2006
Annual Review
Luxembourg*

*connectedthinking

PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 140.000 people in 149 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. PricewaterhouseCoopers Luxembourg (www.pwc.com/lu) has over 1,300 skilled professionals coming from more than 26 different countries.

In this Luxembourg Annual Review, we describe our performance during fiscal year 2006 (July 1, 2005 to June 30, 2006) in helping clients address the challenges of the local and global marketplaces, providing assurance for their stakeholders and offering rewarding opportunities to our people.

A French version of this brochure is available on www.pwc.com/lu

What's inside

01
Managing Partner message

Questions and answers with Marie-Jeanne Chevremont-Lorenzini

What's your view of PwC Luxembourg's performance this year?

2005 was already a great year in many respects with robust growth and a growing client base. In 2006, our business once again exceeded our expectations with revenue growing by 21% to EUR 131 million and our workforce rising to over 1,300[1] people. Such record results contributed to reinforcing our position as market leader in Luxembourg, an honour we share with our people, the driving force behind our continued growth and expansion.

Outpacing the growth of an already vibrant financial market is not without its challenges. Our Audit practice had a busy year assisting clients in meeting regulatory requirements, not least the Sarbanes-Oxley 404 and the International Financial Reporting Standards (IFRS). Although this partly explains the double digit turnover rate, we have also won new clients in new sectors, notably in real estate and private equity.

Exceptional financial results in Tax, our fastest growing competency with a 33% increase on 2005 results, helped boost revenues considerably. The advisory market is continuing to recover and the financial results of our Advisory practice reflect this. We are confident that the successful execution of a clearly defined market strategy in target areas will bear fruit in the year to come.

Finally, we welcomed 13 new partners in July 2006, reflecting the healthy growth of our firm and our optimism for the future.

What challenges do you see ahead?

Above all, at PwC we believe we have to continue to focus unremittingly on quality, flexibility and efficiency in our service delivery. Reaffirming these core values on a daily basis is a challenge in itself.

As we move into fiscal year 2007, addressing the needs of a changing regulatory market – especially for our Audit practice – will remain a top priority particularly in countries where our clients do business. We will continue to monitor events closely and be vigilant in enforcing compliance, as our long-term economic growth is dependant on the application of ethical business practices.

In these and other related efforts, we depend on our people. At PwC Luxembourg, we firmly believe that by increasing the satisfaction of our people, we increase the quality of the work being offered. We are, after all, nothing other than the sum of our parts, our people. It is for this reason that we will continue to strive to offer a challenging work environment where potential can be reached through guided career development and tailored training solutions. This is a vital part of our overall business strategy and key to retaining experienced and qualified professionals.

Our selective recruitment procedures are at the forefront of our effort to recruit competent talent. The diversity of our people – where no fewer than 26 nationalities are represented – contributes to enhancing the quality of the service we offer our clients, many of whom are of foreign origin themselves.

[1] as at November 1st, 2006

Although ranked amongst the top competitive countries for doing business, Luxembourg is only becoming better known by young graduates as a major financial centre. We will work to remedy this "HR challenge" and promote Luxembourg's deserved place on the map in line with the objectives set by the Luxembourg government.

Looking ahead, 2007 promises to be another important year for us. The upcoming "Luxembourg and Greater Region, European Capital of Culture 2007" – of which we are a main sponsor – is but one of the ways we intend to encourage the development of contemporary communication and stimulate cultural activities in Luxembourg and the Greater Region.

What key trends do you see in the local marketplace?

We have to keep our sights beyond Luxembourg's horizon as our market extends beyond its borders. Regardless of what sector we are talking about, business opportunities between Luxembourg and BRIC countries (Brazil, Russia, India and China) will develop in the future and, as we well know, the potential of these countries is enormous. I am confident that positioning Luxembourg in these emerging economies will have noticeable, positive repercussions on the economy as a whole.

Closer to home, we have witnessed that Luxembourg is increasingly called upon to play a vital role in the development and economic integration of the Greater Region. Principally, this leadership consists in contributing to enhancing the region's attractiveness on the international scene in matters that concern business and recruitment. The creation of the "Maison du Luxembourg" in Thionville is a perfect example of this willingness to materialise the economic, social and cultural integration of neighbouring countries.

Is Responsible Leadership, an everyday approach of the business?

At PwC, being responsible in the sense of Responsible Leadership is not only a theoretical concept but an everyday concern with practical applications. It encompasses all kinds of actions we may take with our stakeholders: staff members and their families, peers, clients, regulators, local civil society, associations, communities and our natural environment. It means living and sharing the values we have long been promoting and taking our responsibilities as a member of global society.

In addition to its initiatives in promoting art and culture locally, PwC Luxembourg has chosen to make a difference through its commitment to foster Luxembourg's economy. However, the key success factor of Responsible Leadership is obviously the diversity of our people, their excellence as well as their engagement.

Priorities for 2007

- Invest in monitoring and improving audit quality
- Develop industry knowledge to enhance services for non-financial and public sectors
- Meet the firm's growth and improve the working environment
- Promote Luxembourg abroad and within the network
- Help develop collective solutions to societal problems

Luxembourg 2007

"Migrations", leading theme of the encounter between "Luxembourg and Greater Region, European Capital of Culture 2007", a firm, PricewaterhouseCoopers Luxembourg and an artist, Samuel Rousseau.

After sponsoring "Luxembourg, European Capital of Culture" in 1995, PricewaterhouseCoopers chose to support the theme "Migrations" for the 2007 edition. With over 1,300 skilled professionals coming from more than 26 different countries, PwC is a tremendous melting pot of migrants which have, in a certain manner, contributed through their specificities and expertise to Luxembourg's economy and to companies coming from all over the world. Being seduced by Samuel Rousseau's concept for illustrating PwC's "perception of migrations", the firm's employees are integrally part of an original piece of art we invite you to discover as of January 19, 2007.

