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07

Global Annual Review

*connectedthinking

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

In this Global Annual Review we explore key issues that affect our clients around the world and take a close look at our performance and our work in the global community during FY2007.

In this Global Annual Review, the terms PricewaterhouseCoopers, PwC, our and we are used to refer to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), each of which is a separate and independent legal entity.

Succeeding in a connected world: The CEO perspective



Article by Samuel A DiPiazza Jr, CEO, PricewaterhouseCoopers International. Sam DiPiazza has served as CEO of PwC International Limited since 2002. Prior to that he led the PwC US firm as Chairman and Senior Partner. He joined PwC in 1973 and became a partner in 1979.

As CEO of PwC International, one of the most rewarding parts of my job is the opportunity to bring to our clients and the wider community the ideas and insights of my PwC colleagues around the world. Here I would like to share with you our current thinking on the global economy, the accounting profession and, of course, the state of PwC.

The global economy

The quest for new markets and new customers dominates the agenda of global company leaders. Our latest PwC Global CEO Survey showed optimism in the future to be at record levels at the end of 2006, fuelled by the opportunities presented by globalisation and renewed confidence in the kind of mergers and acquisitions which generate growth and provide access to new markets. However, that confidence has taken a dent over the last few months as the world's markets have taken

valuations on a roller coaster ride, driven by subprime credit concerns in the United States. While this has damaged confidence and the impact on continued growth is not yet apparent, it has also clearly reinforced the increasingly global nature of the world in which we live, invest and do business.

Worries about the US economy dominate markets today; however the long term trends will continue. Over the next decade we anticipate a continuing shift of capital and equity toward the developing world, with the top seven emerging economies (Brazil, China, India, Indonesia, Mexico, Russia and Turkey) having a larger collective economy than the G7 (Canada, France, Germany, Italy, Japan, UK and US) by 2050. The United States and Western Europe are hardly going to become irrelevant—but they will no longer be the dominant drivers of the global economy.

Emerging.

Over the next decade we anticipate a continuing shift of capital and equity toward the developing world, with the top seven emerging economies having a larger collective economy than the G7 by 2050.

This shift of capital will present challenges as well as opportunities and while business risks associated with new markets are not unexpected, they should not be underestimated. The emerging political risks in some of the new economies together with other recent issues, such as product quality, potentially make some of these new markets more challenging.

While the recent turmoil in world markets and its impact on credit markets may temporarily dampen the appetite for deals, CEOs are now attuned to the incessant drumbeat of globalisation. Ultimately, this will compel them to find a way of dealing with concerns regarding political instability or product quality and to pursue deals in newer markets.

As ever, when doing a deal, the challenge is to fully realise its value and CEOs tell us that cross-border implementation is a critical element in realising value. Equally important is the successful stewardship of people and knowledge and the ability to collaborate well in the post-merger environment, something our Global Advisory and Tax Leader Gene Donnelly will explore later in the Review.

Silas SS Yang, Executive Chairman, PwC China

China is the fourth largest economy in the world, the second largest exporter and the number one holder of foreign reserves. With a trade value of 980.9 billion USD and foreign direct investment of 31.9 billion USD in the first six months of 2007 there is no doubt that China is one of the world's most prominent participants in the process of globalisation. This level of investment along with annual economic growth rates of over 10 per cent present huge opportunities for China and its investors. However, there are also challenges as the country and its leaders manage such issues as energy security, gaps between urban and rural areas, healthcare, product quality and encouraging a culture of innovation that will allow economic growth to be sustained.

Demographics is a key force for change in the global economy. As the baby boomer generation retires, the members of the technology-savvy Millennial Generation are beginning to enter the labour market. Driven by different work/life priorities and a seemingly ingrained sense of social responsibility, this generation will redefine the relationship between employers and employees. In response, traditional human resources strategies will need to be replaced by more flexible approaches. Companies will also increasingly disperse their people and jobs across the world in search of greater efficiency, collaboration and innovation.

Trust.

The accounting profession has shown that it can work effectively with regulators to build public trust, maintain economic competitiveness and ensure the effectiveness of the capital markets.

Changing demographics is just one of the issues we face globally; equally challenging are such factors as resource depletion and climate change. These global issues are beyond the capacity of any individual company or government to control. However, collaboration between the public and private sectors may begin to shrink some of these issues to manageable proportions. The employees of global companies demand that business leaders show clear engagement with these issues, bringing innovation and productivity to bear when dealing with the matter of sustainable development.

The accounting profession

As accounting firms continue to evolve from a self-regulated model toward a regulated business, quality must continue to drive the profession—and that includes the quality of our people, the quality of our technical advice and the quality of service to our clients.

The profession has shown that it can work effectively with regulators to

build public trust, maintain economic competitiveness and ensure the effectiveness of capital markets. But for the global accounting networks, compliance has become complex and costly. Firms are frequently subject to conflicting or overlapping regulatory regimes which hamper their ability to deliver consistent quality services to clients on a global basis. Convergence of oversight systems—including registration, inspections and discipline—would reduce the cost of oversight without reducing the protection to investors. Convergence would also assure investors that all firms are auditing to the same rigorous standards.

One of the most important lessons learned from the corporate failures of the beginning of this decade is that complex business transactions cannot be communicated through prescriptive rules. Instead, clarity relies on adhering to sound principles applied with expert judgment. If there is to be convergence to a single set of accounting standards—or something very close to it—those standards should encourage

professional judgment rather than stifle it, an issue PwC's Global Assurance Leader Rob Ward explores on page 9.

Companies continue to invest heavily in producing detailed corporate reporting documents in order to comply with increased levels of regulation. But those documents are deemed by many to be increasingly irrelevant and out-of-date. That brings into sharp focus the importance of presenting a more expansive picture of corporate performance—both financial and nonfinancial—to a larger number of interested stakeholders. Some observers believe that today's corporate reporting model, which they consider not “fit for purpose,” is incapable of embracing change and should be replaced altogether. Others prefer a more considered approach—one which embraces a broader information set, while at the same time discards some of the ill-fitting components of the existing model.

From my perspective I am confident that the current model can be reformed, but the reform must be far-reaching

Performance.

When we look at our performance—not just last year, but over the last few years—we can be very proud. This is testament to our strategy and the quality of our people and clients around the world.

and radical. It must have at its heart an understanding of the requirements of all stakeholders and an acknowledgment of the compelling need for international comparability. This is an issue that many of my colleagues around the world are working on, through our thought leadership and participation in standards setting. It is also an issue in which I am directly involved as a trustee of the International Accounting Standards Committee Foundation—the oversight body for the International Accounting Standards Board.

Liability concerns continue to cloud the future of the profession. We are encouraged by the system of proportionate liability introduced in the United Kingdom and the plans of the European Commission to consider reforming auditor liability. Additionally, the US Treasury has set up an advisory committee to examine the health of the US accounting profession including liability exposure. Across the world we need to move toward regulatory and judicial systems that clearly penalise auditors when they are at fault, but move away from systems that inappropriately put entire firms at risk.

PricewaterhouseCoopers in 2007: revenue growth

FY2007 has been a good year for PwC and its people. As detailed in the Facts and Figures section, this year the PwC network once again enjoyed solid growth, with gross revenues up 10.5 per cent at constant exchange rates. At variable rates of exchange the growth in revenues was even greater—up 14.4 per cent.

Revenues grew in all major PwC firms and regions, with many posting record double-digit growth. We registered particularly strong performances in some of our key growth markets, with revenues up 31 per cent in China, 22.4 per cent in Central and Eastern Europe, 35.8 per cent in India and 37 per cent in the Middle East. Our member firms in the more mature markets of Western Europe, North America and Australia also continue to perform strongly.

Growth was also good across all our service offerings. Global assurance revenues grew by 6.7 per cent. Our global advisory and tax service lines are both

becoming increasingly significant components of our business, with a revenue increase of 14.6 per cent from our advisory service line, while our tax business grew revenues by 15.1 per cent.

When we look at our performance—not just last year but over the past few years—we can be very proud. This is testament to our strategy and the quality of our people and clients around the world.

An employer of choice

I am pleased to report that PwC has maintained its position as the employer of choice in our profession. Independent research confirms that we are number one among accounting firms, and are among the top five employers across all industries. Last year, our member firms recruited about 30,000 people, both new graduates and experienced professionals. Interest in international experience is high, and over 2,300 PwC people began new international assignments this year. We are also piloting a new international assignment programme for staff with recently obtained professional credentials.

In addition, according to our most recent Global People Survey, 86 per cent of our employees are “proud” to work for PwC—a figure that places us among the best-performing organisations globally.

But our partners and staff also tell us that when it comes to people issues, PwC still has work to do. While our focus on diversity has yielded progress throughout the PwC network, it still falls short of expectations at the leadership level. The excuse of “this takes time” is unacceptable, and I am personally leading a gender diversity group to improve our performance.

Confidence to face challenges

In addition to enjoying strong revenue growth and working together to secure future competitive advantage, we have faced some significant challenges in the past year. As I reported in last year’s review, a new PwC audit member firm in Japan, PwC Aarata, opened formally for

business in September 2006. This firm has quickly established itself as a high-quality audit firm with a staff of 1,200 providing services for a cadre of both domestic and international clients such as Sony and Toyota. PwC Aarata sits alongside our tax and advisory firms in Japan which have been established for many years. Both are growing well and have a combined headcount of 750.

PwC’s network audit firm in Japan, Misuzu, did not fare so well. Despite a significant programme of reform the firm announced in February that it was closing for business on 31 July, allowing time for the orderly transfer of both clients and staff to other auditing firms, a process that has been completed efficiently and effectively.

Although there are significant reforms under way for the profession in Japan, the market for audit services there remains a challenging one, and I believe

that in the current environment our strategy of targeting resources on a focused, high-quality firm following the highest of international standards is the right one.

