

Management Barometer™

Business outlook 3Q 2007

Contents

1 Quarterly highlights	Page
1.1 Key indicators for the business outlook	4
2 Economic views	
2.1 View of US economy, this quarter	6
2.2 View of US economy, next 12 months	7
2.3 View of world economy, this quarter	8
2.4 View of world economy, next 12 months	9
3 Company performance	
3.1 Company revenue growth, calendar year	11
3.2 Industry growth, calendar year	12
3.3 International sales	13
3.4 Changes in gross margins	14
3.5 Changes in costs and prices	15
3.6 Inventory movement	16
3.7 Level of operating capacity	17
4 Business outlook, next 12 months	
4.1 Revenue growth, next 12 months	19
4.2 International sales, next 12 months	20
4.3 Percent planning to hire	21
4.4 Percent planning to hire by type of employee	22
4.5 Percent planning major new investments of capital	23
4.6 Percent planning to increase operational spending	24
4.7 Expected barriers to business growth	25
4.8 Plans for M&A and other business initiatives	26
5 Survey demographics and research methodology	27

Quarterly highlights

In 3Q 2007, PricewaterhouseCoopers interviewed a cross section of 132 US-based, multinational CFOs about their current business performance, the state of the economy and their expectations for business growth over the next 12 months. We then compared their business outlook to the prior quarter's results to see how the 12-month outlook has changed.

Key findings:

Quarterly highlights from the Management Barometer survey show that, despite a falloff in optimism about the US economy's prospects over the next 12 months, senior executives of US-based multinationals forecast steady revenue growth, hiring and spending.

- Optimism about the US economy's prospects dropped sharply. Looking ahead to the next 12 months, 36 percent of senior executives of US-based multinationals are optimistic that the US economy will grow. The vast majority, 64 percent, are uncertain (43 percent) or pessimistic (21 percent). The sharp falloff in optimism is 22 points below the prior quarter's 58 percent and 19 points below last year's 55 percent.
- Concerns about market demand and profitability rose. Though the cost of oil/energy remains the top concern, unease about the lack of demand (up 18 points to 48 percent) and fears of decreasing profitability (up 15 points to 36 percent) now rival oil/energy prices as leading barriers to growth. Other leading concerns up moderately were legislative/regulatory pressures (41 percent) and lack of qualified workers (35 percent).
- Expectations for international sales remained steady. Optimism about the future of the world economy held firm at 66 percent, off only 7 points from the prior quarter and in line with a year ago (65 percent). In 3Q 2007, 59 percent of international marketers reported increased sales – slightly off the prior quarter but notably higher than a year ago (52 percent). Looking ahead over the next 12 months, the contribution of international sales to total revenue is projected at a steady 28 percent.
- Revenue growth projections also remained steady despite increasing uncertainty about the US economy. An average revenue growth rate of 7.0 percent was projected for their own companies over the next 12 months. This is in line with the 6.9-7.0 percent growth rates of the prior two quarters in 2007, and only somewhat below the 7.5 percent projection a year ago. Currently, 82 percent plan revenue growth, with 28 percent expecting double-digit growth and 54 percent expecting single-digit growth. Those concerned about the cost of oil/energy project a 6.3 percent revenue growth rate vs. 7.7 percent for those who are not, or 18 percent lower.
- New hiring plans leveled. Currently, 46 percent plan to add new workers over the next 12 months, down from 52 percent in the prior quarter but on pace with a year ago. Only 11 percent plan cutbacks, in line with the past few quarters, and, overall, workforce growth projections are flat.
- Investment plans remained consistent. Major new investments of capital for business growth over the next 12 months are planned by 49 percent, slightly below last quarter's 51 percent and slightly above a year ago (47 percent). However, mean investment dropped to 7.2 percent of total sales, a full point below last year's 8.2 percent.
- Gross margins tightened as costs and prices rose. In 3Q 2007, costs and prices increased from last quarter and a year ago. Costs were higher for 55 percent and lower for only 8 percent, a net 47 percent with higher costs. Prices increased for 42 percent and decreased for only 8 percent, a net 34 percent with higher prices. Gross margins were higher for a net 2 percent (29 percent higher, 27 percent lower) – a year ago, gross margins were up for a net 8 percent. Concern about decreasing profitability as a barrier to future growth is a reflection of this squeeze in gross margins.

A quarter-by-quarter comparison of the key indicators shows the business outlook for the next 12 months and how the views of the panel changed each quarter (see chart 1.1). The pages that follow provide a detailed look at each survey question for the previous five quarters of the survey.

Key indicators for the business outlook

Chart 1.1 Key indicators for the business outlook

A quarter-over-quarter comparison of the key indicators shows how the 12-month outlook has changed each quarter. The change column indicates the movement of opinion from the last two quarters.

Business outlook, next 12 months among large US-based multinationals	2006		2007			Change	Page
	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07	2Q-3Q '07	
Optimistic about US economy	55%	63%	55%	58%	36%	↓	7
Optimistic about world economy	65%	65%	74%	73%	66%	↓	9
Expect positive revenue growth	84%	84%	85%	85%	82%	=	19
Average growth rate expected	7.5%	7.8%	7.0%	6.9%	7.0%	=	19
Planning major new investments	47%	56%	53%	51%	49%	=	23
New investments as a % of sales	8.2%	6.5%	7.8%	8.4%	7.2%	↓	23
Planning to hire	46%	40%	45%	52%	46%	↓	21
New workers as a % of workforce (net)	+0.4%	+0.8%	+1.2%	-0.3%	0.0%	=	21
Expected barriers to growth							
• Oil/energy prices	44%	51%	45%	55%	49%	↓	25
• Lack of demand	38%	36%	34%	30%	48%	↑	25
• Legislative/regulatory pressures	26%	32%	41%	37%	41%	↑	25
• Decreasing profitability	23%	17%	21%	21%	36%	↑	25
• Lack of qualified workers	26%	29%	36%	31%	35%	↑	25
• Pressure for increased wages	32%	26%	23%	29%	33%	↑	25
• Higher interest rates	24%	13%	22%	28%	31%	↑	25
• Competition from foreign markets	26%	26%	33%	38%	27%	↓	25
• Taxation policies	13%	19%	25%	23%	27%	↑	25
• Monetary exchange rate	20%	17%	17%	26%	27%	=	25
• Capital constraints	12%	11%	18%	16%	17%	=	25

Economic views

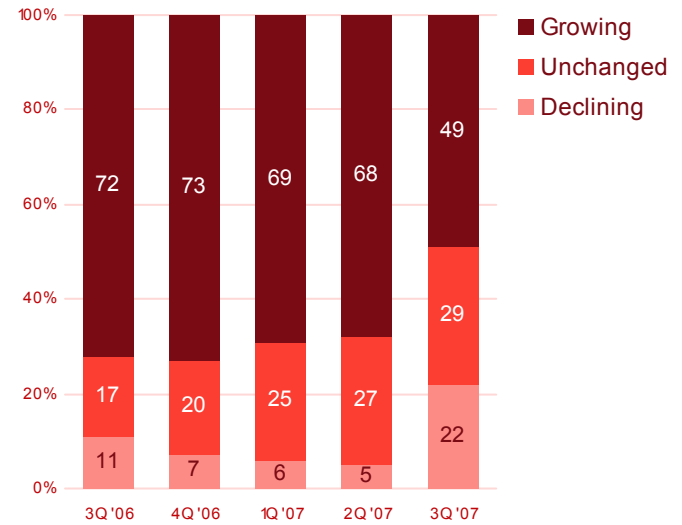
View of the US economy, this quarter

Which best describes your view of the US economy this quarter?

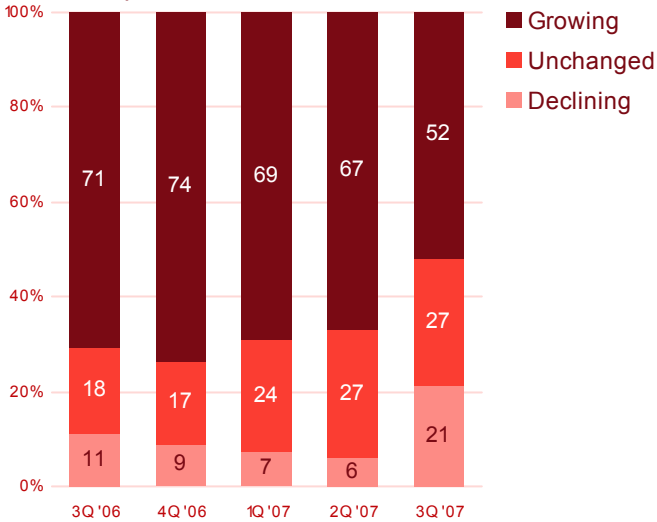
Forty-nine percent of US-based multinational executives believe the US economy continues to grow, a sharp drop-off from last quarter's 68 percent and last year's 72 percent. Also, the number of respondents who believe the US economy is declining shot up 17 points to 22 percent.