Read more: www.luxembourg2007.org

What motivated PwC to be involved in "Luxembourg 2007"?

The founding slogan of the European Capital of Culture is "showcasing the wealth, diversity and common characteristics of European cultures and at the same time, contributing to a deeper understanding amongst the citizens of the European Union". We fully believe in this slogan and it's one of the reasons we are backing up this initiative.

Why promote "migrations" as a theme?

PwC is a great example of a melting pot uniting "migrants" from over 26 different nationalities who are able to pool their qualified and specialised skills together to benefit Luxembourg's economy as well as the international companies established within its borders. Migrations also allow ideas to be exchanged and for knowledge to be shared and we are pleased to promote such thinking.

What particular projects has PwC chosen to support?

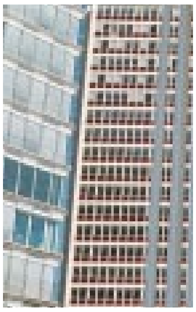
"Family of Man 2007" was launched under the banner "youth of the world, photograph your life!" Inspired by the works of Edward Steichen, "FOMA 2007" will be a traveling exhibit of pictures taken by youth aged 15 to 25. We are proud to support this project and see it as a way of materialising our commitment to the "Y" generation. Another project we actively encourage is the work of Samuel Rousseau, a young contemporary French artist whose concept simply blew us away. The artist had the idea of using a key element of migrations and nomadism to support his video work: the carpet. Samuel populated the carpet and made come alive by projecting images of PwC's people walking along it. You'll be able to go and see this original work entitled "Jardins Nomades" at the Rotonde 1 as of January 19. Note that it runs the whole length of the cultural year.

02

Our clients: helping the business community meet today's challenges

The business community is growing ever more complex. Industries and markets require new ways of doing business together. The following pages offer different points of view from qualified PwC experts, conclusions of recent research reports and examples of our work in fiscal year 2006 focused on:

- **Global investment management**
  The investment management industry faces unprecedented change
- **Luxembourg banking market**
  Viewpoints of CEOs on the entity's positioning within their group
- **Logistics, research and development**
  Market opportunities for international companies
- **Luxembourg family-run enterprises**
  Challenges and issues faced by a major pillar of Luxembourg's economy
- **Human capital survey 2006**
  Know where you stand!



"Global Investment Management Survey 2006"
www.pwc.com/lu

Global investment management

The investment management industry faces unprecedented change

The Luxembourg firm greatly contributed to this study as well as to the distribution of its findings, which concern the Luxembourg marketplace particularly. In a survey of 81 investment management organisations, representing aggregate assets under management of USD 9 trillion, more than half of the respondents believe their revenues will grow by 20% or more in the next three years.

Survey findings reveal that chief executives are optimistic about their revenue growth. However, evolving investor demands, weak internal controls and risk assessment strategies, and the disruption to existing distribution channels will present a demanding environment over the next few years.

Investment performance has always been crucial but it is now being evaluated with greater sophistication than ever before by institutional clients. Asset management companies are concentrating on developing sources of alpha[1] that complement their existing strengths and are actively managing investment and research capacity.

When asked what they would be doing to improve performance over the next three years, survey respondents commonly mentioned recruiting and retaining the best employees, but 21% cited recruiting, retaining and motivating talent as one of the biggest challenges they faced. The rise of specialised investment products, such as hedge funds, private equity and real estate and the increasing trend towards the use of derivatives, will also bring further demands for new skills and more sophisticated risk management.

Across the board, survey respondents recognised the importance of distribution but many highlighted a lack of confidence in their distribution strategies. With the distribution power of the Internet growing and existing distributors consolidating, asset management companies are coming under increasing pressure to develop new distribution strategies in retail and institutional markets alike. For the retail market, brand and quality of distribution are critical to winning business but these are two areas in which many investment management companies believe they are notably weak.

Regulatory changes were seen by nearly a quarter of survey respondents as the greatest and most immediate challenge faced. The number of new regulatory requirements introduced has created a significant workload for firms and consequently, a resource drain. Furthermore, survey respondents did not always see the costs/benefits analysis of these new regulatory changes in a positive light.

[1] Alpha: return in excess of the average performance of one or more asset classes.

Outsourcing will continue to play a major role as asset management firms focus on core competencies. While most respondents believe that outsourcing has broadly met their expectations, there was disappointment across a range of specific areas.

The survey suggests that companies are happier to outsource back office functions rather than those which touch customers directly.

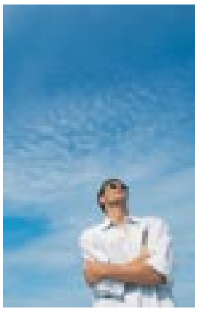
Tax authorities globally have been reducing opportunities for tax planning in the industry. In this light, it was interesting to see in the survey that a significant proportion of respondents will be paying attention to managing tax strategy and tax risk in the next three years.

In conclusion, we anticipate that the asset management industry will look very different in the next five years. Firms are in need of visionary leadership with clear perceptions of where their competitive advantages lie. This need is greatest in the middle ground, among the traditional active managers. Survey findings reveal that the impact on financial players is not negligible.

“The survey’s findings are encouraging well for the Luxembourg marketplace. Players expect significant growth in the cross-border distribution of investment funds and the further success of new products such as private equity, real estate and hedge funds.”

Participant of the 2006 “Luxembourg Banking Market” survey





"Luxembourg Banking Market: Viewpoints of CEOs on the entity's positioning within their group"
www.pwc.com/lu

Luxembourg banking market
Viewpoints of CEOs on the entity's positioning within their group

PricewaterhouseCoopers has conducted an original survey over the period of June to October 2006 on banking market challenges and opportunities among 48 banking entities present in Luxembourg through one-to-one interview meetings with the banks' CEOs.

