

# *Building for the future* Annual Report 2011

*We have invested for  
long-term growth in order  
to meet the needs of our  
clients and to give our  
people the opportunities  
they look for.*

## Key performance indicators

### Client experience

Advocacy<sup>1</sup>

**8.63**

out of a possible score of 10

FY10 8.55 out of 10

Bring fresh insights to our clients<sup>1</sup>

**7.61**

out of a possible score of 10

FY10 7.64 out of 10

Read more about our clients and markets on page 8

### People experience

New partners<sup>2</sup>

**69**

men

**12**

women

FY10 48 men 9 women

People engagement<sup>3</sup>

**3.96**

out of a possible score of 5

FY10 3.97 out of 5

Read more about our people on page 14

### Sustainability and community

CO<sub>2</sub>e emissions<sup>4</sup>

**61,811**

tonnes

FY10 59,339 tonnes

Time volunteered in the working day

**50,206**

hours

FY10 42,480 hours

Read more about sustainability and community on page 18

### Financial

Group turnover<sup>5</sup>

**2,461**

£m

FY10 £2,331m +6%

Profit per partner

**763**

£'000

FY10 £759,000

<sup>1</sup> Figures based on direct client feedback.

<sup>2</sup> Figures for the year 2 July 2010 up to and including 1 July 2011.

<sup>3</sup> Figures based on internal staff 'y

/corporatesustainability for details.

<sup>5</sup> Includes UK and overseas group entities. All other KPIs refer to the UK only

As the UK's leading professional services firm, we believe that corporate reports should tell it like it is. Clearer communication between business and stakeholders will lead to improved levels of trust. Reports should give an open and honest account of performance and the challenges that lie ahead.

## 2011 achievements



## The Group

The PricewaterhouseCoopers LLP Group consolidated within these accounts includes PricewaterhouseCoopers member firms in the UK, Channel Islands and Middle East. See page 65 for further details of the Group's principal subsidiary undertakings.

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[www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

In addition to this annual report, our website has more content, including case studies, deeper analysis of each section, interactive features and videos.

# *Telling it like it is* Chairman



**Ian Powell**  
Chairman and Senior Partner

*I am delighted to present our annual report for 2011. I hope it gives you a clear sense of our strategy, priorities and achievements as well as the main challenges we face. Having held our nerve through a difficult time in the economy, I believe we are well placed to continue to grow.*



We aim to do the right thing for our clients, our people and our communities. And in the past year we've done our best to deliver on this commitment.

We have invested for long-term growth in order to meet the needs of our clients and to give our people the opportunities they look for.

Experience has taught me that it is during times of economic uncertainty that the strongest and most enduring relationships are formed. That is why we decided to hold our nerve and to invest significantly through the downturn to position the firm for future growth as the economy recovers. Our strategy was designed to make sure we come out of any downturn stronger than we went into it.

We believe we are very well positioned for long-term growth across the firm, to continue to meet client demand for our services and to create high quality professional jobs.

#### ***Economic backdrop***

Our mindset is that we can't take economic recovery for granted. While we remain cautiously optimistic about the outlook, we have developed a strategy which should let us grow, even in a low growth economy.

#### ***Our performance***

I am pleased to report that our turnover grew by 6% in the year. This represents strong performance in a difficult market.

We also measure our business success in ways other than purely financial performance. Our Executive Board regularly reviews the quality of our services and the client experience, as measured in client advocacy and other feedback scores, the level of our people's engagement and motivation, the impacts of our business on the environment and our contribution to the community.

The key performance indicators for these Board priorities can be found at the front of this report. We aim for

continuous improvement in each of these areas and, while we have made progress on most during the course of the year, there is more to do, particularly in relation to carbon emissions.

#### ***Our potential for growth***

We see excellent long-term growth prospects, particularly in our consulting, human resource services and risk assurance businesses and in the Middle East. For more information on these businesses see pages 10 and 11.

Looking at the markets we serve, we also believe we're well placed to increase our market share, especially in the financial services sector and with mid-cap companies, entrepreneurs and private companies.

#### ***A new executive team***

I have been fortunate to have the support of an exceptional executive team during my three years as Chairman of the firm. I believe that our best partners should have the opportunity to serve on the Executive Board and subsequently go on to continue their highly successful careers in client-facing or other roles within the firm.

I would like to thank the two members of the Executive Board who moved back into senior client-facing roles on 1 July. Barry Marshall and Paul Rawlinson made a great contribution to our success over the past three years and I'm certain that this will continue as they return to work directly with clients.

I would also like to welcome Gaenor Bagley, Richard Oldfield and Stephanie Hyde to the Executive Board and wish them every success in their new roles.

### ***Building trust in business***

Trust in business has declined over recent years. We've long taken the view that the people who lead businesses have a personal responsibility to take steps to repair this loss of trust.

To promote corporate transparency, nine years ago we established the annual Building Public Trust Awards. These awards recognise best practice in public reporting in listed companies and government and not-for-profit organisations.

During the course of the year we began talks with our audit clients to encourage them to make enhanced disclosures in their Audit Committee reports on their interaction with auditors. We continue to discuss these reporting improvements with audit clients, investors and other key stakeholders, and I am pleased to report that a number of major listed audit clients have adopted this new style of reporting. I believe other companies will follow their lead.

### ***Our public interest responsibility***

This year we established our own Public Interest Body (PIB), which meets the requirements of the new Audit Firm Governance Code. The PIB will contribute to the governance of our firm and help us build strong relationships with our many stakeholders.

We thought carefully about the structure and governance of the PIB and decided to create a new body alongside the Executive and Supervisory Boards where the non-executive members are in the majority.

I am pleased that we have been able to attract non-executives of the highest calibre who bring a wealth of leadership and governance experience from the private and public sectors. You can read more about the role and priorities of the PIB as well as a message from its Chairman, Sir Richard Laphorne, on pages 26 to 29 of this report.

### ***Leading responsibly***

Each year, between ten and 12 of our partners and directors lock up their laptops and phones and trade in all other trappings of their office, as part of a month-long stint volunteering on the frontline of a UK charity. The Leadership programme takes participants away from their familiar environments and forces them to spend time thinking deeply about how they can become more effective leaders. "The experience stays with you and changes how you interact with clients and colleagues," says Christine Adshead, whose participation led her to work with UK children's charity Barnardo's for a month.



Find out more about this programme at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)



## Supporting our communities

Over 4,200 of our people took part in more than 50,000 hours of volunteering initiatives

At the Beacon School in Amersham and Abbotsfield School in Uxbridge, we're helping touraid to bring a group of disadvantaged children from Kenya to the UK for ten days in October 2011 for a trip that we hope will change their lives.

Find out more at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)



Another first this year is our newly created board role focused on Reputation and Policy. We expect the debate on our profession's reputation and regulation to gain momentum in the coming months and years, and I'm delighted that one of our most highly respected and experienced Board members, Richard Sexton, will be there to represent our views.

### **Competition and choice**

Competition and choice in the audit market will be at the forefront of forthcoming regulatory discussions. Our profession is the subject of intense public and regulatory scrutiny at the moment, as highlighted by the recent announcements by the Office of Fair Trading.

We will continue to have constructive discussions with all interested parties and to explain the intensity of the competitive market for all our services, including audit.

Our position is clear. We support open and competitive markets and would support measures which reduce any artificial barriers to entry. We believe it is important that any solution should

neither impair the ability of clients to exercise their choice in the market nor damage audit quality.

### **Audit quality**

As the UK's largest audit firm we have a very significant public interest responsibility, and we recognise the importance of the role that we perform in building trust in capital markets. Our reputation is built on audit quality and we continue to invest heavily in this core part of our business to make sure we have the right people and systems in place.

More about our approach to delivering

latest audit quality and transparency report at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport).

### **Attracting the best people**

For the eighth year in a row, we've been voted the country's leading graduate employer, according to The Times Top 100 Graduate Employers. We were also listed as a leading employer for women in The Times Top 50 Employers for Women 2011. Our people once again voted us one of the top big companies to work for in the Sunday Times annual survey.

This year we recruited over 3,200 people. In addition we invested heavily in a new intern programme. Over 290 student interns have secured a place with us over the summer and between them they're taking part in a range of opportunities in Tax, Assurance and Advisory, including shadowing senior leaders, in a six-week paid programme across 22 locations in the UK. We also launched our new Headstart programme during the year which gave 59 school leavers the chance to join the firm after their A Levels to study for a professional accounting or tax qualification. Our firm has shaped the training and development of so many people over the years, and I'm very proud of the contribution they make to the economy, both in the private and public sectors.

I'm also pleased to report that promotions have increased by almost 3% compared to last year. This increase is a testament to the quality of our people and to our long-term commitment to develop talented people within our firm.

While most of our new partners come from our home-grown pool of talent (we promoted 49 partners in July 2011), we also look to recruit talented people from outside the business. Whether that means individual partners, teams of people or entire businesses, we find it a valuable way of continually improving our capability. During the year 32 new partners joined us this way.

