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The Deloitte
CFO Survey
Sustainability
and the CFO



Quarter 2 2012 survey results
Leading business advisers



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About the survey and key findings

About the survey

This is the twelfth in a series of quarterly surveys of Chief Financial Officers of major Irish based companies. The survey was conducted in June 2012 and CFOs of listed companies, large private companies and Irish subsidiaries of overseas multinational companies participated.

The Deloitte CFO Survey is the only survey that seeks to establish the views of CFOs in relation to the financial markets, economic outlook and business trends on a quarterly basis.

This quarter, in partnership with Business in the Community Ireland, we asked CFOs their opinions about sustainability issues.

Business in the Community Ireland is a not-for-profit membership network dedicated to promoting responsible and sustainable business practices in Ireland. The organisation believes that businesses can create significant value for its shareholders and society through sustainability by maximising the positive and minimising the negative effects of economic, social and environmental issues.

Key findings

The following are the key findings of the CFO responses from this quarter:

Internal performance

- Net optimism amongst CFOs drops by 17%
- 49% of respondents believe turnover will be somewhat increased in six months' time
- 44% believe profitability will be somewhat increased in six months' time
- 26% of respondents indicate that their company has already returned to growth
- 96% of CFOs expect their ability to service debt to either stay the same or improve
- 43% are expecting debt on their balance sheets to decrease over the next three years

External influences

- Net 81% of respondents state credit is costly despite record low ECB rates
- 59% believe credit is hard or very hard to get from domestic banks
- 26% of CFOs favour overseas banks for funding

Risk and markets

- 67% of respondents highlight market risk as a key concern
- 22% feel that the global recession is one of the top external challenges facing their organisation

Macro economy and government

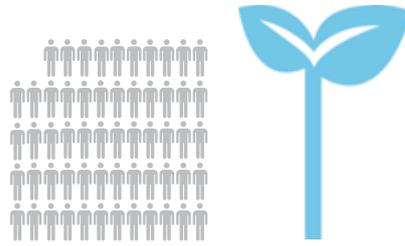
- 52% believe that the Government has had some positive impact on fiscal and economic matters
- 37% now believe that a break-up of the eurozone is likely; 38% do not think this is likely
- 56% of CFOs would favour a return to the punt should the eurozone break-up

Sustainability

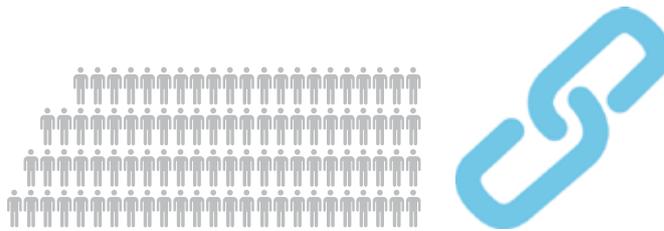
- 93% of CFOs believe there is a direct link between sustainability programmes and business performance
- 58% of CFOs believe that it is important for sustainability programmes to be part of the CFO agenda
- 28% of CFOs report on non-financial measures, such as social and environmental impacts, as part of their reporting cycle
- 37% of CFOs incorporate sustainability dimensions into their company's bidding and/or procurement processes



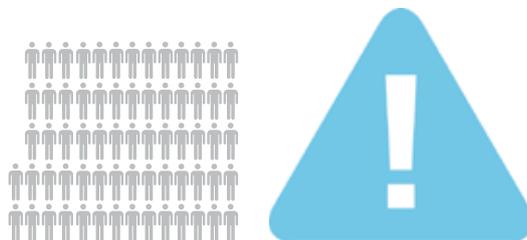
Snapshot of key findings



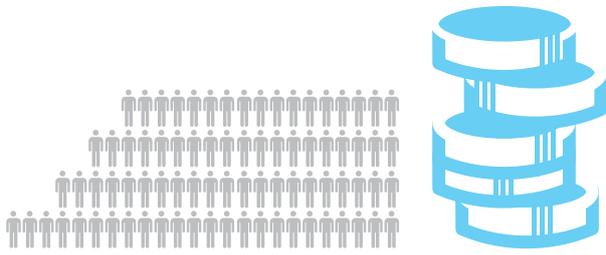
58% **Sustainability**
of CFOs believe that it is important for sustainability programmes to be part of the CFO agenda



93% **Performance**
of CFOs believe there is a direct link between sustainability programmes and business performance



67% **Risk**
of respondents state market risk as a key concern



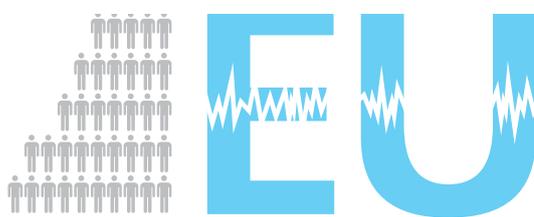
81% Credit

indicated credit is costly despite record low ECB rates



17% Optimism

Net optimism amongst CFOs drops by 17%



37% Break up

now believe that a break up of the eurozone is likely, compared to 12% in Quarter 3 2011

