GE Capital

EUROPEAN SME CAPEX BAROMETER

Investment intentions and business sentiment based on a study of 1750 SME decision makers across seven European markets.

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Contents

Introduction

This second edition of GE Capital's European SME Capex Barometer builds on the experience and insight gained through our first study of the investment intentions of European small and medium-sized enterprises (SMEs), which was published in Q3 2011. In this Barometer, we have extended our focus to new geographies, widened the scope of the survey and refined the methodology applied.

The Barometer now includes seven markets across two regions within Europe:

- Europe's four biggest economies (the 'EU4'), France, Germany, Italy and the UK. Where relevant, we have compared survey findings to track the evolution of SMEs investment and sentiment in these four markets over the past six months
- Three Central and Eastern European economies (the 'CEE3'), including the Czech Republic, Hungary and Poland, which have been surveyed for the first time

This study provides a forecast of both the future capital investment intentions of SMEs, the value of 'missed opportunities' due to lack of investment, an assessment of SME business sentiment, and the funding sources preferred by SMEs. This Barometer also includes new elements, such as an estimate of actual investment by SMEs over the past 12 months, and an assessment of the obstacles currently restricting SMEs' ability to invest.

Estimates were calculated using the latest national SME business demographic information for each of the seven markets.

About this report

The European SME Capex Barometer is a report based on a GE Capital survey of 1750 small and medium enterprises in France, Germany, Italy, the UK, the Czech Republic, Hungary and Poland.

- 250 businesses were interviewed in each market
- Within each market, the sample size was split about evenly between 'micro' businesses (2 - 9 employees), 'small' businesses (10 - 49 employees) and 'medium-sized' businesses (50 - 249 employees)
- All respondents had buying responsibility in the asset areas covered in the report
- Over 50% of respondents were business owners or board level executives
- Field research was carried out during January and completed in the first week of February 2012

Note on methodology

Due to some amendments in the methodology used, findings from this survey are not directly comparable to the results of our previous survey. In order to make the comparison of key indicators possible, some data from last year's survey have been re-analysed using the new methodology and the latest available national business demographic information.

Executive Summary

How much are SMEs likely to invest?

Based on their responses, SMEs across the 'EU4' markets (France, Germany, Italy and the UK) intend to invest about €290 billion in the year ahead, while SMEs in the 'CEE3' (Czech Republic, Hungary and Poland which have been featured for the first time in this report) are likely to invest about €54.5 billion.

How will SMEs fund their investments?

The vast majority of SMEs in all markets surveyed would consider some external financing sources to fund their planned investment: this was the case for 86% of respondents in the four Western European markets (up from our previous survey) and for 88% of respondents in CEE3.

Italian SMEs were the most likely to consider external financing providers (95%) compared to respondents in other markets. UK SMEs were more likely than their counterparts elsewhere to use company capital, with 24% of respondents saying they would not consider any financing providers as they have no requirements for external finance. This number is much lower than in the Q3 2011 survey (37%), indicating reliance on external financing sources increased significantly in the UK .

What obstacles are restricting SMEs ability to invest?

Uncertainty around the economic environment - In all markets, except Germany, the uncertain economic environment was seen as the main obstacle to investment (43% of respondents). This was particularly true from micro SMEs (2-9 employees).

Financial challenges - When asked what obstacles are restricting their ability to invest, a significant number of SMEs across both regions cited obstacles that are related to their financial situation, such as a lack of affordable finance, a need to build cash reserves, and other financial health challenges. Overall, these 'financial obstacles' were cited more frequently than commercial-related issues like, for instance, a fall in orders.

What's the cost of not investing?

The research shows that 25% of SMEs across the EU4 markets have missed on new business opportunities due to outdated and inefficient equipment. In total, these companies could have benefited from €72 billion of additional business, had they invested more over the last 12 months. Both the number of companies missing out on business opportunities and the estimated size of the opportunities lost increased significantly in the EU4 markets, compared to our previous survey.

Across the CEE3 countries, the study suggests that 27% of SMEs missed out on a total of €6.5 billion of business opportunities due to old equipment.

How are SMEs coping with a challenging environment?

Micro enterprises – Pessimistic views tended to be more widespread among micro enterprises than medium-sized companies and this trend was common across most markets. Smaller companies were suffering more from the current economic uncertainty (51% of respondents across both regions). Compared to medium-sized companies, a higher percentage of small enterprises said that lack of affordable finance and a fall in commercial orders were restricting their ability to invest.

Medium-size companies – Companies with 50 or more employees were, on average, considerably more optimistic than micro enterprises. Moreover, they had been less affected by the uncertain economic environment (about 36% of respondents across EU4 and CEE3) and on average, fewer medium-sized enterprises had seen a fall in orders over the last 12 months. A higher percentage of companies in this band said they had upgraded their equipment recently.

How is the challenging environment affecting investment in different types of assets?

Investment in IT (software and hardware) and office equipment appeared more resilient to challenging market conditions than investment in manufacturing and commercial vehicles. Conversely, investment in commercial vehicles and manufacturing looked under pressure in markets where confidence levels were low.

The findings suggest that IT investment is benefitting from an increased focus on business efficiency, whilst spending on higher ticket items (like manufacturing equipment) are more likely to be postponed due to the uncertain economic scenario.

What are the main trends in each market?

The EU4 – Stable investment despite lower confidence

The latest Barometer suggests that the current level of investment has already 'priced in' the volatility caused by the uncertain economic environment. While future investment intentions are lower than they were in June 2011 (-39%), compared to estimated actual investment in the past year, investment intentions remained relatively stable (+3%).

Germany - Of the EU4 countries, Germany was the most confident market and is likely to see the strongest investment in the year ahead, about 17% higher than estimated investment over the past 12 months.

Italy - Italian investment is holding up relatively well despite a decrease in the overall business sentiment (-3% vs. the estimated 2011 spend). Outdated equipment is however a pressing issue for many SMEs.

France - French SMEs have become increasingly cautious. Whilst the overall investment level is likely to increase slightly (+3% vs. the estimated 2011 spend), findings suggested that some of the investment that companies were planning to make in 2011 had been put on hold or cancelled (-56% vs. investment intentions recorded in our previous survey).

UK - Economic uncertainty has impacted UK SMEs, with intended investment 12% lower compared with estimated 2011 spend. Their 'actual' 2011 spend was likely to be below the investment intentions of six months ago and current investment levels have already 'priced in' some of the volatility witnessed in the second half of 2011.

The CEE3 – Moving at different speeds

The three CEE markets surveyed showed notable differences in terms of business sentiment and capital investment.

Poland - Polish SMEs were the most confident about growth opportunities and were planning to increase their investment by about 34% in the year ahead.

Hungary - Hungarian SMEs were the most pessimistic, and their investment in new equipment is likely to decrease slightly, by 4%, over the next 12 months.

Czech Republic - SMEs in the Czech Republic were relatively confident, although not as bullish as companies in Poland, and their capital investment will probably remain stable or increase slightly (2%) on a year-over-year basis.

Funding - Do European SMEs need more cash?

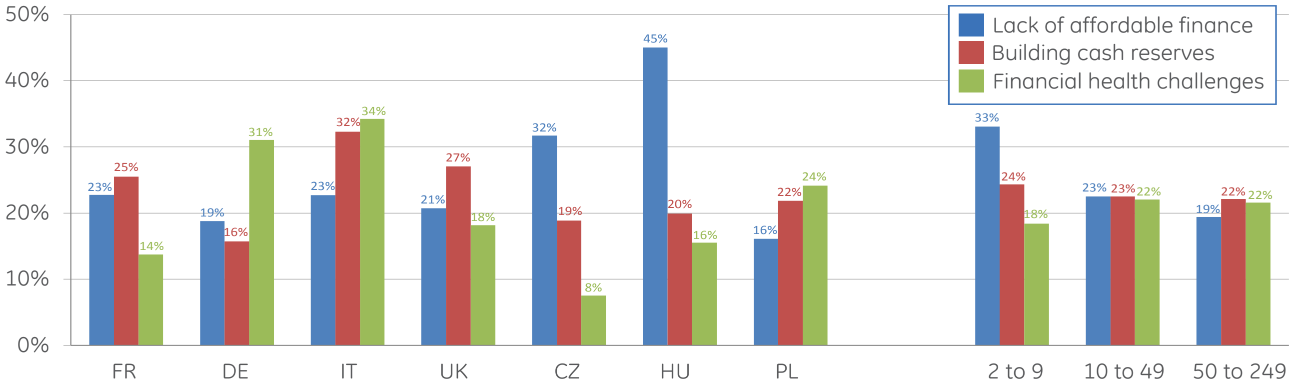
When asked what obstacles were restricting their ability to invest, a significant portion of SMEs cited obstacles related to their current financial situation.

Whilst the most widespread obstacle to SME investment was the uncertainty around the economic environment, 'financial obstacles' were also commonly mentioned. Lack of affordable finance, the need to build cash reserves and other financial health challenges were cited more frequently than commercial-related issues such as a fall in orders.

Czech and Hungarian SMEs in particular felt affordable finance is scarce, with 45% and 32% of respondents respectively mentioning it as a factor that is restricting their ability to invest. The lack of affordable finance is a pressing issue for businesses in Western European markets too, according to approximately 20% of SMEs surveyed in those markets.

The percentage of SMEs pointing to a scarcity of affordable finance is much higher among micro enterprises (33%). Interestingly, smaller SMEs tend to rely more on traditional high street banks, while larger SMEs have a more diversified funding strategy and are more likely to use other sources of finance.

Is any of the following restricting your company's ability to invest? Overview of financial obstacles (% of respondents)



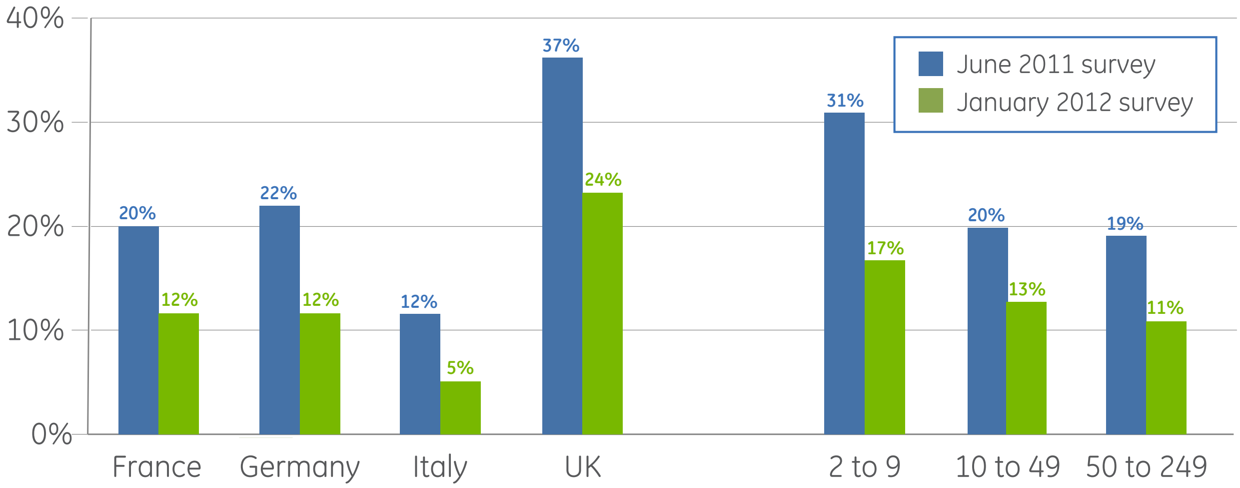
EU4 – Increasing reliance on external finance

Italian SMEs were by far the most likely to seek external financing sources and only 5% of respondents said they would not consider a financing provider.

Conversely, 24% of UK SMEs said they had no requirement for external financing. Whilst this is the highest percentage among these four markets, it is much lower than in our previous survey (37%), indicating that reliance on external financing sources increased significantly in the UK.

Larger companies tended to rely more on external financing sources than micro enterprises. Across all three bands, reliance on external finance providers increased compared to our June 2011 survey.

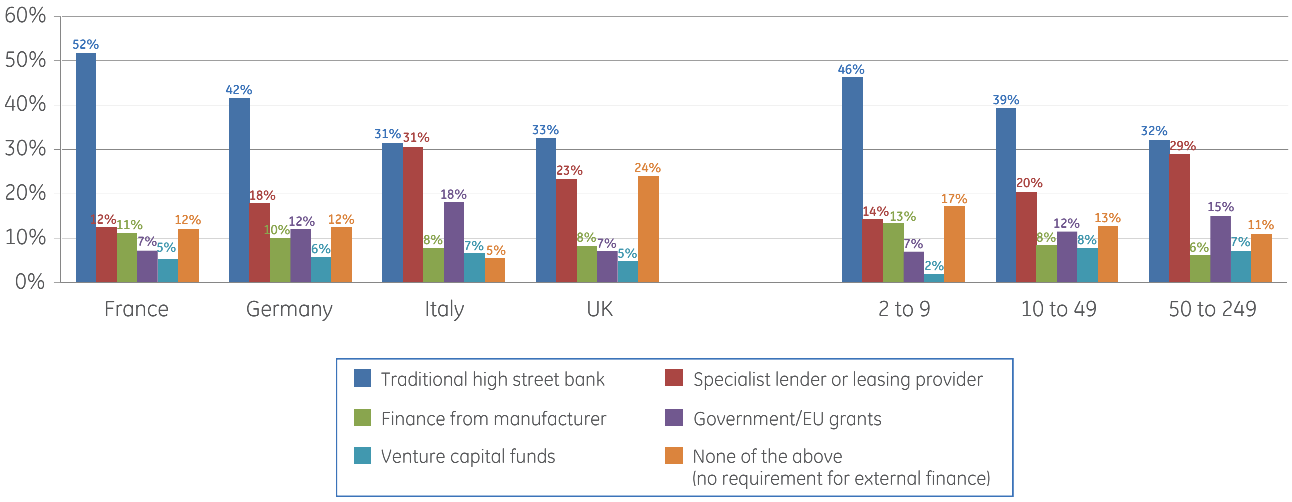
EU4 – SMEs with no requirement for external finance



French and German SMEs were the most reliant on traditional banks, while in Italy the number of SMEs preferring specialist lenders wass almost equal to those preferring high street banking providers.

Preference for specialist lenders over traditional bank lending, tended to be more prevalent increase among larger SMEs.

EU4 - When looking to finance new equipment/assets, which of the following types of finance provider would you be most likely to use?



