Grant Thornton

GRANT THORNTON INTERNATIONAL BUSINESS REPORT

The global economy in 2012: a rocky road to recovery

Contents

Foreword

ED NUSBAUM
CHIEF EXECUTIVE OFFICER
GRANT THORNTON INTERNATIONAL

We have witnessed a large amount of political and economic turmoil over the past 12 months, from uprisings in the Middle East and North Africa to the tsunami in Japan and the sovereign debt crisis in the eurozone. Resulting volatility in commodity prices, disruptions to supply chains and general uncertainty has impacted businesses across the globe, slowing the recovery in both mature and emerging markets.

The International Business Report (IBR) became a quarterly survey in 2011, allowing us greater flexibility in analysing and understanding the impact of key events on business growth. This new approach allows us to deliver not only the economic perspective of business leaders on events such as the Arab Spring, renewable energy and global lease accounting changes, but also deep insight into strategic issues such as the proportion of women in senior management and corporate social responsibility activities. Drawing on more than 13,000 interviews in 40 economies, this report explores the trends that will shape the speed and trajectory of the recovery over the next 12 months, including demand, employment, investment, inflation and access to finance.

As the IBR enters its 20th year, the global economic outlook is uncertain and social unrest is growing. In mature markets, debt crises and the impact of ageing populations remain unresolved whilst emerging markets are grappling with persistent inflation and a shortage of skilled workers. As technology advances, competition increases and the balance of economic power flows to high-growth markets such as Brazil, China and India, the global economy is undoubtedly entering a new phase.

Despite this apparent adversity, many of our clients are thriving. By remaining agile and adaptable to change, these dynamic organisations are able to capitalise on opportunities quickly. In a turbulent world, they look set to reap the richest rewards.

The past 12 months

World events

18 Dec 2010 Death of Mohamed Bouazizi ignites Arab Spring

14 Jan 2011 Tunisian government falls

11 Feb 2011 Egyptian President, Hosni Mubarak, resigns

11 Mar 2011 Earthquake and tsunami hit Japan

19 Mar 2011 UN Security Council backs intervention in Libya

8 Apr 2011 Brent crude oil climbs above US$125 a barrel

14 Apr 2011 BRICS group of economies meet for the first time in China

27 Apr 2011 Sony disclose that hackers breached their online video game network, stealing details of more than 77 million customers

29 Apr 2011 Estimated 2 billion people watch UK Royal wedding

1 May 2011 Osama Bin Laden killed

16 May 2011 Portugal become third member of eurozone to be bailed out, following Greece and Ireland

IBR releases

4 Jan 2011 **Global business optimism is robust** (23%), led by buoyant Latin America

23%

16 Feb 2011 **M&A activity** set to rise over the year as businesses look for strategic acquisitions

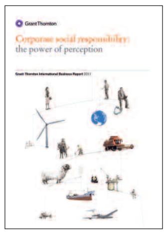
8 Mar 2011 **Business confidence picks up** in mature markets, boosting the global average to 34%

34%

14 Mar 2011 **International Women's Day** – proportion of senior management roles held by women falls back to 20%

International Women's Day

5 Jun 2011 **World Environment Day** – public opinion driving CSR activity



28 Jun 2011

Christine Lagarde appointed head of the IMF

9 Jul 2011 South Sudan secedes from Sudan

28 Jul 2011

Second bailout agreed for Greece

5 Aug 2011 Yingluck Shinawatra appointed as first female Prime Minister of Thailand

6 Aug 2011 US sovereign debt downgraded to AA+ following political battle over debt ceiling

23 Aug 2011

Gold reaches US$1,900 per ounce after global stock markets tumble

28 Sep 2011 Barnier proposals aim to boost competition in accountancy

4 Oct 2011

Italy's debt rating slashed by three grades as euro gloom deepens

5 Oct 2011 Steve Jobs, co-founder of Apple, dies

20 Oct 2011 Colonel Gaddafi captured and killed in Libya

31 Oct 2011 Global population reaches 7 billion

3 Nov 2011

ECB cuts eurozone interest rate with forecasts downbeat for regional growth in 2012

9 Nov 2011 Russia to join WTO following agreement with Georgia

21 Jun 2011 **Arab Spring** affects one-in-five businesses globally, but just one-in-ten will avoid region long-term

6 Jul 2011 **Global business optimism falters** (31%) as natural disasters, political and economic unrest bite

31%

9 Sep 2011 Arab Spring reignites **renewable energy** debate as businesses across the globe call for more investment in renewables to limit impact of oil price shocks

6 Oct 2011 Business confidence tumbles to lowest level since 2009 (3%)

Ed Nusbaum calls for a $1tr bailout fund and cut to ECB interest rate

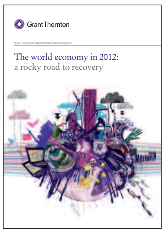
3%

24 Oct 2011 Majority of businesses are unaware of IASB/FASB lease accounting proposals

25 Nov 2011 IBR Food & Beverage report released

16 Nov 2011 Emerging markets steal social media lead on old world rivals

Dec 2011 IBR 2011 Global Overview



The year ahead

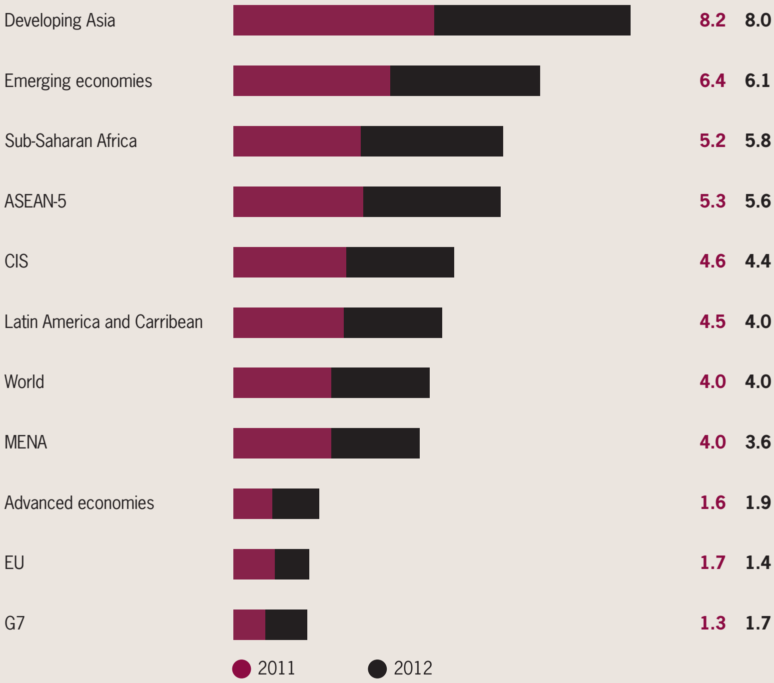
Whilst a stuttering global recovery has seen growth estimates cut across the board, the transfer of economic power from mature to emerging economies is speeding up. On a purchasing power parity basis China could overtake the United States in 2016 as the world's largest economy, although it will remain markedly less well off on a per capita basis.

The recovery in mature economies has stalled as governments and consumers deleverage following the financial crisis. With businesses cautiously sitting on cash and global trade slowing, growth prospects in mature markets look weak. The latest IMF forecasts show advanced economies growing by just 1.6% in 2011, and 1.9% in 2012, anaemic growth in comparison with pre-crisis levels.

With the global economy forecast to expand by around 4% in both 2011 and 2012, growth is being driven by emerging markets. As a group these are expected to grow by 6.4% in 2011 and 6.1% in 2012. Oil producing economies in the Middle East and North Africa are running large trade surpluses and opening up to investment following the Arab Spring, suggesting that the shift in economic power could accelerate further.

That said, further and faster integration into the global economy exposes emerging economies to the slowdown in mature markets whilst inflation remains an issue in the key markets of Brazil, China and India. Consequently, whilst confidence has improved year-on-year, businesses remain cautious about their prospects for the year ahead.

FIGURE 1: EMERGING ECONOMIES CATCHING UP
FORECAST GROWTH IN GDP



SOURCE: IMF (2011)

> "Economies such as China are catching up fast. With growth rates in mature markets not expected to reach pre-recession levels anytime soon, a rebalancing of global economic power is well underway."
>
> **XU HUA**
> GRANT THORNTON CHINA

Business confidence

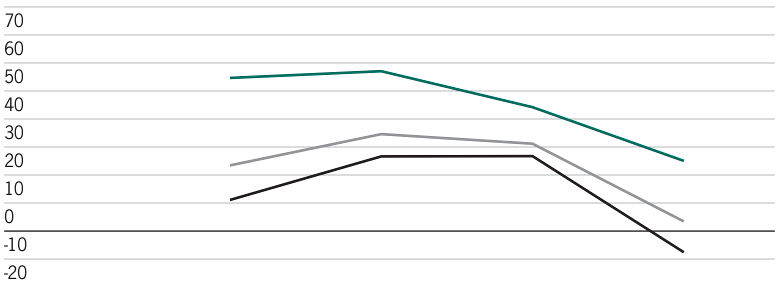
Global business confidence for the year ahead has fluctuated as the strength of the recovery, which initially seemed to be gathering force, hit a wall. At the back end of 2010, confidence in emerging markets, especially Latin America, boosted the global average to 23%, and when mature markets began to catch up in Q1 this climbed to a very healthy 34%, the highest since 2008.

However, the impact of political turmoil, economic uncertainty and natural disasters on businesses became evident in Q2 as global optimism dropped to 31%. By Q3 it became clear that the stuttering recovery had stalled, with the sovereign debt crisis ravaging mature markets; global optimism fell to just 3%, its lowest level since the depths of the global recession in 2009.

Whilst businesses in emerging markets have remained more confident about the prospects for their economies over the next 12 months, they have not been immune to the slowdown in the global economy. Optimism in the BRIC economies fell from 57% in Q1 to 25% in Q3. However, businesses in mature markets have suffered even more: optimism amongst businesses in the G7 fell from 27% in Q1 to -8% in Q3 (indicating that more businesses were pessimistic about their economies over the next 12 months than were optimistic).

> "The situation in Greece is very difficult. Government austerity measures have dried up lucrative public sector contracts and increased taxation. Businesses are trying to keep their heads down and focus on the bottom line."
>
> **VASSILIS KAZAS**
> GRANT THORNTON GREECE

FIGURE 2: QUARTERLY BUSINESS OPTIMISM (2011)
NET PERCENTAGE OF BUSINESSES INDICATING OPTIMISM FOR THEIR ECONOMY OVER NEXT 12 MONTHS



	Q4 2010	Q1 2011	Q2 2011	Q3 2011
BRIC	54	57	44	25
G7	11	27	27	-8
Global	23	34	31	3

SOURCE: GRANT THORNTON IBR 2011

Over the longer term the polarisation between emerging and mature markets is more pronounced, with confidence in the BRIC economies well above that of the G7. Year-on-year, global business optimism declined slightly from 24% in 2010 to 22% in 2011[1]. In the BRIC economies, levels of optimism for the year ahead averaged 47% across 2011 compared to just 14% in the G7.

That said, whilst 8% more businesses in the G7 countries were optimistic in 2011 compared to 2010, 13% fewer businesses were optimistic in the BRIC economies. This demonstrates the cautiousness of businesses in the emerging markets as they become increasingly exposed to strong global economic headwinds.

Despite an uncertain economic climate the majority of businesses remain optimistic for the outlook of their country's economy over the next 12 months, led by emerging economies – India (+86%), Chile (+85%) and the Philippines (+85%). Business confidence also remains high in the United Arab Emirates (+76%) suggesting that confidence has not been damaged unduly by the 'Arab Spring.'

The troubled PIGS economies (Portugal[2], Ireland, Greece and Spain) remain overwhelmingly pessimistic. Greece (-46%) and Spain (-45%) in particular face extremely difficult economic conditions with soaring unemployment and a steady decline in bond ratings. Italy's business confidence also plummeted between Q2 and Q3 2011, falling by 66 percentage points reflecting concerns over a high debt burden and a slow rate of growth which have seen bond yields climb over 7%. Japan's confidence remains low (-67%) where existing economic challenges have been compounded by the fallout from the earthquake and tsunami in March this year.