#### ***A global network perspective***

Our global network stretches across 154 countries and is made up of over 161,000 partners and staff. It is one of the strongest and most complete networks of any professional services firm, and is essential in helping us give clients top quality services, wherever they may be.

Our 14th annual global CEO survey was released in January at the World Economic Forum in Davos. The survey highlighted that companies are looking

beyond traditional export markets, with high expectations being placed on Latin America, Asia and China. The CEOs also indicated that innovation was high on the agenda, with nearly 80% confident that their development efforts will result in significant new revenues in the next three years. We look forward to helping many of them turn these forecasts into reality

the UK, CEOs told us that they see the strongest potential to grow their businesses in new and emerging markets. I believe the PwC network is well placed to help support our clients to achieve this growth.

#### ***Looking to the future***

I remain convinced that we took the right decision in the downturn to hold our nerve, continue to recruit talented people and make significant investments in our business. By remaining true to our ambition of being a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities, I believe we are closer to our long-term goal of becoming recognised as the iconic professional services firm.

While the short-term economic outlook remains uncertain, I am confident that we have the right strategy and market focus to be able to help our clients and grow our business.

Our performance this year was the result of tremendous effort on the part of everyone in our firm. I would like to thank my partners and all our people for their commitment, energy and dedication. Finally, I would like to thank our clients for their continued support.



**Ian Powell**  
Chairman and Senior Partner

Global

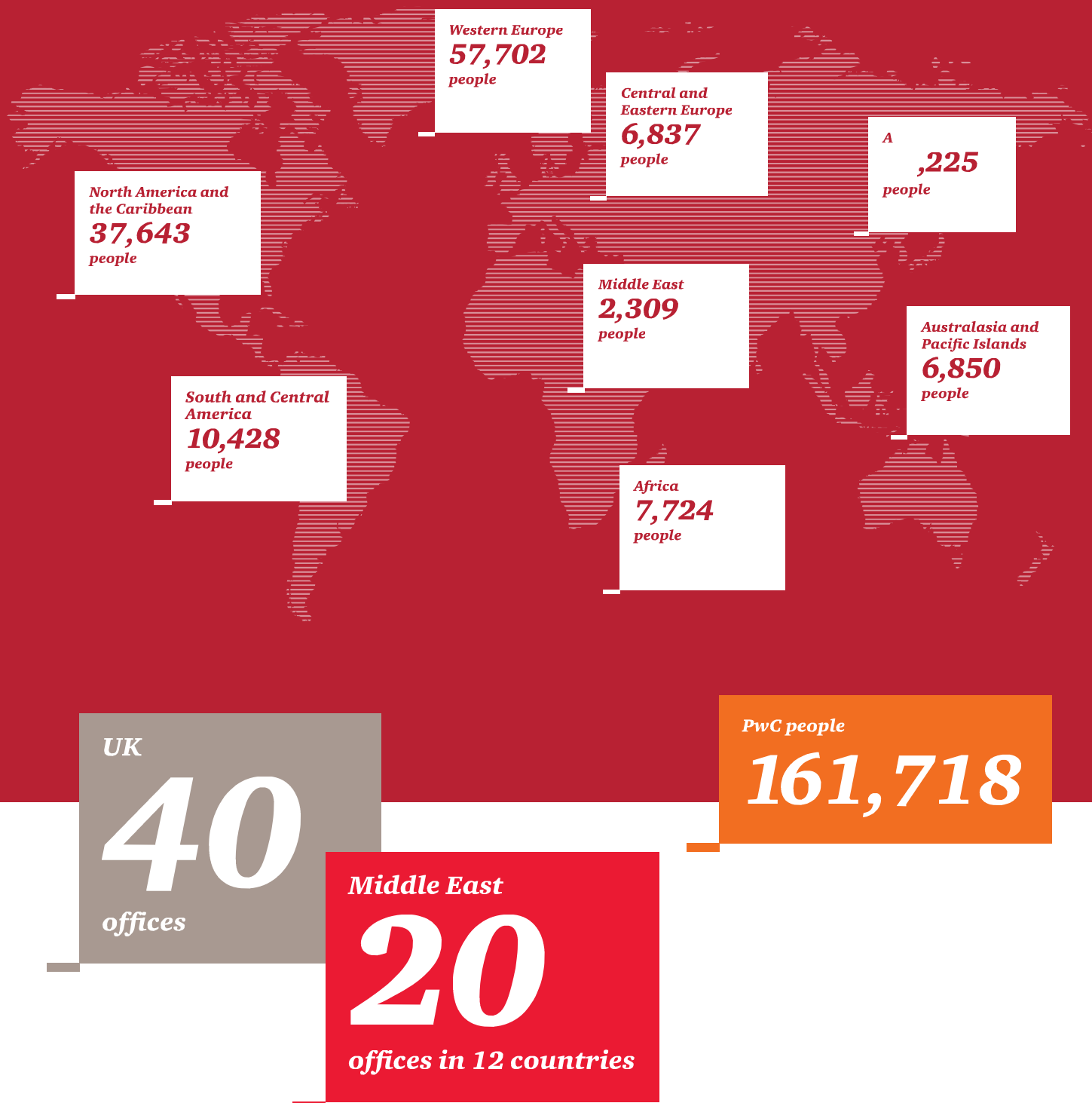
154

countries

766

locations

## Our global network



Source: PwC Global Annual Review 2010

# Investing in the future

## Clients and markets

*Our objective is to build long-term relationships with our clients and invest in delivering high quality services that will help us create value for their businesses.*



**Richard Collier-Keywood**  
Managing Partner

### **How our business is structured**

We continue to assess our performance in two ways: our markets and our businesses. We look at the market by segment, industry and region. Our businesses are organised in three 'lines of service': Assurance, Tax and Advisory.

The markets dimension combines a strategic overview of the collective needs of client groups, with focus, support and challenge at an individual client level. Client partners work closely with our market leaders to help make sure we're delivering the value that our clients need and that our relationships with them are as strong and healthy as they should be.

Our UK network of offices helps us to stay close to our clients and develop a deep understanding of their local environment. Last year, our offices outside London accounted for 39% of our UK business. This national network helps us deliver client service wherever our clients are based in the UK.

Our lines of service are responsible for the day-to-day operation of the business and the quality of the services we deliver. Turnover by line of service and by market is shown on pages 12 and 13.

### **How we've performed**

The majority of the Group's turnover comes from the UK, but our services remain heavily influenced by international markets.

Volatile financial markets, fragile economic confidence and the tightening of public expenditure have posed significant challenges for our business. As a result, we have seen pricing pressure across all our main markets, and competition for business, which has always been fierce, has intensified.

Against this challenging backdrop, our financial performance has been strong, with overall turnover growing 6% to £2.46bn. Within this, UK firm turnover grew 4% to £2.28bn, with turnover from non-UK subsidiary undertakings in the Middle East and Channel Islands growing 30% to £180m. 14% of UK firm turnover was for work performed and billed to clients outside the UK.

Each of the three lines of service faced differing market challenges. Our Assurance practice performed well in a highly competitive market and recorded a 6% increase in turnover, largely driven by the non-audit parts of the business. Our Advisory businesses also performed strongly and recorded growth in turnover of 8% as demand for our services in the private sector remained strong. Our Tax practice managed to grow its turnover by 2% in difficult trading conditions, with demand for our services impacted by the relatively flat transactions market.



We regularly ask our clients to rate our performance and to tell us whether they would recommend our services.

Our client advocacy score is a measure of how likely clients are to recommend PwC. (2010:8.55)

The score our clients give us for bringing fresh insights to their business. (2010:7.64)

**8.63**  
out of 10

**7.61**  
out of 10



We saw strong demand in the financial services sector driven by a combination of new legislation and regulation affecting our clients and a significant amount of restructuring and reorganisation within the industry. As a result we saw turnover attributable to financial services clients rise to £949m for the year (2010: £803m).

### ***Relationship takes off with Flybe***

We build relationships with our clients to help them create the value they're looking for. By investing time to understand more about the needs of Flybe's business we were able to work with them on an emissions verification and carbon credits project. Dave Tarbet of Flybe: "PwC stood out not only because they had the right credentials, but also because they really made the effort to find out exactly what all the underlying aspects of our challenge were. What they came to talk to us about was both interesting and very current. The team combined technical environmental expertise with a solid understanding of our sector to really get under the skin of our operation."

Find out more at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

Overall staff costs rose by 6%, reflecting the impact of our decision both to increase head count to meet client demand and to increase the number of staff promoted. As part of our strategy to reward our people fairly and to recognise the contribution they made this year, we have also significantly increased the total bonus pool f to £89m.

The costs of deli

le,  
including their learning and development and the impact of our new London office at More London.

Profit available for division among members was maintained at £622m and average profit per member was £763,000 compared with £759,000 last year.

### **Investing in our business**

We continue to invest in all our lines of service to make sure we deliver exceptional value to our clients.

We are pleased to have competitively won a number of new audit engagements. We are investing with other PwC network firms to develop our audit methodology and technology to further enhance the quality of the PwC audit.