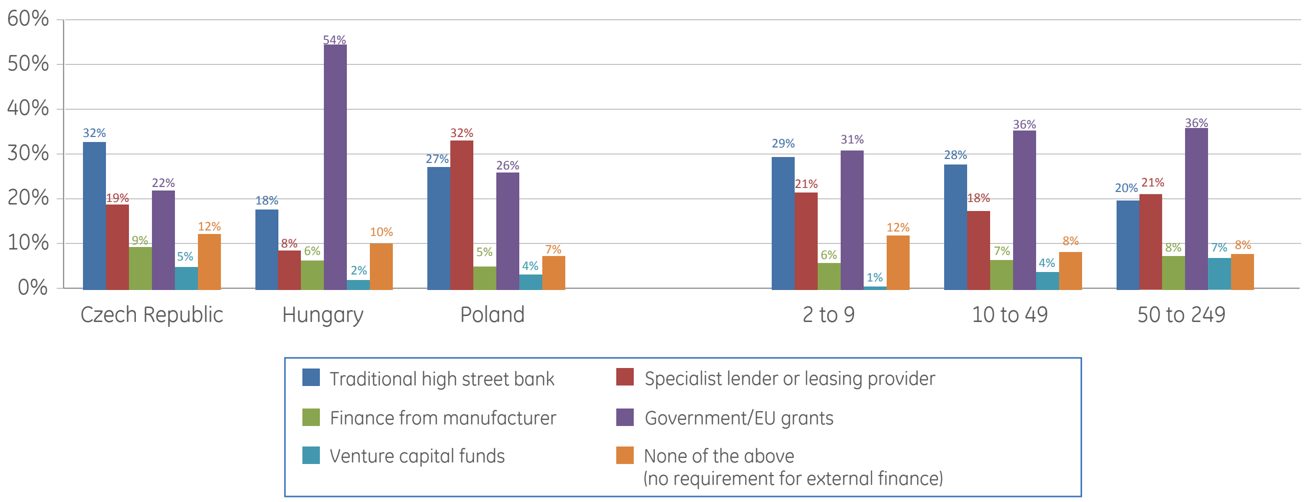
CEE3 – Different habits

Preferences for different forms of funding varied across the three Central and Eastern European markets surveyed. Hungarian SMEs showed the highest reliance on public funds, with grants from the Government or the European Union being the preferred choice for 54% of respondents.

Whilst Czech SMEs were relying mainly on traditional banks (32%), one third of SMEs in Poland considered specialist lenders their preferred choice (32%).

A preference for traditional banking institutions was higher among smaller companies: banks were most popular among micro and small businesses (29% and 28% respectively) while medium-sized businesses were more likely to consider a specialist financing provider.

CEE3 - When looking to finance new equipment/assets, which of the following types of finance provider would you be most likely to use?
(% of respondents)



The EU4 - Germany holding firm

The latest Barometer showed that SMEs across the 'EU4' markets (France, Italy, Germany and the UK) intend to invest an estimated €290 billion over the next 12 months.

- Compared to the overall estimated actual spend in 2011 (what survey respondents said they had invested in the last 12 months), investment intentions for the year ahead would represent a 3% increase, which is up by €9 billion.
- However, compared to the investment intentions recorded in our previous survey, the new figures represent a 39% drop from June 2011, when SMEs in those markets where expecting to invest over €476 billion.

These figures suggest that the recent economic uncertainty has already been "priced in" and that capital investment in the year ahead is likely to remain close to the current level. German capital expenditure has held up strongest of the four markets whilst Italy, despite seeing the biggest fall in overall optimism amongst SMEs, has also held up reasonably well.

Sentiment

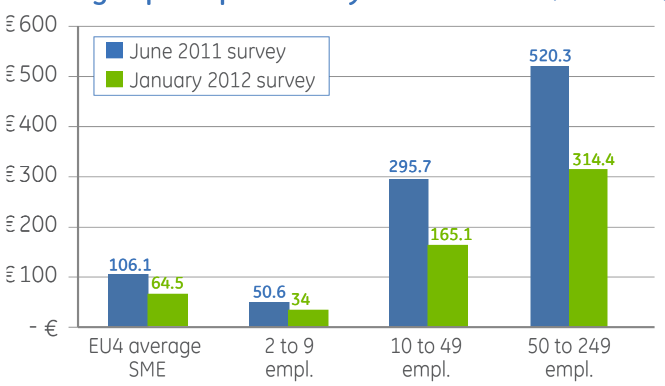
With a net confidence score of 27%, German SMEs were the most optimistic of Europe's four largest markets. Overall, SME sentiment (% of positive companies - % of negative companies) slipped into negative territory in Italy and UK (-18.8% and -4.6% respectively), whilst French SME sentiment fell significantly but remained positive (3.7%).

With a net confidence score of 10.1%, medium sized businesses (with 50-250 employees) were on average more optimistic than micro enterprises (with 2-9 employees) and small businesses (with 10-49 employees), scoring -2.7% and -1.9% respectively.

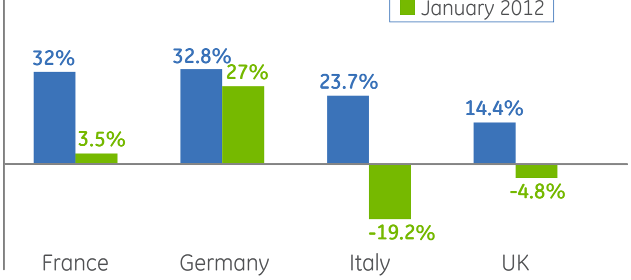
The cost of not investing

Based on their responses, SMEs across the EU4 missed out on over €72 billion of new business opportunities as a result of outdated equipment and lack of investment. On average one in four SMEs missed out on new business. Compared to our previous survey, the average 'missed opportunity' across the four markets increased much

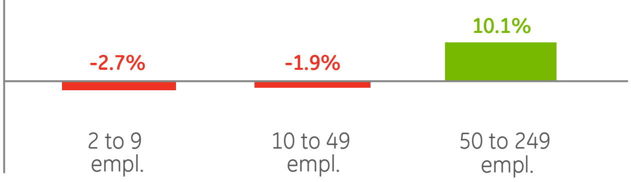
Investment intentions over time: average spend per SME by business size (€ thousand)



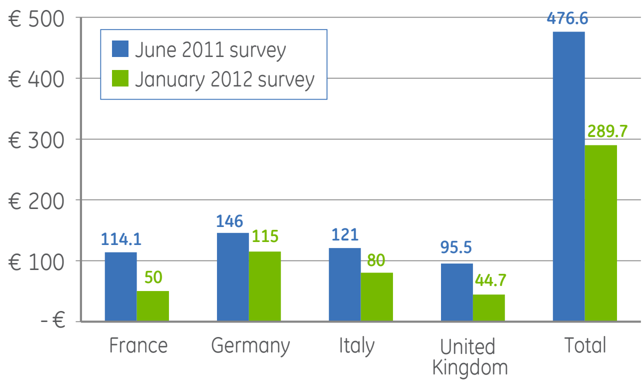
Net confidence score



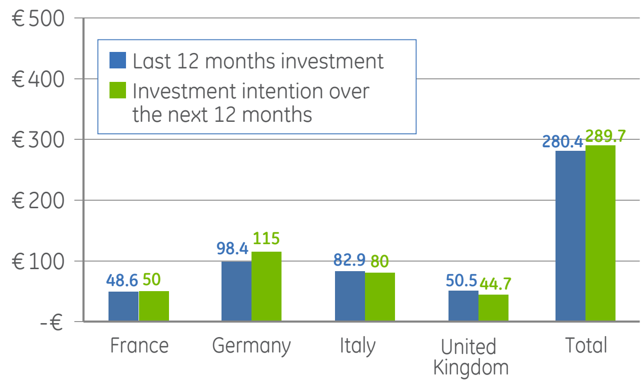
Net confidence score by company size



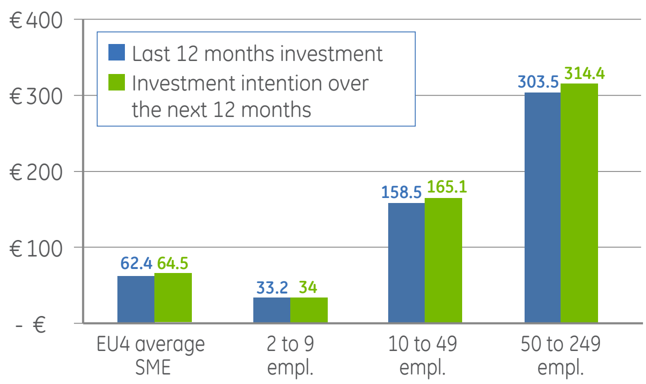
Investment intentions over time (€ billion)



Inv. intentions vs. estimated 2011 spend (€ billion)



Inv. intentions vs. estimated 2011 spend: average spend per SME by business size (€ thousand)



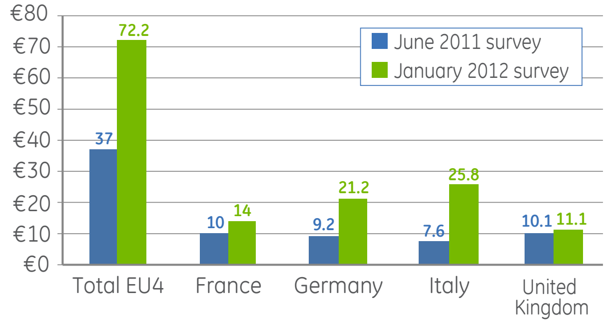
faster among small and medium sized enterprises (+171% and +129%, respectively) than micro enterprises (+26%). Outdated and inefficient equipment seemed to be a particular problem in Italy, where 36% of SME respondents reported having missed out on new business opportunities. This figure indicates an estimated total loss of €25 billion across Italy the highest overall figure across the four markets and three times the figure reported last year (€7.6 billion).

German SMEs also reported a large increase in missed business opportunities (+140% compared to the previous survey), whereas companies in France (+40%) and the UK (+10%) saw a smaller increase in lost business.

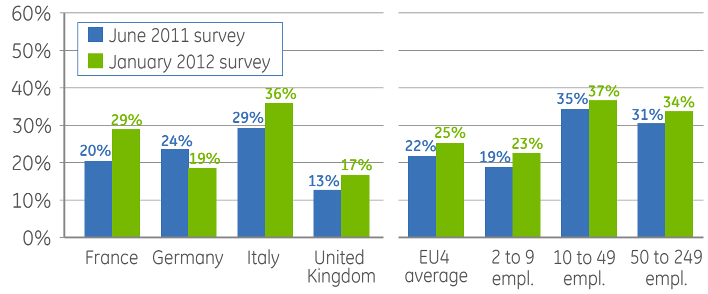
What's holding investment back?

Over 40% of respondents across the EU4 claimed the uncertain economic environment was restricting their ability to invest. Among micro enterprises the figure is a much higher 51%. Micro sized enterprises were also more likely to indicate a 'lack of affordable finance' and 'decreasing orders' as obstacles to investment. In addition, 'building cash reserves' and 'financial health challenges' were mentioned by around a quarter of all respondents.

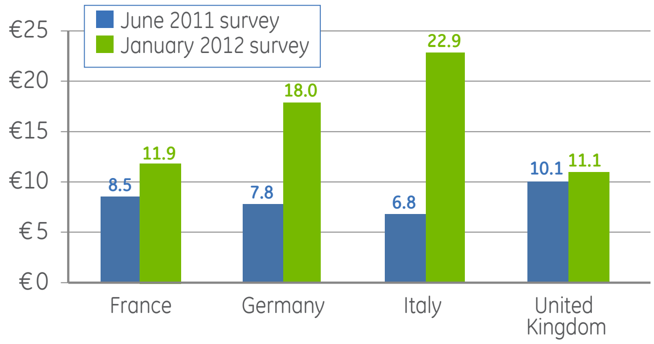
Total missed opportunities (€ billion)



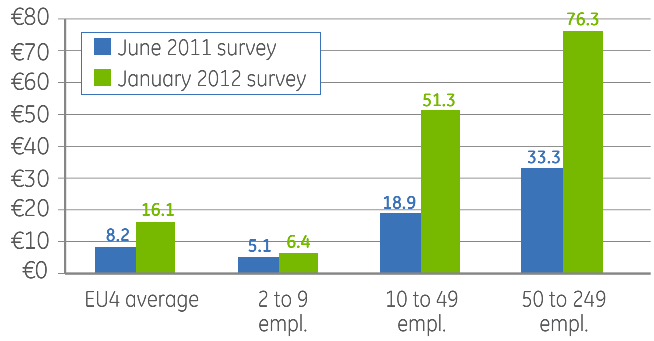
In the last 12 months do you think your business has missed out on income/ new business opportunities because of outdated or inefficient equipment?



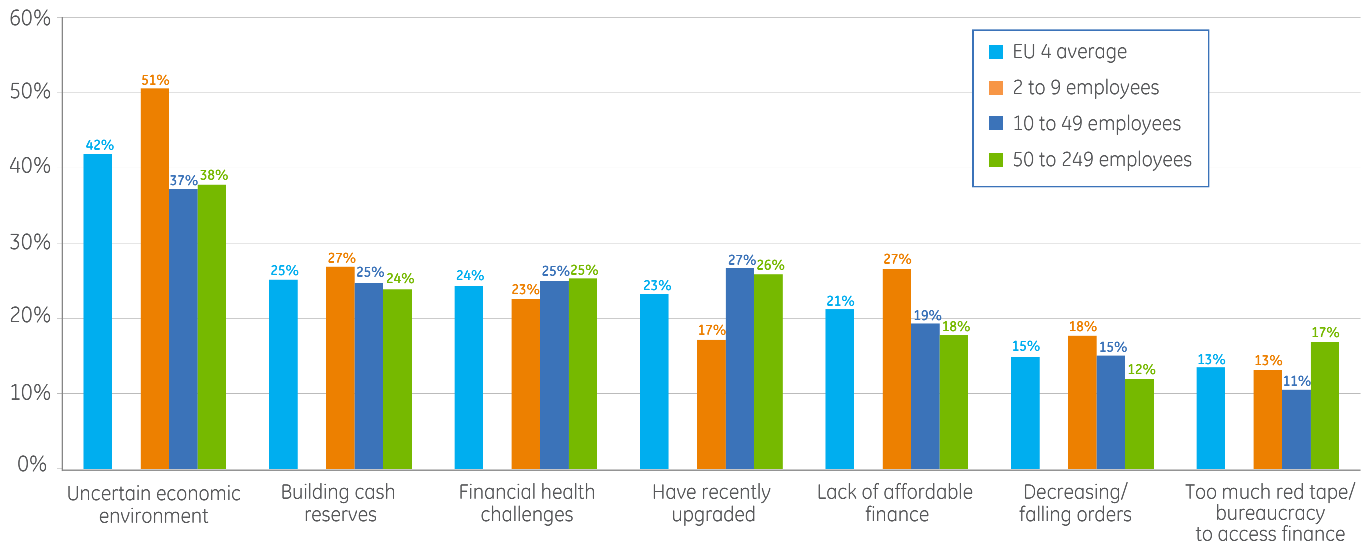
Average loss of income per SME (€ thousand)



Average loss of income per SME (€ thousand)



Which of the following, if any, are restricting your company's ability to invest in any way over the next 12 months?



France - Increasingly cautious

The latest Barometer showed that French SMEs are planning to invest €50 billion over the next 12 months.

- Compared to the estimated actual spend in 2011, investment intentions for the year ahead suggest an increase of 3%, up from €48 billion in 2011
- Compared to our previous survey, investment intentions dropped 56%, from about €114 billion in Q3 2011.

These figures suggest that some of the investment French SMEs were planning to make in 2011 has been put on hold or cancelled. French companies appeared much more cautious than in our previous survey, and overall capital expenditure in the year ahead appeared likely to remain at a similar level or improve slightly.

Sentiment

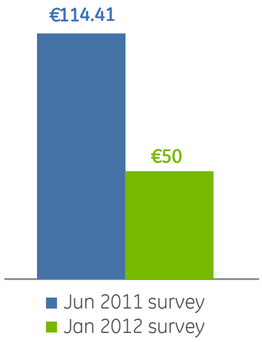
At 3.7%, French net confidence score was almost neutral. About 39% of SMEs surveyed were optimistic about growth opportunities in their sector, while 35% of respondents expressed more concern and pessimism. Respondents from micro enterprises (with 2-9 employees) were the most confident, with a net score of 10%), while small businesses (with 10 to 49 employees), were the most negative (-2.2%) about business opportunities.

