

Keyword

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A view from the top

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Summer 2009_Vol. 03

Energy and
persistence alter
all things.

— Benjamin Franklin



Bob Moritz

I'm looking forward to beginning my tenure, especially during these challenging economic times.

Quality remains the cornerstone of who we are, and we will continue to focus on bringing greater quality to our clients, our communities and our alumni.

It's my pleasure to take this opportunity to introduce myself to you, our alumni community. Recently, I have been elected by my fellow partners as PwC's US chairman and senior partner for a four-year term. As some of you may know, I have led the Assurance practice since 2006, previously served as managing partner of the New York office, and prior to that, I led the financial services practice. I am honored to succeed Dennis Nally, who after seven and a half years of leading the US firm will begin a four-year term as global chairman of the PwC network.

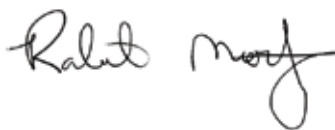
As I look ahead to next year, I know we need to continue to bring the best of PwC to the marketplace in an economy that remains unsettled. We've laid a lot of groundwork this past year in preparation for what we recognize will be an even more challenging year to come. For my part, I'm looking forward to beginning my tenure, as I see these challenges leading to more opportunities for our clients and PwC.

Quality remains the cornerstone of who we are, and we will continue to focus on bringing even greater quality to our clients, our communities and our alumni. We'll continue to provide updates on what's happening with PwC and your fellow alumni through publications like *Keyword* and our monthly electronic newsletter. We want to make sure we help you stay connected and informed on topics that are relevant to you and your business. We will also keep you informed about the services and tools available to you to raise your own game, so that you can develop to your fullest potential and grow as we grow.

This energetic issue of *Keyword* concentrates on issues specific to the energy, utilities and mining industries. But it does so with a consideration for hot topics like the roles and responsibilities of boards of directors, the importance of workplace diversity, and today's difficult employment picture. Our alumni work in a wide variety of industries, and I am encouraged by the collective steps we all are taking to solve some of today's thorniest issues. I am happy to see PwC alums rolling up their sleeves to lead.

I hope you will find this issue of *Keyword* both entertaining and insightful, and I look forward to building on our relationship over these next four years.

Regards,

A handwritten signature in black ink, appearing to read "Robert Mory". The signature is fluid and cursive, with the first name "Robert" written in a larger, more prominent script than the last name "Mory".

Chairman and Senior Partner, PricewaterhouseCoopers US firm

Keyword sits down with PwC alumni in the energy industry for some honest talk about powerful issues from the board room to the factory floor.

Help wanted: Fran Van Kirk An exclusive PwC interview

PG_06

Where will innovation and investment spark job growth? What advice do you have for younger executives? After 35 years at PwC, a seasoned alumnus answers our questions about executive search and employment.

Mining value in tough times

PG_10

Managing any business through the economic downturn brings both challenges and opportunities. In this abstract from a longer paper on the global top 40 mining companies, PwC shares its thoughts on mining value in tough times.

Empowered women

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Three PwC alumnae share their stories and their thoughts on leadership as they continue to excel in the energy and utilities industry.

Thought Leadership: PwC's research and point-of-view publications

PG_46

Each year PwC publishes industry-specific intelligence and cutting-edge thinking on the issues most likely to impact your organization. Learn about recent publications and see how you can access more research online.



A view from the top

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How do these board members and PwC alums balance oversight responsibilities without overstepping? And what's their outlook for the energy industry?



Renewable opportunity

PG_34

With the wind at their back, we thought it was a great time to sit down with a few PwC alums helping to light up the renewable energy industry.

Help wanted: Fran Van Kirk

A PwC alumnus shares his perspective
on job transition in today's economy

Thanks to their specialized skills, finance and accounting professionals have historically been safeguarded from company downsizing. Not this time. Today employment numbers are down across the board, and the job market is flooded with highly qualified candidates. But, opportunities to innovate abound—particularly in the energy and utility sectors. Job seekers need a clear view of the employment landscape as they chart their course to new and better positions. For an insider's take, we turned to Fran Van Kirk, who spent 35 years at PwC and is now a partner in the Philadelphia office of Heidrick & Struggles, an executive search and leadership consulting firm.

How has the downturn affected finance and accounting employment?

No question, it's been dramatic. First-quarter numbers for 2009 show that all industries are down 40 percent. It's even affected search firms like ours. In the past, companies typically have held on to their finance and accounting people even in tough times. But economic activity has slowed to the point that many companies are cutting a flat percentage of their workforce, regardless of individual roles. That means that the finance profession is participating in this employment downturn in greater numbers than before. The good news is that the finance and accounting skill sets remain very important during a downturn. So there is opportunity out there, but you need to be flexible. Now more than ever, businesses need people who can really understand operations and the finance side of the house.

Which areas or industries show the greatest potential for job growth?

The greatest potential is with small and medium-size technology companies. This group hasn't been as dramatically impacted. In particular, energy technologies are exploding. Solar, wind and other forms of clean tech are leading the way. This group will benefit greatly from government initiatives in this area. It's sort of uncharted territory, but we should see substantive new businesses come out of it, especially in biofuels, chemistry and generating energy from waste disposal. We're getting a number of inquiries about placing people to help lead, develop and shepherd investments in the new energy and renewable energy space.

I think the President is trying to shift the emphasis away from Wall Street toward science and true engineering to make the country's industrial base more competitive. Because of this shift, candidates with strong science and engineering backgrounds are in demand, as well as entrepreneurial sales and marketing types. Basically, people who can develop a vision of something new and make it happen.

I expect healthcare employment will also continue to be strong, particularly with new service, product and device companies. In fact, the Bureau of Labor Statistics estimates that the industry will generate 3 million new jobs between 2006 and 2016, more than any other industry.





Left and below: After 35 years with PwC, Fran Van Kirk is now a partner at Heidrick & Struggles, the executive search and leadership consulting firm.



How has the search process for senior financial executives changed over the years?

The job search process has become a little more complex for finance and accounting positions. Since fall 2008, job candidates have become a lot more reluctant to pick up and move their families. When the economy is down, it can feel safer to stay put with a company you know, and where you enjoy tenure, than to take a leap to join a new one. Senior executives are often entrenched in their communities. They might have family connections or children in school, or they may be active on non-profit boards. When you add the poor economy and an uncertain real estate market, it becomes very difficult to get someone to move.

And, from an employer's side, while the investment in relocating an executive is relatively small, the cost of moving the wrong person is huge. They need to be sure that an individual's prime motivation is not just to find work, but to make a difference in and add value to the company. Candidates interested in changing locations should communicate a compelling interest in the company. And, if they have any ties to the new location, they should make those clear too. Companies might be more comfortable with someone who knows what they're getting into.