The main message of this report is that building group business synergies is a vector of growth both for the group as well as for the local entity. The Luxembourg financial market has the excellence, solid growth perspectives and a recognised potential for servicing international investors. There is, however, an "individual" challenge for Luxembourg banks to consolidate the local market strategy and objectives with those of the group; and a "collective" one to act as a community in order to overcome local growth constraints and develop a brand that will help build on the current international recognition of the marketplace.

Some of the Luxembourg opportunities identified by survey participants are:

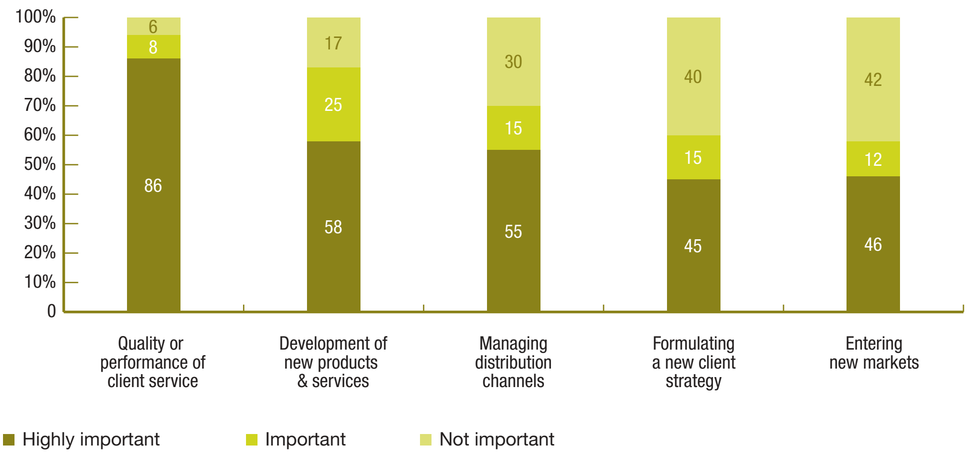
- The private equity industry
- Luxembourg as a hub for private banking
- Custody services for investment funds

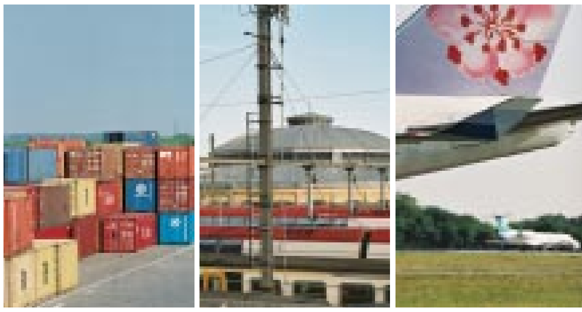
Luxembourg market challenges are analysed through our viewpoint on current growth impediments as well as future drivers for change and development. The priorities for CEOs are considered to be:

- Quality of client service
- Products and services innovation
- Human resources

"Luxembourg is the ideal place for pan-European activities, with strong potential in terms of acquisitions."

Participant of the 2006 "Luxembourg Banking Market" survey





Logistics, research and development
Market opportunities for international companies

International companies looking to develop their operations will find that opportunities abound in Luxembourg. Due to recent developments, two areas in particular should be looked at more closely.

First, things are happening in the logistics sector. Two major projects are likely to cause industrial, commercial and logistics companies to revisit their existing organisation and to enable Luxembourg to play a key role on the European stage.

Under the European VAT “one-stop-shop” system, companies will be able to register for VAT only in their country of establishment in connection with transactions which currently require they register for VAT in other Member States. The VAT number of the company’s country of origin becomes, so to speak, a European passport and its local VAT authorities will communicate the relevant data to the authorities of the other Member States. Nevertheless, the operator will still need to pay the VAT due in those Member States to the foreign authorities.

There is also the new “authorised economic operator”. The companies which apply for this status will have access to simplified customs procedures. It will be easier for these companies to obtain the customs permits delivered by the authorities and they will go through less frequent but more focused inspections.

Once these two projects are implemented successfully at government and company level, Luxembourg companies will enjoy enhanced development opportunities.

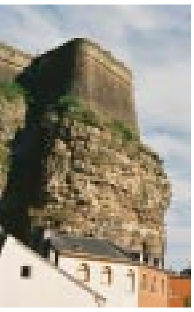
Second, innovation, research and development are also high-growth fields in Luxembourg. Today, a significant number of SMEs and start-ups are choosing to locate in Luxembourg. Luxembourg is the ideal location for high-tech companies or European research centres and the fast support they will get from the authorities will be a key success factor. These companies need to have the right tools put at their disposal (investment incentives, research joint ventures with government-funded research centres, intellectual property issues, etc). Once they have set up their business in Luxembourg, these companies will look for discussion platforms connecting them to other market players and research institutions. Existing clusters[1] such as AeroSpace, InfoCom or SurfMat are there for this purpose. However, they should include a larger number of companies and require active participants.

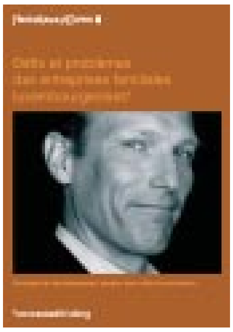
Finally, the many multinational corporations with operations in Luxembourg can also seize the opportunities described above, which might give them new ideas for development.

“It is vital that the lines of communication between the authorities and local players be open permanently, so that legislation may be adapted to help existing and new companies make the most of the opportunities offered by Luxembourg.”

Anne Murrath, PwC Transport and Logistics Tax partner

[1] A cluster is a geographically bound concentration of companies of various sizes (service providers, related industries, suppliers, training centres, research units, standards bureaus or professional associations) which focus on the same objective of developing innovating projects in a given area.





