PwC Pulse 2010

What CEOs are saying...

PricewaterhouseCoopers

Contents

Introduction

I am delighted to introduce our 2010 CEO Pulse Survey which provides a snapshot of the views of over 200 business leaders on Ireland's business environment and the challenges and opportunities it presents for corporate Ireland.

The survey conveys a sentiment of cautious optimism and confidence with the majority of Ireland's business leaders expecting growth in both revenues and profits over the next year.

Other key findings in the survey include:

- MNCs are more upbeat about investing in Ireland but continue to stress the need for further cost competitiveness;
- CEOs are responding to changing customer purchasing behaviours arising out of the recession;
- Cost containment and the availability of finance remain key challenges;
- Risk management is a priority and CEOs are learning to balance it with decisiveness and flexibility as they seek to return to growth;
- Businesses are clearly looking for Government to drive the recovery agenda; and
- Surprisingly, unlike other countries, climate change is not a top priority at the moment.

While many challenges remain, Irish companies are setting a smarter course for growth. They are focused on strengthening the resilience of their organisations while remaining attuned to the opportunities emerging. They are positioning themselves for an economic upturn to emerge with strong businesses for the future. It is clear that Government and businesses need to continue to work together to rebuild our national prosperity and create sustainable employment opportunities in order to reaffirm Ireland as a location-of-choice in which to invest and do business.

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Some glimmers of confidence returning

Cautious optimism is the single key highlight emerging from the PwC 2010 CEO Pulse survey. The survey shows that confidence is returning. Nearly a third (29%) of Irish business leaders are favourable about the outlook for the Irish economy compared to just 3% last year. However, another third (31%) are unfavourable about the future outlook, demonstrating continuing uncertainty in a difficult operating environment for some. 40% see no change in the economy over the next 12 months.

> "One in five expect Ireland's economy to return to growth this year, while half expect this recovery in 2011."

Chart 1:
Favourable outlook trends for the Irish economy 2007 - 2010

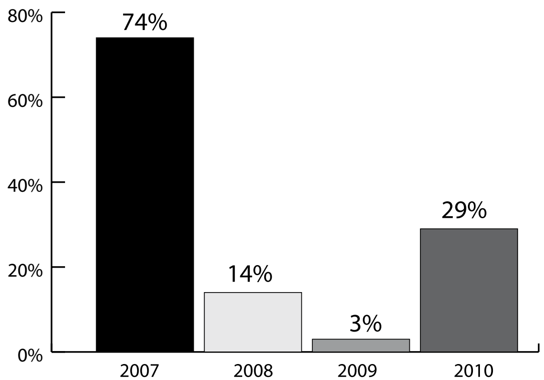


Chart 2:
Outlook for the Irish economy for the next 12 months

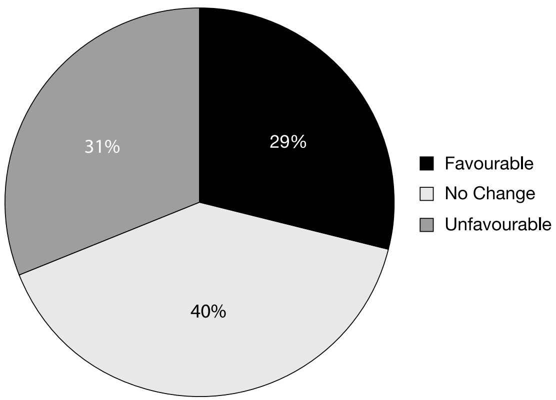
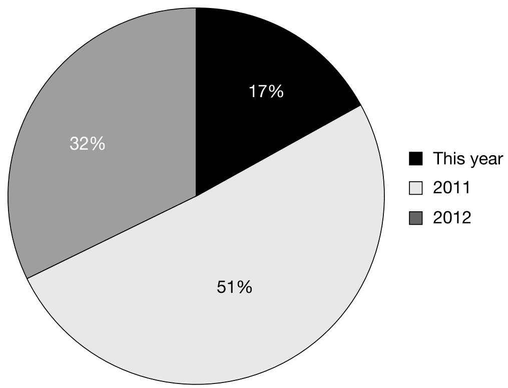


Chart 3:
When will the Irish economy return to growth?



