show that the Norwegian economy is starting to rise from the two year long downturn driven by lower oil prices and cut in petroleum investments. GDP growth has improved since Q1, domestic demand is recovering and price growth remains strong.

A rise in the average price of Brent oil from 34$/barrel in Q1-16 to 46$/barrel in Q3-16[2] and cost efficiency measures undertaken have improved the competitiveness of Norwegian oil companies, supporting higher expectations for Norway's largest industry going forward.

Q: Compared to six months ago, how do you feel about the financial prospects for your company?



1. The net share is defined as the percentage point difference between positive and negative respondents throughout this report
2. US Energy Information Administration (EIA). 30.09.16

Optimism is rising across industries, but the oil industry is not out of the dark

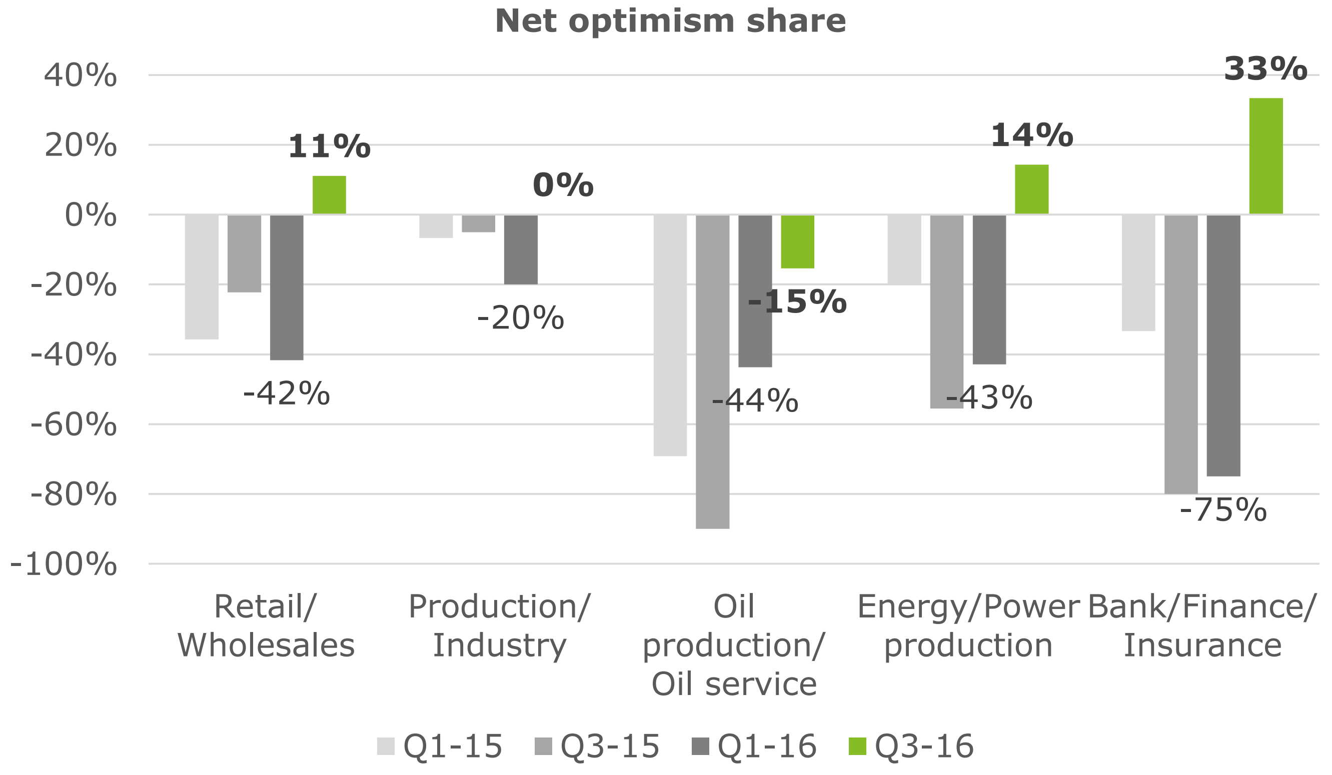
Financial services sector is most optimistic

Evaluating key industries, the optimism is seen across industries, with greatest delta seen in the financial sector compared to our survey in Q1 2016. Although, the financial industry is experiencing huge transformational changes at the moment with digitalization, new financial taxes and additional EU legislations, the industry seems to be more comfortable with its loan portfolio towards companies in the oil sector and stabilization of interest margins.

Within retail/wholesales and energy/power production, the change in economic prospects are showing much more optimism compared to six months ago, both climbing from a clear negative to a positive net share.

Within oil production/oil services the sentiment is rising as the net share of CFOs being pessimistic for the financial prospects of their company decreased from -44% in Q1-16 to -15% in Q3-16. However, the net share is still negative, reflecting an industry still in difficulties. Strictly speaking, the industry has a more negative outlook now than six months ago as the net optimism share is negative.

Q: Compared to six months ago, how do you feel about the financial prospects for your company?



Norwegian CFOs expect the stock market to increase going forward, fueled by improving economic prospects and low returns in alternative investments

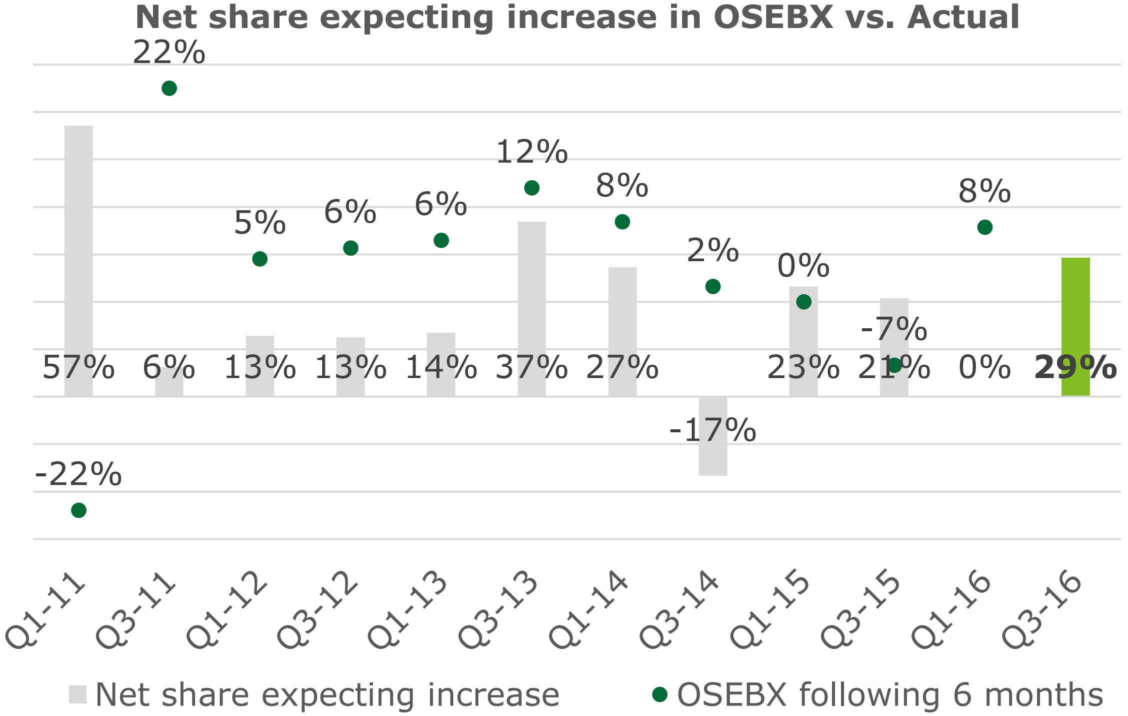
Most bullish stock market expectations since 2013

A net share of 29% of CFOs expects the stock market to increase over the upcoming 6 months. This is the highest since Q3-13 (37%) and up from net zero percent in the previous survey. Higher expected pricing and earnings potential of listed companies next year could support the notion of a market that is starting to rise from a cyclical downturn driven by lower oil prices.

In addition, record low interest rate levels are driving investors away from low returns in other benchmarked alternatives and towards the stock market for good absolute returns.

The positive expectations of the CFOs are shared by SEBs equity strategists, however market analysts also highlight that global share valuations are already back at relative high values, entailing that further increases will require relatively strong support from both corporate earnings, macroeconomic data and the interest rate environment. An increasing risk appetite should not solely rely on central banks for liquidity.

Q: What is your expectation for the Oslo Børs Benchmark Index (OSEBX) development in the next 6 months?



The figure shows the net share of CFOs expecting an increase in the benchmark index at Oslo Stock Exchange (OSEBX) versus the actual development of the index in the 6 months following the survey publication.

