

New perspectives PwC CEO Pulse Survey 2011

*What CEOs in Ireland are
saying...*

Contents

1. Foreword	3
2. CEO Confidence	4
3. Business Performance	6
4. Foreign Direct Investment	8
5. Corporate Response	10
6. Sustainability/Climate Change	14
7. Looking Ahead - Government Priorities	15
8. Survey Methodology	16

1. Foreword



I am delighted to introduce our 2011 CEO Pulse survey which provides a snapshot of the views of over 180 business leaders on Ireland's business environment and the challenges and opportunities for corporate Ireland.

The survey shows that, despite continuing challenges in the Irish economy, business leaders are looking to capitalise on plans for growth. With costs, margins and talent management high on the corporate agenda, we are likely to see a revitalised business landscape emerge, albeit slowly.

Other key findings in the survey include:

- While businesses are positioning themselves for growth, through new products and markets, weak consumer demand in the home market and pressure on margins are proving challenging;
- MNC CEOs remain positive about investment in Ireland with the retention of the 12.5% corporation tax and cost competitiveness identified as critical;
- The implementation of a robust national recovery plan and Public Sector Reform are seen as top priorities for Government;
- Business confidence has dropped from 29% being favourable about the outlook for Ireland's economy in 2010 compared to 16% in 2011. This is due to the overall state of the economy, weak consumer demand and a lack of available finance. The majority do not expect the economy to return to growth until 2012 or later;
- Developing/motivating and retaining key talent is a top priority in the year ahead;
- Nearly three-quarters of survey respondents plan to hold pay at similar levels to last year with only a quarter planning a pay increase;
- Innovation is now high on the corporate agenda with CEOs confident that it will promote competitive advantage; and
- Climate change initiatives have not yet gained traction.

By accepting the reality of the economic environment and by restructuring their cost base and operating structures accordingly, Irish businesses have demonstrated their resilience. Those businesses which are further advanced in their response are now beginning to focus on planning for, and achieving, growth.

A handwritten signature in black ink that reads "Rónán Murphy". The signature is written in a cursive, slightly slanted style.

Rónán Murphy
Senior Partner, PwC

2. CEO Confidence

Confidence drops, return to growth expected but not this year

Against a backdrop of the EU/IMF Funding arrangement and weak consumer demand, fewer CEOs are confident about the outlook for the Irish economy compared to a year ago. Less than one fifth (16%) view the outlook as favourable for the Irish economy compared to nearly a third this time last year. Highlighting a continuing difficult operating environment, 41% regard the future outlook as unfavourable, compared to 31% last year.

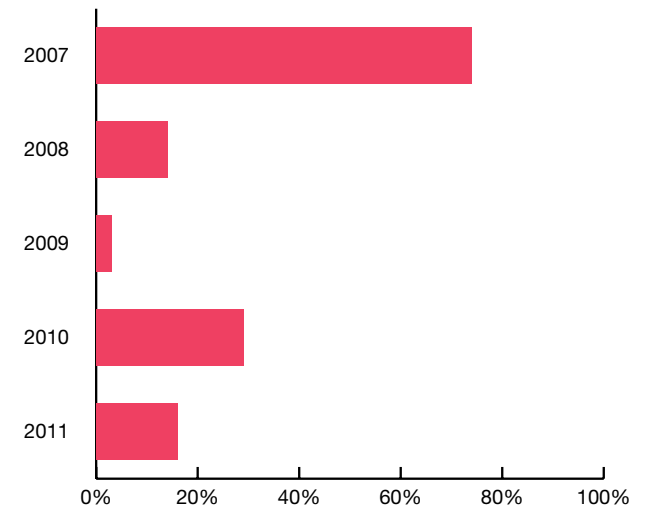
Only 12% of Ireland's business leaders expect our economy to return to growth this year, with the majority (88%) not expecting a return to growth until 2012 or later.

Global economic recovery is critical

The pace of global economic recovery is a key determinant of Ireland's recovery, according to over half (56%) of survey respondents. This is not surprising given Ireland's open economy and dependence on foreign markets. Having a stable Government (48%) and reducing public expenditure (47%) are also critical according to survey respondents. Recovery of lost competitiveness (36%) and increased availability of finance (36%) are also considered important factors in our recovery.

