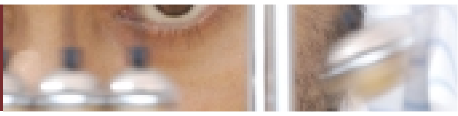
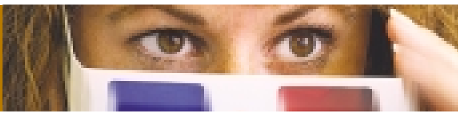
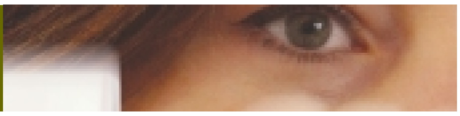
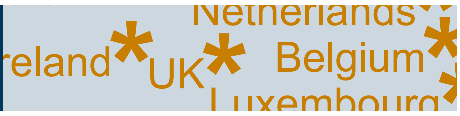
PricewaterhouseCoopers LLP
UK Annual Report 2003

contents









at a glance turn flap

PwC UK

what we do

We provide assurance, tax and advisory services.

We serve our clients through relationships based on quality and integrity.

Our clients include public and private companies, central and local government, banks and private equity houses, private individuals and not for profit organisations.

Assurance and regulatory reporting

Statutory audit, accounting advice, corporate reporting, internal control, process assurance, regulatory audit, regulatory compliance, actuarial, internal audit, sustainability, corporate governance.

Tax

International and UK corporate, employment, personal and indirect, compliance outsourcing, dispute resolution, transfer pricing, mergers and acquisitions, finance and treasury, international structuring, company administration services, tax valuations.

Corporate finance

Lead financial advice, initial public offerings, public company transactions, valuations, project finance, Public Finance Initiative/Public Private Partnerships, privatisation, public to private.

Transaction services

Financial, market, strategic and operational due diligence, post deal integration, structuring, bid support, bid defence.

Business recovery

Strategic business reviews, company voluntary arrangements, reconstruction schemes, turnarounds, administrations and receiverships, liquidations, personal bankruptcy, crisis management, managed exits, insurance run-offs, commercial reviews.

Forensic services

Fraud, forensic accounting, regulatory investigations, expert witness, determinations, loss of profit, construction and insurance claims, licensing management.

Human resource services

Expatriate tax, pensions and benefits, HR strategy, HR shared services and outsourcing advice, reward, human capital benchmarking, international mobility, learning and development, HR transformation, communication and behavioural change.

Performance improvement

Finance and IT effectiveness, revenue enhancement, operational improvement, cost reduction, supply chain, shared services, treasury, project and change management, strategic support, risk management.

Our network of offices across the UK, represented above, and our connections with the global PwC network allow our local, national and global clients to access our collective knowledge and resources.

*connectedthinking

We connect our people, network, experience, industry knowledge and business understanding to build trust and create value for our clients.

how we measure ourselves

Our ambition is to be the UK's leading professional services firm and a key contributor to and beneficiary of the PwC global network.

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

Clients

Leading in each of our chosen markets

Our aim is to be the acknowledged leader in all our chosen markets. Quality and integrity lie at the heart of everything we do, be it in discharging our public interest responsibilities through the independent audit process or in creating, delivering and adding value for our clients.

People

Being a great place to work

Without the right people we will fail to meet our goals. We seek to attract, recruit and invest in the best people, create an environment that enables them to fulfil their potential and nurture their knowledge and experience, connecting these attributes for the benefit of our clients.

Firm

Creating a sustainable business

We are committed to enhancing and protecting our brand and reputation. We are also investing in the future to ensure that our infrastructure and technology support our clients and our people. We recognise our responsibilities to the wider communities in which we operate and to the global PwC network of which we are a key part.

Financial

Maintaining quality earnings

Our aim is to maintain quality earnings which are commensurate with the risks present in our business and sufficient to provide adequate resources for investment and satisfactory rewards for all our people.

how we performed

PricewaterhouseCoopers LLP's position as market leader was reinforced in 2003. We continued to bring real value to our clients, invest in our people, support our local communities, shape our industry and help rebuild public trust in corporate reporting.

Clients

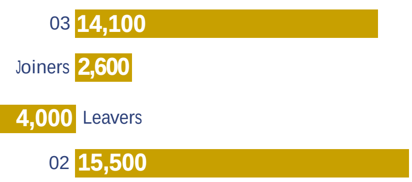
- FTSE 100 audit share of 47% and 33% of the FTSE All Share index
- Major presence serving the middle market across the UK
- High profile corporate recovery and business turnaround appointments
- Tax and advisory services hit by economic conditions and regulatory pressures

Turnover from continuing operations
£m

People

- 91% of our people are proud to work for PwC, 8% ahead of comparable organisations
- Recognised as the leading UK graduate employer in our sector
- Partner and staff numbers reduced by 9% to 14,100
- Continued investment in the development of our people
- Women's network launched as part of continuing drive for greater diversity

Partner and staff numbers



Total continuing operations partners and staff at 30 June

Firm

- Sold PwC Consulting to IBM
- Adopted Limited Liability Partnership status
- Two-year cost reduction programme delivered savings of £90m
- Over £130m spent on technology and knowledge management
- Award-winning recognition of our contribution to local communities

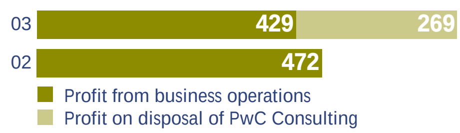
Average investment by partners
£000

Represents the average personal capital and undistributed profits invested in the business per partner at 30 June

Financial

- Strong financial management under difficult economic conditions
- Turnover from continuing operations exceeded £1.5bn, down 7%
- £223m profit on disposal of PwC Consulting
- Average profit per partner from business operations down 9% to £429,000

Average profit per partner
£000



connect with us at www.pwc.com/uk

the strength and vision to grow together*

*connectedthinking

Welcome to the first annual report for PricewaterhouseCoopers LLP, which reflects our firm's adoption of LLP status with effect from 1 January 2003.

Introduction

In recent years we've been helping our clients respond to the growing demand for broader and more transparent reporting.

In this, our first, report we've tried to follow that lead and to summarise our last 12 months in an open and transparent way. I'd welcome hearing your reaction and receiving your comments.

kieran.c.poynter@uk.pwc.com

Professional services marketplace

The two years to 30 June 2003 were especially challenging for UK professional services firms. Throughout that period, merger and acquisition activity was at an unusually low level, sentiment about growth in the economy was weak and companies were focused on cost control. In the last year this was exacerbated by initial uncertainty arising from the review of regulation following the widely reported corporate scandals in the US. Taking the market as a whole, this led to a combination of cancellation and postponement of assignments that might otherwise have been commissioned, together with a limited volume of switching between service providers.

Our business suffered a loss of volume from these factors as well as from the discontinuance of joint working with PwC Consulting after it was sold during the year.

Sound financial performance

These economic and regulatory factors produced amongst the most difficult market conditions I can remember. However, I am delighted to report that our people responded magnificently and collectively we produced results with which, given the circumstances, we are very pleased.

PwC staff members Maura Donnellan and Stuart McVan.

Turnover from continuing operations at £1.5bn was down by 7%, with the impact of tough conditions offset by initial revenues from the many new client relationships established during the year – relationships that will help to fuel growth in future years.

Profit from continuing operations available for distribution to members was down by 14% at £378m – a fall of £61m. This decline resulted from a drop in turnover of £108m, offset by rigorous control of variable overheads and a prudent approach to staff numbers – making sure we kept the resources on board that our clients will need when the market improves.

Total profit for the financial year, at £579m, includes the profit on disposal of PwC Consulting of £223m.

Ambition and strategy

Put simply, our ambition is to be the leading professional services firm in our chosen markets in the UK. We don't assess our progress simply by reference to turnover or other aspects of size, indeed in the last year we chose to exit from a number of clients who didn't match our retention criteria in the knowledge this would reduce turnover. We also sold PwC Consulting, which represented nearly 30% of our turnover. Instead we look to other indicators on a balanced scorecard which reflects the need to operate a sustainable business, to protect and strengthen our distinctive brand and to provide rewarding career opportunities for our people.

Our global network of PricewaterhouseCoopers firms is second to none in strength and quality

Our strategy for achieving our ambition is strikingly simple: we focus on quality and integrity in everything we do for our clients so that they see us as 'leaders in the marketplace'; and we create an atmosphere in which our people receive first class development, training and experience which makes them want to stay with us – 'a great place to work for all our people'. We believe that getting these two things right will help us retain long term leadership in our profession.

Vital to executing this strategy is the support of the global network of PricewaterhouseCoopers firms, which is second to none in strength and quality.

Sale of PwC Consulting

The most important change to our business during the year was the sale of PwC Consulting, comprising our big ticket IT consulting business and certain parts of our business process outsourcing business, to IBM. This followed a strategic review which concluded, inter alia, that those businesses need to be conducted within a listed corporate environment where the people can enjoy share based incentives and be free of the personal independence rules which apply to all our people. Trends in these businesses were also leading towards greater working capital requirements that we were unwilling to finance.

PwC Consulting partners received £58m of the profit on disposal by way of shares in IBM and a further £85m was retained in the PricewaterhouseCoopers predecessor partnership to be available for allocation to its partners to assist them in meeting their personal future obligations to pay annuities to former partners. The balance has been retained in the business.

We are now out of big ticket IT consulting and business process outsourcing and do not intend to restart those activities. None of our other businesses is for sale. We remain committed to providing a broad range of advisory services and see growth opportunities for us in each of the markets we serve. We will continue to be a broadly based multi-competency professional services firm because that's what the market wants and because it provides an environment in which all of our activities and people can flourish.

We remain committed to providing a broad range of advisory services

Demise of Andersen

Following the demise of Andersen, we decided not to acquire any of its former practice in the UK as our analysis showed there was little strategic fit. With the notable exception of Hong Kong and China, the same approach was adopted across the PricewaterhouseCoopers global network. We have not therefore benefited from the significant increase in revenues, either directly or from overseas referred work, that has provided the headline growth for some of our Big Four competitors. We remain convinced that our decision was the right one and have subsequently benefited from a number of former Andersen clients switching to us.

Leadership in the marketplace

We are proud of our exceptional client list which, more than anything, demonstrates the market's view of us. We assess our performance by reference to the views of our clients, our success rate in competitive tenders, market research and other external evidence.

We regularly review our performance with our clients by obtaining direct feedback to the team providing the service as well as by interviews conducted by partners independent of the client service team. On the basis of that feedback and of external market research we believe that our clients regard us as the leading provider in all the principal areas we choose to serve.

In our view leadership brings with it certain obligations. Consistent with that view, we have taken a leading role in the regulatory debate over the last 18 months and contributed to the work of the professional bodies and trade associations relevant to our business.

More and more small and medium-sized companies are seeing the benefits of working with us

During the year to 30 June 2003 we participated in 58 formal selection processes for audit appointments where the annual fees were in excess of £50,000, winning 33 of them. We also won a string of other important appointments across our tax and advisory businesses. I am particularly pleased that more and more small and medium-sized companies are seeing the benefits of working with us – this is a segment of the market in which we will continue to invest and where we see growth potential.

Great place to work

I care passionately about our people and am determined that everybody is treated fairly and well.

During the year we won a number of awards for the quality of our people policies. However, we continue to face the challenge of disseminating those policies and changing behaviours to match. Success will not be an overnight achievement, but we are determined constantly to improve so that our employees believe that the firm is a great place to work.

We accept the challenge of helping to achieve a better work-life balance

Work-life balance

Through our quarterly electronic *YouMatter* surveys, our people told us we had improved in several areas during the year, such as our commitment to becoming a great place to work and the range of challenges and opportunity available to them. 91% told us they are proud to work at PwC, but many also told us that we could do more to facilitate a better work-life balance. Despite our work-life balance results comparing quite well with UK benchmark data, and recognising the difficulties faced in a client service oriented organisation, we do accept the challenge of helping our people to achieve a better balance.

Making diversity a reality

Another challenge for us is to improve the diversity of our workforce both in terms of gender and ethnicity.

Overall the gender mix in our firm is very close to 50:50. However, in common with many other large organisations, we have fewer women in the partnership and senior management positions than we would like. We are focussing hard on what can be done to improve our retention of gifted women. We recently launched a women's network that I hope will help us identify ways in which we can make this a better place to work for women.

Similarly, we are working hard to identify and implement ideas that will make us a more attractive employer to people from ethnic minorities.

Managing our staff numbers

As with any commercial organisation, we are not immune from the pressures arising from economic slow-down and regulatory change. These twin pressures reduced demand from our clients and the weaker job market dampened our normal level of staff turnover. They combined to leave us over-resourced and resulted in redundancies amongst partners and staff. Redundancies also arose as a consequence of our drive to harness technology and other changes designed to improve our overhead efficiency.

We were generous in the redundancy payments and support in finding new jobs for those we asked to leave the firm. Generally they found new positions quickly because of their inherent qualities and the training and experience they received with us.

We are not immune from economic and regulatory pressures

Funding pensions

The funding of pensions is high on our agenda, as well as with many of our clients. The majority of our staff are active members of the firm's defined contribution pension arrangements, with a further 3,200 being members of, or having eligibility to join, the firm's defined benefit arrangements.

In line with a number of other similar schemes, the value of the defined benefit schemes has come under pressure as a result of uncertainties in the stock market. The firm has agreed with the trustees of the pension funds to make additional contributions of approximately £30m during the year to 30 June 2004 to help alleviate this pressure.

Investing time in the community

As a matter of policy, we take a responsible approach to the broader social issues in the areas in which our offices are located. This is reflected in financial support for projects or organisations which improve the education, training and employment prospects of disadvantaged young people in the inner city areas in which we are based. We also encourage personal involvement of our people in good causes either in the vicinity of our offices or in the neighbourhoods in which they live.

I am very pleased that our people respond positively to this environment, giving freely of their time to causes directly sponsored or encouraged by the firm and to other voluntary activities.

Our community support focuses on disadvantaged young people

Restoring the profession's image

The last 18 months or so have been characterised by a review of regulation provoked by the major scandals in the US which in some respects have been sensationalised by US politicians and journalists with limited understanding of the profession and its standards and behaviours. The metaphor that springs to mind is hanging the police in response to an outbreak of crime.

Here in the UK, the government has overseen a measured, rather than knee-jerk, process that has produced a framework capable of delivering good regulation. There may be further change arising from continuing reviews at the European Union and in the US, as well as by our newly reconstituted regulatory bodies. It is vitally important that they co-operate across borders rather than competing with each other to adopt the most aggressive stance.

It is vitally important that regulators co-operate across borders

We are working hard to help rebuild the self-esteem of those in our profession and the public trust in it. Society generally benefits from the dedicated professionalism of auditors across the world and we must ensure that regulatory change does not cause firms like ours, or individual professionals, to reduce their appetite for providing audit services.

I am proud to have spent my whole working life in professional practice because of the quality and integrity of the people in it and am confident that we can work quickly to restore its temporarily tarnished image.

The future of corporate reporting

As leaders we are also helping shape the future of reporting – so important if the capital markets, organisations and individuals are to regain some of the trust which has been lost recently.

It concerns me that financial reporting is becoming increasingly complex and technical, that more and more boards of directors feel remote from the financial information that is put in front of them and that the investment community appears to ignore much of what's produced.

That's why our firm has been working hard to enhance the quality and breadth of corporate reporting, to champion the cause of 'Building Public Trust' and to establish the right corporate reporting framework for the 21st century. With a single global standard of corporate reporting required, we recognise that much hard work remains to be done.

We have been working hard to establish the right corporate reporting framework for the 21st century

Liability reform

We are also working with professional bodies, governments and regulators here and overseas to seek liability reform. While the conversion to limited liability status provides a degree of protection, it remains inadequate in the current environment.

We absolutely accept that we should be held accountable for our failures, but the scale of activities of the larger corporates and trends in litigation have combined to create liability exposures which are both unsustainable and uninsurable. This needs to be fixed before the Big Four is reduced to the Big Three or less.

We believe there are ways in which the law of liability can be reformed to create a more balanced and fair environment without damaging the interests of those who rely on the profession. An easy first step in the UK would be the repeal of Section 310 of the Companies Act so that auditors and their clients would be free to agree the basis of the contract between them, a matter that becomes even more significant if the profession is to respond positively to the demands for broader assurance in a new corporate reporting framework.

The law of liability should be reformed

Looking forward

I believe that there are growing signs of increasing confidence in the economy. Over the last three or four months our clients have been expressing more confidence in their short to medium term growth prospects, switching their primary focus from cost control to revenue growth and starting to talk about possible merger and acquisition activity. All of this bodes well for the UK economy and for our business.

We are in good shape to take advantage of an upturn in the economy. Our partners and staff are focused, engaged and energised and know what we need to do.

