PricewaterhouseCoopers aspires to deliver client service excellence every time. Therefore, we were again proud to be recognised as Best Large Accounting Firm and Market Leader in the 2007 BRW-St.George Client Choice Awards. Also, the International Tax Review has named us leading tax firm in Australia and Asia and Chartered Secretaries Australia have awarded our partner Bill Edge their Governance Professional of the Year Award for upholding the highest standards of governance practice in Australia. Perhaps most importantly, 2006 was also an excellent year for our people in the community. The PwC Foundation distributed \$2.3 million to our charity partners and our people contributed 13,680 hours giving something back to the community, which together with the 2006 Award for Best Graduate Intake Program continues to demonstrate that PwC is a great place to develop, grow and achieve your personal goals.

Why?

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We are PricewaterhouseCoopers

We provide industry-focused assurance, tax and advisory services for public and private clients in four areas:

- corporate accountability
- risk management
- structuring and mergers and acquisitions
- performance and process improvement.

We use our network, experience, industry knowledge and business understanding to build trust and create value for clients - we call this Connected Thinking.

At PricewaterhouseCoopers you'll find much that makes us stand out from the crowd. There's the way we combine technical excellence with innovation, our emphasis on delivering value, our thought leadership, our community involvement and the strength of our global network. But perhaps most importantly, we recognise that people are the essence of business - our people, our clients' people and those in our broader communities. For us, technical excellence is certainly a starting point for succeeding at what we do. But more and more, we are enjoying matching our professional expertise with human qualities such as commitment, passion, reliability and integrity - the unique intersection between the rigour of the head and the courage of the heart.



Why? Because we invest in relationships.



with the Superbike.

Developed by the Australian Institute of Sport and Melbourne's RMIT University over four years, the Superbike was a revolution in cycling. Built for increased speed and efficiency, the Superbike is made from a monocoque shell of carbon fibre-polymer elements (similar to material used in space programs and Formula 1). The Superbike has achieved 23 World Championships, three World Records, two Innovation Awards, one Award for Excellence and one for Best Technical Development. It is now available commercially made from aerospace aluminium – and is still the world's fastest bike. (www.superbike.com)

Why? Because we share and collaborate.



Corinne Best
with the SLSC Surf Reel.
Pioneered by members Lyster
Ormsby, Major Reed and Percy
Flynn at Bondi SLSC, the
world's oldest surf lifesaving club.
Originally called the 'alarm reel',
the design was based on a
standard cotton reel and consisted
of a line and belt, manually fed,
requiring team discipline and
control to use effectively.
Phased out in 1994, it continues
as a distinctive icon in the emblem
of the Bondi SLSC.





Why? Because we walk in each other's shoes.



With the Victa Lawnmower.
First developed by Merv Richardson in his Concord, NSW garage in 1952, one of the first retail models, the 'Rotomo' (shown) hit the market in 1955. Victa is still the leader in its field with a focus on innovation and quality. Even today, most Victa mowers feature the distinctive appeal of the upright handle, four wheels, rotary blade and top-mounted engine, and they are as much a part of Australian backyards as the barbie.







Our Year. Our results r our continue developing tachieving exand inspirin leadership.

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2006.

We have had another excellent year, reflected in robust growth. Our continued focus on strong client relationships once again earned us the accolades of Best Large Accounting Firm and Market Leader in the *BRW*-St.George Client Choice Awards. We are also delighted that 90 per cent of our people say they are proud to be associated with PricewaterhouseCoopers.



We maintained our leader professional services firm increased by 12.4 per cent Assurance, Advisory and T

ship as Australia's largest in 2006. Our revenue to \$1.2 billion across our ax & Legal practice areas.



CEO's Perspective.

The firm has had another excellent year, reflected in strong growth. This has been achieved though our continued focus in three areas: investing in our people by developing their skills in teamwork and leadership; improving our delivery by looking at more efficient ways to perform our work and bring value to our clients; and our ongoing quest for client service excellence – making the vital connections to ensure that every PwC experience is distinctive for our clients and ourselves at a professional and personal level. In all of these areas, we have made pleasing progress.

We publish this annual review to provide our clients, people, regulators and other stakeholders with a clear insight into our operational, responsible leadership and corporate governance activities. It is also an opportunity to share examples of our thought leadership initiatives, community contribution and our view on important issues such as regulatory reform. Most importantly, it is an opportunity to demonstrate our passion for what we do.

Our operations

We maintained our leadership as Australia's largest professional services firm in 2006. Our revenue increased by 12.4 per cent to \$1.2 billion across our Assurance, Advisory and Tax & Legal practice areas. This pleasing result follows our sharpened focus on client service and the capabilities of our people.

Private Client Services

In one of the largest structural changes to the firm in recent years, we introduced our Private Client Services (PCS) group.

This team commenced with 40 partners and 500 staff and is dedicated to the needs of entrepreneurial business owners, managers and high net worth individuals and family businesses. Our role is to provide business advice relating to audit, tax strategy and compliance, corporate finance, wealth management and succession planning.

By formalising our PCS offerings, we have shattered one of the great misconceptions about PwC: that we only work in the big end of town. In fact, the clients now serviced by PCS represented almost 10 per cent of revenue in fiscal 2006.

PCS will be an important growth engine for the firm. It will also enable our clients and us to benefit from lifetime relationships as we work together to develop their businesses or manage key events such as successions and floats.

The business environment

PricewaterhouseCoopers' 10th Annual Global CEO Survey showed Australian CEOs to be more confident about their prospects for revenue growth over the next 12 months than their global counterparts. In fact, overall business confidence among global CEOs is at an all-time high, with confidence levels nearly doubling since 2001.

So business leaders embarked on 2007 with a positive mindset. While we expect mergers and acquisitions activity to continue, there are also strong organic growth opportunities for businesses through expansion into new markets and better penetration of existing markets through improved customer service. The survey showed that the biggest challenge facing Australian CEOs is a shortage of key skills. In terms of macro or systemic threats to their businesses, Australian CEOs are most concerned about the scarcity of natural resources such as oil and water, followed by a lack of infrastructure, global warming and climate change.

It is clear that today's business leaders need an ability to interpret the changing world around them if they are to lead their organisations towards the future with confidence. At PwC we continue to tailor our business offerings to ensure we best serve our clients within this changing market environment. We remain committed to improving our own operations and the Australian business environment as a whole.

Private equity

The rise of private equity funds has been encouraged by a liquid market. The resulting role of these funds as key stakeholders in corporate transactions has emerged as a significant phenomenon, introducing a range of different dynamics to the business environment and the market. These include additional pressures on companies to perform. Private equity has resulted in much greater levels of gearing, leverage, risk-taking and different reward structures. It is also seen to have led to cost-consciousness and some positive operational performance outcomes by putting a time horizon, typically three to five years, on management objectives. Some question whether the current level of private equity activity is

sustainable. Its long-term impact on the marketplace and how much it is underpinning the current level of economic activity also remain to be seen.

Reform agenda

We continue to support and work closely with the Business Council of Australia (BCA) to further the case for reform in key areas, including reducing the tax burden, cutting red tape, renewing infrastructure and further reforming the workplace. For a number of years we have expressed our concern that excessive and often nationally inconsistent regulations are creating too much red tape for business and impeding Australia's competitiveness. The past year saw some significant developments in this area which we hope will lead to long-term progress. However, there were also setbacks.

In August, the Federal Government's Regulation Taskforce released its final report, *Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business.* We welcomed the report as it indicated a real commitment to address the causes of complexity. It featured 178 recommendations for cutting red tape including tougher rules for making new regulations and the screening of regulations every five years. These measures and other recommendations were a positive step and set the right framework for continuous improvement, though it will be important to continue to press for reform to ensure that real change is realised.

A second major review was the *Corporate and Financial Services Regulation Review* released by the Australian Government Treasury in April 2006. This is aimed at gathering recommendations on how to alleviate the compliance burden in areas such as financial services regulation, company reporting obligations, auditor independence, corporate governance, fundraising, takeovers, collective investments and dealing with regulators.

The road to reform is a long one. We must actively encourage the Federal Government to continue with its program as there are clearly significant economic benefits and efficiencies to be gained from staying the course.

Tax

Another major area in need of reform is tax. PwC contends that more emphasis needs to be placed on the effectiveness of our business tax regime in its entirety. At PwC we have developed a Total Tax Contribution framework, which the UK's largest companies have deployed to better understand and enumerate their total tax contributions. Working with the Business Council of Australia (BCA) and the Corporate Tax Association (CTA), we are adapting this framework for application to Australian businesses. The Total Tax Contribution framework enables businesses to calculate their total tax contribution so that they can accurately quantify, report and manage their business taxes. Currently few companies have coordinated and comprehensive information on all their business tax payments.

In our view every company should know the total amount of tax it pays. A proper focus on total tax contribution provides visibility to a company's internal stakeholders on the impact of all taxes on the business and enables management to make more informed decisions. It also improves tax risk management, controls and the management of tax resources.

Governance

Recognising the importance of strong governance, we have maintained our serious commitment to the integrity of the firm and our clients. More generally, we are pleased to see a shift in the focus from process and conformance to one of business performance and outcomes. Businesses are taking a much more balanced approach in this area.

We were especially proud to advise that our OneFirm Risk & Quality leader, Bill Edge, was recognised in the Chartered Secretaries Australia Governance Professional of the Year Awards. These awards celebrate professionals who uphold the highest standards of governance practice in Australia. PwC has a central role in Australia's governance infrastructure and the work Bill is undertaking will leave a proud and lasting legacy on the nation's business sector.

The firm has invested in e-learning technology to reinforce our Code of Conduct and independence guidelines to all staff; established an ethics and business conduct committee to oversee the firm's activities and completed benchmark self-assessments against the global firm's risk management and compliance framework.

PwC doesn't simply comply when it comes to high standards – we set the bar. After vigorous global firm reviews, PwC Australia's audit group has been recognised as best-in-class worldwide. As a result, several of our risk and quality initiatives are now being adopted in other PwC offices. This commitment to ensuring compliance and transparency extends beyond our staff and clients to the market as a whole. Over the past year, we participated in a variety of leadership documents which have set the tone of responsible governance; these included the *Corporate Governance Toolkit*, *Shareholder Friendly Report* and *Trends 2006: Good Practices in Corporate Reporting*.

Responsible leadership

PwC has a long-held commitment to responsible leadership. We acknowledge that we have an obligation to leave the world a better place than we found it. The Australian firm is actively contributing to making responsible leadership a day-to-day feature of our business. This ranges from further enhancing our internal corporate governance practices to playing a leading role in PwC's Global Communities initiative. Global Communities is a central group that facilitates knowledge-sharing between PwC member firms around the world in the areas of provision of professional services, community volunteering, corporate community leadership and giving. Australian partner Rick Millen is the first Global Communities leader and I am pleased to chair the group.

Climate change

Addressing climate change is indisputably a major priority and an area in which all commercial organisations must be proactive. As responsible leaders we have the opportunity to respond to climate change by addressing the firm's own environmental footprint, engaging our people around the issue and utilising our expertise and market position to advise and support the business community response. We have been managing and reducing our direct emissions for some time, particularly through smarter management of technology and our lighting systems in offices throughout Australia. I am proud to say that the Australian firm is developing

Perspective.

a comprehensive environmental strategy that includes becoming carbon neutral as soon as possible - and no later than 1 July 2008.

Like many leading businesses we surveyed for our inaugural carbon conscious* report, released in December, we are quantifying the size and shape of our carbon footprint in order to understand where we need to change. PwC will apply the same high standards of rigour and integrity to becoming carbon neutral as we do to all of our work.

We are also now working closely with the World Wildlife Fund through its Earth Hour initiative to bring to life this vision of corporate and community involvement in addressing climate change.

Our Foundation

The PricewaterhouseCoopers Foundation was established in 2002 to give structure and clarity to the way we work with our community partners. The Foundation continues to go from strength to strength and last financial year donated \$2.3 million to 21 charitable partners. PwC people spent 13,680 hours 'getting out there' volunteering in their community, 44 per cent of our partners and staff participated in a community volunteering day, and a quarter of our people now make recurring financial contributions.

These are not only fantastic achievements, but we are developing long-term sustainable partnerships with the not-for-profit sector and collectively making a difference. Looking forward, we will be engaging in more environmental activities and seeking to cooperate further with other businesses through the Australian Business Community Network – an initiative focusing on collaboration, sharing best-practice ideas and developing opportunities for the corporate sector as a whole to play a more effective role in the community.

Client and industry recognition

The firm was delighted to win three BRW-St.George Client Choice Awards in March 2006. We were recognised as the Best Large Accounting Firm, Market Leader and, in the state awards, as Best ACT Firm. These awards are particularly pleasing as they are voted by clients and show we can be very responsive to clients despite our size. In 2007 we were again proud to be recognised by the BRW-St.George Client Choice Awards as Best Large Accounting Firm and Market Leader.

In November, International Tax Review again named PwC as the leading tax firm in Australia and Asia. We were pleased to accept a total of five awards that recognised the strength of our 1,000-person Australian tax practice and the 18,000 PwC tax and legal professionals they can draw on in other jurisdictions around the world.

Confirming that PwC is a great place to work, the firm had the highest graduate acceptance rate in the accounting industry at 87 per cent. This was further supported by an internal survey that found 90 per cent of our people were proud of PwC. To ensure the firm maintains this leadership, we know that it is essential to actively investigate the needs and motivations of young people from Generation Y who already make up half of our firm. Technology; a sense of connecting and belonging within the firm; flexibility; change and creativity; and an ability to develop and grow: these are just some of the drivers for Generation Y.

Looking ahead

We continually seek to ensure that our development is sustainable and that we are delivering value and service not only to our clients but to the community at large. We remain sensitive to the need to ensure that we are constantly seeking more efficient ways to do things for our clients, that we remain flexible while never losing sight of the fact that quality is our paramount consideration.

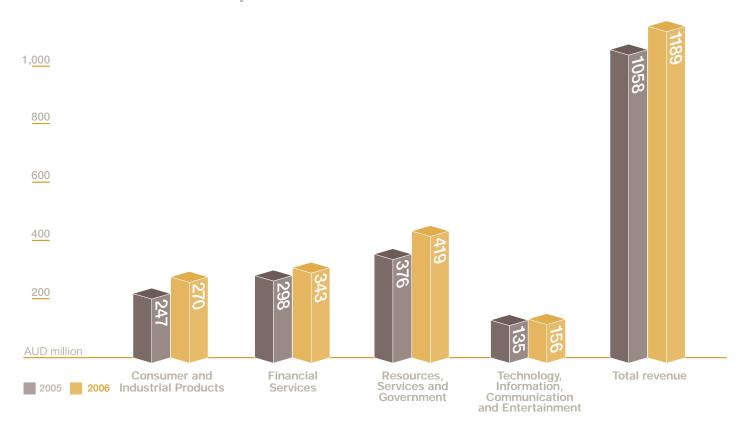
We must continue to innovate, accessing global talent and ideas to distinguish ourselves from our competitors. Maintaining a leading edge in a 'flatter' world also demands better knowledge management – fully leveraging the information we have to deal with business problems and goals. Success in today's globalised world requires greater agility and adaptability than ever before. It also requires leading organisations to have an ability to interpret the changing world so that they can face the future with confidence.