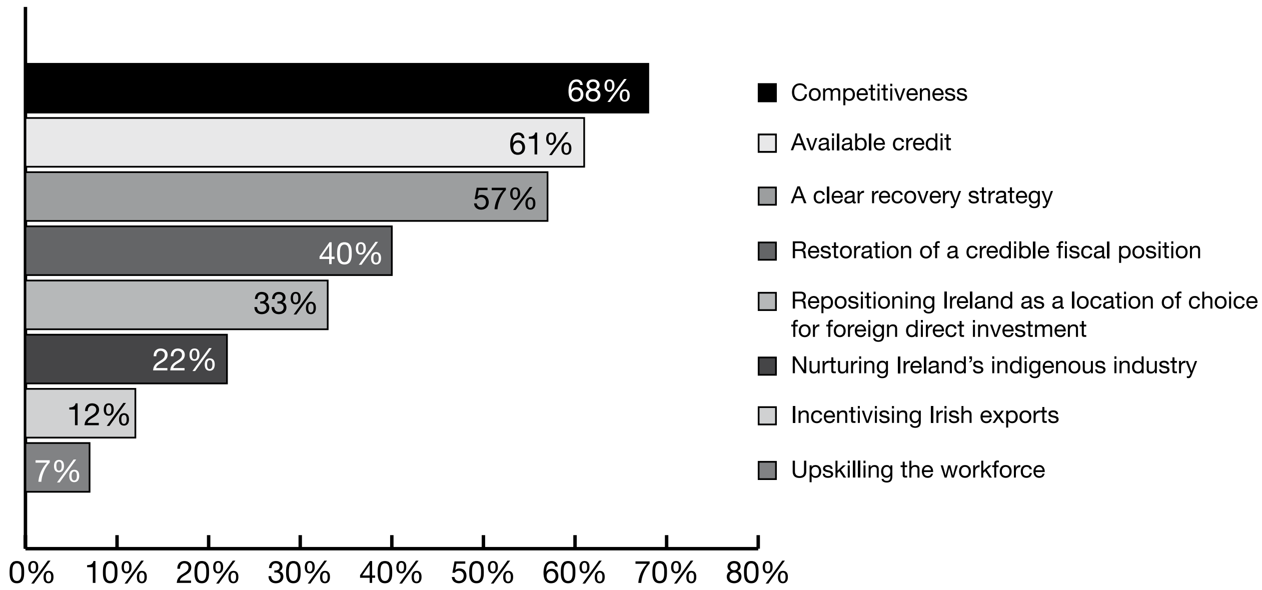
Costs and finance still top of mind

Following significant cost-cutting and restructuring over the last year, continuing to keep a check on costs and access to available finance are top-of-mind for economic recovery. For example, Irish CEOs feel that the top three factors critical for Ireland's economic recovery are reinstatement of lost competitiveness (68%), improvement in the flow of credit (61%) and developing and communicating a clear recovery plan (57%) for the country. While much work has been done and pain has been taken in these areas, the survey suggests more needs to be done.

Other areas that need tackling are repositioning Ireland as a location-of-choice for foreign direct investment; nurturing and incentivising our indigenous exporting industry and up-skilling our workforce.

"Competitiveness and availability of funding are critical for Ireland's recovery"

Chart 4:
Factors critical for Ireland's economic recovery



Irish CEOs more positive about revenue and profit growth

With over three-quarters of CEOs last year indicating they were planning cost reviews and restructuring of their operations by the end of 2009, business leaders indicated a clear intention to tackle the challenges of the economic crisis head-on. This decisive action has paid off. Irish business leaders now feel more confident where revenue and net profit growth are concerned. For example, over half of survey participants expect revenues and profits to grow in 2010. At the same time, costs are still very much on the agenda with more than a third (38%) of Irish CEOs indicating their overall cost base will decline in the next 12 months. Irish business leaders are also feeling more confident about employment growth and capital investment. For example, over a third of Irish business leaders expect growth in these areas compared to less than a fifth last year.

"Following a year of much retrenchment, a return to growth in their businesses is anticipated by many."

