

Rethink
Opportunity

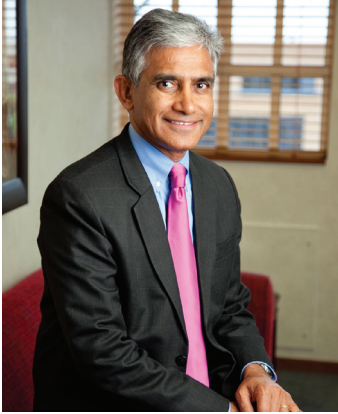
Reshape
Strategy

Result Smarter growth

Recognising risk, realising opportunity

13th Annual Global CEO Survey
1st South African edition

Foreword



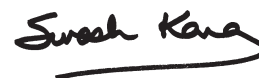
Amid a host of social, political and economic uncertainties dominated by the global economic crisis, a general election, rising costs and exchange rate fluctuations, South African CEOs have emerged from the shadows of the last 18 months feeling largely optimistic about the prospects for a bright future.

It is with great pleasure that I introduce to you the first edition of the PricewaterhouseCoopers (PwC) South African CEO Survey. This survey has come to fruition due to the unprecedented success of the PwC Global CEO Survey which is in its 13th year of distribution. Having fast established itself as PwCs signature annual publication, we have now taken the opportunity to extend the scope of the survey among South African CEOs, in order to bring a new level of insight to the South African business environment.

The success of the survey is directly attributable to the willing participation of CEOs, both locally and from around the world, who have shared their time and insights with us despite the pressures they face. Their commitment is the foundation of the survey's considerable value, not only in revealing the current mindset of business leaders, but also in identifying the immediate risks and opportunities that they recognise.

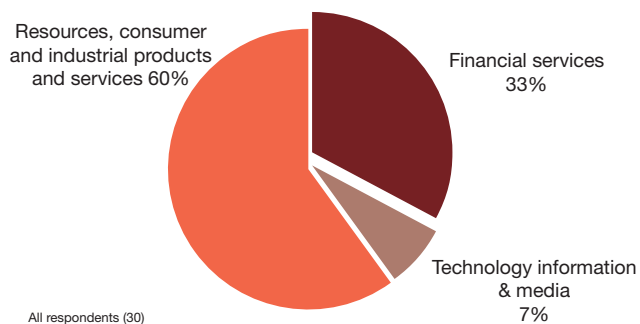
In total, 1 198 CEOs from 52 countries participated in the global survey during the last quarter of 2009. The South African survey captured views of 30 CEOs from many of the country's leading JSE-listed companies, in sectors ranging from mining and manufacturing to transportation, retail and financial services. We are extremely appreciative to each of them for their valuable contribution.

I trust you will find the survey both engaging and insightful.



Suresh Kana
Chief Executive Officer
PricewaterhouseCoopers Southern Africa

Interviewees by industry sector



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Introduction

As the results of the South African CEO Survey go to print, world leaders are gathering in Davos for the 40th Annual Meeting of the World Economic Forum. Meeting under the theme ‘Improve the State of the World: Rethink, Redesign, Rebuild’, business, government and civil society leaders, will be tackling many of the pressing challenges facing the global community.

While a protracted global recession is the greatest concern of global CEOs, there is a general optimism both globally and in South Africa for the prospects of revenue growth over the next 12 to 36 months.

The underlying theme of the survey’s findings draws attention to the character of South African business leaders, who consistently demonstrate pragmatism and optimism in

the face of economic reality, while refining their strategies to meet the new challenges of the approaching post-recession world.

Note: Not all figures add up to 100% due to rounding off, of percentages, and to the exclusion of ‘neither/nor’ and ‘don’t know’ responses.

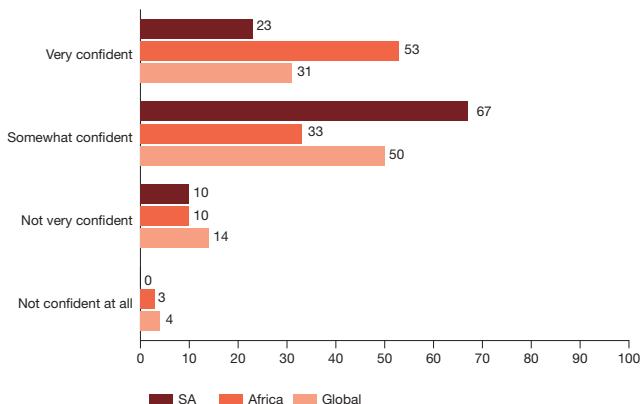
Section 1

Rethink: the only way is up

Having faced the harsh realities of the world economic crisis little more than a year ago, South African CEOs are now optimistic about prospects for the onset of a period of recovery. No less than 93% of CEOs surveyed expect the South African economy to start emerging from the recession during the course of 2010. This level of confidence is more than 25% greater than the global and African averages of 65% and 64% respectively.

