

January 2013

Adapting to the new reality



32

CEOs in Cyprus

25%

of CEOs are very confident about their revenue growth prospects over the next 3 years

25%

of CEOs view organic growth in the domestic market and the development of new products/services as the main growth opportunities



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Notes:

Not all figures add up to 100% due to rounding of percentages and to the exclusion of 'neither/nor' and 'don't know' responses.

The Eurozone group includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Italy, Netherlands, Portugal and Spain.

Foreword

The past year was very challenging for businesses in Cyprus with the recession, the lack of market liquidity and the economic uncertainty being the prevailing factors that are expected to continue in 2013.

Globally economic volatility and disruption have escalated, countries, economies and companies are more interconnected and interdependent than ever before and risks that were thought improbable have become the norm.

We live in a new reality and “we must learn to sail in high winds”. To do this, companies need to develop resilience and effectively manage the immediate impact of events with a capacity to adapt in changing conditions. We are helping our clients so as not only to survive through the “storm” but to be successful in the new reality.

Our survey aims to communicate the thinking and concerns of CEOs and stimulate a debate on the challenges faced by businesses today and their response. Economic recovery is dependent on having a vibrant and successful private sector creating jobs and making investments for the future.

The 16th Annual Global CEO Survey was launched on 22 January 2013 at the Annual Meeting of the World Economic Forum in Davos and we are very pleased to present the second Cyprus CEO survey which examines the views of 32 Cypriot business leaders.

This year the global survey gathers insights from over 1,300 CEOs and focuses on their actions aimed at creating responsive organisations that are able to absorb shocks and turn adversity into opportunity.

In view of the fact that the interviews were carried out at a period of great economic uncertainty, the findings portray the complex and rapidly changing business landscape, the confidence levels of CEOs and reveal their views on where growth opportunities lie given the state of the economy.

Personally I would like to thank the 32 CEOs that have taken the time to share with us their views, contributing to our effort to provide insights on the challenges they face as well as on the actions taken to counter them. We appreciate that their time is valuable and we feel privileged by their willingness to participate and make this survey possible.



Evgenios C Evgeniou
CEO, PwC Cyprus



Evgenios C Evgeniou
CEO, PwC Cyprus

Confidence in growth

According to the 16th Annual Global CEO Survey, the majority (34%) of CEOs in Cyprus, in the Eurozone (43%) and globally (45%) are somewhat confident about their company's prospects for revenue growth over the next 12 months.

Just 6% of Cypriot CEOs stated "very confident" about their revenue prospects at a time where percentages reached 36% globally and 20% in the Eurozone.

It is worth noting that confidence levels have remained stable compared to the previous year, as the same percentage of 6% has stated "very confident" in the same question. The percentages both globally and in the Eurozone have decreased by 4 and 2 percentage points respectively, indicating that businesses

have become more reserved in their projections as the crisis continues.

However, CEOs in Cyprus appear more optimistic about their company's prospects for revenue growth over the next 3 years. The percentage of CEOs who stated "very confident" reaches 25%, an increase of 22 percentage points compared to the percentage recorded last year. A total of 69% stated "somewhat confident" representing an increase of 40 percentage points.

In contrast, the percentage of Cypriot CEOs who are "not confident at all" drops to 3% compared to 45% recorded last year with the percentage of CEOs who appear to have confidence in their

company's revenue prospects in the next 3 years being higher in Cyprus (94%) compared to the global (90%) and Eurozone (82%) percentages.

According to the survey, Cypriot CEOs seem to regain their optimism regarding their company's prospect for revenue growth despite the fact that the past year was challenging with the effects of the global and Eurozone crisis unfolding in Cyprus.

Figure 1: Revenue growth prospects over the next 12 months

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?

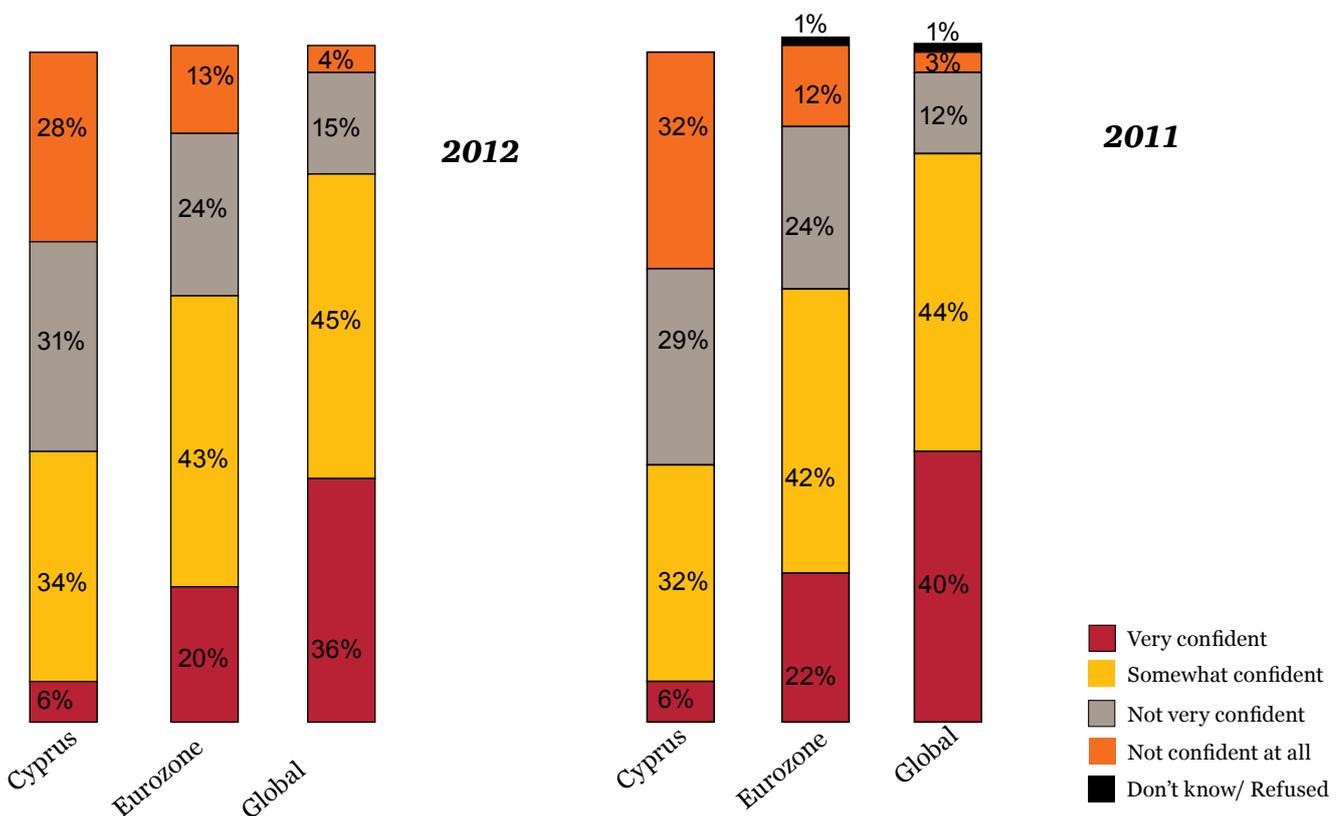
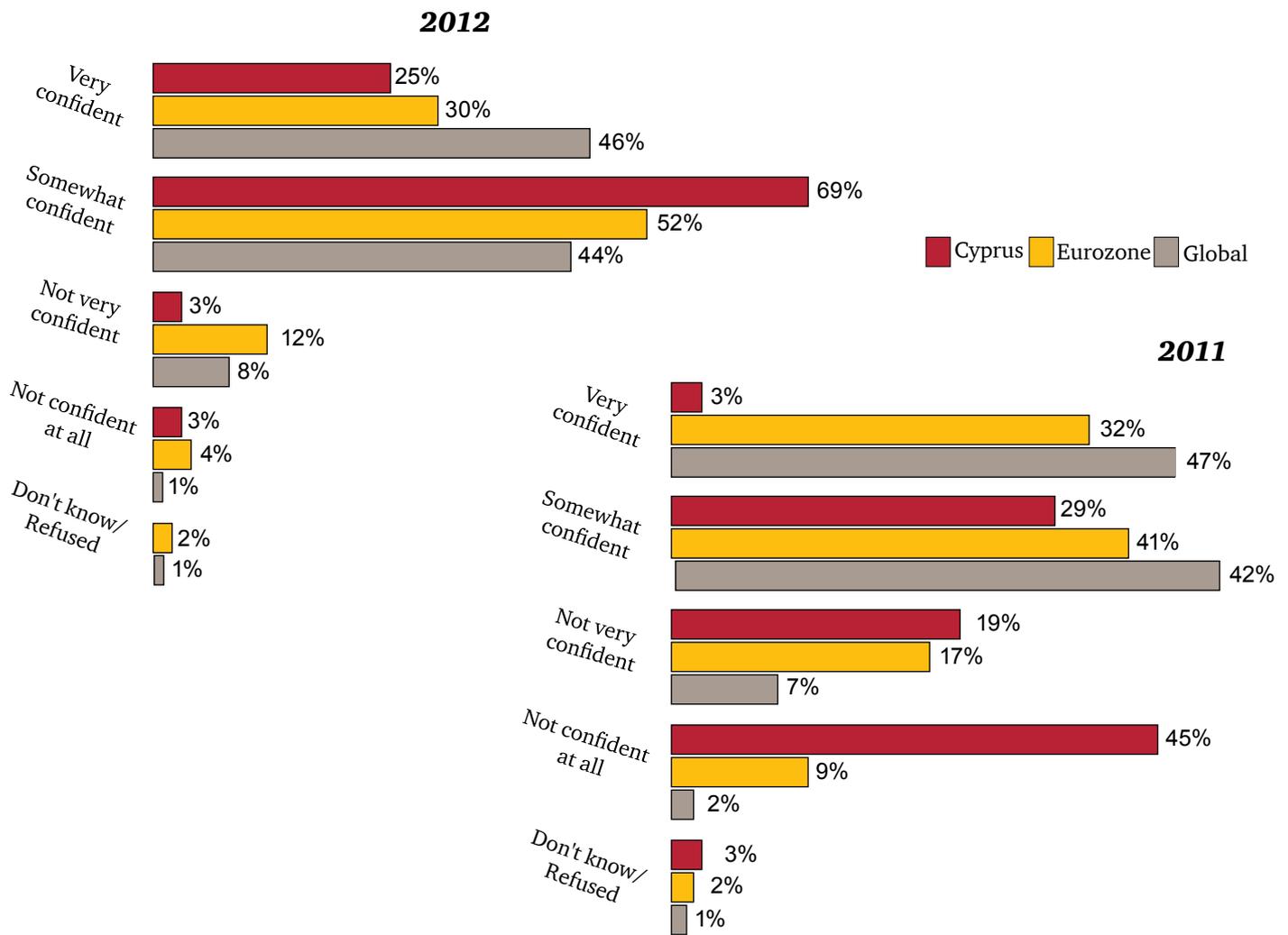


Figure 2: Revenue growth prospects over the next 3 years

Q: How confident are you about your company's prospects for revenue growth over the next 3 years?



