

Fit for the future *17th Annual Global CEO Survey*

Key findings in the energy industry

February 2014



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Sector snapshot

Sector snapshot

The energy sector is radically transforming, with technology playing a big role. Energy CEOs are seeing new consumer demand patterns around the world, and focusing on building trust with stakeholders. And they're worried about how government actions will impact their business.

Sector snapshot

Technology, resource scarcity and climate change concerns are transforming the energy sector

80% of energy CEOs believe that technological advances such as the digital economy, social media, mobile devices and big data will transform their business over the next five years. And nearly as many (76%) pointed to resource scarcity and response to climate change concerns –far more than across the sample as a whole. Nearly half strongly agree that it's important to measure and try to reduce their environmental footprint.

Technology is increasingly helping address resource scarcity, for example innovation in the sector is opening up whole new sources of fuel. It's helping decrease the impact on the climate too, by making energy production and distribution more efficient. Energy CEOs recognise the benefits; they are

much less likely to see the speed of technological change as a threat to growth. Only 31% were concerned, compared to 47% of the overall sample. And fewer are concerned about protecting intellectual property too.

And regional demand patterns are changing

More than two-thirds of energy CEOs see global shifts in economic power as another trend that will transform their business. Consumer demand is growing predominantly in emerging markets. The three countries that energy CEOs ranked as the most important to their business growth are China, Brazil and the US. Looking beyond the BRICS over the next 3-5 years, Mexico, Indonesia and Africa are viewed as important locations for growth.



Sector snapshot

Energy CEOs want to improve their public image and stakeholder trust

More than half of energy CEOs (56%) are concerned that lack of trust in business could threaten growth. They're taking sustainability seriously – 95% agree that it's important to promote a culture of ethical behaviour, and 88% also see measuring and reducing their

Agree employee trust has improved
51%

environmental footprint as important. Energy CEOs indicate that stakeholder trust has improved among employees (51% vs 39% overall), and among customers and creditors. However, when it comes to the media and government/regulators, they acknowledge a decline in trust (36% vs 23% overall for the media and 42% vs 31% overall).

Governments have a big impact

More than half of energy CEOs are extremely concerned that excessive regulation (54% vs 38% overall) could negatively impact growth. Most don't feel it's helping improve production and/or service delivery quality standards. And energy executives are concerned about the impact government may have in other ways too. More energy CEOs are extremely

concerned that an increasing tax burden could slow down growth (49% vs 32%). In addition, energy CEOs are extremely concerned about government response to fiscal deficit and debt burden (42% vs 31% overall).

Are concerned about excessive regulation
54%

Opportunities for growth

88%

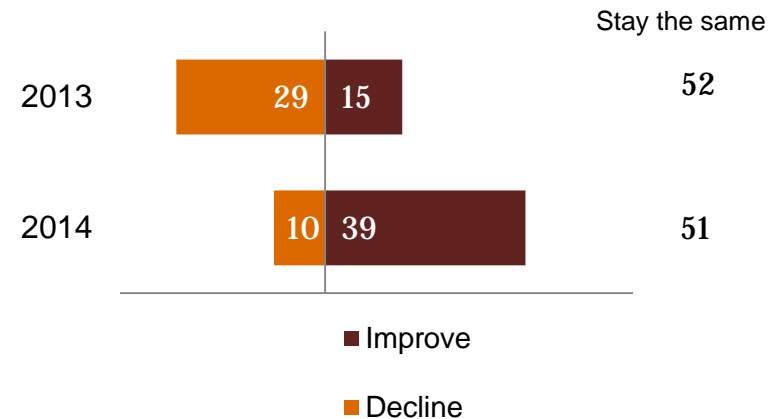
Energy CEOs are somewhat or very confident of growth over 3 years

Views on the economy are looking up

39% of energy CEOs believe that the global economy will improve in the next 12 months, compared to just 15% last year. Also, while almost a third expected to see the economic situation worsen last year, this year only 10% are anticipating a global decline.

Still, many energy CEOs are **worried about continued slow or negative growth in developed markets (66%)**. It ranks higher in their list of concerns than a slowdown in high-growth markets (56%). This reflects the continued importance of mature markets.