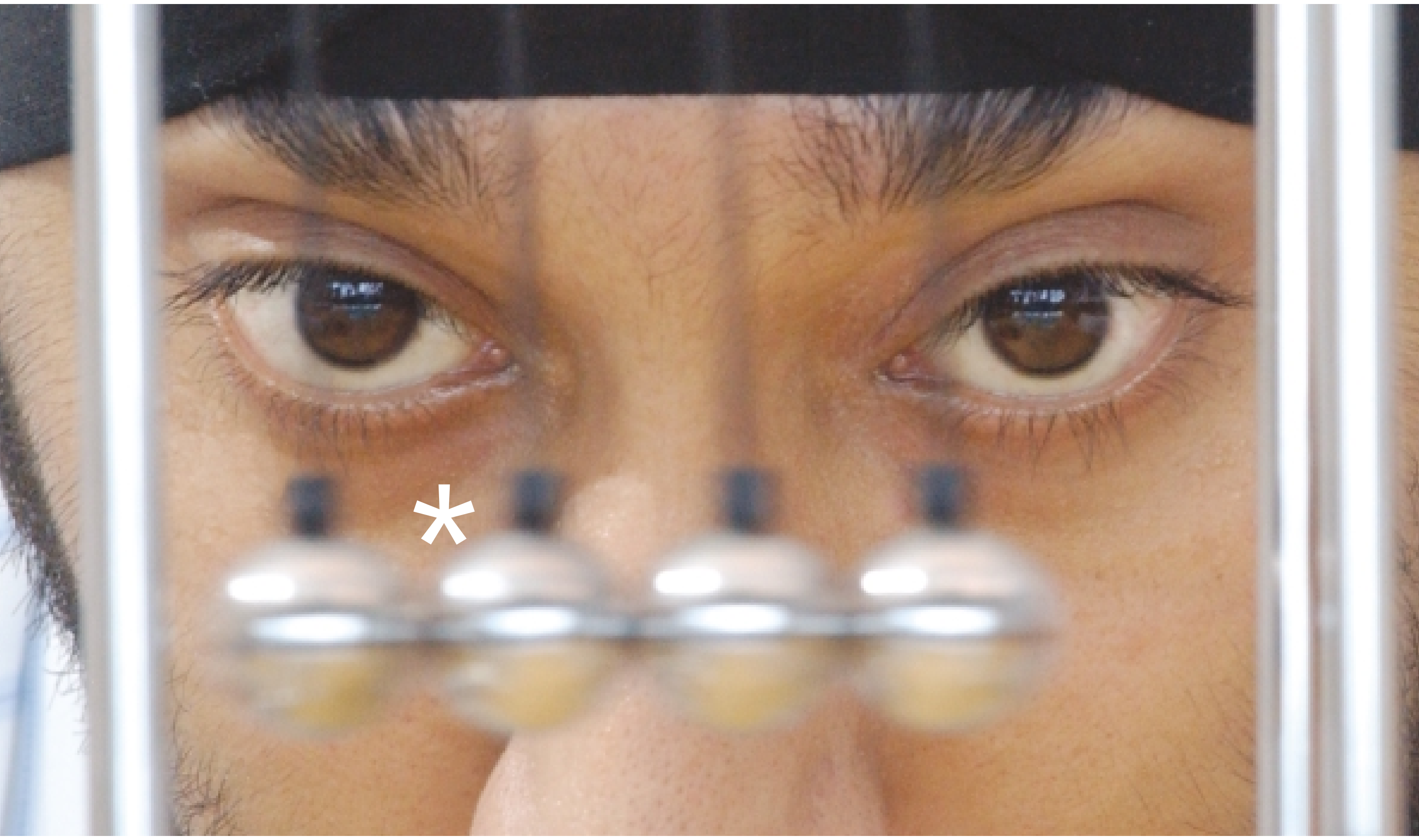
I am grateful to all our dedicated and talented people who have played their part in our achievements to date and look forward with confidence to them sharing in the rewards of our continuing success in the years to come.

We are in good shape to take advantage of an upturn in the economy

Kieran Poynter, Chairman

24 October 2003

it's about
seeing connections*
between client, business and
industry issues



*connectedthinking

We aim to deliver outstanding service to our clients, putting quality, integrity and relationships at the heart of our approach.

Clients' and stakeholders' needs are more diverse than ever. We connect the knowledge and experience of our people and our global network to ensure these needs are met.

Strong and diverse client base

We have a strong and diverse client base. It is sometimes suggested that we focus primarily on the top 100 companies listed on the London Stock Exchange. But in fact these companies only accounted for 12% of our total revenues last year, with fees from smaller companies significantly exceeding those we get from the FTSE 100.

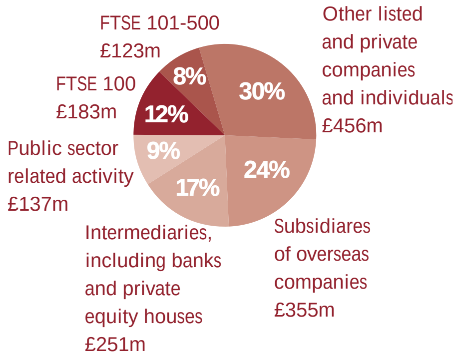
Our global scale and reach bring a rich diversity of skills, expertise and experience to all our clients. We have an increasingly wide range of specialist services, with revenues from our advisory work significantly exceeding those from our audit work.

Slowing economic growth and continued capital market uncertainty

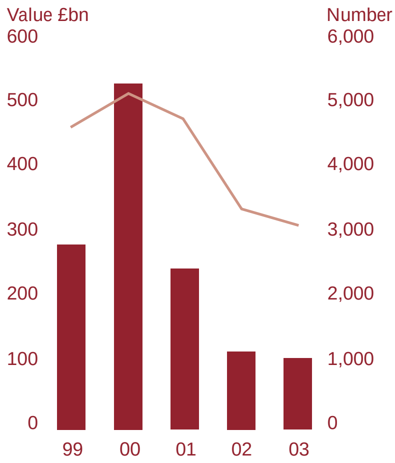
Many of our clients have experienced difficult market and operating conditions. This in turn has had an impact on our revenues. In particular, the sharp fall in equity values, compared to those at the height of the technology boom three years ago, has continued to dampen merger and acquisition, initial public offering and company flotation activity. This has affected several of our service areas, including deal related assurance work, corporate finance and tax.

Continuing operations client analysis

2003 Turnover £1,505m



UK market deal activity



■ Announced value £bn
— Number

Financial years – July to June
Source: Thomson Financial. Standard league table criteria apply, target or acquirer ultimate parent is UK.

Mandeep Obhrai

Furthermore, the overall state of the economy and the level of corporate profitability meant that the majority of our clients continued to reduce their costs. Consequently the level of discretionary spend available for professional services fell. In some areas this impact was exacerbated by one-off factors, such as the loss of referred security and controls work following the sale of PwC Consulting.

On the upside, we benefited from the counter-cyclical upswing in business recovery and insolvency activity that usually occurs in difficult economic conditions. However, this was less significant than in previous downturns, partly owing to the relatively low level of UK interest rates.

Impact of regulatory change

Another factor affecting the performance of the firm in the past twelve months was the regulatory environment in the US, including the passing of the Sarbanes–Oxley Act. For UK clients, where corporate governance, auditor independence and disclosure requirements have been in place for some time, we have seen some cases of boards limiting the provision of non-audit services where we are the auditor. However, the majority continued to buy services from us where we were the most appropriate supplier.

Meeting client needs – our client service strategy

We recognise that every client is unique. Each demands a different mix of services which changes over time depending on its needs, business issues and stage of development. We therefore provide services to support a company from its initial formation, as it grows organically or through acquisition, as it raises finance, and as it reaches maturity.

Quality and integrity

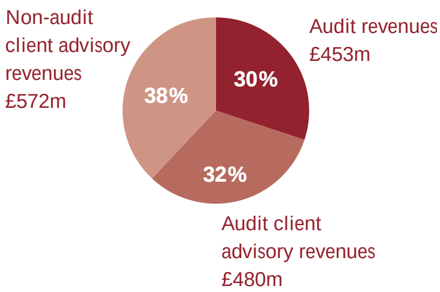
Quality and integrity lie at the heart of everything we do.

Research continues to show PwC coming first for quality and integrity. During the year external research also revealed that nearly half of all Big Four clients believe PwC is 'the leading firm in professional services' – 15% higher than our nearest rival.

Sharing knowledge through connected thinking

We are a multi-competency firm. Our award winning capability in managing and sharing our collective knowledge enhances our ability to offer services to clients, drawing from different professional disciplines.

Continuing operations turnover analysis
2003 Turnover £1,505m



Quality and integrity lie at the heart of everything we do

PwC's Nick Longley and Roy Tandy talking to (facing) William McGrath and Shaun Smith of Aga Food Service Group PLC. A review of Aga's Consumer Products subsidiary, assisted by PwC, led to the successful launch of the Rangemaster brand and an increase in profitability.

Whatever a client's point of contact with us, we can bring to bear every aspect of our knowledge and intellectual capital from across the entire PwC global network. Whilst we maintain strict client confidentiality, our clients benefit from the sharing of expertise and ideas from across industries, national borders and time zones. The result is greater innovation and added value.

During the year we continued our knowledge management investment programme. We launched our *PwC Portal*, offering clients access to tax experts, solutions, tools, research and analysis and to date have approximately 6,000 external registered users. We also launched *PwC Inform*, for UK and international financial reporting, offering real time information 24 hours a day and a time-saving single source for accounting and auditing research and training. It has secured over 650 external users to date.

We also benefited from the acquisition by members of the PwC global network of the Global Best Practice group and the Saratoga Institute. These acquisitions enhanced our business analysis skills and the provision of detailed business process and human resource benchmarking data to clients.

PwC ranks as one of the world's *Most Admired Knowledge Enterprises.* We were praised for our ability to maximise intellectual capital, deliver value based on customer knowledge and transform knowledge into shareholder value.

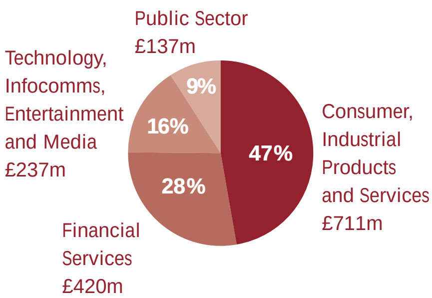
Clients benefit from our industry knowledge and expertise

Deep industry knowledge

Our industry focus enhances our effectiveness, both as auditors and as wider business advisors. Clients benefit from access to people who have relevant industry knowledge and who can tailor solutions to specific needs.

Our UK size, and that of our global network, facilitates this deep specialism and expertise. Our industry programmes cover the principal industry groups of Financial Services, Consumer, Industrial Products and Services, Technology, Infocomm, Entertainment and Media and Public Sector. The focus of our 2003 investment was on development of specific solutions for industry issues, specialist training, research and knowledge management and the development of industry specific thought leadership material for the benefit of clients.

Continuing operations industry analysis
2003 Turnover £1,505m



Strong local presence

Although we are already market leaders in the provision of professional services to companies with turnover in excess of £50m, we have continued to invest in our network of offices across the country. Our deep roots in many communities bring us close to our clients and add local knowledge to our wider capabilities. During the year we refocused a number of our specialist teams exclusively on the middle market as part of our ongoing growth plan.

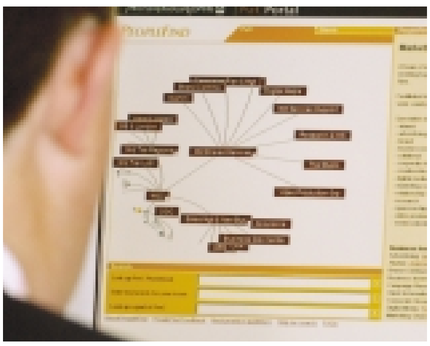
Matching our skills with our clients' needs

We are committed to our client service strategy, the results of which were demonstrated by new business wins and market share growth in the year.

We employ a wide range of professionals to serve our clients. For example, we have over 170 actuaries and a further 150 professionals in our policy and economics unit.

We continue to manage our client portfolio by declining and resigning clients who do not meet our strict criteria.

A string of industry awards, including being voted 2002 *Accountancy Age* Big Four Firm of the Year, demonstrate our leadership.



Internally, we launched *PeopleFind* – an online service providing all our people with a reliable and speedy way of contacting exactly the right person in our firm with the expert knowledge and experience they need to help clients.

A successful year for assurance

As auditors we play a significant role in the operation of the capital markets. We take pride in the fact that our services add value by helping to improve transparency, trust and consistency of business analysis.

Audit gains

We have been very successful over the last year, winning 57% of audit proposals tendered for with fees over £50,000. We put up an especially strong showing in the bidding for those audits formerly conducted by Andersen which went out to tender, winning the vast majority of these. Where our own audit clients tested us in the market, we won the overwhelming majority of tenders and were reappointed as auditor. We believe that we have benefited from a change in emphasis from price to quality.

We won 57% of audit proposals

In the FTSE 100 we increased our audit share from 43% to 47%, winning new clients BAA, Rexam and Carnival plc, formerly P&O Princess Cruises, as well as winning a high profile re-tender at Unilever. In a further re-tender, we also retained the Nationwide Building Society audit.

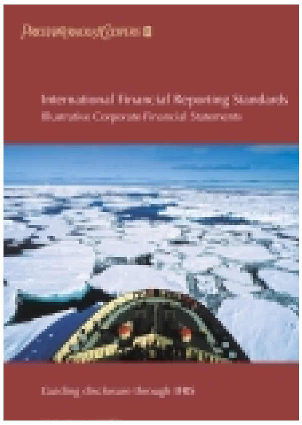
In the FTSE 250 and elsewhere, there were prestigious new appointments, including Babcock, Business Post Group, Catlin Group, European Bank for Reconstruction and Development, Framlington, LogicaCMG, The Prestige Group, Reg Vardy and Tibbett & Britten. Despite being the market leader, we increased audit market share, with 33% of the FTSE All Share list – up from 32%. We are also auditors to a significant number of local authorities and other public sector bodies. However, we are not complacent and believe we have more to do to better demonstrate our skills to small and medium-sized companies. The most significant audit losses in the year were Orange and Equant, following the decision in France of France Telecom not to appoint us as one of its auditors.

Broad skill set

The audit service continues to demand a broad set of skills – covering governance, systems and controls, taxation, actuarial, regulation and reporting. In the past year there was heightened emphasis on governance as a result of the Smith and Higgs reports and US Sarbanes-Oxley requirements. The increased focus on good governance saw a rise in the demand for our risk and controls services. We are now working on a number of reviews for clients spanning governance, the refinement of overall risk and controls frameworks and process documentation. We have also continued our successful programme established nearly ten years ago of providing quarterly briefings to FTSE 350 non-executive directors, as well as holding half day workshops. Institutional investors have been engaged with our seminars on corporate transparency.

Transition to International Financial Reporting Standards

We are increasingly supporting clients in their preparation for conversion to International Financial Reporting Standards, which will be effective in 2005. For many, particularly City institutions, the work is well under way, whilst for others the challenge is still ahead. We pooled expertise from across the firm – technical



The conversion to International Financial Reporting Standards needs to be carefully thought through. As well as the detailed accounting changes, the people and systems issues also need to be addressed.

Unilever reappoint PwC

When Unilever put its audit out to tender in late 2002, we were reappointed because Unilever's rigorous examination of our quality and fees proved we remained the best choice.

accounting, valuation specialists, actuarial, tax, training and project management – to support the change programmes facing each client. Our web-based *Transition IFRS* communications platform acts as a springboard from which companies can launch and control their conversion projects.

Leading the profession

We continued to play our part in leading the audit profession, actively engaging with clients, regulators and the media on the 'reform agenda'. As part of this overall effort we launched *Building Public Trust* to focus the debate around the future of the profession and corporate reporting. This is a cause to which we are committed and at the end of September 2003 we held the first PwC *Building Public Trust Awards* to recognise those companies which are at the leading edge of reporting in the UK.

Celebrating success at the PwC *Building Public Trust Awards*, Mark Pullen, Group Finance Director of Geest PLC received the top award for 'Telling it how it is' from Mary Nightingale and Kieran Poynter.

Challenges for tax

We remain the leading tax practice in the UK and are well recognised for our depth and quality of expertise. We work with 80% of the FTSE 100, 50% of the FTSE 500 and 50% of the Fortune 500. International Tax Review rated us as No1 for our tax planning, transactional and capital market services.

However, 2003 was a challenging year, reflected in a decline in revenues and a reduction in staff numbers. The business was affected particularly by US regulatory legislation, the reduction in corporate transaction activity and lower levels of discretionary spend by our clients.

We remain the leading tax practice in the UK

Leading public debate

A large part of our practice is devoted to helping clients comply with their legal obligations. We assisted clients implement best practice following tax, legal and regulatory changes relating to employee and senior executive reward and led key industry debates. We were at the forefront of public discussion over the increased focus by the Inland Revenue and Customs & Excise on preventing tax avoidance.

We were also involved in legal cases with wide-ranging international or industry implications. We worked with over 200 clients in ground-breaking group litigation concerning the need for equality in tax laws amongst EU member states. We were also instrumental in winning a landmark case in association with the Wine & Spirits Association on behalf of one of its members. This challenged a major policy decision by Customs & Excise to revoke a long-standing bonded warehouse approval, thus saving jobs and providing the basis for subsequent investment.

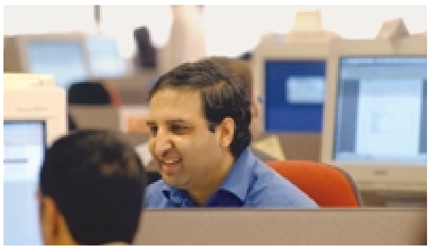
LexisNexis UK
TAX AWARDS 2003

PwC won Best Tax Website at the LexisNexis UK tax awards for innovation, design, navigability and practicality of content.

Innovation

We continue to strive for greater innovation and better knowledge sharing. We developed an online shared database of over 200 innovative ideas to help solve clients' tax problems, as well as an online tax news service to help our clients stay up to date. Our web-based client portal enables our clients to work collaboratively with us in a responsive and secure environment.

Our tax compliance centre, based in Birmingham, processed over 8,000 corporation tax and VAT returns. This is a paperless facility which uses the latest technology for the benefit of our clients. During the year we also became the first organisation in the UK to e-file a corporation tax return.



Amjad Rayaz, a tax compliance specialist in our compliance centre in Birmingham. The centre handled over 8,000 corporation tax and VAT returns in the year.

Market leadership in corporate finance

Despite the generally depressed market for corporate transactions, we continued to gain ground. We are now market leader in deals between US$50m and US$500m in terms of both volume and value.

Our combination of financial, strategic and implementation expertise helped us to continue to win work amongst corporate clients and private equity houses, providing advice on valuation, deal structuring and implementation.

We advised on a number of high profile transactions, including the acquisition of the retailer Littlewoods, the sale of Equity Trust by Insinger de Beaufort and the acquisition of Amey plc by Ferrovial Servicios SA.

We continued to be leading advisers on PFI and PPP transactions, acting both for public sector clients and bidders. Examples include our roles as lead financial adviser on the London Underground PPP, the biggest project of its kind in the world, and the Post Office's outsourcing programme. For the second year running, Infrastructure Journal named us PPP Financial Adviser of the year.

The firm developed its *Driving Ambition* client care programme providing ambitious companies with access to the breadth and depth of PwC's ideas and solutions. Typical was the launch of client magazine, *Pace Notes*, featuring 'hot topics' on Boards' agendas, in-depth advice and case studies.