Office equipment growing, commercial fleets under pressure

The survey showed that French SMEs were planning to invest €7.6 billion in office equipment over the year ahead, 34% more than estimated actual spend in 2011 and 30% more than intended spend six months ago.

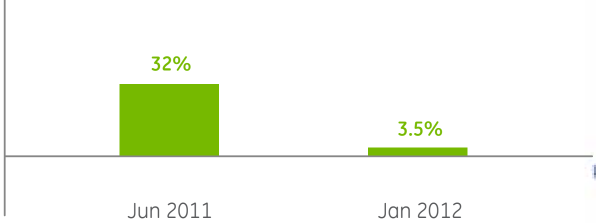
Investment intentions in commercial vehicles and manufacturing equipment were relatively flat compared to estimated 2011 spend, but dropped significantly (by 79% and 63% respectively) compared to what SMEs were planning to spend in June 2011.

Investment intentions over time (€ billion)



Intentions vs estimated 2011 spend (€ billion)

Net confidence score



Net confidence score by company size

Sentiment analysis (% of respondents)

	Positive	Neutral	Negative
Jan 2012	39.2%	25.1%	35.7%
Jun 2011	*50%*	*32%*	*18%*

Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

The cost of not investing

French SMEs missed out on an estimated €14 billion of new business opportunities last year because of outdated and inefficient equipment. Since the last survey in June 2011 the number of respondents stating their companies had missed on business opportunities grew considerably for micro, small and medium sized enterprises.

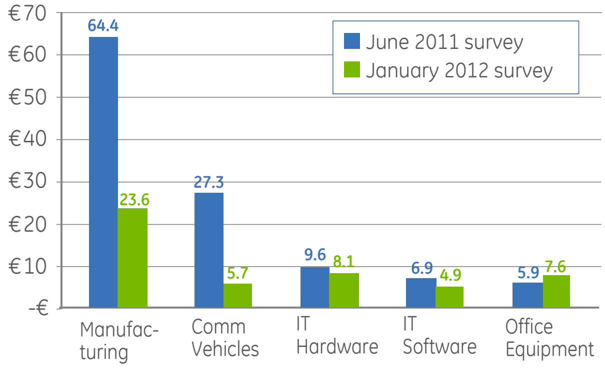
An estimated one in three French SMEs lost out on new income as a result of insufficient investment. Total missed opportunities were up 40% compared to the figure recorded in June 2011 (€10 billion).

What's holding investment back?

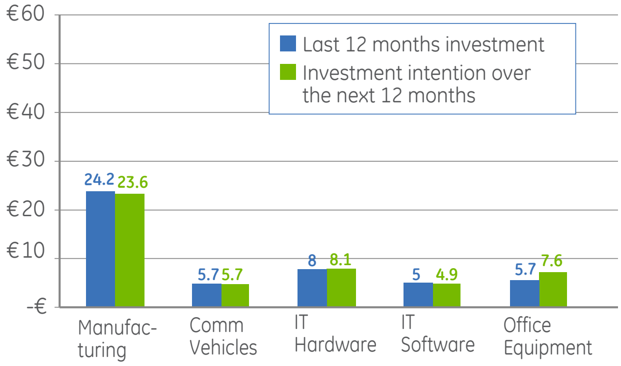
About 43% of French respondents claimed that the current uncertainty around the economic environment constituted an obstacle to their ability to invest. The focus on building cash reserves was the second most popular reason, chosen by 26% of respondents, followed by a lack of affordable finance (23% of total respondents), which seemed to be a problem particularly for micro-enterprises (26%).

Increasing efficiency is the main driver behind French investment, and particularly so for medium enterprises (78% of cases), followed by the need to replace deteriorating existing equipment (44%), which was very frequent among micro companies (54% of cases).

Inv. intentions vs. estimated 2011 spend (€ billion)

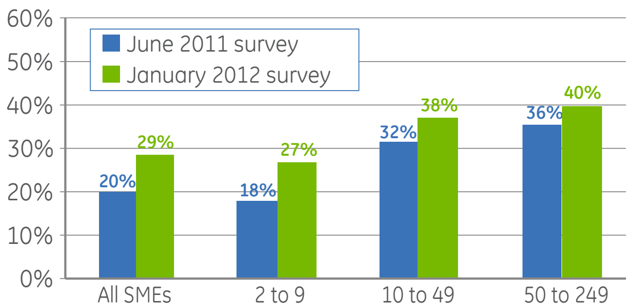


Investment intentions over time (€ billion)

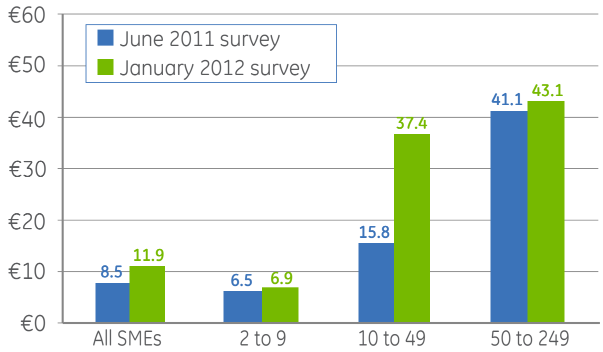


Total missed opportunities (€ billion)	June 2011 survey	Jan. 2011 survey	Variation
	€10	€14	40%

In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Top 4 reasons for investing*

58% 52% 48% 76%	Upgrading existing equipment to enhance efficiency and productivity
44% 54% 37% 42%	Deterioration of existing equipment
27% 26% 23% 33%	To build capacity to service growth in new orders
22% 22% 24% 27%	Investing in new types of equipment to support diversification into new product lines

*Percentage of all respondents

Top 4 obstacles to investment*

43% 49% 39% 45%	Uncertain economic environment
26% 21% 28% 28%	Building cash reserves
23% 26% 23% 19%	Lack of affordable finance
20% 19% 27% 14%	Have recently upgraded

2 to 9 empl. 10 to 49 empl. 50 to 249 empl.

Germany - Still optimistic and focused on efficiency

Appetite for capital investment appears stronger in Germany than the remainder of the EU4, with companies planning to invest more than €115 billion in new equipment over the next 12 months.

- Compared to the estimated recent spend, investment intentions suggest a 17% increase is likely in the year ahead, up from about €98 billion in 2011.
- Compared to our previous survey, investment intentions dropped 21%, from about €146 billion in Q3 2011.

These figures suggest that part of the investment German SMEs were planning to make in 2011 was put on hold or cancelled in response to the economic uncertainty. Some of that investment is now planned for 2012.

Sentiment

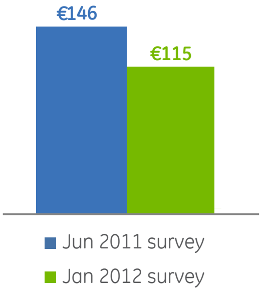
Germany is the most optimistic of the EU4 markets with more than half of German SMEs stating that they were optimistic about growth. In total, net confidence was +29.9%. Medium sized companies (50-250 employees) were the most optimistic with a net confidence score of +33%.

IT spend is growing, commercial fleets under pressure

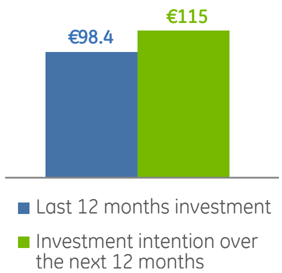
German SMEs intend to invest over €26 billion in IT equipment and software over the next 12 months, with the software component growing by about 42% compared to June 2011's intentions, driven mainly by investment from medium-sized companies. Investment in office equipment is also likely to increase 15% above the current investment levels.

While spend in commercial vehicles may be improving compared to the 2011 spend, investment intentions are down 62% compared to our previous survey, suggesting SMEs have been extending the lifecycle of their commercial fleets and that this trend may continue in 2012.

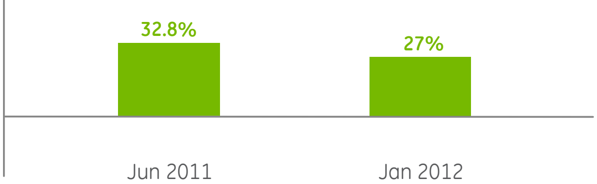
Investment intentions over time (€ billion)



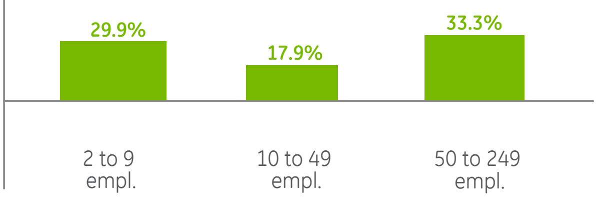
Intentions vs estimated 2011 spend (€ billion)



Net confidence score



Net confidence score by company size



Sentiment analysis (% of respondents)

	Positive	Neutral	Negative
Jan 2012	46.4%	34.5%	19.1%
Jun 2011	50%	32.8%	17.2%

Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

The cost of not investing

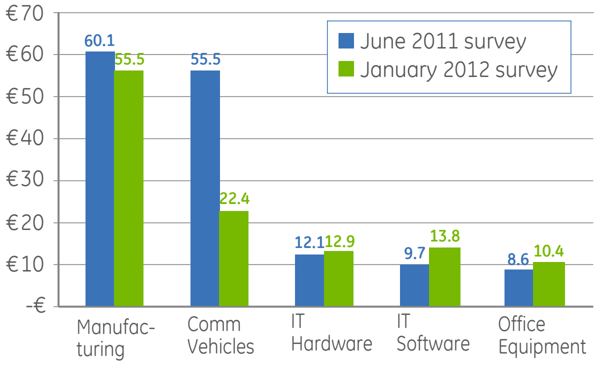
German companies missed an estimated €18 billion worth of new business opportunities because of outdated and inefficient equipment, up 130% compared to the estimated missed opportunities recorded in June 2011 (€7.8 billion). The increase was driven by the higher 'losses' reported by medium sized SMEs in particular.

What's holding investment back?

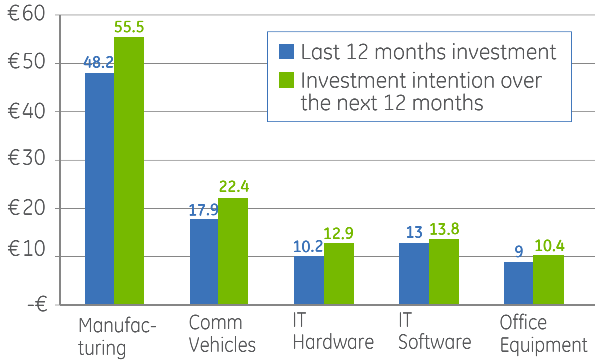
About one in three respondents claimed financial health challenges are restricting their company's ability to invest. Uncertainty around the economic environment is also impacting investment plans, although not as prominently as in other countries: only 28% of German respondents consider it an obstacle to investment, compared to 48% in the UK, 47% in Italy and 43% in France.

Planned investment is mainly driven by deterioration of the existing equipment (54% of cases) and by the need to increase efficiency (51% of cases).

Investment intentions over time (€ billion)

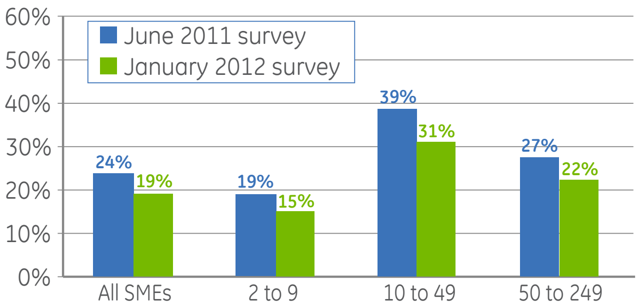


Inv. intentions vs. estimated 2011 spend (€ billion)

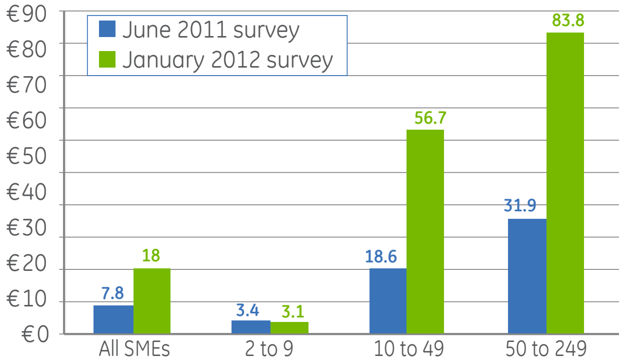


Total missed opportunities (€ billion)	June 2011 survey	Jan. 2011 survey	Variation
	€9.2	€21.2	130%

In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Top 4 reasons for investing*

54% 61% 56% 46%	Deterioration of existing equipment
51% 45% 46% 61%	Upgrading existing equipment to enhance efficiency and productivity
37% 29% 36% 45%	To build capacity to service growth in new orders
25% 17% 27% 30%	Investing in new types of equipment to support diversification into new product lines

*Percentage of all respondents

Top 4 obstacles to investment*

31% 32% 30% 31%	Financial health challenges
28% 31% 28% 27%	Uncertain economic environment
26% 18% 27% 33%	Have recently upgraded
19% 26% 18% 12%	Lack of affordable finance

2 to 9 empl. | 10 to 49 empl. | 50 to 249 empl.

Italy - Lack of investment a problem

The latest Barometer showed that Italian SMEs are planning to invest €80 billion over the next 12 months. Despite a drop in confidence, Italian capital expenditure has held up relatively well compared to six months ago.

- Compared to the estimated actual spend in 2011, investment intentions for the year ahead suggest a 3% drop, from €83 billion
- Compared to the investment intentions recorded in our previous survey, the new figures represent a 34% fall from June 2011, when Italian SMEs where expecting to invest over €121 billion.

These figures suggest that Italian SMEs have already adjusted their level of spending in response to economic uncertainty, and that investment levels may be relatively stable in the next year.

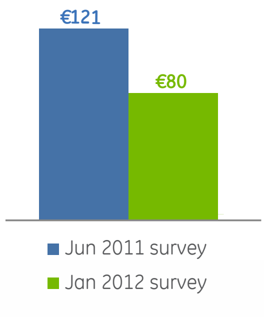
Sentiment

Pessimistic opinions outnumbered the optimistic, producing a negative net confidence score of -19.2%. Overall, medium-sized businesses (50 - 249 employees), were relatively more optimistic (-8.8%) whilst micro businesses were the most pessimistic with a confidence score of -25.6%.

Office equipment growing, commercial fleets under pressure

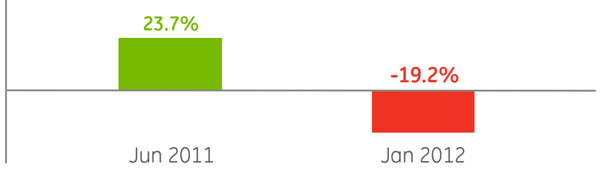
The survey showed that Italian SMEs intend to invest over €8 billion in office equipment over the year ahead, 9% more than estimated actual spend in 2011 and on a par with their intended spend six months ago. Despite a deterioration in business sentiment, investment in manufacturing equipment (-22% vs. our previous survey) suffered less in Italy than in France and the UK: a fall of 22% compared with -63% and -62% in France and the UK respectively. Pressure was higher on commercial fleets, where investment intentions were down 57% from our previous survey and 16% lower than the 2011 estimated spend. This suggests that several SMEs may be extending the lifecycle of their commercial vehicles in the year ahead.