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



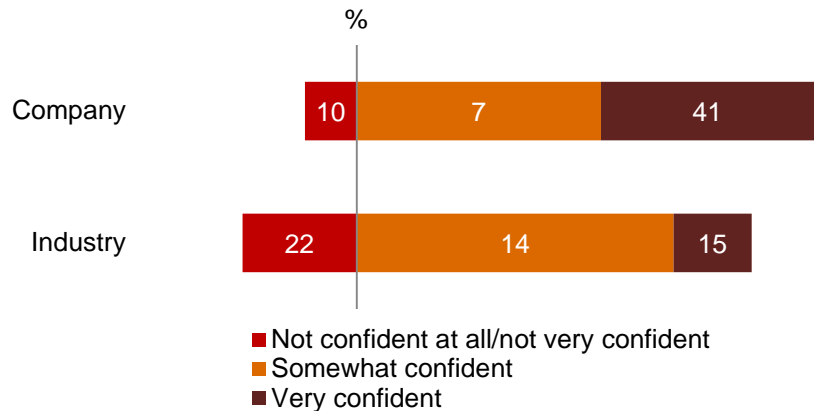
Base: All respondents 2014 (Energy, 59); 2013 (Energy, 48)
Source: PwC 16th Annual Global CEO Survey 2013
PwC 17th Annual Global CEO Survey 2014

More CEOs expect middle term growth for their companies, but not for the industry

39% of energy CEOs are very confident of growth over the next 12 months. Slightly more energy CEOs – 41% – are very confident in their company’s growth looking out over the next three years.

That’s nearly three times as many as expect the industry to grow, though. Just 15% of energy CEOs say they are very confident in their industry’s prospects for revenue growth over the next three years.

The industry faces big challenges to find and lift new reserves. “And for the sector as whole, well, easy oil is over.” Emilio Lozoya, CEO, Petroleos Mexicanos



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

Base: All respondents (Energy, 59)

Source: PwC 17th Annual Global CEO Survey 2014

41%

vs.

15%

Company growth

Industry growth

CEOs tell us they are confident in their ability for revenue growth

“We’ve had a good track record of growth over the last few years. When I first came to the company, we were producing about 13,000 barrels of oil a day. Today we’re at 45,000 barrels a day. In the next three to five years, we could be at 65,000 barrels a day, so it has been a good run for us.”

—**Robert Heinemann**
*Former Chief Executive Officer,
President and Director, Berry
Petroleum Company*

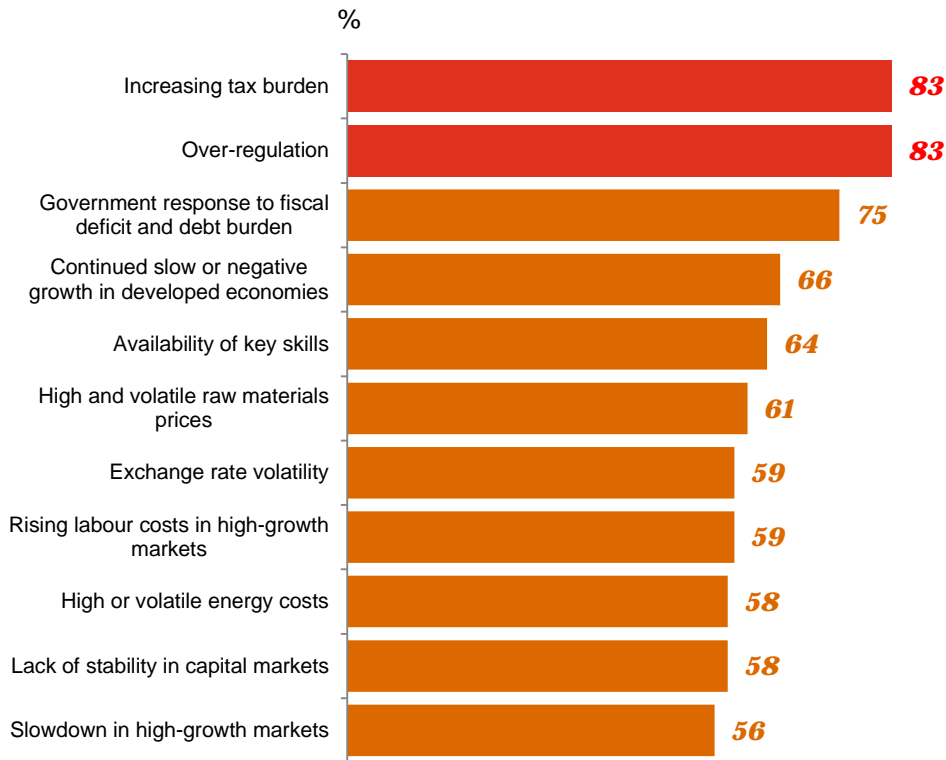
“All the development in the world is not going to come over the next 10, 20 years, the growth is not going to come from our established markets, from our biggest companies, not even from the Apples or the Googles. The vast majority of the growth is going to come from what people sometimes refer to as emerging markets but we prefer to call global growth markets because these are the markets that are going to have the greatest global growth.”