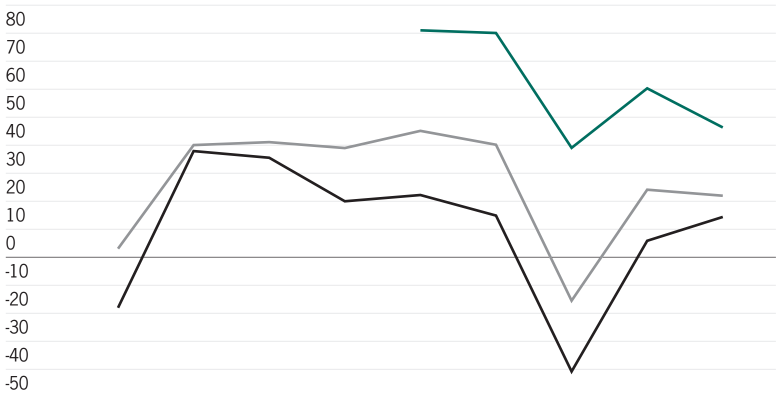
1 2011 refers to the Q3 rolling average incorporating data from Q4-2010, Q1/Q2/Q3-2011

2 not included in IBR

> "The past 12 months have been far from smooth. Three massive earthquakes have caused huge disruption to businesses and their employees. The good news is that the Rugby World Cup has been a massive success."
>
> **PAM NEWLOVE**
> GRANT THORNTON NEW ZEALAND

FIGURE 3: ANNUAL BUSINESS OPTIMISM (2003-11)

NET PERCENTAGE OF BUSINESSES INDICATING OPTIMISM FOR THEIR ECONOMY OVER NEXT 12 MONTHS

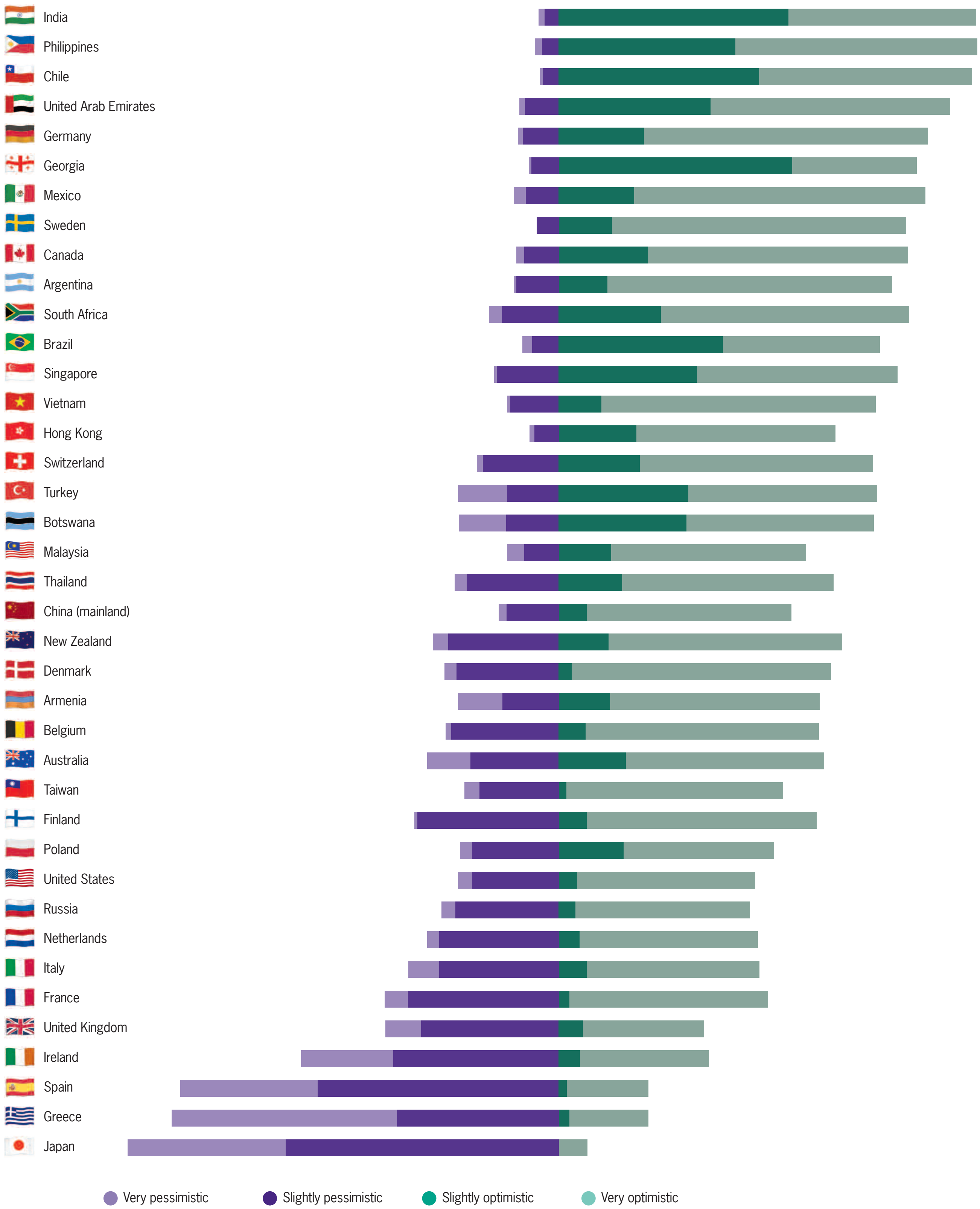


	2003	2004	2005	2006	2007	2008	2009	2010	2011
BRIC	–	–	–	–	81	80	39	60	47
G7	-18	38	36	20	22	15	-41	6	14
Global	3	40	41	39	45	40	-16	24	22

SOURCE: GRANT THORNTON IBR 2011

> "Considering the difficulties in the eurozone, business confidence has held up remarkably well in Germany. Whilst the regional picture is fairly gloomy, exports to emerging economies have remained resilient."
>
> **KLAUS-GÜNTER KLEIN**
> WARTH & KLEIN GRANT THORNTON, GERMANY

FIGURE 4: ANNUAL BUSINESS OPTIMISM BY COUNTRY (2011)
NET PERCENTAGE OF BUSINESSES INDICATING OPTIMISM FOR THEIR ECONOMY OVER NEXT 12 MONTHS



SOURCE: GRANT THORNTON IBR 2011

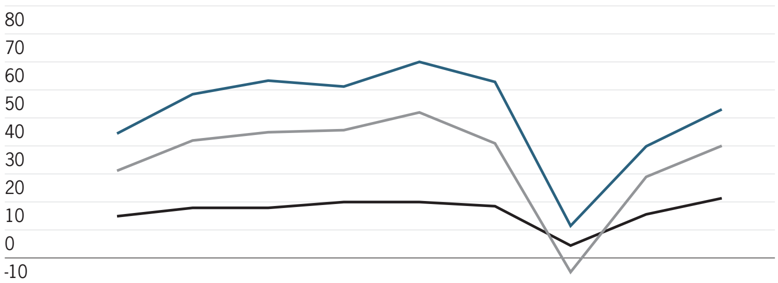
Business operations

Expectations of business performance – how much businesses are selling and how this is affecting their bottom line – have fluctuated along with wider economic expectations; an indication of how the uncertainty in the global economy is damaging business growth prospects. With governments and consumers in many mature markets deleveraging, the hope was that investment and exports would take up the slack. However, the results show a dramatic fall in business growth prospects in the last quarter: global expectations for revenue (-10 percentage points) profits (-9) and exports (-5) all dropped sharply in Q3.

That said, average expectations for 2011 compared with 2010 improved, although less sharply than in the previous 12 month period when the recovery seemed more certain. Across 2011, business expectations for profitability and export expectations returned to 2008 levels. Turnover (53%) however, remains below the 2008 result (63%).

> "Despite the knock-on effects of the Arab Spring on one side and the sovereign debt crisis in the eurozone on the other, the economy is performing robustly. Profitability is up as businesses increasingly find economies of scale in their operations."
>
> **AYKUT HALIT**
> GRANT THORNTON TURKEY

FIGURE 5: PERFORMANCE INDICATORS – REVENUE, PROFITS AND EXPORTS
NET PERCENTAGE OF BUSINESSES EXPECTING AN INCREASE OVER THE NEXT 12 MONTHS



	2003	2004	2005	2006	2007	2008	2009	2010	2011
BRIC	44	58	63	61	70	63	11	40	53
G7	15	18	18	20	20	18	4	16	21
Global	31	42	45	46	52	41	-5	29	40

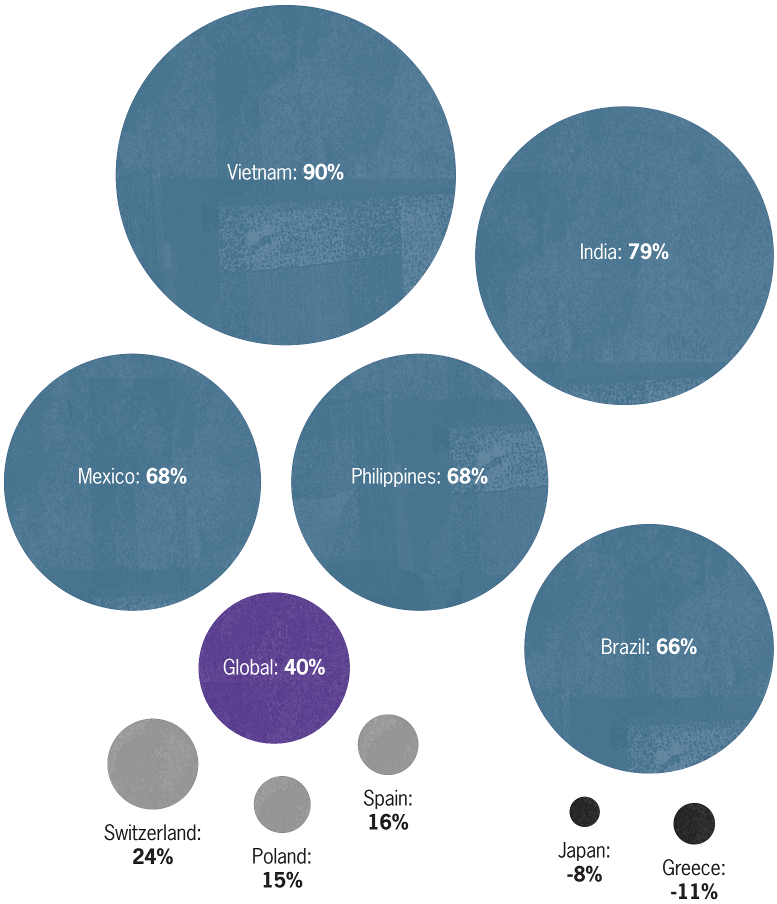
SOURCE: GRANT THORNTON IBR 2011

Expectations for profitability have shown the strongest increase year-on-year. This continues the trend from IBR 2010 and is extremely positive given the dramatic fall in 2009 when profitability prospects turned negative for the first time in IBR history. The greatest increase in expectations over the past 12 months was observed in Turkey where consumer spending fuelled a 39 percentage point increase. In Mexico expectations rose by 36 percentage points. Once again businesses in emerging markets dominate the top spots for profitability expectations, with Vietnam (90%) followed by India (79%) and then Mexico, Philippines (both 68%) and Brazil (66%).

Expectations for increasing exports rose to 21% in 2011, similar to results observed in 2006. The EU, which for all its problems remains the largest single market in the world, leads the way (29%). Businesses in Turkey remain the most optimistic for exports in 2011 (54%), followed by the United Arab Emirates (41%), perhaps reflecting expectations that the Middle East and North Africa will open up to outside investment following the Arab Spring. Businesses in Denmark and Germany are also optimistic for export prospects over the next 12 months – making the top five alongside Singapore.