"Défis et problèmes des entreprises familiales luxembourgeoises"
www.pwc.com/lu

Luxembourg family-run enterprises
Challenges and issues faced by a major pillar of Luxembourg's economy

Family-run enterprises[1] have significant weight in Luxembourg's economy as illustrated by the following statistics: of 26,550 companies, we estimate that 20,000 are family-run, employing at least 40% of Luxembourg's total workforce.

Within the framework of a European initiative undertaken by the PwC network, PricewaterhouseCoopers selected a number of Luxembourg's family-run enterprises for its study of the local economy. The results of the study were similar to those revealed in a European PwC study barring few exceptions.

One of the challenges faced by family-run enterprises concerns cost management which is a heightened preoccupation for Luxembourg companies (82%) when compared to their European counterparts (51%). The development of a growth strategy is also a more pronounced concern for 76% of them compared to 49% elsewhere in Europe.

Half of the respondents questioned cited intense competition and the lack of a skilled workforce as major obstacles undermining growth. The price of land and heavy administrative procedures were also mentioned in this vein as well as difficulties in accessing new markets.

The risk of family conflict appears to be more present in Luxembourg family-run enterprises than in European ones. The three main worries identified regard the different priorities active and non-active members of the controlling family give to the issues they face, how the performance of the active members of the family is evaluated and lastly, the settling of disputes when it comes to paying dividends or reinvesting profits into the company.

Patrimonial succession appears to worry the heads of Luxembourg enterprises less than their European equivalents, as the fiscal environment of Luxembourg is more favourable. However, what on one hand is a benefit is a liability on the other, and a favorable economic forecast leads Luxembourg companies to neglect naming management succession of their companies. Whereas 55% of European companies have no succession plan in place, in Luxembourg, this figure rises to 71%.

In conclusion, however significant the aims and problems faced by Luxembourg family-run enterprises, they are still often neglected by decision-makers.

“Family-owned businesses create jobs. They are here to stay and they are financially sound. Therefore, they play a key role in the economy.”

Luc Henzig, PwC public sector partner

[1] In a family-run enterprise, one or many members of the same family enjoys a controlling interest of the company as well as influences how the company is managed and transmitted to the future generation.

Human capital survey 2006
Know where you stand!

The Luxembourg Human capital survey 2005-2006 is the third of its kind. The first was conducted in 2000 and the second in 2002.

All told, 21 organisations covering 16,000 employees and representing several industries – finance, service industry, consumer and industrial products, European institutions and public sector – completed the survey.

The purpose of the survey was to identify the major challenges that HR decision-makers would face in the future, depict the current issues in the Luxembourg market and enable survey respondents to position themselves in terms of HR processes, methods and policies.

Key findings

Luxembourg-based companies operate in a business context which has changed significantly since 2002. It is marked by fierce competition and a booming financial sector.

To face the consequences of globalisation and market liberalisation, companies have rethought their strategies and placed client satisfaction, quality improvement and innovation at the top of their agendas.

The strategic impact of the HR function has intensified. According to 84% of survey respondents, HR strategy is in line with their company's overall strategy and 74% of human resource directors are members of their company's leadership teams.

Surprisingly, companies have reduced their use of shared services centres and outsourcing, in spite of a strong trend in this area identified as early as 2000.

In order to fill gaps in certain HR areas, the HR departments of the surveyed companies beefed up their hiring of qualified staff in the fields of skill management, career development, training and the coordination of HR services to internal clients ("HR contact" or "HR account management").

The "hiring freeze" is now over and companies have been hiring right and left. Specialised and experienced profiles are very much in demand in Luxembourg. However, 48% of respondents admit that they find it difficult to identify and attract the right applicants.

Luxembourg companies invest in training to the tune of EUR 1,060 per employee per year or 3.8 man-days per year, down from the 2002 average of 5 man-days per year. This downturn reflects the economic constraints which adversely affected training budgets in recent years. This trend is now being reversed and 76% of survey respondents say that they intend to increase the number of training hours in the future.

In its conclusion, the survey stresses that HR departments will need to anticipate the changes that companies face to fully play their part of strategic business partners.

"Being forward-looking is one of the keys to achieving success in this fast-paced world. There are still challenges ahead: attract and retain key profiles, develop commitment, and measure how HR impacts on people's productivity."

Bernard Dubois, PwC Human Resource Services and PwC ACADEMY partner

03

Our People: promoting personal development and flexibility

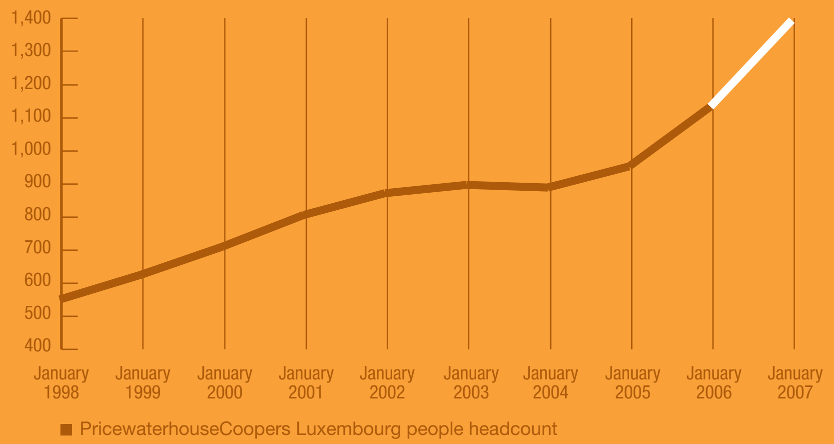
"Being a great place to work remains the key objective of our Human Capital strategy."