These are very real and exciting challenges. By maintaining and continually renewing our commitment to our core values of teamwork, leadership and excellence, I am confident we will meet them.

Tony Harrington

Facts & Figures.

Total revenue for calendar 2006 was \$1.2 billion, representing an increase of 12.4 per cent on 2005.



Revenue by Line of Service*

	2005	2006	% Growth
Assurance	444,207	494,127	11.2%
Advisory	259,656	307,976	18.6%
Tax & Legal**	354,533	387,801	9.4%
Total	1,058,396	1,189,904	12.4%

Revenue by Market Segment

Total Revenue	1,058,396	1,189,904	12.4%
PCS	88,161	108,340	22.9%
National Enterprise	400,910	427,904	6.7%
Total Institutional	569,325	653,661	14.8%
Institutional – Advisory	330,249	391,533	18.6%
Institutional - Assurance	239,076	262,128	9.6%
	2005	2006	% Growth
_	_		

Clients by Industry

2005	2006	% Growth
247,700	270,458	9.2%
298,523	343,695	15.1%
376,706	419,730	11.4%
135,467	156,021	15.2%
1,058,396	1,189,904	12.4%
	247,700 298,523 376,706	247,700 270,458 298,523 343,695 376,706 419,730

^{*} Line of Service comparative split has been adjusted to reflect the current operating structure.

^{**} Legal refers to PwC Legal, an associated PwC firm.

Why? Our Clients. Because our approach de through serv technical ex and knows n

client livers value ice and cellence o limits.



Daphne Chan
with the Maton Guitar.
Originally developed by Bill May –
a Melbourne-born jazz musician,
woodwork teacher and luthier
– the first Maton (a derivative of
'May' and 'tone') guitar saw light
in 1946. These handcrafted
instruments pioneered the use
of Australian wood species in
construction. Their distinctive
sound was treasured by many
famous guitarists, including
George Harrison of the Beatles.

Our Clients.

Today's marketplace poses many challenges for our clients. We are there to work with you, to help you negotiate the changing industry landscape and achieve growth and development to match your vision.



Why? What We Do.

Our commitment to client service

PwC has a long-held commitment to delivering excellent client service. In an ever-changing business environment, we recognise the need to create a service offering that is flexible enough to respond to changing markets and is unique to PwC, wherever clients access our services around the world.

The unique client service experience we are developing is based around four key service values and behaviours:

- we invest in relationships
- we share and collaborate
- we put ourselves in our clients' shoes
- we are focused on client value.

In developing our relationships with clients, we take a long-term view. This includes doing our homework, knowing our clients' business and personal drivers and sharing our expertise and insights. We spend time with our clients – building and strengthening our networks, developing a team focus and ensuring we understand what our clients need and expect of our relationship with them. We work to make our reports and documents client-focused, and aim to combine our technical expertise with a second-to-none service experience that not only meets but exceeds our clients' expectations.



Advisory

Our integrated advisory practice provides unique, seamless solutions for delivering both organic and inorganic growth to clients.

We pride ourselves on being our clients' commercial business partner and constantly strive to over-deliver on our clients' expectations as we assist them to grow, improve, optimise, streamline, merge or sell their businesses.

Transactions

We help clients achieve the best solutions from acquisitions, divestments and capital raisings by advising across the transaction value chain on deal origination and evaluation, due diligence, corporate finance structuring, deal execution, post-transaction integration and value realisation.

Our expertise enables us to assist acquirers and potential targets to look beyond what the numbers say to evaluate other key transaction drivers such as strategic fit, integration challenges, risk profile, people and cultural fit, and to develop focused action plans.

We advise on the entire project finance value chain, including public-private partnerships (PPPs), critical infrastructure and physical property strategies. We also advise on economic policy and regulation, economic modelling and business case analysis, evaluation and value realisation.

Performance Improvement

Our Performance Improvement team helps clients to achieve profitable organic growth and sustainable financial performance through aligning and optimising people, structures, processes and technology. We have five key areas of focus based on client needs:

Growth

We assist clients to achieve organic, profitable growth through transforming and aligning their customers, employees, channels and markets. Our expertise lies in helping clients to accelerate their customer acquisition and growth, increase their customer satisfaction, improve employee and customer engagements and align their product strategies to ensure they meet customers' needs

Finance

We help our clients' finance functions to sustain profitability through enhancing or protecting value by providing support with acquisitions, disposals and restructures, decision support and performance management, as well as advising on strategies to improve the ongoing effectiveness of inhouse finance and accounting processes.

Risk Advisory

Our expertise assists clients to govern themselves and to successfully execute their strategies by better understanding risk and uncertainty, allocating resources and capital more efficiently, and getting full value from risk management and compliance activities

Actuarial

Our Actuarial teams provide analysis and insights that help our clients understand and manage future outcomes in the face of risk, complexity and uncertainty. We help clients achieve sound design and governance, sustain financial performance relative to risk and adopt appropriate pricing and reserving.

Transformation

We help our clients to design, transform and operate their businesses so that people, structures, processes, systems and technologies are aligned with strategy. This includes advising on ways to achieve transformational or incremental change, optimise the effectiveness and efficiency of core operations and providing options for outsourcing non-core functions.

Why? What We Do.

Assurance

Financial Assurance

We provide financial statement assurance and related advisory services to global and local public companies and Australian private companies. Our premier service is the provision of statutory audits for listed and non-listed entities under AIFRS, USGAAP and other reporting frameworks. We offer regulatory attestation for regulated entities and S404 controls attestation for Australian SEC registrants and foreign subsidiaries.

Business Assurance

We help clients achieve their business objectives through effective risk control. Educating boards and management about their organisations' risks and internal controls is an essential part of our service. We conduct internal audits, test internal controls, and offer IT security services and project assurance and management. By improving the efficiency of internal control systems, we provide clients with comfort that their processes are effective in minimising risk.

Private Client Services

Our team provides comprehensive personal wealth management solutions for high net worth individuals and executives, as well as assisting employers in effective executive reward arrangements. We offer advice in the areas of personal tax planning and compliance, transaction management, superannuation, retirement and estate planning. We assist with the preparation and lodgement of financial statements and income tax returns for private companies, trusts, self-managed superannuation funds, partnerships and individuals. In the case of an Australian Taxation Office (ATO) audit, we correspond and negotiate with the ATO on our clients' behalf and prepare private ruling requests where required. We also ensure tax-effective structuring around the acquisition and disposal of assets; help our clients manage cash flow, liquidity and debt to ensure deemed dividends are avoided where possible; and develop tax-effective family structuring that takes account of long-term family goals.

Tax and Legal

Corporate Tax Services

Our corporate tax group works with clients to structure activities and transactions in a way that appropriately manages the tax imposts and taxation risks to businesses. Particular areas of focus include acquisitions, divestments and financing. Proactivity and discussion, combined with a comprehensive knowledge of tax law, enable us to achieve results and ensure our clients meet their tax compliance requirements. This extends from tax return preparation – developing the best systems and technology to provide the information for reliable and efficient compliance – through to proactive tax planning.

Compliance Services

Our Compliance team is the market leader in delivering leadingedge tax compliance and management solutions. We assist businesses and organisations with their tax compliance needs by delivering a wide range of off-the-shelf and customised tax products, including technology products based on our PowerTax platform. These include compliance reporting solutions for corporate income tax, fringe benefits tax, trust distributions, property taxes, indirect taxes (VAT/GST and sales tax), IFRS and international tax issues

Our key tax compliance management solution involves assisting our clients in managing their end-to-end compliance (E2E), providing value beyond the tax return review. It is about the passionate application of industry expertise to improve efficiency, quality and ease from the beginning to the end of the compliance and reporting cycle. We do this through reviewing processes, reporting needs and risk profiles. Together with our clients, we develop E2E plans that address processes, technology and the best mix of internal and external teams to drive improved efficiency and quality.

Where our clients have offshore operations, all of our tax management solutions can be used to manage their global tax compliance issues, risks and opportunities. We accomplish this through our Global Compliance Services offering, which encompasses not just corporate income tax but also indirect taxes accounting services and payroll. We have a strong international network of tax compliance specialists providing a consistently high-quality service, coordinated across as many territories as our clients require.

Specialist, Trade and Transaction Tax Services

Our Trade and Transaction Taxes team specialises in indirect tax, research and development, stamp duty and transfer pricing. Our indirect tax specialists help businesses optimise their position in relation to all types of indirect taxes including goods and services tax, customs and excise.

- In the area of research and development, we assist businesses to claim income tax concessions or income tax rebates for research and development, and government grants and assistance.
- Our stamp duty practice helps clients minimise transaction costs and get the best results from mergers and acquisitions, business reorganisations, asset disposals and acquisitions.
- Our transfer pricing practice advises businesses on managing the tax risk associated with cross-border flows of goods, services and capital. We assist with transfer pricing strategies, negotiating advance pricing agreements and negotiating and managing ATO reviews and audits.
- We help clients with compliance, audit and dispute resolution, transactions and investments across all indirect taxes.

International Assignment Solutions

Our International Assignment specialists work with organisations to deliver efficient, cost-effective international assignment programs that effectively manage risk. The team provides a 'one stop shop' for all expatriate services including individual tax compliance; share plans; design, implementation and management of international assignment programs and policies; cost projections for all aspects of international assignments; preparation of assignment documentation; initiation and coordination of service providers; strategic tax structuring and planning across jurisdictions; expatriate and HR communication; repatriation advice; corporate governance, risk management and client service feedback; and policy and HR benchmarking advice.

International Taxation Services

Our International Tax group is experienced in addressing issues associated with tax, legislative and regulatory developments throughout the world. We help multinational businesses achieve their business goals in a tax-efficient manner, both locally and globally. We assist companies investing in Australia and overseas with formulating and implementing effective, tax-efficient cross-border strategies for investments, managing the global structural tax rate and keeping up-to-date with new developments affecting their business locally and globally

Merger and Acquisition Services

Our Merger and Acquisition group provides support to companies for the management of their tax risks and ensures future net cash flows are optimised when making an acquisition, disposing of a non-core business or going through a merger. The team delivers thorough, quantitative analysis, rigorous implementation and leading-edge structuring techniques. Services include assessment and management of acquisition/merger risk; structuring acquisitions to optimise net cash flows; carrying out pre-acquisition due diligence; and ensuring tax-efficient deal structuring and post-deal integration. Furthermore, they also deliver sale-side work including vendor due diligence, restructuring for trade sale or IPO.

Employment Tax Services

Our national team of Employment Tax specialists is experienced in advising on all employment taxes and associated matters, including fringe benefits tax; superannuation, including termination payments; payroll tax; workers' compensation; salary packaging and total employment cost; taxation of remuneration; contractor management and novated leasing. Our team also offers advice and assistance with risk management and compliance, implementation of effective policies and systems and cost management for all taxes related to employees.

PwC Legal

Our legal practice offers services covering all aspects of corporate and commercial law, employment and industrial relations, environment, tax and regulatory controversy, and property and dispute resolution services. Clients.

Insurance



Impending mergers and acquisitions and the potential privatisation of Medibank Private have dominated headlines throughout 2006. While recent months have seen a number of significant transactions announced, the potential for more major activity in the insurance industry remains.

Overall, the industry produced another year of strong financial results. Downward pressures on premium rates have become more pronounced and are expected to continue into 2007. The trend is likely to further increase the focus on simplification and efficiency of business processes and models.

Regulatory requirements continued to expand, with many of the Phase 2 APRA requirements for general insurers coming into effect. The regulatory focus will move towards life insurers during 2007, joined by a number of new proposals intended to more closely align the general and life insurance regulatory frameworks.

The coming year will raise a new set of challenges and opportunities that the insurance industry should be well positioned to handle.



Case Study

Insurance Australia Group:

Going global

Insurance Australia Group (IAG) is the largest general insurance group in Australia and New Zealand. The company provides personal and commercial insurance products that include home, motor vehicle, commercial property and personal injury insurance.

In 2006, PwC assisted the IAG group risk function in aligning more closely with the corporate global growth agenda. Working closely with the group risk leadership team, PwC drew on the firm's network to research global best practice and identify key issues in the insurance sector. The findings were used to benchmark IAG's current position, while shaping a roadmap for continued growth.

The final stage of the project involved PwC facilitating the leadership team's development of a new strategy and operating model. Key to the success of the project was the engagement of the leaders and staff in the future direction of the function and the changes required to achieve the objectives.



"Having an external consultant to assist was beneficial for us because it provided the objective perspective and necessary challenge needed to support the repositioning of the group risk function."

Peter Sutherland Head of Group Risk and Compliance IAG Why? Our Clients.

Construction, Transport and Logistics



The construction and engineering sector has been a story of continuing growth in 2006 – not only in volume of work undertaken. Companies are operating in more countries, offering a greater breadth of services and managing a larger and more diverse workforce.

Construction demand continues to be strong, and the potential additional infrastructure required to cope with climate change is likely to propel it through future years.

This has enabled companies to be more selective about the projects they accept, but the margins remain low in the context of the losses that are regularly incurred on individual contracts.

Accordingly, risk management must remain a central focus for the industry. Traditional approaches to risks and control environments are being reviewed, pointing to the need for fresh perspectives on how to best manage these increasingly complex businesses while recruiting and retaining a quality workforce.

The transformation of the transport and logistics sector

continues. Private equity has arrived on the scene and will likely have an increasing impact on the sector. As businesses move forward, two foundations for success will emerge. First, companies will need to acquire the right assets and alliances to achieve the reach required to meet the needs of customers. For example, China's role in the global supply chain has made networks in the country critical. Second, this new operational

capacity must be brought together in a manner that is seamless, innovative and customer-focused.

Each of these challenges is complex, requiring culture change, capital and skill to succeed. These change programs and the development of necessary operational and IT infrastructure may be the sector's most immediate hurdles.

Case Study

Transfield Services Limited:

Going for growth

Transfield Services is one of the country's leaders in the provision of outsourced maintenance, facilities management and related services to Australian industry. The success of this business model has encouraged the Board to seek expansion offshore, principally through targeted acquisitions in territories where Transfield Services' expertise would prove most valuable to domestic industry.

