



**Conditions remain
tough with decreasing
optimism going forward**

The Deloitte/SEB CFO Survey

Fall 2012 results

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Welcome to the new edition of the Deloitte/SEB CFO Survey!

We are excited to present the fall 2012 results of the Deloitte/SEB CFO Survey. In this edition we have included a hot topic relating to the potential situation where the Euro ceases to exist in its present form and explored CFOs' actions and precautions in this matter.

We sincerely hope that you find the analysis insightful as well as thought-provoking. Please share your thoughts and comments on how we can continuously improve our efforts so that the Deloitte/SEB CFO Survey can be an essential resource for your daily work.

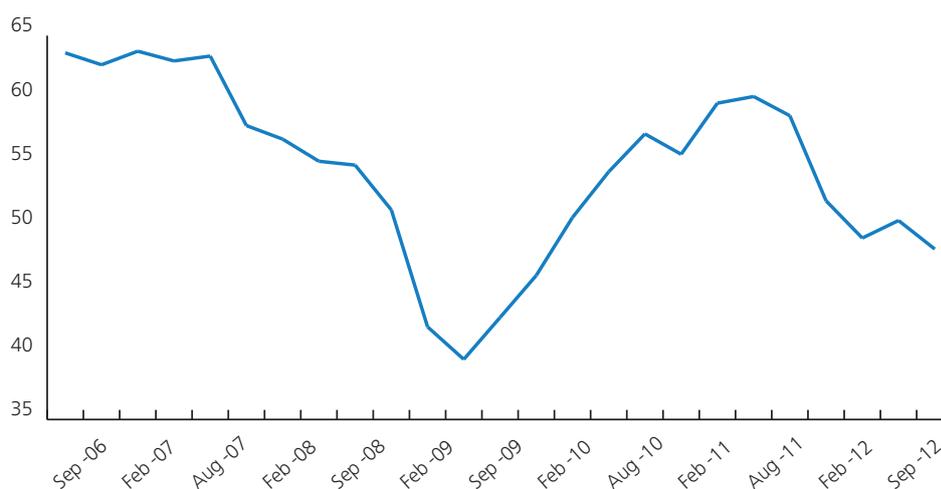
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Good resilience, but economic slowdown also likely in 2013

The Swedish economy is resisting the euro zone crisis relatively well but a weak international development is putting production and exports under pressure. Due to the very strong preliminary GDP figure for the second quarter, SEB:s growth forecast has been revised upward to 1.3 per cent for 2012. Since other and more recent indicators do not fully support such a strong development, the forecast takes into account a partial reversal during the second half of 2012. The overall Deloitte/SEB index supports the view of a weakening economy with a drop to 48.3 in September compared to 50.5 in February. The ever-widening economic downturn in Europe and the deceleration in emerging market countries contribute to only a slight improvement to 1.5 per cent GDP-growth in 2013. During 2014 growth will be somewhat faster and we expect GDP to grow by 2.5 per cent.

Swedish CFO Index



The Swedish CFO index for September 2012 has a value of 48.3, which reflects slightly negative expectations. The index is based on four components; business conditions, financial position, lending willingness and counterparty default risk. The four components are ranked 42, 52, 55 and 44 respectively.

Manufacturers have lowered production

Despite rising GDP in Sweden, manufacturing activity decelerated noticeably during the first half of 2012. Both merchandise exports and industrial production fell compared to the second half of 2011. The Deloitte/SEB CFO survey index has dropped to below 50 and indicators for the manufacturing industry, such as PMI and NIER:s Business Confidence Indicator, has also fallen lately. This suggests that manufacturing is moving sideways or falling slightly while the domestic economy is growing at sub-trend rate.