There has been considerable speculation about PwC Russia in the past six months. However, our audit license in Russia was renewed for another five years in April, and key clients such as Gazprom have reappointed PwC as their auditors. I believe our Russian firm is one of the strongest and most strategically significant firms in the PwC network, employing 2,000 people and serving 1,600 corporate clients. It is testament to the skill and strength of the management of our firm in Russia that despite the challenges it has faced the firm continues to grow revenues, to win new clients and to keep staff motivated and committed. PwC Russia is very well placed to capitalise on its strong position as the leading firm in the market.

Dennis M Nally, Chairman of the Board and CEO, PwC US

So what’s ahead for us? Undoubtedly, we can expect this year to be one of constant change, and that’s going to come at us from three sides: our anticipation of and reaction to changing economics on a global scale; the continuing scrutiny and study of the sustainability of our profession by government entities; and how we want to work as a global network of firms. We have little, if any, control over the first topic; a vigorous and vocal seat at the table for the second; and active dialogue taking place for the third. How we deal with these impending changes depends on the continuing discussions we have with everyone involved. Our mission is to create an organisation whose every interaction with every client, staff person and partner demonstrates our values and our behaviors on a consistent basis. One lever alone will not create meaningful change; it’s all of these efforts combined that will have a lasting effect on the experience we deliver to our people and our clients. We will know that we’ve been successful when these interactions and overall experience are expected when one encounters someone from PwC.

Responsibility.

We also have a duty to act as responsible global citizens and take an active role in helping to build a more sustainable world.

An organisation of the size of PwC will inevitably face challenges somewhere around the world over the course of any year. As we deal with these challenges, the more impressed I am with the people we have working in our network and the more convinced I am that it is our pursuit of the highest quality that gives us the confidence to deal with these issues successfully.

A distinctive PwC experience

The PwC brand is one of our major network assets and a source of significant competitive advantage for us around the world. The strength of our brand was this year borne out when PwC was rated as one of the top 100 global brands in an independent research study.

At the heart of our brand, and at the foundation of its success, is the quality of service we provide to our clients. As such we are continually reviewing the effectiveness of our client service, seeking ways to improve.

Over the past year we have asked our clients what they value in a professional services provider. Here's what they told us: They said they want to work with people who are willing to invest in building strong relationships and who will share and collaborate with them. They also said they want to work with people who can see issues from their perspective and who focus on building value. In short, they want to work with people who bring both their heads and their hearts to work with them.

In response to what we learned, we have taken a fresh look at the experience our clients and our people expect from their interaction with PwC. At the heart of this experience is a focus on the values we want our people to demonstrate—both to clients and to one another. Our aim is to promote behaviours that will help deliver the distinctive client service that will set PwC apart in the marketplace.

Responsible Leadership

Responsible corporate behaviour is an important aspect of the PwC culture, and across the PwC network our people give generously of their time and resources to their communities. Through our Global Communities programme, which Tony Harrington, PwC Australia's Chief Executive, explores later in this review, we bring a central, collaborative focus to the many diverse community contributions that PwC people make around the world. We are starting to see the benefit from such connections—new ideas, new programmes and joint initiatives. This year, we established the Global Communities Recognition Awards to recognise the community initiatives being undertaken across the PwC network. This programme provides us with an opportunity to acknowledge the ambitious scope and imagination of these initiatives.

At PwC, we recognise our obligation to uphold the standards of the accounting profession and ensure the integrity of the capital markets. But we also have a duty to act as responsible global

citizens and take an active role in helping build a more sustainable world. For my own part, one of my responsibilities is to serve as Vice Chairman of the World Business Council for Sustainable Development, a group whose work is key to defining the role that business will play in the future sustainability of our society and the planet. I have the honour of taking up the chairmanship of the Council in November this year.

I believe we all have a responsibility to use our talent and resources to help others. This is what we call “Responsible Leadership.”



A good example of responsible leadership is a PwC development programme called Project Ulysses. Ulysses sends small executive teams out into developing countries to work with local governments and nongovernmental organisations that help build sustainable businesses and improve people’s lives. Instead of a familiar modern office building, our PwC colleagues find themselves in various corners of the globe—far from their usual comfort zone—tackling challenging problems which force them to look at issues from a number of different angles.

Looking at issues from different angles is something that lies at the heart of our PwC culture. Listening to our clients and seeking imaginative solutions to their challenges. Working together to fulfil our responsibilities as global citizens. And talking with our people around the world to help them develop challenging and satisfying careers. I believe we have made significant progress on all of these issues in the past year, but they remain the focus of our energies for the year ahead and the foreseeable future.

Sincerely,

Handwritten signature of Samuel A DiPiazza Jr.

Samuel A DiPiazza Jr
Chief Executive Officer

Kieran C Poynter, Chairman, PwC UK

At PwC in the UK, corporate responsibility is not just a slogan; it underscores everything we do. We know that if we are to assume and maintain a leading and proactive role in this area, we have to practise what we preach—for example, by reducing our carbon and waste footprints. At the same time, we recognise that we have taken only the first few steps of a long journey that is certain to generate significant strategic challenges for our business, our people and our clients.

We have always prided ourselves on providing wise solutions to the issues facing our clients and stakeholders. Today there can be no greater or more wide-ranging challenges than those of sustainability and climate change. Here in the UK we have been investing in building our capabilities across the firm, so that we can advise both public- and private-sector clients on how best to manage these complex new issues—issues that will increasingly affect every aspect of business.

Assurance: Accounting goes global

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Future.

The convergence of financial reporting and accounting standards is not simply a technical issue of interest to accountants but, rather, a matter of vital importance to the future of the global capital markets.



Article by Rob Ward, Global Leader, Assurance. Rob Ward has been the Global Leader of PwC's Assurance practice since July 2005. Since joining PwC, Rob has held numerous management positions, including National Managing Partner of PwC Australia. During his career Rob has served a wide range of clients, concentrating on international public companies of varying sizes.

The business world is going global. Can accounting and corporate reporting models keep up?

Every aspect of the business environment is subject to the prevailing modern trend—globalisation. Companies are organising themselves into global organisations, striving to serve markets around the world through streamlined, coordinated operations. Investors are looking at those companies in the global context—more willing to invest in foreign capital markets where the risk and reward equation provides an attractive incentive.

Regulation and standards are increasingly framed with a global perspective. International Financial Reporting Standards (IFRS) are currently used

in 102 countries, with the International Accounting Standards Board (IASB) anticipating this total to increase to 150 by 2011. It's not just the accounting profession that is subject to this trend: insurance companies are subject to global regulation in the form of Solvency II, and the banking sector is similarly addressed by Basel II.

If change is happening on a global level and within industrial sectors, so too is it apparent within countries. One jurisdiction where change is now happening fast is the US. As the world's largest capital market, new developments in the US will have widespread repercussions around the globe. This is an exciting time. If the US takes IFRS on board, the relevance of IFRS and the momentum behind it will increase further.

Opportunity.

Convergence creates an unprecedented opportunity for standard setters and other stakeholders to improve the corporate reporting model.



Embracing IFRS

So what's so exciting about recent US developments? US accounting standards have been on a convergence path with IFRS for some years. This has involved the US Financial Accounting Standards Board (FASB) working closely with the IASB and building relationships, understanding and mutual respect. Much recent effort has focused on working toward the removal of the US Securities and Exchange Commission's requirement for foreign private issuers (non-US corporations that have registered securities with the SEC) to reconcile financial statements prepared under IFRS (as issued by the IASB) with US GAAP. Following an agreement signed between leaders of the US and the European Union in April, the target date for dropping this reconciliation requirement has been set for 2009—or earlier if possible.

Subsequently, the SEC presented a bolder idea—allowing US domestic registrants to be given the option of using IFRS instead of US GAAP. If the outcome of this consultation ultimately goes in favour of the IFRS option, a major milestone in the history of accounting and financial reporting will have been achieved.

Some might wonder why the US would contemplate embracing IFRS at home. The US is, as noted, the world's largest capital market. This surely gives it the power to stand by its own GAAP if it pleases, albeit a version somewhat more converged with IFRS.

A compelling case for change

Business drivers are behind US interest in IFRS. The convergence of financial reporting and accounting standards is



not simply a technical issue of interest to accountants but, rather, a matter of vital importance to the future of the global capital markets. High-quality information is essential to high-quality markets. And convergence toward a unified set of high-quality standards offers important benefits to all market participants.

For investors, convergence improves their ability to compare companies on a global basis and thus contributes to the free flow of global investment. Accounting differences no longer impede assessments of corporate investment potential. For companies with global operations, convergence facilitates efficient and cost-effective accounting and reporting. There are advantages for accounting firms too. Convergence reduces their operational challenges and focuses their value and expertise on increasingly unified standards. It also

has the potential to create a new level of accountability and greater transparency, characteristics which are valued by all capital market stakeholders, particularly regulators. What's more, convergence creates an unprecedented opportunity for standard setters and other stakeholders to improve the corporate reporting model, which today falls short of meeting the information needs of the capital markets in the 21st century.

Whether or not the US remains wedded to its familiar GAAP, there is sound logic behind moving toward IFRS adoption—even an economic imperative. Investors have been demanding a single set of global standards for years, and IFRS is becoming the de facto global standard. Can the US afford to go it alone and leave its home-grown corporations outside the increasingly harmonised reporting environment developing in

the rest of the world? If US companies remain outside IFRS, the ability of global investors to assess their performance with international peers will be impaired.

There have already been signs that the US capital markets are losing some of their attractiveness for foreign private issuers and that too many barriers to market entry are blunting their competitive edge. Sarbanes-Oxley compliance has added to the costs of reporting obligations in the US and on foreign US registrants. Added to the litigious legal environment, US markets are looking less appealing to some potential entrants despite the deep capital pools available. In fact, a number of foreign registrants are delisting from US stock exchanges—many, no doubt, because of regulatory and legal concerns; they are not being replaced in equal numbers.