Key events and economic trends

Quarterly roundup

Key events in Quarter 2 2012 included:

| | |
|--------|---|
| Apr 2 | As part of the Action Plan for Jobs, the Irish Government unveils €1.2 million investment in the newly established Cloud Computing Technology Research Centre. |
| Apr 18 | Pharmaceutical company Mylan announces that it is to create 500 jobs between its operations in Dublin and Galway by 2016, in an investment worth up to €380 million. |
| Apr 30 | Cisco, the world's largest supplier of networking products, is to invest €26 million at its Galway research and development facility over the next two years, with the creation of 115 new positions. |
| May 3 | Software giant SAP expands its operations in Ireland with the creation of 250 new jobs in Dublin and Galway. |
| May 18 | IBM announces the creation of several hundred jobs in Dublin with the establishment of a new global services integration hub. |
| May 24 | Deloitte holds its inaugural CFO Forum in the Four Seasons Hotel, Dublin. |
| May 28 | Online retailer Amazon is to create over 100 high-end engineering and software jobs at its development centre in Dublin. |
| Jun 1 | Irish voters support the referendum on the European Fiscal Stability Treaty which took place on May 31, with 60.3% voting Yes. |
| Jun 7 | The Consumer Price Index rises by 1.8% in the year ending May. The most notable increases in prices were in education (+9.4%) and transport (+5%). |
| Jun 20 | A technical problem during a software upgrade at its parent company RBS disrupts electronic transactions and creates a massive backlog processing payments for Ulster Bank. |
| Jun 25 | Deloitte announces the launch of the Fast 50 Technology Awards, which recognise Ireland's indigenous technology companies with exceptional growth in turnover over the last five years. |

| | |
|--------|--|
| Jun 28 | Salesforce.com, the enterprise cloud computing company announces plans to add over 100 new jobs in Dublin to meet the demands of continued growth in Ireland. |
| Jun 29 | EU leaders strike a new deal at a summit in Brussels to secure a change in how banks can be recapitalised without adding to the sovereign debt of a country. The change in direction by the EU includes a clause to ensure all countries are treated equally and opens the door for renegotiation of the Irish bailout deal in the months ahead. |

Key economic trends over this quarter included:

| | March 31 2012 | June 30 2012 | % Change |
|------------------------|---------------|--------------|----------|
| ISEQ | 3,254.80 | 3,148.60 | -3.26% |
| FTSE-100 | 5,768.50 | 5,571.10 | -3.42% |
| NASDAQ (IXIC) | 3,091.60 | 2,935.05 | -5.06% |
| \$/€ | 1.33 | 1.26 | -5.26% |
| £/€ | 0.83 | 0.81 | -2.41% |
| ECB Int. Rate | 1% | 1% | 0% |
| LIBOR 1mth | 0.241% | 0.245% | 1.66% |
| Irish Government Bonds | 6.845% | 6.390% | -6.650% |

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Executive summary



Quarter 2 2012 has continued to provide tension, drama and twists in the tale of the EU crisis which is slowly evolving amid late night diplomacy and brinkmanship at the highest levels of government. June 29 saw EU leaders, under pressure from Mario Monti and deteriorating conditions in Spain, finally accept proposals to uncouple and differentiate debt of failed banks from sovereign debt in future bailouts. To their credit Enda Kenny and the Government's negotiation and positioning tactics ensured that a clause was added to ensure all countries would be treated equally under these changes opening a door to potentially allow these measures to be applied retrospectively for Ireland. While this was a resounding success for Ireland in terms of policy decision, what this actually means in terms of our bailout position and repayment requirements has yet to be determined and as always the devil will be in the detail.

The end of May saw the referendum on the EU fiscal compact being passed by a significant majority by the Irish people underlining a national ambition to remain a significant part of the European project and our commitment to working through our current financial difficulties together. A further boon to the Government and EU was the successful return to the bond market, albeit for a small amount of short term debt. The positive developments this quarter may be the beginnings of the good news story that the eurozone desperately needs to convince the world's financial institutions that the euro can survive. Keeping Ireland at the centre of this good news story can only benefit and strengthen Ireland's negotiating position within the EU.

The Deloitte inaugural CFO Forum was held in the Four Seasons Hotel, Dublin on May 24 2012. CFOs and finance directors of Ireland's largest businesses gathered to hear the views of five eminent speakers on the evolving role of the CFO, and how CFOs support transformational change in their organisations - be that business restructuring, organic growth or M&A activity, operating model redesign, funding or any other form of major business initiative. Full details of the conference and a retrospective covering key themes and insights are available from our website (www.deloitte.com/ie/cfoconnect).

This quarter, in partnership with Business in the Community Ireland, the survey ascertains CFO opinion on various aspects of sustainability. Sustainability and non-financial reporting are becoming increasingly important to global organisations and EU regulations will make certain types of reporting mandatory in the near future. The role that companies can play in driving and responding to sustainability issues are particularly topical this quarter given the recent United Nations Rio+20 Conference on Sustainable Development. More than 1,000 businesses were present to push for new regulatory and measurement frameworks to incentivise moves to a green economy.

What to expect from next quarter

In Quarter 3 2012 the survey will further examine CFO sentiment in relation to their own company's internal performance as well as examining CFO opinion on the impact of the changes to EU policy on how bank bailouts are structured and applied retrospectively to the Irish economy.