An integrated transaction services offering

Transaction services had a strong year, growing revenues despite the moribund deal market. Our success comes from our ability to broaden our offering by providing structuring support and a fully integrated financial, strategic and operational due diligence service to private equity and corporate clients. We were recognised by *Acquisitions Monthly* as Financial Due Diligence Provider of the Year.

In private equity transactions we are the clear market leader – carrying out due diligence on 39% of UK-backed private equity deals over £50m in the 2002 calendar year. In the cross border deal market for UK and Continental European deals over the same period, our market share was 34%. Publicly available deal information underlines the quality of our client base, including most of the larger UK-based private equity houses. We have also been able to build on the fact that we were one of the first professional services firms to show a commitment to entrepreneurs and small and medium-sized enterprises in the technology industry.

We provide a broad range of advisory services

In the corporate market, we have been active in sell-side and buy-side transactions as well as bid support projects. Our client list includes a wide range of UK and international clients.

Fresh Perspectives gives specialist insight into the key issues facing the UK financial services industry and how we are helping companies to address them.

Strong growth in business recovery

We have outstanding reputation and reach in the business recovery sector. Drawing on our strong regional presence and industry and sector expertise, we achieved good growth, being involved in a number of high profile assignments including MyTravel, Drax power station, Marconi and the run-off of Independent Insurance. We have now undertaken 21 of the 26 Solvent Schemes of Arrangement for the insurance industry in the UK to date, being awarded the *British Insurance Society's* 'Service Provider of the Year' title in recognition of our market leadership.

We restructured more than £60bn of debt and helped preserve more than 200,000 jobs in the year, continuing to win an increasing market share of business reviews for banks and bond holders, particularly through our strong regional network. We also saw healthy growth in strategic business reviews and other advice direct to corporate clients.

Increased anxiety over corporate fraud

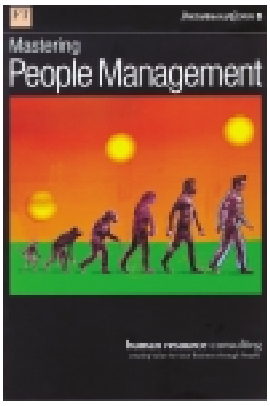
Forensic services had a quieter year in 2003, but grew licensing management and international arbitration services. Following heightened anxiety over corporate fraud and the tightening of regulations, it also introduced specialist services to address the increase in SEC and other regulatory investigations at clients.

Typical is our *Second Look* service focusing on accounting and fraud deterrence and detection. Drawing on our fraud, accounting, control and US expertise, it provides efficient and effective additional assurance to directors over the full corporate governance process. It also provides important additional evidence that a company is doing everything within reason to minimise the risks of financial fraud and accounting irregularities.

Strength in human resource services

More and more clients are seeing the strategic importance of managing and developing their people and seeking to measure and quantify the business benefits of so doing. During the year we undertook a number of HR strategy and transformation projects for clients. Many clients asked us to help them determine the types of leadership skills they and their organisations need for the future. Typical was a leadership development programme for NHS HR directors.

Many pension schemes have significant deficits owing to the sharp decline in the value of equity investments. We were extremely busy responding to this and to the pensions issues raised by the introduction of FRS17, forthcoming International Financial Reporting Standards and the major changes proposed to the UK taxation of pensions. Using our multi-disciplinary skills, we were able to identify innovative financing and structuring solutions to help reduce pension deficits, lower risk, communicate with and reassure employees and enhance shareholder value.



Together with the *Financial Times* we published a book of the successful Mastering People Management series, drawing on the skills and knowledge of the world's leading commentators. We also included additional viewpoints contributing our clients' and our own experience and expertise.

Wide range of performance improvement services

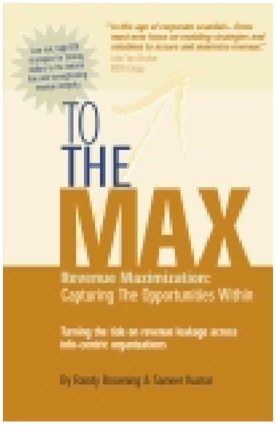
Despite the sale of PwC Consulting, we continue to provide performance improvement services to clients, including finance function effectiveness, cost reduction, IT effectiveness and project and change management.

Revenues suffered from the loss of joint project work with PwC Consulting, as well as from a reduction in our corporate clients' discretionary spend.

We are committed to the Public Sector

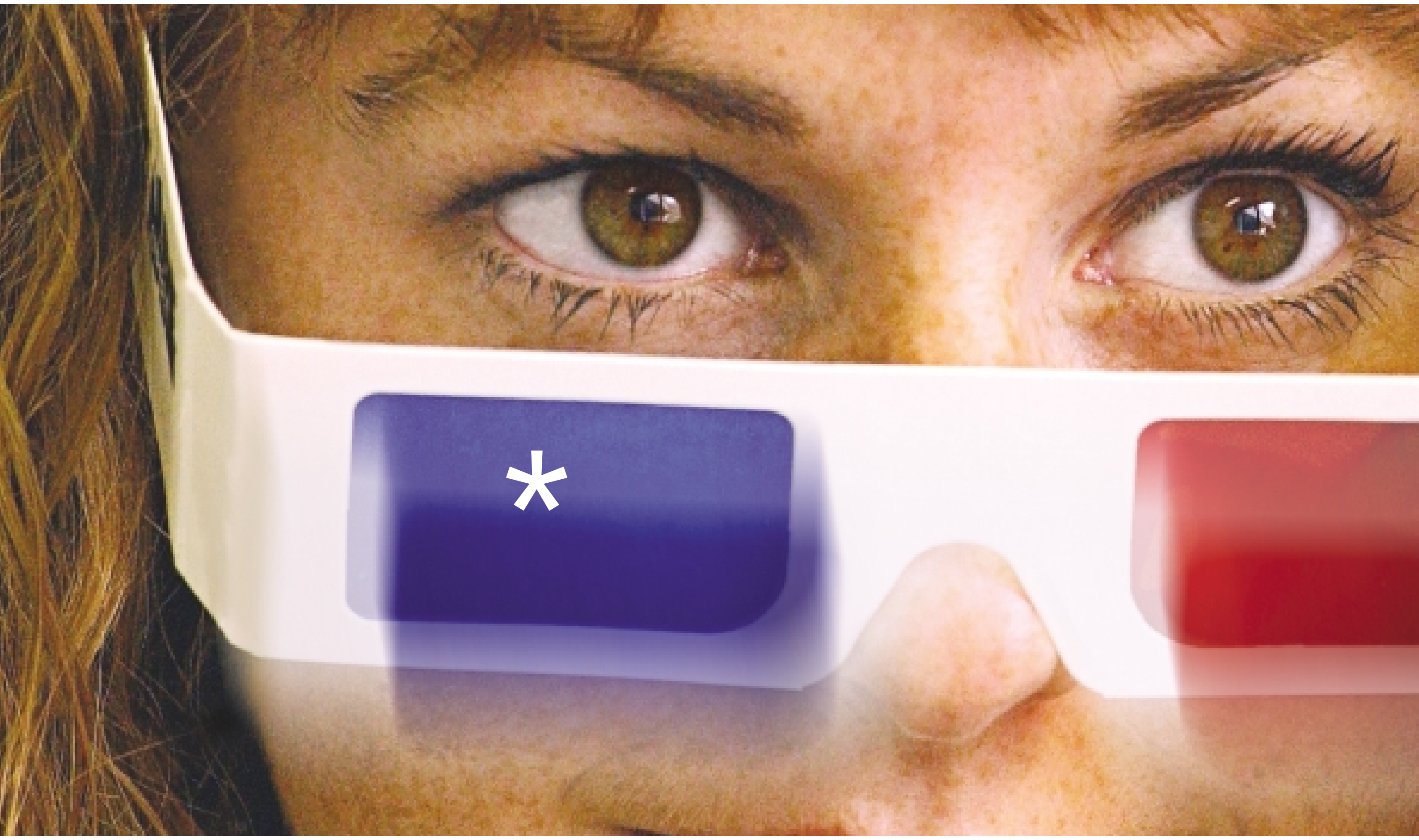
Much of our work was focused on cost reduction, but we are increasingly seeing focus on revenue enhancement and productivity improvement. Using our bespoke *Cashfinder* methodology, for example, we were able not only to help many clients recover cash from supplier overpayments, but also to recommend lasting process and systems improvements.

We have long been committed to the Public Sector, where we continue to help government and public sector organisations across the UK improve service delivery. We provided support on policy, finance and the people aspects of the government's modernisation agenda. We undertook work for the DfES, the DoH, the NHS and many other central government departments. Prominent projects included a research project for the DTI into the impact of e-business on 29 business sectors, and helping the Ministry of Defence drive change initiatives, including resource accounting, cost management and training.



We have a wide range of skills available to help clients improve performance. One example is our practical approach to maximising revenues that might otherwise be lost.

what new perspective* can I bring?



*connectedthinking

Why were 91% of PwC's people proud to work for the firm, some 8% higher than the average for professional services firms? Why did we continue to win awards for our people management? What attracted over 400 former PwC UK employees to return to us in the year?

The answer is because we continued to recruit and invest in outstanding people and provide varied and challenging careers.

We pride ourselves in recruiting and developing people who are good to work with; team players who work in close partnership with our clients and with each other. We encourage our people to ask questions, seek out answers and engage with their clients and their teams.

We understand that without the very best people, we will not meet our clients' expectations.

We aim to create an environment where people feel PwC is a great place to work. In early 2003 the Times/High Fliers 'Top 100 Graduate Employers' ranked us first in the accountancy sector and number three in the UK as a graduate employer. However, we know we cannot afford to be complacent and that there is still more work to be done. That is why making our firm a great place to work remains one of our top business priorities.

I am proud to be associated with PwC

Source: *ISR* survey
(1) Contains the opinions of more than 50,000 employees from 25 firms
(2) Contains the opinions of more than 148,000 employees from 84 UK companies across multiple industries

Recruiting the best

People come to PwC because of our reputation for varied, challenging careers and because of our commitment to continued professional and personal development. We are the largest private sector recruiter of graduates in the UK, competing against banks, consultancies and technology firms, and attract the

Nicola Cornwell

brightest and best applicants, both at graduate stage and beyond. 15,500 graduates and undergraduates applied to us last year, and we made job offers to 710 of them, 91% of whom accepted.

We also continued to recruit experienced professionals to improve our skills and expertise in both client-facing and professional support roles. As well as qualified accountants and tax professionals, we recruited technology experts, financial analysts, actuaries and economists, each bringing a healthy new perspective and challenge to our organisation. For experienced hires, we had 28,000 applications, with an offer acceptance rate of 95%.

We have invested in technology to streamline our recruitment processes and help applicants find the right opportunities. Our automated experienced hire and graduate websites came online in 2002, and we improved and re-launched our award-winning careers website, which had over half a million hits during the year.

Following feedback from recent joiners, we have developed a completely new induction tool-kit and launched a new joiners website which people can access as soon as they accept our offer of employment.

Fulfilling everyone's potential

We are a leader in developing people, investing over £50m last year in training and development activities. We encourage all our people to connect with others, seek out different perspectives and build skills to serve clients better. Our technical, business and personal training draws on the skills of over 100 people in dedicated learning and education roles. We train more Chartered Accountants than any other firm.

During the year we launched *MyDevelopment*, our new learning management system that uses technology to allow everyone in PwC to access a wide range of learning and training solutions. Our increasing use of virtual classroom technology is also bringing learning cost-effectively to larger audiences. We entered into alliances with a number of external providers, such as *Cambridge Online Learning*, to enrich further our development programmes.

We also launched *Developing our Partnership*, a fresh approach to supporting our partners throughout each stage of their career and to help them tackle the increasingly demanding and complex issues they face as leaders of our business. An external perspective is obtained through regular seminars at the *London Business School.*

We continued our global mobility programme for those wishing to work in PwC firms abroad, as well as our assistance to help people move between different business areas within the UK firm, to broaden their skills and experience. A number of our people benefited from secondments to the PwC global innovation centre, Genesis Park, based in Washington DC and, where regulations allowed, to clients.

Staff numbers

Excluding partners, at 30 June 2003 the firm employed approximately 13,300 people, including those working part-time and on maternity leave, with an overall average age of 33. The economic downturn and reduced staff turnover levels caused by the weaker job market meant that we have had to reduce the numbers of continuing operations staff by some 9% during the year. The firm offered generous severance packages and out-placement advice for those asked to leave. Overall, our continuing operations staff costs, including the impact of severance, salary, increased national insurance and higher pension costs, were steady at £679m, compared to our 7% fall in revenue.

Giving people a flying start
Flying Start is a pioneering degree programme based on a partnership between PwC, the University of Newcastle upon Tyne and the Institute of Chartered Accountants in England and Wales. Over four years, it combines the study of business, accounting and finance with three paid work placements at PwC, providing an accelerated route to qualification as a Chartered Accountant.

We invested over £50 million in training and development activities

CAMBRIDGE
ONLINE LEARNING

Executive Diploma in Management
As part of our commitment to continuing development, we've launched an Executive Diploma in Management programme to provide broader and deeper strategic management skills for our performance improvement consultants. Developed in conjunction with *Cambridge Online Learning*, the Diploma is a postgraduate level qualification that also provides 40% of the credits towards an MBA.

Remuneration

Staff remuneration varies in different disciplines across the firm. Our overall reward strategy is to focus on the market rate for each job and ensure our base salaries stay broadly competitive, whilst retaining the flexibility to pay more to reward our top performers. We use a number of external agencies to inform us about market rates.

Although a number of people obtained promotional pay rises, in June 2003 we gave only limited salary increases following a review of market conditions. We remain committed to active monitoring of the market to ensure we are able to respond rapidly to changes in this challenging environment. The overall level of bonuses, which are linked to the firm's performance, was down, although individual bonuses were still awarded in cases where an individual's exceptional contribution deserved recognition.

We continue to listen to what our people have to say about how they feel about working at PwC

Each quarter we send an electronic survey, *YouMatter*, to around 35% of our people to listen to what they have to say and how they think we are doing. During the year they told us they remain immensely proud to work for PwC, and that they enjoy the challenges and opportunities of working with us. There was open feedback, too, on those areas where we have more to do – the balance between work and the rest of our lives being one; the diversity of our workforce being another.

Responding to earlier feedback, we sought during the year to communicate more effectively through publications such as *Perspectives*, our in-house magazine, and regular management forums throughout the firm. We also launched *PwC Experience*, a series of informal events that bring together a diverse mix of our employees to discuss their creative ideas for tackling key issues around the firm. These are then discussed with a Management Board member who attends each event.

I enjoy the challenges and opportunities of working at PwC

03	92%
02	90%

Source: *YouMatter* survey

We have more to do on work-life balance and the diversity of our workforce

Huw Jenkins and his daughter Hazel took part in the firm's *Take our Daughters to Work* scheme, run in association with Girlguiding UK. The scheme promotes awareness amongst girls of the diversity of the working world and gives them information to find the right job for the future.

Achieving a better work-life balance

A challenge in any professional services firm is maintaining the right work-life balance. Clients are – quite rightly – very demanding and deadlines are tight. Our *YouMatter* survey results show that we sometimes struggle to strike an appropriate balance between our work and home life. We have sought to address this by putting in place policies, practices and advice sources to help achieve a better balance. Our flexible benefit scheme, *Choices*, enables our staff to tailor their benefits to suit their own personal circumstances and our *Personal Effectiveness Centre* help-line provides support and advice on personal issues.

We continued to invest in new initiatives such as our *LifeStyle* site, which contains a wealth of self-help ideas, information and tools to help our employees to make and cope with different life-style choices. There is also help with flexible working, parenting and caring, stress and time management, health and career planning.

A focus has been on increasingly finding ways to accommodate more flexible working patterns. In 2003, 1,136 of our people were working part-time, 181 started a career break and of the 388 people who went on maternity leave in 2002, 80% have returned to the firm.

We are finding ways to accommodate more flexible working patterns

Embracing diversity

We are committed to equal opportunities. Our employees are diverse and are chosen for their experience, potential and personal attributes regardless of gender, sexual orientation, marital status, age, race, colour, nationality, ethnic origin, religion or disability.

I am generally satisfied with my work-life balance

Source: *YouMatter* survey

Sandra Quinlan works flexible hours, allowing her to spend more quality time with her children.

At PwC, diversity recognises all the ways in which people are different. Our primary focus has to be the acquisition and retention of the ‘best brains’ to meet our clients’ needs and drive forward our business. Inclusion of people from diverse backgrounds widens the pool of talent and makes good business sense.

We have a strong external profile as advocates of diversity as a positive force to stimulate innovation and build competitive advantage. Our gender mix is roughly equally balanced, however we recognise we still have work to do to encourage certain groups of potential recruits to consider joining us and to ensure retention of good people from all backgrounds, including at the most senior positions.

Within the firm, our focus has been on building stronger awareness and understanding of the issues around diversity and work-life balance amongst our own leaders and managers.

We established our women’s network – *PwCwomen* – to help women across the firm discuss ideas and tackle issues together. Other activities included carrying out diversity audits and a continuing review of our appraisal, promotion and reward processes to ensure diversity is engrained in our business.

Tina Hallett, Chair of our UK women’s network steering group, launched *PwCwomen* in conjunction with Jacey Graham, Head of Diversity Strategy at Shell International, and Kieran Poynter – part of our commitment to encouraging greater diversity.

Playing our part within a wider community

Our people benefit from the wider PwC global network through a range of international secondment opportunities. Over 350 UK partners and staff were on secondment overseas at year-end, whilst some 340 people from elsewhere in the global network were working in the UK.

In addition, we continued to run a programme of secondments for PwC people from developing countries, regardless of our own business needs, to help them gain skills and experience that they might not otherwise obtain.

Closer to home, we encouraged our people to get involved in volunteering and local community activities. We make time available for those who want to participate as we believe our people and the firm benefit from their volunteering activities as well as the local community.

We encourage our people to get involved in volunteering and local community activities

Ensuring PwC is a great place to work

We believe we made progress in a tough year in making PwC a great place to work, but we still have much to do. We are determined to maintain the momentum – listening to and responding to what our people say. Our focus is to continue to help them develop as individuals and to provide rewarding careers.