Chart 2.1 View of the US economy, this quarter

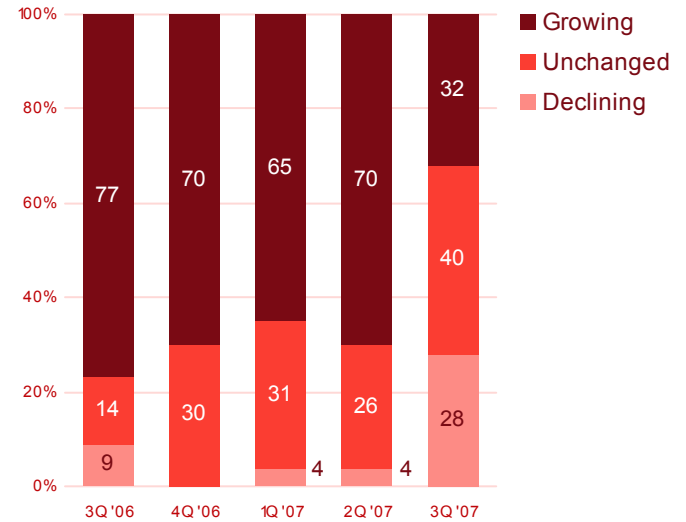
All respondents



Product companies



Service companies



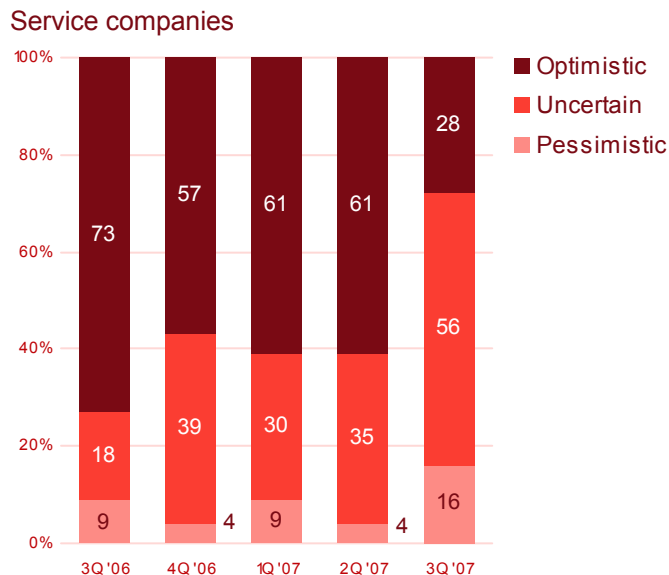
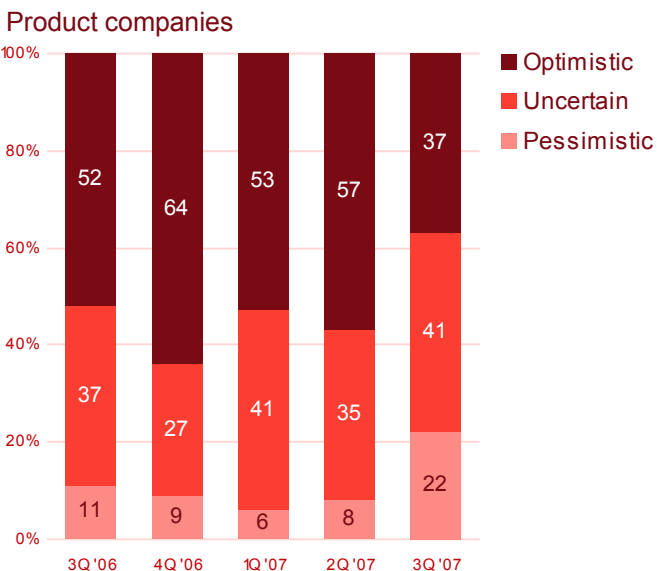
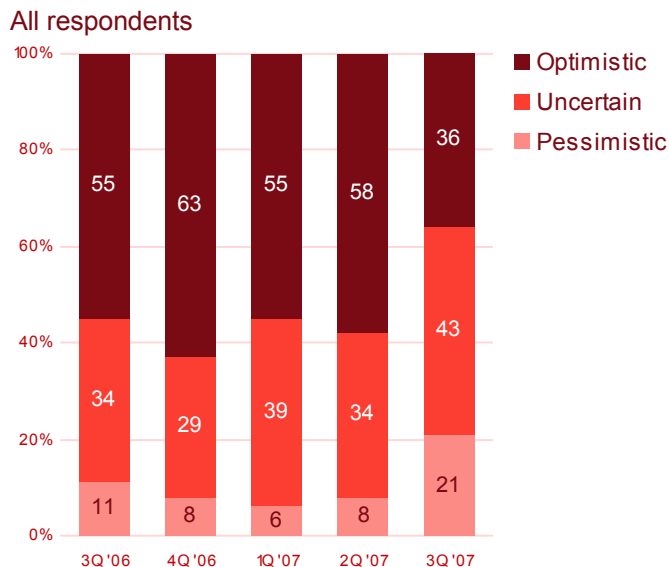
Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

View of the US economy, next 12 months

Looking ahead over the next 12 months, how do you feel about the prospects for the US economy?

Thirty-six percent of US-based multinationals expressed optimism about the prospects for the US economy, down sharply from the 58 percent level of the prior quarter and the 55 percent a year ago. Twenty-one percent are now pessimistic (up 13 points), and the predominant view is uncertain (43 percent).

Chart 2.2 View of the US economy, next 12 months



Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

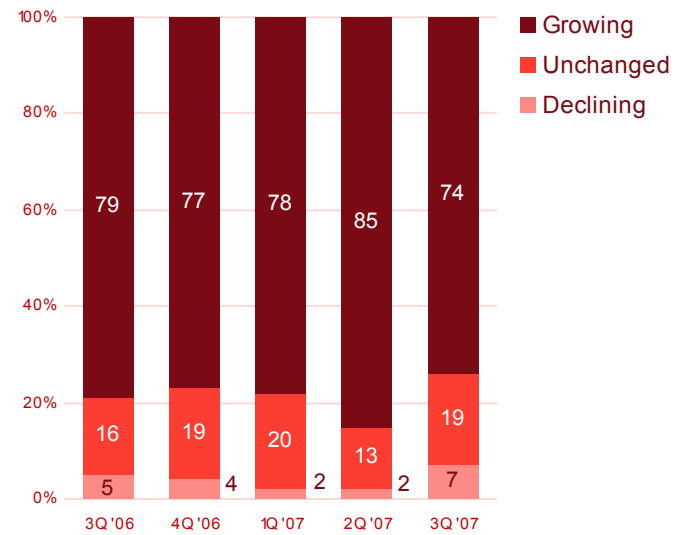
View of the world economy, this quarter

Which best describes your view of the world economy this quarter? (international marketers only)

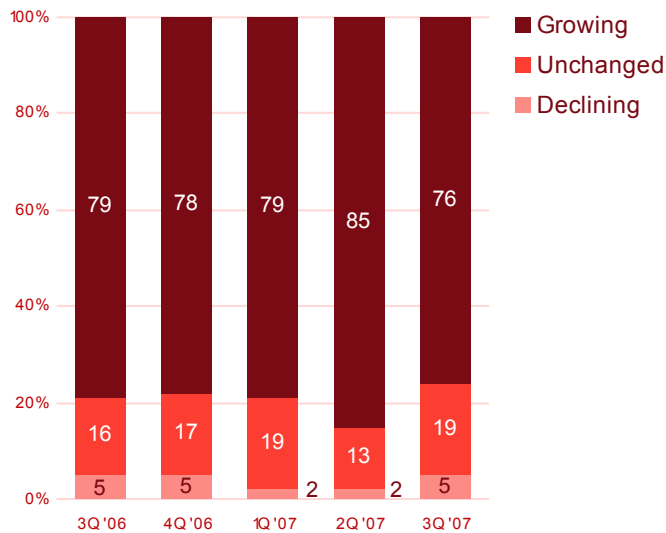
Of those marketing abroad, 74 percent view the world economy as growing — off 11 points from the high of 85 percent in the prior quarter, but similar to the prior year’s 79 percent. The gap between views of US economic growth and the world economy has widened to 25 points in favor of the world economy.

Chart 2.3 View of the world economy, this quarter

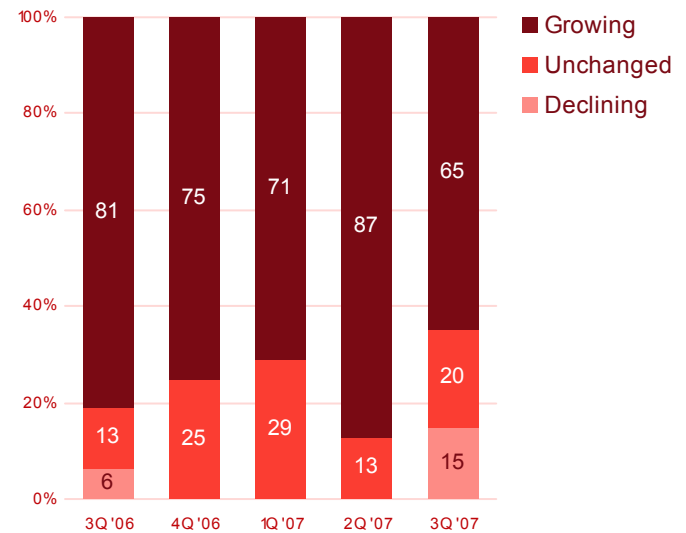
All respondents



Product companies



Service companies



Note: In 3Q 2007 International marketers n=115, Product companies n=95, Service companies n=20