Chart 5:
Anticipated performance of Irish operations (% of respondents)

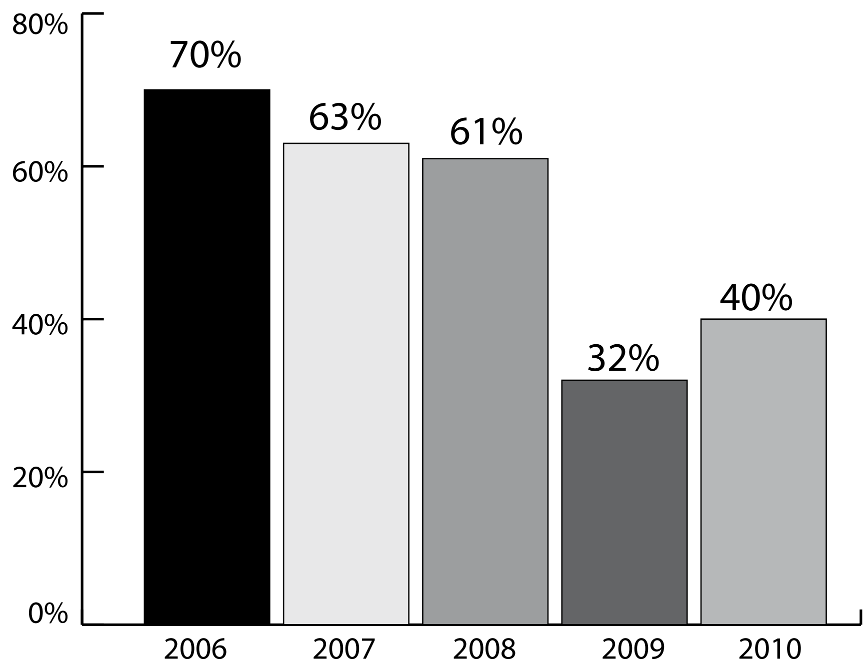
Indicator	Growth		Decline		No Change	
	2010	2009	2010	2009	2010	2009
Revenues	53%	29%	20%	55%	27%	16%
Costs	23%	25%	38%	50%	39%	25%
Net profit	57%	23%	20%	55%	23%	22%
Employment	34%	19%	27%	29%	39%	52%
Capital investment	39%	18%	16%	29%	45%	36%

More upbeat about investing in Ireland

40% of MNC CEOs with Irish operations said that they were considering additional investment in Ireland, representing an increase from just under a third (32%) last year (an increase of 25%).
The survey also highlighted that of the MNCs who responded, three quarters (75%) said that they are neither reducing investment nor closing existing operations in Ireland.

It is notable that the number of respondents considering closing operations in Ireland and relocating abroad is down by almost half on last year. (ie down to 8% from 15%.)

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



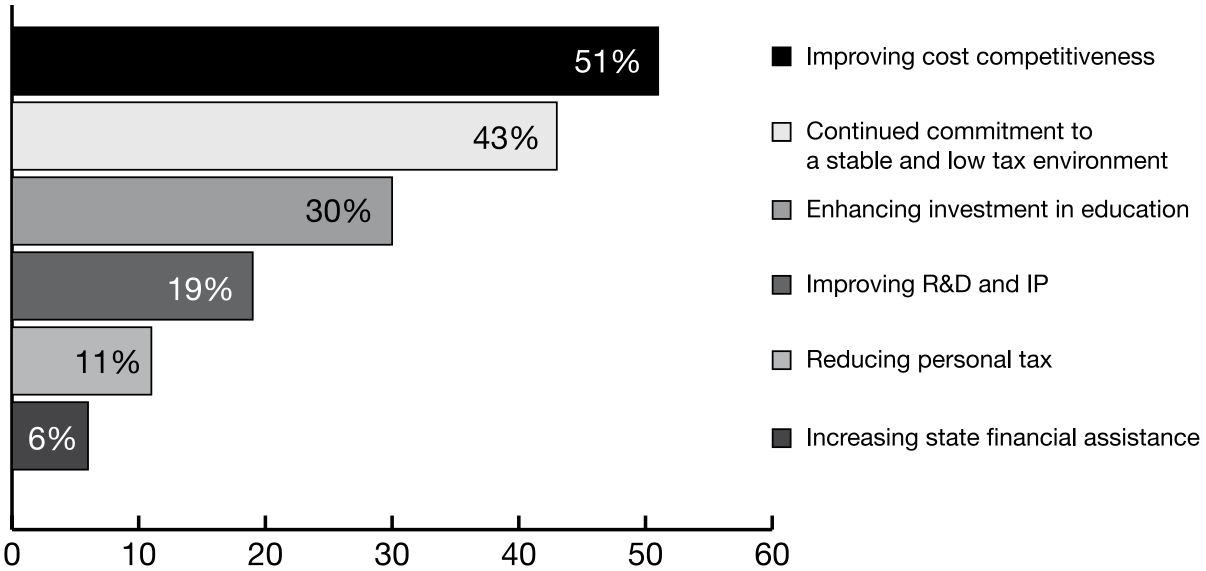
“Overwhelming majority of MNCs are not scaling back investment in Ireland.”

