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The Dutch Deloitte CFO Survey
Facing long-term uncertainty

2012 Q3 results
October 2012

Contents

Facing long-term uncertainty

We are proud to present our fifteenth quarterly Chief Financial Officers Survey in the Netherlands, as part of the Deloitte CFO Initiative. The survey gauges attitudes to valuations, risk and financing, and reports trends and turning points for you and your business.

Key points from the 2012 Q3 Survey

- Dutch CFO Optimism has risen compared to last quarter.
- Cash flow expectations are more or less consistent with three months ago.
- Over half of CFOs remain consistent in striving for organic growth as strategic priority for their business for the next 12 months.
- Risk appetite levels have slightly increased, returning to the same level of the first quarter of this year.
- The overall sentiment regarding the conditions of availability and cost of credit remains negative.
- Corporate debt is perceived to be the most attractive source of funding.
- Around 40% of CFOs expect M&A levels to increase in the next twelve months, which is nearly consistent with the previous outlook.
- CFOs rate their company with a moderate 7.2 and 7.0 on respectively their risk management processes and the monitoring & control.

General economic environment

In September, the European Commission's Economic Sentiment Indicator (ESI) decreased by 0.9 points in the EU, to 86.1, and by 1.1 points in the euro area, to 85.0. In both areas, the decrease was due mainly to weaker confidence among services and retail trade managers, and consumers. While confidence in industry decreased in the euro area as well, it remained broadly stable in the EU. The tumultuous second quarter of this year affected business confidence, thus impacting the sentiment of the daily business environment.

In Germany, the ruling of the Constitutional Court on 11 September brought some relief to the financial markets. The ruling of Germany's top court rejected calls to block the permanent eurozone rescue fund - the European Stability Mechanism (ESM) - and the European fiscal treaty. Spanish, Italian and German share indexes all rose after the ruling, while the euro continued its recent gains against the dollar. The borrowing costs on Spanish and Italian 10-year bonds fell.

Analysts suggested that, combined with European Central Bank (ECB) plans to buy the government bonds of struggling countries, Europe now had the tools it needed to combat its financial crisis.

The Dutch political environment was dominated by the elections held on 12 September, with clear results. The outlook is that both winning parties will continue negotiating with each other to form a new Rutte government.

According to the first, preliminary estimate conducted by Statistics Netherlands, the marginal economic growth in the second quarter of 2012 was 0.2% relative to the first quarter, but economic growth was 0.5% down compared to the second quarter of 2011.

According to CPB Netherlands Bureau for Economic Policy Analysis figures published on 18 September last, the Dutch economy is expected to grow modestly by 0.75% of Gross Domestic Product (GDP) in 2013, after a decline of 0.5% in 2012. The economic outlook remains fragile.

At the start of the third quarter the ECB's governing council decided to change the rate on the main refinancing operations by 25 basis points to 0.75%. The interest rates on the marginal lending facility and on the deposit facility were also decreased by 25 basis points to 1.5% and 0.0%, respectively.

CFO Survey

Dutch CFO Optimism is on the rise again. The European news reported earlier no doubt contributed to this. The cash flow expectations for the next twelve months remain stable.

Organic growth remains the prime strategic priority. More than half of the CFOs have selected this strategy to be a strong priority. Hiring and inventory levels are hardly expected to increase for Dutch corporates over the next twelve months, indicating business to be cautious.

The risk appetite has returned to the level of the start of this year. Some 16% of CFOs think now is a good time to be taking greater balance sheet related risks.

Corporate debt is again perceived to be the most attractive source of funding this quarter.

CFOs' expectations for M&A activity in the next twelve months remain as low as last quarter. Some 45% of CFOs expect M&A levels to rise in the next twelve months, which is nearly consistent with the previous outlook. The outlook for Private Equity activity levels slightly declines.

Risk Paragraph in the Annual Report

This quarter's special topic is about the Risk Paragraph in the Annual Report.

Stakeholders demand transparency in terms of the overall functioning of organizations and require insight into companies' risk profiles, as well as a broad and proactive role of auditors in this respect.

The risk paragraph in the financial statements should provide a better insight, which can be achieved by designating the most important risks, linking an impact scenario analysis to them, and describing which safeguards the company has put in place.