Widespread optimism may partly be a reflection on the fundamental soundness of the South African financial system, which shielded the local economy from the full impact of the crisis, and can be contributed to sentiment that demand has reached the lowest point of its decline, and that windfalls can be expected as a consequence of South Africa's hosting of the 2010 FIFA World Cup. The survey shows that South African CEOs are generally confident about the prospects for revenue growth over the next 12 months, in line with their global and African counterparts.

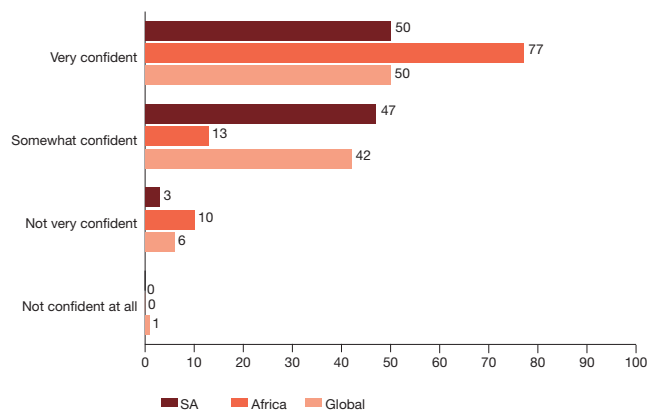
How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?



While 90% of CEOs said they were either 'somewhat' or 'very confident' about short-term prospects, they were even more positive about the long term. Slightly surpassing their global and African peers, 97% said they were confident about the prospects for revenue growth over the next three years.

However, when looking only at CEOs who are 'very confident', the South African figure lags behind Africa by 20% for the 12-month outlook and 27% for the three-year outlook.

How would you assess your level of confidence in prospects for the revenue growth of your company over the next 3 years?



There is an extremely high level of long-term confidence among African CEOs, which contrasts with the more guarded positions adopted by South African and global CEOs. This points to the immense growth potential which is being recognised in the continent's emerging economies, in contrast with the market maturity suggested by the South African and global responses.

During the past 12 months, 43% of South African CEOs reported that headcount had been reduced. Rising confidence has translated into plans to increase recruitment locally with nearly 40% of CEOs expecting to increase their headcount this year. Only one in five of South African CEOs anticipate a decrease in headcount.

Another encouraging development is that two-thirds of South African CEOs plan to increase their long-term investment in leadership and talent development.

Overall, steadily positive confidence levels suggest South African CEOs believe their companies have survived the worst of the recession and are now poised to benefit from competitive gains when the anticipated upswing in demand takes hold.

Section 2

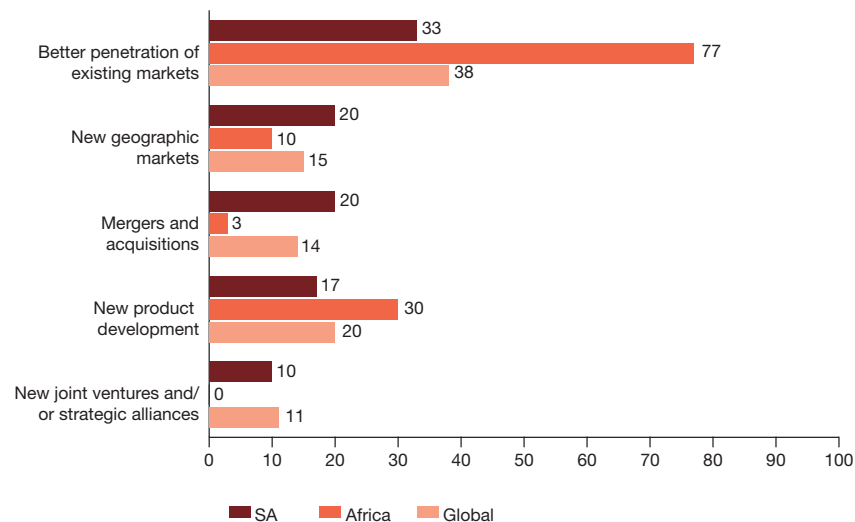
Refocus: the future isn't what it used to be

Time has delivered a different future to the one business expected two years ago. Unpredictably, the external environment has affected the growth strategies of CEOs across the board. A clear majority of global CEOs are focused on the development of existing markets as the main opportunity for business growth.

