www.pwc.co.uk/annualreport

Doing the right thing Annual Report 2012

Our Annual Report shows how we've done the right thing for our clients, our people and our communities over the past year.

pwc

Our key performance indicators

PwC client experience

To help us understand how we're performing and how our clients feel about us we talk with them regularly through face-to-face meetings and in-depth interviews with senior management.

Advocacy[1]

FY11 8.63 out of 10

Bring fresh insights to our clients[1]

FY11 7.61 out of 10

Read about how we've been delivering the PwC Experience for our clients on pages 12-15.

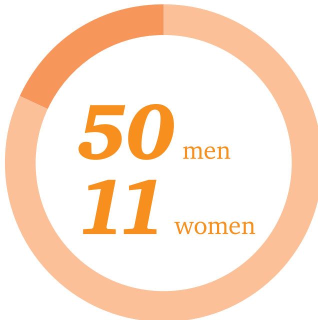
PwC people experience

Understanding what our people value about working here and where we could do better is important to us and drives our strategy. We pay particular attention to the engagement score which measures the motivation and satisfaction of our people.

People engagement[2]

FY11 3.96 out of 5

New partners[3]



FY11 69 men 12 women

Read about how we've been delivering our people priorities on pages 16-19.

Sustainability and community

We've been focusing on finding ways to minimise our carbon footprint and on finding ways to make a meaningful difference to our communities; and measure the social impact of these initiatives.

CO_2e emissions[4]

61,855
tonnes

FY11 60,609 tonnes

Time volunteered in the working day[5]

54,267
hours

FY11 50,206 hours

See how we've delivered against our sustainability and community objectives on pages 20-21.

Growth and profit

We have a strong and growing business, despite the challenging economic conditions. We continue to win new work, add value to our clients and invest for the future.

Group revenue[6]

2,621
£m

Up 7% this year. FY11 £2,461m: +6%

Published profit per partner

798
£'000

FY11 £763,000

Actual distributable profits to partners, after deductions, fell 4% from £707,000 to £679,000.

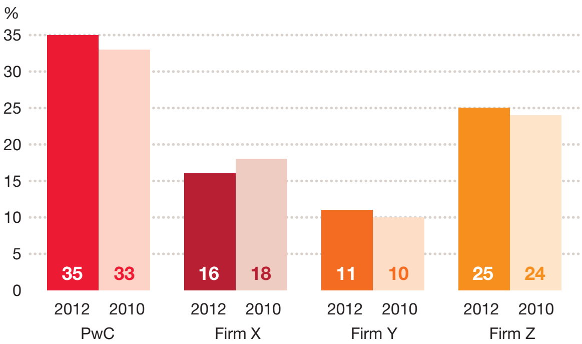
For a full review of our financial performance go to pages 30-61.

Leading firm – reputation and quality

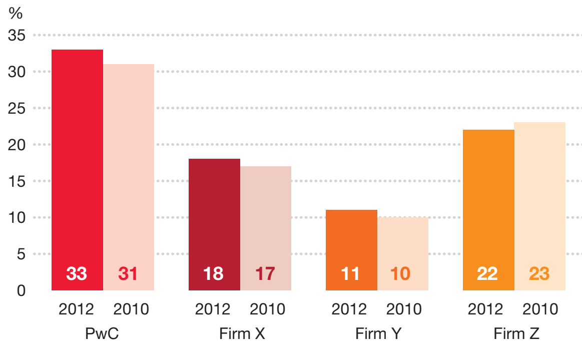
Brand Health Index[7]

One of the key measures of our reputation is our Brand Health Index score. The survey measures us against the other Big Four firms every two years. Respondents are asked 'Which of these firms comes to mind first as one that...':

Has consistent high quality



Provides leading-edge advice



Read about our reputation and quality on pages 22-23.

1 Figures based on direct client feedback.
2 Figures based on internal staff 'youmatter' survey.
3 Figures for the year 2 July 2011 up to and including 1 July 2012.
4 Based on Defra guidelines August 2011. Prior year figures have been restated in accordance with Defra. See www.pwc.co.uk/corporatesustainability for details.
5 Measured in line with the London Benchmarking Group (LBG) principles.
6 Includes UK and overseas group entities. All other KPIs refer to the UK only.
7 The Brand Health Survey benchmarks PwC on a range of criteria and provides data in relation to our immediate competitors. It is commissioned by PwC and conducted every two years by a third-party research agency (Perspective Research Services).

Who we are

'One firm – a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities.'

Our goal is to build the iconic professional services firm, always front of mind, because we aim to be the best. We set the standard and we drive the agenda for our profession. We value our past but look to invest in our future to leave the firm even stronger than when we inherited it. We will achieve the three pillars of our vision by living and breathing a common set of behaviours.

1. One firm

We are one firm, an extensively networked organisation that aims to bring the best of PwC to our clients each and every time. We combine rigour with fun and relish the most complex challenges. We create a flow of people and ideas. We will:

- aim to deliver more value than our client expects
- be agile and flexible
- share knowledge and bring fresh insights
- always act in the interest of the whole firm.

2. Powerhouse

Our clients and people feel and benefit from the energy and power of the firm. We have talented, enterprising and intellectually curious people who will strive with our clients to achieve success. It is this purpose that enables us to attract, develop and excite the best people and inspire confidence in our clients. We will:

- be positive and energise others
- invest in personal relationships
- listen with interest and curiosity, encouraging diverse views
- have a thirst for learning and developing others.

3. Do the right thing

We will deliver exceptional value with integrity, confidence and humility. We support one another and our communities. We have the courage to express our views, even when they may not be popular. We will:

- put ourselves in our clients' shoes
- never be satisfied with second best
- treat people in a way we would like to be treated
- always be brave enough to challenge the unacceptable
- act with integrity and enhance our reputation.

We must all accept personal responsibility to play our part in driving our firm, demonstrating these values and behaviours – opting out is not acceptable. Put simply this is how we define success.

The Group

The PricewaterhouseCoopers LLP Group consolidated within these accounts includes PricewaterhouseCoopers member firms in the UK, Channel Islands and Middle East. See page 48-49 for further details of the Group's principal subsidiary undertakings.

Contents

Building the iconic firm

Our goal of building the iconic professional services firm is underpinned by our business strategy and performance goals. Our strategy sets our direction and determines our objectives for each year.

It's important that we're able to measure and report our achievements against our strategic objectives and key performance indicators so that we're able to determine whether or not we're on track to achieve our ambition. Our strategy is shared with all of our people. You'll find our key performance indicators at the front of this report.

Iconic
Our ambition is to become the iconic professional services firm, always front of mind whenever professional services are mentioned.

Our vision
One firm – a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities.

Who we are
Who we are is the essence of the culture at the heart of our firm. It brings our vision to life and sets out the behaviours we need to adopt individually and collectively to make the PwC Experience a reality. Everyone in our firm is asked to accept personal responsibility to play their part in driving our firm by demonstrating these values and behaviours.

Personal responsibility
Every partner and member of staff understands how their own objectives and contribution support our overall strategy and performance goals. And we've introduced a new framework called the deal, which helps us understand what our people value and makes clear what we expect from them. You can read more about the deal on pages 16 and 17.

How we measure our performance
Our strategy sets our direction and determines our objectives for each year. These are our strategic objectives:

1. Leading firm
Our ambition is to be recognised as the leading professional services firm. We want to remain number one in size and reputation in the UK in each of our core businesses and markets; we want to be recognised as leading our profession in the important public policy debates currently taking place.

2. Growth
We want to remain the leading firm by revenue and continue to grow, investing in our future so that we leave the firm even stronger than when we inherited it.

3. Profit
We want to grow our profits, invest in our future and competitively reward our people.

4. Quality
We aim to deliver exceptional service and quality to our clients and focus on building a culture that delivers continuous improvement.

5. PwC Experience
To achieve our goals and remain ahead of our competitors we need to offer our clients and our people a distinctive experience. This is why the PwC Experience, which defines the behaviours that support our culture, underpins all of our performance goals. And so we work to embed the PwC Experience behaviours in everything we do – to make them integral to our culture, or 'Who we are'.

A message from our Chairman

Ian Powell
Chairman and Senior Partner

"I'm delighted to have been re-elected Chairman and Senior Partner. I believe our strategy and our talented people will continue to deliver exceptional quality and service to our clients in these difficult times."

Welcome to our Annual Report for 2012. Since I became chairman and senior partner in 2008 we've achieved a great deal through the hard work and commitment of our people and the support of our clients. The challenge now is to build on our achievements in a creative, innovative way and to develop our firm for current and future generations.

Our performance in a tough economy

Our strategy to continue to hold our nerve and invest in our business has been effective. We have grown and managed our business efficiently while focusing on quality and delivering continuous improvements in our client service. We've also continued to attract talented people both in our traditional areas and those markets which present new opportunities for our firm.

The key aspect of our strategy is staying close to our clients and our potential clients to gain a better understanding of their business and the challenges they face. I aim to meet at least two of our clients a day and find the feedback I get on the services we provide, as well as the depth and quality of insight and thinking on wider business issues, is invaluable.

This year we have invested in our people, the fabric and the infrastructure of our business. We have continued to make strategic acquisitions, including PRTM, a strategy and supply chain consultancy and Logan Tod, the UK's leading digital analytics and online performance optimisation consultancy – an area where we see great potential to combine our existing skills, scale and reach with Logan Tod's expertise. We've also won new business across a diverse range of sectors including a wide span of iconic names like Standard Chartered, Saudi Telecom and Tyco.

Following this strategy has contributed to another strong performance in what remains a very challenging market. Our revenue grew by 7% to £2.62bn, thanks to our strong portfolio of businesses, the quality of our work, the strength of the relationships we build with our clients and strong growth from the Middle East practice.

We see excellent long-term growth potential for all parts of our business, in particular Consulting, Risk Assurance and Actuarial. In addition, growth prospects continue to be favourable for our Middle East firm.

While we are best known for our work with FTSE clients we continue to invest in growing our long-standing private business practice. Last year this part of our practice grew by more than 7% and we see this growth continuing as our reputation in this market develops.

We don't just measure ourselves against financial performance; we also set ourselves non-financial targets and, as you'll see in our sustainability update later in this report, while we've made great progress on most of them over the past four years we know that there is still more for us to do.

The contribution we make

We make a significant contribution to the UK's prosperity. This year 16% of UK revenue was for work performed and billed to clients outside the UK. We play a key role in supporting capital markets and giving business and the public sector confidence.

We also make a contribution through the employment and professional training we offer. Throughout the downturn we continued to recruit a record number of school leavers and graduates to our training programmes and we also recruited experienced members of staff.

Our Total Tax Contribution to the UK Exchequer, including the contribution of partners of the LLP, this year amounted to £975m. This is discussed in greater detail on page 32. Partners will bear tax on their distributable profit share for the year at an average effective tax rate of approximately 47%.

We also make a significant contribution to our communities through our volunteering programme and our support for social enterprises such as the Brigade. You can read more about Brigade on page 20.

Our Executive Board

I have worked to make sure our leadership is balanced, with the right mix of personalities, experience and skill sets so that the team is stronger than the individual component parts. With Richard Collier-Keywood taking on a new role as Network Vice Chairman and Owen Jonathan's planned retirement on 31 December 2012, last year was an appropriate time to review the leadership team. Both Richard and Owen have made a significant contribution to the firm over many years and I am grateful to them for their support as my colleagues on the Executive Board.

It's important that the Executive Board continues to reflect the needs of our business and the marketplace, and I have taken this opportunity to create a new Executive Board which I believe will be able to deliver on our ambitious plans.

Kevin Ellis has moved from his role leading our Advisory business to take on the role of Managing Partner. Given the size and complexity of our Deals and Consulting businesses in the UK, which previously were joined in our Advisory practice, I decided that specific leadership responsibilities for these business areas would position us best to achieve continued growth in these markets. John Dwyer has joined the Executive Board with responsibility for our Deals business and Ashley Unwin for Consulting.

I am also delighted to welcome Margaret Cole, formerly a Managing Director and Board Member at the Financial Services Authority to the Executive Board. Margaret will be taking on the role of General Counsel from the start of 2013.

I believe that the composition of this new Executive Board is the right one to deliver on our ongoing one firm strategy.

Creating a diverse firm

Increasing diversity is an important part of our strategy: having a better balance positively influences our culture and our decision-making processes. It gives us a competitive edge and helps us to think differently, innovate and identify new opportunities. We've focused on increasing the proportion of women in senior grades, including our Executive Board, and drawing on a wider pool of talent, widening our search beyond the traditional areas. You can read more about our people strategy on pages 16-19.

Reputation and quality

We remain committed to delivering the highest quality of professional service and advice to our clients. One of my priorities is setting the right 'tone from the top' to make sure that all of our people understand and support this goal.

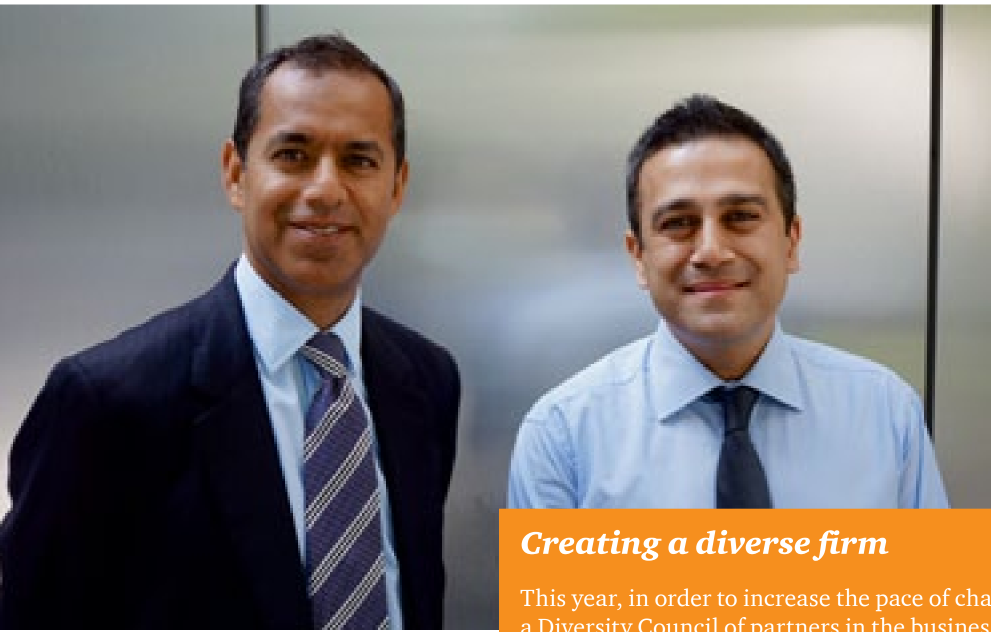
Public interest in our reputation and the quality of the work we perform rightly extends across all our business. Last year we created a new Executive Board role with specific responsibility for Reputation and Policy, and Richard Sexton has been actively involved in discussions with key external stakeholders to understand their views of our firm.

Our Public Interest Body (PIB) was also established last year to meet the requirements of the Audit Firm Governance Code, and is now making a significant contribution to the governance of our firm. You can read more about the role and priorities of the PIB as well as a message from its Chairman, Sir Richard Lapthorne, on page 28 of this report.

Our business is, quite rightly, the subject of intense public and regulatory scrutiny. We have a responsibility to set and uphold best practice in the way that we run our firm. Ten years ago we established the Building Public Trust Awards to promote corporate transparency and recognise the best in corporate and public sector reporting. Over the past decade the awards have grown in stature and have made an important contribution to developing and sharing innovation and improvements in corporate reporting in the UK.

We have also focused our attention on the loss of trust in business. We have hosted a series of debates with the Institute of Ideas to discuss this issue and the steps business can take to regain public trust.

Our position as the UK's largest audit firm carries a significant public interest responsibility. Our reputation is built on quality and integrity. We do our utmost to make sure we deliver consistently high quality audits. Further details on our commitment to this can be found in our latest audit quality and transparency report at www.pwc.co.uk/annualreport.



Armoghan Mohammed and Sunil Patel
PwC partners and members of our Diversity Council

"Diversity is a key priority for our clients and our business. We can all be more diverse in our own thinking, teams and ways of working. The Diversity Council develops practical ways to embed diversity into our day to day business."

Creating a diverse firm

This year, in order to increase the pace of change, we have set up a Diversity Council of partners in the business. The Council has developed a route map for a more strategic approach to diversity, with each member of the Council taking the lead on a specific area of focus. Priority areas include making sure we recruit the best people from the most diverse talent pools, understanding what drives the diversity of our pipeline of talented people and reviewing the development and support we offer to certain groups to make sure that all of our people have the opportunity to fulfil their potential.

The UK audit market is currently the subject of a Competition Commission market investigation. We have submitted a substantive body of data and evidence to the Competition Commission to demonstrate the fierce competition in this market. Our position remains clear. We support open and competitive markets and the removal, if they exist, of any artificial barriers to entry. We believe clients should retain the ability to choose their auditor.

I can think of no other market for professional, or indeed any other, services which is characterised by the level of transparency and accountability found in the audit market. Our audit, and non-audit, fees are published in the annual report; our appointment and reappointment is subject to an annual shareholder vote. Our day-to-day work is scrutinised by audit committees which are there to represent shareholders' interests and we have a robust, independent and highly credible regulator overseeing the quality of our audit work.

One aspect of the quality debate that is too often overlooked is our continuing investment in innovation. Over the past four years we have made significant investments in our audit methodology and the tools and technologies that support it.

In the past 12 months we have also seen a renewed focus on the UK's tax system and the advice we give to our clients. We have sought to engage in this debate and will continue to explain the nature of the role we perform and the value it adds to the wider economy.

Being part of a global network

I believe our firm is part of the strongest and most complete network of any professional services organisation. The PwC network employs close to 169,000 people in 158 countries around the world. We are able to provide our clients with consistently high quality professional services wherever their business is located or conducted.

Of particular importance to the UK firm is our strategic alliance with the PwC Middle East firm. Bilateral trade between the UK and the Middle East creates opportunities for growth and gives access to a growing international region with strategically important capital flows.

The management and operational challenges should not be underestimated, given the relative volatility of the region and the pace of growth, but the leadership team in place and the progress made reaffirm that this was an important investment for the UK firm to have made and one that will continue to yield significant benefits to the firms and the PwC network in the future.

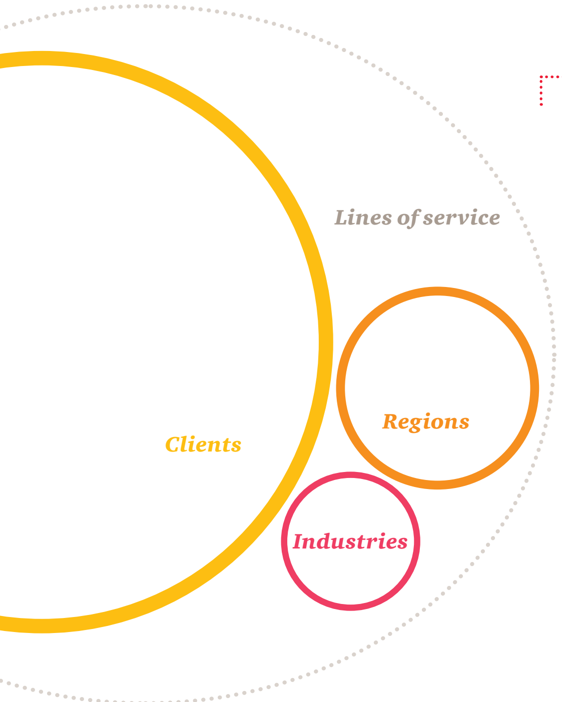
Looking ahead

I was delighted and honoured to be elected by my fellow partners to serve a second term as Chairman and Senior Partner. The firm is in great shape, we have world-class people, a market leading brand and an enviable client base. We have a clear and robust strategy and I am confident we will continue to add great value with our strong commitment to quality and doing the right thing for our people, our clients and our communities.