Product and service prices are expected to increase going forward, but not keep track with inflation, i.e. a real term price decline is expected

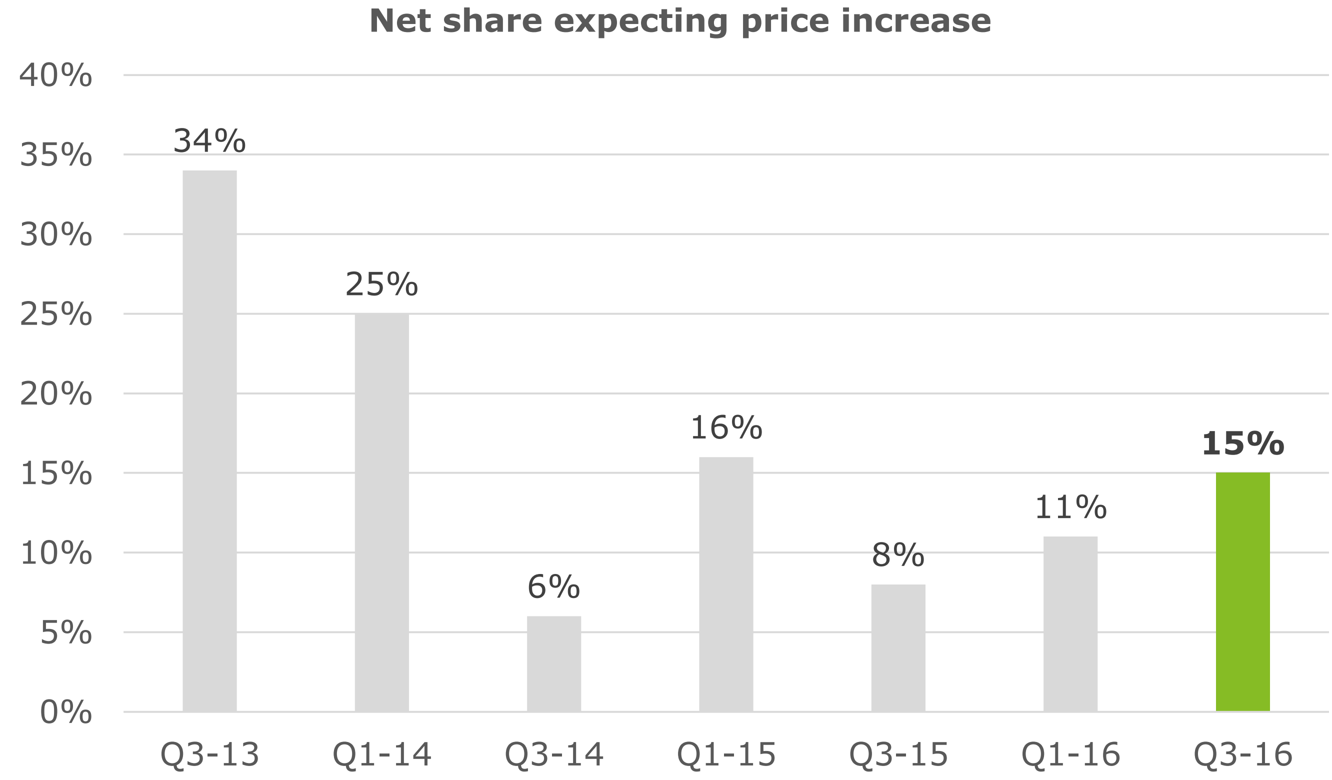
Higher prices expected, however not in oil

Among the CFO respondents, a net share of 15% expects product/service prices to increase over the next 6 months. 69% of respondents expect a price increase between 0-2%.

Seeing this in light of recent statistic data, Norwegian inflation has continued to post large upside surprises due to upward pressure on imported inflation. The long period of a weakening trend for the NOK seems to be affecting long-term exchange rate expectations, thereby changing many companies' pricing behavior. Goods inflations should ease and low wages and service prices will push the inflation rate lower. Projections from SSB sees average consumer price inflation of 2.9% and 2.0% in 2016 and 2017, respectively.

The oil production & service sector is, not surprisingly, most pessimistic with regards to future price development. A net share of 23% of the CFOs expect a further price decline during the next 6 months.

Q: What is your view of the general price trend for your company's products/services for the coming 6 months?



Expectations for revenue and margin improvements are rising, however more CFOs believe in revenue increases than operating margin improvements

Revenues and margins expected to increase

A net share of 34% expects revenues to increase the next 6 months, while a net share of only 13% expects operating margins to increase.

The net positive margin increase is valid for all major sectors except production and industry, which are predicting a margin drop from Q1-16. This might be due to a recent rise in and future expectations of a continued appreciation of the Norwegian krone, weakening the competitiveness of export industries.

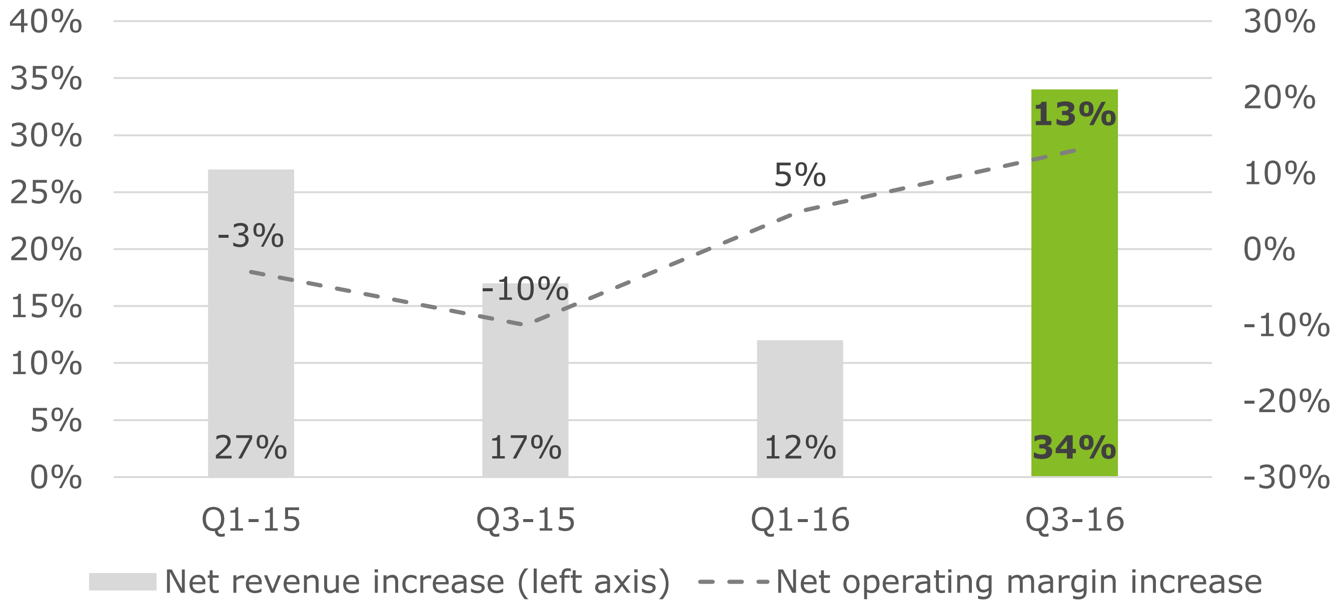
The financial services sector seems to be more undecided, which we believe is a result of different margin expectations within retail banking, consumer banking and insurance at the moment, as well as heightened uncertainty due to the aforementioned large transformational changes facing the industry.

The oil production and service sector is significantly more pessimistic than average. 54% (net) expect a further revenue decline, while 23% (net) expect an operating margin decrease the next 6 months. This indicates that effects from the heightened cost focus are emerging.

Q: In your view, how are revenues for your company likely to change over the next 6 months?

Q: In your view, how are operating margins for your company likely to change over the next 6 months?