—**Badr Jafar**
Managing Director, Crescent Group

“I would say that the signs coming out of emerging markets and developed economies look brighter today than in the past few years. Emerging markets, the BRICs for example, might have slowed down. But you have other emerging markets like Mexico, Indonesia, South Korea, Turkey picking up some of that diminished growth from China, Brazil, India, Russia.”

—**Emilio Lozoya**
*CEO, Petroleos Mexicanos
(Pemex)*

But more than half of energy CEOs are still concerned about a wide range of issues



- Taxes, over-regulation, and government responses to fiscal deficit and debt burden head up the list. In all of these areas, energy CEOs are more concerned than their peers across the total sample.

Q: How concerned are you, if at all, about each of the following threats to your growth prospects? Top choices listed.

Base: All respondents (Total sample, 1344; Energy, 59)

Note: Respondents who stated 'extremely' or 'somewhat' concerned.

Debt & deficit responses, taxes and exchange rates are the top three threats

Increasing tax burden

More than four-fifths of energy CEOs believe taxes could sidetrack growth prospects. That's far more than across the sample as a whole.

Percentage who are concerned about an increasing tax burden

83%

Over-regulation

Energy CEOs, like their peers overall, are concerned that over-regulation could put the brakes on growth.

Percentage who are concerned about over-regulation

83%

Government response to fiscal deficit and debt burden

Energy CEOs are far more worried about government responses to fiscal deficits and debt burdens than the sample as a whole. They're increasingly a factor in decisions on where to base production locations.

Percentage who are concerned about government response to fiscal deficit and debt burden

75%

Still, energy CEOs are expanding in growth markets and mature markets alike

South-East Asia overtakes CEE and Central Asia

Around a third of energy CEOs planning deals have their eyes on South-East Asia when it comes to transactions. That's more than across the overall sample (23%).

Energy CEOs planning a deal who will target South-East Asia

29%

Latin America and Africa stand out

Compared to the overall sample, more CEOs are planning deals here. About one-fourth planning transactions are looking to Latin America (23%), followed by Africa (16%). Both are above the global trends.

Energy CEOs expecting a merger, acquisition, JV or strategic alliance who are looking to Latin America

23%

China remains the key growth market

And the USA and Brazil (15%) are next on the list of countries that CEOs expect to drive growth over the next 12 months. The UK (10%) and Australia/ Canada/ Colombia (8%) round out the top seven.

Energy CEOs who rate China as their top growth market

24%

Transforming business

CEOs recognise that global trends are transforming business

Headed up by technological advances

Q: Which of the following global trends do you believe will transform your business the most over the next five years? (Top trends Energy CEOs ranked in their top 3.)



Base: All respondents (Total sample, 1344; Energy, 59).
Source: PwC 17th Annual Global CEO Survey

Four-fifths of energy CEOs identified technological advances such as the digital economy, social media, mobile devices and big data as key trends transforming their business. More than three quarters also pointed to resource scarcity and climate change. That makes it far more important for the sector than most other industries.

And two-thirds believe global shifts in economic power will transform business, in line with the global sample.