PwC is committed to becoming a great place to work

Source: *YouMatter* survey

Code of Conduct: embodying our Values

We have a culture that fosters a sense of personal responsibility for delivering high quality work. Our Code of Conduct embodies our core values of Excellence, Teamwork and Leadership, which have long been the foundations of our culture. Our values determine the way we do business, the kind of people we ask to join us, and the kind of behaviour we expect and reward.

Our core values, which are subscribed to by the worldwide network of PricewaterhouseCoopers firms.

we recognise the impact*

we have on the wider community

*connectedthinking

We recognise our responsibilities to the wider community in which we operate. We continue to invest in our firm and our brand to help us build a growing, trusted and sustainable business.

Contributing to our community

We are committed to playing our part in the wider community through contributing to the world of business, supporting our local communities and responsibly managing our impact on the environment.

Contributing to the world of business

Over the last eighteen months we took a leading role in the regulatory debate and worked actively with companies, regulators, government and the financial community to help rebuild the public's trust in corporate reporting.

Our partners and staff continued to contribute to the work of professional bodies and trade associations relevant to our business. They also participated in a wide range of other committees – ranging from the Government's Accounting for People taskforce, the DTI's Company Law Review Consultative Committee, and Sir Robert Smith's examination of the role of audit committees.

PRICEWATERHOUSECOOPERS

We are justifiably proud of the PricewaterhouseCoopers brand, which we continue to develop and promote.

For the second year running, PricewaterhouseCoopers was named as a *Superbrand* by an independent council of marketing experts.

Supporting our local communities

We remain committed to playing our part as active corporate citizens – sharing our skills, expertise and resources and creating partnerships which have a positive impact on society as a whole. In addition to direct financial support, we share our most precious asset, the time and skills of our people.

This commitment recognises that people increasingly want to work for an organisation that takes its social responsibilities seriously.

Last year PwC volunteers freely shared their skills and gave their time to community initiatives including classroom volunteering, mentoring, secondments and related assignments.

All this time and effort was donated within the framework of our Community Affairs programme, which acts as a catalyst for positive social change.

> "PwC has the most genuine, thorough and committed attitude to social responsibility – no lip service, no tokenism, no posturing"
>
> Patrick Spottiswoode, Director, Globe Education, Shakespeare's Globe

Focus on social inclusion

We focus our activities on initiatives that promote the social inclusion of disadvantaged young people in our local communities, through creative partnerships designed to:

- raise educational achievement
- develop employability skills
- encourage enterprise and good citizenship.

Helen Jones participates in our community programme designed to address educational issues in Southwark. The programme was a London winner in the 'Community Impact' category of the Business in the Community Awards for Excellence 2003, in recognition of its 'positive, measurable and social benefit'.

***Your Turn* for good citizenship**

We supported *Your Turn* programmes to enable young potential leaders to address active citizenship through greater understanding of the decision-making processes in their communities.

We start by selecting organisations that work to promote social inclusion in areas of acknowledged deprivation where we have a local presence. Then, by matching our skills and resources to the needs of our community partners, we are able to share new perspectives and help them find solutions to the challenges they face. At the same time, we bring our own people a fulfilling way to develop their skills and gain additional insights through their first-hand involvement with the community.

Local community support

Under our Community Affairs programme, we supported the Common Purpose *Your Turn* programme in Bristol, Cardiff, Hull, London and Newcastle. This initiative enables young potential leaders to address active citizenship by considering the decision-making process in their communities and their city's own diversity and strengths.

Our work in Birmingham to encourage local community enterprise and employment and help in raising educational achievement has resulted in us being awarded charter status by the City Council.

We are also a founder member of Leeds Cares, which won a Business in the Community Award for Excellence for Collaborative Action, and a member of Greater Manchester Cares, a regional example of excellence.

The arts can play an important role in engaging young people. In London, *'Our Theatre-Our Schools'* is the result of a seven-year partnership between PwC, Shakespeare's Globe Education and Southwark Council. Children benefit from in-school workshops, culminating in an afternoon's performance by the children on the Globe theatre stage.

PwC people produce and perform in a pantomime which plays to over 7,000 children annually during its run in central London. Lyann Dodd and Roland Anderson took the lead roles in this year's production, Beauty and the Beast. The production also toured in Scotland and Ireland and, thanks to our supporters, was additionally relayed, via satellite, to hospitals across the UK.

Personal investment

The firm recognises the significant personal investment of our people through its annual Volunteering Awards. We also operate an employee fund-matching programme in which personal fund raising is supplemented by the firm.

We measure and report our community contribution using the London Benchmarking Group guidance, widely recognised as providing the best practice in this area. Our total contribution, in cash, time and in kind, totalled £3m this year and last.

Responsibly managing our impact on the environment

As a service business, we have a relatively small ecological 'footprint' compared with many companies. However, it is an issue we take seriously and we benchmark ourselves against the *Business in the Environment* index. We recognise we have more work to do in this area and are not currently satisfied with our performance. We target those areas where we do have a potential impact on the environment, such as energy use, paper consumption, the disposal of IT equipment, transportation and the buying in of other services.

We have made significant strides in managing our environmental footprint, but have more to do

Reducing energy consumption

We have an ongoing target of reducing our energy consumption by 5% each year as part of our commitment to minimising the environmental impact of our business operations.

Recycling

We also made significant strides in recycling. In London, all waste from buildings we control, including paper, plastic cups, bin waste and equipment packaging, is now removed to a secure recycling centre. Our analysis suggests we are achieving in excess of our 90% recycling target. Elsewhere, we are working with the landlords of our other offices to ensure we achieve the same standards throughout the UK. We also reduced the volume of paper we use through initiatives such as lighter paper and double-sided photocopying.

During the year we achieved our 93% target for recycled IT equipment, involving some 14,700 items, including computers, monitors and printers, matching the level achieved last year.

Another area is our potential suppliers' environmental credentials. We seek to engage companies who share our commitment to the environment and are among their industry's best performers. To this end, we have recently conducted a review of the environmental performance of key suppliers and introduced environmental consideration into our procurement process.

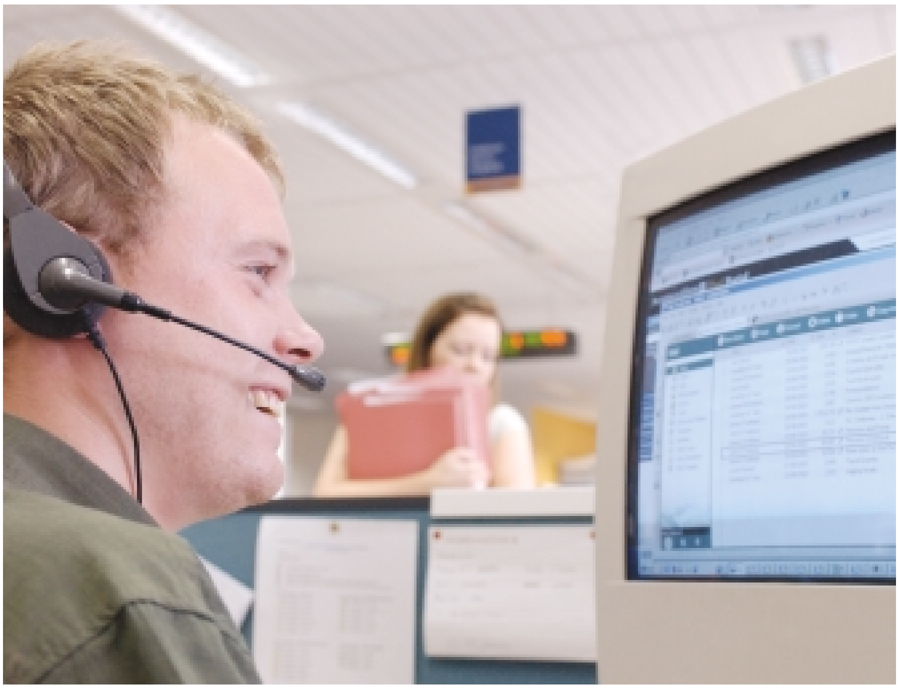
Investing in our own infrastructure

We continued to invest significantly in our own infrastructure during the year, building a robust and flexible platform for future growth. This ongoing investment will allow us both to transform the performance of our firm and to enhance the ability of our people to share and manage knowledge for the benefit of our clients.

We started a major programme two years ago to improve our own operational efficiency and transform our infrastructure services. The programme focused initially on reshaping our cost base, generating some £90m of savings to date.

The programme's next phase, scheduled for 2003 – 2005, focuses on a further transformation of operational infrastructure. It is very wide ranging and includes building more shared services, benchmarking, process re-engineering and further exploiting our investment in technology.

Our ongoing investment will enhance our ability to share knowledge with clients



Jake Seabrook is a member of our world class employee service centre in Birmingham. A finalist in the National Customer Services Awards, it employs nearly 130 people. It administers the vast majority of our employee related services, including recruitment, new joiners, training, maternity leave, flexible benefits and salaries. The centre holds weekly visits for clients to see best practice in action and has been used as a model for other PwC firms.

Professional support

We recognise that the quality and professionalism of the internal services provided to our client-facing partners and staff is vital to the delivery of high-quality service to our clients. We aspire to provide the same high quality service internally as we do externally, sustaining and enhancing it despite economic pressures. Our response to this challenge has been the progressive introduction of flexible and efficient shared services across the whole firm, resulting in a closer partnership between the service providers and their internal clients, visibly higher levels of performance and, consequently, better service to external clients.

Investing in our regional network

We consolidated three of our East Midlands offices into new premises at Pegasus Business Park close to East Midlands Airport and the M1 during the year, improving the quality of our accommodation and enabling us to concentrate our client resources in one place. We will also continue to establish new accommodation where it is justified by client demand. Plans are under way to open a new South of London office to provide better geographical coverage to an important market in which we believe there are good opportunities.

Patricia Hewitt, Secretary of State for Trade and Industry, opened our new East Midlands office at Pegasus Business Park in March 2003.

Benefiting from new technology

We seek to maximise our use of technology. We spent over £130m on technology last year, including the launch of our internal *Portal*, a single, standardised web-based workspace that brings together our many and diverse sources of knowledge, information and applications in one place. It gives our people the ability to access these sources more quickly and easily, improving our level of client service and making better use of our own time.

New core engagement and financial tools were also developed. These include a Client Relationship Management system, a suite of financial management tools and a new document management system for our tax practice to enable rapid and secure storage, access and retrieval of all client and internal documents.

We spent over £130 million on technology last year

Despite the scale and growing complexity of the technology we use, our technology operations team successfully reduced its costs for the third year in a row. Major contract renegotiations across the board, including the outsourcing of certain IT support services and a new mobile telephony contract, realised significant savings, the benefit of which will be felt for several years to come.

Managing our firm

In this section we discuss how the firm is managed and our approach to managing risk and quality.

Management Board

The development and implementation of policies and strategy and the overall direction and management of the firm are the responsibilities of the Management Board, which is chaired by Kieran Poynter. He was elected Senior Partner by the partners from 1 July 2000 for a term of five years and appoints the other board members, all of whom are partners in the firm. Operational management is effected through these board members. Each board member has responsibility and accountability for a clearly defined aspect of our business as indicated in the captions beside their photographs below.

The firm's client-facing activity is managed through a matrix structure with three primary elements: Lines of Service; Geography and Industries. Lines of Service leaders are responsible for resource and profit accountability and Regional Chairmen and Industry Leaders co-ordinate our multi-disciplinary market activities.

The Management Board meets twice a month, plus ad hoc as necessary. The Board receives monthly management accounts and all other information and support which it needs to carry out its task.

Supervisory Board

The Supervisory Board, which is independent of the Management Board, consists of 15 partners elected from across the firm for a term of three years, together with the Senior Partner.

The current members of the Management Board, all of whom served throughout the year under review unless otherwise stated, are:

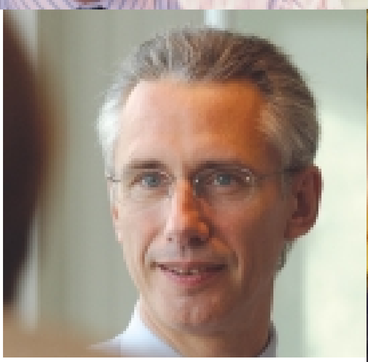
Kieran Poynter Chairman
Paul Boorman Managing Partner
Glyn Barker
John Berriman
Richard Collier-Keywood appointed 12 September 2003
Moira Elms appointed 1 July 2003
Owain Franks
Rodger Hughes
Owen Jonathan appointed 7 October 2002
Keith Tilson

In addition, Patrick Figgis, John Morgan and Ed Smith served on the Management Board throughout the year under review, as did Frank Blin and Andy Embury until 30 September 2002.

Rodger Hughes
Managing Partner,
Clients and Markets

Richard Collier-Keywood
Tax Leader

Keith Tilson
Corporate Finance
and Recovery Leader



Paul Boorman
Managing Partner

Owain Franks
Human Resource
Services Leader

Owen Jonathan
General Counsel

The present Supervisory Board was elected to office on 1 July 2003 and is chaired by John Whiting. It has a general responsibility to give guidance to the Senior Partner on matters which it judges to be of actual or potential concern to partners, with the interests and well-being of the firm and the partners as a whole in mind. It takes independent professional advice where appropriate. It also has specific responsibilities given to it by the Members' Agreement, the written constitution of the firm, including approving the Annual Accounts and admission of new partners, overseeing the process for electing the Senior Partner and checking that partner remuneration policies are appropriately applied.

Senior Management Remuneration Committee

The Senior Management Remuneration Committee is a committee of the Supervisory Board which determines the profit share of the Senior Partner and approves his recommendations for the profit shares of the other members of the Management Board.

Audit Committee

The Audit Committee is a committee of the Supervisory Board comprising five members, chaired by John Brendon. It has responsibility for reviewing financial control within the firm and for reviewing the firm's financial statements. It also considers the scope, results and effectiveness of internal and external audit and reviews the independence of the external auditors, including their range of non-audit services and fees. It met five times in the year ended 30 June 2003. The Head of Operations and Finance, together with the internal and external auditors, attend its meetings by invitation.

The current members of the Supervisory Board, all of whom served throughout the year under review unless otherwise stated, are:

John Whiting Chairman
Gordon Ireland Deputy Chairman
Mohammed Amin† from 1 July 2003
John Brendon†
Ann Cottis from 1 July 2003
Roy Hodson† from 1 July 2003
Pam Jackson* from 1 July 2003
Gerry Lagerberg*
David McKeith*
Ron McMillan
Ken Murray from 1 July 2003
Jack Naylor from 1 July 2003
Pat Newberry† from 1 July 2003
David Phillips*
Tim Pope†*
Kieran Poynter (ex-officio)

In addition, Brian Woods-Scawen, Paul Fairweather, Gordon Jack†, Alun Jones, Erik Samuelson†, Michael Bishopp, Michael French†, Chris Winslet and Alastair Wilson served on the Supervisory Board during the year under review, as did PwC Consulting partners Ed Straw, Jeremy Monroe and Clive Johnson until the disposal on 1 October 2002 to IBM.

† Audit Committee member.
* Senior Management Remuneration Committee member.

Moira Elms
Head of Human Capital

Glyn Barker
Assurance and Business Advisory Leader

Kieran Poynter
Chairman

John Berriman
Head of Operations and Finance

Managing our firm

Managing risk and quality

Our culture and approach are underpinned by our Code of Conduct which sets standards of professionalism and integrity for all of our partners and staff. We are committed to maintaining best practice systems for risk management and internal control.

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 the implementation and effectiveness of these systems and for ongoing monitoring of risk rests with senior management.

The five key elements of our risk management systems are:

- The Management Board sets and communicates its strategic priorities each year which cascade into a business planning process. The contribution of each part of the firm is defined and monitored through balanced scorecard reporting;
- The Management Board has appointed a Risk Council which is a committee of the Management Board to maintain oversight of the controls in place to identify, evaluate and manage risk;
- The management of each Line of Service and of our Shared Services and National Functions carry out a risk assessment annually to create risk registers that document risks and their responses thereto. They each report annually to the Risk Council on the effectiveness of their risk management during the year;
- The UK firm's internal audit department and risk management functions provide an objective view of the effectiveness respectively of financial and operational systems and controls throughout the firm and of professional services risk management systems, reporting to both the Management Board and to the Audit Committee; and
- The Audit Committee considers external and internal audit plans and the results of those audits.

Our risk management systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore provide only reasonable and not absolute assurance over preventing material misstatement or loss and quality failings. These systems have been in place since the inception of PricewaterhouseCoopers LLP and up to the date of approval of these financial statements.

Key risk management elements
Strategic priorities communicated and monitored through balanced scorecard
Oversight maintained by Risk Council
Risk registers and annual assessment of risk management effectiveness
Appraisal of financial and operational systems and control
Audit Committee review of external and internal audit work

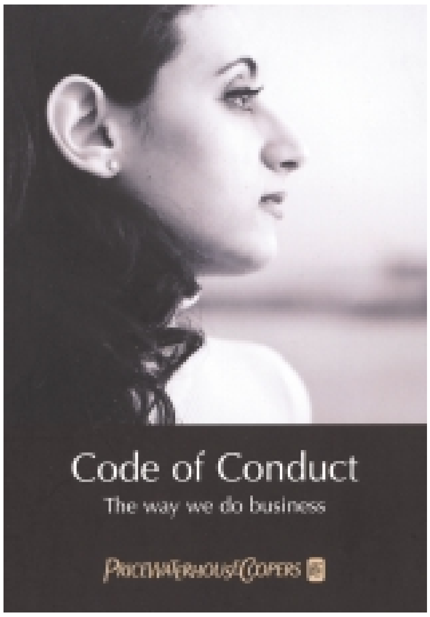
Key risks and safeguards

The key risks, and related safeguards, identified during the period are as follows:

Accepting the right clients and engagements – The firm has specific procedures to assess the risks associated with new clients, including whether they meet expected standards of integrity. We undertake annual risk reviews of all audit clients, which include confirming that they continue to meet these standards. We decline to accept clients where our assessment indicates that these standards are not met.