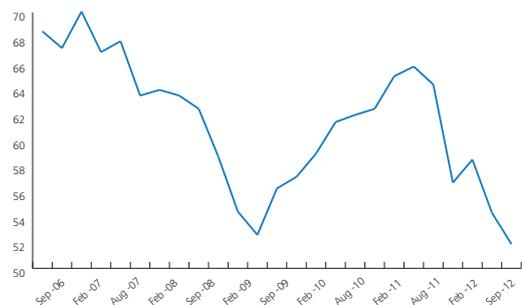
SEB:s main scenario is that Swedish exports will benefit from relatively robust demand in major northern European export markets but recent signs

are pointing at a more marked slowdown. Looking ahead, however, the stronger krona will lead to a further slowdown in Swedish exports. According to historical estimates, a 10 per cent krona appreciation leads to 2.5-3 per cent lower exports, with a lag of about one year. Krona appreciation will slow export growth by 1-2 percentage points during 2012 and 2013. Service exports have performed more strongly than expected, but it is unusual for merchandise and service exports to move in completely different directions. Service exports are expected to slow during the second half of 2012. SEB expects that overall exports will increase by 1 per cent this year, followed by a modest recovery to 3 per cent in 2013 and 4 per cent in 2014.

Somewhat tighter financial position

Actions by central banks have been instrumental during the last years to provide liquidity and to reduce uncertainty. In our survey, there is a continued drop in financial officers' perception of their financial position. The survey also indicates that the situation for companies differ with an increasing number of companies saying that the situation is 'Not so favourable' at the same time as there are more respondents stating that the situation is 'Very favourable' or 'Favourable'.

Financial position



Mixed capital spending signals

Due to weaker economic conditions, industrial companies continue to cut back on their capital spending plans. According to the latest survey from Statistics Sweden (SCB) in May, capital spending is expected to be unchanged this year. Capital spending is expected to be in line with the SCB-survey, but with a downside risk if demand comes in weaker than expected. As the initial level of spending is low however, major declines can probably be avoided. Housing investments are nevertheless expected to decline. Overall, this means that capital spending will increase by 2 per cent this year and then accelerate slightly during 2013 and 2014.

Households are continuing to consume

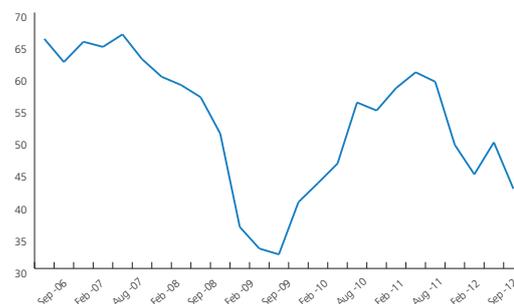
Households have maintained their consumption relatively well during the slowdown. There are many indications that consumption will continue to climb. After a slump late in 2011, both consumption expenditures and household confidence have recovered. Rising real wages will provide relatively good income growth. The fall Deloitte/SEB CFO-survey indicates that rising labour costs are only a marginal concern for companies ahead. SEB also assume that fiscal stimulus will contribute to somewhat higher income both in 2013 and 2014. Uncertain economic conditions and eventually rising unemployment however point to slower consumption growth ahead. Our forecast is thus that consumption will grow more slowly than income both in 2012 and 2013.

Gradual weakening in the labour market

Like growth, the labour market has provided upside surprises lately. The jobless rate has been around 7.5 per cent since mid-2011. In the Deloitte/SEB Survey there are more companies stating that they will decrease employment compared to the February survey. Other short-term indicators such as newly registered vacancies and lay-off notices have gradually contin-

ued to weaken, but their levels signal continued job growth for the next 3-4 months. Unemployment will eventually climb slightly and that job creation will fall a bit. Our previous forecast that unemployment will climb to about 8 per cent is intact, though we now expect the upturn to begin late in 2012.

Business conditions



Riksbank will cut key interest rate once more

The Riksbank lowered the Repo-rate by 25 basis points in September to 1.25 per cent and SEB expect another cut in December 2012 to 1.0 per cent. There are arguments for a lower Repo-rate such as low inflation pressure, a shaky labour market, continued financial market turbulence and slower increase in lending to households. Expansionary monetary policies in other countries are also helping make Swedish monetary policy appear more restrictive. This, in turn, is instrumental in reinforcing appreciation pressure on the krona, pushing down inflation and growth. Low key interest rates internationally are an argument for low Riksbank key interest rates as well. SEB expect the Repo-rate to remain at 1.00 per cent during 2014.