In addition to PwC's continuing roles as auditors and tax advisors to Transfield Services, the company has called upon our firm's financial due diligence and related advisory expertise to assist it execute its plans to both expand its core services business offshore and to explore the options available for its portfolio of infrastructure assets.

PwC provided advice in relation to the company's recent acquisitions in Canada, India, New Zealand, UAE and USA, using combined teams of partners and staff from Sydney and local offices.

Transfield Services also holds interests in several Australian power stations and water filtration plants. While the Board has explored a range of ways by which value for these assets can be realised for

the benefit of shareholders, PwC has been advising on the financial reporting and taxation implications of the various alternatives, which have included the float of a specialised infrastructure fund.

"PwC's depth of knowledge of the way we do business and an ability to work collaboratively with us has made them a valuable partner in bringing our strategy to fruition. In the last year, in particular, they have worked with us across geographies and the ability to call upon them wherever opportunities arise has proved crucial."

Matthew Irwin, CFO, Transfield Services

Retail and Consumer



The Australian business environment is being reshaped by fundamental demographic and economic shifts. Ageing baby boomers are driving market demands and changing the face of the workforce, while the impact of high consumer debt, spreading drought, dropping petrol prices and strong economic growth have placed contradictory pressures on consumer confidence.

In 2006, the grocery supply chain continued to be reinvented by the major supermarkets and their suppliers, driven by technology and the need to improve efficiency and productivity. Corporate social responsibility, product recalls and price deflation surfaced as additional challenges for businesses forced to respond to the rapidly

changing sector environment or face being left behind.

Despite these many factors, the sector experienced significant growth in 2006, especially in retail sales. Despite some setbacks, consumer confidence has not wavered as the economy and equity markets continue to perform well, supplemented by high levels of employment and wages.

The coming year should continue to see these many influences result in a positive net effect. However, to remain buoyant and strong, retailers will be required to constantly engage with their customers and understand their needs, while sourcing products in a sustainable manner and resisting pressure on costs and margins.

Case Study

Moraitis:

Unlocking the value within

The Moraitis Group, founded and operated by a group of family shareholders over the past 50 years, has grown to become the preeminent grower, packer and supplier of fresh fruit and vegetables to the Australian market. Key customers include Australia's major supermarket retailers together with a vast array of independent fruit and vegetable retailers.

The Moraitis Group wished to achieve an outcome that would enable shareholders to unlock a portion of the value built up in the business, while positioning Moraitis to strongly capitalise on a diverse range of further growth options. In response, PwC's Corporate Finance team structured a unique, customised transactional solution that could achieve both.

The transaction was widely recognised as market leading and resulted in a recapitalisation of the business. Moraitis Group also joined with a large Australian bank and private equity provider to facilitate the continued growth of the business in partnership with existing Moraitis Group shareholders.

The PwC advisory team not only provided strategic corporate finance and mergers and acquisitions advice, but also delivered significant value to the transaction through the provision of comprehensive vendor due diligence.

"When we embarked upon the transaction we were obviously a little nervous and apprehensive. However, the professionalism, attention to detail and client service we experienced with PwC made the journey very comfortable and satisfying."

Nick Moraitis, Managing Director and CEO, The Moraitis Group

Clients.

Investment Management



The investment management sector is enjoying a period of sustained growth and continued optimism, exceeding the trillion-dollar mark in 2006 and cementing its place as the world's largest market on a per-capita basis.

However, while the outlook for the industry is positive, there are many challenges associated with such fast-paced growth. In order to meet the demands of increasingly sophisticated investors, investment managers need to develop avenues for sustainable alpha at the same time as managing capacity levels. Industry leaders are continuing to innovate and develop new products in other asset classes.

Strong industry growth has also exposed a widening talent shortfall. Our industry survey, Australian Investment Management 2006, shows that recruiting and retaining the best personnel is in the top three challenges facing wholesale clients, after own fund performance and increased competition. Interestingly, we are starting to see more examples of the poaching of 'star teams' rather than star individuals. The focus on retention strategies continues to intensify and needs to be more imaginative.

Organisations will drive growth and achieve success by placing the customer at the heart of every decision. Customercentric measures must move beyond customer satisfaction and towards loyalty and advocacy. Measuring the strength of future relationships with customers requires measuring complaints, their propensity to stay and buy future products and their likelihood of advocating a particular company to others.

A risk gap is looming as innovation continues and new, complex products are developed that stretch risk management frameworks and capacity. Industry participants need to ensure that the emerging risks are well managed, simply disclosed, and, ultimately, understood by advisors and end users.

LUCRF Super: Life after APRA

LUCRF is a large superannuation fund that has grown to over \$2 billion in assets and more than 150,000 members. As with many funds, the past year has been an ongoing challenge to manage investments, plan future strategies and keep pace with regulatory changes.

The superannuation sector has experienced increased competition through fund choice, budget changes and trustees preparing for and implementing APRA licensing. These moves have been accompanied by strong investment returns and significant rationalisation in the number of funds.

PwC has worked closely with LUCRF to provide valuable input and guidance in risk management and compliance. The team was also consulted in managing the trustee's APRA licence application.

APRA and ASIC's recent focus on monitoring trustee governance, appropriateness of advice to members, unit pricing practices and compliance with public disclosure requirements has driven additional internal scrutiny. With PwC's assistance, LUCRF significantly changed the appointment process for fund managers and made improvements in member and employer communications.

"PwC provided a significant amount of assistance to the LUCRF board and management in the last 12 months. The PwC superannuation team's advice has helped LUCRF position itself to compete in the new, post-APRA Licensing Choice of Fund environment."

Greg Sword Chairman of Trustees LUCRF Why? Our Clients.

Private Equity



In a year that has been the biggest ever for mergers and acquisitions, private equity has been a hot sector with high-profile local bid speculation and activity concerning Coles Myer, Qantas, PBL, Seven, BIS Cleanaway, Flight Centre, Independent Liquor, DCA, Rebel Sports, 3M and APN catching the public spotlight.

Mergers and acquisitions turned over US\$3 trillion globally and 25 per cent of global IPOs have come from PE-sponsored businesses.

As EBITDA (earnings before interest, taxes, depreciation and amortisation) multiples reach decade-high levels, PE funds are increasingly focused on portfolio company value creation opportunities, including bolt-on investments.

The pressure to deploy available capital, exacerbated by the influx of new global entrants and significant local fundraising activity, has seen an increase in deal size and the emergence of multi-billion dollar 'club deals' – which have driven fund appetite into new sectors. Current hot sectors such as media, transportation and logistics, retail and healthcare will progressively be joined by resources, listed property trusts and infrastructure investments.

The significant surge in the volume and size of high-profile, PE-backed P2P (public to private) transactions over the past 12 months has raised the profile, strength and credibility of the PE sector. The increasing availability of leverage funding will enable PE funds to outbid corporates, aggressively driving change through a more flexible post-completion operating model.

While the current wave of Australasian PE activity has been impressive, international trends indicate the best is yet to come. One in four global mergers and acquisitions transactions are PE-backed versus one in 10 in Australia. The sector will continue to raise larger funds and focus on P2P activity within the top 200 ASX listed category. This will ensure a vibrant IPO and secondary buyout market in two to three years' time as PE funds commence exiting their investments.



Case Study

Pacific Equity Partners:

Winning synergies

Pacific Equity Partners (PEP) is a leading Australasian private equity firm, having secured more than \$1 billion to invest in businesses ranging from fast food restaurants to share registries and security providers. The firm specialises in buyouts and late-stage expansion capital.

PwC has worked with PEP for almost a decade, providing transaction support and related services. In 2005, the PwC team assisted in a pre-acquisition performance improvement project in respect of the purchase of Link Market Services. The outcome of that transaction led to the team being asked to assist in a similar role for the 2006 bid to purchase Australian Administration Services (AAS) - managers of superannuation for 220,000 employers and 4 million members in Australia.

In the AAS transaction, PEP faced the challenge of identifying incremental value in the purchase to place a competitive offer. A large portion of the value assessment rested on analysing the potential synergies between the two companies. The rigour and due diligence of PwC's analysis assisted the company in putting forward a winning bid for AAS.

"The purchase of Australian **Administration Services is** an important step in Link's growth strategy, and PwC's expert team and innovative approach went a long way to make it possible."

Paul McCullagh **Managing Director Pacific Equity Partners** Clients.

Industrial **Products**



The industrial products sector in Australia continues to experience challenging times. Significant threats from around the globe are testing the competitiveness and sustainability of the industry.

Manufacturers are being forced to address margin squeeze from rising input costs, in addition to challenges such as skill shortages, threats from low-cost producing countries, the relative currency strength and ongoing innovation challenges.

These forces are causing companies to change the way

they do business, forcing them to think and act globally in an attempt to add value, reduce costs and gain a competitive advantage. New markets are being sought as well as new ways to source supply on the global stage.

Manufacturing activity was mixed in 2006, reflecting patchy

domestic demand, moderate export growth and intense import competition. Sub-sectors such as basic metals and construction materials; forestry, paper and packaging; along with the chemicals and machinery and equipment sectors all greatly fluctuated throughout the year. The automotive sector continues to address its own issues.

In 2007, global engagement must remain an important focus for the sector. Industrial products companies will continue to bear intense structural and competitive pressure, which in turn will require a strong focus on innovation, skill development and cost control.

Case Study

Goodyear: Meeting new standards

Goodyear has been a leading rubber and tyre company since 1916 and posts annual global sales close to \$20 billion. Across its more than 100 plants in 29 countries, the company manufactures rubber and sells tyres, belts, hose and other engineered rubber products for the transportation industry and various industrial and consumer markets.

PwC's dedicated team of Australian audit and tax partners has provided global services to Goodyear for decades. The firm's advice on key issues – such as the application of International Financial Reporting Standards, sourcing from China, workplace reform and the skills shortage - has been both practical and tailored.

In 2006, Goodyear acquired South Pacific Tyres (SPT), moving from a 50 to a 100 per cent stake in the company. Because of PwC's proven track record, the firm was appointed auditor and tax advisor to SPT as well.

"PwC is our trusted advisor. We know the team understands our business, our industry and how we operate."

Julie Brogan, Finance Director Goodyear Australia

Technology



Despite millions of dollars poured into the sector by government and investors during and following the last boom, Australia's technology sector has had a challenging year. BRW cites plummeting information technology course enrolments and the new threats to market share from India and China as benchmarks of the Australian sector's fall behind global advances.

The life science sector was strong in 2006; however, in the fourth quarter, declining market performance, fewer public offerings and reduced capital raising pointed to slowing momentum. At present there are a number of strong indicators the market will regain footing in 2007.

The listed biotechnology market has had increasing funds raised in the secondary capital market, frequent mergers and acquisitions, and more companies progressing into late-stage clinical trials.

These developments suggest that while the market is not showing growth on the basis of new entrants, it is evolving in terms of size, stage of life cycle and the potential for consolidation.

It is worth noting that this follows rapid growth in the last five years. From 2001 to 2005, the sector's value grew significantly from 60 companies (total market capitalisation of

\$11 billion) to 111 companies (total market capitalisation of \$20 billion).

Case Study

AAPT:

Streamlining services

AAPT is Australia's third largest telecommunications carrier and part of the Telecom New Zealand Group. Since relinquishing the role of external auditors for Telecom New Zealand, PwC has developed a new relationship with AAPT in Australia to become one of its preferred suppliers of advisory services. PwC has assisted AAPT in a number of areas during an extremely challenging year.

From an initial six-week engagement almost two years ago, the firm has played an important role in several critical projects within the business. From reviewing a new billing system to providing significant project support for the organisation's transformational project Hyperbaric, PwC has been at the forefront in helping AAPT navigate the operational challenges facing companies in today's complex telecommunications environment.

AAPT's industry-leading Hyperbaric technology is scheduled to go live during the first part of 2007 and will encompass the company's consumer and small enterprise business transformation from a full-service carrier to a highly targeted consumer provider. PwC team members will continue to be involved throughout this critical period.

The firm has also provided services in cost reduction, revenue assurance and the development of strategies for increasing

customer retention, while supporting the broader Telecom Group in all aspects of tax planning and compliance.

Through the commitment of a single PwC team over 18 months, PwC's work has ensured support for the management team across a broad range of operational imperatives, providing results that have made a significant contribution to AAPT's bottom line.

"PwC has become an important partner to AAPT over the last few years. We value the relationship we have with them, and they have provided us with high-quality support services on a number of important projects."

Bob Hennessy, General Manager Technology and Shared Services, AAPT Clients.

Government



During 2006, PwC continued to work closely with governments at federal, state and local levels to deliver innovative and effective solutions around Australia's major strategic issues.

Health and ageing

PwC has established a National Health team, comprising some of our most senior partners. This team has achieved improved outcomes and substantial cost savings for clients in areas of clinical trials, patient journeys, cultural change and shared services implementation.

Education

PwC is working with governments to improve the educational experience in our community for students of all ages.

Infrastructure

PwC has advised governments across Australia on innovative funding models for critical infrastructure and assisted governments to assess various models proposed by the private sector.

Water

PwC has established itself as a leader in water expertise nationally. PwC's work around the economics of water (including appropriate pricing mechanisms) is helping to establish the framework for the future of this valuable resource.

Red tape

PwC provides structural efficiency and cultural change models for government departments to deliver real and sustainable reductions in this administrative burden. This benefits both government and the business community.

PwC's Australian practice continues to be regarded as a thought leader and innovator by the global firm, particularly in the delivery of tailored advisory solutions. At the Global PwC Government Conference in Berlin, a presentation on ageing delivered by the Australian practice set the agenda for the global practice in this increasingly important area of public policy.

NSW Health: Implementing a new model

As the largest public sector provider of health services in Australia, NSW Health is responsible for coordinating the operations of the state's eight area health services. In August 2003, the department established a strategic program to reform corporate, business and healthcare support services across NSW. This program is known as the Shared Corporate Services (SCS) Program.

The SCS Program is now formally establishing HealthSupport – the NSW Health shared services provider – and the detailed design and implementation of the recommended shared corporate and business services model. As business management advisor to the SCS Program, PwC is responsible for providing a broad range of strategic, tactical and operational assistance in the establishment and provision of 'infused' management capability for HealthSupport.

Drawing on PwC's national and global networks of shared services experts, the firm played a significant role in benchmarking current processes and developing the future state operating model. This was provided through strategic direction and advice in a number of areas, including people management, business planning and process re-engineering, service management and benefits realisation.

To date, PwC has assisted in the design and construction of the shared operating model for all service lines including finance, human resources, procurement, asset management, food and linen. The services began implementation in early 2007.