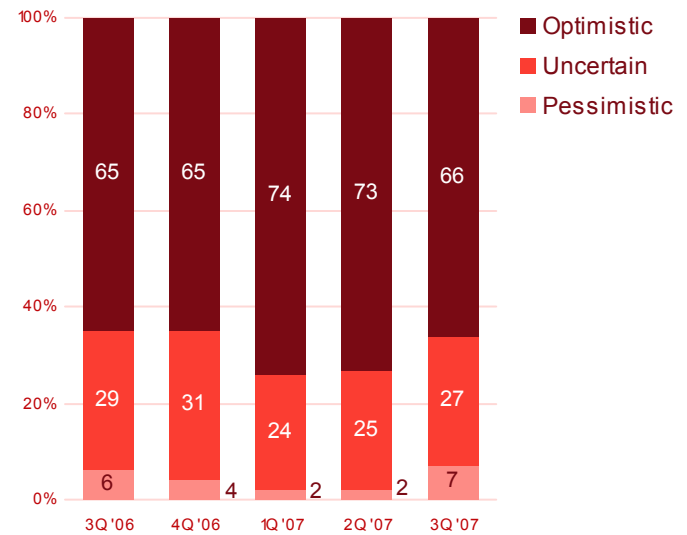
View of the world economy, next 12 months

Looking ahead over the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

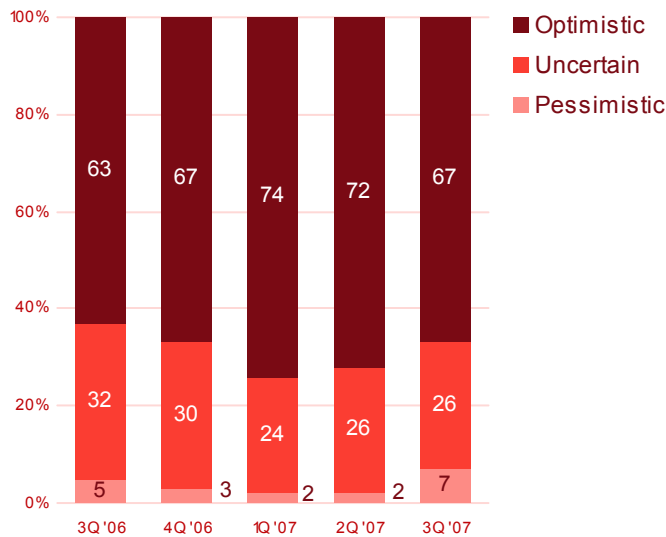
Sixty-six percent of US-based multinationals who market abroad are optimistic about the prospects for the world economy, 7 points below the prior quarter's 73 percent, but on par with the 65 percent level of a year ago. The optimism gap between the US economy and the world economy has widened to 30 points in favor of the world economy.

Chart 2.4 View of the world economy, next 12 months

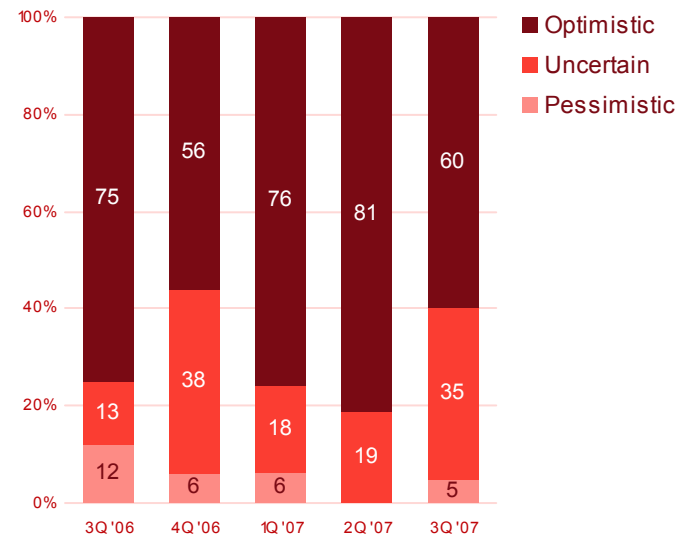
All respondents



Product companies



Service companies



Note: In 3Q 2007 International marketers n=115, Product companies n=95, Service companies n=20

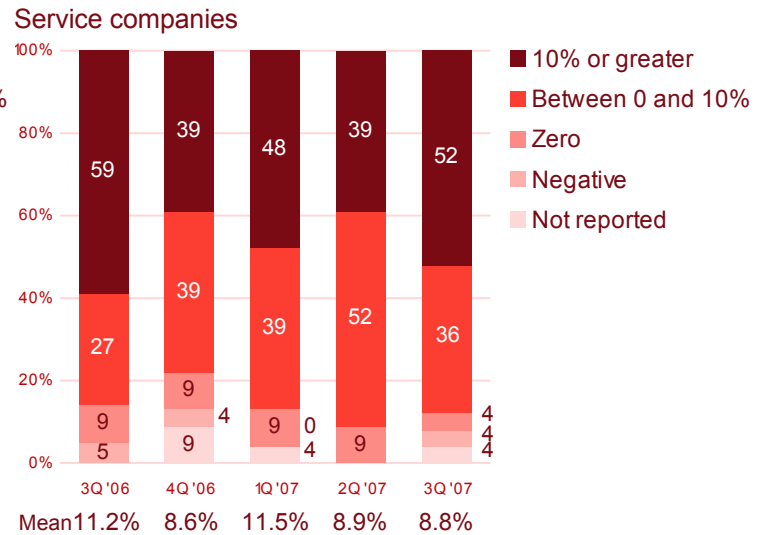
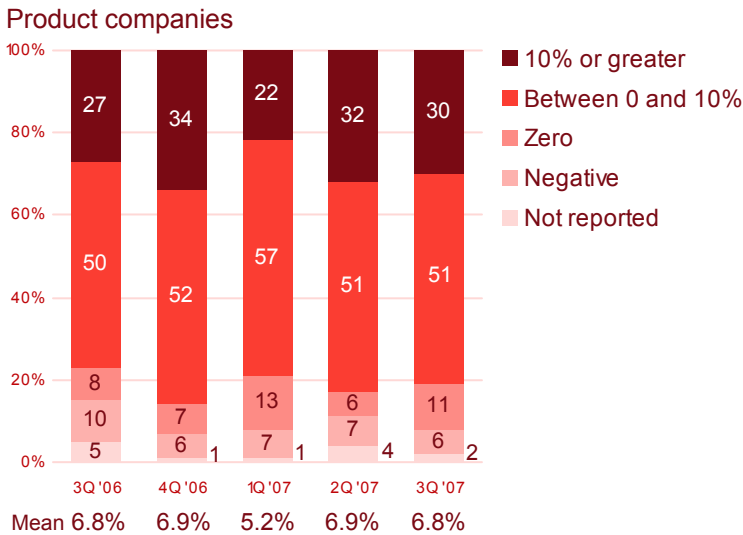
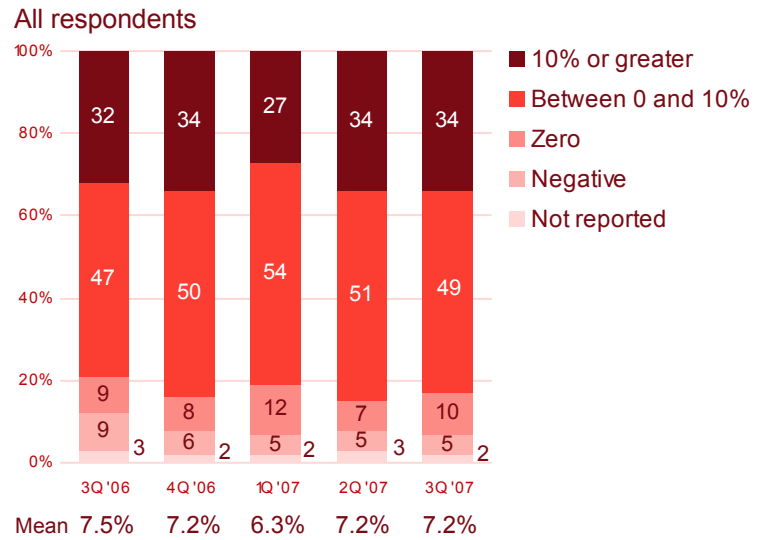
Company performance

Company revenue growth, calendar year

What is your company's estimated revenue growth rate for the calendar year?

Despite uncertainty about the US economy, 83 percent of US-based multinational executives expect revenue growth in 2007, with 34 percent expecting double-digit growth and 49 percent expecting single-digit growth. Overall, the average growth rate has continued at 7.2 percent, the same as the prior quarter and similar to the 7.5 percent projected a year ago.

Chart 3.1 Company revenue growth, calendar year



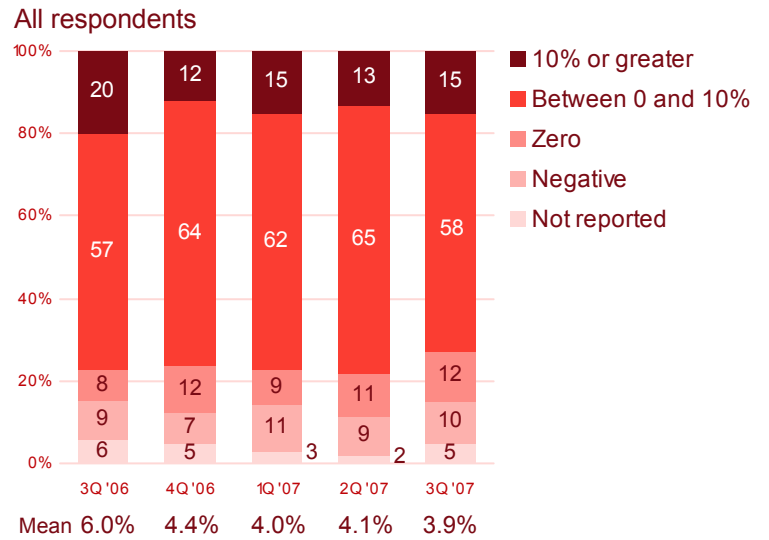
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Industry growth, calendar year

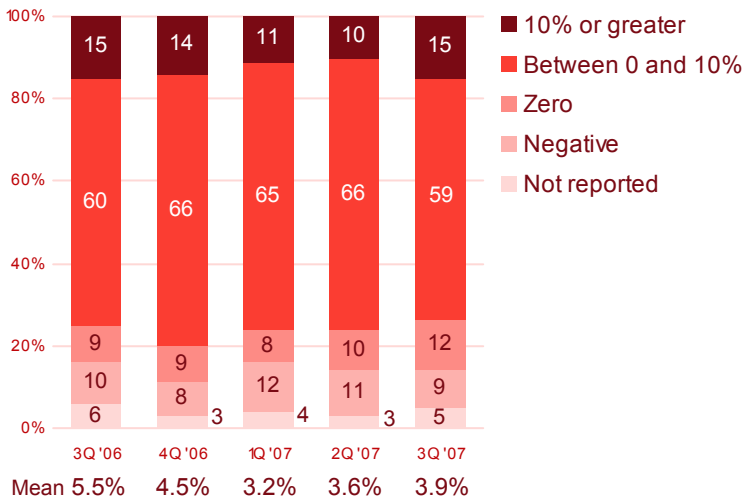
What is your industry's estimated growth rate for the calendar year?