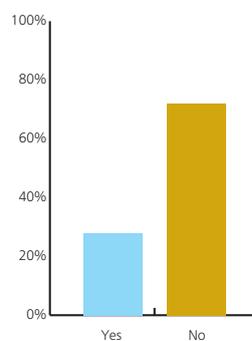
Krona breaking new ground

The recent strength of the krona confirms its reclassification into a less cyclically sensitive currency. SEB:s assessment is that the krona is now being traded close to its equilibrium level and expect that the krona will strengthen further in the near term. At the end of 2012 the EUR/SEK exchange rate will be at 8.00 before heading towards 8.10 by the end of 2013. Also the USD/SEK rate will also drop in the near future. Given our forecast of gradual dollar appreciation against the euro, this movement will however be small. In trade-weighted terms, the krona will continue downward to a TCW index low around 112 this autumn before gradually weakening up to 115. The Deloitte/SEB Survey shows that the EUR/SEK budget rate for the financial year 2012 is 9.00, clearly above the present level. Also, the Survey points at increased CFO concern for the exchange rate, although demand is still the greatest concern.

Hot topic - Outlook on the Euro situation

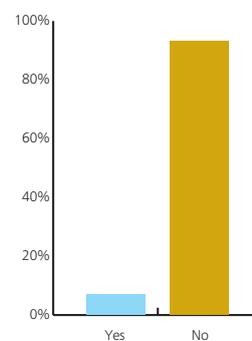
Judging from the limited number of companies that have adjusted their operations, responding CFOs do currently not seem overly concerned about the impact of a potential situation where the Euro does not exist in its present form. Whether this is a sign that CFOs believe that the Euro will not exist in its present form, the companies will not be significantly affected by any changes, or simply that risk assessments have not yet been performed and this issue not adequately considered by the CFOs, remains a speculation.

Has your company performed any kind of stress test regarding a situation where the Euro does not exist in its present form?



One out of four of the CFOs answered that their companies had performed some kind of stress test regarding a situation where the Euro does not exist in its present form. Hence, a fair conclusion is that several companies in fact are worried for a collapse of the most important currency for Swedish export. This is probably related to the increased worries for increased interest rates, i.e. macro oriented uncertainties.

Has your company adjusted its operations to a situation where the Euro does not exist in its present form?



Whereas 25% of the surveyed companies having performed a stress test, only 7% of the companies have currently adjusted their operations to a situation where the Euro does not exist in its present form. Only 7% have taken action, which could suggest that companies in general consider the risk of a situation where the Euro does not exist in its present form as fairly low. Another possibility is of course that adjusting operations is impossible or very costly. The pessimistic reader thus could interpret the results as 93% of the companies currently not being prepared for a changed Euro scenario.

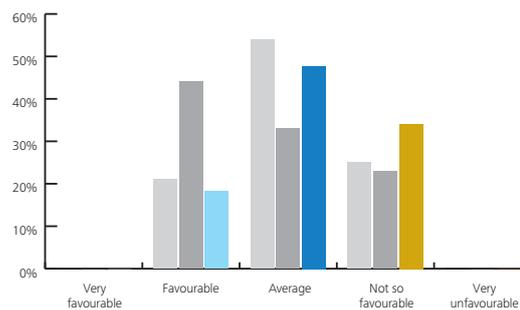


Business conditions and outlook

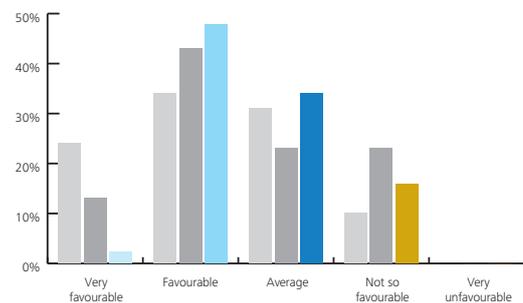
The positive trend from February 2012 has in September turned slightly negative. In line with the second quarter results, companies seem to expect more difficult times ahead. However, companies have yet not seen the effects of the weakening sentiment.