FIGURE 6: IN SEARCH OF PROFITABILITY – TOP AND BOTTOM 5 COUNTRIES

NET PERCENTAGE OF BUSINESSES FORECASTING PROFIT GROWTH OVER NEXT 12 MONTHS, BY COUNTRY



SOURCE: GRANT THORNTON IBR 2011

> "Household finances remain under pressure from a marked decline in real incomes and a 17 year high for unemployment rates; government spending is hit by fiscal constraints and exports are faltering as global growth eases. However, in the longer term, we expect more forward momentum as the valuation gap shrinks and as the Business Growth Fund encourages bank funding to flow more quickly. In the meantime, businesses need to continue challenging the way things are done to find new, creative ways to ride out or even rise above the numerous economic challenges."

SCOTT BARNES
GRANT THORNTON UNITED KINGDOM

Revenue expectations have increased in 33 countries from 2010. The most notable decline from 2010 was in Greece (31 percentage point drop). The most optimistic business communities in terms of revenue prospects are within the emerging economies: Vietnam (92%), India (87%) and Chile (85%). Vietnamese businesses remain the most upbeat (92%) followed by India (87%) and Chile (85%). Expectations for revenue are far less buoyant in Greece (4%), Japan (17%), Ireland (28%) and Spain (30%).

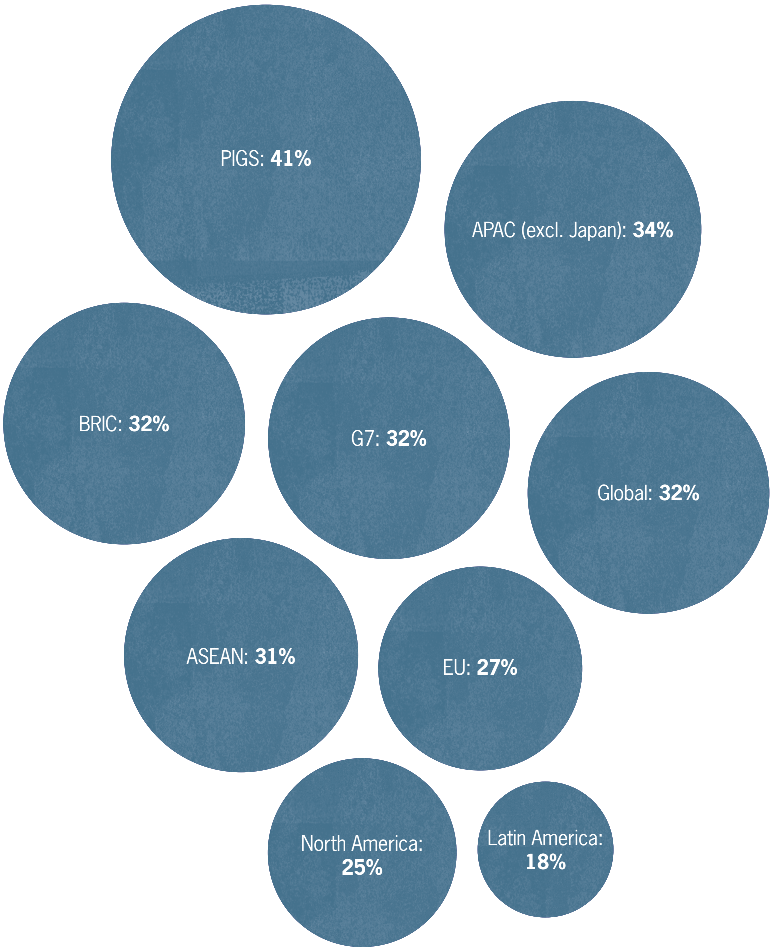
Demand

Improved prospects for profits and revenues come on the back of a recovery in global trade with fewer businesses citing a shortage of orders/reduced demand as a constraint in 2011 (32%) compared with 2010 (39%). Perhaps unsurprisingly, businesses in the troubled PIGS economies are suffering most from a drop in demand as governments and consumers tighten their belts: 41% cite a shortage of orders/reduced demand as a constraint, followed by 34% in APAC (excl. Japan).

However, a look at the quarterly results makes for more sombre reading. Globally, the proportion of businesses citing a fall in demand increased by five percentage points in Q3, and some of the regional figures were more severe: both the eurozone and Association of South East Nations (ASEAN) registered 10 percentage point increases, whilst all other regions (apart from Latin America) cited a squeeze on order books.

Following the disruption to supply chains it is perhaps little surprise to see businesses in Japan as the most concerned about a shortage of orders/reduced demand (67%), followed by two of its neighbours, Thailand (51%) – which has also suffered severe flooding since July – and Vietnam (48%). European businesses, especially those in Greece (48%), France (42%) and Spain (40%), are also concerned by a lack of orders.

FIGURE 7: FALLING DEMAND
PERCENTAGE OF BUSINESSES CITING A SHORTAGE OF ORDERS/REDUCED DEMAND AS A CONSTRAINT ON GROWTH, BY REGION

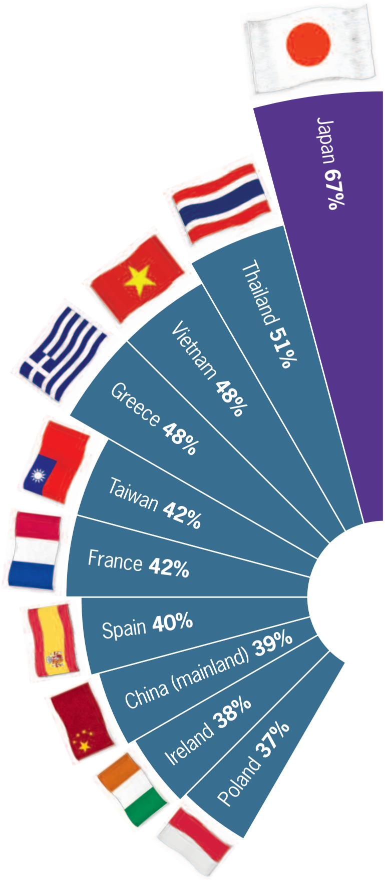


SOURCE: GRANT THORNTON IBR 2011

BUSINESSES CITING A SHORTAGE OF ORDERS/REDUCED DEMAND AS A CONSTRAINT IN 2011

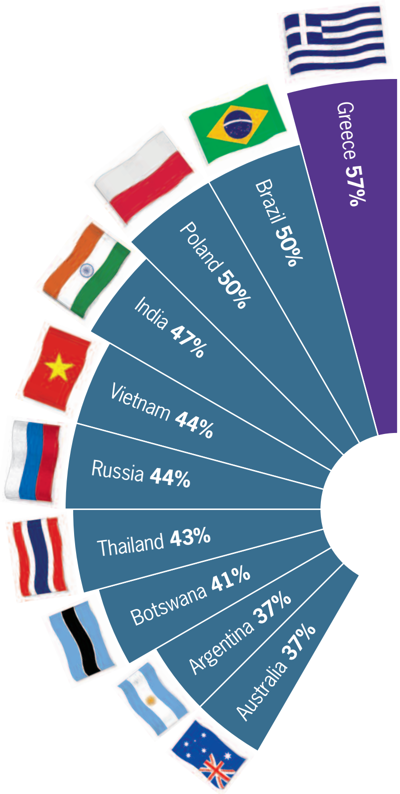
32%

FIGURE 8: SQUEEZE ON ORDER BOOKS
PERCENTAGE OF BUSINESSES CITING A SHORTAGE OF ORDERS/REDUCED DEMAND AS A CONSTRAINT ON GROWTH, BY COUNTRY



SOURCE: GRANT THORNTON IBR 2011

FIGURE 9: LEVELS OF BUREAUCRACY HOLDING BACK GROWTH
PERCENTAGE OF BUSINESSES CITING REGULATIONS/RED TAPE AS A CONSTRAINT ON GROWTH, BY COUNTRY



SOURCE: GRANT THORNTON IBR 2011

Bureaucracy

Globally the impact of regulations and red tape has marginally declined as a constraint for business expansion, from 32% in 2010 to 30% in 2011. However, businesses in BRIC economies are more concerned about bureaucracy over the next 12 months with 35% citing it as a constraint this year as opposed to 29% in 2010.

Troubled Greece continues to top the list of economies where businesses feel the most under pressure from bureaucracy (57%), an interesting result in an economy struggling to make the structural reforms necessary to recover competitiveness. It is followed by two emerging economies from different sides of the globe: Brazil and Poland (both 50%). Just two mature economies – Greece and Australia (37%) – are included in the top 10.

India has moved up the bureaucracy ranking to fourth this year following a 22 percentage point increase in the number of businesses citing it as a constraint on expansion. Regulations and red tape have long been an issue for businesses in India and, given that performance expectations and optimism are high, the research suggests that simplifying processes could unlock a great deal more potential in an already booming economy.

BUSINESSES CITING THE IMPACT OF REGULATIONS AND RED TAPE AS A CONSTRAINT ON BUSINESS EXPANSION IN 2011

30%

Prospects for 2012

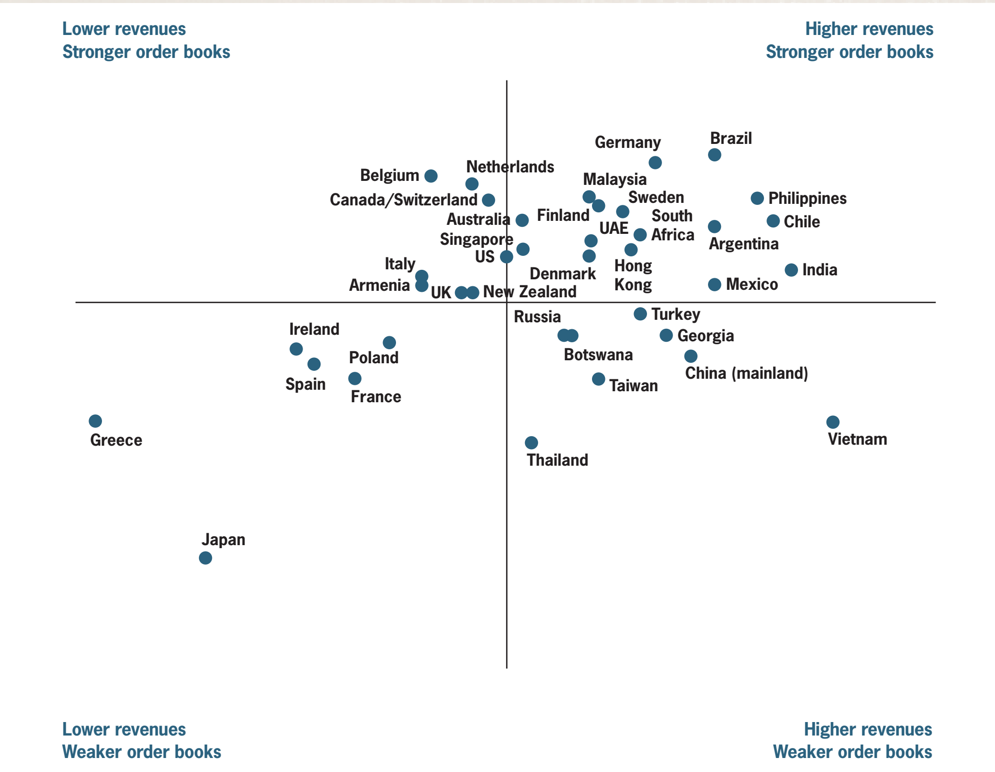
Businesses in the Latin American economies of Argentina, Brazil, Chile and Mexico look well-placed for growth moving in to 2012 with both strong order books, and higher revenue expectations (the upper right quadrant). Other emerging economies such as India, South Africa and the Philippines also look set for a strong 12 months, as well as those European countries which, at least initially, recovered quicker from the downturn: Germany and Sweden.

By contrast, businesses in the PIGS economies expect another tough year in 2012. They are joined in the lower left quadrant by three other European countries – France, Switzerland and Poland – and Japan in a group of countries where prospects for business growth look weakest.

Businesses in the lower right quadrant are confident about growth prospects, but less so about orders. They include those in some of the large, rapidly expanding emerging economies such as China, Russia and Turkey which could pose an issue for longer term global economic growth.

Meanwhile, those in the upper left quadrant seem to be suffering from increased competition, with stronger order books failing to result in higher revenue prospects. This quadrant includes four members of the G7 – Canada, Italy, the United Kingdom and the United States – indicating the challenges businesses in mature markets are facing in adapting to a changing global economy.