When respondents in Cyprus were asked about the prospects of the global economy during the next 12 months, only 13% of them replied that they believe that the global economy will improve during the next year. 34% believe that it will stay the same, whereas the majority (53%) believes that the global economy will further decline.

Slightly more optimistic percentages are recorded at a Eurozone level where 16% of the CEOs believe that the global economy will improve, 45% that it will remain the same and 39% that it will decline.

Globally, 18% of the CEOs believe that the global economy will improve, 52% that it will stay the same and 28% that it will decline.

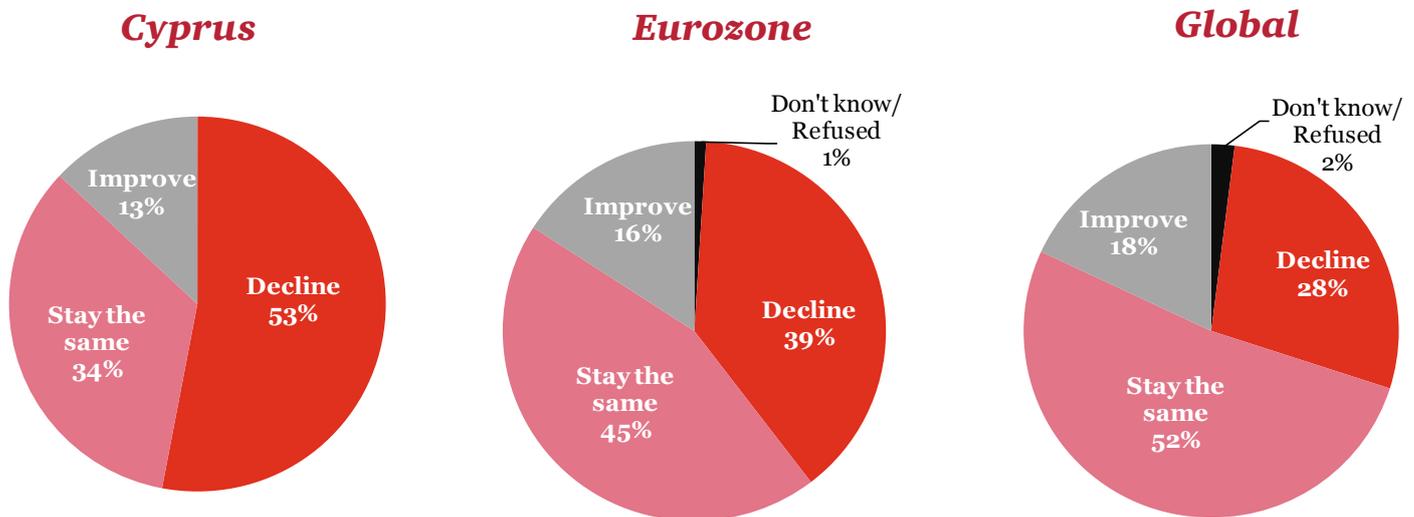


The unprecedented economic challenges left companies straggling with squeezed liquidity. Demetra, the largest public investment company on the island, has managed to come out of the economic meltdown with a strong cash position; and the challenge now is to capitalise on the opportunities brought about by the crisis. We are looking to promote investments in the energy and infrastructure sectors that will contribute in accelerating economic growth and help revive the economy.

Dr Nicos Michaelas
 General Manager
 Demetra Investment Public Ltd

Figure 3: Prospects of the global economy

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



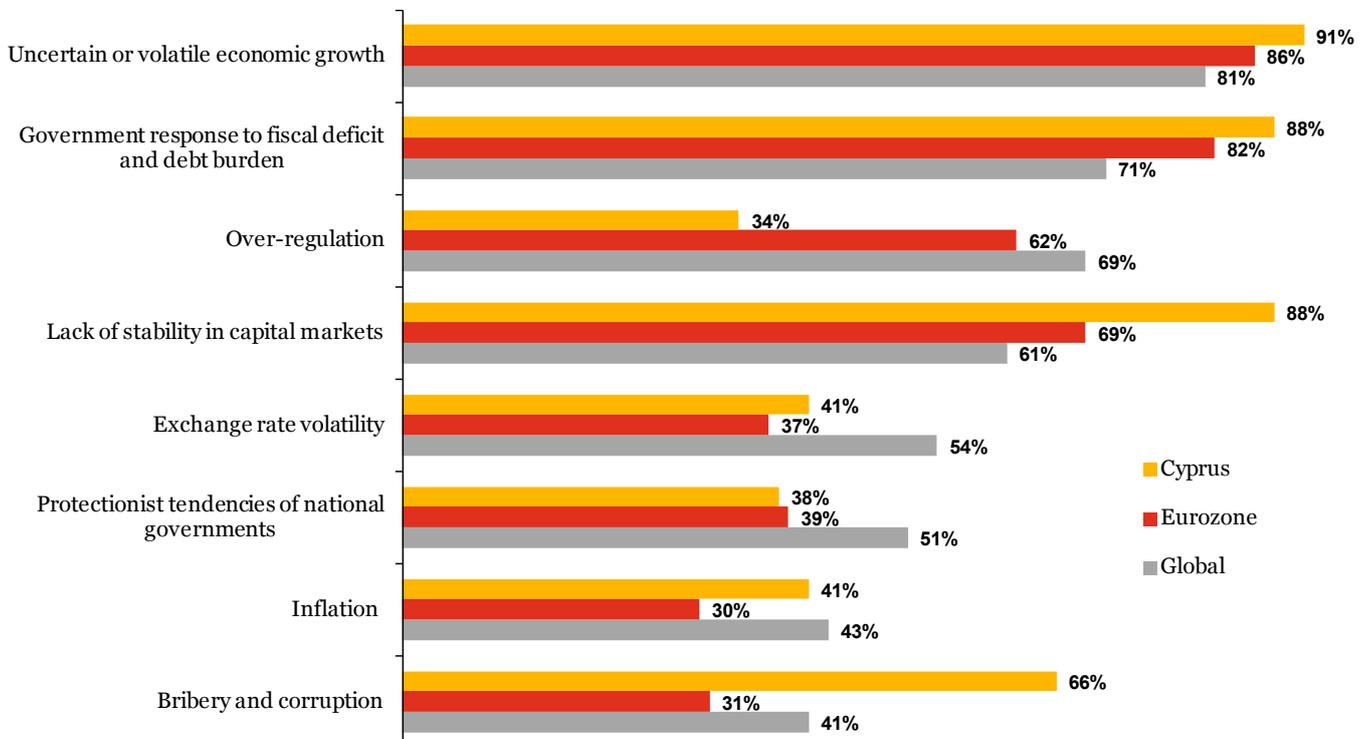
What worries the CEOs

Uncertain economic growth and the government's response to fiscal deficit and debt burden may have a negative impact in business activity.

This is confirmed by 91% of Cypriot CEOs, 86% of CEOs in the Eurozone and 81% of CEOs at a global level.

Figure 4 : Potential economic and policy threats

Q: How concerned are you about the following potential economic and policy threats to your business growth prospects?



Respondents who stated 'extremely' or 'somewhat concerned'

91% of Cypriot CEOs are concerned about their inability to finance growth compared to 39% of CEOs globally.

91%

39%

Even though CEOs at a global and Eurozone level agree that the increasing tax burden is the biggest business threat to their growth prospects, Cypriot CEOs appear anxious about their inability to finance growth. The percentage of CEOs in Cyprus who responded that they are concerned about their inability to finance growth reached 91%.