According to the survey, an overwhelming majority (85%) of survey participants indicate that finance is less easily obtainable now compared to a year ago.

Fig 1: Favourable outlook for the Irish economy 2007 - 2011



“Obtaining finance and costs remain key challenges”

2. CEO Confidence...cont'd

Fig 2: Outlook for the Irish economy for the next 12 months

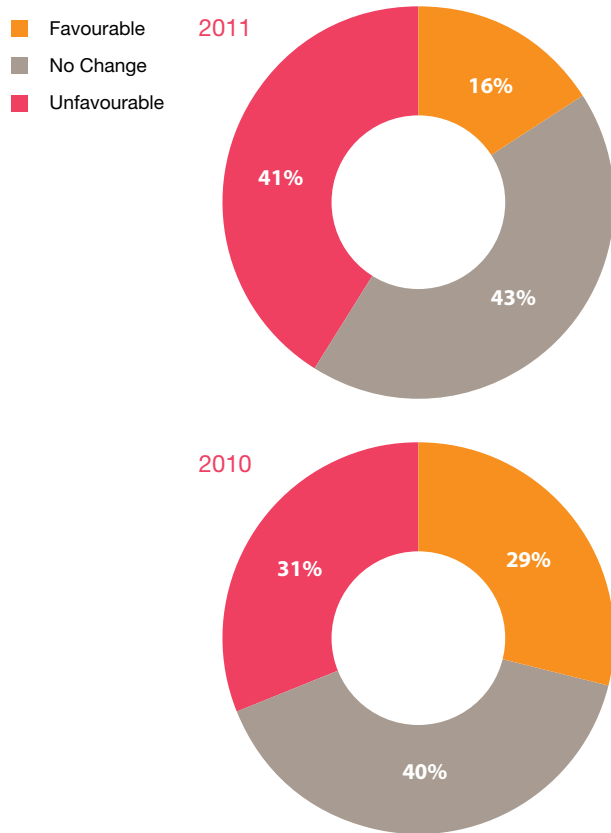
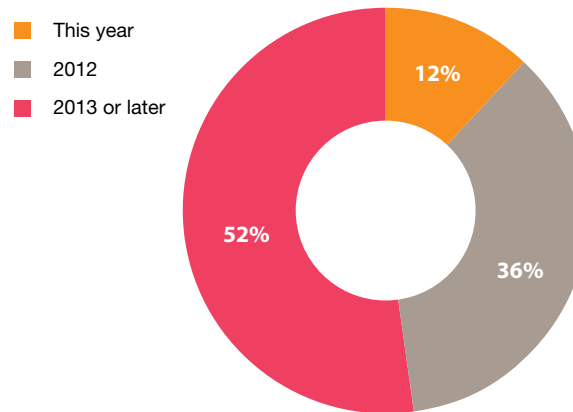


Fig 3: When will Ireland's economy return to growth?



“Restoration of reputation on international markets and energising domestic business are key factors for recovery”

3. Business Performance

Over half of Ireland’s business leaders expect growth in revenues, but profits under pressure due to rising costs.

The good news is that the proportion of Irish CEOs expecting growth in revenues and employment is similar to last year. However, fewer Irish business leaders expect growth in profits compared to last year. This reflects a view that costs are expected to creep up compared to 2010. Increasing costs and price competition are pushing margins down. Companies will need to review their operating models and determine if they are still fit-for-purpose to support growth that is profitable and sustainable. According to the survey, capital investment is also expected to suffer with less CEOs expecting to invest compared to last year.

There are diverse views on employment, with just under a third expecting to shed jobs, while a third anticipate increasing employment in the year ahead.