FIGURE 10: EXPECTATIONS FOR ORDERS AGAINST REVENUES



SOURCE: GRANT THORNTON IBR 2011

Investment

With consumers and governments in many mature markets sidelined by heavy debt, the strength of business investment is increasingly vital to the health of the global economy. Prospects for investment in new buildings and plant & machinery grew robustly following the downturn, but have slowed since. Expectations for R&D investment have declined since 2010. The fragility of the recovery, rising commodity prices and a pervading uncertainty have undoubtedly made businesses more cautious about investment.

Whilst many businesses in mature markets are being forced to focus on cost savings and the bottom line, investment sentiment remains buoyant in emerging economies. In Latin America, 53% of businesses expect to increase investment in plant & machinery over the next 12 months, 35% in R&D and 26% in new buildings. Their ambitions are matched by businesses APAC (excl. Japan) where 47% expect to increase investment in R&D, 42% in plant and machinery and 25% in new buildings.

At the other end of the spectrum, expectations for investment in new buildings are lowest in the EU (11%), exacerbated by low expectations in the PIGS economies (6%). In terms of plant and machinery, investment prospects are weak across

"A lack of investment in R&D is a concern for the long-term future of businesses. Despite the uncertain economic outlook, setting aside time and capital to expand products and services should remain high on the agenda."

MIKE MCGUIRE
GRANT THORNTON UNITED STATES

FIGURE 11: EMERGING MARKETS LAGGING BEHIND ON INFRASTRUCTURE
PERCENTAGE OF BUSINESSES CITING INFRASTRUCTURE AS A CONSTRAINT ON GROWTH

	Transport	ICT
BRIC	**26**	**21**
Global	**13**	**14**
G7	**8**	**11**

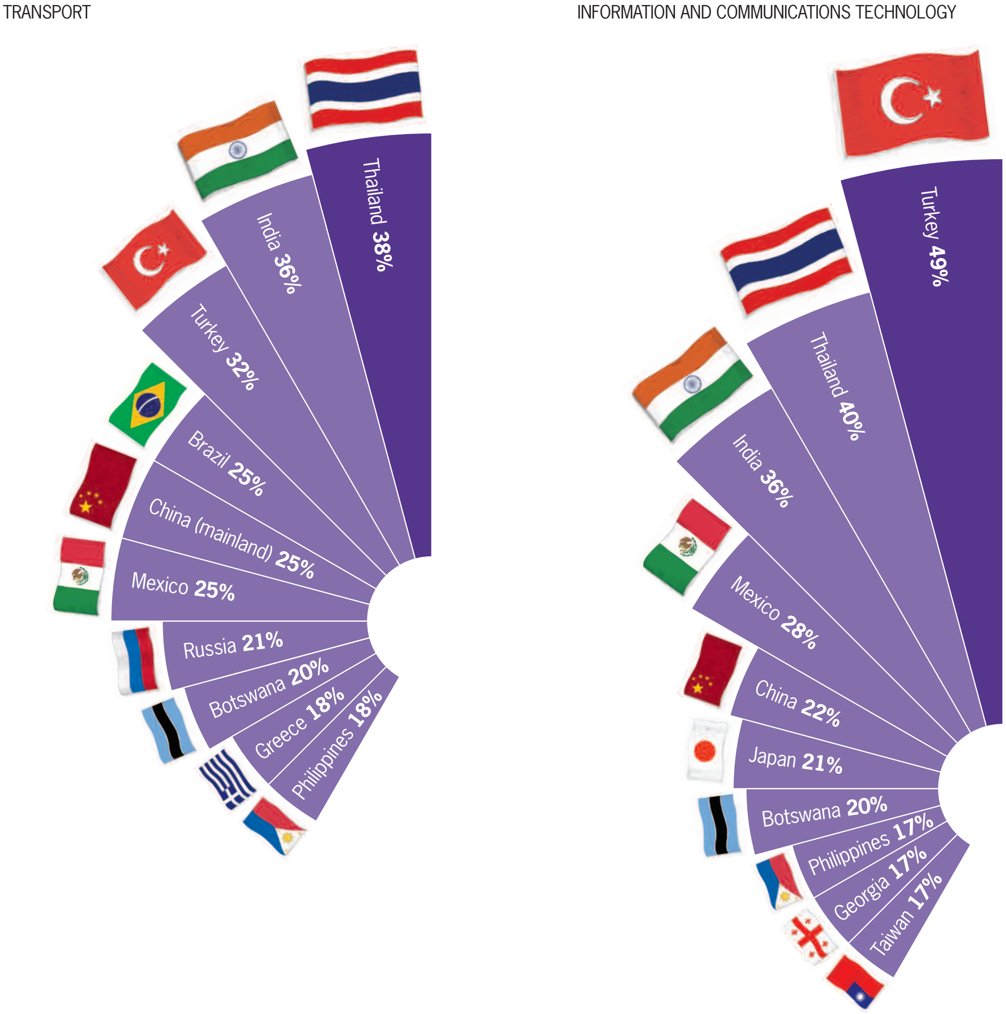
SOURCE: GRANT THORNTON IBR 2011

FIGURE 12: BUSINESS INVESTMENT PLANS
NET PERCENTAGE OF BUSINESSES EXPECTING TO INCREASE INVESTMENT OVER NEXT 12 MONTHS

	APAC (excl. Japan)	Latin America	BRIC	ASEAN	Global	EU	North America	G7	PIGS
New building	**25**	**26**	**23**	**26**	**17**	**11**	**17**	**13**	**6**
Plant & machinery	**42**	**53**	**45**	**46**	**34**	**31**	**30**	**30**	**25**
R&D	**47**	**35**	**42**	**33**	**23**	**20**	**13**	**15**	**21**

SOURCE: GRANT THORNTON IBR 2011

FIGURE 13: CONNECTIVITY HOLDING EMERGING MARKETS BACK
PERCENTAGE OF BUSINESSES CITING INFRASTRUCTURE AS A CONSTRAINT ON GROWTH



SOURCE: GRANT THORNTON IBR 2011

the mature economies, with the EU (31%), North America, G7 (both 30%) and PIGS all below the global average. Expectations for investment in R&D are a full 27 percentage points lower in the G7 (15%) – dragged down by the North America result (13%) – compared with BRIC (42%).

Infrastructure

However, whilst these results offer further evidence of a rapid redistribution of economic power, past investment in infrastructure remains a huge advantage for businesses in mature markets. Indeed, 26% and 21% of businesses in the BRIC economies cite transport and ICT (Information and communications technology) infrastructure respectively as a constraint on expansion, more than double the rates in the G7.

Businesses throughout the BRIC economies show dissatisfaction with local infrastructure. Businesses in India are particularly concerned; more than a third cite both transport and ICT infrastructure (both 36%) as an impediment to growing their business. The situation in mainland China is slightly better but 25% of businesses believe transport infrastructure is holding them back, and 22% cite ICT infrastructure. Businesses in Brazil and Russia are slightly less dissatisfied with their ICT (16%) but more than one in five cite local transport infrastructure as a growth constraint.

Elsewhere, businesses in Turkey (49%) and Thailand (40%) cite local transport infrastructure as a constraint on their ability to grow whilst those in Vietnam (39%) and Thailand again (28%) cite ICT infrastructure. In Mexico too, more than one in four businesses cite both factors as constraint.

Inflation

Prices

Inflationary pressures, driven by loose monetary policy and high commodity prices, are lowering real incomes and reducing spending power across the globe. In the UK, inflation hit a record high of 5.2% in September, whilst the European Central Bank declined to reduce interest rates in October citing a rise in inflation to 3% in the previous month.

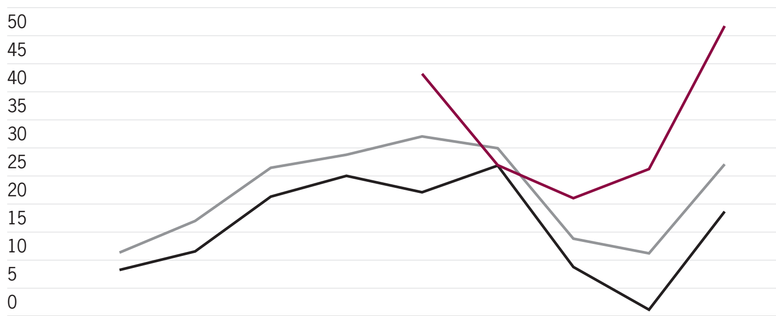
In emerging markets, rates are even higher: India raised interest rates for the 13th time in 19 months in October as they try to curb a double-digit inflation rate; in China inflation has eased slightly in recent months but is still running at more than 5%; and in Brazil inflation stands above target at more than 7% even as the central bank lowers interest rates in an attempt to stave off the effects of the global slowdown.

Expectations for an increase in selling prices rose strongly between 2010 and 2011: business communities in all but one country (Greece) are more bullish about increasing selling prices in 2011. Expectations for price increases in emerging markets are strongest, with BRIC economy expectations rising by 26 percentage points year-on-year compared with the 18 percentage point rise observed in the G7 economies.

At the country level, Argentina (78%), India (64%), Botswana (61%), Turkey (60%) and South Africa (57%) head the list of economies where prices are expected to rise over the next 12 months. At the other end of the scale, the majority of businesses in Japan (-32%), where deflation remains a major concern despite interest rates being near zero, expect to reduce prices. Businesses in the troubled PIGS economies – Greece (-5%), Ireland (-3%) and Spain (0%) – are also looking to drop or maintain prices.

> "Inflation is perhaps the key issue the Central Bank of India is dealing with right now. With salaries expected to rise over the next 12 months, businesses will be forced to raise prices to maintain real profits."
>
> **VISHESH CHANDIOK**
> GRANT THORNTON INDIA

FIGURE 14: PRICES ON THE RISE
NET PERCENTAGE OF BUSINESSES EXPECTING TO RAISE SELLING PRICES OVER NEXT 12 MONTHS



	2003	2004	2005	2006	2007	2008	2009	2010	2011
BRIC	–	–	–	–	43	27	21	26	52
G7	8	11	21	25	22	27	9	1	19
Global	11	17	26	29	32	30	14	11	27

SOURCE: GRANT THORNTON IBR 2011

However, the most recent quarterly IBR results offer some hope that inflation may ease over the next 12 months. Globally the proportion of businesses expecting to increase selling prices over the next 12 months declined from 30% in Q2, to 22% in Q3. In mature markets, there were some particularly large quarterly drops, led by the Nordic region (18 percentage point drop), North America (14) and the EU (12). The declines in emerging markets were less severe, but expectations dropped in the BRIC economies by 9 percentage points and in APAC (excl. Japan) and Latin America by seven and six percentage points respectively.

Salaries

Salary expectations have improved from 2010 at the global level: 64% of businesses expect to offer salary increases (matching inflation or higher) over the next 12 months, compared with 51% in 2010. Employees in the Nordic region (84%), Latin America (83%) and ASEAN (82%) appear most likely to get a pay rise in 2012, with those in the PIGS (47%) and EU (60%) least likely. At the country level, employees in South Africa (92%), Argentina and Chile (both 91%) look set to benefit from higher wages over the next 12 months. Those in Ireland (14%), Greece (16%) and Japan (27%) are unlikely to be as fortunate.

At the global level, 15% of businesses expect to offer employees real salary rises (that is above the rate of inflation). In Latin America this rises to 22%, followed by BRIC, APAC (excl. Japan) and ASEAN (all 20%). At the other end of the spectrum the pressures on businesses in the eurozone are evident: just 7% of businesses in the currency union plan to offer above inflation pay rises, dropping to 4% in the PIGS economies.