How do CFOs perceive the contents of the risk paragraph in the annual report? Around 80% of CFOs underline the importance to describe the five most important risks within the risk paragraph in the annual report, and over 70% of CFOs agree to including an impact analysis of these risks on the organization's financial stability.

Over 80% agree to describe the measures taken to mitigate these risks in the risk paragraph in the annual report.

On average, CFOs rate the risk management process of their company with a score of 7.2. Following up on these processes with monitoring and control is rated somewhat lower - on average - with a score of 7.0. Considering the impact of potential risks in today's complex business environment, these scores can be assessed to be modest.

Around 60% of CFOs would like the auditor to assess the quality of the risk management process. Half of the CFOs prefer the auditor to also assess the quality of the risk paragraph in the annual report.

Some 80% of CFOs prefer best practice codes to improve the quality of the risk paragraph in the annual report.

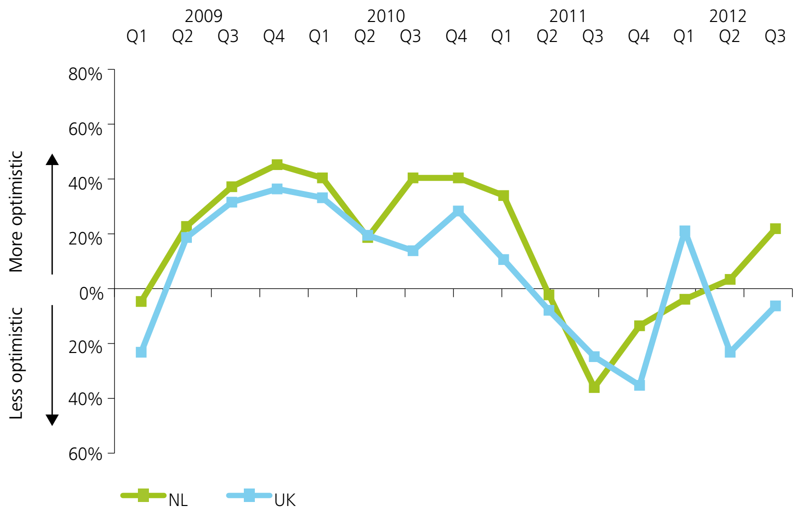
Financial outlook and priorities

Dutch CFO optimism about the financial prospects of their companies has risen compared to last quarter. These figures were last seen in the first quarter of 2011. The outlook of one third of CFOs remains unchanged.

In the UK, business confidence improved marginally in the third quarter, regaining some of the record losses sustained in the second quarter.

Chart 1. Financial prospects NL & UK

Net percentage of CFOs who are more optimistic about the financial prospects for their companies now versus three months ago.



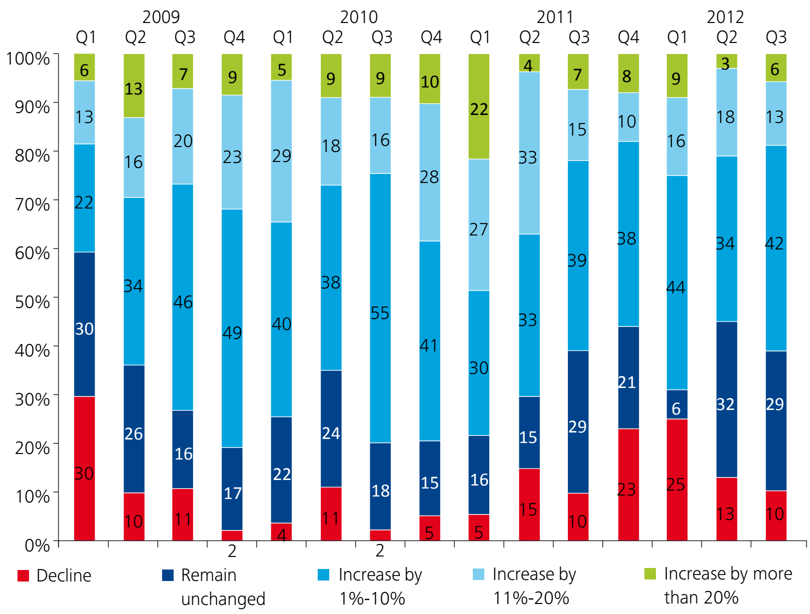
No significant changes in the cash flow expectations of CFOs over the next twelve months can be perceived compared to the last quarter.

