European CFO Survey with Portugal insights
Fasten your seat belts

Q1 | May 2016
Portugal

Contents

About the data
The findings discussed in this report are representative of the opinions of 1,490 CFOs based in 17 European countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey and the United Kingdom. CFOs were all contacted between January and March 2016. Please note that a correction was made to the GDP weighted average values for the Q3 2015 Russian data. Three values were corrected, linked to the use of funding through corporate debt, equity and internal financing. Any relative percentage changes shown in this report are based on the updated data.

Some of the charts in the Survey show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither positive nor negative are deemed to be neutral. Due to rounding, not all percentages shown in the charts will add up to 100.

Acknowledgements
We would like to thank all participating CFOs for their support in completing the survey.

Further information
For further information and a more detailed analysis please visit **www.deloitteresearchemea.com**. If you would like to contact us please complete the form on our website or email us at **europeanCFO@deloitte.co.uk**.

Foreword

Welcome to the third edition of the Deloitte European CFO Survey. This Survey presents the insights from nearly 1,500 CFOs based across 17 European countries on critical business concerns including capital markets and funding, business risk appetite and overall market sentiment.

The European CFO Survey is conducted as part of the Deloitte EMEA CFO Programme, an initiative that brings together multidisciplinary teams of senior Deloitte professionals to help CFOs effectively address the challenges and demands they experience in their role.

Other key offerings of the Deloitte CFO Programme include the Next Generation CFO Academy, CFO Transition Labs and the CFO Lens application. If you would like further information on the programme please feel to contact one of my colleagues based in your country.

We would like to thank all CFOs who took the time to participate in our Survey and invite you to participate in our next European CFO Survey to be conducted in the third quarter. We welcome your thoughts and feedback.

Alan Flanagan
Partner, EMEA CFO Programme Lead

It is with great pleasure that we announce the results of the CFO survey Portugal 2nd edition, included in our European CFO survey. We are also proud to announce an increasing interest in this survey, revealed by a great participation, which translates its success and importance to Chief Financial Officers.

This report aims to be the voice of CFOs. Avoiding risk and strengthening cost control are two major concerns of Portuguese companies CFOs, along with a less optimistic overall perspective, when compared to last edition results. Was this state of mind due to the internal and external economic perspectives? Was the stress in the financial system creating insecurity? Did the political environment change have any influence? What were the main factors contributing to this less brighter view of the future? In a particular and unexpected political context , Portugal has shown some signs of recovery but is also being impacted by international markets, in important geographies relevant for national companies.

We hope that this analysis contributes to understand what do CFOs have in top of mind, what worries them and what strategies they ought to pursue, not only among Portugal peers but comparing several other European countries.

Jorge Marrão
Partner, Portugal CFO Programme Lead

Key findings of the CFO survey Portugal

60%

There was a great break in confidence with 60% of CFOs considering the economic context for the next 12 months to be negative.

57%

Nevertheless, 57% of CFOs anticipate an increase in revenues in their organizations.

85%

The risk appetite is low, with 85% of CFOs demonstrating that they are not willing to take risks.

Looking ahead to 2016, domestic public policies and stress in the financial system are major concerns for these professionals.

87%

Cost control remains the top priority for next year, followed by working capital management that is in the top of mind of 87% of CFOs.

Plunged Confidence

2016 brought a sharp drop in confidence for Portuguese CFOs, as 60% of the surveyed CFOs are pessimistic about Portuguese economic outlook for 2016. This represents a significant shift from the third quarter (Q3) of 2015 when 80% of CFO's felt the economic outlook for the next 12 months was positive.

The negative sentiment is also reflected in the CFOs expectations about their companies' overall financial performance.

Despite the overall pessimism, the majority of CFOs are still anticipating revenues growth, 57% of the CFOs (74% in last semester).

Expectations for key indicators like margins, capital expenses and workforce are also less optimistic but are still expected to have a modest increase.

Gloomy risk appetite

Looking ahead to 2016, Portuguese CFOs seem even more cautious, since risk appetite is very low, with 85% not willing to take more risk.

Domestic public policies risk now clearly tops the CFOs fears as 83% feel it is likely to pose a significant risk for their business (from 72% in Q3 2015). Fear of stress in the financial system comes in second place (77% vs 61% in Q3 2015).

Overall, the sensitivity has intensified for all risk factors, except for foreign political instability, currency fluctuations, and trade barriers where the likelihood of posing a risk for businesses has decreased.

Controlling costs still the priority

This semester, working capital management has attracted some additional attention, with 87% of the Portuguese CFOs agreeing that it is an important or very important strategy for the next 12 months, surpassing cost reduction strategies (74%). However, the on-going cost control remains the CFOs' highest priority (94%).

Growth strategies are on the bottom of the bucket list for 2016, with acquisition and operating cost increase strategies in the last two spots of possible priority strategies for Portuguese companies.

Oil prices bump

According to 30% of the surveyed CFOs the prolonged fall in oil prices pushed-down Portuguese companies.

Among the possible causes is the exposure these companies to Angolan economy, which was intensely affected by the oil price's fall.

In any case, for almost half (47%) of them the effects were neutral or even irrelevant.

Executive summary

Chief Financial Officers across Europe have begun 2016 in a cautiously optimistic mood, but are acutely aware of a number of headwinds ahead.

Nearly 1,500 CFOs in 17 countries participated in Deloitte's Q1 2016 European CFO Survey and, on a GDP-weighted basis, a net balance of +2% say they have a more positive view about growth in their businesses than they did six months ago. Since our previous European CFO Survey in the third quarter of 2015, the eurozone economy has continued its modest recovery. Reflecting this, CFOs in eurozone countries are once again more optimistic (+4% net balance) about the financial prospects for their companies than their non-eurozone peers (-1%).

The jobs market has been a particular source of optimism in the eurozone recently, and this improvement is mirrored by CFOs' positivity about employment in their businesses. While the employment outlook over the next 12 months has fallen (-3pp since Q3 2015) overall, it has improved for eurozone countries (+6pp since Q3 2015). The outlook for hiring is particularly strong in Italy and Ireland – two countries that saw among the sharpest rise in unemployment following the financial crisis of 2008-09.

Monetary policy has also continued to spur growth across Europe, with central banks incentivising bank lending to stimulate activity. CFOs as a whole report that the outlook for bank borrowing has improved again from six months ago, and remains positive. The improvement has been strongest for eurozone firms, where a net balance of +56% of CFOs now view bank borrowing as an attractive source of funding, up +5pp from Q3 2015.

However, this quarter's survey also highlights a growing number of headwinds. Levels of financial and economic uncertainty remain elevated, and have risen once again. 68% of CFOs report levels of external uncertainty to be above normal, up from 66% in Q3 2015 leading to a net balance of +64% (see Chart 1). In particular, politics and geopolitics seem to be weighing heavily on sentiment in a number of countries and are the most commonly cited risks to future growth (see Chart 2).

Europe entered 2016 facing a number of political and geopolitical challenges, which could now threaten growth and confidence, as well as the political unity of the region as a whole. Perhaps the biggest of these events has been the 'migrant crisis', which has had a destabilising effect on confidence in a number of countries along the most popular migrant routes – from Turkey through southern and central Europe – causing political tensions between EU members over the period between our surveys. Outside the eurozone, the UK's forthcoming referendum on EU membership has now eclipsed longstanding concerns about emerging markets and eurozone growth as a key concern for European businesses. The result of the referendum is far from certain, and a vote to leave the EU could have far-reaching implications for the UK and the rest of Europe.

Internal politics has also been a destabilising influence in Spain, Ireland and Portugal, where closely contested elections led to a political stalemate in recent months. To the east, Russia continues to suffer the effects of prolonged low oil prices and economic sanctions.

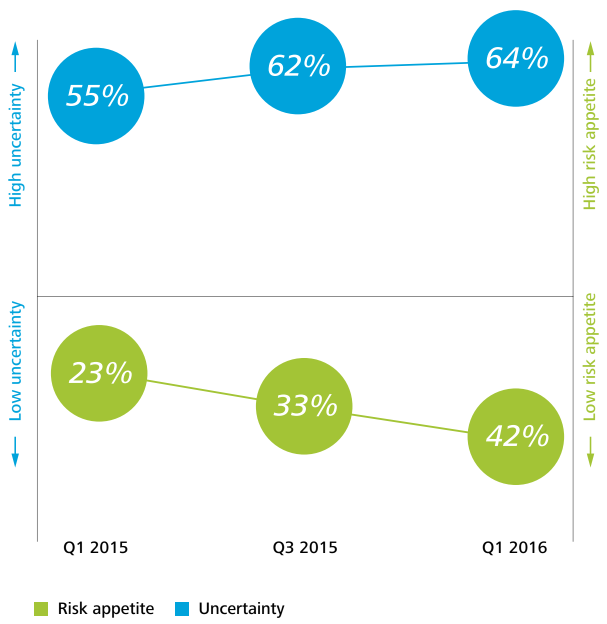
Given all these external and internal challenges it is unsurprising that CFOs are no more than cautiously optimistic. Rising perceptions of external uncertainty have been accompanied by risk appetite falling sharply and CFOs reporting increased pressures on operating margins. When uncertainty is high, firms prioritise cost control over expansionary strategies. A net balance of just 16% of CFOs now think investment in capital expenditure (capex) will rise over the next 12 months – a 10 percentage point fall since Q3 2015. In terms of strategic priorities, cost control or cost reduction are the top two priorities in 14 countries.

