Global CFO Signals

Geopolitical risks cast shadows

Q3 2014 Deloitte Member Firms' CFO Surveys: Argentina, Australia, Austria, Belgium, Finland, Germany, Ireland, Middle East, Netherlands, North America, Norway, Southern Africa, Sweden, Switzerland, and United Kingdom

DTTL Global CFO Signals
November 2014

About the DTTL Global CFO Program

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

About Deloitte Member Firm CFO Surveys

Twenty-three Deloitte member firms' CFO surveys, covering 58 countries, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. They are not, nor are they intended to be, scientific in any way, including the number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed populations but does not necessarily indicate economic or industrywide perceptions or trends. Further, the focus, timing, and respondent group for each survey may vary. Please refer to "About Deloitte Member Firms' CFO Surveys" (page 29) for member firm contacts and information on the scope and survey demographics for each survey.

About DTTL's Global CFO Signals

The purpose of DTTL's *Global CFO Signals* report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the third-quarter 2014 CFO surveys from Deloitte member firms in the following geographies:

Argentina: Business conditions weigh heavily on confidence

Australia: Looking beyond the clouds

Austria: Expectations retreat further

Belgium: Amid more uncertainty, declining optimism

Finland: Back to basics

Germany: Still on course in troubled times

Ireland: Growing confidence

Middle East: One region, two growth stories

Netherlands: Risk appetite high despite lower confidence

North America: Signs of positive momentum*

Norway: Cautious optimism

Southern Africa: Ready to climb more mountains

Sweden: More cautious view on business climate

Switzerland: Confidence falls as uncertainty increases

United Kingdom: Risk appetite at new high

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

Global Contacts

Sanford A Cockrell III
Global Leader
Global CFO Program
Deloitte Touche Tohmatsu Limited
scockrell@deloitte.com

Lori Calabro
Editor, *Global CFO Signals*
Global CFO Program
Deloitte Touche Tohmatsu Limited
localabro@deloitte.com

Robert Flanagan
Chief of Staff
Global CFO Program
Deloitte Touche Tohmatsu Limited
robflanagan@deloitte.com

For additional copies of this report, please email: GlobalCFOProgram@deloitte.com

Contents

Global CFO Signals

CFO Sentiment Q3 2014

Geopolitical risks cast shadows

What a difference a quarter can make. Three months ago, many finance chiefs seemed to be uniting in their shared optimism. In the Q3 edition of *Global CFO Signals*, however, uncertainty is on the rise in several of the 15 surveys featured, and geopolitical risks are giving companies pause.

The result is a shift in sentiment in several countries. In Australia, for example, optimism fell for the second consecutive quarter. The number of CFOs in Switzerland reporting higher optimism (26%) is the lowest in two years. And German CFOs' prospects for their own economy and businesses fell. In fact, for the first time since 2012, there are more pessimists than optimists regarding their business outlooks.

One driver is concern over the future of the eurozone. Consider that only a very small minority of Germany's CFOs believe the euro crisis has been weathered. Moreover, even among countries reporting strong optimism, there are worries this quarter: in the UK, for example, expectations for near-term improvement in the euro area fell from +54% last quarter to net -39% in this survey.

Meanwhile, other geopolitical risks are also causing concern. In Sweden, 30% of CFOs cite a strong impact from the Russia/Ukraine situation. Political instability in the Middle East is of concern in that region and elsewhere. And some 70% of Switzerland's CFOs see geopolitical tensions as a major risk for their companies, up 16 percentage points from last quarter.

"From a CFO's perspective, such geopolitical uncertainties weigh on growth and investment prospects, particularly in Europe, which is in danger of falling into recession again," notes Ira Kalish, chief global economist for Deloitte.

Still, there is plenty of positive news to report. In North America, for example, growth remains the top priority for large corporations, and most indicators are solidly positive. Risk appetite is at a new high in the UK; some 80% of Ireland's CFOs see their strategy as expansionary rather than defensive; and a net 47% of CFOs in the Middle East report being optimistic despite the ongoing turbulence there. And if there is one uniting theme, it is favorable credit availability overall.

How does CFO sentiment in Q3 2014 break down? What follows is a synopsis by region:

Americas

Much of the good news this quarter is emanating from North America. Emboldened by the strength of the economy, CFOs remain optimistic about their companies' prospects (44% expressing rising optimism versus 12% expressing pessimism), and near-term growth expectations reflect that outlook. Expectations for sales reached their highest level in three years, and 90% of CFOs now expect year-over-year earnings gains—the highest level in the survey's 18-quarter history. In addition, 60% of CFOs now expect hiring gains—the highest proportion in three years. While their outlooks on Europe declined, their perceptions of the North American economies remained strong, and those of China's rebounded. On the other hand, in the one South American country reporting—Argentina—CFO outlooks can be described as troubled, fueled by a lack of confidence in the government's ability to enact effective economic policies.

Australia

Net optimism among Australia's CFOs remains subdued due to lower-than-expected growth rates in China, weakened commodity prices, and ongoing frustration with federal government policy. In fact, optimism is now at its lowest level (net +2%) since mid-2013. Despite this, the falling Australian dollar is having a positive impact on confidence. Credit is now cheaper and more available than at any time since the survey began in 2009. Moreover, the majority of CFOs plan to increase capital expenditures, M&A activity, and organic expansion over the next 12 months.

Europe

When it comes to CFO sentiment, there is plenty of inconsistency across Europe. In the UK, for example, CFO optimism is apparent in their risk appetite, as well as expectations for revenues and margins. In Ireland, CFO expectations for capital spending, hiring, and discretionary spending came in strong again this quarter. And a net 10% of Norway's CFOs report increased optimism. Elsewhere, in the Netherlands, however, optimism dropped to 13%, and the percentage of CFOs who feel uncertain about the economy jumped to 81%. Net optimism among Finland's CFOs also dropped—from 30% to 6% in six months. And in Germany, a third of CFOs assess their business prospects as being worse than three months ago.

Middle East

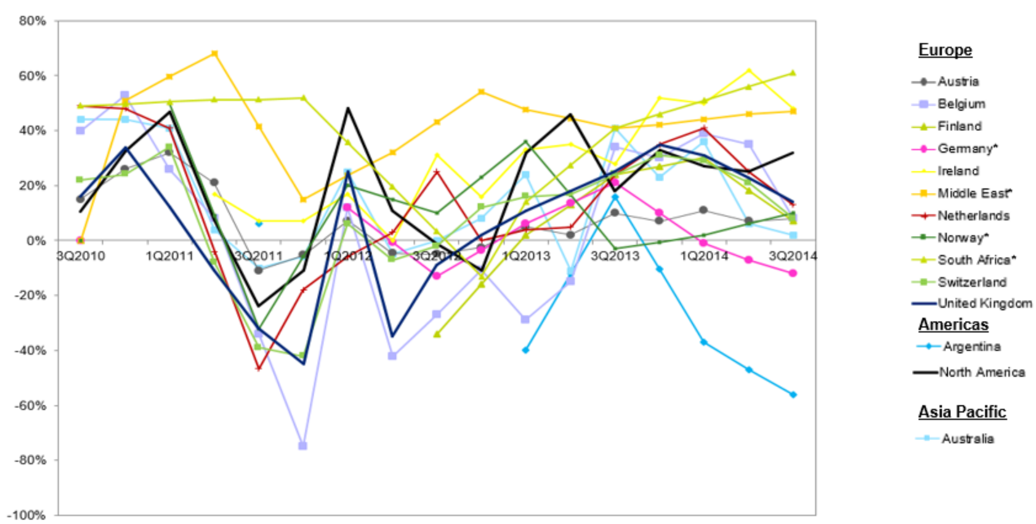
There seem to be two differing views in the Middle East, which comprises economies with disparate rates of progress. Growth, in fact, is becoming more country specific, with considerable favor toward Gulf Cooperation Council (GCC) oil-exporting nations. Still, overall, CFO optimism in the region has risen to one of its highest levels in the last three years. A net 47% are decidedly more optimistic regarding the financial prospects of their companies compared with the last six months. Moreover, while CFOs continue to focus on increasing cash flow and reducing costs, they are also prioritizing organic growth, the introduction of new products and services, and expansion into new markets.