Pascal Rakovsky,
PwC Human Capital leader

2006 was a pivotal year from a Human Capital perspective. Intense business activity, strong market growth and ongoing regulatory developments significantly boosted the demand for our services. This in turn, impacted on our needs in terms of more resources. Our rising headcount – an increase of 22% on last year's records – reflects this growing trend (Figure A). These developments are not without their challenges however.

With competition for talents so intense, attracting and retaining people is a primary focus. On that aspect, we are pleased to note that our turnover rates improved this year to reach a level of only 13%.

Figure A – **Headcount evolution**



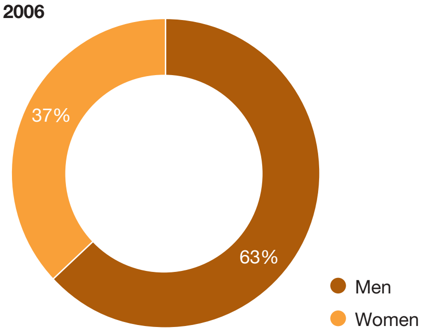
In fiscal year 2005/2006, we recruited over 400 new graduates and experienced specialists along with support teams and we intend to hire at least another 450 in 2006/2007. Behind such figures is a solid belief in the growth of our services to our clients. With this in mind, our search for increasingly diversified profiles is now taking us beyond our neighbouring regions to target Mediterranean, Eastern European and Anglo-Saxon countries.

We are developing academic partnerships with several business schools and universities and we are running recruitment events mostly in Luxembourg, France, Belgium and Germany all year long.

As one of Luxembourg's 15 biggest employers, PwC has also become one of the most contributing employers on the marketplace. When you add to this the fact that a high percentage of our people are proud to be associated with PwC, it is clear why PricewaterhouseCoopers is considered as an employer of choice.

Figure B – **Gender allocation at management level (partners, directors, managers)**

2006



The 26 different nationalities that make up our firm enrich it on a daily basis and illustrate the importance we attach to encouraging and implementing diversity.

The commitment for diversity is also reflected in our gender diversity where we note a more balanced split between men and women in management positions in 2006 (Figure B). Being open to difference is not always easy but it is always enriching. By taking an interest in the "Y generation" as of today, we aim at opening a dialogue with our next generation of people and leaders so as to better understand and anticipate their expectations and the related impact on our organisation.

"81% of the respondents believe they have the opportunity for personal growth and development in PwC"

PwC Luxembourg Global People Suvey 2006

Our people are the backbone of our firm's continued success and expansion. Having quality people not only means attracting the best talents, but also developing our existing pool of competencies. Although acquiring specialist knowledge is an essential component of our development strategy, personal growth cannot be reduced to the acquisition of technical skills alone.

We aim at offering all our people a real sense of responsibility and empowering them with the tools needed to realise their potential (soft, personal development management trainings). This is why we allocate in total an average of 10 days a year to each staff regardless of seniority, grade or competency for learning and development.

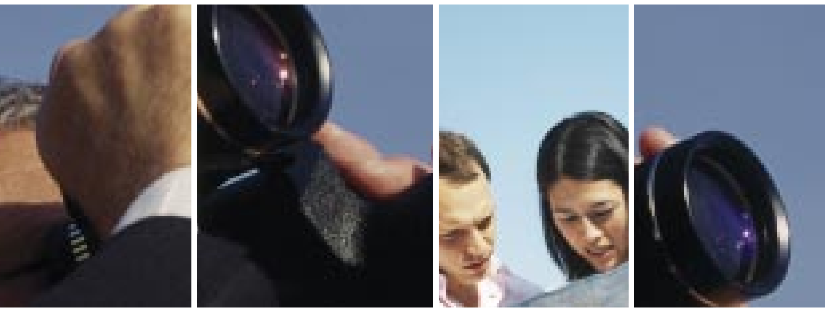
My project

Prepared in 2006, "My project" will be launched in the coming year. As part of this project, time and resources will be allocated to our people who would like to be involved in social or humanitarian projects or associations[1].

The employee's involvement must be for the benefit of social institutions (e.g. foundations, associations) and must take the form of knowledge and skills (not financial aid) in line with the firm's core activities. Basically, our employees will be helping by performing the same type of duties as those performed on behalf of our clients, except that they will provide their services for free.

Employees can either submit their own "My project" or take part in a project suggested by the firm. Our objective is to complete five "My project" in 2007.

[1] These projects must be located in Luxembourg, the Greater Region or in a country that is part of the Luxembourg foreign aid program.



"Flexibility is a responsible commitment between two parties: the employee and the employer."

Vinciane Istace, PwC Human Capital partner

Figure C – **Global long-term mobility programme**

	FY2006	FY2005
Exchanges IN	23	29
Exchanges OUT	33	17
Total	**56**	**46**

Providing our people with development strategies is but one of the ways we build our people's engagement. Encouraging and enabling them to work flexibly is another. In the coming months, we intend in building a framework to house this important subject. Our notion of flexibility allows our staff to bracket their career advancement and in so doing take advantage of other important milestones in their lives. These moments might regard the birth of a child, or taking care of someone close to you or simply taking a 6-month break for a personal project without feeling that your career will suffer. At PwC, we are committed to looking into how this flexibility can translate for our people but also know that for it to work out, the commitment of both parties is needed.

In support of global mobility, the number of partners and staff on international short- and long-term transfers or assignments into or out of Luxembourg grew by 18%. In addition to allowing our people to grow personally, mobility enables the creation of new international business connections (Figure C).

In conclusion, the efforts made by our people throughout the year are clearly behind the record results of 2006 that saw our revenues grow by 21%. Such growth demonstrates the quality, talent and dedication of our teams who have committed to developing their individual talents and then uniting them together to the benefit of our clients.

