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PricewaterhouseCoopers LLP
Annual Report 2006

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PricewaterhouseCoopers

PricewaterhouseCoopers

What we do

We provide assurance, tax and advisory services.

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

Tax
Corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax structuring, finance and treasury, indirect taxes, tax investigations, corporate tax compliance and outsourcing, private business tax advisory, personal tax advisory and compliance, tax valuations, tax strategy and risk.

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

Business Recovery
Corporate insolvency, corporate liability management including solutions for discontinued insurance business, personal insolvency, financial restructuring, crisis and stakeholder management, corporate simplification, independent business reviews, interim leadership, optimised exit services, receivables management.

Transaction Services
Bid support and defence, buy and sell side financial due diligence, commercial and market due diligence, post-deal services, structuring.

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

Human Resource Services
Reward and compensation, employment services, retirement, benefits and actuarial, international assignment solutions, HR transaction services, human capital benchmarking, HR strategy and business effectiveness.

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

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

How we measure ourselves

Our ambition is to be increasingly recognised as the UK's leading professional services firm.

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

Clients

Leading in each of our chosen markets

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

People

Being a great place to work

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

Firm

Creating a sustainable business

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

Financial

Maintaining quality earnings

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

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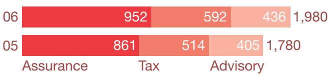
How we performed

Our position as market leader was further reinforced in 2006.

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

Clients

Turnover
£m



- Continued strong growth across the business
- Turnover split equally between audit and non-audit clients
- Record growth in Tax, Human Resource and Transaction Services
- Leading audit market share maintained
- Continued expansion of Performance Improvement Consulting

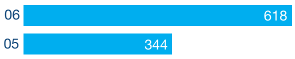
People

Partner and staff numbers
at 30 June

- Voted number one graduate employer for third year running
- Ground breaking PwC Business Diploma launched
- Won Sunday Times Best Big Companies Training and Development award
- Staff retention at an all time high

Firm

Average investment by partners
£000



Represents the average amount invested in the business per partner.

- 4th in the UK Corporate Responsibility Index and leaders in Professional Services
- Over 40,000 hours devoted to regulatory training
- 91% of waste recycled or incinerated
- 30,000 community hours volunteered and £4.2m contributed

Financial

Average profit per partner
£000

Represents the average profit for the financial year per partner, excluding the past service credit on defined benefit pension schemes.

- Turnover up 11% to £2bn
- Staff bonuses increased by 31% to £68m
- Non pay operating costs down by over 5%
- £140m of additional funding committed to eliminate pension fund deficits
- Average profit per partner up 17% to £716,000

The Group has adopted International Financial Reporting Standards for the year ended 30 June 2006. As discussed in notes 1 and 24 to the financial statements, all comparative information has been restated.

As chairman, it is clear to me that long term sustainable success is achieved by focusing on our winning strategy.*

*connectedthinking

I am pleased to report that 2006 was another successful year for us. Turnover was up by 11% to £2 billion and we made good progress in the marketplace and on our other key priorities. I want to thank all our people for the dedication and hard work which produced these good results. It is clear that maintaining our focus on our simple winning strategy, of leading in each of our chosen markets based on quality and being a great place to work for all our people, is delivering the results we want.

Leading in our chosen markets

As you will see in the Clients section of this report, we have continued to grow across all the market sectors we choose to serve.

We saw a less marked reduction than expected in the impact of IFRS and, for SEC registered clients, Sarbanes-Oxley, as we helped audit and non-audit clients, including a number of new clients, to address these issues.

We continued to focus our efforts on companies we don't audit as much as on our audit clients, and our turnover was broadly equally split between those two groups. I'm pleased to report that we continued to grow strongly across our business with particularly good growth in Tax, Human Resource Services, Transaction Services and Performance Improvement Consulting. Growth was achieved in all our major markets, including large and mid-cap UK PLCs, overseas owned businesses, private companies and individuals and the public sector.

During the year, in common with the rest of the profession, we were challenged by the need to interpret IFRS consistently with all our clients here and overseas. This led to some uncharacteristic delays which disappointed some clients, but we have taken appropriate action to address this. Nevertheless our overall client feedback remained strong. As well as valuing the quality of our advice, our clients told us that we were distinctive in our approach, and that they liked our people and our attitude. Over the coming year we plan to build on this progress with a drive to improve still further the quality of the service we provide.

Great place to work

Across the firm, we remain focused on delivering our wide ranging programme of activities on the people agenda.

We were delighted to welcome 74 new partners, reflecting the healthy growth of our firm and our commitment to bringing bright, talented people into positions of leadership as soon as they are ready. We recruited over 1,000 graduates and over 1,300 experienced people.
If retention is the best form of recruitment then we have cause for some optimism. Voluntary staff turnover decreased from a previous record low of 11.6% to 10.2%, which in a highly competitive market, was a remarkable achievement. We take it as a sign that our people value the development opportunities we provide and wish to continue to pursue their careers here.

An important aspect of career development is having a learning culture, which is reflected in the continuous training we provide to everyone from new joiners to experienced partners. This year, our range of courses and workshops building greater business and leadership skills was further expanded with the introduction of courses for senior management. We also introduced for our managers the *PwC Business Diploma* developed in partnership with the Centre for Management Development at the London Business School. This flexible learning programme builds leadership, business and technical skills. All of this will help us achieve our wider objective of helping our talented people to achieve their potential. We were pleased to win The Sunday Times Best Big Companies training and development award.

For the third consecutive year, PwC has been voted the UK's top employer in The Times Top 100 list of Graduate Employers and the Employer of Choice in the Accountancy Sector. For the second year, we were named Ideal Employer in the Universum Communications survey of business students.

Our quarterly *YouMatter* staff survey, which we use to keep a finger on the pulse of our firm, continued to show positive trends on most measures.
In many cases, scores are now even exceeding our own stretch targets. With an average response rate exceeding 70%, it continues to show how important our people view *YouMatter* as a way of providing their feedback. While the survey addresses a range of detailed questions, there are also some higher level questions which provide a keen overview of how we are doing. Examples of these are the 96% of our people who are proud to be associated with PwC and 93% who would recommend PwC to a friend as a place to work. I'm pleased to say this is reflected in a large number of new joiners each year who were recommended by friends who already work here.

We will continue to listen to our people to understand what is important to them and be innovative in our responses to help us recruit and retain the best and brightest people.

Responsible leadership

There has been a growing trend in recent years for businesses to pay increasing attention to the interests of a wider stakeholder group and to their impact on the environment and on society. We applaud that trend and enthusiastically embrace our broad obligations to society in the way we run our own business. The section of this report focused on the Firm gives information about some of our community activities and our approach to environmental issues.

I was particularly pleased that our efforts in these areas were recognised by Business in the Community. In its 2006 survey we were ranked 4th, having been 5th in the previous year, and achieved *Outstanding* assessments in all of the categories surveyed.

Our partners
Participants at our 2006 event for newly admitted partners

seventy four new partners reflect the healthy growth of our firm and our optimism and commitment for the future

We encourage our people to be active in society in many different ways. This year saw a further increase in the number of our people responding to this challenge and I hope this trend will continue.

Is four enough?

There has been considerable interest in recent times in the question of whether there is adequate choice available to very large organisations requiring independent audit. This question arises in many developed economies in the world where typically four large firms conduct the audits of most of the larger enterprises. It is an issue which is presently the subject of public consultation here in the UK by the Financial Reporting Council (FRC). We are contributing to that consultation process, but I would like also to take this opportunity to make some high level observations.

First, this question is only about choice. It is not about competition; it is quite clear that there is vigorous competition in this market sector. Nor is it a question about audit quality. Each competitor in this market is focused on quality far more by their professionalism and by the consequences of failure in terms of reputation and cost than any consideration of choice or competition. Furthermore the independent inspection of audit quality by regulators here and elsewhere is an effective mechanism for assuring audit quality. On the other hand any change in the regulatory environment must be driven by quality considerations above all others.

We provide audit services or other services to nearly all the very large companies in the UK, so we have a very highly developed understanding of whether limited choice is a real or theoretical issue. Many respondents to the open theoretical question *Would you like more choice?* will answer yes. However we are not aware of any significant number of large organisations which have actually been unable to test the market for or make a change in their auditors because of lack of choice when they wished to do so.

We enthusiastically and vigorously compete for new audit appointments when invited to do so. We have agreed, after full consultation, with two banks and one fund manager that we will not provide audit services to them. This is to allow the firm, our staff pension funds and our people to be customers of those institutions without the independence issues that would arise if we were to be their auditors. In each case, those institutions are satisfied that this does not restrict the choice of auditor available to them to an unacceptable degree and they are pleased to have us and our people as customers.

So, in practical terms it is clear to me that there is adequate choice available in the marketplace for audit services to major enterprises. The choice is of course much wider for smaller enterprises.

The FRC is also considering whether actions should be taken to reduce the risk of a reduction from four to three or less in the number of firms providing audit services to very large enterprises. Such a reduction could of course be voluntary or involuntary.

My view is that there are two specific things that regulators here and elsewhere could do now that would substantially reduce that risk.

First, regulators could promote legislation to introduce statutory capping of the liabilities associated with audit failures. Such a cap could be set at a level that hurts the firm concerned and incentivises audit quality but avoids the insolvency of the firm. This step would also encourage some of the smaller firms to compete for the audits of larger enterprises.

Second, regulators worldwide could make it clear now that they will not allow further consolidation amongst the big four even in the event of the loss of an important member firm in one of those networks. In such a circumstance, the relevant network would need to make arrangements to fill the gap and the regulatory environment should facilitate this. If such a policy decision were to be taken, regulators should promote the necessary legislation to create the powers to give effect to it.

More generally, as regulators develop their approach over time they should consult with the profession and the market to ensure that regulatory change does not inadvertently cause reduction of choice, either by disqualifying firms in certain cases or provoking firms to withdraw from the most difficult, risky or otherwise unattractive sectors or clients.

Ultimately, we should have confidence in the marketplace and rely on it to bring about change if indeed change is wanted. Here there is an important opportunity for the fund management sector to play a role. After all it effectively carries the proxy of individual investors whose interests are served by reliable audited financial statements. Later this year we expect Parliament to approve the Government's proposals, which we welcome, to allow companies and their auditors to agree on a limitation of liability subject to shareholder approval.
Fund managers should vote in favour of such proposals and thereby reduce the likelihood of partial or total withdrawal from the more risky audit sectors by one or more big four firms and remove one of the barriers to entry by the mid-tier firms into this part of the market. Fund managers should also add their voice to support the emerging view in Europe and elsewhere that statutory capping of auditors' liability will serve to enhance audit quality by enabling the profession to recruit and retain the best and brightest people to serve as auditors.

Financial performance

Our financial results show that our strategy is working. Our turnover has been growing steadily and consistently, and at £2 billion has achieved overall growth of 25% over the last two years.

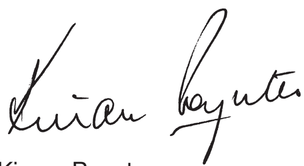
There was a one off credit this year of £122 million arising from changes to our defined benefit pension schemes which will not be distributed to members and will be held in reserves. After allowing for this, profit available for distribution to members was up by 23% at £568 million, and on the same basis distributable profit per member rose by 17% to £716,000.

This profit was struck after bonuses to staff totalling £68 million, up 31% (2005: up 42%) on the year before.

Looking ahead

The consensus view is that the UK economy will continue to grow modestly in 2007 and that there will be growth in most of the major economies in the world. There are risks to business confidence from rising interest and inflation rates in some economies, concerns about energy supply and prices and other factors. Nevertheless, I believe that the overall outlook for the UK economy and for us is positive albeit perhaps a little less so than in recent years.

Our business is in good shape. We have highly talented and motivated people and an enviable position in the marketplace.
I look forward with confidence to reporting further progress in 2007 as we implement our strategy to put clear blue water between us and our competitors in each of the markets we serve.



Kieran Poynter
Chairman

Our success depends on responding to the needs of our clients and connecting them to expertise that makes a difference.*

*connectedthinking

There has been a continued expansion both in the array of services we offer to clients and in their demand for them. We again achieved healthy growth in turnover in 2006 across our service range, helped by largely positive economic conditions in the UK. A combination of low interest rates and low inflation created the backdrop for healthy corporate profitability, strong public spending and a resurgence in deal activity – all of which supported the growth in our business.

Half our turnover now comes from non-audit clients. This reflects the success of our continuing efforts to build sustainable turnover from relationships with businesses we don't audit and to reinforce our leadership position across the markets in which we operate.

For our clients, the regulatory environment remained a challenge throughout the year, particularly for larger listed companies. This had two effects on our business. First, Sarbanes-Oxley and IFRS related projects contributed higher revenues than we had expected from both audit and non-audit clients. Second, our tax and human resource business performed strongly to gain market share particularly with non-audit clients. Transaction related services were buoyant reflecting, among other things, our strong position in the private equity market.

In line with these trends, a major strategic focus during the year was the expansion of our advisory services, particularly Performance Improvement Consulting, which grew 18%. To support our strategy of measured growth and to widen our skills base, we have selectively recruited 11 direct entry advisory partners. Our increasingly deep sector knowledge and functional skills are also leading to more and more invitations to join major consortia bidding for large scale public and private sector projects.

A key driver of our market success is our ability to join together and apply our specialist technical and industry expertise to respond to the issues clients face, enabling us to make a major contribution to our clients' success. Such connected thinking is embedded within our firm's culture, enabling us to deliver the full range of services that we offer for the benefit of our clients.

Leading in the mid-market

Our reputation among mid-market companies, the largest single component of our client base, also continues to grow. Our clients understand that we have the expertise and experience to offer companies world class services and value for money irrespective of their size or stage of development. The fastest growth sector was services to mid-market non-audit clients. Recent market research shows that our reputation for quality and value for money extends to mid-market companies who are not yet clients, suggesting a strong foundation for further growth. In London and the South East, we benefited in particular from the strong market conditions, and in Scotland we also performed well. We have a growing presence advising AIM companies.

Meeting the challenges of regulation

Like our clients, we also faced challenges from regulation, as we continued to support the drive for convergence of public company reporting standards across Europe and beyond. Among our financial services clients, for example, Basel II and Solvency II created significant demand for regulatory advice. Clients regard us as experts in this area and expect us to assimilate multi-faceted and complex regulatory issues at speed, delivering consistent answers within industry sectors and across borders. To meet their demands, we recruited substantial additional resources.

One interesting side effect of the growing regulatory burden on businesses is that, while management are as hungry for growth as ever, the trend now is to grow with caution. As a result our clients turn to us more frequently for assurance – in every sense of the word – to avoid unnecessary risks to their business and its reputation.

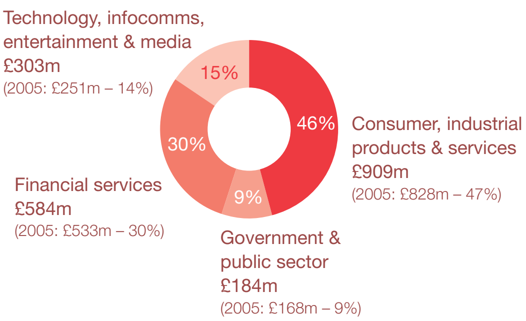
Audit focus on quality

We started our financial year with a *Value Your Audit* campaign designed to raise external awareness of the benefits of a good audit. Internally, the emphasis was on further enhancing the quality of what is still our largest service, including an increased investment in audit training. We retained our audit market share of 42% for the FTSE 100 and 30% for the FTSE All Share Index. In the latter case our audit client base declined marginally from 213 to 207, reflecting a reduction in

our reputation among mid-market companies continues to grow

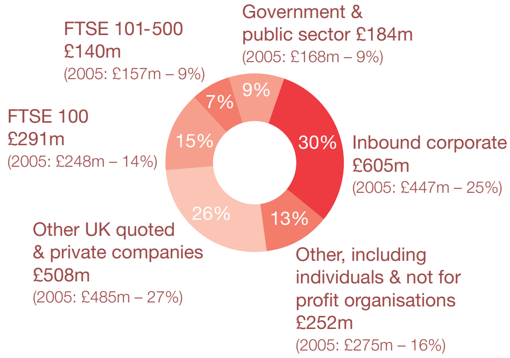
Industry analysis

2006 Turnover £1,980m
(2005 Turnover £1,780m)



Client analysis

2006 Turnover £1,980m
(2005 Turnover £1,780m)



the number of companies in the index and movements in and out. We also maintained our leading position with private companies. Our win rate for audit proposals over £50,000 was 56% (2005: 50%). Wins included Royal Dutch Shell, Rathbone Bros., TMD Friction Group and Easyjet. We were disappointed to lose Scottish Power and the Bank of England as audit clients.