Southern Africa & East Africa

Finally, the trend of differing views within one region also extends to Southern Africa. A prevailing climate of uncertainty in South Africa appears to have filtered through to the smaller economies, which conduct a large proportion of their trade with that country. Consequently, CFOs from Namibia, Botswana, Zimbabwe, Mozambique, Malawi, and Zambia appear generally cautious about their companies' prospects. In comparison, East Africa's CFOs seemed almost uniformly optimistic. Apart from some concern about increased domestic competition, CFOs in East Africa were far more bullish than their Southern counterparts.

CFO Sentiment: Net Change in Optimism

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



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

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

Global CFO Signals
By the Numbers

Risk appetite

Appetite for risk is not universal this quarter. In the UK, CFOs who say now is the time to take greater risk onto their balance sheets is at a seven-year high. Some 65% of Ireland's CFOs share the same sentiment, and in Switzerland, 51% of CFOs are ready to take on risk despite their lower optimism. The sentiment is not shared in Australia, though, where risk appetite fell to 30% and is now at its lowest level since June 2013.

Uncertainty

Uncertainty has reared its ugly head. In Australia, 63% of CFOs now rate financial/economic uncertainty as above normal or high—up from 56%. The proportion of German CFOs who rate uncertainty as high or very high has nearly tripled since the spring. And for the first time in two years, the indicator increased in Belgium and the UK. The Scotland independence referendum seems to have had influence. Among the UK CFOs who responded post vote, 30% rated uncertainty as above normal or higher—compared with 63% before the vote.

Metrics

Expectations for revenues and earnings remain fairly positive. North America's CFO expectations for sales, for example, rose from 6.1% to 6.8%, the highest level since third quarter 2011, and in the UK, they are close to the four-year highs hit in Q2. Margins are positive in some countries as well, including 55% of Belgium's finance chiefs who expect them to be better than expected. Some 33% of Switzerland's CFOs, however, expect decreases in margins in the next 12 months, and in Finland, 37% of CFOs say the geopolitical crisis will reduce revenues.

Hiring

The news on the global job front continues to be mixed. Overall, Switzerland's CFOs still expect to increase corporate hiring over the next 12 months, and some 60% of North America's CFOs expect year-over-year gains at their companies—the highest level in three years. In Finland, however, 38% of CFOs still foresee reductions in the next few months, as do 21% of Austria's CFOs.

Corporate strategy

Despite the cautionary tone in numerous countries, many CFOs still seem bent on growth and expansion. North America's CFOs indicate a bias toward growing revenues and investing cash. Meanwhile, in Ireland, more than 80% of CFOs believe their companies' strategy is expansionary. Belgium's CFOs have lowered the importance of defensive strategies by 10 percentage points; and 52% of South Africa's CFOs say their companies have recently expanded into the rest of Africa, and of those who haven't, 80% plan to do so.

M&A activity

Strong balance sheets, easily available financing, and perceived opportunities are leading to increased M&A activity in many countries. Some 87% of the Netherlands's CFOs expect M&A activity to increase in the next 12 months, as do 65% of Sweden's, 59% of Switzerland's, and 56% of Australia's. In Germany, CFOs say their targets for M&A include those in Western Europe, despite their depressed sentiment toward the region.

Deloitte Member Firm CFO Surveys:

Third Quarter 2014 Highlights

Argentina

Business conditions weigh heavily on confidence

Uncertainty on the rise

The seventh CFO Survey in Argentina asked for opinions in five areas: the role of the CFO, finance organization, company, industry, and economy. In terms of economic concerns, the top two named were the exchange rate (27%) and inflation (21%).

When asked about their attitudes toward the government's ability to enact or maintain effective economic policies that could affect their businesses, the CFO respondents were united with 100% expressing skepticism.

No optimism

As for their overall level of optimism, CFOs were influenced by both internal and external factors – and differed greatly from their peers elsewhere. In fact, no CFO reported being more optimistic this quarter, whereas 56% of CFOs indicated less optimism, and 44% did not report any notable change.

Company, industry, and finance concerns

CFOs indicated improving and maintaining margins as their companies' top concern, followed by dealing with government regulation and managing working capital. As for industry concerns, government regulation/legislation topped the list, followed by pricing trends and changes in cost structures. The top challenges in the finance department included ensuring funding, liquidity and an adequate cost of capital (29%) and providing metrics, information, and tools for business decisions (15%).

Highlights from the H2 2014 Argentina CFO Survey:

- Some 56% of CFOs are less optimistic about overall business conditions, and 44% did not report any notable change.
- The three top job stresses cited were excessive workloads (22%), stakeholder demands (13%) and inadequate support staffs (11%).
- In the next 12 months, CFOs' main strategic focus will be on growth/preservation of income, followed by issues related to funding/liquidity risk.
- Some 63% of CFOs believe that recent government actions bode negatively for their industry.

As for making decisions in each of these areas, participating CFOs said they possess the highest level of influence on capital expenditures, operating budgets, in the selection of projects and initiatives, acquisitions, and communications with shareholders.

Still leaning steward

In this environment, CFOs reported a fairly balanced distribution of time among their four roles with a slight inclination toward steward (34%) followed by operator (25%), strategist (21%), and catalyst (20%). If they had to leave their jobs, the biggest triggers would be for a similar CFO role with better pay and benefits, or for a larger role, such as CEO.

Australia
Looking beyond the clouds

Highlights from the Q3 2014 Australia CFO Survey:

- The rate of net optimism improvement among CFOs slowed again this quarter. This has resulted in the lowest net level of confidence (net 2%) since mid-2013.
- Optimism has been negatively affected by lower-than-expected growth rates in China – and propelled by the strength of the U.S. economy.
- Credit is cheaper than at any time since the survey began in 2009.
- Risk appetite of CFOs has fallen to the lowest level since June 2013.
- The level of uncertainty has risen, with 63% of CFOs now saying it is above normal or high compared to 56% last quarter.

Slowdown in sentiment

According to the latest Australian CFO Survey, CFO optimism has fallen again. This is the second consecutive quarter with positive-leaning CFOs only just outnumbering the negative, and has resulted in the lowest net level of business confidence (net 2%) since mid-2013. While net optimism remained positive, it is significantly lower than for the third quarter of 2013 (41%), the fourth quarter of 2013 (23%), and the first quarter of this year (36%).

Falling confidence is being driven by the slowdown in China and weakened commodity prices at home. However, at least 40% of respondents said the lower Australian dollar had helped support overall confidence levels in Q3.

Federal government policy uncertainty weighed heavily on CFO confidence, with close to half citing a negative impact on optimism. When asked specifically about the ongoing Senate negotiations over the Federal Budget, three quarters of respondents said it was negatively affecting their confidence. However, only a third said it was influencing their investment plans, while 65% said it had no impact at all.

In dealing with the Senate standoff, close to half of the respondents called for a mini budget to speed up or hold the rate of fiscal repair. Meanwhile, 37% of CFOs felt that the government needed to continue negotiations to achieve the best possible fiscal repair given the current political circumstances. Either way, CFOs are seeking an outcome where they can have greater confidence and certainty. .

Uncertainty up; risk appetite down

Levels of financial and economic uncertainty continued to track upwards. While no CFOs have described the current level of uncertainty as ‘very high’ since the start of the year, the number who think it is above normal or high has risen to 63% from 56% last quarter. Moreover, the majority of CFOs (93%) believe the current rates of uncertainty will last one year or more, up from 78% last quarter. This reverses a trend in previous reports where a growing number of CFOs expected uncertainty to last less than 12 months.

In this environment, appetite for risk has dipped again, with only 30% of CFOs believing now is a good time to take greater risk onto their balance sheets, the lowest level since Q2 2013.

Growth plans remain firm

Still, CFOs are still looking for growth and expect revenue to increase over the next 12 months, but at a lower rate than last quarter. They do, however, have lower expectations for margins, headcount, discretionary spending, and cash flow than last quarter.

On a more positive note, close to 40% of CFOs are looking to increase capital expenditure while a similar number expect an increase in dividends and share buybacks. This follows calls over the past 12 months from institutions, the media, and analysts for companies to either optimize capital through growth initiatives or return free cash to shareholders.

CFO growth plans for the next 12 months remain strong, despite the environmental factors. Plans for M&A activity remain consistent with last quarter, with more than half of surveyed CFOs planning to increase activity. Similarly, the number of CFOs planning organic growth and introducing new products and services are as high as they have been for the past two years. CFOs have also indicated increased interest in new capital raisings and renegotiating financing facilities compared with last quarter.