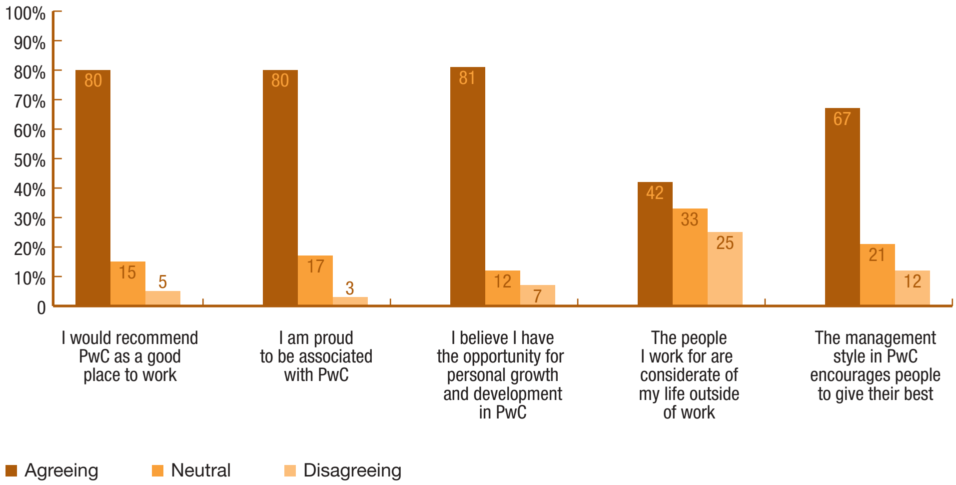
Further to feedback received through the Global People Survey (see below), our people expect a more personalised approach to development and coaching, an increase in the quality of learning solutions offered and more work-life balance opportunities.

We will continue to work on these areas in the coming year and this will form the main projects for our Human Capital strategy in 2007.

Global People Survey[1]

Our annual Global People Survey continued to show positive results for most subjects queried. In Luxembourg, the response rate to the survey rose to 64% compared to 60.6% in 2005. Such results reflect the commitment and the confidence of our staff. We are listening to our people and their opinions influence our Human Capital strategy and inspire our future actions.

Figure D – **PwC Luxembourg Global People Survey results (in %)**



[1] The survey took place from June 5-23, 2006 and covered the entire PwC network. It was conducted by an external and independent provider. The survey's results are shared with PwC staff members in complete transparency.

04
Our performance in 2006

In financial year 2006, we reinforced our position as market leader with 21% growth in our net revenues. Revenue growth was almost the same in financial services (+20%) and in other industries (+24%). This performance is excellent when compared to the overall market. To a certain degree, external factors have contributed to this growth: the strong performance of Luxembourg's economy, thriving financial markets and the arrival of foreign entrepreneurs to our country. However, the increase in our revenues is also the result of our multidisciplinary approach and our solid understanding of client needs and market opportunities in a global economy.

Additionally, the continuous investments we made in creating the dedicated and specialised teams needed to bring our clients the best market expertise available is now paying off.

This is an essential market distinction provided by our local size and by our strong connections to the network.

The following review of market segments provides more details on this year's performance.

Banking sector

Following the growth seen in the financial markets, the Luxembourg banking sector posted excellent results exceeding its historical best of 2002. In fiscal year 2006, our participation in working groups and committees' – for the CSSF and the ABBL for example – contributed to defining the best environment for Luxembourg's implementation of the Market in Financial Instruments Directive as well as the Capital Requirement Directive in 2007.

Investment management

Further to the greater investment freedoms for funds brought about by the UCITS III Directive, our investment compliance services performed well in 2006 as did UcitsEuroFile™ with 10 new clients won. Driven by PwC Luxembourg partners, these services have consolidated their reputation in Europe and beyond. In 2006, we have also invested considerably in anticipating tomorrow's challenges by measuring the impact of the Financial Instruments Directive for the investment management industry. Clients have already provided us with excellent feedback and several large projects are underway. Regarding alternative investments, we have reinforced our dedicated and specialised teams in real estate, private equity and hedge funds in order to meet market growth and win new assignments.

Insurance

Financial year 2006 was a good one for insurance market with an increase of premiums written of 22% amounting to 11 billion. We continued to actively serve the most important clients on the marketplace and helped them develop their cross-border business, seize the best market opportunities as well as address the challenges posed by a changing tax and regulatory framework.

Industrial and commercial companies

Looking for significant business developments and facing organisational and financial challenges, industrial and operational companies required our assistance on many fronts in 2006. We assisted more than two thirds of Luxembourg's top 50 companies thanks to a team dedicated to this market segment and the involvement of European specialists when required. Throughout the year, we have also continued to support the Luxembourg government in its efforts to improve the attractiveness of Luxembourg in the following sectors: logistics, biotechnology, e-commerce, intellectual property and flagship.

Regarding family businesses, we have conducted the first ever study of this important pillar of Luxembourg's economy this year. Well received, the study details things that can be done by Luxembourg family business to ensure the sustainability and development of their enterprises and is based on our experience in Luxembourg and in the network (more on page 12).

Public services and European institutions

Involved in numerous thought leadership initiatives with local administrations, PricewaterhouseCoopers Luxembourg shared its best practices and resources for public sector management in Europe in such areas as e-health, public private partnerships, etc. Our contacts and projects within the Greater Region are developing at a regular pace and illustrate our increasing economic integration with our neighbouring countries. Thanks to our active collaboration in our global network, we also continued to serve European institutions in the fields of audit, training and performance improvement.

"The important growth in all our Competencies contributed to improving our competitive position on the local market."

Marc Saluzzi, Market leader

Audit

Despite our very strong Audit market share, we further reinforced our competitive position in 2006 by winning new assignments and significantly increasing our net revenues by 19%.