Industry sector growth estimates average 3.9 percent for 2007 — slightly below the 4.4 percent estimate during 4Q 2006 and much lower than the 6.0 percent estimate a year ago. Note that own-company growth estimates typically exceed the growth estimates for respective industry sectors. US-based multinationals anticipate an average growth rate of 7.2 percent for their own companies in 2007, nearly double the estimated average growth rate of 3.9 percent for their industry sectors.

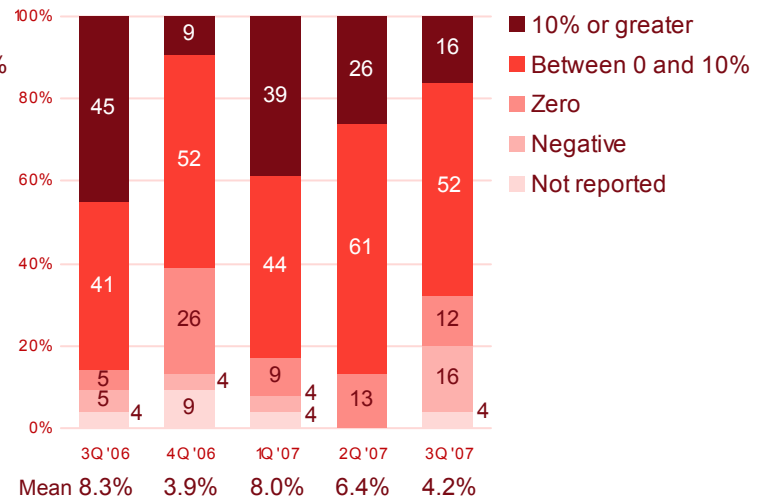
Chart 3.2 Industry growth, calendar year



Product companies



Service companies



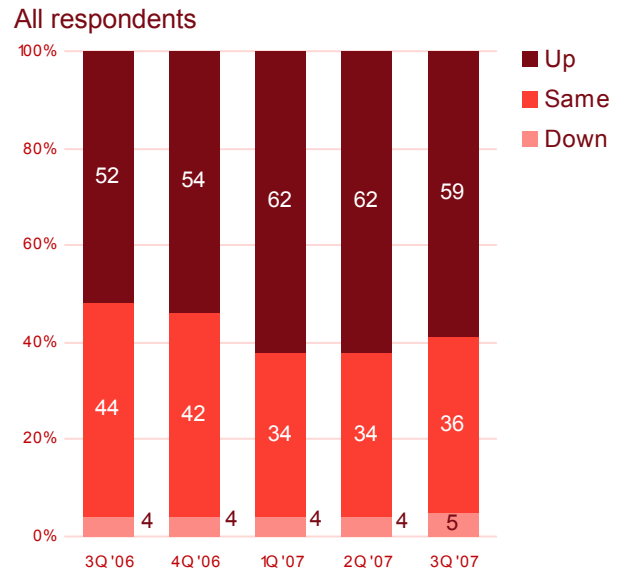
Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

International sales

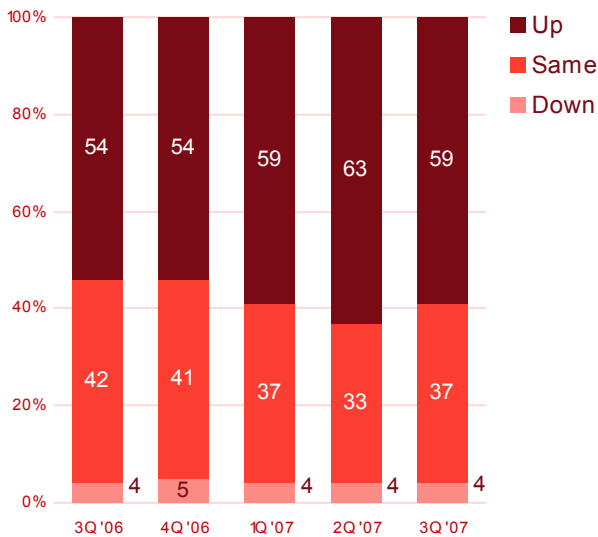
Are international sales up, down or the same compared to three months ago?

International markets continue to be very strong for US-based multinationals. In 3Q 2007, 59 percent of international marketers increased sales abroad, slightly below the prior quarter's 62 percent, but 7 points higher than a year ago. Companies showing a quarterly decrease remained low at 5 percent in 3Q 2007.

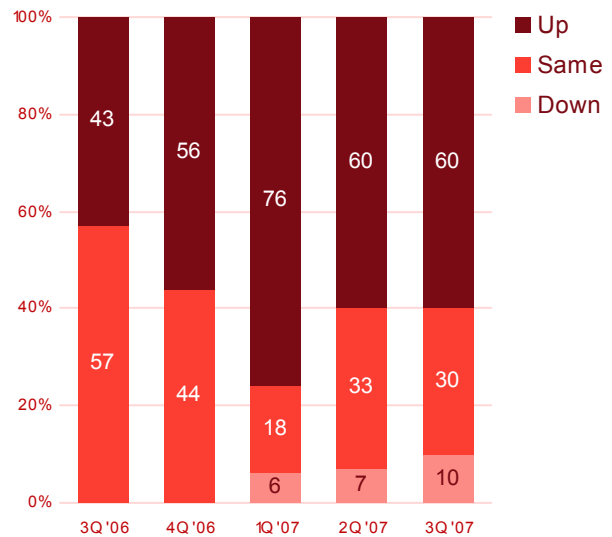
Chart 3.3 International sales



Product companies



Service companies



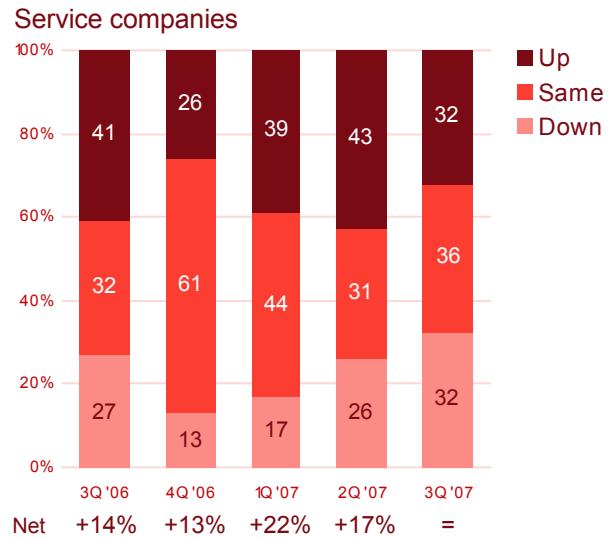
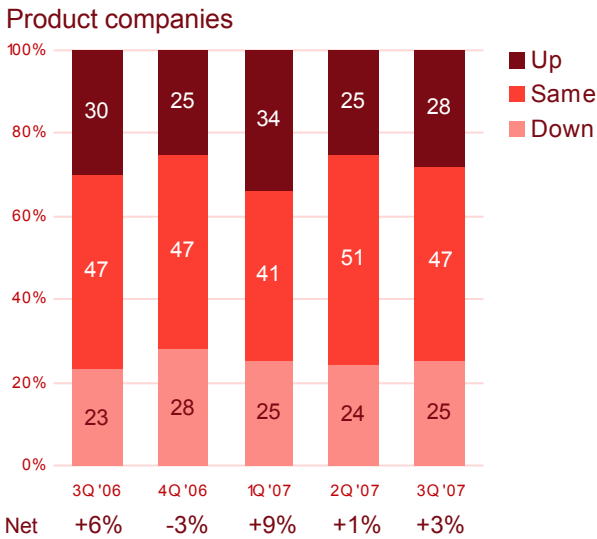
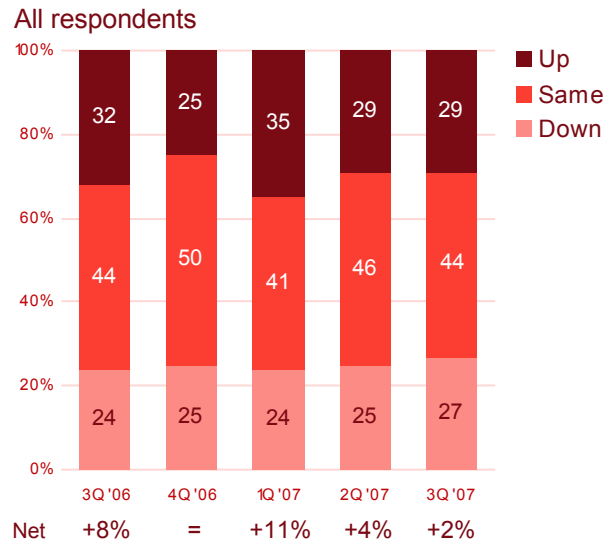
Note: In 3Q 2007 International marketers n=115, Product companies n=95, Service companies n=20

Changes in gross margins

Are gross margins up, down or the same compared to three months ago?