Cheap, available credit

CFOs have reported in net terms that credit is cheaper and more available than at any time since the survey began in Australia in 2009. More than 60% of respondents rated credit as either somewhat or very cheap, up from 48% in Q2, while 86% described it as somewhat or very available, up from 78% last quarter.

While the number of CFOs who believe Australian corporate balance sheets are underleveraged has risen, more CFOs expect their own leverage to fall in the year ahead as opposed to rise, reflecting the suppressed appetite for risk.

Investment hurdle rates stay high

This quarter, we also looked at the relationship between weighted average cost of capital (WACC) rates, hurdle rates, and business investment decisions. Most CFOs reported their companies consider a hurdle rate at 10%–12.99% or 13%–15.99%. Close to a third of respondents said their hurdle rate was the same as their WACC rate, while the remaining respondents were quite evenly spread with hurdle rates 1% to 5% higher than their WACC rates. In most cases, respondents said they rarely changed their hurdle rates, if ever, indicating that while lower interest rates were having a positive impact on a number of sectors, they were less effective in stimulating capital expenditure or business investment.

Austria
Expectations retreat further

Continued tempered outlook

This quarter, for the second time in a row, Austria's CFOs are equally united in expecting a downturn in both the development of the market and their companies.

While CFOs expectations concerning the economy may have decreased last quarter, this quarter they got even worse. Only 12% of the surveyed CFOs believe that the economy will increase over the next months. This compares to 22% in our last survey, a decrease of 10%. A similar trend is shown in the number of CFOs who believe that an economic crisis in the next months is unlikely. That percentage decreased from 47% to 26% in our current survey.

As for their own companies, Austria's finance chiefs are also not expecting improvement. Only 35% of survey respondents anticipate an increase in their company's revenues in the next few months; compared with 38% last quarter. Moreover, 19% expect a decrease, up from 9% last quarter. Staff size is also expected to shrink, with 21% of the surveyed CFOs expecting to decrease staff in the coming months compared to 18% in the last survey.

Mixed views on the credit environment

One piece of good news is that CFOs expect to see an increase in the availability of credit for their companies in the coming months. Currently, 57% of surveyed CFOs expect either good or very good availability of credit for their companies.

Highlights from the Q4 2014 Austria CFO Survey:

- Some 39% of CFOs believe that the economy will worsen, compared with about 19% in the last survey.
- Currently 26% of CFOs think that a future financial crisis is unlikely compared to 47% last quarter.
- Some 19% of CFOs expect a decrease in revenues, compared to 9% last quarter.
- Just over half (51%) of the CFOs expect steady domestic sales.

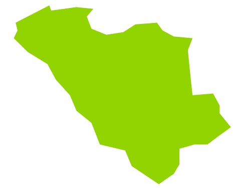
The climate for investments, however, reflects the negative perceptions of economic development. In our current survey, 27% of CFOs indicate that they want to invest slightly less than in the previous quarter; 7% want to invest severely less.

Last quarter's improved perception of M&A activity was sustained in the current survey and even increased slightly.

Exchange expectations

Expectations for the Austrian Stock Exchange also decreased slightly in the current quarter.

Belgium
Amid more uncertainty, declining optimism



External events dominate

Noneconomic events—including the spread of Ebola, conflicts in the Middle East and in Eastern Ukraine—and the worsening economic outlook for the euro area, which are at the center of concern for the global economy, drove the mood of Belgian CFOs in Q3.

In the course of the third quarter, in fact, conflicts in the Ukraine and the Middle-East further escalated. The sentiment about economic growth in the emerging markets and the eurozone, and its main engine Germany more in particular, declined. By contrast, CFOs remain optimistic about the growth forecast in the U.S. and Asia-Pacific.

In response, the general level of financial and economic uncertainty has gone up for the first time in two years. The pace of economic recovery is again top of the list of what worries CFOs most. And CFO optimism, one of the key indicators of the survey, remains positive but has dropped significantly in the third quarter. CFOs of the larger companies with mainly international businesses are much more pessimistic than those operating smaller and predominantly Belgian activities.

Performing on budget

Despite the uncertainty, at the end of the third quarter – and for the third consecutive quarter – two-thirds of survey participants report their companies' financial performance lies at or above budget. In comparison with 2011 - 2013 when about half of organizations were consistently underperforming as compared to budgets, the performance to budget ratio for 2014 will be good.

There is more good news on the top line. The majority of survey participants expect to achieve revenue growth and margin growth this year, although larger companies expect better performance than smaller ones. Expectations for capital expenditure and hiring have improved.

Highlights from the Q3 2014 Belgium CFO Survey:

- CFOs' perception of financial and economic uncertainty rose for the first time in two years.
- Overall, optimism remains positive. But while 35% of CFOs report being optimistic, a full 27% report being pessimistic.
- Two-thirds of survey respondents report revenues and margins in line with the budget at the end of the third quarter.
- Defensive strategies lost some importance this quarter, while focus on expansionary strategies remained stable.
- Credit is cheaper and more available than it has been anytime in the last three years.

Risk appetite relatively high

Although lower than in the second quarter, risk appetite trends significantly, above the multiyear average, with 33% of CFOs saying it is a good time to be taking greater risk onto their balance sheet.

Financing conditions are an important positive factor enabling investments. All main sources of funding are rated attractive and credit is today cheaper and more available than at any time since 2009. The dominant view among CFOs is that pricing and lending terms will not change in the next six months. Many organizations also have internal financing options available.

Little less defensive

Defensive strategies, such as cost reduction and efficiency improvement, have lost some importance, but there is no significant evidence that expansionary strategies are gaining ground. The rising uncertainty about the international financial and economic environment in general is the main inhibitor for investment spending for the internationally oriented organizations. For more local businesses, low-growth projections for the eurozone and Belgium are the main inhibitors for investment.

Also of note, in Q3 economic sanctions against Russia were taken. A third of the responding CFOs report that they brought about a negative impact. Although the crisis in Ukraine is still not at the top of the CFOs' priority lists, a rising number of CFOs do consider current geopolitical risks to be their top concern, namely 11%.

Optimistic toward policy

During the survey period, the formation of the Center-Right federal government that was inaugurated on October 11 was still in process. But for the first time since the launch of the survey in 2009, CFOs were positive about the priorities for financial and economic policy and the potential impact on the success of their businesses.

CFOs evaluate several of the policies that have been included in the charter of the new federal government as important contributors to the future success of business in Belgium. CFOs see most benefit from the reduction of the employer's social contribution, the decrease in corporate tax, and the suspension of the automatic wage indexation mechanism. All three measures have been retained to some extent in the government charter.

Finland
Back to basics

What has changed; what has not

Soon after the previous survey published, Finland experienced some dramatic changes in the pan-European geopolitical balance of power that has had significant impact on the ability to seek growth from Russia due to the tightened trade sanctions. Its effect may be seen in stalling of the rapid increase in general business confidence and the fall of net optimism by 24 percentage points. The net percentage of CFOs who are optimistic outweighs those who are pessimistic by 6%. But there still are more CFOs' who feel their financial prospects are better than six months ago.

Still, business conditions have remained generally the same. One-quarter of CFOs are seeing the conditions as favorable, while 33% are expecting unfavorable conditions. Compared to our previous survey, the biggest change in business conditions can be seen in services and consulting industry. At the moment, 60% of the services and consulting representatives see their business conditions as unfavorable.

Concerns and responses

The same worries over demand, the outlook for the Finnish economy, and the cost of labor and raw materials continue as the greatest concerns among Finnish CFOs. The changes in the geopolitical crisis in Ukraine and the hardening European Union sanctions have not had a negative impact on the levels of country risk Russia. The risk level has remained roughly the same (20%) since our previous survey.

Assuming a cash surplus situation, CFOs favor investments over debt reduction or dividends to owners. More CFOs assert that they would be more focused on their home markets in the coming six months than they were in the spring 2014. For instance, 23% of the respondents assume they would make some strategic investments in Finland.

Highlights from the H2 2014 Finland CFO Survey:

- Net business optimism has fallen in Finland from 30% to 6%.
- Almost 40% of CFOs say that geopolitical crisis will reduce their revenues.
- Some 31% of Finland's CFO are prioritizing growth strategies, which is six percentage points lower than six months ago.
- More than 60% of CFOs expect to increase their operational cash flow in the next 12 months.
- In the next six months, 38% of respondents plan to reduce their level of employees.