Cost competitiveness, tax and education are critical

Irish MNC CEOs rated the top three factors to maintain Ireland's attractiveness as a location-of-choice for foreign direct investment to be improving our cost competitiveness (51%); a continued commitment to a stable and low tax regime (43%), and enhancing investment in education and up-skilling (30%).

"MNCs are positive about investment in Ireland, but competitiveness is critical."

Chart 7:
Factors critical to enhancing Ireland's attractiveness as a location-of-choice for foreign direct investment (% of MNC respondents)



Business responding to shifts in customer behaviour

The survey highlights some significant refocusing of businesses by Irish companies in the wake of the economic crisis. Across all sectors, there has been a profound shift in purchasing patterns – with greater focus on 'buying smart' and seeking greater value-for-money. As a consequence, businesses are having to respond imaginatively in order to hold or increase their 'share of wallet'. Some 86% of CEOs are reconsidering their responses to changing purchasing behaviour, with 76% revisiting organisation structure in order to ensure that it is fit-for-purpose. As expected, Corporates' approach to risk management (78%) is high on the CEO agenda. Risk management is clearly taking on greater importance as a result of the recession with CEOs beginning to reshape their strategies. The result, we believe, will be a smarter course for growth with a more resilient path that will produce sustainable long-term benefits for organisations - along with their shareholders, employees, customers and communities.

> "Across all sectors, there has been a profound shift in purchasing patterns – with greater focus on 'buying smart' and seeking greater value-for-money."

Chart 8:
Expected change in business operating models in the next year (% of respondents)

	No change	Change
Responding to changing customer purchasing behaviours	14%	86%
Approach to risk management	22%	78%
Organisational structure	24%	76%
Talent management strategies	30%	70%
Capital structure	60%	40%

Reviewing contracts – key to cost reduction

Reviewing contracts scores top of the league for cost reduction initiatives (76%). According to the survey, other cost reduction initiatives planned over the next 12 months are investment in IT (53%), critically reviewing the supply chain (47%) as well as working capital reviews (40%).

New products – route to expansion

The most popular revenue increasing initiative is launching new products (73%). Other routes to expansion are entering new markets (42%) and planning a merger or acquisition (24%). The survey suggests that now is a good time to grow by acquisition with many CEOs seeing value in the marketplace.

Shift in customer spending – key growth stumbler

Irish business leaders see the greatest potential risk to growth prospects to be the permanent shift in consumer spending (68%). This is not surprising given consumers' concerted search for value in an intensely competitive environment. After the crisis consumers will demand an even higher level of value and quality and will be prepared to shop around until they get it, a trend that is unlikely to reverse.

Other key risks for growth are lack of available finance (53%) and over-regulation (50%). This highlights businesses need for cash and possible concerns that over-regulation may bring additional administrative burden and costs without delivering additional value.

"A quarter of CEOs are seeking a merger or acquisition."

Chart 9:
Potential barriers to growth (% of respondents)