1. Business conditions for your company in the next 6 months are seen as:

In February business conditions improved notably versus the previous survey. The current sentiment has again turned more negative with a larger relative share of CFOs finding Business conditions “not so favorable” (34% in September versus 23% in February). The trend corresponds with the current slowdown in Swedish economy, forecast to continue also into 2013.



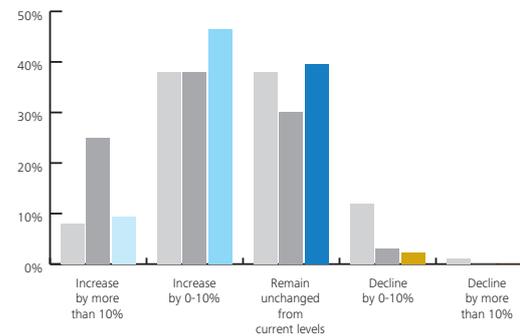
2. The overall financial position of your company is seen as:



The overall outcome of the September survey is that the financial position of surveyed companies largely is unchanged compared to February. Increases in the response alternatives “favorable” (48%) and “average” (34%) are likely related to the weakening business condition sentiment and might highlight a possible time lag and correlation between lower business activity and negative financial consequences.

CFOs with a view that the overall financial position is very favorable has decreased significantly in the last year and is currently below 4%.

3. How do you expect operating cash flow in your company to change over the next 12 months?



Swedish CFOs remain positive about the cash flow expectations for the next twelve months even though at slightly more moderate levels than in the spring 2012 survey. A majority (56%) of CFO respondents continue to expect cash flow to increase and 9% of CFOs expect a double digit improvement over the next twelve months (versus 63% in February). In general the September results anticipate slightly lower cash flows than the spring survey but still remain high in a historical perspective. The most notable change from the spring survey is the decrease in respondents expecting a double digit improvement which could be a sign of deteriorating market conditions.

Prospects and concerns

As in previous surveys, demand is still the greatest concern for Swedish CFOs. Other factors as access to capital, competition and cost of materials remain in line with previous survey results. A growing concern for exchange rates is however seen over the last survey. Companies seem to have underestimated the pace at which the Krona has strengthened against key currencies. Furthermore, concerns of interest rates have risen in the September survey.

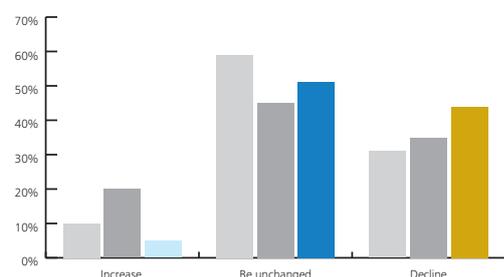
4. What are the greatest concerns for your company in 2012?

As before, demand (slightly more than 50%), as well as access to capital (with the share of responses in line with the February survey), are still the greatest concerns for CFOs. However, increasing concerns

over exchange rates and interest rates are noted. The increasing concern over exchange rates is most likely a result of the strengthening Krona against the Euro and US Dollar (the first and second most important foreign currencies for Swedish companies). The increasing concern over interest rates is interesting, since current interest rates are at very low levels from a historical perspective. One explanation might be that CFOs fear future inflationary driven interest rate increases, stemming from economic easing activities. As forecasted by SEB key interest rates (i.e. the Repo-rate) will however remain at low levels throughout 2014.



5. The number of employees in your company in Sweden is, in the next 6 months, expected to:



44% of CFOs answered that the number of employees in their companies will decline in the next six months and the trend over the last surveys seem to accelerate. The share of CFOs that believe the number of employees will be unchanged increased to 51%. Just as in February, this is in line with the Swedish unemployment figures.