Europe's economy has benefitted from some continued improvement in domestic conditions over the last six months, including loose monetary policy and a rapidly improving labour market. The hope must be that political and geopolitical headwinds do not set the recovery back in the coming six months.

This quarter's 'special question' related to the TTIP (Transatlantic Trade and Investment Partnership). We asked CFOs what they believe the impact on their business would be by the proposed trade agreement between the US and the EU. CFOs report limited enthusiasm for the proposals, with 73% of the cohort reporting that there would be no discernible impact to their businesses from the deal. CFOs in Sweden are most enthusiastic, with 42% saying they would stand to benefit from TTIP, followed by those in Belgium (37%), Portugal (36%) and Germany (33%). The biggest disadvantages are seen in Russia (14%) and Turkey (11%) – countries that lie outside the EU and would therefore not be part of the agreement.

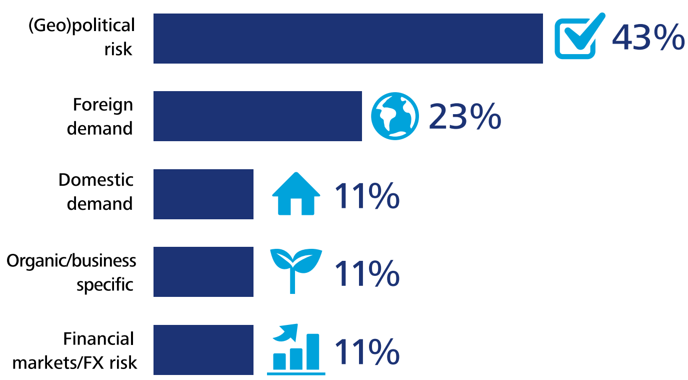
Since our previous European CFO Survey, uncertainty has risen and risk appetite has fallen across Europe. Geopolitical factors are the main risk for European CFOs for 2016. Likewise, in Portugal, perceptions of high uncertainty rose 8pp and risk appetite fell sharply, from a net balance of -37% (Q3 2015) to -70%, distancing itself further from the European average.

Chart 1. Increasing uncertainty and declining risk appetite



GDP-weighted net balance of all countries in the respective survey
Uncertainty question: *"How would you rate the overall level of external financial and economic uncertainty facing your business?"*
Risk appetite question: *"Is this a good time to be taking greater risk onto your balance sheet?"*

Chart 2. CFO top risks weighted by GDP

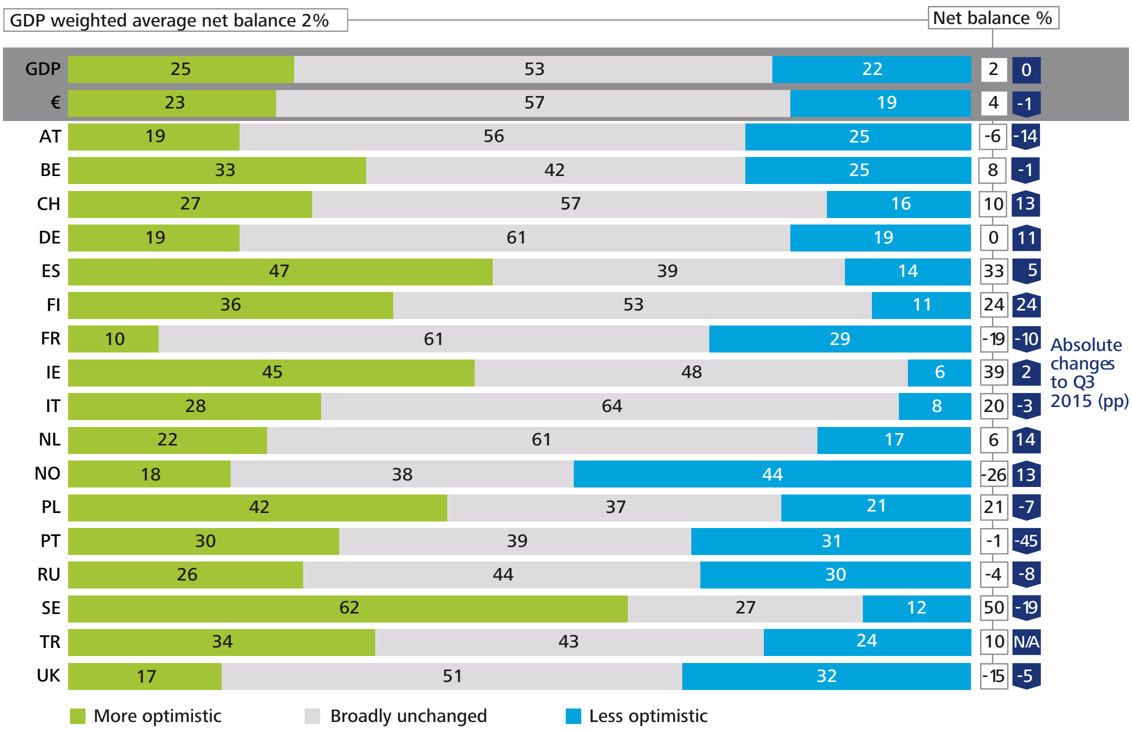


CFOs in eurozone countries are once again more optimistic

Negative expectations regarding financial prospects

*Compared to three/six months ago, how do you feel about the financial prospects for your company?**

Chart 3. Financial prospects (%)



**Note: In Finland, Portugal, Norway, Spain and Sweden, the question specified a six month period.*

A net balance of +2% of CFOs are more optimistic about the financial prospects for their businesses compared to six months ago. But there are large differences from country to country. Eurozone countries (+4% net balance) are once again more optimistic than their non-euro peers, reflecting the continued modest economic recovery in the Eurozone. Nevertheless, CFOs in Portugal became more pessimistic than the Eurozone average this semester, as far as their financial prospects are concerned. In fact, the largest drop (-45pp) in confidence occurred in Portugal, where there was a significant shift from an overly optimistic outlook (+43% net balance) six months ago to a negative one (-1% net balance). This change, driven by a variety of factors, has led to a period of increased uncertainty. Some of the main influencers are a peak in internal financial instability, political changes that have led to a minority government and a weakening in demand from some of the country's key export markets.

CFOs in Sweden are the most optimistic of the panel. 62% of CFOs based in Sweden are still optimistic about the financial prospects for their company, leading to a high net balance of +50% for this quarter (-19pp compared to Q3 2015). This reduced but continuously positive outlook is reflected in much of the economic data for Sweden, which has surprised on the upside in the last six months. Sweden's economy grew at a faster-than-expected 4.5% at the end of last year – overtaking the US and well ahead of Germany in the strength of its economic recovery.

Nevertheless, CFOs in Portugal became more pessimistic than the Eurozone average this semester, as far as their financial prospects are concerned

The sentiment of CFOs in the Netherlands has also improved since Q3 2015 (+14pp), in line with the improvement of a number of Dutch macro indicators and with Dutch exporters benefitting from the continued modest recovery in the rest of Europe.

Switzerland appears to continue its recovery from the economic shock caused by the removal of the Swiss Franc/euro exchange rate floor at the beginning of last year. As the Swiss survey data shows, companies have been adapting to the new situation and optimism has improved accordingly (+13pp).

Despite an encouraging improvement in sentiment among CFOs in Norway, they still exhibit the lowest sentiment of all 17 surveyed countries with a net balance of -26%. As a heavily resource-dependent economy, many Norwegian companies have been adjusting to lower oil prices and adapting to reduced revenue levels.

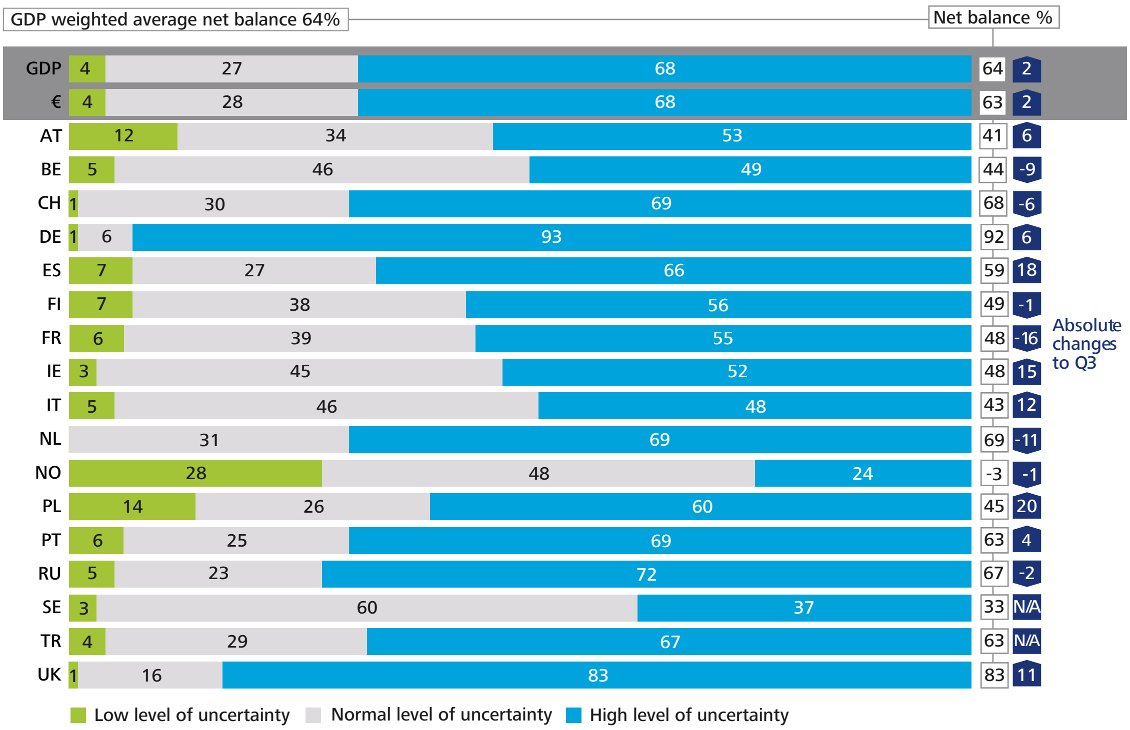
Sentiment in Europe's biggest economy, Germany, has improved by +11pp but remains below the average of all surveyed countries, highlighting how Germany remains more exposed than most to the slowdown in emerging markets and the effects of political uncertainty in Europe.