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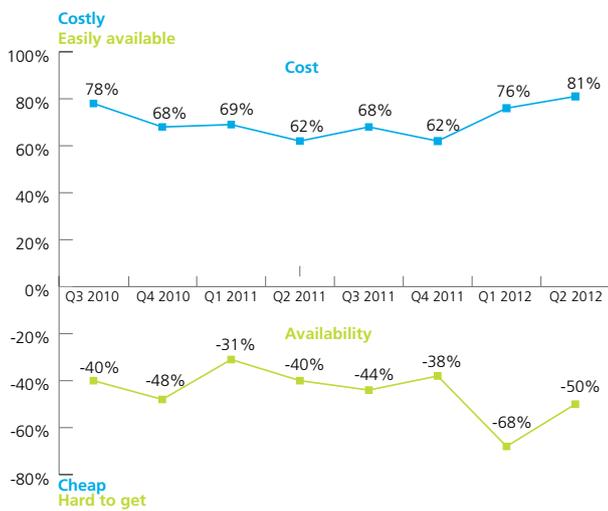
Shane Mohan
Partner, Deloitte

Survey findings

Section 1 – Cost and availability of credit toughest in Europe

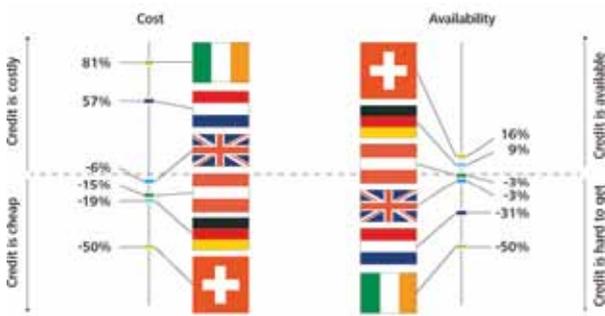
The perception that the cost of credit is high has grown this quarter with net 81% of respondents stating that the overall cost of new credit is high, despite the continued record low ECB interest rates. Perception of the availability of credit remains poor with net half of CFOs surveyed stating it is hard to get.

Figure 1 – Net perception of overall cost and availability of credit to Irish corporates



Comparing Irish results with selected EU countries for the same questions, Ireland ranked worst in class, with Irish based CFOs perceiving cost of credit to be the highest and credit the hardest to get. This analysis highlights difficulties Irish companies face in competing with other EU companies. It also provides some background to the increasing trend to using overseas banks as a source of funding instead of local banks.

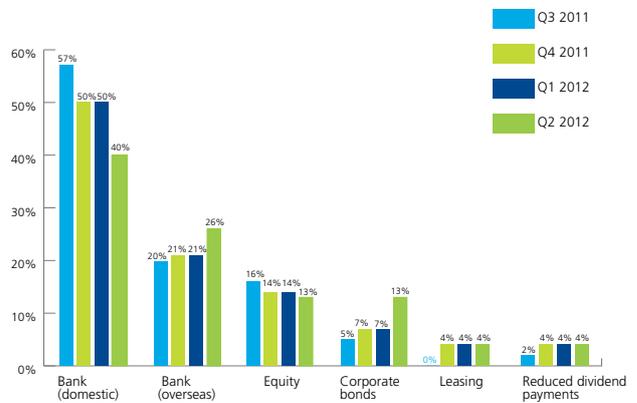
Figure 2 - International comparison of cost and availability of credit



Note: Results for Germany from March 2012; UK and The Netherlands from June 2012; Ireland from July 2012; Austria from July 2012 with the question worded slightly differently

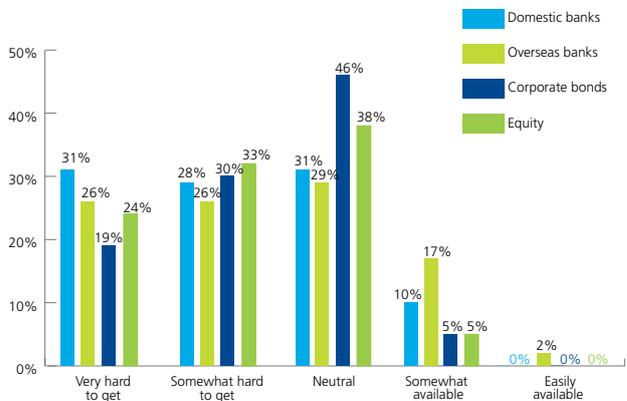
While domestic banks remain the overall preferred source of funding, this has declined by 17% in the past 12 months, perhaps a reflection of the on-going banking crisis at home. Correspondingly, the use of overseas banks has increased in popularity among CFOs to 26% bringing the gap between preference for domestic and overseas funding down from 37% a year ago to just 14% this quarter. Use of corporate bonds as a funding method continues to grow rising to 13% from 7% last quarter.

Figure 3 - What is your company's, or your parent company's, preferred method of funding?