Yet, even though the majority of companies (63%) predict that they can increase their operational cash flow in the next 12 months, this won't translate into a greater willingness to hire. There are still significantly more companies that are cutting their workforce than those who are hiring new employees. This indicates that the barriers constraining the development of the Finnish economy have not been overcome.

Responding to geopolitical crisis

The geopolitical crisis is making CFOs cautious in Finland. They are shifting their geographical focus to less volatile markets such as Nordic and other EMEA countries. The crisis will also affect more than one-third's revenues negatively. A relieving indication is that more than half of the companies have been able to adapt to the situation and their business won't be affected by the crisis. Still, CFOs' sentiment seems to some extent go against the notion that the crisis won't have an impact on the development of the Finnish macroeconomic environment.

Germany
Still on course in troubled times

Highlights from the H2 2014 Germany CFO Survey:

- One in two CFOs sees geopolitics as a high risk for their company.
- Currently 31% of CFOs assess their own business prospects as being poorer.
- Two-thirds of German CFOs believe current stagnation in the eurozone is a preview of a longer period of stagnation.
- One in three CFOs is planning substantial increases in investments in Germany.
- M&A targets also include Western Europe.

Uncertainty on the rise

From the German CFOs' view, uncertainty about the economy has increased sharply since the spring. The proportion of CFOs who rate uncertainty as being high or very high has nearly trebled since then. It is true that the uncertainty measured at the height of the euro crisis was higher, but the broad normalization of the economic environment is over for the time being.

In this new environment, companies have become more skeptical toward economic and business prospects. In the spring, for example, nearly nine out of 10 CFOs were optimistic about the economy on a one-year view. Now, only one CFO in three is still optimistic about the economy. The rising uncertainty also characterizes companies' business prospects. For the first time since 2012, there are once again more pessimists than optimists. Close to one third of CFOs assess current business prospects as being worse than three months ago, only one in five as being better.

Scant optimism on euro area

With regard to the euro area, pessimism prevails. Only an infinitesimally small minority of CFOs consider that the euro crisis has been weathered, while a relatively large number expect it to return. On the topic of future growth in the euro area, only one in 10 CFOs is convinced of any noticeable acceleration in the next three years. By contrast, two-thirds believe that the current stagnation in the euro area is just the harbinger of a longer period of the same.

New risks on the radar screen

At present, geopolitical and cyclical risks dominate CFOs' risk assessments. Nearly half of the companies see current geopolitical developments as a risk for their own company, and more than half consider a decline in domestic demand to be a high risk. This also means the companies' willingness to take risks is declining.

Staying the course

Despite the cloudy environment, companies are holding fast to their chosen course. Strategic priorities and investment plans remain largely constant. Germany, North America, and China are top investment targets; M&A targets also include Western Europe.

The willingness of German companies to invest has been low, despite favorable cyclical developments in recent years. This trend continues in the changed environment: the investment propensity is rising slightly, in spite of the difficult economic position. Companies are either pursuing long-term investment plans, which are not fundamentally put in doubt by poorer prospects, or they are slowly dispersing the long-standing investment backlog. Companies' willingness to hire is declining slightly, but remains at the level of the spring survey.

Ireland
Growing confidence

Recovery trend continues

Optimism and positivity continue to be the trend for Q3 2014, as the country continues to make steps toward recovery. The Irish government announced the results of a Cabinet reshuffle and released a document setting out the coalition's key priorities including employment and domestic economic growth. Statistics released by the Central Statistics Office Ireland show an increase in residential property prices and a decrease in the Standard Unemployment Rate in comparison with Q3 2013.

Against this backdrop, business optimism dropped from 62% to 48%. But it continues to reflect the net optimism of Q1 2014 (50%) and Q4 2013 (52%) and is a significant improvement on optimism in Q3 2013 (28%). The survey was conducted in the lead up to Budget 2015 which may account for the drop in optimism this quarter, as companies awaited the impact of these announcements.

CFOs' optimism is extending to their risk appetite. In fact, 65% of CFOs feel it is a good time to take greater risk onto their company's balance sheet, up from 62% last quarter. This is a significant improvement over the 24% reporting in Q3 2013.

Focused on expansion

More than 80% of CFOs now believe their company's strategy is expansionary. This upward trend has continued for the third consecutive quarter and is consistent with the recovery of the Irish economy. Interestingly, for the first time, less than one in five CFOs now consider their corporate strategy to be defensive.

Long-term growth for a company's products and services remains the factor that contributes most positively to investment plans, according to 76% of respondents. This is followed by growth in Ireland, the EU, the U.S., and Asia.

Highlights from the Q3 2014 Ireland CFO Survey:

- Some 65% of CFOs surveyed believe that now is a good time to take greater risk onto their balance sheets.
- Net optimism dropped from 62% last quarter, to 48%, but remains a significant improvement on Q3 2013 (28%).
- More than 80% of Irish CFOs consider their corporate strategy as expansionary rather than defensive.
- While 61% of respondents say sustainability is an important part of a CFO's agenda, only 29% provide sustainability measures as part of their reporting cycle.
- Some 30% of respondents say their companies do not require funding at this time, a 6% increase from last quarter.

One in four CFOs (26%) cites market uncertainty as having a negative impact on their company's investment plans, making this the most unfavorable factor affecting investment in companies according to respondents.

Over the next 12 months, however, CFOs expect operating costs (72%), revenues (72%), and operating cash flows (72%) to increase the most, according to respondents. On the other hand, CFOs believe bank borrowings (23%) and the levels of cash and cash equivalents on their balance sheets (23%) will be the metrics that will experience the most decline in the same time period.

Financing, debt, and credit

Some 30% of CFOs cite no requirement for funding their organization at this time. For those that do, their preference for funding from overseas banks continues to rise with an increase of 5% in the last quarter. CFO respondents' preferences for domestic banks and equity as a means of financing remain similar to Q2 2014's results.

A net 22% of CFOs believe new credit to be easily available for Irish corporations. While last quarter showed a net 33%, this is still the second highest response in two years. A net 26% perceive the overall cost of credit as high, a decrease of 15% compared to Q2 2014.

Ready for GAAP changes?

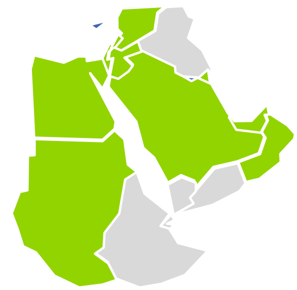
Fundamental changes have been introduced to Irish GAAP effective for periods commencing January 1, 2015 with early adoption permissible. All extant FRSs and SSAPs will be withdrawn and replaced by one standard based on IFRS for SMEs called FRS 102. The changes introduce a wide range of choice of accounting frameworks including IFRS, IFRS with reduced disclosures for qualifying entities, as well as FRS 102. The new frameworks set out regulation for all entities (other than listed entities) to transition to the new accounting frameworks. As we progress toward implementation, 56% of CFOs say they have adequate resources in their finance function to ensure a smooth transition, compared to 68% of CFOs when asked in Q3 2013. Also half of CFOs state their board of directors have yet to conclude on the type of accounting framework for 2015 and beyond - a decrease of 9% in 12 months.

Sustainability and the CFO

Sustainability continues to attract attention from investors, regulators, activists, and the media. However, in addressing sustainability, many organizations tend to have shifting priorities that are insufficiently aligned with strategic business considerations. Some 61% of CFOs believe sustainability remains an important part of the CFO's agenda, yet only 29% provide sustainability measures as part of their company's reporting cycle. For CFOs who do provide sustainability measures, the preferred methods of reporting are through stand-alone Sustainability Corporate Responsibility Reports and Sustainability Corporate Responsibility sections in the annual report.

.

Middle East
One region, two growth stories



Disparate rates of progress

The Middle East is comprised of economies with disparate rates of progress. Growth is becoming more country-specific, with considerable favor toward GCC oil-exporting nations. Most GCC oil-exporters continue to record steady growth, while economic activity in other countries, mostly oil importers, only gradually improves as these nations continue to deal with difficult sociopolitical transitions, subdued confidence, and setbacks from regional clashes.[1]

Despite these differences, overall CFO optimism has risen to one of its highest levels in the last three years. A net 47% are decidedly optimistic regarding the financial prospects of their company when compared to the previous six months. However, CFO perceptions are divided in the region with the Gulf nations reporting higher levels of optimism compared to the surrounding North African and Levant countries. For example, CFOs in Lebanon and Syria did not report a net increase in optimism, while CFOs in the United Arab Emirates reported a net 62% increase.