In addition, in the year ahead our investment priorities will also include our consulting practice, human resources services, risk assurance services, sustainability services, the middle market and our strategic alliance in the Middle East. Organic growth will be supported by selected acquisition opportunities that add to the quality of our business and enhance our brand.

### **Growing our consulting practice**

As well as recruiting a significant number of market-leading individuals throughout the year, in November 2010 we bought the UK arm of Diamond Management and Technology Consultants, after PwC US acquired Diamond's worldwide business. Diamond will bring us closer to our clients' strategic and transformational agendas in key industry sectors. We have also announced the intended acquisition later this year of the UK and Middle East arms of the PRTM consulting business after PwC US announced its intention to acquire PRTM's global business. PRTM is an operational strategy, supply chain and customer experience consultancy.

### **Human resource services**

We will continue to focus on growing our Human Resource Services team to help companies across all industries become more effective, whether that involves creating a new approach to talent management, helping people work abroad, building a more strategic HR team or helping employees save for their retirement. In May, we won three pension awards at the 2011 Financial Times Pension and Investment Provider (FT PIPA) Awards.

## **Int**

lping Oxfam America, The Coca-Cola Company and SABMiller (one of the largest bottlers of Coca-Cola's products) assess the impacts of their value chain across communities in El Salvador and Zambia.

Working with Oxfam America and its poverty footprint methodology, we helped carry out a 'poverty footprint study' to gather insights into how different aspects of poverty are being affected by the Coca-Cola system's operations in the region, from product marketing and environmental practices to public policy and philanthropy. The study documents the social and economic impacts these companies are having through their influence, for example on people working in sugar cane fields and bottling plants all the way through to women selling drinks from small kiosks attached to their houses.

Members of our Sustainability and Climate Change team worked with Oxfam America to carry out field research. Through distributing surveys, conducting focus groups, and interviewing key stakeholders – f to distribution workers, NGOs, community leaders, business owners and consumers – the team pulled together extensive data to understand the relationship between the companies and development.

Find out more at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)



### **Risk assurance services**

Our Risk Assurance teams saw demand for their services rise for the third year in succession, in particular for information security and data management services. Given the continuing rapid pace of technological change, we expect the risk management, information security and related assurance market to grow significantly. There is particularly high demand from sectors that are highly regulated, including financial services and natural resources.

### **Pioneering in sustainability**

We continue to work at implementing sustainability principles into the way we do business. We are pleased that this was recognised this year by Business in the Community, which awarded us Platinum Plus status as a business. Our new building at More London was certified as 'outstanding' by the Building Research Establishment Environmental Assessment Method (BREEAM) – the European standard for measuring the sustainability of buildings. See pages 18 and 19 for more about sustainability and our community programme.

### **Growing in the Middle East**

We continue to invest in the Middle East firm and have helped to improve its market position. Our people in the UK have worked closely with local teams on many projects. A combination of local knowledge and client relationships in the Middle East, alongside additional sector experience, is proving to be a winning combination, as demonstrated by the prestigious assignments we have been appointed to undertake at Kuwait Oil Company and Dubai World.

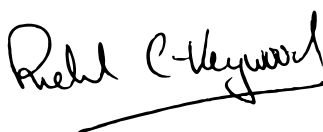
The political unrest in the region had an undoubted impact on the performance of the Middle East firm. But we still saw strong growth in turnover for the region in excess of 30% on the previous year. Throughout this period of political and economic uncertainty we focused on staying close to our clients and helping them continue to run their businesses.

### **Looking ahead: market trends**

We have done a lot of work to understand the context in which we're likely to operate over the next five years. We are operating in a period of significant economic uncertainty both in the UK and internationally. Given the limited prospect of significant economic growth in the next 12 months, we believe growth across the majority of our businesses will come from increasing market share rather than the size of the market increasing. Our focus has been on building a diversified and agile business that can respond rapidly to the changing needs of our clients.

Over recent years, the composition of our turnover has changed, with significant growth in services to our non-audit clients and a decline in the proportion of non-audit services we provide to audit clients. This year 58% (2010: 57%) of our turnover comes from services provided to clients where we're not the auditor. These trends are likely to continue. See page 13 for more detail.

As a business we have faced many challenges over the last year. In all these it is people who make the difference. I would like to join Ian and thank all of our people for working so hard in a difficult commercial environment to deli



**Richard Collier-Keywood**  
Managing Partner

*We continue to invest in all our lines of service to make sure we deliver exceptional value to our clients.*

## Business performance highlights

### Assurance

# £909m

turnover (+6%; 2010: £860m)



**James Chalmers**  
Assurance

The Assurance practice, with more than 6,600 people, provides public and private audit, risk assurance, actuarial services and advice on capital markets.

The audit market remains incredibly competitive. We're proud to have maintained our leading market share in both the FTSE 100 (39%), where we won the Aviva audit, and the FTSE 250 (28%), where we won the TUI and the IG Group Holdings audits. We remain committed to building our profile and presence in the mid-cap and private company market. We continue to help companies access the UK capital markets and were the reporting accountants on 38% (eight of twenty one) of the London main market initial public offerings with values of £50m or more, excluding investment trusts.

We're leading the debates about the future role and scope of the audit, working hard with the market, regulators and government – both in the UK and Europe – to promote audit

quality and to explore how audit can develop to meet the changing needs and expectations of companies, investors and other stakeholders. We also continue to focus on helping to improve and develop the corporate reporting model, talking to clients about the value of reporting on areas such as their strategy, risks, people and profits and how this can help them to gain a competitive edge and build trust with stakeholders.

We've also continued to invest in quality, training, our audit methodology and our people to maintain our leading position. Over 1,500 people joined our Assurance teams, including a mix of both experienced hires and graduates who will typically work towards achieving qualification and membership of ICAEW, ICAS or ACCA. In addition to this, we are bringing emerging leaders from South America, Africa, Asia and Europe together to work with our teams in the UK for two years, as part of our World Experience Programme.

### Advisory

# £907m

turnover (+8%; 2010: £837m)



**Kevin Ellis**  
Advisory

The Advisory practice, with more than 4,100 people, provides a wide range of business consulting, strategy, economic and forensic analysis, crisis and deals advice and transaction services to clients in the public and private sectors.

Our Advisory businesses have performed exceptionally well in a fiercely competitive market. The majority of this growth has been organic and has been supplemented by a number of key strategic acquisitions. As part of this ongoing strategy, we have acquired Diamond Consulting and recently announced the intended acquisition of PRTM management consultants, which will benefit both the UK and Middle East firms.

We are investing heavily in our capability to deliver advisory services to owner-managed and mid-cap businesses, and see strong growth potential in these sectors in the near future.

We have seen a significant decline in the demand for our services in the public sector but have more than off-set this with strengthening demand in the private sector.

We increased the number of graduates who joined our Advisory training programme, and we continue to develop and promote talented consultants with deep industry expertise.

A number of our people and their teams were recognised by their peers for their exceptional performance, winning the Strategy Consultant of the Year at the MCA Awards and Corporate Recovery Firm of the Year at the Insolvency and Rescue Awards.

We continue to lead the Lehman administration in the UK, drawing on our full range of financial services skills as well as our insolvency expertise. To date we have returned more than £12bn of assets.

# Tax

## £645m

turnover (+2%; 2010: £634m)



**Kevin Nicholson**  
Tax

The Tax practice, with more than 3,000 people, provides direct and indirect tax and human resource services to leading entrepreneurs and companies.

In a market that's continued to be challenging throughout the year, we are pleased with turnover growth of 2%. We remain the leading Tax practice in the UK according to Global Tax Monitor results. We are particularly proud of our Budget campaign, which made sure that our clients were well briefed on potential changes to the tax regime ahead of the Chancellor's statement, and that they were quickly updated on key issues when he formally announced his plans.

We're recognised as leaders in promoting tax transparency. As businesses look to grow international

It also evolve as it looks to support this business investment and economic growth. As a result, tax transparency has attracted political attention, and a diverse group of internal and external stakeholders

now want more information about a company's tax affairs. Companies have had to react and review the focus and resource applied to the governance and management of their tax affairs.

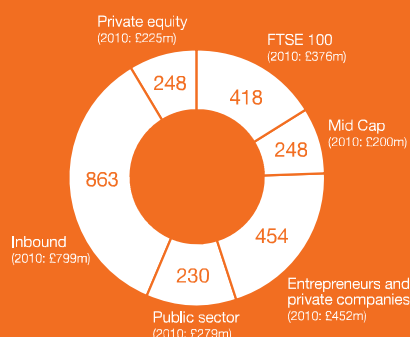
### Our Total T

the World Bank, and our Building Public Trust Awards (BPTA) for tax reporting, have kept us at the centre of the tax policy debate. We have actively focused on bringing stakeholders' interests together and have advocated the value of talking more openly about taxes paid.