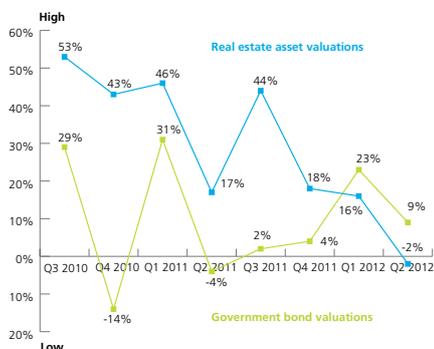
CFO sentiment on the overall availability of new credit to Irish corporates from domestic banks remains in a negative position with 59% stating that it was hard or very hard to get. By contrast overseas banks are seen as slightly more amenable, with 19% of CFOs stating that credit was somewhat or easily available from this source.

Figure 4 - How would you rate the overall availability of new credit for Irish corporates compared to six months ago from the following sources?



A net 2% of respondents considered real estate to be undervalued in Quarter 2 2012. This has dropped dramatically from net 16% of CFOs who thought real estate was overvalued in Quarter 1 2012. This indicates a shift in the perception of the value of property back to expected levels. The perception of Government bond valuations fell by 14% with a net 9% of CFOs believing them to be overvalued. This suggests that the market is finally beginning to reflect true asset values.

Figure 5 - Net perception of overall rate of Irish Government bond valuations and Irish commercial real estate valuations

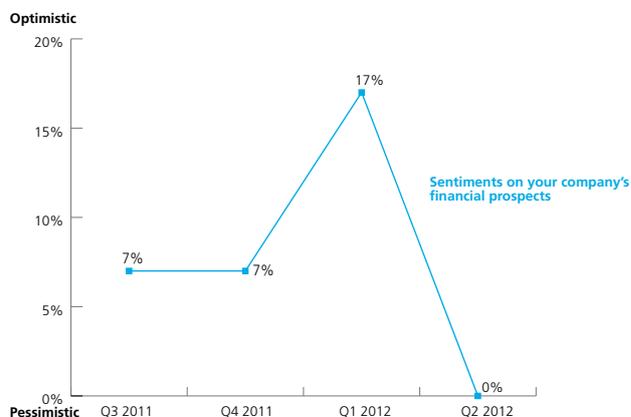


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Section 2 – Optimism falls

Last quarter's rise in CFO optimism seems to have been short lived. CFOs are less optimistic this quarter with 20% of CFOs stating that they are optimistic about their companies' financial prospects, compared to 33% in Quarter 1. This puts net CFO optimism at zero, a drop of 17% since last quarter and an all-time low since our survey record began in Quarter 1 2011.

Figure 6 - Compared with three months ago how do you feel about the financial prospects for your company?



Interestingly, the decline in overall optimism is not reflected in expectations on turnover and profitability. CFOs' expectations for increased turnover in the next six months are broadly in line with those of last quarter at 51%. 46% of CFOs are expecting an increase in profitability in the next six months with 20% of CFOs expecting a decrease in profitability compared to 17% last quarter. The rising demand in the export market is likely to be the leading contributor to positive expectations of turnover and profitability.

Figure 7 - How do you feel your company's turnover will compare in six months' time?

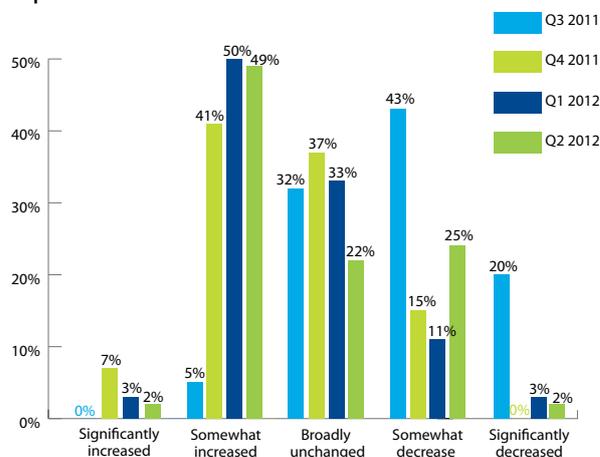
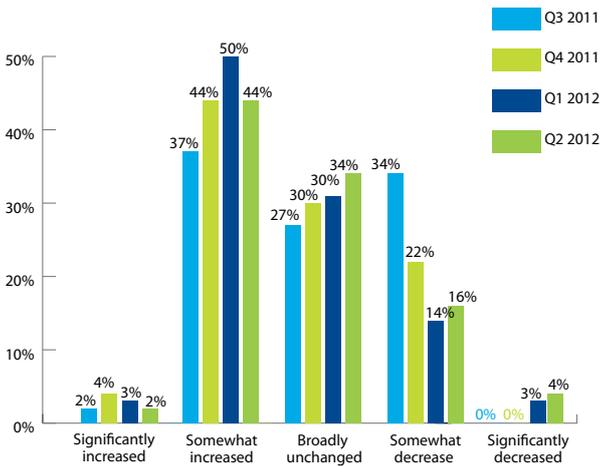


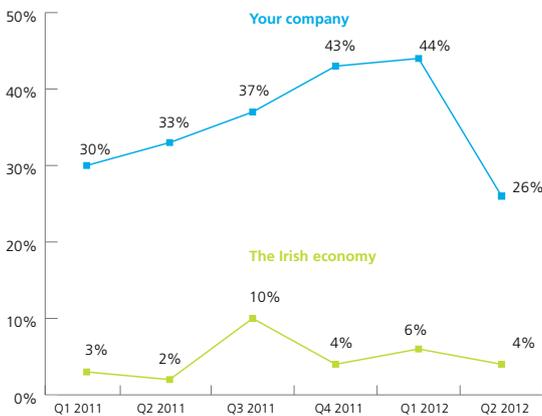
Figure 8 - How do you feel your company's profitability will compare in six months' time?