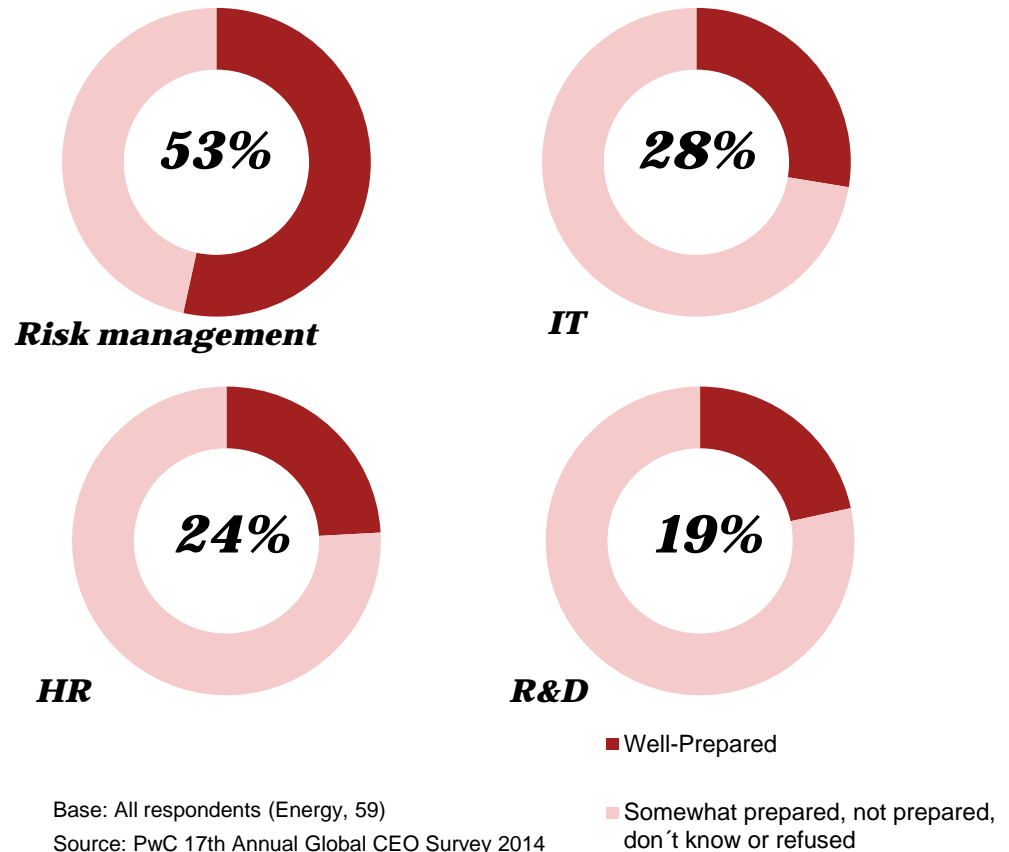
Risk is ahead of the game, but many other departments still have a long way to go

Energy CEOs are especially confident of their ability to manage the risks that transformative changes bring—more than half believe their risk management department is well-prepared, compared to just 40% of CEOs overall.

But when it comes to other departments, they're much less confident. Just 28% think IT is well-prepared. And less than a quarter rate HR well-prepared, compared to 34% of CEOs.

One of the department energy CEOs see as least ready to cope with change is R&D. Only 19% of CEOs see it as well-prepared, far less than across the overall sample – and 14% say their research function is not at all prepared.