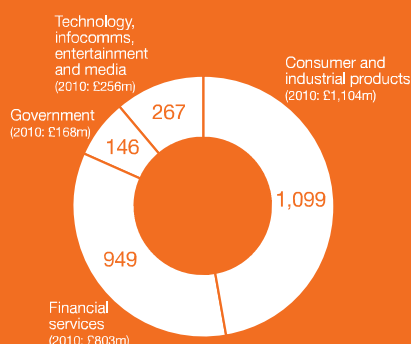
It's also been an award-winning year for our Transfer Pricing, Actuarial, Mergers and Acquisitions and Pensions teams.

We've maintained our investment in recruitment for the future of the business. We also believe in the benefits of people gaining experience outside their usual roles, and we are delighted that a significant number of our people have taken part in a secondment this year, either in another team, with a client, or internationally.

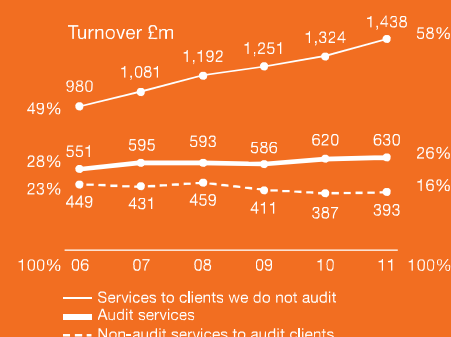
### Segment analysis



### Industry analysis



### Service analysis



Note: Line of service, segment and service prior year analyses have been restated to conform with the current year presentation.

# Experiences that stay with you People

*One of the most exceptional things we can offer our people is the chance to work with many of the world's leading companies and organisations. As well as developing their skills, they'll be able to build long-lasting relationships, both within and outside the firm, that will stay with them throughout their career.*



**Gaenor Bagley**  
People

Our people have a fundamental role to play in helping us become the iconic firm. To achieve our performance ambitions, we need to attract, develop and retain a highly talented group of people. We go to great lengths to create an environment in which every individual can reach their full potential.

## ***Attracting the best people***

Over the past couple of years, we've talked a lot about 'holding our nerve'. And in the past year we've continued to do this. Our overall head count has increased by 5% in the past 12 months, during which we have recruited over 2,400 people in the UK and a further 800 in the Middle East, with over 1,100 joining our UK graduate programmes, and 59 school leavers joining our Headstart programme.

We continue to see a high level of demand for graduate places and we're delighted to report that we've been voted the UK top graduate employer in The Times Top 100 Graduate Employers survey for a record eighth consecutive year.

We constantly look beyond the traditional routes to make sure we capture outstanding graduate talent.

Our Inspired Talent programme offers places to highly motivated and talented graduates who might not meet the traditional academic requirements. And in the past year we launched 'Business Champions', a student competition run across the UK giving university students the opportunity to test their mettle as budding entrepreneurs. The winners secure a PwC Insight Internship, with runners-up awarded places in our Talent Academy. Watch highlights of this year's final at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport).

We're also recruiting from different academic backgrounds – fewer than half of the graduates who joined us studied for accounting, banking and finance degrees. We're an appealing option for those looking for a career change too. Almost 20% of new trainees are over the age of 25.

L to R: Nigel Wright (Greenhouse), Mark South (PwC), Michael de Giorgio (Greenhouse), Andrew Flood (PwC)



### Going beyond sport

Beyond Sport promotes, develops and supports the use of sport to create positive social change. Find out what we've been doing with Greenhouse, a project backed by Beyond Sport, at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)



*Our volunteering and community programme not only benefits the voluntary organisations we work with, but develops new skills and confidence among our partners and staff.*

### Engaging our people

We were delighted to be ranked once again in the Sunday Times Best Companies to work for. We continue to listen to what our people are telling us in our internal 'youmatter' survey to improve our performance in a number of key areas.

Two years ago we created a new People Manager role to further improve the quality of people management. The training that our people managers receive helps them develop skills that will stay with them throughout their careers. We believe every one of our employees has the potential to become a people manager during their career with us and we will continue to invest in this important programme.

Giving our people the opportunity to engage with our leadership is an important part of our strategy. So, to help our people feel more informed and involved with the direction the firm is taking, members of the Executive Committee led a series of strategy road shows to discuss our strategy with several thousand of our staff in our offices around the country. Similar programmes have been undertaken in the Middle East.

In June Ian Powell was voted the Most People Focused CEO at the HR Excellence Awards based on feedback from our own staff and a panel of HR experts.



*We are setting targets to create a more diverse workforce that better reflects the clients we serve and the communities we live in.*

### **Diversity**

We believe it is right to be a diverse and inclusive firm and that this will help us build better relationships with our clients to give us a competitive edge.

We start from the simple premise that talent has no age, race or gender and is not ruled out by disability. In our experience the most diverse teams are the highest performing teams. So for business as well as social reasons we work hard to attract, train and develop a diverse gender, ethnic and social group of people. It's pleasing to note that we were listed as a leading employer in The Times Top 50 Employers for Women 2011.

We recognise that we need to do more to develop and retain a diverse workforce which is more representative of the society and communities we live and work in.

Through the course of the year we developed and implemented a firmwide training programme called 'Open Mind' which used innovative elearning, video and face-to-face discussion sessions to help our partners and staff reflect on how open minded they are. This training was available to all our people and every member of the Executive Board took part in the programme.

One particular area of focus is increasing the proportion of women and people from ethnic backgrounds in senior grades within the firm. We have played an active part in the discussions around Lord Davies' recommendations on the representation of women on boards. Our partnership structure means that our primary focus must be on developing a larger proportion of women partners, from which our Executive Board will in turn be drawn.

We are making progress but recognise that we must do more. 14% of our partners are women, which falls short of our initial target of 20%. Given that over 40% of our managers are female, it is clear that we need to continue to focus on this.

While there has been widespread public attention to gender diversity over the past year, we have also devoted considerable energy to ethnic and age diversity. Both are priority areas in the coming year.

Find out more about our diversity strategy at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

### **The PwC Experience**

The PwC Experience defines the way we treat our people and work with our clients. It's a comprehensive framework that brings our brand and the values which underpin it to life. We track and manage our performance in a number of categories, including employee engagement levels, the way we coach and develop our people, the way we engage with our clients and the strength of our brand. Our 'PwC Client Experience Awards', which are now in their fourth year, are designed to celebrate outstanding people delivering exceptional experiences.

*Our strategic priorities continue to be on recruitment, engaging and developing our people.*



### ***Secondment ASDA be a good idea***

Secondments give our people the chance to have interesting and rewarding experiences and they give us a great opportunity to get to know our clients better. Cherry Stewart and Gemma Clark tell us about their recent experiences on secondment to ASDA at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

### ***An exceptional place to work***

One of the most exceptional things we can offer potential recruits is the chance to work with many of the world's leading companies and organisations. This gives them a great opportunity to develop their business skills through on-the-job learning.

We also encourage our people to get involved with our community programmes. Some of the most rewarding experiences that our people enjoy stem from our relationships with our community partners. The past year's highlights include our continuing work with the School for Social Entrepreneurs, the Fire Station project (for more on this see page 19) and a new relationship with Greenhouse – a Beyond Sport-backed project that is using sport to create positive social change. You can find out more about all of these experiences at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

### ***Priorities for the year ahead***

Our strategic priorities continue to be focused on recruitment and engaging and developing our people. Developing our people includes making sure that all of our people, whatever their age, gender or ethnic background, fulfil their potential.

The result of all these efforts and more will be an increasingly distinctive client experience and sustained high performance.

# ***Building better businesses***

## **Sustainability and community**

*Sustainability means rethinking how we create value for everyone – today and tomorrow. It means integrating sustainability into our client advice, and making sure we pioneer new approaches in our own operations.*



**Richard Collier-Keywood**  
Managing Partner

Sustainability is an area where clients are increasingly coming to us for support.

### ***New sustainability services***

To meet this growing client demand, we've invested in new sustainability and climate change services, with three key areas of focus: climate change, ecosystem services and social equity. The results are already impressive:

- We led the establishment of the Climate and Development Knowledge Network (CDKN). This is a joint venture between ourselves and five non-governmental organisations funded by the UK Department for International Development and the Dutch Ministry of Foreign Affairs. CDKN works in partnership with decision-makers in support of locally owned and managed policy processes to design and deliver climate-compatible development in the countries that need it most.
- Since playing a key role in the launch of The Economics of Ecosystems and Biodiversity report earlier this year, we've helped

the World Business Council for Sustainable Development to create a toolkit for valuing ecosystem services – such as fresh water, food and fibre – and PUMA to pioneer the world's first environmental profit and loss account.

- In line with Millennium Development Goals, we've focused on helping clients to address their impacts on the socio-economic landscape.

