PricewaterhouseCoopers LLP
Annual Report 2007

Experience counts*

*connectedthinking

PricewaterhouseCoopers

Pure diamonds?

The first code of ethical, social and environmental practices for the global jewellery industry comes into effect in January 2008. Teresa Fabian reveals the firm's role.

'Back in 2001, one of our clients – a major jewellery retailer – was concerned that ethical problems in the supply chain might damage the image of diamonds and the jewellery industry. Our study revealed that significant risk existed, ranging from the environmental impact of mining to labour standards. We were invited to present the results to the board of Jewelers of America, the US industry trade body, which unanimously committed to taking action to promote responsible practices within the industry.

'This led to the creation of The Council for Responsible Jewellery Practices in 2005. We acted as the council's secretariat, led the development of its code of practice, facilitated stakeholder engagement and developed governance structures and high-level implementation processes until a transition to permanent staff was completed. It now has over 70 members spanning the gold and diamond supply chain from mine to retail.

'I'm tremendously proud of what we have achieved, and I still have some great friendships from the project. I don't think it's too dramatic to say this was a once-in-a-lifetime experience.'

Teresa Fabian, senior manager, Sustainable Development and Climate Change, London

'PwC's commitment and support were second to none. They were with us every step of the way – providing the driving force behind our efforts to encourage responsible practices.'

Matt Runci, President, Jewelers of America

What we do

Our clients include public and private companies, central and local Government, lenders and private equity houses, private individuals and not-for-profit organisations.

Assurance and regulatory reporting
Statutory audit, financial accounting, non-financial performance and reporting, regulatory compliance, International Financial Reporting Standards (IFRS) conversion, assurance on capital market transactions, risk assurance services, including internal audit, controls optimisation, independent controls and process assurance.

Tax
Corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax structuring, finance and treasury, indirect taxes, tax management and accounting services, tax investigations, corporate tax compliance and outsourcing, private business tax advisory, personal tax advisory and compliance, tax valuations, environmental taxes and regulation, research and development tax relief.

Performance improvement consulting
Revenue growth, including managing convergence, regulated sales forces, channel management and product profitability, strategic cost management, including low cost sourcing, supply chain and IT value, finance transformation, including treasury, risk management, corporate performance management and shared services, outsourcing advisory and ongoing management, managing the people agenda and regulatory compliance.

Business recovery
Advising on transaction and underperformance issues, including refinancing, restructuring, pension scheme funding, corporate simplification, working capital management, crisis and stakeholder management, independent business reviews, interim management and insolvency and solutions for discontinued insurance and long-tail liability issues.

Transaction services
Bid support and defence, deal strategy, buy and sell side financial and operational due diligence, commercial and market due diligence, post-merger integration, structuring, sale and purchase agreements and business modelling.

Corporate finance
Mergers and acquisitions advisory, private equity advisory, initial public offerings, project finance and public private partnerships, public to private valuations and debt advisory.

Human resource services
Reward and compensation, employment services, pensions and retirement, international assignment solutions, HR management, including HR transaction advice, human capital metrics and benchmarking, HR function effectiveness and service delivery.

Actuarial
Mergers and acquisitions, capital structuring, financial modelling, predictive modelling, insolvencies and run-off solutions, regulatory, including treating customers fairly, risk and capital management, underwriting and catastrophe modelling, claims, reinsurance, insurance reserving and reporting, pensions and other benefit plans, performance benchmarking and insurance needs for the public sector.

Forensic services
Anti-money laundering, capital projects, commercial disputes, forensic technology solutions, investigations, insurance claims, intellectual property, international arbitration, licensing management, securities litigation, transaction and shareholder disputes.

Sustainability and climate change
Impact reviews, strategic and performance planning, corporate governance and business ethics, policy development and roll-out, risk management, carbon markets planning and transactions, environmental tax and regulation, environmental health and safety management, ethical supply chain management, reporting and assurance of non-financial information and waste and resource use management.

How we measure ourselves

Our ambition is to be the distinctive UK professional services firm.

We are committed to helping our clients, our people and our communities.

Clients

Leading in each of our chosen markets

Our aim is to be the acknowledged leader in all our chosen markets, both in terms of our work for clients and the values by which we live. Quality and integrity lie at the heart of what we do, be it in creating, delivering and adding value for our clients or fulfilling our public interest responsibilities through rigorous and independent auditing.

People

Being a great place to work

To achieve our goals we need to have the right people. So we seek to attract, recruit and invest in the most capable and innovative people, create an environment in which they can develop to their full potential, and nurture their knowledge and experience. We then strive to connect all these attributes and share our collective expertise for the benefit of our clients.

Corporate responsibility

Creating a sustainable business

We recognise our impact on society, the economy and the environment. We also acknowledge our responsibilities to the wider communities in which we operate and the global PricewaterhouseCoopers network. We are committed to enhancing and protecting our brand and reputation. This not only means communicating openly and transparently, but also investing in our infrastructure and technology to ensure they continue to support the changing needs of our clients and our people.

Financial

Maintaining quality earnings

Our aim is to maintain quality earnings that are proportionate to the risks we encounter in our business while also providing adequate resources for investment and reward for all our people.

All the services we provide are underpinned by our governance and management structures.

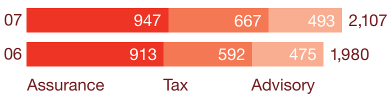
How we performed

We maintained our market-leading position in 2007.

We continued to bring real value to our clients, invest in our people, support our local communities, shape our industry, build trust and enhance value.

Clients

Turnover
£m



- Audit services grew 8%; non-audit services to audit clients declined 4% due to Sarbanes-Oxley tail-off
- Services to non-audit clients grew 10%
- Turnover split 49:51 between audit and non-audit clients
- Strong growth in Tax, Human Resource Services, Transaction Services and Performance Improvement Consulting

People

Partner and staff numbers
at 30 June

- Voted number one graduate employer for fourth year running
- 65 partners admitted
- More than 3,000 people recruited
- Emerging Leaders Programme launched

Corporate Responsibility

Community hours volunteered

- Top status in the BitC Corporate Responsibility Index
- Became carbon neutral
- Over 25,000 hours devoted to regulatory training
- 89% of waste diverted away from landfill
- Total community contribution £5.9m (cash, time and in-kind support)

Financial

Average profit per partner
£000

Represents the underlying average profit for the financial year per partner, excluding the gain on disposal of property asset in 2007 and the past service credit on defined benefit pension schemes in 2006

- Turnover up 6% to £2.1bn; underlying net revenue up 9%
- Average staff numbers up 3%; staff reward up 9%
- Landmark new premises secured at 7 More London
- Underlying average profit per partner up 6% to £757,000

Kieran Poynter
Chairman

Welcome to our annual report for 2007. We believe that corporate reporting should be informative and accessible. Accordingly, this report provides you with the information you need without swamping you in excessive detail.

I am pleased to report that 2007 has been another good year. PricewaterhouseCoopers (PwC) has delivered good financial results and made real progress across the business towards its goal of becoming a truly distinctive practice.

As I said in our 2006 report, we are seeking to establish clear blue water between ourselves and our competitors in each of the markets we serve. To that end, we have – as in previous years – focused on improving both the service we offer our clients and the quality of our people. Over the last 12 months, however, we have also focused on developing a more distinctive client experience, people experience and knowledge experience. These ideas will be further developed and rolled out over the coming year, when we expect them to enhance our competitive edge.

The competitive challenge

Far from being complacent, we never take our clients for granted and we recognise that we face fierce levels of competition in all our markets. Other firms in our sectors continue to raise their game. In an increasing number of practice areas, our main rivals are not only accountants but investment bankers, lawyers and specialist boutiques.

As our revenue streams demonstrate, PwC has changed. In 2007, 72% of our turnover was generated by our non-audit services.

Our Tax services turnover grew by 13% in 2007, continuing the strong performance delivered in 2006 and 2005, when growth of 15% and 8% respectively was achieved. The complexity of the UK tax regime remains a concern and we are seeing increased demand from clients for advice

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to help them develop sensible tax policies and procedures.

Our Performance Improvement Consulting business achieved an 8% increase in turnover in 2007. That success derives from our ability to deliver complex projects and sustainable benefits by engaging effectively with people throughout the change process.

The audit market, meanwhile, remains a challenging and competitive environment – even where very large listed companies are concerned. We were, therefore, delighted with an 8% increase in turnover in audit services.

Further evidence of the changing nature of our markets is a 4% reduction in non-audit services to audit clients. This reflects the expected decline in special, one-off IFRS and Sarbanes-Oxley activity, which had been a significant source of work in 2006.

Our work for big public and private companies receives considerable attention. Less well known is our work for companies outside the FTSE 200, a vital sector of the economy that constitutes the largest single component of PwC's UK client base.

As a result of our ability to provide a broad range of services, we have enjoyed strong growth in this part of our business, which includes numerous household names and iconic brands. In 2007, we were invited to act for, among others, Gordon Ramsay Holdings, Graff Diamonds, LaSenza and William Grant.

Our clients are asking us to provide an ever greater number of services. We have for a number of years provided clients with support in developing corporate responsibility, governance, ethical supply chain and risk management approaches, along with a range of other related services. Increasingly, however, clients are telling us that they want help managing these topics on an integrated basis as a strategic and operational priority. We have for the past 18 months been systematically investing in our capability to service this emerging market.

Investing in talent

In order to stay ahead of the pack, we must have the best and the brightest people. To become a more distinctive firm, we must give those people a unique work experience.

In 2007, the competition for the most talented recruits intensified. So, we made significant investments to enable us to continue to recruit the best talent to all parts of our business. We also made further substantial investments to ensure that our people receive the professional and personal development and support they need to fulfil their potential.

As detailed in the People section of this report, we have established a new

Making the most of our people

Amanda Clack joined us as a direct-entry partner from a niche consultancy in July 2006.

'Is this a great place to work? Yes. Would I recommend it to people? I already have. The way PwC trains and develops people is fantastic. You get exactly the focused, targeted training you need to be more effective in the marketplace at whatever level. I have probably undertaken more directly relevant training here in the last 10 months than in the last 10 years! As for clients, PwC's name, brand and reputation open all sorts of doors.'

Jeff Harris, who graduated from Birmingham University with a First in Politics, joins us in September, having completed a spell of work experience in our Regulatory Policy team.

'I've been fortunate to work with a number of senior people around the firm. I have to admit that I didn't expect them to be so open and take such an interest in me. Approachability is definitely a big part of PwC's culture. And you get offered opportunities, experiences and in particular first-class personal development that are second to none. The social scene is great, too. So, PwC ticks all the boxes.'

Experience counts

Amanda Clack, partner, Performance Improvement Consulting, and Jeff Harris, associate, Transaction Services

development framework. We have also sought to open our development opportunities to as many people as possible, paying particular attention to programmes designed to identify and nurture the future leaders of the business.

We continue to recognise the importance of providing development opportunities beyond the office environment. I am delighted to say that, during 2007, over 3,800 of our people volunteered for our award-winning community affairs programme and so took the chance to broaden their perspectives while giving to society.

Our approach to people issues is undoubtedly producing results. For the fourth consecutive year, PwC has been voted the UK's top employer in The Times Top 100 List of Graduate Employers. Our regular staff survey confirmed that 95% of our people are proud to be associated with PwC (2006: 96%), while 93% continued to say that they would recommend PwC to a friend.

Telling it like it is

We have promoted greater transparency in corporate reporting for a long time. In particular, we have encouraged best practice through our *Building Public Trust Awards*. Now in their fifth year, the awards have been extended to cover all FTSE 350 companies as well as the public sector. In 2007, we also played

At PwC, corporate responsibility is not just a slogan – it underscores everything we do.

a leading role in the group that published the *Report Leadership* model annual report and accounts. These have demonstrated how innovation and best practice can combine to create more insightful narrative and financial reporting. (For further information, please go to www.reportleadership.com.)

We think public reporting should focus on the issues that management regard as important and the measures they use to run their businesses. Reporting should be factual and unvarnished – a concept we encapsulate in the phrase 'telling it like it is'.

The EU's recently adopted 8th Directive introduces an obligation for transparency reporting with effect from 2008. Combined with the list of our audits of major public interest entities that can be found on our website at www.pwc.co.uk/transparency07, this report provides all the information required by that directive.

Taking responsibility

At PwC, corporate responsibility is not just a slogan – it underscores everything we do. We recognise the impact of our business on the environment, society, our people and the marketplace, and we acknowledge that we must run the business in accordance with our obligations to current and future generations.

We are developing an ambitious and challenging agenda. We require a commitment to maintain a high standard of ethical behaviour, to be proactive in recognising the sustainable development challenges facing our clients and to reduce our carbon and waste footprints. We are introducing new responsible leadership and sustainability training programmes, developing a more robust corporate responsibility performance management system and raising awareness and understanding of corporate responsibility with our key stakeholders.

We know that, if we are to assume and maintain a leading role in this area, we have to practise what we preach. We will, therefore, continue to drive down our consumption of energy and paper and increase the recycling of waste. We will also continue to purchase carbon offsets to balance our carbon emissions. Our new building at 7 More London, which we will occupy in 2011, will set new standards and is designed to be as environmentally-friendly and energy efficient as possible.

At the same time, we recognise that we have only taken the first few steps of a long journey that is certain to generate significant strategic challenges for our business. We don't have all the answers and must share our ideas and be willing to learn from others. In the meantime, we take heart from our performance in the latest BitC index, where we were pleased to be awarded the top, Platinum, status.

Robust regulation

We are determined to encourage the development of a robust, high quality regulatory environment. To that end, we continue to make a vigorous contribution to the debate on the regulation of our clients and our profession.

The Financial Reporting Council (FRC) – the regulator responsible for promoting confidence in corporate reporting and governance – has questioned whether the UK audit market offers adequate choice and competition to very large organisations seeking independent audit services. This issue is not unique to the UK, of course. There are many other developed economies where four large firms conduct the audits for most of the larger enterprises.

It is widely accepted that the question is one of choice, not competition. The evidence consistently suggests that there is healthy competition in every sector of the market, including that of the biggest FTSE companies.

Our experience is that very large organisations can and do exercise choice when they wish to do so. However, we agree with the FRC and others that a reduction in the number of firms willing and able to take on these challenges would be unattractive.

With a view to reducing the risk of losing another large audit firm and encouraging new entrants to the market, we support the introduction of legislation to cap the liabilities associated with audit failures. We are pleased that the FRC has undertaken to provide some guidance and develop model agreements for consultation with shareholders.

We also welcome the leadership being shown by the European Commission and the escalating debate in the US over the case for liability reform. Because this is a multinational issue, we need to find a sustainable, global solution.

> ‘I chose PwC not only because the team was excellent, but because I thought I would enjoy working with them. I was right.’

Nigel Alldritt, Finance Director, Majestic Wine plc

Jane Yates, senior manager, Tax

Keeping in contact

Never underestimate the importance of building relationships, says Jane Yates.

'The first time we pitched for the tax work at Majestic Wine, the company decided to give its existing advisers another chance. Obviously, we were disappointed. But it was a fair decision.

'That doesn't mean we took it lying down. Colin Collier on our business development team kept in regular contact with Majestic's finance director, Nigel Alldritt, building a good relationship and a detailed understanding of Majestic's needs. So, the next time Nigel reviewed Majestic's tax advisers, he dusted off our original proposal and came to talk to us. When he rang to say we'd won the work this time round, we were thrilled.

'Building relationships is a long-term job. That said, you can't beat that moment when all your hard work pays off.'