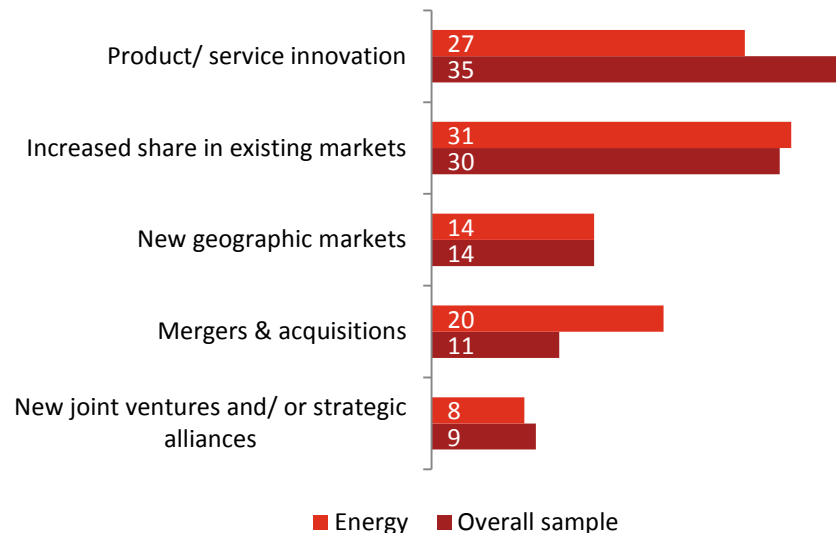
Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organization prepared to make these changes?



Energy companies aren't worried about the speed of technological change

- Fewer energy CEOs (27% vs. 35% overall) see product and service innovation as their main route to growth. Many (31%) are looking to increased market share in existing markets instead.
- Surprisingly, they're not worried about keeping up with technology. Sixty-nine percent of energy CEOs are not concerned at all nor very concerned about the **speed of technological change** – higher than across the overall sample.

Q: Which one out of the following list of potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Base: All respondents (Total sample, 1,344; Energy, 59)
Source: PwC 17th Annual Global CEO Survey 2014

And while some are already re-vamping innovation, there's still a ways to go

Most energy CEOs want to improve their company's ability to innovate. But only a minority have already gotten started.

Develop an innovation ecosystem

41%

Alter R&D and innovation capacity

53%

Change technology investments

49%

There's a glaring gap between

Aspirations

and

Actions



24%

Have started or completed changes



29%

Have started or completed changes

Q: Which, if any, of these national outcomes is your organisation focusing on as a priority over the next three years? To what extent are you currently making changes, if any, in the following areas? (two listed)

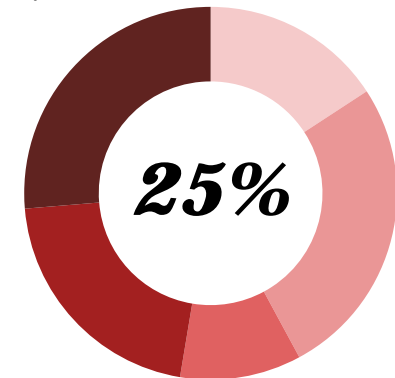
Base: All respondents (Total sample, 1,344; Energy, 59). Aspiration answers include: recognise need to change, developing a strategy to change, and have concrete plans to implement change programmes. 'No need to change' answers not shown.

Source: PwC 17th Annual Global CEO Survey 2014

Finding better ways of using and managing data. are important too

- 71% of energy CEOs are exploring better ways of using and managing data, but only 20% have actually gotten started.
- And **25%** still see no need to change their strategies.
- More may need to start acting — 44% of energy CEOs say they're somewhat or extremely concerned about cyber threats including lack of data security.

Q: In order to capitalise on the two-three global trends which you believe will most transform your business over the five years, to what extent are you currently making changes, if any, in the following areas? (Use and management of data and data analytics)



- Recognise need to change
- Developing strategy to change
- Concrete plans to implement change programmes
- Change programme underway or completed
- No need to change

Base: All respondents (Total sample, 1344 ; Energy, 59)
Source: PwC 17th Annual Global CEO Survey 2014

CEOs are concerned about developing a workforce that can cope with a changing world