Fig 4: Anticipated performance of Irish operations (% of respondents)

Indicator	Growth			Decline			No Change		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Revenues	54%	53%	29%	22%	20%	55%	24%	27%	16%
Costs	30%	23%	25%	30%	38%	50%	40%	39%	25%
Net profit	49%	57%	23%	25%	20%	55%	26%	23%	22%
Employment	33%	34%	19%	30%	27%	29%	37%	39%	52%
Capital investment	32%	39%	18%	19%	16%	46%	49%	45%	36%

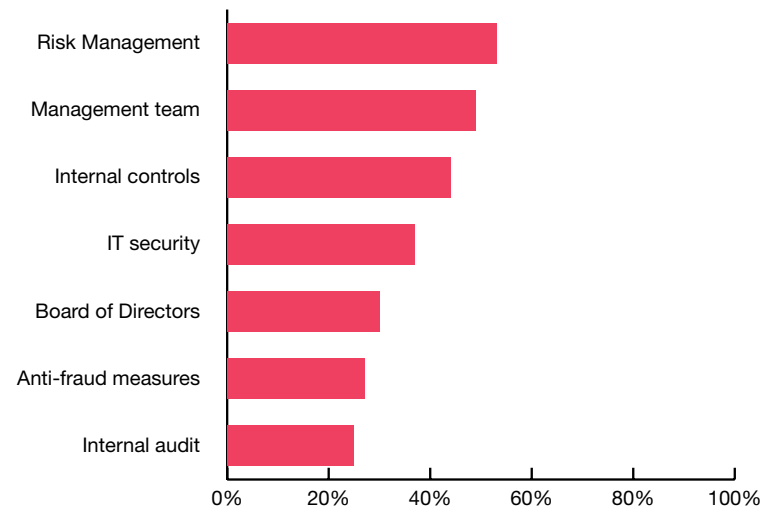
“Survey highlights likely squeeze on margins as costs still an issue”

3. Business Performance ... cont'd

CEOs wary of risks and taking action

The survey reveals significant activity around risk management effectiveness. According to the survey, risk management is an area being overhauled with over half (53%) of survey respondents having undertaken a formal review of the effectiveness of their risk management arrangements. Other areas being subject to formal review are the management team (49%) and internal controls (44%). IT security, the Board of Directors and Internal Audit are also under the spotlight. The heightened awareness of both external and internal risks is clearly having an impact in the boardroom. Risk management is increasingly high on the agenda for boards and senior management, and is incorporated in the formal strategic planning processes, according to the CEOs. Senior attention to this area could strengthen linkages between strategic and operational approaches to risk, and mitigate the impact of business and operational failures.

Fig 5: Formal review of effectiveness in certain areas (% of respondents)



“Risk management high on the corporate agenda”

4. Foreign Direct Investment

Majority increasing or maintaining investment in Ireland

The majority (72%) of MNC CEOs with Irish operations are either increasing or maintaining their investment in Ireland. A third (33%) of these MNC CEOs said they were considering additional investment in Ireland. It is positive to note that only 12% of MNC respondents are planning to reduce or close their operations in Ireland compared to a quarter (25%) last year.

It is also notable that only 4% of MNC CEOs are planning to relocate abroad. This compares with 8% last year and 15% in 2009.

Fig 6: MNCs considering additional investment in Ireland (% of MNC respondents)

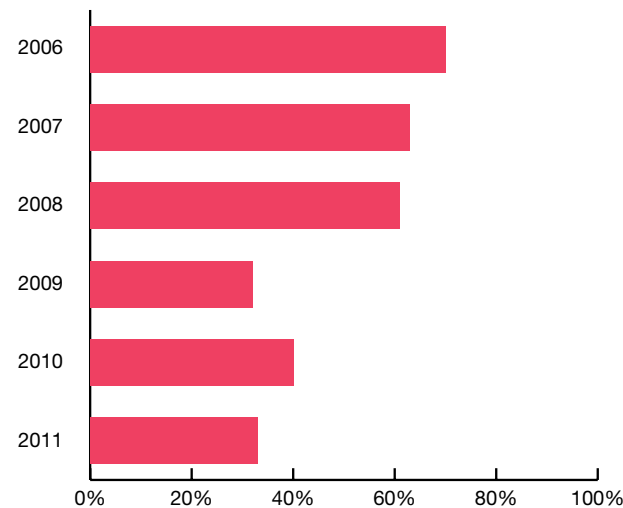
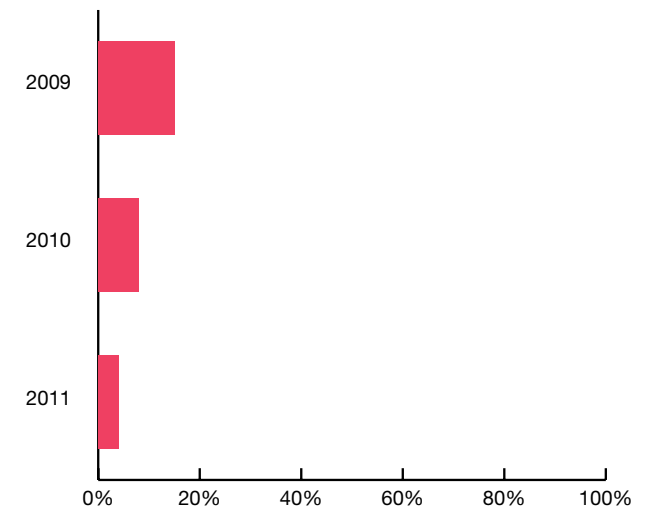