Cypriot CEOs also stated that they are concerned about the shift in consumer spending and behaviours (84%), and the increasing tax burden (69%). Changing

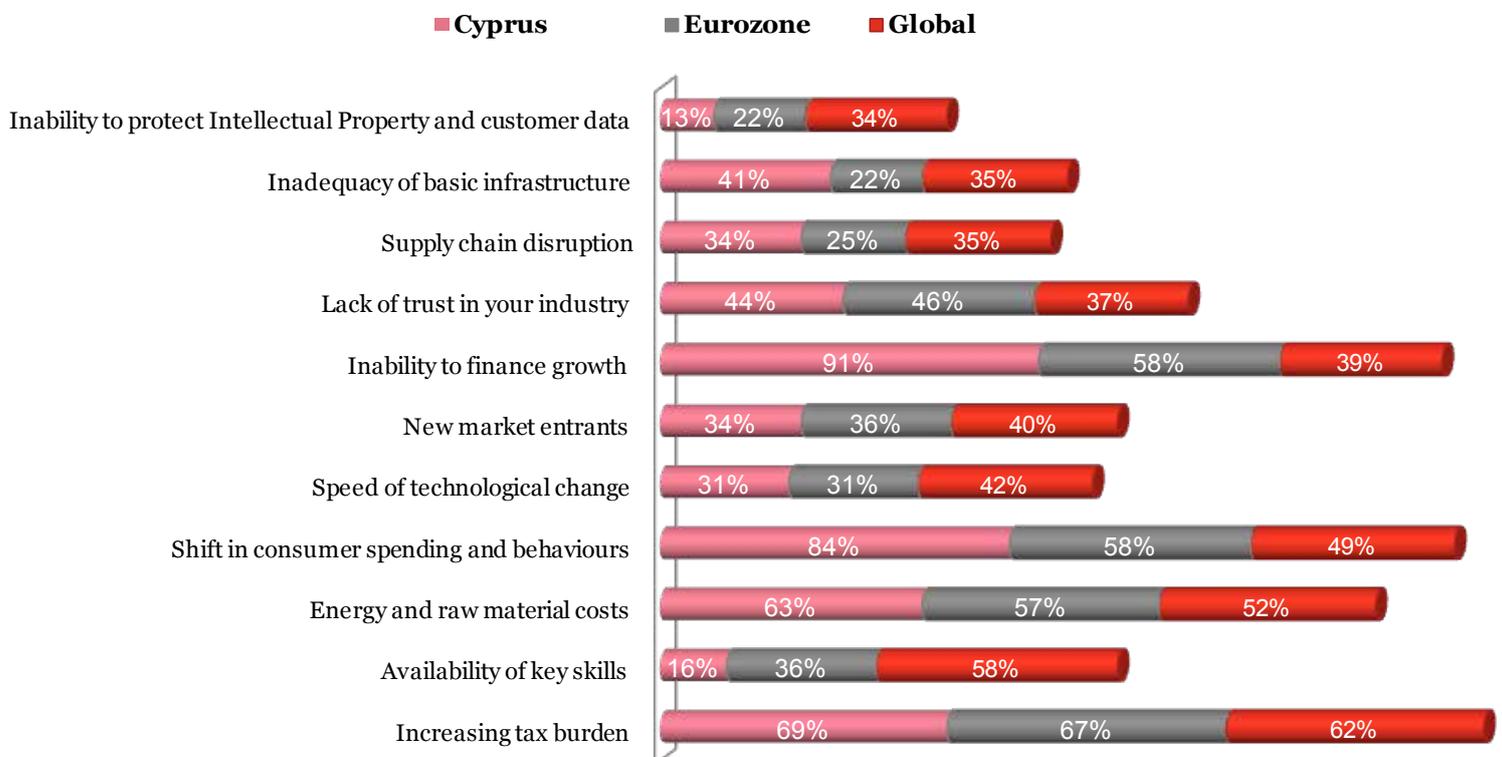
consumer behavior is a key issue concerning all CEOs as consumers now focus more on the cost and reduce their spending.

The availability of skills, named as the second biggest business threat at a global level, does not appear to pose a big threat for Cypriot CEOs possibly due to the increasing unemployment.

Energy costs were identified as the biggest business threat during the survey carried out last year. The explosion at the Mari naval base and its consequences created conditions that caused concerns to the Cypriot CEOs regarding the costs of energy. This percentage dropped from 94% to 63% this year.

Figure 5 : Potential business threats

Q: How concerned are you about the following potential business threats to your growth prospects?



Respondents who stated 'extremely' or 'somewhat concerned'

Achieving best management

The 16th Annual Global CEO Survey focused on the approach CEOs take to managing their organisations and on their strategy. CEOs need to adjust to the new business environment in order to take advantage of the new opportunities and effectively deal with the economic, policy and business threats.

CEOs in Cyprus appear to prefer a centralised approach to management with 75% of the respondents stating that strategic decision making is done at a senior executive and board level and just 22% encouraging all staff to get involved in strategic decision making. A similar picture was recorded at a global and Eurozone level.

CEOs in Cyprus focus their strategy on a few carefully selected initiatives (81%) rather than nurturing many strategic initiatives and allowing the strongest to succeed (19%). Respective percentages reached 74% in the Eurozone and 68% globally.

Half of the Cypriot CEOs said that they are diversifying their supply chain and are working with more partners across more varied geographies. Contrary, 38% is increasing concentration in their supply chain turning to fewer trusted partners.

As regards to their approach to risk management, CEOs in Cyprus stated

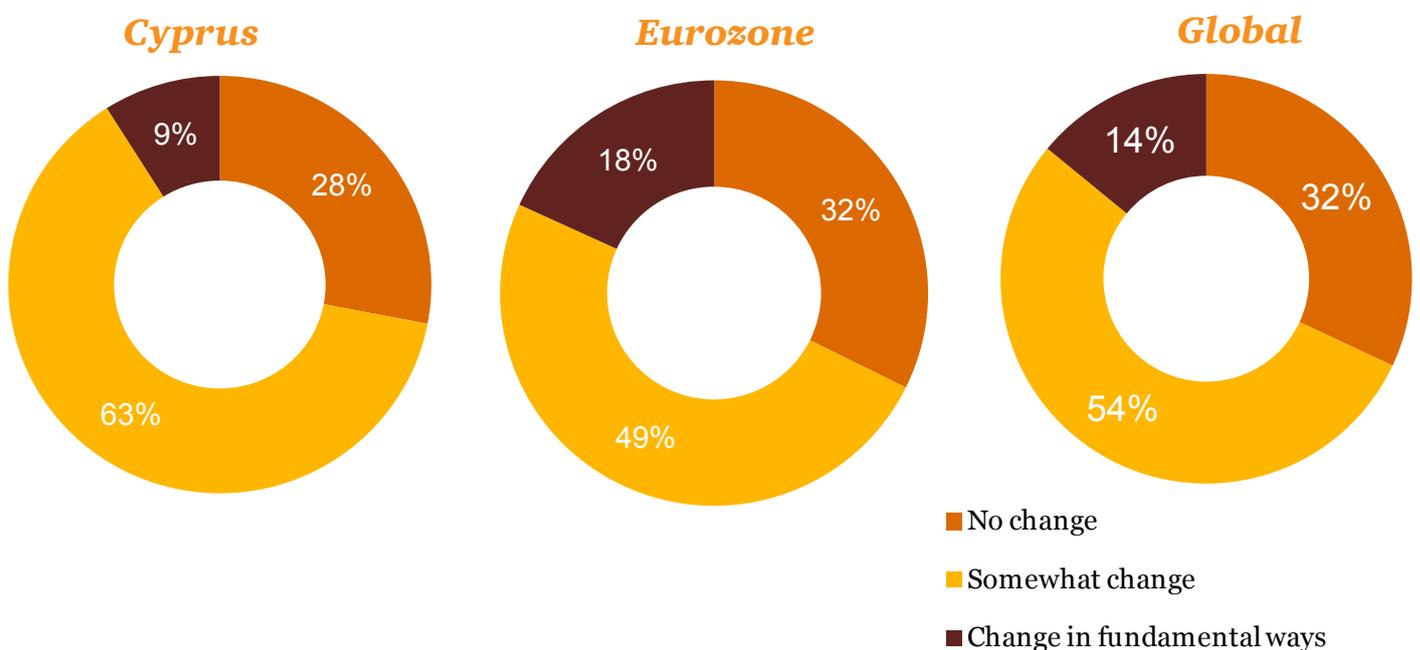
that accountability is centralised (88%) and 53% primarily allocates risk management resources to predicting high-impact risk events.

The majority of Cypriot CEOs anticipate their company's strategy to change over the next 12 months with 9% anticipating fundamental changes, 63% moderate changes and the remaining 28% no changes at all. More fundamental changes are anticipated by CEOs at a global and Eurozone level with the respective percentages reaching 18% and 14%.

The percentage of CEOs who are expecting moderate changes on the other hand drops to 49% in the Eurozone and to 54% globally whereas, 32% do not anticipate any changes in their strategy over the next 12 months.

Figure 6: Extent of strategy change in the next 12 months

Q: To what extent do you anticipate your company's strategy to change over the next 12 months?



Taking into consideration company and market data, we have every reason to believe that the outlook for the organisation in the following years is very positive. Our sector could contribute to the growth of the economic by providing low interest loans to companies operating in various sectors of the economy. In order to overcome the new economic conditions we will develop a flexible plan of action and restructuring.