Ian Powell

Ian Powell
Chairman and Senior Partner

Our business



What we do

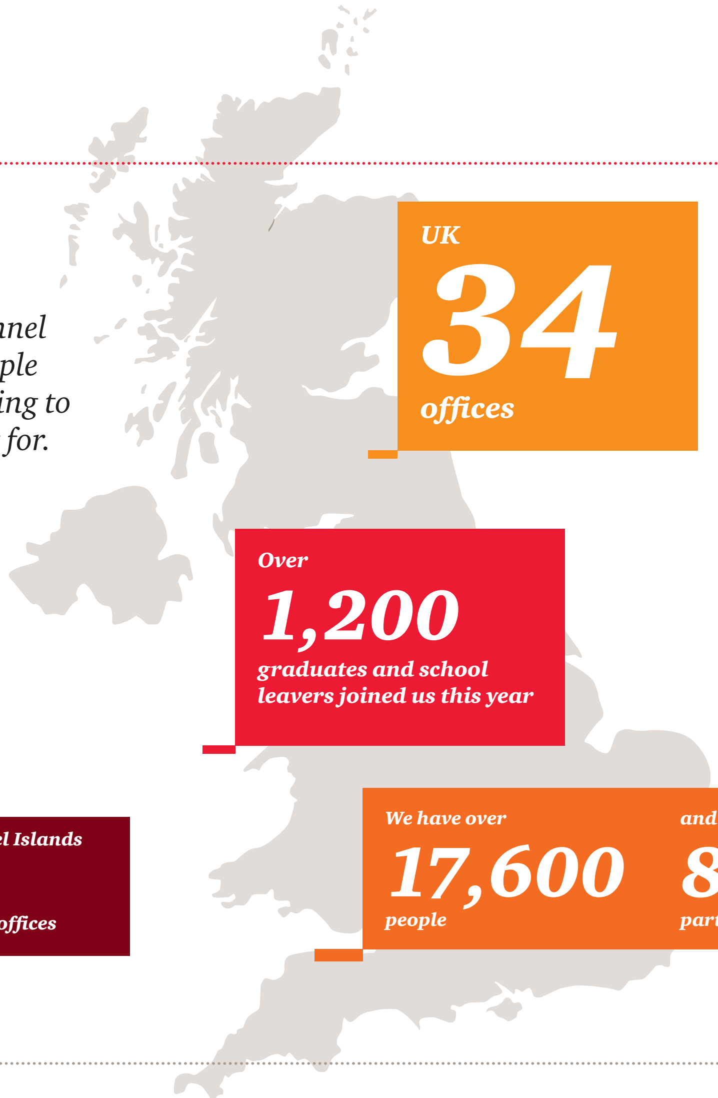
We recognise that value means different things to different people. So we build relationships with them to help us understand their goals and ambitions – the things they value. Then we work together to help them create the value they're looking for. This works in just the same way for our people as it does for our clients.

Our market strategy takes into account the clients we serve and the industries and regions we operate in. We empower our partners and our people to deliver an exceptional PwC Experience to their clients and drive revenue growth. You can read more about how we work with our clients on pages 12 to 15.

We manage the firm through four lines of service: assurance, tax, deals and consulting. You'll find some performance highlights for each of these on pages 10 and 11.

Where we do it

We have 57 offices across the UK, Channel Islands and Middle East. All of our people across our extensive network are working to create the value our clients are looking for.



UK **34** *offices*

Over **1,200** *graduates and school leavers joined us this year*

Middle East **21** *offices in 12 countries*

Channel Islands **2** *offices*

We have over **17,600** *people* *and* **872** *partners*

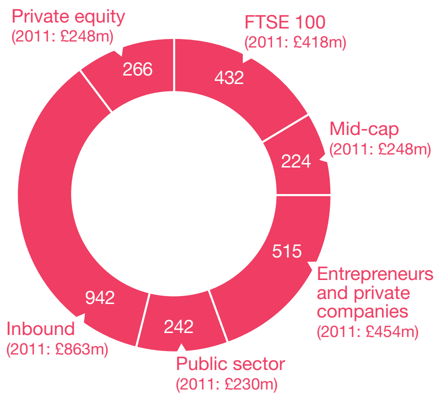
Some of our 2012 achievements

Our position in the market

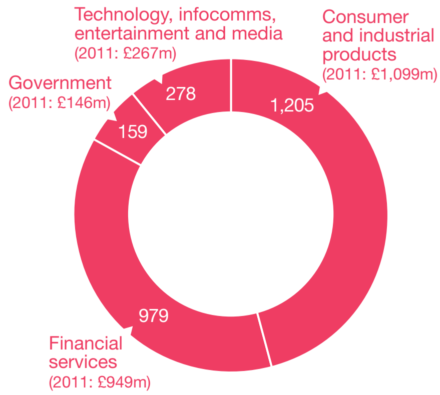
We are the largest UK professional services firm.

- We enhanced our number one position in the Brand Health Index survey of leading firms.
- In audit, we have maintained our leading market share in the FTSE 100 (40%).
- We have once again been ranked number one globally in financial consulting, in Kennedy Information's report, Global Consulting Marketplace 2011-2014. The ranking is based on 2010 revenue.
- We are the leading Tax practice in the UK (Global Tax Monitor).
- We aim to be the UK's leading professional services commentator in the national print and broadcast media. This year we have had the leading share of media voice compared to our nearest competitors and we will continue to express our views on the most important matters relevant to our clients and markets.
- We're the Times Top 100 Graduate Employer of the Year for a record-breaking ninth consecutive year.
- We were named Network of the Year at the International Accounting Bulletin awards. The awards recognise the leading accounting firms, networks and alliances across the world.
- We were named top professional services brand in the best performing brand category at the Managing Partners' Forum European Leaders Award.
- For the second year running, our Chairman has won the Most People Focused CEO, Private Sector in the HR Excellence Awards 2012.

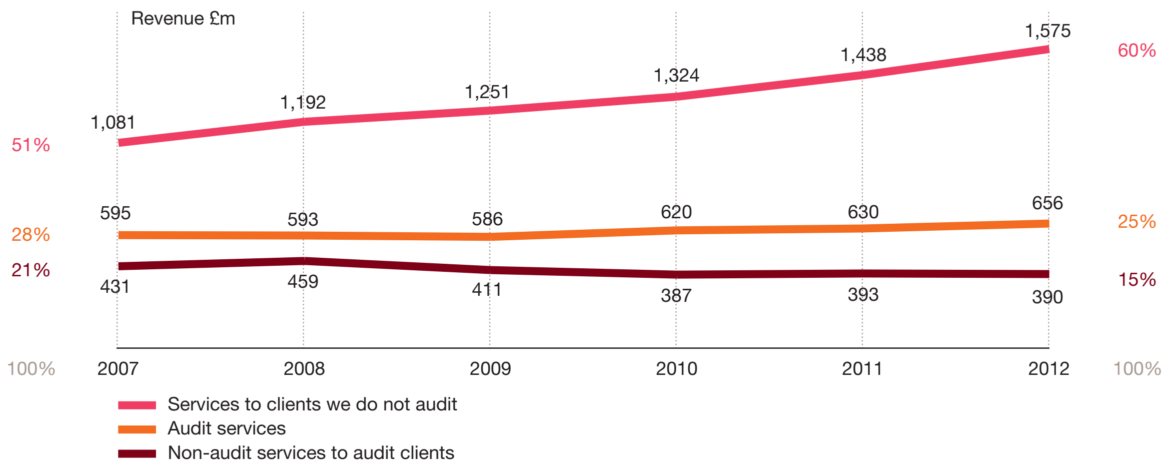
Segment analysis



Industry analysis



Service analysis



Our business overview

Our performance

Economic conditions remain challenging for our clients and we have experienced some of the most uncertain trading conditions we can recall. With confidence in short supply, our clients have increasingly looked to us for innovative solutions to their business needs while we have continually improved the quality and efficiency of our services. Over the past year we have focused on these goals to demonstrate that we are delivering the value they are looking for.

We remain confident in the UK's longer term economic prospects and we are determined to make the right investment decisions to be well placed to react to and support the economic recovery when it happens. We believe that the professional services we offer enhance the UK's overall economic competitiveness.

As we look towards the coming year we remain cautious about the wider economic outlook and confident that we have the right strategy to continue to build our practice even in a low growth economy.

Kevin Ellis
Managing Partner
"We are continuing to make long term investment decisions to make sure we have the right people and skills to support our clients in these uncertain times."

We are well placed to make a great contribution to our clients and the UK economy in what is likely to be a period of rapid change in the business environment.

As you can see on pages 30-61, our financial performance for this year has been strong set against the backdrop of continuing volatility and uncertainty in a number of key markets.

We had anticipated these market conditions in our planning. The investments in people and systems that we made ahead of the downturn, in our countercyclical services, such as business restructuring, have benefited our firm and our clients. Despite fierce competition, we are sticking to our long-term strategy and we have continued to make a number of key investments over the past year to strengthen our practice.

While our reputation is rightly built on the quality and reliability of the services we offer, our firm also has a track record for innovation. Business continuity, risk assurance, sustainability and non-financial reporting are just a few examples of the innovative services we have developed in recent years which are now delivering value to our clients. Our work for Vodafone as profiled on page 14 is a great example of this commitment to innovation in practice. That culture of innovation continues and we are currently developing new services and ways of working designed to help clients meet the future challenges we anticipate for business.

Never settling for second best

Sustainable success in the market comes from offering our clients a distinctive experience. We work together with them to help create the value they're looking for. This is driven by the PwC Experience, which you can read more about on pages 12-15. As Board members, partners and leaders in our business we do our utmost to make sure that every part of the firm understands and supports this.

Our Executive Board regularly reviews the quality of our services and the client experience, as measured in client advocacy and other feedback scores, the level of our people's engagement and motivation, the impacts of our business on the environment and our contribution to the community. We've outlined how we've performed against these measures on the inside cover of this report.

We have a constant focus on quality across all of our business, we've continued to improve our Risk and Quality policies and procedures, and we're implementing a framework to increase the consistency of quality across our business, making sure that our review processes consistently measure the quality of our work.

Meeting client demand

Uncertain economic times such as these call for greater agility and efficiency in the way we manage our practice. We have made every effort to hold on to our people through this downturn. We have also improved our ability to move people around the firm to support those parts of the practice with the greatest demand for services. Aside from the obvious benefit to our own business performance this has undoubtedly strengthened client relationships as we have moved speedily to meet their evolving demands.

We have seen ample evidence over the course of the downturn that clients benefit from the breadth of our practice and the depth of talented people we are able to deploy.

Our work at Lehmans is a good example of talented people in action. Over the past four years we have undertaken the most complex administration ever.

Markets and sectors that can help us grow

As we look to fulfil our ambitions to grow we're focusing on market areas that will drive sustainable revenue growth. We believe we're well placed to increase our market share across all of our practice but expect growth to be strongest across parts of the financial services sector. We also see significant potential for growth in the energy and utilities sector as well as the telecoms and mining sectors. Targeting all industries effectively needs well-coordinated investment and leadership and over the course of the past year we have appointed a number of new leaders to take on this challenge.

Stephanie Hyde

Regions

"I have spent most of my career with the firm working in our regional practice and I know first-hand the value clients place on PwC being able to deliver our full range of services wherever they are based."

A regional perspective

Our regional network of 34 offices across the UK helps to make sure that we are able to deliver our full range of services wherever our clients are based, or anywhere they are doing business. We continue to see strong potential for growth across our regional practice from working with entrepreneurs through to multinationals. In London and the South East, where higher than average economic growth is forecast, we will continue to invest to respond to market opportunities. Growth in Scotland will be driven by opportunities within the financial services and oil and gas industries. Across the whole of the country there is significant scope for us to further increase our market share in working with private and fast growing companies where our breadth of experience and multinational reach is particularly valued.

We continue to focus on winning new audits and, given the increasing number of tenders we saw last year we feel we can achieve this, particularly in the part of the audit market outside the FTSE 350. We also want to create new businesses by looking at acquisitions and strategic alliances, for example in the human resource services and financial services sectors, and by bringing together different parts of our tax business and working across lines of service, particularly with consulting. We're still seeing good growth prospects for our wider consulting business. Restructuring opportunities are staying strong because of the continued economic uncertainty, driving growth in business recovery services.

We have created Board roles for our Consulting and Deals practice leaders in place of a single Board role for the Advisory practice. This decision reflects both the importance of these businesses to the services we provide for our clients and our belief in their future growth prospects.

Investing for the future

Our strategy is robust and working. We have a strong platform for the future and we'll continue to sharpen our focus on delivering against our priorities. By holding our nerve through these difficult times and remaining committed to delivering the PwC Experience, I believe we can differentiate ourselves in ways that matter to our clients, our people and our communities.

Our business performance highlights

Assurance

£963m

revenue (+6%; 2011: £909m)

Our Assurance practice provides a broad range of assurance services including statutory audit, internal audit, risk assurance, actuarial services and advice in connection with capital markets transactions. We have over 6,700 people who are part of a network of over 75,000 assurance professionals around the world who help us provide services to the largest most complex multinational organisations.

We are the clear market leader by reference to market share and overall brand position. We are best known for our statutory audit work where the market remains incredibly competitive. Against this backdrop we are proud of our FTSE 100 (40%) and FTSE 350 (29%) market share. Audits we started to work on this year include Aviva, Dubai World, Genel Energy and Yule Catto.

We continue to see opportunities for growth in all of our markets but particularly in mid-cap and private company audits as well as the inbound initial public offering market.

At a time when the audit market is the subject of much discussion we've welcomed the opportunity to be part of these debates and have looked to contribute to them where possible, working hard with the market, regulators and government – both in the UK and Europe – to promote audit quality and to explore how audit can develop to meet the changing needs and expectations of investors, companies and other stakeholders.

For many years we have been investing in growing our broader assurance services, which have shown another year of strong growth and now account for almost a third of our assurance business. We have developed further innovative new non-statutory assurance models in the areas of IT and sustainability.

James Chalmers
Assurance

We will continue to invest heavily in improving quality and transforming how we deliver our assurance services. Over 1,000 people joined our Assurance teams, including a mix of both experienced hires and graduates who will typically work towards achieving qualification and membership of ICAEW, ICAS or ACCA. We are committed to developing professional leaders for not only our practice but the wider business community.

Tax

£659m

revenue (+2%; 2011: £645m)

Kevin Nicholson
Tax

We have over 3,000 people who work with leading businesses, entrepreneurs, private clients and public sector bodies helping them to deal with complex legislation, manage risk and reduce the cost of transactions and change in their business.

We have the largest Tax practice in the UK. We also have the leading reputation according to the Global Tax Monitor survey and over the last year we've increased the gap with our competitors. Our size and reach means that we can deliver a broad range of services to our clients, including direct tax, personal tax, VAT, pensions advice, wealth management, mobility and reward services.

International work experience is a critical part of advising global clients and this year over 160 people took part in international secondments, to and from the UK. We've also launched the first ever Higher Apprenticeship scheme for school leavers, which offers young people a direct route into professional services.

We continue to engage proactively in the ongoing debate about tax policy. Our Total Tax Contribution framework has been running for eight years and it is recognised by both government and business as a valuable source of data, which measures the broader tax contribution made by companies and their employees to the public purse. Being known for our forward-thinking and leading views has remained a priority and, as mentioned on page 15, our Reward team has taken an active role in the debate about executive remuneration and delivered a global survey, 'Psychology of Incentives', in conjunction with the London School of Economics and Political Science. This report identifies executives' views of what does and doesn't work with the current model of executive pay.

With this year's Budget and the Corporate Tax Reform, we've had an exciting year working with our clients around the 'Britain open for business' agenda and we've continued working with several companies wanting to relocate to the UK, of which Lancashire Holdings is a great example. Our Deals team has been busy winning work with Merlin Entertainments Group, owner of visitor attractions like LEGOLAND®, Madame Tussauds and Alton Towers, to help them develop and implement their global tax strategy as they look to expand their global footprint and our International Mobility team have been appointed by HSBC for their global expatriate tax compliance work.

In the year ahead we will use our leading position to better inform and influence the debate on tax in a way that is positive for the UK economy, the tax profession and our business. Most of all our focus will remain on our clients, so we keep bringing them the very best of our practice and our firm.

Deals

£561m

revenue (+8%; 2011: £518m)

Our Deals practice is made up of Business Recovery Services, Corporate Finance, Forensic Services and Transaction Services. We have a team of over 2,000 people.

Over the last year we've continued to build a strong brand in both the deals and crisis markets providing innovative solutions to clients in the banking, corporate and private equity arena. We are part of a vibrant global Deals network with much of our work serving clients across many geographies. For example a combined UK, Middle East and Brazilian Energy Utilities and Mining team recently came together to work for Mubadala on its $2bn investment in the EBX Group in Brazil.

As well as the Lehmans insolvency we have worked on other high profile administrations including Petroplus and Game.

John Dwyer
Deals

We continue to invest in the business, not least in our debt and capital advisory capability where we advised Premier Foods on its recent debt refinancing.

Working with our Middle East network firm we have supported the rebuilding of a professional services practice in Libya, which has 55 people including two partners helping Government and domestic and international businesses in the country.

We have seen a significant uplift in our Corporate Finance revenues this year. This increase, delivered in the context of a depressed market, has been driven to a large extent by transactions completed with global buyers, identified in conjunction with our extensive, growing international network.

The business continues to grow despite the difficult market and we are committed to always bringing the best of our firm to our clients.

Consulting

£438m

revenue (+13%; 2011: £389m)

Our Consulting practice is made up of consulting and sustainability and climate change services. We have over 2,000 people. We help our clients to work smarter and grow faster. Our work is always evolving to respond to industry trends and management focus. We help our clients design, manage and deliver lasting beneficial change.

We've enjoyed a number of successes in the last year. We were recognised by a number of prestigious external award bodies, including 'Consultancy of the Year' for the second year running at the Business Green Leaders Awards. Our teams also swept the board at the 2012 Management Consultancies Association Awards with five award wins and two commendations; these wins included projects we did with both public and private sectors including Swiss Re and Newham University Hospitals Trust, where we worked with our colleagues in Business Recovery Services and Human Resource Services.

Ashley Unwin
Consulting

We've continued to expand our international footprint, working closely with our Middle East network firm on a number of major projects including a transformation programme for Saudi Telecom and with our US network firm at Tyco. We have continued to build our regional Consulting business, building on the firm's market leading position across the UK.

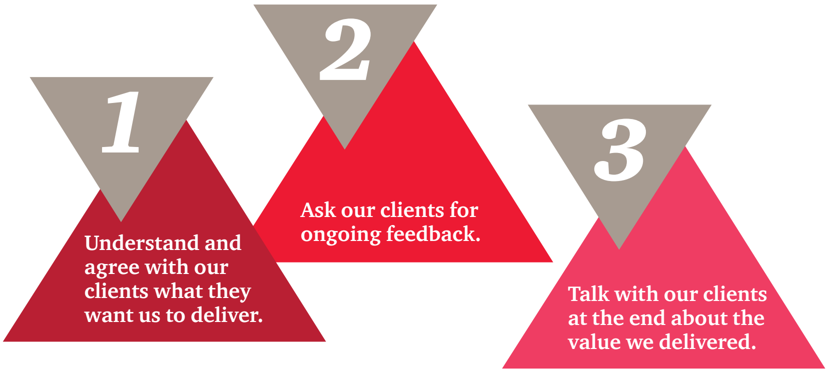
In the year ahead we'll stay focused on our people engagement strategy, make sure we continue to find ways to improve how we work as one firm by building relationships with other parts of our firm and make sure we deliver the best possible PwC Experience for everyone.

A distinctive client experience

Competition is intense in all of our markets. We have a leading position in the Brand Health Index but we recognise that our continued success is dependent on our ability to build relationships with our clients and to understand what it is they value. We work together to use our insight and knowledge to deliver the value they are looking for. We recognise that this value will change over time and so we invest in our relationships to make sure we continually provide what our clients want.

Our three client principles

We aspire to follow three simple steps when working with all of our clients to help make sure we're creating the value they're looking for and delivering a distinctive PwC Experience.



Building a healthy brand

Every two years an external organisation measures our brand strength compared to our competitors, based on perceptions of buyers in the market; this is called the Brand Health Index. It is run across 32 countries and in the UK 400 interviews were carried out, with both current and prospective clients. We are delighted that this is the second index that has shown that we have a significant lead over our competitors. We are particularly differentiated in the quality of our work and the talent and knowledge of our people for companies of varying sizes and in a range of industries. More satisfying is that this lead has increased in 2012.

While all of this is good news, the survey has told us that we have room for improvement. Organisations recognise that we are better than our peers at delivering quality outcomes for them, but they don't believe that the way we do it is consistently differentiated.

The year ahead

As we look to the next financial year, we'll look at ways we can improve how we deliver our promise to help our clients create the value they're looking for. We'll be taking on board the findings in the Brand Health Index as well as our other pieces of client feedback.

Across the globe, over 39 million girls of primary school age have never been to school

Improved girls' education can have a direct effect upon economic growth, reduce poverty, significantly reduce under five and maternal mortality and have a range of other social and environmental benefits. Girls with an education have improved literacy and numeracy, but they also tend to marry later, earn more money as adults and have healthier families.

Their children are more likely to go to school themselves.

In April 2012, we were appointed as Fund Manager for the Girls' Education Challenge – one of the UK Government's most ambitious international development programmes. Over the next four years we will be distributing and monitoring approximately £300 million to projects that will improve the learning of up to one million of the world's poorest girls.