What advice do you have for younger executives developing their careers?

Several things can help your progression and make you more marketable. First, I recommend taking your education advancement as high as you can—graduate-level degrees can be a real boost.

Get global experience. Live abroad. And get a good mix of both operating and financial experience.

Stay deeply involved in networking and professional organizations, and continue to build your network even in good times. Make an effort to help other people looking to expand their networks when you can, as that will pay dividends for you later. Along with that, give something back to the profession to gain the respect of your peers.

Finally, take a long-term perspective on your career as you consider a new position. It might not be the optimal location or title that you want, but it might be a step in the right direction.

Mining value in tough times: PwC assesses how mining companies can respond to the current economic reality

For the mining industry, 2008 began with a boom. Demand was on the rise, prices soared to record highs, companies invested heavily in capital projects and shareholders enjoyed substantial returns. For the top 40 mining companies worldwide, cash flow from operations increased by 25 percent from 2007—exceeding \$100 billion for the first time—and revenues increased by 23 percent year-on-year. Then, in the last quarter of 2008, this profitable picture began to fade fast.

PricewaterhouseCoopers, which audits 32 percent of the world's mining companies with more than \$1 billion in revenues, recently reviewed the state of the industry, including potential ongoing risks and opportunities. Although global economic distress continues, managers can play an active role in maintaining long-term goals while tackling short-term challenges. Those who do can fend off margin erosion and build stronger, more nimble and ultimately more competitive businesses moving forward.

Leadership: managing a shift in priorities

As the economic crisis developed, commodity prices fell sharply. Shareholders lost confidence, refinancing options for short-term debt payments became scarce, and market capitalization of the top 40 global mining companies dropped 62 percent, compared with a 38 percent decline in the S&P 500. In the first quarter of 2009, 14 of these top 40 companies announced mine closures, cut production, or placed mines on care and maintenance programs, and \$13 billion in capital expenditures was deferred or canceled.

Some companies have fared better than others. Gold, for instance, has been the least impacted, thanks to the public perception of the commodity as a safe haven and wealth protector during a downturn. But no one has been spared from increased operating costs and a general uncertainty about when and how the economy will rebound.

During the industry boom, mining CEOs focused their energy on managing capital expenditure programs and ensuring they were delivered on time and on budget. Now, as the economic situation has changed, so have the CEOs' priorities. Those who run strong companies must work on reducing operating costs to maintain margins in the face of lower commodity prices and demand. Those at the helm of companies with heavy debt burdens find themselves in a defensive position, fighting to secure financing to stay afloat in the short term.

All must take steps to operate at the lowest possible cost and repair the shaken confidence of shareholders. This will require decisive action and, in many cases, creative thinking. For example, the continued tightness in the credit markets and the leverage positions of many top mining companies will continue to make long-term financing difficult to obtain. To support current operations and future expansion, companies may need to seek alternative sources of non-bank funding, through strategic partnerships, share or rights issues, sales of non-core assets, and sales of royalty streams.

Talent: the most valuable commodity

Although CEOs must eliminate costs to ensure short-term viability, they must also take care not to cut too far and harm the company's long-term agenda. Given the lengthy timeline of mining projects and associated capital commitments, reducing costs will require re-examining project feasibility and making some difficult decisions. To do this, CEOs need motivated and experienced management teams to support them—a requirement that presents its own challenges.

Bolstered by the boom, many seasoned senior managers cashed in their options and left the industry, leaving less-experienced managers to run what have become more complex businesses. CEOs must find ways to reward and retain talent while being sensitive to public perceptions of excessive executive compensation. To do this, they have several options for how to structure compensation packages.

For example, while companies recognize the motivating power of an annual performance bonus, it may be unpopular with shareholders. Deferring part of the increased bonus into shares over the long term could encourage sustainability of short-term performance. Equity-based long-term incentives may be more palatable to shareholders, but they tend to be complex and less valued by employees, and they don't typically recognize average performance. Offering graduated, long-term incentive plan payments over a wider range of performance would reward more employees

and still address shareholder concerns. Finally, for executives whose compensation is not disclosed to shareholders, there is a trend toward granting the more modest restricted-share awards that are subject to continued employment rather than complex performance conditions. The share award has value to the employee even if the share price has gone down, which enhances retention value and aligns with shareholder expectations.

Flexibility: the key to securing value

For mining executives managing multibillion dollar capital expenditure programs, the inconsistency between a long-term outlook and short-term uncertainty creates a particularly difficult challenge. Recent capital expenditure reductions and deferrals could help preserve cash in the short term. But, they could also leave companies vulnerable when demand increases and may limit their growth options as conditions improve in the medium and long term. If companies cut expenditures too far now, considerable investment will be required to fund capital pipelines when prices rebound.

With so many unknowns, flexibility is key. Companies must stress-test capital expenditure plans under different industry scenarios and be prepared to adjust in response to market changes. They should renegotiate contracts to insert flexible budgeting structures, allowing them to take advantage of lower prices of energy-related costs and materials now and limit increases in the future. And, organizations should adopt a broad approach—looking beyond the engineering

mindset—to keep project options open once construction has begun. They can create and then integrate flexibility in a number of ways.

First, companies should explore different levels of scale and modular development options before projects begin so they can react seamlessly to any change in plans. Along the same lines, companies should consider designing multiple project paths so a project team is ready to increase speed or slow down in line with market developments. And, mining firms should negotiate flexible contracts with contractors and suppliers so prices, tariffs, volumes and scope of services are changeable within known rules and costs.

Sustainable development: long-term success

It's easy to maintain focus on sustainable development objectives during a rising commodity cycle. But in a downturn, it can be difficult to move forward with a strategic emphasis that provides no immediate benefit to the bottom line. Companies should beware of lumping sustainable development programs in with wider cost-reduction efforts, as they could expose themselves to greater risks down the road.

Mining company leaders should not lose sight of the importance of both sustainable initiatives and corporate social responsibility as they seek new ways to reduce operating expenses. Challenging times provide an opportunity to strengthen relationships with the communities in which mining companies operate and to engage more deeply

with their shareholders. Trust gained during trying times will strengthen a company's position in the future.

An area no mining company can afford to ignore is fresh water. According to the International Monetary Fund, more than half of the world's available fresh water is already in use, and by some estimates, that portion could increase to 90 percent by 2025. Mining operations need fresh water for cooling and processing, and water is a byproduct of many mining processes, which raises water quality issues for surrounding communities. Mining companies can differentiate themselves from competitors by demonstrating an understanding of water catchment issues, identifying efficient solutions that allow mining operations to coexist with local communities, and disclosing information about water risks and the strategies for managing them.