Quality. High-quality information is essential to high-quality markets.

Among those countries that have already adopted IFRS, the transition has so far been successful. Adopting IFRS in the US offers the prospect of a simpler accounting framework, one which is more principles-based and with somewhat fewer rules—a further incentive for leaving US GAAP behind.

The warming of the US toward IFRS is a sign of the international standards' strength. As such it is a reason for some

Chris Clark, CEO, PwC Canada

In 2006 the Canadian Accounting Standards Board proposed that Canadian GAAP for public companies migrate to IFRS over five years until 2011. Canada has historically been involved in the standards setting process at the IASB, and this is an opportunity to continue to be part of and support a global accounting standards setting process.

Canadian companies are in the early stages of implementation, but the keys to a successful transition are becoming apparent. Success will depend on planning, developing and executing a well thought out conversion strategy with the executive support of senior management and the board. A diagnostic evaluation of differences and implementation challenges is critical. Leveraging off our European experience, PwC is taking a leading role in assisting Canadian companies coming to grips with IFRS.

celebration. As Bertrand Collomb, Vice Chairman of the International Accounting Standards Committee Foundation, told the European Parliament: “This is a sign that the momentum is behind IFRS ... and not—as some fear—a movement towards exporting US GAAP to the international system.”

Nevertheless, there are pre-existing concerns about the potential for more rules-based standards under the weight

of US influence. Assuming widespread take-up of IFRS by US domestics, the US would be the biggest single capital market to use the international standards. Might this not give it even more influence over their future direction and development?

Positive US input

It might be worth asking, How much influence should the US rightfully have? Some might argue it would be wrong if the US—assuming it did start using international accounting standards—was denied a fair share of influence in their future development. Others would say that the US has always been significantly involved in shaping the future direction of standards. In any case, ongoing participation would be more easily justified should the US wholeheartedly embrace IFRS for use at home.

Bringing FASB's resources to bear on the further development of IFRS could actually be a benefit to the IASB. The US standard setter has significant resources, including a talent pool of experienced personnel. The addition of these resources



Steward of the public trust

As the world's largest accounting network, PwC recognises its responsibility to help strengthen the public's trust in corporate reporting by contributing directly to the development of our profession and the institutions and standards that guide it. Some of our most important recent contributions in this regard include:

The Appointment of PwC's Global CEO as a trustee of the International Accounting Standards Committee Foundation, the parent entity of the International Accounting Standards Board. The Foundation's trustees are responsible for appointing IASB members, exercising oversight of it and funding its operations.

The ongoing participation of current and former PwC partners in standards setting and policy making bodies throughout the world. These include the International Accounting Standards Board, Fédération des Experts Comptables Européens, International Auditing and Assurance Standards Board and the Financial Accounting Standards Board (US).

PwC's participation in a collaborative project involving the six largest international accounting networks to propose improvements to financial reporting. The ensuing white paper calls for, among other proposals, the speedy convergence of national accounting and auditing standards. It also envisions a scenario in which periodic financial statements may be supplemented by more frequent communication facilitated by changes in technology.

Within PwC, the creation of a global team of dedicated IFRS consultants who advise on complex IFRS accounting matters. By establishing this central expert resource, PwC has been able to promote consistency of IFRS opinion in our own network and across the capital markets as a whole. In this way, PwC is helping to reinforce the public's growing trust in this new standard.

under the oversight of the IASB, with the focus on creating high-quality principles-based standards, could enhance the IASB's efforts. Sir David Tweedie, IASB chairman, has alluded to this possibility, declaring that future IFRS will be based on the best answers—wherever they come from. The IASB will seek to bring in the best people, regardless of nationality, to help progress its work.

Those still anxious about US influence will look to the IASB's governance procedures. Although the international standard setter is well established and well respected, there are concerns about the weight of resources and influence that the US will bring to bear on standards setting. This is a particular issue at the moment in Europe, where some suspect the heavy hand of the US in the development of the Management Approach to Segment Reporting and Business Combinations standards. Going forward, the IASB must ensure that its due diligence processes are always followed in the development of new standards. All stakeholders must take responsibility for the direction in which the IASB moves, fully participating in

the standards' development process to make sure that the goal of a high-quality set of principles-based standards is achieved that benefit all stakeholders in the global capital markets.

So in some future world, where IFRS has replaced US GAAP for both foreign and domestic registrants, what would the role of the SEC be? The SEC will naturally continue to have an important role in accounting regulation. Its influence in the US market and the FPI (foreign private issuer) space is significant. However, it is worth noting that the SEC and the Committee of European Securities

Regulators (CESR) have adopted a joint plan to promote the consistent application and enforcement of IFRS.

Meanwhile, the role of international interpreter is already filled—by the IASB's own interpretative body, IFRIC, whose ranks have been strengthened by the recent addition of several experienced preparers. National regulators, including the SEC, will not be needed to generate GAAP themselves. The UK's Financial Reporting Council continues to thrive even after the adoption of IFRS for UK-listed companies, as do the national standard setters of France and Germany.



Rethinking the reporting model

US alignment with the drive to generate high-quality global standards will create huge momentum behind the emergence of a single worldwide GAAP. This is good news. The promulgation of international accounting standards—applied uniformly around the world—is a key requirement for the free flow of capital across markets. Indeed, as financial and product markets increasingly go global, the case for establishing a global set of accounting standards has become undeniable.

Markus Neuhaus, Senior Partner, PwC Eurofirms

It's a great moment to reflect on IFRS progress and to welcome Canada, India, Japan and Korea to IFRS for 2011. For the European Union and other European countries, IFRS conversion has been a success. Anecdotal evidence suggests few cases of regulatory intervention and even then it's largely a question of improving the next set of disclosures.

There are, however, more challenges on the horizon. First, there will be significant changes in 2009, when standards such as business combinations and deferred taxes are changed. Second, for EU companies the complexity and length of the endorsement process mean that they will be unable to predict what standards to comply with until well into 2009. That could necessitate companies' keeping dual records and US registrants reconciling EU IFRS to full IFRS—a cumbersome and costly exercise. From a capital market perspective, this is unacceptable, as is the growing practice of different interpretations and “carve outs” of IFRS. The interpretation and application of the standards should be globally consistent. Only then will capital markets have real transparency and we will see the real benefits of IFRS.

Consequently, it would not be surprising if US regulators come under mounting pressure from both investors and companies around the world to move faster in welcoming IFRS to American shores.

The real goal should be something more ambitious still—corporate reporting that is easy to understand and straightforward to apply and which conveys the fundamental reality of a company's performance. While the widespread

adoption of IFRS is a very positive development, even its most ardent supporters would not claim that IFRS meets those high goals. The challenge ahead is to create a clear and logical blueprint which will deliver on the promise of reporting transparency and simplification yet is sufficiently robust to address the breadth of information required by internal and external stakeholders and an increasingly engaged public.

What characteristics should such a corporate reporting model have?

Usercentric focus. Experience shows that when standard setters and regulators become highly prescriptive, companies focus on compliance, investors perceive little value in participating in the standards setting process and reporting becomes much less relevant. So while standard setters and regulators must be responsible for developing a reporting framework and monitoring its effectiveness, the actual development of the information set should be driven by a robust, ongoing dialogue between companies and their stakeholders. Users—primarily investors—must

Promise.

The challenge ahead is to create a clear and logical blueprint which will deliver on the promise of reporting transparency and simplification.

recognise the importance of their participation in moving corporate reporting toward a usercentric focus. It cannot be properly done without them.

Principles-based reporting. High-quality principles can be applied to a variety of complex issues and produce reporting that reflects economic, environmental and social substance. A critical component of a principles-based model is a sound conceptual framework defining the goals and objectives of corporate reporting. However, the principles-based model also requires a conducive business and regulatory environment. This means that all interested parties must understand the role of judgment. Professionals need to take responsibility for advising companies, while companies must be prepared to stop asking the question, “Where does it say I can’t do this?”

Ease of preparation, understanding and access. External reporting should flow from internal management information, with a minimum of reconfiguration. Consistency of formats should develop naturally within industries. Subject to minimal rules and exceptions, reporting

principles should be relatively simple to apply and disclosures written in plain language. In an ideal world, ordinary investors should be able to understand the entity’s financial performance and position without undue difficulty. However, this goal cannot always be achieved. Often, complex business transactions cannot be explained in simple terms. It remains important to try to capture the economic essence of these transactions.

Integration of nonfinancial information and contextual narrative material. While financial information is critically important, it has a built-in bias toward short-term results and too little emphasis on longer-term processes that drive value creation. Information about strategy, markets, innovation, people and other nonfinancial matters should be integrated into the information set, preferably with quantified measures. The goal should be a narrative that provides a through-the-eyes-of-management perspective combining analysis of key performance measures—the same ones used by management to run the business—with a broader discussion of corporate goals, risks and core capabilities.

Corporate reporting’s future is still unwritten. But the past year has seen a noticeable movement toward the view that a more efficient and nimble model is sorely needed. There are signs that the pieces of a new model are beginning to fall into place, such as the greater disclosure of nonfinancial information generally and increased granularity in some financial reporting.

Achieving further progress calls for a coordinated effort, involving preparers of accounts, their advisers, regulators and users. Current momentum must be maintained. The end goal is not simply more or different disclosures, nor just greater consistency and comparability.

The ultimate aim of all current efforts in developing both IFRS and corporate reporting is to ensure that investors have the information they need—in the form they need it—to assess management’s performance. Only in this way can capital be allocated efficiently across borders to support the creation of a truly global market.

M&A: Capturing deal value

The makings of a dynamic global market **page 17**

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Success.

The success of a deal for the companies involved can be found only in the value captured over time.