Driving strategy

With a continued focus on increasing cash flow and reducing costs, CFOs are also prioritizing organic growth, the introduction of new products/services, and expansion into new markets. This represents the evolution of the CFO pioneering as a strategic driver of an organization, rather than solely operating within an operator capacity.

[1] IMF Regional Economic Outlook: Middle East and Central Asia, October 2014

Highlights from the H2 2014 Middle East CFO Survey:

- CFO optimism about the financial prospects for their own companies has rebounded to one of its highest levels in recent years. A net 47% of CFOs are optimistic about the financial prospects of their companies.
- Increased risk appetite is driven by credit's low cost/high availability, increased demand for new credit and low interest rates.
- Equity issuance and M&A activity is expected to increase over the next year.
- Bank borrowing is seen considered to be the most attractive source of funding compared to equity issuance and corporate debt.

Strategic alliances and M&A are the transactions most often considered by CFOs to execute in the next 12 months. Additionally, CFOs estimate that M&A (net 58%) and private equity (net 50%) activities will increase over the course of the year. A net 61% of CFOs reported they would consider these transactions in order to streamline current offerings rather than to diversify.

CFOs anticipate equity-driven growth for the Middle East, a net 52% believe that major equity indices will continue to grow over the next year while a net 34% believe equity issuance will continue to increase over the same period. CFO forecasts of the performance of major equity indices have rebounded to high thresholds that were consistent from 2009-1H 2011.

Financing and leverage

Bank borrowing and capital expenditure were identified as the key business metrics most likely to increase over the coming year by those polled. Measured against other channels of external financing, bank borrowing was considered the most favorable (net 54%) between equity issuance (net 43%) and corporate debts (31%).

While a net 53% of CFOs believe company balance sheets are appropriately leveraged, a net 22% believe they can take on additional leverage. Looking ahead, a net 47% of CFOs estimate that financial leverage will increase over the next year. Contributing factors to higher leverage include increased risk appetite, the low cost and high availability of credit, and the belief that short-term market interest rates are low.

Risk appetite

When asked if it is a good time to be taking greater risk onto the balance sheet, 45% of CFOs agreed, marking one of the highest levels since 1H 2011. Some CFOs have already begun to take more financial risk onto their balance sheet in the last 12 months. Factors driving an increasing risk appetite include a belief for increased leverage, low interest rates, and an increased demand for new credit that is perceived to be easily available and inexpensive.

When asked about their company's business continuity plans, CFOs reported that 18% of Middle East companies still do not have such a plan in place despite the increased instability in the region. For those companies that do, 68% are reviewing their plans and updating them at least once every 12 months if not more.

Netherlands
Risk appetite high despite lower confidence

Uncertainty on the rise

The perception of economic uncertainty rose for the first time since the second quarter of 2013, mainly due to the decelerated recovery of the eurozone economy and geopolitical tensions. Only 22% of CFOs rate the level of uncertainty facing their business as normal or lower than normal – versus 44% last quarter.

At the same time, the net percentage of CFOs who are more optimistic about the financial prospects for their companies continues to drop: from 41% in the first quarter of 2014 to 25% last quarter to 13% now.

Funding remains favorable

Credit continues to be seen as cheap and available. In fact, the availability of credit rose from 49% last quarter to 67% now.

Although less attractive than last quarter, corporate debt is seen as the most attractive source of funding. Some 52% of CFOs see it as the most favored source of corporate funding, followed by bank borrowing and equity issuance.

Risk appetite increased for the sixth consecutive quarter; some 45% of CFOs surveyed believe that now is a good time to be taking greater risk onto their balance sheets. About 55% of CFOs remain more defensive, however, and think that balance-sheet-related risks should be taken at a later stage—or at least not now.

Highlights from the Q3 2014 Netherlands CFO Survey

- CFOs of Dutch companies are less optimistic about the financial prospects of their companies compared to three months ago. Optimism dropped from 25% to 13%.
- The percentage of CFOs who feel uncertain about the economy increased from 56%last quarter to 77% in Q3.
- The percentage of CFOs (45%) who believe that now is the right time to be taking greater balance-sheet-related risk is at a five-year high.
- Some 87% of CFOs expect corporate M&A activity to increase over the next 12 months.

The percentage of Dutch CFOs who expect their cash flow to increase decreased from 81% to 71% year on year. The number of CFOs expecting a decline in cash flow now stands at 10% (up from 3%), while 19% (up from 17%) expect cash flow to remain unchanged.

Still bullish on M&A

CFOs remained very optimistic about corporate M&A. Some 87% of CFOs expect corporate M&A activity to increase over the next 12 months. At the same time, about 68% of CFOs expect their company to enter a strategic partnership versus 61% who expect to complete an acquisition.

North America

Signs of positive momentum

Making the case for acceleration

Mixed messages have been a fixture in our survey findings for the better part of a year. While CFOs have been mostly optimistic about the trajectory of the global economy and their own companies' prospects, their expectations for sales, earnings, investment, and hiring have been on a mostly downward trend.

Last quarter, substantial improvements in CFOs' year-over-year growth expectations seemed to suggest a possible reversal in momentum. But tepid growth expectations among U.S. CFOs, rising pessimism among manufacturing CFOs, and declining perceptions of global economic health provided dampening counterpoints.

This quarter's findings appear to build foremost on last quarter's positive momentum. And they seem to make the strongest case yet for the sustained economic acceleration that has previously been so elusive.

Positive momentum

CFOs are not saying world economies are out of the woods or have shed their dependency on a seemingly growing list of potentially disruptive factors. In fact, concerns around Europe's economic future rose again, and worries about geopolitical disruptions increased sharply.

But, there does seem to be a growing confidence among CFOs that their companies will be able to make the adjustments necessary to survive and thrive in the near and longer term. Sales growth expectations reached their highest level in three years. Moreover, earnings expectations rose to their highest level in more than a year, and 90% of CFOs now expect year-over-year gains – the highest level in this survey's 17-quarter history.

Domestic hiring expectations are up substantially as well, hitting their second-highest level in the past four years. Nearly 60% of CFOs now expect gains – the highest proportion in three years.

Consistent with these strong expectations, this quarter's CFO sentiment about their companies' prospects extended an optimistic streak that has lasted since the first quarter of 2013. Net optimism lies at a very strong +32, and less than 12% of CFOs express declining optimism – the lowest proportion in the history of this survey.

Growth without investment

As they have for several quarters, CFOs indicate a strong bias toward growing revenues over reducing costs and investing cash over returning it to shareholders. But year-over-year expectations for capital investment hit their lowest level in a year

Highlights from the Q3 2014 North America CFO Survey:

- On the heels of six straight positive quarters, net optimism climbed to +32 with all industries above +10.
- Sales growth expectations rose from 6.1%* last quarter to 6.8%*—highest since the third quarter of 2011.
- Forty-four percent of CFOs describe the North American economy as good (40% last quarter), and 55% believe it will be better in a year (60% last quarter).
- Forty-seven percent of CFOs say financial and economic risks are higher than normal, and just 14% say they are lower.
- Almost three-quarters say cyber security is a high priority for their company, but only 62% say they have a comprehensive information strategy in place, and less than 20% express high confidence in their ability to execute on their plans.

and are very modest compared to the survey's long-term average. Moreover, expectations among U.S. CFOs declined to their lowest level in the survey's history.

On the face of it, CFOs' rising optimism and performance expectations seem to run contrary to their declining capital investment plans. But this phenomenon may provide hints as to what has been happening inside companies as they have planned for growth. Some companies may already own the assets they need to support growth – through efficiency gains or through capacity they have built or acquired over the past few years. Others may be less reliant on hard assets for growth and more reliant on digital technologies that scale relatively inexpensively. And some may be exchanging company-owned assets for outsourced cloud services – and exchanging capital investment for expenses.