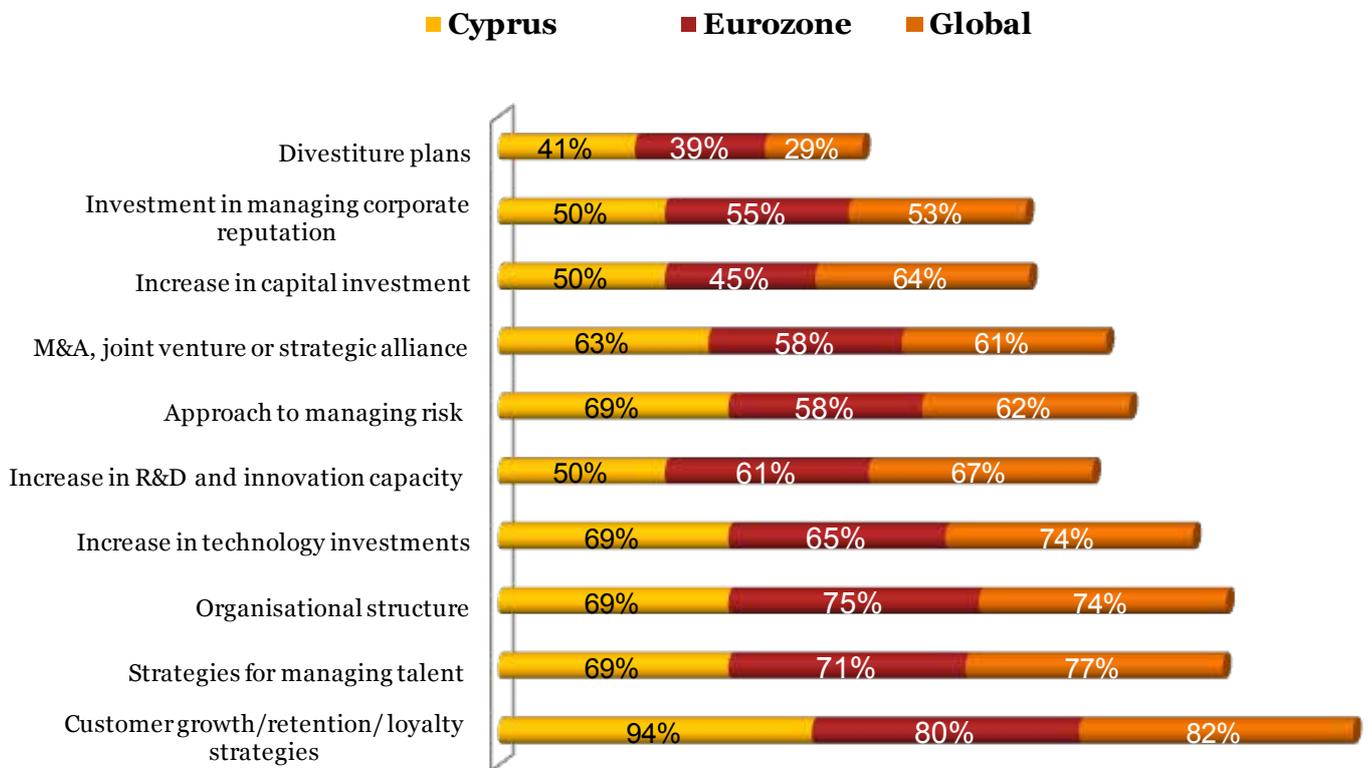
Dr. Nearchos Ioannou
General Manager
Limassol Cooperative Savings Bank

Expected changes in Cyprus in the next 12 months mainly concern customer growth as well as retention and loyalty strategies (94%). This appears to be a global trend as similar changes in their strategy are anticipated by 82% of CEOs globally and by 80% of CEOs in the Eurozone.

A total of 69% of Cypriot CEOs also anticipate changes in their strategies for managing talent, their organisational structure, an increase in technology investments and in their approach to managing risk.

Figure 7 : Expected changes in the next 12 months

Q: To what extent do you anticipate changes at your company in the following areas over the next 12 months?



Respondents who stated 'Some change' or 'A major change'

In recent years, the economic crisis has forced businesses worldwide to proceed in cost reductions. This was reflected in the past two surveys with the majority of CEOs viewing cost reductions as the most effective approach to be followed in the upcoming year.

Beyond cost reductions, CEOs will also resort to a series of other restructuring activities in order to adapt to the changing economic conditions, with strategic alliances and joint ventures being at the top of their list.

Figure 8: Restructuring activities initiated in the past 12 months

Q: Which, if any, of the following restructuring activities have you initiated in the past 12 months?

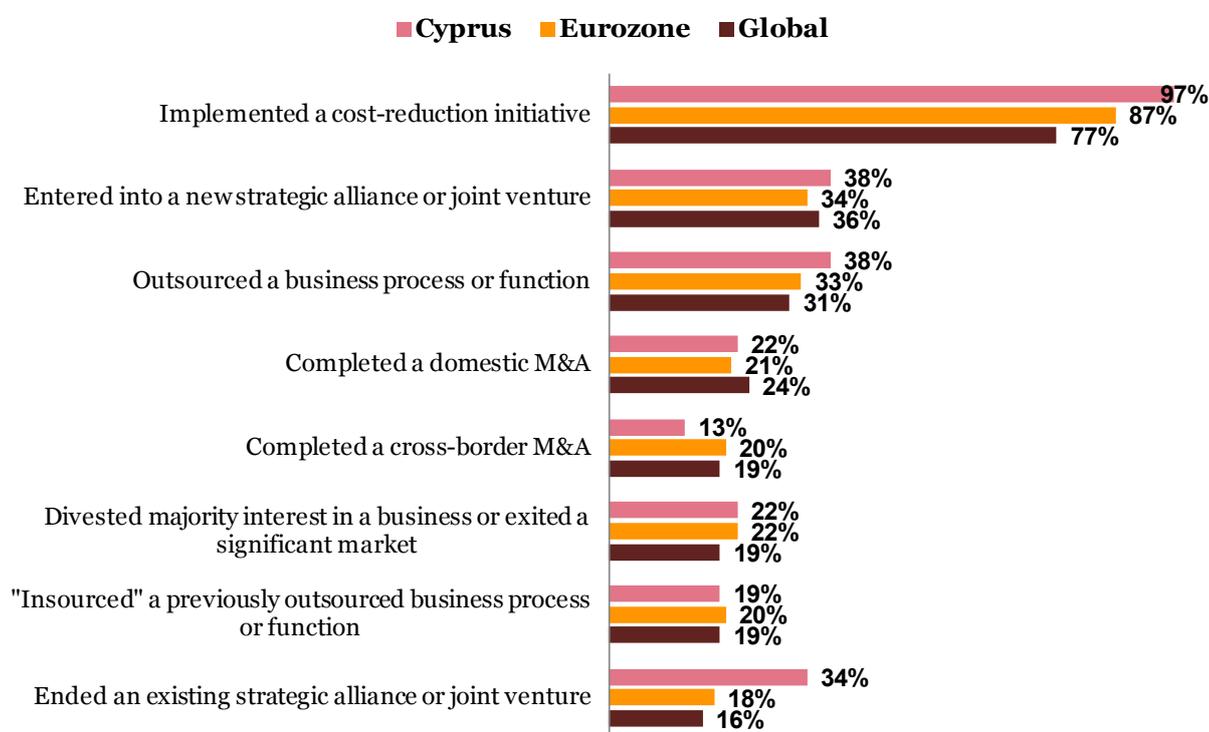
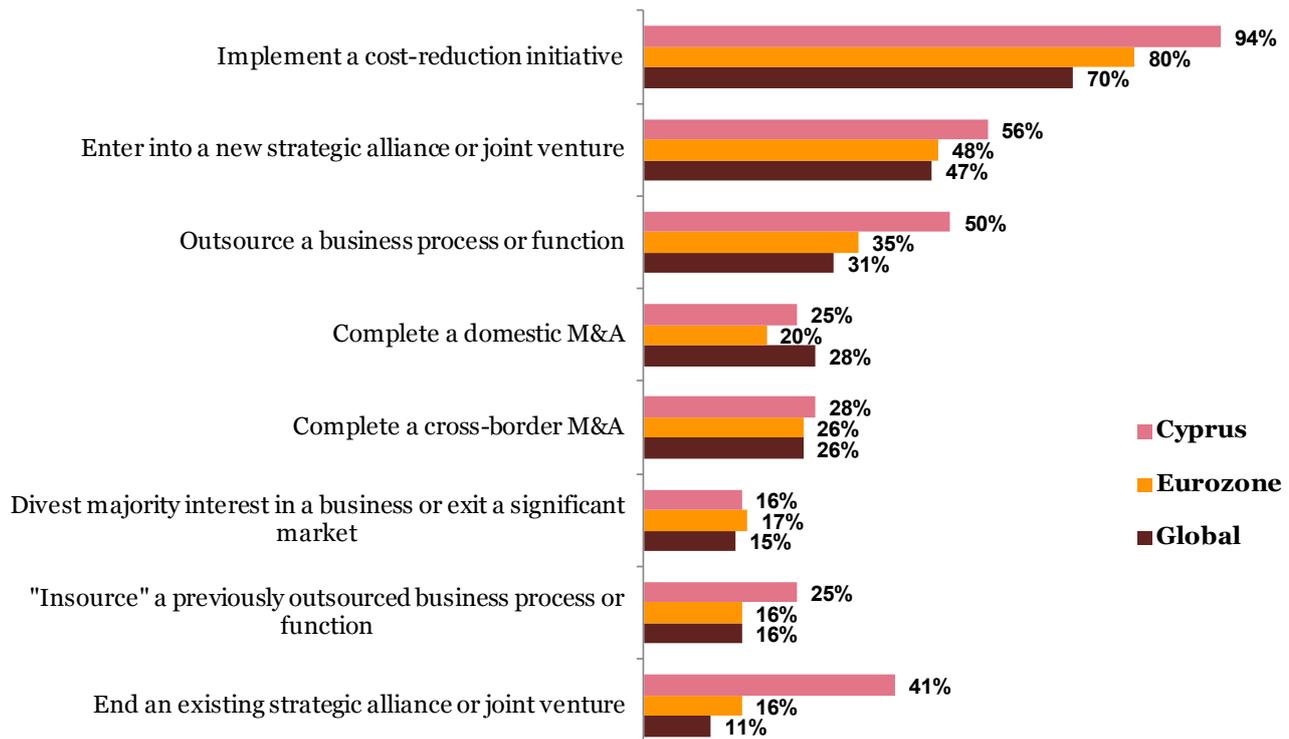


Figure 9: Restructuring activities planned in the next 12 months

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?