"HealthSupport has benefited from the application of PwC's global shared services framework, which has been used to guide the approach and ensure the full benefits available from implementing shared services are realised."

Craig Turner, Director of Business Operations HealthSupport NSW Health

Queensland Department of Mines and Energy: Full retail competition implementation

PwC has a long track record of advising all arms of the Queensland Government, including agencies in the energy sector. The Energy Competition Committee (ECC), an independent body appointed by Government to implement full retail competition in Queensland, is supported by PwC in developing the regulatory and policy framework for both electricity and gas by 1 July 2007.

PwC provides program management, stakeholder liaison and wide-ranging specialised advice regarding all aspects of the full retail competition roll-out. Work during the past year involved research of full retail competition in other jurisdictions, development of issues papers, stakeholder consultation and interaction with the ECC, ministers and advisors. These resulted in the promulgation of final positions on issues to facilitate the state's implementation by July 2007.

"The ECC is an excellent governance arrangement for the implementation and it was essential that the program management and technical support was also of a high standard. PwC was able to meet this standard and satisfy all stakeholders."

Jon Norris, Full Retail Competition Project Manager Queensland Department of Mines and Energy Clients.

Banking and Capital Markets



The banking and capital markets sector has remained buoyant, underpinned by a strong domestic economy and a continuing benign credit environment. The four major banks, for example, have continued their trend of strong earnings growth by reporting record profits of \$15.1 billion for 2006, up 13.7 per cent on the previous year.

The strong result of the four majors was largely driven by volume growth. With the economy running at near full capacity, the demand for credit continues despite the recent interest rate rises. While systems credit growth was at 14.4 per cent per annum at the end of the period, an inflexion point may be reached if interest rates continue to rise.

The marketplace remains very attractive and there has been no respite in the level of competition despite net interest margins contracting seven basis

points on average over the period. While all four major banks grew volumes, collectively they lost market share in home lending, business lending and credit cards.

The much-anticipated adoption of new accounting rules - the Australian equivalents to International Financial Reporting Standards (AIFRS) - had a relatively minor impact on overall cash earnings. However, the composition of revenue shifted significantly from non-interest income to net interest income.

The four majors' collective wealth management cash earnings were up 21.2 per cent on the prior period, demonstrating that they are now positioned to benefit from the changing industry fundamentals driving growth in the sector.

Credit quality remained strong throughout the period; however, the worsening drought conditions and interest rate increases have already resulted in an up tick in delinquencies in some lending portfolios. Also, global regulators are cautioning

that private equity deals may be the undoing of the corporate debt markets.

As we move ahead, the banks are facing a considerable challenge: controlling expenses while investing to win customers at a time when competition is expected to remain fierce and the credit environment may well have already changed.



Case Study

American Express:

on a deadline

American Express is a leader in providing charge and credit cards to consumers, small businesses and corporations, as well as being the world's largest corporate travel agency. When PwC won the global audit of the financial giant, the assignment presented the Sydney office with an especially challenging task – the first-year engagement coincided with the transition from Australia's Generally Accepted Accounting Principles (AGAAP) to the Australian equivalents to International Financial Reporting Standards (AIFRS).

There were a number of transitional adjustments and interpretations between the two reporting standards that presented some challenges for the PwC and American Express teams. AIFRS was in its infancy with little precedent on how to handle complicated circumstances.

The engagement team tapped in to the firm's specialised knowledge base, bringing Accounting Consulting Services (ACS) to the client site. PwC houses ACS as an internal division dedicated to interpreting AIFRS. ACS reached out to the global IFRS technical team in London to further examine best practice, while the PwC audit team worked closely with American Express's finance team in Australia.

Through working around the clock and across the globe, the Sydney team ensured American Express complied with the new reporting standards and met its pressing regulatory reporting deadline.

"The PwC team is highly skilled and technically competent with professionalism and commitment that allowed us to work through a number of challenges."

Mark Woolfrey VP Lead Financial Controller American Express Australia

Clients.

Resources



The mining, oil, gas and utility sectors experienced a tumultuous - but in most cases spectacular - 2006, as global commodity prices continued to surge. Emerging markets like China helped drive global demand, which has in turn boosted the Australian industry's bottom line.

However, executives have been dealing with challenges around their top-line growth, due to significant talent, resource and capacity constraints.

A possible medium-to-longterm flattening of commodity prices is expected by some industry watchers, in which case we could be facing a squeeze on profits, driven by a 'cost overhang', as expenses are unlikely to drop off at the same rate.

In response, some industry players have been actively looking at operational effectiveness, particularly in the supply chain. However, not all companies have yet to fully grasp the cost issue, although we expect cost control to be higher up the agenda in 2007.

Australia - driven in part by progressive thinking in the resources sector - has seen a step change on climate change. PwC's recent survey of ASX 200 businesses has found the topic is already having a significant impact on corporate strategy.

Over the next few years, there will be an even greater focus on climate change, sustainability and the risks/rewards especially if, as seems likely, a move to a formal carbon price signal occurs in Australia.

As the utilities sector reform continues in Queensland, privatisation may yet make its way to New South Wales, driving further merger and acquisition activity.

The ownership landscape of the utilities sector continues to change with the increased role of infrastructure funds - further blurring the lines between financial services and resources. The arrival of private equity puts even more pressure on traditional utilities to grow and acquire assets, as well as driving up the price of these assets. No doubt the distinctive and innovative players in the industry will rise to this challenge.

Alinta: Filling the gaps

Since listing on the Australian Stock Exchange in October 2000, Alinta has grown to become one of Australia's leading energy infrastructure companies. The company's value has increased from \$300 million at the float to more than \$6 billion in six years, wielding a diversified portfolio of operations and investments that span Australia and New Zealand

PwC has provided services to Alinta since 2002, ranging from tax and legal to assurance and advisory. The firm's team is fully integrated with Alinta's internal transaction team to maximise outcomes and ensure a solid understanding of Alinta's needs and challenges.

In 2006, PwC helped Alinta successfully finish the lengthy process of acquiring the infrastructure assets of Australian gas and electricity provider AGL. The two-year transaction went through a number of iterations and was complicated by the fact that Alinta only had access to AGL's publicly released financial information. PwC was given the role of finding ways to fill the information gaps to ensure the acquisition and anticipated synergies would not expose Alinta and its shareholders to undue financial and tax risk.

The firm's due diligence work and financial modelling in these areas were sufficient to meet the requirements of ASIC and the ATO, and the resulting regulatory approvals contributed to an overwhelming positive vote from shareholders. Alinta was able to complete the transaction, nearly doubling its market capitalisation overnight.

"We manage all the assets we acquire, so the fact that PwC understands our underlying systems and processes ensures we're getting the numbers right and being as efficient as possible."

Ian Wells, Group Manager of Planning and Investment Analysis Alinta

ENERGEX: Changing directions

Between late 2005 and early 2006, the Queensland Government announced a range of reforms for the energy sector, requiring significant transformational change across ENERGEX. At the time, the ENERGEX business included distribution of natural gas and liquefied petroleum gas, in addition to electricity distribution and the energy retailing arm of ENERGEX Retail. The reforms culminated in the trade sale of the gas and retail assets, with proceeds exceeding \$2 billion.

This sales process required the scoping and implementation of a significant program of work driven by a tight timetable. ENERGEX was faced with delivering on the transitional arrangements, as well as separating and realigning the remaining electricity distribution business from the sold entities.

PwC's broad relationship with ENERGEX enabled the firm to provide a wide range of services throughout the transformation. Program management advisory services from PwC Performance Improvement were leveraged with industry expertise to meet the milestones and manage the risks associated with completing the project. The Brisbane office's Transactions and Assurance services were also used to assess the appropriateness of the resulting agreements, while Tax & Legal assisted in scoping the work plans

required to virtually and physically separate the cash flows of the businesses being sold.

With PwC's assistance, ENERGEX was able to meet the tight deadlines and achieve a successful sale.

"As part of a panel of strategic consultants, PwC was engaged to provide a broad range of services including professional advice and program management of the sale process. The relationship with PwC during this process enabled ENERGEX to access these services, sometimes at very short notice."

Craig Mortensen, CFO ENERGEX Ltd

Why? Our Clients.

Private Client Services



Throughout 2006, PwC continued its commitment to the needs of private companies. Private Client Services (PCS) is designed to provide the diverse expertise and close relationships desired by private Australian business owners, inbound multinationals establishing subsidiaries and high net worth individuals.

Each PCS representative offers these clients an end-to-end solution encompassing tax, legal, audit and advisory services.

This division has evolved in response to client demand for non-compliance and advisory services touching on issues such as how to maximise sales, increase profit margins, minimise risk and improve financial growth strategies.

PCS is focused on individual challenges and individual solutions. The division addresses the unique needs of people such as business owners who manage the day-to-day operations of their companies. These situations require advisors who have the time to get to know and understand a business, its owner and the financial goals of both.

Whether a client is entering a new market or passing the family business to a new generation, PCS continues to provide access to the knowledge and skills of 130,000 people in 148 countries through a single relationship.



Napoleon Perdis Cosmetics:

Styling for success

In 1995, at age 24 and 22 respectively, Napoleon Perdis and his brother Emmanuel gathered just enough capital to open a cosmetics store in Paddington. Only a decade later, Napoleon Perdis Cosmetics has locations across the globe and is a rapidly growing multi-million dollar business.

In 2006, Emmanuel was in search of business advice when he met with PwC's Private Client Services (PCS) Sales Director, Geoff Carter, and Gregory Will, a partner in Tax & Legal PCS. It was clear that the Perdis' business could benefit from the PCS offering. PCS was soon engaged as the company's tax advisor and within five months, the team was also advising the business on options for refinancing and international expansion.

The brothers continue to seek guidance from PwC as they structure their plans for future growth.

"The firm's ability to balance a huge global network and still be able to understand a mid-sized, high-growth private client is quite astounding."

Emmanuel Perdis Co-founder Napoleon Perdis Cosmetics



Clients.

Entertainment and Media



National economic expansion continues to grow with strong contributions from entertainment and media. The sector's overall momentum is projected to stay relatively ahead of inflation with fluctuations between individual mediums. Significant growth will continue in areas of new media while traditional outlets such as print, radio and free-to-air will parallel or remain slightly behind inflation.

This trend will see companies that own traditional media looking to expand or invest in new products as the growth rates diverge. PwC has played an instrumental role in helping Australian media organisations understand changing consumer behaviour and create strategies for confronting the evolving market. In response, these organisations have begun to

develop new business models that hedge established products against newer acquisitions.

As entertainment and media organisations attempt to diversify, the Federal Government continues to work toward relaxing foreign and cross-media ownership laws.

The resulting mergers and acquisitions will dramatically impact the future of the sector and its flexibility in addressing these issues.

Case Study

Salmat:

Preparing for growth

Salmat is the leading direct customer communication company in the Australasian region. The company assists businesses in communicating with customers through targeted media such as catalogues, business process outsourcing such as bank and services statements and inbound and outbound contact centres.

PwC has worked with Salmat since its transition from a privately owned business to an ASX 200-listed entity in 2003. The firm's services have spanned a variety of areas including risk management and internal audit support.

With the help of PwC in 2006, Salmat launched its business transformation program - Optimise. The initiative is designed to prepare the organisation and its internal culture for the next 10 years of growth. The firm has supported the program by providing six months of project management support, project delivery and communications assistance.

"The complexity and depth of the program required us to find a partner with the experience to get us started and facilitate a high level of skills transfer to our project team. The assistance of PwC was integral in achieving our objectives during this phase of Optimise."

Peter Anson, Optimise Program Director Salmat

Why? Our People. Because our have the cou to stand out the crowd.

people rage from



Our Continued growth is underpinned by our people. By helping them to develop their expertise and achieve their personal and professional goals, we are enriching our firm and benefiting our clients.



Why? Our People.

Our people are the heart of our business. At PwC, we strive to continually improve our offering to our people – developing their skills in teamwork and leadership and inspiring excellence. We support our people in meeting their work and life goals. As a result, we are building a team of well-rounded people who are ready to work together to meet – and exceed – the needs of our clients. Every time.

It's a business imperative to create a flexible and inclusive culture in which our people are supported to achieve their career and personal goals.

Investing for our future is a key theme at PwC, particularly when it comes to our people. To compete in a tightening labour market and to deliver a unique experience to our clients, we need the best people – people who can develop, achieve and inspire within a team and a client context. Over the past 12 months we have initiated and built upon a number of programs aimed at helping our people grow and excel – both personally and professionally. Not surprisingly, our most productive people are also the ones who feel most supported. So, an important part of our strategy is to ensure we are listening and responding to our people's different needs regardless of life stage, gender, race or generation. Here's a snapshot of some of our key programs.

Building High Performance Teams

Developing High Performance Teams (HPT) is a core element of our people strategy. Over the last 12 months we have learnt that, in order to move forward in our cultural journey, we need to:

- recognise that the purpose of all our teams is to serve clients and develop our people
- establish a set of minimums across PwC that will drive improved client loyalty
- give our teams some flexibility

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develop our people and, in turn, provide a benefit to our clients.

We are progressively implementing HPT across the firm through practical workshops focused on understanding what a High Performance Team looks like and how it behaves, and developing our people's relationship-building skills. By developing our teams, we are also enhancing our clients' experience of working with us.

HPT is another example of PwC as a pioneer – no other organisation is delivering such a comprehensive strategy to deliver both team and client loyalty and performance. Our teams are also telling us that HPT is the right way to go, and in fact essential to our way forward. By creating a unique experience for our people, we will create a unique experience for our clients.

Gaining eQuilibrium

Many organisations are grappling with the challenges of work/life balance, generational needs, encouraging family engagement, flexibility and supporting personal choice. At PwC we are committed to supporting our people – to help them build a career while acknowledging there is a need to balance work and life responsibilities.

eQuilibrium was launched 18 months ago with a simple but ambitious goal: to create a work environment that supports our people through all life stages as they progress in their career with the firm.

The first phase of this long-term project introduced enhancements to parental leave entitlements for partners and staff and the introduction of the highly popular kids' art days, the ability to purchase additional annual leave, the Families at Work information service and Connections Lunches for new parents.

The next step is to truly embed eQuilibrium in our culture and to actively demonstrate that the firm does support all our people through their changing life needs. eQuilibrium is not a series of projects or tasks that are completed and replaced by the next phase of new ideas. It is a cumulative process which involves faithfully continuing and finetuning existing initiatives and carefully selecting additional projects in alignment with its goals.