The programme will fund organisations tackling the barriers facing marginalised girls in 22 countries in Africa and Asia. To receive funding, they have to demonstrate measurable improvements in the quality of education and increased numbers of girls being educated.

As Fund Manager, we will play a pivotal role in identifying potential recipients, developing strategic partnerships and supporting projects on the ground.

To implement this project, David Armstrong, Programme Partner, has brought together a team of 20 people from the UK and the broader PwC network, with experience in fund management, international development, education and gender issues. He said: "This is an exciting project that gives us an opportunity to make a real difference to the lives of these girls, their families and their communities."

Richard Oldfield
Markets and Industries

"Our future success depends on our ability to deliver an exceptional PwC Experience for our clients."

Understanding and agreeing what our clients want us to deliver

We start every client engagement from the simple premise that we need to properly understand what the client wants us to deliver before we can agree what success, and value, looks like. Our partners and staff take the time to get to know our clients and their priorities to ensure we bring the PwC Experience to life in every client engagement.

Asking our clients 'how we're doing'

We talk with our clients through the course of every engagement. We aim to make sure that our understanding of what's important remains current, and as circumstances change, we reflect that in our work.

Talking about the value clients feel we have delivered

Our clients get the chance to tell us whether we have delivered the exceptional service and value they are looking for through our comprehensive client feedback programme. The results of this feedback are closely monitored by senior partners and the Executive Board to ensure that we continue to improve the way we support our clients.

A personal responsibility to deliver the PwC Experience

All our people are expected to follow this approach. Opting out is not an option. Making sure that this is delivered consistently to all our clients is a top priority for the Executive Board.

The value we help create

In this tough economy our clients are looking to us to help them and combine our scale and reach with innovation to solve their individual client issues. This includes supporting them in making the right strategic decisions, investments and operating efficiently.

Managing costs remains a priority for all our clients, but they are also increasingly focusing on their environmental impact and the performance of their supply chain.

The size, capability and geographic spread of the PwC network enables the firm to work cross-border and get the right people, with local knowledge and insight, from around the world to help solve our clients' business needs. Over the past year 614 people from around the PwC network have worked in the UK on secondment, and 484 of our people from the UK have worked in other territories on secondment, making sure our clients have easy access to local PwC expertise wherever they want to do business.

Our global network has also helped to bring business to the UK, such as the UK listing for overseas companies where we have provided key professional services. One example is the initial public offering of Ruspetro, where we acted as the Reporting Accountants. This was a joint effort with a team from our PwC network firm in Russia. Cross-border transactions from emerging markets are becoming increasingly popular and bring opportunities to the UK.

Research and thought leadership that matters

We have a vast range of knowledge and experience within our firm and where possible we share this with a wide audience. Earlier this year we launched our fifteenth annual Global CEO Survey, polling more than a thousand CEOs in 60 countries. The survey, combined with analysis from PwC experts, offers a deep understanding of the strategic and management issues facing their businesses and an insight into their plans for the future. Half of the CEOs we talked to believe that future growth is heavily dependent on their ability to find and access new and emerging markets. We've been helping many of our clients plan and prepare for this new phase of international expansion.

Our clients in the financial services sector continue to face some of the most challenging trading and regulatory conditions of the last 50 years. Volatile global markets, high levels of sovereign debt and accelerating regulatory developments pose significant risks for all financial services clients.

Rising to One challenge

During the year we launched One, an exciting new offering that allows us to harness the creativity of the whole firm and create further value for clients. Through our purpose-built One 'crowd sourcing' platform, we invite a client to challenge the whole firm, to do what we do best – share knowledge and bring fresh insights into business opportunities to deliver exceptional client value. The big difference to what we do on a daily basis is that One offers our clients a team made up of thousands of members.

We work with our client to formulate a question, which is posed to our people on the One platform. Any of our people can put forward ideas that are critiqued and developed by our community. The collaborative approach filters the ideas, making sure the best rise to the top. This process, combined with validation by PwC and client experts, make sure the best ideas are developed.

We completed our first One challenge in April for Vodafone Global Enterprise, the business within Vodafone which manages the communications needs of its largest multinational customers.

Operators such as Vodafone use 'machine-to-machine' wireless technologies to enable companies to track the location of assets and control a wide range of devices remotely. The so-called 'internet of things' offers endless possibilities for business reinvention. Additionally, wireless location-based services – allowing customers to find goods and services near to them, such as restaurants, garages or ATMs, or to benefit from real-time road traffic information – represent an important new phase of the smartphone revolution. Vodafone asked us to generate some ideas for new products and services that could be designed around this live information.

The Vodafone challenge really captured the imagination of our people with over 10,600 taking part in a six-week campaign which generated over 500 ideas. This was filtered down to 11 ideas that were presented to Vodafone as having great revenue generating potential.

Nick Jeffery, CEO of Vodafone Global Enterprises, commented, "I spend a lot of time working with big multinational companies all around the world and I have to say that this One idea is really unique. I've not seen anything else like it and I take my hat off to the individuals who put this together … it's a very innovative and forward looking initiative."

Dan Schwarzmann, the partner leading the project, added, "One has generated exceptional engagement with our people – irrespective of grade, specialism or geography. This exceptional engagement has produced excellent results and we look forward to working with many other clients."

Our financial services experts from around the globe have collaborated on a highly innovative piece of thinking called Project Blue, a framework to help financial services look at macro-trends in their sector and assess the impact they might have on their strategy and business model. The Project Blue framework considers the rise and interconnectivity of emerging markets and state-directed approaches to economic development. It also examines the impact of new technology, demographics, changing customer behaviour and mounting pressure on the world's most critical natural resources. This forward thinking is increasingly being applied to other parts of the economy on future financial trends.

We know from client feedback that talent management is also a major concern for companies, particularly around the areas of cultural change, executive remuneration and how best to manage people through a downturn. Our executive remuneration specialists joined forces with leading academics at the London School of Economics to research and publish the groundbreaking, 'Making executive pay work; the psychology of incentives', based on a study of more than one thousand senior executives around the world. The study highlighted what is working in the world of executive remuneration as well as highlighting those areas where the current approach to incentivising executives fails to deliver. We combined this research with a willingness to engage with the media and other stakeholders on one of the most highly charged business issues of the day.

Our Entertainment and Media Outlook, now in its 13th year, reviewed the issues facing companies in the broadcasting, publishing and advertising industries, and identified the key issues and opportunities they need to address to remain competitive.

These are just a few examples of our commitment to invest in research and thought leadership for the benefit of our clients and to deepen understanding of the way the world of business works.

Being where our clients need us to be

As part of a global network, we're able to link into a vast array of knowledge. We're able to mobilise our people across the UK and the network to make sure we've got the right people in the right place at the right time. This helps us to deliver an exceptional experience and create the value our clients are looking for.

Growth through change

The acquisition of Gulliver's Travel Associates by Kuoni Travel multiplied the Kuoni Global Travel Services division's revenue overnight. The $720m deal, announced in March 2011, turned the division into a business with turnover of CHF2.4bn in 2011.

Unlike most integrations, the main focus was not on consolidation and taking out costs. This integration was about bringing a large new operation together without damaging business as usual in either organisation. And once it was integrated, to focus immediately on propelling significant growth using the momentum of transformational change.

Kuoni initially asked us to help with the combined financial, commercial and operational due diligence before the deal was signed, and we continued to support Kuoni through to day one and beyond.

Key to our success were our knowledge and experience of the travel sector, our tried and tested merger and acquisition integration methodology, our extensive experience of integration projects, and our ability to field a global team. Our efforts were recognised by Kuoni.

"PwC supported us on two levels," says Rolf Schafroth, CEO Kuoni Global Travel Services Division. "Strategically, they provided structure and direction and prevented us from going down blind alleys. Practically, they rolled their sleeves up, immersed themselves in our business and worked incredibly hard to complete the integration planning process within an aggressive timescale, leaving us in great shape."

Our people's experience

Our ambition is to be distinctive in the market through delivering exceptional client service. We will only achieve this if we create an environment where our people are engaged and motivated to give their best and every individual can reach their full potential.

Our priorities
At the start of the year we decided to focus on three broad areas:

Our talent
We want to make sure that we're attracting and retaining a diverse and highly talented group of people and maximising their development. As well as this, we need to make sure that we're agile and flexible, and have the right people in the right place at the right time. We also need to help our people to move around our firm and the PwC international network, so we can provide new opportunities for them to learn and grow and respond to client needs.

Valuing difference
We want to make sure that our approach to diversity enables all of our people to fulfil their potential. We want to be diverse and creative in our thinking so that we are able to make the right business decisions.

Engagement
We want each of our people to feel valued as an individual. This involves having open and honest conversations about what people would like from the firm in return for the contribution they make.

A place to develop and grow

Our recent global CEO survey, based on surveys of over 1,250 CEOs from 60 countries, confirms that talent remains a critical business issue, and we are no different. This is why we are focused on supporting our people to be the best they can be. At PwC we learn every day. Our development strategy encourages our people to take personal responsibility for their development. Our combination of learning from doing, learning from others and formal learning programmes means that our people learn rapidly, continuously and efficiently. We aim to give all our people the opportunity to realise their full potential.

The vast majority of our people's development comes from being given new and stretching challenges in the work they do. We place great emphasis on the role of our partners and managers in coaching the next generation. Our formal learning includes programmes and events to mark the transition to a new role, specific business skills' training and top talent programmes. We use a combination of face-to-face learning, e-learning and other online resources to enable training to be delivered to people at the right time for them.

Even in a challenging economic environment we want to maintain our investment in our people and make sure our people have the opportunity to advance their careers. This year we admitted 39 new partners from within the firm, in addition to the 22 who joined the firm from other organisations. We also promoted over 2,100 of our people to a new grade.

What's the deal?

The framework is designed to start a conversation with our people to understand what they value in return for their contribution. In other words, what they gain from PwC and what we expect from them.

A key part of our strategy is to engage and inspire our people. This year the engagement scores measured in our internal youmatter survey are up significantly and the response rate is among the highest ever. We're very pleased to have come fifth in the 'Sunday Times Best Companies to Work For' in the UK – the highest ranking of any of the large professional services firms. We did particularly well in the areas of leadership and personal growth. For the second year running Ian Powell won the most people focused CEO, Private Sector in the HR Excellence awards.

We think this success has been helped by the introduction of a new framework, which we call *the deal*. From focus groups and our youmatter survey we identified six benefits that summarise where people derive value from their work. We encourage our managers and our people to talk about these six areas in their development conversations so that our people can understand what matters to them and reflect this in their personal development plan. We recognise that everyone is different. In particular, everyone has different values and aspirations and these change throughout their career.

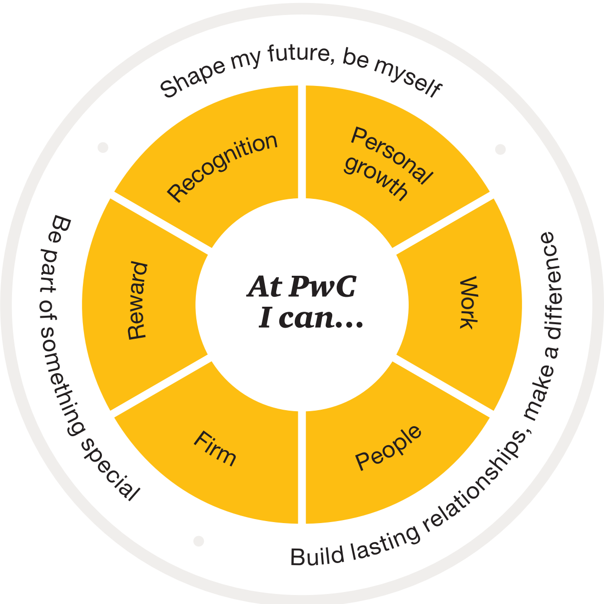
We know this is an important area, and we want to continue to improve the engagement of our people, particularly the pre-manager population. We'll do this by keeping a focus on having open and honest conversations with our people to help each one of them feel valued as an individual.

One of the strengths of our firm is the breadth of what we do and the flexibility and variety we are able to offer our people. This year we have taken steps to make it easier for our people to find out about the opportunities that are available around the firm. This not only helps in giving our people the breadth of experience our clients expect, it also supports our firm's growth agenda by matching our talent to the fastest growing areas of our practice.

We want all of our people to feel they can make a difference and we use a number of different channels to engage with our people and hear their views. For example, in December we held a global 'online jam' where business leaders from around the network held an online conversation with 1,000 of our young people. As well as our regular staff roadshows, several of the Executive Board members have held webcasts during the year. We recently launched our own internal social networking platform where our staff can collaborate to solve client issues and share knowledge. We also use it to find out what is on our people's minds, for example at a recent global partners meeting, Ian Powell started a discussion about our strategy with our people around the world.

Gaenor Bagley
People

"We strive to recruit, train and develop talented, diverse and highly motivated people and we want every person who works here to feel they can achieve their potential."



Personal growth – we give our people opportunities to help shape their career and fulfil their potential.

Work – we offer our people the chance to work with many of the world's leading companies and organisations where the work will be both challenging and stimulating.

People – they'll be able to build long-lasting relationships, both within and outside the firm, which will stay with them throughout their career.

Recognition – we want all our people to feel valued for who they are, their personal contribution and their potential.

Rewards – we'll reward our people fairly and competitively.

The firm – there's a chance to be part of something special and enjoy experiences that stay with you.

We want to equip our people to be responsible leaders. We encourage our people to use their business and coaching skills to support schools, charities and social enterprises as part of their professional and leadership development. This year over 4,900 of our partners and staff were involved in numerous volunteering projects across the country. By focusing on using our business skills, we can add the most value to our communities, and make sure our people learn a lot too.

For example a group from our Transaction Services team have been working with The Impetus Trust supporting the growth of 23 charities and social enterprises, including Street League, St Giles Trust, Prison Radio and the employability charity Acumen Development Trust. The Impetus Trust works to break the cycle of poverty by investing in ambitious charities and social enterprises that fight economic disadvantage. Our team found this to be an invaluable learning experience.

Embracing what's different

Diversity is a key component of our business strategy and part of our values. We try to be open-minded to difference and respect those that bring something distinctive. We recognise that people perform better, and so the business performs better, if they can be themselves. We've recently set up a Diversity Council to build on our work to date and help us drive change in this area. The Council members bring a broad spectrum of views, ideas and experiences to help us plan and create momentum for change. The Executive Board set the strategy for greater diversity and we made a conscious decision to empower our business units to develop local plans and set targets (for gender and ethnicity) up to 2016 to drive further improvements and behavioural change in this area.

A particular area of focus has been to increase the proportion of women in senior grades. We introduced the women's leadership programme to the whole firm three years ago and since then, the percentage of women at partner level has risen from 13 to 15%. This year 18% (2011: 15%) of our new partners were female. From January 2013 we will have three female members of our Executive Board.

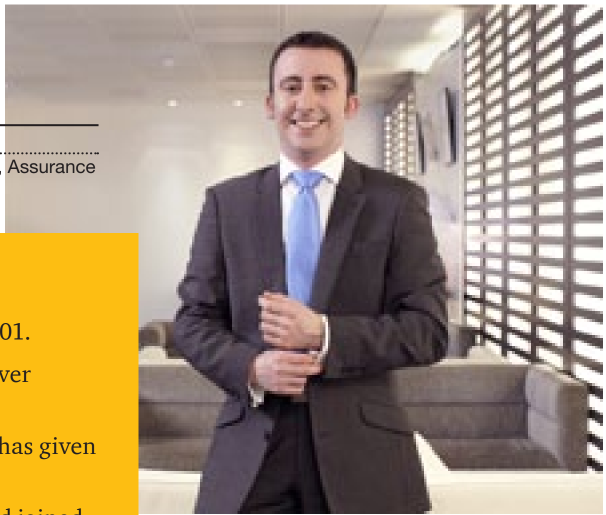
The diversity of the pipeline for our senior roles is a priority. We now monitor the proportion of women and ethnic minorities in our succession talent plans.

To help us attract more female graduates, we introduced a new mentoring scheme where students shadow female partners to see how business works at the top levels. The project has been so successful that 1,033 students have applied with 47 receiving an offer and it is likely to be extended as a result.

We were once again listed as a Top 50 Employer for Women by Opportunity Now, the gender campaign from Business in the Community. And we won the Inclusive Culture Award at the Opportunity Now Excellence in Practice Awards.

The Fire Station

Following the launch of the Fire Station social enterprise hub near our More London office, we've continued to invest in and support social enterprises around the UK. This also provides a number of development opportunities for our people. The Fire Station also houses the Brigade restaurant.



Dan Brew

Senior Manager, Assurance

New routes to opportunity

Dan Brew joined our firm direct from school in October 2001.

He joined us rather than going to university, and he has never regretted it.

"It was absolutely the best decision I could have made and has given me a fantastic start to my career with the firm."

Dan was part of our first formal intake of school leavers and joined our Assurance team in Birmingham.

And this summer, we're taking the lead in the sector by pioneering the use of the new Professional Services Higher Apprenticeship in our Tax and Consulting businesses.

Engaging our people

Understanding what our people think about our firm is important to our strategy.

These are our latest youmatter survey results.

4.03 out of 5

3.96 out of 5 FY11

First choice for students

Over the past five years we've seen a significant increase in applications for our full-time student positions. We were delighted to be chosen as The Times Top 100 Graduate Employer of the Year for a record-breaking ninth consecutive year. The award is voted for by students and this year we managed to significantly improve our lead. We were also voted the sector specific Employer of Choice for Accounting for a 14th consecutive year and came third in both the Consulting and Finance categories. This is an incredible achievement given the intensity of competition for the most talented students. This year we recruited over 1,200 full-time students and school leavers as well as 490 to our intern programmes. We have maintained our graduate recruitment at the same level as previous years.

We recognise that the traditional graduate entry route to a professional career at PwC does not suit every gifted student and to help us create a sustainable pipeline of talent we invest in a range of approaches to encourage talented students to join us at any stage of their academic life. These include:

- A degree partnership with Newcastle University (41 full-time positions in 2012, with shorter placements for 129 students over the course of the year).
- Full-time paid professional roles for school leavers, including Higher Apprentices (98 positions in 2012).
- A three-day residential Talent Academy for first-year students (154 places in 2012).
- Paid intern and sandwich placement opportunities for students (490 places in 2012).

Nine years at the top for students

We're the Times Top 100 Graduate Employer of the Year for a ninth consecutive year. The survey on which the results were based asked over 17,000 final year undergraduates the open-ended question: 'Which employer do you think offers the best opportunities for graduates?' We're the first organisation to win the award nine years in a row.

Students at this year's PwC Talent Academy

Following the success of our partnership with Newcastle University, now celebrating its tenth year, we've recently launched a similar scheme through the Henley Business School at the University of Reading, and we're considering other programmes in the future.

Ready for the future

In summary, we have continued and will continue to invest in the attraction and development of our talent. As a result we believe we are well placed to adapt to changes in the external market and to deliver the firm's overall strategy.

Our sustainability and community responsibilities

We take our role in the community and our impact on the environment seriously. It will always be an important part of our business strategy because we believe it's the right thing to do.

Making a difference in our communities through volunteering

This year over 4,900 of our people took part in community-based activities. As an employer we're keen to support our people so they're able to volunteer and help local charities and community organisations. Many of us do this to give something back, and as a talented group of people they can make a significant contribution. And it helps them gain new experiences and contributes to skills such as relationship building, adaptability and creativity.

Supporting social change

An important focus for us is helping to tackle social exclusion by supporting social enterprises. As well as being able to use our skills in new and challenging ways it provides great experiences for our people. Following the launch of the Fire Station social enterprise hub near our More London office earlier this year, we've launched a Centre for Social Impact, where we're working to find better ways of measuring the impact of the social enterprise sector. For more about how we're supporting social change go to www. pwc.co.uk/annualreport.

This year we opened our Brigade social enterprise, a cook school, bar and bistro in the Fire Station which supports the Beyond Food Foundation's United Kitchen Apprenticeship programme. Through this, 25 homeless people have been given training and mentoring with the aim of securing full-time jobs as commis chefs in the hospitality sector at the end of their apprenticeships. You can find out more about Brigade's first year at www.pwc.co.uk/annualreport.

We have launched our own PwC Social Entrepreneurs Club with membership currently standing at over 80 across the UK. The Club will offer members mentors and opportunities to attend master classes and networking sessions. We have also introduced a furniture exchange to redistribute furniture to social enterprises from our building refurbishments.

Making a difference to the environment

This year we assessed our environmental performance against our five-year targets and we're making positive progress.