Fig 7: MNCs closing existing operations in Ireland and relocating abroad (% of MNC respondents)



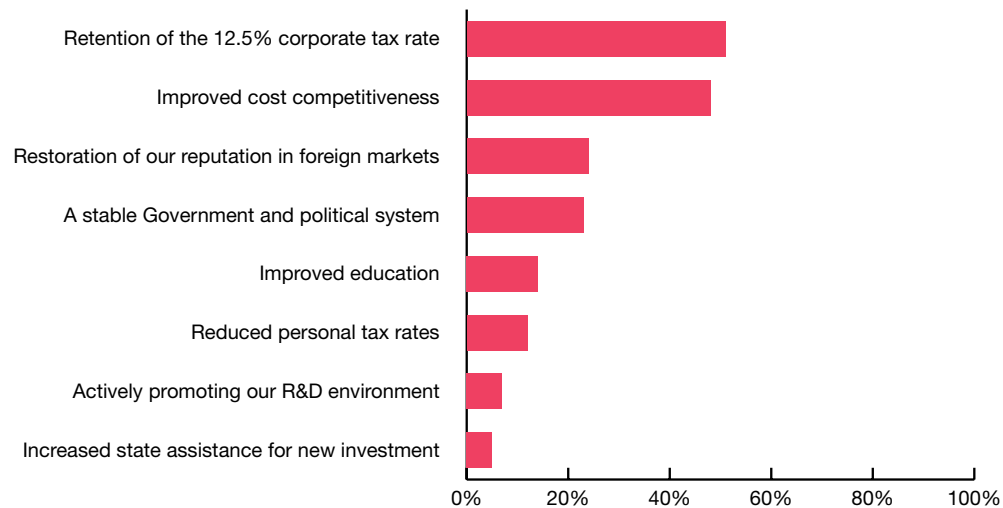
“MNC CEOs give thumbs up for Ireland”

4. Foreign Direct Investment...cont'd

Corporate tax rate and cost competitiveness are critical

Retention of the 12.5% corporate tax rate and improved cost competitiveness are top of the list when it comes to the critical factors to maintain and increase Ireland's FDI attractiveness. Also important in the minds of the CEOs are the restoration of our reputation in foreign markets and a stable Government and political system.

Fig 8: Factors critical to maintaining and/or increasing Ireland's attractiveness for foreign direct investment



“12.5% corporate tax is fundamental”