Disruptive forces

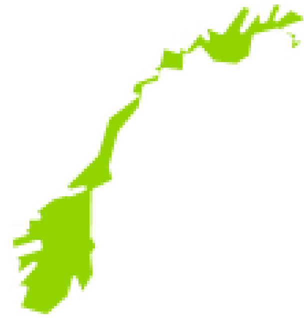
This quarter, we asked CFOs about the factors most likely to disrupt their businesses, and government policy topped the list by a substantial margin. Nearly two-thirds said they expect at least moderate disruption, and nearly one-third expect high disruption.

Last quarter's worries about competition and irrational competitor behavior subsided, but about half of CFOs say they expect new competition to be at least a moderate business disruptor within their industries. More than 40% expect new business models (such as social, mobile, and cloud technologies) will be a substantial disruptor.

On CFOs' list of worrisome risks, geopolitical concerns rose sharply, with growing attention to conflicts in the Ukraine, Middle East, and Latin America.

Security threats are also expected to be a major business disruptor, with more than half of CFOs citing concerns about security of data, intellectual property, and facilities. Almost three-quarters say cyber security is a high priority for their company, but only about 60% say they have a comprehensive information strategy and plan, and less than 20% express high confidence in their ability to execute.

Norway
Cautious optimism



Drivers include stable currency

The results of the Norwegian Deloitte CFO Survey H2 2014 show that Norway's CFOs have a cautiously optimistic outlook on the financial future. A net balance of +10% of CFOs state that they are more optimistic about the economic outlook compared with six months ago. This continues an upward trend observed over the past year. The drivers are increased expectations for stable currency, stable interest rates, and a clear appreciation of the expectations of the domestic consumer market.

CFOs in the consumer and manufacturing industries are significantly more optimistic about the future compared with six months ago. These industries have many respondents, and are therefore considered relatively representative. The oil industry CFOs, on the other hand, are only slightly less optimistic about the future compared with six months ago, despite the clear downturn in the industry. Given the reduction of financial risk on their balance sheets, it would appear that the industry believes they have already taken adequate steps to meet tougher times.

Eyeing domestic demand

Almost 40% of CFOs consider the possibility of lower domestic demand as the main concern for the next 12 months. The proportion who fear lower foreign demand and higher labor costs as the biggest concern is down from the previous survey. Currency exposure among respondents is lower than in the previous report and therefore cannot explain this result. Uncertainty now relates less to currency, interest, costs, and international economic conditions and more to developments in domestic demand. Despite this fear, there is a clear optimism in industries that rely on the consumer market.

Highlights from the H2 2014 Norway CFO Survey:

- Overall, a net 10% of CFOs in Norway are more optimistic about the economic outlook this quarter—continuing the upward trend observed six months ago.
- CFOs report positive attitudes toward both the attractiveness and availability of both bank loans and bonds.
- To 38% of respondents, the possibility of lower domestic demand is the main concern over the next 12 months.
- Only a net 7% of Norway's CFOs expect higher interest rates in the next six months.

Better, more balanced funding

Financial markets seem to have stabilized. The CFOs reported positive attitudes toward the attractiveness and availability of both bank loans and bonds.

A net share of 7%, however, expect higher interest rates in the next six months. But that is the lowest net percentage shown in this study in four years. In one year, the proportion of faith in higher interest rates fell as much as 51 percentage points. NIBOR interest rates are historically low, but still the expectations of higher interest rates are reduced. The CFOs have apparently taken up signals from Norges Bank and the European Central Bank that low interest rates must be expected in the future. Note that the survey was conducted before the monetary policy meeting at Norges Bank on September 18 where the policy rate was left unchanged.

Southern Africa & East Africa
Ready to climb more mountains

Spreading uncertainty

CFOs in South Africa are exhibiting a general feeling of anxiety about the future, which appears to be driven by concern about the underlying health of their economy. That prevailing climate of uncertainty also appears to have filtered through to the smaller economies in the region, which conduct a large proportion of their trade with that country. Consequently, CFOs from Namibia, Botswana, Zimbabwe, Mozambique, Malawi, and Zambia appear generally cautious about their companies' prospects.

In comparison, East African CFOs seemed almost uniformly optimistic. Apart from some concern about increased domestic competition, which is no doubt due to new market entrants from South Africa and abroad, CFOs in East Africa were far more bullish than their Southern counterparts.

Tempered expectations of GDP

The disconnect is evident in their gross domestic product forecasts. While last year's CFO survey revealed an average economic growth projection of 3.3% for South Africa in 2014, this year's survey revealed a far more sedate 2.8%. Moreover, the economic pessimism appears to have rubbed regionally. Although the 2013 survey predicted economic expansion of 5.5% for Southern Africa in 2014, this has been tempered to just 3.7%. The 2015 economic growth outlook for Southern Africa also declined to 4.2%, from 5.8% in last year's report.

In East Africa the picture is entirely more optimistic with respondents predicting a regional economic expansion of 6.3% this year, 7.4% in 2015 and 8.1% in 2015. This compares favorably with the International Monetary Fund's (IMF) forecast for Sub-Saharan Africa,excluding South Africa and Nigeria, which comes in at 5.7% for this year and 5.6% for 2015.

Highlights from the 2014 Southern Africa & East Africa CFO Survey:

- Some 52% of South African CFOs said their companies had recently expanded into the rest of Africa, up from 38% last year.
- East African CFOs appeared more bullish about expanding into the rest of Africa, with 29% saying they had recently ventured into other parts of the continent and 57% indicating they would do so in the near future.
- Some 57% of Southern African CFOs expect interest rates to remain unchanged this year, an increase on last year's 24%.
- An overwhelming 95% of South African CFOs believe the country's economy will expand by less than 3% in 2014, up from 62% who made that prediction last year.

A jaundiced view

As with the outlook for the broader economy, the majority of South African CFOs had a fairly jaundiced view when asked what the outlook was for their company's performance over the next three years. The proportion of respondents who expected a "slight improvement" waned to 42% in the 2014 CFO Survey, compared to 58% the previous year. Those who predicted "significant improvement" slipped to 21% in this year's analysis, down from 26% last year. Nevertheless it is clear that most respondents expect some form of improvement.

Again, Southern African CFOs echoed the declining optimism of their South African peers. Whereas 43% expected “significant improvement” in the fortunes of their companies in 2014 when canvassed last year, only 24% made the same prediction in this year’s survey. Unsurprisingly, East African CFOs were the most optimistic with 71% expecting a slight or significant improvement in their company’s performance this year and 84% making the same prediction for 2015.

Views on company performance

When asked whether their company’s performance had improved over the last financial year, 41% of South African CFOs said conditions had either remained unchanged, deteriorated somewhat, or significantly deteriorated. While this was balanced by 38% who claimed conditions had somewhat improved in the past year and a further 20% who indicated significant improvement, there was a greater proportion of respondents who leaned toward the negative side of the spectrum in 2014 than last year.

Similarly, in Southern Africa there was a seven-percentage point decline in the number of CFOs indicating that company performance had somewhat improved in the past financial year with 31% voting in favor of that option in the 2014 survey. At the same time, 8% said performance had “significantly deteriorated,” three percentage points more than in 2013. In East Africa, CFOs were again overwhelmingly positive about their company’s performance with 74% saying it had either somewhat or significantly improved. Just 3% said performance had significantly deteriorated while 9% claimed moderate deterioration in the past financial year.

Strategic introspection

Much like last year’s survey, South African businesses are exhibiting bias toward growing revenue from established markets, improving their operational effectiveness, and intensifying their focus on customers, distribution channels, and products. One interesting change was the greater emphasis on investing in research and development, with 74% of respondents saying it was a current strategy compared with 54% last year. However, R&D did not rank among the top five priorities for CFOs when asked where they were deploying cash.

Southern African companies are heavily focused on defensive strategies such as improving operational efficiencies, reducing costs, consolidating operations, increasing their focus on established markets, and boosting investor confidence.

Somewhat surprisingly, East African businesses appeared similarly focused on these rather defensive strategies, with 88% of respondents indicating that they were trying to improve operational efficiencies. What may seem like conservatism at first glance could merely be a symptom of East Africa’s corporate leaders wanting to maintain efficiency in the face of rapid growth and greater foreign competition.

Across all three surveyed territories, cost reduction and the desire to achieve more efficient internal processes were the two biggest motivators for investing in new technologies. Business intelligence and apps were the biggest recipients of this expenditure.