Net share expecting revenue/margin increase



Further headcount reductions in the oil industry must be expected

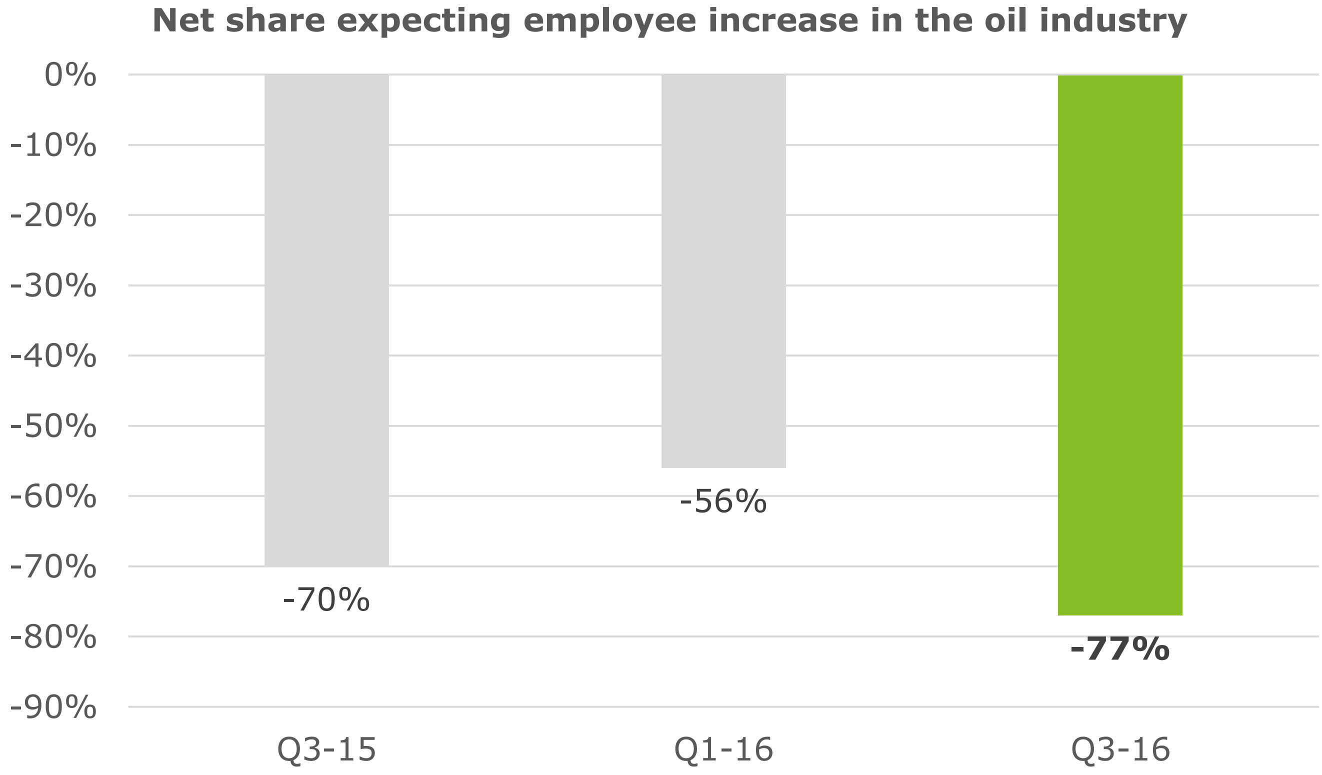
Headcount reductions in the oil sector is not over

A net share of 17% expect to reduce the number of employees the next 6 months. This is the most negative result measured over the past three surveys.

Expected layoffs in the oil production and service sector are the main factor driving the result, with 77% (net) of respondents expecting to decrease the number of employees over the next 6 months. The corresponding figure was 56% in Q1-16 and 70% in Q3-15. Despite the fact that approx. 40 000 jobs have been lost in the oil industry so far, this implies that cost cuts in terms of headcount reductions in the oil industry must still be expected going forward.

Also note that the oil production and service sector consistently has been one of the largest respondent groups in the last three CFO surveys, providing credibility to the results.

Q: In your view, how is the number of employees for your company likely to change over the next 6 months?



Norwegian CFOs are preferring defensive strategies, making cost reduction and organic growth their main priorities

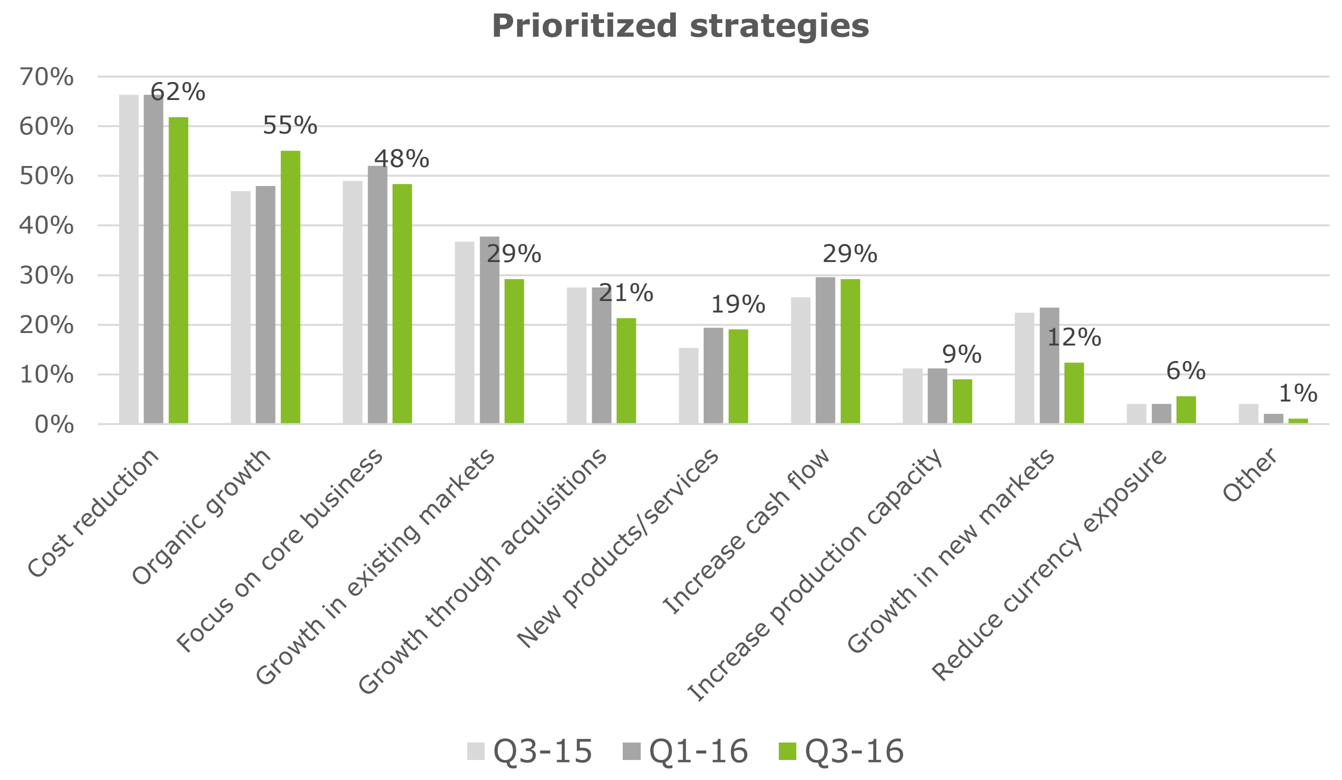
Defensive strategies are preferred

As has been the trend in previous surveys, the majority of CFOs are preferring defensive strategies, making cost reduction their largest priority. The figure of 62% in this survey is however somewhat lower than before, while organic growth has become the second most important focus area for Norwegian CFOs.

Aggressive strategies such as growth through acquisitions are not as attractive as before, potentially reflecting lower willingness to increase debt and risk through M&A activity with remaining uncertainty in the Norwegian economy.

Growth in new markets has also been significantly reduced compared to previous surveys, perhaps caused by a lower risk appetite in an uncertain economic environment and a larger focus on core business and organic growth in familiar markets. A weakening of the Norwegian krone over the past two years has been and is unfavourable for Norwegian importers and domestic businesses, facing higher competition from foreign businesses.

Q: Which of the following strategies are likely to be a priority for your company over the next 6 months?