Downside risks also increased notably among CFOs based in France (-10pp) and Austria (-14pp), whose domestic businesses have both faced challenges from regulatory change and greater geopolitical risks. Although sentiment also fell in Italy (-3pp) and Spain (-15pp), CFOs in those markets remain among the most optimistic in the group as a whole.

Continued rise in uncertainty

How would you rate the overall level of external financial and economic uncertainty facing your business?

Chart 4. Uncertainty (%)



Perceptions of external financial and economic uncertainty remain elevated for CFOs across our panel. With the exception of those based in Norway, a majority of CFOs in each participating country report higher than normal levels of uncertainty.

For the cohort as a whole, levels of uncertainty have also risen slightly over the last six months. On a GDP-weighted basis, 68% of CFOs report higher levels of external uncertainty, up from 66% in Q3 2015. This is also the case for Portugal, whose level of high uncertainty rose from 61% to 69%.

Worryingly for Europe's recovery, the two countries with particularly high reported levels of uncertainty are the region's largest economies, Germany and the UK. In Germany an extraordinary 93% of CFOs report high levels of uncertainty. Concerns around weaker foreign demand persist in Germany's export-driven economy, but geopolitical risks – particularly emerging market weakness and the ongoing migrant crisis – have added to already high levels of uncertainty. In the UK, the result of the forthcoming referendum on EU membership remains unclear, with opinion polls in recent months suggesting an increasingly close contest.

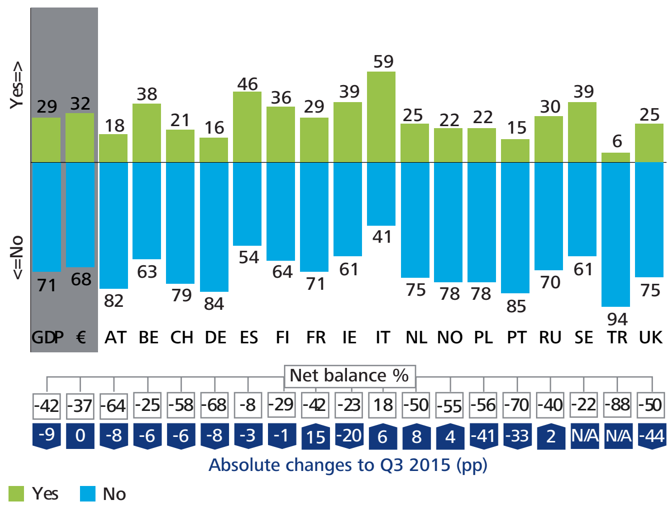
Despite retaining a generally positive outlook, in line with buoyant domestic growth, CFOs in Ireland rate the uncertainty facing their business much higher than they did six months ago (+15pp). An obvious factor behind this is the Irish election, which occurred during the survey period, and failed to reach a conclusive outcome leading to political stalemate. It also seems likely that the uncertainty surrounding the UK's EU referendum has affected perceptions of uncertainty for CFOs in Ireland this quarter, with many Irish corporates having publicly cited a potential Brexit as a negative for Irish companies and the Irish economy.

Dipping risk appetite

Is this a good time to be taking greater risk onto your balance sheet?

Chart 5. Risk appetite (%)

GDP weighted average net balance: -42%



Rising perceptions of external uncertainty are weighing on risk appetite. 71% of European CFOs do not believe it is currently the right time to take greater risk onto their balance sheets (-42% net balance). On a GDP-weighted basis, risk appetite has fallen 9 percentage points in the last six months.

Sharp spikes in uncertainty led to particularly big drops in risk appetite in the UK (-44pp), Poland (-41pp) and Portugal (-33pp). Portugal is currently the second country with the lowest risk appetite among the countries surveyed, with 85% of CFOs considering it is not a good time to take in more risk, up from 69% in the previous semester.

In absolute terms, the most risk averse CFOs are found in Turkey, where just 6% of CFOs believe now is a good time to take greater risk (-88% net balance). Here, CFO concerns about geopolitical risks and weakening growth in their main trading markets have clearly led to an over-arching attitude of caution.

Portugal is currently the second country with the lowest risk appetite among the countries surveyed

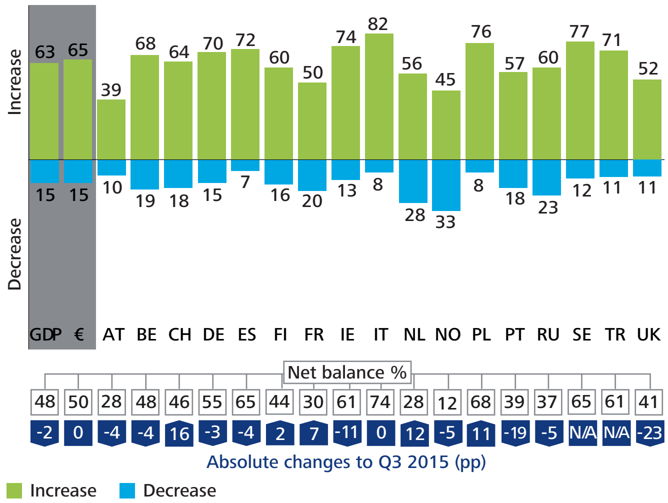
On a positive note, the economic improvement seen in southern Europe over the last year means that risk appetite in Italy and Spain is much greater than in the other countries. Indeed Italy is the only country where a majority of CFOs are willing to take risk onto their balance (+18% net balance). Conversely, the fact that economic conditions have been challenging in these markets for so long may also mean that CFOs are now prepared to take risks in order to capitalise on and drive an upturn in fortunes.

Overall optimistic revenue expectations

*In your view, how are revenues for your company likely to change over the next 12 months?**

Chart 6.1. Revenues (%)

GDP weighted average net balance: 48%



**Note: In the UK, CFOs were asked "how are revenues for UK corporates likely to change over the next 12 months?"*

Contrarily to its Southern European peers, Portugal is below the European average for revenue growth expectations, and is, after the UK, the country where they fell the most (-19pp). Still, despite the overall pessimism, the majority of the surveyed CFOs in Portugal anticipate revenue growth.

Globally, expectations for revenue growth have fallen marginally over the last six months. The proportion of CFOs who believe they will achieve revenue growth over the next 12 months has fallen 2 percentage points to 63% this quarter.

While revenue expectations are falling in a majority of countries, a significant contributor to the overall fall in GDP-weighted revenue expectations has been the sharp fall in revenue expectations (-23pp) in the UK over the last six months.

Overall the outlook for revenue growth actually remains stable and relatively high with a net balance of +48% of CFOs expecting revenues to rise over the next 12 months. Only 15% expect a decline.

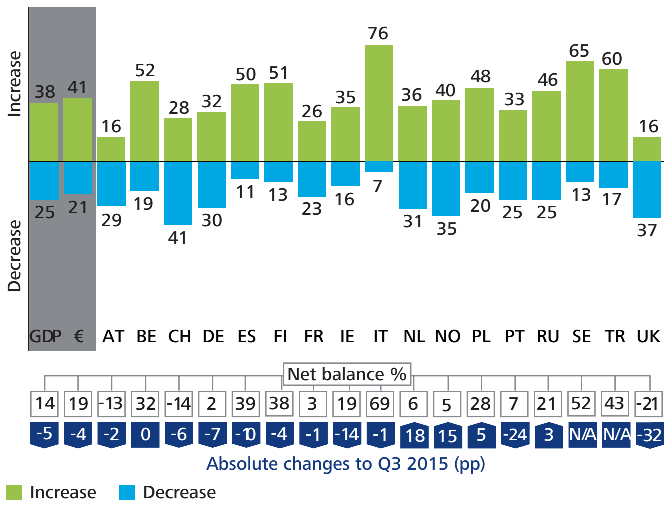
Analysing individual country results again reveals significant differences across our panel. The outlook for revenues is most positive in Italy, reflecting improved growth forecasts. Unsurprisingly, expectations for revenue growth are also strong in Sweden, Ireland and Spain – currently among Europe's fastest growing economies.