In 3Q 2007, gross margins tightened for US-based multinationals: 29 percent reported higher margins and 27 percent reported lower margins. The net positive 2 percent was 2 points lower than the prior quarter and 6 points below last year.

Chart 3.4 Changes in gross margins



Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

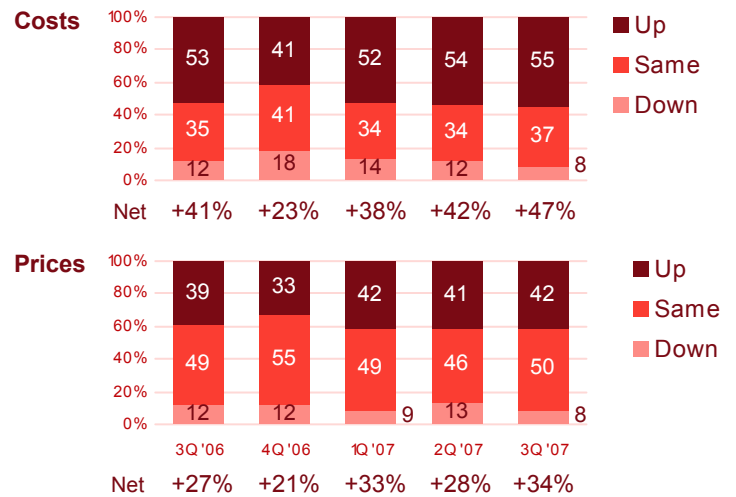
Changes in costs and prices

Are costs up, down or the same compared to three months ago? Prices?

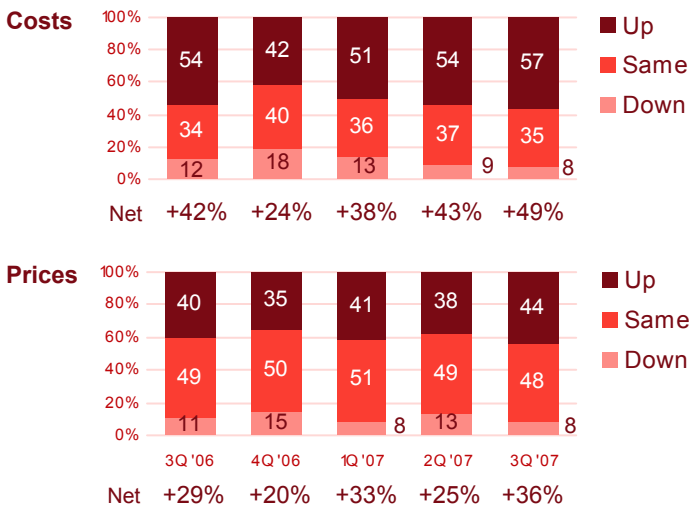
While both costs and prices were up in 3Q 2007, the number of respondents raising prices still lags behind the number reporting increased costs. In 3Q 2007, costs increased for 55 percent of US-based multinationals and decreased for only 8 percent — a net of 47 percent with higher costs, which was up from the prior quarter (net plus 42 percent). In turn, 42 percent of US-based multinationals increased prices and only 8 percent decreased prices — a net of 34 percent increasing prices, also higher than the prior quarter (net plus 28 percent).

Chart 3.5 Changes in costs and prices

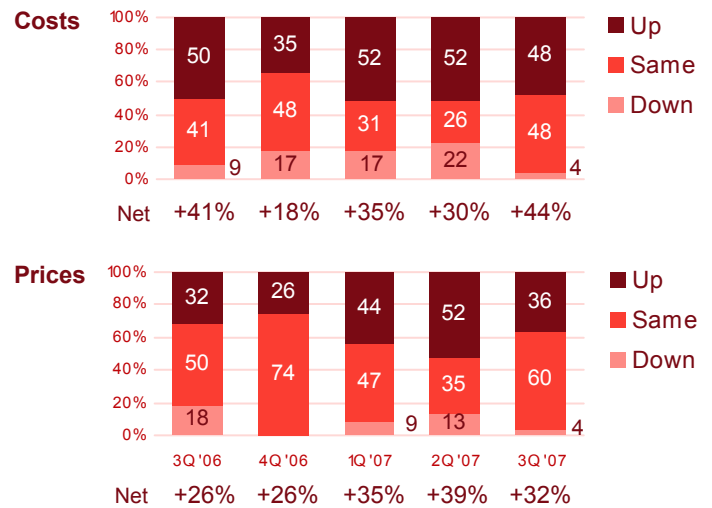
All respondents



Product companies



Service companies



Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

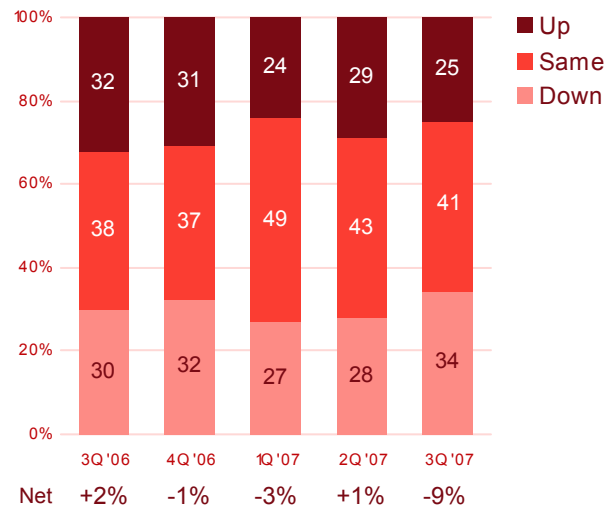
Inventory movement

Are finished inventories as a percent of sales up, down or the same compared to three months ago? (product companies only)

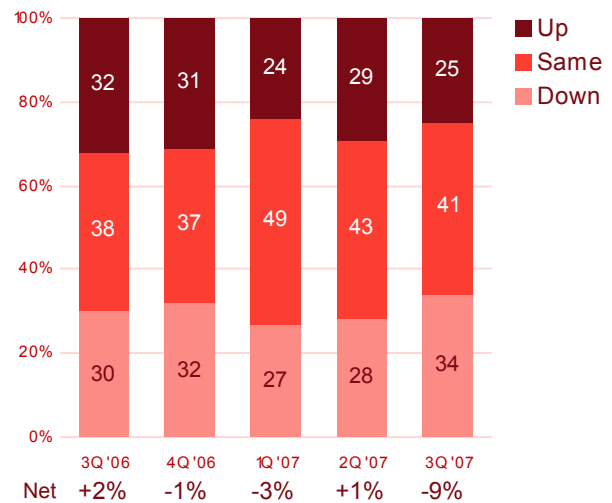
Overall, inventories were higher for 25 percent of US-based product multinationals in 3Q 2007 and lower for 34 percent, or net minus 9 percent. Note that the prior four quarters were flat, with inventories higher a year ago.

Chart 3.6 Inventory movement

All respondents



Product companies



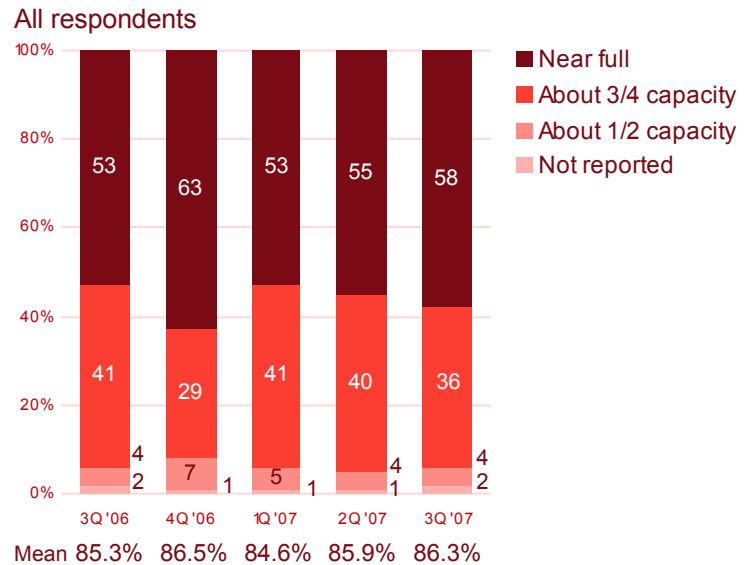
Note: In 3Q 2007 All respondents n=107, Product companies n=107

Level of operating capacity

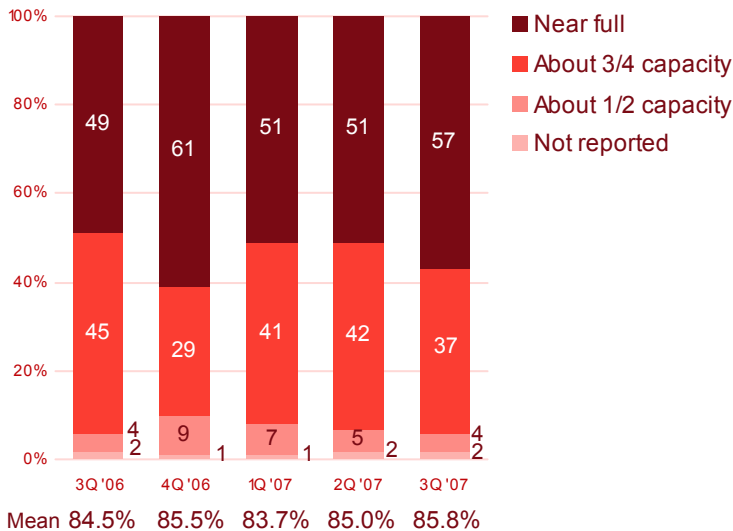
What is your organization's current operating capacity?