Tax moves up the agenda

The UK Government's continuing agenda to address tax avoidance, and resulting legislative changes, has meant that many companies have been forced to review their tax planning. The Government's stance has persuaded organisations to take a hard look at their tax policies and risks. In response, many large UK companies want to quantify their 'total tax contribution', which – according to our survey for The 100 Group of companies – includes around £1 of additional taxes on top of every £1 of corporation tax they pay. To highlight the growing significance of tax in companies' reports and accounts, we introduced a tax reporting award into our Building Public Trust Awards for 2006. We have included PwC's own total tax contribution in the Financial section of this annual report.

Not surprisingly, the rise of tax risk up the boardroom agenda had a direct impact on us. Our tax services turnover bounced back from a difficult period in 2002-2004 to achieve 15% growth this year, building on 8% growth in 2005. While many of our audit clients have returned to PwC for their tax work, the strongest growth was with non-audit clients. We were further helped by the strong transactions market and by our continued focus on specific market segments. In response to client demand for more connectivity in the area of dispute resolution, our tax investigation team is working closely with the tax litigation group in PricewaterhouseCoopers Legal LLP, a member firm of the PwC network. This means that we can, with their assistance, provide clients with comprehensive support in the increasingly litigious climate in which they operate.

Making deals happen

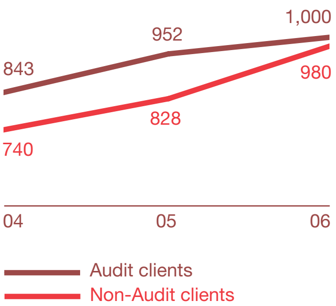
A sharp pick-up in UK deal activity in 2005 helped our transactions related businesses achieve excellent growth. In 2006, with more money chasing fewer deals, the biggest issue for companies was identifying attractive transactions. Sellers have been dictating the pace, allowing buyers only a short time in which to complete deals – irrespective of their size or complexity.

A particularly strong area for our transactions and tax M&A services was the telecoms sector, as continuing convergence saw deals accelerate rapidly. The hospitality and leisure sector was also highly active, with consolidation continuing apace.

In recent years, private equity deals have become an increasingly important part of the UK deals landscape. But last year saw rising levels of debt on private equity transactions as private equity funds looked to maintain their rapid growth. With banks becoming more selective in their lending, and funding structures

Service analysis

Turnover £m



Corporate Finance Deal of the Year 2005: Awarded for the demutualisation of Interflora and its acquisition by a Newco backed by 3i, management and existing Interflora members

Carter & Carter Group plc

Since providing entrepreneur Phillip Carter with personal tax advice, we have built a strong relationship with him and his Group. We won a tender for Carter & Carter's audit, transaction and tax work and helped it complete a highly successful flotation. We also assisted with four acquisitions that have doubled its size.

becoming more complex, companies approached us for advice on which source of funding would ensure the optimal level of debt. At the other end of the deal cycle, we advised many companies on the best time to sell their businesses and devised appropriate strategies to get deals through at the best possible price within the available timeframe.

Human resource issues occupy an increasingly central role in transactions. Pre-deal due diligence on human capital, negotiations over pension deficits during the deal itself and post-deal change management programmes to integrate culturally distinct merger partners are key issues on which clients have repeatedly asked for our help. To meet the resulting demand, we now parachute in flexible taskforces of human resource services, tax, transactions and performance improvement consulting experts to work on a project basis.

Emerging markets – risks and opportunities

Emerging markets are having a profound and growing impact on world economic activity. The commercial opportunities and competitive threats they pose for UK businesses are increasingly influencing boardroom decisions and our own focus as a firm. During the year we invested significant resources in aligning our emerging markets expertise from across the firm, enabling us to offer clients valuable insights into the practicalities of entering and competing in these markets. Of course, much of our expertise is embedded in the emerging markets themselves, with some 11,500 people employed by PwC firms in the BRIC countries. Our networks' global reach enables us to put this talent at the disposal of UK clients. In addition, we have invested in ensuring that we have the relevant knowledge embedded in the UK firm. For example, we have 30 Chinese nationals working full time in our London offices.

By linking our UK based specialist skills with local knowledge of the commercial and cultural environment on the ground, we have been able to help clients identify suitable partners, protect their intellectual property, devise the best business and tax structures, manage HR issues and navigate unfamiliar and sometimes immature regulatory regimes.

Alongside our private sector work, our International Development Team has helped numerous overseas governments to reform their public sectors and build the necessary infrastructure.

Helping to transform public services

People across the UK are demanding higher quality and more choice in public services, while Government is striving hard for cost efficiencies. The result is growing commercialisation of the public sector. Despite an overall reduction in the use of consultants, central and

TNK-BP joint venture PwC conducted a review and provided advice on the risks associated with the business operations of TNK-BP. A joint venture between Russian oil company TNK and BP, it is among the top ten privately owned oil companies in the world.

The project involved up to 60 consultants, who assessed the processes, controls and associated financial risks around a number of the joint venture's key business operations. We helped TNK-BP develop an understanding, based on quantified data, of its control weaknesses, risks and financial exposures; provided gap analysis and recommendations as to how processes and controls could be improved to manage the risks; and supplied coaching on risk management tools and techniques. This enabled TNK-BP to identify control gaps and focus management attention on mitigating its key risks. The project has now been extended into a third year to cover areas beyond the original brief.

Karina Luchinkina, PwC project manager for Enterprise Wide risk management on the TNK-BP joint venture

drawing on our diverse skills and experience, we deliver practical and focused solutions

devolved Government departments seek out our private sector skills to solve public sector problems such as using our insolvency experts to help tackle the financial difficulties facing certain health trusts. Such projects require us to pull together a wide spectrum of expertise from across the firm.

During the year, we contributed to the Government's transformation agenda through a wide range of projects across central and local government and health. The focus of much of this work has been supporting the Government's key objectives around efficiency and improving front line services to the customer. Elsewhere, we continued to be heavily involved in PPP and PFI work, putting together deals that attract private sector funds while also creating value for the public sector.

PwC's strength in public sector work is founded on our long term planning, ongoing investment in thought leadership and reputation for achieving results. Our annual Government Forum this year focused on sharing best practice between the public and private sectors. Working alone, or in partnership with leading UK think-tanks, we undertook several research programmes, including studies into making public services more user-friendly and producing sustainable resources for the South of England.

As the UK's largest employer, the Government is focused on a number of people related challenges. We have continued to be at the centre of the pensions debate, leading the implementation of solutions to complex challenges, including helping industry and the Government's new Pensions Regulator to engage effectively with each other.

Pensions, people and executive pay

Experience shows that a pension deficit can impact every aspect of our clients' businesses. It can block a deal, prevent the raising of finance, or in the worst case, drive a business into insolvency. The advent of a tough new regulator, together with growing awareness among trustees and actuaries of the scale of the pensions crisis, has culminated in an unprecedented investment of boardroom time in an issue that previously had rarely made it onto senior management's agenda. In response, we have pulled together a multidisciplinary team, which has worked extensively to help companies with pension deficit problems.

Corporate failures, changes in tax law and increasingly engaged shareholders have made it far more difficult for companies to strike the right balance between rewarding the senior team for producing good results and delivering value for shareholders. Investors and other stakeholders are rightly asking tough questions about the value that companies gain from their human capital. Companies have to show that their senior executives' compensation is based on criteria which are measurable and challenging. This is a sensitive area

Accountancy Age Awards 2005: PricewaterhouseCoopers LLP wins Big Four Firm of the Year

PwC's 2nd Annual Government Forum 2006: Chris Leslie, Director of New Local Government Network speaks at a session chaired by Government and Public Sector Partner, Ed Straw

Building Public Trust Award: "For Telling It How It Is" in the FTSE, won by BT Group Plc – Hanif Lalani, Group Finance Director, with Glyn Barker where our expertise is in increasingly heavy demand. In addition, our investment in Saratoga, our HR benchmarking team, one of the few providers of hard data on what have typically been considered ‘soft’ people issues, is paying real dividends. We now provide such data to some 40% of the FTSE 100.

Building trust and enhancing value

The challenges and opportunities facing our clients today are complex and multifaceted. At PwC, we believe this plays to our strengths. We possess the wide diversity of skills, experience and technical know how our clients need to manage their risks and capitalise on their opportunities.

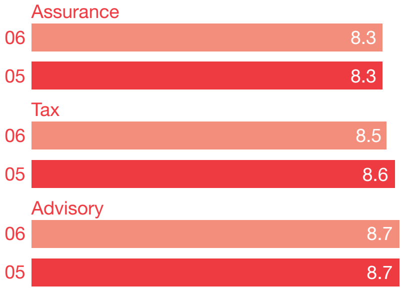
The key challenge for us is to bring this wealth of talent to bear for every client. To do this, we pull together a unique, bespoke mix of skills from across our firm and focus it on each client’s specific needs. This connected way of thinking and working benefits both our clients and PwC. It has enabled us to maintain our leadership position by increasing our market penetration of organisations that we do not audit, in both the top and mid tiers, while maintaining our audit base.

This approach is also succeeding in keeping our clients happy. In any business, customer satisfaction is a key and leading indicator. The satisfaction that our clients feel derives from how our people behave as much as their technical expertise. We survey our clients regularly and have a target to score an average of 8 out of 10 across a range of measures. In 2006 we have once again exceeded our target.

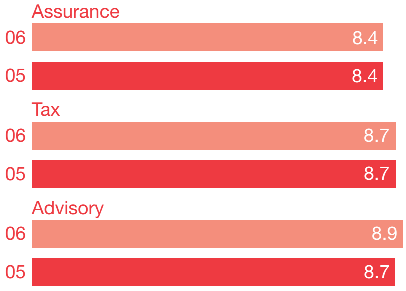
client satisfaction is key to our business success

What our clients think of us

Satisfaction with our responsiveness and attention to client requests



How well our people relate with clients



Source: PwC Client Satisfaction Survey – contains opinions of 2,914 (2005: 3,039) PricewaterhouseCoopers clients rated on a scale of one to ten (where one is low and ten is high)

Being a great place to work is a fundamental part of our strategy. We listen to our people and help them to achieve their potential, develop skills and benefit our clients.*

*connectedthinking

Our people agenda focuses on excelling in four key strategic areas – leading our business and our people, recruitment and resourcing, recognition and development and engaging with our people.

We track the progress of our people agenda through our quarterly *YouMatter* staff survey, which is embedded in the business. Throughout 2006 the response rates exceeded our target of 65%, underlining the importance our people attach to *YouMatter*. This in turn reflects the improvements seen as a result of their feedback. The *YouMatter* results also form an important part of the firm's balanced scorecard.

During the year, voluntary staff turnover improved from 11.6% to 10.2%. In the current highly competitive marketplace for talent, this demonstrates our people's commitment to pursuing a career with us.

Our standing as a leading employer was again recognised by external awards. For the third consecutive year PwC was voted the UK's top graduate employer in The Times Top 100 List of Graduate Employers for 2006, as well as being voted Employer of Choice in the Accountancy Sector. We were named Ideal Employer of 2006 for the second year running in the Universum Communications survey of business students.

A further accolade was The Sunday Times Best Big Companies award for Best Training and Development.
We were pleased to be included for the first time in the top 20 Best Big Employers in The Sunday Times Best Companies awards. We set ourselves high standards and so were disappointed not to be ranked higher, which we aim for next year.

Leading our business and our people

Good talent management allows people to understand and fulfil their potential and helps our business leaders to plan ahead. We have made great strides in this area, with successes such as:

- the *ASPIRE* programme for potential partners
- leadership programmes for managers, such as *Leaders of Tomorrow* in Assurance and *Young Leaders* in Tax
- our firm-wide network of coaches and counsellors.

As a result of these and other initiatives, we now have a much better awareness of our aspiring future leaders.

We have continued to build our award winning partner development programme. We have also opened the core programme to our directors as part of our commitment to the development of our senior leadership community.

This year we expanded our programme with the London Business School to increase our partners' understanding of the strategic issues facing their clients and to help them in their conversations.

We are developing a responsible leadership programme in the UK for people with leadership potential. This will complement two existing global programmes, the *Genesis Park* management development programme for potential leaders and the *Ulysses* leadership development programme for partners.

During 2006, we supported over 1,000 people in starting their studies for a professional qualification. Our intake represents 20% (2005: 19%) of accountants training annually in the UK with the ICAEW and ICAS, thereby making a major contribution to business in the UK and beyond.

Learning is at the centre of all our work. During the year we established a ground breaking management development programme, *MD+*. A particular highlight has been the launch of the *PwC Business Diploma,* a four year skills programme developed in partnership with the Centre for Management Development at the London Business School. The programme includes a wide range of innovative modules, in areas such as leadership and business, governance, ethics and social responsibility, designed to develop our people's ability to support our clients. The 230 managers and senior managers in the first intake are already benefitting from the strong focus on personal career development and on applying their learning in their work.

We are now introducing an enhanced programme for our students focused on building their commercial skills through wide experience in different business areas.

Our commitment to encouraging and enabling our people to realise their maximum potential is demonstrated by our investment of over £42m direct cash cost (2005: £39m) in learning and development activities. Our technical training programmes continue to develop and expand, for example, *INVEST* – an *Integrated Valuation*, *Economics and Strategy* training programme for people specialising in this work in the UK, with participants joining from Europe, South Africa, the United Arab Emirates and India.

voted number 1 UK graduate employer for the 3rd consecutive year

The Times Top 100 Graduate Employers 2006

zest for life at PwC

Zest for life at PwC brings together the firm's wellbeing activities under one umbrella and encourages our people to choose a healthy lifestyle

Newcastle University students Alison Davies and Claire Horner are participants in the Flying Start programme

Recruiting and resourcing the best talent

We are successful in recruiting the best people from a wide range of sources, not least through our leading position at UK universities. Our priorities this year have been to maintain our brand differentiation as competition intensifies, develop attractive new propositions to secure the right talent and improve induction processes for our new joiners.

In 2006 we received more than 16,000 (2005: 11,700) student applications, from which we recruited over 1,000 of the best candidates.

Some 21% (2005: 21%) of graduate recruits were from ethnic minority backgrounds and 39% (2005: 38%) were female. We also ran over 350 (2005: 300) recruitment events at schools around the country.

Our recruitment activities have also reached out to other communities. Our partnership with SCOPE, the UK's leading disability charity working with people with cerebral palsy and other disabilities, has provided six Fast Track SCOPE graduates with placements in our London and Birmingham offices.

The first intake of our *Flying Start* programme, a partnership between PwC, the ICAEW and Newcastle University, graduated this summer, with job offers to join the firm on completion of their BA (Hons) Business Accounting and Finance degrees. Also, PwC's *Gap Year Programme* enabled some 50 students to spend seven months with the firm during their year out, with the best participants qualifying for sponsorship at university.

In support of our global mobility programme, 2006 saw 639 (2005: 543) international assignees from 71 (2005: 70) countries come to work with us in the UK. At the same time, a further 389 (2005: 360) international assignees from the UK are contributing to the success of the PwC network across 40 (2005: 36) territories overseas. Overall, the number of partners and staff on international assignment into or out of the UK grew by 13% (2005: 16%) over the year.

Our Tax World Experience Programme provides opportunities for some of our most outstanding people in developing countries to develop new skills and networks in the UK. This reflects our drive to build relationships across the world delivering the consistent excellence that our international clients expect.

We are also introducing ways to make flexible working and staff mobility easier. We are actively using secondments to other parts of the firm and to private sector, government and charitable organisations to smooth out the peaks and troughs that business cycles cause in the demand for our people.