In the South African context, 33% of CEOs believe focused penetration of existing markets holds the most promise for business growth in the short term. Transferring their already proven success formula into new geographic markets is seen as a viable option by 20% of CEOs, while the same percentage recognises mergers and acquisitions as a significant growth opportunity.

In the next 12 months, 90% of South African CEOs expect their business in Africa to grow.

Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



2.1 Recognising threats: facing the challenge

While the recession may be showing signs of lifting, South African CEOs continue to be troubled by a host of other perceived threats to their businesses' growth prospects. They are either 'somewhat' or 'extremely concerned' about the threats posed by:

- Exchange rate volatility (77%)
- Over-regulation (76%)
- The skills shortage (73%)
- Energy costs (70%)
- Lack of infrastructure (63%)
- Capital market instability (60%)

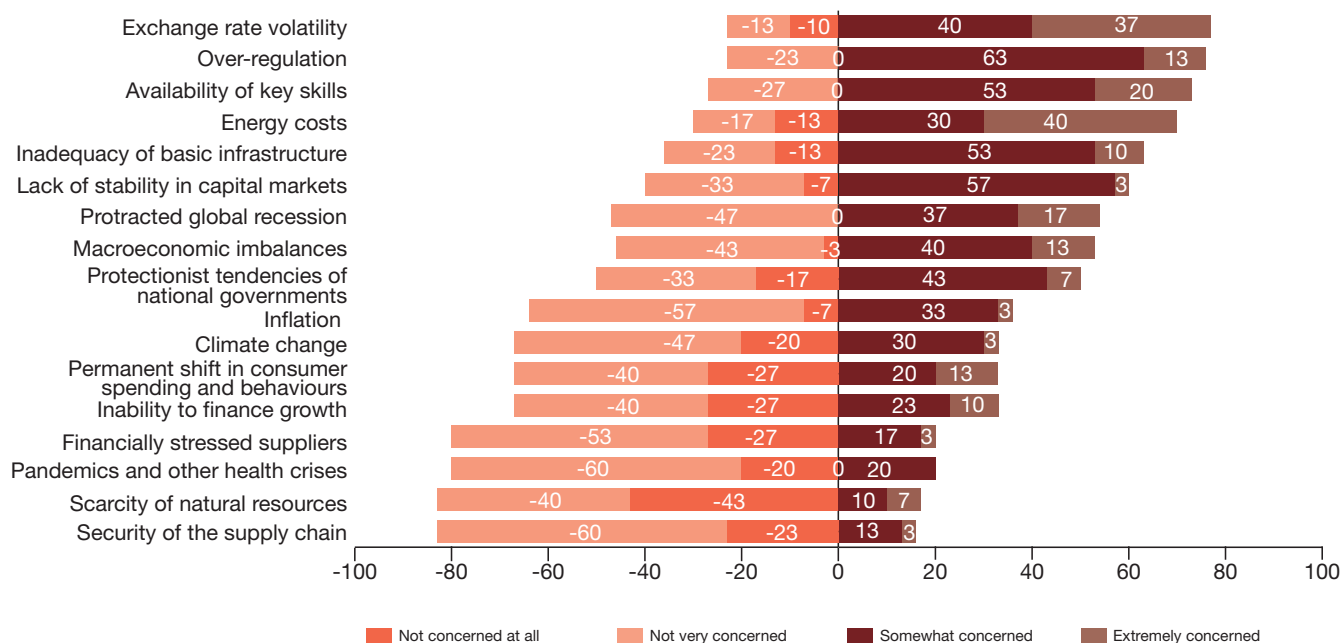
While South African CEOs share many of the same fears as their global peers, the threat of a protracted global recession remains the most significant concern of global CEOs (65%).