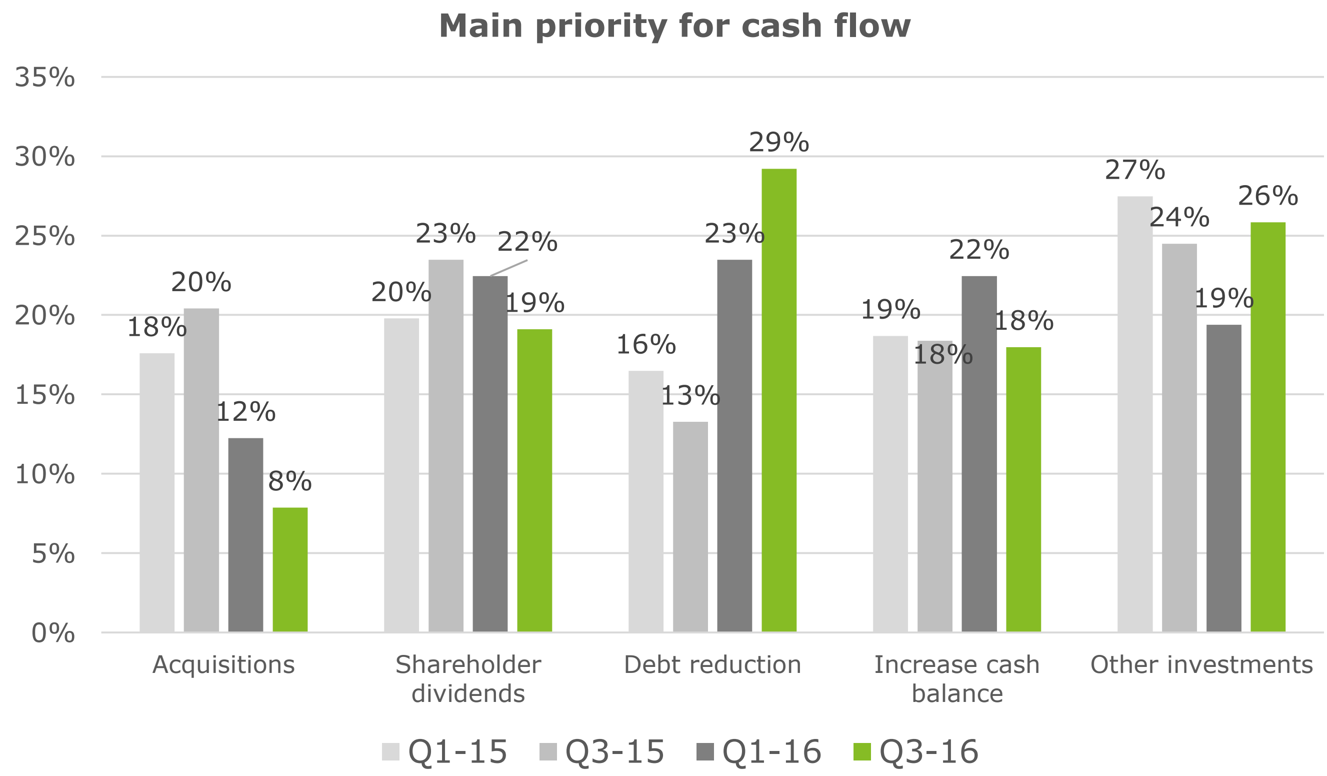
Norwegian CFOs are increasingly focusing on strengthening their balance sheets through debt reduction

Debt reduction remains the main priority

A net share of 29% of CFOs respond that debt reduction will be their main priority for use of operating cash flow over the next 6 months, rising from 23% in Q1-16 and 13% in Q3-15. Acquisitions, on the other hand, continues to decline in importance, having fallen from 20% to 8% over the past year.

Within oil production and oil service, all respondents are focusing on strengthening their balance sheets, either through debt reduction or increasing the cash balance. This finding indicates that companies are still fighting to «survive» the cyclical downturn in the economy.

Q:What is the main priority for operating cash flow expenditure for your company over the next 6 months?



Expectations of M&A activity are historically low, driven by reduced expectations in the retail and energy/power production sectors

Lowest M&A expectations since 2011

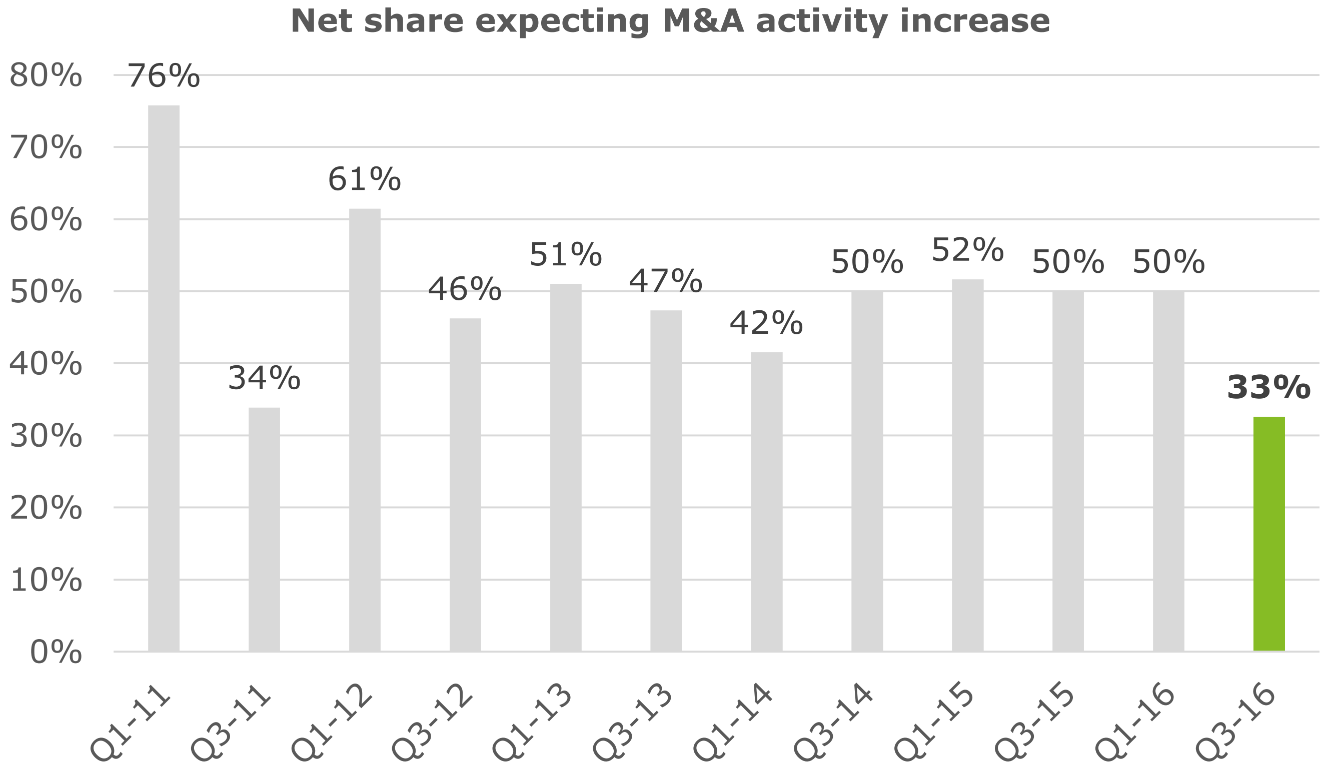
A net share of 33% expect increased M&A activity over the next 6 months. This is the lowest figure measured in the history of this survey, i.e. going back to 2011.

Note that the result to this question is consistent with results to overlapping questions elsewhere in this report. Defensive strategies, especially debt reduction, is increasingly becoming the main strategy for cash flow use. Increasing cash reserves are also observed, but seemingly not for M&A purposes.

The main focus therefore seems to be on strengthening the balance sheet, as was also observed in the previous survey six months ago, leading to reduced expectations of M&A activity.

Of the major respondent sectors, the retail industry and the energy/power industry show a significant decline in M&A activity expectations from respectively 42% and 43% net in the Q1-16 survey to 11% and 14% net in this survey. The latter potentially due to low power prices weakening company balance sheets.

Q: How do you expect the M&A activity in your industry to develop over the next 6 months?