5. The Corporate Response

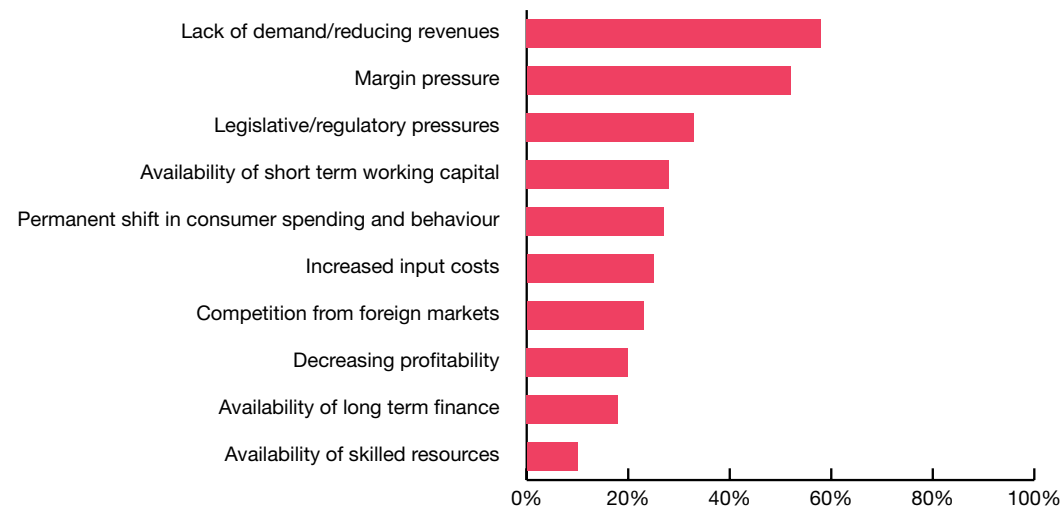
Consumer confidence a challenge

According to the survey, lack of consumer demand and margin pressures are the main factors affecting business growth. Other issues are regulatory pressures, short term working capital, the permanent shift in consumer behaviour and increased input costs. While much work has been done by businesses over the last two years to become more competitive, the survey suggests that continuing challenges exist in maintaining profit levels amidst fierce price competition, increasing costs and changing consumer habits.

Pay where it matters

With regard to pay levels, nearly two-thirds (62%) of the CEOs reported having held basic pay at prior year levels in the last year. Nearly three-quarters (71%) plan to adopt a similar approach in the next 12 months. A fifth (21%) reduced basic pay in the last year with only 6% planning further reductions in the next 12 months. It is interesting to note that nearly a quarter (23%) are planning a pay increase in the next year.

Fig 9: Barriers to business growth (% of respondents)



“A quarter of Irish CEOs are planning a pay increase in the next year and nearly three-quarters will hold pay at last year’s levels”

5. The Corporate Response...cont'd

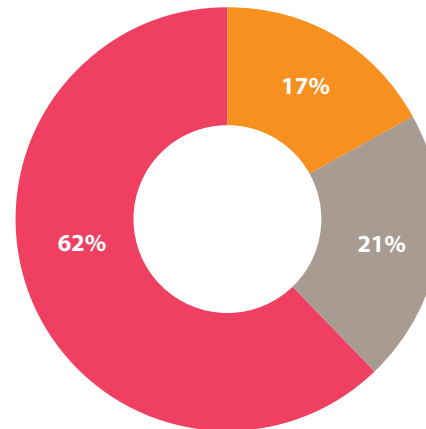
Bonuses and pensions in the spotlight

Companies are continuing to review their overall reward strategy. Businesses are looking for ways to align performance with the business strategy and goals. This also means finding, retaining and motivating employees whose skills really fit the company's strategy. In particular, the trend continues from last year with over two-thirds (68%) of survey respondents indicating that they are reviewing their bonus schemes. Pension schemes are also in the spotlight with 39% of CEOs saying this is an area for review, up from 30% last year. Other elements of the reward package under review, but to a lesser extent, are executive incentive plans (30%) and share based schemes (18%).

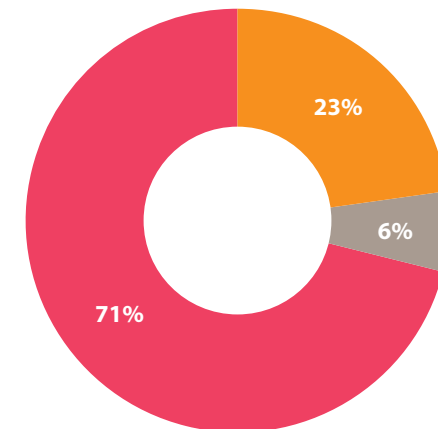
Fig 10: Basic pay (% of respondents)

- Increase basic pay
- Reduce basic pay
- Hold at prior year levels

In the last 12 months



In next 12 months



“Retaining and motivating key talent is a priority”