Experience counts

Financial highlights

Our business continues to grow. Over the last year, turnover increased from £2.0bn to £2.1bn, a rise of 6%. Underlying net revenue, excluding disbursements such as sub-contractor charges, grew by 9%.

There was also a one-off gain of £71m as a result of our decision to vacate our Southwark Towers property in London and move to our new building, 7 More London.

After adjusting for this gain and the exceptional credit in last year's results, underlying profit available for division among members was up by 10% to £622m. Underlying average profit per partner rose by 6% to £757,000.

The majority of the firm's tax on profit and capital gains is borne directly by individual members. We calculate that the firm's Total Tax Contribution in business taxes collected and paid for in 2007 was some £583m (2006: £543m).

Our performance in 2007 was the result of a superb effort on the part of everyone in our firm. I would like to take this opportunity to thank all our people for their energy, dedication and professionalism.

Kieran Poynter
Chairman

We like good results

‘We expect our advisers off the field to match the standard of excellence we set on the pitch, and PwC’s team did just that.’

David Gill, Chief Executive, Manchester United Football Club


MANCHESTER UNITED

We aim to be the recognised leader in all our chosen markets, both in terms of our work for our clients and the values by which we live. We seek to deliver a client experience that genuinely makes a difference.

Glyn Barker, Managing Partner – Clients and Markets

Each of our businesses operated in generally benign economic conditions during the past year. Although inflation and interest rates have risen, they remained, from a historical perspective, relatively low. In addition, UK equity markets were robust and the debt markets were highly liquid. These factors combined to drive unprecedented levels of deal activity both in private equity and the public markets.

The UK has also benefited greatly from a disciplined but pragmatic approach to regulation. This has created a competitive advantage for the City of London, resulting in an increase of capital flows into the City.

Corporate governance and regulation

Our experience is that clients recognise the benefits of a sound corporate governance regime. There is a valid concern, however, that recent increases in the UK's regulatory burden could threaten the competitive advantage the UK has enjoyed. At the same time, this could lead to a 'box-ticking' mentality that would focus on process rather than adding value or insight.

Clients in the UK who have been subject to the requirements of the Sarbanes-Oxley Act in the US generally acknowledge that they have derived some incremental benefit from the

Carolyn Clarke, director, Assurance

Record SOX

ArcelorMittal, formed in 2006 through a mega-merger, is the world's biggest steel producer. Carolyn Clarke is helping the company comply with the US Sarbanes-Oxley Act.

'We started advising Mittal Steel on Sarbanes-Oxley (SOX) in late 2005. At that time, the project was PwC UK's largest and most complex SOX advisory engagement. With the creation of ArcelorMittal, the project has more than doubled in size, with the added complexity of integrating two global giants.

'I oversee a project team of around 200 PwC people in 18 countries, examining ArcelorMittal's financial controls in over 30 locations, from Luxembourg to Brazil. As well as working across multiple timezones, languages and cultures, we are advising on many new and untested issues, while encouraging a risk-based approach to SOX compliance. And, quite rightly, the client is very demanding, both of its own people and its advisers. When the company signed off on year-one compliance in April 2007 with no significant deficiencies, it was a real achievement for everyone involved.'

Experience counts

‘No project can be a success unless all those involved have worked as a team. I am proud of the efforts of the team that has worked relentlessly through the project and ensured timely delivery of our milestones. PwC has played a critical role within that team.’

Bhikam Agarwal, Global SOX Project Sponsor, Executive Vice President, Financial Controlling and Reporting, ArcelorMittal

process of complying with the legislation. However, they feel that these benefits could have been achieved at lower cost and with less disruption had the Act and its subsequent implementation been better thought through at the outset.

Human capital

The shortage of highly talented and skilled people is now a pervasive problem for many of our clients. This is a global issue affecting emerging economies just as much as those in Europe and North America. The focus of Government on seeking to improve the education system is to be welcomed. If the UK is not to suffer medium-term damage to its competitive position, our clients see an urgent need for these reforms to deliver the quality and quantity of appropriately skilled people required to sustain their business success.

Achieving appropriate gender and ethnic diversity among workforces continues to be high on the agenda of our clients, but achieving the benefits of a truly diverse and representative workforce is still some way off for many.

Sustainability

Major organisations in both the public and private sectors are putting an increasing focus on sustainability and social responsibility. Our clients are increasingly viewing sustainability and corporate responsibility as core areas of their business activities, where doing the right thing offers the chance to achieve real competitive advantage. However, many organisations are struggling to put their aspirations and policies into practice. We see the potential for a wider role for our firm, combining our traditional strengths in the strategy, performance and supply chain management and assurance arenas to help companies fulfil their potential and embed best practice in their day-to-day operations.

The private equity debate

The increase in volume and value of private equity deals has brought increased focus and scrutiny on the sector. Some of the criticism of the industry has been ill-founded, particularly with regard to the nature of corporate reporting. We remain convinced that a voluntary approach to reporting in the sector is the most likely means of creating a platform for the development of best practice and continual innovation.

Tax remains high on the agenda

Our clients are concerned about the growing level of complexity in the UK tax system, where legislation has continued to proliferate. When we first published our *UK Pocket Tax Book* in 1979, it ran to just 18 pages. The latest edition extends to some 54 pages. We will continue to press the case for simplification of UK tax legislation.

Tax regimes around the world continue to change and the UK system is no exception. This, together with the continuing trend towards globalisation of businesses and a steady transactions market, has supported the strong growth of our tax business. Her Majesty's Revenue & Customs (HMRC) is increasingly focused on changing the behaviour of taxpayers to encourage compliance. As a consequence, we are seeing growing demand for services to support the development of tax policies and procedures that will ensure our clients comply with the law and have an acceptable tax risk profile.

One recurring theme in our conversations with clients is that their overall contribution to the public purse is often overlooked in favour of headline Corporation Tax rates. Our Total Tax

'Our long-standing relationship with PwC is underpinned by the consistency and quality of its services, and by its ability to deliver resources and skills globally through one, highly-accessible relationship partner.'

Douglas Flint, Group Finance Director, HSBC

Nigel Vooght, client relationship partner for HSBC

Client care

'I joined PwC in 1982 and became a partner in 1988. I've seen the firm expand, absorb new cultures and develop into the firm we have today. One thing that has remained constant is the need for client relationships.

'When I took over our relationship with HSBC in 1998, I had worked mostly in insolvency, so I had to learn fast. I was helped enormously by HSBC's incredible openness and friendliness. I'm told the access we have at senior levels is unprecedented, which makes me feel very privileged.

'You build a relationship like this in the same way as with your family and friends: show you care, and invest time and effort.'

Experience counts

Contribution framework, which sets out a standard approach for identifying all the taxes that a company pays, has proved highly successful in raising awareness of the true size and breadth of our clients' tax contributions. The concept has been exported to other jurisdictions and was employed by the World Bank in its report, *Doing Business 2007: How to Reform*.

Increasingly, our clients are asking for tax solutions that go beyond the traditional boundaries of the practice and combine the skills of a wide range of professionals in the firm to deliver integrated, practical solutions. This year, our Tax practice won a number of awards, including the Lexis Nexis *Best International Tax Team*, the FT *Employee Benefits Consulting Award* and the Pension & Benefits *Consultancy of the Year*.

Better reporting

We believe in clear, simple accounting standards based on principles that are widely understood and accepted. In our conversations with regulators, we constantly seek to focus on outcomes not process. On the subject of IFRS, for example, we do not support convergence for its own sake, but only if it brings greater simplicity and transparency.

Our desire for increased transparency leads us to talk to hundreds of analysts each year to drive a debate around report leadership. Along with the Chartered Institute of Management Accountants, communications consultancy Radley Yeldar, and Tomkins plc, we are one of the founder members of the *Report Leadership* group. The group's work demonstrates that, based on existing standards and reporting frameworks, a small number of relatively minor changes to reports can have a profound effect on the insight they offer to the governance, operation and performance of a company. Further evidence of our commitment to the best in public reporting can be found in the *PricewaterhouseCoopers Building Public Trust Awards*, which are now in their fifth year.

The audit market

We remain the UK's market-leading audit firm, albeit with a slightly reduced share of the FTSE 100 market. During the last year, we gained Kelda Group plc as a new audit client but experienced two client losses in the FTSE 100, namely Royal & Sun Alliance Insurance Group plc and SEGRO plc.

Growth in consulting

We have experienced strong growth in our Performance Improvement Consulting, Corporate Finance and Forensic Services businesses. We are increasingly being recognised for the breadth and quality of our consulting expertise. We believe that this part of our business has now achieved a critical mass and is well positioned for significant future growth.

PwC and the public sector

We have been committed to the public sector for many years. Our public sector clients now expect us to do much more than just respond to their tenders; they want us to take a proactive approach, focused on efficiency, effectiveness and value for money and provide new ideas and thought leadership. To that end, we recently launched the *PricewaterhouseCoopers Public Sector Research Institute*, which will bring together all our thought

'I was very pleased with the work performed by PwC and the results achieved. This is the second time PwC has come from left field, shown a hunger to win the work and exceeded expectations through delivery. A focused, "can-do" mentality makes a big difference.'

John Maguire, CFO, THUS Group plc

Project Mouse

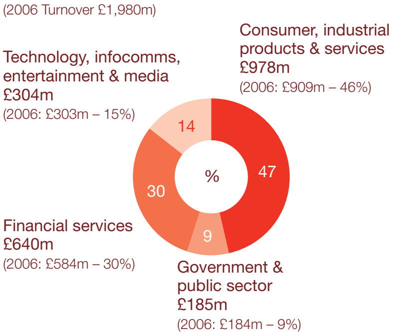
When the Glasgow-based telecoms company THUS Group plc wanted advice on a £100m refinancing, it asked us to bid in recognition of our previous high quality work. We won the mandate, codenamed 'Project Mouse'.

THUS was planning an increase in capital expenditure and was receiving a flow of unsolicited financing offers, so there was no time to lose. Our team helped THUS gain greater funding flexibility and a significant reduction in financing costs.

Experience counts

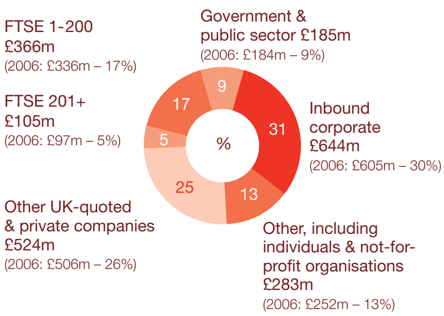
Industry analysis

2007 Turnover £2,107m
(2006 Turnover £1,980m)



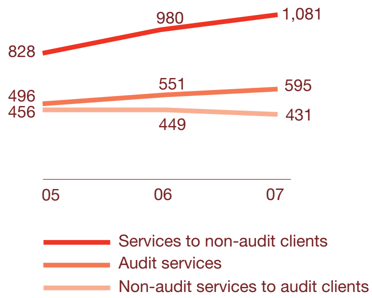
Client analysis

2007 Turnover £2,107m
(2006 Turnover £1,980m)



Service analysis

Turnover £m



leadership, research and insights into best practice.

Government Forum 2007 proved a huge success. Keynote speakers included representatives from the public, voluntary and private sectors, as well as Sir Gus O'Donnell, head of the Civil Service.

Public sector bodies are increasingly keen to adopt new ideas and ways of saving money from other countries. Through our international network, we have been able to help clients keep abreast of developments and offer them the chance to draw on the experience of other offices in the network.

Healthcast 2020 is just one example of our work in this area. Co-authored in the UK and the US, this substantial report looks at the lessons to be learned from different healthcare systems.

Global reach

With more than 140,000 people in 149 countries, the PwC network delivers globally. We are not only a force in established markets but in the emerging markets as well. Indeed, PwC firms in the BRIC countries now employ over 15,500 people. Here in the UK, significant investment has ensured that we have a wide range of BRIC expertise at hand.

Our global network enables us to offer our clients our UK-based specialist skills combined with local knowledge of the commercial and cultural environment on the ground. We have helped clients identify suitable partners, protect their intellectual property, devise the best business and tax structures, manage HR issues and navigate unfamiliar regulatory regimes.

Different dimensions

Our clients don't come to us with simple problems. They want help with complex challenges and turn to us because of the breadth of our skills and experience and our ability to deliver comprehensive solutions.

Our multi-dimensional approach is paying dividends. We are doing an ever-wider variety of work for an ever-wider variety of clients. Given the opportunity to build broader relationships with our clients, we have been able to save them money and provide added value.

Not content with that, we want to give our clients a truly distinctive service. We are doing so by investing in long-term relationships, seeing the world from our clients' point of view, collaborating and sharing, and delivering value.

Staying the course

‘PwC’s strong brand with students results from consistent investment in relationships with universities. Other employers come and go, but PwC are always here. They even train our career advisers on running mock interviews for students.’

Fiona Sandford, Director of Careers Services for the London School of Economics and Political Science


BR1GHT
Graduate Opportunities
www.pwc.com/uk/careers/
PRICEWATERHOUSECOOPERS
Graduate Opportunities
www.pwc.com/uk/careers/
FOR ALL

To lead in our chosen markets, we have to attract the best and brightest people. We must then invest in their development and provide a work environment that motivates them to give their best and helps them fulfil their potential.

Paul Cleal, Head of Human Capital

To be seen as a distinctive firm, we need people with truly distinctive skills and experience.

The search for talent

During 2007, over 69,000 people applied for roles with us in the UK – more than 3,000 of whom were successful. That figure comprises around 1,000 students and more than 2,000 experienced hires, 13 of whom were direct-entry partners.

Because we offer a wide range of services to our clients – from audit and tax to corporate finance and performance improvement consulting – we cast our nets wide when searching for talent.

Our student recruitment programme continues to lead the marketplace. For the fourth successive year, we were voted the UK's top graduate employer in The Times Top 100 List of Graduate Employers, where we were also voted Employer of Choice in the Accountancy Sector. In addition, we were named the ideal company to work for and the company that offered the best opportunities in student surveys by Universum and Trendence.

Our *One. For All* campaign has helped us attract and recruit graduates from a broad range of degree disciplines and over 80 universities. This campaign also features specific initiatives to help our message reach students from ethnic or other minorities.

In 2007, we were proud to see the first group of 38 students graduate from our *Flying Start* programme. A tripartite arrangement between PwC, the Institute of Chartered Accountants in England and Wales and the University of Newcastle, this pioneering scheme is a specially designed four-year course that integrates study with paid work experience and offers an accelerated route to qualification as a chartered accountant.

When seeking more experienced people, the first place we look is within our own firm. This allows us to continue our people's development and improve connections across the organisation. During the last 12 months, we promoted 1,277 of our people (2006: 1,218). At the start of the year, we appointed 52 new partners from within our own ranks. On 1 July 2007, we promoted a further 56 new partners.

We seek to support people to achieve the right mix between work and other important elements of their lives, based on their personal and career priorities.

Steve Hayes, executive, Banking and Capital Markets

Time out

Steve Hayes wanted to spend four months backpacking in Latin America, so he applied for a career break.

'I joined from university in 2003, and then worked on some very intense projects. By 2006, I really wanted to go travelling in South America, where I used to live. My girlfriend had never been, so I wanted to show her the sights and improve my Spanish.

'It was amazingly easy to get the go-ahead. When I came back, I worked with a major banking client, and now I'm going on a secondment to the Australian firm.

'When I joined PwC, I was told that the firm would help me do my own thing and develop. In my experience, it really does keep its promises.'

Experience counts

A unique experience

We want our people to take the opportunity to move around our organisation and engage with different ideas, cultures and clients. So, it has been good to see high levels of secondment activity, both within the UK and internationally, in 2007.