Fewer CFOs express a positive view regarding their current financial position

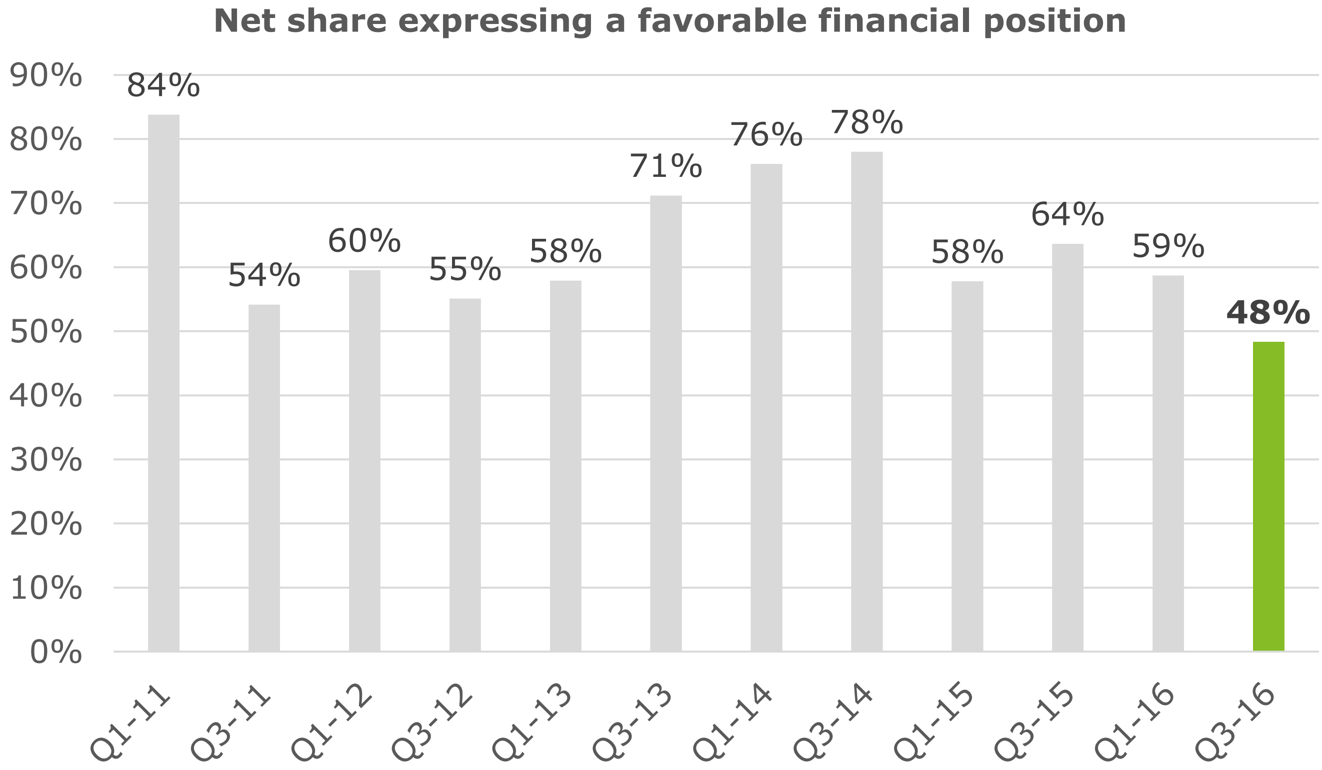
Financial position is still trending down

Although the prospect for an overall improved business climate is indicated in this survey, we see that the CFOs are much less optimistic than previously regarding the current financial position of their company.

The less optimistic answers are based on an increasing share of CFOs that see their company's financial position as average instead of favorable at the moment. Still, we see that there is a relatively high share (26%) that describe the financial condition as very favorable. The share of CFOs that describe the situation as unfavorable has been relatively constant around 10% the last year.

We also ask if the CFOs see the current environment as attractive to increase the financial risk in their company. In this question, approximately one-forth of the responders believe it is, which is a 5 percentage point increase from one-year ago. Our take on this, is that the improved business condition opens up for more risk, but that the companies' own financial situations sometimes are putting a hamper on it.

Q: The overall financial position of your company is seen as: (Very favorable, favorable, average, unfavorable, very unfavorable)



Default risk still on the rise, but banks have often been willing to refinance and extend debt maturities

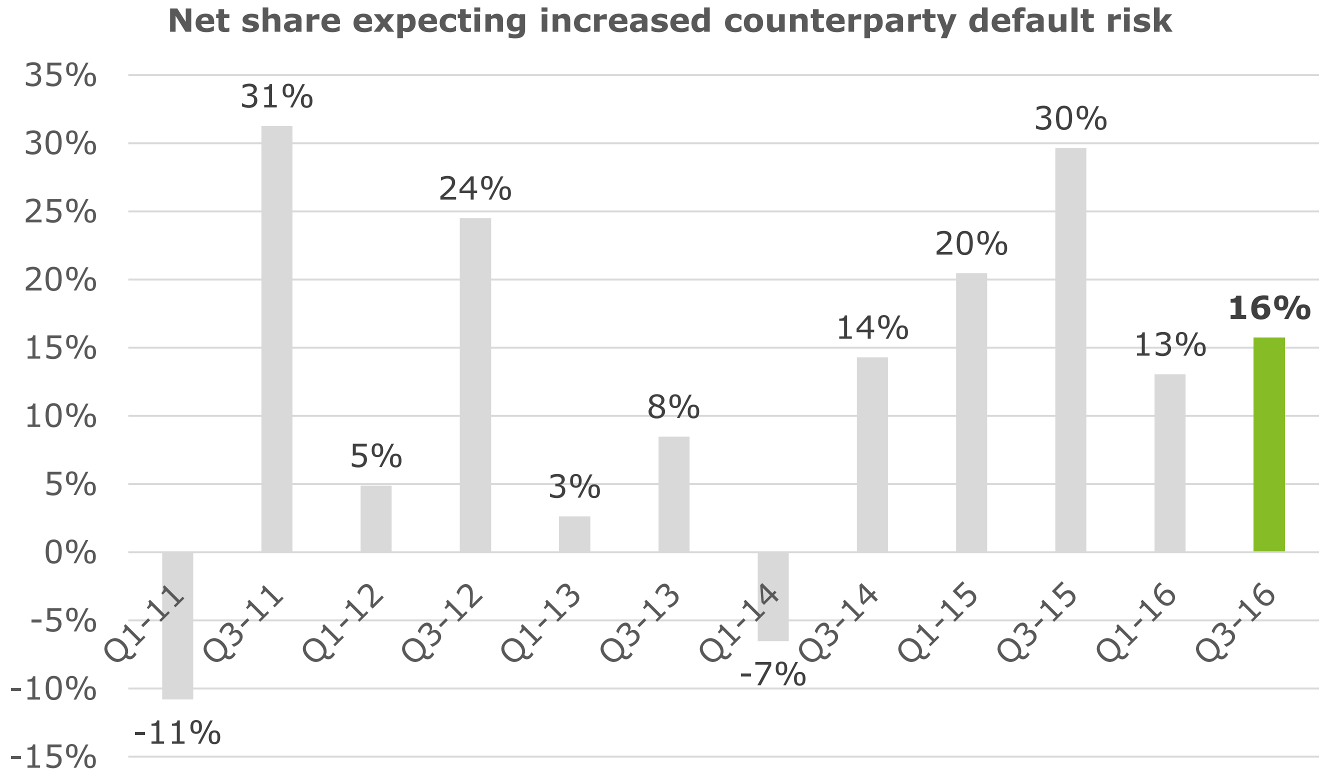
Increased concern for defaults

There is once again more CFOs that believe there will be increased defaults (18%) among their counterparts than who believe the opposite (2%). This view has been dominant since early 2014, which corresponds relatively well with the timing for the drop in the oil price. Still, it is important to note that the majority of the CFOs (80%) still expect relatively unchanged default rates.

It is also interesting to see that the change in the net increase/decrease number we are tracking seem to correspond good with the actual default rates statistics we see in the Norwegian high-yield ("HY") bond market from Stamdata at the moment. Following the sharp increase at the beginning of the year, we saw some signs of leveling out around June this year, but still at high levels.

Although several companies in the oil service sector have seen defaults already, it has been more moderate than some expected, partly driven by banks willingness to refinance and extend debt maturities.

Q: The probability for counterparties' default in the next 6 months is expected to: (increase, be unchanged, decline)



Credit spreads are expected to be stable over the next six months

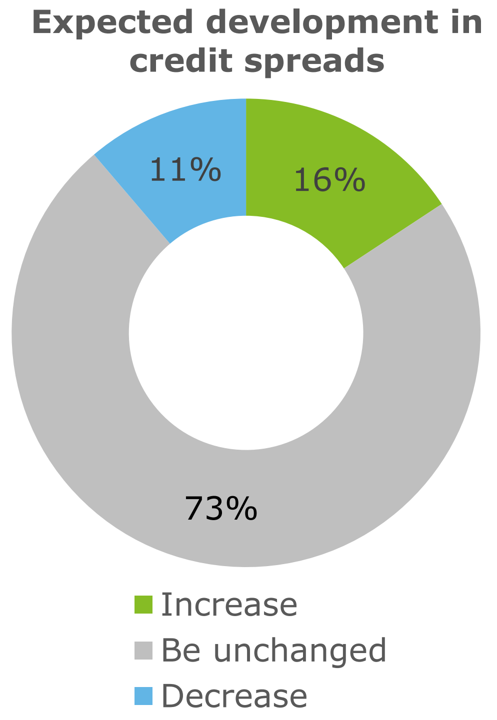
Fewer believe credit spreads will widen

There are still more CFOs that believe credit spreads will widen rather than tighten over the next six months, with 16% and 11% respectively. Still the difference is less than it was last year.

What we have seen lately is that CFOs take less firm stand on where spreads will be moving, which is increasing the answers for unchanged credit spreads. In fact, the 73% that are answering this now is a record high number. We believe this relatively small difference between the ones that believe in widening vs tightening could be explained by less dominant credit trends at the moment.