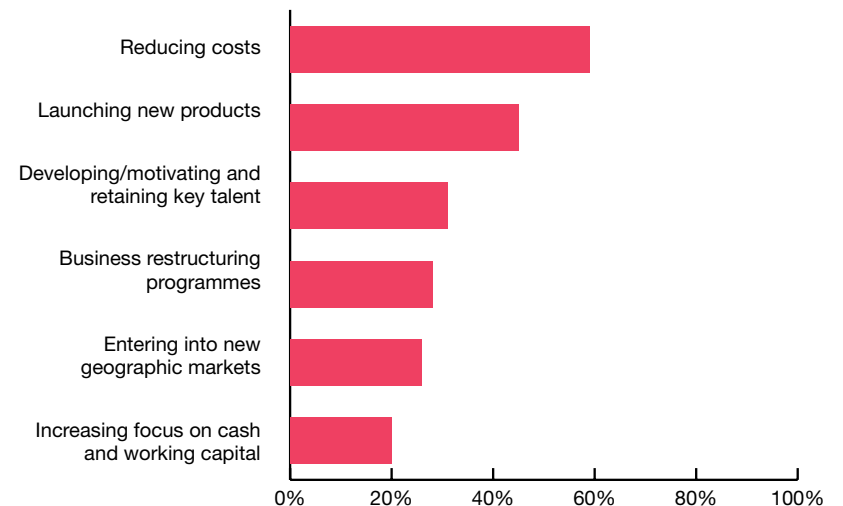
5. The Corporate Response ... cont'd

Reducing costs is the top priority as business plans for growth

A key objective in the year ahead is reducing costs (59%). Other top priorities are launching new products (45%); developing/motivating and retaining key talent (31%); business restructuring programmes (28%); entering into new geographic markets (26%) and increasing the focus on cash and working capital (20%). This suggests that organisations are tackling the challenges from a number of angles.

With a continued focus on cost control, they are looking to position themselves for growth through new products and expansion into new markets. At the same time they are ensuring that they are ready to take the opportunities by having the right people and business structures in place. With an emerging recovery ahead, CEOs are applying a different lens to three focal points, growth, costs and talent.

Fig 11: Priorities in the year ahead (% of respondents)



“Nearly half of survey respondents are launching new products with over a quarter entering new markets.”

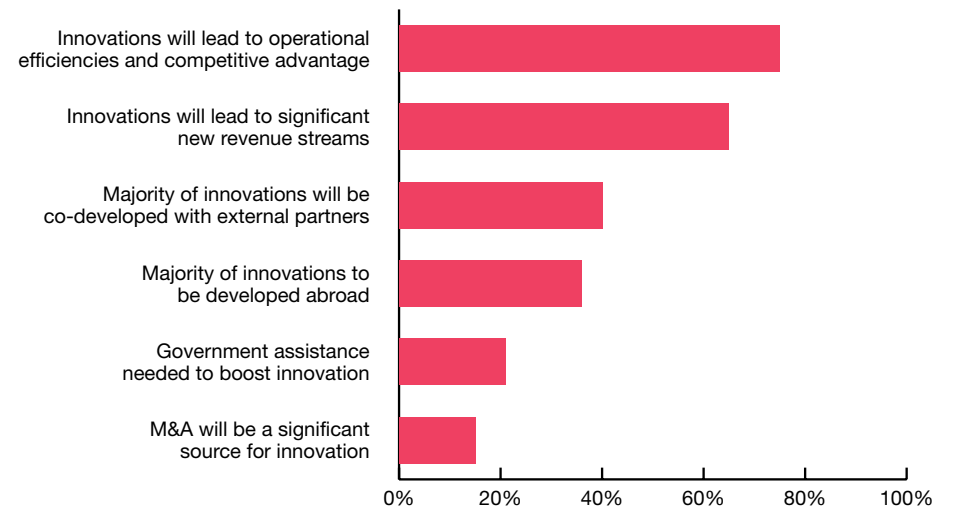
5. The Corporate Response ... cont'd

A higher premium on innovation

CEOs are anticipating that their investment in innovation whether product, process or new ways of working will succeed. For example, three-quarters of participants expect that their innovations will lead to operational efficiencies and competitive advantage. Nearly two-thirds (65%) said that their innovation should lead to new revenue streams. The survey suggests that

companies are revamping their organisations for innovation with a clear focus on new product and service development. According to the survey, most of this innovation is generated and funded internally. For example, only a fifth said they needed Government assistance and only 15% felt that innovation would be sourced through M&A.