The scramble for Africa

The Deloitte 2014 CFO Survey revealed that a massive 80% of South African respondents said their company intends expanding into the rest of the continent in the next year, a substantial increase from the 55% who indicated this in 2013. East African CFOs were similarly bullish with 57% indicating a desire to expand into the rest of Africa. By contrast, only 37% of Southern African CFOs expressed the same interest, marginally higher than last year’s 30% figure. This may suggest that they perceive their best option for growth to be within their own economies, which in turn could be symptomatic of the defensive business strategies being employed in response to the region’s downbeat economic climate.

Sweden

More cautious view on business climate

Highlights from the H2 2014 Sweden CFO Survey:

- On average, surveyed CFOs see business conditions as slightly worse than in February.
- While most CFO respondents expect cash flows to increase over the next 12 months, half believe they will decrease or stay the same.
- Only 30% of CFOs believe now is the right time to take more risk onto the balance sheet.
- Almost half (46%) of CFOs believe that Swedish equities are overvalued, a seven percentage increase over the spring survey.

Signs of economic recovery

The Swedish economy continues to show higher growth than most European countries. In the current CFO Survey, Sweden's CFO Index value (a measure of future expectations that weighs four components—business conditions, financial position, lending willingness, and counterparty default risk) increased to a weighted average of 54.3, supported by strong readings in questions on financial position and bank lending willingness. However, CFOs are not as confident about business conditions in the next six months.

Sentiments and outlook

On average, the CFOs surveyed see business conditions as slightly worse than in February. The business conditions sub-index deteriorated to 46.9 from 50.8, with a shift toward a more "average" situation and a notable decrease in the "favorable" alternative. Possible explanations are geopolitical turbulence, a relatively large production gap, low inflation for a prolonged period of time, and spill-over effects from other EU countries with little or no growth.

Meanwhile, the financial position sub-index remained strong and consistent with the spring survey with more than 70% of CFOs responses in the "favorable" and "very favorable" alternatives. One should consider the rather large relative share who are apparently satisfied with their company's financial position, which is likely related to the continued positive lending attitude of financial institutions toward companies and low raw material/commodity costs.

Overall, CFOs expect cash flow to increase over the next 12 months. However, optimism is not quite as strong as in recent surveys. Half of CFOs surveyed expect operating cash flow to be unchanged or decrease. However, companies are coming from higher operating cash flows recently, so lower expectations are not unexpected.

Prospects and concerns

Order intake is the greatest concern for CFOs in 2014, which corresponds directly to demand and hence the company's turnover, especially in a low inflation environment where pricing power is limited. Some 60% of CFOs consider "fierce competition/pricing power" to be concerning factors. On the other hand, as cost of raw materials/commodities has moved lower, implying low inflation also on the supply side, this is less concerning. In addition, 40% of CFOs surveyed consider macro/politically related factors as concerning at least for the rest of 2014.

Financing: positive sentiments

A clear majority of CFOs continue to consider the lending attitude of financial institutions toward their company as favorable. Low interest rates and a stable domestic economic landscape are boosting confidence and making conditions for lending favorable for companies.

Overall, there is no strong preference to take greater risk on the balance sheet despite the favorable financial position indicated by CFOs. Risk appetite may however vary significantly as almost 30% of CFOs appear to be considering more expansionary actions and are ready to take on more risk.

Outlook on growth/debt

Assuming a cash surplus position, investments in Sweden and abroad are overall favored over further debt pay down and paying dividends to shareholders. However, 45% of CFOs still rank paying down debt as the most and second most preferred alternative.

Interesting enough, when the ranking score was weighted by the percentage of CFOs choosing a specific alternative, investments in Sweden were in fact the most preferred alternative. However, among those having interest in paying dividend to shareholders/share buyback, almost one-third prioritize dividend payments to shareholders and share buybacks as the most or second most important alternative. This is interesting indeed: to a greater extent than is actually occurring, CFOs might like to pay dividends to shareholders, but they are bound by other commitments and perhaps other management team members to prioritize differently. If so, the financial position of companies might, from the CFOs' perspective, be even better than the market anticipates.

Switzerland

Confidence falls as uncertainty increases

Highlights from the Q3 2014 Switzerland CFO Survey:

- For the third successive quarter, there is a drop in the proportion of Swiss CFOs (26%) expressing optimism about their company's prospects.
- More CFOs now expect margins to decline over the next 12 months than to increase (33% and 29% respectively).
- The most widely perceived risk is geopolitical risk (70%), but Swiss CFOs are also concerned about declining foreign demand and increased regulation in Switzerland.
- Half of CFOs expect the Swiss National Bank to retain the EUR/CHF 1.20 exchange rate floor for at least two more years.

Mood swings

The mood among Swiss CFOs has become more pessimistic. They are less confident about the future than in previous quarters, in particular as a result of poorer economic data both at home and abroad. A weaker Swiss economy, the sluggish economic recovery in Europe and muted expectations for the economy in Germany, one of Switzerland's key export markets, are all contributing to this loss of confidence. Armed conflicts are another increasingly important factor contributing to CFOs' uncertainty, with geopolitical risks – and not economic risks – clearly dominating their assessment of risk this quarter.

Specifically, while a majority (53%) still rate Switzerland's economic outlook as positive, that is down 22 percentage points from Q2. The number rating it as "neither positive nor negative" has risen by around half, from 23% in Q2 to 38% in Q3, and the number having a negative outlook increased from 3% to 9%.

This increasing uncertainty is also visible in responses to the question about a recession. Although only 10% of CFOs expect Switzerland to face a recession over the next two years, this is the highest value for more than a year.

Corporate outlooks shift too

This decline in confidence is also reflected in responses to the question about companies' financial prospects. A number of previously optimistic CFOs have moved into the "less optimistic" group. However, the number of optimists continues to be in the majority.

CFOs are also more pessimistic this quarter about the prospects for operating margins. Optimism had grown steadily from Q4 2011 onwards before plateauing over the first six months of 2014, but in Q3, the net balance fell 14 percentage points to -4%. The uncertainty and pessimism about the business outlook noted above seem already to have had an impact. Revenue expectations are also down this quarter, falling to a net balance of 57% from 72% in Q2.

CFOs' expenditure forecasts reflect this generally pessimistic trend. They are planning a further substantial cut in discretionary spending, which often serves as an early warning signal. Meanwhile, expectations for capital expenditure continue to fall, with 38% of CFOs planning to increase it, down from 43% in Q2, and 15% are planning a cut, up from 11% in Q2. This gives a net balance of 22%.

Hiring intentions remain positive. Despite growing uncertainty, CFOs are still intending to increase staffing levels, albeit less so than in the previous quarter.

Risk appetite holds up

Despite dwindling optimism about the economy and business, Swiss companies still have a relatively high appetite for risk. Fifty-one percent of CFOs surveyed believed that this was a good time to be taking greater risk onto their balance sheet.

CFOs are also cautious in their assessment of demand for credit. Thirty-two percent expect to borrow more over the next 12 months while 18% expect to borrow less. This is despite their assessment of excellent credit conditions in Switzerland. The cautious credit demand outlook is consistent, however, with the slackening of investment appetite and the highly favorable assessment of internal financing

Focus on political risk

At the same time, however, perceived risks are increasing, although not all to the same extent. Since Q3 2013, there have been contrasting trends in internal and external risks. Internal risks tend to be perceived as less serious, but there has been a steady increase in the perception of external risks.

The main factors involved here include geopolitical risks, which 70% of CFOs rated as a significant risk to their company (up 16 percentage points on the preceding quarter). There is also a sharp rise this quarter in the perceived risk from weaker foreign demand, which is up 18 percentage points. This is closely linked with geopolitical risks, not least because of Switzerland's close links with the European Union, its major trading partner. The EU is directly affected by the crisis in Ukraine, which CFOs see as the most serious geopolitical risk this quarter.

While a clear majority of CFOs see the Russia-Ukraine the major geopolitical risk to their own company, they also are concerned about geopolitical tensions in the Far East (with territorial disputes in the South China Sea and the East China Sea) and the Middle East (with conflict in Syria and Iraq). In fact, almost half of all companies surveyed see the current geopolitical risks as having a direct negative impact on their activities.