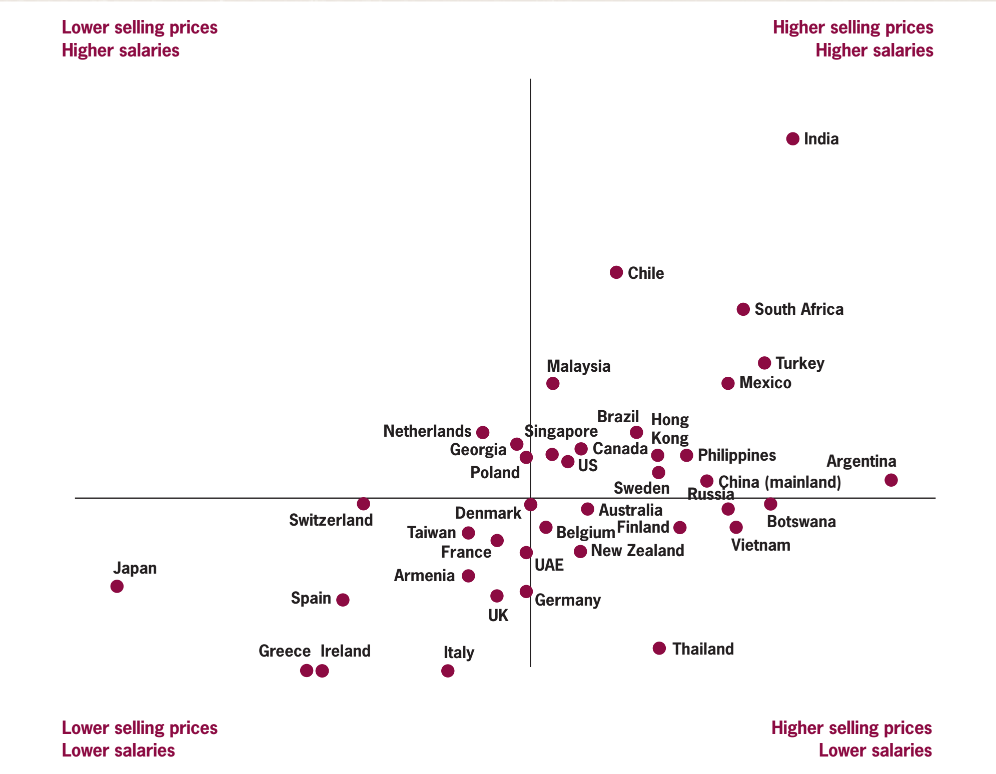
Inflation in 2012

Wage-price spirals describe a vicious cycle where the two sides of the wage bargain (employers and employees) try to keep up with inflation to protect real incomes (profits and salaries). The graphic below shows where businesses are looking to boost both salaries and selling prices over the next 12 months, and so which economies are most vulnerable to such cycles.

Those economies in the upper right quadrant appear in most danger from rising inflation over the next 12 months. The Central Bank of India's battle with inflation is well documented, and the results suggest it will continue throughout 2012. Other large emerging economies, such as Brazil, China, Mexico, South Africa and Turkey also find themselves in this quadrant.

Those economies in the lower left quadrant appear to have less to fear from inflation in 2012. The results tie in with recent announcements from the Bank of England and the ECB which expect inflation to ease over the next 12 months. This should boost real incomes and therefore consumer spending power in countries such as Greece, Germany, France Ireland, Italy, Spain and the United Kingdom. Meanwhile, the spectre of deflation does not look set to disappear in Japan.

FIGURE 15: EXPECTATIONS FOR SALARIES AGAINST SELLING PRICES



SOURCE: GRANT THORNTON IBR 2011

Employment

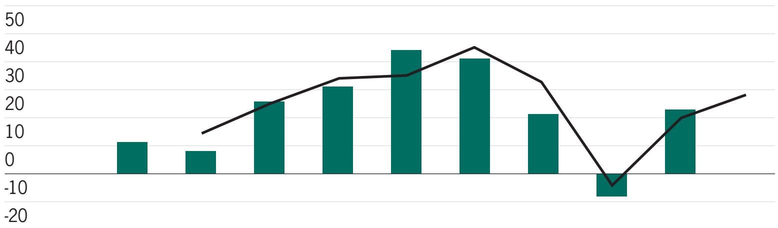
Hiring

Nowhere is the polarisation between emerging and mature markets more stark than in the state of labour markets. Governments in mature markets are currently grappling with high unemployment rates (more than 9% in the United States and France; more than 20% in Spain) as jobs disappear in the public sector and businesses in the private sector remain cautious of overextending themselves with the outlook so uncertain. Meanwhile, the focus in emerging markets is weighted towards upskilling the workforce and attracting talented members of the diaspora home.

Employment opportunities have certainly increased over the past 12 months: globally, net 23% of businesses hired staff over the past 12 months, up 31 percentage points year-on-year. Regionally, hiring was strongest in APAC (excl. Japan, 40%) and Latin America (39%) and weakest in the eurozone (6%). However, the biggest swing was observed in North America where net 27% of businesses boosted staff numbers over the past 12 month, a 57 percentage point rise from 12 months previously.

Looking ahead, the economic and political turmoil of 2011 has certainly slowed employment growth expectations. Globally, net 28% of businesses expect to increase employment over the next 12 months, up eight percentage points from 12 months previously, but below the 33% observed in 2008.

FIGURE 16: HOW EMPLOYMENT EXPECTATIONS TRACK RECORDED CHANGES (2002-11)
NET PERCENTAGE OF BUSINESSES EXPECTING/REPORTING INCREASES IN STAFF LEVELS



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Actual	11	8	26	31	44	41	21	-8	23	–
Expected	–	14	25	34	35	45	33	-4	20	28

SOURCE: GRANT THORNTON IBR 2011

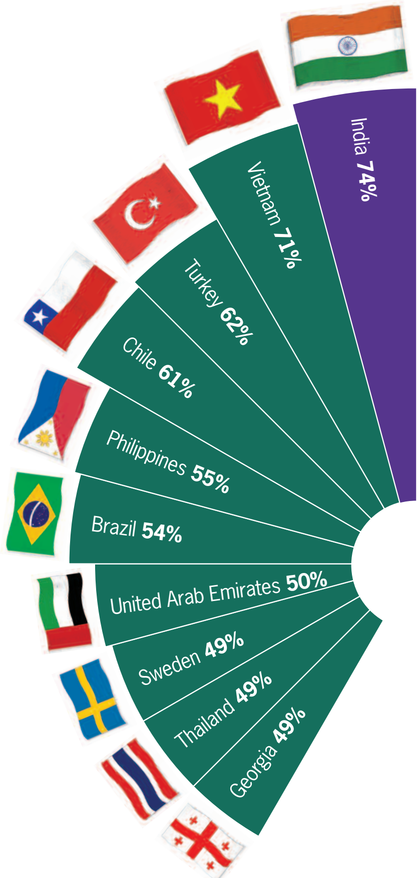
BUSINESSES EXPECTING TO INCREASE EMPLOYMENT OVER THE NEXT 12 MONTHS

28%

BUSINESSES WHO HAVE HIRED STAFF IN THE LAST 12 MONTHS

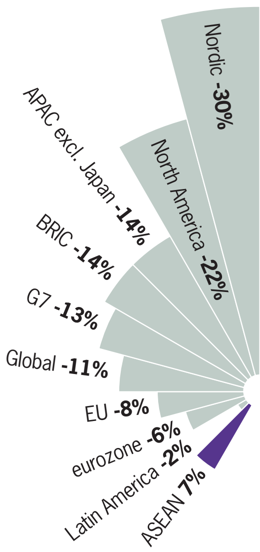
23%

FIGURE 17: EXPANDING EMPLOYMENT OPPORTUNITIES
NET PERCENTAGE OF BUSINESSES EXPECTING TO INCREASE EMPLOYMENT OVER NEXT 12 MONTHS



SOURCE: GRANT THORNTON IBR 2011

FIGURE 18: EMPLOYMENT PROSPECTS FALL IN LAST QUARTER
NET PERCENTAGE OF BUSINESSES EXPECTING TO INCREASE STAFF LEVELS – Q2 VS Q3



SOURCE: GRANT THORNTON IBR 2011

Regionally, businesses in Latin America are the most positive; 52% expect to increase employment over the next 12 months, up from 39% in 2010. Businesses in APAC (excl. Japan) and BRIC are also upbeat with 48% in each group expecting to increase staff numbers in the year ahead. By contrast just 15% of businesses in the eurozone expect to increase staff levels in 2012, falling to -3% in the PIGS economies.

Given the economic backdrop it is perhaps unsurprising (yet nonetheless of concern to mature market governments) that businesses in emerging markets are most upbeat about hiring staff over the next 12 months. In India, which has yet to fully benefit from its demographic transition, businesses are the most positive about hiring plans in 2012 (74%). Job opportunities in Vietnam (71%), Turkey (62%) and Chile (61%) are also expected to increase significantly. Of mature economies, only Sweden (49%) makes the top 10.

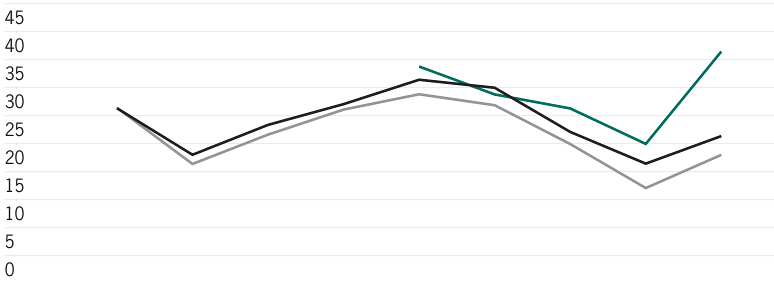
However, whilst the annual comparison looks positive at the global level, the most recent quarterly figures tell a different story. As the recovery stalled in Q3, it is noticeable that the proportion of businesses looking to hire fell by 11 percentage points to 23% globally. Regionally, there were some huge falls with businesses in the Nordic region (30 percentage point drop), North America (22) and APAC (excl. Japan) (14) all seeing employment plans contract sharply.

Skilled workers

With unemployment rates high, a lack of skilled workers is not a major issue in many mature markets. However, higher growth rates, lower unemployment and less capital-intensive industry in emerging economies make it a key issue constraining businesses in these markets. Indeed, in the BRIC economies more than two in five businesses (41%) believe an inability to get the right workers is dampening their growth prospects, up from one in four in 2010. This compares to just 23% of businesses in the G7.

With the strength of the recovery seemingly ever more dependent on emerging economies, the concern is that the skills of workers may not be able to keep up with demand. A lack of skilled workers is a major concern for businesses in Botswana (53%), Brazil, India (both 50%) as well as Turkey (38%), mainland China (36%) and South Africa (36%). By contrast, just 17% of businesses in both the United States and the United Kingdom, where unemployment rates remain stubbornly high, believe a lack of skilled workers is holding them back.

FIGURE 19: BUSINESSES IN EMERGING MARKETS STRUGGLING FOR SKILLED LABOUR
PERCENTAGE OF BUSINESSES CITING A LACK OF SKILLED WORKERS AS A CONSTRAINT ON GROWTH



	2003	2004	2005	2006	2007	2008	2009	2010	2011
BRIC	–	–	–	–	39	34	31	25	41
G7	31	23	28	32	36	35	27	21	26
Global	31	21	27	31	34	32	25	17	23

SOURCE: GRANT THORNTON IBR 2011

"Finding the right workers is a serious issue for businesses amid near record low unemployment. Businesses urgently require more skilled workers to fuel growth."

MADELEINE BLANKENSTEIN
GRANT THORNTON BRAZIL

Employment in 2012

Looking ahead, some emerging economies may struggle to maintain their robust growth rates if the skills of workers remain below the levels required. Brazil, India, Thailand and Turkey all find themselves in the upper right quadrant indicating that they plan to expand workforces significantly over the next 12 months, but are unsure about the talent available to them. Argentina, mainland China and Mexico also find themselves in this category.

Those economies in the lower right quadrant also expect to hire more workers than the global average over the next 12 months, but are more confident about the talent on offer. They include Armenia, Chile, Sweden, the Philippines and the United Arab Emirates.

The lower left quadrant is home to those economies where businesses see plenty of talent, but are simply not looking to hire as readily. Governments in economies such as Greece, Ireland, Italy, Spain, the United Kingdom and the United States have shed a plethora of public sector workers in an effort to cut deficits, but with the private sector failing to create lots of jobs, the prospect of unemployment rates dropping significantly in 2012 looks fairly bleak.