Fear of over-regulation is not a uniquely South African worry, with 60% of global CEOs sharing the same anxiety. In fact, more CEOs are 'extremely concerned' about over-regulation (27%) than any other threat to business growth. Instability in capital markets and exchange rate volatility also rank highly as potential business threats globally.

In contrast South African CEOs were either 'not very concerned' or 'not at all concerned' about the following threats to their business growth:

- Scarcity of natural resources (83%)
- Pandemics or health crises (80%)
- Financially stressed suppliers (80%)
- Supply chain security (83%)
- Changes in consumer spending (67%)
- The inability to finance growth (67%)
- Climate change (67%)
- Inflation (64%)

How concerned are you about the following potential threats to your business growth prospects related to or emerging from the current economic crisis?



2.2 Responding: managing risk

The recession promoted risk management to the top of many board agendas with 41% of global CEOs reporting that their boards were planning to make major changes to the way their companies manage risk. In both Africa and South Africa, no less than 67% of CEOs are increasing their focus on embedding risk management protocols into business units.

South Africa has arguably been less adversely affected by the global economic crisis than many other countries. It is noteworthy that South African CEOs indicated that their board of directors are modifying their behaviour as a result of the economic crisis to a greater degree than their global counterparts.

With respect to your board, to what extent is your board of directors modifying their behaviour as a result of the economic crisis?

Respondents who stated 'more engaged' or 'significantly more engaged'

	Global (1198)	South Africa (30)	Africa (30)
Assessing strategic risks	70	93	80
Overseeing financial health	66	80	73
Constructively engaging the management team on strategy	61	73	53
Focusing on the long-term key performance indicators	60	67	73
Ensuring regulatory compliance	52	77	47
Enforcing high ethical standards	50	63	57
Assessing the leadership pipeline for succession planning	50	60	57
Aligning executive compensation with long-term performance	48	57	60

2.3 Responding: corporate governance and public trust

There has been contentious debate about the role corporate governance failures have played in fuelling the economic crisis and recent financial upheaval. In line with the emphasis being placed on risk management, South African boards are setting the trend for global and African counterparts in the areas of ensuring regulatory compliance and enforcing high ethical standards. This focus may point to the additional scrutiny South African boards are being placed under with regard to corporate governance, particularly following the

release of the King Report on Governance for South Africa – 2009, as well as the impending promulgation of the new Companies Act.

South African CEOs believe that there has been a fall in public trust in their respective industries by 40% as a result of the economic crisis. While they recognise the need for remedial action, it is interesting to note that global CEOs only recognise a decline of 26% in this sphere.

2.4 Responding: climate change

South African companies are beginning to take action in response to climate change with 43% of CEOs reporting that they had a climate change policy in place for the last year. Although moving in the right direction, South African CEOs

remain behind the pace being set by global (52%) and African (70%) CEOs. However, 40% of South African CEOs believe that their companies will need to reduce emissions significantly, compared to 35% of global CEOs.

2.5 Responding: adapting to consumer trends

Nearly half of global CEOs are concerned that the recession might have caused a permanent shift in consumer behaviour. CEOs globally (26%) and in South Africa (17%), recognise that changing consumer purchasing behaviour necessitates a change in the way their companies do business.

No less than 77% of South African CEOs believe that consumers will in the future place more emphasis on a company's environmental and corporate responsibility practices before making a purchase. Only 64% of global CEOs believe this to be the case, while less than half (47%) of CEOs in other African countries share this view.

Section 3

Realign: the role of government

Although sentiments were mixed, South African CEOs indicated that the government is playing a positive role in the following aspects, compared to their global counterparts:

- Improving access to health care (47%)
- Improving the country's infrastructure (43%)
- Helping companies access natural resources (39%)

In contrast, South African CEOs were not satisfied with government's role in helping to create a skilled workforce, or its protection of biodiversity and ecosystems, nor its efforts to reduce the regulatory burden on corporations.

No less than 83% of South African CEOs believe that government ownership of companies distorts competition in their respective industries, compared to 71% of global CEOs. That government ownership will lead to political interference in the marketplace, is a conviction shared by 90% of local CEOs, significantly more than global CEOs.

Thinking about the role of government in the country in which you operate, how much do you agree or disagree with the following statements?

