

Business Sentiment Index

Energy Perspective

Central Europe / 3rd edition / April 2010

A steady rise
Views from senior executives
in Central Europe



Deloitte.

Key findings



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“The energy industry is usually considered to be more stable than others, because homes and businesses have no choice but to consume energy. However, economic drivers that impact commodity prices are created in other industry sectors, leaving energy to follow the developments of other areas of the economy. These factors were responsible for a dramatic decrease in the price of energy from the summer of 2008 to early 2009 when, for example, the price of annual baseload electricity on the European Energy Exchange (EEX) dropped from over 80 EUR per MWh to around 40 EUR per MWh. Prices of oil and gas suffered similarly sharp declines.

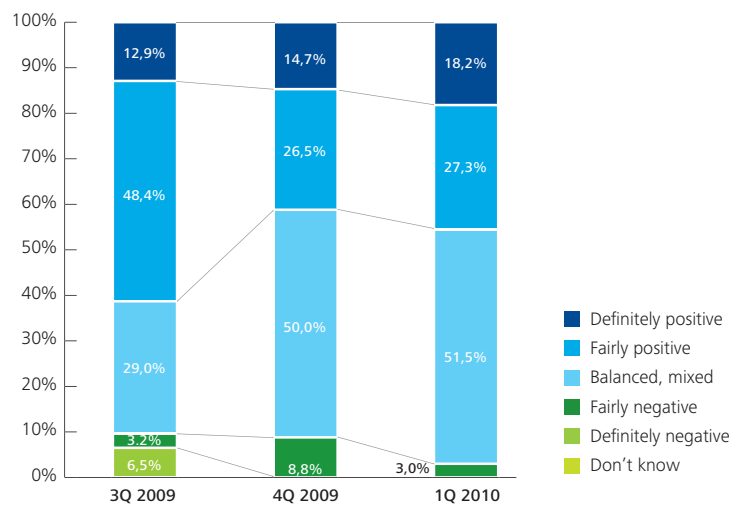
The energy sector has had to cope with a decrease of roughly 10-15% in the consumption of energy (a decline comparable to that suffered by other industries) coupled with an over 50% drop in the commodity prices of energy, creating a unique set of challenges for energy companies. These have required companies in Central Europe to change their behaviour, forcing them to immediately reconsider their investments, initiate significant cost-cutting of operational expenditures, and change their business strategies.”

This quarter, we have introduced a new section to the Business Sentiment Index report in which we look at the sentiments of the leaders of different industries and in this edition we focus on the retail sector.

A mixed outlook on general economic and company prospects

The outlook of professionals in the energy sector is mixed. For example, compared with the results from the previous survey conducted in December 2009, there is a fall in positive sentiment about the general outlook for the economy. However, there is a slight improvement in sentiment about the financial prospects for companies in the energy sector. Just under half (45.5%) believe the next six months bode well for their enterprises – a rise of a few percent from 41.2% in the last survey.

Generally speaking, how do you feel about the financial prospects for your company now? Are they...



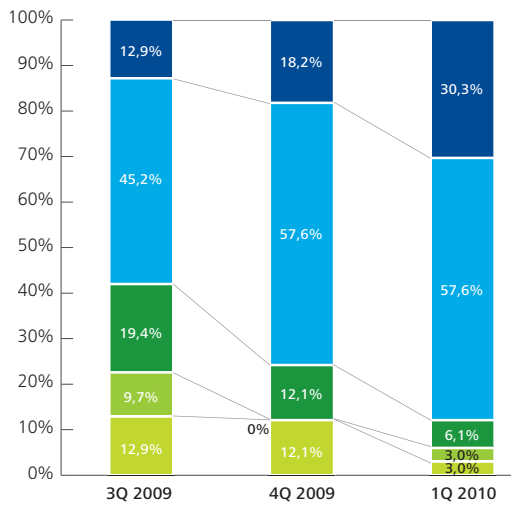
Big boost in confidence about the availability of credit

Despite these mixed views, the energy & resources sector did note the greatest jump in positive sentiment about the perceived availability of credit for its companies, compared to the other industries surveyed. Just under nine tenths (89.7%) believe credit is available, a significant increase from the 58.1% who held this opinion in 3Q 09. There is also a much smaller percentage who now believe credit is difficult to obtain compared to 3Q 09: 9.1% hold the view that credit is hard to get in 1Q 10, a steep drop from the first survey in 3Q 09 when one third (29.0%) believed this.