CFO confidence in their companies' ability to grow in the current climate has fallen, with net 26% of respondents indicating that they have already returned to growth. This is a decline of 18% from last quarter. Negative sentiment continues with net 4% of Irish CFOs believing that the Irish economy has returned to growth this quarter, down 2% from the previous quarter.

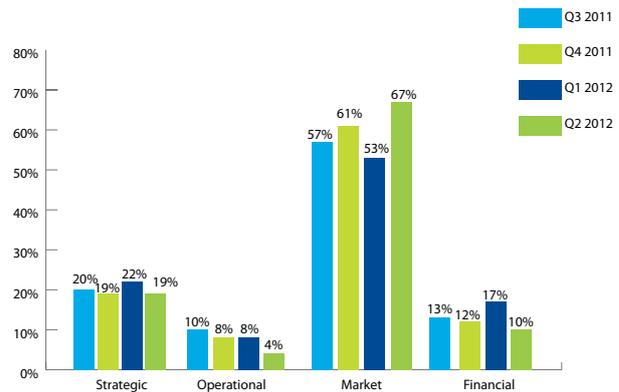
92% of CFOs do not believe that the economy will return to growth before Quarter 1 2013. Responses show that CFOs have a positive view of their companies' growth prospects ahead of the economy's overall growth prospects. While this relationship has stayed constant over the last year, this quarter the results are starting to close that gap.

Figure 9 – Perception that one's company/the Irish economy has already returned to growth in the given quarter



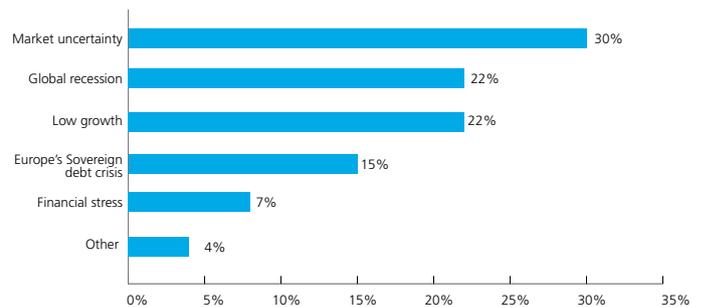
Unsurprisingly, market risk remains the most dominant form of risk for Irish CFOs increasing by 14% this quarter. Strategic, operational and financial risk saw very little movement this quarter with figures varying by just a few percentage points on those recorded in previous quarters.

Figure 10 – Which one of the following categories of risk worries you the most?



Market uncertainty is the main external financial challenge for CFOs with 30% ranking this as their top challenge. 22% of CFOs are concerned with the challenge of global recession and low growth.

Figure 11 - What are the top three external financial challenges currently facing your business today?

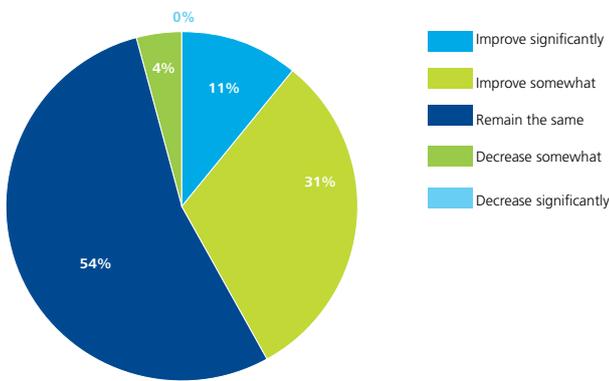


CFO confidence in their companies' ability to grow in the current climate has fallen, with net 26% of respondents indicating that they have already returned to growth.

Section 3 – Ability to repay debt stabilises

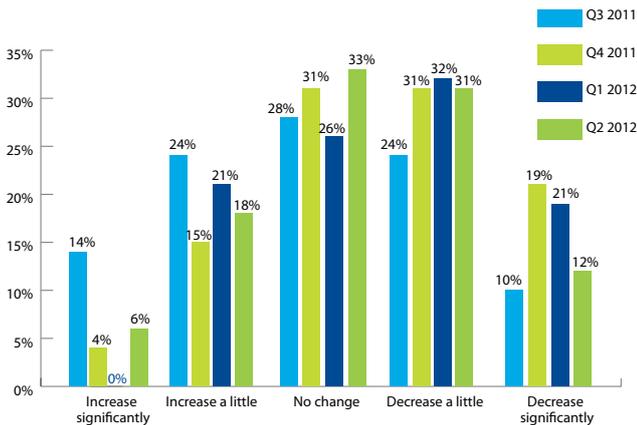
The ability to service debt is not a current key concern of CFOs surveyed. 96% stated that they expect their ability to service debt to either stay the same or improve. No respondents felt that their ability to service debt would decrease significantly. These results show that CFOs feel that they are in control of debt financing and repayment structures.