FIGURE 20: EXPECTATIONS FOR HIRING STAFF AGAINST AVAILABILITY OF SKILLED LABOUR

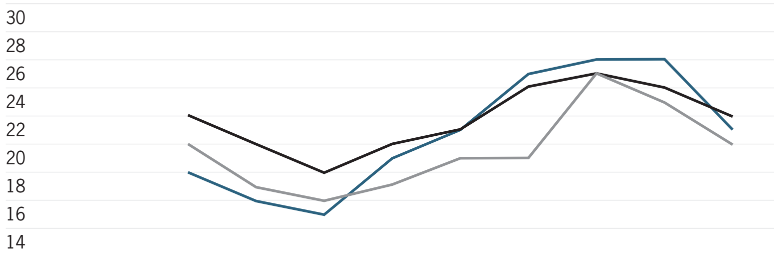
SOURCE: GRANT THORNTON IBR 2011

Access to finance

Access to finance has improved for businesses following the collapse in bank lending post-Lehmans. In 2009, more than 26% of businesses cited shortages of long term finance and working capital, and the cost of finance as constraints on their ability to grow. Each factor dropped slightly from 2010 to 2011, with the cost of finance falling fastest (five percentage point drop year-on-year).

Businesses in North America expect to be largely free from financial constraints over the next 12 months; just 15% cite the cost of finance, and 16% both shortages of long term finance and working capital. The situation in Europe appears a little tighter, with concerns over the exposure of many of the region’s banks to potentially toxic sovereign debt. More than one in four businesses in the EU cite each of the financial constraints, boosted by the PIGS where the figure is around two in five. More than a third of businesses in the BRIC economies cite the cost of finance (35%) compared with just 19% in the G7.

FIGURE 21: FUNDING CONSTRAINTS FALL BACK TO PRE-RECESSION LEVELS
PERCENTAGE OF BUSINESSES CITING FINANCE AS A CONSTRAINT ON GROWTH



	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cost of finance	20	18	17	21	23	27	28	28	23
Shortage of working capital	24	22	20	22	23	26	27	26	24
Shortage of long term finance	22	19	18	19	21	21	27	25	22

SOURCE: GRANT THORNTON IBR 2011

> “Businesses should stay close to their lenders, especially in such uncertain economic times. The supportiveness of lenders in Canada bodes well for growth prospects.”
>
> **BILL BRUSHETT**
> GRANT THORNTON CANADA

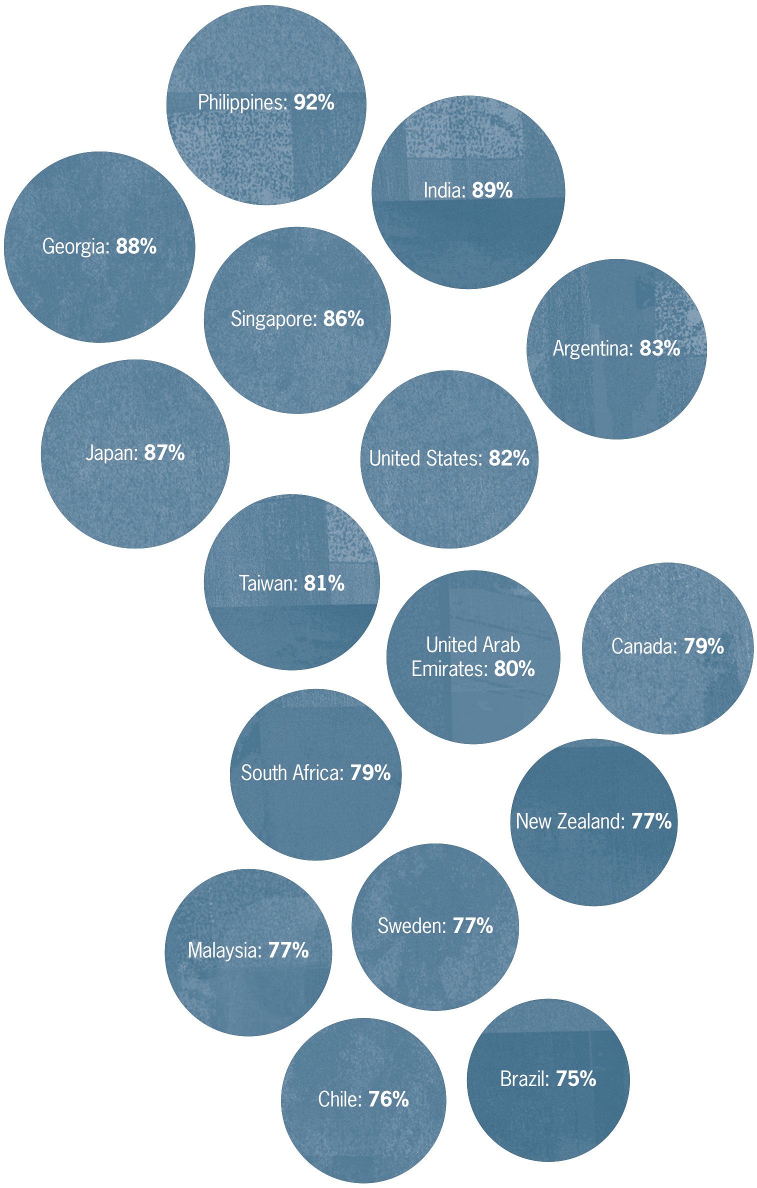
FIGURE 22: STRUGGLING FOR FUNDS
PERCENTAGE OF BUSINESSES CITING FINANCE AS A CONSTRAINT ON GROWTH

	PIGS	BRIC	APAC (excl. Japan)	ASEAN	Latin America	EU	Global	G7	North America
Cost of finance	**37**	**35**	**34**	**33**	**30**	**23**	**23**	**19**	**15**
Shortage of working capital	**43**	**30**	**30**	**30**	**25**	**24**	**24**	**20**	**16**
Shortage of long term finance	**41**	**28**	**27**	**26**	**27**	**22**	**22**	**19**	**16**

SOURCE: GRANT THORNTON IBR 2011

It is widely accepted best practice for businesses to stay close to their lenders, especially in times of economic uncertainty. Globally, almost three-quarters of businesses class their lender as supportive (74%), up from two-thirds in 2010. Lender support is strongest in the Philippines (92%), followed by India (89%), Georgia (88%) and Japan (87%). Businesses also feel well supported in North America with both the United States (82%) and Canada (79%) in the top 10 on this measure.

FIGURE 23: BUSINESSES HAPPY WITH LEVEL OF SUPPORT PROVIDED BY LENDERS
PERCENTAGE OF BUSINESSES CITING LENDERS AS SUPPORTIVE



SOURCE: GRANT THORNTON IBR 2011

Topical issues

Women in business (Q1)

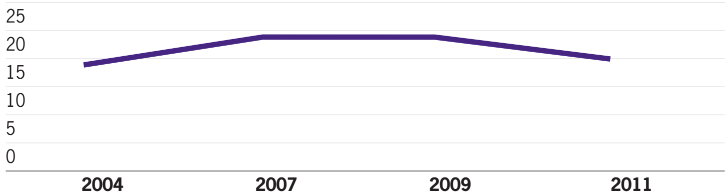
Women currently hold 20% of senior management positions globally, down from 24% in 2009, and only up slightly from 2004 (19%). The quarterly IBR results also found that the percentage of businesses that have no women in their senior management has risen to 38% compared to 35% in 2009.

Across the world, Thailand boasts the greatest percentage of women in senior management (45%), followed by Georgia (40%), Russia (36%), Hong Kong and the Philippines (both 35%). The countries with the lowest percentages are India, the United Arab Emirates and Japan where fewer than 10% of senior management positions are held by women.

G7 countries lag behind the global average with only 16% of women holding senior roles whilst, regionally, Asia Pacific (excl. Japan) scores highest with 27%. Women have become most successful in increasing their share of senior management roles in Thailand, Hong Kong, Greece, Belgium and Botswana, where the percentage of women in these roles has risen by at least 7% since 2009.

Of the companies that employ women in senior managerial positions globally, 22% employ them in financial positions (e.g. Chief Financial Officer/Finance Director). This is followed by Human Resources Director (20%), Chief Marketing Officer and Sales Director (both 9%).

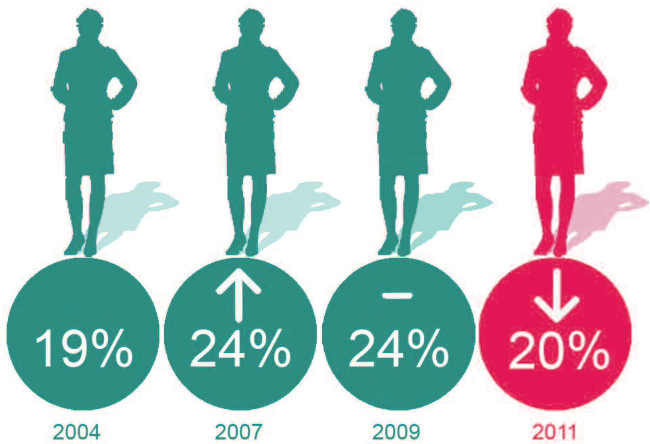
FIGURE 24: PROPORTION OF WOMEN IN SENIOR MANAGEMENT FALLS BACK TO 2004 LEVELS
PERCENTAGE OF SENIOR MANAGEMENT ROLES HELD BY WOMEN



2004	2007	2009	2011
19	24	24	20

SOURCE: GRANT THORNTON IBR 2011

Globally just 8% of companies have a female Chief Executive Officer. However the story is different in Asian economies, Thailand leads the way with 30% of companies headed by women, followed by mainland China (19%), Taiwan (18%) and Vietnam (16%).



Corporate Social Responsibility (Q1)

Despite the backdrop of economic uncertainty, there has been limited change in the volume of CSR activity undertaken since IBR 2008. In fact, businesses across the globe are increasingly recognising the importance of socially responsible and transparent business practices to distinguish themselves from competitors in the market place, to attract the right staff, and to strengthen their relationships with customers and other businesses.

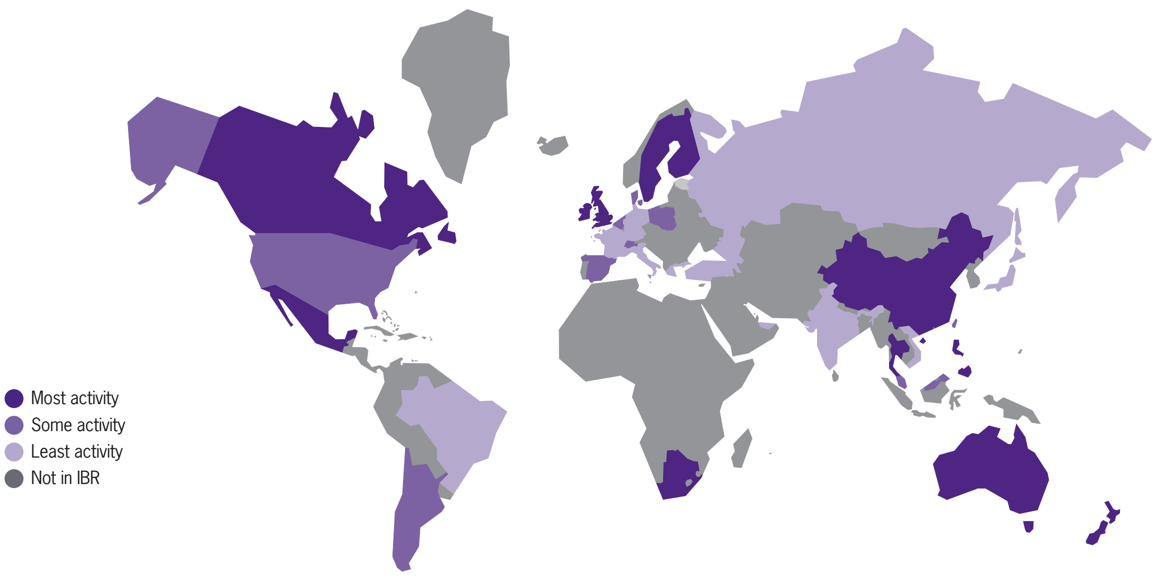
The main drivers for CSR at a global level remain a mix of internal and external factors: cost management and recruitment/retention of staff, and public attitudes/building brand (all cited by 56% of respondents), although cost management and recruitment/retention of staff have become relatively less important since 2008. The ASEAN, Latin America and BRIC economies in particular rank these factors highly. Given the focus of businesses on their bottom line and survival, environmental drivers across the globe have declined since 2008 and rank as one of the least important (36% of respondents) alongside investor relations (35% of respondents) in 2011.