Another important area of focus should be maintaining robust health, safety and environmental policies, even when resources are limited due to reduced headcount and scaled-back operations. Companies must also ensure sustainability priorities throughout the supply chain. For example, if a contractor defers maintenance on machinery to keep costs down, the risk of equipment failure and potential environmental or social consequences increases. And, in the interest of long-term viability and transparency, companies should stress-test and, if necessary, publicly recalibrate sustainable development targets to align with economic realities.

CEOs who take up the challenges presented today by building leaner, more flexible and more transparent organizations will create value for their companies. These leaders will be poised to grasp new opportunities when the current economic clouds have cleared.

Perspective: making the most of the downturn

Although it's understood that buying low in a downturn is a wise investment move, few companies actually do it. Most investments in capital-intensive industries require a positive economic environment, and when bad news abounds, investors retreat. For those who are game to acquire assets at bargain prices, funding options are scarce and expensive. Still, signs of a long-term recovery have surfaced, making mining investments particularly attractive.

Before the current downturn, China's seemingly insatiable appetite to feed double-digit growth spurred ambitious expansion strategies and deals. While the flurry of expansion has slowed, industry observers still believe that industrialization and urbanization in China, India and other emerging countries are critical to the underlying long-term demand for commodities. China still targets an 8 percent growth in GDP in 2009, and no one expects the country to halt its economic development. The Chinese government announced a 4 trillion yuan (\$586 billion) stimulus package that is to be spent by the end of 2010, and stimulus packages enacted by governments in North America, Europe and Japan could also create demand, increase economic activity and have an impact on mining revenue.

Indeed, government support of mining activity is crucial to both the industry and to the governments themselves. In 2008, PwC introduced the concept of Total Tax Contribution, which provides a standardized methodology to measure a

company's real tax contribution to governments. Using this framework, the results of a PwC study of 14 of the largest listed mining companies indicate that the average total contribution to a single government in a year is \$743 million.

Government stimulus packages, combined with production cuts and project deferrals that could reduce supply enough to drive prices back up, could help the mining industry recover more rapidly than other sectors. CEOs who take up the challenges presented today by building leaner, more flexible and more transparent organizations will create value for their companies. These leaders will be poised to grasp new opportunities when the current economic clouds have cleared.

Empowered women

Three PwC alumnae shed light on leadership in the ever-changing energy industry





Karie Anderson

Anderson uses her inclusive leadership style to build consensus and contribute to her company's success.

Right: Millicent Chancellor finds both challenges and rewards at Halliburton. *Below:* Alyson Mount encourages people to bring their ideas to the table so that everyone can gain a different perspective.

As the energy industry becomes increasingly diverse and global, women are filling more and more top positions. Meet three women—Millicent Chancellor from Halliburton, Karie Anderson from Exelon and Alyson Mount from Entergy—and find out how their experiences shaped their leadership style.

Millicent Chancellor

Senior Director of Finance, Global Operations, Halliburton

In 1991, when Millicent Chancellor was interviewing for a position at Halliburton, she asked to meet a woman executive. There weren't many. Today, women hold several leadership positions at the company, including positions in the finance area such as the vice president—corporate controller and principal accounting officer, the vice president for internal audit and controls, and Chancellor herself, who is senior director of finance for global operations.

Chancellor joined Houston and Dubai-based Halliburton, one of the world's largest providers of products and services to the energy industry, after 12 years with PricewaterhouseCoopers. In January 2008, she was promoted to her current position as senior director, overseeing the financial side of operations in 70 countries.

Moving up through Halliburton, first on the executive management team of a division at Brown & Root, a Halliburton subsidiary at the time; then as the vice president for finance at Landmark, a

software and services provider that is part of Halliburton, Chancellor developed a leadership philosophy rooted in the idea of service and a belief that people want to excel.

"I view myself as being a servant to my team," she explains. "I'm there to help them do their jobs the very best they can. I work the same way with my internal customers, whether it's the president of a business unit or the CFO."

Chancellor herself has long admired that style of leadership. At Landmark she worked with a president who made a lasting impression on her. "What I most admired about him was his focus on creating an organization that could achieve. He made sure we all shared the same goals as a team, and at the same time, he also showed that he valued diversity in thinking. By encouraging team members to challenge one another and our direction, he actually made our commitment to the shared goals stronger. That really enlightened me. Ultimately, it was one of the things that motivated me to go back to business school." She earned an MBA at Duke in 2003.

Although she has taken part in formal mentoring programs, Chancellor also considers informal mentoring part of her responsibility as a leader. "One way of doing that is to reach down one level below your managers," she says. "I know and work personally with everyone who reports to each of the people who report to me."



I have learned a tremendous amount by having to take on things outside my comfort zone and do my absolute best to get them done.

— Alyson Mount

This year, Chancellor is one of about two dozen executives chosen by the president of the company for the President's Leadership & Excellence Program, a one-year intensive executive training program. "The focus is on enabling each member to learn more about the company as well as develop new leadership skills," Chancellor explains. "I'm very excited about seeing different aspects of the company. We'll have the chance to engage with top executives and get their perspectives on critical issues and strategic opportunities."

Chancellor does not hesitate to recommend the energy industry to other women, even to those who may not have considered it. "There are many opportunities in an industry that literally keeps the world moving," she notes. "Just like other major industries, energy requires a full range of talents, including financial types, HR and legal. Energy is a business; it's not just engineering."

Karie Anderson

Vice President, Investor Relations, Exelon

When Karie Anderson joined Exelon in 2003, she learned about the industry quickly by working across the utility sector on accounting policy. Now, as vice president of investor relations, she is the face of Exelon with institutional investors and Wall Street analysts.

Chicago-based Exelon is one of the nation's largest electric utilities, with approximately \$19 billion in annual revenues, and the largest market

capitalization in the sector. For that reason, Anderson considers herself an advocate for the industry as well as the company. Exelon operates the largest number of nuclear power reactors in the United States and has a major sustainability initiative that anticipates Exelon offsetting, reducing or displacing its entire carbon footprint by 2020. Part of Anderson's job is to communicate the value of nuclear as a low-cost and low-emission technology to investors.

Anderson joined Exelon after seven years at PwC, where she helped smaller, early-stage technology companies obtain financing, including accessing the capital markets through initial public offerings. Exelon gave her an invaluable opportunity to build on her abilities. "In large companies, you need skills around building consensus, having a transparent process and incorporating thinking from multiple viewpoints," she explains. "That's something I've had the opportunity to learn and continue to work on."