Recognising and rewarding achievements

We remain committed to providing a competitive reward package and a wide choice of flexible benefits to suit each person's stage of life.

YouMatter results show that over the last three years there has been a 23% rise in the number of people believing they are fairly rewarded by the firm. We believe this improvement has been helped by our efforts to increase the transparency of reward structures and by more informed discussions between managers and staff.

I believe that PwC is committed to becoming a great place to work

Source: *YouMatter*

I am proud to be associated with PwC

Source: *YouMatter*

I would recommend PwC to a friend as a great place to work

Source: *YouMatter*

we build relationships across the world to deliver the consistent excellence our international clients expect

Engaging with all our people

Our secretaries across the business play a pivotal role in our success and we have put renewed effort into building a firmwide secretarial community to promote the very real value they contribute. We are encouraging all our secretaries to get involved, and have created networks and collaborated on initiatives to help them be the best they can be.

The launch of *zest for life at PwC,* a cornerstone of our *Health Matters* programme aims to foster an environment that encourages all our people to choose a healthy lifestyle. This initiative brings together a diverse range of health and wellbeing activities including healthier catering, fitness and sports activities, an employee assistance programme and health awareness features. The *Fit for Life* course, launched for all staff, focuses on nutrition, fitness and stress management.

Our sickness absence rates are very low at less than 1.9% (2005: 2.1%), helped by our early support for those who fall ill.

Our diversity and equality agenda

We regard a diverse workforce as a key strength of any business. This year we have continued our practical approach to creating a more diverse organisation at PwC, including appointing diversity leaders across our business, responsible for turning our diversity principles into everyday reality.

We have also commissioned a study to examine the future challenges we face in retaining and developing our female talent.

Our people networks continue to flourish, enjoying huge success in connecting people from different backgrounds. Our numerous staff and faith networks offer personal support alongside opportunities for professional learning and development. For example, our parents network has been running well attended quarterly seminars on topics such as sibling rivalry, building self-esteem in children, the school maze and keeping children street-wise, while PwCwomen has run sessions on leadership and the workplace of the future.

Our strong diversity agenda has been recognised externally through us winning the European Managing Partners Forum Best Business Case for Diversity Award.

We have achieved gold status in the Opportunity Now benchmarking exercise for gender equality and we became members of the Employers' Forum on Disability Gold Group.

We have also been active in promoting diversity in the wider business community, sponsoring a Lifetime Achievement Award at the First Women Awards run in conjunction with the CBI, and hosting the launch of the Stonewall Corporate Equality Index.

Contacts with our alumni

This has been the busiest year yet for our Alumni team, with a growing number of initiatives to improve communication both with our alumni network and with PwC staff. Our 20,000 alumni many of whom are clients, are a hugely important part of the PwC constituency.

In addition to our alumni website and bi-annual newsletter, we have held a variety of events including an innovative women only networking event attended by some 500 alumni, clients and senior female staff in PwC.

The future

As we see more people staying with the firm and positive *YouMatter* trends on most measures, it might be tempting to put less focus on our people agenda.

We think this would be a mistake. As we face the business challenges ahead and rising competition for our skilled people, we know we cannot afford to be complacent. Any reduction in the focus on our people could undermine our leadership position.

We will continue to listen to our people to understand what is important to them and will continue to launch innovative initiatives to help everyone maximise their potential.

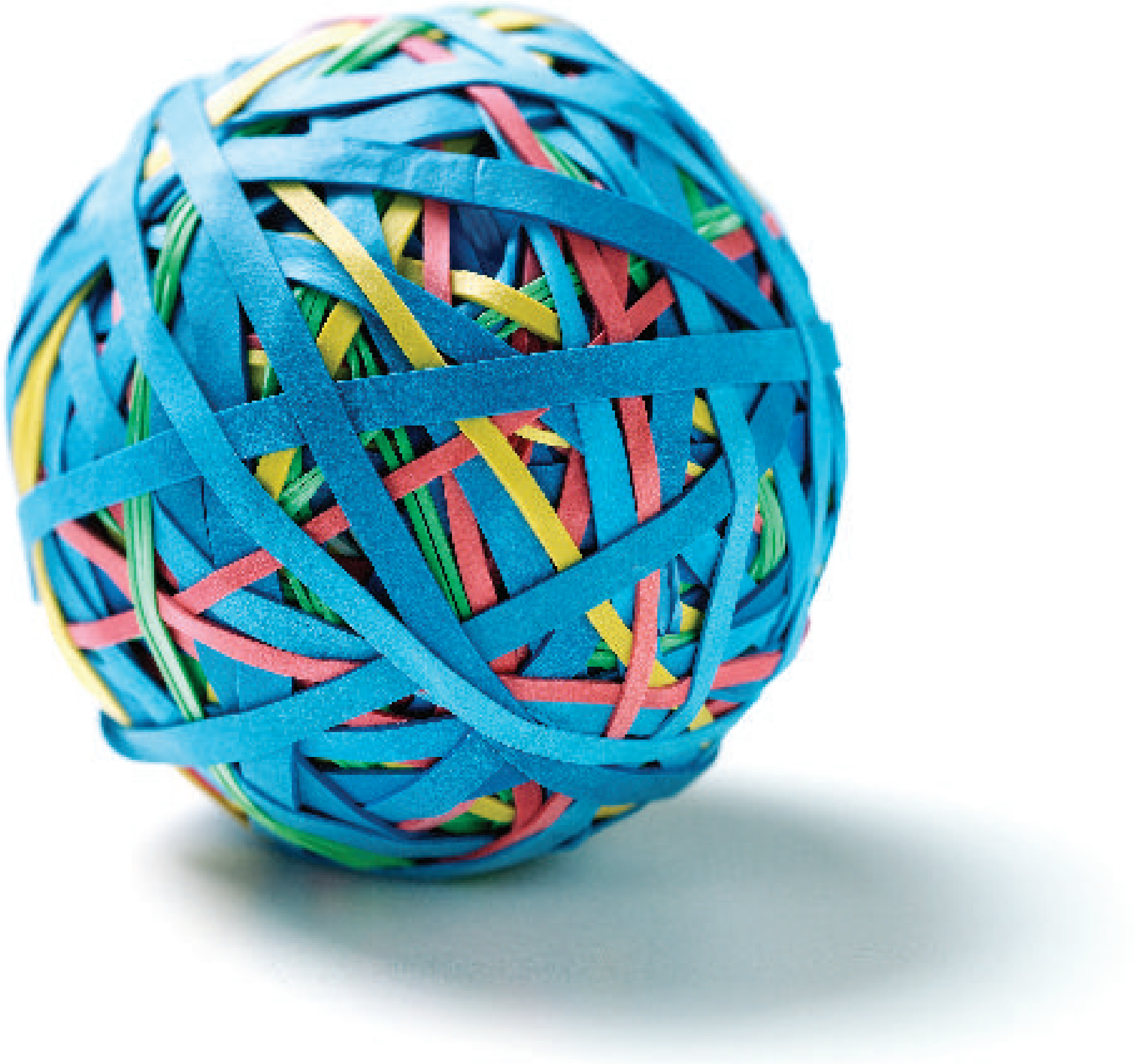
Royal Bank of Scotland PwC's Human Resource Services team was asked to handle a broad range of practical and technical issues relating to international assignments arising from The Royal Bank of Scotland's investment in Bank of China, the second biggest bank in China.

We have a strong presence in China and using our local networks we helped RBS develop and apply its policies for its expatriate employees in China, covering key aspects including tax, compliance, relocation allowances and obtaining work permits.

Nicola Campbell, Manager, International Assignment Services, RBS with Sam Hillman, Consultant, Global Mobility Services, PwC

Our firm believes in financial, social and environmental sustainability, working within an established governance structure.*

*connectedthinking



Our clients, our people, our regulators and the communities in which we live and work expect us to deliver high quality, value-adding professional services, and to deliver those services with integrity and respect for society and the environment. To do this consistently, we need to have the right business management structure, systems and tools. We also need to create the right culture, which means identifying the best behaviours, embedding them in our business and ensuring that our people know what's expected of them. That's why:

- we maintain a strong governance structure that enables us to deliver consistently on our chosen priorities
- we focus on maintaining our reputation for quality and for delivering value-adding services
- we are committed to maintaining best practice systems for risk management and internal control
- we seek to reflect the expectations of our regulators in our working practices
- we manage our business operations to embrace best practice sustainability principles
- we strive to contribute positively to local communities and make a difference on social issues in the areas where we have a presence.

Governance

PricewaterhouseCoopers LLP is a limited liability partnership which is wholly owned by its Members, commonly referred to as partners.

Developing and implementing PwC's policies, strategy, direction and management of the firm are the responsibilities of the **Management Board**, which is chaired by Kieran Poynter. He was re-elected by the partners for a second term of office for three years from July 2005. The Chairman appoints the other Management Board members, all of whom are partners in the firm. Each Board member has responsibility and accountability for a specific aspect of our business.

Each year, the Management Board sets and communicates its strategic priorities, which are cascaded into a business planning process. The contribution of each part of the firm is defined and monitored through balanced scorecard reporting.

The Management Board typically meets twice a month, and on an ad-hoc basis. To help it carry out its duties, the Board receives comprehensive information and support including monthly management accounts.

The current members of the Management Board are pictured below. Owain Franks, who was a member of the Board at 1 July 2005, retired from the Board on 1 January 2006. Paul Cleal, Ian Powell and Richard Sexton were appointed to the Board after the end of the financial year, on 1 July 2006. All other members served on the Management Board for the whole of the year ended 30 June 2006.

During the year our client facing activities were managed through a 'matrix' structure with three main elements: Lines of Service, Geography and Industries. Line of Service Leaders are accountable for resourcing and profitability, while Regional Chairmen and Industry Leaders coordinate our market activities.

The **Supervisory Board**, which is independent of the Management Board, is elected by the partners, usually for a term of three years. Its meetings are held monthly and are attended by Kieran Poynter, as an ex officio member. The present Supervisory Board is chaired by John Whiting and concludes its term on 31 December 2006.

The Supervisory Board provides guidance to the firm's Chairman on matters of actual or potential concern to the firm's partners, taking into account the interests and wellbeing both of the partners and of the firm as a whole. It takes independent professional advice when appropriate. The Supervisory Board is also responsible for approving the Annual Report and Accounts, for the admission of new partners, for overseeing the process of electing the Chairman and for checking that our policies on partners' remuneration are being applied properly.

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

The **Audit, Risk and Independence Committee** is a committee of the Supervisory Board which has responsibility for reviewing the policies and processes for identifying and assessing risks within the firm. It oversees the management of those risks, including financial control, compliance and independence. It also reviews the firm's financial statements and considers the scope, results and effectiveness of internal and external audit, including reviewing the external auditors' independence and their non-audit services and fees. The Head of Operations and Finance, together with the internal and external auditors, attend the committee's meetings by invitation.

the Management Board


Rodger Hughes


Keith Tilson


Kieran Poynter


Glyn Barker


Moira Elms

The members of the Supervisory Board, all of whom served throughout the year, are:

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

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

It met seven times in the year ended 30 June 2006.

Maintaining quality

Our culture and approach to quality are supported by our Code of Conduct, which embodies our core values of Excellence, Teamwork and Leadership. The key elements enabling us to maintain our reputation for delivering consistently high quality services include:

Quality people – The quality of our work is determined largely by the quality of our people which is why we aim to recruit, develop and retain the best and brightest. Our rigorous recruitment procedures are designed to test out candidates so we can be sure they are capable of performing to the high standards that we and our clients demand.

Throughout their time with our firm, partners and staff benefit from structured training programmes to ensure they have the skills and knowledge to provide a high quality service. This quality is supported by the wide range of industry expertise and specialist skills across the firm.

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

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

Sustainable culture – To deliver the high quality, value-adding services that will ensure the continuing success of our business, we need to create a culture in which our people are supported, encouraged and expected to do the right thing, especially when tough decisions must be made.

Our Code of Conduct is embedded in our training. We also emphasise broader management capabilities alongside the technical skills required for service delivery supported by the PwC Business Diploma, which includes a four day module on Corporate Responsibility. In addition we support our people with our confidential ethics helpline and employee assistance programme.

Quality 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 of the expected quality. We maintain our audit files on systems using an internationally applied audit framework that aids compliance with the relevant 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


Owen Jonathan


John Berriman


Richard Collier-Keywood


Ian Powell


Paul Cleal


Richard Sexton

has ready access to wide informal and formal networks and technical panels that will help reach the right solution to difficult problems.

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

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

Managing risk

The Management Board takes overall responsibility for establishing systems of internal control and for evaluating how well they work. The day-to-day responsibility for the implementation and effectiveness of these systems and for ongoing monitoring of risk rests with senior management.

Our risk management systems and processes are designed to manage, rather than eliminate, the risk of our failing to achieve our business objectives. This means they provide reasonable, but not absolute, assurance over the prevention of quality failings and material misstatement or loss. These systems and processes which have been in place throughout the financial year and up to the date of approval of these financial statements include:

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

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

Tax governance

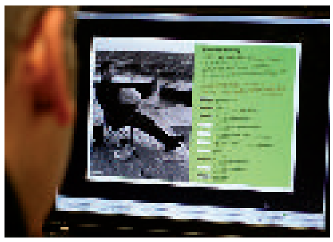
We recognise that stakeholders are showing an increased interest in tax policies and that businesses need to take a balanced view in managing their tax risks. We have a global Tax Code of Conduct which sets out the principles which we apply in providing tax services to clients. This includes the principle that tax planning advice must always involve discussion of the wider considerations of all risks involved, including how our clients' actions might be viewed by others. Since its introduction in 2004, we have shared the Code freely with regulatory bodies and our clients around the world.

In relation to the firm's tax affairs we apply similar principles to those applied in the provision of tax services to clients. Our approach is to maintain our professional reputation when dealing with HM Revenue & Customs by, among other things, ensuring full disclosure and fully supporting our technical position. It is not the firm's policy to enter into transactions purely for tax purposes. We have included details of our Total Tax Contribution within the Financial section, to give a picture of the firm's wider economic contribution through taxes.

We also have a policy governing partners' own tax planning. The policy recognises that the right of partners to legitimately plan their own affairs needs

Foreign Private Issuer Booklet: Provides practical guidance and help to teams working with US SEC registered Foreign Private Issuer clients

Clare Bolton, Tax partner from Manchester, works on a team challenge with pupils from Aylwin Girls' School



UK Independence Policy training: Forms part of the firm's compulsory compliance training to be balanced against the possible reputational issues that the firm might face should partners be seen to be involved in unacceptable tax avoidance. This requires partners to seek consent from the firm before implementing sophisticated tax planning in relation to their own affairs.

Complying with regulation

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

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

Compliance Policy Council – The Compliance Policy Council is a committee of the Management Board and was established during the year in recognition of the importance of ensuring that all our policies and procedures take account of regulatory requirements.

Ethics, Independence and Compliance – We have a partner responsible for independence and ethics who is supported by our compliance team. This team co-ordinates the development of regulatory policies with the Compliance Policy Council, provides training, guidance and tools to our partners and staff and oversees programmes to monitor levels of compliance.

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

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

Audit team rotation – With listed audit clients, the firm requires that the audit engagement partner and the quality review partner are rotated after five years, and other key members of the audit team after seven years. For other audit clients we require rotation of the engagement partner and key members of the team typically after seven years.

Whistle-blowing helpline – The compliance team provides a confidential helpline where any partner or staff member can raise queries and report concerns.

Regulatory awareness – We run training programmes to alert our people to regulatory changes and reinforce their awareness of key compliance requirements. This year's training focused on independence requirements, at both individual and firm level, and market abuse.

Statutory audit work – PricewaterhouseCoopers LLP is registered for audit by the Institute of Chartered Accountants in England and Wales (ICAEW) and is registered in the United States as a public accounting firm by the Public Company Accounting Oversight Board. As required by the ICAEW, the majority of both partners and members of the Management Board are qualified to carry out statutory audit work.

quality is at the top of our agenda

Making a difference on social issues

We take a long term, consistent and committed approach to our involvement in the communities in which we live and work. Over the years, the knowledge and understanding that we have gained from this involvement has enabled us to appreciate our communities' most challenging issues, and to build partnerships delivering real change and tangible benefits for local people.