About 30% of CFOs expect their cash flows to remain unchanged over the next twelve months as in the previous quarter. Some 42% of CFOs expect a slight increase by 1% to 10%.

These results indicate that CFOs do not expect great changes in their ongoing business.

Chart 2. Change in cash flows over the next 12 months

Percentage of CFOs who expect their companies' operating or free cash flows to increase/decrease over the next 12 months.

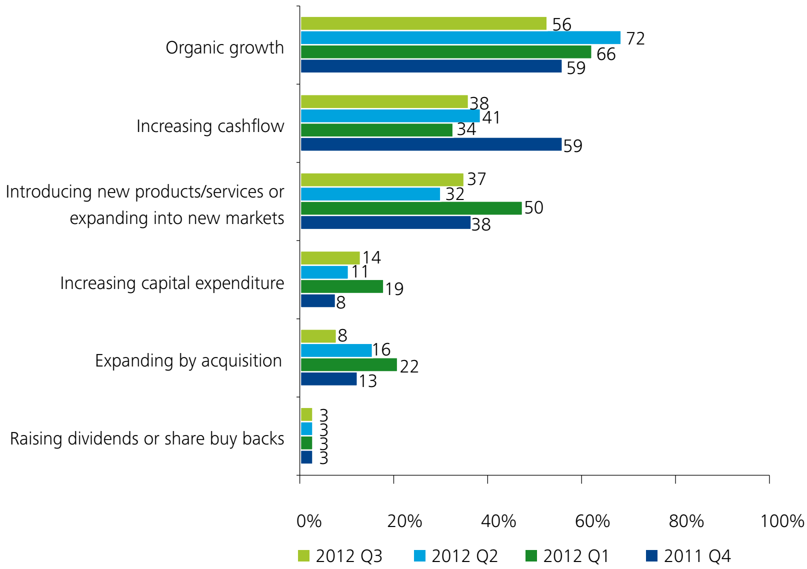


Striving for organic growth continues to be the prime strategic priority of most CFOs for their businesses in the next twelve months.

Though the drive for organic growth shows a strong decline as compared to last quarter, more than half of the CFOs have now selected this strategy as a strong priority.

Chart 3. CFOs' priorities for the next 12 months

Percentage of CFOs who have selected each of the following strategies as a strong priority for their businesses for the next 12 months.



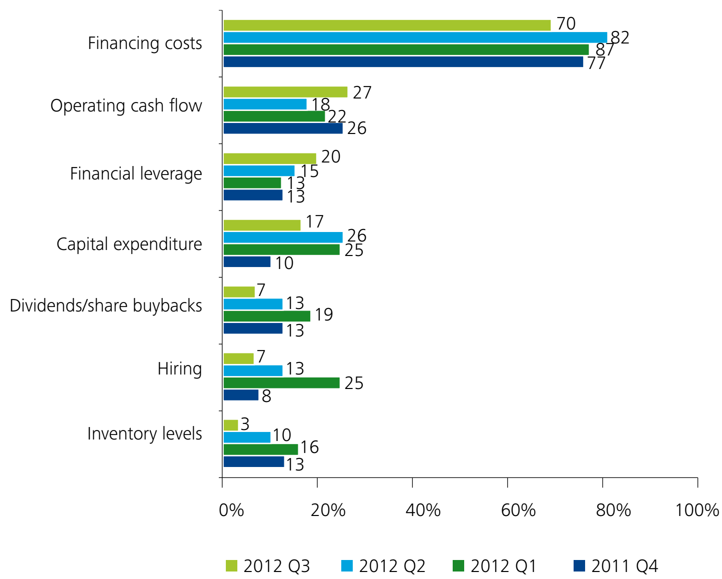
Some 70% of CFOs expect the financing costs to increase for Dutch corporates over the next twelve months.

Around 20% of CFOs expect the financial leverage of Dutch corporates to increase.

Hiring and inventory levels are hardly expected to increase.

Chart 4. Expected change in key metrics of Dutch corporates

Percentage of CFOs who expect the following key metrics to (significantly) increase for Dutch corporates over the next 12 months.