One thing Anderson has learned is that the most effective leaders are flexible. "To me, leadership is about steering an organization or group to collectively produce results above and beyond what each could do individually. Sometimes that means standing in front of the group, and sometimes it means standing shoulder to shoulder. A leader who can adapt to different circumstances often gets the best performance out of their team."

She benefited from two Exelon leadership-training efforts—an internal training program and employer-sponsored tuition benefits that enabled her to complete her MBA at night at the University of Chicago. Along the way, she also realized that she brought an inclusive leadership style to Exelon that could be an asset to the company and her team. “There’s a component to leadership that is about connecting emotionally and making your team feel they’ve contributed to the company’s success,” she explains.

Anderson draws on her own experiences to advise others seeking leadership positions: “In the long run, it’s important to develop a skill set that prepares you to pursue any leadership role. Try positions that are new or different, that challenge your skills in new ways. These experiences can be the most valuable preparation for future leadership roles.”

Alyson Mount

Director of Accounting Policy and Research,
Entergy Corporation

In 1997, Alyson Mount was a senior associate at PwC assigned to help her client, Entergy, a large utility company based in New Orleans, with the purchase of the utility that provided electric generation to the London, England area. Her job was to coordinate audits for three years of financial statements and convert the statements from UK to US accounting standards. She was working with an aggressive timeline, limited instruction and unfamiliar subject matter.

Yet Mount and her team got the job done on time—and she even got a promotion during the course of the project. “Looking back on it now, I see it was really an accomplishment,” she reflects. “It seemed overwhelming, but ultimately we were able to work through it. It was a confidence builder.”

That challenge and others like it helped Mount develop her leadership skills and philosophy. “I have learned a tremendous amount by having to take on things outside my comfort zone and do my absolute best to get them done,” she says.

Mount says her family instilled the requisite accountability that drives her day-to-day work. She credits her education for opening the right doors and considers her time in public accounting

invaluable in shaping her professional skills. “Public accounting is where I was able to gain the confidence necessary to manage projects and issues successfully,” she observes. “That experience also helped me figure out how to be inquisitive and learn in a professional environment. In order to move forward, I think that you need to continuously be learning new things.”

In her 10 years with PwC, Mount often worked with energy and utilities clients. In 2002, she joined Entergy, the second-largest nuclear power generator in the US, which today delivers power to 2.7 million utility customers in the southern United States and has more than 14,000 employees.

As director of accounting policy and research, Mount directly supervises six people. As a leader, she aims to empower her team and foster collaboration. “In a position of responsibility, there is a balance in helping an individual develop and grow. Part of the job requires providing guidance and direction, but part of it is letting go. You have to be willing to let people find their own way,” she says.

She particularly appreciates collaboration with people who think differently than she does. “I tremendously value the team that I work with and encourage others to bring their own ideas to the table. It helps me to learn and gain a different perspective.”

Although the energy industry is often perceived as male dominated, Mount has never felt disadvantaged as a woman. She believes diversity of all kinds is a boon to the industry: “Whenever you have a different perspective—it can be a different gender, or race or age, or just different opinions—it is very helpful to the decision-making process.”

For those seeking to advance to leadership roles, Mount offers an approach to work that has served her well: “It is important to not only identify issues but also come up with possible solutions,” she remarks. “When people see that you can get things done and they trust the manner in which you do it, you are given more opportunity and responsibility.”

Three directors

Steve Finley, Henry Houston
and James Crump at the
Petroleum Club, looking out
across the Houston skyline.



A view from the top

Energy directors reflect on the state of the oil and gas industry and discuss how to make a difference in the boardroom



Exploration and production is not something you can take a picture of, like a manufacturing plant or retail store. Unless you understand the risk that's involved in drilling and how commodity prices work, it's hard to be successful.

— Henry Houston

James Crump and Henry Houston met in Chicago in July 1962. As members of the same audit entry class, they spent a month together kicking off professional careers that would take them to leadership positions in the energy field. Houston spent seven years at PricewaterhouseCoopers and went on to serve as controller, chief financial officer, president and director for businesses such as C&K Petroleum, KP Explorations, Black Hawk Oil Company and Southdown, Inc. Crump remained with PwC, where he eventually became the first chair of the firm's global energy practice.

Right: Houston understands that the relationships he has built in the past offer him opportunities in the future.

Although their career paths diverged, today, both men are active on the boards of directors for companies in the oil and gas sector. In January, they reconnected at PwC's Energy Board Network Roundtable, where they joined other directors to discuss how board members can provide guidance to energy companies in a volatile economy.

Steve Finley, another PwC alumnus who serves on a board with Crump, has participated with Crump and Houston in other roundtable events. Finley joined PwC in 1975 and then went on to join oilfield services company Baker Hughes Inc. During his 24-year career there, he was a financial manager at several of the company's operating divisions, vice president and controller, and eventually senior vice president of finance and administration and CFO. Recently, the three colleagues sat down with *Keyword* magazine to discuss their experience as board members and their insights into the energy sector.

In addition to their PwC background, the men share some notable common bonds. Each has a long history working in the oil and gas industry in the Houston, Texas, area. And all agree that their experience and the relationships they built were significant factors that led to their current board positions. For example, Houston, with his extensive industry background, was approached four years





Left: After a full career at PwC, James Crump sees the relationship between management and board members as a balancing act. *Below:* Serving on the board at two public companies and one private one, Steve Finley has his finger on the pulse of the oil and gas industry.



We are not management. But, our role is to make sure there is a tone at the top that filters down into the organization.

—James Crump

ago to join the board of startup Rosetta Resources, an exploration and production company focused on domestic natural gas.

“They were looking for someone to be audit committee chairman, and my background in accounting and finance was a natural fit,” he explained.

“The opportunity came to me through a personal acquaintance. I had been the CFO of a public company run by the father of one of the principals at Rosetta. He called and asked if I would do it.” Houston recently gave up leadership of the audit committee and is now non-executive chairman of the board.

Houston’s recruitment experience rings true for Finley, who serves on the boards of two public companies—Newpark Resources, primarily a drilling fluids company, and Exterran Partners, L.P., a master limited partnership in natural gas compression—as well as the privately held Total Safety, which provides safety products and services to refineries and upstream oil and gas drilling contractors. Referrals from business contacts led to all three positions. The Newpark Resources opportunity came about when a member of that board called a former CEO who had worked with Finley and asked him to recommend someone with audit and finance experience. With Exterran, an investment banker Finley knew made the recommendation.