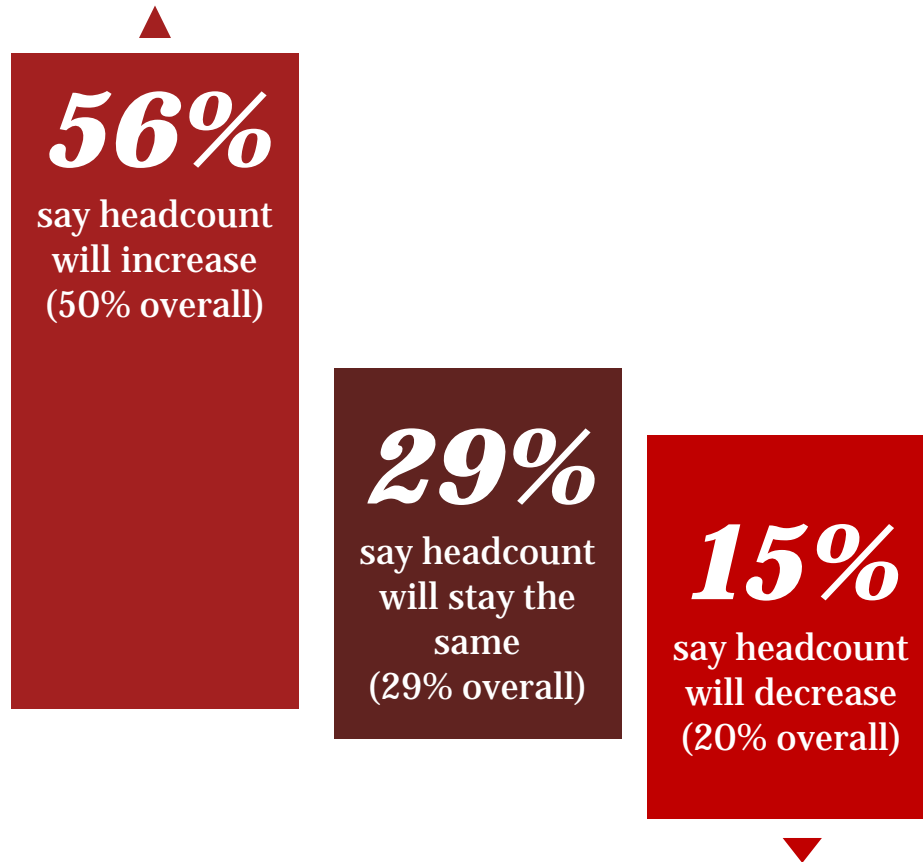
- 64% of energy CEOs are worried about the availability of key skills.
- 46% of energy CEOs believe that **creating a skilled workforce** should be a government priority, but only 21% believe that the government has been effective.
- So many are taking actions themselves – 64% say creating a skilled workforce is a priority for their company.

Talent is one of the main engine of business growth. So one of the biggest issues CEOs face, as these huge demographic changes occur, is finding and securing the workforce of tomorrow – particularly the *skilled labour* they need to take their organisations forward.

“...I perceive talent to be one of the most important challenges for Pemex. We are investing heavily in attracting and retaining talent. This is not only a problem in Mexico, but for the industry in general. We need to have higher numbers of graduates in those areas where the industry needs them.

– ***Emilio Lozoya***
CEO, Petroleos Mexicanos (Pemex)