Figure 12 - Over the next three years, do you expect your company's ability to service its debt to:



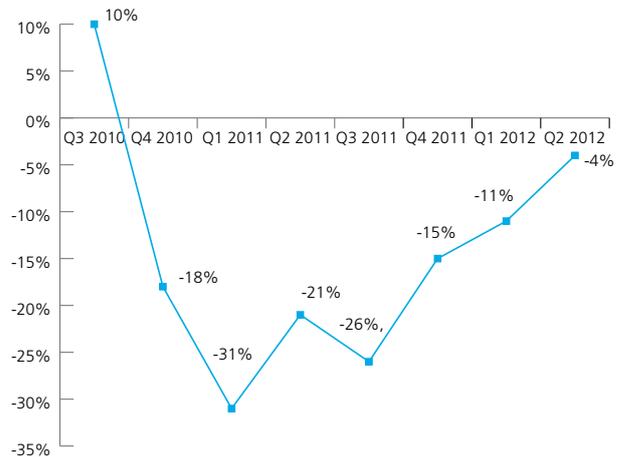
CFOs are continuing a trend to deleverage with 43% of respondents expecting debt on balance sheet to decrease over the next three years. 24% of respondents believe that debt will increase, an increase of 3% from last quarter.

Figure 13 - Over the next three years, do you expect the total debt on your company's balance sheet to:



The net figures for gearing have changed considerably over the last year. This demonstrates the trend towards deleveraging balance sheets with net results from CFOs all indicating a reduction in gearing. However, figure 14 shows that the results are moving closer to the centre over the last year, indicating that CFOs may be coming to the end of the period of deleveraging and there may be moves back into increasing leverage and debt financing over the next few quarters.

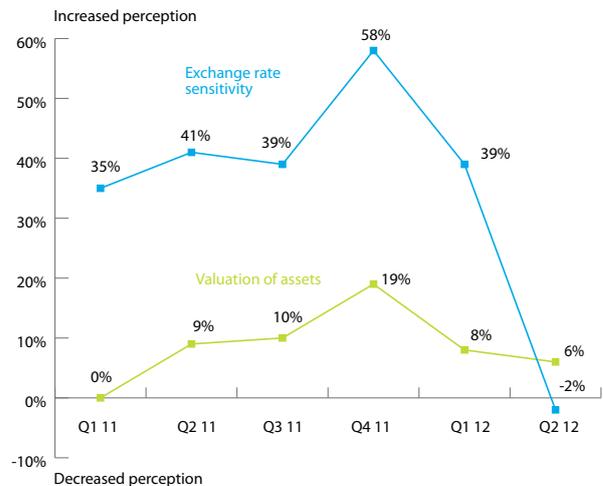
Figure 14 - How has your company's gearing changed since this time last year?



Perception of exchange rate sensitivity risk has dropped significantly in the last two quarters from a net 58% stating that exchange rate sensitivity was perceived as a business risk, to a net 2% stating that there is decreased perception of exchange rate risk this quarter. This could reflect that CFOs believe the euro has hit the bottom. Risk associated with the valuation of assets has remained steady but low overall with net 6% stating an increased perception of risk in this area.

Figure 15 - How has the level of risk of the following items on your company's P&L and/or balance sheet changed over the last 12 months?

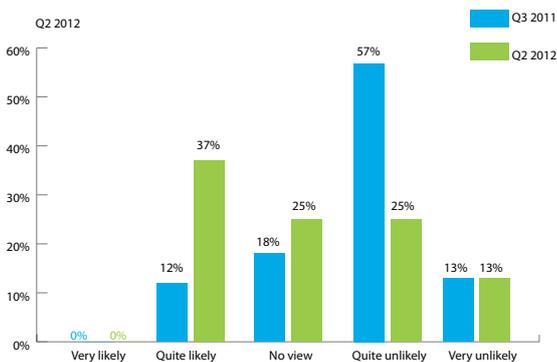
(Valuation of assets and exchange rate sensitivity only)



Section 4 – Macro economy and the EU

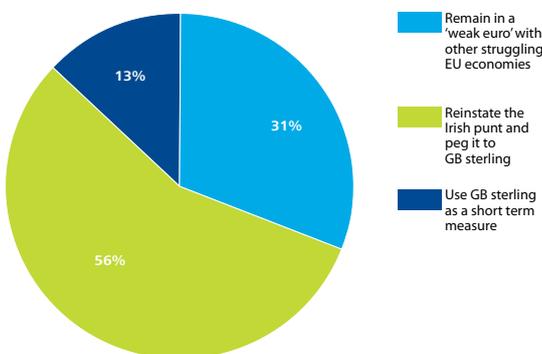
The past six months have seen a decline in CFO confidence in the eurozone with 37% believing that a break-up of the eurozone is quite likely, up from 12% in Quarter 3 2011. This is despite the recent passing of the Fiscal Stability Treaty Referendum on 31 May. In an equal and opposite reaction the views of a break-up being quite unlikely have decreased to 25% from 57%. This result could be related to the timing of this survey which occurred before the EU summit at the end of June. It will be interesting to re-examine this metric over the coming quarters to see if changes to policy, and their implementation, have increased CFO confidence in the future of the Euro.