Crump also serves on Exterran’s board. He was referred to that company by a co-director from

another board on which he serves, Copano Energy, a midstream gas services company. “One of the interesting things about being on a board with James is the way we often see things the same way,” Finley related. “I believe that’s because of the PwC training and audit methodology we share.”

Unwavering focus on strategy and operations

Boards are typically charged with approving a company’s strategic and operating plans, as well as executive compensation matters. Directors are also increasingly expected to participate in specialized committees. The SEC and stock exchanges require public companies have an audit committee with oversight of all financial reporting and internal control systems, including hiring auditors, and a compensation committee charged with overseeing the various components of executive pay. The energy industry is also seeing the emergence of reserves committees.

“The role of the compensation committee, in particular, has escalated tremendously in the last two years,” Finley said. “The financial turbulence in the markets has brought even more scrutiny of executive pay in the last few months.”

This specialized service represents a significant change from how some boards used to work. Houston remembers serving on the board of a Fortune 500 company in the mid-1970s that didn’t have committees at all. “The CEO more or less determined everything,” Houston recalled. “He decided who was going to be on the board. If we

Right: Houston, Crump and Finley's careers in the energy industry have spanned decades—with retirement nowhere in sight.

had a vacancy, he'd ring somebody up and say 'We want to vote on this fella,' and that's how it was done."

Crump, Houston and Finley agree that serving on the board of a company in the energy sector means understanding each company's unique needs and addressing challenges that their counterparts in other sectors may not face as acutely. Chief among those is the global nature of the energy trade and sensitivity to these commodities as valuable resources. To be effective, board members must have detailed knowledge of industry practices, as well as an understanding of the international reach of operations and the geopolitical forces at work in each location.

"Oil is found in unusual places around the world. Especially with the smaller countries involved, the president of the country is effectively the president of the oil company," Crump explained. "You can really draw from the experience if you understand how different it is working in Kazakhstan than, say, Venezuela."

"Most businesses have a lot of commonality, maybe 80 percent, but this business is an exception," Houston added. "Exploration and production is not something you can take a picture of, like a manufacturing plant or retail store. Unless you understand the risk that's involved in drilling and how commodity prices work, it's hard to be successful."

At the PwC Energy Board Network Roundtable in January, participants noted that market volatility puts more pressure on the boards of energy companies to manage risks effectively. Some boards now ask their audit committees to consider how best to monitor emerging risks. Others have elevated risk management to a full board responsibility or set up separate committees to identify risks. Roundtable attendees also discussed requesting scenario planning from management, studying counterparty risk, increasing the frequency of board meetings and field visits, and increasing the activity of board members in general.

"In the past, some boards were like social clubs you could join without having any business experience," Houston observed. "Today, boards are more aware of their responsibilities."

Oversight, without overstepping

While Crump, Houston and Finley firmly believe the energy industry presents a different set of challenges for board members, what's not different in their eyes is the role a director should play. They agree that directors are responsible for one thing above all else: oversight. That means boards can best serve their companies by limiting their involvement in day-to-day activities and operations.

"When I meet with the CFO, general counsel or the CEO, I offer my insights related to a particular area they are dealing with," Finley said. "It's about



sharing your experiences and opinions, not telling them what to do, because then you've crossed the line as a board member."

Crump describes the relationship between management and board members as a balancing act. "We are not management. But, our role is to make sure there is a tone at the top that filters down into the organization," he stated. "Look at companies that have gotten into trouble. You can trace some of their problems all the way to their management teams, and by extension their boards."

Houston agrees, noting that in the wake of the current economic downturn, many shareholders and members of the public expect boards to be a little more hands-on than they should be. "There's a lot of pressure on boards to be active, but when you start making management decisions, you are not able to keep perspective. You need to step back and always maintain that oversight role."

A critical part of that role is helping develop the company's strategic direction, and then continually challenging management's assumptions and decisions on how best to apply the strategy. For example, at Rosetta Resources, board members meet individually with the CEO, CFO and other executives to hear what's going on and offer perspective. "We've got a few gray hairs on our heads," Houston explained. "Hopefully we can be a sounding board for the CEO, who can ask us 'What do you think about this?' or 'What should we be considering here?'"

All agreed that the most successful CEOs rely on their boards for guidance. Most directors are now recruited based on their business background, and many boards today include members who have been CEOs or CFOs themselves. A strong board can offer expertise in disciplines such as investment banking and legal affairs, and bring a diversity of experience that often leads to intense discussions about the path a company should take.

"With all kinds of people of different ages, experience and backgrounds, you are bound to have differing opinions," Finley noted. "We're all after the right answer, and there is a lot of healthy debate that goes on in a board to reach it."

Crump echoes that opinion: "That's a sign of a board that's working right. Even if you end up voting unanimously at the end of the day, usually you have worked through the issue, addressed any differences of opinion and challenged each other to come up with the right answer."

Maintaining industry connections

All three men said a key benefit of their board service is that they remain engaged in the industry. It helps them stay current and allows them to share the lifetime of expertise they've built.

"None of us at this table is interested in retiring completely, and this is a way for us to continue in the real world," Crump noted. "I'm as active as I was when I was working full time."

As a director, I've met some great people who I wouldn't normally have worked with, so my network has expanded tremendously.

— Steve Finley

Another advantage they highlight is the ability to maintain and extend their professional networks. To tap into as many perspectives as possible and avoid conflicts of interest, boards today cast a wide net when recruiting members. That can mean looking across industries, seeking colleague referrals and employing executive search firms. As a result, the men say they have met new people and developed relationships with fellow directors.

“When you work for a company, you get so focused on what’s going on within that company,” Finley explained. “You build solid professional relationships, but that focus can limit the external network you are able to develop. As a director, I’ve met some great people who I wouldn’t normally have worked with, so my network has expanded tremendously.”

And while networking is valuable for these current directors, they say it’s absolutely essential for anyone who aspires to serve on a board in the future. As Crump and Houston prove, networking starts on day one, and the people you meet early in your career can have a profound impact on your professional opportunities. The fact that each of them can trace at least one of their current board roles to referrals from professional contacts underscores that importance.

For others seeking board positions, the directors recommend making a habit of continually expanding networks through professional organizations and community involvement. But don’t

expect results right away. The deep relationships that lead to securing a board role can take years to cement.

All three agreed that PwC, and finance in general, provides unmatched opportunities to develop strong networks. Crump points to the number of CEOs who’ve come out of finance as proof. “Keep up with your peers, as well as the people who leave the firm,” he advised. “Those people are going to become drivers in whatever industry you may be interested in.”