Expectations of increased sales

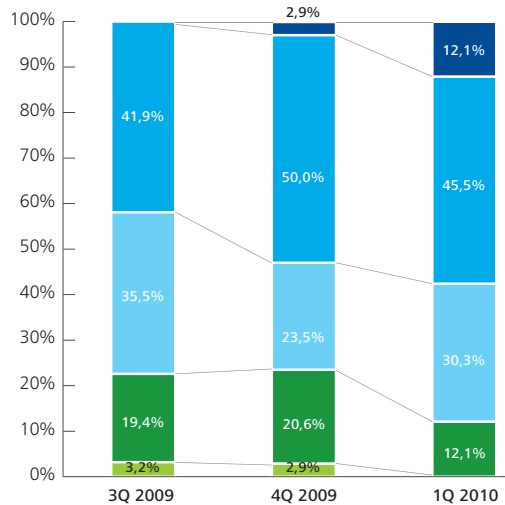
This key economic indicator sees quarter-on-quarter improvement in sentiment in the energy & resources sector. Positive outlook has increased steadily since our first survey (when it was 41.9%); well over half (57.6%) of those surveyed now believe revenue from sales will increase over the next 12 months.

How do you rate the present availability of credit for your company? Is it...



- Easily available
- Somewhat available
- Somewhat hard to get
- Very hard to get
- Don't know

In 12 months' time, do you expect your revenue from sales to...



- Increase significantly
- Increase somewhat
- Stay unchanged
- Reduce somewhat
- Reduce significantly
- Don't know

Spending levels look set to increase

The opinion of executives in the energy & resources sector regarding a change of spending on capital goods over the next 12 months has improved steadily since 3Q 09. Just under a quarter (22.6%) believed company expenditure would increase in our first survey; this figure has now effectively doubled and now 45.5% are confident of increased spending by their companies. This is the greatest jump in confidence for this question across all the industries analysed.

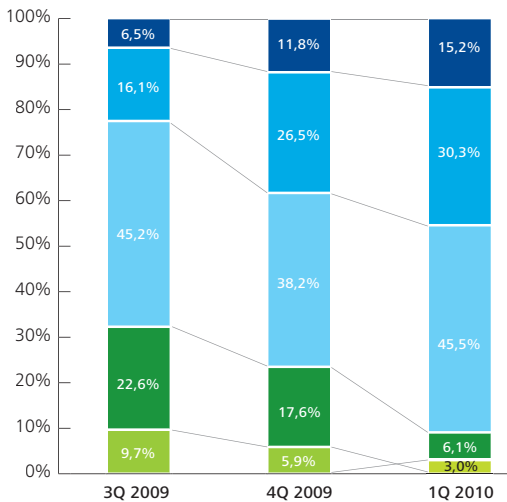
“There is a significant change in the appetite for investments, which were cut back more than a year ago. The time of large M&A transactions in the energy sector is over, and we are observing a resurgence of capital goods spending as power companies in particular try to diversify their energy mix away from fossil fuels. These companies are making careful investments in renewable power generation and clean technology with a focus on short term returns on investment (ROI)”

Outlook for employment levels remains steady

A majority of executives (57.6%) in the energy & resources sector believe that employment levels will remain unchanged over the next 12 months. This is an improvement of over 20 percentage points from the previous survey, when 35.3% felt workforces would remain stable.

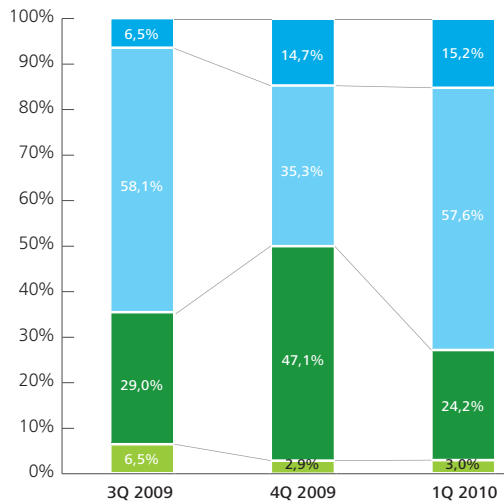
“Generally, employment in the energy sector remains stable despite changes in other economic indicators. Employees are always needed to operate and maintain energy-generating facilities.”

Compared with the last 12 months, how do you expect your firm’s spending on capital goods (equipment, IT systems, new buildings etc.) to change during the next 12 months? Will it...



- Increase significantly
- Increase somewhat
- Stay unchanged
- Reduce somewhat
- Reduce significantly
- Don't know

How do you expect your firm’s total workforce to change in size over the next 12 months’ time? Will it...



- Increase significantly
- Increase somewhat
- Stay unchanged
- Reduce somewhat
- Reduce significantly
- Don't know



Some notable improvement in executives' opinions on issues such as perception of credit availability, sales revenues and capital spending show that the energy & resources sector is experiencing some positive movement following the economic crisis. These responses indicate that executives are starting to believe that "the worst is over." However, they continue to display caution about operational and maintenance costs and the economy in general. We continue to observe with interest the changes in energy executives' sentiment for the next quarter.

"The energy sector is influenced by economic indicators driven by developments in other industries, and energy executives are still trying to find the right response to decreases in consumption and commodity prices. The only way they can change their situation is to look for cheaper resources (in renewable or clean energy, whose attractiveness is boosted by government programmes), and to cut as many costs as possible in their maintenance and operational expenditures."

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