Investment intentions over time (€ billion)

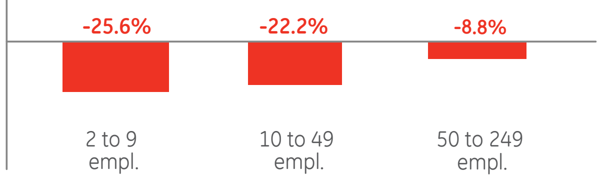


Intentions vs estimated 2011 spend (€ billion)

Net confidence score

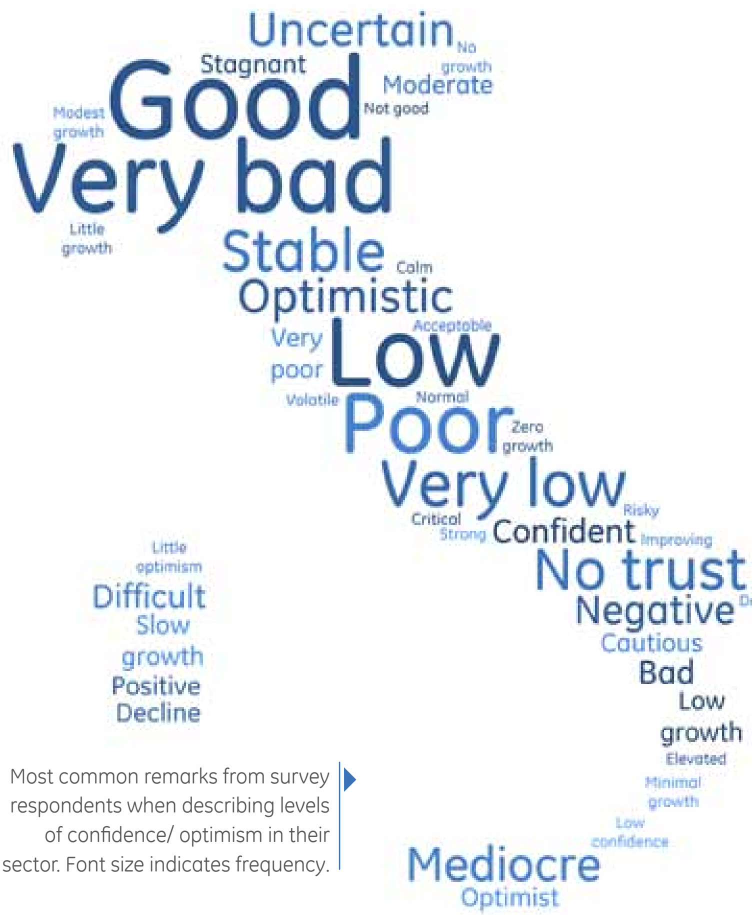


Net confidence score by company size



Sentiment analysis (% of respondents)

	Positive	Neutral	Negative
Jan 2012	28.5%	23.8%	47.7%
Jun 2011	*48.6%*	*26.5%*	*24.9%*



Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

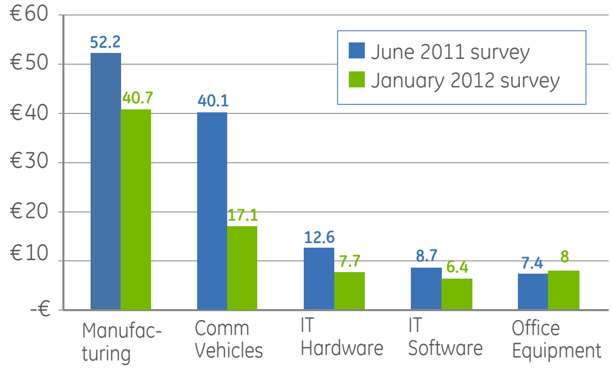
The cost of not investing

SMEs in Italy appear to be suffering more than their counterparts in other markets due to lack of capital investment, as they missed out on over €25 billion of new business as a result of outdated and inefficient equipment. This was the highest overall figure of any EU4 market and three times the figure reported for Italy six months ago (€7.6 billion). We estimate about 36% of Italian SMEs missed out on new business opportunities, much above the EU4 average (25%). Amongst small companies (with 10-49 employees) the figure was 53%, which is by far the highest level recorded across all markets surveyed.

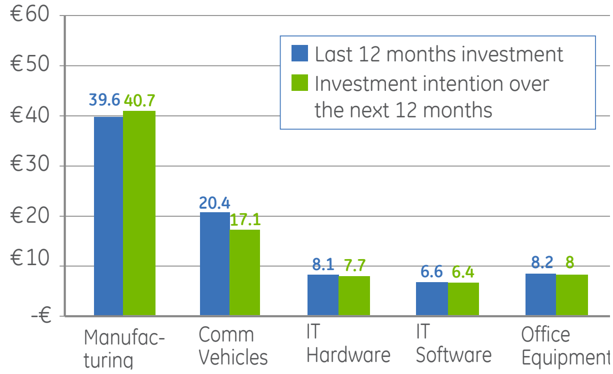
What's holding investment back?

About 47% of Italian respondents claimed that the uncertain economic environment was restricting their ability to invest. This view was particularly prevalent amongst smaller companies (57%). Financial health challenges and the focus on building cash reserves were also frequently mentioned as having a direct impact on planned investment (34% and 32% of respondents respectively). Current investment is mainly driven by the need to enhance efficiency and productivity (53%) and to replace deteriorated equipment (52%). In 44% of cases planned investment was aimed at building additional capacity to service growth in orders (54% among medium size companies).

Investment intentions over time (€ billion)

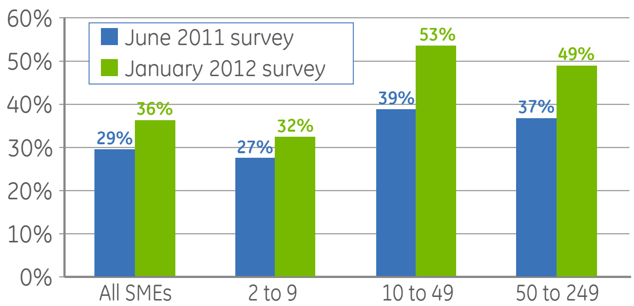


Inv. intentions vs. estimated 2011 spend (€ billion)

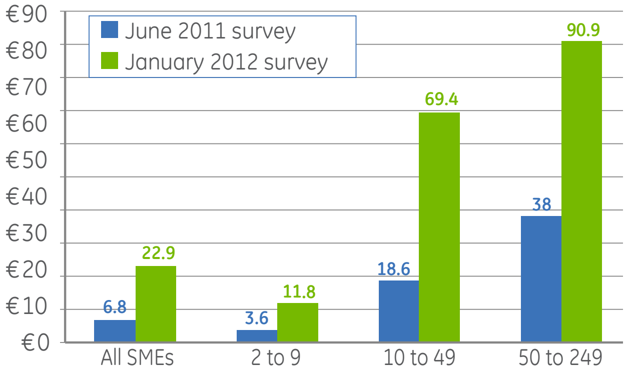


Total missed opportunities (€ billion)	June 2011 survey	Jan. 2011 survey	Variation
	€7.6	€25.8	238%

In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Top 4 reasons for investing*

53% 40% 60% 61%	Upgrading existing equipment to enhance efficiency and productivity
52% 58% 55% 43%	Deterioration of existing equipment
44% 36% 43% 54%	To build capacity to service growth in new orders
29% 18% 30% 40%	Investing in new types of equipment to support diversification into new product lines

*Percentage of all respondents

Top 4 obstacles to investment*

47% 57% 40% 45%	Uncertain economic environment
34% 29% 39% 35%	Financial health challenges
32% 32% 32% 33%	Building cash reserves
25% 23% 27% 26%	Have recently upgraded

2 to 9 empl. 10 to 49 empl. 50 to 249 empl.

United Kingdom - Uncertain environment impacting spending

UK SMEs intend to invest over €44 billion (~£37 billion) in the next year, predominantly in order to upgrade or replace existing equipment. While a clear investment appetite remains, spending intentions have softened considerably since hitting a peak in 2011.

- Compared to the estimated recent spend (based on the investment survey respondents made in 2011), investment intentions suggest a 12% drop is likely in the year ahead.
- Compared to the investment intentions recorded in our previous survey, the new figures represent a 53% drop from Q3 2011 intentions, when the total expected investment for the was about €95 billion.

These figures suggest that the actual 2011 spend fell short of the optimistic aspirations UK SMEs showed in the first half of the year, and that current investment levels have already 'priced in' the volatility and the uncertain economic environment witnessed in the second half of 2011.

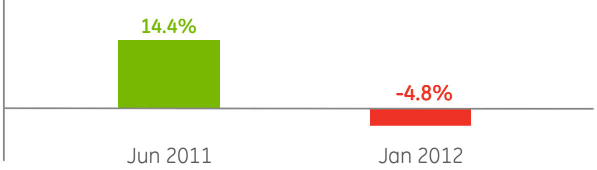
Sentiment

UK SME sentiment showed a strong correlation between optimism level and company size: medium enterprises, employing 50 to 249 people, were actually optimistic with a positive net confidence score of 12.2%; micro companies, employing 2 to 9 people, produced the lowest net confidence score of -25%. Overall confidence declined from the previous survey, driven down mainly by these micro SMEs, resulting in an overall net confidence score of -4.6%.

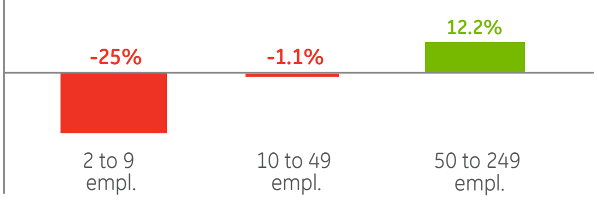
IT resilient, manufacturing under pressure

UK SMEs intend to invest about €18 billion (£14.4 billion) in manufacturing equipment over the next 12 months, down significantly from the last survey. Planned investment in IT hardware, software and office equipment is relatively more resilient with intentions dropping by 36%, 6% and

Net confidence score



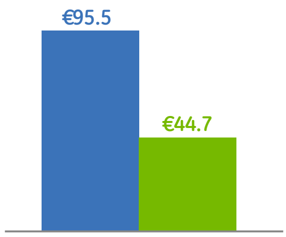
Net confidence score by company size



Sentiment analysis (% of respondents)

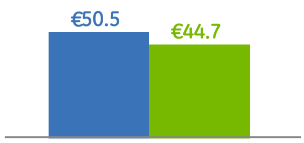
	Positive	Neutral	Negative
Jan 2012	37.8%	19.6%	42.6%
Jun 2011	*46.4%*	*21.6%*	*32%*

Investment intentions over time (€ billion)



■ Jun 2011 survey
■ Jan 2012 survey

Intentions vs estimated 2011 spend (€ billion)



■ Last 12 months investment
■ Investment intention over the next 12 months

Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

11% respectively, compared to the previous survey. In 2012, investment in software is likely to increase by about 4% compared to estimated spend in 2011.

The cost of not investing

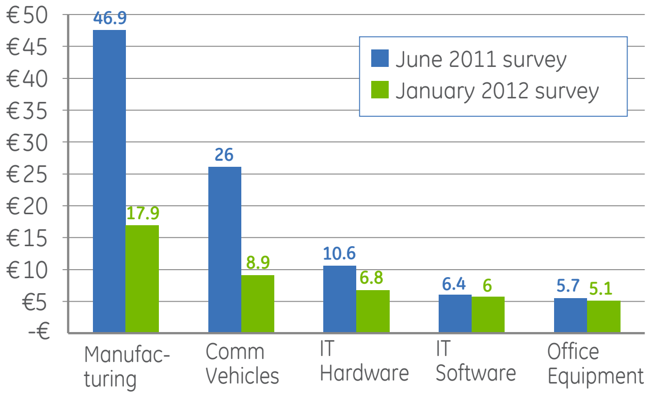
Based on their responses, the study suggests that UK companies missed out on over €11 billion (about £9.2 billion) worth of new business opportunities because of outdated and inefficient equipment. This is a 10% increase compared to June 2011. About 17% of UK SMEs have missed on income due to insufficient investment and this percentage reaches 38% among companies with 50 to 249 employees.

What's holding investment back?

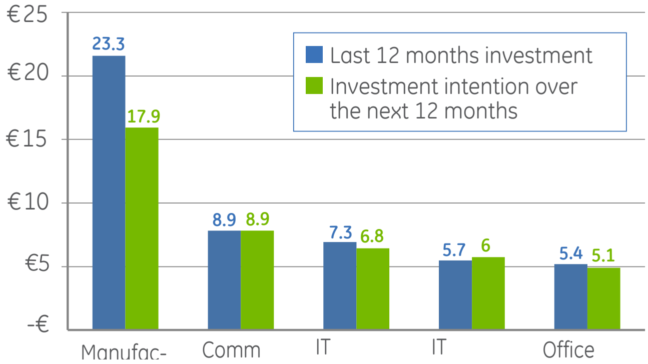
Almost half (48%) of respondents claimed the uncertain economic environment is restricting their ability to invest. This was especially true for micro companies (64% of respondents). Building cash reserves and the lack of affordable finance were also frequently cited as having a direct impact on planned investment, (27% and 21% of respondents, respectively).

Current investment is mainly driven by the need to enhance efficiency and productivity (54% of cases) and to replace deteriorated equipment (48% of cases). In 29% of cases planned investment is to build additional capacity to service a growth in orders.

Investment intentions over time (€ billion)

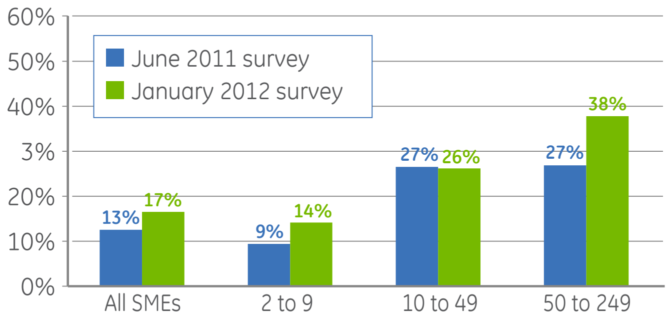


Inv. intentions vs. estimated 2011 spend (€ billion)

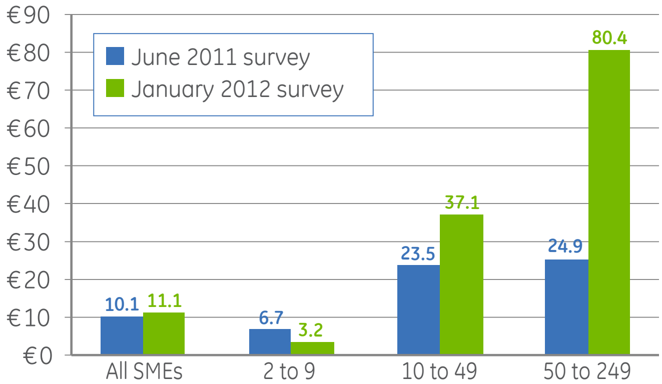


Total missed opportunities (€ billion)	June 2011 survey	January 2011	Variation
	€10.1	€11.1	10%

In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Top 4 reasons for investing*

54% 47% 63% 53%	Upgrading existing equipment to enhance efficiency and productivity
48% 57% 44% 43%	Deterioration of existing equipment
29% 20% 28% 39%	To build capacity to service growth in new orders
20% 8% 20% 31%	Investing in new types of equipment to support diversification into new product lines

*Percentage of all respondents

Top 4 obstacles to investment*

48% 64% 44% 36%	Uncertain economic environment
27% 36% 22% 23%	Building cash reserves
21% 29% 20% 12%	Lack of affordable finance
21% 9% 26% 29%	Have recently upgraded

2 to 9 empl. 10 to 49 empl. 50 to 249 empl.