Margins under pressure

*In your view, how are operating margins for your company likely to change over the next 12 months?**

Chart 6.2. Operating Margins (%)

GDP weighted average net balance: 14%



**Note: In the UK, CFOs were asked "how are operating margins for UK corporates likely to change over the next 12 months?"*

This quarter's survey shows that margin pressure is a theme for CFOs in most countries. The outlook on margins has deteriorated in all but 5 of the 17 countries surveyed.

On average, a GDP-weighted 38% expect margins to increase over the next 12 months, with 25% expecting margins to decrease. This leads to a net balance of +14%, an overall drop of -5pp compared to six months ago.

Portugal, despite the overall expectation of an increase in operational margins (+7% net balance), represents the second largest drop in positive expectations over the last six months (-24pp). The outlook for margins is most positive in Italy (+69% net balance), followed by Sweden (52%) and Turkey (43%) – where the growth outlook has either improved or is strong, despite high levels of perceived uncertainty.

Austria, Switzerland and the UK are the three countries where a majority of CFOs expect margins to decrease.

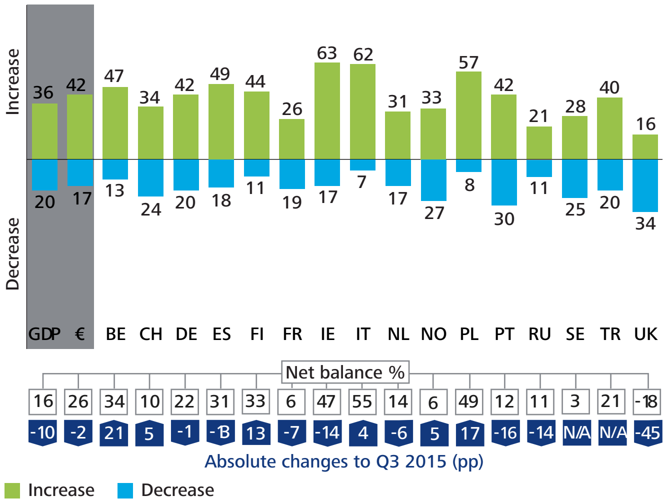
Portugal represents the second largest drop in positive expectations over the last six months

Reduced appetite to invest

*In your view, how are capital expenditures for your company likely to change over the next 12 months?**

Chart 6.3. Capital Expenditure (%)

GDP weighted average net balance: 16%



**Note: In the UK, CFOs were asked "how are capital expenditures for UK corporates likely to change over the next 12 months?"*

There has been a softening of capital expenditure (capex) intentions in the last six months, with a 10 percentage point overall decline in capex appetite since Q3 2015.

The data, however, suggests a degree of continued cautious optimism across our cohort of CFOs. On average 36% of CFOs say that they expect investment in capex to rise over the next 12 months and 20% expect it to decrease, leading to a net balance of +16%.

42% of CFOs in Portugal expect to increase investment in capex while 30% expect to decrease it, leading to a net balance of +12%, down from +27% in Q3 2015. This drop relatively to the previous semester demonstrates how, for certain countries like Portugal, rising uncertainty is inversely correlated not only with risk appetite but also with the willingness to invest in capital.

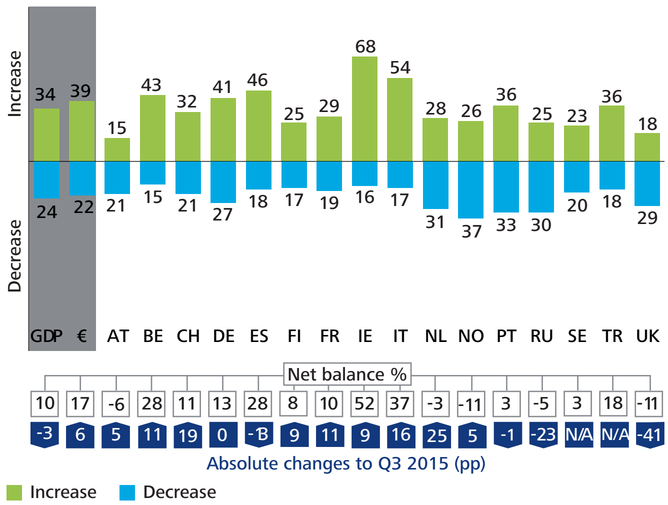
Following a sharp decline in capex intentions, the UK is now the only country surveyed with a net balance of CFOs expecting a decrease in capital expenditure over the next year (-18% net balance). Capex intentions have also fallen in Ireland, Russia and Spain, but from much higher scores. In contrast, strong risk appetite among CFOs in Ireland, Italy and Spain has fed through to a similarly strong appetite and willingness to invest in capex. Appetite for capex investment has notably grown in Belgium (+21pp), Poland (+17pp) and Finland (+13pp).

Employment modest growth

*In your view, how are capital expenditures for your company likely to change over the next 12 months?**

Chart 6.4. Number of employees (%)

GDP weighted average net balance: 10%



**Note: In the UK, CFOs were asked "how is the key metric hiring for UK corporates likely to change over the next 12 months?"*

In Portugal, despite the overall drop in confidence in the economic outlook, perspectives on job creation remained stable

European CFOs are relatively optimistic about the employment outlook in their businesses. When asked about the potential change in number of employees in their business over the next 12 months, on average 34% of CFOs expect an increase while 24% expect a decrease (+10% net balance).

Despite the overall drop in confidence in the economic outlook, perspectives on job creation remained stable since Q3 2015 for CFOs surveyed in Portugal (net balance varied -1pp). Notably 36% of CFOs in Portugal predict an increase in the number of employees over the next 12 months.

The slight decrease in the overall employment outlook since Q3 2015 is mainly due to big declines in the UK and Russia, where political uncertainty and low oil prices have weighed heavily on sentiment. The outlook for the eurozone, which excludes all non-euro countries including Russia and the UK, is much more positive (+17% net balance) and has improved (+6pp) since Q3 2015.

Given the general rise in uncertainty and the fall in risk appetite, positivity around jobs growth in the eurozone seems to point to a more fundamental improvement in labour market conditions in the single currency bloc. The official employment data would appear to back up this narrative. The eurozone added more than 900,000 jobs in the second half of 2015 and the unemployment rate has fallen to levels last seen in 2011.

Significantly, some of the most positive labour market improvements have occurred in those economies that saw the sharpest post-crisis rises in unemployment. Our survey finds that the countries where CFOs are most likely to report positive employment intentions are Ireland (68%), Italy (54%) and Spain (46%). The improving hiring outlook in Italy (+16pp change) may also suggest that long-awaited structural reforms aimed at increasing labour market flexibility (for example, the 'Job Act' introduced in 2015) have started to take effect.

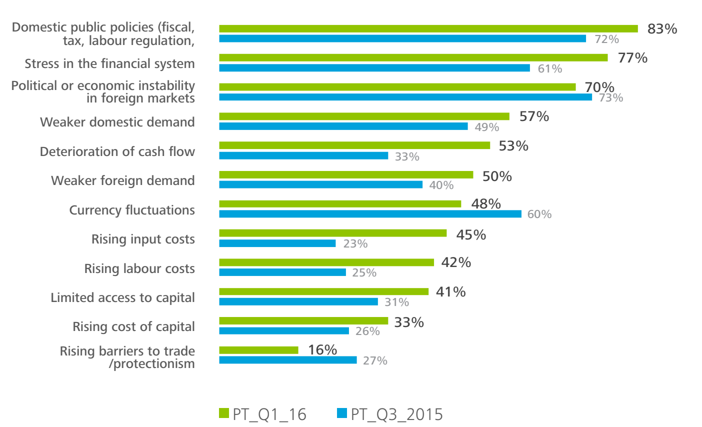
(Geo)politics dictates risk agenda

Which of the following factors are likely to pose a significant risk to your business over the next 12 months?

Chart 7. Business risk next 12 months

Country	1	2	3	4	5
AT	Increasing regulation in Austria	Geopolitical risks	Shortage in skilled personnel	Increasing cost of personnel	Increasing barriers to trade/ protectionism
BE	Economic outlook/growth	Competitive position in the market	Changes in regulation	China's slow-down	Impact of Belgian financial & economic policy making
CH	Strength of the Swiss Franc	Geopolitical risk	Weaker domestic demand	Increasing business regulation	Shortage of skilled professionals
DE	Geopolitical risks	Weaker foreign demand	Exchange rate risk	Emerging market weakness	Weaker domestic demand
ES	State "fragile" global economic recovery, uncertainty	Uncertainty in fiscal policy	Margin deterioration due to lack of flexibility in pricing	Price of materials (commodities)	Availability of talent/talent management
FI	Demand	Outlook of Finnish economy and competitiveness	Cost of labour	Cost of raw materials/ commodities	Tax interpretations (e.g. transfer pricing)
FR	Global/European economic uncertainty	Fiscal and social policies in Europe	Euro exchange rate	Financial markets instability	The evolution of the price of raw materials
IE	Economic outlook/growth	Increasing regulations	Currency fluctuations	Geopolitical risks	Shortage of skilled professionals
IT	Loss of competitiveness compared to international competitors	Local market reduction	Regulatory changes	Increase in supply costs	Increase in labour costs
NO	Reduced domestic demand	Reduced foreign demand	Access to capital	Personnel costs	Political change
PL	Decrease of domestic demand or recession	Market pressure for price decrease of offered goods/services	Decrease of foreign demand or recession (joint rank 3); 3 Unstable corporate and tax law (joint rank 3)		Increasing business regulations
PT	Domestic public policies (fiscal, tax, labour regulation, social, legal, etc.)	Stress in the financial system	Political or economic instability in foreign markets	Weaker domestic demand	Deterioration of cash flow
RU	Stress in the financial system	Weak Russian rouble	Weaker domestic demand	Organic profit decrease	Cost of capital
SE	Order intake	Macro/politically related factors	Skilled labour shortage	Cost of raw material/ commodities	Fierce competition/ pricing power
TR	Geopolitical risks	Weakness/strength/volatility of currency (e.g. Turkish Lira)	Deterioration of cash flow	Weaker domestic demand	Rising labour costs
UK	UK referendum on membership of the EU	Deflation & economic weakness in the euro area/possibility of a renewed euro crisis	Weak demand in the UK	Prospect of higher interest rates and a general tightening of monetary conditions in the UK and US	Weakness and or volatility in emerging markets and rising geopolitical risks in Middle East/Ukraine

Likelihood of risk impact on businesses over next 12 months (% of likelihood)



In no two countries is the list of key business risks the same, a reflection of the fact that business conditions vary from country to country and that the response options offered to CFOs differ across countries.