As a firm, we make a wide array of skills and resources available to meet the needs and exceed the expectations of our community partners. Our programmes involve our people rather than simple cash donations. This enables us to bring new perspectives to our communities, while simultaneously offering our people opportunities to extend their skills and increase their personal fulfilment. Our people's first-hand involvement with the wider community also brings them additional insights that in turn enable them to make more enlightened business decisions.

Our Community Affairs programme encompasses a wide range of strategic partnerships and local initiatives. We have continued to concentrate our efforts and resources on benefiting disadvantaged communities where the firm has a presence. Our primary focus is on helping young people to raise their levels of educational achievement and develop employability and citizenship skills.

This year we passed several milestones in our community involvement. These include the 10th anniversary of *Our Theatre*, a partnership with Shakespeare's Globe, the 19th consecutive year of our membership of the PerCent Standard and the 20th year of our annual pantomime for inner city children.

We also continued to develop our community programmes throughout the UK. These included *businessdynamics*, *back to business* in Newcastle – which involves our people assessing over 100 students at their work experience placements – and our involvement with The Head Teacher Leadership Academy, mentoring headteachers in Scotland. Having supported The Prince's Trust Team programme at London Bridge for the past nine years, we extended our support this year to include Birmingham, with staff from our Birmingham office helping young people develop their employability skills, such as preparing CVs and interview techniques.

As well as supporting the firm's community partners, we also recognise our people's commitment to helping charities of their own choice in their own time. We have a *Matched Giving* programme and donate up to £250 per year per employee to recognise their contribution. Last year we made 669 donations (2005: 504).

We also run a PwC Volunteering Awards Scheme, now in its ninth year, which is open to all UK employees who have a sustained involvement with a charity or community organisation. This year 182 awards were made under the scheme (2005: 176).

As a further indication of our long term commitment to our communities, we published a Community Affairs report earlier this year which included a number of targets for our community programme for the period to 30 June 2008. This is available through the corporate responsibility section of our website.

Managing a sustainable business

We aim to be a sustainable business and to have a positive impact on society. Our people tell us that they want to work for an ethical business that embraces social, environmental and economic sustainability. So do our clients, who increasingly ask to see our social and environmental policies before doing business with us.

Shakespeare's Globe Our long standing association with Globe Education and Southwark Council arose from a shared commitment to engaging young people through the creative arts and, in doing so, encouraging them to aspire to higher levels of personal achievement. In spring 2006, children from 14 schools in Southwark performed excerpts from As You Like It, on the Globe Theatre's stage in front of an audience of 1,500 people.

"Globe Education is indebted to PricewaterhouseCoopers and Southwark Council for their consistent support of Our Theatre since 1997. PricewaterhouseCoopers had faith in the Globe and supported it many years before it opened. They believed that the Globe would be a place of transformation and regeneration."

Patrick Spottiswoode, Director, Globe Education, with David R Adair, Senior Manager, Community Affairs, PwC

we consistently review our performance, and place great emphasis on measuring our impact

The workplace
The work environment we create has a major bearing on the culture of our business. It affects the attitudes and motivation of our people as well as their ability to be productive in economic terms. We continue to invest in IT to ensure we are well managed, up-to-date and able to fully support the needs of our people both in our offices, and those who regularly work offsite.

We invested £12.5m in 2006 in refurbishing over 200,000 sq ft of offices in Reading, Uxbridge, St Albans, Gatwick and several London locations to provide improved work spaces for our people.

We are also committed to ensuring our people are safe at work. We have procedures in place to comply with our legal responsibilities for Health & Safety, and comprehensive, regularly tested business continuity plans to ensure we can continue to operate effectively in the event of a major disruption.

We consult our people regularly both on their views of our people policies and how we implement them (*YouMatter* surveys) and on the internal services we provide (*Your services, Your say* surveys). They provide invaluable feedback on the areas we need to address to maintain our cutting edge.

Our environmental impact
We again took part in the Business in the Community Environment Survey, and were rewarded with top ranking among professional services firms, with an overall score of just under 98%.

Part of operating in a sustainable manner is consideration for the environment. Greenhouse gas emissions mainly CO_2 generated through energy use in our offices, and by the travel required to support our business, continue to rate as our single greatest impact on the environment. We are working with the Carbon Trust to develop an integrated carbon management strategy and are looking at ways to manage down our overall CO_2 production and to mitigate the impact of the CO_2 which is produced, for example by investing in carbon offsetting programmes.

We have again published a comprehensive set of environmental performance targets, and this year we have continued our strong performance in managing down CO_2 production. We reduced our overall CO_2 production by 42%, as a result of our decision to use renewable sources of electricity in all offices where we control the supply.

We also maintained our focus on waste management, reducing the proportion of our office waste sent to landfill to 9% and also reducing the proportion incinerated from 40% to 31%.

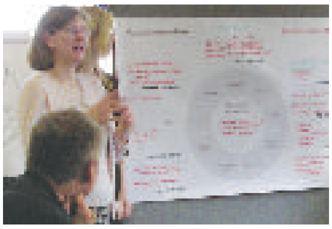
Respect for the environment is a major influence on our property strategy. Our detailed requirements for the sustainability of our buildings cover both the environmental impacts of construction and ongoing operational efficiency. New buildings must achieve the top Building Research Establishment Environment Assessment Method (BREAM) rating of excellent, and existing buildings must achieve at least very good. We also look for sustainability in the fixtures and fittings we use including carpets, furniture and partitions.

We continue to encourage environmental awareness in our people, including actively promoting, for the second year running, World Environment Day. This year 37 teams from PwC completed the Three Peaks Stair-Climbing Challenge, and Global Action Plan helped us raise awareness of the amount of energy required to power typical office

4th in the BitC Corporate Responsibility Index


Emma Courtney-Kingsland, volunteer reader, with a student from Grange Primary School


Volunteers from across the firm working together for the wider community at the Southwark Park Nature Garden, London


PwC Business Diploma participants learn about key corporate responsibility issues facing large organisations

equipment by setting up their Energy Bike at a number of our London offices.

The take up of our voluntary Carbon Neutral driving initiative continues to improve, with 20% of staff taking a new car this year electing to join the scheme, under which the CO_2 generated by driving the car is offset by paying for new trees to be planted. As a result, 6,600 trees have been planted to date at our new site in Aberdeenshire. Our previous site, Isle of Bute, is now full.

We continue to support the Woodland Trust's Tree For All campaign, which aims to involve one million children throughout the UK in planting 12 million trees. Last year we committed to plant at least one tree for every member of staff.

Managing the supply chain
The way large organisations such as ours manage their supply chain is a significant and increasingly visible factor in their sustainable business performance. We actively seek suppliers who share our values and priorities, including fair treatment of people and respect for the environment. This year we revised our tender process and assessment criteria to give us a better understanding of potential suppliers' performance on corporate responsibility. We also strive to deal fairly and openly with our suppliers once appointed, paying on time and working collaboratively to resolve any service issues. A further step forward this year was our new responsible purchasing policy, which sets out our commitments and requirements in detail, building on our publication of *Corporate Responsibility in the supply chain* two years ago.

As we continue our efforts to improve sustainability within our supply chain, it is critical that we understand the views of our key suppliers. This year we launched our supplier engagement programme, including a series of forums on specific interest areas, and our first independent supplier opinion survey.

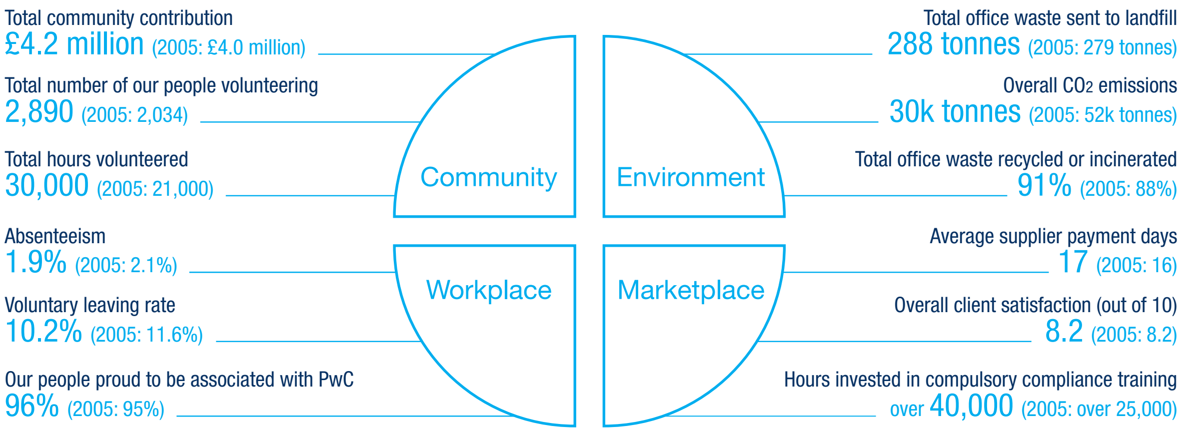
Measuring our performance
Understanding our overall corporate responsibility performance is very important to us. Corporate responsibility is embedded in all aspects of what we do, and we find it useful to assess our performance in the four main areas of Community, Environment, Workplace and Marketplace. The table below summarises a number of the key indicators in each of these four areas.

Our independent auditors, Horwath Clark Whitehill, have examined the statistical information in the table and the underlying supporting information from which it has been prepared, by undertaking specific agreed procedures. Their report is included on our website.

The future

Corporate responsibility and sustainability issues continue to grow in visibility and significance. We believe this trend will continue and even accelerate, reinforced by the parallel trend for businesses to broaden their accountability beyond their shareholders to wider stakeholder groups. Organisations looking to deliver long term commercial success must recognise these trends and work to embed financial, social and environmentally sustainable business practices throughout their operations. Our people and our clients are increasingly interested in what we are doing to respond to this challenge.

We have illustrated here some of the work we are doing to ensure our business is a sustainable one that adds value for its wider stakeholder groups. We recognise that there is more to be done and we are working to broaden our engagement with stakeholders, improve our reporting on sustainability and meet our challenging performance targets for the year ahead.



Sound financial management continues to deliver profitable growth and a strong balance sheet.*

*connectedthinking

Members' report

The Management Board submits its report and the audited consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2006. This Members' report should be read in conjunction with the other sections of this Annual Report headed Chairman, Clients, People, Firm, Financial and Global.

Structure

The consolidated financial statements comprise the accounts of PricewaterhouseCoopers LLP and its subsidiary undertakings (the 'Group'). The principal subsidiary undertakings of PricewaterhouseCoopers LLP are set out in note 22 to the financial statements; there were no branches of the LLP outside the UK. The Group's principal activity is the provision of professional services, managed within three Lines of Service: Assurance,Tax and Advisory.

Turnover

Turnover grew 11% to £1,980m, compared to a 12% growth in the prior year. Our growth reflects the continued execution of our strategy of leading in our market place and being a great place to work for all our people.

During the current and previous year no single client represented more than 1.75% of turnover.

International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards (IFRS) for its financial reporting. The financial statements have therefore been prepared in accordance with IFRS, including restating the opening financial position and prior year comparatives.

The principal changes under IFRS, compared to the previous accounting policies adopted by the Group, include the accounting treatment of staff pensions, members' capital and fixed assets, with associated presentation and disclosure changes.

Further detail on the accounting changes following the transition to IFRS can be found in notes 1 and 24 to the financial statements.

Assurance

Overall Assurance turnover increased 11% to £952m, compared to 18% growth in the prior year. Advice to clients on International Financial Reporting Standards transition and Sarbanes-Oxley reporting remained strong, although this is increasingly becoming integrated into the costs of an audit, leading to pressure on audit fees and margins. The buoyant mergers and acquisitions market led to strong demand for our services within Transaction Services, with a 27% increase in turnover (up from 9% in the prior year) reflecting our strong position in the private equity market and clients widening the range of services required to support their deals. Actuarial Insurance services were also in heavy demand.

Tax

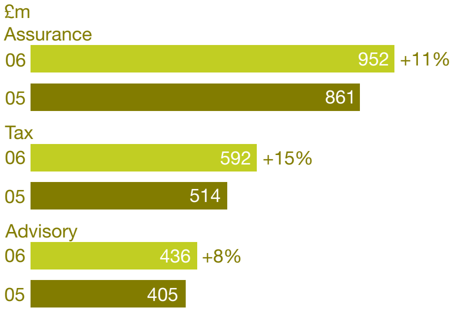
Tax showed strong growth, with turnover increasing 15% to £592m, compared to an 8% increase in the prior year. This was fuelled by a strong transactions market and winning more work from non-audit clients, where our focus on building relationships continues to reap dividends. Turnover also grew in services to audit clients, as they saw the benefits of returning to us for our tax expertise. Human Resource Services turnover grew 20%, up from 8% in the prior year. We continue to be a leading provider of human resource consulting services and have seen strong demand from clients for actuarial and pensions advice as a result of the intense national focus on pensions and changes to pensions legislation.

Advisory

Advisory turnover increased 8% to £436m, compared to 9% growth in the prior year. Advisory comprises a number of services. Performance Improvement Consulting continued to grow strongly at 18%, benefiting from increased market awareness, a string of project wins and the continued recruitment and development of high quality, specialist expertise. This growth compares to 28% growth seen in the prior year on a lower base. Business Recovery Services had a better year, compared to 6% decline last year, showing overall growth of 3%, the latter

2006 turnover grew 11% to £2 billion

Turnover
£m



Operating profit
£m

Excludes past service credit on defined benefit pension schemes.

still reflecting the benign UK economy. Corporate Finance achieved 13% growth, compared to 14% in the prior year.

Operating costs

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

Underlying staff costs increased £71m to £841m, reflecting the impact of pay awards, a 31% increase in staff bonuses to £68m and a 4% increase in average monthly staff headcount of approximately 548 people over the year to some 14,302 people.

Operating costs include expenses and disbursements on client assignments, which increased by £36m to £257m during the year. Depreciation and amortisation charges declined £14m to £30m, reflecting lower levels of technology investment following the outsourcing of our data centre services to a third party provider. Tight cost control meant that other operating charges decreased by £4m to £275m, despite increased recruitment costs and continued investment in learning and development, accommodation and technology to support our great place to work agenda. This overall decrease is a result of the realisation of our property, procurement and technology strategies, combined with our continued focus on shared services. Other operating charges and depreciation, expressed as a percentage of turnover, reduced to 15.4% compared to 18.1% in the prior year.

Staff pensions

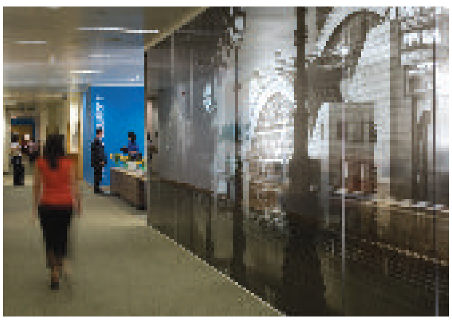
Some 9,300 of our staff are active members of the firm's various pensions arrangements. The majority are members of the firm's defined contribution scheme, with some 2,200 staff being members of, or having eligibility to join, one of the firm's defined benefit arrangements.

Triennial actuarial reviews of the defined benefit schemes, as at 31 March 2005, were completed during the year. A number of changes were introduced to the schemes to take advantage of changes in legislation due to A-day to benefit participants, to reduce the size of the pension deficit and to reduce the level of ongoing cost.

The first change enables participants to take up to the new maximum tax-free cash lump sum introduced by legislation in lieu of a pension annuity at the time of retirement. Commutation factors have been broadly improved to provide participants with a more favourable conversion from annuity to cash. The second change is with respect to pension increases. For certain benefits earned prior to 1997, discretionary pension increases will be curtailed and increases in these benefits will be capped. In addition, annual pension increases for benefits earned after October 2006 will be capped at 2.5%. The third principal change is to increase the cost of the ongoing individual member charge by 3% of base pay.