Hypothesizing about exchange rates

More CFOs this quarter perceive the strength of the Swiss Franc as a risk. In addition to asking about the EUR/CHF exchange rate over the next 12 months, the survey asked a hypothetical question relating to the exchange rate that CFOs would expect if the Swiss National Bank (SNB) were to remove the exchange rate floor tomorrow. Although 86% of CFOs would expect the rate to be between 1.20 and 1.25 in 12 months' time if the floor remained in place, just 17% then expect the EUR/CHF exchange rate to be 1.20 or higher if it were removed tomorrow.

United Kingdom
Risk appetite at new high

Optimistic toward growth

Risk appetite among the UK's largest corporations has reached a seven-year high in the third quarter as CFOs shrugged off the effects of rising uncertainty and a sluggish euro area economy.

That appetite is being supported by a resurgent U.S. economy, good UK growth and plentiful liquidity. Optimism among big corporations about prospects for the UK and U.S. economies has improved in the last six months even as sentiment about emerging markets and the euro area has declined.

Still, CFOs' perceptions of economic and financial uncertainty rose in the third quarter for the first time in two years. While events in the euro area and emerging markets will have played a role, Scotland's independence referendum seems to have been the dominant factor. Perceptions of financial and economic uncertainty among CFOs completing the survey before the result was known were twice as high as those among CFOs who responded after the result.

Positive on policy

CFOs are also increasingly positive about public policy. We asked CFOs to rate the appropriateness of official policy – from government, regulators, and the Bank of England – repeating a question asked in 2012 at the trough of the UK's double- dip slowdown. On average, 77% of CFOs rate policy as being appropriate in the 11 areas they judged, up from 67% in 2012. Confidence has risen across all areas with the largest improvements in the approval ratings on public spending, tax policy, immigration policy, and financial regulation.

The Bank of England gets the strongest vote of confidence, with 97% of CFOs rating monetary policy, including the availability of credit and inflation, as appropriate.

Highlights from the Q3 2014 UK CFO Survey:

- Despite softening this year, CFO optimism about the financial prospects for their own companies remains above its long-term average.
- Expectations for corporate revenues and margins remain close to the four-year highs reached in the second quarter.
- A net percentage of CFOs remain positive toward growth in the U.S. (75%) and the UK (85%). But there outlook toward the euro area declined sharply (-39% compared to +54% in Q1 2014).
- On average, 77% of CFOs rate policy as being appropriate across 11 areas (including monetary policy and energy policy) compared to 67% when the question was last asked in 2012.

Still optimistic about profitability

UK's CFOs remain optimistic about profitability. CFO expectations for growth in revenues and operating margins remain close to four-year highs. In addition, capital spending, investment, and private-sector hiring have risen strongly in the last year.

The top priority for UK CFOs continues to be introducing new products and services or expanding into new markets (35%). Compared with the second quarter, there has been a greater emphasis on increasing capital expenditure (19%). Still, UK CFOs remain focused on increasing cash flow (32%) and reducing costs (31%).

Easy financing continues

Financing conditions continue to improve for large corporations. CFOs report credit as being cheaper and more easily available now than at any time in the last seven years.

Still, there are a variety of factors that will affect CFOs' investment plans. Uncertainty remains the largest, and a growing, constraint. Weakness in the euro area is also weighing on investment. On the other hand, the main drivers of investment are easy access to finance, the strength of the UK economy, and rising demand for businesses' products and services.

Overall, CFOs rate political issues – the general election in May and a possible referendum on the UK's membership of the EU – as the two greatest risks facing their businesses. These rank above economic challenges, such as weak growth in Europe and emerging markets or the bursting of asset price bubbles.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty-three Deloitte Member Firm CFO Surveys, covering 58 countries, are conducted by Deloitte member firms on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each member firm's survey varies.

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

Member firm	Contacts	Frequency	Survey scope and population
Argentina	**Claudio Fiorillo** Partner +54 11 4320 4018 cfiorillo@deloitte.com	Biannual	Conducted in October 2014 over a three-week period; 10 CFOs participated of which 90% represented private companies and 60% represented companies with annual revenues of less than U.S. $1 billion.
Australia	**Stephen Gustafson** Partner +61 (0) 2 9322 7325 sgustafson@deloitte.com.au	Quarterly	Conducted between September 9, 2014 and September 26, 2014; 46 CFOs participated, representing businesses with a combined market value of approximately AUD $281 billion or 17% of the Australian-quoted equity market.
Austria	**Mag. Gerhard Marterbauer** Partner +43 1 537 00 4600 gmarterbauer@deloitte.at	Quarterly	Conducted in October 2014; 84 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 19% have revenues in excess of €1 billion, and 41% have revenues greater than €100 million.
Belgium	**Thierry Van Schoubroeck** Partner + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between September 12, 2014 and September 30, 2014; 66 CFOs completed the survey. The participating CFOs are active in variety of industries. Some 19% of the participating companies have a turnover of more than €1 billion, 36% of between €100 million and €1 billion, and 45% of less than €100 million.

Finland	**Tuomo Salmi** Partner, CFO Program Leader +358 (0)20 755 5381 tuomo.salmi@deloitte.fi	Biannual	Conducted between September 16, 2014 and October 3, 2014; 63 CFOs participated; Some 54% of the companies have an annual turnover of more than €500 million; 22% have an annual turnover of more than €1.5 billion.
Germany	**Rolf Epstein** Partner, CFO Program + 49 (0) 69 97137409 repstein@deloitte.de	Biannual	Conducted between September 16 and October 6, 2014, 148 CFOs from major German corporations took part in this CFO survey. Some 61% of CFOs are from companies with revenues of more than €500 million, and 37% have revenues of more than €1 billion.
Ireland	**Shane Mohan** Partner +353 1 417 2543 smohan@deloitte.ie	Quarterly	Conducted in September and October 2014; CFOs of listed companies, large private companies, and Irish subsidiaries of overseas multinational companies participated.
Middle East *(Saudi Arabia, UAE, Qatar, Bahrain, Oman, Kuwait, Yemen, Egypt, South Sudan, Jordan, Syria, Lebanon, Iraq, Palestine & Libya)*	**James Babb** Partner Deloitte & Touche M.E. +0097143768808 jbabb@deloitte.com	Biannual	Conducted in the third quarter of 2014, this survey included participation from 125 respondents, representing both listed and non-listed companies in the Middle East. Annual turnover of the participating companies are as follows: > $5 billion (6%), > $1 billion (17%), $500 million - $999 million (16%), $100 million - $499 million (31%), < $100 million (30%).
Netherlands	**Jan de Rooij** Partner +31 (0) 6 5336 6208 JandeRooij@deloitte.nl	Quarterly	Conducted September 23, 2014 to October 10, 2014; 31 CFOs representing a net turnover per company of approximately €1.9 billion completed the survey. The responding companies can be categorized as follows: less than €100 million (19%), €100–499 million (13%), €500–999 million (32%), €1–4.9 billion (23%), more than €5 billion (9%), and unknown (3%).
North America (U.S., Canada, Mexico)	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between August 11**,** 2014 and August 22, 2014; 103 CFOs participated from across the United States, Canada, and Mexico. Seventy-five percent of respondents represent CFOs from public companies, and 83% are from companies with more than $1 billion in annual revenue.

Norway	**Ragnar Nesdal** Partner, Financial Advisory +47 958 80 105 rnesdal@deloitte.no	Biannual	Conducted between September 9, 2013 and September 17, 2014; 104 CFOs participated from across Norway. All respondents represent CFOs from the 500 biggest companies in Norway, and more than 29% are from companies with more than 5000 million NOK in revenue and 69% are companies with revenue above 1500 million NOK.
South Africa	**Roy Campbell** Partner, Financial Advisory +27 (0)82 567 6227 rcampbell@deloitte.co.za	Annual	Conducted between May and June 2014; 252 CFOs participated. The survey covered 13 countries and 73% of CFOs represented companies with an international footprint.
Sweden	**Tom Pernodd** Partner, Financial Advisory +46 75 246 30 60 tpernodd@deloitte.se	Biannual	Conducted in August 2014; Participating CFOs represented a selection of the 200 largest companies in Sweden.
Switzerland	**Dr. Michael Grampp** Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between August 26, 2014 and September 16, 2014; 120 CFOs participated, representing listed companies and relevant private companies.
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted June 8-22, 2014; 118 CFOs participated, including CFOs of 28 FTSE 100 and 40 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of companies listed overseas. The combined market value of the 79 UK-listed companies surveyed is £462 billion.