- From July 2012 we'll no longer be sending waste to landfill from any of our UK offices, achieving our five-year 'zero to landfill' target.
- We've exceeded our target to reduce by 30%, per square metre, the carbon emissions associated with energy in our buildings, achieving a reduction of 34% since 2007.
- We've also reduced our carbon emissions from travel, waste and water (Scope 3) by 15% in the past five years.
- Our 2012 data has been externally assured. For more information see pages 62 and 63.

Alkesh Parmar
RCA graduate and participant in the RCA-PwC mentoring programme

Helping design successful businesses

This year, a number of our people have been helping graduate designers from the world-renowned Royal College of Art (RCA) to turn their creative ventures into successful businesses, social enterprises and careers.

Each of the graduates is getting 18 months of regular one-to-one mentoring as part of the RCA-PwC mentoring programme.

The ventures include fashion and design consultancies; a micro-finance business based in a refugee camp in the Sahara which uses recycled plastic water bottles as a raw material for jewellery; and a highly innovative social enterprise that uses pulp left from the production of orange juice to make a sustainable and durable new material which can be used to replace plastics in a wide variety of products.

Hear mentors and graduates discussing the programme at www.pwc.co.uk/annualreport.

Kevin Spacey and Ian Powell at the launch of our partnership with The Old Vic.

Starting a partnership with The Old Vic

We launched a new partnership with The Old Vic in the spring of 2012 because we believe that support for the arts is about more than mere charity or empty philanthropy.

When Kevin Spacey joined The Old Vic as Artistic Director in 2004 he pledged to extend the access and reach of the theatre's audiences into the local community and across all demographics. One of the key drivers for the success of this aspiration has been the Under 25s Scheme. This offers 100 tickets for £12 each for the under-25s for every performance at every production at The Old Vic and has been in place since 2004. We're delighted to be able to contribute as title sponsor to not only make sure this good work continues but take the scheme into a new era.

We've supported arts bodies focused on social inclusion for many years, with successful partnerships with Shakespeare's Globe London, Unicorn Theatre and the Royal Exchange Theatre in Manchester, as well as our annual pantomime production put on by around 200 of our people in a West End theatre and, this year, in Newcastle. Almost 9,000 children were able to watch live at the theatre and via an innovative satellite link to a number of cinemas around the country.

Our support for the arts is driven by the view that it not only enriches the next generation, but importantly, it also enriches the business community. Our first-hand experience is that our people benefit from our association with arts organisations.

There are things we still have to work at. We've missed our target for carbon emissions from client-facing air travel. So we've launched a firmwide campaign to promote and train our people to use web conferencing as an alternative. Over 1,000 of our people have completed demos in the initial stage and they've given us positive feedback about how it is helping them work with their clients.

We've continued to roll out sustainability education training. We have run sessions in six offices in the North, Scotland and Northern Ireland.

Working with our clients

Our Sustainability and Climate Change experts are recognised as leading in the Green Consulting market – winning the BusinessGreen Consultancy of the Year Award for the second year running and being the leading provider of assurance of FTSE 100 CSR reports. This year they have helped many more clients with their sustainability issues including environmental and social impact assessments. In the case of British Land, our socio-economic impact experts, working with tax and real estate specialists across the firm, developed an innovative methodology that allowed British Land to report on the positive difference they make to the UK economy, by estimating their contribution to employment, economic output (GVA) and tax payments – their 'own' impacts; and also their 'enabled' impacts: the direct, indirect and induced impacts of British Land's retail and office tenants.

We've been working with Standard Chartered on an innovative corporate responsibility partnership to provide training for small and medium-sized enterprises (SMEs) in emerging markets. The training is being delivered through a series of joint workshops and has reached 169 SMEs. In 2011, workshops were held in Ghana, Nigeria and Zambia. So far in 2012, training has been held in Kenya with plans for additional workshops in Indonesia and UAE later this year.

The two-day workshops focus on financial management and accounting, to help people build and expand their businesses by increasing their capacity to manage their own financial resources, access appropriate products and services and develop as business professionals. The material for the SME training was developed centrally by our firm in the UK, using skills and expertise in consulting and assurance, and then rolled out and tailored with the help of the relevant PwC local firms.

The training is part of a commitment made by Standard Chartered Bank to the Business Call to Action (BCtA), a multi-stakeholder platform housed at the UNDP and funded by DFID, USAID, SIDA, AusAid and the Dutch Foreign Ministry, with additional partnership from IBLF, UNGC and CGI, to promote inclusive business initiatives which advance the Millennium Development Goals (MDGs).

In the year ahead we will continue to build on our achievements and make sure we're finding ways to make improvements and keep our programmes relevant. For more information see our Corporate Sustainability website www.pwc.co.uk/corporatesustainability.

Quality: at the heart of our reputation

Our firm is committed to delivering the highest quality solutions and standards of professional behaviour. These commitments underpin our business strategy and are central to us in credibly fulfilling our public interest responsibilities and the demands of our clients. This focus on quality is critical to our reputation and is a Board priority – it is something we work hard to instil and nurture in all our people. We recognise that there are a range of stakeholder views on how we should deliver quality, and throughout the year we have engaged in constructive discussions with all parties insofar as we have been able to meet with them and share views.

Embedding quality throughout

It is easy to make grand statements about our commitment to quality. The real challenge is to make sure quality is embedded in everything we do from the first day that our new recruits arrive and learn about our culture and values, through the tools and processes that support the delivery of our work, the training and experience that people receive throughout their careers, our review and consultations processes and learning from when we get it right and when we get it wrong.

Culture and values

We recognise the importance of tone from the top, which is why our leadership has established a culture upholding the values of integrity, independence, professional ethics and professional competence. We communicate that culture continuously both internally and outside of the firm. It is embodied in 'Who we are' and reflected in the objectives we set for the business and how we monitor its performance.

People

What we do and how well we do it is determined largely by the quality of our people. So, we aim to recruit, train, develop and retain the best and brightest. Throughout their time with our firm our people benefit from structured training programmes to make sure they have the professional skills and knowledge to deliver a high quality service. This training also encompasses the ethical values and behaviours needed to meet our public interest responsibilities.

Tools and processes

Over many years we have invested to develop and maintain standard methodologies and work programmes for many of our services. These are designed to make sure that all our people deliver consistently high quality work. We keep them under review so that they reflect the latest thinking and innovation and so they are effective, efficient and deliver quality and value to all of our clients and other stakeholders.

Sharing knowledge and experience

We have created a consultative and supportive culture so that no one is left to take a difficult decision alone. Our people have ready access to wide informal and formal networks and technical panels that will help them reach the right solutions to difficult problems.

Review and continuous improvement

Each of our businesses carries out quality assurance review programmes, in which independent teams of partners and staff review engagements either while in progress or after they are completed to assess compliance with our quality standards and relevant regulatory requirements. Findings and feedback are discussed with line management so that changes and improvements can be reflected as quickly as possible.

You can read more about our internal quality control system, quality control standards and independence procedures and practices in our Transparency Report, www.pwc.co.uk/annualreport.

Richard Sexton
Reputation and Policy
"I talk to clients, regulators, investors and media commentators to get a better understanding of their views on quality."

We recognise the importance of tone from the top, which is why our leadership has established a culture upholding the values of integrity, independence, professional ethics and professional competence.

Learning from experiences

We are confident that our reputation for quality is high. However, given the size and nature of our business, we, like all others, do sometimes fall short of the high standards we set ourselves. When this happens, we are honest with our clients and ourselves about what has gone wrong and try to discuss and resolve the issues with the client or other concerned party. We also review the matter for lessons learned and communicate those lessons to the relevant part of our business so they can make any changes needed to make sure it doesn't happen again.

As we look to the future, we will continue in active dialogue with any and all interested parties. The success of our firm is inseparable from that of the market as a whole and is built on quality – delivering the right solutions in a way that supports business to do the right thing.

Building Public Trust

This year marks the tenth annual PwC Building Public Trust Awards to recognise and promote the best in corporate and public sector reporting, which goes beyond simple compliance and boilerplate and focuses on 'telling it like it is'. Our judging panel, made up largely of senior external figures from business and the public sector, look for corporate reporting which gives a deeper insight into strategy, performance and the risks facing an organisation. We also use the judging process to identify those areas where corporate reporting falls short of best practice and changing stakeholder needs. Over the course of the past decade the programme has contributed to improving the quality of UK corporate and public sector reporting.

We have extended our involvement in the issue of trust in business and wider society over the past year including stimulating debate inside and outside the firm around what drives trust and what more is needed for trust to flourish. In collaboration with the Institute of Ideas, we have co-hosted a series of internal 'mini battles', to create opportunities for challenging and thought-provoking debate on topical trust-related issues, and taken part in the Institute's flagship annual festival, the Battle of Ideas. As part of our Building Public Trust programme, we also convened a series of high level debates to discuss the responsibility of leaders in society today, which will help to inform our third thought piece on trust, due out later in the year.

Managing the risks to our business

Managing risk is a strategic priority for the Executive Board and senior management of the firm.

We have a clear business strategy. In implementing this strategy it is vital that we also manage the risks associated with it. As a result we have a defined process for assessing, monitoring and controlling risk.

Owen Jonathan
General Counsel, Risk and Quality

"We understand the vital role that managing risk plays in fulfilling our public interest responsibility and in the effective management of our firm."

The Executive Board takes overall responsibility for establishing systems of internal control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management.

The systems, which have been in place throughout the financial year and up to the date of approval of these financial statements, include the following:

- The Risk Council, an Executive Board subcommittee, is responsible for making sure that the controls are in place to identify, evaluate and manage risk.
- Our lines of service and our internal firm services, which document risks and the responses to them, carry out risk assessments annually and report to the Risk Council on how effectively they have managed risk during the year.
- Reports on periodic reviews of performance and quality, which are carried out independently by the PwC network.
- Our internal audit team, which reviews the effectiveness of the financial and operational systems and controls throughout the Group and reports to the Executive Board and the Audit and Risk Committee.
- Our risk and quality functions, which oversee our professional services risk management systems and report to the Executive Board.

Furthermore, we have procedures to assess the risks associated with new clients including whether they meet the expected standards of integrity and to make sure that we are able to comply with independence requirements. As part of the annual audit cycle, we conduct risk reviews of audit clients, and decline to act for clients that, in our opinion, fall short of our standards.

Our principal risks

The key risks faced by our business over the last 12 months, and the management response, are summarised below.

Risk	Response
Quality: Significant quality failure in the UK firm or the PwC network due to either engaging with an inappropriate client or inadequate delivery of services leading to a potential service failing, litigation and/or regulatory action.	Our internal quality management systems which are designed to maintain and enhance quality, include: • Recruitment standards and staff development procedures. • Client engagement and acceptance processes. • Client engagement standards supported by methodologies and tools. • Quality reviews of PwC network firms, including the UK firm. • Monitoring and review of key performance indicators by the Executive Board.
People and talent: Failure to engage fully with our people, impacting our ability to attract, develop and retain the best talent and provide quality services.	• Regular reviews of the market for student and experienced talent to understand the firm's relative competitive position. • Embedding the PwC Experience for our people. • The deal to support staff engagement. For more information about the deal go to pages 16 and 17. • Use of various communication and discussion channels to engage with our people. • Monitoring and review of key performance indicators by the Executive Board, including staff surveys, external Brand Health Index and regular client feedback.
Economic environment: The economic environment requires the firm to be able to deploy staff with the appropriate skills to other business areas, while maintaining quality and demonstrating value in a highly competitive environment.	• A firmwide resourcing model which promotes the mobility of our people across our business and the PwC network. • Use of key performance indicators as a business management tool. • Development of innovative client risk/reward propositions subject to appropriate regulatory and management controls.
Independence and regulatory requirements: Failure to comply with relevant independence, legal, ethical, regulatory or professional requirements.	Established compliance and independence management systems including: • Clear policies, procedures and guidance. • Mandatory training for all partners and staff. • Client and engagement acceptance procedures. • Annual independence and compliance submissions for all partners and staff enforced by penalties for non-compliance. • Regular monitoring and reporting to the Executive Board.
Regulatory reviews of the audit market: The outcome of the current regulatory scrutiny of the audit market adversely impacts on both our ability to provide high quality services and our current business model.	• The firm is actively engaged with regulators and wider stakeholders, with an Executive Board member responsible for Reputation and Policy. • Active review, evaluation and critique of all proposals to make sure discussions are evidence-based and potential consequences are appropriately evaluated.
Information security: Failure to safeguard confidential client information.	• Information Risk and Security committee, chaired by a member of the Executive Board, which provides overall strategic direction, framework and policies for information security. • The firm operates an ISO/IEC 27001:2005 certified information security management system which includes: – Governance and policies for client data and other information. – Physical, technical and human resource controls. – Incident response capability. – Regular monitoring and independent review systems.
Client assets: Failure to appropriately manage client assets, including major client administrations.	Well-established procedures for dealing with client assets and related matters including: • Portfolio diversification policy. • Daily monitoring of credit and related ratings and maturities. • Client asset management. • Internal controls and procedures. • Monitoring and independent review. • A Treasury Committee to receive regular updates on the above.

Internal control assessment

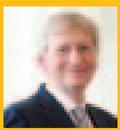
Our internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives or, in the case of financial controls, the risk of material misstatement in our financial statements. Accordingly, they provide only reasonable and not absolute assurance against such failure or material misstatement.

The Executive Board has reviewed the systems of internal control in operation during the year and is satisfied with their effectiveness.

Our leadership

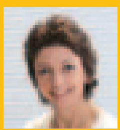
Our Executive Board is responsible for developing and implementing the policies and strategy of our firm, and for its direction and management. Our Executive Board sets and communicates our firm's strategic priorities, which feed into our business planning process. The contribution of each part of the firm is monitored through balanced scorecard reporting.

Our Board is chaired by Ian Powell, whose term of office runs for four years from July 2012 to June 2016. The Chairman appoints the other Executive Board members, all of whom are partners in the firm. Each board member has responsibility and accountability for a specific aspect of our business. Our Executive Board meets at least monthly, and conducts formal business at additional meetings as necessary.



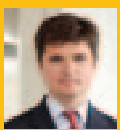
Ian Powell – Chairman and Senior Partner

Ian joined the UK firm's Executive Board in 2006 and he was elected Chairman and Senior Partner in 2008. He joined the UK firm as a graduate trainee in 1977 with a degree in economics from Wolverhampton Polytechnic. He became a partner in 1991. Before becoming Chairman, he was Head of Advisory. He has an honorary doctorate in business administration awarded by the University of Wolverhampton Business School.



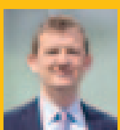
Gaenor Bagley – People

Gaenor graduated from Cambridge University with a mathematics and management degree. She trained in audit and spent three years in an investment bank corporate finance team. In 1992 she joined the Tax practice and became a partner in 2000 where she continued to work in M&A, specialising in Private Equity. She joined the Executive Board in 2011.



James Chalmers – Assurance

James graduated from Oxford University with an engineering degree and he joined the firm in 1985. He became a partner in 1997. Before joining the Executive Board in 2008 as Head of Strategy and Talent, he was a member of the Assurance leadership team. During his time in Assurance he has worked with multinational clients and has been on long-term secondments to clients in the banking and healthcare sectors.

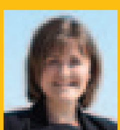


John Dwyer – Deals

John graduated from University College Dublin with a commerce degree. He has worked in most of the businesses under the Deals umbrella including Business Recovery and Corporate Finance. He became a partner in 1997 and ran the Transaction Services business between 2007 and 2011. He joined the Executive Board in 2012.

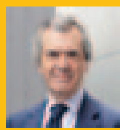
Kevin Ellis – Managing Partner

Kevin graduated in industrial economics from Nottingham University, joined the firm in 1984 and became a partner in 1996. Before he joined the Executive Board in 2008, he headed up our Business Recovery Services. During his time with the firm Kevin has been on two secondments, one with an overseas bank and the other with a major UK financial institution.



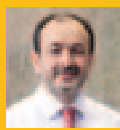
Stephanie Hyde – Regions

Stephanie graduated from Brunel University with a mathematics and management degree. She joined the firm in 1995 and became a partner in 2006. Before joining the Executive Board in 2011, she led our Assurance practice in Reading and our mid-cap market in the South East.



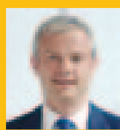
Owen Jonathan – General Counsel, Risk & Quality*

Owen is responsible for the Office of General Counsel and enterprise risk, including compliance and independence. He read law at the University of Bristol. Before joining the firm as a partner in 2000, he was a partner at City law firm Norton Rose and later CEO of South China Morning Post (Holdings) Limited of Hong Kong. He joined the Executive Board in 2002.



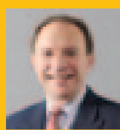
Kevin Nicholson – Tax

Kevin joined the Executive Board in 2008 as Head of Regions after spending four years leading the Entrepreneurs and Private Clients practice on the Tax Leadership Team. He graduated from Newcastle-upon-Tyne Polytechnic, joined the firm in 1991 and became a partner in 2000. Over this period he worked in the North East, the Midlands, London and Hong Kong and also spent two years working with the Global Tax Leadership in New York.



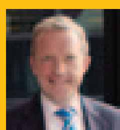
Richard Oldfield – Markets and Industries

Richard graduated from the University of York with an economics degree. He joined the firm in 1992 and became a partner in 2003. Before joining the Executive Board in 2011, he led our Banking and Capital Markets business within Assurance. He has worked in London, Zurich, Paris, New York and most recently Sydney on both audit and non-audit clients.



Richard Sexton – Reputation and Policy

Richard graduated from Southampton University with a degree in mathematics and operational research. He joined the firm in 1980 and he became a partner in 1992. He has spent time in New York and Hong Kong. Before joining the Executive Board in 2006 as Head of Assurance, he led our London Assurance practice.



Keith Tilson – Chief Financial Officer

Keith is in charge of Finance and Operations. He read economics at Cambridge University. After joining the firm in 1976, he spent four years in Sydney and became a partner in 1988. Before taking up his current role, he was Managing Partner Operations and Finance and before that Head of Advisory. He joined the Executive Board in 1998.

Ashley Unwin – Consulting

Ashley graduated from Sheffield University in 1991 with a degree in business; he also gained an MSc in organisational development. He joined the firm in 2009 to lead our Consulting practice. Ashley's early career was spent with Arthur Andersen where he made partner in 1998. Before joining the firm, he worked in private equity and held senior positions in EMI. He joined the Executive Board in 2012.

* Margaret Cole joins the firm in September 2012, succeeding Owen Jonathan as General Counsel when he retires on 31 December 2012.

Our governance

Our governance is supported by two bodies: our Supervisory Board and our Public Interest Body.

A report from Supervisory Board Chairman, Duncan Skailes

Duncan Skailes
Chairman of the Supervisory Board

The members of the Supervisory Board, who served through the year ended 30th June 2012, are:

Elected members:
Duncan Skailes*, Chairman
John Dowty†, Deputy Chair
Colin Brereton*
Pauline Campbell†
Paul Clarke*
Katharine Finn
Roy Hodson††
Rob Hunt†
Pam Jackson**
Mike Karp†
Roger Marsh
Pat Newberry
Ian Rankin*†
Matthew Thorogood
Graham Williams to 31 December 2011
Martin Hodgson from 1 January 2012

Ex officio members:
Gerry Lagerberg*^
Murray Legg^
Ian Powell

* Senior Management Remuneration Committee member
** Senior Management Remuneration Committee Chairman
† Audit and Risk Committee member
†† Audit and Risk Committee Chairman
^ Member of the Board of PricewaterhouseCoopers International Limited

The Supervisory Board is a vital part of the firm's overall governance and is responsible for overseeing the activities of the Executive Board and offers guidance on matters which we consider to be of concern regarding the well-being of the LLP and the partners individually and as a whole.

The Supervisory Board is independent of the Executive Board and is made up of 15 members who are elected for a term of three years by partners in the firm. In addition to the 15 elected members of the Supervisory Board, Ian Powell serves as an ex officio member, in his capacity as Chairman of the UK firm, along with two partners who have been elected to the Board of PricewaterhouseCoopers International Limited, the global Board of the PwC Network.

The Supervisory Board elects its own chairman and sets its own agenda. In general the agenda includes national, legal, regulatory and fiscal requirements and implementation of global policies. The Supervisory Board also serves an important role in the arrangements for effective communications between the partners and the Executive Board. To facilitate this process the Supervisory Board holds regular liaison meetings with partners to gauge their views on the firm's overall strategy, the management of the firm and any other issues which partners feel are of note or concern.

During the course of the year we carried out our own board effectiveness review. The review was undertaken by one of our specialists on corporate governance matters. The report showed that the Supervisory Board is operating effectively. It also identified a number of opportunities to further improve our effectiveness and we will be acting on these recommendations in the coming years.