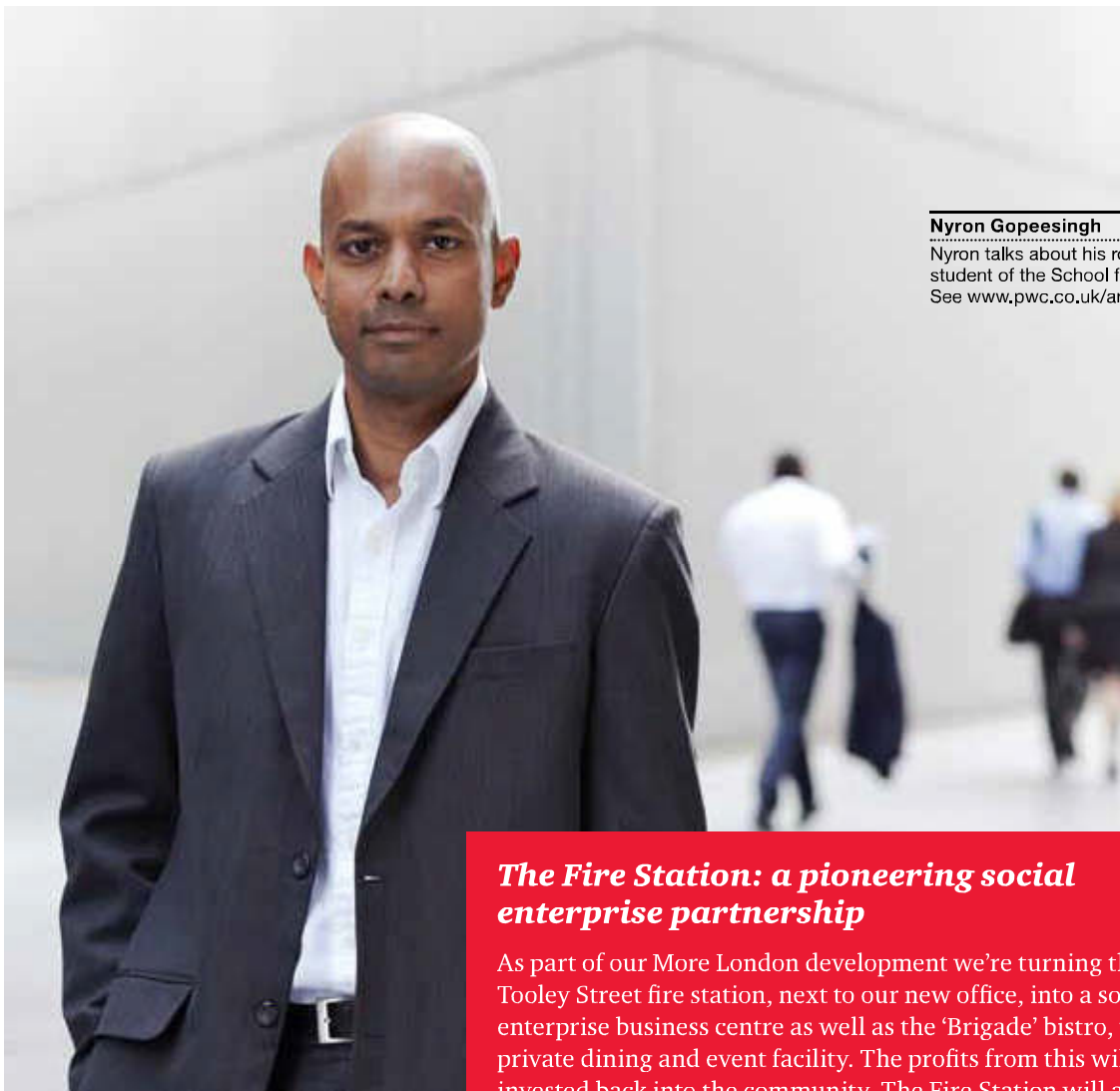
### ***Meeting the carbon challenge***

Our own corporate sustainability performance in the UK has been mixed this year. We've achieved reductions in our energy and waste, but our total like-for-like carbon emissions have risen by 4.2%. This is partly because we now measure rail and water emissions, and partly as a result of an increase in air travel.

We're working hard to make changes where we can, for example, encouraging our people to use video conferencing where possible. And we've been looking at ways to make it easy for our people to use sustainable travel options, such as electric vehicles and bicycles.

Still, our new building in More London sets the standard for a sustainable workplace. Its pioneering technology uses less energy than a typical structure of its size and sends none of its waste to landfill, and as a result we're on track to meet the majority of our sustainability targets for next year.





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**Nyron Gopeesingh**

Nyron talks about his role as a mentor to a student of the School for Social Entrepreneurs. See [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)



The story of More London and our scorecard for this year's performance metrics can be found at [www.pwc.co.uk/corporatesustainability](http://www.pwc.co.uk/corporatesustainability).

***Helping our communities***

Our people are passionately involved in the community. Volunteering hours and community investment are both up on last year. The total number of hours volunteered by our partners and staff during the year rose to more than 50,000 hours from a little under 42,500 hours in 2010. We're proud of this performance and will be challenging ourselves to do even more in the year to come.

***The Fire Station: a pioneering social enterprise partnership***

As part of our More London development we're turning the old Tooley Street fire station, next to our new office, into a social enterprise business centre as well as the 'Brigade' bistro, wine bar, private dining and event facility. The profits from this will be invested back into the community. The Fire Station will also accommodate the School for Social Entrepreneurs and our centre for social impact as we work with social entrepreneurs to grow their businesses.

It's due to open this autumn and will become a hub for our community programmes across the UK, demonstrating the power of partnering across the public, private and not-for-profit sectors.

Find out more about this project at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

***PUMA on the environmental prowl***

With big business increasingly in the spotlight for its impact on the environment, sport lifestyle company PUMA decided to do something about it. With our help, it became the world's first company to produce an environmental profit and loss account. This groundbreaking move puts a value on the eco services PUMA uses, signalling a radical change in the way it will account for its use of natural resources from this point on.

Read more about this at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

# Leading our firm

## Executive Board



**Ian Powell**

Chairman and Senior Partner

Ian joined the UK firm's Executive Board in 2006 and he was elected Chairman and Senior Partner in 2008. He joined the UK firm as a graduate trainee in 1977 with a degree in Economics from Wolverhampton Polytechnic and is a qualified chartered accountant (ICAEW). He became a partner in 1991. Before becoming Chairman, he was Head of Advisory. He has an honorary Doctorate in Business Administration awarded by the University of Wolverhampton Business School.



**Richard Collier-Keywood**

Managing Partner

Richard is responsible for the overall management and performance of the business as well as our sustainability and community affairs programme. He read Law at Warwick University and was called to the Bar in 1983. He joined the firm in 1987, became a partner in 1992 and joined the Executive Board in 2003. He was previously head of our Tax practice.



**Keith Tilson**

Chief Financial Officer

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



**Gaenor Bagley**

People

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



**Richard Sexton**

Reputation and Policy

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



**Owen Jonathan**

General Counsel

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



**Richard Oldfield**  
Markets and Industries

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



**Stephanie Hyde**  
Regions

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

## The current Executive Board is pictured

The Executive Board is pictured for the year ended 30 June included:

Ian Powell – Chairman and Senior Partner  
Richard Collier-Keywood – Managing Partner  
James Chalmers – Strategy and Talent  
Kevin Ellis – Advisory  
Owen Jonathan – General Counsel  
Barry Marshall – Tax  
Kevin Nicholson – Regions  
Paul Rawlinson – Markets and Industries  
– Assurance  
Keith Tilson – Chief Financial Officer

Barry Marshall and Paul Rawlinson left the Executive Board on 30 June 2011 to focus full-time on servicing clients in senior client-facing roles.



**James Chalmers**  
Assurance

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



**Kevin Nicholson**  
Tax

Kevin joined the Executive Board in 2008.

Kevin, a tax technician, joined the firm in 1991 and became a partner in 2000. Over this period he worked in the North East, the Midlands, London and Hong Kong and also spent two years working with the Global Tax



**Kevin Ellis**  
Advisory

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

# Managing our firm

## Governance

*The quality of our work is determined largely by the quality of our people. Consequently, we aim to recruit, train, develop and retain the best and brightest.*

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

The Executive Board is responsible for developing and implementing the policies and strategy of the firm, and for its direction and management.

The Executive Board communicates the firm's strategic priorities, which feed into the firm's business planning process. The contribution of each part of the firm is monitored through balanced scorecard reporting.

The Board is chaired by Ian Powell, whose term of office runs for four years from July 2008 to June 2012. The Chairman appoints the other Executive Board members, all of whom are partners in the firm. Each board member has responsibility and accountability for a specific aspect of our business.

The Executive Board meets at least monthly, and conducts formal business at additional meetings as necessary.

### Managing risk

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

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

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

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

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

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

### **Maintaining quality**

The firm's leadership is committed to quality work and has established a culture upholding the values of integrity, independence, professional ethics and professional competence. Further details of our internal quality control system, quality control standards and independence procedures and practices are given in our Transparency Report ([www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)).



### **Quality experiences for our people**

Edward Gray talks about how his recent experience in our Assurance Risk and Quality (ARQ) team in London has helped with his personal development and how this experience will deliver long-term benefits for our clients.

Find out more at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport)

### **Quality people**

The quality of our work is determined largely by the quality of our people. Consequently, we aim to recruit, train, develop and retain the best and brightest.