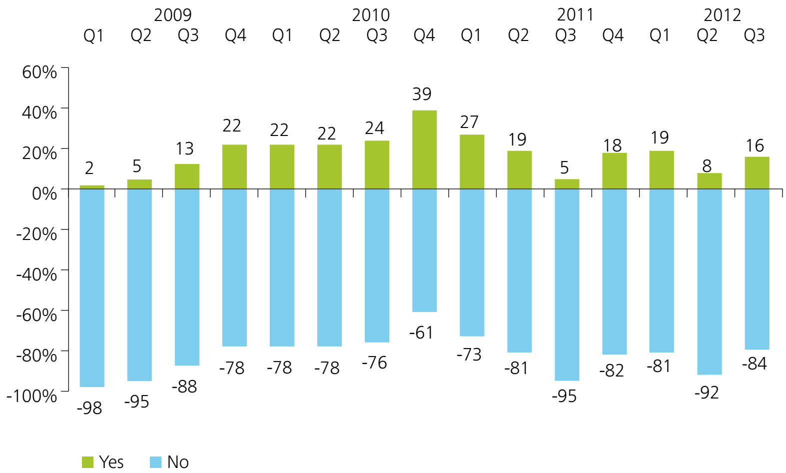
Risk

Risk appetite remains low, though since the drop in risk appetite during the second quarter, the levels have returned to the same level of the first quarter of this year.

Some 84% of the corporate CFOs think now is not a good time to be taking greater balance sheet related risks, against 16% who think it is.

Chart 5. Attitude towards greater balance sheet related risks

Percentage of CFOs reporting that now is a good time to be taking greater balance sheet related risks.



During the third quarter less CFOs report to have increased the financial risk on the balance sheet over the last twelve months than during the previous four quarters. Almost a quarter of CFOs report an increase over the past year.

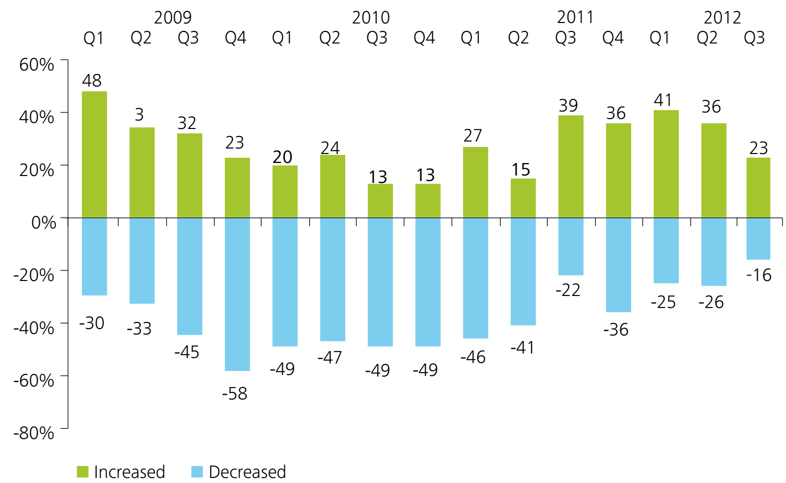
When CFOs are asked to assess the level of external financial and economic uncertainty facing their businesses, 42% of them rate this level as high to very high compared to 67% in the second quarter (not shown in chart).

Another 42% of CFOs rate these conditions to be above normal level (21% Q2), and 16% of CFOs rate the external financial and economic uncertainty facing their business to be normal (10% Q2).

Apparently, the external uncertainty is considered to have decreased during the last quarter.

Chart 6. Change in financial risk* on balance sheet

Percentage of CFOs reporting that the level of financial risk on their balance sheets increased/decreased over the last 12 months.



* Financial risk could include levels of gearing, uncertainty about the valuation of assets, and interest and exchange rate sensitivity.

Funding

The perceived conditions regarding cost and availability of credit have switched positions in contrast to all the previous quarters. The perceived cost of credit improved this quarter, while the perceived availability of credit remained virtually stable. The overall sentiment remains negative.

Chart 7. Cost and availability of credit

Net percentage of CFOs reporting that funding for corporates is cheap or expensive, and funding is easily available or hard to get.