Article by Gene Donnelly, Global Managing Partner, Advisory and Tax. Gene Donnelly is responsible for aligning the strategies, competencies and markets of the PwC Advisory and Tax lines of service. Prior to his appointment, he served as Vice Chairman of Operations and Leader of the Transaction Services Practice for PwC US. He began his career in the Assurance practice.

The deals market in the past three years has been escalating with great fervour. In 2007, it continues to outpace expectations. As of 1 July, total worldwide merger and acquisition (M&A) volume reached 2.18 trillion USD, according to Thomson Financial, a 77 per cent increase over the volume for 2006 at the same point in time.

Measuring success by number of deals completed or dollar value of the transactions merely provides a rating for the deal makers. They are not indicators of a successful deal. The success of a deal for the companies involved can be found only in the value captured over time. By that measure, deals often struggle to realise their promise. Indeed, multiple studies have indicated that as many as 70 per cent of deals do not capture the value expected.

Why? Because successful deals don't just happen. They are not born of strategic calculation, a strong handshake and a set of prescribed steps. No, successful deals come from intense preplanning, long-term continuity and, perhaps most importantly, a bold yet flexible direction of post-deal change-management initiatives.

The makings of a dynamic global market

The emphasis here is on global. Every region is expanding, reflecting increased movement toward a fully globalised economy. In PwC's most recent Global CEO Survey of 1,100 chief executives, we found attention being paid to the predominant emerging economies of Brazil, Russia, India and China. But also attracting interest were such newly

appealing countries as Turkey, Mexico, Indonesia and Vietnam as well as fast-developing regions like the Middle East, Eastern Europe and Latin America.

There is extraordinary opportunity in the global marketplace. When our survey asked CEOs what was a “major opportunity to grow your business in the next 12 months,” 57 per cent responded that the growth was most likely to come from entering new markets and new businesses through M&A. The most powerful motivator was enlarging a company’s global footprint to gain access to new customers. Data from

Thomson Financial indicates there were 11,640 deals in 2006 involving foreign direct investment, up nearly 18 per cent over the previous year.

When we polled our global cadre of PwC transaction specialists, they pointed to five critical factors driving continued expansion in the deals marketplace:

The strength of the “Goldilocks economy” The idea of an economy that was “not too hot, not too cold” originated in the US. But the increasingly global scope of the phenomenon is indicative of the mitigating influence of an increasingly globalised economy.

Corporate balance sheets are so strong that 79% of CEOs we surveyed intend to fund their prospective deals with cash.



The global spread of liquidity Available capital is coming from burgeoning corporate profits, rapidly expanding private equity funds and an accommodating banking community. Corporate balance sheets are so strong that 79 per cent of the CEOs we surveyed intend to fund their prospective deals with cash.

The expanding impact of private equity Thomson Financial reports that the volume of global announced private equity deals to 1 July was 447 billion USD, more than double the volume from the same period in 2006.

Sectors downsizing through consolidation Another impact of globalisation: consolidating to compete. For instance, in several regions financial services companies are doing deals in order to create a national champion who can withstand the invasion of the global giants.

The rise of transnational activity When polled, 47 per cent of the CEOs in our survey had either completed a cross-border M&A transaction in the past 12 months or were planning to do so in the next year.

With such a hyperactive deals market, the question on many minds is: “When’s it going to burst?” Problems of subprime lending have impacted the private equity world and created an overhang of unsyndicated debt on deals. While this is still working its way through the market, private equity activity will slow.

But the fundamentals that drove the market still apply—strong economic growth, especially in developing markets, high levels of liquidity and an appetite to complete transactions as a means of creating value for shareholders and individual companies. As a result, our experts view the current blip in the deal market as only temporary.

Balance. Successful deals take into account both the left-brain and right-brain perspectives—addressing the emotional and rational issues that arise when two organisations come together.

Why do so many deals fail to achieve expectations?

We believe most of these failures occur during post-deal execution. Of the deals that materially fail to capture their anticipated value, 7 out of 10 were undone either by the lack of a sufficient post-deal strategy or by a failure to implement that strategy effectively.

A deal is not a stand-alone transaction but a series of many activities that are embedded in the very fabric of a company. It spans people, processes,

systems and tax and external reporting issues—and it could span years, beginning many months before the papers are signed and not concluding until after intensive, comprehensive post-deal integration.

While every deal has its own unique scope and nuances, the rapidly changing environment of globalisation has added another layer of complexity. Thus, in a growing number of cases, the process and timeline for realising deal value have become longer and more elaborate.

Luis E Frisoni Jr, Senior Partner, South and Central America

The deals market in South and Central America has grown in recent years, and this is set to continue due to macroeconomic, political and regulatory stability in key countries in the region. But there are flip sides to such factors: while economic conditions are good, economic disparities still exist within the region, and political issues in certain countries complicate and slow down the deals process a little.

Strategic investment is key in this region as deals done to achieve immediate growth in certain cases fail. The “quick buck” ventures of the late '90s have not often fared well, while older, more strategic deals—done for the “right reasons”—are generally more successful. There is a current boom of IPOs in certain countries, and private equity funds are taking advantage of this to implement successful exit strategies.



2.2 trillion

USD is the volume of total worldwide merger



Insight and analysis

PwC's M&A Industry Insights offer a forward-looking analysis of M&A activity by industry sector, highlighting the key drivers and principal trends. Industries include the construction and house-building, food, media, technology and telecom sectors.

European M&A: How do deals affect shareholder value? focuses on deals in Europe and the impact they can have on shareholder value.

Based on a survey by the Economist Intelligence Unit (EIU) for PwC, Financial Services M&A: Going for growth in Asia examines the outlook for M&A deals in the financial services sector for the coming years.

2007 US M&A Insights: Entertainment & Media looks at deal activity and trends in 2006 and examines the key drivers for deal activity in 2007.

The imperatives for capturing the value of the deal

Companies will continue to fail to realise the promise of their deals until they fully appreciate that making a deal work encompasses far more than due diligence, savvy negotiations and a basic implementation plan.

Based on our experience, there are four areas of focus that can be the difference between success and failure.

Pre-deal planning A deal has a pulse, a heartbeat that fluctuates over the course of pre-deal planning, taking control and post-deal integration. The pulse rate during these periods is often quite different from business as usual. Deal teams need to be sensitive to the intricacies of this pulse and take in the complete strategic landscape for each stage of the deal.

For example, PwC once worked with a European telecom client who noted, "Part of the nature of any integration or any transformation initiative is that, when you're initially planning those activities, especially if you plan them before the transaction takes place, you're planning them with a group of people who may not be with you during the execution phase. If you can't retain a lot of the planning knowledge in the execution phase ... you spend quite a lot of time having to go back and try to remember why you thought you were able to do something in a certain time period."

Acknowledging the emotional

The aftermath of a deal can be fraught with political tension, uncertainty and misinformation. The CEO may hand off post-deal integration management to executives who weren't fully in the loop or perhaps didn't support the deal

in the first place but who now must make critical decisions aligned with the new strategic realities. And then there is the melding of disparate corporate cultures and the feelings of resentment or arrogance that may accompany it: in answer to a question in our Global CEO Survey on the obstacles encountered or anticipated by CEOs participating in deals, cultural issues topped the list.

At these times, a neutral third party helps anticipate and manage people issues, bridge the cultural gap between companies and drive the process forward. When PwC assisted a US-based speciality pharmaceutical firm in its acquisition of an overseas company, our expertise in understanding the emotional issues and personal drivers was a critical benefit: "The level of strain in our organisation was really very difficult to anticipate, and the PwC people had a unique ability to understand that

and acquisition activity as of 1 July—a 77% increase over 2006.

Mike Kubena, CEO, PwC Central and Eastern Europe

The transactions market in Central and Eastern Europe has continued to show explosive growth driven by the high economic growth rates in the region and the beneficial impact of many of the countries joining the European Union (most recently Romania and Bulgaria on 1 January 2007). This is also manifesting itself in the continued development of private equity activity.

In the Commonwealth of Independent States (CIS), growth has been driven largely by the high prices of oil, gas and other mineral resources. Both Russia and Kazakhstan have huge natural wealth in these areas. In addition to the corporate deal market, many companies are looking to complete initial public offerings in London.

the strain was coming and to help work through it...[Their] ability to deal with the stressful environment helped our people sort of relax, calm down and get the job done.”

Managing people Integrating cultures requires more than deciding which processes to adopt. And integrating people is more than a matter of crunching head count numbers. You’re dealing with people’s lives and egos—and they don’t easily fit into spreadsheets. This may be business, but people don’t

necessarily act rationally or consistently. They’re thinking about their aspirations, their values and their future.

A telecom client explains: “It’s been difficult dealing with people and the cultural issues in our own company and making sure that the people who work extremely well in a smaller environment are able to deal with the challenges that they now face. And so I think that truly speaking, had we spent more time thinking about the cultural issues, we might have been a little bit more prepared.”

Looking after the rational It is vital to create the new working environment as quickly as possible. Customers must continue to be served, and this requires that process, systems and supply chains all operate effectively. In addition, regulatory, reporting and tax requirements must be met and risks must be managed. An organisation-wide transformation is often called for because you are essentially creating a new company. But it must be done quickly and with extreme attention to detail.

For instance, if a US-based parent moves people or products between companies, it can have draconian tax implications; it constitutes “moving value” between legal entities. When PwC worked on a deal for a global consumer goods company, some 1,000 legal entities needed to be moved in just seven months: “We had as many as 20 legal entities in a single country; 40 countries required major merging. And it was sensitive. We had to eliminate legal entities without eliminating operational entities. We had 350 legal and tax people—all over the world—hooked into one database. But it all got done with no associated tax liability.”