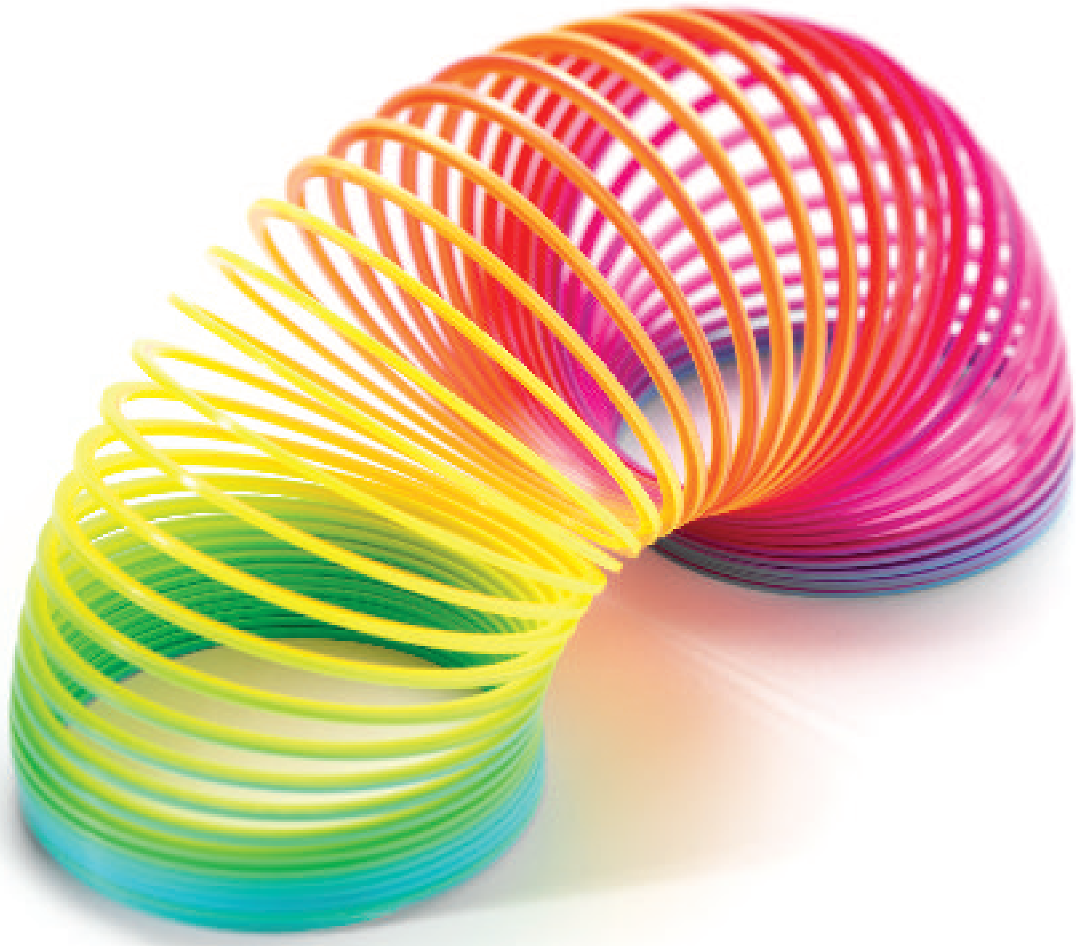
The combined effect of the past service element of the first two changes above is to reduce the pensions deficit, as measured by IAS19, by £122m. This amount is reflected as a credit to the income statement. The amount is not being distributed to members.

Staff bonuses
£m



Embankment Place Service Desk:
Our Service Solutions shared service teams support client facing staff in the office and at client locations

we continue to pursue our strategy of creating flexible and scaleable shared services



Making it Easier

We continued to make good progress with our Making it Easier programme. The programme aims to reduce the overall administrative burden in the business, simplify business processes and enhance the level of systems education and training. This makes life easier for all in the firm and frees up more time for our people to do those things that really add value for our clients.

During the year we have simplified a number of our core internal processes, rolled out new user friendly e-mail templates to our staff, supplemented by an innovative e-mail effectiveness communications campaign, improved electronic connectivity for our teams working at client sites and driven further enhancements and simplifications to our engagement management systems.

During the next financial year we will continue to put our focus on simplifying our business processes.

As part of the package of measures described above, the Group has committed to provide substantial additional funding to the pension schemes to reduce the size of the pensions deficit. Additional cash contributions totalling £70m were made to the schemes in the period to 31 March 2006 (the pension schemes' year end). The Group has also committed to make further additional cash contributions totalling £70m, designed to eliminate the Group's pensions deficit on an actuarial funding basis over the next three years.

The actuarial valuations carried out for the purpose of the accounts under IAS19 (note 16 to the financial statements) indicate a total deficit of £135m this year, compared to the prior year figure of £298m. The decrease in the IAS19 deficit reflects primarily the increase in funding and the past service credit, combined with an increase in the long term discount rate used to value scheme liabilities and overall improvements in equity markets over the year ended 30 June 2006.

Shared services

Our client facing businesses are supported by a professional team of internal shared service experts. We continued to pursue our strategy of creating a flexible and scaleable range of shared services during the year. We measure the quality of our service by reference to both service level agreements and regular *Your Services Your Say* surveys. Our latest survey results show that internal service satisfaction levels have increased from 85% in the prior year to 90% in 2006.

Operating profit

Turnover growth of 11%, offset by a 7% increase in costs, led to an overall 24% growth of £111m in operating profit to £577m (excluding the £122m past service credit on defined benefit pension schemes). Including this amount, operating profit rose to £699m.

London Borough of Hackney "We at London Borough of Hackney are seeking to work in true collaboration with PwC. Our ethos is to incorporate PwC's people fully within our culture and working environment, enabling them to gain a deep understanding of the way the Council works and of the opportunities to develop high quality professional relationships. This understanding will in turn help us to achieve our shared objective of implementing recommendations in such a way as to drive improvements in business processes and controls."

Mark Eltringham, Assistant Director, Audit and Anti-Fraud, London Borough of Hackney, with Colette Archer, Manager, PwC

Capital expenditure

Capital expenditure of £16m (2005: £29m) in the year consisted mainly of IT purchases, in particular the purchase of personal computers, investment in new systems and our continued investment in refurbishing offices.

Net assets

Net assets of £402m were, in total, up £216m on the previous year, largely due to the improved pension position. Cash resources increased £55m to £282m. Trade and other receivables increased £41m, primarily due to increased volumes of work, offset by current liabilities up £44m, chiefly as a result of increased employee taxation costs and bonuses. Property, plant and equipment and intangible assets declined £27m, reflecting a reduced level of current year investment spend and a full year's depreciation charge on prior year expenditure. There was an overall £15m reduction in provisions, primarily due to a reduction in claims provisions.

Total members' interests

A detailed analysis of total members' interests of £492m (2005: £259m) may be found in note 18 to the financial statements. This includes capital contributed by members of £107m (2005: £100m) and £402m of undistributed members' reserves (2005: £186m). Additional capital of £17m was contributed during the year (2005: £14m) and £10m was repaid to retiring members (2005: £8m).

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 (2005: 16 days).

Treasury

Our treasury focus is on ensuring there are sufficient funds available to finance the business. Surplus cash is invested in short term money market deposits. As explained in note 20 to the financial statements, hedging is undertaken to reduce risk and no speculative foreign exchange trading is permitted.

Financing

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

Net assets
£m

Cash and cash equivalents
£m

Our bank facilities, which totalled £150m at the year end (2005: £150m), are provided under a five year arrangement terminating in January 2010. Our facilities, which are spread across a number of banks, are maintained at levels sufficient to meet the expected peak cash requirements of the business. We are satisfied that our facilities will maintain a prudent buffer over our forecast peak borrowing requirements over the next 12 months.

Total tax contribution

A significant part of our overall economic impact is the Group's contributions to the Government's finances through payment and collection of a number of taxes. During the year we paid a range of business taxes in the normal course of business, amounting to £122m (2005: £94m). Our largest business tax payments are the National Insurance Contributions (NIC) which we pay in respect of our people, amounting this year to £68m (2005: £62m).

We also collected taxes on behalf of the Government during the year, the most significant of which were net VAT and PAYE amounting to £421m (2005: £384m). These taxes are a measure of the value we add and the jobs we create in society through our business activities. They demonstrate our wider economic impact and overall contribution to the Exchequer.

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

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

Members' profit shares

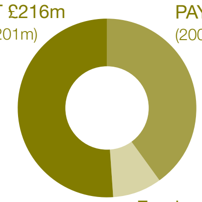
Members are remunerated solely out of the profits of the firm and are personally responsible for funding pensions and other benefits. Final allocation of profits to members is made by the Management Board after assessing each member's contribution for the year. The Supervisory Board oversees and approves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

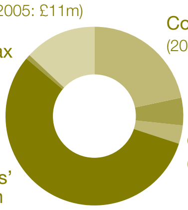
Business taxes collected

2006: Total collected £421m
(2005: Total collected £384m)



Business taxes paid

2006: Total paid £122m
(2005: Total paid £94m)



Each member's performance income, which in the current year represents on average approximately 40% of their profit share (2005: 35%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives based on the member's role.

Those objectives include ensuring that we deliver quality services and that we maintain our independence and integrity.

There is transparency among the members over the total income allocated to each individual.

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of PricewaterhouseCoopers LLP during the year were Kieran Poynter, John Berriman, Owen Jonathan and Andrew Smith. Glyn Barker and Keith Tilson were appointed designated members on 1 July 2006.

Drawings

The overall policy for members' drawings is to distribute a proportion of the profit during the financial year, taking into account the need to maintain sufficient funds to settle members' income tax liabilities and to finance the working capital and other needs of the business.

The Management Board sets the level of members' monthly drawings and interim profit allocations, based on a percentage of their individual responsibility income. The Supervisory Board approves this process. The final allocation and distribution of profits to individual members is made once their performance has been assessed and the annual financial statements have been approved.

Political donations

The firm does not make any cash nor, as a general rule, in-kind donations to any political party or other groups with a political agenda. In exceptional circumstances, secondments or other contributions may be permitted, but require the agreement of the Management Board. In considering any request, the Management Board has regard to the possible impact on clients of the firm and the firm's overall reputation.

During the year we provided less than 350 hours of free technical support to political parties (2005: less than 150 hours).

In the interests of the firm and its clients, the firm also engages in discussion with Government, opposition parties, MEPs and other related parties to seek to improve legislation or proposed legislation, to ensure the exchange of relevant information and to encourage understanding of the mechanisms of legislative decision making.

Going concern

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

Statement of members' responsibilities in respect of the financial statements

The Companies Act 1985, as applied to Limited Liability Partnerships, requires the members to prepare financial statements for each financial year that give a true and fair view of the state of affairs of both PricewaterhouseCoopers LLP and the Group and of the profit or loss of the Group for that period. In preparing those financial statements the members are required to:

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

The members are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985, as applied to Limited Liability Partnerships. They are also responsible for safeguarding the assets of the LLP and Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are fulfilled by the Management Board on behalf of the members. The Management Board confirms that it has complied with the above requirements in preparing the financial statements.

Auditors

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

On behalf of the Management Board

Kieran Poynter, Chairman
11 August 2006

Independent auditors' report to the members of PricewaterhouseCoopers LLP

We have audited the financial statements which comprise the income statement, balance sheets, cash flow statements, statement of changes in members' equity, and the related notes numbered 1 to 24. The financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the LLP's members, as a body, in accordance with the Companies Act 1985, as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the LLP's members those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members as a body for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the members and auditors

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

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

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

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

We have reviewed the *Managing risk* 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 *Maintaining quality* and *Complying with regulation* included in the section headed Firm are not described appropriately.

Basis of audit opinion

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

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

Opinion

In our opinion:

– the financial statements give a true and fair view, in accordance with IFRS as issued by the International Accounting Standards Board, of the state of affairs and cash flows of the LLP and the Group at 30 June 2006 and of the profit of the Group for the year then ended;

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

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

Horwath Clark Whitehill LLP

Horwath Clark Whitehill LLP
Chartered Accountants
and Registered Auditors,
London
11 August 2006

Consolidated income statement

for the year ended 30 June 2006

	Notes	2006 £m	2005 £m
Turnover	2	**1,980**	**1,780**
Operating costs			
Staff costs			
Staff costs		**(841)**	(770)
Other – past service credit on defined benefit pension schemes		**122**	–
	3	**(719)**	(770)
Expenses and disbursements on client assignments		**(257)**	(221)
Depreciation, amortisation and impairment	4	**(30)**	(44)
Other operating charges	4	**(275)**	(279)
		(1,281)	**(1,314)**
Operating profit		**699**	**466**
Finance income	5	**68**	59
Finance expense	5	**(67)**	(60)
Profit on ordinary activities before taxation		**700**	**465**
Tax expense in corporate subsidiaries	6	**(10)**	(4)
Profit for the financial year available for division among members	18	**690**	**461**

Consolidated balance sheet

at 30 June 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Property, plant and equipment	8	**73**	91
Intangible assets	9	**20**	29
Investments	10	**6**	6
		99	**126**
Current assets			
Trade and other receivables	11	**571**	530
Cash and cash equivalents	12	**282**	227
		853	**757**
Total assets		**952**	**883**
Current liabilities			
Trade and other payables	13	**(355)**	(308)
Provisions	14	**(7)**	(10)
Members' capital	15	**(5)**	(5)
		(367)	**(323)**
Non-current liabilities			
Retirement benefit obligations	16	**(7)**	(188)
Other payables	13	**(6)**	(6)
Provisions	14	**(59)**	(71)
Deferred tax liabilities	17	**(9)**	(14)
Members' capital	15	**(102)**	(95)
		(183)	**(374)**
Total liabilities		**(550)**	**(697)**
Net assets		**402**	**186**
Members' equity			
Reserves		**402**	186
Total members' equity		**402**	**186**
Total members' interests			
Members' capital		**107**	100
Reserves		**402**	186
Loans and other debts due to members (included in current liabilities)		**–**	1
Amounts due from members (included in current assets)		**(17)**	(28)
Total members' interests	18	**492**	**259**

The financial statements on pages 43 to 71 were authorised for issue and signed on 11 August 2006 on behalf of the members of PricewaterhouseCoopers LLP by:

Kieran Poynter

John Berriman

PricewaterhouseCoopers LLP balance sheet

at 30 June 2006

	Notes	**2006 £m**	2005 £m
Non-current assets			
Property, plant and equipment	8	**17**	19
Investments	10	**14**	14
		31	**33**
Current assets			
Trade and other receivables	11	**549**	497
Cash and cash equivalents	12	**273**	217
		822	**714**
Total assets		**853**	**747**
Current liabilities			
Trade and other payables	13	**(294)**	(215)
Provisions	14	**(6)**	(8)
Members' capital	15	**(5)**	(5)
		(305)	**(228)**
Non-current liabilities			
Retirement benefit obligations	16	**(7)**	(188)
Other payables	13	**(6)**	(6)
Provisions	14	**(53)**	(66)
Members' capital	15	**(102)**	(94)
		(168)	**(354)**
Total liabilities		**(473)**	**(582)**
Net assets		**380**	**165**
Members' equity			
Reserves		**380**	165
Total members' equity		**380**	**165**
Total members' interests			
Members' capital		**107**	99
Reserves		**380**	165
Loans and other debts due to members (included in current liabilities)		**–**	1
Total members' interests	18	**487**	**265**

The financial statements on pages 43 to 71 were authorised for issue and signed on 11 August 2006 on behalf of the members of PricewaterhouseCoopers LLP by:

Kieran Poynter

John Berriman

Consolidated cash flow statement

for the year ended 30 June 2006

	Group		LLP	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Cash flows from operating activities				
Profit before taxation	**700**	465	**680**	454
Adjustments for:				
Depreciation, amortisation and impairment	**30**	44	**2**	4
Change in investments	**–**	2	**–**	2
Finance income	**(68)**	(59)	**(67)**	(59)
Finance expense	**67**	60	**66**	58
	729	**512**	**681**	**459**
(Increase) decrease in trade and other receivables	**(52)**	79	**(52)**	78
Increase (decrease) in trade and other payables	**53**	(3)	**80**	(8)
Decrease in provisions	**(16)**	(4)	**(15)**	(6)
Decrease in retirement benefit obligations	**(187)**	(19)	**(188)**	(18)
Cash generated from operations	**527**	**565**	**506**	**505**
Interest paid	**(1)**	(2)	–	–
Tax paid by corporate subsidiaries	**(27)**	(11)	–	–
Net cash inflow from operating activities	**499**	**552**	**506**	**505**
Cash flows from investing activities				
Purchase of property, plant and equipment	**(16)**	(29)	–	–
Purchase of intangible assets	**(3)**	(4)	–	–
Proceeds from sale of property, plant and equipment	**12**	7	–	–
Proceeds from sale of intangible assets	**4**	3	–	–
Interest received	**9**	4	**8**	4
Net cash inflow (outflow) from investing activities	**6**	**(19)**	**8**	**4**
Cash flows from financing activities				
Distributions to members	**(475)**	(377)	**(466)**	(376)
Compensating payment by members	**18**	–	–	–
Capital contributions by members	**17**	14	**17**	13
Capital repayments to members	**(10)**	(8)	**(9)**	(8)
Net cash used in financing activities	**(450)**	**(371)**	**(458)**	**(371)**
Net increase in cash and cash equivalents	**55**	162	**56**	138
Cash and cash equivalents at beginning of year	**227**	65	**217**	79
Cash and cash equivalents at end of year (note 12)	**282**	**227**	**273**	**217**

Consolidated statement of changes in members' equity

for the year ended 30 June 2006

	2006	2005
	£m	£m
Balance at beginning of year	**186**	103
Total recognised income – profit for the financial year available for division among members	**690**	461
Allocated profit in financial year	**(474)**	(378)
Balance at end of year	**402**	**186**

1 Accounting policies

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

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations issued and effective as at 30 June 2006, and with those parts of the Companies Act 1985 applicable to limited liability partnerships reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy on financial instruments.