A focus on mentoring

Mentoring is seen as a key priority for bringing eQuilibrium to life. We see it as a critical factor for our people to advance to leadership roles. There is evidence that male-to-male informal mentoring already takes place; however, women in particular find it challenging to find a mentor due to a lack of role models. Greater intervention is needed in the development of women leaders to attain our 2008 aspiration of an increased level of female partner representation.

Creating a culture and skills in mentoring will increase the capability of current leaders. A mentor's role is to inspire, coach and accelerate his or her mentee's progress towards goal achievement, provide a fresh outlook and tap into goals and passions. As well as the formalised program, we also encourage self-initiated mentoring so that our people can approach and develop relationships independent of formal intervention.

We have approached mentoring from two perspectives: 1. Mentoring circles

This innovative concept of mentoring circles has been launched in the Sydney and Melbourne Tax & Legal practices. This will be piloted and then reviewed for firm-wide implementation. It involves a group of women sharing their mentoring journey and is facilitated by external thought leaders.

2. Mavens

One of our aspirations is to build a strong formal network of eQuilibrium champions or 'mavens'. Mavens are PwC people (currently 60 across all levels and lines of service) who give their time, knowledge and understanding to colleagues on eQuilibrium-related issues. They offer an impartial perspective and will give common-sense guidance in a discreet manner. Mavens have been drawn from all areas of the firm and have a variety of backgrounds, personal circumstances and experience.

Why? Our People. Scott Walsh Hang-gliding hopeful Garth Drinkwater Little Bailey's dad Anna Jepson Multiple marathoner Roman Popovic Enthusiastic charity runner Paul Roberts Aspiring sports photographer Sophie Cockayne Wannabe winemaker Chalmers Nursery rhyme aficionado Nathan Schlesinger Surf, sun and sand fan Maria Ravese Avid traveller Michelle Hollings Obsessive novelist Colin Heath Englishman abroad Jeff Wong-See Tigerless Woods 54 PricewaterhouseCoopers





Developing future leaders: the CLP Business School

In partnership with the Australian Graduate School of Management, the CLP Business School seeks to develop future Client Lead Partners of the firm. Over an eight-month period, participants are mentored by a partner who provides them with individually tailored development. The program is very much externally focused, and provides practical skills to enhance the value we provide to our clients. The application of learning is immediate as it is delivered directly to the client.

Taking the pulse of our people

At PwC, we continually strive to ensure we remain a professional services firm of choice. An important part of this is 'taking the pulse' of our people to see whether they think we are on the right track. This year, we again conducted the Global People Survey to measure employee satisfaction and engagement. Almost 50 per cent of the Australian firm participated – up 14.6 per cent from the previous year. Of these, 90 per cent said they were proud to be associated with PwC and 78 per cent would recommend PwC as a good place to work, in comparison to a benchmark result of 68 per cent from other corporates. We also asked our people if they believe they have the opportunity for growth and development at PwC. Seventy four per cent said yes – supporting the significant impact that our continuing development and leadership initiatives are having.

Client relationships and quality service are core elements of the PwC culture. This was supported by 87 per cent of our staff telling us the firm is continually improving its products and services and 84 per cent of staff reinforcing that PwC is committed to building long-term relationships with clients. On top of this, 86 per cent of our people agree that PwC operates with integrity in its external dealings with clients and suppliers. PwC's success at corporate responsibility was also reinforced, with 94 per cent of respondents strongly agreeing that PwC is socially responsible by supporting community events and organisations. The firm has a strong commitment to continuing to capitalise on the strengths and the opportunities identified in the survey.

Attracting and keeping the best of the best

The war for talent continues in a very competitive marketplace, but PwC continues to be well placed in attracting and recruiting quality talent to our ranks. Evidence of this was the announcement of PwC as the 2006 Best Graduate Intake Program at the Australian HR Awards. The 2007 campus recruitment theme, 'be who you want to be', demonstrated PwC diversity and fresh thinking. It focused on the flexibility of our firm, the opportunities we can provide to graduates and the value we place on individuality.

Our graduate program was a great success, attracting over 10 times the number of applicants for the available positions and achieving an acceptance rate of 87 per cent, well clear of our nearest competitors.

Despite the highly competitive lateral market in which we operate, the firm has continued to attract high-calibre individuals, both within the local and overseas markets. The Australian firm continues to be a destination of choice for secondments from PwC offices all over the world.

In FY06, we brought in nearly 800 lateral recruits, of which 200 were existing PwC staff joining us on secondment from another country. At any one time, we have approximately 500 people participating in our global secondment programs. This program gives our staff fantastic professional and personal development opportunities through all stages of their careers and allows us to service our clients with the best talent the marketplace can offer.

Reaching the Pinnacle

This year saw the launch of the Pinnacle program, breaking new ground for the firm. The program is run with senior partners who are approaching the end of their career with us.

Pinnacle has three core aims: opportunity – a chance to reflect and share future hopes and desires for their future, both within and outside the firm; renewal – feeling energised and focused on what they really want to achieve in their last years with the firm; and legacy – leaving their own unique footprint on the firm which reflects the many contributions they have made to our people and clients over their career.

Pinnacle is run as a weekend residential, with spouses heavily involved – reflecting the commitment they too have made to the firm and reinforcing the concept of the wider PwC family and community. The program also gives us an opportunity to renew focus on how best we can capture the collective wisdom and knowledge from some of our most senior practitioners.

Many of our partners move on to significant roles in commerce and the wider community. Pinnacle aims to capitalise on that opportunity and maintain strong relationships with our alumni.

Our People Number...



People.

Being there for his boys

When Daniel Fleischer's second son was born, he was adamant he didn't want to miss out on watching him grow. So Daniel asked for six months' parental leave - and was there for some important milestones.

Daniel, a senior manager with Tax & Legal, started with the firm as a fresh-faced trainee while still at university. Finding PwC to be a place where his personal and professional growth has always been supported throughout the different phases of his life, Daniel loves his work. Now a father of two young sons, he is happier than ever with his career and life balance.

"I have always enjoyed the environment - the people I work with and the clients," Daniel says. "When we had our second child I took the opportunity of taking parental leave so that my wife could return to work full time for six months." On making his request for leave, Daniel was thrilled at the level of support he found.

"It was a 10-minute discussion even though I was requesting leave over the busy season. I was on leave from February to September looking after the boys - it was a fantastic experience."

Daniel also found encouragement for his decision in another crucial area. "My clients were also very supportive – a couple of them even made the comment that they wish they had done it with their children."

I was there when Jake started to crawl and I got to do things like go to Parents Group and swimming lessons. It's a time you can never reclaim.

Daniel Fleischer

Mary's pulling her weight

Mary Giffin, a senior manager in Performance Improvement, has a way with weights. An Australian record holder in powerlifting, Mary has competed and placed internationally in her chosen sport – with PwC behind her all the way.

Mary first became involved in powerlifting in 1999, and quickly became an elite competitor. "Powerlifting is different to Olympics-style weight lifting that most people are familiar with," Mary explains. "It involves three different lifts – the squat, bench press and deadlift. I competed at the Powerlifting World Championships in 2002, 2003 and 2005, and I placed 12th, 7th and 5th respectively. I also hold numerous Australian championship titles and Australian records."

Mary has found PwC to be highly supportive of her sporting endeavours, sponsoring her participation in international events and allowing her the flexibility to manage her training schedule around her work commitments.

Mary continues to train hard and, with the encouragement of her colleagues and the firm in general, is setting her sights on another international event. "My plan is to compete internationally again at the 2007 World Championships in Austria."

The firm has been very supportive over a significant period of time – not only through different forms of sponsorship, but also more generally in terms of the support shown by my partners and colleagues.

//

Mary Giffin

Why? Our Firm. Because our greater than of its brilliant

firm is the sum parts.

Our Firm.

Our firm is made up of individuals who understand the value of teamwork. Thought leaders who know how to listen and learn. Technical experts with heart. And people who bring their talent and passion to the table for our clients.

Angel Barrio
with the Aussie Rules football.
It was Tom Wills, former football
captain of Rugby School in England,
who brought rugby – and the ball
– to Australia, as something to keep
cricketers fit during the winter months.
He revised the rules to 'Melbourne
Rules' with three others and formed
the Melbourne Football Club in 1858.
The first recorded match took place
between Scotch College and Melbourne
Grammar School in the same year.
(The two have competed annually ever
since.) The rules were updated in 1866
and competition began between eight
foundation clubs.





Our Leadership Team.



Tony Harrington CEO and Senior Partner

Leigh Minehan National Managing Partner Business



Dennis Finn Human Capital Leader

Merran Dawson Services Innovation Leader



Luke Sayers Tax & Legal Leader

Richard Deutsch Institutional Leader

Our leadership team has over 200 years combined experience in professional services. It helps set the firm's direction and drives thought leadership strategies and solutions for the industries that PwC serves.



Joseph Carrozzi National Managing Partner Markets



Allan WatsonChief Operating Officer



Pat McKeon Advisory Leader

Mark Johnson Assurance Leader



Phil O'Prey National Enterprise Leader



Andrew HaggerPrivate Client Services Leader

Office Managing Partners

Adelaide Jim McMillan
Brisbane Rob Baker
Cairns Trevor Mahony
Canberra Richard J Stewart
Melbourne Andrew Hagger
Tony Peake
Newcastle Greg Lourey
Perth Andrew Edwards

Perth Andrew Edward
Sydney Tom Fenton
Townsville Roy Peterson

Our Board.

PwC's Board of Partners has responsibility for governance within the firm. Its role includes having input into the firm's strategy and making decisions about local and global governance issues on a range of matters affecting individual partners.



Board of Partners

Standing: Tony Peake, Paul Brasher, Catherine Howard (Sec.), Tony Harrington, David Prothero, Craig Hamer, Colin Dunn. Sitting: Tony Clemens, Bruce Morgan (Chair), Paul Carter, Sue Bannatyne, Bill Edge.

Why? Recognition.

Our strong focus on client service and providing a unique team environment for our people is reflected in the awards and recognition we received this year.

PwC - the clients' choice

For the past two years, PwC has performed strongly in the *BRW*-St.George Client Choice Awards. These awards are based on the results of an independent survey of 11,000 clients of professional services firms, conducted by the Beaton organisation.

At the 2007 Awards we were the overall Market Leader in Professional Services, which covers 170 firms operating in Australia in accounting, legal, engineering, architectural, actuarial and IT services. We were also awarded, for the second year running, Best Large Accounting Firm in Australia.

In 2006, we were named Best Large Accounting Firm, Market Leader and, in the state awards, Best ACT Firm. PwC was recognised as Best Large Accounting Firm based on feedback from our clients – highlighting the firm's personal approach and commitment to eliciting and acting upon feedback on our client service. As part of the Attribute Awards, PwC won Market Leader, an award that recognises our reputation as a professional services forerunner. Our work with government clients played an important role in our recognition as Best ACT Firm.

These awards demonstrate how a large firm like PwC can be very responsive to clients' needs.

Graduate intake program voted number one

This year, PwC emerged from a tough field as the winner of the 2006 Award for Best Graduate Intake Program at the Australian HR Awards. Winning this highly regarded award is an outstanding achievement, and further demonstrates our ongoing commitment to attracting the best people by offering the best opportunities to our graduates.

Our 2007 campus recruitment campaign's theme, 'be who you want to be', demonstrates that PwC values diversity and fresh thinking. It focuses on the flexibility of our firm, the opportunities we can provide to graduates and the value we place on individuality. Over 10 times the number of graduates applied for our available graduate positions.

Leading the top 100

Once again, PwC maintained its lead in *BRW's Top 100* professional services firms of 2006. In awarding us the top position, *BRW* commented on our pleasing growth, saying: "PwC...added more than \$100 million to its fee base over the past 12 months. That is about the same as the total annual revenue of one of the larger mid-tier associations."

PwC an employer of choice

This year, PwC emerged as a favourite with jobseekers, being named in the 'top 10 ideal employers' in the *Australian and New Zealand Workplace Series* survey. In undertaking the survey, recruitment firm Hays asked jobseekers what attracts candidates to a potential employer, and what affects the employee's longer-term view of the organisation.

The jobseekers nominated career opportunities, company reputation and professional development as top reasons for choosing an employer, highlighting that our extensive workplace programs, and the opportunities a global firm like PwC can offer our people, are effective in attracting and keeping the best and brightest.

Recognition.

Leaders in tax and transfer pricing

International Tax Review has once again recognised PwC as the leading tax firm in Australia and Asia. In November 2006, at the inaugural International Tax Review Asia Awards Dinner in Hong Kong, our firm accepted the awards for:

- Leading Tax Firm Australia
- Leading Transfer Pricing Firm Australia
- Leading Tax Firm Asia
- Leading Transfer Pricing Firm Asia
- Leading Transfer Pricing Firm New Zealand

This award reinforces the position of our 1,000-strong Australian tax practice as the country's leading tax advisor. In addition to our unrivalled local resources and industry knowledge, the Australian team draws on the skills and experience of a network of more than 18,000 tax and legal professionals in jurisdictions around the world.

Governance Professional of the Year

In February 2007, our OneFirm Risk & Quality leader, Bill Edge, was recognised in the Chartered Secretaries Australia Governance Professional of the Year Awards. These awards celebrate professionals who uphold the highest standards of governance practice in Australia.

Bill faced strong competition from across the private sector to take out the award of Global Board Consulting Governance Professional of the Year with an unlisted private sector organisation. This is a great achievement and reflects Bill's outstanding reputation as a highly respected and experienced corporate governance professional.