The energy outlook from the insiders

Crump, Houston and Finley draw on decades of experience in the energy industry as they evaluate the forces shaping energy markets today. Their conclusion: The current downturn is definitely serious, but by no means unique. Perhaps more important, elements are in place for a recovery.

“The current challenge isn’t much different from the challenges the industry has faced in the past,” Crump said. “When oil and natural gas prices dip, it means reduced drilling activity, which affects all phases of the industry. Exploration and production, services, midstream pipeline companies, all of them are affected adversely. But we’ve been there before and we’ll come out of it, just like we have in the past.”

“Sometimes we’ve wondered if it was all going to come crashing down, and when you’re right in the middle of it, it seems like that,” Finley added.

It's a wrap

At the end of the day James Crump shares a final perspective with Houston and Finley.





In the past, some boards were like social clubs you could join without having any business experience. Today, boards are more aware of their responsibilities.

— Henry Houston

“But it always comes back. We’ve been in a deep decline that hurts an awful lot because we were riding so high. I believe there are signs of recovery out there. Some recent industry presentations I’ve seen indicate that prices and demand will begin to kick back up, if not later this year, certainly next year, and that will bring the businesses back.”

A major factor driving recovery will be the growing international demand for oil and gas. One of the most profound changes the men have seen during their careers has been explosive growth in the global market for hydrocarbons. China and India, in particular, have huge appetites for oil and natural gas, making them truly worldwide commodities.

Even in developing countries that produce oil, demand tends to be greater than supply. As the demand for petroleum that fuels industrialization has risen, countries such as Russia and China have moved from being net exporters of oil to net importers. Mexico is expected to follow suit. Surges in demand were in large measure responsible for oil price peaks. And while supply is currently high, expected increases in demand will likely lift prices in the future.

Another global consideration—political instability—can also impact prices. Prices today are more politically driven than they were when the US produced most of the oil it consumed, Houston explained. Today the US imports about 70 percent of its oil, exposing it to political risks

in oil-producing countries throughout the world. “People think US companies are the dominating force in the industry. They are not,” Crump pointed out. “Petro China is larger than Exxon in market cap. The US is the only country that has private ownership of its natural resources. State-owned companies are basically in the driver’s seat as far as what happens in the future.”

Technology advances that make it less expensive and more efficient to drill wells will also contribute to the recovery. “For example, in the past 20 years, the seismic industry has moved from two-dimensional images of what was underground to three-dimensional images today. That’s improved the ability to determine if there are hydrocarbons there,” Finley said. “But it’s not always easy to interpret these. You might drill and find a show of gas or oil, but it may not be commercially viable to actually complete and produce. So it’s still a very risky business.”

But reducing the risk and the expenses associated with exploration is critical in offsetting increasingly costly production. Another technological advance that promises to improve economics is horizontal drilling. Instead of drilling one well to a formation, exploration and production companies can drill one well that goes through several formations. For example, there are oil wells producing under the Oklahoma state capitol building, but the actual drilling took place on the perimeter. “Horizontal wells have made

much more gas in this country viable,” Houston asserts. “Without horizontal wells in tight sand and shale, in most cases you just couldn’t produce enough out of a vertical drill stem to be economical.”

These continual challenges and ongoing developments to create new opportunities are a large part of what made the energy industry an attractive career for these men. “It’s always been a volatile industry, and it’s always been exciting,” Houston summed up. “When I started, the Texas Railroad Commission [the agency responsible for regulating the use and conservation of the state’s oil and gas] would only let you produce wells eight days a month. That was a way to keep prices up. Now OPEC does that. So price cycles have always been the driver. It’s important to remember that consumers need oil and gas, and to get it, they have to pay the cost of what it takes to get that oil and gas out of the ground.”

Renewable opportunity

Customer demand and government initiatives fuel a growing interest in renewable energy





Mark Fidler

On the factory floor,
Fidler sees a bright future
for Evergreen Solar.



Above: Fidler takes a break while his company's robots help assemble their photovoltaic panels.

Solar generates less than one percent of total electricity demand today. Electricity is a \$2 trillion market worldwide, so it doesn't take much to get a substantial increase in revenue.