With recently flat development in EUR credit indices and tightening of better rated domestic non-oil related high yield names to more normalized levels, future credit trends may be harder to predict. The fact that the VIX index also has been averaging at a relatively low level recently seems to makes the CFOs more undecided at the moment.

Q: Expectation of credit spread development next six months:



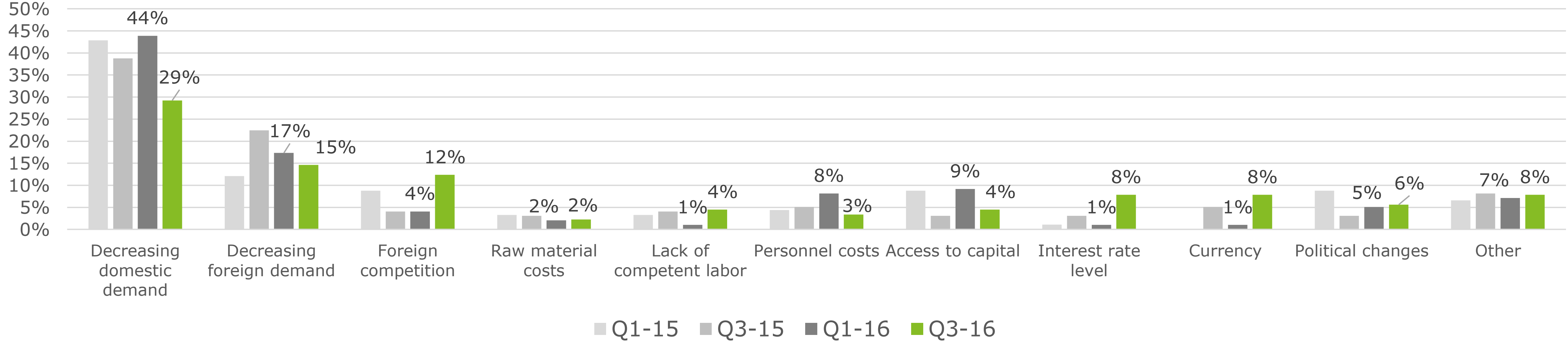
Concerns about exchange rates and competition are on the rise

Less concerned for drop in demand, but increasingly concerned about foreign competition, interest rate and currency

Compared to six months ago, we see that CFOs are expressing themselves differently with regards to their greatest concerns. Although a drop in demand still is their greatest fear, we see that significantly fewer CFOs are putting this first (down from 44% to 29% for domestic demand). As competition from abroad and currency effects are increasingly more important, one can assume that this is influenced by the more volatile NOK we have seen recently. Also interesting to note is that concern for increased interest rates came through this time, after being more or less non-existent for the last couple of years.

Q: Which of the following factors are most likely to pose a significant risk for your business over the next 6 months?

Largest concern going forward



All three funding sources are more readily available

Equity and bond funding more attractive

Bank loans are still the most attractive and available financing source according to the CFOs in this survey. This has been the case the last three years and thus highly expected.

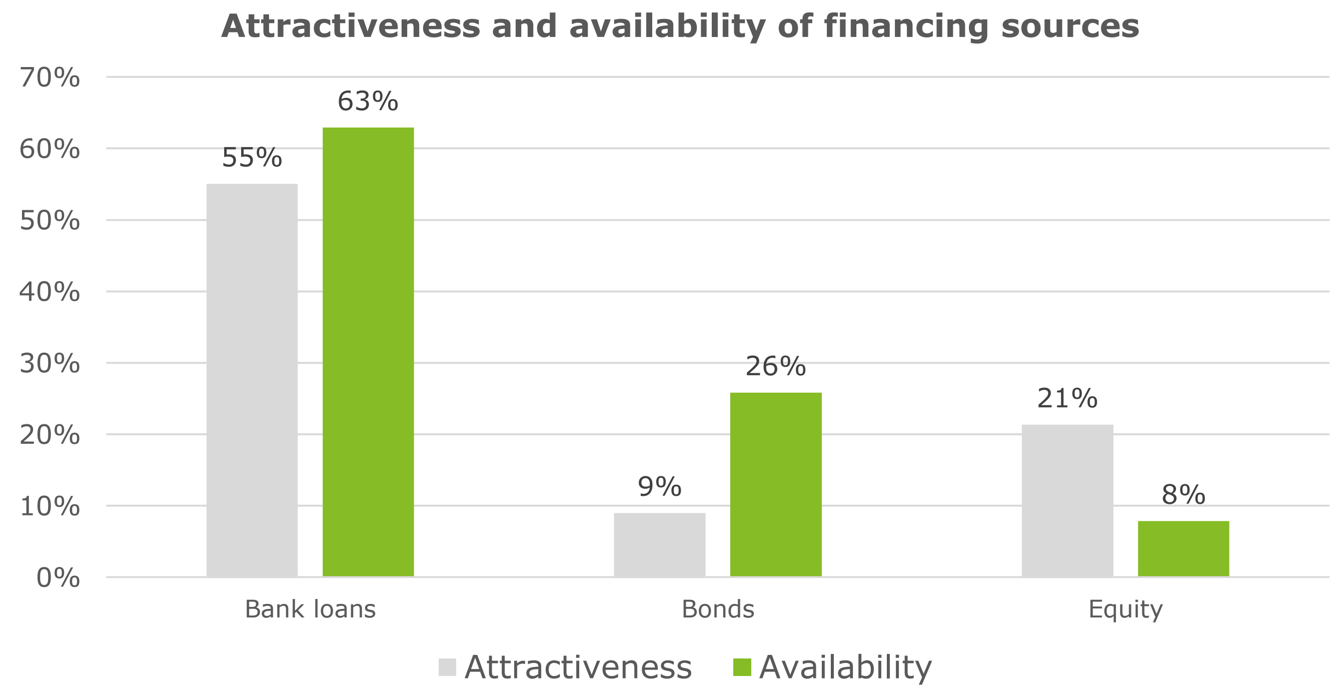
Continued low interest rates and banks continued favorable “relationship” pricing makes this financing source the most competitive source for many corporations.

We also find it interesting to see that both equity and bond funding are found more attractive compared to six month ago.

With regards to the availability of the financing sources, all three are perceived as more available today than they were in the Q1-16 survey (details on the next three slides).

Q: How attractive are the following financing sources for Norwegian companies given the current market situation?

Q: How available are the following financing sources for your company given the current market situation?



Improved availability of bank loans signals reduced refinancing risk

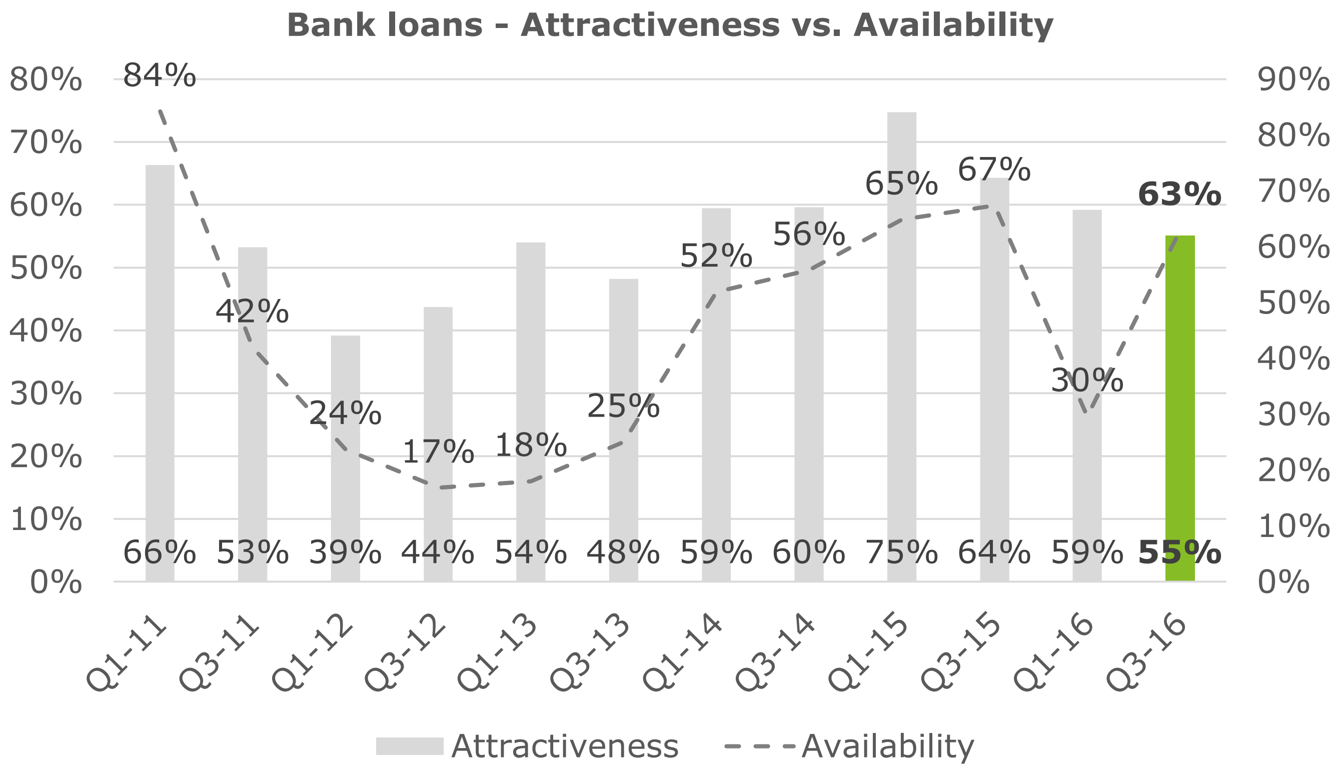
It was only a temporarily dip in bank loan availability

Following reduced bank loan availability for selected oil-related industries' in our Q1-16 survey, CFOs are again painting a general positive view of bank loan availability.