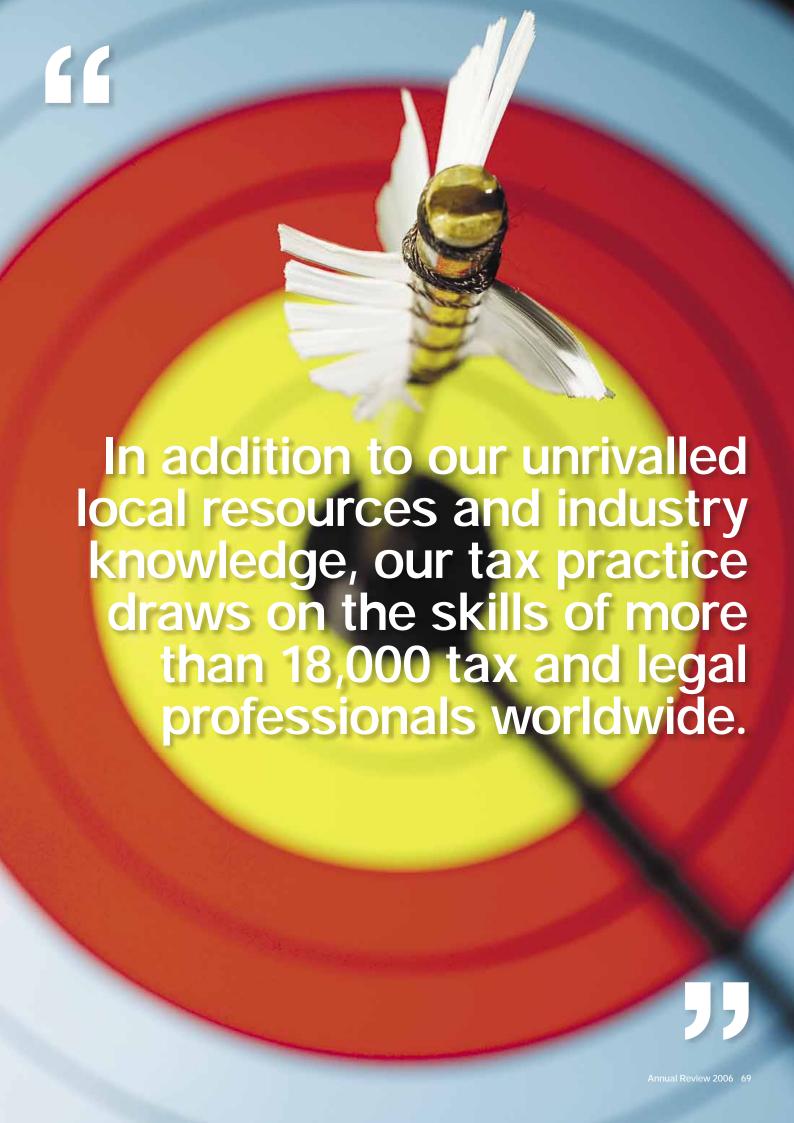
Over the past year Bill led the introduction of a firm-wide approach to the management of risk and quality for our firm. The team has since completed a wide range of projects, taking the best risk and quality practices in each of the firm's lines of service in Australia and globally and establishing sustainable procedures, processes

PwC has a central role in Australia's governance infrastructure and the work Bill is undertaking will leave a proud and lasting legacy on the nation's business sector.

Advisory excellence recognised

Also in February, PwC received an Award for Advisory Excellence at the Infrastructure Partnerships Australia National Infrastructure Awards. These awards acknowledge innovation and excellence in the industry and celebrate those organisations that demonstrate a commitment to the future of Australian infrastructure.

PwC won this award for excellence and innovation in development and delivery of advisory operations on the New South Wales RailCorp Rolling Stock Public Private Partnership Project.



Why? Thought Leadership.

At PricewaterhouseCoopers we are dedicated to identifying and exploring the issues that affect our clients. Whether facilitating dialogue in the business community, lobbying government agencies or producing articles for major publications, our commitment to thought leadership is evident in everything we do. Inquiry and innovation are cornerstones of our firm.

This tradition continued throughout 2006. Our voice was heard where it counted – from leading the debate on the efficiency of Australia's regulatory environment, to assessing corporate attitudes on emissions trading, and forecasting upcoming challenges for some of the country's most dynamic industries.

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Carbon Consciousness



PwC has taken a proactive approach to not only becoming carbon neutral, but offering a leading voice in the national move toward understanding and quantifying carbon responsibility.

In December, PwC's release of carbon conscious* survey of executive opinion on climate change in Australia gave a pertinent perspective on corporate attitudes toward emissions trading. The intent of the survey was twofold. First, to gauge the attitude of Australian corporate decision makers toward climate change, with a particular focus on the immediacy of the problem. Second, to gain insight into the attitude of Australian executives toward future policy setting, including proposed market solutions.

The results indicate that respondents accept the need for a carbon price signal, and that their preference is for a broad-based, regulated and nationally applied carbon trading scheme.

Key findings included:

- 100% of respondents viewed climate change as being strategically important for their organisations in the next five years.
- 75% of respondents viewed climate change as being strategically important within the next 12 months.
- 87% of respondents believed emissions trading will be introduced into Australia in the next 10 years.

Private Equity

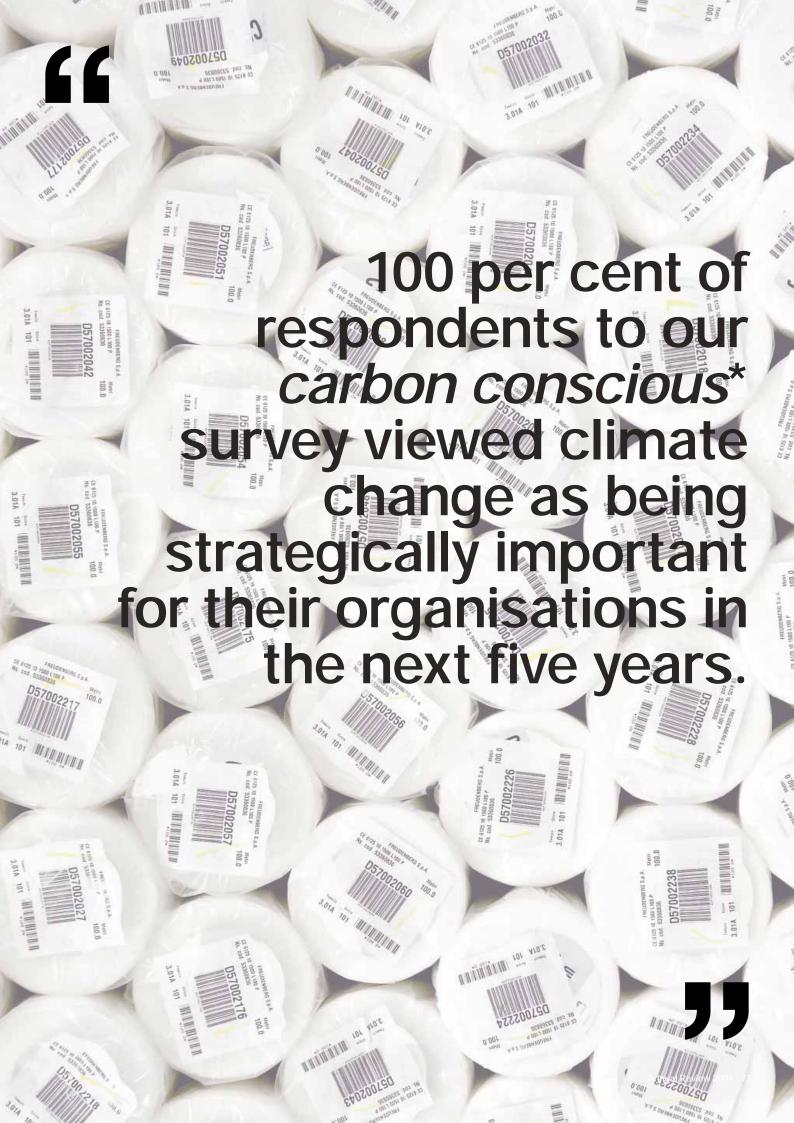


PwC continues to highlight Australian private equity as an industry in the early stages of strong growth.

In October and November, PwC partnered with the Australian Private Equity & Venture Capital Association Limited (AVCAL) to paint an accurate picture of the impact private equity and venture capital have had on the Australian economy. The online survey gathered information from 296 geographically and technically diverse companies that received Australian private equity funding between 1999 and November 2006.

The data showed significant opportunities for growth, expansion and innovation resulting from the investment. Private equity-backed companies made significant contributions to employment growth, providing jobs for up to 700,000 Australians. Technological innovation and R&D commercialisation were also key benefits of the funding, as well as human capital investment. More than one fifth of the respondents offer apprenticeships and 82 per cent provide technical training for staff. In addition, the close interaction between private equity shareholders and management was found to result in a culture of robust governance and accountability.

Overall, the positive results of the investment boom reach far beyond individual organisations to the broader economic arena. Private equity has been the catalyst for many businesses reviewing their structure, products and financial health, as well as discovering a greater commitment to enriching the skills of the Australian workforce.



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Regulatory Environment



PricewaterhouseCoopers and other groups, particularly the Business Council of Australia, have for some time expressed concern about the complexity and cost of Australia's regulatory environment.

Over the past year, government responded with a number of inquiries that provided opportunities to further pursue this vital debate.

In a submission to the Federal Government's Regulation Taskforce and in a range of public forums, PwC argued against giving auditing standards the force of law and that harmonisation of Australian and overseas systems for audit regulation could be progressed without the introduction of more red tape and cost.

We welcomed the release of the Taskforce's final report in August 2006, especially the commitment to making it harder to introduce new rules and five-yearly screening of existing regulations. Other changes to accounting methods for small business were also welcome, though CEO Tony Harrington said it was important to continue with reform.

The firm also provided a submission to the *Corporate and Financial Services Regulation Review*, led by the Hon Chris Pearce MP. On remuneration disclosures, we argued for the requirements to be contained in one place only (the Corporations Law), and for the disclosures to be simplified, separate from both the directors' report and the financial report.

Tax Reform



Another major area in need of reform is tax. PwC contends that more emphasis needs to be placed on the effectiveness of our business tax regime in its entirety.

At PwC we have developed a Total Tax Contribution framework, which the UK's largest companies have deployed to better understand and enumerate their total tax contributions. Working with the Business Council of Australia (BCA) and the Corporate Tax Association (CTA), we are adapting this framework for application to Australian businesses.

The Total Tax Contribution framework enables businesses to calculate their total tax contribution so that they can accurately quantify, report and manage their business taxes. Currently few companies have coordinated and comprehensive information on all their business tax payments. In our view every company should know the total amount of tax it pays.

A proper focus on total tax contribution provides visibility to a company's internal stakeholders on the impact of all taxes on the business and enables management to make more informed decisions. It also improves tax risk management, controls and the management of tax resources.

AIFRS



The implementation of new International Financial Reporting Standards to Australia – known as AIFRS – was the single largest change in the accounting framework since the Italians invented double entry in the 1400s.

PwC continued major programs in three key areas to ensure a smooth transition: training staff; educating clients and the wider business community about the new standards; and arguing that Australia should follow the global IFRS model.

PwC took a strong stance on the dangers of Australia diverging from the international model for IFRS and the decision of the Australian Accounting Standards Board (AASB) to include detailed Australian specific guidance in AIFRS. This activity included extensive education and lobbying efforts over three years, led by Jan McCahey, our Accounting Consulting Services Leader.

Jan presented to the AASB and the wider business community, provided commentary to media and spoke at numerous events. PwC therefore welcomed the AASB's April 2006 announcement that it would not add requirements or guidance to the Australian standards, except to deal with a public sector or not-for-profit issue. The Board is also seeking to remove local guidance already provided.

Another important initiative was the worldwide release of the IAS 39 – Achieving hedge accounting in practice guide. In AIFRS – the complex issues and the way forward, the firm confronted the primary concerns clients were still expressing a year after the changes. These included:

- Why are financial reports longer under AIFRS?
- Why aren't current standards wholly principles-based?
- What is happening with convergence relating to IFRS and USGAAP?
- Why is AIFRS so complex to apply in practice?
- What will happen with proprietary company reporting?

Internal Controls



With corporate governance high on the agenda of most business people, PwC commissioned a report from the Economist Intelligence Unit examining internal controls.

This included responses from 77 executives on internal control efforts and their impact, and was featured in a cover story in *CFO* magazine in June 2006. The key finding was that many companies were suffering 'governance fatigue' yet remained concerned about maintaining and improving an internal culture of control.

Of the respondents, 36 per cent said their organisations have spent more than \$1 million on internal controls in the past three years, with 17 per cent spending more than \$5 million. The report noted these investments are not going to decline any time soon. However, in the 20 face-to-face research interviews with senior executives, it emerged that control regimes can only be as good as the culture they are embedded within. Interviewees said it was

practically impossible to overcome someone determined to defraud an organisation and that the best defence was a culture of effective communication – a tone that must be set by the leadership team to encourage and emphasise ethical practices.

In the *CFO* article, PwC outlined the importance of turning culture into a tangible element of the risk management strategy. Measurement must become outcome focused and include palpable indicators of health, such as employee engagement and absenteeism. Such indicators present a clear link to how effectively risk is managed and can help prevent wider negative impacts on the business.

With innovations come increasingly complex investment vehicles that threaten to widen the 'risk gap' between investment managers and end investors.

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Resources



The resource sector experienced another spectacular year with revenue increasing 25 per cent to \$222 billion.

In the midst of such strong returns, many stakeholders began to question how sustainable the growth would prove when confronted with burgeoning demand and increasing environmental concerns. PwC once again got to the heart of boardroom thinking with comprehensive annual global surveys examining the state of the world's top utilities and mining companies.

In June 2006, mine* – let the good times roll, a review of global mining trends, analysed 40 leading companies representing more than 80 per cent of the industry by market capitalisation. The report paid special attention to the impact of the 'awakening giants' of Russia, China and India and the future of what have been recordbreaking years for commodities

The findings indicate the industry's performance has exceeded that of the overall market by 300 per cent over the past two years. While profitability is at a high, operating costs have also increased and may create challenges if commodity prices fall. CEOs appear focused on maintaining supply and maximising production, while navigating issues of safety and political uncertainty in many resource-rich regions.

The Big Leap surveyed the changes that are being made or need to be made in technology, investment, mergers and acquisitions, efficiency, cleaner fuels and customer relationships in the utilities industry. The responses from senior executives in Europe, North and South America, the Asia Pacific, Africa and the Middle East were largely consistent.

The power and gas sector is facing 'revolutionary' changes unprecedented in recent times; the pace of change needs to be increased with more focus on long-term solutions; and political and regulatory policy continues to be both the leading catalyst and hurdle to change.

Additionally, the National Generators Forum and Energy Retailers Association of Australia commissioned PwC to undertake an independent survey considering the level of liquidity in the electricity financial contract markets in the context of the National Electricity Market. The independent analysis found the majority of respondents perceived the current levels of liquidity in the Australian market to be adequate for managing risk.

Financial Services



The firm expressed its concern about the heavy toll that over-regulation is taking on financial institutions.

In a July 2006 opinion piece in the Australian Financial Review, Banking & Capital Markets Leader Michael Codling noted that too much unnecessary regulation had come out as the number one risk facing our banks for the second year running, according to a survey of industry participants sponsored by PwC. While individual banks don't collapse as a result of regulatory overkill, it can damage the banking system as a whole, and the industry is now rightly throwing down a challenge to regulators as to whether they have the right balance of cost and benefit.

In an Asset magazine article, Why planners need to know about product rationalisation, partner Peter van Dongen argued the current legislation in Australia either inhibits investment product rationalisation or, where it can be practically achieved, makes it expensive, cumbersome and high risk. Industry data shows that Australia has a similar number of funds to the US, but only 6 per cent of the assets under management. With all other fee assumptions being equal, Australian investment managers have to price approximately 15 more unit prices per dollar of revenue than their US counterparts. This heightens risk and increases the need for legislative change to facilitate sensible product rationalisation.