Throughout their time with our firm partners and staff benefit from structured training programmes to make sure they have the professional skills and knowledge to deliver a high quality service. This training also encompasses the ethical values and behaviours needed to meet our public interest responsibilities.

### **Consultation**

We seek to achieve a consultative and supportive culture so that partners and staff are not left to take a difficult decision alone. Our people have ready access to wide informal and formal networks and technical panels that will help them reach the right solutions to difficult problems.

### **Quality procedures**

We have developed standard methodologies and work programmes for many of our services. These are designed to ensure that our partners and staff deliver work of the expected quality.

### **Quality assurance programmes**

Each line of service runs an annual quality assurance programme, in which independent teams of partners and staff review completed engagements to assess their compliance with our quality standards and regulatory requirements.

### **Independent senior partner reviews**

We operate a programme of obtaining direct feedback from our clients via face-to-face interviews undertaken by senior partners independent of the engagement teams.

We use this feedback to ensure that we continue to provide high quality services and address any service issues promptly.

### **Learning lessons**

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





**Duncan Skailes**  
Chairman of the Supervisory Board

### **The Supervisory Board**

The Supervisory Board, which is independent of the Executive Board, is made up of fifteen members who are elected by the partners. The Supervisory Board elects its own Chairman. Ian Powell, in his capacity as the firm's Chairman, is an ex officio member of the Supervisory Board. Additionally, two partners in the firm who have been elected to the Board of PricewaterhouseCoopers International Limited, the global Board of the PwC Network, are also ex officio members.

The Supervisory Board generally meets monthly but may occasionally hold additional meetings as necessary. The three-year term of office of the current elected members of the Supervisory Board began on 1 January 2010.

We are responsible for overseeing the activities of the Executive Board and giving guidance on matters which we consider to be of concern regarding the wellbeing of the LLP and the partners as a whole. These matters include national, legal, regulatory and fiscal requirements, implementation of global policies and the arrangements for effective communications between partners and the LLP's management. The Supervisory Board holds regular liaison meetings with partners to gauge their views on the strategy and management of the firm.

We are responsible for approving the Annual Report and choice of auditor, for recommending the admission of new partners and for approving transactions and arrangements outside the ordinary course of business; we also have the ability to consult partners on any proposed significant change in the form or direction of the LLP. In addition we are responsible for the process leading to the election of the firm's Chairman and for checking that our policies on partners' remuneration are being properly and fairly applied.

The Senior Management Remuneration Committee is a committee of the Supervisory Board. It makes recommendations to the Supervisory Board, which sets the Chairman's profit share and approves the Chairman's recommendations for the profit shares of the other Executive Board members.

Pauline Campbell and I sit, in our capacity as members of the Supervisory Board, on the Public Interest Body to make sure that there is effective  
tion between the two bodies.

The members of the Supervisory Board, who served throughout the year ended 30 June 2011, are:

#### **Elected members:**

Duncan Skailes\*, Chairman  
John Dowty†, Deputy Chair  
Colin Brereton\*  
Pauline Campbell†  
Paul Clarke\*  
Katharine Finn  
Roy Hodson††  
Rob Hunt†  
Pam Jackson\*\*  
Mike Karp†  
Roger Marsh  
Pat Newberry  
Ian Rankin\*†  
Matthew Thorogood  
Graham Williams

#### **Ex officio members:**

Gerry Lagerberg\*^  
Murray Legg^  
Ian Powell

\* Senior Management Remuneration Committee member

\*\* Senior Management Remuneration Committee Chairman

† Audit and Risk Committee member

†† Audit and Risk Committee Chairman

^ Member of the Board of PricewaterhouseCoopers International Limited

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

**Duncan Skailes**  
Chairman of the Supervisory Board

## **Audit and Risk Committee**

### **Role**

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

The Committee monitors and reviews:

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

### **Activities**

The Committee met 12 times in the year ended 30 June 2011 (2010: seven times). The Chief Financial Officer and General Counsel, together with the internal and external auditors, attend the Committee's meetings by invitation.

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

### **Internal control**

The Committee's review of internal control includes considering reports from the firm's Risk Council and from the firm's internal and external auditors.

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

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

The Committee also reviewed and considered the statements on pages 22 and 23 in respect of the systems of internal control and concurred with the disclosures made.

### **External audit effectiveness and reappointment**

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

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

The Committee also took into account their tenure as auditors and considered whether there should be a full tender

process. There were no contractual obligations restricting the Committee's consideration of the choice of external auditors.

### **Financial reporting**

CCW's external audit plan identified a number of potential risks and areas of judgement in the consolidated financial statements. CCW explained to the Committee the programme of work they planned to undertake to address these risks and the other risks they had identified to ensure that they did not lead to a material mis-statement in the financial statements.

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

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

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

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# A message from the Chairman of the Public Interest Body



**Sir Richard Laphorne**  
Chairman of the Public Interest Body

The Public Interest Body (PIB) is a new departure not only for the firm, but also for me and each non-executive member. All of us have extensive experience on boards of public companies and public bodies, but PwC is a different type of organisation with very different governance needs. You can read the detailed disclosures about the PIB's terms of reference and membership on page 28, and I am pleased to give my thoughts as PIB chairman on the first few months of our existence.

The Audit Firm Governance Code states that the independent non-executives should improve confidence in the public interest aspects of the firm's decision making, dealings with stakeholders and management of reputational risks. The PIB's membership and activities reflect those objectives, and are designed to complement the firm's already well-established governance structure. The Executive Board manages the firm day to day while the Supervisory Board holds the executive to account on behalf of the wider partnership. What's more, the firm is subject to independent oversight and regulation by the Financial Reporting Council (FRC), the Financial Services Authority and the ICAEW, among others.

That is why the PIB includes two representatives from each of the firm's Executive and Supervisory Boards (including the chairs of those two boards), together with the five non-executives. The non-executives have the majority and one of us acts as chair. This arrangement allows the non-executives to hear directly from those responsible for decision making in the firm, and to ask questions. In addition, full agendas and minutes from meetings of those boards are made available to us.

It is worth emphasising that the non-executives on the PIB are not the same as non-executives on a PLC unitary board. On a public company board, all directors participate in, and are responsible for, decisions of the board. By contrast, the PIB gives advice for PwC's management to consider; we do not have powers to ask that this advice is followed. Although we have certain duties that come from the Code on matters of public interest, I believe that the best way for us to 'add value' is in giving the firm's leaders a different perspective.



The Public Interest Body (PIB) is a new departure not only for the firm, but also for me and each non-executive member.

### **How we have spent our time**

We had our set up meeting in November 2010 and have had two full meetings since (in February and May of 2011). Aside from the necessary administrative tasks to get us going, we have established regular slots on our meeting agendas to hear reports from the Executive and Supervisory Boards and to be updated on the firm's Risk and Quality processes.

My view is that we have a very good level of participation in our meetings. We are able to engage directly with the firm's leaders and our observations are listened to.

To help the non-executives to have a better understanding of the firm's activities and procedures, we have asked for 'teach-ins' on a number of topics, beginning with those we consider most relevant to the public interest. So far we have talked to the people responsible for risk, quality and independence in Assurance and Tax. We have also travelled to a number of PwC offices outside London to meet partners and staff to get a better understanding of their business and market. We will arrange similar sessions on other topics in the future. I have been genuinely surprised by the range of areas in which the firm operates, and the comprehensive steps it has to take to make sure it meets appropriate quality and independence standards.

A regular feature of our meetings is to hear updates on the regulatory and public policy agenda – on how the firm has responded to initiatives such as the EC Green Paper on Audit, and the inquiries in the UK by the House of Lords and the Office of Fair Trading. This is a challenging agenda.

We have also taken a strong interest in the nature of the firm's relationship with its regulators. In particular we have observed and been briefed on the firm's public and private inspection reports from the Audit Inspection Unit of the FRC.

### **What we are going to do**

We have been meeting for less than a year, so we are certainly not yet in a position to claim we have 'done everything', but the experience of the first few meetings has given us an excellent platform. We will continue getting to know the full range of the firm's activities relevant to the public interest.

Speaking for the independent non-executive members, we are beginning to form opinions about the environment in which PwC's business operates. While the public interest must be protected, we would be concerned if one of the UK's more successful industry sectors and one of the drivers of economic growth was put under pressure to adopt bureaucratic solutions to perceived regulatory risks. I hope that we can be more forthcoming with our views as we become more established in our role.

### **Talking to stakeholders**

To keep in touch with opinion, issues and concerns, the firm needs to talk to its stakeholders about matters covered by the Governance Code. The Code is not very clear about precisely how this should happen, so, as the non-executives intended to play a part in this process, we are speaking to some of the Code's authors to understand what they had in mind. This is already enabling us to design our engagement programme for the coming year with a broader understanding of the sometimes diverse views presented in these consultations.

In the meantime, if any of PwC's stakeholders in the investor and corporate communities would like to raise issues related to the Code with me, do please get in touch.