The CEE3 - Moving at different speeds

The latest GE Capital European SME Capex Barometer revealed that SMEs across the 'CEE3' markets (Czech Republic, Hungary and Poland) were intending to invest an estimated €54.5 billion over the next 12 months. SMEs in these three markets stated that they would invest 20% more in their companies in 2012 compared to what they had invested in 2011. This increase in appetite was largely driven by Poland.

However, these three markets showed notable differences in terms of business sentiment and capital investment:

- Polish SMEs were planning to increase their investments by about 34% in the year ahead
- Hungarian SMEs are likely to reduce their spend by about 4% over the next 12 months
- Capital expenditure in the Czech Republic will probably remain stable or improve slightly (2%) on a year-on-year basis

Sentiment

With a net confidence score of 39.8% (% of positive respondents - % of negative respondents) Polish SMEs were clearly the most 'bullish' regarding growth opportunities. Czech companies were also relatively optimistic, producing a net confidence score of 21.1%, Conversely, with -36.3%, Hungarian SMEs were the most pessimistic among all seven markets surveyed.

Across the CEE3 markets, companies with 50-249 employees were the most optimistic with a net confidence score of 18.9%, followed by 12% for companies with 10-49 employees and -1.7% for those with 2-9 employees.

The cost of not investing

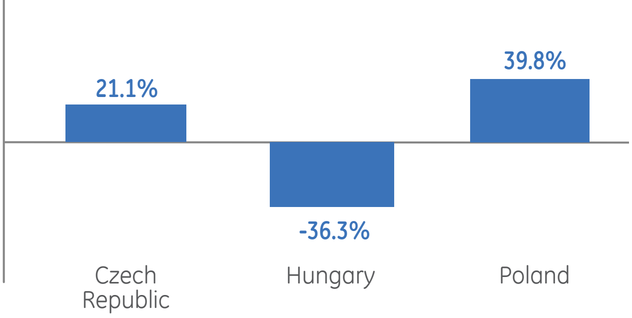
Based on their responses, SMEs across CEE3 missed out on over €6.5 billion of new business opportunities as a result of outdated equipment and lack of investment. In total, Polish and Czech SMEs could have captured additional opportunities worth an estimated €2.8 billion and €2.7 billion respectively, while Hungarian companies could have realised €1 billion of additional business had they invested more in new equipment over the last 12 months.

It was estimated that 30% of Hungarian SMEs and 29% Czech SMEs had missed out on new business opportunities as a result of outdated equipment. This figure for Poland is slightly lower: 24%.

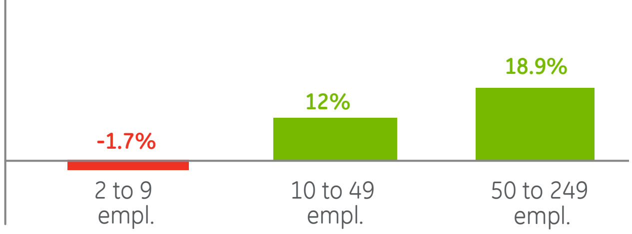
Considering the total number of companies in each market, the average loss of new business per SME was higher in the Czech Republic (€12,300) than in Poland (€11,000) and Hungary (€9,200).

On average, 27% of SMEs missed out on new business opportunities. This percentage was slightly higher among companies with 10 to 49 employees.

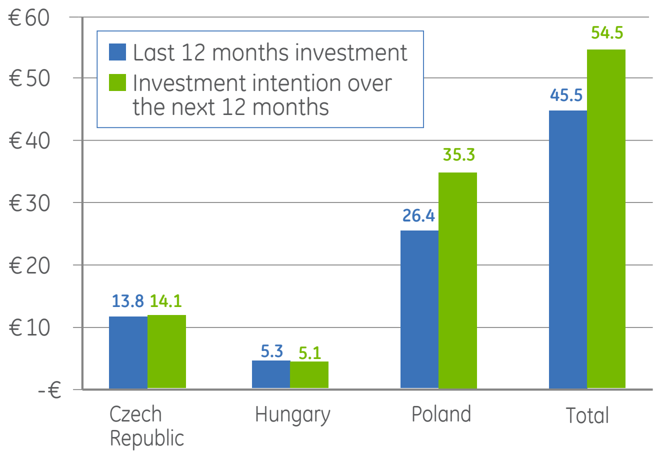
Net confidence score



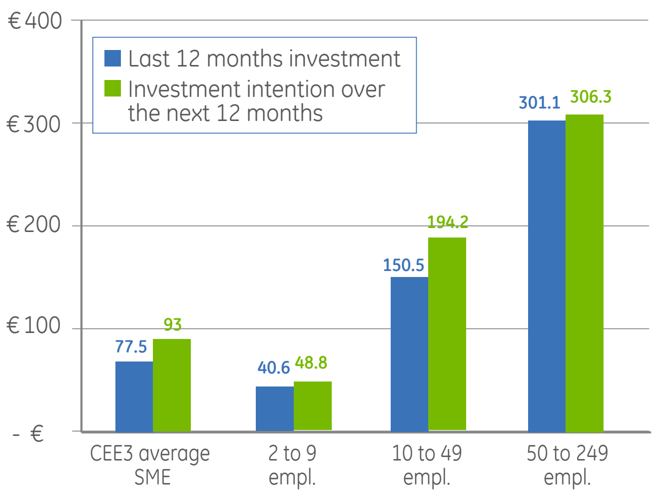
Net confidence score by company size



Inv. intentions vs. estimated 2011 spend (€ billion)



Inv. intentions vs. estimated 2011 spend: average spend per SME by business size (€ thousand)



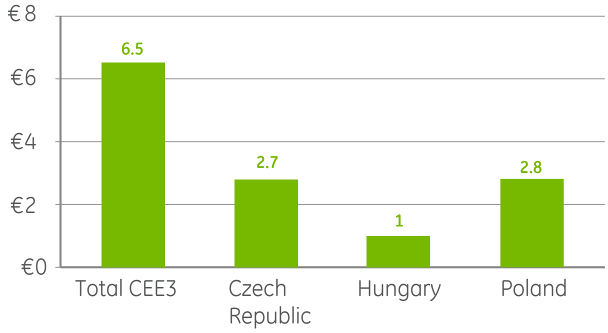
What's holding investment back?

About 44% of respondents across the CEE3 saw the uncertain economic environment as the main obstacle restricting their ability to invest. Of particular note is Hungary where 52% of SMEs stated that this was a key concern for them In all three countries, micro enterprises (2-9 employees) were more affected by the economic uncertainty (52% of respondents) than small and medium sized companies (42% and 35% of respondents respectively).

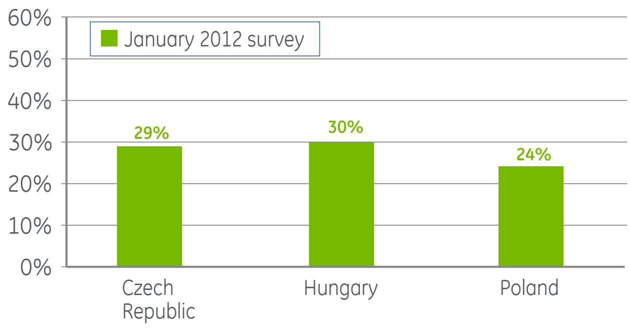
A lack of affordable finance was also mentioned frequently by companies with 2 to 9 employees (41% of respondents), while this issue was not seen as such a big barrier by larger companies.

In addition, 20% of respondents are focusing on building cash reserves, and this figure was similar across all countries and all sizes of businesses.

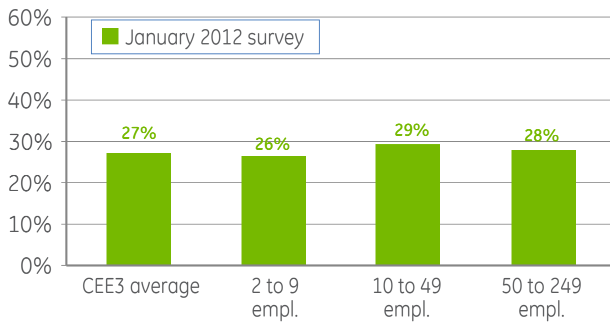
Total missed opportunities (€ billion)



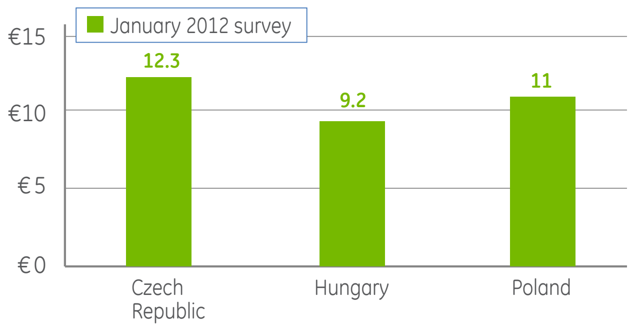
In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



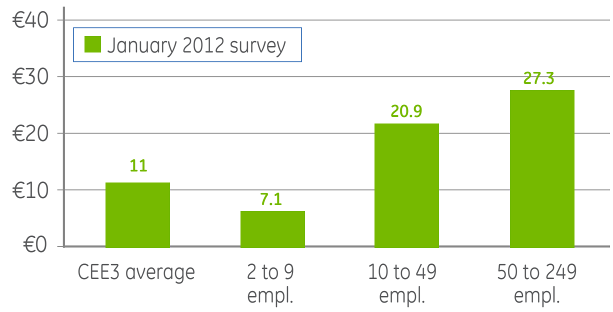
In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



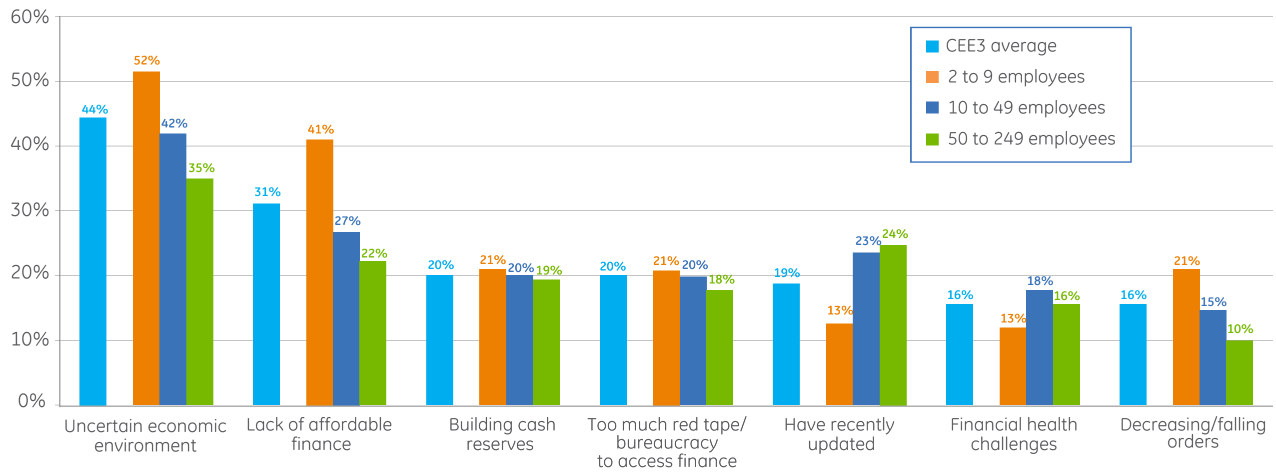
Average loss of income per SME (€ thousand)



Average loss of income per SME (€ thousand)



Which of the following, if any, are restricting your company's ability to invest in any way over the next 12 months?



Czech Republic - Steady growth

GE Capital's European SME Capex Barometer showed that Czech SMEs are likely to spend €14 billion in new equipment over the coming year. This represents a slight increase (1.74%), when compared with their estimated investment over the previous year.

Sentiment

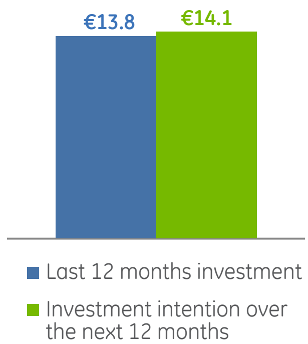
Czech SMEs report a largely optimistic net confidence score of 21.1%. . Approximately 77% of Czech SMEs were positive or neutral about growth in their sector in the coming year. Medium-sized companies, with 50 to 249 employees were the most optimistic, with a net confidence score of 25%.

Rising investment in most sectors

Investment in commercial vehicles, IT software, IT hardware, and office equipment are likely to rise over the next 12 months, when compared with SMEs' estimated spend over the past year.

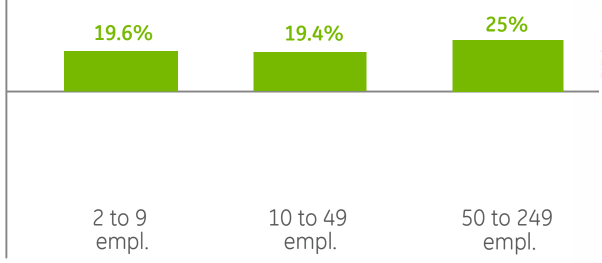
The survey indicates that investment in commercial vehicles will probably rise the most (26%). Conversely, respondents indicated that they intend to invest 8% less in manufacturing equipment than they did last year.

Intentions vs estimated 2011 spend (€ billion)



Net confidence score

Net confidence score by company size



Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

Sentiment analysis (% of respondents)

	Positive	Neutral	Negative
Jan 2012	44.15%	32.8%	23.02%

The cost of not investing

Survey responses show that 29% of Czech SMEs have missed out on new business opportunities over the past year due to out of date or inefficient equipment. This trend was most pronounced among medium and small sized companies.

Across all SMEs surveyed, an estimated € 2.7 billion euros was lost from not investing in their business.

What's holding investment back?

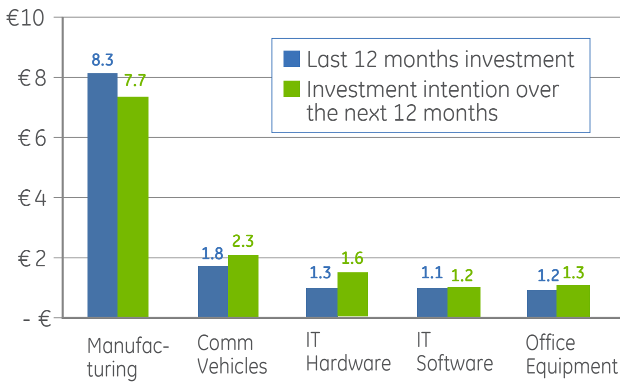
As with most of the countries surveyed, 40% of Czech SMEs cite an uncertain economic environment as the major barrier to investment.

A lack of affordable finance is the second most common response (32% of all respondents). Notably, 50% of micro sized companies perceive a lack of affordable finance as a main obstacle, compared with only 20% of small and 24% of medium sized businesses.