6. What is your EUR/SEK budget rate for 2012?



The median EUR/SEK value is 9 and since the average of the ratio during 2012 until early September came in at 8,83, CFOs have clearly overestimated the ratio. The average EUR/SEK level during 2011 was 9,0 and the SEB forecast was a strengthening Swedish Krona during 2012. However, the companies apparently relied on historical values more than the forecast, budgeted for a EUR/SEK ratio remaining at the 2011 level and hence overestimated the actual level. The Krona has strengthened significantly during 2012, leaving exporting companies with a mismatch and most likely losses.

Financing

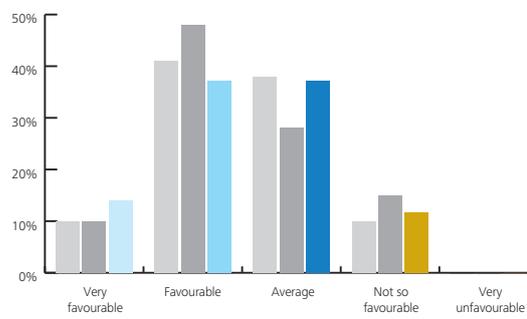
The lending attitude of financial institutions is in general seen as favorable to average, which is unchanged from the latest survey. A larger share of CFOs now forecast the probability for counterparties' default as unchanged, despite current market challenges and generally weakening sentiment.

7. The lending attitude of financial institutions toward your company is seen as:

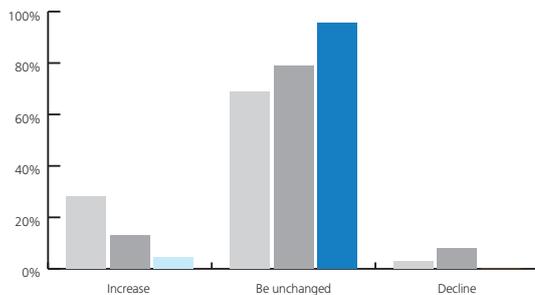
As seen from the graph, the extreme alternatives are pretty much unchanged from the past surveys where a small increase in "very favorable" and a corresponding small decrease in "not so favorable" are noted. Altogether, the lending attitude of financial institutions towards companies is now seen as "favorable" (37%) and "average" (37%) and is hence back at the same levels as in November 2011. No CFO has chosen the "very unfavorable" alternative.

What is not reflected in this question is the squeezed spread levels in the credit market, making it possible for certain companies to issue bonds at favorable terms. This is likely related to the banks' increased

capital requirements and regulatory standards rather than the macro environment. Hence, some companies fund themselves in the bond market rather than using bank credit lines.

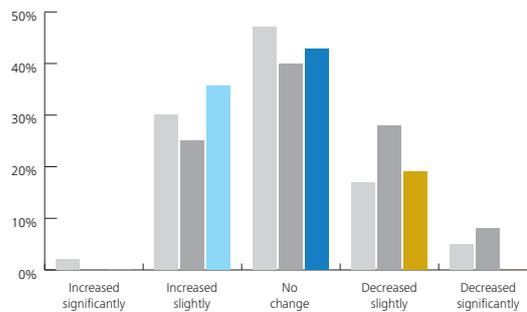


8. The probability for counterparties' default in the next 6 months is expected to:



Despite the weakening sentiment, 95% of the CFOs believe that the probability for counterparties' default in the next 6 months will be unchanged. In September the number was 79%, 8%-units less than in February believe that the probability will increase respectively decline. This is most likely related to the CFOs having a notion of companies adapting to the macro- and financial environment and if so, it might be interpreted as a positive factor.

9. How has the level of financial risk on your balance sheet changed over the last 12 months?



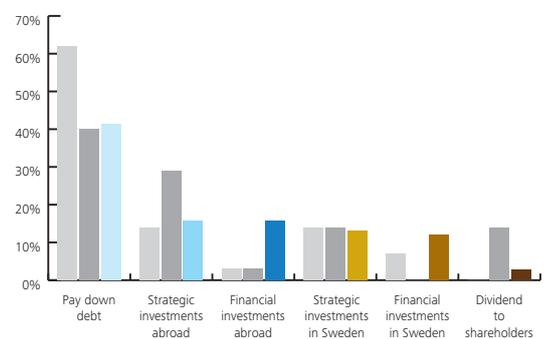
The majority of the CFOs still believe that balance sheet risk has not changed over the last twelve months. However there has been a shift in sentiment where 36% believe that balance sheet risk has increased over the past twelve months versus 19% with the opinion that risk decreased. This indicates that uncertainties remain, despite the improvement noted in the spring survey. Indeed, the Swedish Riksbank noted the considerable uncertainty in economic markets in its July policy report.