Fig 12: Expectations regarding innovation (% of respondents who agreed)



“CEO’s see the critical importance of innovation”

6. Sustainability/Climate Change

Climate change not seen as key priority

An overwhelming majority (85%) of Irish CEOs understand the impact of sustainability or climate change on their organisation. However, the majority (59%) do not consider it necessary to embed climate change initiatives into their business strategy at this time.

Nearly three-quarters (70%) of survey participants feel that compliance with climate change initiatives will not be a significant expense.

On a positive economic note, 43% of CEOs see the reputational advantages of introducing climate change programmes.

Indeed, over a quarter (26%) see new product and service opportunities that the growing awareness of the impact of climate change will open up for their business.

Fig 14: The extent to which sustainability/climate change has been embedded into business strategy

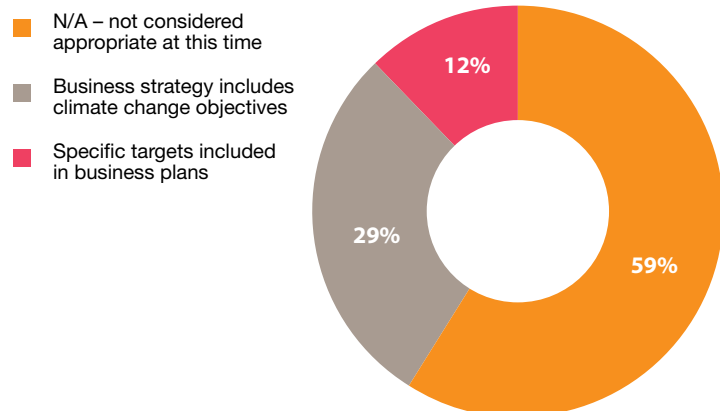
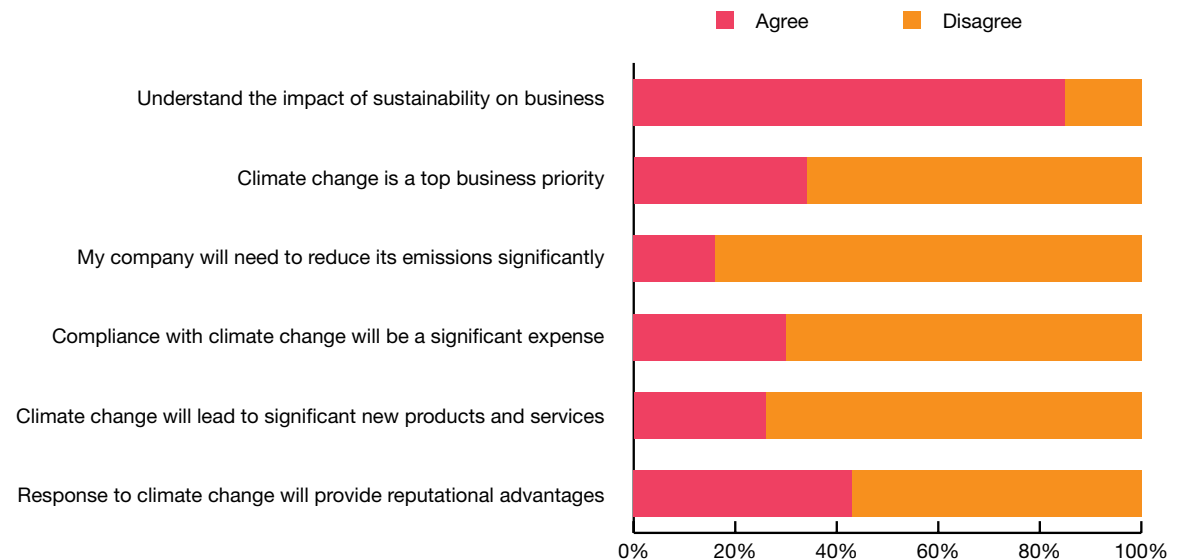