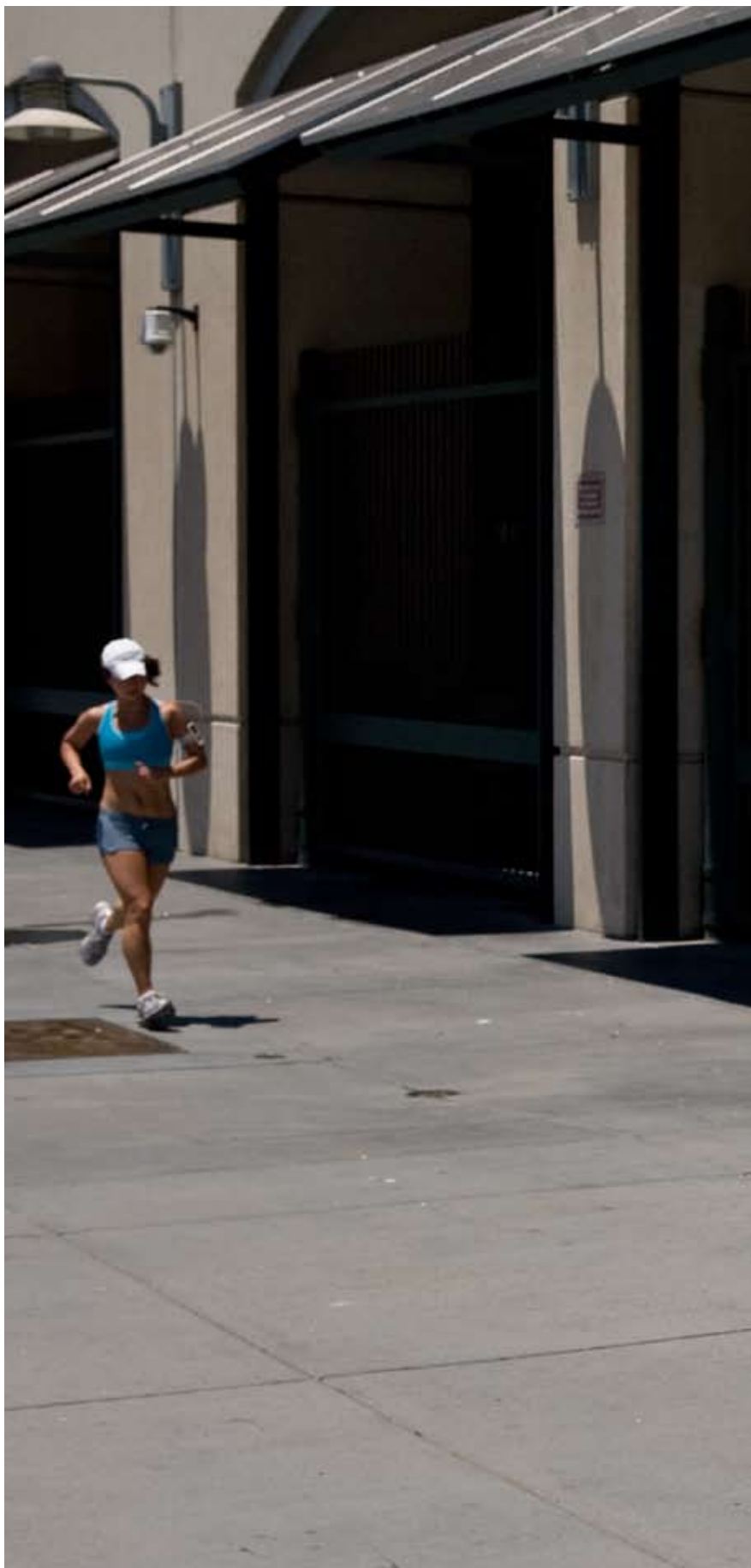
— Mark Fidler

A focus on climate change and the economy have generated worldwide excitement about renewable energy. In response to growing demand, utilities are investing in new ways to generate electricity for the power grid, and governments are supporting their efforts. In the United States, the federal stimulus bill, the American Recovery and Reinvestment Act, and the American Clean Energy and Security Act together would generate an annual investment in alternative energy of \$150 billion over 10 years—including \$40 billion in renewables—and would create up to 1.7 million new jobs, according to a study by the Center for American Progress and the Political Economy Research Institute. Globally, the World Bank increased its funding for renewable energy and energy-efficiency projects by 87 percent in fiscal year 2008, to nearly US\$2.7 billion.

Renewable energy is typically defined as energy generated from natural resources that can be replenished. Some people include older technologies, particularly hydropower from dams and biomass from steam-producing industrial plants, when speaking of renewable energy. But for most people today, “renewable energy” means newer technologies for generating electricity from wind, solar, geothermal, wave and biomass resources.

President Obama has set a target that 10 percent of America's electricity should come from renewable sources by 2012, and 25 percent by 2025. About half of US states also have their own mandates for renewables. The European Union has an aggressive goal as well—to derive 20 percent of electricity from renewables by 2020.

That makes it a good time to be working in a field like solar energy, says Mark Fidler, vice president of finance for Evergreen Solar, based in Marlboro, Massachusetts. Evergreen Solar makes solar panels that can be placed on a roof or in an open field to generate electricity. Consumers and businesses alike are using them to provide for their own needs and sometimes to sell surplus electricity back to the utilities.



Jason Wells

Helping power baseball's AT&T Park in San Francisco, Wells believes PG&E's solar panels are a home run.



Fidler, who joined Evergreen in 2001, began his career with PricewaterhouseCoopers, where he was a senior associate. He then earned an MBA at Northeastern University and worked for two other companies, looking for an opportunity on the operational side of a business. Evergreen provided what he was looking for. Hired as corporate controller, Fidler set up the company's accounting and finance processes before moving up to vice president. "I knew the potential was there for renewable energy," Fidler says. "It was an exciting industry to get into, and I'm glad I did."

Evergreen's solar panels use the company's unique String Ribbon technology, a process that creates wafers by pulling high-temperature carbon filaments through molten silicon to form a silicon ribbon. The process uses less silicon than conventional wafer technology and is therefore less expensive, Fidler explains. Silicon is the costliest element in solar panels.

Evergreen markets its panels to resellers who cater to residential and commercial customers. The company also licenses the technology to a company in Europe, Sovello, of which Evergreen owns one-third.

In fact, large-scale commercialization of the technology began with Sovello. To gain better access to capital through German government subsidies, Evergreen formed a joint venture in 2004 with the German company Q-Cells, the largest solar cell manufacturer in the world. In 2005, a Norwegian

company, Renewable Energy Corporation, joined the venture to provide silicon.

"That allowed us to catapult ourselves from an R&D company to a commercial company," Fidler observes. "Now we've announced our expansion plans into China and expect that we will begin construction on a Chinese factory very soon." Evergreen hopes to manufacture panels capable of generating 500 megawatts annually in its Chinese plants by 2012. Evergreen is also ramping its Devens, Massachusetts, manufacturing plant to its full production capacity of about 160 megawatts—enough panels to generate electricity for about 30,000 homes each year.

Evergreen is a relatively small player in the renewables market, and even smaller if you consider the electricity market as a whole. But to Fidler, this is just the beginning for the company. "If solar does indeed take off as everyone expects, there is a lot of room for growth," he says. "Solar generates less than 1 percent of total electricity demand today. Electricity is a \$2 trillion market worldwide, so it doesn't take much to get a substantial increase in revenue."

Utilities lead the way

In fact, the same could be said of all forms of renewable energy. Currently, renewables generate 7 percent of electricity in the United States, according to the Energy Information Administration. Two older technologies—hydropower from dams and biomass consumed by heat- and steam-

It's an energy source that is not dependent on finding more of it. It's always there. We just need to catch it.

—Dean Clemens

producing industrial plants—are by far the largest sources included in that statistic. But others, including wind power, are growing rapidly. Wind-generated electricity increased by 45 percent between 2005 and 2006, and by 21 percent between 2006 and 2007. As with solar power, there is plenty of room for growth. Wind now generates just 1.5 percent of the world's electricity, and a Danish research firm has predicted that global wind power installations could account for almost 6 percent of the world's electricity by 2017.

Some large US utilities are among the major advocates and customers for renewable energy. In part, that is because their customers want it. It's also because about 30 states have renewable portfolio standards (RPS), which mandate that utilities generate some of their power from renewable sources. These standards are set annually, with percentages increasing each year.

In California, Pacific Gas & Electric, better known as PG&E, is one such utility. "California was ahead of the nation in terms of implementing a renewable portfolio standard," says Jason Wells, assistant controller at PG&E. Regulated by the California Public Utilities Commission, PG&E issues a request for bids to meet its annual renewable mandate. Last year, PG&E derived 14 percent of its electricity from renewable sources.

PG&E buys some renewable energy from large producers and some from smaller, unregulated generators, such as consumer-owned solar panels

or hydropower dams built on private property. For example, PG&E customers can buy Evergreen solar panels from qualified resellers or installers. The panels generate electricity for the customer's own use, and anything over that can earn credit from PG&E to lower the customer's electricity bill. PG&E also offers rebates to reduce the cost of such installations.