What you need to succeed

Just about every deal looks good on paper. That's what gets the deal makers and the markets so excited about their prospects. But paper can be deceptive. Deals aren't successful because they make so much sense on paper. Implementation plans don't automatically work, no matter how comprehensively written they may be. Successful deals aren't born of prospects and plans.

Successful deals have to be made. Made by people who are part of the deal team from the earliest stages of planning, who are able to recognise and effectively address the emotional forces in play, who combine a profound strategic sensibility with tactical agility, allowing for course correction as events unfold.

This is why PwC can make a difference for our clients: we bring hard-earned expertise to the full spectrum of elements involved and are accomplished at addressing both the left-brain and right-brain aspects with an integrated approach. This is why PwC is the partner helping many of the top deal makers and giving them the confidence to succeed.

70%

Numerous studies indicate that 7 out of 10 deals fail to capture the value expected.

47%

is the percentage of CEOs in PwC's most recent survey of 1,100 chief executives who had either completed a cross-border M&A transaction in the past 12 months or were planning to do so in the next year.

11,640

is the number of deals involving foreign direct investment, up nearly 18% over the previous year.

Responsible leadership: Serving our communities

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Collaboration.

Global Communities brings a central and collaborative focus to the many diverse contributions our people make in their communities.



Article by Tony Harrington, Chief Executive, PwC Australia. Tony Harrington is Chief Executive, PricewaterhouseCoopers Australia and a member of the PwC Global Leadership Team. Since taking up these appointments on 1 July 2000, he has played a wider industry role in encouraging informed public discussion of corporate governance and other public policy business issues. He is also chairman of the Australian Charities Fund, the PwC Foundation and the Global Communities programme.

As an influential business organisation and member of global society, PricewaterhouseCoopers has a long-held commitment to making a positive difference to the world in which we operate. We are acutely aware that we need to think seriously about the impact we are having on our future and work hard to gain a greater understanding of the social and environmental issues that face our leaders of tomorrow. This is our commitment to responsible leadership. It is—and must continue to be—at the core of what PwC does. One example of this is that our global CEO Sam DiPiazza will take up the chair of the World Business Council for Sustainable Development in November 2007.

Global consciousness

Just under two years ago we established Global Communities to harness the collective energy and passion of our people across the globe—building on the fact that many of our people have developed strong relationships and connections with their local communities. Global Communities brings a central and collaborative focus to the many diverse contributions our people make in their communities—whether it is giving time, resources, skills or money. Not only do we celebrate the impact of such contributions; we also share the story and inspire others to get involved. One year on, we have a great story to tell.



Sustainability. Our people are focusing on developing strong and sustainable communities and are working together to develop communities that are aware of and respond to social issues.

Global Communities is made up of four pillars: providing professional services, volunteering in our communities, developing corporate community leadership and giving. Our people work together across all four pillars, using their skills and expertise to maximum impact. Most importantly, our people are focusing on developing strong and sustainable communities, are working together to develop communities that are aware of and respond to social issues and are recognising that each community is made up of a diverse range of individuals, organisations and forums.

At the same time, we recognise that responsible business and success go hand in hand. Far from being an impediment to business performance, integrity and generosity very often underpin it. There is growing evidence that organisations that embrace responsible business as a core, strategic priority are also those that innovate, develop new products and services, access new markets, recruit and retain a more diverse and talented workforce and are better placed to minimise risk.

Life support

Our communities across the network are already having a considerable impact. In FY2007, the network firms contributed globally an estimated 217,600 hours of volunteer time and donated more than 33 million USD to the not-for-profit sector. In addition, we provided 150,000 hours of free or heavily discounted professional services.

Our focus is on working with our local communities to identify ways in which we can impact issues that are relevant

to the communities in which we live and work. Some examples include giving career support to disadvantaged young people, fulfilling the requests of seriously ill children and helping people reclaim their lives from depression.

Positive imprint

We are proud of being able to give our people the opportunity to explore their interest in wanting to work in partnership with their local communities. Becoming

more deeply involved with diverse communities also helps us broaden our own perspectives, deliver innovation, access fresh markets, manage risk better and recruit from a wider pool of talent.

Research shows that consumers increasingly want to feel associated with organisations and brands that share their values and social aspirations. Protecting the environment is a particular concern, as growing numbers of people become

aware of the potential dangers of climate change. We are pleased to say that a number of our firms across the network—including PwC in Australia, South Africa and the United Kingdom—have already made plans to go carbon neutral.

All of these are long-term commitments that we will continue to pursue with rigour and dedication. In short, we are determined to leave behind a lasting, positive legacy for the world we all share.

Rick Millen, Global Communities Partner

Climate change has been forcing its way up the agenda all around the world. At PwC we are committed to sustainability, and we are investigating how we should respond to our own carbon footprint in a globally coordinated fashion, sharing the knowledge and experience gathered in our firms throughout the world and establishing best-practice benchmarks.

Many of our firms have made significant efforts to help tackle climate change which could be leveraged by others. Actions by the UK firm, for example, have led to a reduction in its carbon emissions by more than 45 per cent over the past four years, and the firm has committed to becoming carbon neutral. Meanwhile, the Australian firm announced its intention to become carbon neutral by 1 July 2008 through the development of a comprehensive carbon management plan.

To help make progress on this key issue, we have established the Climate Change Response Group—a new body comprising representatives from each of the eight largest PwC firms, which started work in August 2007 and will report in the coming year.

Action. Many of our firms have made significant efforts to help tackle climate change.

217,600

is the number of hours of volunteer time that PwC people around the world contributed to not-for-profit activities.



Enhancing lives

In **Peru**, PwC staff work alongside a local charity, Caminando Juntos (which means Walking Side by Side), to help repair homes in poor neighbourhoods. Every Christmas, youngsters from these areas are also invited to take part in a day of games and activities, while the children of PwC workers design greetings cards that are sold to raise funds.



In **Uzbekistan**, our people work closely with Tashkent School 52, a school for children with mental disabilities. We co-sponsor repairs to the school's buildings and support some larger construction work.

PwC in **Spain** sponsors Spanish TV's 12-hour annual telethon designed to raise money for medical research and health education projects. In 2006, the event raised 1.2 million USD. Some 50 members of our Barcelona team were on hand throughout the programme to provide auditing services. Six hundred PwC staff volunteered their help last year to stage the Special Olympics, a sports event designed for people with mental health difficulties.

Our offices in **Belgium** provide 1,000 hours per year of pro bono advisory, tax and legal support for Médecins Sans Frontières/Artsen Zonder Grenzen (MSF/AZG), an organisation that supplies emergency international humanitarian assistance to more than 70 countries.

Care4Kids was set up by a group of PwC marketing staff in the **Netherlands** who were moved by the plight of children orphaned in war and as a result of natural disasters. The charity works alongside others—such as SOS Children's Villages—to help rebuild family networks and a stable environment for these children. Staff at our Dutch office leverage contacts within the country's business and finance communities to help kick-start such projects, as well as provide advice on insurance, purchase contracts, risk assessment and legal issues.

After nominating education and poverty as priorities, our staff in **Canada** have assisted with numerous volunteer programmes. In the latest project, Leadership Grants were dispensed to around 100 leaders of small and medium-sized charities.

Our **Kenya** team has chosen to focus on the elderly. Since 2005, our staff have assisted in renovating the Mji wa Huruma—a “home of mercy” for the aged in one of Nairobi’s poorest districts. It provides the needy with shelter, food, clothes and medicine. With PwC’s hands-on support, the home has now been revitalised with a new kitchen, a restored boiler system and a fresh lick of paint.

In **South Korea**, hundreds of PwC staff have committed to donating a fixed part of their salaries to charitable organisations. In 2007, the number of individual

donors to the scheme grew by nearly 60 per cent, raising some 170,000 USD. The money has gone toward projects such as the building of libraries for children on remote islands and the funding of surgery for burn-unit patients.

PwC staff in **China**, meanwhile, have gone to extraordinary lengths to raise funds for charities supporting social services, people with disabilities and disadvantaged youth and children. Our Hong Kong team, for instance, last year helped raise 255,000 USD for mental health charity MINDSET by participating in the “Rat Race”—a business-themed obstacle course spanning several blocks within Hong Kong’s central business district. Others took part in the Oxfam Trailwalker, navigating the rugged 100-kilometre MacLehose Trail in two days and raising 2.5 million USD in the process.



Impact. Our focus is on working with our local communities to identify ways in which we can impact issues that are relevant to the communities in which we live and work.

Responsible business behaviour and business success go hand in hand. Far from being an impediment to business performance, integrity and generosity underpin it.

Enhancing opportunity

Our **Uruguay** team helps inspire entrepreneurship among young people in conjunction with charitable organisation DESEM. PwC has a hands-on role mentoring students toward creating their own businesses while also offering financial support and lending office space to would-be entrepreneurs in which to hold their meetings.



In **Georgia**, PwC staff volunteered last year to go on the search for a list of schoolbooks, as requested by the director of the local Heart Project orphanage. After finding the books, our staff brought them back to the PwC office, where colleagues were invited to help pack them neatly into bags for each of the children. The books were then formally presented to the children, with the emphasis on encouraging them to pursue their professional dreams.

The **New Zealand** PwC Foundation's Aspire scholarship programme was created with a view toward inspiring and supporting students from diverse, and especially disadvantaged, backgrounds. Each year, four grants are awarded to students in secondary schools selected from a pool of 50 across Auckland, Christchurch, Dunedin and Wellington. The winners receive study assistance valued at 6,000 NZD to help them through university.

In the **UK**, too, our teams have placed the emphasis on boosting opportunities for children. A lot of their work involves knowledge sharing, volunteering to teach literacy and numeracy skills and helping students build confidence as well as hone their presentation talents. In 2006, some 3,000 of PwC's UK staff devoted 30,000 hours of their working time to voluntary activities.