The PwC Investment Management Survey was conducted during May and June, involving 30 investment management organisations representing more than \$700 billion in assets. The survey found CEOs generally optimistic about the business environment, though conscious that many risks still exist. PwC's analysis indicated organisations need to better align internal processes with service providers, ensure emerging risks are understood by advisors and end users, establish more creative staff retention strategies and evolve customer focus beyond fundamental customer satisfaction.

In November 2006, we released an analysis of the annual results of Australia's four major banks. The findings showed resilient earnings, up 13.7 per cent on the previous year, primarily due to volume growth. Cost-to-income ratios improved despite the banks boosting the number of front-line staff and branches in a bid to improve the customer experience. As the banks move into an environment of softening demand for credit and fierce competition,

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Entertainment and Media



The year was one of monumental change for the entertainment and media sectors.

Government restrictions on foreign and cross-media ownership were lifted, new initiatives were announced to drive consumer uptake of digital television services and technology convergence is shifting control to the consumer in media consumption.

In the face of such an unpredictable future, PwC analysed the unique social, technological, economic, political and regulatory drivers that influence consumer spending and advertising across 11 industry segments spanning five regions of the world. *The* Australian Entertainment and Media Outlook: 2006—2010 used these indicators to forecast industry revenues for next five years. The report also gathered insights from some of the country's most prominent entertainment and media leaders, forming a collaborative vision for the evolution of everything from newspapers to recorded music.

Retail and Consumer



Forecasting consumer demand can be a nightmare for retailers riding the rollercoaster of consumer sentiment.

While government action such as tax concessions can raise consumer confidence, the first sign of petrol price increases, rising interest rates or a weakening economy can equally send it spiralling.

PwC addressed a variety of issues faced by the retail and consumer sector in the firm's second annual edition of the Retail & Consumer Outlook. While the report confirmed Australia's economic conditions have recently been positive and conducive to growth, it found many retailers have suffered from product prices consistently falling for more than a decade. This has brought increasing focus onto supply chain management and, in the case of supermarkets, massive transformation.

The next wave of bottom-line profit delivery will likely come from innovation and customer management rather than production efficiency. The report found retailers must find ways to extract more profit from existing customers, in addition to meeting customer concerns surrounding corporate social responsibility. Another source of challenges and opportunities will be the baby boomers, who are approaching 60 and hold 39 per cent of the country's wealth. To be successful, retail and consumer companies will have to manage the impact of demographic change.

National Enterprise



Mid-sized businesses across the country remain focused on the push toward growth targets in an atmosphere of delicate balance.

Consumer confidence remains steadfast and government tax cuts, though small, are beginning to surface - but the obstacles of interest rate increases and state-based limitations are ever present. Each year, PwC undertakes the Business Insights Survey to identify challenges for mid-sized businesses and provide practical tips on how to optimise performance. In Breaking Clear: 2006 survey, the firm discussed Australian business's ability to ride the cyclical turns of the economy and interest rates. The report highlighted the national skills shortage as the largest current threat and found companies were not only having trouble recruiting high-value employees but also in retaining good staff.

Our 2006 Business Insights Survey highlighted the national skills shortage as the largest threat to mid-sized businesses. Why? Governance.

PricewaterhouseCoopers is committed to achieving the highest standards of corporate governance and transparency throughout our firm. This is essential to our wider mission of responsible leadership and our desire to serve as a force for integrity, good sense and wise solutions to the problems facing business and capital markets today. During 2006, the firm reinforced existing systems and implemented new programs to further consolidate its strength in this vital area. We also played a key role in driving and informing the governance debate in Australia and overseas.

OneFirm Risk & Quality Group

The most significant change in the firm's governance operations over the last decade was the creation of the OneFirm Risk & Quality group in 2005. This group completed its first full year of operation in FY06 and now comprises approximately five partners and 40 staff, with an annual operating budget of \$10 million. It is responsible for all methodologies and technologies, risk management, quality control and independence compliance for the Australian firm

During 2006, OneFirm Risk & Quality successfully streamlined and unified many aspects of the firm's governance operations. Led by partner Bill Edge, its challenge was to take the best risk and quality practices in each of the firm's lines of service in Australia and globally and establish processes, procedures and controls that would be sustainable while ensuring the future of the PwC brand. A key part of the group's approach has been to take the firm's in-depth understanding of audit and the rigours of compliance as it relates to this highly regulated area (e.g. statutory audit, liquidations and prospectus reports) and apply it to non-regulated areas of the firm (e.g. structured finance advice and tax planning) while maintaining business efficiency.

A key element of the change has been the recognition of the impact of culture on building a sustainable risk and quality ethic across the firm, and a framework aimed at embedding this cultural shift in the ethos of our practice.

Key governance initiatives put in place by the OneFirm Risk & Quality group include:

- Risk & Quality Council: Continued development of the role of this internal governance body which oversees risk and quality throughout the firm, independent of management and reporting to the Board of Partners.
- Risk & Quality representation: Risk & Quality experts sit on the executive board of each of our businesses as well as on the Firmwide Leadership Team and management executive.
- Documented framework: Development of consistent, firm-wide properly documented compliance frameworks for:
 - Regulated services mapping all controls and procedures to regulation such as professional standards and relevant legislation.
 - Non-regulated services mapping all controls and procedures to stakeholder expectations and business obligations, with consideration for business efficiency.
- Risk controls: Agreement on a group of 10 Fundamental Risk Controls to guide the way the firm works on any assignment across Assurance, Tax & Legal or Advisory. These are supported by tools and templates to clearly depict the steps partners and staff should follow on every engagement.

- Partner ratings: A new system to capture partners' performance on key Risk & Quality metrics. This electronic system is more efficient and has greater integrity than previous approaches and forms a key part of partners' final ratings for the year. It also includes a documented Recognition and Accountability
 Framework
- Real-time reviews: In 2005, the firm introduced a process into the Assurance practice whereby audits were reviewed in real time rather than after completion. This was a key step in the firm's process of continuous improvement. In 2006, this approach was extended to Advisory and Tax & Legal. The OneFirm Risk & Quality group also put in place automated procedures and tools to streamline processes.
- Ethics and Business Conduct Committee: This committee, chaired by the CEO, was introduced to oversee the firm's conduct to ensure all partners and staff 'do the right thing'.
- Ethics hotline: A 1800 ITRUST hotline to give partners, staff, clients and the general public a 24-hour, seven-day confidential reporting structure and a process for ethical issue resolution that accommodates anonymous reporting.

E-learning

To continue to improve and reinforce staff understanding of the firm's Code of Conduct and guidelines on independence, PwC has invested in e-learning technology. Over the past year, all staff were required to complete online training modules on client independence and the firm's Code of Conduct. E-learning has proven more convenient and time-efficient for staff and embeds testing. It has also enabled PwC to train a wider range of individuals and meet increased training requirements arising from the sharp rise in regulation over recent years.

Working with ASIC

In July 2006, a Standing Committee on Accounting and Auditing was established under the Chairs Committee. The Chairs Committee is sponsored by the Australian Securities and Investments Commission (ASIC) as part of its commitment to accessibility and understanding the impact of regulation on business. It was set up to foster open communication between professional bodies and regulators and includes representatives from ASIC, the Institute of Chartered Accountants in Australia, CPA Australia, the National Institute of Accountants and accountancy firms. PwC's Assurance leader Mark Johnson was pleased to become the inaugural chair of this new Standing Committee, which will exchange views on the operation of accounting and auditing policy and standards.

Mark Johnson also spoke at the ASIC Summer School, an educational program for staff from ASIC and other regulators around the Asia Pacific region.

Why? Governance.

Risk management standards

In response to increased scrutiny of the profession and the growth in business regulation, PwC has launched a worldwide Global Risk Management and Compliance Program that features a group of globally defined risk management standards. The first four of these relate to independence, registration with regulators, ethics and business conduct, and line of service risk and quality standards.

The program is designed to drive a culture of consistent risk management and compliance across all PwC firms worldwide. Each national member firm must self-assess its operations against these standards and will also be assessed by the global firm. During 2006, PwC Australia completed its self-assessments. Risk management and senior partners also attended an international conference to work through the steps that need to be taken for each firm in the immediate region to comply.

Governance leadership

PwC recognises that it plays a central role in the governance operations of many of its clients, and through its leadership positior in Australia and the world can play an important role in informing debate and guiding business leaders around often complex governance issues. Over the past year, it drew on the expertise of the OneFirm Risk & Quality team and others to create guides and thought leadership publications about governance for clients and the broader business community. These include:

- Audit Committee Handbook: A comprehensive guide to the role and responsibilities of audit committee members.
- Corporate Governance Toolkit: Produced in cooperation with the CPA, this advises SMEs on how to apply best practice governance approaches.
- Audit Committee Matters: Quarterly newsletter for audit committee members, sent to 2,500 recipients nationally.
- Trends 2006: Good Practices in Corporate Reporting:
 Each year the Australian firm contributes to this global PwC
 review of good practice in corporate reporting around the world.
- World Watch: A comprehensive newsletter on global developments in governance and corporate reporting, compiled by PwC in London.
- Shareholder Friendly Report: Produced with the Australian Institute of Company Directors, this presents a framework for clear and easy-to-understand corporate reporting. The first two organisations to adopt the new format are ANZ Bank and Perpetual, with the companies planning to release versions of their 2006 annual reports in line with the Shareholder Friendly Report.

Leadership roles

The Australian firm is seen as a valuable source of expertise on governance issues within PwC globally. In recognition of her leadership on IFRS and other topics, Jan McCahey was appointed as one of seven senior partners to PwC's global management group, which oversees the firm's position on technical issues.

Performance reviews

During FY06, PwC's new compliance framework and other risk and quality processes were independently assessed and passed by ASIC, the new Audit Quality Review Board and the Institute of Chartered Accountants in Australia

The effectiveness of the firm's approach to governance has also been seen in the quality of its Assurance work. For the past three years, PwC Australia's audit group has received no unsatisfactory results from the vigorous PwC global reviews of audit engagements. This was best-in-class globally and a number of the risk and quality initiatives put in place by the Australian firm are now being adopted by PwC in other countries.

Sponsorships.

PricewaterhouseCoopers firmly believes in investing in the communities in which we live and work. One of the ways we do this is by sponsoring events and organisations that align with our own values of teamwork, excellence and leadership. During 2006 and early 2007, PwC was proud to support a world-class orchestra and a premier sporting event, in addition to our many charity partnerships.

2007 FINA World Swimming Championships

After a successful experience with the 2006 Commonwealth Games, PwC again played a key role in supporting a landmark

PwC was selected from a competitive field as the Official Professional Services Firm for the 12th FINA World Swimming Championships.

As the fifth-largest global sporting event and the most important aquatic meet prior to the 2008 Beijing Olympics, this was another feat for the firm and cements us as the 'go to' firm for complex major events.

In 2006, as part of the sponsorship, PwC launched the Stars in Business program, a series of regular forums specifically focused on the 2007 World Swimming Championships. The series provided sponsors and key stakeholders with the opportunity to establish and strengthen ties with business and the wider community, in addition to getting updates and insights into the Championships.

Over 3,500 elite athletes from 175 nations took part in the 12th FINA World Swimming Championships, held from 17 March to 1 April 2007.

The Australian Chamber Orchestra

In 2006, its 30th anniversary season, the world-renowned Australian Chamber Orchestra continued to inspire and amaze audiences. As national partner of the 'Revellers' tour, PwC's people, clients and spouses enjoyed uplifting and thoughtprovoking performances around Australia, including exclusive access to orchestra rehearsals and private performances.

PwC is very proud to continue as the Principal Innovation Partner of a company that supports our values of teamwork, excellence and leadership. It does this by combining technical precision with passion – head with heart.

At PwC, we appreciate that this is what makes a great company whatever your business.

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Helping to ensure the ongoing health of our communities' business, social, sporting and cultural lives is an important part of our commitment to the worlds in which we live and work. This is why we choose to sponsor events and organisations that live our values of teamwork, excellence and leadership.

Why? Our Community.

It's been four years since the PwC
Foundation was established to allow our
people to engage with the communities
in which we live and work. Our people
focus their expertise and passion
to continue to make a collective
difference in our communities; they
have demonstrated that they connect
their hearts and minds, focusing on
sustainability and social change.
FY06 was the Foundation's best year
yet: we distributed \$2.3 million to our
charity partners and spent 13,680 hours
– an equivalent of 570 days – on
community activities.

As a Foundation, our mission is clear, although challenging: we're working with our charity partners and each other to effect sustainable change in our communities for our own and future generations. We aim to improve the lives of those who face the greatest challenges, be they social, economic or physical. We're also striving to reduce our environmental footprint and minimise the impact of climate change on our communities – both locally and globally.

At PwC, we embrace the challenge of corporate social responsibility as core to our values of teamwork, excellence and leadership. In the words of our Global CEO, Sam DiPiazza, we see it as our duty to 'leave the world better than we found it.' Through our Foundation and in partnership with charities, we are living these values to ensure the ongoing sustainability of our communities – whether it's supporting a young person towards a career, assisting to grant wishes to seriously ill children, helping people reclaim their lives from depression or minimising our impact on the environment.

Following is a snapshot of our Foundation activities this year.

Picking up the pieces after Cyclone Larry

On 20 March 2006, disaster struck Innisfail in Far North Queensland. Cyclone Larry tore down homes and public buildings, uprooted trees and devastated crops. Our charity partner, Endeavour, felt the full force of the blow, with several of its buildings and residences damaged. Endeavour provides support for people with an intellectual disability and their families – so the shockwaves felt from the loss of this vital service were far-reaching.

Within days of Cyclone Larry, the Foundation had swung in behind Endeavour's rebuilding effort, launching an appeal which, when matched with dollar-for-dollar funding by the firm, raised \$92,000 in just three days. Local PwC people played an important role in organising generators for the Endeavour staff who stayed to work on the long clean-up process.

In response to Cyclone Larry, our people showed the huge difference individual efforts and collective passions can make in our communities.

Finding a greener way forward

There is now little doubt that climate change is a reality, and organisations who take up the challenge of responsible leadership must lead the charge in minimising the impact of global warming and other environmental challenges. PwC takes its environmental responsibilities seriously on a local and global level. We are working steadily towards reducing our environmental footprint and promoting conservation activities in our wider community.

Cleaning up our own backyard

Our firm is currently working on a comprehensive environmental strategy – a major element of which is being carbon neutral.