Respondents who 'agree' or 'strongly agree'

	Global (1198)	South Africa (30)	Africa (30)
The government should drive convergence of global tax and regulatory frameworks	56	43	57
The government is changing its tax rules and practices to raise more tax from business	47	47	53
The government is taking adequate steps to improve the country's infrastructure (e.g. electricity, water supply, transport)	40	43	47
The government is working to improve health care access at lower cost	30	47	37
The government has clear and consistent long-term environmental policies	26	30	27
The government effectively protects biodiversity and ecosystems	24	23	20
The government helps companies secure access to natural resources (e.g. raw materials, water, energy)	20	39	28
The government has been effective in helping create a skilled workforce	20	23	27
The government has reduced the regulatory burden on corporations	15	13	23

Recap

South African CEOs appear to be more cautious in their optimism, more concerned about the risks facing their businesses and more proactive in taking remedial action than their global and African peers.		
	Global CEOs	South African CEOs
Confidence	% very confident	
Prospects for revenue growth over the next 12 months	31	23
Prospect for revenue growth over the next 3 years	50	50
	Global CEOs	South African CEOs
Threats	% extremely or somewhat concerned	
Exchange rate volatility	58	77
Over-regulation	60	76
Availability of key skills	51	73
Energy costs	54	70
Inadequacy of basic infrastructure (e.g. electricity, water, transport)	33	63
Lack of stability in capital markets	59	60
Macro-economic imbalances	54	53
	Global CEOs	South African CEOs
Risk management	% planning major change or increased focus	
Plan to make major change to risk management	41	33
Increasing focus by a large/significant extent with regards to embedding risk management in business units	58	67
Increasing focus by a large/significant extent with regards to reassessing tolerance for risk	52	60
	Global CEOs	South African CEOs
Consumer behaviour	% agree	
Plan to make major change in response to shifts in consumer behaviour	26	17
In the future, consumers will place a higher emphasis on a company's environmental and CSR practices before making a purchase	64	77
In the future, consumers will spend less and save more	63	73

	Global CEOs	South African CEOs
Government		
The government should drive the convergence of global tax and regulatory frameworks. (% strongly agree)	56	43
The government has reduced the regulatory burden on corporations. (% strongly disagree)	67	80
The government has been effective in helping create a skilled workforce. (% strongly disagree)	57	70
The government has clear and consistent long-term environmental policies. (% strongly disagree)	55	43
	Global CEOs	South African CEOs
Preferred approach to ensure financial sector stability	% wanting to see	
Better enforcement of existing rules	32	37
More regulation	25	20
Different kind of regulation	21	3
	Global CEOs	South African CEOs
Climate change	% scope of agreement and action	
Climate change strategy in place for at least a year.	52	43
Increased investment in climate change strategy.	17	8
Our response to climate change initiatives will provide a reputational advantage among key stakeholders.	62	70
Climate change initiatives will lead to significant new product and service opportunities for my company.	47	27
	Global CEOs	South African CEOs
People	% change	
Plan to make large/significant changes to staff morale and employee engagement programmes	41	33
Plan to make major changes to strategies for managing talent	29	37
	Global CEOs	South African CEOs
Trust	% significantly or slightly declined	
Public trust in their industry has declined as a result of the economic crisis	26	40

Final thoughts

In this report we have described how business leaders are responding to the challenges brought about by the recession and how they are positioning their companies for the future. We also asked CEOs to describe, anonymously what lessons they are taking away from the crisis.

Long-term planning is critical – but be prepared to change at a moment's notice

The importance of strategy, clearly understood by customers, employees and business partners, cannot be underestimated in a crisis.

Yet the speed with which market conditions change today can render planning models moot.

The key is embedding agility throughout an organisation to enable rapid reaction to changing trends while maintaining a strategic positioning.

Manage risk in good times and bad

The importance of good risk management practices was by far the most frequently cited 'lesson learned'. CEOs fault their own approaches to risk as much as risk practices in the financial sector. 'The regulations are fine, but it's the companies that should evaluate the risks better', concluded a CEO in financial services'.

Effective risk management cannot be done on the fly. The time to manage risks and address complacency is when conditions are improving.

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CEOs were very candid about the lessons they learned during this crisis. We could not possibly include all of the helpful lessons in this document, so we put many on our website. Please visit www.pwc.com/ceosurvey to read CEOs' views, in their own words, on how they intend to avoid another crisis, on the tough choices they are making to enforce cost discipline while preserving long-term investments, on the lasting legacies of the crisis on regulation and public trust, and how they are reshaping their strategies to compete in a post-crisis environment.

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