Businesses in the ASEAN region, North America and the Nordic Region are most likely to have undertaken initiatives in the past year and the Philippines, in particular, is the top ranked country for CSR activities. Businesses in mainland Europe are the least likely to undertake CSR activities, with Turkish businesses reporting the lowest level of involvement in CSR activities over the past year.

Of those initiatives – workforce activities were ranked most highly, followed by community activities. 73% of respondents had engaged in activities which actively promoted workforce health and well-being, particularly in Argentina, Finland, the Philippines and Sweden. Some 64% had allowed flexible working and provided internships/apprenticeships and work experience – particularly in Finland. The least common activities for businesses included calculating their carbon footprint (19%) and sourcing local, ethically traded or organic goods (28%).

The results suggest that respondents are split as to whether the reporting of CSR and other non-financial information should be integrated with financial reporting; 44% were in favour and 40% were against, with businesses in Latin America markedly more in favour than any other region (81%).

FIGURE 25: LEVELS OF CSR ACTIVITY UNDERTAKEN IN PAST 12 MONTHS



SOURCE: GRANT THORNTON IBR 2011

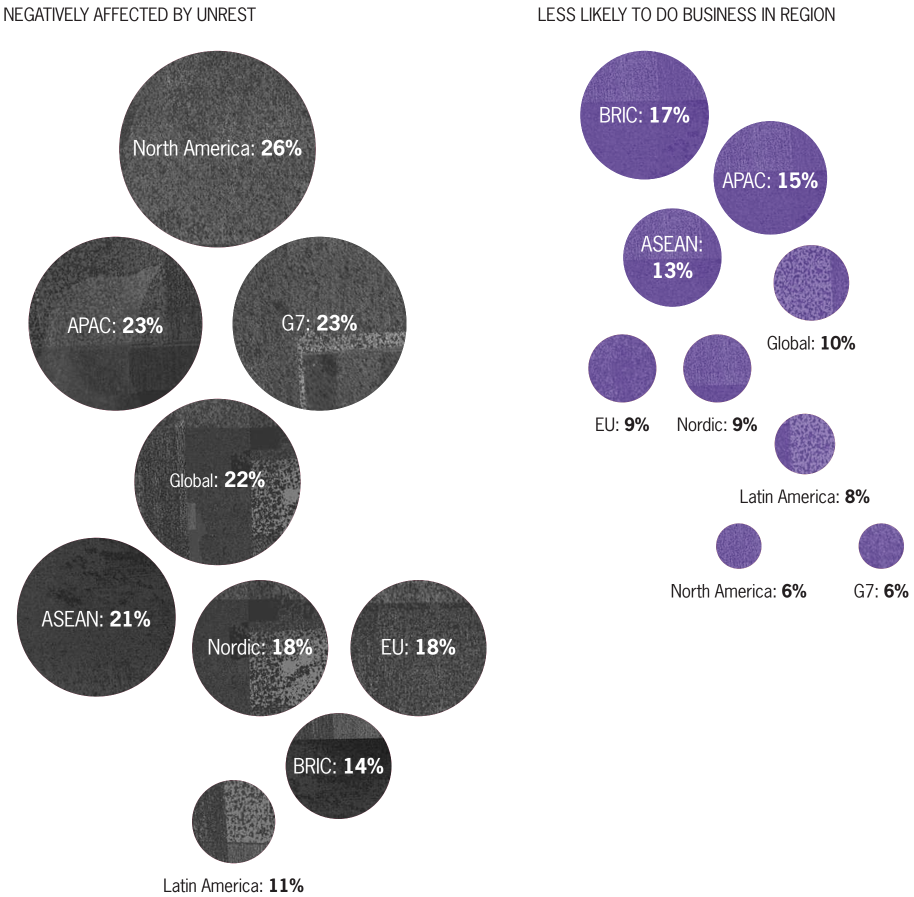
The Arab Spring (Q2)

Since the wave of demonstrations and protests in the Middle East and North Africa which engulfed much of the region from December 2010, businesses around the world are continuing to count the costs. As the region continues to experience major political change, more than a fifth (22%) of businesses globally report that the unrest has had a negative impact on their business. This figure is highest in North America where a quarter (26%) of businesses report a negative impact.

Businesses had a number of issues to deal with as a result of the Arab Spring. Fuel prices increased, pushing up operations and production costs. There is also the direct effect on order books that businesses will have felt as supply routes between these countries were disrupted, with governments in the region focusing on political issues rather than trade. With its close trade links to the region, Turkey was hit particularly hard: 53% of businesses felt a negative impact.

Despite these immediate impacts, however, the long term outlook still holds much promise and only 10% of those consulted said that they were now less likely to do business in the region. This suggests that, despite the upheaval, the region should be viewed by businesses as one with real opportunities for the future.

FIGURE 26: IMPACT OF ARAB SPRING ON BUSINESSES
PERCENTAGE OF BUSINESSES



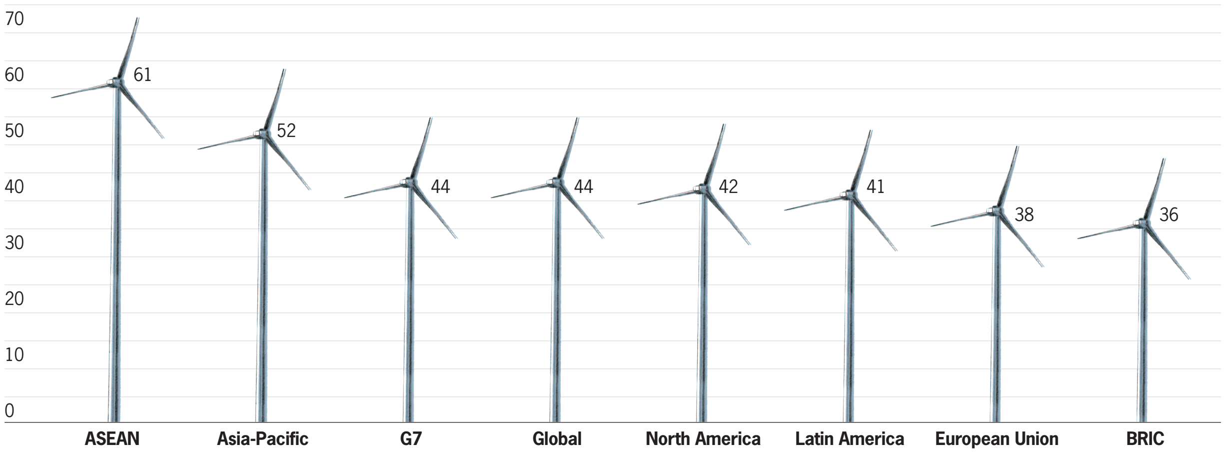
SOURCE: GRANT THORNTON IBR 2011

Renewable energy (Q2)

As the intensity of the Arab Spring rose, so did the price of oil: Brent Crude climbed above US$125 a barrel in April, up from US$85 a barrel at the start of the year, and remains above US$100 a barrel as 2011 draws to a close. Disagreement amongst OPEC nations on increasing supply persuaded the International Energy Agency to release more than 60 million barrels from emergency stocks, but the results suggest that 44% of businesses would now support increased government investment in renewable/alternative energy. Support is particularly strong in APAC and ASEAN economies.

Indeed, many businesses would be willing to endure the short term pain such investment might create: 51% of respondents said they would accept higher energy costs in the short term in order to reduce their economy's reliance on oil and have more stable prices in the longer term. However, whilst this stance was supported by 60% of businesses in North America and 53% in the G7, just 35% of those in the BRIC economies agreed.

FIGURE 27: BUSINESSES SUPPORT FOR INCREASED INVESTMENT IN RENEWABLE/ALTERNATIVE ENERGY
PERCENTAGE OF BUSINESSES



SOURCE: GRANT THORNTON IBR 2011

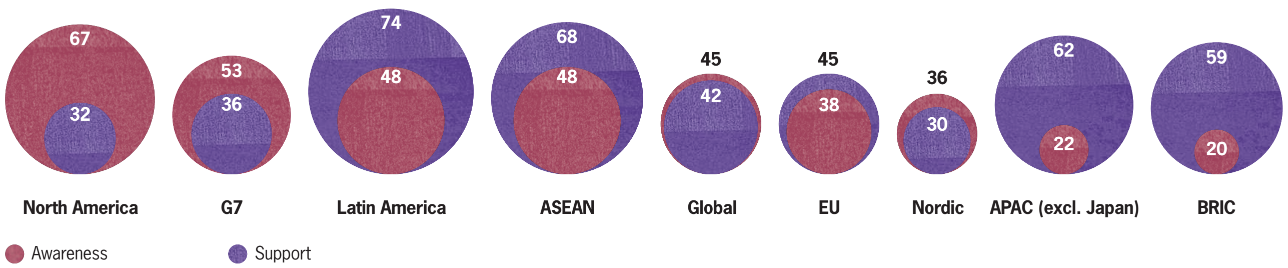
Lease accounting (Q3)

More than half of businesses globally (54%) are not aware of, and are therefore unprepared for, one the most significant global accounting changes in the past decade – moving all but short term leases onto the balance sheet. With the IASB and FASB[3] set to re-expose their latest proposals early next year, Grant Thornton stresses the need for businesses to assess the impact of the potential changes and for investors to consider whether the new model will deliver the transparency they are rightly calling for.

Of those who were aware of the changes, 33% thought the change would increase cost and complexity but only 15% thought it would increase transparency. 12% of businesses indicated they would alter the way they structure leases in the future with a further 24% citing other impacts.

Awareness of the change is greatest in the US (69%), Mexico (68%) and Chile (63%), and is lowest in mainland China (5%), Denmark (8%) and Turkey (14%). Amongst those aware of the change, support is strongest in Latin America (74%) and ASEAN 68%), and weakest in North America (32%). Businesses in the BRIC economies (59%) are much more supportive than their counterparts in the G7 (36%).

FIGURE 28: LOW AWARENESS OF AND SUPPORT FOR LEASE ACCOUNTING CHANGES
PERCENTAGE OF BUSINESSES AWARE OF/SUPPORTING UPCOMING CHANGES



SOURCE: GRANT THORNTON IBR 2011

3 International Accounting Standards Board, Financial Accounting Standards Board

Social media (Q3)

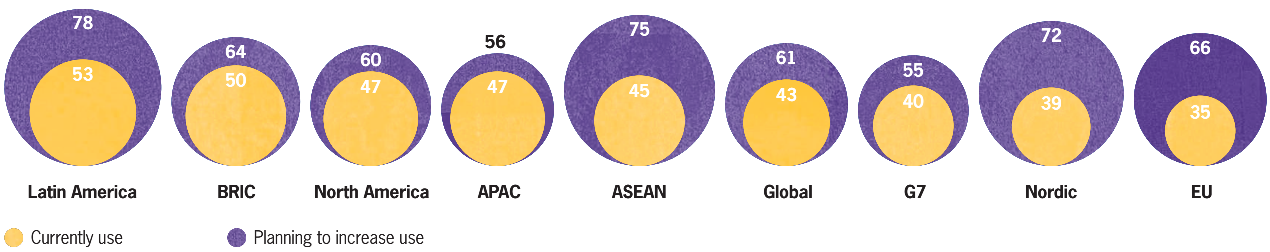
Research into how businesses use social media suggests that emerging markets have stolen a march on their western counterparts. The IBR reveals that 43% of businesses globally use social media in some capacity. However, this rises to 53% in Latin America and 50% in the BRIC economies. In mature markets the figures are much lower, at 40% in the G7 and just 35% in Europe. Meanwhile, more than three quarters (78%) of Latin American businesses plan to increase their use of social media, compared to two thirds (66%) in the EU and just over half (55%) across the G7.

The results are a wake-up call to business leaders reluctant to embrace digital opportunities, who could lose out in an e-commerce market expected to be worth $1.4tn by 2015. Use of the internet among the wider population in the emerging markets still lags behind Europe and North America, but the sheer size of those populations represents a huge market and therefore an enormous opportunity. In China for example, there are 485 million internet users, which is only 36% of the current population. In India less than 10% of the population access the internet.