**Sir Richard Lapthorne**  
Chairman of the Public Interest Body

### ***The Public Interest Body***

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

*The Public Interest Body presently comprises five independent non-executives and two members from each of the firm's Executive Board and Supervisory Board.*

The Governance Code states that the independent non-executives should enhance confidence in the public interest aspects of the firm's decision making, stakeholder dialogue and management of reputational risks, including those in the firm's businesses that are not otherwise effectively addressed by regulation. In addition to those duties prescribed by the Governance Code, the members of the Public Interest Body are also expected to provide input on other matters, including the public interest aspects of: the firm's strategy; policies and procedures relating to operational risk management, internal control, quality and compliance with regulation; and external reporting.

The Public Interest Body presently comprises five independent non-executives and two members from each of the firm's Executive Board and Supervisory Board.

The independent non-executives are appointed by the Supervisory Board from candidates nominated by the Senior Partner, following consultation between the Senior Partner and the Supervisory Board. Each independent non-executive has a service contract which sets out their rights and duties.

The Senior Partner and Supervisory Board respectively decide which of the members of the Executive Board and Supervisory Board will sit on the Public Interest Body.

Biographies of the independent non-executive members of the Public Interest Body are set out opposite.

The Public Interest Body is expected to meet at least four times per year. As the Public Interest Body was only established part-way through the period, two full meetings were held during the year, in February and May. These were preceded by an inaugural meeting in November. A part of each meeting is set aside to allow the independent non-executives also to meet as a separate group to discuss matters relating to their remit.

**Independent non-executive members of the Public Interest Body are:**



**Sir Richard Lapthorne**

Sir Richard Lapthorne is the current Chairman of Cable & Wireless Communications plc. Sir Richard's executive career spanned British Aerospace plc, where he was Vice-Chairman and Finance Director, and Courtaulds plc, where he was Finance Director. He spent his first 18 years working for Unilever plc in the UK, Africa, Holland and France. As a non-executive he was a part-time Chairman of Nycomed Amersham plc, New Look plc, Morse plc, Arlington plc, and has served as a non-executive director of Orange plc, Robert Flemings and Oasis International Leasing in Abu Dhabi.



**Sir Ian Gibson**

Sir Ian Gibson is currently Chairman of Wm Morrison Supermarkets plc and also Chairman of Trinity Mirror plc. His executive career was spent mainly in the automotive industry, with 18 years at Nissan Motor Company Ltd where he was Chief Executive in the UK and Europe, and was on the Japanese main board. Previously, he was at Ford Motor Company for 15 years. Sir Ian has been a non-executive director at several companies, including GKN plc, Northern Rock plc and BPB plc, a Member of the Court of Directors at the Bank of England and has had several Government advisory roles.



**Sir Graeme Davies**

Sir Graeme Davies is Emeritus Vice-Chancellor of the University of London, having served as Vice-Chancellor and President from 2003-2010. He has been vice-chancellor of three different universities in the UK, and was also previously chief executive of the Universities Funding Council and the Higher Education Funding Council for England. He also serves on the boards of a number of other bodies involved in the higher education sector and has served on the board of London First.



**Dame Karen Dunnell**

Dame Karen Dunnell is a professional statistician and most of her career was spent at the Office for National Statistics where she latterly held the post of National Statistician and Chief Executive. She is currently a visiting fellow at Nuffield College, Oxford, an Honorary Fellow at Cardiff University and a Trustee of the British Heart Forum.



**Paul Skinner**

Paul Skinner is a non-executive director at Standard Chartered plc, Air Liquide SA and the Tetra Laval Group. He is also Chairman of Infrastructure UK, a body which advises HM Treasury, and a Board Member of INSEAD. Paul spent his 40-year executive career with Royal Dutch Shell, with his final position being as Group Managing Director and CEO of the Group's global oil products business. He was later Chairman of Rio Tinto plc and a member of the Defence Board of MoD.

**PwC members (not pictured)**

Ian Powell<sup>^</sup>, Richard Sexton<sup>^</sup>, Duncan Skailes<sup>†</sup>, Pauline Campbell<sup>†</sup>

<sup>^</sup> Member of the Executive Board

<sup>†</sup> Member of the Supervisory Board

# *Investment and growth*

## Our financial statements



**Keith Tilson**  
Chief Financial Officer

### *Management report*

The Executive Board submits its report and the audited consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2011. This report should be read in conjunction with the other sections of this annual report.

### *Financial performance*

Our turnover grew 6% to £2,461m, compared with 4% growth in the prior year. This continued growth is particularly encouraging given the uncertain economic conditions. We saw strong performance in our consulting, forensic and risk-based assurance businesses, offset by reductions in public sector activity. Our overall financial performance benefits from our strategy of continued investment and a diverse range of strong businesses and services.

### *Operating costs*

Our staff costs increased 6% in the year and staff bonuses across the Group increased 10% to £89m.

We maintained tight control over discretionary operating costs during the year. However, these were offset by the costs associated with the full occupation of our new More London premises, increased expenditure on recruitment, learning and development and technology and the growing Middle East firm.

### *Profit for the financial year*

Total profit for the financial year of £656m (2010: £642m) comprises profit available for division among members of £622m (2010: £622m) and profit attributable to non-controlling interests of £34m (2010: £20m).

Average profit per partner, which is stated after excluding the impact of members on overseas secondment, increased from £759,000 to £763,000.

### *Staff pensions*

Some 8,600 of our staff are active members of the firm's defined contribution pension arrangements.

Having completed the consultation process with the affected employees, the firm's defined benefit schemes were closed to future service accrual with effect from 1 April 2011.

Under the terms of the 31 March 2008 triennial actuarial reviews of the defined benefit schemes, the firm has already paid £92m of additional deficit reduction contributions, with a further £40m due over the next two years. The 31 March 2011 triennial review is currently under way.

The annual actuarial valuations at 30 June 2011 carried out for the purpose of these accounts indicate a total deficit of £4m, compared to £164m in the prior year. The decrease in the deficit primarily reflects the deficit reduction payments made in the year, the update of discount rate and inflation assumptions and increases in underlying asset values in the period to 30 June 2011.





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**More London**

More than 5,500 of our people moved into our More London Riverside building in April 2011. The ten-storey building, located close to Tower Bridge on London's South Bank, is a world class and environmentally friendly office for our people and our clients.

### Net assets and financing

Our balance sheet remains healthy, with net assets of £550m (2010: £538m). Some £72m was invested during the year in property, plant and equipment, mainly in respect of new office developments, with £79m of payments made to our defined benefits pension schemes.

The Group is financed through a combination of members' capital, undistributed profits and borrowing facilities. Members' capital contributions totalling £158m (2010: £155m) are determined by the Executive Board with the approval of the Supervisory Board, having regard to the working capital needs of the business. They are set by reference to an individual member's equity unit profit share and are repayable following the member's retirement.

The Group's loan facilities totalled £299m at the year-end (2010: £278m). The Group's principal facility was renewed in June 2011 under a £225m four-year arrangement that expires in June 2015, with an optional additional one year. The Group's facilities are spread across a number of banks and are maintained at a level sufficient to meet the expected peak cash requirements of the business.

Our treasury focus is on ensuring that there are sufficient funds available to finance the business and on managing foreign currency exposure. Surplus cash is invested in short-term money market deposits. Hedging is undertaken to reduce risk, but no speculative activity is permitted.

### Members' profit shares

Members are remunerated solely out of the profits of the firm and are personally responsible for funding their pensions and other benefits. The final allocation and distribution of profit to individual members is made by the Executive Board, once their performance has been assessed and the annual financial statements have been approved. The Supervisory Board approves the process and oversees its application.

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

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

Each member's performance income, which in the current year represents on average approximately 37% of their profit share (2010: 37%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the member's role. These objectives include ensuring that we deliver quality services and maintain our independence and integrity. There is transparency among the members over the total income allocated to each individual.

### Drawings

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

Supervisory Board, sets the level of members' monthly drawings based on a percentage of their individual responsibility income.

### Total UK tax contribution

Our firm makes a significant contribution to the UK public purse through the taxes paid by our business and employees. In the past year this amounted to £655m.

The Group contributes to UK Government finances through taxes borne and taxes collected. We pay a range of taxes including employment taxes, corporation tax, property taxes, indirect taxes and environmental taxes. Our largest UK tax borne is National Insurance contributions of £87m (2010: £80m), reflecting the fact that people are essential to our business. This tax is part of our total taxes borne of £142m (2010: £136m). In addition to taxes borne, the Group collected taxes on behalf of the UK Government of £513m (2010: £479m), comprising employment taxes and indirect taxes. These taxes are an indication of the value we add in society through our business activities. They demonstrate our wider economic impact and overall contribution to the economy. In addition to taxes paid in the UK, the Group has paid taxes in the Middle East which are not included in the figures below.