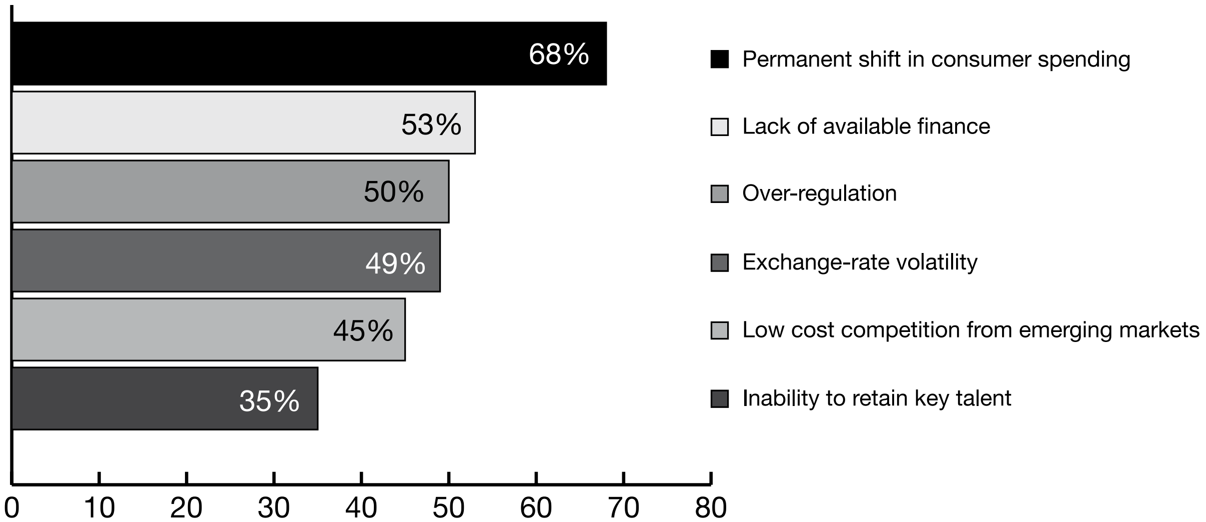


Chart 10:
People management priorities (% of respondents)

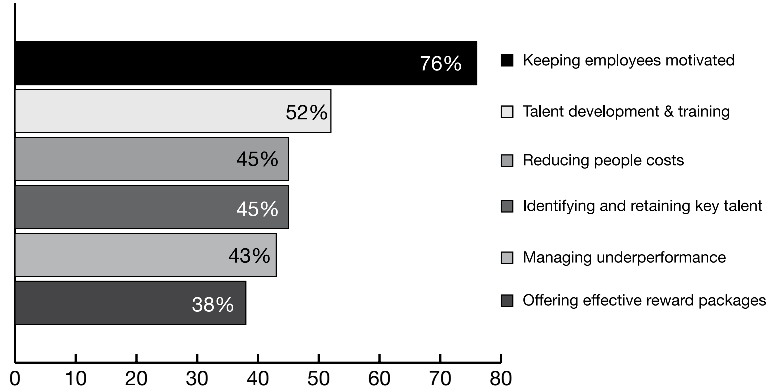
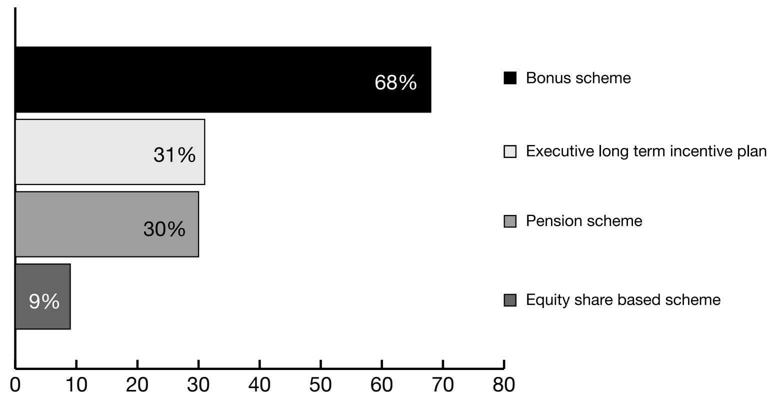


Chart 11:
Elements of reward package to be redesigned (% of respondents)



"Two-thirds of CEOs are planning to redesign their bonus scheme."

Keeping employees motivated - top people priority

Over three-quarters (76%) of Irish business leaders feel that keeping employees motivated is the top people priority. Talent development (52%) and reducing people costs (45%) also feature strongly. Interestingly, managing under performance was a priority for nearly half (43%) of respondents indicating performance issues continue to be challenging for some.

Majority plan a pay freeze

Despite one of the most severe recessions in living memory, 60% of respondents said that they did not effect a basic pay reduction in the last 12 months. However, nearly three-quarters (73%) of respondents said that they expect to implement a basic pay freeze in the next 12 months. Some 12% said that they will award a basic pay increase. As businesses attempt to forge greater linkages between performance and reward, it is not surprising that over two-thirds (68%) of Irish business leaders plan to redesign their company bonus scheme. Nearly a third are planning to redesign their pension scheme as well as their executive long term incentive scheme.