"Domestic public policies" risk tops the list of CFOs' concerns in Portugal

But some common themes emerge. Geopolitical or political factors are the top two business risks for two-fifths of CFOs, and are the main concern for CFOs in Portugal, Germany, Turkey and the UK (for an aggregate risk ranking please see Chart 2).

"Domestic public policies" risk tops the list of CFOs' concerns in Portugal, a concern which seems to be rising over time: while in Q3 2015 this was a top risk to 72% of CFOs, presently 83% are concerned about the effects of this risk on their businesses. Stress in the financial system came second for CFOs in Portugal, followed by the risk of political economic instability in foreign markets, most likely tied to the exposure of the Portuguese companies to a few troubled export markets (e.g. Angola).

Similarly, CFOs across the 16 countries commonly cited deteriorating demand conditions (domestic and foreign) and a slowdown in the general macroeconomic environment as risks illustrating how Europe's modest economic recovery remains susceptible to potential shocks.

In the UK, CFOs rank Brexit as the most significant risk for their business. This seems likely to have influenced the decline in UK CFO sentiment across the board (financial prospects -5pp, risk appetite -44pp, revenue expectations -23pp, operating margins -32pp, employment growth -41pp) in a period of already high uncertainty (+11pp).

Strategic focus on cost

Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?

Chart 8. Strategic priorities next 12 months

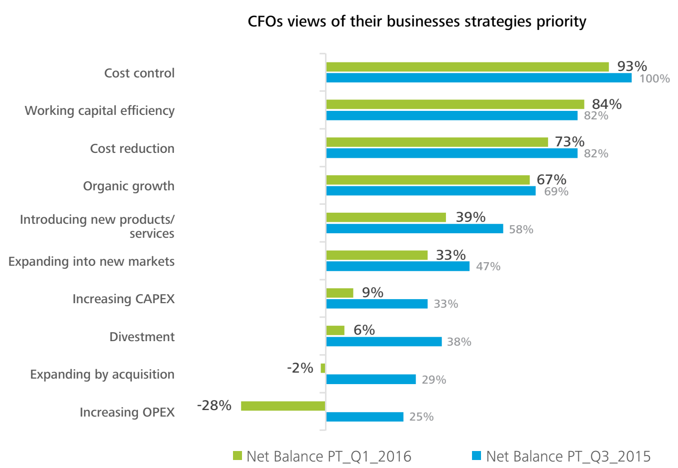
	AT	BE	CH	DE
1	Organic growth	On-going cost control	Cost control	Cost reduction
2	Cost cutting	Increasing productivity/efficiency	Organic growth	Introducing new products/services
3	Increase in operating cash flow	Organic Growth	Cost reduction	Increase operating cash flow
4	Introducing new products/services	Introducing new products/services	Introducing new products/services	Expanding by acquisition
5	Investing in the EDP-System/in the quality of data	Cost Reduction	Expanding into new markets	Expanding into new markets

	ES	FI	FR	IE
1	Cost control	Organic growth	Organic Growth	Cost control
2	Increased productivity/efficiency	Cost control	Cost control	Cost reduction
3	Cost reductions	Introducing new products and services	Cost reduction	Organic growth
4	Organic growth	Cost reduction	Introduction of new products/ services	Introducing new products/services
5	New products/services	Expanding by acquisition	Human Capital	Expanding into new markets

	IT	NO	PL	PT
1	Cost control	Cost reduction	Revenue Growth (current markets)	Cost control
2	Cost reduction	Focus on core business	Revenue Growth (new markets)	Working capital efficiency
3	Introduction of new products or market expansion	Expanding organically	New Investments	Cost reduction
4	Expansion through acquisitions	Revenue growth in current markets	Cost reduction – indirect costs	Organic growth
5	Increasing capital expenditure (CAPEX)	Increasing cash flow	Improved liquidity	Expanding into new markets

	RU	SE	TR	UK
1	Ongoing cost control	Expanding into new geographies	Cost control	Introducing new products/services or expanding into new markets
2	Cost cutting	Introducing new products/services	Cost reduction	Reducing costs
3	Investing in organic growth	Reducing cost	Organic growth	Increasing cash flow
4	Increasing cash flow	Increasing cash flow	Expanding into new markets	Expanding by acquisition
5	Reducing currency exposure	M&A activity	Expanding by acquisition	Increasing capital expenditure

Expansionary strategies Defensive strategies



Although growth, expansion and introducing new products and services are the top priorities for CFOs in a number of countries, CFOs strongly favour defensive business strategies (blue) over expansionary ones (green).

For Q1 2016 European CFOs have further sharpened their focus on defensive strategies. Cost control or cost reduction are the top two priorities for CFOs in 14 of the 16 countries that were asked about strategic priorities. Even in countries where the economic outlook is relatively positive, for example Sweden and Ireland, the focus on cost remains.

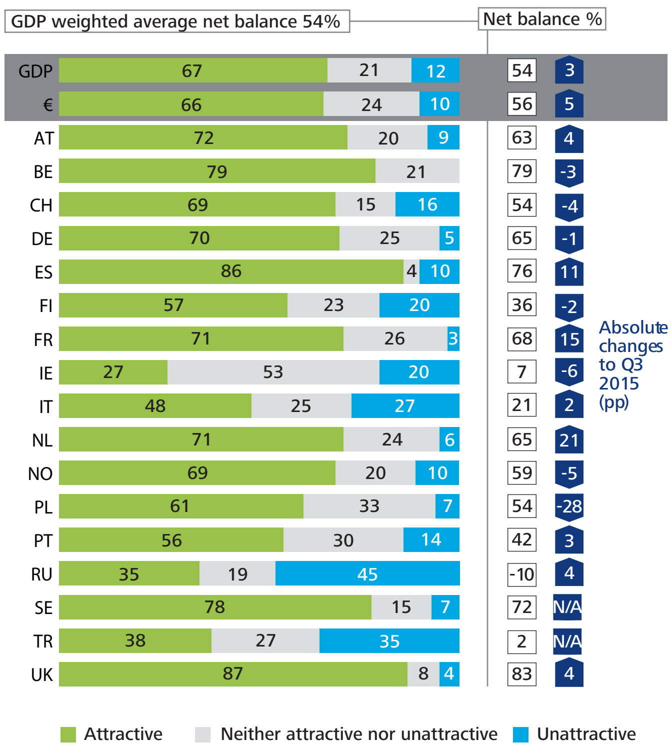
The top priority for Austria, France, Germany, Ireland, Italy, Norway, Poland, Portugal, Russia and Switzerland, cost control, has remained unchanged from the previous survey

Direct comparisons across countries are somewhat difficult, as the strategic options the CFOs were given vary. However, the top priority for Austria, France, Germany, Ireland, Italy, Norway, Poland, Portugal, Russia and Switzerland, cost control, has remained unchanged from the previous survey, suggesting that CFOs are looking to the medium term. In Portugal, in addition to this priority (93% this semester), working capital efficiency seems to be gaining ground, with 87% of CFOs emphasizing its importance for the months to come (up from 82% from Q3 2015). Cost reduction lost some strategic relevance this semester (73%), falling to third position in priorities ranking. All in all, and confirming the European trend, growth strategies are still behind cost reduction and financial efficiency in terms of CFOs focus.

Bank borrowing most popular source of external financing

*How do you currently rate bank borrowing as a source of funding for corporates in your country?**

Chart 9.1. Bank borrowing (%)



**Note: Portugal, Finland and Russia asked the question as specific to "your own company".*

The financing panorama saw a shift this semester in Portugal with bank borrowing becoming the most attractive (56%) source of funds for Portuguese firms (when compared to the attractiveness of corporate debt, 41%, equity, 29% and internal financing, 53%). This represents a +3pp raise from Q3 2015.

Globally, bank borrowing remains the most popular form of financing for CFOs throughout Europe. Across our cohort it is viewed favourably by 67% of CFOs and unfavourably by just 12% (+54% net balance).