Operating capacity is an estimate of the current level of permanent staffing compared to what is needed for full-capacity output. In 3Q 2007, the current level of operating capacity for US-based multinationals was an estimated 86.3 percent of capacity — slightly above the prior quarter and a year ago. This quarter, 58 percent claimed to be at or near full capacity.

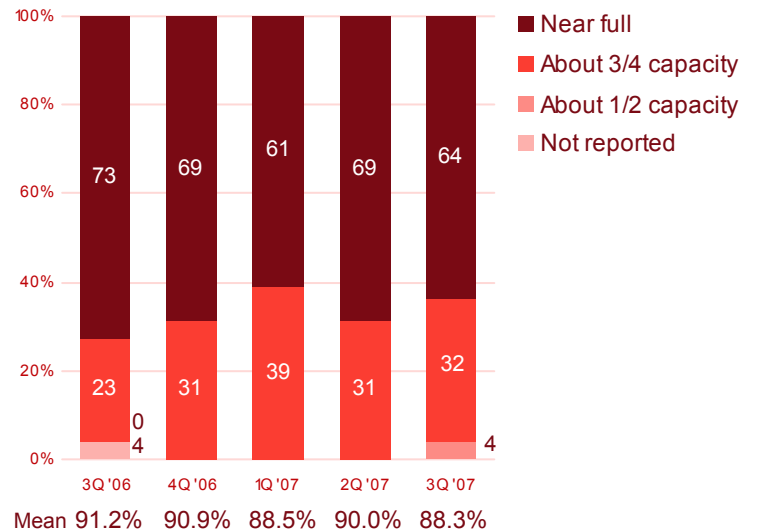
Chart 3.7 Level of operating capacity



Product companies



Service companies



Note: In 3Q 2007 All respondents n= 132, Product companies n= 107, Service companies n=25

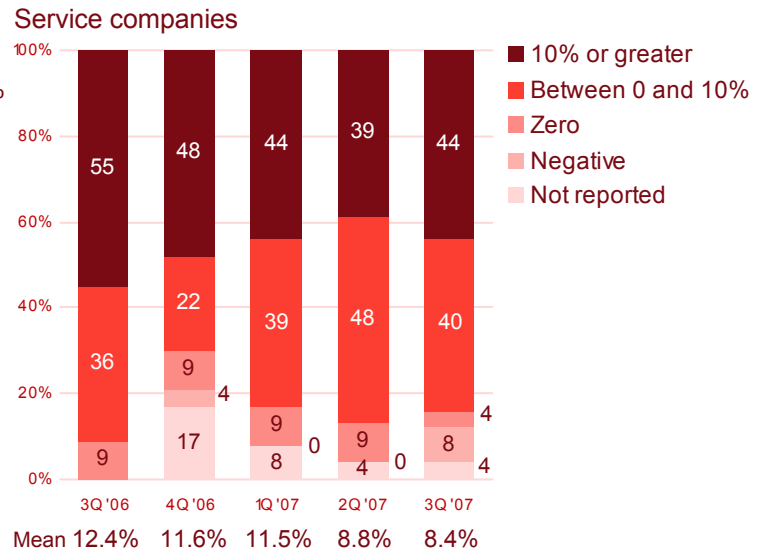
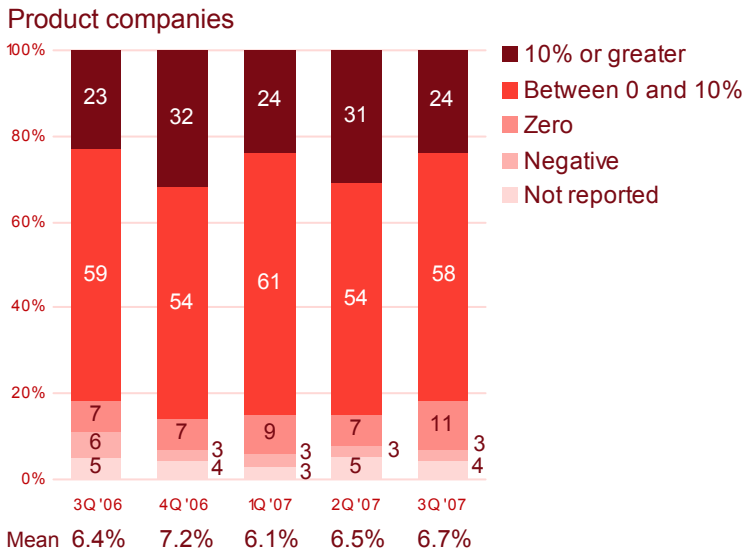
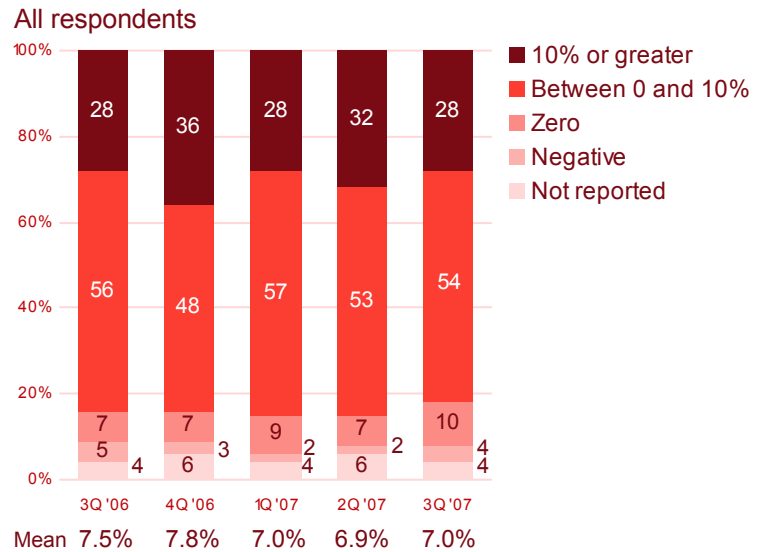
Business outlook, next 12 months

Revenue growth, next 12 months

What is your organization's estimated revenue growth rate for the next 12 months?

In the face of increasing uncertainty about the US economy, US-based multinationals project a 7.0 percent average revenue growth rate for their own companies over the next 12 months. This is on par with the prior quarter's 6.9 percent projection, but below the 7.5 percent projection a year ago. Currently, 82 percent plan revenue growth, with 28 percent expecting double-digit growth and 54 percent expecting single-digit growth. While product firms project 6.7 percent average growth, service firms project a higher 8.4 percent average.

Chart 4.1 Revenue growth, next 12 months



Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

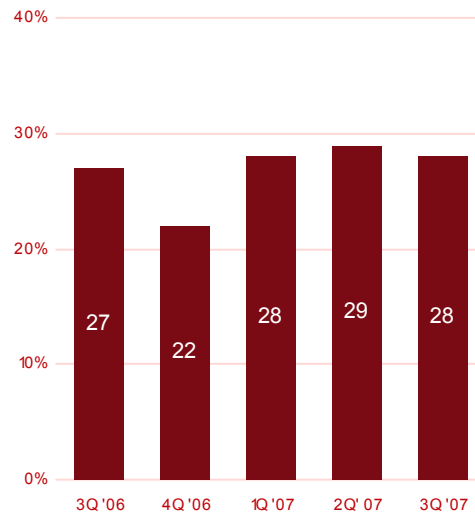
International sales, next 12 months

What percent of your business' total revenues over the next 12 months do you expect to be derived from international sales?

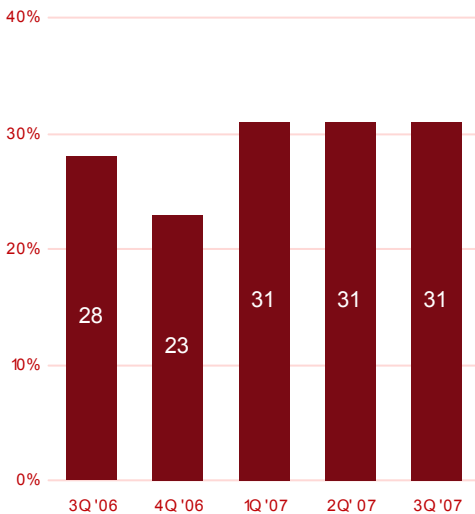
Over the next 12 months, those selling abroad project international sales to contribute 28 percent of total revenue, slightly below 29 percent in the prior quarter and on par with the 27 percent projected a year ago. Product companies project a 31 percent contribution of international sales to total revenues — up 3 points from a year ago — while service firms expect a lower 16 percent.