Strategic opportunities

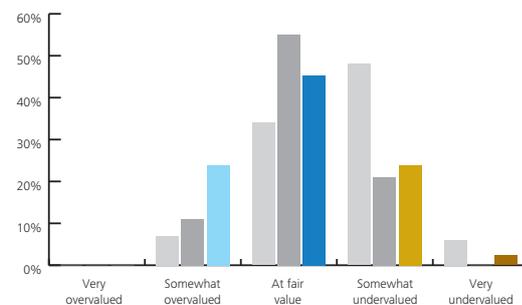
According to the survey, companies prefer parking their money to taking strategic actions. CFOs give a mixed picture on valuations and the quantity of deals involving a Swedish target remains below the five year average. Acquisition opportunities might emerge as valuations reach more attractive levels and overall the survey still suggests that the M&A environment will improve over the next twelve months.

10. Assuming a current cash surplus position, how would you prefer to use the money in the next 6 months?

The trend from previous years continues with the largest share (slightly more than 40%) of CFOs preferring to pay down debt in the next 6 months, assuming a cash surplus position. This share is pretty much unchanged since February but differs significantly from November 2011, when credit spreads were wider and the OMXS30 was well below today's level. Today, some CFOs would however prefer to do financial investments abroad and in Sweden, which in February apparently was not an option. A possible interpretation is that companies currently are on hold and park their money safely rather than expand strategically in order to grow.

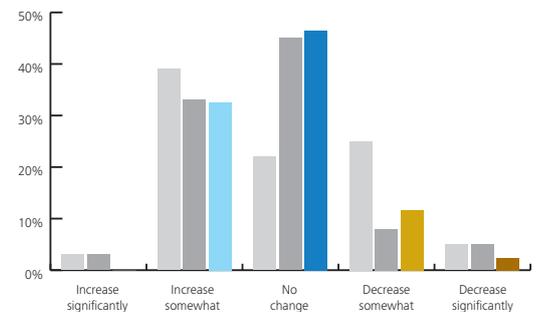


11. How do you currently rate valuation of Swedish companies?



The new survey indicates that most Swedish CFOs, 45%, still believe companies are fairly valued which is a decrease from the spring survey when 55% thought prices were at equilibrium. On 31 August 2012 the OMX Stockholm 30 index was approx. 7% lower relative to the latest survey in February 2012. The most significant change since the spring survey is that 24% of CFOs, an increase from 11%, consider the valuation of Swedish companies somewhat overvalued. This could indicate that the CFOs consider the outlook to be more challenging than the market would suggest. The uncertainties in the market reflect this change in sentiment where some companies are more affected by the challenging conditions than others, which may not have been appropriately priced by the market.

12. Over the next 12 months how do you expect levels of corporate acquisitions and divestments in Sweden to change?



CFOs continue to anticipate a higher level of M&A activity over the next twelve months. Net sentiment is slightly weaker compared to the spring 2012 results. It is helpful to keep in mind that the quantity of deals involving a Swedish target remains below the five year average. Based on the recent survey results any significant changes would be unexpected as uncertainties remain in the market overall. However, acquisition opportunities might emerge as valuations reach more attractive levels. Notwithstanding the magnitude of static predictions, the survey still suggests that the M&A environment will improve over the next twelve months.

An international outlook

Uncertainty takes its toll on optimism

Below we have compiled key points from the most recent Deloitte CFO Surveys in UK/Europe, North America, and Asia Pacific (performed in Q2 2012) as well as some highlights from Deloitte's Q3 2012 outlook on China.