Transition to IFRS
The date of transition to IFRS was 1 July 2004, which is the beginning of the comparative period for the year ended 30 June 2006. The Group has applied IFRS 1 upon the first time adoption of IFRS, which allows certain exemptions from retrospective application of IFRS in the opening balance sheet of 1 July 2004. Where these have been used, they are explained in the accounting policies below.

The Group has chosen to restate comparative information in respect of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with full retrospective application.

The Group has adopted early the amendment to IAS 19 'Employee Benefits' which is effective for accounting periods beginning on or after 1 January 2006 and has applied the requirements of this amendment in these financial statements.

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

– IFRS 7 'Financial Instruments: Disclosures' was issued in August 2005. It revises and enhances disclosures about exposure to risks arising from financial instruments and is effective for accounting periods beginning on or after 1 January 2007;

– IFRIC 4 'Determining whether an arrangement contains a lease' was issued in December 2004. It requires arrangements which may have the nature, but not the legal form, of a lease to be accounted for in accordance with IAS 17 'Leases'. This interpretation is effective for accounting periods beginning on or after 1 January 2006.

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

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

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

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

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

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

Unbilled turnover on individual client assignments is included as unbilled amounts for client work within debtors. Where individual on-account billings exceed revenue on client assignments the excess is classified as progress billings for client work within creditors.

Leases
Operating lease rentals, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

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

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

1 Accounting policies (continued)

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

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

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

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

Intangible assets
Computer software – costs directly associated with the development of software for internal use in the business that will generate economic benefits exceeding one year are capitalised as intangible assets. Intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss. Amortisation is provided on a straight line basis over the expected useful economic lives of 3 to 5 years.

Goodwill – on the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such assets, liabilities and contingent liabilities acquired. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there is an indication that the carrying value may not be recoverable.

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

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

Retirement benefit obligations
The Group operates both defined benefit and defined contribution schemes. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS19, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets.

As permitted under IFRS1, all actuarial gains and losses as at 1 July 2004, the date of transition to IFRS, were recognised as an adjustment to equity.

In respect of actuarial gains and losses for each scheme that arise subsequent to that date, to the extent that cumulatively they exceed 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of the scheme assets, that portion is recognised in the income statement over the expected average remaining service lives of the employees participating in the scheme.

Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognisable asset is limited to that for which the Group can benefit in future.

Past service costs resulting from benefit changes are recognised over the period to vesting and, if they vest immediately, they are recognised at that time in the income statement.

For the defined benefit schemes, costs charged to the income statement consist of current service cost, interest cost, expected return on scheme assets, past service cost and the impact of any settlements or curtailments, as well as actuarial gains or losses to the extent they are recognised.

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

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

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

1 Accounting policies (continued)

Financial instruments
Financial instruments are initially recognised at fair value.

Investments in subsidiary undertakings are stated at cost less impairment.

Unquoted investments with no reliable measure of fair value are designated as available-for-sale and carried at cost less impairment. Income from these investments is recognised in the income statement when entitlement is established.

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

Members' capital represents loans made by the members for the Group's working capital needs. The capital is repayable on members' retirement.

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

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

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

The key estimates and assumptions relate to the actuarial assumptions used in calculating the Group's retirement benefit obligations, in particular relating to discount rate and mortality, provisions in respect of client claims, onerous property costs and debt impairment, and the fair value of unbilled turnover on client assignments. Further details are set out in each of the relevant accounting policies and detailed notes to the financial statements.

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

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

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 PricewaterhouseCoopers United Kingdom Partnership, have agreed to pay pension annuities to certain former partners of that partnership and the widows and dependants of deceased former partners. These annuities are personal obligations of the members and are not obligations of, or guaranteed by, PricewaterhouseCoopers LLP or its subsidiary undertakings. Accordingly, these annuities are not dealt with in these financial statements.

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.

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is measured at the tax rates that are substantively enacted at the balance sheet date and expected to apply in the periods in which the temporary differences reverse.

2 Segment Reporting

The Group is organised into and managed through three Lines of Service, Assurance, Tax and Advisory. Operating costs that are specifically attributable are allocated directly to individual segments. The majority of the Group's central costs are allocated under bases within documented service level agreements and other central costs are apportioned having regard to the appropriate cost driver. The £122m past service credit on defined benefit pension schemes has not been allocated. Transactions with other segments arise when specialists work across Lines of Service and are disclosed on a net basis. The internal rate of transfer for these transactions is set annually between the Lines of Service.

	2006					2005				
	Assurance £m	**Tax £m**	**Advisory £m**	**Unallocated £m**	**Total £m**	Assurance £m	Tax £m	Advisory £m	Unallocated £m	Total £m
Turnover										
Turnover from external customers	**1,003**	**561**	**416**	**–**	**1,980**	914	485	381	–	1,780
Transactions with other segments	**(51)**	**31**	**20**	**–**	**–**	(53)	29	24	–	–
Turnover by Line of Service	**952**	**592**	**436**	**–**	**1,980**	**861**	**514**	**405**	**–**	**1,780**
Operating Profit	**262**	**193**	**122**	**122**	**699**	218	143	105	–	466
Finance income	**–**	**–**	**–**	**68**	**68**	–	–	–	59	59
Finance expense	**–**	**–**	**–**	**(67)**	**(67)**	–	–	–	(60)	(60)
Tax	**–**	**–**	**–**	**(10)**	**(10)**	–	–	–	(4)	(4)
Profit for the financial year available for division among members	**262**	**193**	**122**	**113**	**690**	**218**	**143**	**105**	**(5)**	**461**
Other segment items										
Capital expenditure	**9**	**4**	**3**	**3**	**19**	15	8	5	5	33
Depreciation, amortisation and impairment	**14**	**7**	**5**	**4**	**30**	20	10	7	7	44
Assets										
Segment assets	**306**	**222**	**142**	**–**	**670**	255	170	121	–	546
Unallocated assets	**–**	**–**	**–**	**282**	**282**	–	–	–	337	337
	306	**222**	**142**	**282**	**952**	**255**	**170**	**121**	**337**	**883**
Liabilities										
Segment liabilities	**(262)**	**(146)**	**(118)**	**–**	**(526)**	(264)	(143)	(109)	–	(516)
Unallocated liabilities	**–**	**–**	**–**	**(24)**	**(24)**	–	–	–	(181)	(181)
	(262)	**(146)**	**(118)**	**(24)**	**(550)**	**(264)**	**(143)**	**(109)**	**(181)**	**(697)**

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

The Group's turnover derives principally from its operations in the UK and Channel Islands. Accordingly, the Group has presented no secondary segment analysis.

3 Staff costs

Group

	2006 £m	2005 £m
Salaries	**722**	658
Social security costs	**74**	71
Pension costs (note 16)		
– defined contribution	**26**	25
– current service cost of defined benefit pension schemes	**19**	16
	841	770
– past service credit on defined benefit pension schemes	**(122)**	–
	719	**770**

Pension costs include costs arising on both defined contribution and defined benefit pension schemes. The past service credit arises following benefit changes agreed with the defined benefit pension schemes' trustees regarding changes to cash commutation arrangements and the capping of pension increases. In accordance with IAS 19, the past service credit has been recognised immediately in the income statement.

The average number of Group employees during the year was:

	2006 Number	2005 Number
Assurance	**6,527**	6,136
Tax	**3,330**	3,172
Advisory	**2,425**	2,381
Shared Services and National Functions	**2,020**	2,065
	14,302	**13,754**

LLP
There were no employees in the LLP during the year (2005 – nil).

4 Other operating costs

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

	2006 £m	2005 £m
Depreciation, amortisation and impairment:		
– depreciation of owned assets (note 8)	**22**	29
– amortisation of intangible assets (note 9)	**8**	11
– impairment of goodwill (note 9)	**–**	4
	30	**44**
Included in other operating charges are the following costs:		
Operating lease rentals:		
– land and buildings	**63**	67
– plant and machinery	**11**	10
	74	**77**

Group audit fees and expenses for the year ended 30 June 2006 were £0.3m (2005 – £0.3m) of which the amount relating to the parent LLP was £0.2m (2005 – £0.2m). There were no fees paid to Horwath Clark Whitehill LLP for non-audit services in the UK (2005 – nil).

5 Finance income and expense

	2006 £m	2005 £m
Finance income		
Interest receivable	**9**	4
Unwinding of discount	**–**	1
Expected return on pension scheme assets (note 16)	**59**	54
	68	**59**
Finance expense		
Interest payable	**(1)**	(2)
Unwinding of discount (note 14)	**(1)**	–
Interest on pension scheme obligations (note 16)	**(65)**	(58)
	(67)	**(60)**

6 Tax expense in corporate subsidiaries

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 individual members.

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

	2006 £m	2005 £m
Current tax comprising UK corporation tax expense at 30% based on taxable profits for the year	**31**	31
Compensating payment due from members	**(16)**	(28)
Deferred tax movements (note 17)	**(5)**	1
Tax expense in corporate subsidiaries	**10**	**4**

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

	2006 £m	2005 £m
Profit on ordinary activities of corporate entities before tax	**10**	**5**
Tax expense at UK standard rate of 30%	**3**	1
Effects of:		
– expenses not deductible for tax purposes	**6**	5
– adjustments in respect of previous years	**1**	(2)
	10	**4**

In accordance with UK transfer pricing legislation, the UK corporation tax expense in subsidiary undertakings includes an additional amount in respect of the taxable profits of those subsidiaries. The cost of this is offset by a compensating payment made by members direct to the relevant subsidiaries. The tax expense in corporate subsidiaries in 2006 includes a reduction of £9m in the compensating payment due from members in respect of prior years, offset by a similar reduction in the current tax charge in respect of the same period.

7 Members' profit shares

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

The average monthly number of members during the year was:

	2006 Number	2005 Number
Assurance	**352**	333
Tax	**226**	223
Advisory	**190**	176
Other, including members fulfilling roles in the PwC global network	**25**	23
	793	**755**

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

	2006 £000	2005 £000
Average profit per member excluding past service credit on defined benefit pension schemes	**716**	611
Average profit per member	**870**	611

The past service credit on defined benefit pension schemes is not being distributed to members and will be held within reserves in Members' equity.

The amount invested by members in the business, represented by total members' interests at 30 June 2006, divided by the number of members at that date, amounts to an average investment per member of £618,000 (2005 – £344,000).

The estimated profit attributable to the Chairman, the member with the largest entitlement to profit, is £2.5m (2005 – £2.1m). His investment in the business at 30 June 2006, represented by his share of total members' interests was £2.3m (2005 – £1.1m).

8 Property, plant and equipment

Group

	Freehold property £m	Leasehold property £m	Property held under finance lease £m	Fittings, furnishings & equipment £m	Total £m
Cost					
At beginning of prior year	5	34	6	210	255
Additions	–	–	–	29	29
Disposals	–	(1)	–	(23)	(24)
At end of prior year	5	33	6	216	260
Additions	–	–	–	16	16
Disposals	–	–	–	(36)	(36)
At end of year	**5**	**33**	**6**	**196**	**240**
Accumulated depreciation					
At beginning of prior year	1	21	3	132	157
Depreciation charge for the year	–	1	–	28	29
Disposals	–	(1)	–	(16)	(17)
At end of prior year	1	21	3	144	169
Depreciation charge for the year	–	2	–	20	22
Disposals	–	–	–	(24)	(24)
At end of year	**1**	**23**	**3**	**140**	**167**
Net book amount at end of year	**4**	**10**	**3**	**56**	**73**
Net book amount at end of prior year	**4**	**12**	**3**	**72**	**91**

Capital commitments contracted but not provided for at 30 June 2006 amounted to £1m (2005 – £2m).

LLP

	Leasehold property £m	Property held under finance lease £m	Fittings, furnishings & equipment £m	Total £m
Cost				
At beginning of prior year	29	6	5	40
Disposals	(1)	–	–	(1)
At end of prior year	28	6	5	39
At end of year	**28**	**6**	**5**	**39**
Accumulated depreciation				
At beginning of prior year	12	3	4	19
Depreciation charge for the year	1	–	1	2
Disposals	(1)	–	–	(1)
At end of prior year	12	3	5	20
Depreciation charge for the year	2	–	–	2
At end of year	**14**	**3**	**5**	**22**
Net book amount at end of year	**14**	**3**	**–**	**17**
Net book amount at end of prior year	**16**	**3**	**–**	**19**

9 Intangible assets

Group

	Goodwill £m	Computer software £m	Total £m
Cost			
At beginning of prior year	4	57	61
Additions	–	4	4
Disposals	–	(3)	(3)
At end of prior year	4	58	62
Additions	–	3	3
Disposals	–	(6)	(6)
At end of year	**4**	**55**	**59**
Accumulated amortisation and impairment			
At beginning of prior year	–	18	18
Amortisation charge for the year	–	11	11
Impairment	4	–	4
At end of prior year	4	29	33
Amortisation charge for the year	–	8	8
Disposals	–	(2)	(2)
At end of year	**4**	**35**	**39**
Net book amount at end of year	**–**	**20**	**20**
Net book amount at end of prior year	**–**	**29**	**29**

Goodwill previously recognised was impaired in the prior year due to those acquired businesses being fully integrated into the operations of the Group.

LLP

At the beginning of the prior year, goodwill amounting to £2m was recognised in the LLP relating to previously acquired businesses. This amount was fully impaired in the prior year due to those businesses being fully integrated into the operations of the LLP. There were no intangible assets in the LLP as at 30 June 2006 (2005 – nil).

10 Investments

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

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

Other investments		
Cost at beginning of year and at end of year	**9**	**8**
Impairment at beginning of year and at end of year	**(3)**	**(2)**
Cost less impairment at beginning of year and at end of year	**6**	**6**

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

Total investments at beginning of year and at end of year	**6**	**14**

11 Trade and other receivables

	Group 2006 £m	Group 2005 £m	LLP 2006 £m	LLP 2005 £m
Client receivables	**309**	281	**306**	278
Due from overseas PricewaterhouseCoopers member firms	**13**	7	**42**	24
Trade receivables	**322**	288	**348**	302
Amounts due from members	**17**	28	**–**	–
Other receivables	**24**	26	**9**	21
Prepayments	**27**	27	**13**	13
Unbilled amounts for client work	**181**	161	**179**	161
	571	**530**	**549**	**497**

Group and LLP trade receivables are shown after impairment provisions for bad and doubtful debts of £9m (2005 – £15m).