Tax

Our ability to take advantage of the opportunities provided by market growth (+60% turnover in the past 2 years) was possible because we invested considerably in hiring new recruits and in retaining our experienced professionals. Having the necessary resources on hand has allowed us to follow market growth in many segments and respond to the new opportunities this brings. For example, international groups, benefiting from a strong economy, have been active in optimising their overall tax positions. Luxembourg has also established itself as a key player in two booming markets: the pan-European movement towards real estate securitisation and in the private equity world. Finally, the local financial and non-financial markets have been requesting up-to-date and to the point specialist advice. The next step would consist in showcasing the attractiveness of Luxembourg for quoted companies, thereby helping them close the gap with private equity players.

Advisory

Owing to the strong performance of Luxembourg's financial services sector, we successfully helped our clients meet their new business and regulatory challenges. Throughout the year we helped them with their transaction and post deal integration services needs, strategic and risk reviews and process improvement projects. Outside financial services, our focus on the European institutions is starting bear fruit and the future looks promising.

Figure A
PwC Luxembourg share of total revenues by sector FY0506

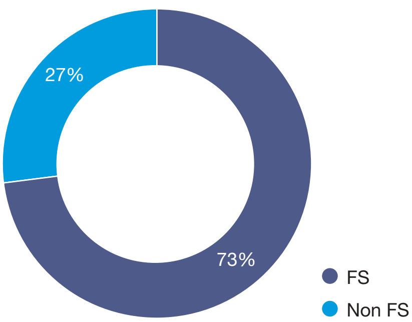
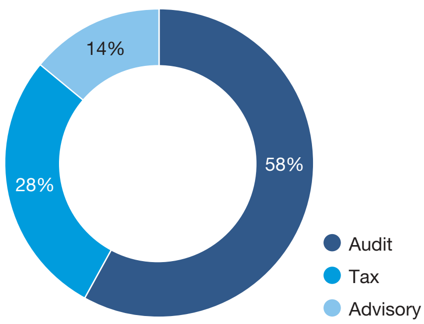
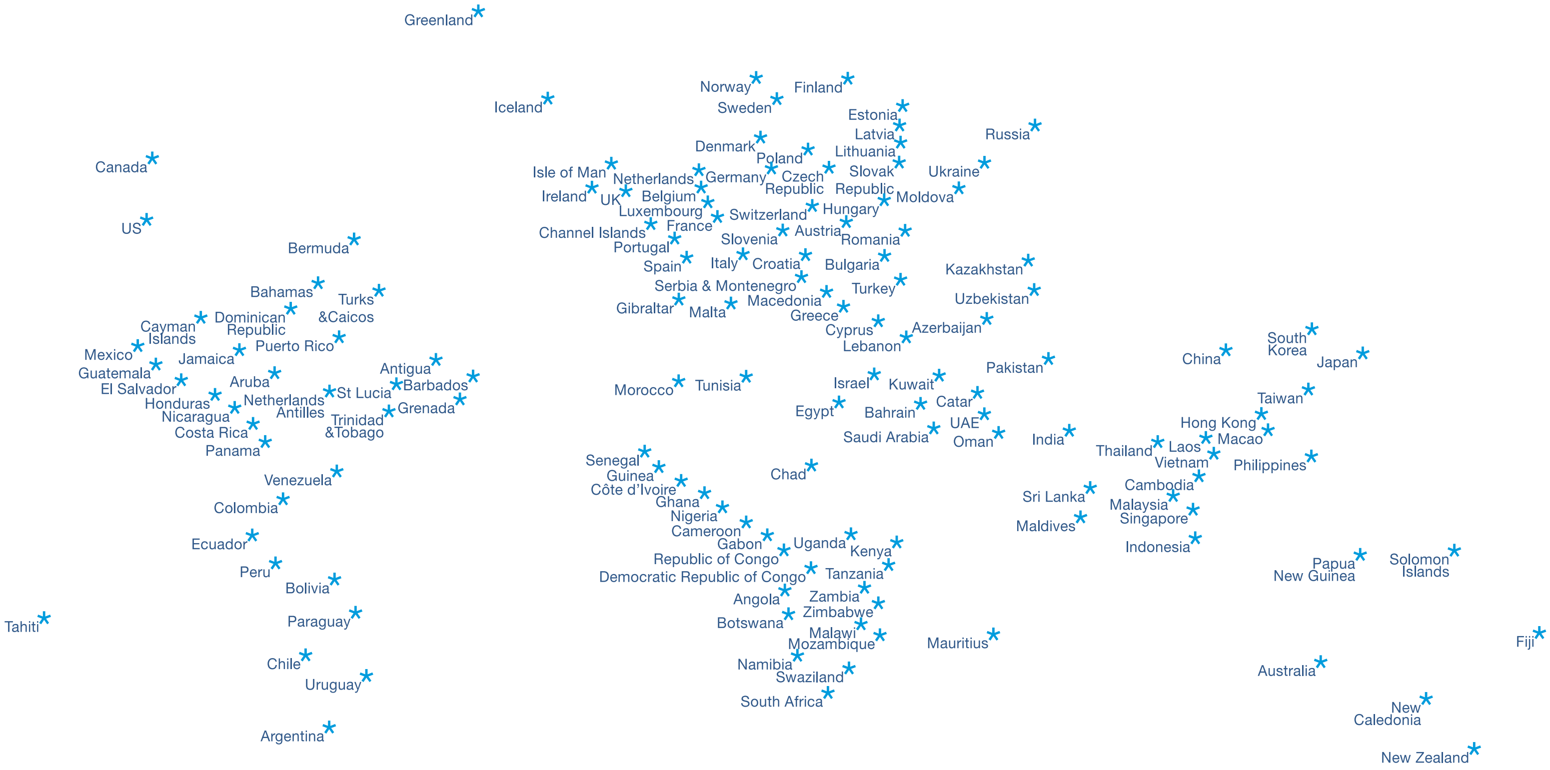


Figure B
Share of Advisory, Audit, Tax in the total revenue FY0506



Member firms share skills, knowledge and resources to deliver quality services



The global PricewaterhouseCoopers network creates a platform on which member firms share knowledge, skills and resources, seeking to deliver services of consistently excellent quality to clients across the world.