Maintaining quality – We are proud of our reputation for delivering quality service and recognise the need to protect this reputation. Key elements of our approach include:

- **Recruitment and development** – Our maintenance of quality begins with our recruitment procedures where candidates are tested against a number of metrics to ensure that they are capable of performing to the standards we demand. Throughout their time at PwC, partners and staff participate in structured training programmes to ensure that their skills and knowledge represent best practice. The qualifications and continuing professional education of practitioners are monitored to ensure that work continues to be carried out by individuals who are appropriately experienced, and, where necessary, that they continue to be qualified under relevant UK legislative, regulatory and other applicable requirements.
- **Standard procedures** – For many of our services we have developed standard methodologies and work programmes, which are designed to ensure that our partners and staff deliver work that achieves the quality level expected of PwC.
- **Quality assurance programme** – Each Line of Service runs an annual quality assurance programme where an independent team of practice partners and staff reviews completed engagements to assess compliance with our quality standards and regulatory requirements. This process is also used to identify areas where practice partners and staff require further training or support. There is a range



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of appropriate sanctions to address the rare cases where performance is assessed as falling short of requisite standards.

- **Consultation** – Our consultative and supportive culture means that no partner or member of staff is left to take a difficult decision alone; he or she has access to wide informal and formal networks and technical panels that will help reach the right solution to difficult problems.

The management of risk and maintenance of quality are critical

- **Learning lessons** – Whilst our reputation for quality is high, we do, on occasion, fall short of the standards expected of us. In the first instance we will seek to discuss and resolve the issue with the individual client concerned, although in some cases further action may be required. Given the serious consequences of such matters, as well as our independent assessment of the merits of the particular case, we examine the matter for lessons learned, which we then disseminate to the relevant service area.
- **Audit quality** – Audit quality is further underpinned by audit teams comprising appropriately trained people with industry expertise, supported where necessary by specialist skills drawn from other service areas from across the firm. Work done by each team member is subject to supervision and review by a more senior and experienced member of the team. Audit files are maintained electronically on systems that support an internationally applied methodology using frameworks of audit steps and guidance designed to aid compliance with applicable standards. We take care to ensure that threats arising to our independence, whether from the provision of other services or otherwise, are either eliminated or, where appropriate, managed effectively. The firm already requires periodic rotation of audit engagement partners and other key members of the team. We have also adopted new rotation requirements for listed companies and other public interest entities so that, after the permitted transitional period, audit engagement partners may only serve in that role for five years.

Complying with regulation – Our public interest responsibilities, particularly in regulated areas of our business such as auditing, demand that we deliver consistently reliable high quality work that meets the expectations of the independent authorities that regulate, supervise and set our professional standards. Our regulatory compliance safeguards include:

- **Dedicated Compliance function** – Our Compliance function sets out policies that comply with relevant regulations and provides guidance to our practice partners and staff to help them to follow those policies. Our policies on conflicts of interest and the maintenance and monitoring of our standards of independence are particular areas of focus. During the year, no single client represented more than 1.5% of total turnover.
- **Independence confirmations** – Confirmations of regulatory compliance, including independence, are required from all partners and staff at the date of joining and at least annually thereafter. In addition, all partners and client-facing directors and managers are required to record details of their investment portfolios on a database that identifies potential exceptions against a worldwide list of restricted investments. Partners and staff are required to confirm their independence in respect of clients to whom they provide services. Minor infringements of these rules can result in financial penalties for those concerned. More serious breaches of our rules can result in the partner or staff member concerned leaving the firm.
- **Whistle blowing helpline** – The Compliance function also provides a confidential helpline where any partner or staff member can raise queries and report concerns.

Ensuring operational efficiency – Delivery of client service is only possible if our infrastructure provides continuous support to our partners and staff. Our Shared Services teams ensure that our infrastructure is maintained to the highest level. We have comprehensive business continuity plans so that we can continue to operate effectively in the event of a major disruption.

Key risks and safeguards
Accepting the right clients and engagements
Maintaining an excellent level of quality
Complying with regulation
Ensuring operational efficiency

we remain financially sound and

in good shape*

for the future

*connectedthinking

Despite a difficult year in revenue and operating profit terms, we remain financially sound and in good shape for the future. We have continued to invest in our firm and our ongoing programme to transform our infrastructure services.

Turnover

Turnover from continuing operations of £1,505m represents a fall of 7% from the previous year figure of £1,613m. This performance is against a background of:

- generally flat economic conditions resulting in continued low levels of corporate transaction activity, affecting demand for all our services
- an uncertain regulatory environment
- short-term pressure on areas of our business that previously worked closely with PwC Consulting, now part of audit client IBM
- de-selection of unprofitable clients or clients deemed to be unacceptably risky.

In a people business such as ours, where many of our costs are essentially fixed in the short to medium term, much of the £108m revenue reduction has impacted directly our profit for the year.

Assurance and Business Advisory

Overall Assurance and Business Advisory turnover fell by 5% during the year to £757m. Core audit revenues increased by 7% reflecting our success at increasing market share, together with price increases in those cases where the balance of risk and reward has been inappropriate. Non-recurring revenues declined sharply, reflecting a low volume of transaction activity in the year and postponement or cancellation of discretionary spend by certain clients. Revenue from Performance Improvement services was impacted particularly by the sale of PwC Consulting, with whom the business had worked closely. Transaction Services had a strong year,

Assurance and Business Advisory turnover £m

Our accounting policies are described in full in note 1 to the financial statements. Key elements of our accounting policies include: the adoption of merger accounting principles, determination of provisions against year-end work in progress balances, the estimation of claims provisions and the assumptions used to calculate the staff pensions provision.

Jennifer Matheson

with increased revenue reflecting our strong position in the private equity market and clients widening the range of services required to support them on deals.

Tax

The Tax business felt the impact of regulatory legislation, particularly Sarbanes-Oxley, with a 12% downturn in turnover this year to £495m. Although there were some bright spots, such as the high demand for pensions related advice in the HR Services arena, the tax business suffered from the reduced level of deal and corporate restructuring activity in the year.

Tax turnover
£m

Corporate Finance and Recovery

Overall Corporate Finance and Recovery turnover increased 2% to £253m, fuelled by an 8% growth in Business Recovery Services. The demand for Corporate Finance and Forensic Services work has, however, remained relatively flat, with a number of specialist services hit by both economic conditions and regulatory constraints.

Corporate Finance and Recovery turnover £m

Operating costs

Operating costs of the continuing business include expenses and disbursements on client assignments, which fell £33m, to £179m, staff costs, down £2m to £679m, depreciation and amortisation, down £3m at £33m, and other operating charges, which decreased by £1m to £232m.

Staff costs were actively managed to counter the effects of the downturn in business. Overall, the impact of salary increases, national insurance and higher pension costs was offset by an 8% reduction in average staffing levels. Severance costs of £22m were paid in the year.

Other operating charges include accommodation and technology costs, shared services and centrally incurred costs. We managed down these costs by some £30m to offset the cost impact of increased investment and the lower recoveries from PwC Consulting for shared services, following the disposal of that business to IBM.

Average staff costs per member of staff – continuing operations £000

Staff pensions

The majority of our staff are active members of the firm's defined contribution pension arrangements. However, approximately 3,200 staff are members of, or have eligibility to join, the firm's defined benefit arrangements. The latter schemes have become increasingly expensive to provide over the past few years as a result of increasing life expectancy, new legislation and uncertainties in the stock market. Following a detailed review in the year, the defined benefit schemes have been retained, with amendments so that individual pensions accruing to service from 1 April 2003 will be based on the member's average earnings. The total pension charge for the year increased to £33m, up from £19m in the prior year.

The total contributions for the defined benefit schemes paid during the year were £34m, including £9m of additional contributions. In addition, since the year-end, increases have been agreed with the trustees of the schemes, which will result in expected contributions in 2004 of the order of £60m, including additional contributions of approximately £30m.

The assets of the two main defined benefit schemes were valued at £711m at the date of the last actuarial review (31 March 2002), representing an accounting deficit of £35m against the actuarial valuation of scheme liabilities. The informal valuations carried out at 31 March 2003 and rolled forward to 30 June 2003 for the purpose of FRS17 disclosures indicate a deficit before deferred tax of £335m (2002: £177m). The increase in the FRS17 deficit reflects primarily the fall in equity markets during the 12 months to June 2003, together with a drop in the assumed discount rate used to value scheme liabilities.

Operating profit

The net effect of the reduction in turnover and the actions on costs has led to a reduction of 15% in operating profit from continuing operations to £382m, down from the 2002 level of £451m.

Operating profit – continuing operations
£m

Sale of PwC Consulting to IBM

On 1 October 2002, we sold PwC Consulting to IBM. The sale resulted in cash inflows of £283m during the year, with a further £49m arising after the year-end. This led to positive bank and cash balances for much of the year, resulting in net interest income of £3m, compared to a cost of £8m in the previous year.

The net profit earned by the predecessor partnership from the disposal of PwC Consulting was £223m. Profit of £58m was distributed to PwC Consulting partners by way of shares in IBM. A further £85m was retained in the predecessor partnership to be available for allocation to its partners to assist them in meeting their personal future obligations to pay annuities to former partners. The balance is retained in Members' other reserves.

Financing

The firm is financed through a combination of partner capital, undistributed profits and borrowing facilities spread across a number of banks. These facilities, which totalled £255m at year-end, are maintained at levels sufficient to meet the anticipated peak cash requirements of the business and payments to and on behalf of members. The current facilities expire between October 2003 and December 2003. We are satisfied that the facilities will be renewed at satisfactory levels, having regard to maintaining a prudent buffer over and above the forecast peak borrowing requirements of the business over the next 12 months.

Treasury

We focus on ensuring that there are sufficient funds to finance the business. Surplus cash, where it arises, is invested in short-term money market deposits. As more fully explained in note 23, no speculative foreign exchange trading is permitted and hedging is only allowed in a manner which reduces risk.

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.

Net assets

Net assets of £372m were, in total, up £24m (7%) on the previous year. However, the composition of assets changed significantly with the transfer of PwC Consulting's assets to IBM and the net transfer of proceeds to the LLP. Behind the reduction of £108m in debtors was a decrease of £139m in trade debtors, principally owing to the disposal to IBM (£115m) but also reflecting a 4% improvement in the average cash cycle time. Other debtors include the proceeds from the disposal not yet received at year-end of £49m. Creditors reduced by £47m. This includes the elimination of short-term borrowing balances of £48m which, together with an increase in cash resources of £106m, represents an overall positive movement in the Group's cash and short-term borrowing of £154m.

Net assets
£m

Capital expenditure

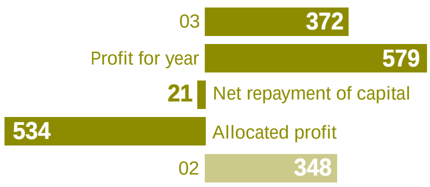
Capital expenditure in the year consisted mainly of IT related purchases, in particular the purchase rather than the lease of personal computers. The bulk of the disposals and write-offs relates to fittings, furnishings and equipment, computer equipment and software previously used by PwC Consulting.

Members' other interests

A detailed analysis of Members' other interests of £372m (2002: £348m) may be found in note 17 to the financial statements. These comprise £95m of personal capital subscribed by members (2002: £116m) and £277m of undistributed members' reserves (2002: £232m).

Capital of £33m was repaid during the year to retiring partners, including those who retired upon the sale of PwC Consulting.

Members' other interests
£m



Members' report

The Management Board submits its report and the audited consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2003. This Members' Report should be read in conjunction with the other sections of this Annual Report headed PwC UK, Chairman, Clients, People, Firm, Financial and Global.

Principal activities

Our principal activity is the provision of professional services.

On 1 October 2002 PwC Consulting, comprising our big ticket IT consulting business and certain parts of our business process outsourcing business, was sold to IBM.

Legal structure

PricewaterhouseCoopers LLP was incorporated on 9 December 2002. On 1 January 2003 substantially all of the business previously carried on by PricewaterhouseCoopers United Kingdom Partnership, a general partnership with unlimited liability under English law, was transferred to PricewaterhouseCoopers LLP. As more fully explained in note 1, the financial statements have been prepared using merger accounting principles as if PricewaterhouseCoopers LLP had been in existence for both the current and previous financial years.

The consolidated financial statements comprise the accounts of both PricewaterhouseCoopers LLP and its subsidiary undertakings (the 'Group'). The principal subsidiary undertakings of PricewaterhouseCoopers LLP are set out in note 22. PricewaterhouseCoopers LLP does not have any branches outside the UK.

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of PricewaterhouseCoopers LLP, who were all appointed on incorporation of the LLP on 9 December 2002, comprise: Kieran Poynter, John Berriman, Paul Boorman, Owen Jonathan, Andrew Smith and Brian Woods-Scawen (until 30 June 2003).

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 oversees and approves this process.

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) have performed
- equity unit income – reflecting the overall profitability of the firm.

Each member's performance income, which typically represents less than 25% of their profit share, is determined by assessing achievements against an individually tailored balanced scorecard of objectives based on the member's role. Particular consideration is given to ensuring that our independence and integrity are maintained, including in relation to the provision of non-audit services to our audit clients.

There is full transparency amongst the members of the total income allocated to each individual.

Drawings

The overall policy for members' drawings is to distribute the majority of the profit during the financial year, taking into account the need to maintain sufficient funds to finance the working capital and other needs of the business. One-off events, such as the disposal of PwC Consulting, are dealt with on a case by case basis.

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 the annual financial statements are approved.

Financing

The firm is financed through a mixture of bank facilities, members' own capital and undistributed profits. 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 the individual member's equity unit profit share proportion and are repayable, at par, when the member retires.

Market value of land and buildings

In the opinion of the Management Board, the market value at 30 June 2003 of the Group's land and buildings exceeds the book values of those assets by £4 million.

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 17 days (2002: 13 days).

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 (the '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
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 to 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 hence 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 it has complied with the above requirements in preparing the financial statements.

Auditors

The independent auditors of PricewaterhouseCoopers LLP are Horwath Clark Whitehill, who will be proposed for reappointment.

On behalf of the Management Board

Kieran Poynter, Chairman

24 October 2003

Independent auditors' report to the members of PricewaterhouseCoopers LLP

We have audited the financial statements which comprise the profit and loss account, balance sheets, cash flow statement and the related notes numbered 1 to 25. These 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 accounting standards 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 United Kingdom auditing standards issued by the Auditing Practices Board.

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 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 PwC UK, Chairman, Clients, People, Firm, Financial and Global.

We have reviewed the 'Managing risk and quality' statement in the section headed Firm. 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 'Key risks and safeguards' included in the section headed Firm are not described appropriately.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards. 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 of the state of affairs of the LLP and the Group at 30 June 2003 and of the profit and cash flows of the Group for the year then ended and 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 five identified key elements of the risk management systems described in 'Managing risk and quality' properly reflect the processes concerned.

Horwath Clark Whitehill

Horwath Clark Whitehill
Chartered Accountants and Registered Auditors, London

24 October 2003

Consolidated profit and loss account

for the year ended 30 June 2003

	Note	2003 Continuing Operations £m	2003 Discontinued Operations £m	2003 Total £m	2002 Continuing Operations £m	2002 Discontinued Operations £m	2002 Total £m
Turnover	2	**1,505**	**99**	**1,604**	**1,613**	**647**	**2,260**
Operating costs							
Other external charges: expenses and disbursements on client assignments		**(179)**	**(15)**	**(194)**	(212)	(175)	(387)
Staff costs	3	**(679)**	**(70)**	**(749)**	(681)	(326)	(1,007)
Depreciation and other amounts written off tangible and intangible fixed assets	4	**(33)**	**(2)**	**(35)**	(36)	(7)	(43)
Other operating charges	4	**(232)**	**(34)**	**(266)**	(233)	(96)	(329)
		(1,123)	**(121)**	**(1,244)**	**(1,162)**	**(604)**	**(1,766)**
Operating profit (loss)		**382**	**(22)**	**360**	**451**	**43**	**494**
Profit on disposal of PwC Consulting	5	**–**	**223**	**223**	–	–	–
Net interest receivable (payable)	6	**3**	**–**	**3**	(8)	–	(8)
Profit on ordinary activities before taxation		**385**	**201**	**586**	**443**	**43**	**486**
Tax on profit on ordinary activities in corporate subsidiaries	7	**(7)**	**–**	**(7)**	(4)	–	(4)
Profit for the financial year before members' remuneration and profit shares and available for division among members	8, 17	**378**	**201**	**579**	**439**	**43**	**482**

No members received salaried remuneration. The amounts shown for profit for the financial year before members' remuneration and profit shares and available for division among members are the same as the profit on ordinary activities after taxation.

The Group has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented. There is no difference between the profit on ordinary activities before taxation and the profit available for division among members and their historical cost equivalents.