More than half of energy companies are adding staff

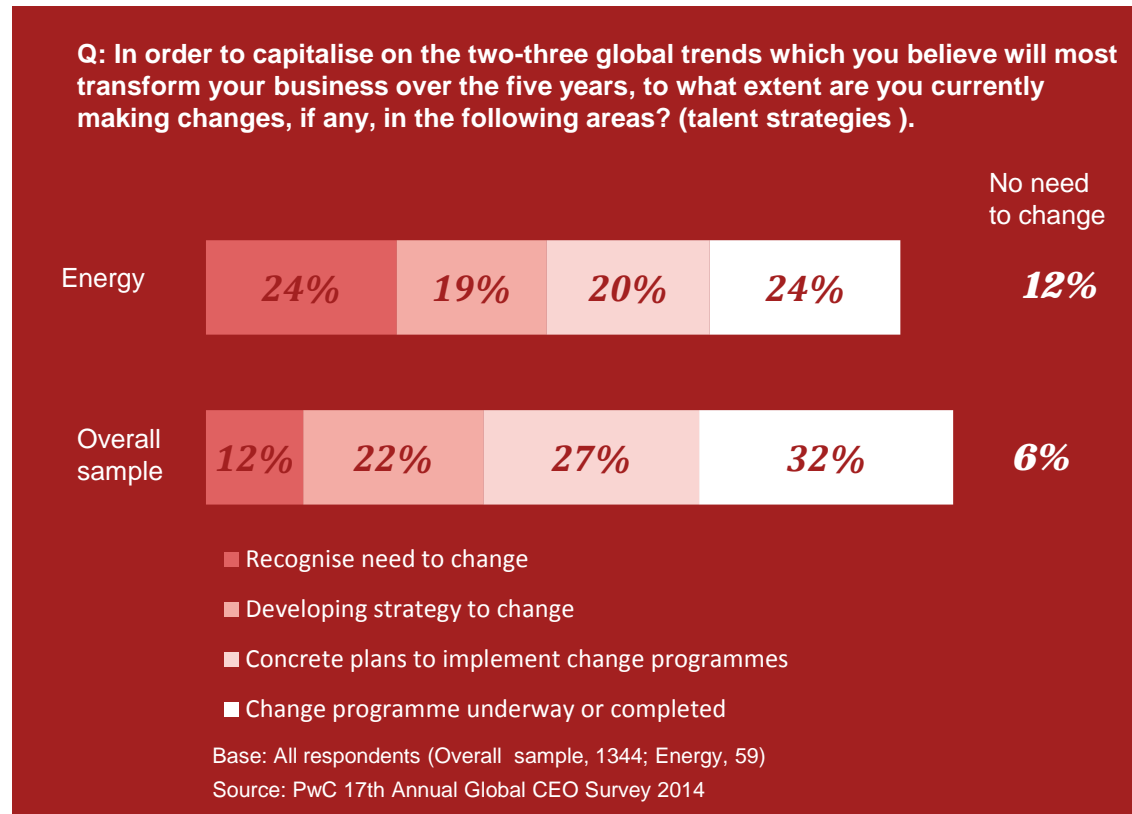


Compared to last year, energy companies are expecting employee growth. Headcount increases this year are up by 8%, while maintaining current headcount decreased 4% and employee reductions lowered by 4%.

But only a minority have started changing their talent strategies

Energy CEOs agree they'll need to change their talent strategies to cope with future trends. But just 24% are already doing so, compared to nearly a third of CEOs across the overall sample.

And just 24% believe their HR departments are well-prepared to make changes, compared to 34% overall.



Building trust

56%

Energy CEOs who believe that lack of trust in business could threaten growth

The large majority of energy CEOs say their companies emphasise good corporate citizenship



More than half of energy CEOs (56%) are concerned that lack of trust in business could threaten growth.

They're taking sustainability seriously – 95% agree that it's important to promote a culture of ethical behaviour, and 88% also see measuring and reducing their environmental footprint as important.

Q: To what extent do you agree or disagree with the following statements?

Base: All respondents (Total sample, 1344; Energy, 59)

Note: Respondents who stated 'agree strongly or 'agree somewhat'

Source: PwC 17th Annual Global CEO Survey 2014

Energy CEOs are building trust with many stakeholders – but there’s a lot of work yet to do



Q: To what extent has the level of trust the following stakeholders have in your industry changed over the past five years? ?

Base: All respondents (Total sample, 1344, Energy, 59)

Note: Stay the same not pictured.

Source: PwC 17th Annual Global CEO Survey 2014

Energy CEOs see levels of trust improving among some of their stakeholders. Employees stand out, with over half of CEOs saying trust levels have improved. And many say trust from supply chain partners and customer and clients has increased too. However, when it comes to the media and government/regulators, more than a third say the level of trust has deteriorated. That’s more than across the overall sample.

About PwC's 17th Annual Global CEO Survey



We surveyed 1,344 business leaders across 68 countries around the world, in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our overall survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated as opportunities in both developed and emerging economies becomes more nuanced, leading CEOs to revise the portfolio of overseas markets they will focus on.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their business in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging - opportunities for growth through: creating value in totally new ways; developing tomorrow's workforce; and serving the new consumers.

We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems.

Energy respondents

59

In countries across the world

33

In short, the demands being placed on business leaders to adapt to the changing environment are increasing exponentially; CEOs are having to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

This sector key findings report takes a closer look at responses from energy CEOs. It is based on 59 interviews, conducted in 33 countries around the world. We also cite more in-depth conversations with three sector CEOs.

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