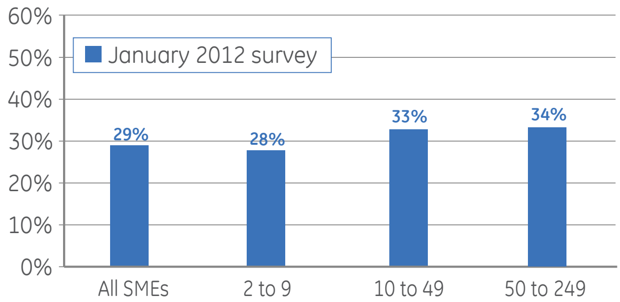
Deterioration of existing equipment is the most common reason for SMEs to invest in their business with 61% of respondents citing this as a major issue. Only 16% of respondents see new types of equipment to support diversification into new product lines as a reason to invest.

Total missed opportunities (€ billion)
January 2012 survey
€2.7

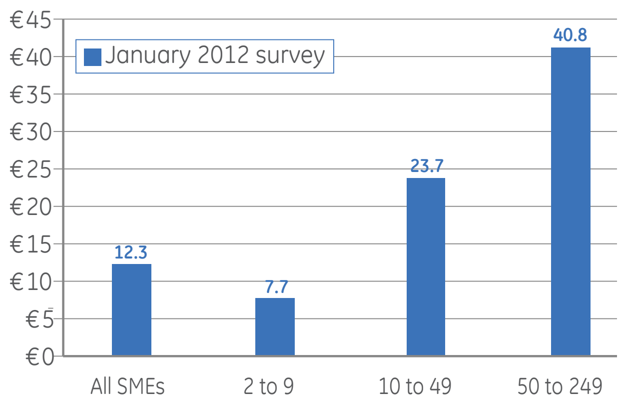
Last 12 months vs next 12 months (€ billion)



In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Top 4 reasons for investing*

Total	2 to 9 empl.	10 to 49 empl.	50 to 249 empl.	Reason
61%	61%	59%	64%	Deterioration of existing equipment
54%	55%	55%	51%	Upgrading existing equipment to enhance efficiency and productivity
33%	36%	34%	29%	To build capacity to service growth in new orders
16%	16%	18%	14%	Investing in new types of equipment to support diversification into new product lines

*Percentage of all respondents

Top 4 obstacles to investment*

Total	2 to 9 empl.	10 to 49 empl.	50 to 249 empl.	Obstacle
40%	45%	39%	36%	Uncertain economic environment
32%	50%	20%	24%	Lack of affordable finance
22%	13%	28%	24%	Have recently upgraded
19%	22%	17%	18%	Building cash reserves

2 to 9 empl. | 10 to 49 empl. | 50 to 249 empl.

Hungary - A challenging climate

The study revealed that Hungarian SMEs were likely to spend €5.12 billion in new equipment in the coming year. Despite Hungary having the lowest business sentiment (-36%) among the CEE3 countries, investment from Hungarian SMEs was likely to remain relatively stable when compared with how much they had estimated to have spent over the last 12 months.

Sentiment

Hungary was the most pessimistic country out of the seven countries surveyed in terms of business confidence stating a -36% net confidence score. Around 59% of Hungarian respondents were negative in their outlook about growth in their sector over the next year.

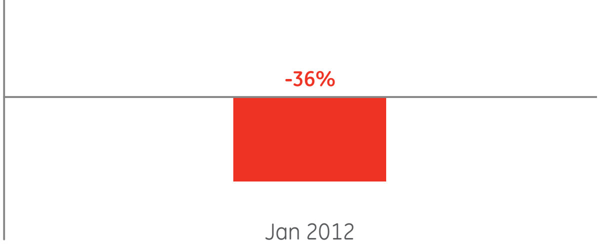
When broken down by size, companies with 50 to 249 employees were the least pessimistic, with a net confidence score of -23%. Micro companies, with between 2 and 9 employees, were the most pessimistic, with a net confidence score of -50%.

Investment in IT software rising

This research shows Hungarian SMEs are likely to invest 25% more in IT software in the coming year, when compared with their estimated spend over the last 12 months. Investment in office equipment is likely to see a 16% decrease while investment in commercial vehicles is likely to drop 35%, suggesting that many SMEs may be extending the lifecycle of their commercial fleet in order to postpone its renewal. Manufacturing spend is likely to remain flat.

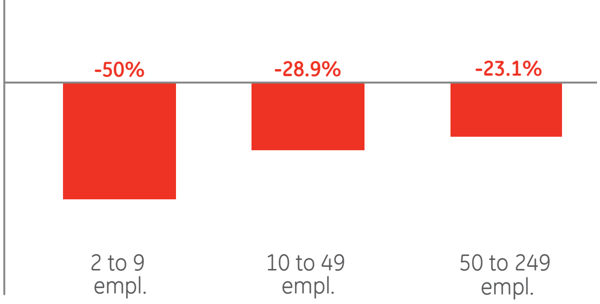
Intentions vs estimated 2011 spend (€ million)

Net confidence score



Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

Net confidence score by company size



Sentiment analysis (% of respondents)

	Positive	Neutral	Negative
Jan 2012	22.71%	18.3%	58.96%

Overall, the SMEs surveyed indicated that they intend to invest 4% less in the next 12 months than they spent in the last year.

The cost of not investing

Survey responses show 30% of Hungarian SMEs missed out on new income as a result of outdated and inefficient equipment. When extrapolated across the country, the study suggests that Hungarian SMEs missed out on approximately €1 billion of business .

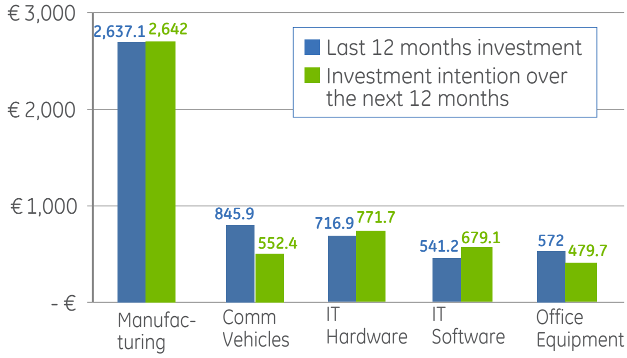
With an average estimated loss of €11,400 per business, small companies, with between 10 and 49 employees, were the most likely to state they would have been able to secure more business had they invested more over the last year.

What's holding investment back?

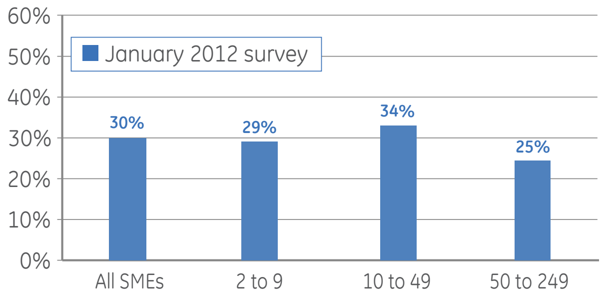
Like other countries surveyed, Hungarian SMEs cited the uncertain economic environment as the main obstacle restricting their ability to invest (52% of all respondents). This trend wass most pronounced among micro enterprises (2-9 employees), as nearly 60% perceive the economic climate as a major barrier. This compares with just 38% of medium-sized enterprises.

More than half of all respondents indicated that a lack of access to affordable finance was a main obstacle to investment. While 28% of all respondents saw falling orders as a barrier to investment in the coming year, this figure fell to just 12% for medium-sized companies, with 50 to 249 employees. Current investment is mainly driven by the need to replace ageing equipment (39% of cases).

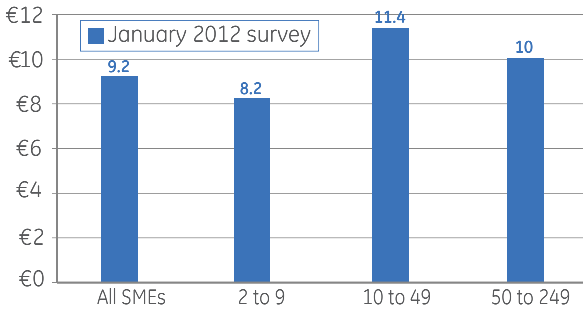
Last 12 months vs next 12 months (€ million)



In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Total missed opportunities (€ billion)
January 2012 survey
€1

Top 4 reasons for investing*

39% 37% 41% 40%	Deterioration of existing equipment
28% 19% 32% 38%	Upgrading existing equipment to enhance efficiency and productivity
27% 24% 28% 33%	To build capacity to service growth in new orders
18% 10% 24% 23%	Investing in new types of equipment to support diversification into new product lines

*Percentage of all respondents

Top 4 obstacles to investment*

52% 59% 51% 38%	Uncertain economic environment
45% 51% 42% 38%	Lack of affordable finance
28% 42% 23% 12%	Decreasing/falling orders
20% 23% 18% 15%	Building cash reserves

2 to 9 empl. 10 to 49 empl. 50 to 249 empl.

Poland - The most bullish

GE Capital's European SME Capex Barometer showed that investment intentions from Polish SMEs were aligned with their highly optimistic attitude. SMEs in Poland intend to invest €35.3 billion over the next 12 months. This represents a 34% increase on what survey respondents estimated that they had spent in 2011.

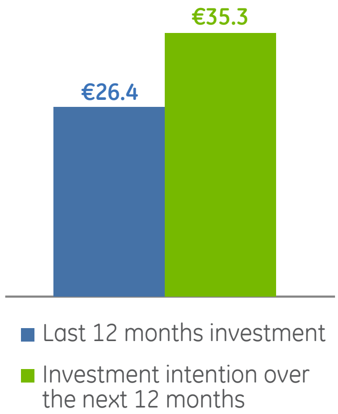
Sentiment

With a net confidence score of 39.8%, Poland is the most optimistic country out of all markets surveyed in this report. About 57% of respondents were optimistic about growth opportunities in their sector, and only 17.6% expressed concerns or had pessimistic views. Small companies with 10 to 49 employees, were the most optimistic with a net confidence score of 45%, followed by medium companies (40%) and micro enterprises (34.4%).

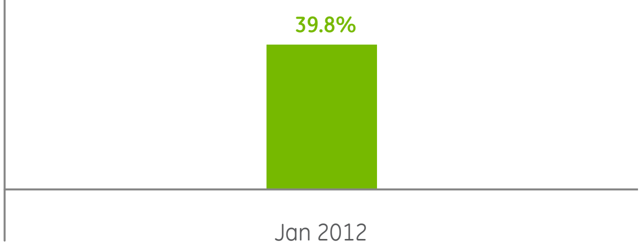
Investment in commercial fleets and manufacturing equipment rising

Investment in manufacturing equipment and commercial fleets will probably benefit the most from positive SME attitude in Poland and shall see a noticeable increase in capital expenditure over the next 12 months: on average, survey respondents stated that, in the year ahead, they will be investing 53% more in commercial vehicles and 44% more in manufacturing equipment than they did last year. The IT segment is also likely to see a significant improvement over the next 12 months. Polish SMEs expect to increase their IT hardware expenditure by 8% and by 14% for the software component. Capital expenditure in office equipment is likely to remain flat or decline slightly (4%).

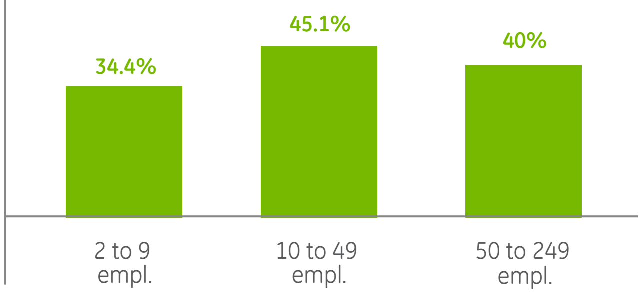
Intentions vs estimated 2011 spend (€ billion)



Net confidence score



Net confidence score by company size



Sentiment analysis (% of respondents)

	Positive	Neutral	Negative
Jan 2012	57.4%	24.9%	17.6%

Most common remarks from survey respondents when describing levels of confidence/ optimism in their sector. Font size indicates frequency.

The cost of not investing

The study suggests that Polish SMEs missed out on €2.8 billion of business opportunities as a result of outdated and inefficient equipment. Survey responses show that, despite their positive attitude, one in four Polish SMEs believes they lost business opportunities due to outdated equipment over the last 12 months. This figure is very similar across all SMEs.

What's holding investment back?

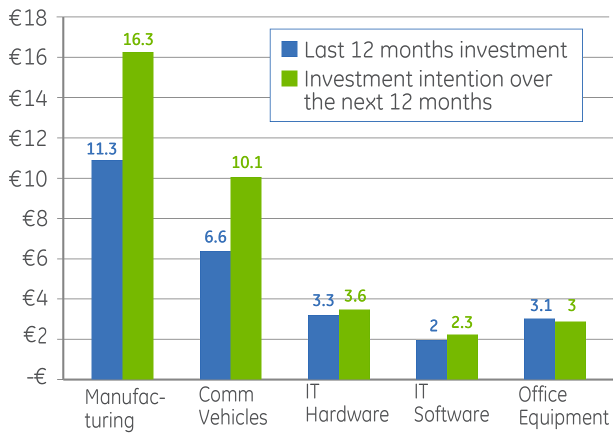
Similar to other markets surveyed for this report, 39% of Polish SMEs said that the main obstacle limiting their ability to invest is the uncertain economic environment. This has a particular negative impact on small sized companies (50% of respondents).

Furthermore, financial health challenges and the need to build cash reserves were also widely mentioned as barriers to investment with 24% and 22% respectively stating these as areas of concern.

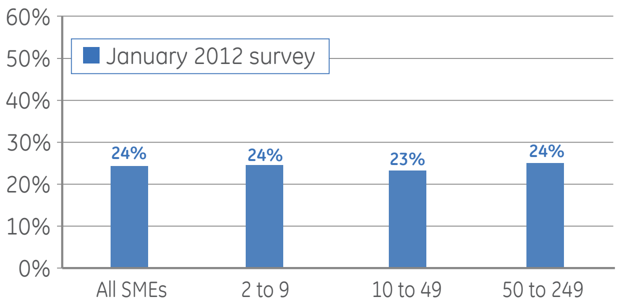
Current investment is mainly aimed at enhancing efficiency and productivity (51% of cases), service growth in new orders (47% of cases) and replace deteriorating equipment (43%).

Poland is the only country out of all those surveyed where a substantial part of current investment (23%) will support expansion plans, which suggests some Polish SMEs are seeing opportunities to expand into new market segments and product lines. This was particularly true for medium-sized companies (28% of cases).

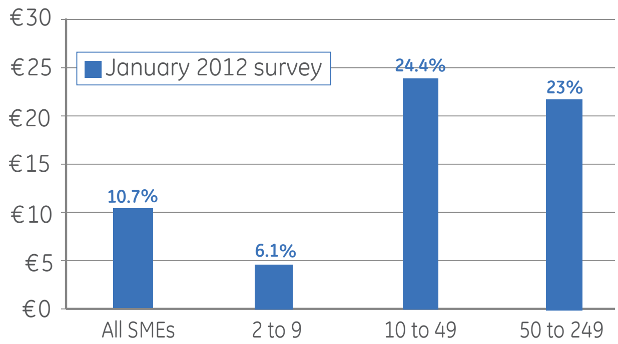
Last 12 months vs next 12 months (€ billion)



In the last 12 months do you think your business has missed out on income/new business opportunities because of outdated or inefficient equipment?