Consolidated balance sheet

at 30 June 2003

	Note	2003 £m	2002 £m
Fixed assets			
Intangible assets	9	5	8
Tangible assets	10	134	135
Investments	11	13	16
		152	159
Current assets			
Stocks: net work in progress	12	18	26
Debtors	13	497	605
Cash at bank and in hand		129	23
		644	654
Creditors – amounts falling due within one year	14	(316)	(363)
Net current assets		328	291
Total assets less current liabilities		480	450
Provisions for liabilities and charges	16	(107)	(98)
Net assets before loans and other debts due to members		373	352
Loans and other debts due to members		(1)	(4)
Net assets		372	348
Members' other interests			
Members' capital	17	95	116
Other reserves	17	277	232
Members' other interests		372	348

Total members' interests

Loans and other debts due to members		1	4
Members' other interests		372	348
Amounts due from members (included in Debtors)		–	(2)
Total members' interests	17	373	350

The financial statements on pages 39 to 66 were signed on 24 October 2003 on behalf of the members of PricewaterhouseCoopers LLP by:

Kieran Poynter

John Berriman

PricewaterhouseCoopers LLP balance sheet

at 30 June 2003

	Note	2003 £m	Proforma 2002 £m
Fixed assets			
Intangible assets	**9**	**1**	2
Tangible assets	**10**	**20**	11
Investments	**11**	**21**	24
		42	37
Current assets			
Stocks: net work in progress	**12**	**6**	8
Debtors	**13**	**468**	661
Cash at bank and in hand		**175**	27
		649	696
Creditors – amounts falling due within one year	**14**	**(236)**	**(300)**
Net current assets		**413**	**396**
Total assets less current liabilities		**455**	**433**
Provisions for liabilities and charges	**16**	**(93)**	**(90)**
Net assets before loans and other debts due to members		**362**	**343**
Loans and other debts due to members		**(1)**	**(4)**
Net assets		**361**	**339**
Members' other interests			
Members' capital	**17**	**95**	116
Other reserves	**17**	**266**	223
Members' other interests		**361**	**339**

Total members' interests

Loans and other debts due to members		**1**	4
Members' other interests		**361**	339
Amounts due from members (included in Debtors)		**–**	(2)
Total members' interests	**17**	**362**	**341**

The financial statements on pages 39 to 66 were signed on 24 October 2003 on behalf of the members of PricewaterhouseCoopers LLP by:

Kieran Poynter

John Berriman

Consolidated cash flow statement

for the year ended 30 June 2003

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	18	**447**	584
Returns on investments and servicing of finance	19	**3**	(7)
Taxation – corporation tax paid		**–**	(12)
Capital expenditure and financial investment	19	**(43)**	(46)
Acquisitions and disposals	19	**245**	(3)
Transactions with members	19	**(498)**	(411)
Net cash inflow before management of liquid resources and financing		**154**	105
Management of liquid resources	19	**(108)**	–
Financing	19	**(48)**	(103)
(Decrease) increase in cash in the year		**(2)**	**2**

Reconciliation of increase in net cash to movement in net funds (debt)

	Note	2003 £m	2002 £m
(Decrease) increase in net cash		**(2)**	2
Net cash outflow to reduce debt		**48**	104
Net cash outflow to increase liquid resources		**108**	–
Change in net debt resulting from cash flows		**154**	106
Loan notes issued		**–**	(1)
		154	105
Net debt at beginning of year		**(25)**	(130)
Net funds (debt) at end of year	**20**	**129**	**(25)**

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and the Statement of Recommended Practice, Accounting by Limited Liability Partnerships.

Basis of preparation

PricewaterhouseCoopers LLP (the 'LLP') was incorporated on 9 December 2002 and did not trade between that date and 31 December 2002. On 1 January 2003 substantially all of the business carried on by PricewaterhouseCoopers United Kingdom Partnership, a general partnership with unlimited liability under English law, was transferred to PricewaterhouseCoopers LLP. The transfer of the business previously carried on by the unlimited liability partnership has been accounted for as a group reconstruction and in accordance with the principles of merger accounting because the members of PricewaterhouseCoopers LLP on the date of transfer were the same as the partners of the unlimited liability partnership and their rights, relative to each other, were unchanged. Accordingly, the members had a continuing interest in the business, both before and after its transfer to the limited liability partnership.

Under the principles of merger accounting the assets and liabilities of the former unlimited liability partnership that have been transferred to the limited liability partnership have been brought in at their book values. Furthermore, the relevant income and expenditure and cash flows of the business of the unlimited liability partnership, to the date of transfer, have been included in these financial statements, together with those for the entire previous financial year. The balance sheet of the former general partnership at 30 June 2002 is presented as a comparative. Consequently, these financial statements have been prepared as if PricewaterhouseCoopers LLP had been in existence for both the current year and the previous year.

Basis of consolidation

The financial statements consolidate the results and financial position of PricewaterhouseCoopers LLP and all its subsidiary undertakings (the 'Group'). Other than for the initial transfer of business to PricewaterhouseCoopers LLP, businesses acquired or disposed of during the year are accounted for using acquisition accounting principles from or up to the date control passed.

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented for PricewaterhouseCoopers LLP.

Turnover

Turnover represents amounts chargeable to clients for professional services provided during the year including expenses and disbursements on client assignments but excluding Value Added Tax. Revenue is recognised on each client assignment when it is substantially complete.

Work in progress

Gross work in progress is stated at the lower of cost and net realisable value. Cost, which excludes any valuation of members' time, comprises staff salary costs and expenses reimbursable by clients together with an appropriate proportion of overheads based on normal activity levels. Net realisable value represents estimated selling price after allowing for further costs expected to be incurred to completion.

Costs in respect of contingency fee engagements for non-audit clients are written off to profit and loss account as incurred until the contingent event occurs and collectability of the fee is assured. However, where there is a minimum fee, work in progress is recognised at the lower of cost and the minimum fee.

Payments received on account of work in progress are shown as a deduction from gross work in progress. Payments received on account in excess of the carrying value of the relevant work in progress are included in creditors.

Notes to the financial statements

for the year ended 30 June 2003

1 Accounting policies (continued)

Lease costs

Operating lease rentals are charged to profit on a straight line basis over the period of the lease.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. 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, furnishings & equipment:	
Office plant	20 years or shorter leasehold term
Office fittings	10 years or shorter leasehold term
Office equipment and furnishing	3 to 5 years
Computer equipment & software	3 to 5 years

Costs that are directly attributable to the development of new business application software and which are incurred prior to the date that the software becomes operational are capitalised. External and internal costs are capitalised to the extent they enhance the future economic benefits of the business but the internal costs are only capitalised to the extent they are incremental.

Repairs and maintenance costs are charged to the profit and loss account as incurred.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given and associated costs over the fair value of the identifiable assets and liabilities acquired, is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful economic life, normally a period of five to seven years. If the carrying value of goodwill is considered to exceed its recoverable amount, an impairment charge is included in operating profit. Any profit or loss on disposal of goodwill arising from the sale of a subsidiary undertaking or business is included as part of the profit or loss on disposal of that undertaking or business in the profit and loss account.

Fixed asset investments

Fixed asset investments are included at cost less any provision required for permanent diminution in value. Income from these investments is recognised when entitlement is established.

Provisions

Provision is made for the present value of onerous lease commitments in respect of surplus property after allowance for anticipated sublet rental income. Present value is based on discounted future cash flows.

In common with comparable 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 on a prudent basis 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.

Pension costs and other post-retirement benefits

Staff pension costs relating to the Group's defined benefit pension schemes are charged against profit in a systematic manner over the estimated service lives of employees in the schemes, based on advice from independent actuaries. Formal actuarial valuations

1 Accounting policies (continued)
are carried out every three years. Surpluses and deficits arising on periodic actuarial valuations of the pension funds are spread over the average estimated remaining service lives of current employees. Staff pension costs relating to the Group's defined contribution schemes are charged when they become payable.

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 predecessor partnership, PricewaterhouseCoopers United Kingdom Partnership, have agreed to pay pension annuities to certain former partners of the predecessor 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 in any way by, PricewaterhouseCoopers LLP or its subsidiary undertakings. Accordingly, these annuities are not dealt with in these financial statements.

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 ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

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 Group's working capital needs. To the extent that interim profit allocations exceed drawings then the excess profit is included in the balance sheet under Loans and other debts due to members. Where drawings exceed the allocated profits then the excess is included in Debtors. The same treatment is used for members who retire during the year. The final allocation of profits and distribution to members is made once the annual financial statements are approved. Unallocated profits are included in Other reserves within Members' other interests.

Taxation
Income tax payable on the LLP's profits is solely the personal liability of the individual members and consequently is not dealt with in these financial statements.

The companies dealt with in these consolidated financial statements are subject to corporation tax based on their profits for the financial year. Deferred tax is recognised, without discounting, on a full provision basis on all timing differences in the companies.

2 Turnover and segmental analysis

Turnover arises entirely in the UK. An analysis of turnover and operating profit by line of service is set out below:

	Turnover		Operating profit	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Continuing operations				
Assurance and Business Advisory	**757**	800	**214**	239
Tax	**495**	564	**142**	184
Corporate Finance and Recovery	**253**	249	**73**	73
Unallocated central costs	**–**	–	**(47)**	(45)
	1,505	**1,613**	**382**	**451**
Discontinued operations	**99**	647	**(22)**	43
	1,604	**2,260**	**360**	**494**

The majority of central costs are allocated directly to lines of service under bases determined within documented service level agreements. Certain of these costs were also allocated to discontinued operations until the date of disposal. Where no appropriate basis has been determined, such costs are retained centrally and not allocated.

Notes to the financial statements

for the year ended 30 June 2003

2 Turnover and segmental analysis (continued)

Inter-segmental turnover

The previous table shows only third party turnover. Inter-segmental turnover, which has been eliminated on consolidation, is set out below:

	2003 £m	2002 £m
Continuing operations		
Assurance and Business Advisory	**22**	53
Tax	**53**	62
Corporate Finance and Recovery	**13**	15
	88	**130**
Discontinued operations	**1**	3
	89	**133**

Geographic analysis of turnover

Turnover can be analysed by geographic location of the client as follows:

	2003 £m	2002 £m
Continuing operations		
UK	**1,346**	1,448
Rest of Europe	**68**	58
North America	**75**	80
Rest of World	**16**	27
	1,505	**1,613**
Discontinued operations		
UK	**81**	533
Rest of Europe	**14**	88
North America	**2**	15
Rest of World	**2**	11
	99	**647**

Net asset analysis

The segmental analysis of net assets is as follows:

	2003 £m	2002 £m
Continuing operations		
Assurance and Business Advisory	**61**	14
Tax	**141**	165
Corporate Finance and Recovery	**35**	36
Non-operating assets and liabilities not allocated	**135**	(10)
	372	**205**
Discontinued operations	**–**	143
	372	**348**

The interests are entirely in the UK. Non-operating assets and liabilities not allocated mainly comprise investments, cash in hand, bank deposits, bank borrowings and tax balances.

3 Staff costs

	2003 £m	2002 £m
Salaries	**654**	899
Social security costs	**62**	89
Other pension costs (note 21)	**33**	19
	749	**1,007**

The average monthly number of employees during the year was:

	2003 Number	2002 Number
Continuing operations		
Assurance and Business Advisory	**6,076**	6,509
Tax	**3,505**	4,085
Corporate Finance and Recovery	**1,639**	1,690
Shared Services and National Functions	**2,102**	2,249
	13,322	**14,533**
Discontinued operations (see below)	**1,079**	4,223
	14,401	**18,756**

The majority of employees within discontinued operations were employed by the Group for the three months to 30 September 2002, following which PwC Consulting was transferred to IBM. The figures shown for these employees for the year to 30 June 2003 are averaged across the whole year in accordance with Companies Act requirements. The average monthly number of these employees for just the three months to 30 September 2002 was 3,134.

4 Other operating charges

Included in other operating charges are the following costs:

	2003			2002		
	Continuing Operations £m	**Discontinued Operations £m**	**Total £m**	Continuing Operations £m	Discontinued Operations £m	Total £m
Depreciation and other amounts written off tangible and intangible fixed assets:						
– depreciation of owned assets	**31**	**2**	**33**	34	6	40
– amortisation of goodwill (note 9)	**2**	**–**	**2**	2	1	3
	33	**2**	**35**	**36**	**7**	**43**
Operating lease rentals:						
– land and buildings	**66**	**6**	**72**	67	16	83
– plant and machinery	**17**	**2**	**19**	27	7	34
	83	**8**	**91**	**94**	**23**	**117**

Group audit fees and expenses for the year were £0.6m (2002 – £0.3m) of which the amount relating to the parent LLP was £0.4m (2002 – £0.2m). Fees paid to Horwath Clark Whitehill for non-audit services in the UK were £0.1m (2002 – £0.2m).

Notes to the financial statements
for the year ended 30 June 2003

5 Profit on disposal of PwC Consulting

On 1 October 2002, PricewaterhouseCoopers United Kingdom Partnership, in common with other members of the PricewaterhouseCoopers global network, disposed of PwC Consulting, comprising its big ticket IT consulting business and certain parts of its business process outsourcing business, to IBM. The overall result of the transaction is set out below. In these financial statements PwC Consulting has been dealt with as a discontinued operation.

	2003 £m
Proceeds:	
Cash received and receivable	**332**
Other – shares in IBM allotted to consultancy partners	**58**
	390
Net assets sold:	
Fixed assets – intangible assets	**(1)**
Fixed assets – tangible assets	**(11)**
Fixed assets – investments	**(3)**
Work in progress	**(22)**
Debtors	**(115)**
Creditors	**21**
	(131)
Costs associated with the disposal	**(36)**
	(167)
Net profit on disposal	**223**

£283m of the cash proceeds were received during the year. The remainder is included in Debtors at 30 June 2003.

Taxation on the disposal profit is a liability of individual members.

The net profit on disposal has not been distributed to members in cash. £58m was distributed in the form of shares in IBM to former PwC Consulting partners and £85m was retained in the predecessor partnership to be available for allocation to its partners to assist them in meeting their future obligations to pay annuities to former partners. The balance is held within Other reserves in the LLP (note 17).

6 Net interest receivable (payable)

	2003 £m	2002 £m
Interest payable and similar charges:		
– on bank loans and overdrafts	**(1)**	(8)
Interest receivable	**4**	1
	3	**(7)**
Unwinding of discount in provisions	**–**	(1)
	3	**(8)**

7 Tax on profit on ordinary activities

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

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

	2003 £m	2002 £m
UK corporation tax charge at 30% based on profits for the year	**7**	7
Over-provision in respect of prior years	**–**	(5)
Total current tax (below)	**7**	**2**
Deferred tax arising from the origination and reversal of timing differences, all UK (note 16)	**–**	2
	7	**4**

The following table reconciles the tax charge at the standard rate to the actual tax charge.

	2003 £m	2002 £m
Profit on ordinary activities of corporate entities before tax	**15**	4
Tax charge at UK standard rate of 30%	**4**	1
Expenses not deductible for tax purposes	**3**	8
Capital allowances less than depreciation	**1**	–
Other timing differences	**(1)**	(2)
Adjustments to tax charge in respect of prior years	**–**	(5)
Total current tax	**7**	**2**

8 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:

	2003 Number	2002 Number
Continuing operations		
Assurance and Business Advisory	**377**	382
Tax	**243**	258
Corporate Finance and Recovery	**128**	131
Other, including members fulfilling roles in the PwC global network	**31**	34
	779	**805**
Discontinued operations (see below)	**50**	216
	829	**1,021**

The majority of the members whose numbers are disclosed within discontinued operations were partners in the predecessor partnership for the three months to 30 September 2002, following which PwC Consulting was transferred to IBM. The figures shown for these partners for the year to 30 June 2003 are averaged across the whole year. The average monthly number of these partners for just the three months to 30 September was 196.

Notes to the financial statements

for the year ended 30 June 2003

8 Members' profit shares (continued)

The Statement of Recommended Practice, Accounting for Limited Liability Partnerships, requires that the average profit per member is calculated by dividing the profit for the financial year before members' remuneration and profit shares, which includes the profit on disposal of PwC Consulting, by the average number of members.

	2003 £000	2002 £000
Average profit per member	**698**	**472**
less: Average profit per member arising on disposal of PwC Consulting	269	–
Average profit per member from business operations	**429**	**472**

The average profit per member arising from business operations in the year ended 30 June 2003 was £429,000 (2002 – £472,000). As explained in note 5, the profit on disposal of PwC Consulting has not given rise to a cash distribution to continuing members.

The total amount invested by members in the business, represented by members' capital and undistributed profits in Members' other interests, at 30 June 2003, divided by the number of members at that date, amounts to an average investment per member of £484,000 (2002 – £353,000).

The profit attributable to the Chairman, the member with the largest entitlement to profit, is £1,485,000 (2002 – £1,552,000) plus his undistributed share of the profit on disposal of PwC Consulting of £527,000 (2002 – nil), totalling £2,012,000 (2002 – £1,552,000). His investment in the business, represented by his share of Members' other interests, at 30 June 2003 was £1,770,000 (30 June 2002 – £1,236,000).

9 Intangible assets – goodwill

	Group £m	LLP £m
Cost		
At beginning of year	14	2
Disposals	(5)	–
At end of year	**9**	**2**
Amortisation		
At beginning of year	6	–
Charge for the year	2	1
Disposals	(4)	–
At end of year	**4**	**1**
Net book value at end of year	**5**	**1**
Net book value at end of prior year	**8**	**2**

The disposals during the year represent goodwill in a subsidiary company which was sold to IBM as part of the disposal of PwC Consulting (note 5).

10 Tangible assets

Group

	Freehold property £m	Long leasehold property £m	Fittings, furnishings & equipment £m	Computer equipment & software £m	Total £m
Cost					
At beginning of year	5	34	128	93	260
Additions	–	–	4	42	46
Disposals and write-offs	–	(1)	(30)	(10)	(41)
At end of year	**5**	**33**	**102**	**125**	**265**
Depreciation					
At beginning of year	1	19	55	50	125
Charge for the year	–	1	14	18	33
Disposals and write-offs	–	(1)	(20)	(6)	(27)
At end of year	**1**	**19**	**49**	**62**	**131**
Net book amount					
At end of year	**4**	**14**	**53**	**63**	**134**
At end of prior year	**4**	**15**	**73**	**43**	**135**

Capital commitments contracted but not provided for at 30 June 2003 amounted to £2m (2002 – £6m).

LLP

	Long leasehold property £m	Fittings, furnishings & equipment £m	Total £m
Cost			
At beginning of year	19	5	24
Additions	10	–	10
Disposals and write-offs	(1)	–	(1)
At end of year	**28**	**5**	**33**
Depreciation			
At beginning of year	10	3	13
Charge for the year	1	–	1
Disposals and write-offs	(1)	–	(1)
At end of year	**10**	**3**	**13**
Net book amount			
At end of year	**18**	**2**	**20**
At end of prior year	**9**	**2**	**11**

11 Investments

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

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

	Group £m	LLP £m
Other investments		
Cost		
At beginning of year	17	16
Disposals	(3)	(3)
At end of year	**14**	**13**
Provisions		
At beginning of year and at end of year	**1**	**–**

There were no movements in investment provisions in the year

	Group £m	LLP £m
Cost less provisions at end of year	**13**	**13**
Cost less provisions at end of prior year	**16**	**16**

The principal investments comprise trade investments in entities through which PricewaterhouseCoopers LLP and other PricewaterhouseCoopers member firms around the world provide services to global clients. The disposals during the year represent investments sold to IBM as part of the disposal of PwC Consulting (note 5).