Still, we should also note the general declining trend of the attractiveness of bank loans. From the peak in Q1-15, we are now down to a more normalized level. We believe this trend is explained by banks re-pricing of risk for selected high risk industries and increased attractiveness of other financing sources for the lower risk companies.

The positive response in availability is also interesting to discuss in connection with refinancing risk. Based on the restructuring examples seen in selected oil related industries so far, we think the refinancing risk is lower than one first anticipated at the beginning of the year, as banks willingness to find a solution prior to or rather than taking losses apparently have been relatively high.

Q: How attractive / available are bank loans as a financing source for Norwegian companies given the current market situation?



Availability and attractiveness of bond funding are increasing for the first time since the oil crisis emerged

Will we see an increase in primary activity?

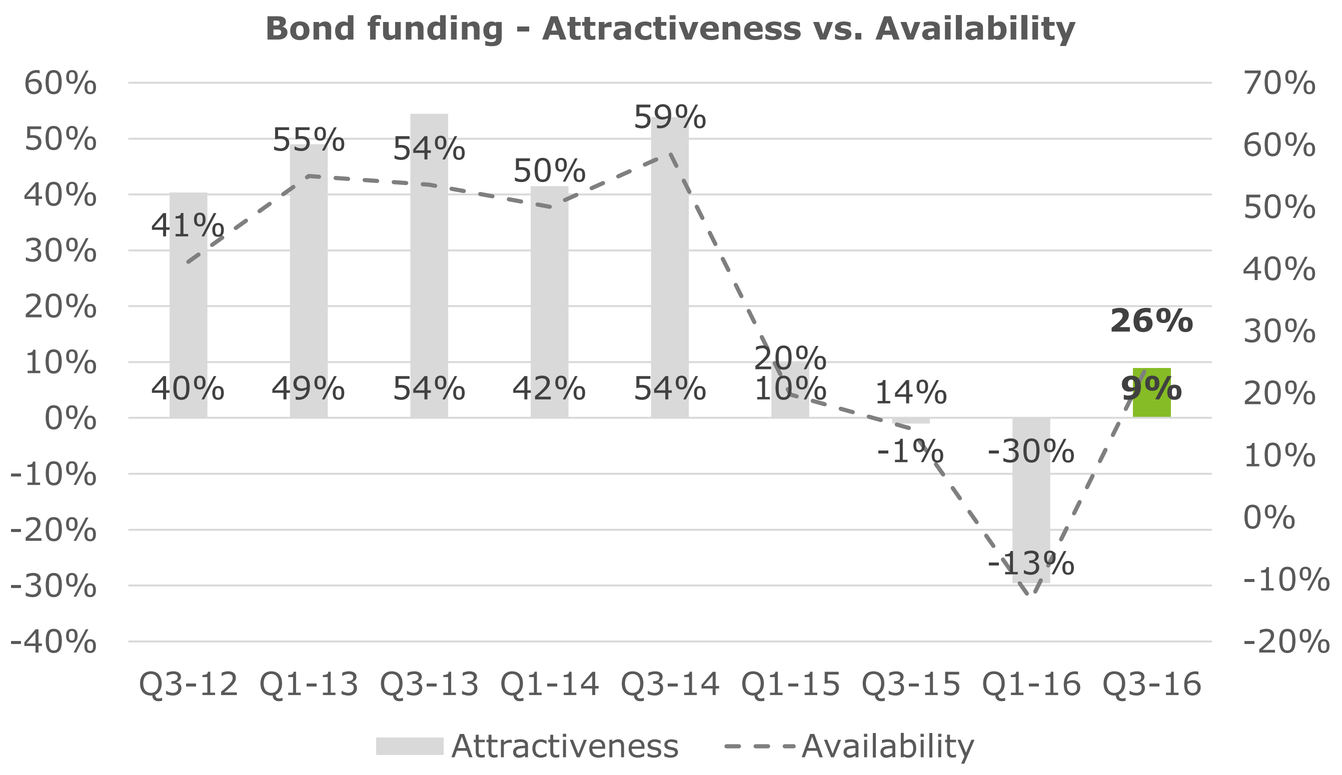
Following continuously reduced availability of bond funding since the beginning of the oil crisis in Q3-14, it is now clear that more CFOs are expressing a positive attitude towards this financing source.

Given the spread tightening for investment grade companies and the better rated high yield companies this year, the attractiveness and competitiveness towards bank funding has improved.

The lack of new issuances in the market this year has also increased the demand from investors, which is positive news for the CFOs who have entered the bond market recently.

Even if we have seen some increased primary issuance activity in Q3 this year, we believe there is room for more issuances that will be absorbed by the market.

Q: How attractive / available is bond funding as a financing source for Norwegian companies given the current market situation?



Equity funding available, but not likely to be used?

Equity funding availability is clearly better

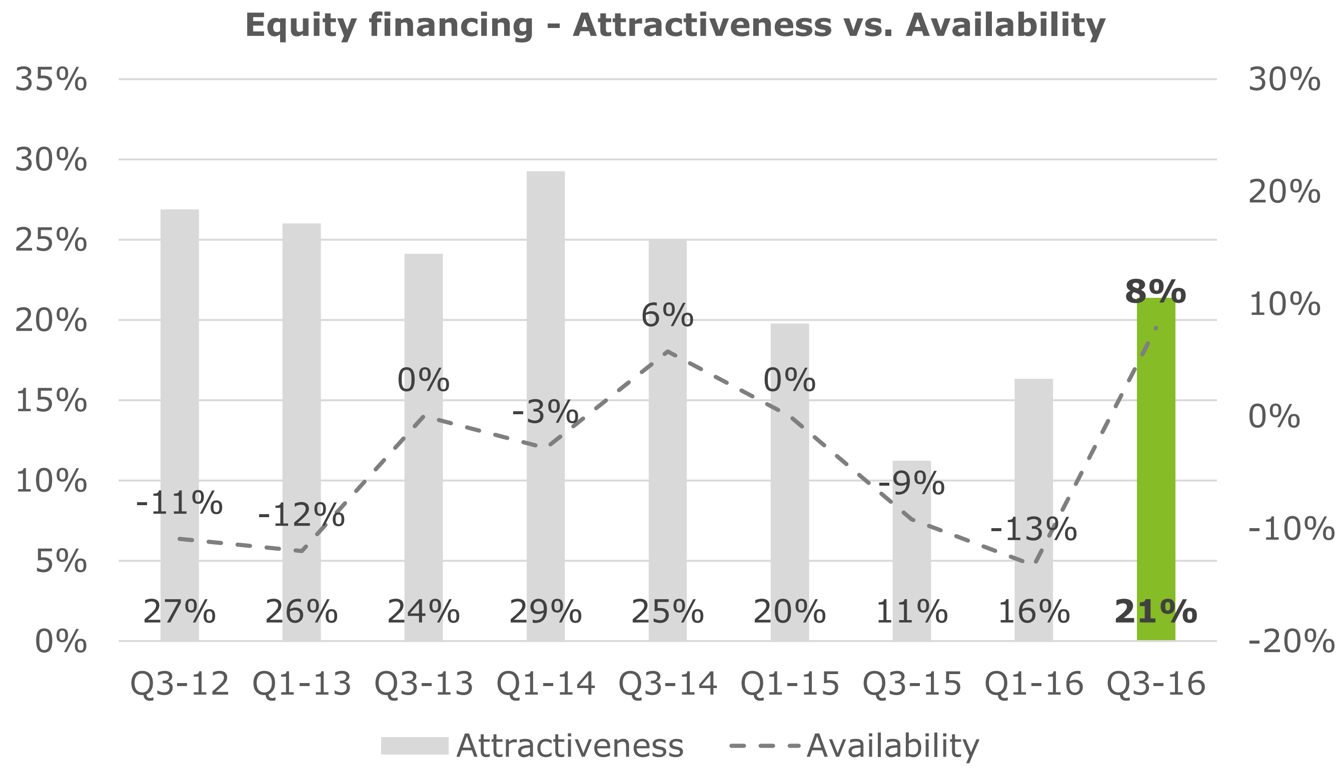
The sharp improvement in equity availability from Q1 to Q3 this year follow the same trend we saw in bank and bond funding as well.