To support this mobility, we recently launched *Helix*, an integrated programme designed to provide our people with new opportunities both inside and outside the firm. An important element of this is our international assignment programme, which helped some 782 people find assignments to or from the UK. As our clients become increasingly international, it is essential that our people gain international experience and are able to respond effectively to the demands of globalisation.

In the last year, voluntary staff turnover was 12% – a remarkably low figure given today's highly competitive marketplace. At the same time, we continue to invest in our popular alumni programme. We are delighted that so many people wish to stay in contact with the firm and that such a large number of them choose to return to us, either as clients or recruits.

93%

of our people believe that PwC is committed to being a great place to work
YouMatter survey, 2007 (2006: 88%)

We conduct our *YouMatter* staff survey on a quarterly basis. In 2007, 95% of the people who completed the survey said that they were 'proud to be associated with PwC' (2006: 96%).

YouMatter, which has been running since 2002, is now thoroughly embedded in our business. Throughout 2007, the response rates never fell below 70% – clear evidence of the importance our people attach to the survey. It has proved an invaluable source of information that has helped us improve our business in numerous ways. Nonetheless, we are always looking for ways to enhance the survey and thinking about how we should be responding to its results.

We have been giving careful consideration to how we can help our people get the most out of their lives and their careers. Rather than talk about achieving a 'work-life balance', we prefer to pursue a practical approach that aims to establish sustainable working patterns. This means supporting people to achieve the right mix between work and other important elements of their lives, based on their personal and career priorities.

Emerging Leaders

'In 2005 I was in South Africa with a PwC team, helping a Zulu school with projects ranging from a new library to an irrigation system. We were participating in an ICAEW-sponsored competition, which we won. But, more importantly, the experience changed my life, putting into perspective what a "crisis" really is.

'Soon after PwC launched the Emerging Leaders Programme, I wrote a paper about the firm's future leadership challenges, drawing on my South African experience, and won a place on the programme. So far, we're focusing on self-awareness, plus I've started a one-year internal project examining staff engagement.

'I'm told I won't notice the difference Emerging Leaders makes to me, but that other people will. Development through innovative programmes such as this is a great opportunity.'

Experience counts

Mark Andrews, manager, Business Recovery Services

The *Emerging Leaders Programme* seeks to accelerate participants' development as leaders and equip them to handle complex leadership challenges.

We take a keen interest in our people's health. Part of our *Health Matters* programme, the *zest for life* campaign aims to encourage all our people to choose a healthy lifestyle. It encompasses a diverse range of activities, including healthier catering, fitness and sports activities, an employee assistance programme and health awareness features. The *Fit for Life* course, which is open to all staff, focuses on nutrition, fitness and stress management.

Including everyone

We seek to treat our people as individuals. We want everyone to feel that they are welcome here.

As part of our commitment to creating a more inclusive organisation, we have been encouraging the development of people networks for some years. These networks bring people together around common issues and offer them personal support as well as guidance, learning and development. Some of the networks, such as PwCwomen, are now so well established that they produce their own annual reports.

GALE, our gay and lesbian group, has established contact with various organisations with similar networks. Over the last year, we sought the assistance of Stonewall to help us look at the issues that gay and lesbian people face in our profession and review how we operate.

We have established a *Diversity Assembly* that meets on a quarterly basis. The forum enables the leaders of our staff and religious networks to come together with diversity champions from throughout the firm to discuss items of mutual interest.

Our work in this area has been widely recognised. We were particularly pleased to achieve the top, Platinum, status in the Business in the Community *Opportunity Now* benchmarking survey of women in the workplace.

Developing distinctiveness

Our people have a wide variety of aspirations and abilities. The challenge for us is to match those aspirations and abilities to the many opportunities available within the firm.

Sometimes, this can mean deliberately building variety and challenge into an existing role or, perhaps, gaining experience of an entirely new area of our firm. Such insights bring real value to our people and to our clients, who know that, when push comes to shove, experience counts.

95%

of our people are proud to be associated with PwC
YouMatter survey, 2007
(2006: 96%)

93%

of our people would recommend PwC to a friend
YouMatter survey, 2007
(2006: 93%)

People development

Our new framework identifies six principles of development:

- training
- variety of work
- moving between different and challenging roles within the firm
- giving and receiving regular feedback
- high quality coaching
- achieving a higher degree of self-awareness

We recently created a new development framework to help our people make the most of their opportunities. This identifies six principles of development: training; variety of work; moving between different and challenging roles within the firm; giving and receiving regular feedback; high-quality coaching; and, through this, achieving a higher degree of self-awareness.

This is not development for its own sake. By encouraging our people to invest in long-term relationships, see the world from our clients' point of view, collaborate and share, and seek to deliver value, we believe that we can provide a truly distinctive service and make a real difference to our clients.

In the past, we have run a range of development programmes for people whom we believe have particularly high potential. In December 2006, we introduced the *Emerging Leaders Programme*, with places for more than 60 people nominated from across the firm, which seeks to accelerate participants' development as leaders and equip them to handle complex leadership challenges.

Voted number 1 UK graduate employer for the fourth consecutive year

The Times Top 100 Graduate Employers 2007

We believe that all our people should make the most of their skills and experience by acting as coaches and taking responsibility for their colleagues' development.

More than 240 people from all parts of the firm enrolled for the *PwC Diploma*, which is now in its second year. Run in conjunction with the Centre for Management Development at the London Business School, the four-year course offers a broad range of modules in areas such as leadership and business, governance, ethics and social responsibility. As an alternative, each of the diploma's modules can be undertaken on an individual basis.

Development has to be about more than just courses and training. The value of on-the-job learning can never be overestimated. Consequently, we are determined to instil a stronger coaching culture throughout the firm. We believe that all our people should make the most of their skills and experience by acting as coaches and taking responsibility for their colleagues' development.

It is also vital to see the world from other perspectives. To that end, we are encouraging our people to seek experience outside the traditional realm of client service – whether through secondments to clients, other parts of the business (both in the UK and overseas), one of our leadership programmes or our Community Affairs work.

Over the last year, three of our partners participated in *Ulysses*, a global programme that allows PwC partners to help with community schemes in developing countries. Recent examples include a municipal waste project in Peru and an HIV/Aids project in Cameroon.

The forward agenda

So, there is much to celebrate. At the same time, however, there is still much to do.

In 2007, we achieved eighth place in the list of the Top 20 Best Big Employers in The Sunday Times Best Companies awards – a rise of six places over the previous year. While this was certainly a strong move in the right direction, we set ourselves extremely high standards and aspire to do even better.

Behaving responsibly

'When we started working with PwC in 2006, they immediately joined our Real Apprentice Scheme for local unemployed young people. Since then we've trained eight apprentices at PwC – two of whom now work on PwC's account full-time.'

Lois Collins, National Account Manager, MITIE Business Services

We aim to have a positive impact on society, the economy and the environment. We take seriously our responsibilities to the wider community.

Keith Tilson, Managing Partner – Operations and Finance

Corporate Responsibility (CR) has been an important aspect of our business, and business in general, for around 15 years. But, in common with many large organisations, we have seen a step change in the scope and significance of both CR and sustainability issues in the last 12 to 18 months. During that period, public awareness of the challenges posed by climate change reached a tipping point. At the same time, governments, consumers and investors are putting increasing pressure on companies not just to report on their environmental and social performance, but to show demonstrable improvement in that performance.

Our agenda

The issue of Corporate Responsibility has two quite distinct aspects. First, there is what we do inside the organisation to monitor and manage our own business. This includes our environmental performance and the way we operate our infrastructure, and also extends to our policies and practices as a fair and ethical employer. We have been making solid and systematic investments across the firm to improve our performance in each of these areas. This is important, and we give more detail about the issue below. However, as the leading professional services firm, we know that

Total community contribution £5.9m
2006: £4.2m

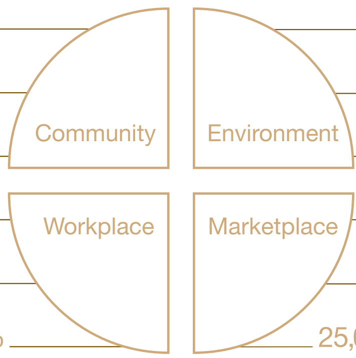
Total number of staff volunteering 3,810
2006: 2,890

Total hours volunteered 37,400
2006: 30,000

Sickness absence 1.8%
2006: 1.9%

Voluntary leaving rate 12.0%
2006: 12.2%

Our people proud to be associated with PwC 95%
2006: 96%



89% Total office waste diverted from landfill
2006: 91%

31,400 tonnes Overall CO_2 emissions
2006: 30,000 tonnes

356 tonnes Total waste sent to landfill
2006: 288 tonnes*

15 Average supplier payment days
2006: 17

8.25 out of 10 Overall client satisfaction
2006: 8.20

25,000+ Hours invested in compulsory compliance training
2006: over 40,000 hours**

* Waste managed by PwC – last year, data was unavailable for some shared/landlord-managed sites
** 2006 figures include one-off training re: Market Abuse

The table above summarises a number of key performance indicators across the breadth of our CR agenda. Our independent auditors, Horwath Clark Whitehill LLP, have examined and verified the data and the underlying supporting information on which it has been prepared, by undertaking specific agreed procedures.

The table reveals growth in community contribution and hours volunteered, continuing positive results for our people and improved customer satisfaction. For the environment, the top level indicators have declined slightly this year. The majority of the change is due to our ongoing efforts to improve the quality of our waste and energy data.

The carbon challenge

'As a business, our greatest environmental impact comes from the carbon emissions created by our energy use and business travel.

'Over the past four years, we have reduced our total carbon emissions by more than 40%. We have achieved this by buying 85% of our electricity from renewable sources, improving our space efficiency to reduce heat and light requirements, conducting energy audits to identify problem areas, installing low-energy lighting and, with help from our people, implementing local energy-saving initiatives.

'Business travel is a necessary part of the way we do business. Nonetheless, we can always challenge ourselves on the need for and frequency of travel, choose the most climate-friendly mode of transport and accept individual business travel targets.

'To reduce our air miles, we have made a substantial investment in phone and video-conferencing. We now have new or upgraded facilities in all our major offices.

'To encourage reduction in vehicle emissions, our *Green Fleet Initiative* provides advice on cleaner fuels and vehicle selection. We also provide interest-free season ticket loans, our *Cycle to Work* scheme and cycle and shower facilities in many of our offices. Where car usage is unavoidable, PwC and Masterlease have teamed up with the CarbonNeutral Company to provide our people with the opportunity to make their motoring carbon neutral.'

Kieran Poynter, Chairman

Experience counts

by far our biggest contribution to the sustainability agenda will come through our work in the marketplace.

Working with clients

We have always prided ourselves on providing solutions to the problems facing businesses and the capital markets. Today, there can be no greater or more wide-ranging challenges than those of sustainability and climate change.

We have been using our expertise and knowledge to assist clients to improve their management of social and environmental issues for nearly 15 years, helping them understand and prioritise the CR impacts most relevant to their businesses, and improve their performance overall. However, for some time we have discerned the beginnings of a major and fundamental new trend. The pace of change is accelerating, and many CR and sustainability issues now have a material cost attached to them, whether that takes the form of new taxation, new regulation, the physical impacts of climate change, or the fact that a more realistic price of carbon is being imposed through cap and trade schemes. Having spotted this shift in the market, we began investing 18 months ago in building our capability across the firm, so that we will be in a position to advise both public and private sector clients on how best to manage these complex new issues – issues that will increasingly affect every aspect of business.

Operations and infrastructure

We have achieved a good deal in this area, though there is still much more to be done. We became carbon neutral in 2007, with an ongoing priority to reduce emissions. This includes using heating and lighting more efficiently, conducting energy audits to identify problem areas and installing low-energy lighting. We want to improve the energy efficiency of the buildings we already use and will continue to insist on robust environmental credentials for those we occupy in the future.

We buy carbon credits to offset the residual emissions we have not been able to avoid. As a result, there has been investment in two projects in Asia that will provide local communities with sustainable energy from wind turbines and biomass generators.

We are also trying to produce less waste and recycle more resources. In the past four years, we have significantly cut the amount of waste we send to landfill, partly by encouraging desk-top recycling boxes and local recycling facilities.

> ‘PwC’s mentors do an excellent job in raising the aspirations of our students. We have an ever-increasing number going on to higher and further education.’
>
> Cathy Loxton, Headteacher, Harris Academy Bermondsey

Kiran Shah, executive, Business Research

Southwark mentoring

Two years ago, Kiran Shah volunteered to mentor GCSE students at the Harris Academy Bermondsey in Southwark.

'Having previously enjoyed taking part in another volunteering programme, I was keen to work with the Harris Academy. I wanted to share my experience more widely with other students. I'm really glad I did volunteer, because being a mentor is both challenging and very rewarding.

'Final-year school students need advice on far more than just passing exams. For example, there's the transition from school to a sixth-form college, where you have to be more self-reliant.

'The learning process is very much a two-way street. Mentoring has really broadened my understanding as well as my communication skills and, when the students think of PwC, they now know we're much more than just a load of suits!'

Experience counts

Working with our suppliers

All large organisations are now being held accountable for the activities and standards of companies in their supply chain. Organisations like PwC have enormous purchasing power, and we can use that power to make a tangible and positive difference. In fact, our clients and employees now expect us to do so.

There are two key principles we follow in this area. The first is to treat all our suppliers fairly and responsibly. That means providing fair terms of business and paying on time. The second is to understand and manage the social and environmental impacts of our procurement, which means demanding the highest possible ethical and professional standards from our suppliers, and working with them to achieve this.

In February, our supply chain processes were accredited with a Gold Standard by the Chartered Institute of Purchasing and Supply.

Ethical standards

Our entire business depends on the reputation we have for being trustworthy and reliable, and on our integrity and good sense. These are values that permeate the whole organisation and give us our distinct culture and working environment. Clients expect the highest ethical standards from us. We, in turn, expect those same standards from our employees. In return, we are committed to being a fair, ethical and diverse employer, judging our people only by their talent, hard work and achievements, and giving them the scope and encouragement to develop their potential to the full.

Community affairs

Through our *PwC in the Community* programme, we recognise our broader responsibilities within society. The programme enables us to contribute our time, skills and resources while offering opportunities to everyone involved to gain new skills and personal fulfilment. It also helps us strengthen our business relationships and underpins our values of excellence, teamwork and leadership.

The programme enjoys strong support from staff. A recent in-house survey showed that 95% of our people agree that it is important for the firm to act responsibly and get involved in local communities.

‘I loved my time at PwC. Without their help, I wouldn’t have the job that I’m in at the moment.’

John, Employability programme participant

Providing Employability support

Ann Hudson, facilities manager for our offices in the north of England, is an enthusiastic supporter of our Community Affairs programme.

‘The first time John came to our Manchester office, he was in a sorry state. He was 18 and living in the hostel that took him in after he left the care-home. We provided him with clothes and shoes, money for lunch and transport, and a placement in our post-room. He was with us every working day for 11 months, doing everything from sorting post to moving furniture – and he was completely reliable and never late.

‘When John got himself a paid job with a major firm of solicitors in Manchester, I was absolutely thrilled. Today, I often bump into him around town in a suit, tie and proper shoes!’

Experience counts

Ann Hudson, facilities manager for the north of England

Over the last year, we introduced several new initiatives, including a programme for mentoring students studying languages at ‘A’ level to help them gain an insight into how they could use their languages in their careers. We also began working in partnership with one of our suppliers, MITIE, supporting their apprentice scheme, which gives young people without formal training the chance to take a first step on the career ladder. In addition, we exceeded our three-year milestone target of recruiting and training 300 PwC reading volunteers, who are now helping primary school children in 10 towns and cities around the country.