We are also responsible for approving the Annual Report, the choice of auditor, for recommending the admission of new partners and for approving transactions and arrangements outside the ordinary course of business; we also have the ability to consult partners on any proposed significant change in the form or direction of the LLP. In addition we have responsibility for managing the process leading to the election of the firm's chairman.

The Senior Management Remuneration Committee is a committee of the Supervisory Board. It makes recommendations to the Supervisory Board, which sets the Chairman's profit share and approves the Chairman's recommendations for the profit shares of other members of the Executive Board. The Supervisory Board is also responsible for checking that the firm's policies on partners' remuneration are being properly and fairly applied.

The Supervisory Board works closely with the firm's Public Interest Body (PIB). Pauline Campbell and I sit, in our capacity as members of the Supervisory Board, on the PIB to make sure that there is effective communication between the two bodies. We have also held one joint meeting of the PIB and Supervisory Boards over the past 12 months to strengthen ties between the two bodies and to deepen our respective understanding of each other.

Our Audit and Risk Committee

Role

The Audit and Risk Committee is a committee of the Supervisory Board which has responsibility for reviewing the policies and processes for identifying, assessing and managing risks within the firm.

The Committee monitors and reviews:

- the effectiveness of the Group's internal control and risk management systems
- the firm's policies and practices concerning compliance, independence, business conduct and ethics, including whistle-blowing and the risk of fraud
- the scope, results and effectiveness of the firm's internal audit function
- the effectiveness and independence of the firm's statutory auditor, Crowe Clark Whitehill LLP (CCW)
- the reappointment, remuneration and engagement terms of CCW, including the policy in relation to, and provision of, non-audit services
- the planning, conduct and conclusions of the external audit
- the integrity of the Group's financial statements and the significant reporting judgements contained in them.

Activities
The Committee met 10 times in the year ended 30 June 2012 (2011: 12 times). The Chief Financial Officer and General Counsel, together with the internal and external auditors, attend the Committee's meetings by invitation.

Both the internal and external auditors meet privately with the Committee without management presence.

Internal control
The Committee's review of internal control includes considering reports from the firm's Risk Council and from the firm's internal and external auditors. During the year the Committee considered and approved internal audit's work programme including its risk assessment, proposed audit approach and coverage, and the allocation of resources. The Committee reviewed the results of audits undertaken and considered the adequacy of management's response to matters raised including the implementation of recommendations. The effectiveness of the firm's internal audit function was also assessed.

The Committee also considered reports from other parts of the firm charged with governance and the maintenance of internal control including in respect of independence, compliance, ethics, whistle-blowing, fraud, data security, business continuity management and the management of the firm's own tax affairs.

The Committee also reviewed and considered the statements on pages 24 and 25 in respect of the systems of internal control and concurred with the disclosures made.

External audit effectiveness and reappointment
The Committee undertakes an annual review of the qualification, expertise, resources and independence of the external auditors and the effectiveness of the external audit process by:

- reviewing CCW's plans for the audit of the Group's financial statements, the terms of engagement for the audit and the proposed audit fee
- considering the views of management and the CCW engagement partner on CCW's independence, objectivity, integrity, audit strategy and its relationship with the Group, obtained by way of interview
- taking into account information provided by CCW on their independence and quality control.

The Committee also took into account their tenure as auditors and considered whether there should be a full tender process. There were no contractual obligations restricting the Committee's consideration of the choice of external auditors.

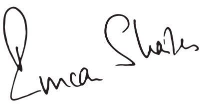
Financial reporting
CCW's external audit plan identified a number of potential risks and areas of judgement in the consolidated financial statements. CCW explained to the Committee the programme of work they planned to undertake to address these risks and other risks to a material misstatement in the financial statements.

Where they thought it would be effective to do so, CCW's work plan included the evaluation and testing of the Group's own internal controls and assessment of the work of the firm's internal audit function. They also explained where they planned to obtain direct external evidence.

The Committee discussed the above matters with CCW on conclusion of their external audit of the financial statements for the year. CCW explained the work they had undertaken and conclusions they had drawn, including in relation to revenue recognition, including amounts that were unbilled at the year-end; the carrying value of goodwill and intangibles arising from business combinations; the adequacy and appropriateness of provisions for client claims and property matters; the consistency and appropriateness of assumptions adopted in the valuations of the firm's defined benefit pension schemes for the purposes of financial reporting; and management's assessment of the appropriateness of the going concern basis.

Following consideration of the matters presented to it and discussion with both management and CCW, the Committee is satisfied with the judgements and financial reporting disclosures included within the financial statements.

I am grateful to my fellow members of the Supervisory Board for their support during the past year and to the wider partnership for their involvement and interest in our governance and oversight role.



Duncan Skailes
Chairman of the Supervisory Board

A report from the Public Interest Body

Sir Richard Lapthorne
Chairman of the Public Interest Body

This is my second annual report on the operation of the Public Interest Body (PIB) and in the less than two years since we were established we believe we have covered a lot of ground.

We have a very good level of participation in our meetings and we have built further on the solid foundations laid last year.

Before I report on our activities this year, it is worth reiterating a few of the opening comments I made in my initial report. First, the PIB's membership and activities reflect the objectives of the Audit Firm Governance Code, which states that the independent non-executives should improve confidence in the public interest aspects of the firm's decision-making, dealings with stakeholders and management of reputational risks. Secondly, the PIB is designed to complement the firm's already well-established governance structure (more details of our membership can be found on page 29). Finally, although we have certain duties that come from the Code on matters of public interest, we believe the best way for us to 'add value' is in offering the firm's leaders a different and independent perspective.

Evolution of our activities
This year we completed our 'awareness' sessions on understanding the significant elements of the firm, and we have now had the opportunity to engage with those responsible for managing the risks in each of three service lines of Assurance, Tax and Advisory. We also continued our programme of office visits. These have allowed us to meet a wider range of partners and staff and to gain a better understanding of the different markets the firm operates in. For example, given the size and significance of the operation, we thought it particularly important that we visit and talk to the partners running the administration of Lehman Brothers International (Europe) in Canary Wharf – the largest administration in history and, as a result, one that has a very high public profile.

Although we have representatives on the PIB from the Executive and Supervisory Boards, we felt it important for the non-executive PIB members to be able to meet as many of the members of those two Boards as possible. Hence informal events were held to allow us to meet all the Board members. In addition, each of the non-executives attended one of the UK Partner Meetings held in September 2011. We plan to attend the 2012 Partner Meetings as well and a part of the proceedings will be given over to reporting on our progress.

In our formal meetings we balance the agendas between regular items of business and more occasional 'deep dives' into specific areas. As standing items on the agenda, the chairs of the Executive and Supervisory Boards report to the other PIB members on their activities. This is important because it allows us to hear first-hand from those responsible for decision-making in the firm and to ask questions and make suggestions. We are briefed at each meeting on the firm's Risk and Quality processes and any contentious matters (for example disciplinary inquiries) affecting the firm. We discuss the firm's inspection reports from the Audit Inspection Unit of the Financial Reporting Council (FRC) and we also have regular sessions on those matters specifically identified by the Code, for example concerning staff and partners and whistle-blowing.

Extensive discussion of the regulatory agenda

Undoubtedly the area of business on which we have spent the most time over the last year is the regulatory and public policy agenda. We have been updated at each meeting on how the firm is addressing the Competition Commission's inquiry into the audit market for listed companies in the UK, the legislative proposals on Audit published by the European Commission and the recent series of consultations on important topics issued by the FRC. Extensive material has been presented to us on how the firm is responding to the matters raised in these initiatives and we have heard from PwC's UK and Global public policy leaders. The non-executive members have been able to offer some different perspectives on these debates.

The members of the PIB are satisfied that the firm has followed an appropriate and comprehensive process in order to arrive at the public policy positions it is taking. Speaking for the non-executives, many of us, wearing other 'hats', act as buyers of professional services. We believe what is needed is a thoughtful, balanced and properly informed view of how the industry moves forward in the interests of the consumers of high-quality professional services, recognising the significant contribution professional services make to the UK economy.

Engaging with stakeholders

To keep in touch with opinion, issues and concerns, the firm needs to conduct a dialogue with its stakeholders about matters covered by the Code. As mentioned in my report last year, we have spoken with some of the Code's authors to try to understand what they had in mind and, while some different views were expressed, this has enabled us to sharpen our focus on two groups – investors and the corporate community.

The organisations that regulate the audit sector also comprise an important constituency. The FRC has organised biannual meetings for the non-executives from all the audit firms covered by the Code in which we have actively participated. These meetings have reinforced the fact that firms have adopted the Code in accordance with the differing ways in which they are structured.

We will continue to shape our stakeholder engagement as we learn more about the expectations of these different groups. In the meantime, if any of PwC's stakeholders in the investor and corporate communities would like to raise issues related to the Code, do please get in touch.

Reviewing our effectiveness

The one exception to PwC's compliance with the Code reported last year was the conduct of an effectiveness review. We have addressed that and, although still early days in the PIB's life, considered it would be useful to conduct such a review. The review was undertaken by PwC's specialist on corporate governance matters, who has had no other involvement in the PIB and hence was able to offer a fresh pair of eyes. All members of the PIB including the firm members and secretariat were interviewed and a report produced.

Overall, the report shows that the dynamics and administration of our meetings are working well. Crucially, the PwC members recognise that the PIB has added value for the firm. That said, the report also generated recommendations for areas that we will address in the next 12 months in order to make the PIB more valuable and effective. We will work through these in the months ahead and I hope to report next year that we have made appropriate refinements to our objectives, scope of work and procedures.

Perhaps most importantly, the report demonstrates that while the members unanimously believe that the PIB should not be a decision-making forum, it does provide a setting where the firm's positions on public interest matters can be debated and challenged. The report indicates that, with the benefit of almost two years' experience, the members consider that the right constituencies are represented in the PIB and that PwC's governance structure is regarded as an appropriate way to implement the Code.

Sir Richard Lapthorne
Chairman of the Public Interest Body

Our Public Interest Body

The firm established the Public Interest Body in the year ended 30 June 2011. This followed the introduction of the Audit Firm Governance Code (the 'Governance Code'), which applied to PwC UK for the first time for the year ended 30 June 2011. The Public Interest Body's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of independent non-executives.

Independent non-executives
Sir Richard Lapthorne (Chairman)
Sir Graeme Davies
Dame Karen Dunnell
Sir Ian Gibson
Paul Skinner

PwC members
Ian Powell ^
Pauline Campbell †
Richard Sexton ^
Duncan Skailes †

^ Member of the Executive Board
† Member of the Supervisory Board

Our financial performance

Keith Tilson
Chief Financial Officer

"Growing revenue by 7% in such a difficult economy is a significant achievement and testimony to our strategy and investment through the downturn."

Members' report

The Executive Board submits its report and the audited consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2012.

This report should be read in conjunction with the other sections of this annual report.

Financial performance

Our revenue grew 7% to £2,621m, following the 6% growth recorded last year. Our continued growth is particularly encouraging given the uncertain economic conditions and intense competition in the marketplace.

We saw good growth in our business recovery, actuarial, consulting, forensic and risk assurance businesses. Our overall financial performance benefits from our strategy of continued investment and a diverse range of strong businesses and services.

Profit for the financial year

Total profit for the financial year of £727m (2011: £656m) comprises profit available for division among members of £672m (2011: £622m) and profit attributable to non-controlling interests of £55m (2011: £34m).

Average profit per partner disclosed in these statutory accounts, which is stated after excluding the impact of members on overseas secondment, increased from £763,000 to £798,000.

The actual profit finally distributed to partners is calculated after deducting their personal obligations to make annuity payments to certain former partners and after equity adjustments. Actual distributable profit per partner fell 4% from £707,000 to £679,000 for the year ended 30 June 2012.

Operating costs

Our total staff costs increased 6% in the year to £1,144m, reflecting 3% increased headcount and the impact of 1 July 2011 pay awards. Staff bonuses across the Group decreased 6% to £84m, including National Insurance (2011: £89m).

We maintained tight control over discretionary operating costs during the year. We continued our investment in technology, property and the growing Middle East network firm.

Staff pensions

Some 9,100 of our staff are active members of the firm's defined contribution pension arrangements.

Following the 31 March 2011 triennial actuarial funding reviews of the defined benefit schemes, the firm has agreed to contribute £115m in deficit reduction payments of which £74m had been paid by the year-end, with a further £41m due over the next four years. The defined benefit schemes are all closed to future service accrual and new members.

The accounting valuations undertaken for the purpose of these financial statements at 30 June 2012 indicate a total deficit of £79m, compared with £4m in the prior year. The increase in the deficit primarily reflects a reduction in the discount rate used to value liabilities, partially offset by cash contributions and asset returns in the period.

Net assets and financing

Our balance sheet remains healthy, with net assets of £573m (2011: £550m).

The Group is financed through a combination of members' capital, undistributed profits and borrowing facilities. Members' capital contributions totalling £165m (2011: £158m) are determined by the Executive Board with the approval of the Supervisory Board, having regard to the working capital needs of the business. They are set by reference to an individual member's equity unit profit share and are repayable following the member's retirement.

The Group's loan facilities totalled £332m at the year-end (2011: £299m). The Group's principal facility was renewed in June 2011 under a £225m four-year arrangement that expires in June 2015. The Group's facilities are spread across a number of banks and are maintained at a level sufficient to cover the expected peak cash requirements of the business.

Our treasury focus is on ensuring that there are sufficient funds available to finance the business and on managing foreign currency exposure.

Surplus cash is invested in short-term money market deposits. Hedging is undertaken to reduce risk. No speculative activity is permitted.

Members' profit shares

Members are remunerated solely out of the profits of the firm after adjusting for annuity payments to certain former partners and other equity adjustments. The final allocation and distribution of profit to individual members is made by the Executive Board, once their individual performance has been assessed and the annual financial statements have been approved. The Supervisory Board approves the process and oversees its application.

Each member's profit share comprises three interrelated profit-dependent components:

- Responsibility income – reflecting the member's sustained contribution and responsibilities.
- Performance income – reflecting how a member and their team(s) have performed.
- Equity unit income – reflecting the overall profitability of the firm.

Each member's performance income, which in the current year represents on average approximately 36% of their profit share (2011: 37%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the member's role. These objectives include ensuring that we deliver quality services and maintain our independence and integrity. There is transparency among the members over the total income allocated to each individual.

Drawings

The overall policy for members' drawings is to distribute a proportion of the profit during the financial year, taking into account the need to maintain sufficient funds to settle members' income tax liabilities and to finance the working capital and other needs of the business. The Executive Board, with the approval of the Supervisory Board, sets the level of members' monthly drawings based on a percentage of their individual responsibility income.

Total UK tax contribution

Our firm makes a significant contribution to the UK public purse through the taxes paid by our members, the business and employees. In total this is estimated to be £975m in respect of the past year (2011: £900m).

The Group and its members contribute to UK Government finances through taxes borne and taxes collected. We pay a range of taxes including income tax, capital gains tax, employment taxes, corporation tax, property taxes, indirect taxes and environmental taxes.

The largest tax borne by the members of the LLP is on the profits distributed to them. Partner income tax and National Insurance contributions payable by partners on current year distributable profits is estimated at £266m (2011: £265m).

In addition, a further £138m (2011: £122m) of business taxes was borne by the UK group, with the largest element being National Insurance contributions, reflecting the fact that people are essential to our business.

As well as taxes borne, the Group collected taxes on behalf of the UK Government of £571m (2011: £513m), comprising employment taxes and indirect taxes. These taxes are an indication of the value we add in society through our business activities. They demonstrate our wider economic impact and overall contribution to the economy.

In respect of the current year, members of the LLP each bear income tax at broadly 40% on their first £150,000 of distributable profit share and at 50% for amounts thereafter, together with a further 2% National Insurance contribution, resulting in an average effective tax rate for partners in the LLP of approximately 47% (2011: 46%). The LLP administers the payment of partner taxes and makes periodic allocations of profit to cover payment of these tax liabilities.

Creditor payment policy

We seek to agree commercial payment terms with our suppliers and, provided performance is in accordance with these terms, to make payments accordingly. The number of days outstanding between receipt of invoice and date of payment, calculated by reference to the amount owed in respect of the Group's trade payables at the year-end as a proportion of the total amounts invoiced by suppliers and overseas PwC member firms during the year, was 28 days (2011: 29 days).

Political donations

PwC has no political affiliation. The firm does not make any cash donations to any political party or other groups with a political agenda. However, in the interests of the firm and its clients, we seek to develop and maintain constructive relationships with the main political parties. In pursuit of this objective, we may, subject to the agreement of the Executive Board, provide limited non-cash assistance to those parties in areas where we have appropriate expertise.

Total UK tax contribution to 30 June 2012

	30 June 2012 £m	30 June 2011 £m
Taxes paid/payable		
Partner tax and NIC payable on current year distributable profits	266	265
Employers' NIC	100	87
Business rates	22	15
Corporation tax	7	5
PAYE/NIC on benefits	5	10
Other	4	5
	404	387
Taxes collected		
Net VAT	285	258
PAYE	229	206
Employees' NIC	57	49
	571	513

Our people provide limited and fully disclosed technical support to the main political parties in areas where our expertise and knowledge of the business environment can help them better understand technical matters and the consequences of their policy proposals. We do not develop policy on their behalf. Areas of assistance may include observations on the improvement of legislation or proposed legislation and the exchange of information relevant to effective policy development. In considering any assistance, the Executive Board has regard to the possible impact on clients of the firm and the firm's overall reputation.

All of the support we provide to the political parties is recorded and reported to the Electoral Commission (www.electoralcommission.org.uk), which publishes a detailed breakdown of the work undertaken and the amount that would otherwise have been charged to the political party (as reported to the Electoral Commission).

In the period covered by this report we provided a total of some 3,454 hours of free technical support to political parties during the year (2011: 3,700 hours). The value of this work, as reported to the Electoral Commission, was £0.4m and comprised 2,622 hours to the Labour Party and 832 to the Liberal Democrat Party. Over the years we have supported requests from each of the main political parties. Throughout this period the trend has been that we have provided more hours to the opposition parties as they have less support infrastructure.

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of PricewaterhouseCoopers LLP during the year were Ian Powell, Richard Collier-Keywood, Keith Tilson and Owen Jonathan. Richard Collier-Keywood stepped down as a designated member on 30 June 2012 and Kevin Ellis was appointed on 1 July 2012.

Auditors

The independent auditor, Crowe Clark Whitehill LLP, has indicated its willingness to be reappointed.

Going concern

The Executive Board has a reasonable expectation that the firm has adequate financial resources to meet its operational needs for the foreseeable future and therefore the going concern basis has been adopted in preparing the financial statements.

Statement of members' responsibilities in respect of the financial statements

The Companies Act 2006, as applied to limited liability partnerships, requires members to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of both PricewaterhouseCoopers LLP and the Group, and of the profit or loss of the Group for that period. In preparing those financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently, subject to any changes disclosed and explained in the financial statements
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the LLP or Group will continue in business.

The members are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006, as applied to limited liability partnerships.

They are also responsible for safeguarding the assets of the LLP and Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are fulfilled by the Executive Board on behalf of the members.

The Executive Board confirms that it has complied with the above requirements in preparing the financial statements.

On behalf of the Executive Board

Keith Tilson

Keith Tilson
Chief Financial Officer

Ian Powell

Ian Powell
Chairman and Senior Partner

3 August 2012

We have audited the financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, Group and LLP statements of financial position, Group and LLP statements of cash flows, Group and LLP statements of changes in members' equity, and the related notes numbered 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent LLP financial statements, as applied in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships.

This report is made solely to the LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the statement of members' responsibilities in respect of the financial statements, included in the members' report, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent LLP's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the designated members; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Group and the parent LLP as at 30 June 2012 and of the profit of the Group for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent LLP financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships, and
- the financial statements have been prepared in accordance with the Companies Act 2006, as applied to limited liability partnerships.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006, as applied to limited liability partnerships, requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent LLP, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent LLP financial statements are not in agreement with the accounting records and returns, or
- we have not received all the information and explanations we require for our audit.

Steve Gale.