This is one of several ways in which PG&E encourages solar use among its customers. More than 30,000 customers have installed these photovoltaic systems, a larger number than at any other utility in the nation. Wells proudly states that PG&E is setting an example for the industry, championing not only solar but all forms of renewable energy. "We are taking a leadership role in the industry in terms of fighting climate change," he explains. "A few years ago, the company hired an environmental scientist to help us understand the phenomenon. We came away recognizing that climate change was advancing and that as a company we needed to take a stand."

Wells went to work for PG&E shortly after that decision was made. Seven years at PwC had given him a practical background for the position. He had audited public utility companies, energy companies and investment banks with ownership in the industry. He became fascinated with energy and joined PG&E in San Francisco in 2007.

Since that time, PG&E has steadily increased its portfolio of renewables, with particular strength in



Left: As human resources manager, Dean Clemens is helping direct the course of Horizon Wind Energy's people strategy.



solar power. PG&E signed a solar-power contract with BrightSource in May 2009 to purchase 1,300 megawatts of solar thermal power from seven plants. Unlike the photovoltaic solar power produced by Evergreen's panels, solar thermal power converts solar energy to heat, which boils water to create steam that then turns a turbine to generate electricity. With SolarEn Corporation, PG&E is exploring the feasibility of harnessing solar energy in space. If it pans out, PG&E expects to offer round-the-clock solar power beamed from an orbiting generator by 2016. PG&E is also building its own solar photovoltaic system, which, if approved by the state regulatory commission, will be the first renewable power-generation system to be owned by the utility itself in over a decade.

"Solar power has typically been for small-scale industry, office buildings and homes," Wells says. "Only in the last years have we seen large-scale projects, such as BrightSource's, become viable." But PG&E is looking beyond solar power too—at renewable sources such as wave and tidal power from the ocean, and geothermal power from steam deep in the earth. And, as the efficiency of wind farms has improved, PG&E has been increasing its purchases of wind energy as well.

Wind power gathers momentum

One of PG&E's partners in wind energy is Houston-based Horizon Wind Energy. In July 2008, PG&E signed a long-term agreement to buy energy from Horizon's Arlington Wind Power Project in Oregon. Horizon will deliver 240

gigawatt hours of renewable wind energy annually to PG&E. That's enough power to serve about 72,000 typical homes.

Along with the wind industry overall, Horizon has been growing rapidly as it signs contracts with large utilities such as PG&E and with landowners willing to have wind turbines on their property. Dean Clemens can attest to the industry's growth. He has been with Horizon for only a year, but he considers himself an old timer because the company has added so many more employees since then. Last year, Horizon grew by 158 percent to its current 300 employees, says Clemens, who is the company's human resources manager. Approximately 85,000 people work in the industry in 2009, up from 50,000 a year ago, according to the American Wind Energy Association. If wind ultimately is to provide 20 percent of the electricity in the United States, as a Department of Energy report predicted in 2008, the wind industry will keep growing.

What's behind the momentum? Clemens credits the current political debate on carbon emissions and the renewability of wind. "It's an energy source that is not dependent on finding more of it," he remarks. "It's always there. We just need to catch it."

Like other renewable energy producers, Horizon is entrepreneurial and therefore appealing to young people. "We have a high energy level and a youthful culture," Clemens observes. "Because it's such an attractive industry, we are getting the


opportunity to hire the best people we can find. That makes it a lot of fun to be in.”

After five years working in Houston as national human resources director for PwC’s financial advisory services practice, Clemens went on to work in manufacturing, healthcare and consulting before joining Horizon a year ago. This background, combined with his strong interest in renewable energy, made the job a natural fit. Because Horizon is growing so fast, he spends much of his time working on such issues as professional development, compensation and employee benefits.

Like many renewable energy companies, Horizon is global. It is part of EDP Renewables, based in Portugal. Although a lot of wind technology comes from Europe, particularly Spain, Portugal and the Scandinavian countries, the American market is driving growth. “We have some of the best wind in the world,” Clemens says, “and some of the best places to build wind farms are in the US Midwest and Northwest.”

Typically, wind turbines are clustered together in wind farms. One of the primary challenges the wind business faces is overcoming community resistance to these large machines. “There’s a NIMBY [Not In My Back Yard] component to our developments,” Clemens says. “Some people love them, and some don’t.” But as the technology evolves and demand increases, the turbines are becoming more efficient and generally more accepted.

If the many hopes pinned on renewable energy are to be realized, the key will be steady growth in demand so that production can be profitable. Opponents of renewable energy predict that reliance on renewables could raise electricity prices for consumers and businesses, but the Department of Energy disagrees. In a recent report, the DOE said that costs should fall as demand increases and technologies evolve. As Clemens says: “Higher costs get diluted with increases in scale. When renewable energy sources are producing 20 percent of the country’s electricity, the economics will be different.”



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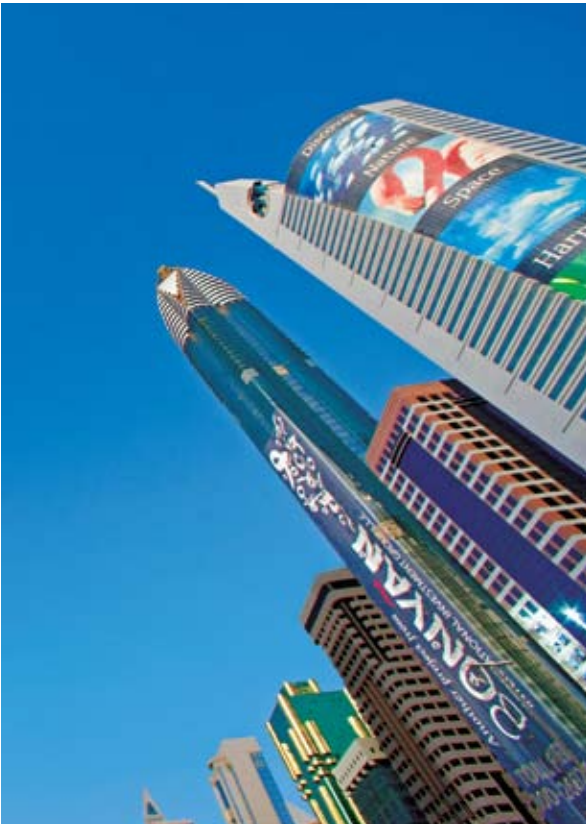
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PwC analyzes the US stimulus package to help you understand the \$787 billion American Recovery and Reinvestment Act. What industries and business segments will benefit from the package? How could the plan change your business strategy?

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