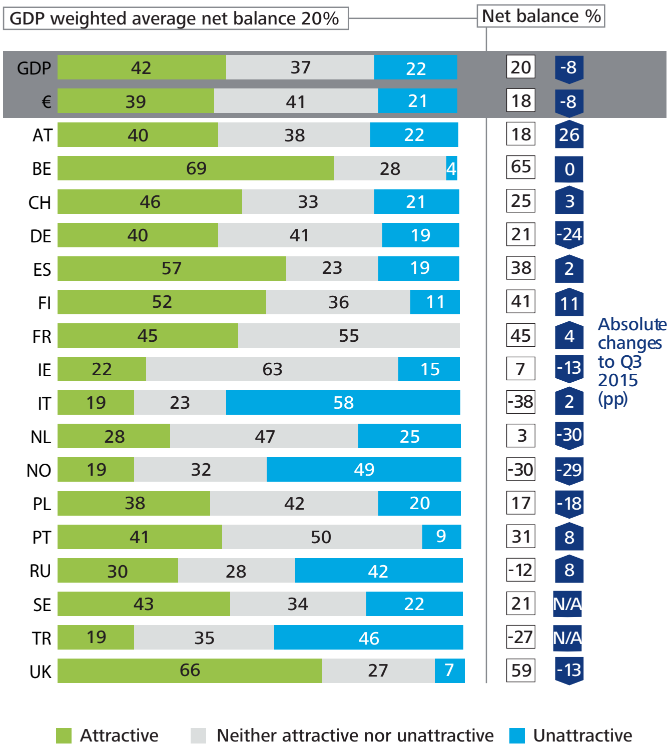
Once again, the outlook for bank borrowing has improved in the last six months (+3pp), reflecting the continued growth in the demand and supply of credit across Europe. The European Central Bank reported that during the fourth quarter of 2015 credit standards on loans to enterprises eased and that for the first quarter of 2016 banks continued to relax terms and conditions for new loans across all loan categories, and again particularly for enterprises.

The demand and supply of credit to large businesses has been similarly strong in the UK, where bank borrowing is viewed as being attractive by a net balance of +83% of CFOs. The next most attractive markets for bank borrowing are Belgium (+79%) and Spain (+76%), while the least attractive are Russia (-10%) and Turkey (+2%) where monetary policy has been far less expansionary and interest rates are higher.

This quarter, the level of attractiveness of bank borrowing in Poland (-28pp) returned to its mid-2015 level after peaking at the end of 2015. This follows rising uncertainty around new regulations to be introduced in the banking sector, which could influence the ratings of some Polish banks and potentially limit credit growth.

*How do you currently rate corporate debt as a source of funding for corporates in your country?**

Chart 9.2. Corporate debt (%)



**Note: Portugal, Finland and Russia asked the question as specific to "your own company".*

European CFOs report that corporate debt is a less attractive form of financing than it was six months ago (-8pp). This largely reflects big declines in the attractiveness of corporate debt in three of Europe's larger economies: Netherlands (-30pp), Germany (-24pp), and the UK (-13pp), as well as declines in Norway (-29pp), Poland (-16pp) and Ireland (-13pp). However, in Portugal, CFO's opinion regarding the attractiveness of corporate debt as a source of funding improved (+8pp), similarly to what was previously observed on bank borrowing. This time, Portugal's net balance surpasses the European average.

The picture for corporate debt is quite mixed across the group, with CFOs in Belgium (+65% net balance) and the UK (+59%) having a highly positive view of corporate debt, while CFOs in Italy (-38%), Norway (-30%) and Turkey (-27%) have highly negative views of corporate debt.

Many country-specific factors influence this varied picture. For example, Turkish firms are already highly leveraged and therefore less willing to take on more corporate debt. Also, when seeking to raise capital, CFOs will choose between different forms of financing.

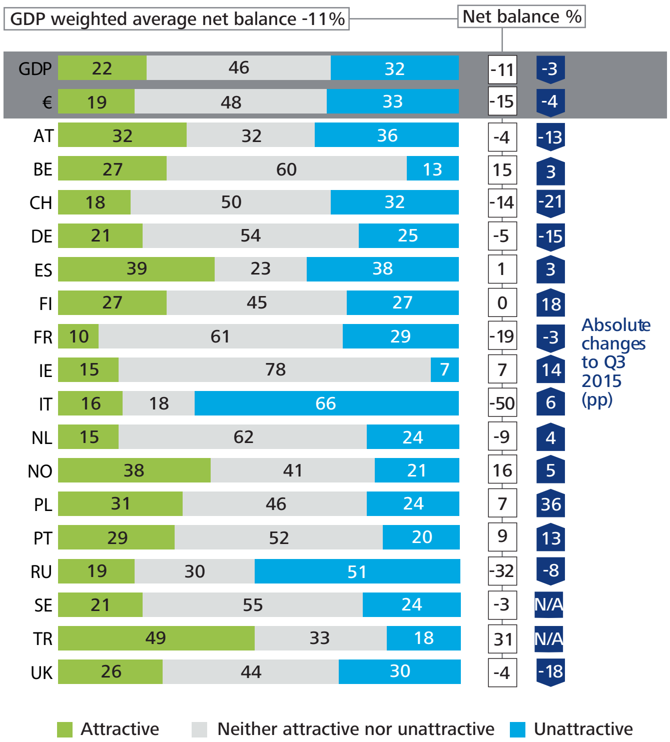
In Portugal, CFO's opinion regarding the attractiveness of corporate debt as a source of funding improved

For example in Germany corporate debt will naturally be a less attractive form of financing, given the high and rising levels of attractiveness of bank borrowing and internal financing.

Internal financing remains an important alternative to external sources

*How do you currently rate equity as a source of funding for corporates in your country?**

Chart 9.3. Equity (%)



**Note: Portugal, Finland and Russia asked the question as specific to "your own company".*

Across Europe, equity issuance is generally not viewed as an attractive source of funding for corporates (-11% net balance), with CFOs in 9 out of the 17 countries surveyed viewing it negatively.

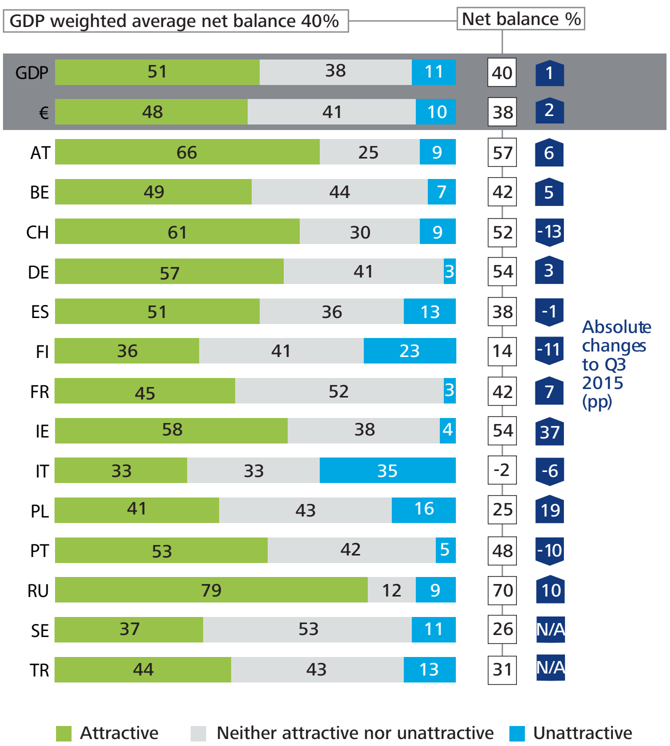
The declining popularity of equity issuance between Q3 2015 and Q1 2016 reflects the relative popularity of bank borrowing as a source of financing, and the general weakness of European equity markets recently. The value of European equity indices fell steadily since the middle of last year, with the Euro Stoxx 600 index losing around 15% of its value between July 2015 and February of this year.

Despite still coming last in terms of funding source preferences, when compared to alternative sources (29%), Portuguese companies increasingly consider equity as an attractive source of financing (+13pp from Q3 2015), being amongst the top 4 countries surveyed in terms of net balance (9%). Likewise, in Poland, there has been a sharp increase in the attractiveness of equity financing (+36pp), with CFOs increasingly shifting to non-bank financing following a period of uncertainty around future bank borrowing policies.

In contrast, CFOs in Italy have the most negative view of equity financing (-50% net balance) while bank borrowing is their most favoured form of financing.