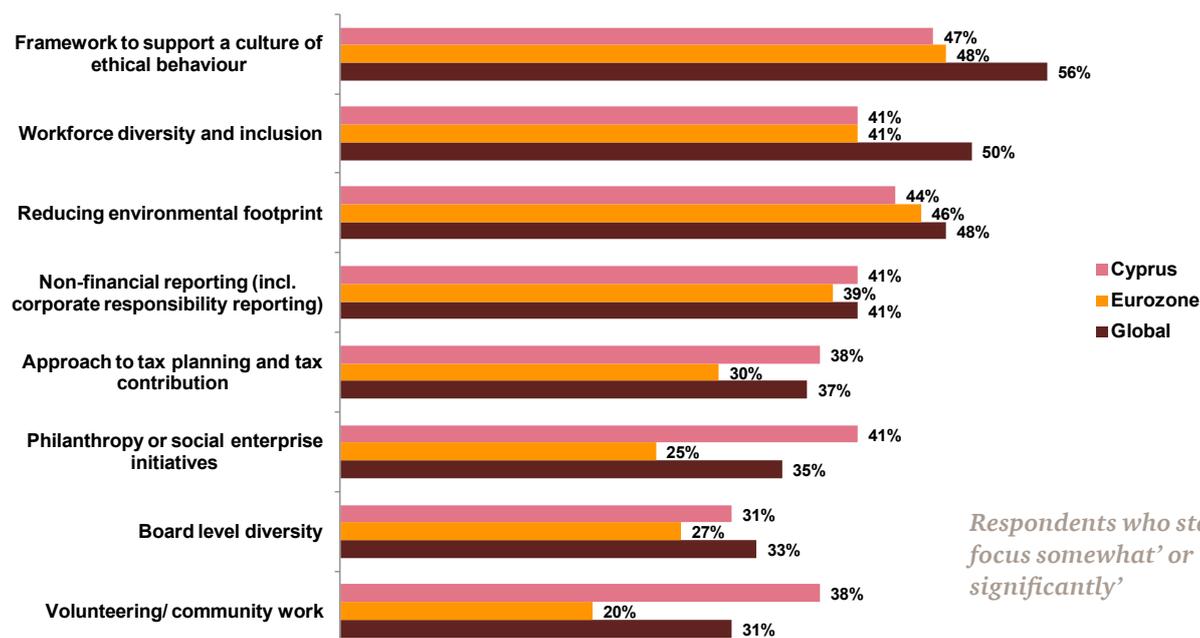
CEOs, with percentages reaching 47% in Cyprus, 48% in the Eurozone and 56% globally plan to focus on creating a framework which supports a culture of ethical behaviour during the upcoming year. 44% of the Cypriot CEOs plan to focus on reducing their environmental

footprint while 41% will be focusing on workforce diversity and inclusion, non-financial reporting including corporate responsibility reporting and social initiatives. 38% of CEOs in Cyprus will focus on volunteering and community work as well as on their

approach to tax planning and tax contribution. Finally a percentage of 31% of CEOs in Cyprus are planning to focus on board level diversity.

Figure 10: Restructuring activities planned in the next 12 months

Q: To what extent does your organisation plan to focus on the following priorities over the next 12 months?



Respondents who stated 'increase our focus somewhat' or 'increase our focus significantly'

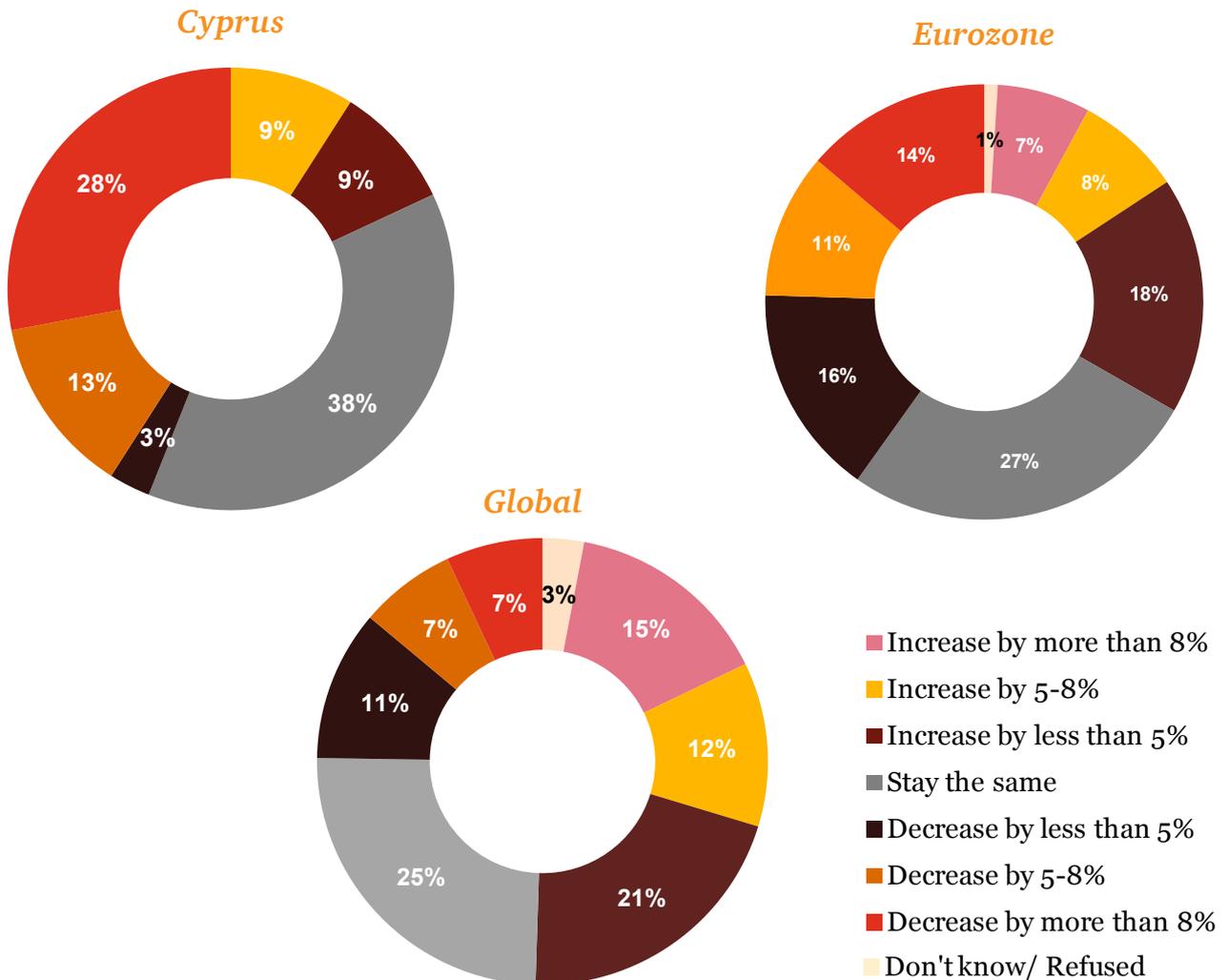
Changes in the headcount

A total of 44% of Cypriot CEOs say that the headcount of their company globally has decreased over the past 12 months. 38% say that their headcount has remained the same whereas only 18% of the respondents stated that their headcount has increased over the past year.

In Cyprus, the percentage of CEOs who stated that their headcount has decreased by more than 8% reached 28%. This percentage is higher by 14 percentage points compared to the Eurozone and by 21 percentage points compared to the global results.

Figure 11: Changes in the headcount over the past 12 months

Q: What happened to headcount in your company globally over the past 12 months?



But what do CEOs think for the future? Do they expect their headcount to decrease even further? How will the crisis affect them?

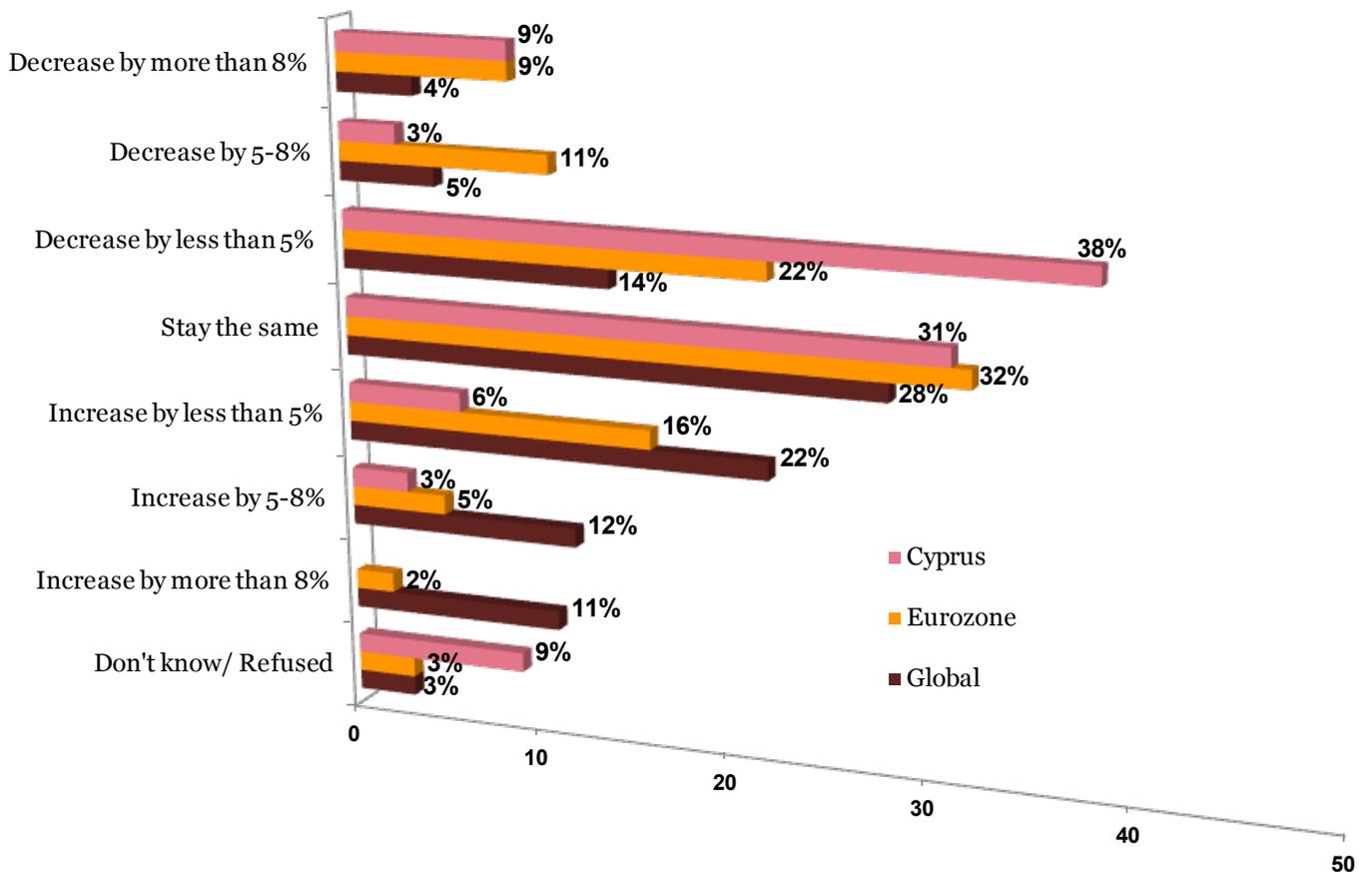
The percentage of CEOs in Cyprus who expects their headcount to decrease over the 12 months increases to 50%.