Our **US** team recently launched Project New Orleans in partnership with the Hands on Network charity. The idea was to get 85 colleges and universities nationwide to donate a student for two days to help PwC staff and partners renovate a high school in New Orleans damaged by Hurricane Katrina.

PwC in the **Philippines** has joined forces with the Management Association of the Philippines, TOWNS Foundation and Gawad Kalinga Community Development Foundation to help push forward an outreach project aimed at improving the opportunities for indigenous Aeta people. Our staff have taken part in providing basic maths and literacy skills for Aeta children, as well as in distributing food, medicine, clothes, stationery and toys to them.



Enhancing the environment

Our commitment to a clean environment is perhaps best demonstrated by the activities of our staff in South Africa, who work closely with the country's national greening organisation, Food and Trees for Africa (FTFA). FTFA develops, manages and promotes sustainable resource management and food security programmes. Its work famously contributes to poverty alleviation, capacity building, skills development, AIDS eradication and a richer environment generally. In 2005, PwC approached FTFA for help in offsetting the carbon emissions from our 24 offices in South Africa. After calculating PwC's effect on the environment, we moved to offset this by participating in FTFA's National Tree Distribution and Trees for Homes programmes.

Commitment.

PwC has a long-held commitment to making a positive difference to the world in which we operate.

In **Indonesia**, PwC people have established a foundation called People Who Care (PwCare) and is focusing on boosting children's education. The programme includes efforts to improve school facilities, conduct workshops for teachers and offer scholarships to students. PwC's local partner is Nurani Dunia, a nongovernmental organisation that works to improve the conditions of school buildings in Indonesia, many of which do not meet minimum safety standards. PwCare has already provided 35,000 USD toward its first project in South Jakarta.

PwC in **Australia** has a long, proud record of assisting local communities. A key initiative was launched in 2006 in partnership with Social Ventures Australia and the nation's largest local council, Brisbane City. It focuses on providing advice and networking support for community organisations dedicated to helping people marginalised from the country's mainstream workforce. The Brisbane Social Enterprise Hub helps such organisations become more commercially viable. A national rollout of the programme is now envisaged. By the end of its latest financial year, the PwC Foundation in Australia had donated 7.5 million USD to more than 20 community organisations; and staff had contributed over 50,000 volunteer hours across 900 activities.



Facts and figures: Numbers and knowledge

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Clients **page 37**

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Our key network assets **page 42**

Thought leadership **page 44**

Global board and extended leadership team **page 45**

Up. PwC posted record results in FY2007, with global revenues growing by 10.5% to 25.2 billion USD.



Across the world our member firms enjoyed very good results in the 12 months to 30 June 2007, with global revenues growing, at constant exchange rates, by 10.5 per cent to 25.2 billion USD. At variable rates of exchange, growth of revenues was higher, at 14.4 per cent, boosted by the relative weakness of the US dollar against a number of other currencies.

While PwC's results were buoyed by continued strong economic conditions across the world, they also reflect our strategic focus on key growth markets such as China and India, the increasing scale and scope of our tax and advisory business and the early results of our distinctive client experience strategy.

Revenues

Revenue figures were strong across all three of our main service offerings. Growth from our advisory business increased by 14.6 per cent to 5.7 billion USD, driven by a more integrated market strategy, a focus on performance improvement consulting and a particularly strong performance by our transactions business on the back of the strong flow of M&A-related work. Our tax operations also performed exceptionally well across the world, with revenues up 15.1 per cent to 6.3 billion USD, again boosted by work related to M&A activities. As a consequence of our strategy to increase our focus on these businesses, they accounted for 48 per cent of our global revenues in FY2007 compared with 44 per cent three years ago.

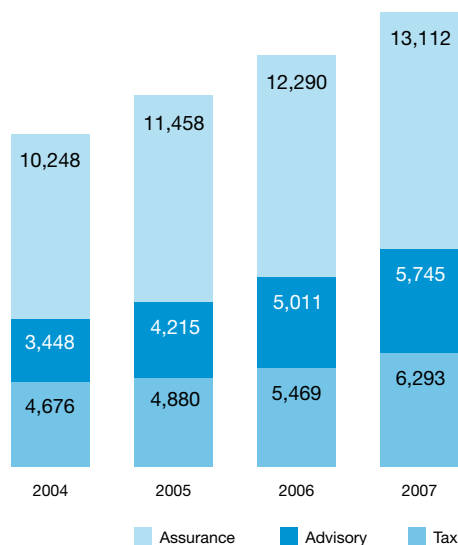
Assurance continues to be the linchpin of our business and the service that we are best known for throughout the world. Representing 52 per cent of global revenues, our assurance practice posted revenues of 13.1 billion USD, up 6.7 per cent, reflecting the tail off in IFRS and Sarbanes-Oxley related business and the more mature nature of this market for PwC in developed economies.

Figure 1: Aggregated revenues of PricewaterhouseCoopers firms by service line (USD millions)

	FY07 at FY07 ex. rates	FY06 at FY06 ex. rates	% change	% change at constant ex. rate
Assurance	13,112	11,897	10.2%	6.7%
Advisory	5,745	4,819	19.2%	14.6%
Tax	6,293	5,270	19.4%	15.1%
Total gross revenues	25,150	21,986	14.4%	10.5%

FY07 revenues are expressed in US dollars at average FY07 exchange rates. FY06 revenues are shown at average FY06 exchange rates. Gross revenues are inclusive of expenses billed to clients. Fiscal year ends 30 June.

Figure 2: Growth of PwC's service lines (2004-2007) at constant exchange rates



There were good performances by our member firms right across the world, with nearly all of our major regions boasting double-digit growth rates. There were particularly good results from Central and Eastern Europe, which saw revenues increase by 22.4 per cent, while South and Central America enjoyed revenue growth of 19.1 per cent.

Our Asian firms also recorded strong growth of 18.8 per cent driven by particularly good results from China, while Western Europe and North America continued to demonstrate strong growth, with revenues up 9.4 per cent and 7.8 per cent, respectively.

Figure 3: Aggregated revenues of PricewaterhouseCoopers firms by region (USD millions)

	FY07 at FY07 ex. rates	FY06 at FY06 ex. rates	% change	% change at constant ex. rate
Asia	2,492	2,078	19.9%	18.8%
Australasia and Pacific Islands	1,086	940	15.6%	10.3%
Central and Eastern Europe	659	511	29.0%	22.4%
Western Europe	10,710	9,090	17.8%	9.4%
Middle East and Africa	596	526	13.3%	20.8%
North America and the Caribbean	9,029	8,356	8.0%	7.8%
South and Central America	578	485	19.1%	19.1%
Total gross revenues	25,150	21,986	14.4%	10.5%

FY07 revenues are expressed in US dollars at average FY07 exchange rates. FY06 revenues are shown at average FY06 exchange rates. Gross revenues are inclusive of expenses billed to clients.

Fiscal year ends 30 June.

We saw good performances by all of our major member firms around the world.

Revenues continued

All of our major member firms around the world performed well, with many firms achieving over 10 per cent revenue growth in the past 12 months. As expected, there were particularly strong results from some key growth markets, with China, Central and Eastern Europe, India, and the Middle East posting strong revenue growth.

We deliver our services around industry sectors to leverage the latest research, expertise and emerging trends from around the world. The depth of our industry knowledge is an attribute that is highly valued by our clients. Revenue growth was strong across many industry sectors, with markedly good results from colleagues working with clients in the automotive, investment management, pharmaceutical, banking and capital markets industries.

Figure 4: Revenue growth rate of selected PwC member firms (percentage growth rate FY2006-FY2007 in USD at constant exchange rates)

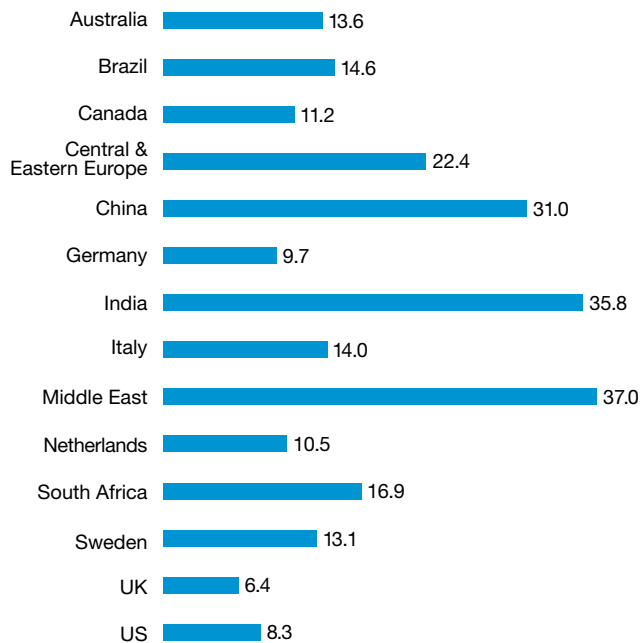
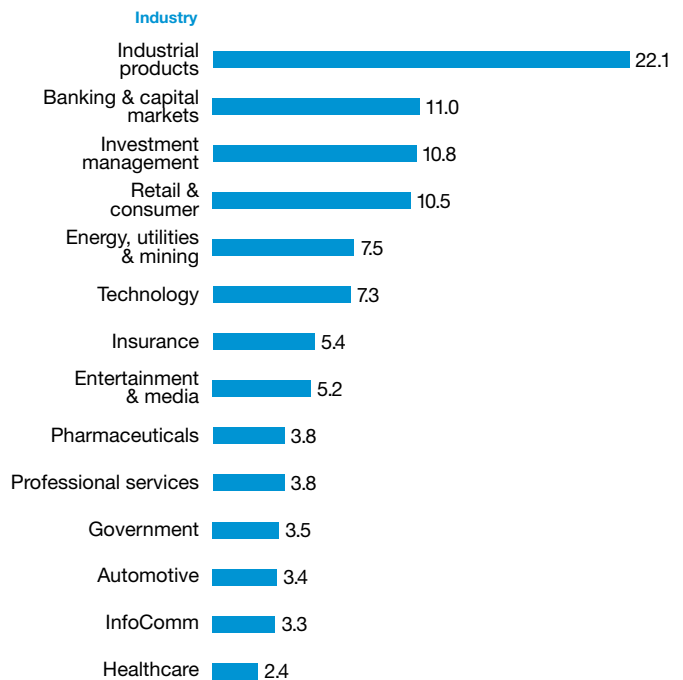


Figure 5: Aggregated revenues by industry sector (percentage of revenue)



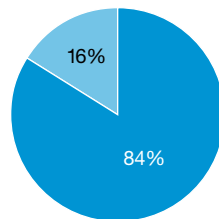
Estimate based on market data representing more than 95% of aggregated revenues of all PwC firms in FY07.