Steve Gale FCA
Senior Statutory Auditor

For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
London

3 August 2012

Consolidated income statement for the year ended 30 June 2012

	Note	2012 £m	2011 £m	Increase
Revenue		2,621	2,461	7%
Expenses and disbursements on client assignments		(317)	(288)	10%
Net revenue		2,304	2,173	6%
Staff costs	2	(1,144)	(1,078)	6%
Depreciation, amortisation and impairment	3	(32)	(27)	
Other operating charges	3	(396)	(386)	3%
Operating profit		732	682	
Finance income	4	98	82	
Finance expense	4	(94)	(97)	
Profit on ordinary activities before taxation		736	667	10%
Tax expense in corporate subsidiaries	5	(9)	(11)	
Profit for the financial year before members' profit shares		727	656	11%
Profit available for division among members	18	672	622	8%
Profit attributable to non-controlling interests	18	55	34	62%
Profit for the financial year		727	656	11%

Consolidated statement of comprehensive income for the year ended 30 June 2012

	Note	2012 £m	2011 £m
Profit for the financial year		727	656
Other comprehensive income (expense)			
Cash flow hedges	20	1	(1)
Loss from translation of foreign operation		–	(1)
Other comprehensive income (expense) for the year		1	(2)
Total comprehensive income for the year		728	654
Total comprehensive income for the year attributable to:			
Members		673	621
Non-controlling interests		55	33
Total comprehensive income for the year		728	654

There is no tax on the cash flow hedges or translation components of other comprehensive income (expense).

Statements of financial position at 30 June 2012

	Note	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Non-current assets					
Property, plant and equipment	7	153	131	1	1
Intangible assets	8	19	21	7	9
Goodwill	8	41	36	6	4
Investments	9	5	3	54	53
Retirement benefit assets	16	262	181	262	181
Deferred tax assets	17	–	3	–	–
		480	375	330	248
Current assets					
Trade and other receivables	10	788	709	595	581
Cash and cash equivalents	11	159	271	130	257
		947	980	725	838
Total assets		1,427	1,355	1,055	1,086
Current liabilities					
Trade and other payables	12	(547)	(515)	(290)	(328)
Corporation tax		(13)	(17)	–	–
Borrowings	13	(23)	(23)	–	–
Provisions	14	(5)	(6)	(4)	(5)
Members' capital	15	(13)	(14)	(13)	(14)
		(601)	(575)	(307)	(347)
Non-current liabilities					
Borrowings	13	(13)	(2)	–	–
Provisions	14	(54)	(52)	(25)	(31)
Members' capital	15	(152)	(144)	(152)	(144)
Other non-current liabilities	12	(34)	(32)	–	–
		(253)	(230)	(177)	(175)
Total liabilities		(854)	(805)	(484)	(522)
Net assets		573	550	571	564
Equity					
Members' reserves	18	590	572	571	564
Non-controlling interests	18	(17)	(22)	–	–
Total equity		573	550	571	564
Total members' interests					
Members' capital	15	165	158	165	158
Members' reserves	18	590	572	571	564
Amounts due from members (included in trade and other receivables)	18	(21)	(20)	–	–
Total members' interests	18	734	710	736	722

The financial statements on pages 35 to 61 were authorised for issue and signed on 3 August 2012 on behalf of the members of PricewaterhouseCoopers LLP, registered number OC303525, by:

Ian Powell

Ian Powell

Keith Tilson

Keith Tilson

Statements of cash flows for the year ended 30 June 2012

	Group		LLP	
	2012 £m	2011 £m	2012 £m	2011 £m
Cash flows from operating activities				
Cash generated from operations (note 22)	645	621	526	492
Tax paid by corporate subsidiaries	(29)	(27)	–	–
Net cash inflow from operating activities	616	594	526	492
Cash flows from investing activities				
Purchase of property, plant and equipment	(48)	(72)	–	–
Purchase of intangible assets	(5)	(5)	(1)	(2)
Purchase of other businesses (net of cash acquired)	(5)	(6)	(2)	–
Proceeds from sale of property, plant and equipment	2	1	–	–
Proceeds from sale of other businesses	–	13	–	13
Purchase of investments	(2)	–	(2)	(8)
Interest received	1	1	–	3
Net cash (outflow) inflow from investing activities	(57)	(68)	(5)	6
Cash flows from financing activities				
Payments to members	(655)	(588)	(655)	(588)
Payments to non-controlling interests	(50)	(54)	–	–
Interest paid	(2)	(2)	–	–
Borrowings	11	(7)	–	(5)
Compensating payment by members	18	18	–	–
Capital contributions by members	25	31	25	31
Capital repayments to members	(18)	(28)	(18)	(28)
Net cash outflow from financing activities	(671)	(630)	(648)	(590)
Net decrease in cash and cash equivalents	(112)	(104)	(127)	(92)
Cash and cash equivalents at beginning of year	271	375	257	349
Cash and cash equivalents at end of year (note 11)	159	271	130	257

Statements of changes in members' equity for the year ended 30 June 2012

	Group			LLP
	Available for division among members £m	Attributable to non-controlling interests £m	Total £m	Total £m
Balance at beginning of prior year	539	(1)	538	532
Profit for the financial year	622	34	656	620
Other comprehensive expense for the year	(1)	(1)	(2)	–
Total comprehensive income	621	33	654	620
Allocated profit in financial year	(588)	(54)	(642)	(588)
Transactions with owners	(588)	(54)	(642)	(588)
Balance at beginning of year	572	(22)	550	564
Profit for the financial year	672	55	727	664
Other comprehensive expense for the year	1	–	1	(2)
Total comprehensive income	673	55	728	662
Allocated profit in financial year	(655)	(50)	(705)	(655)
Transactions with owners	(655)	(50)	(705)	(655)
Balance at end of year	590	(17)	573	571

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to limited liability partnerships (LLPs) reporting under IFRS.

The financial statements have been prepared on a going concern basis under the historical cost convention, except as otherwise described in these accounting policies.

As permitted by section 408 of the Companies Act 2006, as applied to LLPs, no separate income statement is presented for the LLP.

The Group adopted IAS 24 (revised) 'Related party disclosures' during the period, which had no material impact on its results or financial position.

Future requirements

The Group will adopt the revised version of IAS 19 'Employee benefits' for the accounting period to June 2014. The standard makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The most significant changes are that actuarial gains and losses will be recognised immediately in other comprehensive income, the net pension asset or liability will be recognised in the statement of financial position and interest cost and expected return on assets will be replaced by a single net interest amount calculated using a single discount rate. The impact of these changes in the year to 30 June 2012 would have been to decrease opening net assets by £185m, decrease net finance income by £7m and recognise £149m of actuarial losses in the statement of other comprehensive income.

In addition, the following IFRS standards and amendments and IFRIC interpretations have been issued by the IASB and are likely to affect future financial statements of the Group. The effects of the following changes have not been early adopted and are not expected to be material:

- IAS 1 (revised) 'Presentation of financial statements' is effective for the accounting period to June 2013. The standard requires items presented in other comprehensive income to be grouped on the basis of whether or not they are potentially recycled to profit or loss.

- IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. The standard is the first step in the project to replace IAS 39, and the IASB also intends to add new requirements on hedge accounting and impairment. IFRS 9 is expected to be effective for the accounting period to June 2016.

- The IASB has published a group of five new accounting standards on consolidation and joint arrangements. IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements', IFRS 12 'Disclosure of interests in other entities', IAS 27 'Separate financial statements' and IAS 28 (revised) 'Investments in associates and joint ventures' become effective for the accounting period to June 2015. The standards are not expected to change the composition of the consolidated Group.

- IFRS 13 'Fair value measurement' is effective for the accounting period to June 2014. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities. The estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and constitute management's best judgement at the date of the financial statements. In the future, actual experience could differ from those estimates.

The principal estimates and judgements that could have a significant effect upon the Group's financial results relate to the fair value of unbilled revenue on client assignments, receivables valuation, provisions in respect of client claims, onerous property costs and goodwill impairment. In addition, the net deficit or surplus disclosed for each defined benefit pension scheme and subsidiary undertaking annuity provisions are sensitive to movements in the related actuarial assumptions, in particular those relating to discount rate, inflation and mortality. Where appropriate, present values are calculated using discount rates reflecting the currency and maturity of the items being valued. Further details of estimates and judgements are set out in each of the relevant accounting policies and detailed notes to the financial statements.

Consolidation

The financial statements consolidate the results and financial position of PricewaterhouseCoopers LLP and all its subsidiary undertakings (the 'Group').

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies. Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

1 Accounting policies continued

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary undertaking is the fair values of the assets transferred and the liabilities incurred by the Group, including those from any contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiary undertakings have been changed where necessary to ensure consistency with the policies adopted by the Group.

Revenue
Revenue represents amounts recoverable from clients for professional services provided during the year, excluding Value Added Tax. The Group recognises revenue when the amount can be reliably measured and it is probable that future economic benefits will flow.

Revenue is based on the fair value of the services provided on each client assignment, including expenses and disbursements, reflecting the stage of completion of each assignment as at the reporting date.

Revenue in respect of contingent fee assignments (over and above any agreed minimum fee) is only recognised when the contingent event occurs.

Unbilled revenue on individual client assignments is included as unbilled amounts for client work within trade and other receivables. Where individual on-account billings exceed revenue on client assignments, the excess is classified as progress billings for client work within trade and other payables.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided on a straight-line basis from the point the asset is ready for use over the following estimated useful lives:

Freehold property	50 years
Leasehold property	50 years or shorter leasehold term
Fittings and furniture	10–20 years or shorter leasehold term
Equipment	3–5 years

Repairs and maintenance costs arising on property, plant and equipment are charged to the income statement as incurred.

Intangible assets
Customer relationships – intangible assets are recognised on the acquisition of a business in respect of customer relationships and are amortised on a straight-line basis over the expected useful economic life of the relationship, typically over three to ten years.

Computer software – costs directly associated with the development of software for internal use in the business that will generate economic benefits exceeding one year are capitalised as intangible assets. Computer software intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss. Amortisation is provided on a straight-line basis over the expected useful economic lives of three to five years.

Goodwill
On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such assets, liabilities and contingent liabilities. Goodwill arising on acquisitions is capitalised with an indefinite useful life. Goodwill is allocated to cash generating units for the purpose of impairment testing. This allocation is made to the cash generating units which are expected to benefit from the business combination in which the goodwill arose.

Impairment of non-financial assets
Goodwill is not subject to amortisation and is tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill, that have suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

1 Accounting policies continued

Investments

Investments in subsidiary undertakings are stated at cost less impairment.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are also recognised on a straight-line basis as a reduction of rental expense over the lease term or to the first break clause where applicable.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements, but are disclosed unless they are remote.

Provision is made for the present value of onerous lease commitments in respect of surplus property, after allowance for anticipated sublet rental income, and to restore premises to their original condition upon vacating them where such an obligation exists under the lease. Present value is based on discounted future cash flows, with the unwinding of that discount recognised as an expense within finance charges.

In common with comparable professional practices, the Group is involved in a number of disputes in the ordinary course of business which may give rise to claims. Provision is made in the financial statements for all claims where costs are likely to be incurred and represents the cost of defending and concluding claims. The Group carries professional indemnity insurance and no separate disclosure is made of the detail of claims or the costs covered by insurance, as to do so could seriously prejudice the position of the Group.

Retirement benefits

The Group operates a defined contribution pension scheme for its staff. Both of the Group's defined benefit pension scheme arrangements were closed to future service accrual with effect from 5 April 2011.

The Group's contributions to the defined contribution scheme are charged to the income statement as they fall due.

For the defined benefit schemes, the net deficit or surplus in each scheme is calculated in accordance with IAS 19, based on the present value of the defined benefit obligation at the reporting date, less the fair value of the scheme assets.

The Group's income statement includes the current service cost of providing pension benefits, the expected return on scheme assets and the interest cost on scheme obligations. Past service costs arising from changes to scheme benefits are also recognised immediately in the income statement, unless the benefits are conditional on the employees remaining in service for a specified period of time, in which case the past service costs are amortised over that vesting period.

1 Accounting policies continued

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are not recognised for each scheme unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of the scheme assets. In this case the excess is recognised within finance income or expense over the expected average remaining service lives of the employees participating in the scheme.

Termination benefits
The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees before their retirement or providing termination benefits as a result of an offer made to encourage voluntary severance.

Members' pensions and annuities
Members of the LLP are required to make their own provision for pensions and do so mainly through contributions to personal pension policies and other appropriate investments. Members, in their capacity as partners in the PricewaterhouseCoopers United Kingdom Partnership, have agreed to pay pension annuities and other post-retirement payments to certain former partners of that partnership and the widows and dependants of deceased former partners. These annuities and other post-retirement payments are personal obligations of the members and are not obligations of, or guaranteed by, the LLP or its subsidiary undertakings. Accordingly, these annuities are not recognised within these financial statements.

The Group financial statements consolidate the provision made for the annuities payable by certain subsidiary undertakings to the non-controlling interest partners in those undertakings. The provision reflects the present value of the obligations arising from service to date. Any changes in the provision for these annuities arising from changes in entitlements or in financial estimates and actuarial assumptions are recognised in the income statement. The unwinding of the discount is presented in the income statement as a finance expense. When the entitled individuals retire and their annuities come into payment, these payments are shown as a movement against the provision.

Allocation of profits and drawings
During the year the Executive Board sets the level of interim profit allocations and members' monthly drawings after considering the working capital needs of the Group. To the extent that interim profit allocations exceed drawings, then the excess profit is included in the statement of financial position under trade and other payables. Where drawings exceed the allocated profits, then the excess is included in trade and other receivables. The same treatment is used for members who retire during the year.

The final allocation of profits and distribution to members is made after assessing each member's contribution for the year and after the annual financial statements are approved. Unallocated profits are included in reserves within members' equity.

Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange at the reporting date and the gains and losses on translation are included in the income statement.

The individual financial statements of the Group's subsidiary undertakings are presented in the currency of the primary economic environment in which they operate (their functional currency). For the purpose of the consolidated financial statements, the results and financial position of each subsidiary undertaking are expressed in pounds sterling, which is the functional currency of the LLP, and the presentation currency for the consolidated financial statements.

The assets and liabilities of the Group's foreign undertakings are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on consolidation on the retranslation of foreign undertakings, if any, are recognised in other comprehensive income.

Financial instruments
Financial instruments are initially recognised at fair value. Fair value is the amount at which such an instrument could be exchanged in an arm's length transaction between informed and willing parties.

Unquoted investments with no reliable measure of fair value are stated at cost less impairment. Income from these investments is recognised in the income statement when entitlement is established.

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade receivables are recognised initially at fair value and held at amortised cost less provisions for impairment. Provisions for impairment represent an allowance for doubtful debts that is estimated, based upon current observable data and historical trends.

Unbilled amounts for client work are recognised initially at fair value and held at amortised cost less provisions for foreseeable losses.

Trade and other payables are measured at amortised cost.

1 Accounting policies continued

Members' capital, which is measured at fair value, is classified as a financial liability.

Derivatives, such as forward foreign-exchange contracts, are held or issued in order to manage the Group's currency and interest rate risks arising from its operations and sources of finance. Hedge accounting is applied where the relevant criteria are met.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income or expense within the statement of comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Financial guarantees

Financial guarantees are initially recognised at fair value and subsequently measured at the higher of their initial fair value, less amounts recognised in the income statement, and the best estimate of the amount that will be required to settle the obligation.

Taxation

Income tax payable on the profits of the LLP and other LLPs consolidated within the Group is solely the personal liability of the individual members of those LLPs and consequently is not dealt with in these financial statements.

Certain companies dealt with in these consolidated financial statements are subject to corporate taxes based on their profits for the financial year.

Deferred tax in relation to these companies is recognised, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is measured at the tax rates that are substantively enacted at the reporting date and expected to apply in the periods in which the temporary differences reverse.

2 Staff costs

Group

	2012 £m	2011 £m
Salaries, including termination benefits of £11m (2011: £5m)	977	922
Social security costs	103	95
Pension costs (note 16)		
– defined contribution scheme	64	46
– current service cost of defined benefit pension schemes	–	15
	1,144	1,078

The average monthly number of employees during the year was 17,617, including practice support staff of 3,534 (2011: 17,079, including practice support staff of 3,543).

LLP

There were no employees in the LLP during the year (2011: nil).

3 Other operating costs

Operating profit is stated before finance costs and tax expense in corporate subsidiaries.

Depreciation, amortisation and impairment

	2012 £m	2011 £m
Depreciation of property, plant and equipment (note 7)	24	21
Amortisation of intangible assets (note 8)	7	6
Impairment of goodwill (note 8)	1	–
	32	27

Other operating charges

Amounts in other operating charges include:

	2012 £m	2011 £m
Operating lease rentals:		
– land and buildings	76	90
– plant and machinery	9	9
	85	99

Other operating charges include profits on disposal of business of £3m (2011: £13m).

Total fees and expenses payable to the auditors, Crowe Clark Whitehill LLP, for the year ended 30 June 2012 were £0.5m (2011: £0.4m). Of these, audit fees relating to the LLP and Group consolidation were £0.4m (2011: £0.3m) and other services in respect of the audit of subsidiary companies and other statutory requirements were £0.1m (2011: £0.1m).

4 Finance income and expense

	2012 £m	2011 £m
Finance income		
Interest receivable	1	1
Expected return on pension scheme assets (note 16)	97	81
	98	82
Finance expense		
Interest payable	(2)	(2)
Unwinding of discount on provisions (note 14)	(2)	(1)
Amortisation of actuarial losses on retirement benefits (note 16)	(2)	(13)
Interest cost on pension scheme obligations (note 16)	(88)	(81)
	(94)	(97)
Net finance income (expense)	4	(15)

5 Tax expense in corporate subsidiaries

The financial statements do not incorporate any charge or liability for taxation on the results of the limited liability partnerships consolidated in the Group, as the relevant tax is the personal liability of individual members. The charge to tax, which arises in the corporate subsidiaries included within these financial statements, is:

	2012 £m	2011 £m
Current tax on income of corporate subsidiaries for the year	25	29
Compensating payment due from LLP members	(19)	(20)
Deferred tax movements (note 17)	3	2
Tax expense in corporate subsidiaries	9	11

The following table reconciles the tax expense at the standard rate to the actual tax expense:

	2012 £m	2011 £m
Profit on ordinary activities of corporate entities before tax	23	18
Tax expense at UK standard rate of 25.5% (2011: 27.5%)	6	5
Impact of items not deductible for tax purposes	6	6
Adjustment to tax charge in respect of prior years	(2)	–
Effect of different tax rates in which the Group operates	(1)	–
	9	11

In accordance with UK transfer pricing legislation, the UK corporation tax expense in subsidiary undertakings includes an additional amount in respect of the taxable profits of those subsidiaries. The cost of this will be fully met by compensating payments made by LLP members direct to the relevant subsidiaries.

6 Members' profit shares

The basis on which profits are shared among members is set out in note 1.

The average monthly number of LLP members during the year was:

	2012 Number	2011 Number
UK members	842	815
Members on secondment overseas	30	28
	872	843

During the year, 30 members (2011: 28 members) were on secondment overseas. Excluding these members, the average profit per member based on these financial statements was £798,000 (2011: £763,000), calculated by dividing the total profit available for division among members by the average number of members in the UK.

The final allocation and distribution of profit to members is made after the financial statements have been approved. Based on these financial statements the estimated profit attributable to the Chairman, the member with the largest entitlement to profit, is £4.0m (2011: actual profit £3.7m, estimated profit £3.7m).

The Executive Board represents key management personnel for the purposes of these financial statements. The estimated profit attributable to the eleven (2011: ten) members of the Executive Board during the financial year, comprising their estimated share of the Group's profit available for division among members, amounts to £22.4m (2011: actual profit attributable of £20.4m, estimated profit attributable of £20.6m).

The actual profits finally distributed to partners is calculated after deducting the personal obligations to make annuity payments to certain former partners and after equity adjustments. Actual average distributable profit per partner was £679,000 (2011: £707,000). The estimated distributable profit attributable to the Chairman is £3.4m (2011: actual £3.4m); and to the Executive Board is £18.7m (2011: actual £18.7m).

The amount invested by all members in the business, represented by total members' interests at 30 June 2012, divided by the number of members, amounts to an average investment per member of £848,000 (2011: £842,000).

The investment in the business at 30 June 2012 of the Chairman, represented by his estimated share of total members' interests, was £3.5m (2011: actual investment £3.5m, estimated investment £3.5m).

7 Property, plant and equipment

Group

	Freehold property £m	Leasehold property £m	Fittings, furniture and equipment £m	Total £m
Cost				
At beginning of prior year	6	25	147	178
Additions	–	4	68	72
Disposals	–	(2)	(8)	(10)
At end of prior year	6	27	207	240
Additions	–	4	44	48
Disposals	–	–	(31)	(31)
Transfer between asset classes	–	37	(37)	–
At end of year	6	68	183	257
Accumulated depreciation				
At beginning of prior year	1	19	77	97
Depreciation charge for the year	–	1	20	21
Disposals	–	(2)	(7)	(9)
At end of prior year	1	18	90	109
Depreciation charge for the year	–	3	21	24
Disposals	–	–	(29)	(29)
At end of year	1	21	82	104
Net book amount at end of prior year	5	9	117	131
Net book amount at end of year	5	47	101	153

Group capital commitments contracted but not provided for at 30 June 2012 amounted to £30m (2011: £2m); there were no capital commitments in the LLP. Included in property, plant and equipment were £15m (2011: nil) of assets under construction. The increases in capital commitments contracted but not provided for and assets under construction relate principally to the refurbishment of office premises at 1 Embankment Place.