UK/Europe

- On average, in Q2 UK CFOs saw roughly a one-in-two chance of the recession continuing to the end of 2012 or for the economy to hit a 'triple-dip' recession.
- CFOs' expectations for the Swiss economic outlook improved in Q2 compared to previous quarters; there was a positive net 5% balance of sentiment when looking at the next twelve months.
- Dutch CFO optimism about the financial prospects of their own company improved since last quarter, but hovered around the zero mark in Q2, meaning CFOs were almost equally positive and negative about their companies' financial prospects.
- Compared with a year ago, UK CFOs are more focussed on reducing leverage and disposing of assets – and less likely to be making acquisitions or undertaking capital expenditure.
- The risk appetite of Dutch CFOs dropped in Q2 to the low levels last seen in the third quarter of 2011 and early 2009. Only 8% of Dutch CFOs thought it was a good time to be taking greater balance sheet related risks.
- Although the availability of credit in the UK has deteriorated, the overall credit conditions for large corporates did not seem to be especially stringent in Q2.
- In Q2, Swiss CFOs believed there was an average probability of 55% that at least one of the current members will have to leave the Eurozone within the next five years. In the UK, CFOs saw a 36% probability of one or more countries leaving the single currency, relative to 26% in February of 2012.

North America

- In the Q2 survey, nearly half of all North American CFOs mentioned a slowing economy a top concern, generally this sentiment has worsened since Q1 2012. CFO optimism in North America was still positive in Q2 but sequentially decreased on a net basis to +11 points from +48 points in the preceding quarter. This means that optimistic CFOs outnumbered pessimistic CFOs by 11% of the sample.
- Despite the global economic concerns and declining optimism, North America CFOs continued to enjoy rising expectations for their companies' sales performance over next 12 months in Q2. Indeed,

sales growth expectations for the next twelve months increased to +6.6% YoY, from +5.9%, but earnings expectations narrowed slightly to +10.5% YoY, from +12.8%.

- CFOs' capital investment growth expectations over the next 12 notched down to +11.4% YoY, from +12% YoY, but are still significantly higher than growth expectations for R&D, marketing, and dividends.
- About 70% of CFOs reported substantial cost-saving changes to their supply chains in Q2 – mostly through reconfigured and renegotiated sourcing arrangements.
- Despite challenging sales volumes, a remarkable 65% of all CFOs reported having raised prices in Q2 of 2012 (82% in Manufacturing, 90% in Retail/Wholesale), and 42% say further price increases are coming.

Asia/Pacific

- China has seen its fifth consecutive quarter of declining GDP growth and People's bank of China cut interest rates in June and July of 2012. However factories in China's large coastal cities still have trouble fulfilling their labour needs, due to a change in migration trends. Efforts to boost growth have been targeted on tax incentives for consumer spending on automobiles and appliances, as well as loans to small businesses. Stimulus for bigger projects, such as those initiated in the 2008 stimulus efforts, has been largely avoided.
- The Indian government is walking a tight rope as it attempts to contain inflation while retaining growth and the credit rating agencies have started to view the future more negatively. It is not surprising that in the Q2 survey 46% of Indian CFOs expected the GDP growth rate to taper further. Indeed, 31% of CFOs were optimistic about the performance of their organisations in Q2, relative to 47% in the prior survey.
- In Australia business uncertainty hit its highest level in more than a year with 87% of CFOs saying uncertainty was above normal. The most significant factors facing companies' financial prospects are the European sovereign debt issues, Australian government policy uncertainty, and the potential slowdown in China. Still, the tough times have driven companies there to innovate: two-thirds of Australian CFOs say it is a priority to introduce new products and services or expand into new markets.

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About the survey

The CFOs who responded represent Swedish companies across all industries. The survey was carried out as a web-based questionnaire in August 2012. Given the broad range of industries and organisations that responded, the trends observed and conclusions made are considered representative of the wider Swedish CFO community. Respondents with no opinion on specific questions have not been included in the charts or analyses.

SEB

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