Clients

The clients of PricewaterhouseCoopers' firms range from the world's largest and most complex organisations to some of its more innovative entrepreneurs. Clients include public and private companies, governments, banks and private equity houses, and not-for-profit organisations. In FY2007, PwC firms provided services for 368 of the companies in the Fortune 500 and 422 of the companies in the FT Global 500. PwC firms served significantly more than half of the largest companies in each of our regional markets during the year.

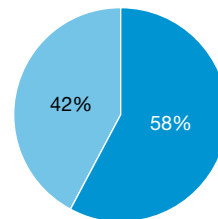
Figure 6: Global and regional client bases

FT Global 500



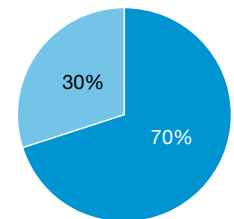
(32% audit clients)

S&P Asia 50



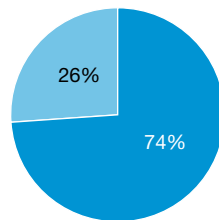
(38% audit clients)

FT Europe 500



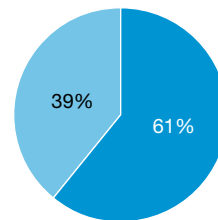
(33% audit clients)

Fortune 500 (US)



(29% audit clients)

S&P Latin America 40



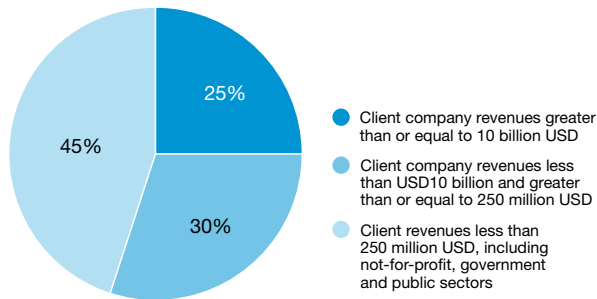
(40% audit clients)

● PwC client companies in index/list
● All other companies in index/list

Audit clients include both sole and joint audit appointments. Other clients disclosed as companies where PwC revenues exceeded 500,000 USD in FY07.

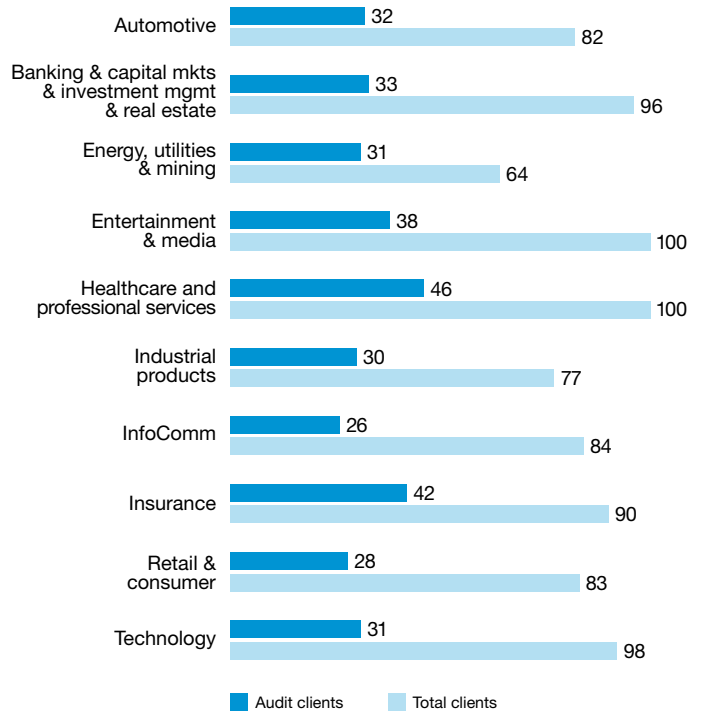
The share of smaller clients, private entities, not-for-profit organisations and the public sector in our member firms' revenues was 45 per cent in FY2007 compared with 30 per cent for mid-sized companies and 25 per cent for large companies.

Figure 7: PwC aggregated revenues by size of client



Estimates based on market data representing 92 per cent of aggregated revenues of PwC firms in FY07. Client revenues as reported by public record.

Figure 8: PwC clients as a percentage of the Fortune Global 500



Audit clients include both sole and joint audits. Other clients defined as companies where PwC revenues exceeded 500,000 USD in FY07.

People

Our people form the bedrock of PwC, and we invest significant resources in making PwC a great place to work. We illustrate here just some of our people initiatives.

The combined head count of PwC firms is more than 146,000, an increase of 3 per cent during FY2007 (Figure 9). PwC firms have a total of 766 offices in 150 countries.

We continue to be the most attractive employer in our profession, as evidenced by recent student surveys (Figure 11).

Average partner and staff turnover rates in our larger member firms have improved again this year (Figure 12). However, retention rates are still lower than we would like, partly reflecting the intense competition for experienced specialists in many markets. We are continuing to work on improving retention rates, particularly among high performers.



Figure 9: PwC people, June 2007

PwC people	2007	2006	2005
Partners	8,578	8,280	8,019
Client service staff	108,926	104,414	94,877
Practice support staff	29,263	29,468	27,307
Total	146,767	142,162	130,203

Partner head count reflects withdrawals and retirements as of 30 June and new partner admissions as of 1 July.

Figure 10: PwC people by region, June 2007

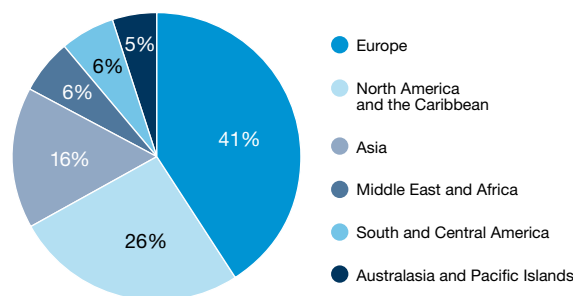


Figure 11: PwC ranking in student surveys

	Rank in Big Four		Rank among all employers	
	FY07	FY06	FY07	FY06
China	1	1	36	26
Czech Republic	2	2	4	4
Denmark	1	2	12	19
France	2	2	9	13
Germany	2	1	5	6
Spain	1	1	2	1
Sweden	1	2	2	3
Switzerland	1	1	4	4
United Kingdom	1	1	1	1
United States	1	1	1	2
Pan-European	1	1	7	3

Sources: China (ChinaHR.com), Czech Republic (AIESEC Survey), Denmark (Universum Graduate Survey), France (Universum Graduate Survey), Germany (Trendence Survey), Spain (Fundación para el Desarrollo Directivo), Sweden (Universum Graduate Survey), Switzerland (Universum Graduate Survey), United Kingdom (The Times Student Survey of Top Graduate Employers), United States (Universum Undergraduate Survey—business majors), Pan-European (Universum Graduate Survey).

People continued

Gender diversity

Women represent half of our global workforce at the recruitment level, but only 13 per cent of the Partnership (Figure 13). Because of this, the PwC network has made gender diversity a primary goal. We have formed the Global Gender Advisory Council to advise on ways to improve the situation because gender diversity is a significant business issue that effectively enhances the bottom line.

PwC is a sponsor and supporter of the annual Women's Forum for the Economy and Society and works closely with other organisations such as Catalyst and GlobeWomen to learn how to best support, develop and retain our people. Around our network, we continue to invest in mentoring schemes, networking programmes, flexible working models and innovative developments such as reverse mentoring, bias awareness training and coaching schemes.

Global mobility

PwC's Global Mobility Programme matches high-performing people interested in international assignments with PwC member firms in need of additional professional support. In FY2007, the number of short- and long-term assignments continued to grow at double-digit levels. Participants provide specialist expertise in fast-growing markets or business segments where they serve clients, develop new service offerings or strengthen quality and risk management. International assignments such as these have been found to accelerate career development and personal growth while enhancing the service provided to clients.

Figure 12: Average turnover rates of PwC people in major firms

Service line	Client service		Practice support		Partners	
	FY07	FY06	FY07	FY06	FY07	FY06
Assurance	17%	18%	11%	10%	3%	6%
Advisory	16%	17%	10%	10%	2%	2%
Tax	14%	18%	10%	13%	3%	6%
Total	16%	18%	10%	11%	3%	6%

Partner head count reflects withdrawals and retirements as of 30 June and new partner admissions as of 1 July.

Major firms represent 93% of global head count.