However, smaller decreases are expected during this year as the percentage of CEOs who anticipate a decrease of more than 8% drops to 9% compared to 28% who stated that they have experienced such decrease during the past 12 months (figure 11). 32% of Cypriot CEOs say that they expect the headcount of their company to stay the same and just 9% expects an increase in their headcount.



Figure 12: Changes in the headcount over the next 12 months

Q: What do you expect to happen to headcount in your company globally over the next 12 months?



Potential opportunities and investment priorities

CEOs in Cyprus view organic growth in the domestic market (25%) and the development of new products or services (25%) as the main opportunities for growth over the next 12 months followed by new operations in foreign markets (22%), organic growth in existing foreign markets (16%) and a new M&A, joint venture and strategic alliance (13%).

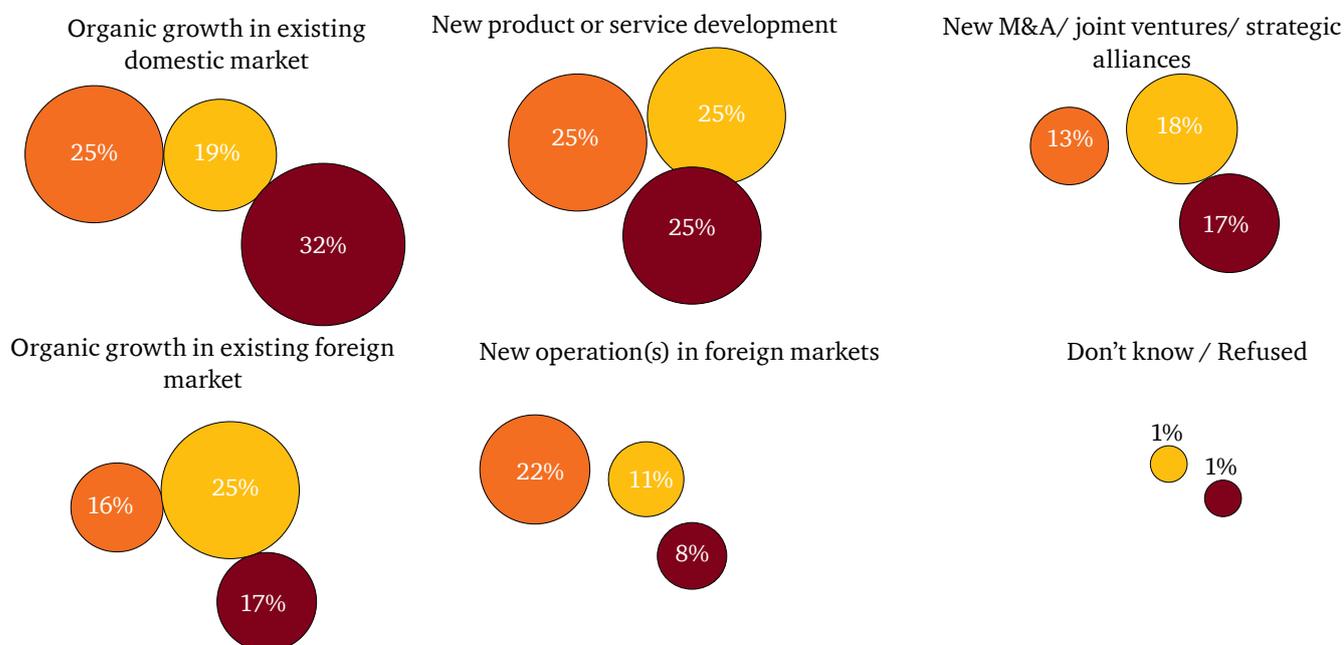
Similar views were recorded at a global level with 32% of CEOs agreeing that organic growth in the existing domestic market is the main opportunity for growth within the next year. CEOs in the Eurozone on the other hand see organic growth in existing foreign markets (25%) and new product or service development (25%) as the main growth opportunities.

It is worth mentioning that according to the Professional Services report entitled “Driving jobs and growth in Cyprus” and commissioned by PwC Cyprus, services is the backbone of the Cyprus economy. The development of services should be seen as an opportunity to leverage our strengths as a country.

Figure 13: Growth opportunities for the next 12 months

Q: 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?

Cyprus Eurozone Global



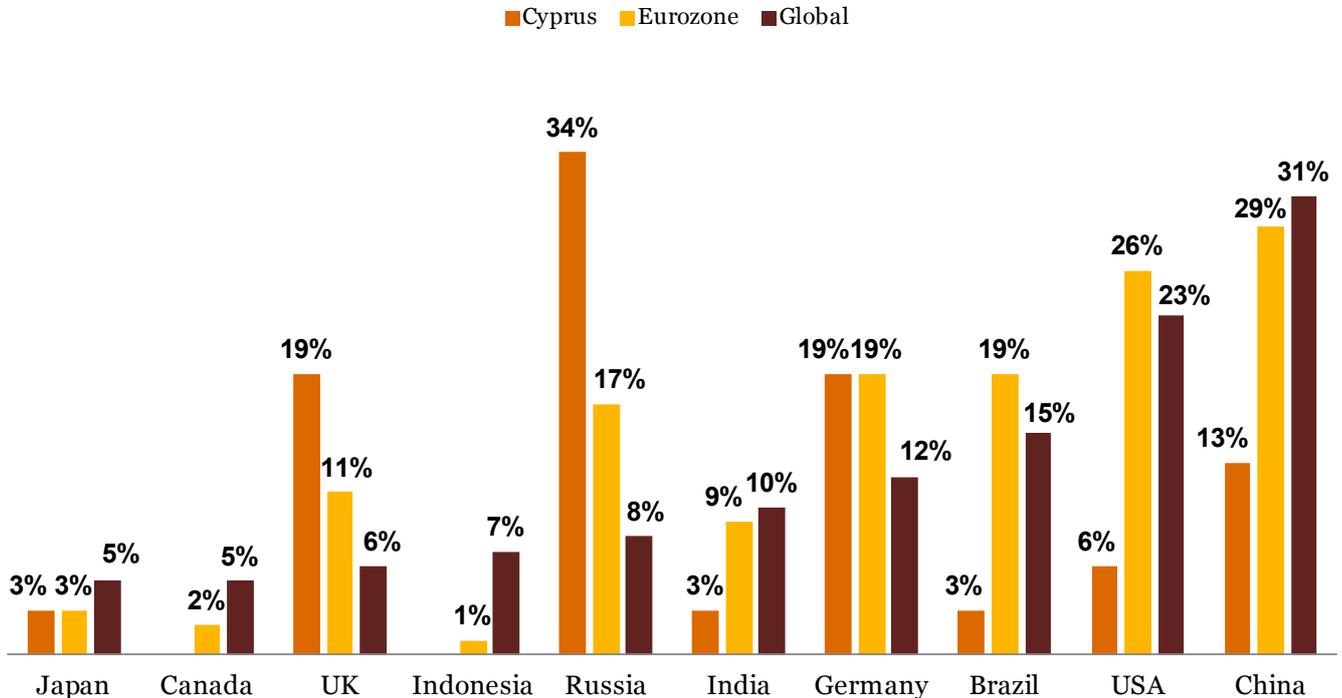
According to the findings of the survey, Cypriot CEOs consider Russia (34%) as the most important country for their overall growth prospects in the next 12 months followed by the UK (19%) and Germany (19%), China (13%), USA (6%), Brazil (3%), India (3%) and Japan (3%).

CEOs at a global and Eurozone level agree that the top four countries in order of importance are China, USA, Brazil and Germany.



Figure 14 : Important countries for overall growth prospects

Q: Which countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?



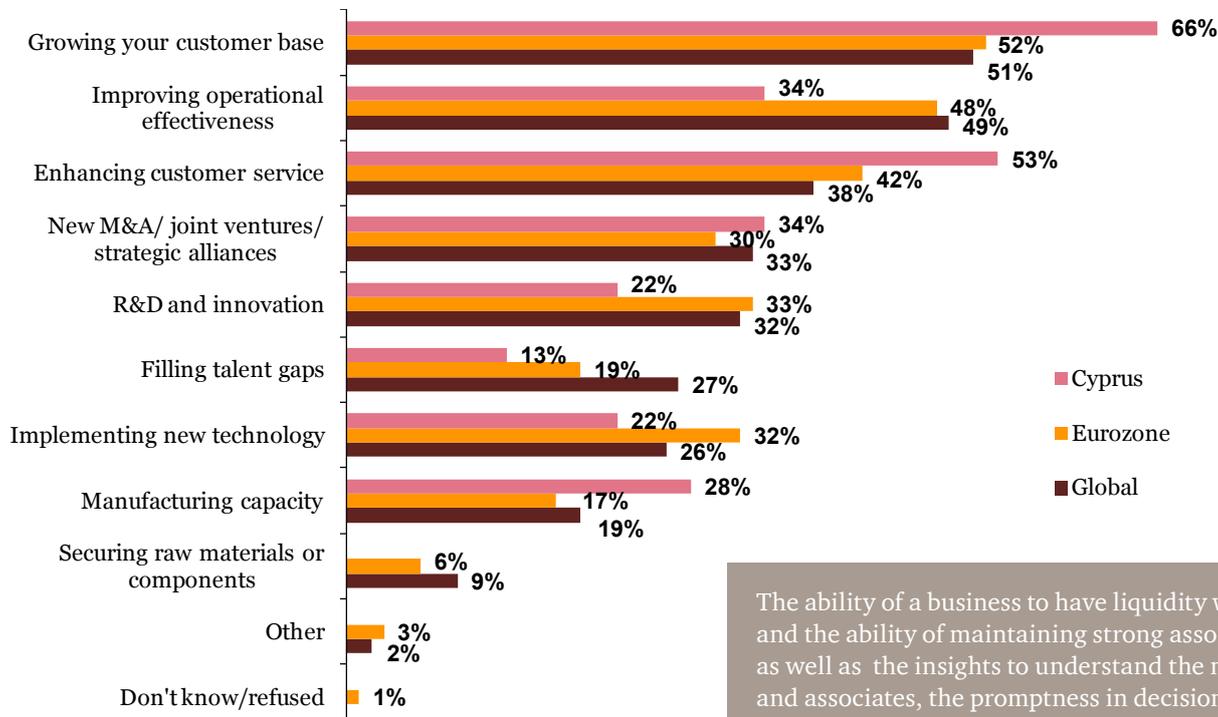


The majority of all survey participants stated that growing their customer base is the top investment priority for the next 12 months. Enhancing customer service is among the top priorities for CEOs in Cyprus (53%), while the second priority for CEOs both in the Eurozone and globally is the improvement of operational effectiveness.