Chart 4.2 International sales, next 12 months

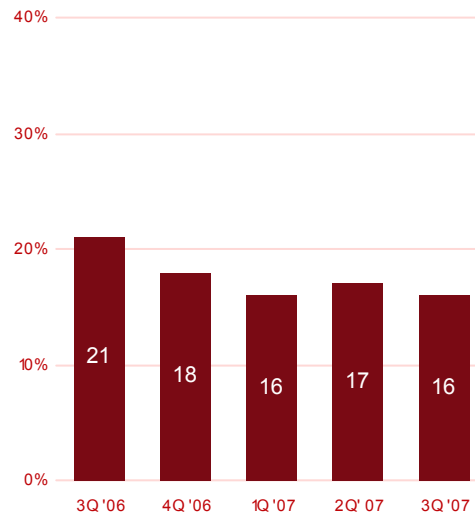
All respondents



Product companies



Service companies



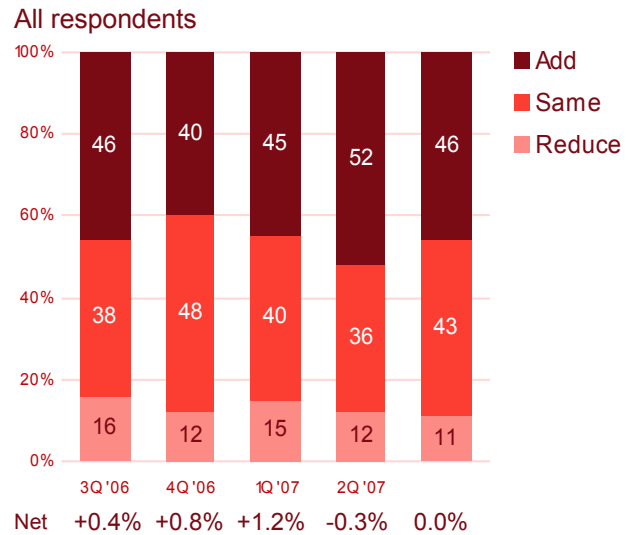
Note: In 3Q 2007 All respondents n=115, Product companies n=95, Service companies n=20

Percent planning to hire

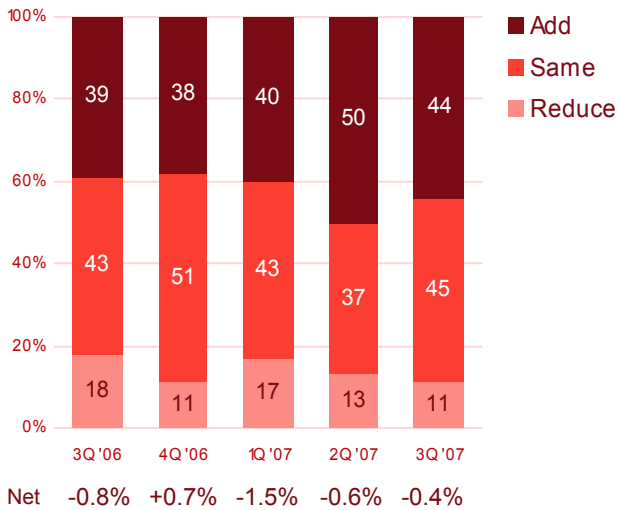
Do you plan to add or reduce the number of full-time equivalent employees over the next 12 months?

Forty-six percent plan to add new workers, down from 52 percent in the prior quarter but on pace with a year ago (46 percent). However, some larger planned layoffs contribute to a level projection of the number of workers over the next 12 months, compared to a plus 0.4 percent projection a year ago.

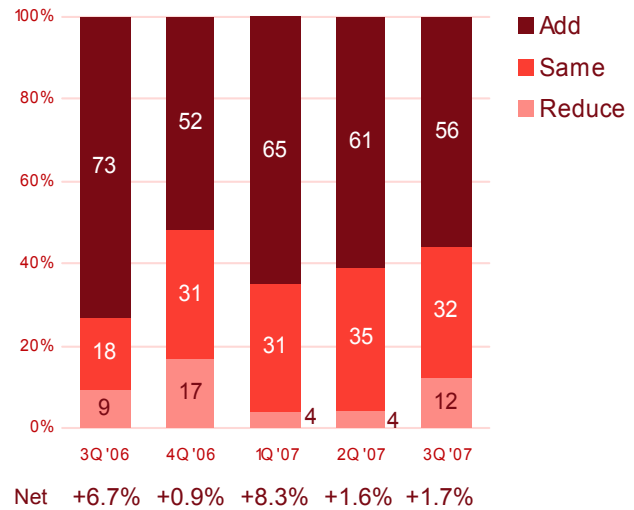
Chart 4.3 Percent planning to hire



Product companies



Service companies



Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

Percent planning to hire by type of employee

What types of employees do you plan to add or reduce over the next 12 months?

Over the next 12 months, US-based multinationals will be looking for a wide array of new hires, including professionals/technicians (28 percent, off 2 points), white-collar management support (22 percent, off 5 points) and blue-collar production workers (21 percent, off 4 points).

Chart 4.4 Percent planning to hire by type of employee

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Planning to hire (net)	46%	40%	45%	52%	46%
• Professionals/technicians	29%	26%	25%	30%	28%
• White collar support	16%	21%	25%	27%	22%
• Production workers	14%	17%	20%	25%	21%
• Skilled labor	15%	20%	22%	20%	17%
• Sales/marketing	20%	25%	23%	22%	14%

Product companies

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Planning to hire (net)	39%	38%	40%	50%	44%
• Professionals/technicians	25%	24%	20%	27%	22%
• White collar support	14%	20%	21%	27%	22%
• Production workers	13%	18%	22%	25%	22%
• Skilled labor	17%	19%	21%	20%	17%
• Sales/marketing	16%	24%	19%	21%	12%

Service companies

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Planning to hire (net)	73%	52%	65%	61%	56%
• Professionals/technicians	40%	35%	48%	43%	52%
• White collar support	27%	22%	48%	26%	20%
• Production workers	14%	9%	13%	22%	16%
• Skilled labor	9%	22%	30%	22%	20%
• Sales/marketing	40%	26%	43%	30%	24%

Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

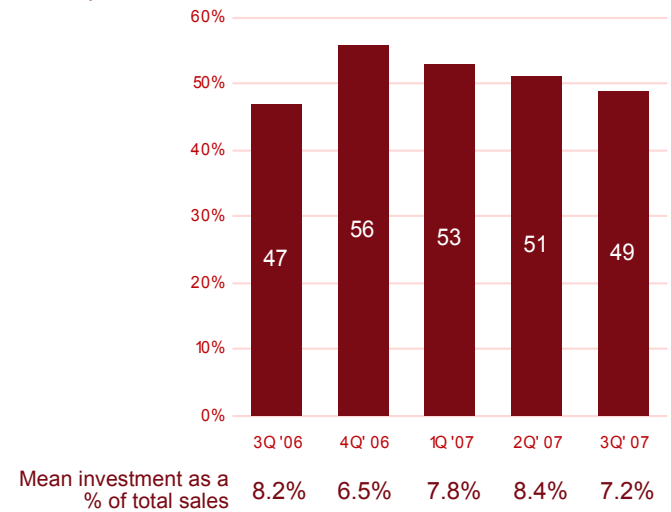
Percent planning major new investments of capital

Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales to you expect to invest?

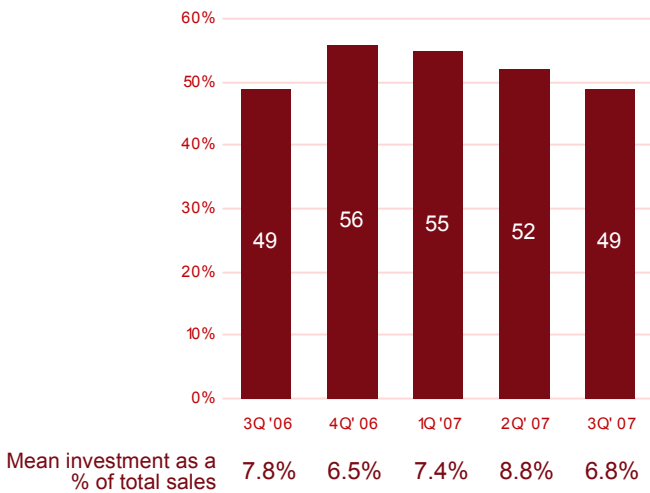
Forty-nine percent of US-based multinationals are planning major new investments of capital for business growth over the next 12 months — slightly below the prior quarter (51 percent), but similar to a year ago (47 percent). The mean investment is 7.2 percent of total sales. Both product companies (49 percent) and service firms (48 percent) are planning investments. The mean investment among product firms was lower — 6.8 percent of total sales versus 9.4 percent for service firms.

Chart 4.5 Percent planning major new investments of capital

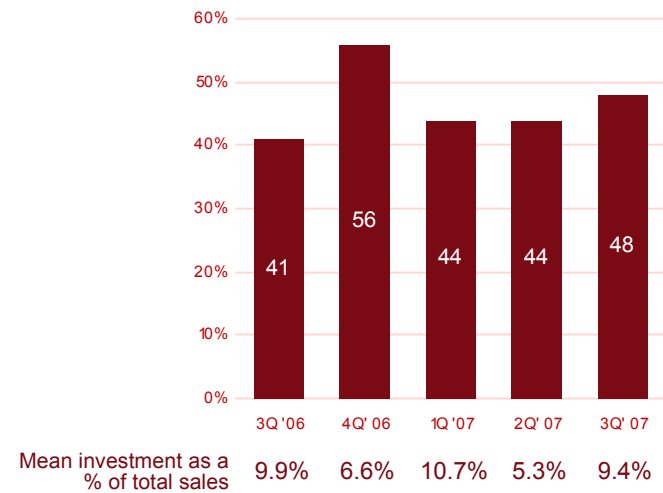
All respondents



Product companies



Service companies



Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

Percent planning to increase operational spending

Over the next 12 months, where do you expect to increase spending?