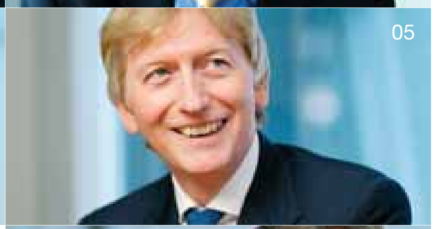
The Business in the Community Awards for Excellence saw the firm receive a Jubilee Award in recognition of the long-term impact of our 15-year programme in Southwark and a Big Tick (commendation) for our work with the Manchester Royal Exchange Theatre to help disadvantaged children from Manchester schools. We also achieved a 100% score in all Community categories of the BitC Corporate Responsibility Index. However, we believe that the truest mark of our programme’s success is the fact that over 3,800 of our people support their communities by volunteering during and outside office hours.

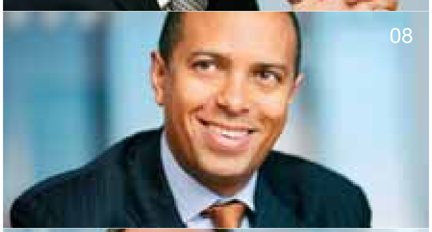
Good governance underpins everything we do

'Our approach to quality is supported by our Code of Conduct, which embodies our core values of excellence, teamwork and leadership.'

Gerry Lagerberg, Chairman, Supervisory Board

We seek to deliver high quality, value-added services and be a great place to work for all our people. In order to do that, we need to have appropriate governance and management structures.





UK Management Board

01 Kieran Poynter, Chairman
02 Keith Tilson, Managing Partner – Operations and Finance
03 Glyn Barker, Managing Partner – Clients and Markets
04 Moira Elms, Head of Marketing, Communications and Business Development
05 Ian Powell, Head of Advisory
06 Owen Jonathan, General Counsel
07 Richard Collier-Keywood, Head of Tax
08 Paul Cleal, Head of Human Capital
09 Richard Sexton, Head of Assurance

Managing the firm

PricewaterhouseCoopers LLP is a limited liability partnership. It is wholly owned by its members, who are commonly referred to as partners.

The Management Board

The Management Board is responsible for developing and implementing the policies, strategy, direction and management of the firm. It is chaired by Kieran Poynter, whose second term of office runs for three years from July 2005. The Chairman appoints the other Management Board members, all of whom are partners in the firm.

Each board member has responsibility and accountability for a specific aspect of our business. Every year, the Management Board sets and communicates its strategic priorities, which are cascaded into a business planning process. The contribution of each part of the firm is defined and monitored through balanced scorecard reporting.

The Management Board holds one main monthly meeting, but also conducts formal business at additional meetings as necessary.

Our client-facing activities are managed through a 'matrix' structure with three main elements: Lines of Service, Geography and Industries. Line of Service Leaders are accountable for resourcing and profitability, while Regional Chairmen and Industry Leaders co-ordinate our market activities.

The current members of the Management Board, all of whom served throughout the year ended 30 June 2007, are pictured opposite. John Berriman left the board on 30 September 2006 to focus full time on servicing clients.

The Supervisory Board

The Supervisory Board, which is independent of the Management Board, is elected by the partners, usually for a term of three years. Its meetings are held monthly and are attended by the Chairman, as an ex officio member. The current Supervisory Board was elected on 1 January 2007 and is chaired by Gerry Lagerberg.

The Supervisory Board provides the Chairman with guidance on matters of actual or potential concern to the partners. It is also responsible for approving the Annual Report, for the admission of new partners, for overseeing the process of electing the Chairman and for checking that our policies on partners' remuneration are being properly applied.

The Senior Management Remuneration Committee is a sub-committee of the Supervisory Board. It sets the Chairman's profit share and approves his recommendations for the profit shares of the other Management Board members.

The Audit Committee (previously known as the Audit, Risk and Independence Committee) is a sub-committee of the Supervisory Board that has responsibility for reviewing the policies and processes for identifying, assessing and managing risks within the firm. It oversees the management of those risks, including financial control, compliance and independence. It also reviews the firm's financial statements and considers the scope, results and effectiveness of internal and external audit, including reviewing the external auditors' independence and their non-audit services and fees. The Managing Partner – Operations and Finance, together with the internal and external auditors, attends the committee's meetings by invitation. It met five times in the year ended 30 June 2007 (2006: seven times).

The current members of the Supervisory Board, all of whom have served throughout the period from 1 January 2007, are:

Gerry Lagerberg*, Chairman
Pam Jackson, Deputy Chair
Mohammed Amin†
Colin Brereton
Ann Cottis
John Dowty†
Roy Hodson*†
Gordon Ireland*
Mike Karp*
Ron McMillan
Pat Newberry†
Ian Rankin*†
Duncan Skailes
Julia Smithies*
Graham Williams†
Kieran Poynter (ex officio)

* Senior Management Remuneration Committee member
† Audit Committee member

The members of the Supervisory Board at 1 July 2006, all of whom served until 31 December 2006, were:

John Whiting*, Chairman
Gordon Ireland, Deputy Chairman
Mohammed Amin†
John Brendon†
Ann Cottis
Roy Hodson†
Pam Jackson*
Gerry Lagerberg
David McKeith*
Ron McMillan
Ken Murray
Jack Naylor
Pat Newberry†
David Phillips*
Tim Pope*†
Kieran Poynter (ex officio)

* Senior Management Remuneration Committee member
† Audit, Risk and Independence Committee member

Maintaining quality

Our approach to quality is supported by our Code of Conduct, which embodies our core values of excellence, teamwork and leadership. The key elements enabling us to maintain our reputation for delivering consistently high quality services include the following:

Quality people: The quality of our work is determined largely by the quality of our people. Consequently, we aim to recruit, develop and retain the best and brightest. We employ rigorous procedures to ensure that our recruits are capable of performing to the high standards that we – and our clients – demand.

Throughout their time with our firm, partners and staff undergo structured training to make sure they have the skills and knowledge to provide a high quality service. This training ensures our people are alert to regulatory changes, reinforces their awareness of key compliance matters and supports the wide range of industry expertise and specialist skills available across the firm.

We regularly monitor our people's qualifications and continuing professional education to ensure that our services are delivered to clients by individuals who have the right experience and – where required – are qualified under relevant legislative and other applicable requirements.

We also monitor the motivation of our people through regular surveys and feedback from our counselling and appraisal processes. Informal guidance on career development is available through our mentoring programmes. All Lines of Service set staff retention targets and make regular reports that are monitored by the Management Board.

Sustainable culture: If our business is to enjoy continuing success, we must nurture a culture in which our people are supported, encouraged and expected to do the right thing – especially when tough decisions must be made.

Our Code of Conduct: This is embedded in our training. We also seek to combine broader management capabilities with the technical skills required for service delivery – supported by the PwC Business Diploma, which includes a three-day module on Corporate Responsibility. In addition, we support our people with our confidential whistle-blowing helpline and employee assistance programme.

Quality procedures: We have developed standard methodologies and work programmes for many of our services. These are designed to ensure that our partners and staff deliver work of the expected quality. We maintain our audit files on systems that use an internationally-applied audit framework that facilitate compliance with the relevant standards.

‘Matilda provided us with a single contact point for PwC’s collective expertise, and worked very effectively with a diverse group of stakeholders worldwide.’

Simon Appleby, Vice President – Reward, AstraZeneca plc

The knowledge network

When the pharmaceuticals giant AstraZeneca wanted to improve the way it delivered Compensation & Benefits (C&B) to 60,000 employees worldwide, it turned to Matilda Venter.

‘My previous projects for AstraZeneca had focused on aspects of HR delivery rather than C&B. However, the first step this time was to interview 30 AstraZeneca senior managers across the world about current C&B practices. So I tapped into our knowledge network, drawing on the expertise I knew we had in the PwC C&B team, especially Rewards director Kevin Abbott. This sharing of expertise gave me a solid grounding in C&B best practice, enabling me to challenge my interviewees and gather all the information and insights I needed.

‘I then used this information to write a report showing the options for transforming AstraZeneca’s C&B delivery, including optimising the way it worked and establishing global governance. Here I focused on close two-way engagement with the client stakeholders to ensure I reflected their interests and concerns. When I presented my solution, AstraZeneca had already bought into it – because its people had been so fully engaged in its development.’

Experience counts

Matilda Venter, senior manager, Human Resource Services

Our consultative and supportive culture means that partners and members of staff are not left to take a difficult decision alone.

Consultation: Our consultative and supportive culture means that partners and members of staff are not 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.

Quality assurance programmes: Each Line of Service runs an annual quality assurance programme, in which independent teams of partners and staff review completed engagements to assess their compliance with our quality standards and regulatory requirements. This process is also used to identify areas where partners and staff require further training or support, or where remedial action is needed.

External inspections: Each year, the Audit Inspection Unit of the UK's Professional Oversight Board, part of the Financial Reporting Council, undertakes an inspection of our audit quality. The last inspection was completed by the unit in June 2007.

Learning lessons: Our reputation for quality is high. Inevitably, given the size of our business, we do on occasion fall short of the standards we set ourselves. When this happens, we seek to discuss and resolve the issues with the client or other concerned party. We also review the matter independently for lessons learned and communicate those lessons to the relevant part of our business.

Complying with regulation

Our regulatory and public interest responsibilities demand that we consistently deliver reliable and high quality work. Moreover, we are required to meet the expectations of the independent authorities that set and supervise our professional standards. Our regulatory compliance safeguards include the following:

Regulatory developments: We monitor developments in regulation that might require us to change our business model or our internal policies and procedures. We participate actively in the development of the regulatory agenda to ensure that the interests of all stakeholders are taken into account.

Compliance Policy Council: This is a sub-committee of the Management Board, which was established to ensure that our key compliance policies and procedures take account of regulatory requirements and are properly embedded in our business.

Personal confirmations: We obtain confirmations of regulatory and independence compliance from all our partners and staff when they join us and at least once a year after that. All partners, directors and client-facing managers are required to record details of their investment portfolios on a database that highlights potential exceptions against a worldwide list of restricted investments. Partners and staff are also required to confirm their independence in respect of audit clients to whom they provide services. Minor infringements of these rules can result in financial or other penalties for the partner or staff member concerned, while serious breaches can result in their leaving the firm. Each year, we conduct tests, on a sample basis, to confirm compliance by partners and staff with personal independence regulations.

Non-audit services and business relationships: The lead audit engagement partner for each audit client is required – in conjunction with the client's audit committee, where appropriate – to consider and pre-approve any non-audit services we provide to that client. This ensures that our independence and objectivity are not compromised. It is mandatory that all non-audit services to public interest audit clients go through our Authorisation for Services system, a shared system across the PwC global network. Business relationships between the firm and third parties are also reviewed to ensure they do not impair audit independence. Compliance with independence regulations is included within the annual quality assurance programmes referred to above.

Audit team rotation: For listed audit clients, we require that the audit engagement partner and the quality review partner are rotated after five years. For public interest entities other than listed companies, we typically require rotation of the engagement partner and key members of the team after seven years.

Managing risk

The Management 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 control rests with senior management.

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

- The Risk Council, a Management Board sub-committee, which oversees the controls put in place to identify, evaluate and manage risk.
- Our Lines of Service and our internal firm services, which maintain risk registers that document risks and the responses to them. They each carry out a risk assessment annually and report to the Risk Council on how effectively they have managed risk during the year.
- Our internal audit team, which reviews the effectiveness of the financial and operational systems and controls throughout the firm and reports to the Management Board and the Audit Committee.
- Our risk management functions, which oversee our professional services risk management systems and report to the Management Board.

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

The Management Board's review of the systems of internal control has not identified any failings or weaknesses that it has determined to be significant and, therefore, no remedial actions are necessary.

Tax governance

We have a global Tax Code of Conduct that sets the standard of professional conduct and integrity expected from all partners and staff. The five key principles of our Code underpin our approach to giving tax advice to clients. For example, all our tax advice must have a credible basis in law, rely on full disclosure and involve wide consideration of all risks. Since its introduction, we have shared the Code freely with regulatory bodies and our clients around the world.

We use similar principles to govern the Group's own tax affairs. Our approach is to maintain our professional reputation when dealing with HM Revenue & Customs by ensuring full and early disclosure and providing full support of our technical position. We do not enter into transactions purely for tax purposes. We report on our Total Tax Contribution, which gives a full picture of our economic contribution through taxes, in the Financial section of this report.

In addition, we have a policy governing members' own tax planning. The policy recognises that their legitimate right to plan their own affairs needs to be balanced against the possible reputation issues that the Group might face should members be seen to be involved in aggressive tax planning. This requires partners to seek consent from the firm before implementing sophisticated tax planning in relation to their own affairs.

Investing for the future

‘We expect to be very proud of 7 More London and its environmental performance.’

Roger Reeves, head of Infrastructure and Procurement

A view from the site of 7 More London

Our turnover grew by 6% to £2,107m, with underlying net revenue growing 9%. This led to a 10% increase in underlying profit available for division among members to £622m, representing an underlying average profit per partner of £757,000.

Keith Tilson, Managing Partner – Operations and Finance

Members' report

The Management Board submits its report and the audited consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2007. This Members' report should be read in conjunction with the other sections of this annual report.

Strategy

Our principal activity is the provision of professional services to clients, managed through three Lines of Service: Assurance, Tax and Advisory.

Key elements of our business strategy comprise:

- leading in each of our chosen markets
- being a great place to work for all our people
- creating a sustainable business
- maintaining quality earnings.

These elements are underpinned by a governance framework that promotes knowledge and puts quality and integrity at the heart of what we do.

Performance is measured through a balanced scorecard view of the business, as summarised on page 1.

Financial performance

Our turnover, which includes out-of-pocket expenses, grew 6% to £2,107m, compared with growth of 11% in the prior year. Underlying net revenue, after deducting expenses and disbursements on client assignments, grew 9%, compared with 11% last year. Deal-related activity remained strong, but this was offset by an expected tailing-off of Sarbanes-Oxley and International Financial Reporting Standards activity as clients completed their implementations.

As explained in note 2 to the financial statements, the provision of public sector business advisory services was transferred from Assurance to Advisory during the year. Prior year comparatives have been restated accordingly.

Assurance

Overall, Assurance turnover increased 4% to £947m, compared with growth of 10% in the prior year. Turnover from audit services, the majority of which is in Assurance, grew 8% to £595m, compared with 11% growth in the prior year. IFRS and Sarbanes-Oxley work is increasingly becoming integrated into the costs of an audit, leading to pressure on audit fees and margins, and there continues to be strong competition in the marketplace on price.

The reduction in special IFRS and Sarbanes-Oxley projects has led to an overall decline in non-audit Assurance services in the year. We continue to invest in developing non-audit services, including controls optimisation, non-financial assurance and internal audit.

We maintained our strong position in the private equity market and this, combined with the buoyant mergers and acquisitions market, led to continued strong demand for our services within Transaction Services, with an 8% increase in turnover, albeit that this was lower than the record 27% increase seen last year.

Tax

Tax showed continued strong growth, with turnover increasing 13% to £667m, compared with a 15% increase in the prior year. This was fuelled by a strong transactions market and through particular success in the mid-tier and private clients marketplaces. We continue to win more work from non-audit clients, where our sustained focus on building relationships is reaping dividends.