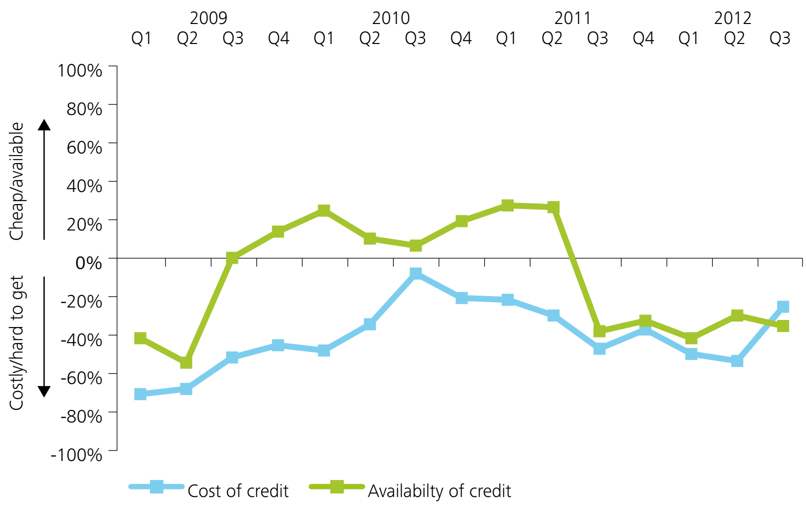


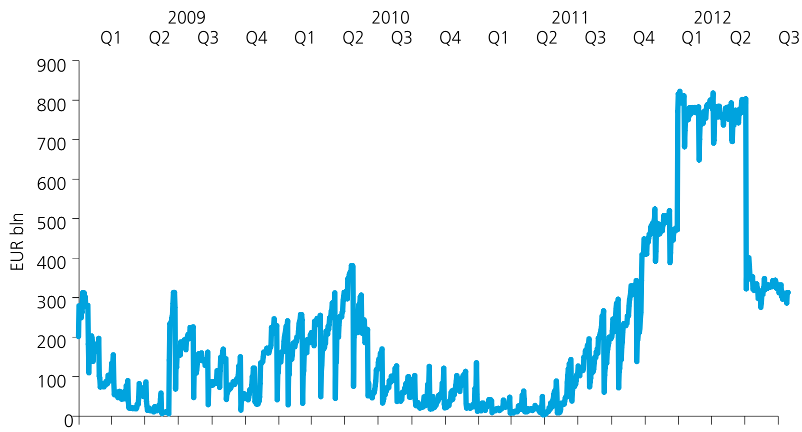
Chart 8 presents an overview of the billions of euros European banks have stored overnight at the overnight deposit facility of the European Central Bank.

The ECB eased the financial markets with two LTRO rounds, in December 2011 and February 2012. Both rounds led to an increase in the banks' liquidity – which was stored at the ECB in overnight deposits. However, this quarter a significant drop in the average amount of overnight deposits is perceived.

European banks still use the ECB as a trusted intermediary. However, at the start of the third quarter the ECB decided to change the deposit interest rate from 0.25% to 0.0% leading to a new base level in the amounts of euros stored overnight.

Chart 8. Overnight deposit facility European Central Bank 2009-2012 Q3

Billions of euros stored by European banks at the overnight deposit facility of the European Central Bank



Source: European Central Bank

All sources of corporate funding are perceived to be more attractive than last quarter.

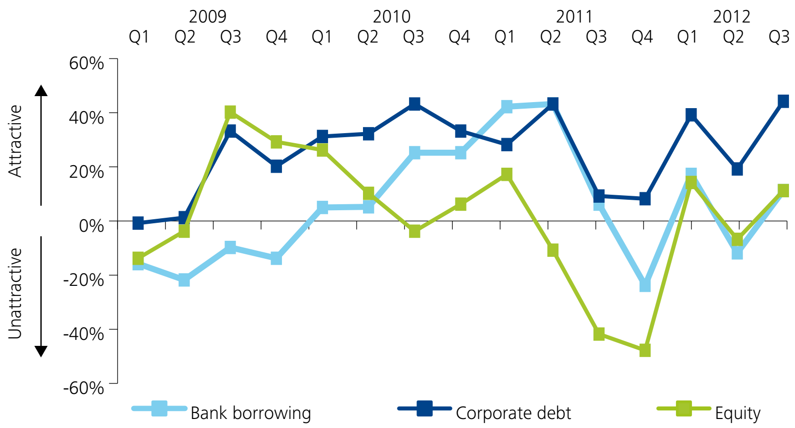
The results in this chart are highly volatile. Both bank borrowing and equity regained some of their attractiveness after the dip in the previous quarter.

Corporate debt continues to be considered as the most attractive source of corporate funding.