Only 22% of the Cypriot CEOs stated that R&D and innovation is included among their top 3 investment priorities. This is also confirmed by the Professional Services survey mentioned earlier, in which innovation was identified as an area for improvement for our country.

Figure 15 : Top investment opportunities

Q: What are your top 3 investment priorities over the next 12 months?



The ability of a business to have liquidity without bank lending and the ability of maintaining strong associates and clientele, as well as the insights to understand the needs of customers and associates, the promptness in decision-making and the creation and supply of new services in relation to dignity and respect create perspective for the future. At the same time management needs to have “soul and pride”.

Stelios Georgallides
 General Manager
 Kentriki Insurance Ltd

Business environment

The various stakeholders appear to have considerable influence upon private businesses with CEOs taking initiatives for strengthening their stakeholder engagement programmes.

The following groups have been identified by the CEOs in Cyprus as having some or significant influence on their business strategy:

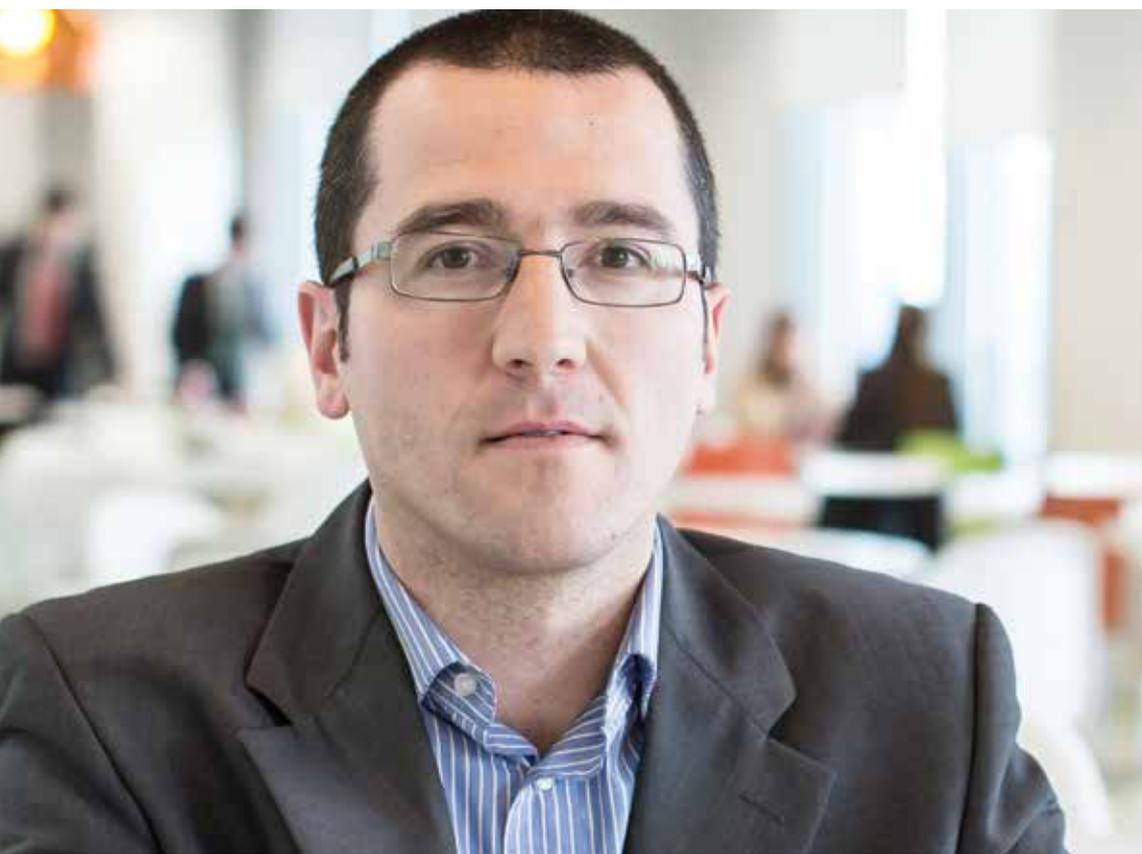
- Customers and clients (94%)
- Industry competitors and peers (91%)
- Government and regulators (88%)
- Providers of capital such as creditors and investors (78%)
- Supply chain partners (66%)
- Local communities (63%)
- Users of social media (56%)
- Employees including trade unions and work councils (50%)
- The media (41%)
- Non Governmental Organisations (6%)



In the context of the economic reorganisation, the information technology industry can play a key role as a facilitator for increasing productivity, reducing operating costs and creating new jobs, which in turn will support sustainable economic growth.

Countries that promote innovation and invest in new innovative technologies, infrastructure and training as well as in the development of skills for their society will be those that will ensure a comparative advantage in the global market arena.

Dr. Adamos Christodoulou
Managing Director
NewCytech Business Solutions Ltd



97%

97% of Cypriot CEOs believe that the government's priority today should be to ensure financial sector stability.

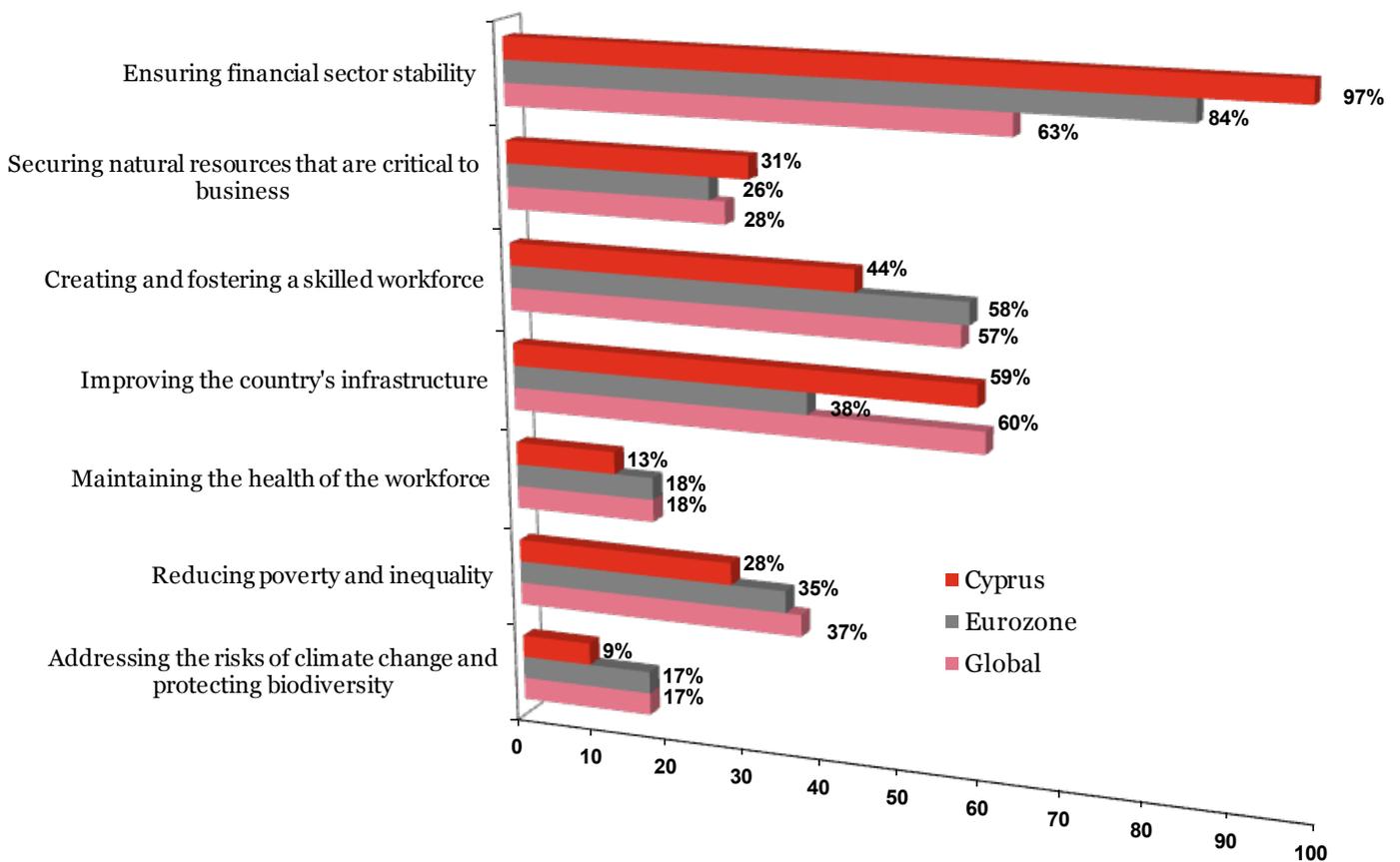
The survey confirms the fact that businesses have a clear view regarding the role and the priorities of the Government, viewing financial sector stability as a top priority. 97% of Cypriot

CEOs seem to believe just that. Financial sector stability however concerns all businesses as high percentages which reach 63% and 84% were recorded globally and at a Eurozone level

respectively. 59% of CEOs in Cyprus stated that the government's priority today should be improving the country's infrastructure and 44% creating and fostering a skilled workforce.