Human Resource Services' turnover grew 11%, down from 20% growth in the prior year. We continue to be a leading provider of human resource consulting services, including compensation and benefits, HR management, employee tax and actuarial and pensions advice.

Advisory

Advisory turnover increased 4% to £493m, compared with 9% growth in the prior year. Advisory comprises a number of services. Performance Improvement Consulting's turnover growth was 8%, benefiting from increased market awareness, and the continued recruitment and development of high quality, specialist expertise, albeit this was impacted by a lower level of Government and public sector work. This increase compares with the 18% growth seen in the prior year on a lower base.

Business Recovery Services had a weaker year, compared with 3% growth last year, showing an overall decline in turnover of 4%, reflecting the benign UK economy. Turnover growth in Corporate Finance was flat. However, underlying net revenue growth remained strong at 12%, compared with 13% growth last year, reflecting the buoyant transactions market and strong deal flow.

Shared services

Our client-facing businesses are supported by a professional team of internal shared service experts. We continued to pursue our strategy of creating a flexible and scaleable range of shared services during the year.

We measure the quality of our service by reference to both service level agreements and regular *Your Services Your Say* surveys. Our latest survey results show that internal service satisfaction levels have remained high at 89% (2006: 90%).

London property

We agreed terms during the year to lease new London office premises, 7 More London, situated near Tower Bridge. We expect to occupy this building during 2011. It will complement our other long-term landmark London property, Embankment Place.

We also agreed to vacate our existing Southwark Towers office, releasing a profit on disposal of our long leasehold interest of £71m. We have secured good quality office accommodation in the vicinity of our existing London premises for the interim period.

Operating costs

We continued to retain tight control over costs. However, some increases were unavoidable, most notably in property costs, the people costs associated with ensuring we comply with the increasing burden of regulation and the costs of recruiting and training staff.

Underlying staff costs increased by 9% to £917m, reflecting the impact of pay awards, a 4% increase in staff bonuses to £71m and a 3% increase in average staff headcount of 483 people over the year to 14,785 people.

Operating costs include expenses and disbursements on client assignments, which decreased by £22m to £235m during the year, reflecting higher use of in-house, rather than third-party, specialist resources and lower overseas third-party expenses. Depreciation and amortisation charges declined by £1m to £29m, reflecting lower leasehold property depreciation.

Other operating charges increased by £28m to £303m, of which £12m represents incremental costs of interim accommodation as a result of our move to 7 More London. Other increases predominantly represent investment in learning and development, recruitment and other people-related costs, offset by the continued benefits realised from our shared service, property, procurement and technology strategies.

Other operating charges and depreciation, expressed as a percentage of turnover, increased marginally to 15.8% compared with 15.4% in the prior year, primarily as a result of London property costs.

Staff pensions

Over 7,000 of our staff are active members of the firm's various pension arrangements. The majority are members of the firm's defined contribution scheme, with 1,400 staff being members of, or having eligibility to join, one of the firm's defined benefit arrangements.

As part of the last triennial actuarial reviews of the defined benefit schemes as at 31 March 2005, a number of amendments were introduced to take advantage of changes in legislation due to A-day, to reduce the size of the pension deficit and to reduce the level of ongoing cost. These changes led to a past service pensions credit of £122m in the prior year.

The Group also committed to provide the pension schemes with additional funding of £140m to reduce the size of the pensions deficit. Additional cash contributions totalling £103m have been made to the schemes in the two years to 30 June 2007.

The actuarial valuations carried out for the purpose of the accounts under IAS19 (note 16 to the financial statements) indicate a total deficit of £58m this year, compared with the prior year figure of £135m. The decrease in the IAS19 deficit reflects primarily the combination of increases in funding and asset returns and in the long-term discount rate used to value scheme liabilities, together with changes to mortality assumptions, incorporating improvements to life expectancy.

Finance income and expense

Net finance income of £17m was up £16m on the prior year, reflecting higher returns on pension scheme assets as a result of additional cash contributions and improved market conditions, and increased interest income on receipt of the sale proceeds from the disposal of Southwark Towers.

Profit for the financial year

Profit for the financial year of £702m (2006: £690m) is represented by profit available for division among members of £693m and profit attributable to minority interests of £9m. After adjusting for the exceptional £71m gain on the disposal of Southwark Towers in 2007 and the £122m past service credit on defined benefit pension schemes in 2006, underlying profit available for division among members increased 10% from £568m to £622m. This represents an increase in underlying average profit per partner, up 6%, from £716,000 to £757,000.

Capital expenditure

Total capital expenditure of £30m (2006: £19m) in the year consisted mainly of the purchase of personal computers and the investment made in London office accommodation as part of our London property strategy.

Net assets

Net assets of £516m were, in total, up £114m on the previous year. Cash resources increased £87m to £369m. Trade and other receivables increased £10m, primarily due to increased volumes of work, offset by current liabilities up £31m, chiefly as a result of increased employee taxation costs and bonuses. Property, plant and equipment and intangible assets declined £9m, reflecting lower levels of IT equipment and computer software development. There was an overall £17m reduction in provisions, due to a reduction in property and claims provisions.

Total members' interests

A detailed analysis of total members' interests of £602m (2006: £492m) may be found in note 18 to the financial statements. This includes capital contributed by members of £110m (2006: £107m) and £511m of undistributed members' reserves (2006: £402m). Additional capital of £22m was contributed during the year (2006: £17m) and £19m was repaid (2006: £10m).

Creditor payment policy

We seek to agree commercial payment terms with our suppliers and, provided performance is in accordance with the agreed terms, to make payments accordingly. The number of days outstanding between receipt of invoices and date of payment, calculated by reference to the amount owed to the Group's trade creditors at the year-end as a proportion of the total amounts invoiced by suppliers during the year, was 15 days (2006: 17 days).

Treasury

Our treasury focus is on ensuring there are sufficient funds available to finance the business. Surplus cash is invested in short-term money market deposits.

As more fully explained in note 20 to the financial statements, hedging is undertaken to reduce risk and no speculative foreign exchange trading is permitted.

'It turned out to be a real breakthrough, a Eureka moment. We knew then we were really making a difference.'

Stephanie Gironi

Stephanie Gironi, manager, Forensic Services

Accounting for talent

In August 2006, Stephanie Gironi moved from PwC's internal management accounting team to a client-facing role in Forensic Services. Within days, she was at BBC Worldwide, helping to create a world-class Talent Accounting function.

'During the project, we helped BBC Worldwide transform the way it tracks and pays royalties from all media to talent – actors, writers, producers. My role was to assist with the running of the 23-strong DVD royalty department during the change. My background in management accountancy came in handy, and I learned a great deal about people development and project management.

'One moment that stands out in my memory was when our team proposed a new methodology for certain transactions. It turned out to be a real breakthrough, a Eureka moment. We knew then we were really making a difference.'

Experience counts

Financing

The firm is financed through a combination of members' capital, undistributed profits and borrowing facilities. Members' capital contributions are determined by the Management Board, having regard to the working capital needs of the business. These capital contributions are set by reference to an individual member's equity unit profit share proportion and are repayable, at par, following the member's retirement.

Our bank facilities, which totalled £138m at the year-end (2006: £150m), are provided under five-year arrangements that terminate in January 2010. The facilities, which are spread across a number of banks, are maintained at levels sufficient to meet the expected peak cash requirements of the business. We are satisfied that our facilities will maintain a prudent buffer over our

Net assets
£m

Cash and cash equivalents
£m

forecast peak borrowing requirements over the next 12 months.

Total tax contribution

We generate substantial revenues for the UK Government from both taxes borne and taxes collected. Our tax footprint includes employment taxes, property taxes, indirect taxes and environmental taxes and these are all part of our wider economic impact. During the year, we paid a range of business taxes in the normal course of business, amounting to £120m (2006: £122m). The largest of these were the National Insurance Contributions (NIC) paid in respect of our people, amounting to £74m (2006: £68m).

We also collected taxes on behalf of the Government during the year of £463m (2006: £421m), the most significant of which were net VAT and PAYE. These taxes are a measure of the value we add and the jobs we create in society through our business activities.

The majority of the Group's tax on profit and capital gains is borne directly by individual members and is therefore not reflected in the financial statements of the LLP or the Group. Members of the LLP bear income tax, broadly at about 40% on their individual share of the profits of the LLP, together with a further 1% National Insurance Contribution.

The Group administers the payment of these taxes and, as explained below, makes periodic distributions of profit to enable members to settle their tax liabilities with HM Revenue & Customs.

Members' profit shares

Members are remunerated solely out of the profits of the firm and are personally responsible for funding pensions and other benefits. Final allocation of profits to members is made by the Management Board after assessing each member's contribution for the year. The Supervisory Board approves this process and oversees its application.

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

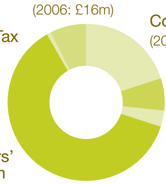
- responsibility income – reflecting the member's sustained contribution and responsibilities
- performance income – reflecting how a member and his/her team(s) has performed and
- equity unit income – reflecting the overall profitability of the firm.

Each member's performance income, which in the current year represents on average approximately 39% of their

Total tax contribution to 30 June 07

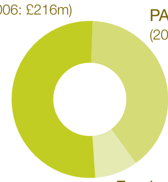
Business taxes paid

2007: Total paid £120m
(2006: Total paid £122m)



Business taxes collected

2007: Total collected £463m
(2006: Total collected £421m)



profit share (2006: 40%), is determined by assessing achievements against an individually-tailored balanced scorecard of objectives based on the member's role.

Those objectives include ensuring that we deliver quality services and that we 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 Management Board sets the level of members' monthly drawings and interim profit allocations, based on a percentage of their individual responsibility income.

The Supervisory Board approves this process. The final allocation and distribution of profits to individual members is made once their performance has been assessed and the annual financial statements have been approved.

Political donations

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 and balanced relationships with the main representative political parties. In pursuit of this objective, we may, subject to the agreement of the Management Board, provide limited non-cash assistance to those parties in areas where we have appropriate expertise. Areas of assistance may include the improvement of legislation or proposed legislation, the exchange of information relevant to effective policy development and the encouragement of liaison between parties and groups affected by legislation or policy. In considering any assistance, the Management Board has regard to the possible impact on clients of the firm and the firm's overall reputation.

During the year, we provided some 410 hours of free technical support to political parties (2006: less than 350 hours).

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of PricewaterhouseCoopers LLP during the year were Kieran Poynter, Glyn Barker, Keith Tilson, Owen Jonathan and Andrew Smith.

John Berriman was a designated member until 30 September 2006.

Going concern

The Management 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 1985, as applied to Limited Liability Partnerships, requires the members to prepare financial statements for each financial year that 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 and
- 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 1985, 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 Management Board on behalf of the members. The Management Board confirms that it has complied with the above requirements in preparing the financial statements.

Auditors

The independent auditors, Horwath Clark Whitehill LLP, will be proposed for reappointment.

On behalf of the Management Board

Kieran Poynter

Kieran Poynter, Chairman
10 August 2007

Independent auditors' report to the members of PricewaterhouseCoopers LLP

We have audited the financial statements which comprise the income statement, balance sheets, cash flow statements, statement of changes in members' equity, and the related notes numbered 1 to 23. The financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the LLP's members, as a body, in accordance with the Companies Act 1985, as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the LLP's members those matters that we are required to state to them in an auditors' 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 opinion we have formed.

Respective responsibilities of the members and auditors

The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board are set out in the members' responsibility statement in the Members' report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, as applied to limited liability partnerships. We also report to you if, in our opinion, the Members' report is not consistent with the financial statements, the LLP has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information is set out in the sections headed Chairman, Clients, People, Corporate Responsibility, Governance, Financial and Global.

We have reviewed the Managing risk statement in the section headed Governance. We have not been asked to consider whether the LLP's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the LLP's corporate governance procedures or its risks, control or quality procedures. Nothing has come to our attention during the course of our audit which would indicate that the other matters set out in Maintaining quality and Complying with regulation included in the section headed Governance are not described appropriately.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the LLP's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as issued by the International Accounting Standards Board, of the state of affairs and cash flows of the LLP and the Group at 30 June 2007 and of the profit of the Group for the year then ended

- the financial statements have been properly prepared in accordance with the Companies Act 1985, as applied to limited liability partnerships

- based on the work undertaken during the course of our audit, and having made limited additional enquiries, we confirm that the descriptions of the four identified key elements of the risk management systems described in Managing risk properly reflect the processes concerned.

Horwath Clark Whitehill LLP

Horwath Clark Whitehill LLP Chartered Accountants and Registered Auditors, London
10 August 2007

Consolidated income statement

for the year ended 30 June 2007

	Notes	2007 £m	2006 £m	Increase
Turnover				
Assurance		**947**	913	4%
Tax		**667**	592	13%
Advisory		**493**	475	4%
	2	**2,107**	1,980	6%
Expenses and disbursements on client assignments		**(235)**	(257)	
Net revenue		**1,872**	**1,723**	9%
Staff costs				
Staff costs		**(917)**	(841)	9%
Other – past service credit on defined benefit pension schemes		**–**	122	
	3	**(917)**	(719)	
Depreciation, amortisation and impairment	4	**(29)**	(30)	
Gain on disposal of property asset	4	**71**	–	
Other operating charges	4	**(303)**	(275)	10%
Operating profit		**694**	**699**	
Finance income	5	**85**	68	
Finance expense	5	**(68)**	(67)	
Profit on ordinary activities before taxation		**711**	**700**	
Tax expense in corporate subsidiaries	6	**(9)**	(10)	
Profit for the financial year		**702**	**690**	2%
Profit attributable to minority interests	18	9	–	
Profit available for division among members	18	693	690	
Profit for the financial year		**702**	**690**	

The following table is provided to show the underlying profit for the financial year after adjusting for the exceptional items disclosed in the consolidated income statement above.