Average loss of income per SME (€ thousand)



Total missed opportunities (€ billion)
January 2012 survey
€2.8

Top 4 reasons for investing*

51% (51% 53% 49%)	Upgrading existing equipment to enhance efficiency and productivity
47% (56% 45% 38%)	To build capacity to service growth in new orders
43% (44% 48% 35%)	Deterioration of existing equipment
23% (16% 26% 28%)	Planned expansion in domestic markets

*Percentage of all respondents

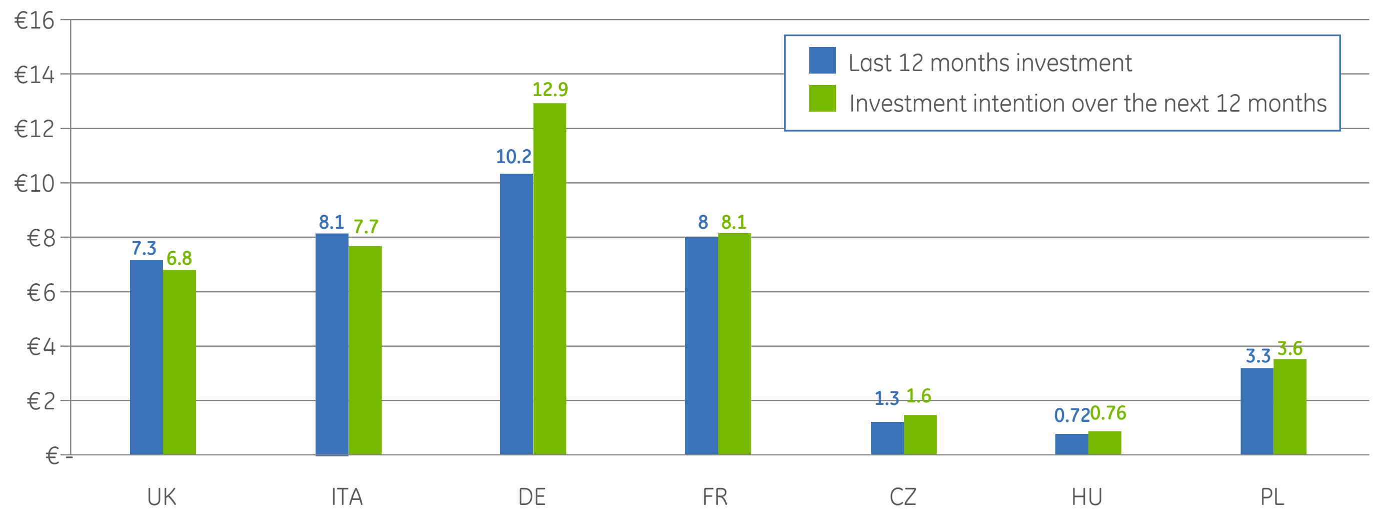
Top 4 obstacles to investment*

39% (50% 35% 32%)	Uncertain economic environment
24% (24% 24% 23%)	Financial health challenges
22% (18% 24% 24%)	Building cash reserves
17% (12% 15% 24%)	Have recently upgraded

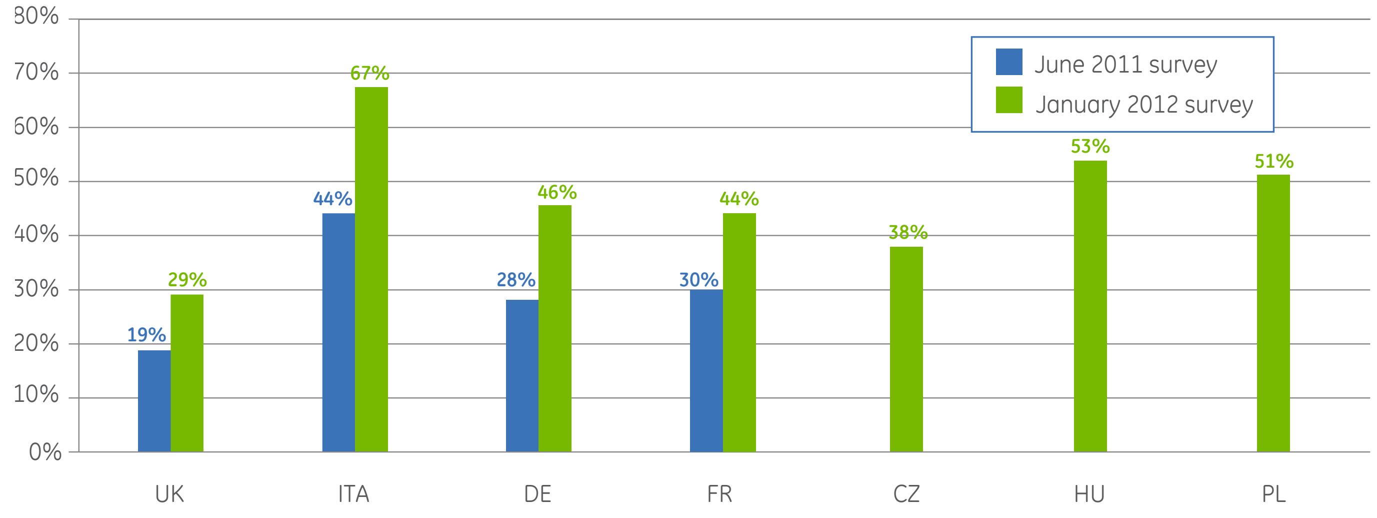
2 to 9 empl. 10 to 49 empl. 50 to 249 empl.

IT Hardware

Investment intentions vs. estimated 2011 spend (€ billion)



Preference for external financing sources*



Investment

In the majority of the seven markets surveyed, investment intentions in IT hardware are improving compared to estimated spend over the last 12 months. German and Czech SMEs are looking to spend the most, with intended investment up 26% and 18% respectively, compared to the previous year.

IT hardware investment in Poland and Hungary is also expected to grow, with both countries posting an 8% increase in spend on this segment. French SMEs posted a slight 2% increase whilst in the UK and Italy, spending on IT hardware is likely to contract by 7% and 4% respectively.

Funding preferences

Preference for external funding sources grew in the four largest European economies of France, Italy, Germany and the UK. In three out of the seven countries surveyed (Italy, Hungary and Poland), SMEs stated they are more likely to use external financing sources rather than their own capital to fund acquisition of new IT hardware.

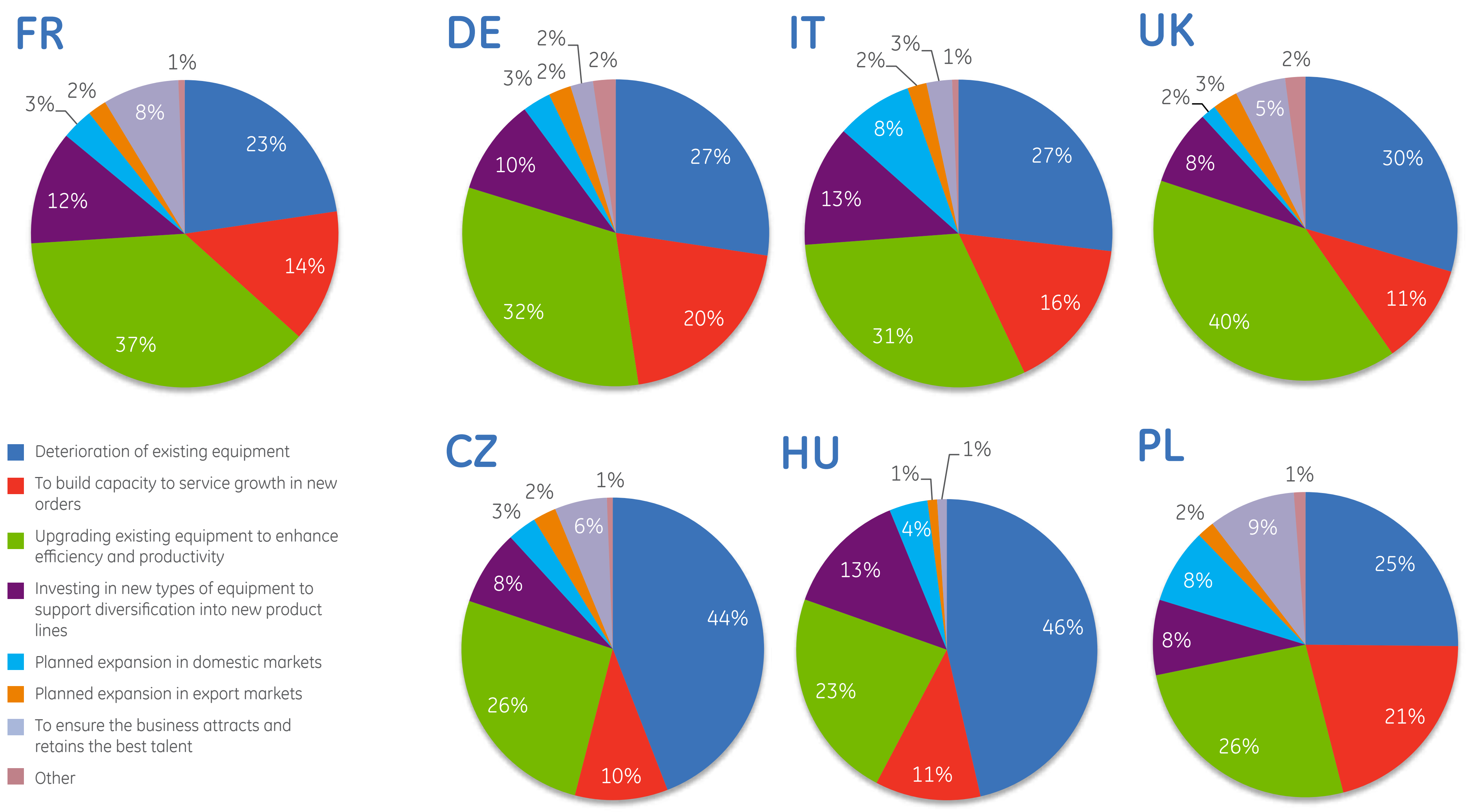
In Italy, more than two thirds of respondents are planning to seek external financing sources. In the UK, the number of companies relying on external funding sources was the lowest (29%), although this number is considerably higher than in our previous survey (19%).

Key motivanting factors

In France, Germany, Italy, Poland and the UK, SME investment in IT hardware is mainly channelled towards enhancing efficiency and productivity, while in Hungary and Czech Republic replacing ageing equipment was the key motivating factor for almost half the respondents in each of these markets, (46% and 44% respectively).

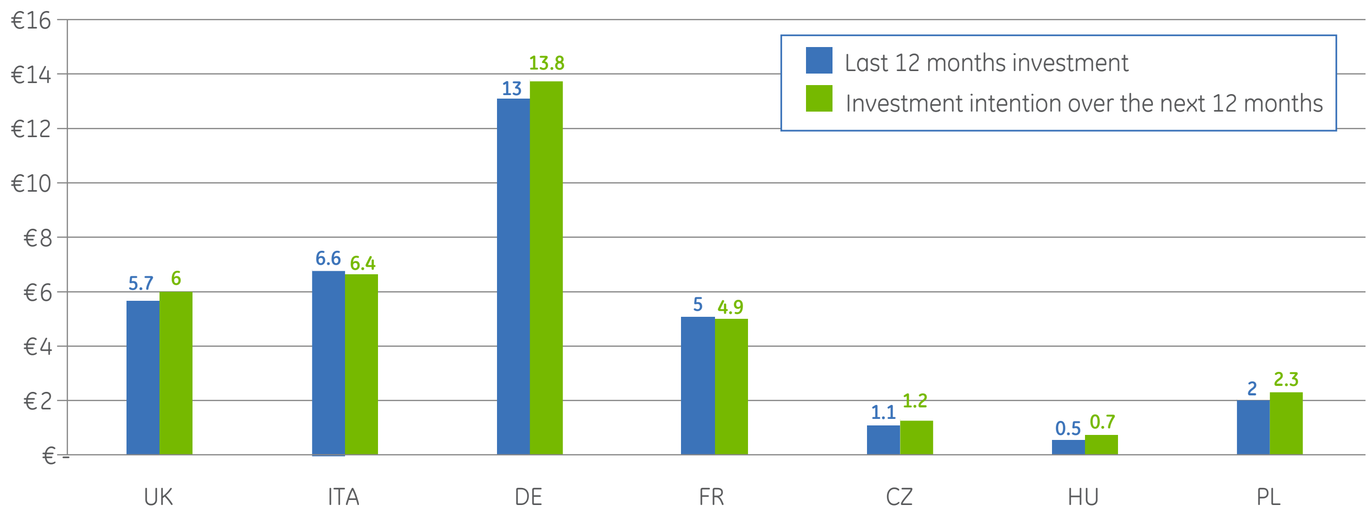
** Preference for external funding sources (leasing, loans, overdraft/ credit lines, public funding) as opposed to company capital*

Key motivating factors behind SME investment in IT hardware

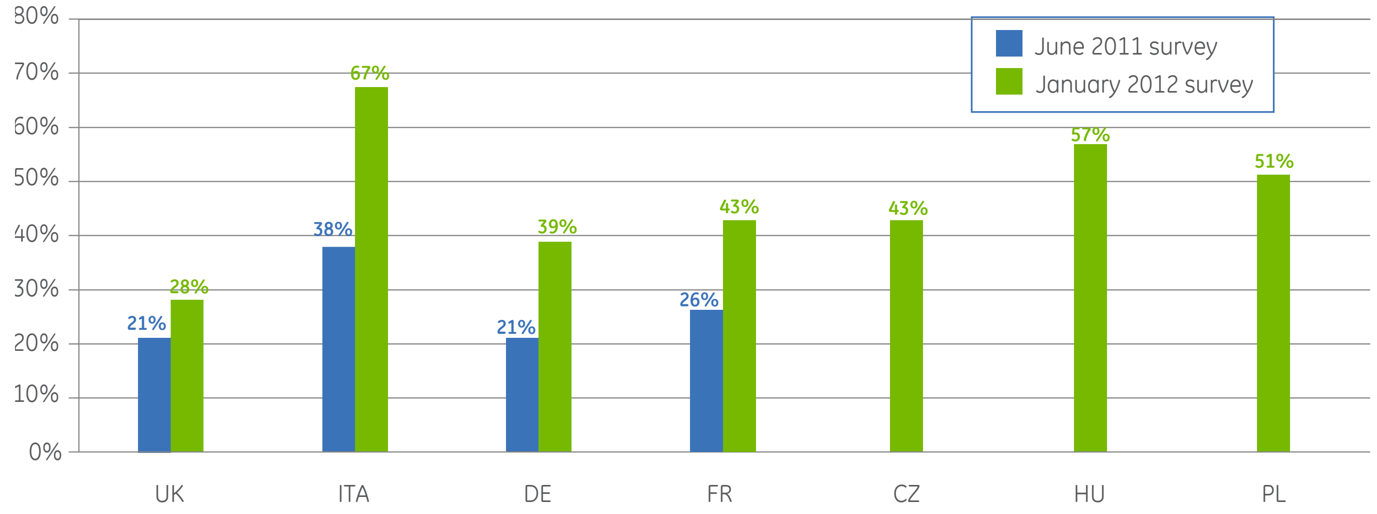


IT Software

Investment intentions vs. estimated 2011 spend (€ billion)



Preference for external financing sources*



Investment

Survey results suggest investment in IT software by SMEs in France, Italy, Germany and the UK will be stable or improve slightly in the year ahead. The German market is likely to grow faster than the other EU4 markets (6%) totaling €13.8 billion worth of investment. Conversely, investment in Italy is set to decrease marginally, by 2%.