	Group £m	LLP £m
Total investments at end of year	**13**	**21**
Total investments at end of prior year	**16**	**24**

12 Stocks: net work in progress

	Group 2003 £m	Group 2002 £m	**LLP 2003 £m**	LLP 2002 £m
Work in progress	**80**	74	**22**	52
Billings on account	**(62)**	(48)	**(16)**	(44)
	18	**26**	**6**	**8**

13 Debtors

	Group 2003 £m	Group 2002 £m	LLP 2003 £m	LLP 2002 £m
Amounts falling due within one year:				
Trade debtors (below)	**341**	480	**355**	513
Amounts owed by Group undertakings	**–**	–	**2**	92
Amounts due from members	**–**	2	**–**	2
Other debtors	**94**	66	**68**	44
Prepayments and accrued income	**40**	57	**23**	10
	475	**605**	**448**	**661**

Other debtors (Group and LLP) include £49m (2002 – £nil) settlement due in respect of the disposal of PwC Consulting (note 5).

Other debtors (Group) include £nil (2002 – £3m) corporation tax recoverable.

	Group 2003 £m	Group 2002 £m	LLP 2003 £m	LLP 2002 £m
Trade debtors comprise:				
Client debtors	**302**	448	**301**	446
Due from overseas PricewaterhouseCoopers member firms	**39**	32	**54**	67
	341	**480**	**355**	**513**

	Group 2003 £m	Group 2002 £m	LLP 2003 £m	LLP 2002 £m
Amounts falling due after more than one year:				
Other debtors	**13**	–	**13**	–
Prepayments and accrued income	**9**	–	**7**	–
	22	**–**	**20**	**–**

Other debtors (Group and LLP) comprise interest free loan notes falling due in annual instalments until April 2007, discounted to net present value.

Prepayments and accrued income comprise pension prepayments.

	Group 2003 £m	Group 2002 £m	LLP 2003 £m	LLP 2002 £m
Total debtors	**497**	**605**	**468**	**661**

14 Creditors – amounts falling due within one year

	Group 2003 £m	Group 2002 £m	LLP 2003 £m	LLP 2002 £m
Loan notes	**–**	3	**–**	–
Bank loans and overdrafts	**–**	45	**–**	–
Payments received on account	**58**	48	**58**	48
Trade creditors	**26**	24	**1**	–
Amounts owed to Group undertakings	**–**	–	**87**	214
Other creditors including taxation and social security (see below)	**98**	103	**35**	36
Accruals and deferred income	**134**	140	**55**	2
	316	**363**	**236**	**300**

The loan notes were payable to the vendors of Coba Group Limited, acquired in the year ended 30 June 2001, and were redeemed in full on 30 September 2002. Interest was payable at 3 month LIBOR less 1%.

The bank loans and overdrafts are unsecured.

Trade creditors (Group) include amounts owing to overseas PricewaterhouseCoopers member firms totalling £9m (2002 – £10m).

Other creditors including taxation and social security comprise:

	Group 2003 £m	Group 2002 £m	LLP 2003 £m	LLP 2002 £m
Corporation tax	**3**	–	**–**	–
Other taxes and social security	**58**	60	**–**	–
Other creditors	**37**	43	**35**	36
	98	**103**	**35**	**36**

15 Commitments under operating leases

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

	2003 £m	2002 £m
Land and buildings		
Within one year	**3**	3
Between one and five years	**14**	8
Over five years	**58**	61
	75	**72**
Other assets		
Within one year	**10**	11
Between one and five years	**9**	9
	19	**20**
Total	**94**	**92**

16 Provisions for liabilities and charges

Group

	Deferred tax £m	Pensions £m	Client claims £m	Property £m	Total £m
Balance at beginning of year	4	1	67	26	98
Utilised during the year	–	–	–	(7)	(7)
Charged to profit and loss account	–	33	7	20	60
Released unused during the year	–	–	–	(2)	(2)
Cash payments	–	(43)	(8)	–	(51)
Transfer to prepayments	–	9	–	–	9
Balance at end of year	**4**	**–**	**66**	**37**	**107**

LLP

	Client claims £m	Property £m	Total £m
Balance at beginning of year	67	23	90
Utilised during the year	–	(5)	(5)
Charged to profit and loss account	7	11	18
Released unused during the year	–	(2)	(2)
Cash payments	(8)	–	(8)
Balance at end of year	**66**	**27**	**93**

The provision for deferred tax comprises the following:

	2003 £m	2002 £m
Accelerated capital allowances	**4**	5
Other short term timing differences	**–**	(1)
	4	**4**
Provision at beginning of year	**4**	2
Deferred tax charge in profit and loss account (note 7)	**–**	2
Provision at end of year	**4**	**4**

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse. There is no unrecognised deferred tax and there are no significant factors which are expected to affect future tax charges apart from the origination and reversal of normal timing differences on fixed assets and creditors.

The assumptions made in calculating pension provisions are described in note 21. Pension prepayments are included in debtors.

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.

A provision has been recognised for obligations under property contracts which are onerous. The provision has been estimated using current costs and has been discounted to present value at a rate of 4.75% (2002 – 4.70%). The provision covers residual lease commitments of up to 13 years and is after allowance for existing or expected sublet rental income.

Notes to the financial statements
for the year ended 30 June 2003

17 Members' interests
Group

	Members' other interests: Members' capital £m	Members' other interests: Other reserves £m	Members' other interests: Total £m	Loans and other debts due to (from) members (see below) £m	Total £m
Members' interests at 1 July 2001	**114**	**163**	**277**	**2**	**279**
Profit for the financial year available for division among members	–	482	482	–	482
Members' interests after profit for the year	114	645	759	2	761
Allocated profit	–	(413)	(413)	413	–
Introduced by members	27	–	27	–	27
Repayments of capital	(25)	–	(25)	–	(25)
Drawings and distributions	–	–	–	(413)	(413)
Members' interests at 1 July 2002	**116**	**232**	**348**	**2**	**350**
Profit for the financial year available for division among members	–	579	579	–	579
Members' interests after profit for the year	116	811	927	2	929
Allocated profit	–	(534)	(534)	534	–
Introduced by members	12	–	12	–	12
Repayments of capital	(33)	–	(33)	–	(33)
Drawings and distributions:					
– to members	–	–	–	(392)	(392)
– to predecessor partnership (note 5)	–	–	–	(85)	(85)
IBM shares allocated to PwC Consulting partners	–	–	–	(58)	(58)
Members' interests at 30 June 2003	**95**	**277**	**372**	**1**	**373**

Analysis of loans and other debts due to (from) members:

	2003 £m	2002 £m	2001 £m
Loans and other debts due to members	**1**	4	3
Amounts due from members (included in Debtors)	**–**	(2)	(1)
	1	**2**	**2**

Loans and other debts due to members represent allocated profits not yet paid to members and are due within one year.

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 8.

In the event of a winding up, loans and other debts due to members rank equally with unsecured creditors; members' other interests rank after unsecured creditors and no additional protection is afforded to creditors. Members' capital contributions are determined by the Management Board having regard, inter alia, 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.

17 Members' interests (continued)

LLP

	Members' other interests				
	Members' capital £m	Other reserves £m	Total £m	Loans and other debts due to (from) members (see below) £m	Total £m
Members' interests at 1 July 2001	**114**	**154**	**268**	**2**	**270**
Profit for the financial year available for division among members	–	474	474	–	474
Members' interests after profit for the year	114	628	742	2	744
Allocated profit	–	(405)	(405)	405	–
Introduced by members	27	–	27	–	27
Repayments of capital	(25)	–	(25)	–	(25)
Drawings and distributions	–	–	–	(405)	(405)
Members' interests at 1 July 2002	**116**	**223**	**339**	**2**	**341**
Profit of predecessor partnership to 31 December 2002 available for division among members	–	264	264	–	264
Profit of LLP from 1 January 2003 following transfer of business and available for division among members	–	311	311	–	311
Members' interests after profit for the year	116	798	914	2	916
Allocated profit	–	(532)	(532)	532	–
Introduced by members	12	–	12	–	12
Repayments of capital	(33)	–	(33)	–	(33)
Drawings and distributions:					
– to members	–	–	–	(390)	(390)
– to predecessor partnership (note 5)	–	–	–	(85)	(85)
IBM shares allocated to PwC Consulting partners	–	–	–	(58)	(58)
Members' interests at 30 June 2003	**95**	**266**	**361**	**1**	**362**

Analysis of loans and other debts due to (from) members:

	2003 £m	2002 £m	2001 £m
Loans and other debts due to members	**1**	4	3
Amounts due from members (included in Debtors)	**–**	(2)	(1)
	1	**2**	**2**

PricewaterhouseCoopers LLP was incorporated on 9 December 2002 and did not trade between that date and 31 December 2002.

Notes to the financial statements

for the year ended 30 June 2003

18 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £m	2002 £m
Operating profit	**360**	494
Depreciation	**33**	40
Goodwill amortisation	**2**	3
(Increase) decrease in work in progress	**(14)**	5
Decrease in debtors	**36**	177
Increase (decrease) in creditors	**21**	(128)
Increase (decrease) in provisions less unwinding of discount	**9**	(7)
Net cash inflow from operating activities	**447**	**584**

The movements in work in progress, debtors and creditors are stated after taking into account the disposal of PwC Consulting (note 5).

19 Analysis of cash flows

	2003 £m	2002 £m
Returns on investments and servicing of finance		
Interest received	**4**	3
Interest paid	**(1)**	(10)
	3	**(7)**
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(46)**	(39)
Disposal of tangible fixed assets	**3**	–
Purchase of investments	**–**	(7)
	(43)	**(46)**
Acquisitions and disposals		
Proceeds from sale of consulting business	**283**	–
Costs in respect of the disposal of PwC Consulting	**(36)**	–
Consideration in respect of prior year acquisitions	**(2)**	–
Acquisition of subsidiaries	**–**	(3)
	245	**(3)**
Transactions with members		
Drawings and distributions:		
– to members	**(392)**	(413)
– to predecessor partnership	**(85)**	–
Capital contributions by members	**12**	27
Capital repayments to members	**(33)**	(25)
	(498)	**(411)**
Management of liquid resources		
Increase in short term deposits with banks	**(108)**	–
	(108)	**–**
Financing		
Repayment of bank loans	**(45)**	(102)
Repayment of loan notes	**(3)**	–
Repayment of long term loan	**–**	(1)
	(48)	**(103)**

20 Analysis of net (debt) funds

	At 1 July 2002 £m	Cash Flow £m	**At 30 June 2003 £m**
Net cash			
Cash at bank and in hand	23	(2)	**21**
Debt			
Bank loans due within one year	(45)	45	**–**
Loan notes due within one year	(3)	3	**–**
	(48)	48	**–**
Liquid resources			
Short term deposits with banks	–	108	**108**
Net (debt) funds	**(25)**	**154**	**129**

21 Pension costs

The Group operates both defined benefit and defined contribution pension arrangements for its staff. The schemes are funded and their assets are held separately from those of the Group. The pension costs are assessed by independent actuaries.

The most significant defined benefit pension schemes are the PwC Pension Fund ('PwC PF') and the DH&S Retirement and Death Benefits Plan ('DH&S Plan'). Both plans are closed to new employees and the DH&S Plan is closed to new members.

The following table sets out the principal data for these schemes:

	PwC PF	**DH&S Plan**
Date of last Actuarial Review	31 March 2002	31 March 2002
Valuation method	Projected Unit	Attained Age
Amortisation method	Straight Line	Straight Line
Average remaining service lives	9.5 years	12 years
Market value of assets at date of actuarial review	£465m	£246m
Assumptions:		
– Rate of return on investments, pre retirement	7.3%	7.25%
– Rate of return on investments, post retirement	5.8%	5.75%
– Salary increases	4.3%	4.3%
– Pension increases	2.8%	2.8%

Assets were valued at market value. As at the valuation dates these represented 98% and 90% of the benefits accrued to members, after having allowed for expected future increases in pensionable salaries, for the PwC PF and the DH&S Plan respectively.

With effect from 1 April 2003 the benefit structure for future service in the two schemes was changed such that benefits will be based on revalued career average earnings rather than final salary. Benefits accrued prior to 1 April 2003 have not been affected. This change has the effect of reducing the cost of future accrual and this reduction has been reflected in the pension charge for 2003.

On 1 October 2002, PwC Consulting was sold (note 5), leading to a number of active members of both schemes leaving the Group. On a SSAP24 basis, there is no significant gain or loss as a result of the disposal.

Notes to the financial statements

for the year ended 30 June 2003

21 Pension costs (continued)

The Group paid contributions of £34m in total to the PwC PF and the DH&S Plan in the year ended 30 June 2003. As a result of adverse investment conditions in equity markets worldwide since the 2002 formal valuations and following a request from the trustees, the Group has agreed to increase contributions with effect from October 2003. The contributions in the year to 30 June 2004 are expected to total approximately £60m, including an additional contribution of approximately £30m. The contributions will be re-assessed and re-aligned to actuarial advice following the next formal actuarial valuations of the schemes, which are due in 2005.

The total pension charge determined under SSAP24 for the Group including defined contribution schemes was £33m (2002 – £19m). An analysis of the balance sheet movement and charges for the schemes is shown below:

	PwC PF	DH&S Plan	Defined Contribution Schemes	Total
	£m	£m	£m	£m
Opening provision	1	–	–	1
Employer cash contributions	(19)	(15)	(9)	(43)
Pension cost:				
Regular cost	15	4	–	19
Variations from regular cost	1	4	–	5
Other costs	–	–	9	9
	16	8	9	33
Closing prepayment	**(2)**	**(7)**	**–**	**(9)**

FRS17 additional disclosures requirements

For the purposes of the disclosure requirements under FRS17, informal valuations were carried out as at 31 March 2003 and rolled forward to 30 June 2003 by qualified independent actuaries using the projected unit method. The actuaries are Aon Consulting for the PwC PF and Mercer Human Resource Consulting for the DH&S Plan.

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. Under the requirements of FRS17, although the employees are not yet members of the PwC PF, a provision is required to be held in respect of the eligibility for future benefits. The cost of these benefits has been valued in accordance with FRS17 by the Group's in-house actuaries and included within the amounts for the PwC PF.

Since the PwC PF and the DH&S Plan are closed, the current service cost, as a percentage of relevant members' pay, is expected to increase gradually as the members approach retirement.

A number of active members of both schemes left the Group as a result of the sale of PwC Consulting on 1 October 2002. The curtailment gain, determined in accordance with FRS17 as a result of these members leaving, has been shown within the Profit on disposal of PwC Consulting disclosure shown later in this note.

21 Pension costs (continued)

The major assumptions used by the actuaries for FRS17 purposes were:

	30 June 2003	30 June 2002	30 June 2001
Discount rate	**5.25%**	5.8%	6.25%
Rate of increase in salaries	**3.75%**	4.25%	4.25%
Rate of increase of pensions in payment	**2.5%**	2.5%	2.5%
Inflation	**2.5%**	2.5%	2.5%

The assets in the schemes and the expected rates of return were:

	Long term rate of return expected at 30 June 2003	**Value at 30 June 2003 £m**	Long term rate of return expected at 30 June 2002	Value at 30 June 2002 £m	Long term rate of return expected at 30 June 2001	Value at 30 June 2001 £m
Equities	**7.75%**	**376**	7.75%	397	8.0%	551
Bonds	**4.8%**	**302**	5.4%	270	5.7%	158
Cash	**3.75%**	**6**	4.0%	11	5.0%	18
		684		**678**		**727**

The following amounts were measured in accordance with the requirements of FRS17:

			2003			2002
	PwC PF £m	**DH&S Plan £m**	**Total £m**	PwC PF £m	DH&S Plan £m	Total £m
Total market value of assets	**436**	**248**	**684**	443	235	678
Present value of scheme liabilities	**(656)**	**(363)**	**(1,019)**	(552)	(303)	(855)
Deficit in the scheme	**(220)**	**(115)**	**(335)**	(109)	(68)	(177)
Related deferred tax asset	**66**	**–**	**66**	33	–	33
Net pension liability	**(154)**	**(115)**	**(269)**	**(76)**	**(68)**	**(144)**

The PwC PF is accounted for in P.W. & Co., a subsidiary corporate entity, which provides for corporation tax on a full provision basis. The DH&S Plan is accounted for in the entity LLP which does not provide for deferred income tax as this is the responsibility of the individual members.

If the above amounts had been recognised in the financial statements, the Group's net assets and reserves would be as follows:

	2003 £m	2002 £m
Net assets excluding pension prepayment (see below)	**364**	349
Net pension liability	**(269)**	(144)
Net assets including pension liability	**95**	**205**
Profit and loss reserve excluding pension prepayment (see below)	**269**	233
Net pension liability	**(269)**	(144)
Profit and loss reserve including pension liability	**–**	**89**

The £9m pension prepayment (2002 – £1m provision) calculated under SSAP24 has been deducted from (2002 – added back to) the assets and reserves in the table above, net of deferred tax.

Notes to the financial statements

for the year ended 30 June 2003

21 Pension costs (continued)

The following amounts would have been recognised in the performance statements in the years to 30 June 2003 and 30 June 2002 under the requirements of FRS17:

	2003			2002		
	PwC PF £m	**DH&S Plan £m**	**Total £m**	PwC PF £m	DH&S Plan £m	Total £m
Operating profit:						
Current service cost	**16**	**4**	**20**	21	5	26
Profit on disposal of PwC Consulting:						
Curtailment gain	**(13)**	**(3)**	**(16)**	–	–	–
Other finance income:						
Expected return on pension scheme assets	**31**	**15**	**46**	35	17	52
Interest on pension scheme liabilities	**(32)**	**(17)**	**(49)**	(29)	(16)	(45)
Net return	**(1)**	**(2)**	**(3)**	**6**	**1**	**7**
Statement of total recognised gains and losses (STRGL):						
Actual return less expected return on pension scheme assets	**(50)**	**(11)**	**(61)**	(72)	(29)	(101)
Experience gains and losses arising on scheme liabilities	**2**	**–**	**2**	10	1	11
Changes in assumptions underlying the present value of scheme liabilities	**(78)**	**(47)**	**(125)**	(55)	(33)	(88)
Actuarial loss recognised in STRGL	**(126)**	**(58)**	**(184)**	**(117)**	**(61)**	**(178)**
Movement in surplus over the year:						
(Deficit) surplus at beginning of year	**(109)**	**(68)**	**(177)**	17	(10)	7
Service cost	**(16)**	**(4)**	**(20)**	(21)	(5)	(26)
Curtailment gain	**13**	**3**	**16**	–	–	–
Contributions payable in respect of the year	**19**	**14**	**33**	6	7	13
Other financial income	**(1)**	**(2)**	**(3)**	6	1	7
Actuarial loss	**(126)**	**(58)**	**(184)**	(117)	(61)	(178)
Deficit at end of year	**(220)**	**(115)**	**(335)**	**(109)**	**(68)**	**(177)**

Details of experience gains and losses for the year:

	2003			2002		
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
Difference between the expected and actual return on scheme assets:						
Amount	**(50)**	**(11)**	**(61)**	(72)	(29)	(101)
Percentage of scheme assets	**(11%)**	**(4%)**	**(9%)**	(16%)	(12%)	(15%)
Experience gains and losses arising on the scheme liabilities:						
Amount	**2**	**–**	**2**	10	1	11
Percentage of the present value of the scheme liabilities	**0%**	**0%**	**0%**	2%	0%	1%
Total amount recognised in statement of recognised gains and losses:						
Amount	**(126)**	**(58)**	**(184)**	(117)	(61)	(178)
Percentage of the present value of the scheme liabilities	**(19%)**	**(16%)**	**(18%)**	(21%)	(20%)	(21%)

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% and the companies are registered in England and Wales. The principal activity of each company is indicated.