Alternative performance measure – underlying profit

	2007 £m	2006 £m	Increase
Profit for the financial year	**702**	690	
Exclude exceptional items:			
Past service credit on defined benefit pension schemes	**–**	(122)	
Gain on disposal of property asset	**(71)**	–	
Underlying profit for the financial year	**631**	**568**	11%
Underlying profit attributable to minority interests	**9**	–	
Underlying profit available for division among members	**622**	568	10%

Consolidated balance sheet

at 30 June 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Property, plant and equipment	8	**72**	73
Intangible assets	9	**12**	20
Investments	10	**3**	6
Retirement benefit asset	16	**38**	12
		125	**111**
Current assets			
Trade and other receivables	11	**581**	571
Cash and cash equivalents	12	**369**	282
		950	**853**
Total assets		**1,075**	**964**
Current liabilities			
Trade and other payables	13	**(387)**	(355)
Provisions	14	**(6)**	(7)
Members' capital	15	**(5)**	(5)
		(398)	**(367)**
Non-current liabilities			
Retirement benefit obligations	16	**(7)**	(19)
Other payables	13	**(1)**	(6)
Provisions	14	**(43)**	(59)
Deferred tax liabilities	17	**(5)**	(9)
Members' capital	15	**(105)**	(102)
		(161)	**(195)**
Total liabilities		**(559)**	**(562)**
Net assets		**516**	**402**
Members' equity			
Reserves	18	**511**	402
Minority interests	18	**5**	–
Total members' equity		**516**	**402**
Total members' interests			
Members' capital		**110**	107
Reserves		**511**	402
Amounts due from members (included in trade and other receivables)		**(19)**	(17)
Total members' interests	18	**602**	**492**

The financial statements on pages 49 to 75 were authorised for issue and signed on 10 August 2007 on behalf of the members of PricewaterhouseCoopers LLP by:

Kieran Poynter

Keith Tilson

PricewaterhouseCoopers LLP balance sheet

at 30 June 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Property, plant and equipment	8	**4**	17
Investments	10	**11**	14
Retirement benefit asset	16	**38**	12
		53	**43**
Current assets			
Trade and other receivables	11	**554**	549
Cash and cash equivalents	12	**357**	273
		911	**822**
Total assets		**964**	**865**
Current liabilities			
Trade and other payables	13	**(311)**	(294)
Provisions	14	**(5)**	(6)
Members' capital	15	**(5)**	(5)
		(321)	**(305)**
Non-current liabilities			
Retirement benefit obligations	16	**(7)**	(19)
Other payables	13	**–**	(6)
Provisions	14	**(36)**	(53)
Members' capital	15	**(105)**	(102)
		(148)	**(180)**
Total liabilities		**(469)**	**(485)**
Net assets		**495**	**380**
Members' equity			
Reserves		**495**	380
Total members' equity		**495**	**380**
Total members' interests			
Members' capital		**110**	107
Reserves		**495**	380
Total members' interests	18	**605**	**487**

The financial statements on pages 49 to 75 were authorised for issue and signed on 10 August 2007 on behalf of the members of PricewaterhouseCoopers LLP by:

Kieran Poynter

Keith Tilson

Cash flow statements

for the year ended 30 June 2007

	Group		LLP	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Cash flows from operating activities				
Profit before taxation	**711**	700	**687**	680
Adjustments for:				
Depreciation, amortisation and impairment	**29**	30	**1**	2
Profit on disposal of property assets	**(71)**	–	**(67)**	–
Finance income	**(85)**	(68)	**(84)**	(67)
Finance expense	**68**	67	**67**	66
	652	**729**	**604**	**681**
Increase in trade and other receivables	**(8)**	(52)	**(5)**	(52)
Increase in trade and other payables	**24**	53	**17**	80
Decrease in provisions and other payables	**(17)**	(16)	**(19)**	(15)
Decrease in retirement benefit obligations	**(32)**	(187)	**(32)**	(188)
Cash generated from operations	**619**	527	**565**	506
Interest paid	**(1)**	(1)	**–**	–
Tax paid by corporate subsidiaries	**(24)**	(27)	**–**	–
Net cash inflow from operating activities	**594**	**499**	**565**	**506**
Cash flows from investing activities				
Purchase of property, plant and equipment	**(28)**	(16)	**–**	–
Purchase of intangible assets	**(2)**	(3)	**–**	–
Proceeds from sale of property, plant and equipment	**74**	12	**73**	–
Proceeds from sale of intangible assets	**–**	4	**–**	–
Purchase of investments	**(1)**	–	**(1)**	–
Proceeds from sale of investments	**4**	–	**4**	–
Interest received	**13**	9	**12**	8
Net cash inflow from investing activities	**60**	**6**	**88**	**8**
Cash flows from financing activities				
Distributions to members	**(583)**	(475)	**(572)**	(466)
Distribution to minority interests	**(4)**	–	**–**	–
Compensating payment by members	**17**	18	**–**	–
Capital contributions by members	**22**	17	**22**	17
Capital repayments to members	**(19)**	(10)	**(19)**	(9)
Net cash used in financing activities	**(567)**	**(450)**	**(569)**	**(458)**
Net increase in cash and cash equivalents	**87**	55	**84**	56
Cash and cash equivalents at beginning of year	**282**	227	**273**	217
Cash and cash equivalents at end of year (note 12)	**369**	**282**	**357**	**273**

Consolidated statement of changes in members' equity

for the year ended 30 June 2007

	Group			LLP
	Available for division among members	Attributable to minority interests	Total	Total
	£m	£m	£m	£m
Balance at beginning of prior year	**186**	**–**	**186**	**165**
Total recognised income – profit for the financial year	690	–	690	680
Allocated profit in financial year	(474)	–	(474)	(465)
Balance at beginning of year	**402**	**–**	**402**	**380**
Total recognised income – profit for the financial year	693	9	702	687
Movement in cash flow hedges	(1)	–	(1)	–
Allocated profit in financial year	(583)	(4)	(587)	(572)
Balance at end of year	**511**	**5**	**516**	**495**

Notes to the financial statements

for the year ended 30 June 2007

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 issued and effective as at 30 June 2007, and with those parts of the Companies Act 1985 applicable to limited liability partnerships reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as otherwise described in these accounting policies.

The principal accounting policies are unchanged compared with the year ended 30 June 2006. During the period, the Group adopted the following interpretations to published standards, neither of which had any impact on its results or financial position:

- IFRIC 4 ‘Determining whether an arrangement contains a lease’
- IFRIC 9 ‘Reassessment of embedded derivatives’

Future requirements
The following IFRS and IFRIC interpretations have been issued by the IASB and are likely to affect future financial statements of the Group, but their impact is not expected to be material:

- IFRS 7 ‘Financial Instruments: Disclosures’ revises and enhances disclosures about exposure to risks arising from financial instruments and is effective for accounting periods beginning on or after 1 January 2007.
- IFRIC 14 ‘IAS 19 – The limit on a defined benefit asset’ requires measurement of any additional pension scheme liability in respect of the minimum funding requirement and is effective for accounting periods beginning on or after 1 January 2008.
- IFRS 8 ‘Operating Segments’ requires the use of a ‘management approach’ to segment reporting, under which information is presented on the same basis as that used for internal reporting purposes. Subject to EU endorsement, IFRS 8 is effective for periods beginning on or after 1 January 2009.

Critical accounting estimates and judgements
The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of turnover, 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 estimates and assumptions that could have a significant effect upon the Group’s financial results relate to provisions in respect of client claims, onerous property costs, debt impairment and the fair value of unbilled turnover on client assignments. In addition, the net deficit or surplus disclosed for each defined benefit pension scheme is sensitive to movements in the related actuarial assumptions, in particular those relating to discount rate and mortality. Further details of all of these estimates and assumptions 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’).

Businesses acquired or disposed of during the year are accounted for using purchase method principles from or up to the date control passed.

As permitted by section 230 of the Companies Act 1985, no separate income statement is presented for the LLP.

Turnover
Turnover represents amounts recoverable from clients for professional services provided during the year excluding Value Added Tax.

Turnover reflects the fair value of the services provided on each client assignment including expenses and disbursements, based on the stage of completion of each assignment as at the balance sheet date.

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

Unbilled turnover 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 over the following estimated useful lives:

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

Property leases classified as finance leases are capitalised and depreciated on a straight line basis over the shorter of 50 years or the leasehold term. The amount capitalised is the present value of minimum lease payments over the lease term at the inception of the lease. The resulting lease obligations are included net of finance charges in liabilities, as finance lease obligations.

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

1. Accounting policies (continued)

Intangible assets
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. 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 3 to 5 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 acquired. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there is an indication that the carrying value may not be recoverable.

Leases
Operating lease rentals, 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.

The interest element of finance lease obligations is allocated to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Obligations related to finance leases in respect of future periods, net of finance charges, are included as appropriate under current or non-current liabilities.

Provisions
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 cost of claims covered by insurance as to do so could seriously prejudice the position of the Group.

Retirement benefit obligations
The Group operates both defined contribution and defined benefit pension schemes for its staff.

The Group's contributions to defined contribution schemes 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 IAS19, based on the present value of the defined benefit obligation at the balance sheet 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.

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 charged or credited to the income statement over the expected average remaining service lives of the employees participating in the scheme.

Members' pensions and annuities
Members 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 United Kingdom Partnership, have agreed to pay pension annuities to certain former partners of that partnership and the widows and dependants of deceased former partners. These annuities 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 dealt with in these financial statements.

Allocation of profits and drawings
During the year the Management 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 balance sheet 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 balance sheet date and the gains and losses on translation are included in the income statement.

The presentation currency is consistent with the functional currency of all entities within the Group.

1. Accounting policies (continued)

Financial instruments
Financial instruments are initially recognised at fair value.

Investments in subsidiary undertakings are stated at cost less impairment.

Unquoted investments with no reliable measure of fair value are designated as available-for-sale and carried 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.

Members' capital which is repayable on members' retirement, is classified as a 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 to forward foreign currency contracts where they meet the relevant criteria.

Changes in the fair value of financial instruments, other than hedge-effective derivatives transactions, are recognised in the income statement. Changes in the fair value of derivative transactions which form part of cash flow hedge relationships and which are determined to be effective are recognised directly in reserves and will subsequently be recognised in the income statement in the same accounting period as the underlying hedged item.

Contingent liabilities
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.

Financial guarantees
Financial guarantees are initially recognised at fair value and subsequently measured at the higher of their initial fair value less amounts recognised as revenue, 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 corporation tax 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 balance sheet 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 balance sheet date and expected to apply in the periods in which the temporary differences reverse.

Notes to the financial statements

for the year ended 30 June 2007

2 Segment Reporting

The Group is organised into and managed through three Lines of Service, Assurance, Tax and Advisory. Operating costs that are specifically attributable are allocated directly to individual segments. Transactions with other segments arise when specialists work across Lines of Service and are disclosed on a net basis. The internal rate of transfer for these transactions is set annually between the Lines of Service.

The majority of the Group's central costs are allocated under bases within documented service level agreements and other central costs are apportioned having regard to the appropriate cost driver. The unallocated profit items below consist of the gain on disposal of the Southwark Towers property asset in the current year and past service credit on defined benefit pension schemes in the prior year. Finance income, finance expense, and tax expense in corporate subsidiaries are also unallocated.

During the year the provision of public sector business advisory services was transferred from Assurance to the Advisory Line of Service. The effect on the 2006 comparatives in this report is to reduce in Assurance and increase in Advisory: Turnover of £39m, operating profit of £8m, net assets of £14m, an average of 208 employees and an average of six members.

					2007					2006 Restated
	Assurance £m	**Tax £m**	**Advisory £m**	**Unallocated £m**	**Total £m**	Assurance £m	Tax £m	Advisory £m	Unallocated £m	Total £m
Turnover										
Turnover from external customers	**1,014**	**626**	**467**	**–**	**2,107**	963	561	456	–	1,980
Transactions with other segments	**(67)**	**41**	**26**	**–**	**–**	(50)	31	19	–	–
	947	**667**	**493**	**–**	**2,107**	**913**	**592**	**475**	**–**	**1,980**
Turnover increase	4%	13%	4%		6%	10%	15%	9%		11%
Operating profit	**255**	**223**	**145**	**71**	**694**	**254**	**193**	**130**	**122**	**699**
Operating profit %	27%	33%	29%			28%	33%	27%		
Net Assets										
Segment assets	**288**	**214**	**166**	**407**	**1,075**	292	222	156	294	964
Segment liabilities	**(248)**	**(152)**	**(131)**	**(28)**	**(559)**	(262)	(146)	(118)	(36)	(562)
	40	**62**	**35**	**379**	**516**	**30**	**76**	**38**	**258**	**402**
Other segment items										
Depreciation, amortisation and impairment	**(15)**	**(8)**	**(6)**	**–**	**(29)**	(16)	(8)	(6)	–	(30)
Capital expenditure	**15**	**8**	**7**	**–**	**30**	10	5	4	–	19

Assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Allocated segment assets include property, plant and equipment, intangible assets and trade and other receivables. Allocated segment liabilities include trade and other payables and provisions. Unallocated items are cash and cash equivalents, corporation and deferred tax balances and retirement benefit assets and obligations. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

The Group's turnover derives principally from its operations in the UK and Channel Islands. Accordingly, the Group has presented no secondary segment analysis. Further analysis of turnover by industry, client, and type of work is provided in the Client section of this annual report. During the current and previous year no single client represented more than 1.75% of turnover.

3 Staff costs

Group

	2007 £m	2006 £m
Salaries	**785**	722
Social security costs	**81**	74
Pension costs (note 16)		
– defined contribution	**31**	26
– defined benefit pension schemes	**20**	19
	917	841
– past service credit on defined benefit pension schemes	**–**	(122)
	917	**719**

Pension costs include costs arising on both defined contribution and defined benefit pension schemes. The past service credit in the prior year arose following benefit changes agreed with the defined benefit pension schemes' trustees regarding changes to cash commutation arrangements and the capping of pension increases.

The average number of Group employees during the year was:

	2007 Number	2006 Restated number
Assurance	**6,528**	6,319
Tax	**3,468**	3,330
Advisory	**2,746**	2,633
Shared Services and National Functions	**2,043**	2,020
	14,785	**14,302**

Employee numbers for 2006 have been restated in accordance with the transfer of public sector business advisory services from Assurance to Advisory described in note 2.

LLP

There were no employees in the LLP during the year (2006: nil).

Notes to the financial statements

for the year ended 30 June 2007

4 Other operating costs

Operating profit is stated before finance costs and tax expense in corporate subsidiaries. Amounts in operating costs include:

	2007 £m	2006 £m
Depreciation, amortisation and impairment:		
– depreciation of owned assets (note 8)	**21**	22
– amortisation of intangible assets (note 9)	**8**	8
	29	**30**
Operating lease rentals:		
– land and buildings	**65**	63
– plant and machinery	**13**	11
	78	**74**

Separately disclosed in the income statement is a gain arising on the sale of the Southwark Towers long leasehold property asset in the year, which consisted of sales proceeds of £73m, the settlement of a related finance lease obligation valued at £6m, less the disposal of related leasehold assets with a value of £8m:

Gain on disposal of property asset	**71**	–

Total fees and expenses payable to the auditors Horwath Clark Whitehill LLP for the year ended 30 June 2007 were £0.4m (2006: £0.3m). Of these, audit fees relating to the LLP and Group consolidation were £0.2m (2006: £0.2m), and other services in respect of the audit of subsidiary companies and other statutory requirements were £0.2m (2006: £0.1m).

5 Finance income and expense

	2007 £m	2006 £m
Finance income		
Interest receivable	**13**	9
Expected return on pension scheme assets (note 16)	**72**	59
	85	**68**
Finance expense		
Interest payable	**(1)**	(1)
Unwinding of discount (note 14)	**(1)**	(1)
Interest on pension scheme obligations (note 16)	**(66)**	(65)
	(68)	**(67)**
Net finance income	**17**	**1**

6 Tax expense in corporate subsidiaries

The financial statements do not incorporate any charge or liability for taxation on the results of the LLPs consolidated in the Group, as the relevant tax is the responsibility of individual members.

The charge to tax, which arises in the corporate subsidiaries included within these financial statements, is:

	2007 £m	2006 £m
Current tax comprising UK corporation tax expense at 30% based on taxable profits for the year	**32**	31
Compensating payment due from LLP members	**(19)**	(16)
Deferred tax movements (note 17)	**(4)**	(5)
Tax expense in corporate subsidiaries	**9**	**10**

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

	2007 £m	2006 £m
Profit on ordinary activities of corporate entities before tax	**10**	**10**
Tax expense at UK standard rate of 30%	**3**	3
Effects of:		
– expenses not deductible for tax purposes	**6**	6
– adjustments in respect of previous years	**–**	1
	9	**10**

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 is offset by a compensating payment made by LLP members direct to the relevant subsidiaries.

7 Members' profit shares

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

The average monthly number of members during the year was:

	2007 Number	2006 Restated number
Assurance	**351**	346
Tax	**240**	226
Advisory	**209**	196
Other, including members fulfilling roles in the PwC global network	**22**	25
	822	**793**

Member numbers in 2006 have been restated in accordance with the transfer of our public sector business advisory services from Assurance to Advisory described in note 2.

The average profit per member is calculated by dividing the profit for the financial year available for distribution among members by the average number of members.