Looking ahead over the next 12 months, 88 percent of US-based multinationals plan to increase spending in a wide range of areas led by information technology — up sharply to 55 percent (up 8 points) — and new product or service introductions. More product firms plan to increase research and development and geographic expansion. More service firms plan to increase business acquisitions and facilities expansion.

Product companies

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Percent planning to increase spending (net)	80%	87%	92%	87%	86%
• Information technology	47%	50%	42%	48%	54%
• New product or service introduction	48%	49%	49%	53%	46%
• Business acquisition	38%	37%	31%	38%	38%
• Facilities expansion	36%	40%	35%	35%	33%
• Geographic expansion	31%	38%	35%	34%	34%
• Research and development	32%	27%	30%	36%	35%
• Marketing & sales promotion	28%	35%	36%	27%	31%
• Advertising	19%	25%	23%	22%	25%
• Internet commerce	19%	22%	22%	26%	19%

Chart 4.6 Percent planning to increase operational spending

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Percent planning to increase spending (net)	83%	86%	92%	88%	88%
• Information technology	49%	50%	46%	47%	55%
• New product or service introduction	46%	44%	47%	49%	48%
• Business acquisition	39%	38%	38%	40%	41%
• Facilities expansion	35%	40%	35%	36%	33%
• Geographic expansion	33%	39%	37%	38%	33%
• Research and development	30%	26%	30%	34%	32%
• Marketing & sales promotion	31%	32%	35%	31%	30%
• Advertising	22%	24%	24%	25%	24%
• Internet commerce	18%	21%	20%	25%	19%

Service companies

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Percent planning to increase spending (net)	95%	83%	91%	91%	96%
• Information technology	63%	48%	61%	44%	56%
• New product or service introduction	41%	22%	39%	30%	56%
• Business acquisition	45%	44%	69%	48%	56%
• Facilities expansion	32%	39%	35%	43%	36%
• Geographic expansion	45%	44%	47%	56%	28%
• Research and development	23%	22%	30%	22%	20%
• Marketing & sales promotion	41%	17%	30%	48%	28%
• Advertising	32%	17%	26%	39%	16%
• Internet commerce	18%	13%	9%	22%	19%

Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

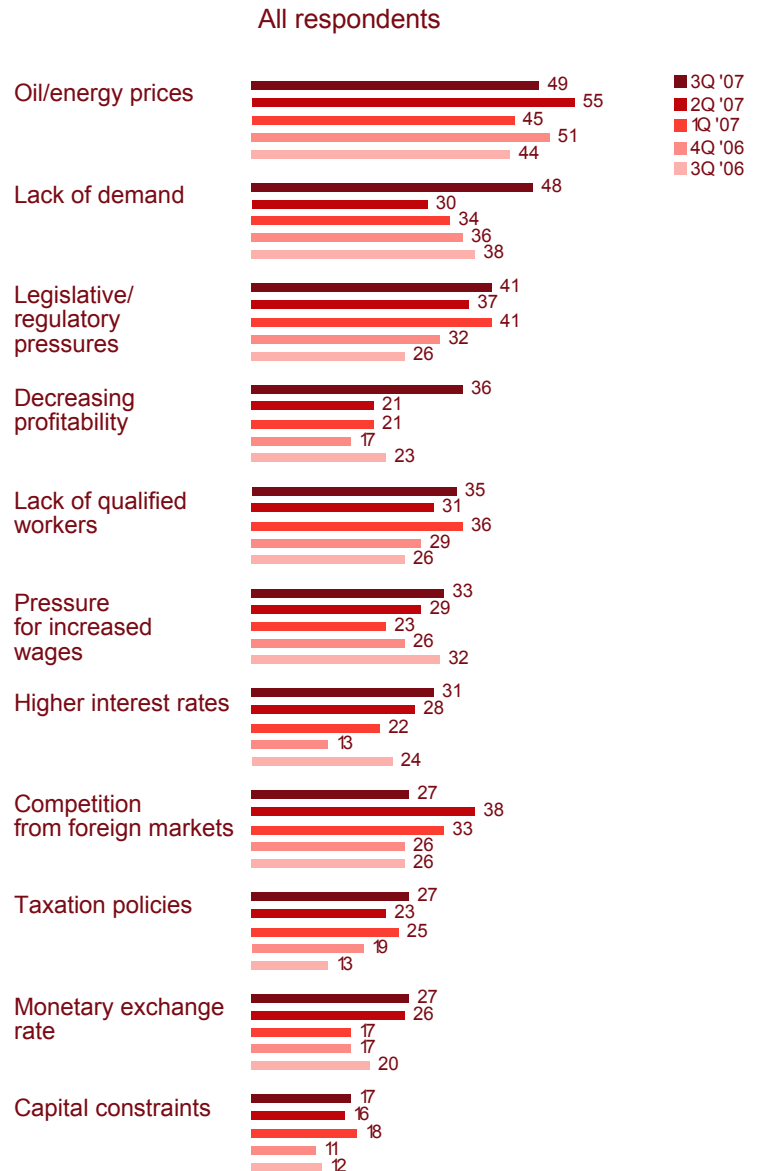
Expected barriers to business growth

Over the next 12 months, will any of the following represent barriers to business growth?

The impact of still rising oil/energy prices again tops the list of concerns for the next 12 months among senior executives of US-based multinationals, cited by 49 percent. With increasing uncertainty about the US economy, concern about market demand rose sharply as a potential barrier to growth, cited by 48 percent (up 18 points). Also up sharply, concern about decreasing profitability rose 15 points to 36 percent.

Legislative/regulatory pressures and lack of qualified workers remained often-cited barriers. Product companies were especially concerned about oil/energy prices, decreasing profitability, competition from foreign markets and monetary exchange rates. More service firms were concerned about the lack of demand.

Chart 4.7 Expected barriers to business growth



Note: In 3Q 2007 All respondents n=132

Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Plans for M&A activity among US-based multinationals over the next 12 months dropped to 45 percent — off 11 points from the bullish prior quarter, but in line with a year ago (47 percent). Of those planning M&A activity, 41 percent have plans to purchase another business — off from the prior quarter, but the same as a year ago. New strategic alliances, at 39 percent, and new joint ventures, 32 percent, also are on the rise from a year ago.

Product companies

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	69%	71%	68%	78%	67%
• M&A activity (net)	47%	47%	39%	57%	41%
- Purchase another business	39%	40%	33%	48%	37%
- Sale part/all own business	10%	11%	13%	16%	9%
- Equity carve-out/spin-off	5%	1%	5%	9%	6%
• New strategic alliance	30%	32%	36%	43%	35%
• New joint venture	19%	16%	23%	26%	28%
• Expand to new markets abroad	31%	28%	35%	34%	30%
• New facilities abroad	21%	22%	21%	20%	21%
• Close/reduce facilities abroad	11%	10%	8%	10%	10%
• Reduce activity in markets abroad	5%	5%	6%	8%	6%

Chart 4.8 Plans for M&A and other business initiatives

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	68%	69%	72%	75%	71%
• M&A activity (net)	47%	47%	45%	56%	45%
- Purchase another business	40%	40%	38%	48%	41%
- Sale part/all own business	10%	13%	14%	15%	8%
- Equity carve-out/spin-off	5%	2%	6%	9%	6%
• New strategic alliance	30%	32%	38%	42%	39%
• New joint venture	19%	17%	22%	25%	32%
• Expand to new markets abroad	31%	28%	35%	34%	32%
• New facilities abroad	17%	19%	17%	17%	18%
• Close/reduce facilities abroad	9%	8%	7%	9%	9%
• Reduce activity in markets abroad	4%	5%	7%	7%	5%

Service companies

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	64%	61%	87%	65%	84%
• M&A activity (net)	50%	48%	69%	52%	60%
- Purchase another business	46%	39%	61%	48%	56%
- Sale part/all own business	9%	22%	17%	13%	4%
- Equity carve-out/spin-off	5%	4%	13%	9%	8%
• New strategic alliance	32%	30%	43%	39%	60%
• New joint venture	23%	17%	17%	17%	48%
• Expand to new markets abroad	32%	30%	35%	35%	40%
• New facilities abroad	---	4%	5%	4%	8%
• Close/reduce facilities abroad	---	---	---	---	4%
• Reduce activity in markets abroad	---	4%	9%	4%	4%

Note: In 3Q 2007 All respondents n=132, Product companies n=107, Service companies n=25

Survey demographics and research methodology

Demographics

Who	Senior executives of large US-based multinational companies		
Interview dates	August 1, 2007 to October 30, 2007		
	All respondents (132)	Product companies (107)	Service companies (25)
Average number of employees	8,168	8,419	7,092
Average business unit revenues	\$3.14 billion	\$3.41 billion	\$1.96 billion
Average enterprise revenues	\$7.67 billion	\$7.39 billion	\$8.89 billion
Market capitalization	\$11.24 billion	\$9.68 billion	\$17.86 billion
Industry sectors	Products 81% Manufacturing 73% Trade/Distribution 2% All other 6% Services 19%		Caution: A small sample size is presented for service companies. Key differences between product and service companies are noted in the text.

Methodology

PricewaterhouseCoopers' Management Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. Our regular survey panel consists of senior executives from a geographically balanced sample of large multinational companies based in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or related.

www.barometersurveys.com

About the research:

The Management Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.barometersurveys.com.

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