The results also indicate that globally, advertising is the most common reason companies use social media (53%), followed by communicating with customers (51%) and recruitment (43%). Advertising is the most common use in the EU (64%), whereas recruitment came top in North America (63%). Meanwhile, communication with customers emerges as the key practice in Latin America (72%) and ASEAN (65%).

Finally, despite the rapid proliferation of new media, newspapers remain the preferred source of information for business owners themselves. Globally, four in five read a newspaper (79%) at least three times a week. In addition, hard copy newspapers are still the preferred source of news for business leaders globally (39%), followed by desk-based internet (26%). Taken together, electronic and hard-copy newspapers are preferred by 51% of business leaders, compared to 35% who prefer either desk-based or mobile internet.

FIGURE 29: BUSINESS USE OF SOCIAL MEDIA
PERCENTAGE OF BUSINESSES



SOURCE: GRANT THORNTON IBR 2011

Methodology

The survey
The Grant Thornton International Business Report (IBR) provides insight into the views and expectations of medium to large privately held businesses (PHBs) from all over the world. Launched in 1992 in nine European countries, the survey now interviews 2,875 business leaders in 40 economies every quarter and upwards of 11,500 every year.

Data collection
The research is carried out primarily by telephone interview lasting approximately 15 minutes with the exception of Japan (postal), Philippines and Armenia (face to face), mainland China and India (mixture of face-to-face and telephone) where cultural differences dictate a tailored approach. Telephone interviews enable Grant Thornton to conduct a precise number of interviews and to be certain that the most appropriate individuals are interviewed.

Data collection is managed by Grant Thornton's core research partner – Experian. Questionnaires are translated into local languages with each participating country having the option to ask a small number of country specific questions in addition to the core questionnaire. The data in this report are drawn from interviews with more than 13,000 businesses globally, conducted between November 2010 and September 2011. Responses are weighted by economy GDP figures sourced from the IMF 'World Economic Outlook' database.

Sample
The target respondents are chairmen, chief executive officers, managing directors or other senior executives (title dependent on what is most appropriate for the individual country) spread primarily across four industries: manufacturing (25%), services (25%), retail (15%) and construction (10%), with the remaining 25% drawn from across all industries.

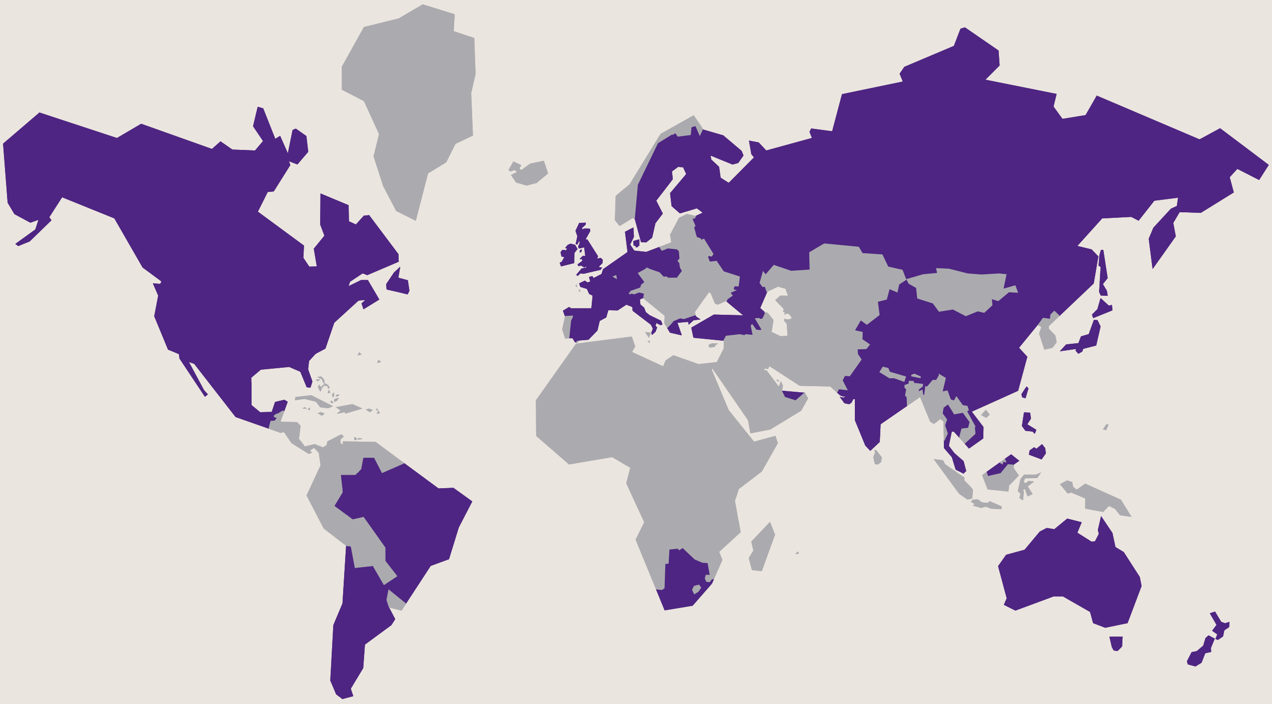
The types of businesses targeted by IBR are defined as medium to large privately held businesses. The definition of a medium to large business is determined by government descriptions in terms of revenue or number of employees, for example a medium to large sized business in the EU would typically have 50-499 employees. As IBR moves into its 20th year in 2012, the survey has been expanded to encompass listed as well as privately-held businesses.

FIGURE 30: COUNTRY GROUPING METHODOLOGY

Economy grouping	Number of respondents*	Economies included in IBR
Asia-Pacific (APAC)	3,960	Australia, Hong Kong, India, Japan, China (mainland), Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam
Asia Pacific excl. Japan	3,466	(as above but excluding Japan)
Association of Southeast Asian Nations (ASEAN)	1,178	Malaysia, Philippines, Singapore, Thailand, Vietnam
BRIC	1,674	Brazil, Russia, India, China (mainland)
European Union (EU)	4,876	Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Spain, Sweden, United Kingdom
Eurozone	2,754	Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Spain
G7	3,487	Canada, France, Germany, Italy, Japan, United Kingdom, United States
Latin America	967	Argentina, Brazil, Chile, Mexico
Nordic	1,405	Denmark, Finland, Sweden
North America	1,185	Canada, United States
PIGS	952	Ireland, Greece, Spain
Other	1,946	Armenia, Botswana, Georgia, South Africa, Switzerland, Turkey, United Arab Emirates
Global	13,185	All countries

*Please note that some countries are present in more than one country grouping

IBR participants



To find out more about IBR or to obtain copies of reports and summaries please visit **www.internationalbusinessreport.com** or contact Dominic King (**dominic.h.king@uk.gt.com**)

IBR contacts

Argentina
Grant Thornton
Arnaldo Hasenclever
T +54 11 4105 0000
E arnaldo.hasenclever@ar.gt.com

Armenia
Grant Thornton Amyot
Gurgen Hakobyan
T +374 (0) 10 276 569
E gurgen.hakobyan@am.gt.com

Australia
Grant Thornton
Tony Markwell
T +61 (0) 7 3222 0200
E tony.markwell@au.gt.com

Belgium
Grant Thornton
Johan Haelterman
T +32 (0) 477 61 80 87
E johan.haelterman@be.gt.com

Botswana
Grant Thornton
Jay Ramesh
T +267 395 2313
E jay.ramesh@bw.gt.com

Brazil
Grant Thornton
Jobelino Locateli
T +55 11 3886 4800
E locateli@br.gt.com

Canada
Grant Thornton
Bill Brushett
T +1 416 366 0100
E bill.brushett@ca.gt.com

Raymond Chabot Grant Thornton
Benoit Egan
T +1 514 393 4816
E egan.benoit@rcgt.com

Chile
Surlatina Auditores
Alfonso Ibáñez
T +56 (2) 269 1737
E aibanez@gtchile.cl

China (mainland)
Grant Thornton China
Xu Hua
T +86 10 85 66 59 78
E hua.xu@cn.gt.com

Denmark
Grant Thornton Denmark
Jørgen Anker Nielsen
T +45 33 45 42 12
E jorgen.nielsen@dk.gt.com

Finland
Grant Thornton
Joakim Rehn
T +358 (0) 9 512 3330
E joakim.rehn@gtfinland.com

France
Grant Thornton
Jean-Jacques Pichon
T +33 3 81 88 39 87
E jean-jacques.pichon@fr.gt.com

Georgia
Grant Thornton LLC
Nelson Petrosyan
T +374 10 27 65 69
E nelson.petrosyan@am.gt.com

Germany
Grant Thornton
Klaus-Guenter Klein
T +49 211 9524 140
E klausguenter.klein@wkgt.com

Greece
Grant Thornton
Vassilis Kazas
T +30 210 72 80 020
E vassilis.kazas@gr.gt.com

Hong Kong
Grant Thornton
Daniel Lin
T +852 3987 1200
E daniel.lin@cn.gt.com

India
Grant Thornton
Vishesh Chandiok
T +91 11 4278 7070
E vishesh.chandiok@in.gt.com

Ireland
Grant Thornton
Patrick Burke
T +353 (0)1 6805 650
E patrick.burke@ie.gt.com

Italy
Grant Thornton Bernoni & Partners
Giuseppe Bernoni
T +39 02 76008751
E giuseppe.bernoni@gtbernoni.it

Japan
Grant Thornton
Hiroyuki Hamamura
T +81 3 5770 8855
E hiroyuki.hamamura@jp.gt.com

Malaysia
SJ Grant Thornton
Dato' Narendra Jasani
T +60 (0) 3 2692 4022
E jasani@gt.com.my

Mexico
Salles, Sáinz-Grant Thornton S.C.
Héctor Pérez
T +52 55 5424 6500
E hector.perez@mx.gt.com

Netherlands
Grant Thornton
Frank Ponsioen
T +31 (0) 172 42 38 70
E frank.ponsioen@gt.nl

New Zealand
Grant Thornton
Peter Sherwin
T +64 4 385 2126
E peter.sherwin@nz.gt.com

Philippines
Punongbayan & Araullo
Raul Tomas
T +63 2 887 9484
E raul.tomas@ph.gt.com

Poland
Grant Thornton Frąckowiak
Tomasz Wroblewski
T +48 (61) 8509 200
E wroblewski.tomasz@gtfr.pl

Russia
Grant Thornton
Ivan Sapronov
T +7 495 258 9990
E ivan.sapronov@ru.gt.com

Singapore
Foo Kon Tan Grant Thornton
Aw Eng Hai
T +65 6331 2308
E enghai.aw@sg.gt.com

South Africa
Grant Thornton
Leonard Brehm
T +27 11 322 4500
E leonard.brehm@gtdbn.co.za

Spain
Grant Thornton
José María Fernández
T +34 91 576 39 99
E josemaria.fernandez@es.gt.com

Sweden
Grant Thornton
Peter Bodin
T +46 (0) 8 563 070 00
E peter.bodin@se.gt.com

Switzerland
Grant Thornton AG
Carlo Marelli
T +41 (0)43 960 71 28
E carlo.marelli@ch.gt.com

Taiwan
Grant Thornton
Jay Lo
T +886 (0) 2 2758 2688
E jay.lo@tw.gt.com

Thailand
Grant Thornton
Ian Pascoe
T +66 (0)22 05 8100
E ian.pascoe@gt-thai.com

Turkey
Grant Thornton
Aykut Halit
T +90 (0) 212 373 0000
E aykut.halit@gtturkey.com

United Arab Emirates
Grant Thornton
Hisham Farouk
T +971 4 2688070
E hisham.farouk@ae.gt.com

United Kingdom
Grant Thornton
Scott Barnes
T +44 (0)20 7728 2428
E scott.c.barnes@uk.gt.com

United States of America
Grant Thornton
J. Michael McGuire
T +1 312 856 0200
E mike.mcguire@us.gt.com

Vietnam
Grant Thornton Vietnam
Ken Atkinson
T +84 8 3910 9100
E ken.atkinson@vn.gt.com

Grant Thornton

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