This sharing of experience and industry knowledge is driven and supported by our philosophy of Connected Thinking*, through which we add value for our clients across our global network.

Providing **clients** with deep expertise and quality

Our size, a competitive advantage

PwC is a contributor to the development of local markets as more than 25 people of PricewaterhouseCoopers Luxembourg participate substantially in all major local professional associations, public bodies and technical commitees such as IRE, CAA, CSSF, ABBL, ALFI, FEDIL, ALGAFI, ALCO, CODEPLAFI… as active participants in working groups or even at board level.

Network

We count more and more of our leaders holding positions at the international level which enables direct involvement in our network decision making process.

Our involvement in the Learning & Education projects of the Eurofirms has continued to promote the Luxembourg office. For example, TASC (PwC's European Training Administration Service Center) started in July 2005 and has already organised nearly 100 Eurofirms courses for more than 4,000 participants.

Luxembourg leaders at international level, July 2005-July 2006

Marie-Jeanne Chevremont-Lorenzini	Eurofirms Board Member & People and Partner Development Leader
Didier Mouget	Global Board Member
Olivier Mortelmans	Eurofirms Advisory Leader
Marc Saluzzi	Eurofirms Investment Management & Real Estate Leader
René Beltjens	Eurofirms US Outbound Leader

05
Our partners

Country Leadership Team


Marie-Jeanne Chevremont-Lorenzini[1]


Marc Saluzzi[1]


Didier Mouget


René Beltjens


Pascal Rakovsky

Rima Adas
Audit, Banking

Valérie Arnold[3]
Audit, Investment Management

René Beltjens
Tax, Tax leader

Thierry Blondeau
Audit, Investment Management & Real Estate leader

Etienne Boulard
Tax, Private Equity

Emmanuelle Caruel-Henniaux
Regulatory, Banking

Marie-Jeanne Chevremont-Lorenzini
Audit, Territory Senior Partner

Valéry Civilio
Tax, International Tax Structures

Laurent de La Mettrie
Tax, Investment Management

Olivier de Vinck
Regulatory, Investment Management

Sami Douénias
Tax, International Tax Structures

Bernard Dubois
Advisory, Human Resource Services

Philippe Duren
Audit, Industrial and Commercial companies

Mark Evans[3]
Regulatory, Investment Management

Amaury Evrard
Audit, Real Estate

Laurent Fedrigo
Audit, Investment Management

Laurent Garzino
Tax, Investment Management

François Génaux[3]
Advisory, Investment Management

Michel Guilluy
Tax, Banking

Kees Hage
Audit, Real Estate

Luc Henzig
Audit, Public Sector leader

Vinciane Istace[3]
Human Capital

Claude Jacoby[3]
Audit, Insurance

Pierre Krier
Audit, Banking

Jean-François Kroonen[3]
Corporate Finance, Private Equity

Véronique Lefebvre
Audit, Industrial and Commercial companies

Jean-Robert Lentz
Audit, Investment Management

Steven Libby
System & Process Assurance, Investment Management

Vincenzo Lomonaco
Advisory, Industrial and Commercial companies

Gian Marco Magrini
Advisory, European Institutions leader

Mervyn Martins
Audit, Industrial and Commercial companies

Laurent Marx
Audit, Investment Management

Cécile Menner[3]
Tax, Real Estate

Roland Mertens
Tax, Banking

[1] Until December 31, 2006.

Valérie Piastrelli[2]

Thierry Blondeau[2]

Luc Henzig[2]

Wim Piot[2]

Marc Minet
Audit, IFRS

Olivier Mortelmans
Advisory Eurofirms leader

Didier Mouget
Audit, Chief Operating Officer & Assurance leader

Anne Murrath
Tax, Industrial and Commercial companies

Paul Neyens
Audit, Insurance leader

John Parkhouse
Audit, Investment Management

Valérie Piastrelli
Audit, Investment Management

Géraldine Piat[3]
Tax, International Tax Structures

Philippe Pierard
Audit, Industrial and Commercial companies

Wim Piot
Tax, Real Estate

Christophe Pittie
Audit, Investment Management

Anne-Sophie Preud'homme
Audit, Real Estate

Didier Prime
Audit, Investment Management

Laurent Probst[3]
Knowledge, Marketing & Communication

Pascal Rakovsky
Audit, Industrial and Commercial companies, Human Capital leader

Odile Renner
Regulatory, Investment Management

David Roach
Tax, Real Estate

Michiel Roumieux
Tax, Human Resource Services

Catherine Rückel
Audit, Real Estate

Marc Saluzzi
Audit, Market leader, Eurofirms Investment Management & Real Estate leader

Serge Saussoy
Tax, Industrial and Commercial companies leader

Marc Schernberg[3]
Audit, Investment Management

Thomas Schiffler
Audit, Banking

Philippe Sergiel
Audit, Banking leader

Günter Simon
Audit, Securitisation

Kerstin Thinnes
Tax, Banking

Luc Trivaudey
Tax, Industrial and Commercial companies

Gilles Vanderweyen[3]
Audit, Industrial and Commercial companies

Patrice Waltzing[3]
CFAO (Chief Finance and Administration Officer)

Marianne Weydert[3]
Audit, Banking

[2] As of January 1, 2007.

[3] Co-opted as from July 1st, 2006.

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