Figure 16 - How likely do you think a break-up of the eurozone is?



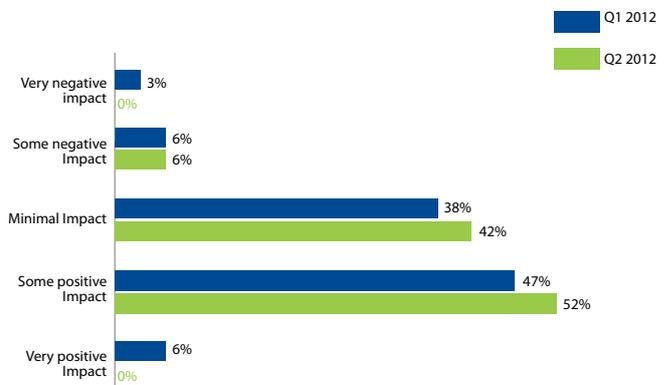
When asked about what Ireland should do if the eurozone were to break-up, 56% of CFOs believe that Ireland should reinstate the punt and peg it to GB sterling. 13% of CFOs believe that Ireland should use GB sterling as a short term measure.

Figure 17 - If the eurozone breaks up what should Ireland do?



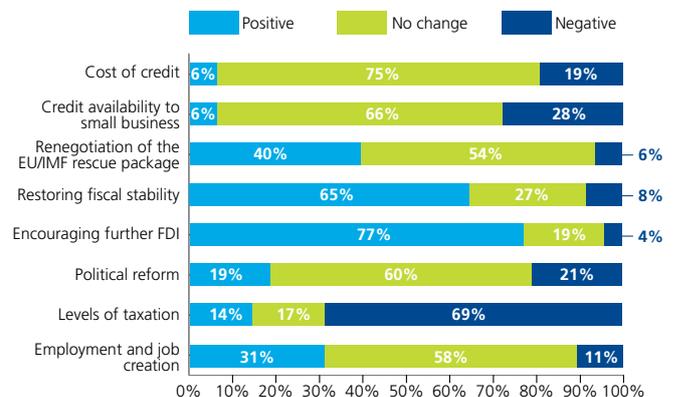
Belief that the Government has had a positive effect on fiscal and economic matters to date has increased by 5% this quarter to 52%. However, no CFOs stated that the Government have had a very positive impact, which has decreased from 6% last quarter. On a positive note, no respondents stated that the Government has had a very negative impact on the fiscal and economic matters during their tenure, which has decreased from 3% last quarter. The overwhelming view of CFOs on Government performance to date is positive.

Figure 18 - How would you rate the Government's performance in relation to fiscal and economic matters?



Looking at eight key factors that the Government can and should be influencing shows a mixed scorecard in terms of CFO opinion on performance to date. Items such as restoring fiscal stability (65%), encouraging FDI (77%) and renegotiation of the EU/IMF Package (40%) are all positive results. Several key factors indicate that CFOs believe the Government has had little or no influence on reducing the cost of credit (75%), increasing credit availability to small business (66%) and employment (58%). Finally, 69% of CFOs believe that the Government has had a largely negative effect on levels of taxation.

Figure 19 - What impact do you think the Government has had on the following:



Sustainability and the CFO in association with Business in the Community Ireland

Sustainability and the CFO

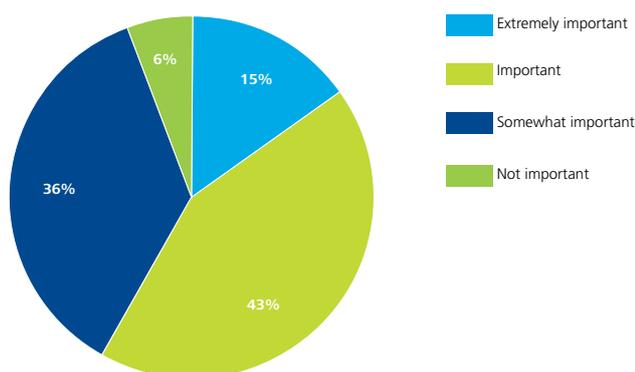
Traditionally many companies believed that sustainability issues fell within the remit of the HR, marketing, communications or investor relations functions. Increasingly stakeholders such as investors, customers and employees are expecting organisations to meet standards of social, environmental and economic performance, the so called triple bottom line.

CFOs are increasingly becoming involved in the management, measurement and reporting of companies' sustainability programmes. 93% of CFOs believe there is a direct link between sustainability programmes and business performance.

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58% of CFOs noted that it was extremely important or important for sustainability programmes to be part of the CFO's role with merely 6% of CFOs deeming it unimportant.