*How do you currently rate internal financing as a source of funding for corporates in your country?**

Chart 9.4. Internal financing (%)



**Note: Portugal, Finland and Russia asked the question as specific to "your own company".*

In Portugal, 53% of CFOs believe internal financing to be an attractive source of funding for companies

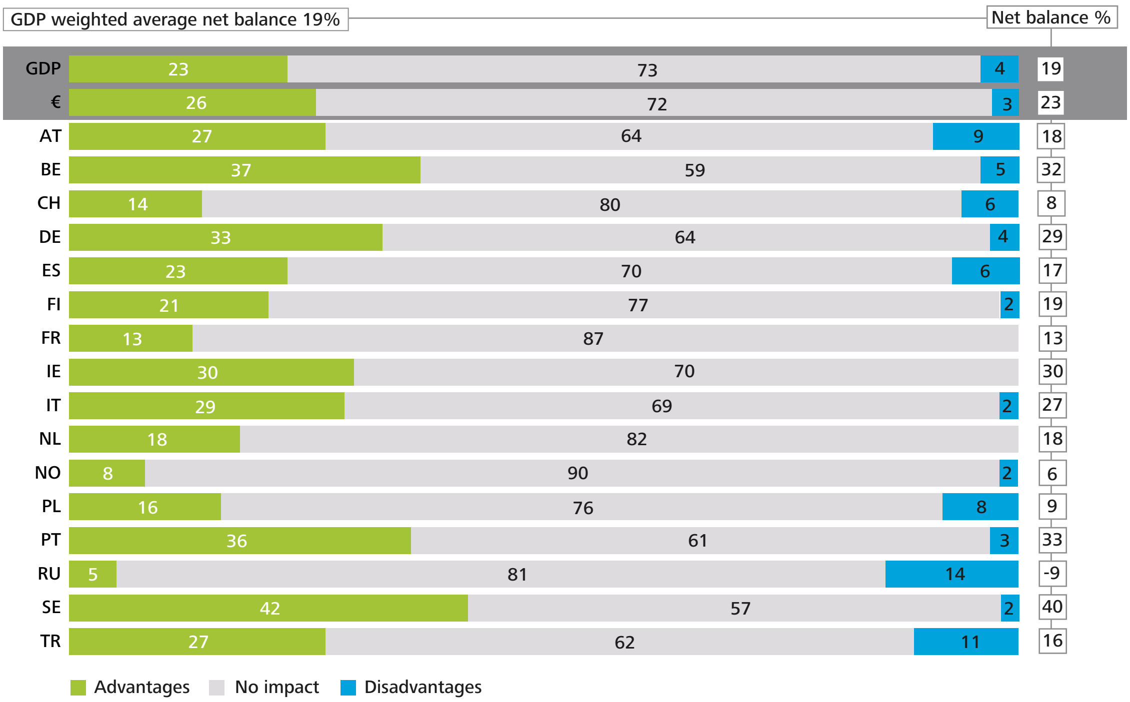
Raising funds internally is generally viewed as an attractive form of financing for CFOs across Europe, with a GDP-weighted average of 51% of CFOs considering it attractive and just 11% considering it unattractive (+40% net balance). This is also the case of Portugal, where 53 % of CFOs believe internal financing to be an attractive source of funding for companies. Nevertheless, as observed before, Portuguese companies seem to be shifting from this type of funding, leading to a considerable drop in its net balance (-10pp). This is also the case of Finland, which has been placing greater weight in equity and corporate debt over internal financing.

The attractiveness of internal financing in Austria, Switzerland, Germany and Ireland likely reflects the relative strength of the recovery in these economies – with firms able to tap into profits as a source of new capital for investments, rather than issuing debt or equity.

Moderated enthusiasm for TTIP

How would your company be impacted by the formation of a Transatlantic Trade and Investment Partnership between the EU and US?

Chart 10. TTIP (%)



**Note: Net balance is the difference between advantages and disadvantages*

The Transatlantic Trade and Investment Partnership is a trade deal that has been under negotiation between the US and the EU since 2013. The focus of TTIP is on standardising regulations on intellectual property, labour rights and the environment. Proponents of the deal emphasise its potential to facilitate trade, which is why TTIP is generally expected to foster economic growth on both sides of the Atlantic. Its opponents fear that it could undercut legislative sovereignty and existing standards.

Although TTIP was not often mentioned in the media during the survey period, every company doing business across the Atlantic will potentially be affected by it, some more than others.

This quarter we asked CFOs how they thought the potential implementation of the treaty would impact their business. CFO's in Portugal are particularly enthusiastic about the potential deal, with 36% saying that they would stand to benefit from the TTIP, coming third behind Sweden's 42% of CFOs and Belgium's 37% of CFO's.

The biggest disadvantages are seen in Russia (14%) and Turkey (11%) – countries that lie outside the EU and would therefore not be part of the treaty.

But it is striking that a big majority (73%) stated that they expect no discernible impact from TTIP. This result could be attributable to the fact that it is difficult to assess the full impact at this stage since only unofficial texts have been circulated. Other factors could be the lack of familiarity with the types of issues TTIP will cover, or the fact that some respondents do not trade directly with the US. It may also be that political and geopolitical uncertainties are currently more prominent issues for CFOs.

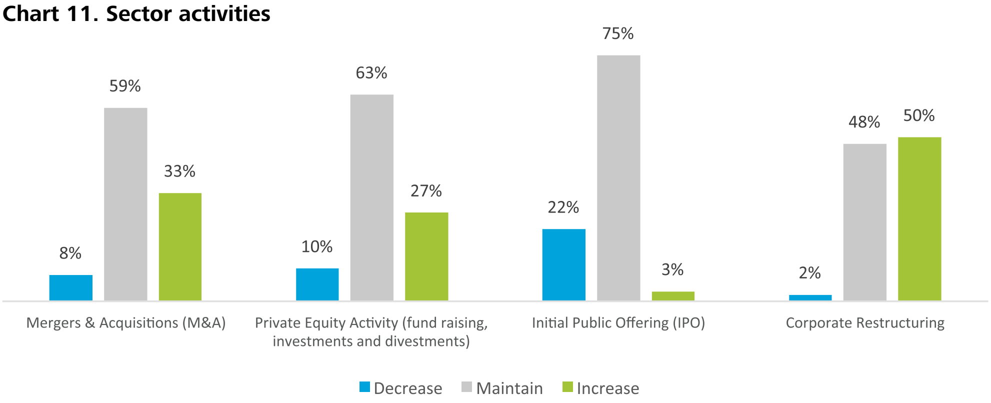
CFO’s in Portugal are particularly enthusiastic about the formation of a TTIP between the UE and US

Special questions about Portugal

These two questions were introduced exclusively in the survey for CFOs in Portugal.

*Q4. In your view, how will the following activities evolve in your company's sector during the next 12 months?**

Chart 11. Sector activities

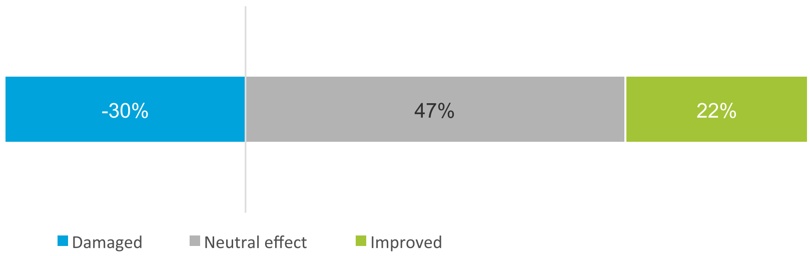


Similarly to Q3 2015, corporate restructuring still heads the most important sector activities expected for the next 12 months which may still reflect the drive for cost efficiency demonstrated by CFOs in Portugal. Not surprisingly, M&A activities also remain in second place.

Net balances in all inquired activities has decreased from Q3 2015, indicating a cool down in expectations for such transactions.

Q10. To what extent has the recent drop in oil prices changed the prospects for your company's performance?

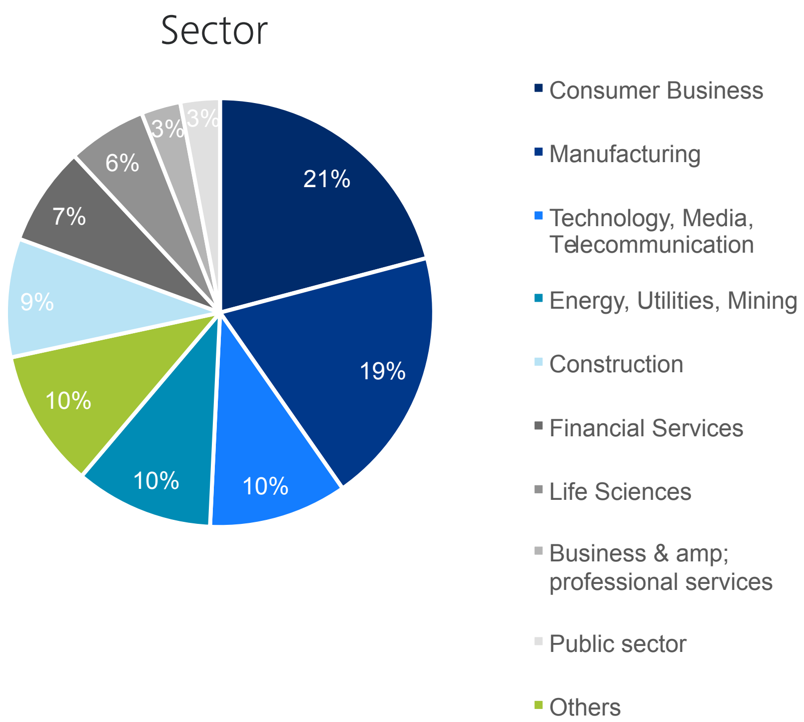
Chart 12. Views on recent oil prices drop from CFOs in Portugal

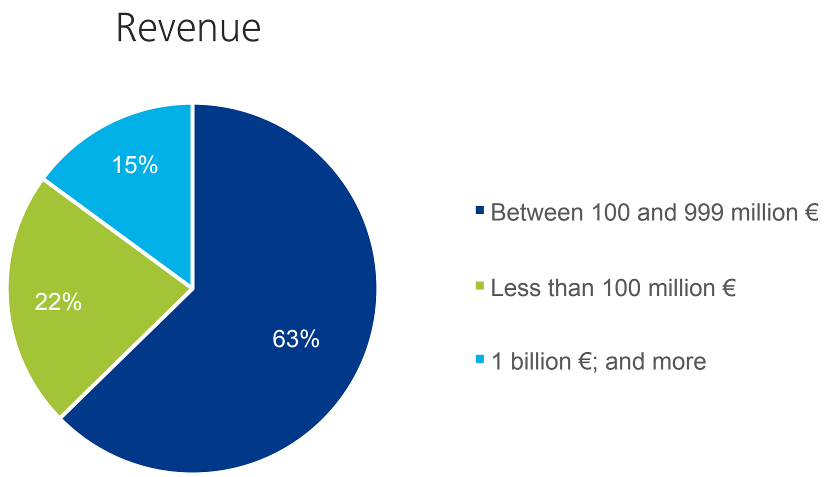


The oil prices drop had mixed consequences in Portuguese company's performance prospects, with nearly 47% of CFOs considering that it had no effect.