The transfer between fittings, furniture and equipment and leasehold property represents the final classification of the fit out costs at our 7 More London office premises.

LLP

	Leasehold property £m
Cost	
At beginning of prior year	17
Disposals	(2)
At end of prior and current year	15
Accumulated depreciation	
At beginning of prior year	16
Disposals	(2)
At end of prior and current year	14
Net book amount at end of prior year	1
Net book amount at end of year	1

8 Intangible assets and goodwill

Group

	Customer relationships £m	Computer software £m	Total intangible assets £m	Goodwill £m
Cost				
At beginning of prior year	9	55	64	37
Exchange differences	(1)	–	(1)	(1)
Additions	–	5	5	–
Acquisition of subsidiaries	–	–	–	4
Disposals	–	(1)	(1)	–
At end of prior year	8	59	67	40
Additions	–	5	5	–
Acquisition of subsidiaries	–	–	–	6
At end of year	8	64	72	46
Accumulated amortisation/impairment				
At beginning of prior year	2	39	41	4
Amortisation charge for the year	1	5	6	–
Disposals	–	(1)	(1)	–
At end of prior year	3	43	46	4
Amortisation charge for the year	–	7	7	–
Impairment charge for the year	–	–	–	1
At end of year	3	50	53	5
Net book amount at end of prior year	5	16	21	36
Net book amount at end of year	5	14	19	41

LLP

	Customer relationships £m	Computer software £m	Total intangible assets £m	Goodwill £m
Cost				
At beginning of prior year	1	10	11	4
Additions	–	2	2	–
At end of prior year	1	12	13	4
Additions	–	1	1	2
At end of year	1	13	14	6
Accumulated amortisation				
At beginning of prior year	1	1	2	–
Amortisation charge for the year	–	2	2	–
At end of prior year	1	3	4	–
Amortisation charge for the year	–	3	3	–
At end of year	1	6	7	–
Net book amount at end of prior year	–	9	9	4
Net book amount at end of year	–	7	7	6

8 Intangible assets and goodwill continued

Acquisitions

On 23 August 2011, the Group acquired the trade, assets and liabilities of PRTM Management Consultants Limited together with a 100% interest in PRTM Management Consultants Middle East FZ-LLC (together PRTM) for a total consideration of £5m. PRTM provides operational strategy and supply chain consultancy. The pre-acquisition carrying amounts in respect of the acquisitions have been determined based on the relevant accounts prepared as of the acquisition date. The values of assets, liabilities and contingent liabilities recognised on acquisition are estimated fair values which approximate to pre-acquisition carrying amounts in all cases, amounting to a net liability of £1m. The £6m of goodwill recognised is attributable to the value of PRTM's existing workforce.

In the prior year, the Group acquired a 100% interest in Diamond Advisory Services Limited (formerly Diamond Management & Technology Consultants Limited), a strategic management consultancy company, for total consideration of £8m. The Group recognised £4m of goodwill in respect of the acquisition.

Goodwill

Of the goodwill held within the Group the largest element is £31m in respect of the firm's strategic alliance in the Middle East, which is considered to be a single cash generating unit. The recoverable amount for goodwill has been determined based on value in use, being the present value of future cash flows based on financial budgets approved by management. The discount rate applied against the anticipated future cash flows is based on a pre-tax estimated weighted average cost of capital of 12% (2011: 13%).

Cash flows with an average annual revenue growth assumption of 18% for the first five years have been used (2011: 20%). Cash flows beyond the five year period have been extrapolated using a 5% historic long-term GDP annual regional growth rate (2011: 5%). A reasonable change in the key assumptions does not have a significant impact on the difference between value in use and the carrying value.

9 Investments

	Group	LLP		
	Other investments £m	Other investments £m	Investments in subsidiary undertakings £m	Total £m
Cost				
At beginning of prior year	3	3	44	47
Acquisitions	–	–	8	8
At end of prior year	3	3	52	55
Acquisitions	2	2	–	2
At end of year	5	5	52	57
Accumulated impairment				
At beginning and end of prior year	–	–	2	2
Impairment charge for the year	–	–	1	1
At end of year	–	–	3	3
Net book amount at end of prior year	3	3	50	53
Net book amount at end of year	5	5	49	54

Other investments comprise holdings in and subordinated loan notes from entities that provide services to PwC network firms around the world.

The financial statements consolidate the results and financial position of the Group, including the principal subsidiary undertakings listed below. All Company shareholdings are 100% owned and the companies incorporated in Great Britain, except for PricewaterhouseCoopers (Middle East Group) Limited which is incorporated in Guernsey, with the Group owning 100% of the ordinary shares and the local Middle East partners owning 'B' shares. In accordance with IAS 27 the Group has control as a result of owning 100% of the ordinary shares. The 'B' shares provide certain income access rights for local Middle East partners.

9 *Investments* continued

In accordance with IAS 27 the Group has consolidated the results of PricewaterhouseCoopers Legal LLP, even though the members of PricewaterhouseCoopers LLP do not share in its profits. The profit and capital attributable to members of PricewaterhouseCoopers Legal LLP is shown as a non-controlling interest in the consolidated financial statements, as is the non-controlling interest profit and capital attributable to members of PricewaterhouseCoopers CI LLP and the Middle East partners of PricewaterhouseCoopers (Middle East Group) Limited.

Companies	Principal activity
PricewaterhouseCoopers Services Limited	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
PricewaterhouseCoopers (Middle East Group) Limited	Professional services
PricewaterhouseCoopers Overseas Limited	Professional services
Diamond Advisory Services Limited	Professional services
PricewaterhouseCoopers Advisory Services Limited	Professional services
Fire Station Operating Company Limited	Social enterprise

Limited Liability Partnerships	
PricewaterhouseCoopers CI LLP	Professional services
PricewaterhouseCoopers Legal LLP	Legal services

10 *Trade and other receivables*

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Client receivables	383	360	332	318
Due from PwC network firms	50	31	35	29
Trade receivables	433	391	367	347
Amounts due from members	21	20	–	–
Other receivables	28	22	7	4
Prepayments	59	40	6	16
Unbilled amounts for client work	247	236	215	214
	788	709	595	581

Group and LLP trade receivables are primarily denominated in sterling. £63m of the Group's trade receivables are denominated in US dollars/US dollar linked currencies (2011: £56m) and £19m are denominated in euros (2011: £20m). The book value of trade and other receivables (Group and LLP) is consistent with fair value in the current and prior year.

The other classes of assets within trade and other receivables are predominantly denominated in sterling and do not contain impaired assets.

The ageing and credit risk relating to trade receivables is analysed as follows:

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
30 days or less, fully performing	282	267	244	243
31 to 180 days, past due and fully performing	148	120	121	101
More than 180 days, past due and impaired	18	21	13	17
Impairment provision	(15)	(17)	(11)	(14)
	433	391	367	347

10 Trade and other receivables continued

Movements in the impairment provision on trade receivables were as follows:

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Balance at beginning of year	(17)	(17)	(14)	(14)
Charged to the income statement	(10)	(11)	(7)	(8)
Released unused during the year	7	5	6	4
Utilised during year	5	6	4	4
Balance at end of year	(15)	(17)	(11)	(14)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

11 Cash and cash equivalents

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Cash at bank and in hand	30	18	1	4
Short-term deposits	129	253	129	253
	159	271	130	257

Fair values of cash and cash equivalents approximate to book value owing to the short maturity of these instruments.

12 Trade and other payables

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Current				
Trade payables	70	65	–	–
Amounts owed to Group undertakings	–	–	174	227
Other payables including taxation and social security	128	111	33	20
Accruals	259	257	8	8
Progress billings for client work	90	82	75	73
	547	515	290	328

Group trade payables are primarily denominated in sterling, with £15m being denominated in US dollars/US dollar linked currencies (2011: £20m) and £13m being denominated in euros (2011: £15m). The book value of trade and other payables (Group and LLP) is consistent with fair value in the current and prior year. Group current trade payables include amounts owing to PwC network firms totalling £53m (2011: £48m).

Other current payables including taxation and social security comprise:

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Other taxes and social security	87	79	–	–
Other payables	41	32	33	20
	128	111	33	20

Other non-current liabilities

Group other non-current liabilities of £34m represent capital loans provided by non-controlling interest partners in subsidiary undertakings consolidated into the Group (2011: £32m).

13 Borrowings

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Current				
Bank borrowings	10	15	–	–
Other loans	13	8	–	–
	23	23	–	–
Non-current				
Bank borrowings	3	2	–	–
Other loans	10	–	–	–
	13	2	–	–
Total borrowings	36	25	–	–

The Group's borrowings are unsecured and denominated in US dollars.

The carrying amounts of borrowings approximate their fair value.

All non-current borrowings mature within one to five years.

14 Provisions

	Group				LLP		
	Annuities £m	Client claims £m	Property £m	Total £m	Client claims £m	Property £m	Total £m
Balance at beginning of prior year	9	29	28	66	28	19	47
Income statement							
– Charge for the year	3	7	5	15	7	4	11
– Released unused during the year	–	(6)	–	(6)	(6)	–	(6)
– Unwinding of discount	–	–	1	1	–	1	1
Cash payments	–	(11)	(7)	(18)	(11)	(6)	(17)
Balance at end of prior year	12	19	27	58	18	18	36
Income statement							
– Charge for the year	4	6	4	14	6	1	7
– Released unused during the year	–	(3)	(2)	(5)	(3)	(2)	(5)
– Unwinding of discount	1	–	1	2	–	–	–
– Actuarial losses	2	–	–	2	–	–	–
Cash payments	(1)	(5)	(6)	(12)	(4)	(5)	(9)
Balance at end of year	18	17	24	59	17	12	29

Disclosed as:

	Group 2012 £m	Group 2011 £m	LLP 2012 £m	LLP 2011 £m
Current	5	6	4	5
Non-current	54	52	25	31
	59	58	29	36

14 Provisions continued

Annuities

The provision for annuities reflects the present value of commitments by certain subsidiary undertakings, principally in relation to the Middle East, to pay annuities to certain partners and former partners in those undertakings (see note 1). These partners are not members of the LLP. The annuities are unfunded.

The principal actuarial assumptions which have been used in calculating the annuity liabilities are an assumed retirement age of 57 (2011: assumed retirement age of 57), with a discount rate of 4.3% (2011: 5.0%) and an inflation rate of 2.5% for US dollar denominated annuities (2011: 2.5%). The discount rates are based on the yield on corporate bonds.

Client claims provision

The client claims provision is the estimated cost of defending and concluding claims. No separate disclosure is made of the cost of claims covered by insurance, as to do so could seriously prejudice the position of the Group.

Property provisions

Provisions are recognised for obligations under property contracts that are onerous and to restore premises to their original condition upon vacating them, where such an obligation exists under the lease. The provisions are based on estimated future cash flows that have been discounted to present value at an average rate of 3.2% (2011: 4.3%). The onerous lease provision covers residual lease commitments up to the end of the lease (the maximum length remaining on any significant onerous lease is five years) and is after allowing for existing or expected sublet rental income.

15 Members' capital

	Group and LLP £m
Balance at beginning of prior year	155
Contributions by members	31
Repayments to members	(28)
Balance at end of prior year	158
Contributions by members	25
Repayments to members	(18)
Balance at end of year	165

Members' capital contributions are determined by the Executive Board with the approval of the Supervisory Board, having regard to the working capital needs of the business. Individual members' capital contributions are set by reference to equity unit profit share proportions and are not repayable until the member retires.

Members' capital due to members retiring within one year is shown as current, as it will be repaid within 12 months of the reporting date. Total members' capital analysed by repayable dates is as follows:

	Group and LLP 2012 £m	Group and LLP 2011 £m
Current	13	14
Non-current	152	144
	165	158

The book value of members' capital liabilities (Group and LLP) is consistent with fair value in the current and prior year.

16 Retirement benefits

The Group operates an ongoing defined contribution pension scheme for its staff. Both of the Group's defined benefit pension scheme arrangements were closed to future service accrual in the prior year, although certain current employee benefits remain linked to final salary.

Defined contribution scheme

Costs of £64m (2011: £46m) were recognised by the Group in respect of the defined contribution scheme. Costs of the defined contribution scheme in the LLP were nil (2011: nil).

Defined benefit schemes

The Group's two defined benefit pension schemes are the PwC Pension Fund (Fund) and the DH&S Retirement and Death Benefits Plan (Plan). Both schemes are funded and their assets are held separately from those of the Group. The liabilities arising in the defined benefit schemes are assessed by independent actuaries, using the projected unit credit method. Both schemes are valued formally every three years, with the latest valuation at 31 March 2011.

Assumptions

The principal actuarial assumptions used were as follows:

	30 June 2012	30 June 2011	30 June 2010
Discount rate	4.4%	5.5%	5.3%
Inflation (RPI)	2.8%	3.6%	3.2%
Inflation (CPI)	2.1%	2.9%	–
Expected rate of increase in salaries	2.8%	3.6%	3.2%
Expected rate of increase in pensions in payment	2.5%	2.9%	2.6%
Expected return on Fund assets	4.8%	6.0%	5.8%
Expected return on Plan assets	4.8%	6.2%	6.0%

In December 2010 UK Government introduced changes which require pensions schemes to use the consumer price index (CPI) where appropriate, taking into account pension scheme rules. For the Fund and the Plan, the majority of liabilities continue to be indexed on an RPI basis, while future increases to deferred member pensions before retirement now increase using CPI.

Sensitivity analysis

The principal actuarial assumptions all have a significant effect on the IAS 19 accounting valuation.

The following table shows the sensitivity of the value of the defined benefit obligations to changes in these assumptions:

	Fund increase £m	Plan increase £m	Total £m
0.25% decrease to discount rate	50	30	80
0.25% increase to salary increases	2	1	3
0.25% increase to inflation	30	20	50
One year increase to life expectancy	18	12	30

The figures at 30 June 2012 used in these financial statements assume that the mortality of the schemes' members will be in line with nationally published S1NA mortality tables, adjusted to reflect the longer life expectancy of members of the Group's schemes versus the standard table by a one year age rating for males and a half a year age rating for females, and with future improvements in line with Continuous Mortality Investigation (CMI) 2009 projections, with a 1.25% long term rate. (The figures at 30 June 2011 assumed that the mortality of scheme members was in line with nationally published PA92 mortality tables, incorporating projected mortality improvements and adjustment for the medium cohort effect, plus an annual mortality improvement underpin of 1.25% for males and 1.00% for females). The following table illustrates the actual life expectancy for a current pensioner member aged 65 at 30 June and a future pensioner member aged 45 at 30 June:

16 Retirement benefits continued

	2012		2011	
	Fund Years	Plan Years	Fund Years	Plan Years
Life expectancy of current pensioners at age 65				
– male	23.1	23.1	23.1	23.1
– female	24.9	24.9	25.9	25.9
Life expectancy of future pensioners at age 65				
– male	24.9	24.9	25.4	25.4
– female	26.9	26.9	27.9	27.9

Income statement

The amounts recognised in the consolidated income statement are as follows:

	2012			2011		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Operating cost						
Current service cost	–	–	–	(12)	(3)	(15)
Finance income and expense						
Expected return on scheme assets	62	35	97	51	30	81
Interest cost	(57)	(31)	(88)	(51)	(30)	(81)
Amortisation of actuarial losses	–	(2)	(2)	(7)	(6)	(13)
	5	2	7	(19)	(9)	(28)

Statement of financial position

The amounts recognised in the Group and LLP statements of financial position are as follows:

	2012			2011		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Fair value of scheme assets	1,110	611	1,721	1,035	568	1,603
Present value of defined benefit obligations	(1,175)	(625)	(1,800)	(1,027)	(580)	(1,607)
Net (deficit) surplus	(65)	(14)	(79)	8	(12)	(4)
Unrecognised actuarial losses	225	116	341	104	81	185
Net retirement benefit asset	160	102	262	112	69	181

An analysis of the movement in the net retirement benefit asset recognised in the statement of financial position is as follows:

	2012			2011		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
At beginning of year	112	69	181	78	52	130
Current service cost	–	–	–	(12)	(3)	(15)
Expected return on scheme assets	62	35	97	51	30	81
Interest cost	(57)	(31)	(88)	(51)	(30)	(81)
Contributions by employer	43	31	74	53	26	79
Amortisation of actuarial losses	–	(2)	(2)	(7)	(6)	(13)
At end of year	160	102	262	112	69	181

16 Retirement benefits continued

Scheme assets

The changes in defined benefit scheme assets were as follows:

	2012			2011		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Fair value of scheme assets at beginning of year	1,035	568	1,603	873	493	1,366
Expected return on scheme assets	62	35	97	51	30	81
Actuarial (losses) gains on assets	(2)	(9)	(11)	69	32	101
Contributions by employer	43	31	74	53	26	79
Benefits paid	(28)	(14)	(42)	(11)	(13)	(24)
Fair value of scheme assets at end of year	1,110	611	1,721	1,035	568	1,603

The actual return on scheme assets in the year ended 30 June 2012 was an £86m gain (2011: £182m gain).

The expected long-term rate of return on each asset class is as follows:

	30 June 2012	30 June 2011	30 June 2010
Equities	6.7%	7.8%	7.7%
Bonds	4.2%	5.5%	5.3%
Gilts	2.9%	4.3%	4.2%
Cash	2.8%	4.0%	3.9%

The expected return on assets is based on a projection of long-term investment returns for each asset class, with separate analysis provided for bonds and gilts. The calculation incorporates the expected return on risk-free investments and the historical risk premium associated with other invested assets. The expected return is stated net of the levy payable to the Pension Protection Fund.

The allocation and market value of assets of the defined benefit schemes were as follows:

	Value at 30 June 2012			Value at 30 June 2011		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Equities	488	259	747	463	268	731
Bonds	191	123	314	152	99	251
Gilts	400	204	604	340	184	524
Cash	31	25	56	80	17	97
	1,110	611	1,721	1,035	568	1,603

Defined benefit obligations

The changes in defined benefit obligations were as follows:

	2012			2011		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Present value of defined benefit obligation at beginning of year	(1,027)	(580)	(1,607)	(960)	(570)	(1,530)
Current service cost	–	–	–	(12)	(3)	(15)
Interest cost	(57)	(31)	(88)	(51)	(30)	(81)
Actuarial (losses) gains on obligations	(119)	(28)	(147)	(15)	10	(5)
Benefits paid	28	14	42	11	13	24
Present value of defined benefit obligation at end of year	(1,175)	(625)	(1,800)	(1,027)	(580)	(1,607)

16 Retirement benefits continued

Actuarial gains and losses

The history of actuarial experience adjustments on each of the schemes for the current and four previous financial years is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fund					
Fair value of scheme assets	1,110	1,035	873	735	792
Present value of defined benefit obligation	(1,175)	(1,027)	(960)	(806)	(803)
Net (deficit) surplus	(65)	8	(87)	(71)	(11)
Actuarial experience (losses) gains on assets	(2)	69	71	(109)	(85)
Actuarial (losses) gains on obligations due to experience	(33)	(5)	16	(4)	(2)
Plan					
Fair value of scheme assets	611	568	493	410	415
Present value of defined benefit obligation	(625)	(580)	(570)	(479)	(446)
Net deficit	(14)	(12)	(77)	(69)	(31)
Actuarial experience (losses) gains on assets	(9)	32	38	(52)	(44)
Actuarial gains (losses) on obligations due to experience	23	2	5	(2)	3

Future cash funding

The most recent full actuarial valuations for both the Fund and the Plan were as at 31 March 2011 under the new Scheme Funding Regulations (Pensions Act 2004), and formed the basis for the update to 30 June 2012 used in these financial statements. For the year ended 30 June 2012, Mercer Ltd was the actuary for the Fund and the Plan.

Following the 31 March 2011 triennial valuation the Group has agreed to make £115m of additional contributions to the schemes, of which £74m was paid in the year, with the balance of £41m due over the next four years.

17 Deferred tax

Deferred tax is calculated in full under the liability method on temporary differences arising in corporate subsidiaries, using a tax rate of 26% for the period to March 2012 and 24% thereafter (2011: 28% for the period to 31 March 2011 and 26% thereafter).

The movements in the Group’s deferred tax assets during the year were as follows:

	2012 £m	2011 £m
Balance at beginning of year	3	4
Acquired with subsidiary	–	1
Charged to the income statement	(3)	(2)
Balance at end of year	–	3

The Group has no deferred tax liabilities (2011: nil).