Figure 16: Areas that should be the Government's priority

Q: Which three areas should be the Government's priority today?



97%

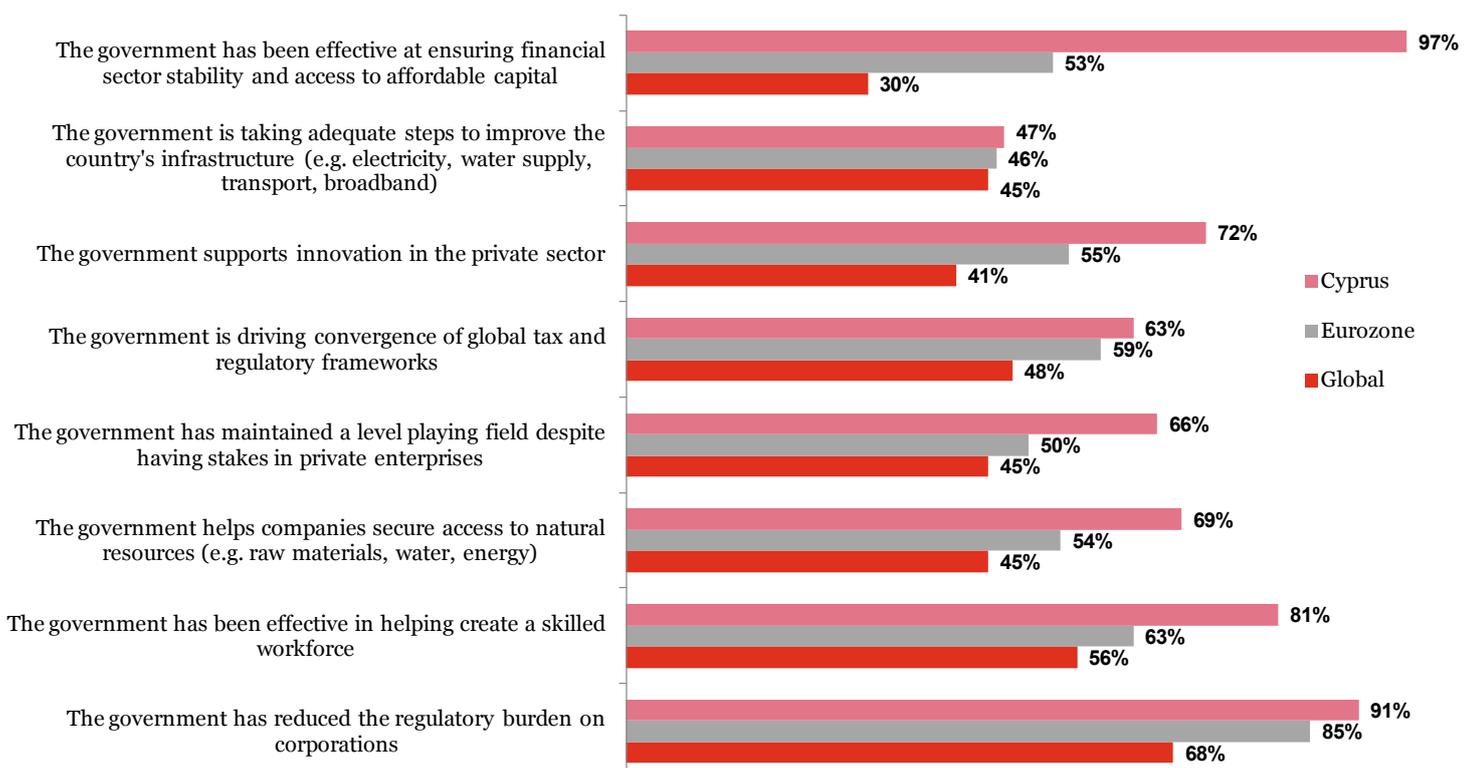
97% of Cypriot CEOs believe that the government has not been effective at ensuring financial sector stability and access to affordable capital.

When examining the role of the government, the majority of CEOs in Cyprus do not agree that the government has been effective at taking

actions which support the business environment such as ensuring financial sector stability and reducing regulatory burden on corporations.

Figure 17: The role of the government

Q: Thinking about the role of the Government in the country in which you operate how strongly do you agree or disagree with the following statements?



Respondents who stated 'disagree' or 'disagree strongly'

Conclusion

According to the findings of the survey, CEOs in Cyprus, for the second consecutive year, are less confident about their company's prospects for revenue growth over the next 12 months in comparison to the CEOs on a global and Eurozone level. However, Cypriot CEOs are more optimistic about their company's revenue growth prospects over the next 3 years with a percentage of 25% stating "very confident" representing an increase of 22 percentage points compared to the percentage recorded last year.

The fact that Cypriot CEOs are more optimistic for the future than they were one year ago, may be attributed to the fact that natural gas is expected to create economic opportunities. Reaching a final agreement on the memorandum of understanding will reduce uncertainty and in the end companies will adapt to the new reality. Investment and Development is the answer to the recession and unemployment.

The top investment priorities in the next year focus on customers with CEOs emphasising on growing their customer base and enhancing their customer service. CEOs view the uncertain economic growth, the government's response to fiscal deficit and the lack of stability in capital markets as the biggest economic and policy threats to their growth prospects. They also appear anxious about their inability to finance

growth, the shift in consumer spending and behaviours, the increasing tax burden as well as the cost of energy and raw materials.

The past year was particularly challenging for businesses and the cost reduction initiatives which are expected to continue confirm that the year ahead will be even more challenging.

According to the survey CEOs believe that the government has not been effective at taking actions which support the business environment saying that ensuring financial sector stability and improving infrastructure should be government's priority today.

The survey findings indicate that threats are now coming harder and faster forcing organisations to become more agile and adaptable. Cypriot CEOs are well aware of the challenges they are forced to face as well as the opportunities that may arise from this unstable environment. They follow domestic and global developments and are actively taking steps for managing the downside.

Uncertainty is the only certain characteristic of today's business environment and successful organisations are pursuing resilience to survive and grow. We are confident that Cypriot business leaders will pursue the changes and strategies necessary to overcome the difficulties and successfully exit the current crisis.



PwC Cyprus

We are striving to offer our clients the value they are looking for, value that is based on the knowledge that our teams draw from 180.000 experts in 158 countries and based on experience adapted to local needs. PwC Cyprus focuses on two main areas: Assurance & Advisory Services and Tax & Legal Services. We work closely with our clients. We ask questions. We listen. We learn what they want to do, where they want to go. From all our international knowledge we share with them the piece that is more suitable for them and thus we support them on how to achieve their goals.

In the operation of the world's capital markets we play an important role and as business advisors we help our clients solve complex business problems. We aim to improve their ability to manage risk and improve performance. At the same time we take pride in our quality services which help to improve transparency, trust and consistency of business processes.

Our position is strengthened with our almost 1.000 professionals and our offices throughout Cyprus.

Assurance & Advisory Services

Our Financial Assurance services comprise of statutory and regulatory audit services, which include evaluation of information systems, advisory services for capital market transactions, accounting and regulatory issues for all types of businesses through specialist industry divisions:

Financial Services (FS), Consumer and Industrial Products and Services (CIPS) and Technology, Information, Communications, Entertainment and Media (TICE).

Our Risk Assurance Consulting (RAC) offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security and controls of information technology systems including Enterprise Resource Planning (ERP) systems (e.g. SAP, Oracle, Navision), Project Implementation Assurance (PIA), Computer Assisted Audit Techniques (CAATs), Spreadsheet Integrity and IT Risk Diagnostic and Benchmarking. A particular focus of the team is in supporting the financial services industry on matters related to regulatory compliance, licensing and risk management.

Our Performance Improvement Consulting (PIC) is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

Our Deals & Corporate Finance (DCF) provides consulting on M&A's, valuations, feasibility studies, transactions support and crisis Management.

Tax & Legal Services

Our PwC network's tax and legal services include Global Compliance Services, Direct and Indirect Tax Services, Services to Small and Medium Enterprises and Legal Services.

Global Compliance Services

Comprising the whole spectrum of company administration and corporate statutory compliance services, bookkeeping, accounting and payroll services as well as specialised services such as private client services, advice on establishment and administration of local and international business companies, collective investment schemes, UCITS, investment firms and trusts.

Direct tax services

Corporate: Advisory Services for tax planning, international tax structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

Personal: Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Indirect Tax Services

VAT: Advisory services for VAT, VAT recovery and VAT minimisation and tax compliance (administration of VAT returns, communication with VAT authorities, agreement of disputed assessments, etc).

Services to Small and Medium Enterprises (SME)

The Services to Small and Medium Enterprises are addressed to individuals, small and medium - sized enterprises with local activity and cover the whole spectrum of accounting, tax, VAT, family business and financial structuring and statutory compliance services.

Legal Services

The legal firm, full member of the PwC international network, offers legal services that cover the whole spectrum of corporate and business law, including advising and representing clients in M&A transactions, re-organizations, European Union law and Competition law, setting up and regulating private companies, setting up joint ventures and other forms of businesses and carrying out legal due diligence.

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Dr. Nearchos Ioannou
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Dr Nicos Michaelas
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Demetra Investment Public Ltd



Download the main report, access the results and explore the CEO interviews from our 16th Annual Global CEO Survey online at www.pwc.com/ceosurvey.

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