However, almost one third of the CFOs in Portugal believe performance will be damaged, as some companies in Portugal are heavily exposed to export markets dependent on oil prices such as Angola.

Sample characterization Portugal





Data summary

To facilitate interpretation, this table contains a full breakdown of net balances to each questions. Because of rounding, percentages may not always add up to 100.

	GDP	€	AT	BE	CH	DE	ES	FI
Compared to three/six months ago, how do you feel about the financial prospects for your company?								
More optimistic	25%	23%	19%	33%	27%	19%	47%	36%
Broadly unchanged	53%	57%	56%	42%	57%	61%	39%	53%
Less optimistic	22%	19%	25%	25%	16%	19%	14%	11%
Net balance	2%	4%	-6%	8%	10%	0%	33%	24%
In your view, how are the following key metrics for your company / corporates likely to change over the next 12 months?								
Revenues								
Increase	63%	65%	39%	68%	64%	70%	72%	60%
No change	22%	20%	51%	13%	18%	15%	20%	24%
Decrease	15%	15%	10%	19%	18%	15%	7%	16%
Net balance	48%	50%	28%	48%	46%	55%	65%	44%
Operating margins								
Increase	38%	41%	16%	52%	28%	32%	50%	51%
No change	37%	38%	56%	29%	31%	38%	39%	36%
Decrease	25%	21%	29%	19%	41%	30%	11%	13%
Net balance	14%	19%	-13%	32%	-14%	2%	39%	38%
Capital expenditure (CAPEX)								
Increase	36%	42%	N/A	47%	34%	42%	49%	44%
No change	44%	41%	N/A	40%	42%	38%	33%	44%
Decrease	20%	17%	N/A	13%	24%	20%	18%	11%
Net balance	16%	26%	N/A	34%	10%	22%	31%	33%
Number of employees								
Increase	34%	39%	15%	43%	32%	41%	46%	25%
No change	43%	39%	64%	43%	47%	32%	36%	59%
Decrease	24%	22%	21%	15%	21%	27%	18%	17%
Net balance	10%	17%	-6%	28%	11%	13%	28%	8%
How would you rate the overall level of external financial and economic uncertainty facing your business?								
High level of uncertainty	68%	68%	53%	49%	69%	93%	66%	56%
Normal level of uncertainty	27%	28%	34%	46%	30%	6%	27%	38%
Low level of uncertainty	4%	4%	12%	5%	1%	1%	7%	7%
Net balance	64%	63%	41%	44%	68%	92%	59%	49%
Is this a good time to be taking greater risk onto your balance sheet?								
Yes	29%	32%	18%	38%	21%	16%	46%	36%
No	71%	68%	82%	63%	79%	84%	54%	64%
Net balance	-42%	-37%	-64%	-25%	-58%	-68%	-8%	-29%
How do you currently rate the following as a source of funding for corporates in your country?								
Bank borrowing								
Attractive	67%	66%	72%	79%	69%	70%	86%	57%
Neither attractive nor unattractive	21%	24%	20%	21%	15%	25%	4%	23%
Unattractive	12%	10%	9%	0%	16%	5%	10%	20%
Net balance	54%	56%	63%	79%	54%	65%	76%	36%
Corporate debt								
Attractive	42%	39%	40%	69%	46%	40%	57%	52%
Neither attractive nor unattractive	37%	41%	38%	28%	33%	41%	23%	36%
Unattractive	22%	21%	22%	4%	21%	19%	19%	11%
Net balance	20%	18%	18%	65%	25%	21%	38%	41%
Equity								
Attractive	22%	19%	32%	27%	18%	21%	39%	27%
Neither attractive nor unattractive	46%	48%	32%	60%	50%	54%	23%	45%
Unattractive	32%	33%	36%	13%	32%	25%	38%	27%
Net balance	-11%	-15%	-4%	15%	-14%	-5%	1%	0%
Internal financing								
Attractive	51%	48%	66%	49%	61%	57%	51%	36%
Neither attractive nor unattractive	38%	41%	25%	44%	30%	41%	36%	41%
Unattractive	11%	10%	9%	7%	9%	3%	13%	23%
Net balance	40%	38%	57%	42%	52%	54%	38%	14%
How would your company be impacted by the formation of a Transatlantic Trade and Investment Partnership (TTIP) between the EU and US?								
Advantages	23%	26%	27%	37%	14%	33%	23%	21%
No impact	73%	72%	64%	59%	80%	64%	70%	77%
Disadvantages	4%	3%	9%	5%	6%	4%	6%	2%
Net balance	19%	23%	18%	32%	8%	29%	17%	19%

FR	IE	IT	NL	NO	PL	PT	RU	SE	TR	UK
10%	45%	28%	22%	18%	42%	30%	26%	62%	34%	17%
61%	48%	64%	61%	38%	37%	39%	44%	27%	43%	51%
29%	6%	8%	17%	44%	21%	31%	30%	12%	24%	32%
-19%	39%	20%	6%	-26%	21%	-1%	-4%	50%	10%	-15%
50%	74%	82%	56%	45%	76%	57%	60%	77%	71%	52%
30%	13%	9%	17%	22%	16%	25%	18%	12%	18%	37%
20%	13%	8%	28%	33%	8%	18%	23%	12%	11%	11%
30%	61%	74%	28%	12%	68%	39%	37%	65%	61%	41%
26%	35%	76%	36%	40%	48%	33%	46%	65%	60%	16%
52%	48%	17%	33%	26%	33%	42%	30%	22%	23%	46%
23%	16%	7%	31%	35%	20%	25%	25%	13%	17%	37%
3%	19%	69%	6%	5%	28%	7%	21%	52%	43%	-21%
26%	63%	62%	31%	33%	57%	42%	21%	28%	40%	16%
55%	20%	31%	53%	41%	35%	28%	68%	47%	40%	50%
19%	17%	7%	17%	27%	8%	30%	11%	25%	20%	34%
6%	47%	55%	14%	6%	49%	12%	11%	3%	21%	-18%
29%	68%	54%	28%	26%	N/A	36%	25%	23%	36%	18%
52%	16%	29%	42%	38%	N/A	30%	46%	57%	45%	53%
19%	16%	17%	31%	37%	N/A	33%	30%	20%	18%	29%
10%	52%	37%	-3%	-11%	N/A	3%	-5%	3%	18%	-11%
55%	52%	48%	69%	24%	60%	69%	72%	37%	67%	83%
39%	45%	46%	31%	48%	26%	25%	23%	60%	29%	16%
6%	3%	5%	0%	28%	14%	6%	5%	3%	4%	1%
48%	48%	43%	69%	-3%	45%	63%	67%	33%	63%	83%
29%	39%	59%	25%	22%	22%	15%	30%	39%	6%	25%
71%	61%	41%	75%	78%	78%	85%	70%	61%	94%	75%
-42%	-23%	18%	-50%	-55%	-56%	-70%	-40%	-22%	-88%	-50%
71%	27%	48%	71%	69%	61%	56%	35%	78%	38%	87%
26%	53%	25%	24%	20%	33%	30%	19%	15%	27%	8%
3%	20%	27%	6%	10%	7%	14%	45%	7%	35%	4%
68%	7%	21%	65%	59%	54%	42%	-10%	72%	2%	83%
45%	22%	19%	28%	19%	38%	41%	30%	43%	19%	66%
55%	63%	23%	47%	32%	42%	50%	28%	34%	35%	27%
0%	15%	58%	25%	49%	20%	9%	42%	22%	46%	7%
45%	7%	-38%	3%	-30%	17%	31%	-12%	21%	-27%	59%
10%	15%	16%	15%	38%	31%	29%	19%	21%	49%	26%
61%	78%	18%	62%	41%	46%	52%	30%	55%	33%	44%
29%	7%	66%	24%	21%	24%	20%	51%	24%	18%	30%
-19%	7%	-50%	-9%	16%	7%	9%	-32%	-3%	31%	-4%
45%	58%	33%	N/A	N/A	41%	53%	79%	37%	44%	N/A
52%	38%	33%	N/A	N/A	43%	42%	12%	53%	43%	N/A
3%	4%	35%	N/A	N/A	16%	5%	9%	11%	13%	N/A
42%	54%	-2%	N/A	N/A	25%	48%	70%	26%	31%	N/A
13%	30%	29%	18%	8%	16%	36%	5%	42%	27%	N/A
87%	70%	69%	82%	90%	76%	61%	81%	57%	62%	N/A
0%	0%	2%	0%	2%	8%	3%	14%	2%	11%	N/A
13%	30%	27%	18%	6%	9%	33%	-9%	40%	16%	N/A

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