There was no deferred tax arising in the LLP.

18 Total members' interests

Group

	Members' interests				Non-controlling interests	
	Members' capital £m	Reserves £m	Amounts due to (from) members £m	Total £m	Reserves £m	Amounts due to (from) non-controlling interests £m
Balance at beginning of prior year	155	539	(18)	676	(1)	–
Profit for the prior year available for division among members	–	622	–	622	34	–
	155	1,161	(18)	1,298	33	–
Allocated profit	–	(588)	588	–	(54)	54
Movement on cash flow hedges	–	(1)	–	(1)	–	–
Introduced by members	31	–	–	31	–	–
Repayment of capital	(28)	–	–	(28)	–	–
Drawings and distributions	–	–	(588)	(588)	–	(54)
Movement in compensating payment due to subsidiary undertakings	–	–	(2)	(2)	–	–
Other movements	–	–	–	–	(1)	–
Balance at beginning of year	158	572	(20)	710	(22)	–
Profit for the current year available for division among members	–	672	–	672	55	–
	158	1,244	(20)	1,382	33	–
Allocated profit	–	(655)	655	–	(50)	50
Movement on cash flow hedges	–	1	–	1	–	–
Introduced by members	25	–	–	25	–	–
Repayment of capital	(18)	–	–	(18)	–	–
Drawings and distributions	–	–	(655)	(655)	–	(50)
Movement in compensating payment due to subsidiary undertakings	–	–	(1)	(1)	–	–
Balance at end of year	165	590	(21)	734	(17)	–

LLP

	Members' capital £m	Reserves £m	Amounts due to (from) members £m	Total £m
Balance at beginning of prior year	155	532	–	687
Profit for the prior year available for division among members	–	620	–	620
	155	1,152	–	1,307
Allocated profit	–	(588)	588	–
Introduced by members	31	–	–	31
Repayment of capital	(28)	–	–	(28)
Drawings and distributions	–	–	(588)	(588)
Balance at beginning of year	158	564	–	722
Profit for the current year available for division among members	–	664	–	664
	158	1,228	–	1,386
Allocated profit	–	(655)	655	–
Introduced by members	25	–	–	25
Repayment of capital	(18)	–	–	(18)
Drawings and distributions	–	–	(655)	(655)
Other movements	–	(2)	–	(2)
Balance at end of year	165	571	–	736

The basis on which profits are allocated is described in note 1. Information concerning distributions to members and the number of members is given in note 6. Loans and other debts due to members represent allocated profits not yet paid to members and are due within one year. In the event of a winding-up, members' reserves rank after unsecured creditors.

19 Commitments under operating leases

The Group's total commitments under non-cancellable operating leases, together with the obligations by maturity, are as follows:

	2012		2011	
	Land and buildings £m	Other assets £m	Land and buildings £m	Other assets £m
Within one year	67	6	63	6
1–2 years	51	3	69	4
2–3 years	39	1	62	1
3–4 years	34	–	56	–
4–5 years	44	–	37	–
More than five years	665	–	443	–

20 Financial instruments

Financial risk management

The Group is financed through a combination of members' capital, undistributed profits and borrowing facilities. The Group holds or issues financial instruments in order to finance its operations and manage foreign currency and interest-rate risks arising from its operations and sources of finance. The principal financial instruments, other than derivatives, held or issued by the Group are:

- Trade receivables – The balance represents amounts invoiced in respect of services provided to clients for which payment has not yet been received.

- Cash and cash equivalents – The Group manages its cash resources in order to meet daily working capital requirements. Cash and any outstanding debt are kept to a minimum and liquid fund deposits are maximised.

- Members' capital – The Group requires members to provide long-term financing, which is classified as a liability.

- Debt – The Group's policy permits short-term variable rate facilities with a maximum facility maturity of five years and long-term fixed borrowing with a maximum maturity of ten years.

The Executive Board determines the treasury policies of the Group. These policies, designed to manage risk, relate to specific risk areas that management wish to control, including liquidity, credit risk, interest rate and foreign currency exposures.
No speculative trading is permitted and hedging is undertaken against specific exposures to reduce risk.

Liquidity risk

The Group's most significant treasury exposures relate to liquidity. The Group manages the risk of uncertainty in its funding operations by spreading the maturity profile of its borrowings and deposits. Committed facilities are arranged with minimum headroom of 25% of forecast maximum debt levels. The Group's facilities at 30 June 2012 totalling £332m (2011: £299m) are predominantly held with five leading international banks, with the main £225m facility due to expire in June 2015.

Credit risk

Cash deposits and other financial instruments with banks and financial institutions give rise to counterparty risk. The Group manages this counterparty risk by reviewing their credit ratings regularly and limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating, market capitalisation and relative credit default swap price. The minimum long-term credit rating of all banks and financial institutions who held the Group's short-term deposits during the year was A.

The Group's other significant credit risk relates to receivables from clients. Exposure to that risk is monitored on a routine basis and credit evaluations are performed on clients as appropriate. The Group's exposure to that risk is influenced mainly by the individual characteristics of each client. Risk is managed by maintaining close contact with each client and by routine billing and cash collection for work done.

20 Financial instruments continued

Interest rate risk

The Group's borrowings and any surplus cash balances are held at variable interest rates linked to London interbank offered rate (LIBOR). Outstanding borrowings were undertaken in US dollars to reflect the composition of the Group's assets that the borrowings are funding. A movement in the interest rate of 50 basis points on borrowings and surplus cash balances through the year would have had an immaterial impact on the pre-tax profits of the Group.

Foreign currency risk

The major part of the Group's income and expenditure is in sterling. Other than the Middle East business, fees and costs denominated in foreign currencies are mainly in connection with professional indemnity insurance and transactions with PwC network firms. The Group seeks to minimise its exposure to fluctuations in exchange rates by hedging against foreign currency exposures. These hedges are designated as cash flow hedges where the necessary criteria are met. The Group's policy is to enter into forward or derivative transactions as soon as economic exposures are recognised.

Financial assets and liabilities by category

	2012				2011			
	Loans and receivables £m	Available-for-sale £m	Derivatives used for hedging £m	Other financial liabilities £m	Loans and receivables £m	Available-for-sale £m	Derivatives used for hedging £m	Other financial liabilities £m
Assets								
Trade and other receivables	729	–	–	–	669	–	–	–
Investments	–	5	–	–	–	3	–	–
Cash and cash equivalents	159	–	–	–	271	–	–	–
Liabilities								
Trade and other payables	–	–	–	460	–	–	–	436
Borrowings	–	–	–	36	–	–	–	25
Members' capital	–	–	–	165	–	–	–	158
Other non-current liabilities	–	–	–	34	–	–	–	32
Forward foreign-exchange contracts								
Cash flow hedges	–	–	1	–	–	–	–	–

Interest rate profile of financial assets and financial liabilities

Group and LLP short-term deposits with banks of £129m (2011: £253m) and Group borrowings of £36m (2011: £25m) are subject to floating interest rates. Within Group and LLP investments are floating rate subordinated loan notes of £2m (2011: nil). The Group had no interest rate swaps at 30 June 2012 (2011: interest rate swaps with a notional principal amount of £1m).

Currency profile of financial assets and liabilities

The major part of the Group's income and expenditure is in sterling. After taking into account forward contracts and known US dollar and euro denominated assets and liabilities, the Group had net US dollar denominated liabilities at 30 June 2012 of £18m (2011: net denominated liabilities of £5m) and net euro denominated assets at 30 June 2012 of £15m (2011: net denominated liabilities of £1m).

Derivative financial instruments

Forward foreign-exchange contracts all mature in less than 18 months, and have been valued using forward market prices prevailing at the reporting date. The ineffective portion of cash flow hedges recognised in the income statement was nil (2011: £1m loss). The effective portion of cash flow hedges recognised directly in other comprehensive income was £1m (2011: nil). The notional principal amount of forward foreign-exchange contracts was £74m (2011: £78m).

21 Contingent liabilities and financial guarantees

The Group's policy on claims that may arise in connection with disputes in the ordinary course of business is described in note 1 on provisions and contingent liabilities.

The Group has entered into US $10m (2011: US $10m) guarantees with third-party banks in connection with work performed in foreign territories.

The LLP has entered into a US $52m (2011: US $52m) loan guarantee with a third-party bank in connection with a loan to an entity in the PwC global network.

The LLP has also provided guarantees in respect of the future lease commitments of a subsidiary company for the office premises at 7 More London and 1 Embankment Place.

The LLP guarantees the bank borrowings of a subsidiary company, which is included in the consolidated statement of financial position. At the year-end, the relevant subsidiary company bank borrowings were nil (2011: nil).

22 Reconciliation of profit after tax to operating cash flows

	Group		LLP	
	2012 £m	2011 £m	2012 £m	2011 £m
Profit after taxation	727	656	664	620
Tax on profits	9	11	–	–
Adjustments for:				
– Depreciation, amortisation and impairment	32	27	4	2
– Gain on disposal of business	(3)	(13)	–	(13)
– Finance income	(98)	(82)	(97)	(85)
– Finance expense	94	97	89	95
Changes in working capital (excluding the effects of acquisitions)				
– (Increase) in trade and other receivables	(72)	(42)	(15)	(45)
– Increase (decrease) in trade and other payables	27	34	(39)	(6)
– Increase (decrease) in provisions and other non-current liabilities	3	(3)	(7)	(12)
– (Increase) in retirement benefit assets	(74)	(64)	(73)	(64)
Cash generated from operations	645	621	526	492

23 Related party transactions

The LLP and the PricewaterhouseCoopers United Kingdom Partnership are related parties because they are both controlled by the same group of individuals and the United Kingdom Partnership is the predecessor firm of the LLP. This controlling group of individuals consists of all the members of the LLP who are also all the partners of the United Kingdom Partnership. Related party transactions between these parties are summarised below.

Services provided to PricewaterhouseCoopers United Kingdom Partnership in respect of client assignments

Arrangements are in place for the LLP to supply services to the United Kingdom Partnership in connection with certain client assignments. For the year ended 30 June 2012, the LLP provided services to the United Kingdom Partnership to the value of £247,000 (2011: £185,000) under these arrangements. There were no balances outstanding at the end of the year (2011: nil).

Administrative support to PricewaterhouseCoopers United Kingdom Partnership

On behalf of its members, the LLP provides certain administrative services to support the United Kingdom Partnership, including the calculation of annuities and paying agent arrangements in connection with the pension annuities and certain other post-retirement payments due to certain former partners of that partnership. The LLP charged the United Kingdom Partnership £200,000 for these support services for the year ended 30 June 2012 (2011: £200,000). There were no balances outstanding at the end of the year (2011: nil). Amounts paid during the year to the annuitants on behalf of the continuing members in their capacity as partners in the United Kingdom Partnership totalled £82m (2011: £77m).

LLP

The subsidiary undertakings as described in note 9 are related parties of the LLP. The transactions and year-end balances with these related parties are as follows:

	2012 £m	2011 £m
Purchase of services from related parties		
PricewaterhouseCoopers Services Limited	1,451	1,356
Other subsidiaries	17	18
Provision of services to related parties		
Other subsidiaries	(21)	(16)
	1,447	1,358
Year-end balances with related parties		
PricewaterhouseCoopers Services Limited	(189)	(236)
Other subsidiaries	15	9
	(174)	(227)

Community involvement

Performance	Units	2012	2011	2010	2009	2008	2007
Financial contribution							
Community contribution (cash, time and in-kind)[1]	£m	10.9	10.3	8.1	7.9	6.8	5.9
Employee involvement							
Volunteering during working hours	no. of occasions	6,500	5,932	4,865	4,600	3,700	2,900
Volunteering during working hours	no. of people	4,933	4,226	–	–	–	–
Time spent volunteering	working hours	54,267	50,206	42,480	41,300	40,900	37,400
Skills-based volunteering[2]	percentage of hours	67%	58%	–	–	–	–
Payroll giving participation[3]	percentage of staff	3.3%	3.6%	–	–	–	–

1 Measured according to the London Benchmarking Group (LBG) principles. In-kind includes pro bono and discounted work (calculated using an estimated cost rate in line with our internal transfer rate).
2 Relates to volunteering hours which use an individual's professional skills but not as a service for which the firm has a formal engagement in place (i.e. not including pro bono or discounted work).
3 Measured as a percentage of average eligible UK headcount which excludes both members and contractors.

Environment

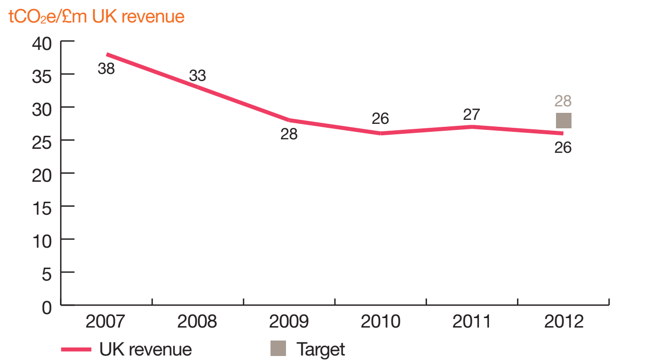
Performance	Units	5 year % var.	2012	2011	2010	2009	2008	2007
Carbon emissions[1]								
Scope 1	tonnes CO_2e	–41%	3,154	3,391	4,113	4,066	5,683	5,351
Scope 2	tonnes CO_2e	–27%	21,294	22,007	21,836	22,124	24,676	29,027
Scope 3[2]	tonnes CO_2e	–15%	37,407	35,211	31,901	35,018	43,010	44,118
Total	tonnes CO_2e	–21%	61,855	60,609	57,850	61,208	73,369	78,496
Resource consumption								
Paper consumption	tonnes	–40%	509	589	649	697	777	844
Water consumption[2]	m^3 (k)	–16%	173	186	183	183	183	206
Waste								
Landfill[3]	tonnes	–96%	23	182	473	746	782	587
Incineration to energy	tonnes	–47%	747	527	736	857	1,101	1,408
Recycling	tonnes	–2%	2,020	2,163	1,971	1,815	1,867	2,059
Total	tonnes	–31%	2,790	2,872	3,180	3,418	3,750	4,054

1 Calculated using DEFRA conversion factors (August 2011).
Scope 1: from burning of fossil fuels in buildings (oil, gas and biodiesel).
Scope 2 : from consumption of electricity in buildings.
Scope 3 : from other sources of emissions (business travel, waste and water).
2 FY09 and prior years include estimates for rail and water consumption and carbon emissions.
3 Zero waste to landfill achieved by end June 2012. Figures are for the full year.

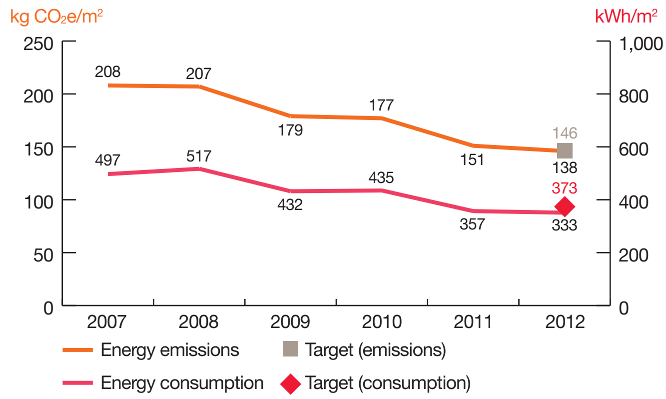
Progress against targets (2007–12)	Units	Actual reduction	Target reduction	2012	2007
Carbon emissions					
Total (Scope 1, 2, 3)[1]	tCO_2e/£m UK revenue	–32%	–27%	26	38
Energy	kg CO_2e/m^2	–34%	–30%	138	208
Air travel – client facing[2]	kg CO_2e/head	72%	–25%	1,427	828
Air travel – non-client facing[2]	kg CO_2e/head	–73%	–45%	220	817
Consumption					
Energy	kWh/m^2	–33%	–25%	333	497
Total waste[2]	kg/head	–27%	–20%	175	239
Waste to landfill[3]	tonnes	–96%	–100%	23	587

1 Target restated using UK revenue (previously Operating Profit).
2 Targets based on Full Time Equivalent (FTE) data, including members, employees and contractors.
3 Zero waste to landfill achieved by end June 2012. Figures are for the full year.
All data excludes the Middle East.
The community involvement and environmental data for 2007 and 2012 has been externally assured by the firm's auditor, Crowe Clark Whitehill LLP.
New environmental targets have been set this year through to 2017 with a baseline of 2007. For full details on the metrics, performance, environmental targets and the auditor's assurance statement see: www.pwc.co.uk/corporatesustainability.

Financial emissions intensity



Energy per square metre: emissions and consumption

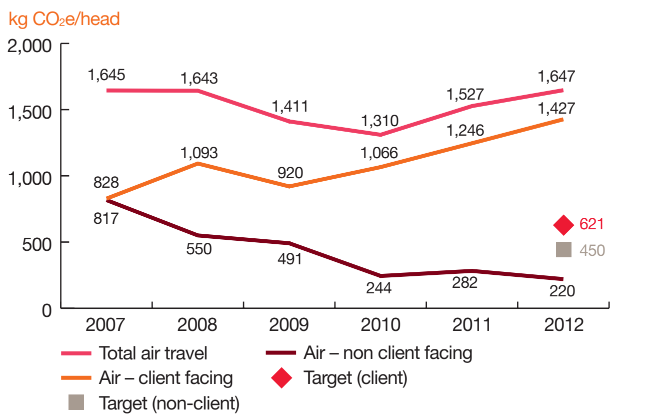


Since our baseline of 2007, we've reduced our overall carbon emissions and our financial emissions intensity has dropped by 32%, exceeding our target reduction of 27%. This has been achieved in a context of steady business growth, and represents an overall reduction in absolute emissions of more than 21% (16,641 tonnes).

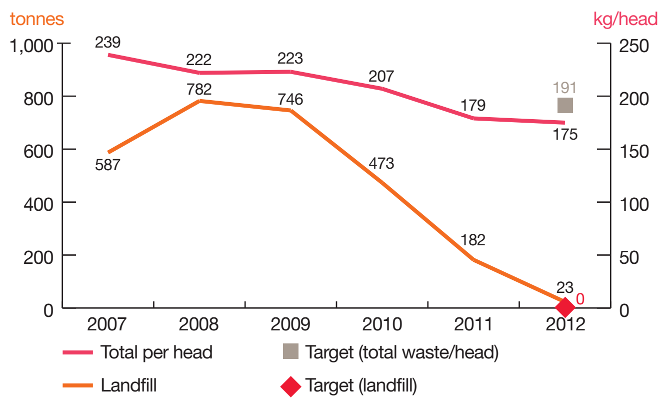
Over the last five years we've significantly reduced the amount of amount of energy used to light, heat and power our offices, meeting both our energy targets. We aimed to reduce our energy consumed per square metre by 25% and achieved 33%. Our carbon emissions per square metre have also dropped by 34%, exceeding our target of 30%.

This has largely been achieved through a combination of good energy management practices and a significant investment in energy efficiency in our 7 More London office.

Carbon emissions per head: air travel



Waste: total waste/head and landfill



Air travel is a key part of our business. We set ourselves targets to reduce the carbon emissions associated with flights, against a baseline of 2007.

We've had considerable success in reducing emissions from non-client air travel, which is down 73% per head, exceeding our target of 45%. This has, in part, been achieved by introducing tighter approvals processes.

However we have struggled with air travel related to selling and delivering client work. Carbon emissions associated with these activities have grown by 72% per head, as our business has grown and become more global. We've launched an extensive internal campaign to promote and educate staff about web conferencing as an alternative.

By the end of June 2012 we've reduced the total amount of waste that we generate by 27% per head – exceeding our target of 20%.

By year end we had achieved our target of moving to zero waste to landfill. This means that the office waste we generate is now either recycled or disposed of through incineration facilities which recover energy. We now recycle 72% of our waste, as a result of removing desk-side bins and introducing central recycling points on each floor.

Unless otherwise indicated, either expressly or by the context, we use the word 'partner' to describe a member of PricewaterhouseCoopers LLP.

Registered office: 1 Embankment Place, London, WC2N 6RH.

Registered number: OC 303525.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C022913

Printed on material sourced from responsibly managed forests, certified in accordance with the FSC® (Forest Stewardship Council).

Paper manufactured to ISO 14001 and EMAS (Eco-Management & Audit Scheme) international standards, minimising negative impacts on the environment.

All printing inks used for this report are made from vegetable based oils. On average 87% of any waste associated with the production will be recycled. Printed by a CarbonNeutral® company, registered to the Environmental Management System, ISO 14001 and EMAS, the Eco Management and Audit Scheme.

21120

www.pwc.co.uk/annualreport