Climate change not on the radar screen

Only a third of CEOs (35%) agreed that climate change is a top priority for their organisation compared to 62% last year. Furthermore, over half (55%) of respondents said that their organisations are not preparing for the impact of climate change in the coming 12 months.

Linked to getting ready for climate change, a similar proportion (54%) said that they did not consider sustainability/ climate change planning as important in the business at this time.

However, cost does not seem to be a barrier as only a minority (22%) agreed that compliance with climate change will be a significant expense. Perhaps, businesses are finding it difficult to link the benefits of climate change/sustainability initiatives to their bottom line. Potential efficiencies if properly addressed include waste reduction, improved energy and resource efficiency and producing products in a more sustainable manner. On the other hand, perhaps, at a national level there is a need for greater clarity on Government strategy in this area to stimulate activity at corporate level.

Nearly half (45%) of CEOs agreed that climate change initiatives will provide reputational advantages. As the world moves towards a low carbon economy, corporate reputation in this area and how it impacts shareholder value will increasingly come under the spotlight.

"Only a third of CEOs view climate change to be a top priority at the moment."

Chart 12:
Levels of agreement with climate change initiatives (% of respondents)

	Agree	Disagree	Don't know
Climate change is a top business priority	35%	57%	8%
My company will need to reduce its emissions significantly	19%	66%	15%
Compliance with climate change will be a significant expense	22%	58%	20%
Climate change will lead to significant new products and services	26%	55%	19%
Response to climate change will provide reputational advantages	45%	39%	16%

Benefits of climate change not clearly understood

In terms of benefits, less than half (45%) expect that their companies' response to climate change initiatives will provide a reputational advantage while only a quarter (26%) were of the view that climate change will lead to significant new products and services.

Despite the apparent disinterest at a strategic level in climate change, some work is ongoing. For example, a fifth (21%) of Irish CEOs said that they had sustainability objectives under development. A similar proportion (18%) said that they had strategic objectives developed. The three key compelling reasons to implement sustainability initiatives were regulation (66%); brand enhancement (64%) and waste reduction (62%).

Majority do not report on climate change

Nearly three-quarters (72%) of Irish business leaders said that they do not report on sustainability/climate change to external stakeholders.
In terms of carbon footprint measurement, only a fifth (20%) said they have measured their carbon footprint; nearly half (43%) said they have introduced measures to reduce their carbon footprint and just over one tenth (12%) said they have set specific target footprint (ie by reducing energy and water consumption, reducing waste and increasing recycling etc) levels for 2010/11. The survey indicates that very few have purchased carbon credits.

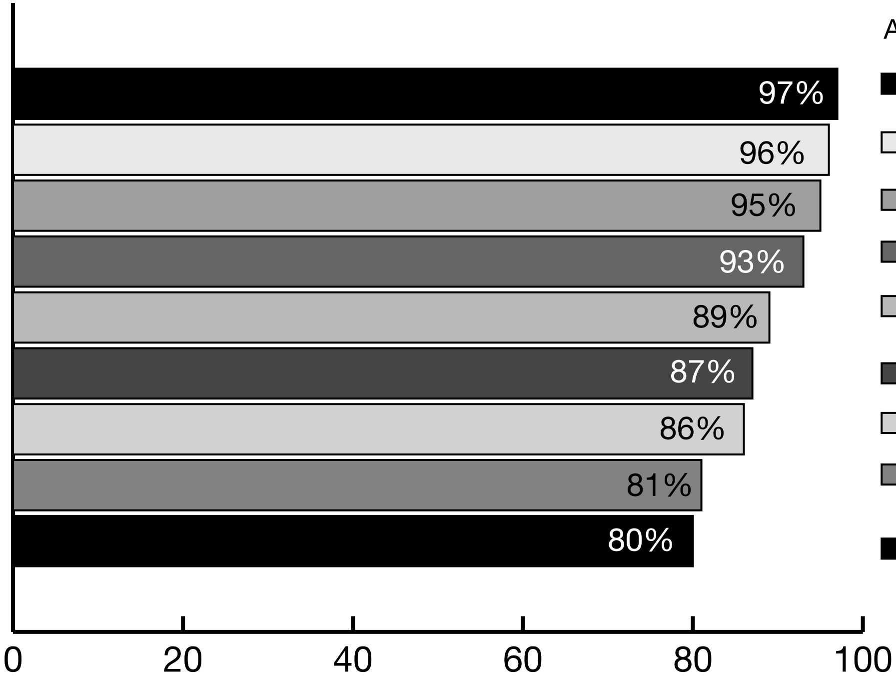
"Businesses are finding it difficult to link the benefits of climate change/ sustainability initiatives to their bottom line."