	2007 £000	2006 £000
Underlying average profit per member excluding gain on disposal of property asset and past service credit on defined benefit pension schemes	**757**	716
Average profit per member	**843**	870

The amount invested by members in the business, represented by total members' interests at 30 June 2007, divided by the number of members at that date, amounts to an average investment per member of £737,000 (2006: £618,000).

The estimated underlying profit attributable to the Chairman, the member with the largest entitlement to profit, is £2.8m (2006 actual profit: £2.7m; estimated: £2.5m). In addition his estimated share of the gain on disposal of the Southwark Towers property asset was £0.3m.

The Chairman's investment in the business at 30 June 2007, represented by his estimated share of total members' interests was £2.7m (2006 actual investment: £2.5m; estimated £2.3m).

8 Property, plant and equipment

Group

	Freehold property £m	Leasehold property £m	Property held under finance lease £m	Fittings, furnishings & equipment £m	Total £m
Cost					
At beginning of prior year	**5**	**33**	**6**	**216**	**260**
Additions	–	–	–	16	16
Disposals	–	–	–	(36)	(36)
At end of prior year	**5**	**33**	**6**	**196**	**240**
Additions	1	–	–	27	28
Disposals	–	(13)	(6)	(74)	(93)
At end of year	**6**	**20**	**–**	**149**	**175**
Accumulated depreciation					
At beginning of prior year	**1**	**21**	**3**	**144**	**169**
Depreciation charge for the year	–	2	–	20	22
Disposals	–	–	–	(24)	(24)
At end of prior year	**1**	**23**	**3**	**140**	**167**
Depreciation charge for the year	–	1	–	20	21
Disposals	–	(9)	(3)	(73)	(85)
At end of year	**1**	**15**	**–**	**87**	**103**
Net book amount at end of year	**5**	**5**	**–**	**62**	**72**
Net book amount at end of prior year	**4**	**10**	**3**	**56**	**73**

Group capital commitments contracted but not provided for at 30 June 2007 amounted to £1m (2006: £1m), there were no capital commitments in the LLP (2006: nil).

LLP

	Leasehold property £m	Property held under finance lease £m	Fittings, furnishings & equipment £m	Total £m
Cost				
At beginning of prior year	**28**	**6**	**5**	**39**
At end of prior year	**28**	**6**	**5**	**39**
Disposals	(11)	(6)	(4)	(21)
At end of year	**17**	**–**	**1**	**18**
Accumulated depreciation				
At beginning of prior year	**12**	**3**	**5**	**20**
Depreciation charge for the year	2	–	–	2
At end of prior year	**14**	**3**	**5**	**22**
Depreciation charge for the year	1	–	–	1
Disposals	(2)	(3)	(4)	(9)
At end of year	**13**	**–**	**1**	**14**
Net book amount at end of year	**4**	**–**	**–**	**4**
Net book amount at end of prior year	**14**	**3**	**–**	**17**

for the year ended 30 June 2007

9 Intangible assets

Group

	Goodwill £m	Computer software £m	Total £m
Cost			
At beginning of prior year	**4**	**58**	**62**
Additions	–	3	3
Disposals	–	(6)	(6)
At end of prior year	**4**	**55**	**59**
Additions	–	2	2
Disposals	–	(6)	(6)
At end of year	**4**	**51**	**55**
Accumulated amortisation and impairment			
At beginning of prior year	**4**	**29**	**33**
Amortisation charge for the year	–	8	8
Impairment	–	(2)	(2)
At end of prior year	**4**	**35**	**39**
Amortisation charge for the year	–	8	8
Disposals	–	(4)	(4)
At end of year	**4**	**39**	**43**
Net book amount at end of year	**–**	**12**	**12**
Net book amount at end of prior year	**–**	**20**	**20**

LLP

There were no intangible assets in the LLP as at 30 June 2007 (2006: nil).

10 Investments

	Group £m	LLP £m
Investments in Group undertakings at beginning of year and at end of year	**–**	**8**

There were no movements in shares held by the LLP in Group undertakings in the year. A list of principal subsidiary undertakings is given in note 22.

	Group £m	LLP £m
Other investments		
Cost at beginning of year	9	8
Acquisitions	1	1
Disposals	(5)	(4)
Cost at end of year	**5**	**5**
Impairment at beginning of year	(3)	(2)
Disposals	1	–
Impairment at end of year	**(2)**	**(2)**
Cost less impairment at end of year	**3**	**3**
Cost less impairment at end of prior year	**6**	**6**

Other investments comprise holdings in entities which provide services to member firms of the PricewaterhouseCoopers network around the world.

	Group £m	LLP £m
Total investments at end of year	**3**	**11**
Total investments at end of prior year	**6**	**14**

11 Trade and other receivables

	Group 2007 £m	Group 2006 £m	**LLP 2007 £m**	LLP 2006 £m
Client receivables	**329**	309	**323**	306
Due from overseas PricewaterhouseCoopers member firms	**5**	13	**30**	42
Trade receivables	**334**	322	**353**	348
Amounts due from members	**19**	17	**–**	–
Other receivables	**18**	24	**11**	9
Prepayments	**29**	27	**12**	13
Unbilled amounts for client work	**181**	181	**178**	179
	581	**571**	**554**	**549**

Group and LLP trade receivables are shown after impairment provisions for bad and doubtful debts of £10m (2006: £9m).

12 Cash and cash equivalents

	Group 2007 £m	Group 2006 £m	LLP 2007 £m	LLP 2006 £m
Cash at bank and in hand	**28**	29	**16**	20
Short term deposits	**341**	253	**341**	253
	369	**282**	**357**	**273**

13 Trade and other payables

	Group 2007 £m	Group 2006 £m	LLP 2007 £m	LLP 2006 £m
Current				
Trade payables	**26**	32	**–**	–
Amounts owed to Group undertakings	**–**	–	**219**	211
Other payables including taxation and social security (see below)	**109**	98	**16**	21
Accruals	**189**	172	**14**	11
Progress billings for client work	**63**	53	**62**	51
	387	**355**	**311**	**294**

Current trade payables (Group) include amounts owing to overseas PricewaterhouseCoopers member firms totalling £16m (2006: £17m).

	Group 2007 £m	Group 2006 £m	LLP 2007 £m	LLP 2006 £m
Other current payables including taxation and social security comprise:				
Corporation tax	**16**	8	**–**	–
Other taxes and social security	**76**	68	**–**	–
Other payables	**17**	22	**16**	21
	109	**98**	**16**	**21**

Non-current payables of £1m in the current year represent loans provided by members of the other LLPs consolidated into the Group.

Non-current payables in the prior year represented property commitments under finance leases (Group and LLP), which were disposed of during the year (note 4).

	2007 £m	2006 £m
Non-current		
The minimum lease payments under finance leases were due as follows:		
Between one and five years	–	1
More than five years	–	18
	–	19
Future finance charges	–	(13)
Present value of finance lease obligation	**–**	**6**

14 Provisions

	Group			LLP		
	Client claims £m	Property £m	Total £m	Client claims £m	Property £m	Total £m
Balance at beginning of year	**33**	**33**	**66**	**33**	**26**	**59**
Charged to income statement	6	7	13	6	4	10
Released unused during the year	(9)	(7)	(16)	(9)	(6)	(15)
Unwinding of discount	–	1	1	–	1	1
Cash payments	(8)	(7)	(15)	(8)	(6)	(14)
Balance at end of year	**22**	**27**	**49**	**22**	**19**	**41**

Disclosed as:	**Group 2007 £m**	Group 2006 £m	**LLP 2007 £m**	LLP 2006 £m
Current	6	7	5	6
Non-current	43	59	36	53
	49	**66**	**41**	**59**

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.

Provisions have been recognised for obligations under property contracts which are onerous and to restore premises to their original condition upon vacating them, where such an obligation exists under the lease. The provisions have been estimated using current costs and have been discounted to present value at a rate of 5.75% (2006: 5.25%). The provision covers residual lease commitments of up to eight years and is after allowance for existing or expected sublet rental income.

15 Members' capital

	Group £m	**LLP £m**
At 1 July 2006	**107**	**107**
Contributions by members	22	22
Repayments to members	(19)	(19)
At 30 June 2007	**110**	**110**

Members' capital contributions are determined by the Management 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 balance sheet date. Total members' capital analysed by repayable dates is as follows:

	Group £m	**LLP £m**
Current	5	5
Non-current	105	105
	110	**110**

16 Retirement benefit obligations

The Group operates both defined contribution and defined benefit pension arrangements for its staff.

Defined contribution schemes

Costs of £31m (2006: £26m) were recognised by the Group in respect of defined contribution schemes. Costs of defined contribution schemes in the LLP were nil (2006: nil).

Defined benefit schemes

The two defined benefit pension schemes are the PwC Pension Fund ('PwC PF') and the DH&S Retirement and Death Benefits Plan ('DH&S Plan'). Both schemes were closed to new employees over eight years ago and the DH&S Plan is closed to new members. 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.

Certain employees under age 50 who were members of the Coopers & Lybrand Plan, a predecessor partnership pension plan, will become eligible to join the PwC PF at age 50 and receive enhanced benefits accruing over the period between age 50 and 60. Although the employees are not yet members of the PwC PF, a provision is included in respect of their eligibility for future benefits. The cost of those benefits has been valued in accordance with IAS 19 by the Group's in-house actuaries and included within the obligations of the PwC PF.

Assumptions

The principal actuarial assumptions used were as follows:

	30 June 2007	30 June 2006	30 June 2005
Discount rate	**5.75%**	5.25%	5.00%
Inflation	**3.15%**	2.85%	2.50%
Expected rate of increase in salaries	**4.40%**	4.10%	3.75%
Expected rate of increase in pensions in payment	**2.75%**	2.55%	2.50%
Expected return on PwC PF assets	**7.05%**	6.50%	6.20%
Expected return on DH&S Plan assets	**6.70%**	6.25%	5.90%

The actuarial valuations assume that mortality of scheme members will be in line with nationally published PA92 mortality tables, incorporating improvements to life expectancy, which have been adjusted as at 30 June 2007 by including the medium cohort effect. The mortality tables used and current life expectancy underlying the value of the defined benefit obligations for each scheme are:

	2007		2006	
	PwC PF Years	**DH&S Plan Years**	PwC PF Years	DH&S Plan Years
Life expectancy of current pensioners at age 65 – mortality tables	**PA92B1935mc**	**PA92B1935mc**	PA92B1935	PA92B1935
– male	**21.3**	**21.3**	19.1	19.1
– female	**24.2**	**24.2**	22.1	22.1
Life expectancy of future pensioners at age 65 – mortality tables	**PA92B1958mc**	**PA92B1965mc**	PA92B1958	PA92B1965
– male	**22.8**	**23.1**	20.8	21.1
– female	**25.7**	**25.9**	23.8	24.1

16 Retirement benefit obligations (continued)

Income statement

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

	2007			2006		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
Operating cost						
Current service cost	(15)	(4)	(19)	(15)	(4)	(19)
Recognised actuarial loss	–	(1)	(1)	–	–	–
Past service credit	–	–	–	96	26	122
Finance income and expense						
Expected return on pension scheme assets	48	24	72	39	20	59
Interest on pension scheme defined benefit obligations	(42)	(24)	(66)	(42)	(23)	(65)
	(9)	(5)	(14)	78	19	97

Balance sheet

The amounts recognised in the Group and LLP balance sheets are as follows:

	2007			2006		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
Fair value of scheme assets	813	423	1,236	735	396	1,131
Present value of defined benefit obligations	(824)	(470)	(1,294)	(794)	(472)	(1,266)
Net deficit	(11)	(47)	(58)	(59)	(76)	(135)
Unrecognised actuarial losses	49	40	89	71	57	128
Net retirement benefit asset (obligation)	38	(7)	31	12	(19)	(7)

An analysis of the movement in the net retirement benefit asset (obligation) recognised in the balance sheet is as follows:

	2007			2006		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
At beginning of year	12	(19)	(7)	(109)	(79)	(188)
Current service cost	(15)	(4)	(19)	(15)	(4)	(19)
Recognised actuarial loss	–	(1)	(1)	–	–	–
Past service credit	–	–	–	96	26	122
Finance income and expense	6	–	6	(3)	(3)	(6)
Contributions by employer	35	17	52	43	41	84
At end of year	38	(7)	31	12	(19)	(7)

Notes to the financial statements

for the year ended 30 June 2007

16 Retirement benefit obligations (continued)

Scheme Assets

The changes in defined benefit scheme assets were as follows:

			2007			2006
	PwC PF £m	**DH&S Plan £m**	**Total £m**	PwC PF £m	DH&S Plan £m	Total £m
Fair value of scheme assets at start of the year	**735**	**396**	**1,131**	619	329	948
Expected return on scheme assets	**48**	**24**	**72**	39	20	59
Actuarial gain (loss) on assets	**13**	**(6)**	**7**	46	12	58
Contributions by employer	**35**	**17**	**52**	43	41	84
Benefits paid	**(18)**	**(8)**	**(26)**	(12)	(6)	(18)
Fair value of scheme assets at end of year	**813**	**423**	**1,236**	**735**	**396**	**1,131**

The actual return on scheme assets in the year ended 30 June 2007 was £79m (2006: £117m).

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

	30 June 2007	30 June 2006	30 June 2005
Equities	**8.10%**	7.80%	7.45%
Bonds	**5.40%**	4.90%	4.50%
Cash	**5.75%**	4.50%	4.75%

The expected return on assets is based on a projection of long-term investment returns for each asset class. 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 2007			Value at 30 June 2006
	PwC PF £m	**DH&S Plan £m**	**Total £m**	PwC PF £m	DH&S Plan £m	Total £m
Equities	**496**	**207**	**703**	427	180	607
Bonds	**312**	**210**	**522**	299	211	510
Cash	**5**	**6**	**11**	9	5	14
	813	**423**	**1,236**	**735**	**396**	**1,131**

Defined benefit obligations

The changes in defined benefit obligations were as follows:

			2007			2006
	PwC PF £m	**DH&S Plan £m**	**Total £m**	PwC PF £m	DH&S Plan £m	Total £m
Present value of defined benefit obligation at start of year	**(794)**	**(472)**	**(1,266)**	(808)	(438)	(1,246)
Current service cost	**(15)**	**(4)**	**(19)**	(15)	(4)	(19)
Interest cost	**(42)**	**(24)**	**(66)**	(42)	(23)	(65)
Past service credit	**–**	**–**	**–**	96	26	122
Actuarial gain (loss) on obligations	**9**	**22**	**31**	(37)	(39)	(76)
Benefits paid	**18**	**8**	**26**	12	6	18
Present value of defined benefit obligation at end of year	**(824)**	**(470)**	**(1,294)**	**(794)**	**(472)**	**(1,266)**

16 Retirement benefit obligations (continued)

Actuarial gains and losses
The history of actuarial experience adjustments on the schemes for the current and two previous financial years is as follows:

	2007			2006			2005		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
Fair value of scheme assets	**813**	**423**	**1,236**	735	396	1,131	619	329	948
Present value of defined benefit obligation	**(824)**	**(470)**	**(1,294)**	(794)	(472)	(1,266)	(808)	(438)	(1,246)
Net deficit	**(11)**	**(47)**	**(58)**	(59)	(76)	(135)	(189)	(109)	(298)
Actuarial experience gains (losses) on assets	**13**	**(6)**	**7**	46	12	58	46	24	70
Actuarial gains (losses) on obligations due to experience	**(1)**	**8**	**7**	7	(7)	–	(13)	(7)	(20)

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:

	PwC PF Decrease (Increase) £m	DH&S Plan Decrease (Increase) £m	Total £m
0.25% increase to discount rate	36	23	59
0.25% increase to salary increases	(4)	(3)	(7)
1 year increase to life expectancy	(18)	(10)	(28)

Future cash funding
The most recent full actuarial valuations for both the PwC PF and the DH&S Plan were carried out as at 31 March 2005 and updated to 30 June 2007 by qualified independent actuaries. The next full actuarial valuations for both schemes are due to be carried out as at 31 March 2008, under the new Scheme Funding Regulations (Pensions Act 2004). The actuaries are Aon Consulting for the PwC PF and Mercer Human Resource Consulting for the DH&S Plan.