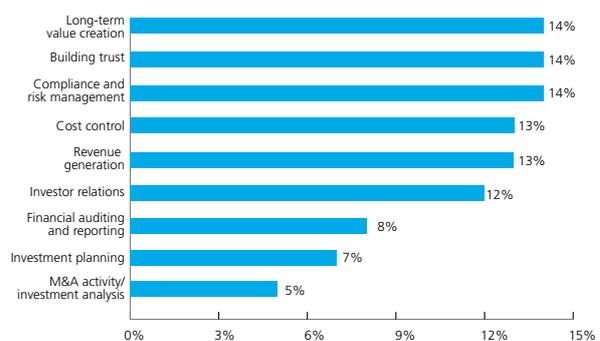
Figure 20 - In your view how important is it for sustainability programmes to be part of the CFO's role?



Sustainability considerations can impact on a number of business areas related to the role of the CFO. From eliminating waste, driving cost savings, to ensuring ethical business practices as part of a risk mitigation strategy or brand enhancement, sustainability strategies can drive value in a number of ways.

The CFOs of the Irish based companies surveyed identified sustainability as having the strongest impact on long term value creation, compliance, risk management and building trust. Although CFOs link sustainability to business value and risk management, interestingly 5% of CFOs surveyed believed sustainability to have an impact on M&A activity/investment analysis. At a time where rating agencies are requiring more information regarding firms' sustainability practices, indexes such as the Dow Jones Sustainability Index and the FTSE4GOOD index measure and rank firms corporate responsibility standards. This should be an area of increasing focus for CFOs.

Figure 21 - Do you think that sustainability has an impact on: (rank all that apply in order of importance)

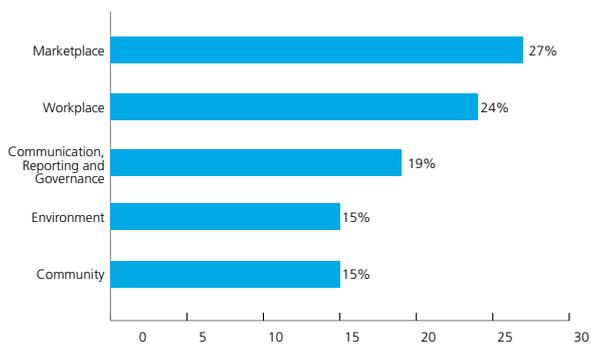


Sustainability programmes typically focus around the five pillars of corporate responsibility, namely; marketplace, workplace, environment, community and sustainability communications reporting and governance.

28% of survey respondents believe that the marketplace, including supply chains and customers, are the areas of sustainability that are most relevant to their role as CFO. This is followed by 24% of respondents who cited the workplace as the relevant area.

28% of CFOs report on non-financial measures such as social and environmental impacts as part of their reporting cycle.

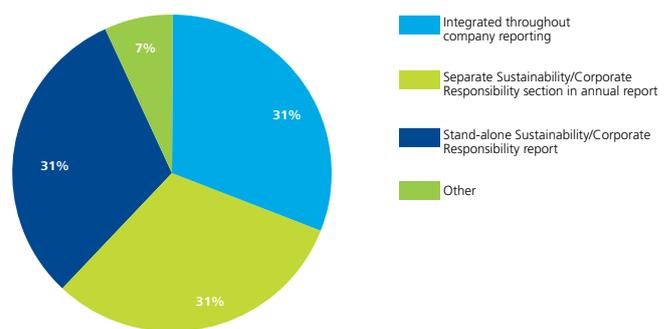
Figure 22 - Which pillars of sustainability are most important to you in your role as CFO?



The supply chain represents an area of both risk and opportunity in terms of its environmental and social impacts. Customers are demanding ever increasing transparency regarding how companies operate and firms are looking to differentiate themselves with responsible business practices. The results show that 37% of CFOs incorporate sustainability dimensions into their company’s bidding and/or procurement processes with 14% not planning to incorporate them in the future.

The EU is currently progressing legislation that would require non-financial reporting by CFOs. 28% of CFOs report on non-financial measures such as social and environmental impacts as part of their reporting cycle. When asked how non-financial reporting is carried out, 31% of CFOs stated that it was integrated throughout company reporting making it an integral part of the process. A further 31% stated that they produced separate sustainability and CSR reports.

Figures 23 - For companies that use non-financial reporting, how is this done?



Although CFOs believe sustainability is important and contributes to business, value sustainability dimensions have yet to be incorporated into business operations and the impact of sustainability on business drivers is not fully appreciated.

One respondent noted that “sustainability is... simply a matter of common sense and good business”. CFOs can play an important role in making the business case for sustainable practices and in delivering the value that sustainability can bring to an organisation.

Today’s CFOs are tasked with sustaining the enterprise as opposed to the environment. However, viewing the CFOs role through the sustainability lens ensures that the long term economic viability of the firm as well as a balanced view of the firm’s social and environmental impacts is considered.



This research shows categorically (93%) that CFOs believe that there is a direct link between sustainability and business performance yet less than 30% of companies report on it in their annual reports. This may be due to lack of measurement or the lack of understanding in the power of openness and transparency. This has to change if we are to restore trust in business, drive competitiveness and make Ireland a great place to do business.

Tina Roche, CEO , Business in the Community

What to expect from next quarter

The Quarter 3 2012 survey will further examine CFO sentiment in relation to their own company's internal performance as well as examining CFO opinion on the impact of the changes to EU policy on how bank bailouts are structured and applied retrospectively to the Irish economy.



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