Clear action by Government to drive the recovery agenda

The survey reveals clear actions for Government as set out in the chart below. While action has been taken by Government to address Ireland's budget deficit and fiscal position, business is now looking for Government to drive the recovery agenda in other areas. Top of the list for action are reducing public expenditure; promoting growth for the SME sector, and restoring available finance through the banking system. The survey suggests clear areas where resources might be directed in order to position Ireland for the economic upturn.

"CEOs are clearly looking for Government to drive the recovery agenda."

Chart 13:
Actions by Government following the financial crisis (% of respondents who agreed)



According to the survey, Government should:

- Reduce public sector expenditure
- Foster growth in the SME sector
- Work with the financial sector to increase finance to business
- Incentivise innovation
- Promote Ireland as a stable, safe and low tax economy for investment
- Proactively manage Ireland's reputation internationally
- Increase oversight of risk-taking in the banking sector
- Seek to action the proposals by the Financial Regulator in April 2010 regarding bank executives and directors
- Develop a clear climate change plan

The survey was conducted in May 2010 amongst Ireland's top CEOs and there were over 200 participants covering a range of sectors and ownership types.

Chart 14:
Respondents by sector (%)

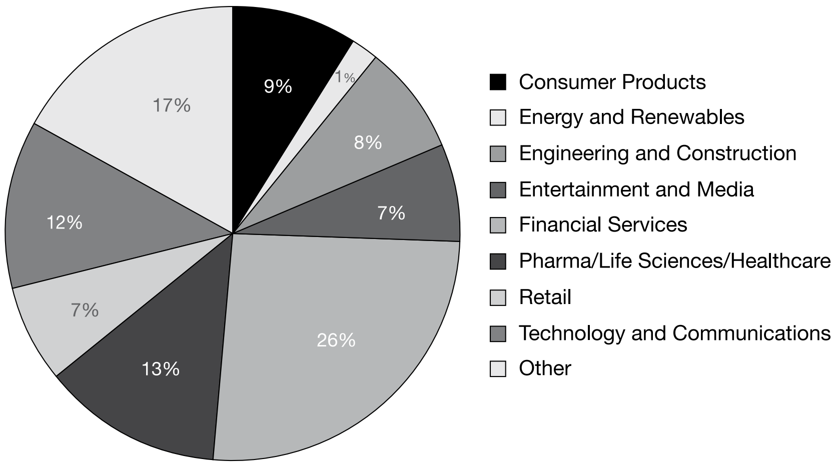
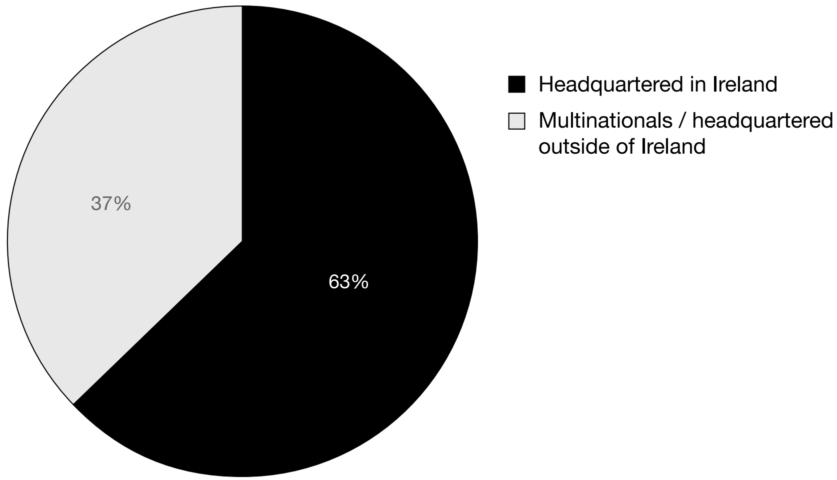


Chart 15:
Ownership of company (%)



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