SMEs in the Czech Republic, Poland and Hungary are likely to invest significantly more in IT software in the coming year, with Hungary growing by 25%, substantially more than the other two markets.

Funding preferences

A significantly higher proportion of SMEs in the four largest European economies indicated a preference towards funding their IT software investments through external financing sources, compared to the previous survey.

Italian SMEs are the most likely to seek external funding with over two thirds of respondents stating they would rather choose this option. Similarly, more than half of SMEs in Hungary and the Czech Republic would prefer to seek external funding rather than use their own capital. UK SMEs are the most likely to fund investment in software with their own resources, however the number of respondents who would opt for some form of external financing increased by one third compared to our previous survey (from 19.4% to 29%).

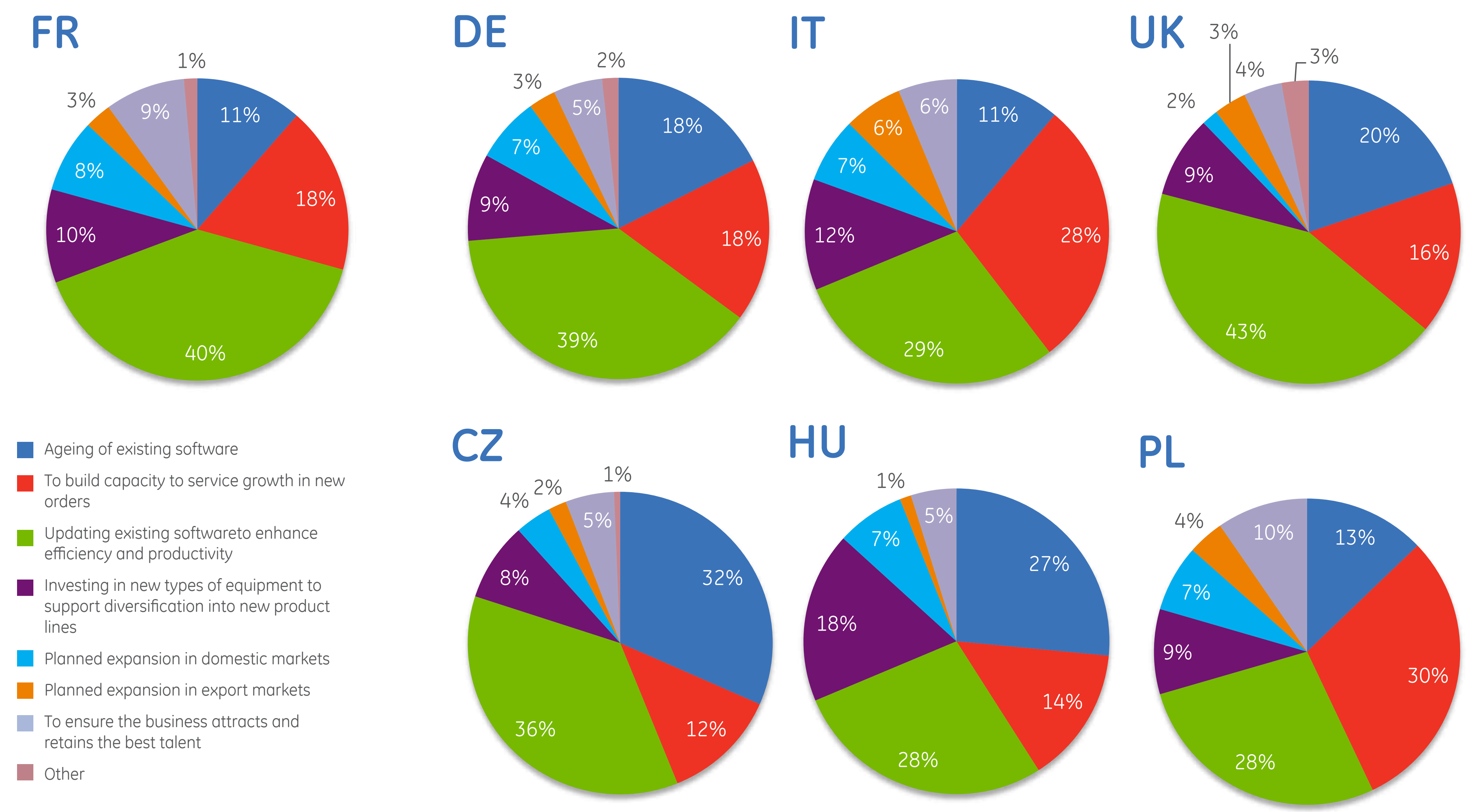
Key motivating factors

With the exception of Poland, SMEs in all markets reported that their main motivation to invest in this segment was to update existing software to enhance efficiency and productivity. In the UK this figure was most pronounced (43% of planned investment).
Another key incentive to invest in IT software is to build capacity to service growth in new orders. The proportion of SMEs citing this as a reason to invest was highest in Poland (30%) and Italy (28%).

Ageing of existing software was a major motivation among SMEs in Hungary, Poland, the UK and Germany.

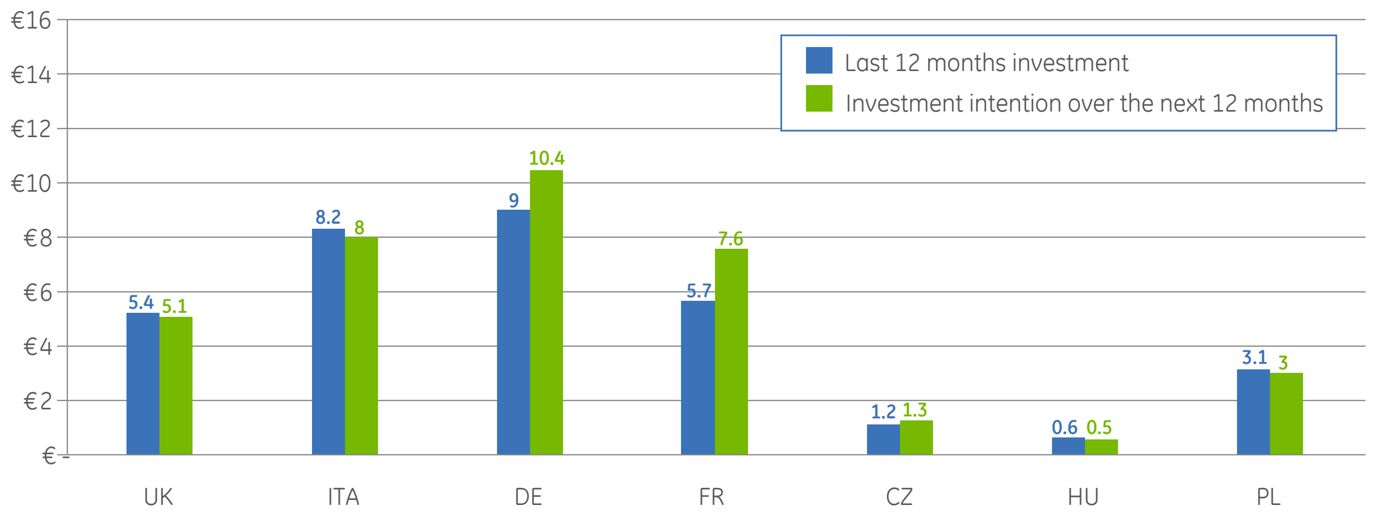
** Preference for external funding sources (leasing, loans, overdraft/ credit lines, public funding) as opposed to company capital*

Key motivating factors behind SME investment in IT software

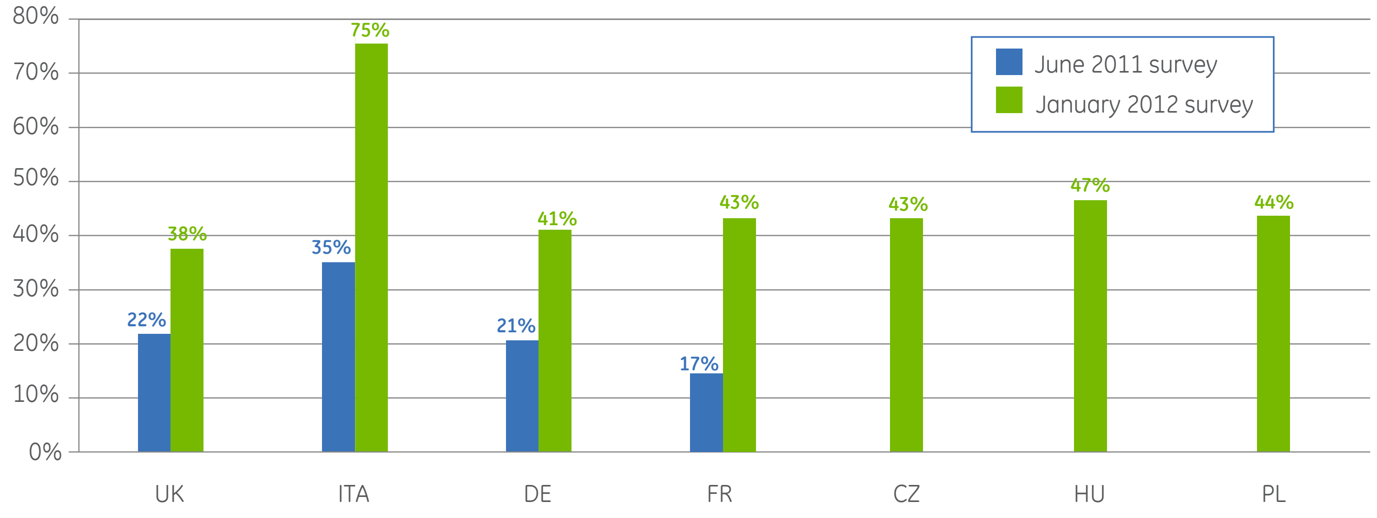


Office Equipment

Investment intentions vs. estimated 2011 spend (€ billion)



Preference for external financing sources*



Investment

Investment intentions in office equipment show different trends in different countries. Survey findings suggest France and Germany are likely to see the highest increase in capital expenditure over the next 12 month, by 34% and 15% respectively, followed by Czech Republic with a 7% year-over-year growth.

Investment in this segment across Italy, the UK and Poland appears relatively stable, with respondents stating their spend may decrease only marginally in the year ahead. Hungary is likely to see the biggest drop in this segment, down 16%, from €572 million to about €480.

Funding preferences

In all countries surveyed, a significant number of SMEs prefers external financing sources to fund their investment in office equipment. In all Western European markets this percentage has grown considerably since our previous survey.

About 75% of Italian SMEs are aiming to avoid using their own capital to acquire new office equipment, such as multifunction printers or scanners. This is the highest percentage across all countries surveyed, and more than double the corresponding figure from last year's survey (35%). In all other markets, the percentage of companies that would use external funding sources is between 37% and 47%.

While UK SMEs are the most likely to use company capital, the percentage of UK companies that would seek external financing grew significantly since our last survey, from 22% to 37.8%.

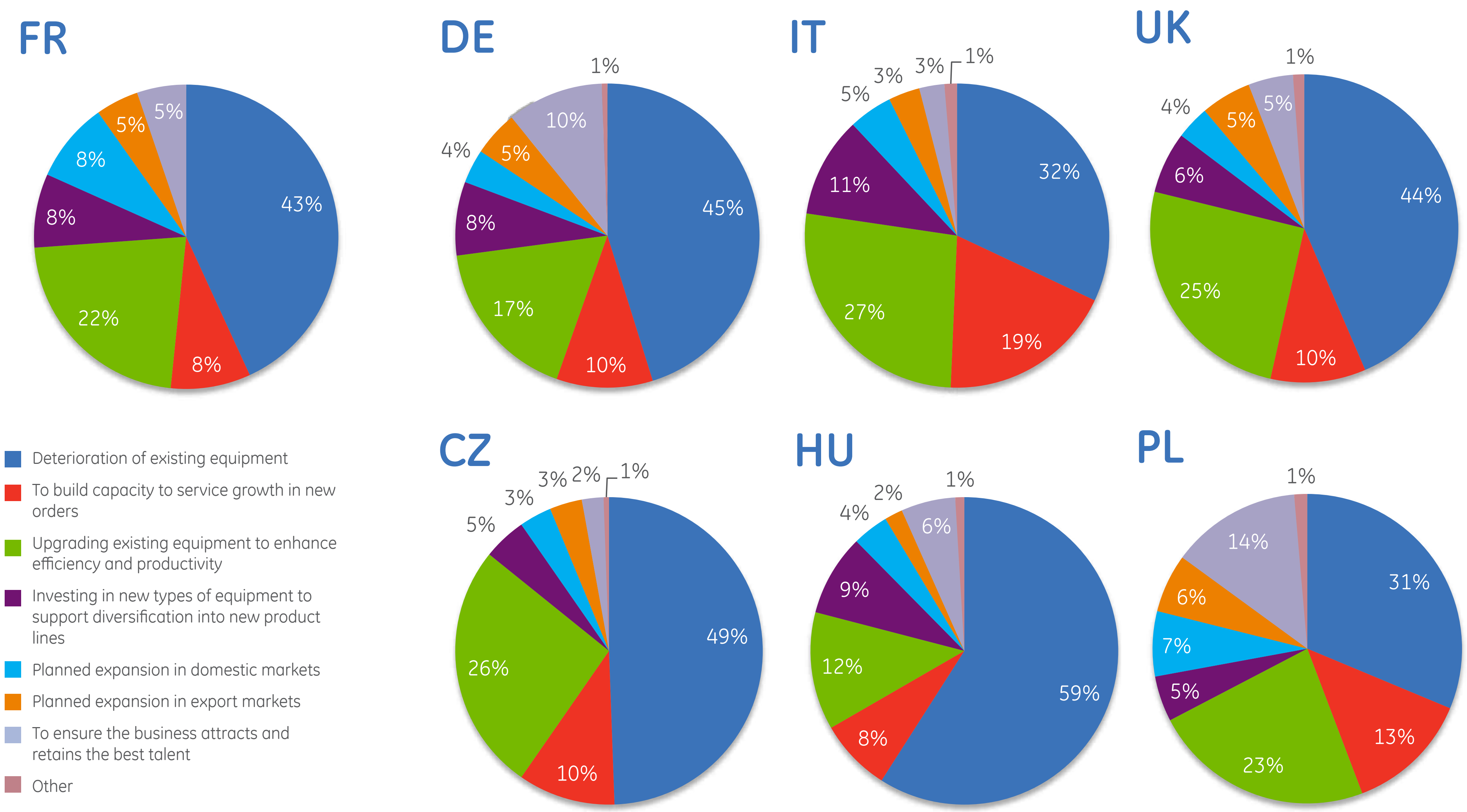
Key motivating factors

Deterioration of existing equipment was cited as the main motivation behind planned investment in office equipment in all countries surveyed: in Hungary this was true in 59% of cases.

A significant number of SMEs in Poland and Germany suggested a key incentive to invest in office equipment over the coming year is to ensure their businesses attract and retain the best talent.

** Preference for external funding sources (leasing, loans, overdraft/ credit lines, public funding) as opposed to company capital*

Key motivating factors behind SME investment in office equipment



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