12 Cash and cash equivalents

	Group 2006 £m	Group 2005 £m	LLP 2006 £m	LLP 2005 £m
Cash at bank and in hand	**29**	27	**20**	17
Short term deposits	**253**	200	**253**	200
	282	**227**	**273**	**217**

13 Trade and other payables

	Group 2006 £m	Group 2005 £m	LLP 2006 £m	LLP 2005 £m
Current				
Trade payables	**32**	25	**–**	1
Amounts owed to Group undertakings	**–**	–	**211**	146
Other payables including taxation and social security (see below)	**98**	88	**21**	12
Accruals	**172**	148	**11**	9
Progress billings for client work	**53**	46	**51**	46
Loans and other debts due to members	**–**	1	**–**	1
	355	**308**	**294**	**215**

Current trade payables (Group) include amounts owing to overseas PricewaterhouseCoopers member firms totalling £17m (2005 – £18m).

Other current payables including taxation and social security comprise:

	Group 2006 £m	Group 2005 £m	LLP 2006 £m	LLP 2005 £m
Corporation tax	**8**	13	**–**	–
Other taxes and social security	**56**	53	**–**	–
Other payables	**34**	22	**21**	12
	98	**88**	**21**	**12**

13 Trade and other payables (continued)

Non-current	**Group 2006 £m**	Group 2005 £m	**LLP 2006 £m**	LLP 2005 £m
The minimum lease payments under finance leases fall due as follows:				
Between one and five years	**1**	1	**1**	1
More than five years	**18**	18	**18**	18
	19	19	**19**	19
Future finance charges	**(13)**	(13)	**(13)**	(13)
Present value of finance lease obligation	**6**	**6**	**6**	**6**

Non-current payables represent property commitments under finance leases (Group and LLP).

14 Provisions

Group	Client claims £m	Property £m	Total £m
Balance at beginning of year	43	38	81
Charged to income statement	5	5	10
Released unused during the year	(2)	(2)	(4)
Unwinding of discount	–	1	1
Cash payments	(13)	(9)	(22)
Balance at end of year	**33**	**33**	**66**

LLP	Client claims £m	Property £m	Total £m
Balance at beginning of year	43	31	74
Charged to income statement	5	3	8
Released unused during the year	(2)	(1)	(3)
Unwinding of discount	–	1	1
Cash payments	(13)	(8)	(21)
Balance at end of year	**33**	**26**	**59**

Disclosed as:	**Group 2006 £m**	Group 2005 £m	**LLP 2006 £m**	LLP 2005 £m
Current	**7**	10	**6**	8
Non-current	**59**	71	**53**	66
	66	**81**	**59**	**74**

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

Provisions have been recognised for obligations under property contracts which are onerous and to restore premises to their original condition upon vacating them, where such an obligation exists under the lease. The provisions have been estimated using current costs and have been discounted to present value at a rate of 5.25% (2005 – 5.00%). The provision covers residual lease commitments of up to 9 years and is after allowance for existing or expected sublet rental income.

15 Members' capital

	Group £m	LLP £m
At 1 July 2005	100	99
Contributions by members	17	17
Repayments to members	(10)	(9)
At 30 June 2006	**107**	**107**

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

Members' capital due to members known to be retiring at 30 June 2006 is shown as current as it will be repaid within twelve months of the balance sheet date. Total members' capital analysed by repayable dates is as follows:

	Group £m	LLP £m
Current	5	5
Non-current	102	102
	107	**107**

16 Retirement benefit obligations

The Group operates both defined contribution and defined benefit pension arrangements for its staff. The defined benefit schemes are funded and their assets are held separately from those of the Group. The liabilities arising in the defined benefit schemes are assessed by independent actuaries, using the projected unit credit method. All defined benefit schemes are formally valued every three years.

Defined contribution schemes
Costs of £26m (2005 – £25m) were recognised in respect of defined contribution schemes by the Group. Costs of defined contribution schemes in the LLP were nil (2005 – nil).

Defined benefit schemes
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 schemes are closed to new employees and the DH&S Plan is closed to new members.

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 IAS19, 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 IAS19 by the Group's in-house actuaries and included within the amounts for the PwC PF.

The most recent full actuarial valuations for both the PwC PF and the DH&S Plan were carried out as at 31 March 2005 and updated to 30 June 2006 by qualified independent actuaries. The actuaries are Aon Consulting for the PwC PF and Mercer Human Resource Consulting for the DH&S Plan.

The principal actuarial assumptions used were as follows:

	30 June 2006	30 June 2005	30 June 2004
Discount rate	**5.25%**	5.00%	5.75%
Inflation	**2.85%**	2.50%	2.75%
Expected rate of increase in salaries	**4.10%**	3.75%	4.00%
Expected rate of increase in pensions in payment	**2.55%**	2.50%	2.75%
Expected return on PwC PF assets	**6.50%**	6.20%	6.70%
Expected return on DH&S Plan assets	**6.25%**	5.90%	6.40%

16 Retirement benefit obligations (continued)

The actuarial valuations assume that mortality will be in line with nationally published PA92 mortality tables incorporating projected improvements to life expectancy. These mortality assumptions are the same as those used in the most recent full actuarial valuations for funding purposes. The current life expectancies underlying the value of the defined benefit obligations for the main schemes are:

	2006		2005	
	PwC PF	**DH&S Plan**	PwC PF	DH&S Plan
	Years	**Years**	Years	Years
Current pensioners at age 65 – male	**19.1**	**19.1**	16.9	16.9
– female	**22.1**	**22.1**	19.9	19.9
Future pensioners at age 65 – male	**20.8**	**21.1**	20.3	20.3
– female	**23.8**	**24.1**	23.3	23.3

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

			2006			2005
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Fair value of scheme assets	**735**	**396**	**1,131**	619	329	948
Present value of defined benefit obligations	**(794)**	**(472)**	**(1,266)**	(808)	(438)	(1,246)
	(59)	**(76)**	**(135)**	(189)	(109)	(298)
Unrecognised actuarial losses	**71**	**57**	**128**	80	30	110
Net retirement benefit asset (obligation)	**12**	**(19)**	**(7)**	**(109)**	**(79)**	**(188)**

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

			2006			2005
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Operating cost						
Current service cost	**(15)**	**(4)**	**(19)**	(13)	(3)	(16)
Past service credit	**96**	**26**	**122**	–	–	–
Finance income and expense						
Expected return on pension scheme assets	**39**	**20**	**59**	36	18	54
Interest on pension scheme defined benefit obligations	**(42)**	**(23)**	**(65)**	(37)	(21)	(58)
	78	**19**	**97**	**(14)**	**(6)**	**(20)**

Total cash contributions to the defined benefit schemes during the year ended 30 June 2006 were £84m, including £70m of additional contributions. In accordance with actuarial recommendations and as agreed with the schemes' trustees, the Group expects to pay contributions next year totalling £50m, including £32m of additional contributions. In total, the Group has committed to make additional contributions of £70m over the next three years, in excess of the normal contributions.

The changes in defined benefit scheme assets were as follows:

			2006			2005
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Fair value of scheme assets at start of the year	**619**	**329**	**948**	524	280	804
Expected return on scheme assets	**39**	**20**	**59**	36	18	54
Actuarial gain on assets	**46**	**12**	**58**	46	24	70
Contributions by employer	**43**	**41**	**84**	24	11	35
Benefits paid	**(12)**	**(6)**	**(18)**	(11)	(4)	(15)
Fair value of scheme assets at end of year	**735**	**396**	**1,131**	**619**	**329**	**948**

The actual return on scheme assets in the year ended 30 June 2006 was £117m (2005 – £124m). The expected return on assets is based on a projection of long-term investment returns for each asset class, less an allowance for management charges.
The calculation incorporates the expected return on risk-free investments and the historical risk premium associated with other invested assets.

16 Retirement benefit obligations (continued)

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

	30 June 2006	30 June 2005	30 June 2004
Equities	**7.80%**	7.45%	7.70%
Bonds	**4.90%**	4.50%	5.30%
Cash	**4.50%**	4.75%	4.50%

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

	Value at 30 June 2006			Value at 30 June 2005		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
Equities	**427**	**180**	**607**	364	150	514
Bonds	**299**	**211**	**510**	237	177	414
Cash	**9**	**5**	**14**	18	2	20
	735	**396**	**1,131**	**619**	**329**	**948**

The changes in defined benefit obligations were as follows:

	2006			2005		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
Present value of defined benefit obligation at start of year	**(808)**	**(438)**	**(1,246)**	(643)	(364)	(1,007)
Current service cost	**(15)**	**(4)**	**(19)**	(13)	(3)	(16)
Interest cost	**(42)**	**(23)**	**(65)**	(37)	(21)	(58)
Past service credit	**96**	**26**	**122**	–	–	–
Actuarial loss on obligations	**(37)**	**(39)**	**(76)**	(126)	(54)	(180)
Benefits paid	**12**	**6**	**18**	11	4	15
Present value of defined benefit obligation at end of year	**(794)**	**(472)**	**(1,266)**	**(808)**	**(438)**	**(1,246)**

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

	2006			2005		
	PwC PF £m	DH&S Plan £m	Total £m	PwC PF £m	DH&S Plan £m	Total £m
Fair value of scheme assets	**735**	**396**	**1,131**	619	329	948
Present value of defined benefit obligation	**(794)**	**(472)**	**(1,266)**	(808)	(438)	(1,246)
Deficit	**(59)**	**(76)**	**(135)**	**(189)**	**(109)**	**(298)**
Actuarial experience gains on assets	**46**	**12**	**58**	46	24	70
Actuarial experience gains (losses) on obligations	**7**	**(7)**	**–**	(13)	(7)	(20)

The assumed discount rate, salary increase and mortality all have a significant effect on the IAS 19 accounting valuation. The following table shows the sensitivity of the value of the defined benefit obligations to changes in these assumptions:

	PwC PF Decrease (Increase) £m	DH&S Plan Decrease (Increase) £m	Total £m
0.25% increase to discount rate	36	24	60
0.25% increase to salary increases	(4)	(3)	(7)
1 year increase to life expectancy	(18)	(10)	(28)

17 Deferred tax

Deferred tax is calculated in full under the liability method on temporary differences arising in the corporate subsidiaries using a tax rate of 30% (2005 – 30%).

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

	2006 £m	2005 £m
Balance at beginning of year	**1**	–
Capital allowances in excess of depreciation	**1**	1
Balance at end of year	**2**	**1**

The movements in the Group's deferred tax liabilities during the year were as follows:		
Balance at beginning of year	**(15)**	(13)
Capital allowances in excess of depreciation	**–**	1
Deferred income and other temporary differences	**4**	(3)
Balance at end of year	**(11)**	**(15)**
Net deferred tax liability at beginning of year	**(14)**	(13)
Movement in year	**5**	(1)
Net deferred tax liability at end of year	**(9)**	**(14)**

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

There was no deferred tax arising in the LLP.

18 Total members' interests

Group	Members' capital £m	Reserves £m	Loans and other debts due to (from) members £m	Total £m
Balance at beginning of prior year	**94**	**103**	**–**	**197**
Profit for the financial year available for division among members	–	461	–	461
	94	**564**	**–**	**658**
Allocated profit	–	(378)	378	–
Introduced by members	14	–	–	14
Repayment of capital	(8)	–	–	(8)
Drawings and distributions	–	–	(377)	(377)
Compensating payment due to subsidiary undertakings	–	–	(28)	(28)
Balance at beginning of year	**100**	**186**	**(27)**	**259**
Profit for the financial year available for division among members	–	690	–	690
	100	**876**	**(27)**	**949**
Allocated profit	–	(474)	474	–
Introduced by members	17	–	–	17
Repayment of capital	(10)	–	–	(10)
Drawings and distributions	–	–	(475)	(475)
Movement in compensating payment due to subsidiary undertakings	–	–	11	11
Balance at end of year	**107**	**402**	**(17)**	**492**

18 Total members' interests (continued)

LLP	Members' capital £m	Reserves £m	Loans and other debts due to (from) members £m	Total £m
Balance at beginning of prior year	**94**	**88**	**–**	**182**
Profit for the financial year available for division among members	–	454	–	454
	94	**542**	**–**	**636**
Allocated profit	–	(377)	377	–
Introduced by members	13	–	–	13
Repayment of capital	(8)	–	–	(8)
Drawings and distributions	–	–	(376)	(376)
Balance at beginning of year	**99**	**165**	**1**	**265**
Profit for the financial year available for division among members	–	680	–	680
	99	**845**	**1**	**945**
Allocated profit	–	(465)	465	–
Introduced by members	17	–	–	17
Repayment of capital	(9)	–	–	(9)
Drawings and distributions	–	–	(466)	(466)
Balance at end of year	**107**	**380**	**–**	**487**

The basis on which profits are allocated is described in note 1. Information concerning distributions to members and the number of members is given in note 7. Loans and other debts due to members represent allocated profits not yet paid to members and are due within one year. In the event of a winding up, loans and other debts due to members rank equally with unsecured creditors. Members' capital and reserves rank after unsecured creditors.

19 Commitments under operating leases

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

	2006 £m	2005 £m
Land and buildings		
Within one year	**59**	59
Between one and five years	**210**	218
More than five years	**156**	191
Other assets		
Within one year	**6**	6
Between one and five years	**4**	4

20 Financial Instruments

Financial Risk Management
The Group holds or issues financial instruments in order to finance its operations and manage foreign currency and interest rate risks arising from its operations and sources of finance. The principal financial instruments, other than derivatives, held or issued by the Group are:

- Cash and cash equivalents – The Group manages its cash resources in order to meet daily working capital requirements. Cash and any outstanding debt are kept to a minimum and liquid fund deposits are maximised.
- Members' capital – The Group requires members to provide long-term financing in the form of loans to the Group which are repayable on retirement.
- Debt – The Group's policy permits short term variable rate facilities with a maximum facility maturity of five years and long term fixed borrowing with a maximum maturity of ten years. The Group had no requirement for long term borrowings (other than members' capital) at 30 June 2006.

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

Liquidity risk
The Group's most significant treasury exposures relate to liquidity. The Group manages the risk of uncertainty in its funding operations by spreading the maturity profile of its borrowings and deposits. Committed facilities are arranged with minimum headroom of 25% of forecast maximum debt levels. The Group's facilities at 30 June 2006 with seven leading international banks total £150m and are due to expire in January 2010.

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

Interest rate risk
The Group's principal borrowings and any surplus cash balances are held at variable interest rates linked to LIBOR. Borrowings are all undertaken in sterling to reflect the composition of the Group's balance sheet, which includes only minor amounts of non-sterling assets and liabilities. The Group's policy requires that asset finance be undertaken without creating significant interest rate exposure. No interest rate derivatives have been used in the year or in the prior year.

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

20 Financial Instruments (continued)

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 2006. Cash, cash equivalents, members' capital and debt have been calculated by discounting expected future cash flows at prevailing interest rates and approximate to book value owing to the short maturity of these instruments.

	2006 Book value £m	**2006 Fair value £m**	2005 Book value £m	2005 Fair value £m
Assets				
Trade and other receivables	**571**	**571**	525	525
Investments – US dollar denominated	**6**	**–**	6	–
Long term loan note receivable	**–**	**–**	5	5
Cash at bank and in hand	**29**	**29**	27	27
Short term deposits with banks	**253**	**253**	200	200
Liabilities				
Trade and other payables	**355**	**355**	308	308
Members' capital	**107**	**107**	100	100
Finance lease obligation	**6**	**6**	6	6

Interest rate profile of financial assets and financial liabilities

The exposure of financial assets and liabilities to interest rate movements at 30 June 2006 by duration is as follows:

	Non interest earning £m	Floating rate less than one year £m	Floating rate greater than one year £m
Assets			
Trade and other receivables	571	–	–
Short term deposits with banks	–	253	–
Liabilities			
Trade and other payables	355	–	–
Members' capital	107	–	–
Finance lease obligation	–	–	6

Currency profile of financial assets and liabilities

The major part of the Group's income and expenditure is in sterling. After taking into account forward contracts and known US dollar and Euro denominated debtors and liabilities, the Group had no US dollar denominated assets at 30 June 2006 (2005 – £15m) and net Euro denominated assets at 30 June 2006 of £4m (2005 – £5m).