Fig 13: Levels of agreement with climate change initiatives (% of respondents)

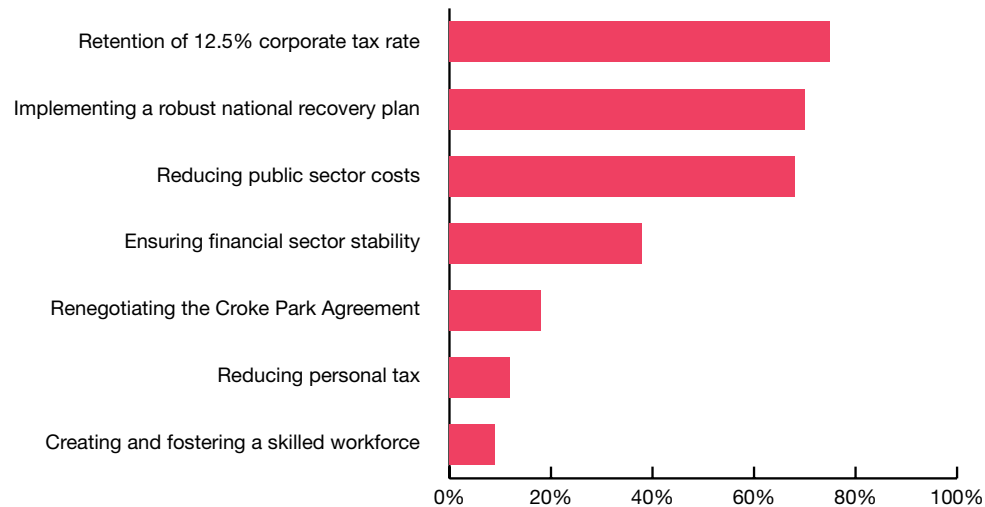


7. Looking ahead - Priorities for Government

12.5% Corporate Tax rate is top priority for Government

According to Ireland's CEOs, retaining the 12.5% corporate tax rate, implementing a robust national recovery plan and reducing public sector costs are the top priorities for our new Government as we move forward. Clearly, the CEOs feel that if these three agendas are tackled successfully, Ireland can continue to make progress in rebuilding our economy.

Fig 15: Priorities for Government in the year ahead (% of respondents)



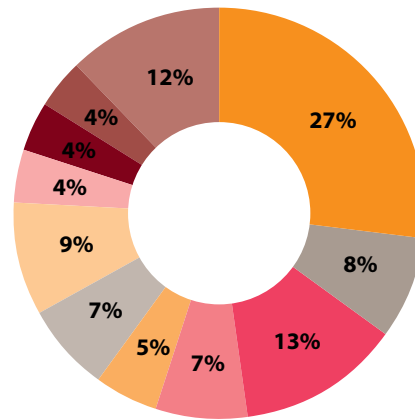
“Implementing a robust national recovery plan is a priority for Government.”

8. Survey Methodology

The survey was conducted in March 2011 amongst Ireland's top CEOs having 182 participants covering a range of sectors and ownership types.

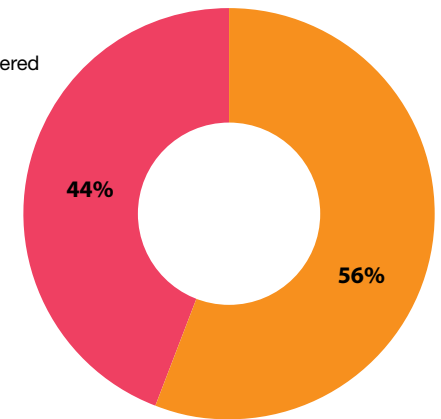
- Financial services
- Consumer products
- Engineering & construction
- Government
- Pharma/Life sciences
- Retail
- Technology & Comms
- Energy & Renewables
- Entertainment & Media
- Healthcare
- Other

Fig 16: Respondents by sector (%)



Ownership of company (%)

- Headquartered in Ireland
- Multinationals / headquartered outside of Ireland



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