Figure 13: PwC people by gender, June 2007

Percentage women	2007	2006
Client service and practice support staff	51%	50%
New partners	22%	22%
All partners	13%	12%

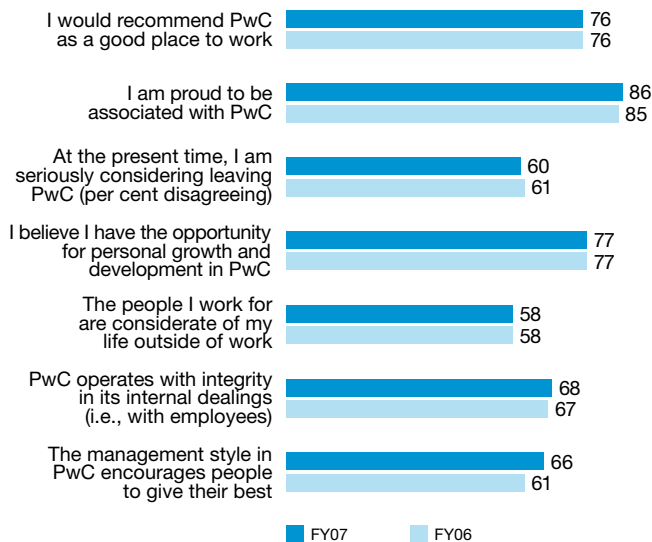
Figure 14: Global mobility programme—number of new assignments

	FY07	% change	FY06	% change	FY05
Long-term assignments	961	13%	836	17%	694
Short-term assignments	1,361	11%	1,211	4%	1,162
Total	2,322	12%	2,047	9%	1,856

Influencing tomorrow's leaders: AIESEC

For more than 30 years, PwC has been making a contribution to the global community through AIESEC—the world's largest student-run organisation. This international, not-for-profit group provides young people from around the world with a platform to discover and develop their potential and have a positive impact on society. Each year, we place AIESEC interns in client service and operational roles in more than 50 PwC member firms, where they gain valuable insight into the business world and the professional services industry. Through this relationship, PwC is able to play a positive role in helping guide and develop future business leaders.

Figure 15: Global People Survey results (per cent agreeing)



Global People Survey

The views of our people around the world are important to us; therefore it is encouraging that our Global People Survey continues to achieve an impressive response rate. The results of the survey are also good, showing we have consolidated the steady progress achieved over the past few years. A very large majority of our workforce, for example, is proud to be associated with PwC, considers it a good place to work and believes there is ample opportunity for growth.

Nevertheless there is always more we can do, particularly in the area of work/life balance which was highlighted in this year's survey. During the course of FY2008 we will be looking at some of the innovative and far-reaching approaches to ensuring work/life balance around the world and seeing how we can share and learn from best practices in this area.



Leadership development programmes

Genesis Park In June, PwC opened a second branch of its Genesis Park global leadership development programme in Berlin. Launched in 2001 in Washington, DC, Genesis Park is an intense five-month, full-time residential learning experience that prepares high-potential performers to work with clients and colleagues in ways that drive PwC's commercial objectives as well as its long-term strategies. Upon completion of the programme, participants return home to take on leadership roles in dealing with clients, managing PwC teams and developing new business opportunities.

Ulysses In May, our Ulysses partner development programme received the Global HR News Corporate Citizenship Award. The Awards recognise corporate programmes that foster exemplary goodwill in the international communities in which the company does business. Since its launch in 2000, Ulysses has sent nearly 100 participants to developing countries around the world to work in small teams on social improvement projects sponsored by nongovernmental and international organisations.

Oasis PwC's Oasis programme brings together PwC people who have been identified as having outstanding leadership potential for nine days of self-discovery and network building in Nairobi, Kenya. The locale was chosen deliberately: Kenya provides the Oasis programme with an environment that manages to take people out of their cultural comfort zones while freeing them from everyday distractions. Moreover, the country's natural beauty offers an inspiring backdrop for exploring the larger meanings of leadership, responsibility and community.

Our key network assets

The most important things that link PwC member firms together across the world are the strength of our people and their commitment to deliver a distinctive experience for our clients. At the same time, our people are connected across the globe through a handful of vital intangible assets that embody the very essence of the PwC global culture: the strength of our brand, the capabilities of our global network, our unrelenting commitment to quality and the power of our thinking.

The connected power of our people and these intangible assets are what make PwC the distinctive leading organisation in the professional services industry.



PwC network

With 766 offices in 150 countries and a combined head count of over 146,000, the PwC network provides our clients with unique access to a global span of expertise, knowledge and capabilities. We constantly strive to improve the effective operation of this network, investing in technology and training and establishing best-practice centres of technical and risk management advice. The investment we have made in our network enables us to collaborate across the world by sharing ideas, knowledge, methodologies and approaches. It also enables us to provide our people with the capabilities necessary to deliver distinctive services to our clients wherever they may need our help.

Quality across the PwC network

PwC is the strongest brand and the leading network in its industry. That strength is supported globally by a robust risk management and compliance programme that includes effective regional and global support and oversight.

Underlying PwC's risk management and compliance programme is the fundamental principle that each and every PwC firm is fully responsible for its risk and quality performance and, where necessary, for driving improvements. A firm's membership in the PwC network is dependent on its ability to comply with stringent risk and quality standards.

Every PwC firm is fully accountable and responsible to the entire PwC network of firms for the quality of its performance. In 2007, the Territory Senior Partners for each PwC member firm signed the first of what will be an annual confirmation of compliance with a set of risk management standards, covering independence, ethics & business conduct, Assurance risk & quality, and Advisory and Tax risk & quality.

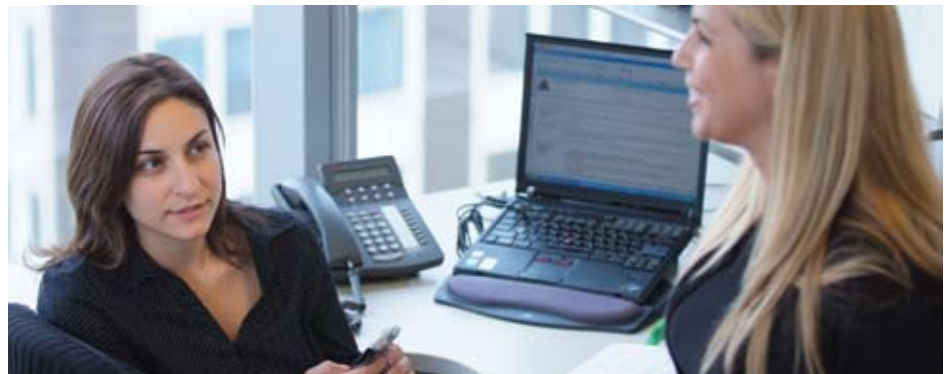


PwC brand

The PwC brand is the major unifying force for our network across the world. Consequently, we invest a great deal of time and energy to both strengthen and protect it. A clear indication of the value and reputation of the global PwC brand is provided by the results of a recent report on the world's most valuable brands. According to the *BrandFinance250* annual report,¹ the PwC brand was one of only 12 global brands to receive a top rating of AAA+ and the only professional services organisation to be included among the most highly rated brands in the world.

However, we continue to develop and differentiate our brand in order for it to contribute to PwC's ongoing success. We are working to make it more relevant to our clients' and people's evolving needs and to deliver it with greater consistency. This effort applies not only to our communications and visual identity but also to our culture—in how we build our capabilities and, most importantly, in the distinctive experience we deliver to our clients and people around the globe.

The PwC brand is among the most highly rated brands in the world.



¹ *BrandFinance250*: Annual report on the world's most valuable brands, January 2007.

Thought leadership

Our thought leadership—the means by which we articulate our distinctive insights on key business topics and emerging trends—focuses largely on how companies can succeed in an increasingly “connected” world. In the coming year, we will explore this theme further in global initiatives and across our network—emphasising actionable insights that can help our clients succeed.

Highlighted are four examples of recent PwC publications which explore some of these issues.



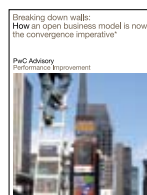
10th Annual Global CEO Survey An authoritative guide to the concerns of today’s business leaders, this survey examines the developments that CEOs see shaping their industries. The results of the most recent survey confirm our view of the effects of the “connected” world: globalisation and advances in technology are enabling and necessitating a new business model—one that puts collaboration with critical stakeholders at its heart.



Pharma 2020: The vision—which path will you take? As the world’s population ages and new medical needs emerge, the demand for new, effective medicines will consequently rise. Obviously, the pharmaceutical sector must respond. But as this new report makes clear, the current pharmaceutical industry business model is unsound and unable to act quickly enough to produce the types of innovative treatments demanded by global markets. In fact, the industry must fundamentally change the way it operates if it is to survive.



Banking in 2050: How big will the emerging markets get? Because we see a shift in the economic balance of power away from the established G7 economies to the emerging countries—the so-called E7 of Brazil, China, India, Indonesia, Mexico, Russia and Turkey—we have developed a series of reports on how the global economic picture might look in the years to 2050. Readers can view the reports at www.pwc.com/world2050, where the latest piece of thought leadership examines how the pace of change will alter the face of banking.



Breaking down walls: How an open business model is now the convergence imperative Technology, content and distribution are converging at light speed and are fuelling a power shift toward consumers that verges on social revolution. This report reflects our view that today’s management tendencies are impeding value creation in this rapidly changing marketplace and that a new and open business model is the way to manage convergence and realise its potential.

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Eurofirms	Markus R Neuhaus
South and Central America	Luis E Frisoni Jr
United Kingdom	Kieran C Poynter
United States	Dennis M Nally

Other partners who served on the Extended Leadership Team during fiscal year 2007 were Willem LJ Bröcker, John K Heywood and Wolfgang Wagner.

Primary photography: Kit Kittle Additional photography: William Coupon, Vance Jacobs and Stephen Wilkes

Creative direction and design: Odgis + Company, NY Printing: Sandy Alexander, Inc.

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-  7,956 lbs of greenhouse gases was prevented
-  equivalent to 6,840 miles driven in an automobile was eliminated
-  equivalent to the planting of 536 trees

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