Increased risk appetite, improved business conditions and a continued low interest rate environment could be some factors explaining the perception of increased equity availability by the CFOs.

Looking at the attractiveness of equity, we see less movements compared to availability. Although an improvement is also registered here, it is still slightly below the historical average.

If the record that the high net availability number (8%) for equity financing will materialize in actual share issuance going forward is less certain, in our view. This is based on the anticipated moderate M&A activity and defensive growth strategies which the CFOs indicate in this survey.

Q: How attractive / available is equity as a financing source for Norwegian companies given the current market situation?



Brexit negotiations are not expected to have a significant effect on Norwegian businesses

Less concerned for Brexit compared to other countries

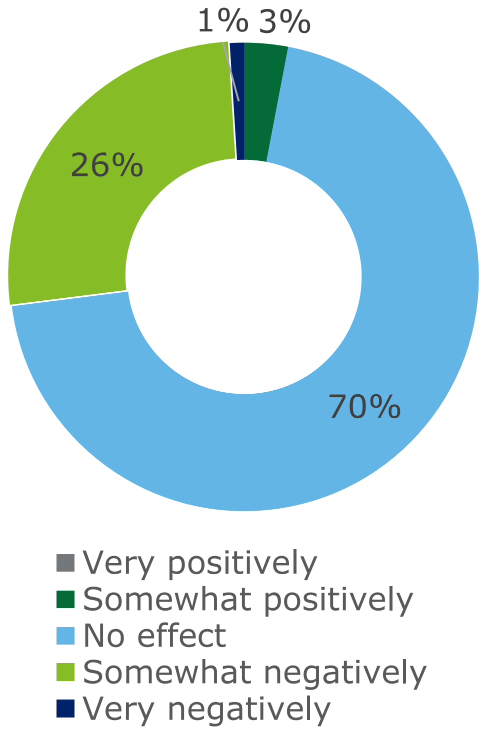
26% of Norwegian CFO respondents believe that the Brexit negotiations will have a somewhat negative effect on their business. However, the vast majority does not expect any effect.

As the outcome of Brexit and the pending negotiations both for the UK and the associated trading partners are unclear, it is still difficult to assess the consequences for Norwegian companies. This will mainly depend on what type of trade agreements the UK will achieve with the EU and other economies. Following an expected trigger of Article 50 in Mar-17, the EU and the UK will have 2 years to negotiate an agreement before the withdrawal is effected. In essence, this translates to a long period of increased uncertainty, and weaker development in private consumption, investments and employment in the UK. As the UK denotes 18% of the EU economy and is Norway's second largest export partner (after Germany), it is probable that the trade agreement will negatively affect the major exporting industries and companies in Norway.

In the corresponding North American survey[1], 57% said the Brexit vote is affecting their business planning. Nearly two-thirds of CFOs cite business exposure to the UK, most often through selling into the UK from North America, from the rest of the EU, or both.

1. Deloitte.us, «CFO Signals», 2016 Q3

Q: How do you believe the Brexit negotiations will impact your company?



No positive impacts for Norwegian businesses, should the Republican candidate win the US election

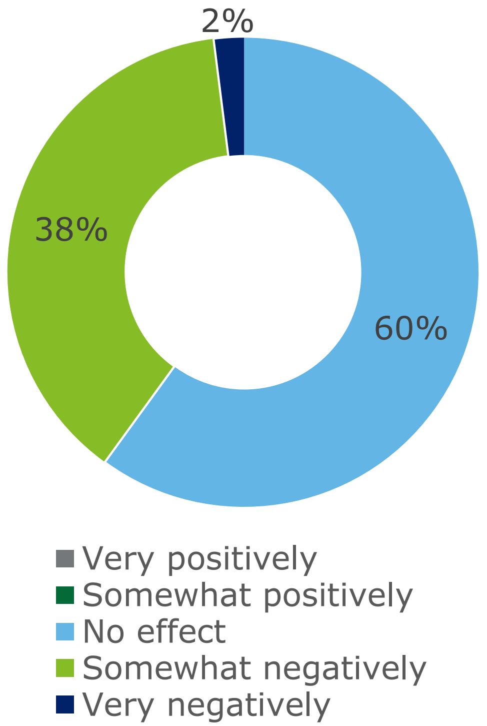
US presidential elections

The majority of CFOs (60%) does not expect that the potential election of Donald Trump will have any effect on their business. Interestingly, no respondents expect their company to be positively affected, as 40% of Norwegian CFO respondents believe that they will be somewhat or very negatively affected.

The result probably has ground in statements made and foreign policies expressed by the candidate with possibly deteriorating effects for global and Norwegian trade and relations with the US. During the presidential elections Mr. Trump has advocated less free trade and more protectionism in US trade policy, e.g. through increasing import tariffs, and communicated a desire to reduce US involvement in NATO and the UN, two of the most important organizations for the Norwegian security policy.

In the CFO Survey conducted by Deloitte in North America[1], nearly 85% of CFOs responded that they believe their future performance depends at least somewhat on the election outcome.

Q: How do you believe your company will be impacted if Donald Trump is elected the next president of the US?



1. Deloitte.us, «CFO Signals», 2016 Q3

About the survey

General information

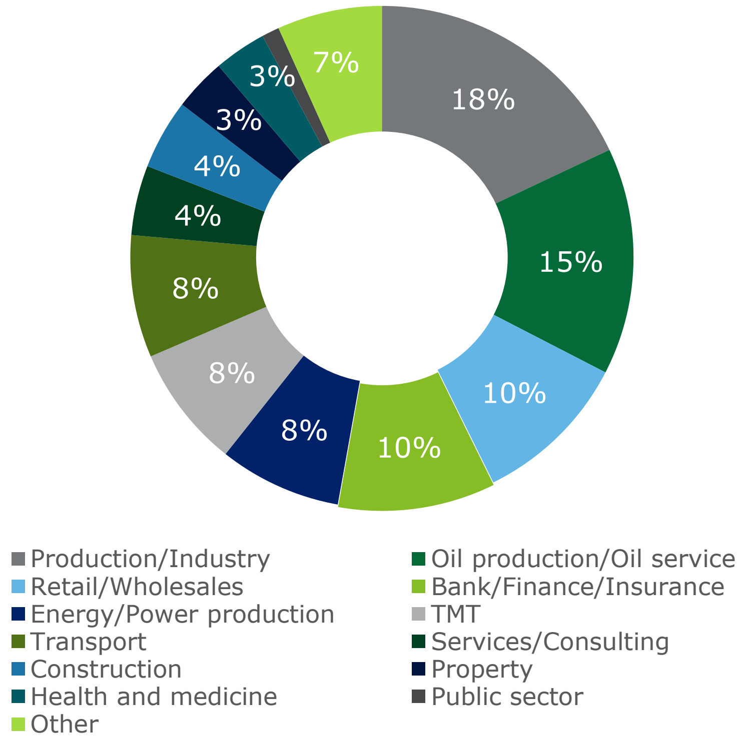
The target group comprises of the CFOs in the 500 largest companies across industries in Norway. The purpose of the survey is to trace the development of the CFOs perception of economic prospects, represented among other by company risk, financing and future revenue potential. Moreover, the survey aims to determine important indicators for the general economic development.

Deloitte and SEB has conducted separate surveys for several years, however the CFO Survey for Q3-16 is the first survey conducted in cooperation. The survey was carried out as a web-based questionnaire in October 2016. Historical figures presented are based on previous bi-annual surveys dating back to Q1-11.

In total, 89 CFOs across key industries responded to the survey during the period 4. – 11. October 2016. Given the broad range of industries and organisations that responded, the survey presents a transparent, up-to-date image of the financial situation facing the wider Norwegian CFO community.

Please send us your feedback together with any suggestions for improvement to help us ensure that the Deloitte/SEB CFO Survey remains an essential resource for your work.

Respondent distribution per industry



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Macroeconomic assessments are provided by our Economic Research unit. Based on current conditions, official policies and the long-term performance of the financial market, the Bank presents its views on the economic situation – locally, regionally and globally.

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