According to the Dutch Central Bank study 'Overview of Financial Stability in The Netherlands - autumn 2012', large companies have better access to funding than smaller companies. Banks grant credit more easily to larger corporates at a lower interest rate surcharge. Besides better access to bank borrowing these companies are also better equipped to issue corporate bonds.

Chart 9. Favoured source of corporate funding

Net percentage of CFOs reporting the following sources of funding as (un)attractive.



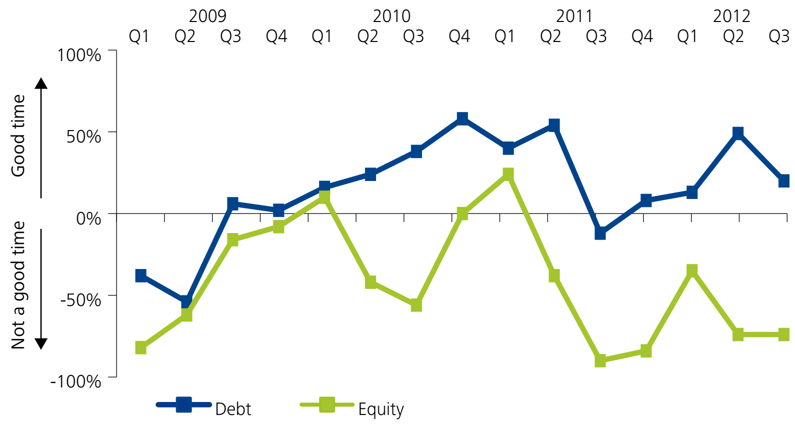
The time for issuing debt is not perceived to have improved; conversely, the line shows a minor decrease. Although the attractiveness increased compared to the second quarter of this year, the availability was not considered to have improved. However, the majority of CFOs do consider now a good time to issue corporate debt. CFOs do not think this is a good time to issue equity.

This last quarter, the average closing rate of the AEX-index was 326.78 (+8.9% Q2). The lowest closing rate was 308.40 on 9 July, and the highest Q2 closing rate was 338.28 on 14 September.

42% of CFOs expect the AEX index to increase in the next twelve months, 13% expect a decrease.

Chart 10. Good time to issue debt/equity?

Net percentage of CFOs who think now is a good time to issue debt/equity.



M&A

Some 45% of CFOs expect M&A activity levels to increase in the next twelve months, while 13% of CFOs expect M&A levels to decrease further from the current level.

The trend of CFOs' expectations of Private Equity activity is rather similar to the one shown in the M&A outlook chart. Though, less CFOs (32%) expect an increase in Private Equity acquisitions compared to the second quarter (Q2 41%).

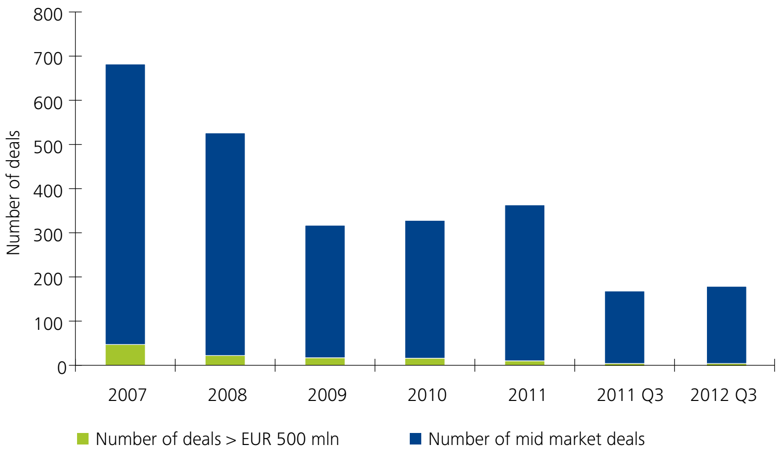
Chart 11. M&A outlook

Percentage of CFOs who expect M&A activity to increase/decrease in the next 12 months.

In 2012, up to and including Q3, the number of deals slightly increased in comparison with one year ago. However, the differences can be considered to be marginal.

Chart 12. Dutch M&A market 2007-2012 Q3

Dutch M&A activity expressed in number of deals.