Derivative financial instruments

Forward foreign exchange contracts all mature in less than three years, and have been valued using forward market prices prevailing at the balance sheet date. The related cash flow hedges recognised in the income statement and directly in equity were nil (2005 – nil). The notional principal amount of forward foreign exchange contracts was £35m (2005 – £42m).

21 Contingent liabilities

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

PricewaterhouseCoopers LLP guarantees the bank borrowings of subsidiary companies, which are included in the consolidated balance sheet. At the year end, subsidiary company bank borrowings were nil (2005 – nil). Apart from those guarantees, there were no material contingent liabilities.

22 Subsidiary undertakings

The financial statements consolidate the results and financial position of the Group, including the principal subsidiary undertakings listed below. All company shareholdings are 100% owned and the companies are incorporated in Great Britain.

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

23 Related party transactions

PricewaterhouseCoopers LLP and PricewaterhouseCoopers United Kingdom Partnership are related parties because they are both controlled by the same group of individuals and the PricewaterhouseCoopers United Kingdom Partnership is the predecessor firm of PricewaterhouseCoopers LLP. This controlling group of individuals 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 2006 (2005 – nil) under these arrangements.

Services provided to PricewaterhouseCoopers United Kingdom Partnership in respect of client assignments
Arrangements are in place for PricewaterhouseCoopers LLP to supply services to PricewaterhouseCoopers United Kingdom Partnership in connection with client assignments. For the year ended 30 June 2006 PricewaterhouseCoopers LLP provided services to the PricewaterhouseCoopers United Kingdom Partnership to the value of £450,000 (2005 – £393,000) under these arrangements. There were no balances outstanding at the end of the year (2005 – nil).

23 Related Party Transactions (continued)

Administrative support to PricewaterhouseCoopers United Kingdom Partnership
On behalf of its 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 that partnership. PricewaterhouseCoopers LLP charged PricewaterhouseCoopers United Kingdom Partnership £200,000 for these support services for the year ended 30 June 2006 (2005 – £200,000). There were no balances outstanding at the end of the year (2005 – nil). Amounts paid during the year to the annuitants on behalf of the continuing members in their capacity as partners in the PricewaterhouseCoopers United Kingdom Partnership totalled £47m (2005 – £43m).

Key management compensation
The Management Board represents key management personnel for the purposes of the Group's related party disclosure reporting. Profit distributable to key management personnel amounts to £14m (2005 – £12m) and comprises the Management Board's estimated share of the Group's profit attributable to members.

LLP
The subsidiary undertakings as described in note 22 are related parties of the LLP. The LLP's subsidiaries provide staff and other services to enable the LLP to undertake work in the normal course of its business.

	2006 £m	2005 £m
Provision of services between the LLP and related parties		
PricewaterhouseCoopers Services	**1,114**	996
Other subsidiaries	**(9)**	(6)
	1,105	**990**

	2006 £m	2005 £m
Year-end balances with related parties		
PricewaterhouseCoopers Services	**(192)**	(137)
Other subsidiaries	**(19)**	(9)
	(211)	**(146)**

24 Transition to IFRS

Reconciliation of net assets and profit under UK GAAP to IFRS

The Group reported under UK GAAP in its previously published financial statements for the year ended 30 June 2005. The analyses below show a reconciliation of members' equity and profit as reported under UK GAAP at 30 June 2005 to the revised members' equity and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of members' equity under UK GAAP to IFRS at the transition date of 1 July 2004.

Group – Reconciliation of members' equity at 1 July 2004

	UK GAAP £m	Employee benefits £m	Intangible Assets £m	Leases £m	Reclassification £m	IFRS £m
Non-current assets						
Property, plant and equipment	128	–	–	3	(33)	98
Goodwill	4	–	–	–	–	4
Other intangible assets	–	–	4	–	35	39
Investments	8	–	–	–	–	8
	140	**–**	**4**	**3**	**2**	**149**
Current assets						
Trade and other receivables	652	(61)	–	–	(2)	589
Cash and cash equivalents	65	–	–	–	–	65
	717	**(61)**	**–**	**–**	**(2)**	**654**
Total assets	**857**	**(61)**	**4**	**3**	**–**	**803**
Current liabilities						
Trade and other payables	(297)	–	–	–	(1)	(298)
Loans and other debtors due to members	(1)	–	–	–	1	–
Provisions	(11)	–	–	–	–	(11)
Members' capital	–	–	–	–	(4)	(4)
	(309)	**–**	**–**	**–**	**(4)**	**(313)**
Non-current liabilities						
Retirement benefit obligations	–	(203)	–	–	–	(203)
Other payables	–	–	–	(6)	–	(6)
Provisions	(88)	–	–	–	13	(75)
Deferred tax liabilities	–	–	–	–	(13)	(13)
Members' capital	–	–	–	–	(90)	(90)
	(88)	**(203)**	**–**	**(6)**	**(90)**	**(387)**
Total liabilities	**(397)**	**(203)**	**–**	**(6)**	**(94)**	**(700)**
Net assets	**460**	**(264)**	**4**	**(3)**	**(94)**	**103**
Members' equity						
Members' capital	94	–	–	–	(94)	–
Reserves	366	(264)	4	(3)	–	103
Total members' equity	**460**	**(264)**	**4**	**(3)**	**(94)**	**103**

24 Transition to IFRS (continued)

Group – Reconciliation of members' equity at 30 June 2005

	UK GAAP £m	Employee benefits £m	Intangible Assets £m	Leases £m	Goodwill £m	Reclassification £m	IFRS £m
Non-current assets							
Property, plant and equipment	113	–	–	3	–	(25)	91
Goodwill	1	–	–	–	(1)	–	–
Other intangible assets	–	–	3	–	–	26	29
Investments	6	–	–	–	–	–	6
	120	**–**	**3**	**3**	**(1)**	**1**	**126**
Current assets							
Trade and other receivables	611	(80)	–	–	–	(1)	530
Cash and cash equivalents	227	–	–	–	–	–	227
	838	**(80)**	**–**	**–**	**–**	**(1)**	**757**
Total assets	**958**	**(80)**	**3**	**3**	**(1)**	**–**	**883**
Current liabilities							
Trade and other payables	(306)	–	–	–	–	(2)	(308)
Loans and other debtors due to members	(1)	–	–	–	–	1	–
Provisions	(10)	–	–	–	–	–	(10)
Members' capital	–	–	–	–	–	(5)	(5)
	(317)	**–**	**–**	**–**	**–**	**(6)**	**(323)**
Non-current liabilities							
Retirement benefit obligations	–	(189)	–	–	–	1	(188)
Other payables	–	–	–	(6)	–	–	(6)
Provisions	(85)	–	–	–	–	14	(71)
Deferred tax liabilities	–	–	–	–	–	(14)	(14)
Members' capital	–	–	–	–	–	(95)	(95)
	(85)	**(189)**	**–**	**(6)**	**–**	**(94)**	**(374)**
Total liabilities	**(402)**	**(189)**	**–**	**(6)**	**–**	**(100)**	**(697)**
Net assets	**556**	**(269)**	**3**	**(3)**	**(1)**	**(100)**	**186**
Members' equity							
Members' capital	100	–	–	–	–	(100)	–
Reserves	456	(269)	3	(3)	(1)	–	186
Total members' equity	**556**	**(269)**	**3**	**(3)**	**(1)**	**(100)**	**186**

24 Transition to IFRS (continued)

LLP – Reconciliation of members' equity at 1 July 2004

	UK GAAP £m	Employee benefits £m	Leases £m	Inter-company £m	Reclassification £m	IFRS £m
Non-current assets						
Property, plant and equipment	18	–	3	–	–	21
Goodwill	2	–	–	–	–	2
Investments	16	–	–	–	–	16
	36	**–**	**3**	**–**	**–**	**39**
Current assets						
Trade and other receivables	597	(21)	–	–	–	576
Cash and cash equivalents	79	–	–	–	–	79
	676	**(21)**	**–**	**–**	**–**	**655**
Total assets	**712**	**(21)**	**3**	**–**	**–**	**694**
Current liabilities						
Trade and other payables	(186)	–	–	(36)	(1)	(223)
Loans and other debts due to members	(1)	–	–	–	1	–
Provisions	(9)	–	–	–	–	(9)
Members' capital	–	–	–	–	(4)	(4)
	(196)	**–**	**–**	**(36)**	**(4)**	**(236)**
Non-current liabilities						
Retirement benefit obligations	–	(203)	–	–	–	(203)
Other payables	–	–	(6)	–	–	(6)
Provisions	(71)	–	–	–	–	(71)
Members' capital	–	–	–	–	(90)	(90)
	(71)	**(203)**	**(6)**	**–**	**(90)**	**(370)**
Total liabilities	**(267)**	**(203)**	**(6)**	**(36)**	**(94)**	**(606)**
Net assets	**445**	**(224)**	**(3)**	**(36)**	**(94)**	**88**
Members' equity						
Members' capital	94	–	–	–	(94)	–
Reserves	351	(224)	(3)	(36)	–	88
Total members' equity	**445**	**(224)**	**(3)**	**(36)**	**(94)**	**88**

24 Transition to IFRS (continued)

LLP – Reconciliation of members' equity at 30 June 2005

	UK GAAP £m	Employee benefits £m	Leases £m	Inter-company £m	Reclassification £m	IFRS £m
Non-current assets						
Property, plant and equipment	16	–	3	–	–	19
Investments	14	–	–	–	–	14
	30	**–**	**3**	**–**	**–**	**33**
Current assets						
Trade and other receivables	525	(28)	–	–	–	497
Cash and cash equivalents	217	–	–	–	–	217
	742	**(28)**	**–**	**–**	**–**	**714**
Total assets	**772**	**(28)**	**3**	**–**	**–**	**747**
Current liabilities						
Trade and other payables	(164)	–	–	(49)	(2)	(215)
Loans and other debts due to members	(1)	–	–	–	1	–
Provisions	(8)	–	–	–	–	(8)
Members' capital	–	–	–	–	(5)	(5)
	(173)	**–**	**–**	**(49)**	**(6)**	**(228)**
Non-current liabilities						
Retirement benefit obligations	–	(201)	–	12	1	(188)
Other payables	–	–	(6)	–	–	(6)
Provisions	(66)	–	–	–	–	(66)
Members' capital	–	–	–	–	(94)	(94)
	(66)	**(201)**	**(6)**	**12**	**(93)**	**(354)**
Total liabilities	**(239)**	**(201)**	**(6)**	**(37)**	**(99)**	**(582)**
Net assets	**533**	**(229)**	**(3)**	**(37)**	**(99)**	**165**
Members' equity						
Members' capital	99	–	–	–	(99)	–
Reserves	434	(229)	(3)	(37)	–	165
Total members' equity	**533**	**(229)**	**(3)**	**(37)**	**(99)**	**165**

24 Transition to IFRS (continued)

Reconciliation of profit available for division among members for the year ended 30 June 2005

	Group £m	LLP £m
Profit available for division among members reported under UK GAAP	**468**	**460**
Staff costs – employee benefits	(5)	1
Depreciation, amortisation and impairment		
– Intangible assets	(1)	–
– Goodwill	(1)	–
Other operating charges – inter-company	–	(7)
Profit available for division among members reported under IFRS	**461**	**454**

Notes on transition adjustments
When adopting IFRS for the first time, IFRS1 permits certain exemptions from the full requirements of IFRS in the transition period. The Group has taken advantage of the following key exemptions:
– business combinations prior to the date of transition are not restated.
– all cumulative actuarial gains and losses for employee benefits have been recognised at the date of transition.

The main adjustments on adopting IFRS were as follows:

(a) **Employee benefits** – Under UK GAAP, the Group accounted for post-retirement benefits under SSAP 24, whereby the costs of providing those benefits were charged against operating profit over the estimated service lives of employees in the schemes. The approach under IFRS is described in the accounting policy on retirement benefit costs in note 1, with the defined benefit obligation calculated under IAS 19 being recognised in the LLP.

(b) **Intangible assets** – Additional intangible assets recognised under IFRS represent the capitalisation of internal staff time on the development of software for internal use in the business that will generate economic benefits exceeding one year.

(c) **Leases** – Under IAS 17, a long lease property has been reclassified from operating leases to other payables under non-current liabilities as it meets the definition of a finance lease.

(d) **Goodwill** – Under UK GAAP, goodwill on the balance sheet is amortised over its useful economic life. From 1 July 2004, goodwill is not amortised under IFRS. The IFRS annual impairment of goodwill undertaken as at 30 June 2005 indicated the value of goodwill to be nil.

(e) **Inter-company** – On applying IFRS within the Group, the overall impact of the transition adjustments generates additional inter-company charges. These are eliminated on consolidation and are only reflected in the individual subsidiaries.

(f) **Reclassification** – IAS 32 requires members' capital to be recognised as a financial liability and this has been reclassified accordingly. Intangible assets reclassified from property, plant and equipment represent previously capitalised investment in computer software and licences.

Cash flow statement – Cash and cash equivalents under IFRS comprise cash and short term highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value. The format of the cash flow statement under IFRS is similar to UK GAAP but presents various items in different categories and in a different order from the UK GAAP cash flow statement.

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

*connectedthinking

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

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

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

Supporting the global network

As the second biggest PwC firm, the UK firm has developed a position and reputation as thought leaders across many industries and important topics.

Examples include the transition to International Financial Reporting Standards – an area where PwC firms have been able to help and advise many thousands of clients across the world.

The UK firm has been at the forefront of the network's global IFRS project, including contributing to the methodologies and policies that support and benefit all member firms.

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

Global thought leadership and knowledge sharing

The global PricewaterhouseCoopers network creates a platform on which member firms share knowledge, skills and resources, seeking to deliver services of consistently excellent quality to clients across the world. In every country PwC member firms are supported by shared methodologies, knowledge bases and technology, and by access to highly specialist expertise and thought leadership. This sharing of experience and industry knowledge is driven and supported by our philosophy of Connected Thinking*, through which we add value for our clients across our global network.

Our global industries programme provides thought leadership to our clients and our people on the most important issues for the industry sectors we support. Examples in 2006 include:

- *Piecing the Jigsaw*, a review of the future of the financial services industry
- *Cities of the Future*, a new perspective on the issues facing big cities around the world, their dreams, knowledge, creativity and motivation
- *Global Entertainment and Media Outlook 2006-2010*, the leading growth forecast for the industry
- *HealthCast 2020*, looking at solutions from around the world to the globalisation and industry wide convergence of healthcare.

Ensuring quality for clients

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

The Global PeopleFind service, originally developed by the UK firm, enables us to put clients in touch with PwC specialists in any country.

PwC's global mobility programme plays a key role in our ability to share and transfer knowledge around our network, deliver increasingly high quality services to clients, and develop the skills and international perspective of our people. During the year, some 2,654 (2005: 2,203) partners and staff from PwC member firms in 90 (2005: 88) countries were posted internationally on short and long term transfers or assignments. These secondments help our network to achieve specific business objectives, help us to develop our people and reflect the aspirations and choices of our people. The number of international transfers across the PwC network is rising steadily year on year, as the annual investment in the mobility programme increases.

SABMiller PwC's offices in Colombia, Peru, Ecuador, Guatemala, the US and the UK helped SABMiller in their acquisition of Bavaria, the second largest brewer in South America.

Involving over six months of work, our due diligence effort was led by a Transaction Services team in London, working closely with a sister team in Miami. This approach enabled us to combine our experience of big deals and our project management skills with an in-depth knowledge and understanding of South American business cultures and working practices. Input was provided from nearly every area of the practice including Tax, Assurance, global capital markets, Human Resource, IT and Treasury experts.

Following the deal announcement, a London led Assurance team undertook substantial work on documents required by the London and Colombian Stock Exchanges including profit and working capital forecasts.

Geoff Eversfield and Katie Close, who led the due diligence

member firms share skills, knowledge and resources to deliver quality services

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