During the prior year the Group agreed to make additional contributions to the schemes totalling £140m, to be paid over four years. Total cash contributions to the schemes during the year ended 30 June 2007 were £52m, including £33m of additional contributions, bringing the total amount of additional contributions paid to date to £103m. The Group expects to pay contributions next year of £39m, including additional contributions of £20m.

17 Deferred tax

Deferred tax is calculated in full under the liability method on temporary differences arising in the corporate subsidiaries. In accordance with the Finance Act 2007, deferred tax has been calculated using an expected rate of 30% in the period to 31 March 2008 and 28% thereafter (2006: 30%). No restatement of the brought forward balances is required as a result of this change in the tax rate.

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

	2007 £m	2006 £m
Balance at beginning of year	**2**	1
Capital allowances in excess of depreciation	**–**	1
Balance at end of year	**2**	**2**

The movements in the Group's deferred tax liabilities during the year were as follows:

	2007 £m	2006 £m
Balance at beginning of year	**(11)**	(15)
Deferred income and other temporary differences	**4**	4
Balance at end of year	**(7)**	**(11)**

	2007 £m	2006 £m
Net deferred tax liability at beginning of year	**(9)**	(14)
Movement in year	**4**	5
Net deferred tax liability at end of year	**(5)**	**(9)**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to do so and there is an intention to settle the balances on a net basis.

There was no deferred tax arising in the LLP.

18 Total members' interests

Group	Members' interests: Members' capital £m	Members' interests: Reserves £m	Members' interests: Loans and other debts due to (from) members £m	Members' interests: Total £m	Minority interests: Reserves £m	Minority interests: Loans and other debts due to (from) minority interests £m
Balance at beginning of prior year	**100**	**186**	**(27)**	**259**	**–**	**–**
Profit for the financial year available for division among members	–	690	–	690	–	–
	100	**876**	**(27)**	**949**	**–**	**–**
Allocated profit	–	(474)	474	–	–	–
Introduced by members	17	–	–	17	–	–
Repayment of capital	(10)	–	–	(10)	–	–
Drawings and distributions	–	–	(475)	(475)	–	–
Movement in compensating payment due to subsidiary undertakings	–	–	11	11	–	–
Balance at beginning of year	**107**	**402**	**(17)**	**492**	**–**	**–**
Profit for the financial year available for division among members	–	693	–	693	9	–
	107	**1,095**	**(17)**	**1,185**	**9**	**–**
Allocated profit	–	(583)	583	–	(4)	4
Movement on cash flow hedges	–	(1)	–	(1)	–	–
Introduced by members	22	–	–	22	–	–
Repayment of capital	(19)	–	–	(19)	–	–
Drawings and distributions	–	–	(583)	(583)	–	(4)
Movement in compensating payment due to subsidiary undertakings	–	–	(2)	(2)	–	–
Balance at end of year	**110**	**511**	**(19)**	**602**	**5**	**–**

LLP	Members' capital £m	Reserves £m	Loans and other debts due to (from) members £m	Total £m
Balance at beginning of prior year	**99**	**165**	**1**	**265**
Profit for the financial year available for division among members	–	680	–	680
	99	**845**	**1**	**945**
Allocated profit	–	(465)	465	–
Introduced by members	17	–	–	17
Repayment of capital	(9)	–	–	(9)
Drawings and distributions	–	–	(466)	(466)
Balance at beginning of year	**107**	**380**	**–**	**487**
Profit for the financial year available for division among members	–	687	–	687
	107	**1,067**	**–**	**1,174**
Allocated profit	–	(572)	572	–
Introduced by members	22	–	–	22
Repayment of capital	(19)	–	–	(19)
Drawings and distributions	–	–	(572)	(572)
Balance at end of year	**110**	**495**	**–**	**605**

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 7. 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, loans and other debts due to members rank equally with unsecured creditors. Members' capital and 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:

	2007		2006	
	Land and buildings £m	**Other Assets £m**	Land and buildings £m	Other Assets £m
Within one year	**67**	**9**	59	6
1-2 years	**67**	**4**	59	3
2-3 years	**62**	**1**	59	1
3-4 years	**57**	**–**	48	–
4-5 years	**58**	**–**	44	–
More than five years	**603**	**–**	156	–

Commitments in respect of land and buildings include long-term obligations relating to new office premises at 7 More London.

20 Financial Instruments

Financial Risk Management

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:

- 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 payable on retirement.
- 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 Group had no requirement for long term borrowings (other than members' capital) at 30 June 2007.

The Management 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 2007 with six leading international banks total £138m (2006: £150m) and are due to expire in January 2010.

Credit risk

Cash deposits and other financial instruments with banks and financial institutions give rise to counterparty risk. The Group manages counterparty risk by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of counterparties are reviewed regularly. There were no other significant concentrations of credit risk at the balance sheet date.

Interest rate risk

The Group's principal borrowings and any surplus cash balances are held at variable interest rates linked to LIBOR. Borrowings are all undertaken in sterling to reflect the composition of the Group's balance sheet, which includes only minor amounts of non-sterling assets and liabilities. The Group's policy requires that asset finance be undertaken without creating significant interest rate exposure. To protect the yield on the proceeds from the sale of the long leasehold property asset, interest rate floors with a nominal value of £70m and an average rate of 5.13%, were purchased in the year.

20 Financial Instruments (continued)

Foreign currency risk
The major part of the Group's income and expenditure is in sterling. However, some fees and costs are denominated in foreign currencies, mainly in connection with professional indemnity insurance and transactions with overseas PricewaterhouseCoopers member 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.

Fair value of financial assets and financial liabilities
Set out below is a comparison by category of book values and fair values of the Group's financial assets and financial liabilities as at 30 June 2007. Fair values of cash, cash equivalents, members' capital and debt have been calculated by discounting expected future cash flows at prevailing interest rates and approximate to book value owing to the short maturity of these instruments.

	2007 Book value £m	**2007 Fair value £m**	2006 Book value £m	2006 Fair value £m
Assets				
Trade and other receivables	**581**	**581**	571	571
Investments	**3**	**3**	6	6
Cash at bank and in hand	**28**	**28**	29	29
Short term deposits with banks	**341**	**341**	253	253
Liabilities				
Trade and other payables	**387**	**387**	355	355
Members' capital	**110**	**110**	107	107
Finance lease obligation	**–**	**–**	6	6
Forward foreign exchange contract				
Cash flow hedges	**–**	**(1)**	–	–

Interest rate profile of financial assets and financial liabilities
The exposure of financial assets and liabilities to interest rate movements at 30 June 2007 by duration is as follows:

	Non interest earning £m	Floating rate protected by interest rate floors £m	Floating rate less than one year £m
Current assets			
Trade and other receivables	581		–
Short term deposits with banks	–	70	271
Current liabilities			
Trade and other payables	(387)	–	–
Members' capital	(5)	–	–
Non current liabilities			
Members' capital	(105)	–	–

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 assets at 30 June 2007 of £10m (2006: nil) and net Euro denominated assets at 30 June 2007 of £2m (2006: £4m).

20 Financial Instruments (continued)

Derivative financial instruments
Forward foreign exchange contracts all mature in less than three years, and have been valued using forward market prices prevailing at the balance sheet date. The related fair value and ineffective cash flow hedges recognised in the income statement were nil (2006: nil). Effective cash flow hedges recognised directly in equity were £1m (2006: nil). The notional principal amount of forward foreign exchange contracts was £24m (2006: £35m). The sterling interest rate floors purchased by the Group in the year all mature within two years and have a fair value of nil.

The movements in reserves relating to cash flow hedges held by the Group are as follows:

	2007 £m	2006 £m
Forward foreign exchange contracts		
Cash flow hedges – recognised in reserves	**(1)**	–

21 Contingent liabilities and financial guarantees

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

In July 2006 the LLP entered into a US dollar 47m 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 a guarantee in respect of the future lease commitment of a subsidiary company for the office premises at 7 More London.

The LLP guarantees the bank borrowings of subsidiary companies, which are included in the consolidated balance sheet. At the year end, subsidiary company bank borrowings were nil (2006: nil).

22 Subsidiary undertakings

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 are incorporated in Great Britain.

Under the terms of IAS 27 the Group has consolidated the results of PricewaterhouseCoopers Legal LLP with effect from 1 July 2006, even though the UK LLP members do not share in its profits. The profit and capital attributable to members of PricewaterhouseCoopers Legal LLP is shown as a minority interest in the consolidated financial statements.

Company	**Principal Activity**
PricewaterhouseCoopers Services	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
Limited Liability Partnership	
PricewaterhouseCoopers CI LLP	Professional services
PricewaterhouseCoopers Legal LLP	Legal services

23 Related party transactions

The LLP and the 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.

Contracts and leases not novated to PricewaterhouseCoopers LLP
Following the transfer of business on establishment of the LLP on 1 January 2003, certain contracts and leases have not yet been novated to the LLP pending receipt of third party consents. Arrangements are in place for the LLP to deal with these contracts and leases from day to day. No charge is made for these arrangements and no amounts are due to or by the LLP at 30 June 2007 (2006: nil) under these arrangements.

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 client assignments. For the year ended 30 June 2007 the LLP provided services to the United Kingdom Partnership to the value of £112,000 (2006: £450,000) under these arrangements. There were no balances outstanding at the end of the year (2006: 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 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 2007 (2006: £200,000). There were no balances outstanding at the end of the year (2006: 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 £52m (2006: £47m).

Key management compensation
The Management Board represents key management personnel for the purposes of the Group's related party disclosure reporting. The estimated underlying profit attributable to key management personnel amounts to £16.5m (2006 actual profit: £14.5m; estimated £14.2m) and comprises the Management Board's estimated share of the Group's profit available for division among members. In addition, the Management Board's estimated share of the gain on disposal of the Southwark Towers property asset was £1.9m.

LLP
The subsidiary undertakings as described in note 22 are related parties of the LLP. The transactions and year-end balances with related parties are as follows:

	2007 £m	2006 £m
Purchase of services from related parties		
PricewaterhouseCoopers Services	**1,195**	1,114
Provision of services to related parties		
Other subsidiaries	**(14)**	(9)
	1,181	1,105
Year-end balances with related parties		
PricewaterhouseCoopers Services	**(210)**	(192)
Other subsidiaries	**(8)**	(19)
	(218)	(211)

Being part of a worldwide network enables us to combine a global vision with robust local identity.

PricewaterhouseCoopers LLP, along with other firms across the world, is a member of PricewaterhouseCoopers International Limited, a company limited by guarantee registered in England. Each member firm is legally separate, locally owned and locally managed.

This legal structure gives each member firm the flexibility and autonomy to respond quickly and effectively to local conditions in its marketplace. It also reflects the fact that regulatory authorities in most countries grant the right to practise accountancy to nationally-based firms in which locally qualified professionals have at least majority ownership and control.

When they become members of PricewaterhouseCoopers International Limited and join the global network, member firms acquire the right to use the PricewaterhouseCoopers name and gain ready access to the network's shared resources, methodologies, knowledge and expertise. In return, each firm commits to abide by a set of common policies and maintain agreed quality standards.

Supporting the global network

As the second largest member of the PwC network, the UK firm has developed a position and reputation as a thought leader across many industries and important topics.

As well as creating and sharing knowledge and expertise, PwC UK contributes several key figures to PwC's global network. UK partners on the Global Leadership Team include Kieran Poynter (Chairman and Senior Partner UK), Paul Boorman (Global Managing Partner, Markets and Operations) and Alec Jones (Global Managing Partner, Clients and Industries).

Global thought leadership and knowledge sharing

The global PricewaterhouseCoopers network creates a platform on which member firms share knowledge, skills and resources in order to deliver services of consistently high quality to clients across the world. In every country, PwC member firms are supported by shared methodologies, knowledge bases and technology, and by access to highly specialist expertise and thought leadership.

Our global industries programme provides our clients and our people with thought leadership on the most important issues for the industry sectors we support. The UK firm plays a major role in contributing to this global thought leadership. Examples in 2007 include:

- *Report Leadership,* an initiative led by UK-based corporate reporting partner David Phillips in conjunction with the Chartered Institute of Management Accountants, communications consultancy Radley Yeldar, and Tomkins plc. It aims to challenge established thinking on corporate reporting issues, as well as offering practical means by which companies can improve the way they provide information to the investment community.

- *Creating Value: Effective risk management in financial services* examines how an effective risk management function can add value to the business.

- The *Global Private Banking/Wealth Management survey 2007* provides insight into the rapid and exciting development of the industry at a global, regional and country level.

- *Pharma 2020: The Vision – Which path will you take?* outlines the changes that the global pharmaceutical industry needs to implement in order to capitalise on future opportunities. The major input for this came from a UK

Going global

'I joined PwC in 2004, specialising in financial instruments. Then, in September 2005, when I was offered a secondment to the DTI as Accountancy Adviser on the new Companies Act, I jumped at the chance. It was fascinating to be at the heart of Government. The job involved briefing Ministers and Officials as well as working with the European Commission.

'At the end of 2006 I returned to PwC to assist the Head of Assurance, which was another great role. However, when my counselling partner mentioned that the Hong Kong firm needed a financial instruments expert to drive the development of its derivatives practice in China, I had to say I was interested.

'Time and again, PwC has helped me capitalise on great opportunities. Working in the Hong Kong firm is just the latest example.'

Experience counts

Ben Higgin, director, Assurance

team led by partners Steve Arlington and Simon Friend.

- *Flying High: Aerospace and Defence M&A* reviews deal activity and key trends within the industry sector. This global publication was spearheaded by the recently appointed UK aerospace and defence leader Neil Hampson and the UK-based strategy team.

For further information on *Report Leadership*, please go to www.reportleadership.com. For the industry publications outlined above, please go to www.pwc.com.

We see a shift in the economic balance of power away from the established G7 economies to the emerging countries, the so-called E7 of Brazil, China, India, Russia, Indonesia, Mexico and Turkey.

The PwC UK firm's head of macroeconomics, John Hawksworth, has led the development of a series of reports on how the global economic picture might look in the years to 2050. Readers can see these at www.pwc.com/world2050.

Ensuring quality for clients

All our clients benefit from the global network's collective wealth of expertise by being able to access industry and other specialists worldwide.

One way of accessing this expertise in countries around the world is through the *Global PeopleFind* service, originally developed by the UK firm, which allows relevant PwC specialists to be identified across the globe.

Another way is by means of PwC's *Global Mobility Programme*, which not only boosts the delivery of increasingly high quality services to clients, but also develops the skills and international perspective of our people. During the year, some 3,078 (2006: 2,654) partners and staff from PwC member firms in 102 countries (2006: 90) were posted internationally on short- and long-term transfers or assignments. These secondments enable our network to achieve specific business objectives, help us to develop our people and reflect their aspirations and choices. The number of international transfers across the PwC network is rising steadily year on year, as the annual investment in the mobility programme increases.

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

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