Source: mergermarket

Risk Paragraph in the Annual Report

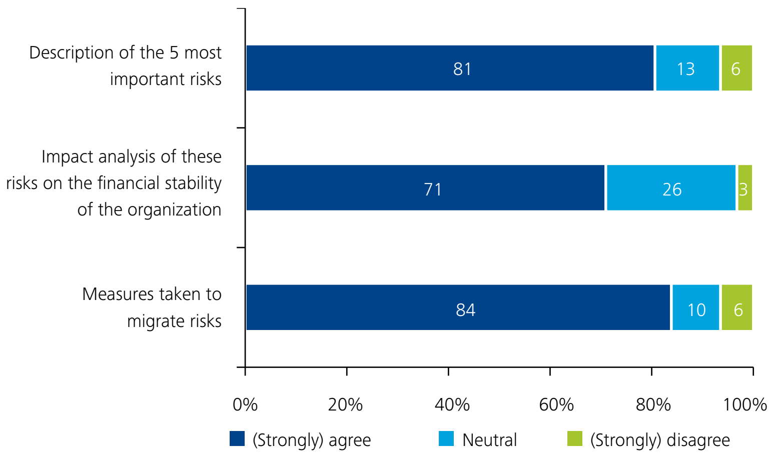
The Risk Paragraph in the Annual Report is this quarter's special topic. Stakeholders demand transparency in terms of the overall functioning of organizations and require insight into companies' risk profiles, as well as a broad and proactive role of auditors in this respect. Since the risk paragraph in the financial statements should provide a better insight, this can be done by designating the most important risks, linking an impact scenario analysis to them, and describing which safeguards the company has put in place. How do CFOs perceive the contents of the risk paragraph in the annual report?

Over 80% of CFOs underline the importance of describing the five most important risks within the risk paragraph in the annual report, while over 70% of CFOs agree to including an impact analysis of these risks on the organization's financial stability.

Some 84% of CFOs agree to describing the measures taken to mitigate these risks in the risk paragraph in the annual report.

Chart 13. Topics in Risk Paragraph

Percentage of CFOs who (dis)agree to including the following topics/measures within the risk paragraph in the annual report.

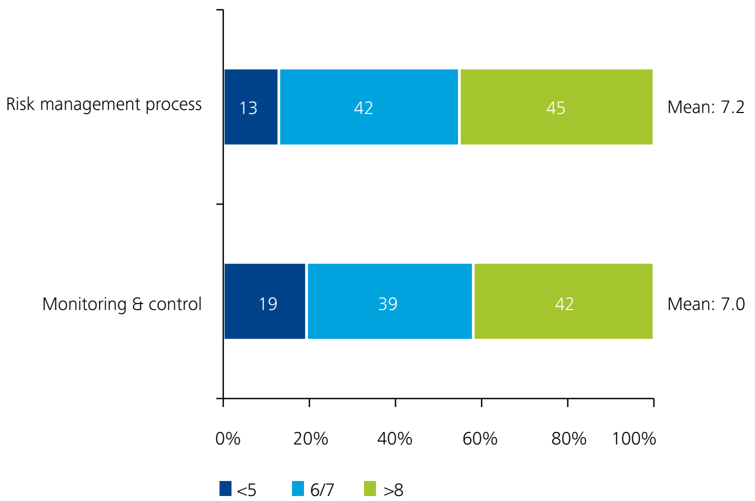


On average, CFOs assess the risk management process of their company with a score of 7.2. Following up on these processes with monitoring and control is rated somewhat lower - on average - with a score of 7.0. In both areas, a score of 4 was the lowest and a solid 9 the highest score.

Considering the impact of potential risks in today's complex business environment, these scores can be assessed to be modest.

Chart 14. Rating of Risk Management

Percentage of CFOs who rate their own company's risk management process and monitoring & control. (scores: 1 = very poor – 10 = excellent).