On 15 December, PwC Australia announced our intention to become carbon neutral as soon as possible. This will be achieved through a further reduction of carbon dioxide emissions and a program to offset the firm's residual emissions.

Community.

Being carbon neutral means reducing our carbon emissions footprint to zero through energy reductions and savings. Where necessary, residual emissions (i.e. energy use, travel etc) will be offset, or compensated for, in a variety of ways.

We intend to achieve carbon neutrality no later than 1 July 2008, through the development of a carbon management plan, which is likely to include a sharper focus on energy efficiency; increasing the proportion of renewable energy consumed at PwC premises; investigating opportunities to maximise the use of video conferencing and other remote location work practices; and offsetting the total remaining emissions through environmentally credible project activities.

These activities continue the work PwC Australia has been undertaking over the last three years. Our projects have included introducing advanced lighting controls in Melbourne, Sydney, Brisbane, Perth, Adelaide and Canberra and reducing the power consumption in the Sydney office by 15 per cent against the same period in 2005.

Delivering on our commitment to our local environment

This year, we worked closely with our charity partners for the benefit of our environment and present and future generations.

A shot in the arm for our wetlands

Newcastle's Kooragang wetlands is home to several threatened and protected species of wildlife. The Kooragang Landcare group is working hard to preserve this important ecological area, and one of the most effective ways of checking its health is to monitor its birdlife. Through our PwC People Giving Program, PwC has funded a boat which will help the group to observe important roost and feeding sites only accessible from the river, while causing minimum disturbance to flora and fauna.

Saving water and helping at-risk families

Wattle House in Perth – one of Mission Australia's accommodation services for families at risk of homelessness - was in need of a 'backyard blitz', so our charity partner asked us if we would help out. Our people were keen to help, and decided to make the garden as easy-care and environmentally-friendly as possible. Demonstrating the truly collaborative nature of our Foundation, the project team enlisted the help of another charity partner, Landcare, who provided essential information on choosing the right plants to create a drought-tolerant, low-maintenance garden. The result was an environmentally-friendly oasis for residents and new skills and knowledge for our people.

Elevating tomorrow's leaders, today

Two years ago, Mission Australia's National Youth Survey highlighted that young people need support and guidance in order to make the successful transition to adulthood and avoid the pitfalls of depression and stress.

In order to help young people navigate the challenges of modern life, in 2005 Mission Australia and the Foundation joined forces to establish Elevate – a co-coaching program that teams young people from diverse backgrounds with a leader from PwC, helping to develop self-confidence, resilience and leadership potential.

In May 2006, the first graduates of the program celebrated their achievements at a ceremony in Sydney. For many, Elevate had been the experience of a lifetime – meeting and working with people from all walks of life.

Sammi Booth, 18, believes that being a part of Elevate has changed her outlook. "Elevate has taught me that with effort and self-discipline I can achieve whatever I set my mind to."

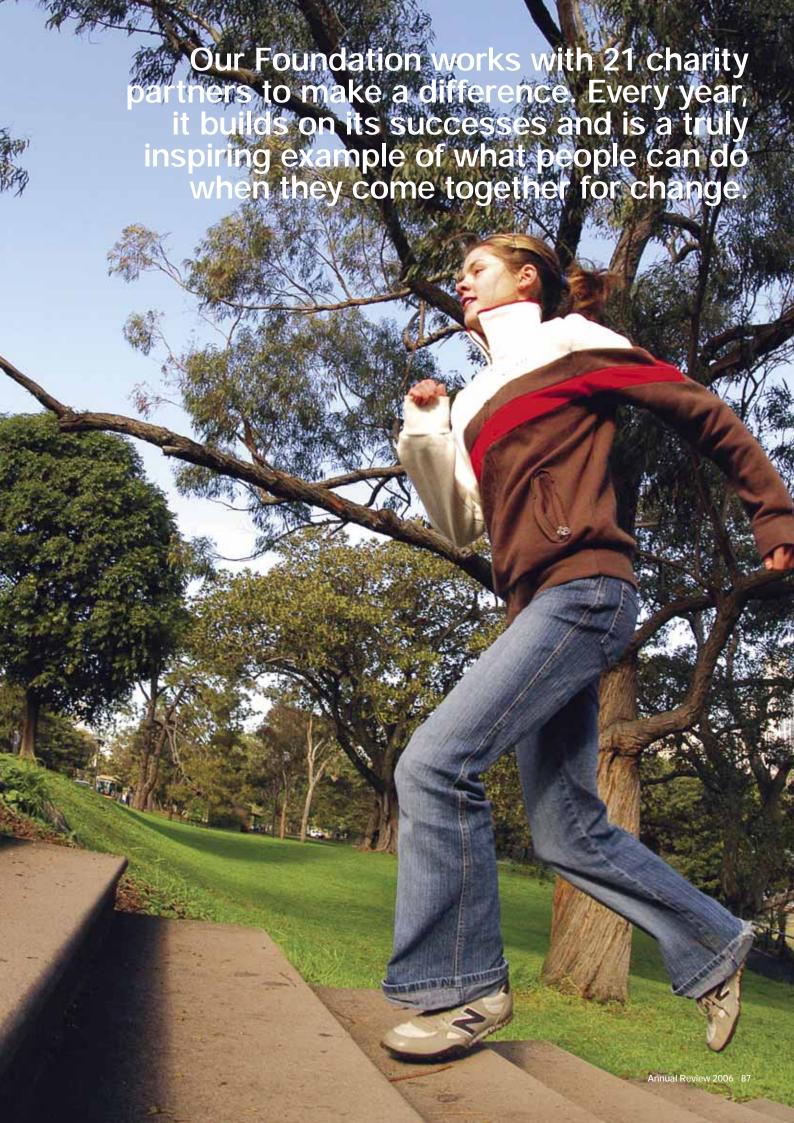
Among the crowd of family, friends and Mission Australia and PwC staff were PwC coaches Ashley Wood and Wil Honner, proudly watching as the young people they had been matched with throughout the program took their places on the stage, receiving their rightful congratulations and applause.

Wil felt that the young person he had worked with, Chris, had grown during the program. "I think that Elevate was the right opportunity at the right time for Chris," Wil says. "It has been very rewarding seeing him develop his confidence and interpersonal skills and to hear of people not on Elevate recognising how he is progressing."

Ashley, too, could see the benefits that being on Elevate has had for both his Elevate partner, Marissa, and the other young people on the program. "Elevate gives young people a chance to have an older 'brother' or 'sister' and learn from them, instead of just bouncing thoughts and fears off parents 20 years their senior!"

What did the coaches feel they learned from the program? "The responsibility of the one-on-one match made me re-evaluate the impact my actions could have on another person and how (and if) I should be influencing other people," Wil says. Ashley believes he learnt the art of patience, and "that we can really make a difference if we take time out to help." He also saw another advantage, in that the program showed him there are "more problems in life than auditing ones!"

Due to the unqualified success of the first Elevate program, the Foundation and Mission Australia have established two new programs - one in Melbourne and one in Sydney.



Community.

Fighting depression with beyondblue

With around 1 million Australians suffering from depression each year, it is likely that someone you know will develop this distressing condition at some point in their lives. The most sobering aspect of this is perhaps that most people with depression will never seek treatment. This year, our people told us that they wanted to do something about this frightening statistic – so we teamed up with national depression initiative, beyondblue, to help tackle issues associated with depression, anxiety and related substance misuse disorders.

While the rates of depression are much the same in country and city areas, suicide rates are significantly higher in the country. In these tough times, when rural families are facing extreme hardship as a result of the ongoing drought, our people are helping beyondblue get the message out that depression is an illness that can be treated and that help is available. The Foundation is lending its support to education forums in rural communities about depression and how to prevent suicide in their community.

Supporting social innovation with Social Ventures Australia

Social Ventures Australia (SVA) supports social innovation in our communities by helping people to participate both economically and socially, as well as building a sense of self-worth among the most marginalised members of our communities.

PwC is actively involved in three of SVA's programs: Activate, School Aid Trust and Oz Green. Activate develops leadership skills in young people who are experiencing long-term unemployment, homelessness and disadvantage. These young people are then able to go back to their communities and help find solutions to local issues. School Aid Trust works with the theory that a little can add up to a lot. It asks Australia's 11,000 schools to donate as little as \$100 a year - and so far has raised \$1.2 million over three years to help disadvantaged kids worldwide. Oz Green works with communities, and particularly youth, to raise awareness of environmental issues generally and the importance of rivers to the broader ecology. PwC is proud of the role it has played in helping these initiatives take flight. Of PwC's involvement, Jan Owen, Executive Director, Social Ventures Australia, says "All ventures are leaving a significant impression upon the communities in which they operate. This is due in large part to the significant contributions that PwC has made in supporting the formalisation, strengthening and growth of these ventures."

This year, PwC was proud to be a part of a new venture with SVA. In June, we, along with SVA and Brisbane City Council, launched the Social Enterprise Access Network for Brisbane. This will give people with a disability access to work and life opportunities and help to develop 'social entrepreneurs' who will make a significant economic and social impact in their communities.

By investing in the network, PwC has the chance to transfer valuable business skills to those who, traditionally, have been at a disadvantage in the employment market, as well as being at the forefront of the development of the social enterprise sector – which makes sense from both a business and community perspective.

Recognising our champions

The commitment and generosity of PwC people is at the heart of the Foundation's success. And nationwide, there are almost 200 PwC Foundation Champions who make a special effort to ensure that the Foundation continues to grow and thrive.

For the first time in 2006, the Foundation introduced a National Champion of the Year award, providing an opportunity to celebrate the work of all champions and honour the top five from around the country.

The winner of the first annual National Champion of the Year Award was Sarah Moors from Advisory in Melbourne. Sarah was then given the opportunity to spend five days in Cape York, where she worked alongside our charity partner WWF Australia to help indigenous residents and researchers protect endangered turtles and other marine life from nets and feral pigs.

Sarah was thrilled to play a part in the conservation effort in Cape York, and could see the work she was doing was worthwhile. "We were able to assist the Aboriginal rangers and Queensland Conservation Department Wildlife Officers with tagging and measuring nesting turtles, protecting their freshly laid eggs with feral pig and dog exclusion devices, removing ghost nets (abandoned commercial fishing nets) from the beach, and collecting research data for Queensland's Marine Turtle Conservation Project," Sarah says.

"The opportunity to see this conservation work first-hand in such a remote, rugged location was an incredible experience, and I can't thank the Foundation enough. It is fantastic that PwC recognises the importance of supporting and becoming involved in community activities, and the Foundation is such a powerful way of taking part."

Andrew Thirsk Scholarship – responsible leadership in action

The Andrew Thirsk Scholarship, established in 2003, recognises our top performers and promotes the development of responsible leadership skills through participation in a demanding community program. This year, Anthony Klein in our Melbourne office won the scholarship, giving him the opportunity to join PwC partners from around the world on the firm's global leadership program, Ulysses.

Here is Anthony's story:

"In our first week, all 22 Ulysses participants from 18 different countries met to get to know each other and learn more about the three main themes of the Ulysses program: responsible leadership, cultural diversity and sustainability. It also enabled each of us to start developing our own 'leadership vision'. Here, I met my fellow China project team members, Annica Lundblad from Sweden and Chris Monteleone from Poland.

After a week of intensive strategic planning and skills development, our team headed to Yunnan province in China to work with Save the Children Foundation (STCF). Yunnan is one of the poorest provinces in China. It also has a large number of ethnic minority groups and a strong mix of the neighbouring cultures of Tibet, Burma, Laos and Vietnam.

Given the mountainous geography and poverty in Yunnan, many children are unable to access school. Other parents choose not to send their children to school because they think it's a waste of time given the lack of vocational skills developed through a Chinese school education. The result is that many children are condemned to a life of poverty, like their parents. There is no release valve to break the cycle.

In Yunnan, we reviewed STCF's Income Generation (IG) program – a joint venture between STCF and the local education bureau. Through the IG program, STCF provides funds to schools in Yunnan and these schools use the funds to finance small businesses that they operate and manage. The aim of these businesses (or IG projects) is to generate profits and distribute them to the poorest families in the local communities, enabling them to send their children to school. Unfortunately, only a handful of the 36 projects are currently profitable. Our role was to review the program and, among other things, identify recommendations for increasing its effectiveness and to develop practical tools to help STCF achieve this.

We are proud of how we came together and worked in partnership with STCF to develop a product that STCF believed in and was determined to implement, thus achieving our goal of creating a sustainable outcome for them. To further increase the likelihood of our output resulting in a sustainable solution, our team has also committed to using one week's annual leave a year to go back to Yunnan and see how the project is going.

My most memorable experience on the program was meeting a young girl of about 10 years of age and her mother. Before STCF became involved with her local school, the girl and her family did not even have the most basic form of shelter over their heads. STCF chose the girl's family to manage the IG project at her school – a goat breeding project. The family was given the responsibility of maintaining the goat sheds and pens, finally giving them a home, even if it is only the most basic type. The girl was intelligent and asked us some really insightful questions about our experiences in her country. I was touched by her energy, strength and passion but also saddened by the fact that the only thing holding her back in her life was her poverty and lack of opportunity.

Her mum also made an impact on me. We were taking some photos of us with her daughter, and despite the fact that her daughter's clothes were dirty, she came up to us and straightened them for the photo. I found this really touching – you could see the deep love and pride she had in her daughter. The people of Yunnan province are not rich with material assets but they are rich in other ways.

Through Ulysses, I have become a more personable, humane and compassionate person. As mentioned, I have also had the chance to develop a personal leadership vision. It is to: think strategically; step back and create room for others to reach their full potential; be a source of energy and inspiration for others; listen to my heart and act humanely, and have fun along the way!"

Healthy hearts for life – The Heart Foundation

Heart disease is the leading cause of death in Australia today. For this reason, our people told us that they wanted to help the Heart Foundation in its work to find a cure. PwC's support is playing a huge role in the Heart Foundation's battle against conditions such as cardiomyopathy, which took the life of Matthew Howell at just 31.

His sister Belinda says, "If we really place value on the most important things in life – our family, our children – if we let those thoughts motivate us then we will use our money to go towards research and finding cures, trying to avoid other families having to go through what we've gone through."

Sponsoring our first guide dogs

It costs \$25,000 to care for and train a guide dog from birth to 'graduation'. Through our People Giving program, we are meeting the total costs of caring for two guide dogs, one in Sydney and one in Brisbane. Our ultimate aim is to have PwC Foundation-sponsored guide dogs all over the country.



Our success in 2006, both developing stronger relation was a team effort. It provisions moving confidently into 20 to sharing the journey with

financially and in nships with our clients, des a solid basis for 07. We look forward you.







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