Partnership

PricewaterhouseCoopers Tax & Administration Services (Channel Islands) – an unlimited liability partnership

Company	Activity
P.W. & Co.	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
PricewaterhouseCoopers (Registration)	Employment of staff
Barbinder Freehold	Property holding
Coba Group Limited	Mergers and acquisitions services

23 Financial Instruments

Treasury Risk Management

The Management Board determines the treasury function's operating policies. These policies, designed to manage risk, relate to specific risk areas that management wish to control including capital structure, financing, interest rate exposure and foreign currency exposure. The Group's most significant treasury exposures relate to liquidity. Sensitivity to both exchange and interest rate movements is small. No speculative trading is permitted by the policies and hedging is only permitted against underlying exposures in a manner which reduces risk.

Financial Instruments

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 Group requires members to provide long-term financing, including capital and undrawn profits. The principal financial instruments held or issued by the Group are:

- Cash – The Group's policy is to minimise the levels of cash held in order to reduce outstanding debt. Policies to control counter party risk determine how much can be deposited with different banks in the event of a cash surplus being available which cannot be utilised to reduce debt.
- Debt – The Group seeks to limit its exposure to upward interest rate movements through a combination of fixed and floating rates managed by the structuring of the debt maturity profile or interest rate derivatives.
- Certain debtors, creditors and provisions which meet the definition of a financial instrument as set out in FRS13.

Liquidity Risk

The Group manages the risk of uncertainty in its funding operations by spreading the maturity profile of its borrowings and arranging committed facilities with a minimum headroom of 25% of forecast maximum debt levels. In October 2002 the Group negotiated borrowing facilities with six leading international banks which total £255m. These facilities are due to expire between October 2003 and December 2003 and renewal of the facilities, based on forecast requirements, is currently being negotiated, with expected renewal at satisfactory levels.

Notes to the financial statements

for the year ended 30 June 2003

23 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 net foreign currency denominated purchase commitments. The Group's policy is to enter into forward or derivative transactions as soon as economic exposures are recognised.

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 reflecting 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. No interest rate derivatives have been used in the year or in the prior year.

The following disclosures exclude short-term debtors and creditors, as defined in FRS13, other than the currency risk disclosures.

(1) Liquidity

The maturity profile of the Group's liabilities at 30 June 2003 was as follows:

	2003 **£m**	2002 £m
Financial liabilities maturing in one year or less, or on demand:		
Loan notes	–	3
Bank loans and overdrafts	–	45
Total	**–**	**48**

(2) Undrawn borrowing facilities

Undrawn committed borrowing facilities available to the Group at 30 June 2003 totalled £255m (2002 – £510m). The current facilities expire in less than one year (2002 – between one and two years).

(3) Interest rate risk profile of financial assets

The Group held the following financial assets at 30 June 2003:

	2003 **£m**	2002 £m
Sterling cash at bank and in hand	**21**	23
Sterling short term deposits with banks	**108**	–
Investments in PricewaterhouseCoopers entities overseas, denominated in US dollars	**12**	15
Other investments, all sterling and non-interest bearing	**1**	1
Long term loan notes receivable, sterling and non-interest bearing	**13**	–
	155	**39**

The sterling cash at bank and the short term bank deposits are held at floating rates based on LIBOR.

The investments denominated in US dollars comprise £4m (2002 – £7m) which is non-interest bearing. The remaining £8m (2002 – £8m) represents subordinated debt providing interest at a rate of 3.235%. The interest rate risk profile is shown after taking account of any currency swaps used to manage the currency profile.

23 Financial Instruments (continued)

(4) Interest risk profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 30 June 2003 is shown below.

	2003 £m	2002 £m
Floating rate – sterling	**–**	48

The floating rate financial liabilities comprised bank borrowings and loan notes bearing interest at rates based on LIBOR.

(5) 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 2003. All financial instruments held or issued for trading purposes are carried in the financial statements at cost. Fair values for investments denominated in US dollars have been calculated at year-end exchange rates. Fair values for cash 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.

	2003 Book value £m	**2003 Fair value £m**	2002 Book value £m	2002 Fair value £m
Investments	**13**	**13**	16	16
Long term loan notes receivable	**13**	**13**	–	–
Cash at bank and in hand	**21**	**21**	23	23
Short term deposits with banks	**108**	**108**	–	–
Bank loans due within one year	**–**	**–**	(45)	(45)
Loan notes payable	**–**	**–**	(3)	(3)
Derivative financial instruments held to manage the currency profile:				
Currency rate-related derivatives – see Gains and losses on hedges below	**–**	**(2)**	–	(4)

(6) Currency Exposures

After taking into account forward contracts and known US dollar denominated debtors and liabilities, the Group had net US dollar denominated monetary assets of £nil (2002 – £10m).

(7) Gains and losses on hedges

The table below shows the extent to which the Group has off balance sheet (unrecognised) gains and losses in respect of hedges at the beginning and end of the year. There were no on balance sheet (deferred) gains and losses in respect of hedges at the beginning and end of the year.

	Unrecognised gains £m	Unrecognised losses £m	Unrecognised net gains (losses) £m
Gains and losses at beginning of year	1	(5)	(4)
Arising in previous years included in current year profit	(1)	4	3
Not included in current year arising in previous years	–	(1)	(1)
Arising in current year	–	(1)	(1)
Gains and losses at end of year	**–**	**(2)**	**(2)**
Of which:			
Gains and losses expected to be included within one year	–	(2)	(2)
Gains and losses expected to be included after one year	–	–	–

Notes to the financial statements

for the year ended 30 June 2003

24 Contingent liabilities

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

PricewaterhouseCoopers LLP guarantees the bank borrowings of subsidiary companies, which are included in the consolidated balance sheet. Apart from those guarantees, there were no material contingent liabilities.

25 Related party transactions

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

Contracts and leases not yet 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 PricewaterhouseCoopers 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 PricewaterhouseCoopers LLP at 30 June 2003 under these arrangements.

Client assignments not yet novated to PricewaterhouseCoopers LLP

Following the transfer of business on establishment of the LLP on 1 January 2003, certain client assignments have not yet been novated to the LLP. Arrangements are in place for PricewaterhouseCoopers LLP to supply services to PricewaterhouseCoopers United Kingdom Partnership in connection with these assignments. For the period from 1 January 2003 to 30 June 2003 PricewaterhouseCoopers LLP provided services to the PricewaterhouseCoopers United Kingdom Partnership to the value of £15,000 under these arrangements; this remains unpaid at 30 June 2003.

Administrative support to PricewaterhouseCoopers United Kingdom Partnership

On behalf of the continuing members PricewaterhouseCoopers LLP provides certain administrative services to support PricewaterhouseCoopers United Kingdom Partnership, including the calculation of annuities and paying agent arrangements, in connection with the pension annuities due to certain former partners of the predecessor partnership. PricewaterhouseCoopers LLP makes a charge to the PricewaterhouseCoopers United Kingdom Partnership of £200,000 per annum for these support services and at 30 June 2003 an amount of £100,000 was due to PricewaterhouseCoopers LLP under these arrangements. Amounts paid to the annuitants on behalf of the continuing members, in their capacity as partners in the predecessor partnership, PricewaterhouseCoopers United Kingdom Partnership, during the year totalled £33m (2002 – £29m) of which £17m related to the period from 1 January 2003 when PricewaterhouseCoopers LLP commenced these paying agent arrangements.

PricewaterhouseCoopers LLP is the UK member firm of the PricewaterhouseCoopers global network. We draw on the knowledge and skills of our people in the UK and of the global network.

Membership of the PricewaterhouseCoopers global network

PricewaterhouseCoopers LLP, along with other member firms, is a member of PricewaterhouseCoopers International Limited, a company limited by guarantee registered in England. Each member firm is legally separate and locally managed. This configuration reflects the fact that in parts of the world regulatory authorities grant the right to practice accountancy only to national firms in which locally-qualified professionals have a majority (or 100%) ownership and management control.

Upon joining the PricewaterhouseCoopers global network and becoming members of PricewaterhouseCoopers International Limited, member firms win the right to use the PricewaterhouseCoopers name and gain access to its resources, methodologies, knowledge and expertise. In return, each firm is bound to abide by certain common policies and maintain agreed standards. This arrangement confers significant strengths – a coherent global vision combined with a robust local identity, a deep understanding of both local and global markets and the acute sense of responsibility that goes with local ownership.

Embracing consistently high standards

We embrace the principles and practices that create and safeguard the quality exemplified in the PricewaterhouseCoopers brand. These are underpinned by common methodologies, processes, knowledge bases and technologies, shared values and ethics, and an organisational 'glue' at every level.

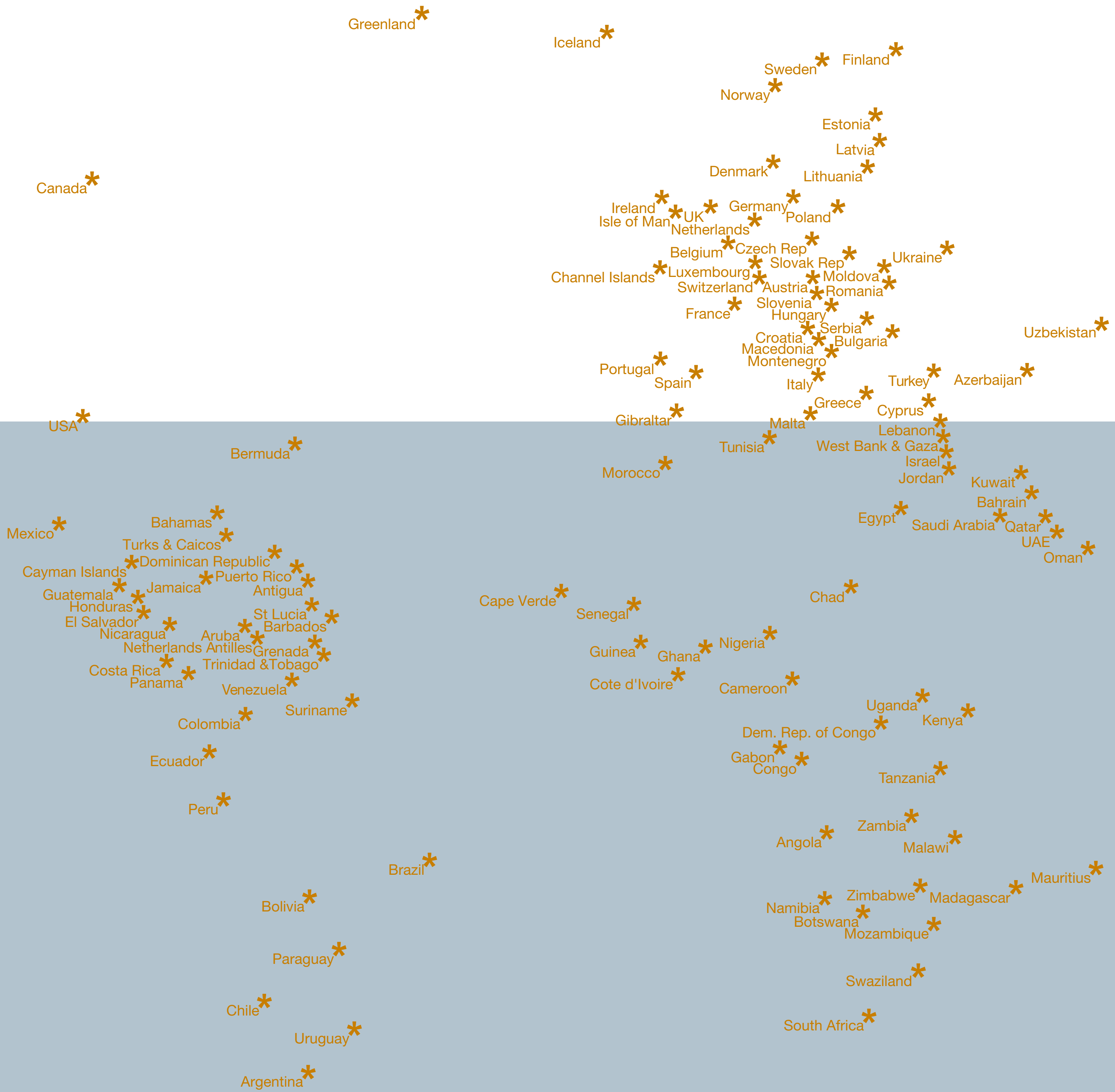
This allows us to build networks around our clients and provide them with the breadth of PwC's collective knowledge and resources, drawing on the skills of over 120,000 people and matching the best teams and solutions to the issues our clients face.

Contributing to the global network

In the UK we both benefit from and contribute to the PricewaterhouseCoopers global network. In addition to our sharing of knowledge and expertise, Andrew Ratcliffe chairs the Global Board and UK partners fulfil a number of roles in the global Leadership Team: Kieran Poynter (representing the UK territory); Amyas Morse (Operations); Paul Boorman (Tax) and Alec Jones (Industries).

We have a powerful and distinctive brand, skilled people, an outstanding client list and

a first class network*



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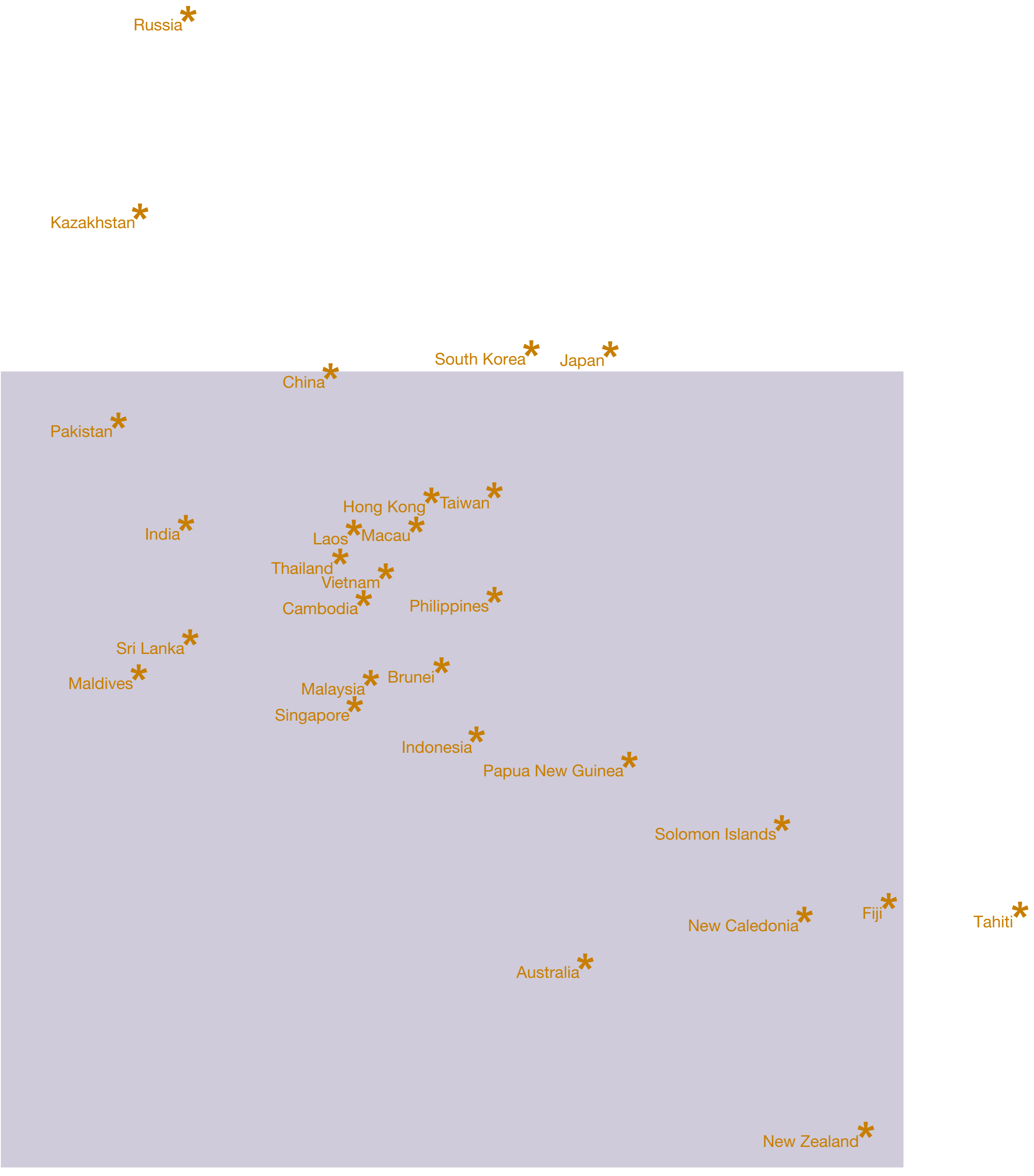

Find out more about the PwC global network at www.pwc.com

PricewaterhouseCoopers LLP is a limited liability partnership registered in England. Unless otherwise indicated either expressly or by the context, we also use the word 'partner' to describe a member of PricewaterhouseCoopers LLP.

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