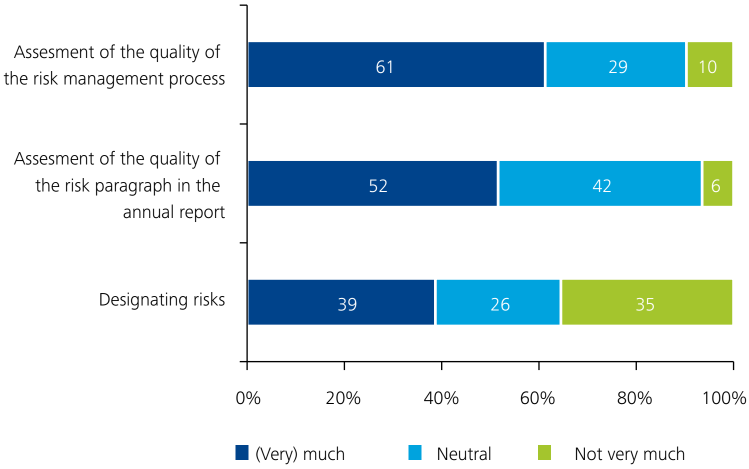
How do CFOs assess the role of auditors regarding the risk management process and the risk paragraph in the annual report?

Some 61% of CFOs would like the auditor to assess the quality of the risk management process.
Over half of the CFOs prefer the auditor to also assess the quality of the risk paragraph in the annual report.

Almost 40% of CFOs would like the auditor to designate the risks as well. Some 35% of CFOs do not see a role for the auditor in this area to have added value.

Following the above results about the auditor's role, we asked CFOs how they view the proposal by the IAASB (International Auditing and Assurance Standards Board) that auditors should explicitly refer to the going concern assumption in the independent auditor's report. Some 65% of CFOs agree with this proposal; 35% do not.

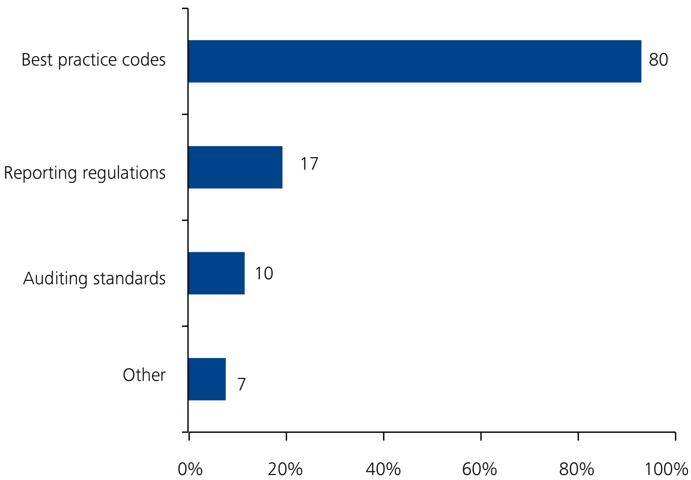
Chart 15. Auditor's role
Percentage of CFOs who do (not) see a role for the auditor on the following themes.



Some 80% of CFOs prefer best practice codes to improve the quality of the risk paragraph in the annual report.

Only 10-17% of CFOs prefer reporting regulations or auditing standards to best improve the quality of the risk paragraph in the annual report.

Chart 16. How to improve the quality of the risk paragraph?
Percentage of CFOs reporting how the quality of the risk paragraph in the annual report can best be improved (multiple response possible)



A note on methodology

To enhance readability, not all survey questions will be reported in each quarterly survey. Survey questions will be selected in response to the current financial economic situation. If you wish to receive information about non-reported questions, please contact us. The Deloitte CFO Survey is also executed by other Deloitte countries, for instance in the UK. Comparisons will be made when relevant.

Some of the charts in the Dutch Deloitte CFO Survey show the results in the form of a net balance. This is the percentage of respondents reporting, for instance, that bank credit is attractive minus the percentage stating that bank credit is unattractive. This is a standard way of presenting survey data.
Due to rounding answers may not sum to 100%.

The 2012 Q3 survey took place between 13 September and 8 October 2012. A total of 31 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 2 billion. The responding companies can be categorized as follows: less than 100 million (3%), 100 – 499 million (35%), 500 – 999 million (26%), 1 – 4.9 billion (26%), more than 5 billion (10%).

The participating CFOs are active in a variety of industries: Retail/Wholesale, Manufacturing Technology Real Estate, Consulting, Entertainment, Communication, Energy & Utilities, Transport, and Banking/Finance/Insurance.

We would like to thank all participating CFOs for completing our survey. We trust the report will make an interesting read and highlights the challenges facing CFOs. We also hope it provides you with an important benchmark to understand how your organization rates among your peers.

Source
Deloitte Clients & Markets Research

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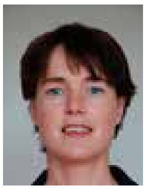

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