Total UK tax contribution to 30 June 2011		
	30 June 2011	30 June 2010
	£m	£m
<b>Business taxes paid</b>		
Employers' NIC	87	80
Business rates	15	14
Corporation tax	25	28
PAYE/NIC on benefits	10	8
Insurance premium tax	1	1
Other	4	5
	142	136
<b>Business taxes collected</b>		
Net VAT	258	240
PAYE	206	190
Employees' NIC	49	49
	513	479



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. In respect of the whole of the current year, members of the LLP each bear income tax at broadly 40% on their first £150,000 of profit share and at 50% for amounts thereafter, together with a further 2% National Insurance contribution (2010: 1%). The Group administers the payment of these taxes and makes periodic allocations of profit to cover payment of these tax liabilities.

#### ***Creditor payment policy***

We seek to agree commercial payment terms with our suppliers and, provided performance is in accordance with these terms, to make payments accordingly

calculated by reference to the amount owed in respect of the Group's trade payables at the year-end as a proportion of the total amounts invoiced by suppliers and overseas PwC member firms during the year, was 29 days (2010: 28 days).

#### ***Political donations***

The firm does not make any cash donations to any political party or other groups with a political agenda. However, in the interests of the firm and its clients, we seek to develop and maintain constructive and balanced relationships with the main political parties. In pursuit of this objective, we may, subject to the agreement of the Executive Board, provide limited non-cash assistance to those parties in areas where we have appropriate expertise.

Areas of assistance may include observations on the improvement of legislation or proposed legislation and the exchange of information relevant to effecti licy development. In considering any assistance, the Executive Board has regard to the possible impact on clients of the firm and the firm's overall reputation.

We provided some 3,700 hours of free technical support to political parties during the year (2010: 3,800 hours).

#### ***Designated members***

The designated members (as defined in the Limited Liability Partnerships Act 2000) of PricewaterhouseCoopers LLP during the year were Ian Powell, Richard Collier-Keywood, Keith Tilson and Owen Jonathan.

#### ***Auditors***

The independent auditor, Crowe Clark Whitehill LLP, has indicated its willingness to be re-appointed.

#### ***Going concern***

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

#### ***Statement of members' responsibilities in respect of the financial statements***

The Companies Act 2006, as applied to limited liability partnerships, requires members to prepare financial statements for each financial year 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:

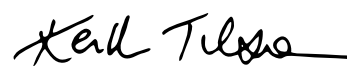
- select suitable accounting policies and then apply them consistently, subject to any changes disclosed and explained in the financial statements
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material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

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

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

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

On behalf of the Executive Board



Keith Tilson  
Chief Financial Officer



Ian Powell  
Chairman and Senior Partner

10 August 2011

## **Independent auditor's report to the members of PricewaterhouseCoopers LLP**

We audited the financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, Group and LLP statements of financial position, Group and LLP statements of cash flows, Group and LLP statements of changes in members' equity, and the related notes numbered 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent LLP financial statements, as applied in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships.

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

### **Respective responsibilities of members and auditor**

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

### **Scope of the audit of the financial statements**

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

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

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Group and the parent LLP as at 30 June 2011 and of the profit of the Group for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent LLP financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships, and
- the financial statements have been prepared in accordance with the Companies Act 2006, as applied to limited liability partnerships.

### **Matters on which we are required to report by exception**

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

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



Steve Gale FCA  
Senior Statutory Auditor

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

10 August 2011



## **Consolidated income statement** for the year ended 30 June 2011

	Note	2011 £m	2010 £m	Increase
Turnover		2,461	2,331	6%
Expenses and disbursements on client assignments		(288)	(262)	
Net revenue		2,173	2,069	5%
Staff costs	2	(1,078)	(1,017)	6%
Depreciation and amortisation	3	(27)	(24)	
Other operating charges	3	(386)	(348)	11%
Operating profit		682	680	
Finance income	4	82	76	
Finance expense	4	(97)	(91)	
Profit on ordinary activities before taxation		667	665	
Tax expense in corporate subsidiaries	5	(11)	(23)	
Profit for the financial year before members' profit shares		656	642	2%
Profit available for division among members	18	622	622	
Profit attributable to non-controlling interests	18	34	20	
Profit for the financial year		656	642	

## **Consolidated statement of comprehensive income** for the year ended 30 June 2011

	Note	2011 £m	2010 £m
Profit for the financial year		656	642
Other comprehensive (expense) income			
Cash flow hedges	20	(1)	8
(Loss) gain from translation of foreign operation		(1)	1
Other comprehensive (expense) income for the year		(2)	9
Total comprehensive income for the year		654	651
Total comprehensive income for the year attributable to:			
Members		621	630
Non-controlling interests		33	21
Total comprehensive income for the year		654	651

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

## Statements of financial position at 30 June 2011

		Group		LLP	
	Note	2011 £m	2010 £m	2011 £m	2010 £m
<b>Non-current assets</b>					
Property, plant and equipment	7	131	81	1	1
Intangible assets	8	21	23	9	9
Goodwill	8	36	33	4	4
Investments	9	3	3	53	45
Retirement benefit assets	16	181	130	181	130
Deferred tax assets	17	3	4	–	–
		375	274	248	189
<b>Current assets</b>					
Trade and other receivables	10	709	663	581	536
Cash and cash equivalents	11	271	375	257	349
		980	1,038	838	885
<b>Total assets</b>		<b>1,355</b>	<b>1,312</b>	<b>1,086</b>	<b>1,074</b>
<b>Current liabilities</b>					
Trade and other payables	12	(515)	(479)	(328)	(335)
Corporation tax		(17)	(16)	–	–
Borrowings	13	(23)	(30)	–	(5)
Provisions	14	(6)	(7)	(5)	(6)
Members' capital	15	(14)	(14)	(14)	(14)
		(575)	(546)	(347)	(360)
<b>Non-current liabilities</b>					
Provisions	14	(52)	(59)	(31)	(41)
Members' capital	15	(144)	(141)	(144)	(141)
Other non-current liabilities	12	(34)	(28)	–	–
		(230)	(228)	(175)	(182)
<b>Total liabilities</b>		<b>(805)</b>	<b>(774)</b>	<b>(522)</b>	<b>(542)</b>
<b>Net assets</b>		<b>550</b>	<b>538</b>	<b>564</b>	<b>532</b>
<b>Members' equity</b>					
Reserves	18	572	539	564	532
Non-controlling interests	18	(22)	(1)	–	–
<b>Total members' equity</b>		<b>550</b>	<b>538</b>	<b>564</b>	<b>532</b>
<b>Total members' interests</b>					
Members' capital	15	158	155	158	155
Reserves	18	572	539	564	532
Amounts due from members (included in trade and other receivables)	18	(20)	(18)	–	–
<b>Total members' interests</b>	18	<b>710</b>	<b>676</b>	<b>722</b>	<b>687</b>

The financial statements on pages 35 to 67 were authorised for issue and signed on 10 August 2011 on behalf of the members of PricewaterhouseCoopers LLP, registered number OC303525, by:



**Ian Powell**



**Keith Tilson**

## Statements of cash flows for the year ended 30 June 2011

	Group		LLP	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Cash flows from operating activities</b>				
Cash generated from operations (note 22)	621	681	492	595
Tax paid by corporate subsidiaries	(27)	(28)	–	–
<b>Net cash inflow from operating activities</b>	<b>594</b>	<b>653</b>	<b>492</b>	<b>595</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(72)	(34)	–	–
Purchase of intangible assets	(5)	(6)	(2)	(4)
Purchase of other businesses (net of cash acquired)	(6)	(16)	–	–
Proceeds from sale of property, plant and equipment	1	1	–	–
Proceeds from sale of other businesses	13	–	13	–
Purchase of investments	–	–	(8)	(25)
Interest received	1	1	3	2
<b>Net cash (outflow) inflow from investing activities</b>	<b>(68)</b>	<b>(54)</b>	<b>6</b>	<b>(27)</b>
<b>Cash flows from financing activities</b>				
Distributions to members	(588)	(570)	(588)	(570)
Distributions to non-controlling interests	(54)	(40)	–	–
Interest paid	(2)	(1)	–	–
Borrowings	(7)	30	(5)	5
Compensating payment by members	18	6	–	–
Capital contributions by members	31	42	31	42
Capital repayments to members	(28)	(31)	(28)	(31)
<b>Net cash outflow from financing activities</b>	<b>(630)</b>	<b>(564)</b>	<b>(590)</b>	<b>(554)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(104)</b>	<b>35</b>	<b>(92)</b>	<b>14</b>
Cash and cash equivalents at beginning of year	375	340	349	335
<b>Cash and cash equivalents at end of year (note 11)</b>	<b>271</b>	<b>375</b>	<b>257</b>	<b>349</b>

**Statements of changes in members' equity** for the year ended 30 June 2011

	Group			LLP
	Available for division among members £m	Attributable to non-controlling interests £m	Total £m	Total £m
Balance at beginning of prior year	479	18	497	469
Profit for the financial year	622	20	642	634
Other comprehensive income (expense) for the year	8	1	9	(1)
Total comprehensive income	630	21	651	633
Allocated profit in financial year	(570)	(40)	(610)	(570)
T	(570)	(40)	(610)	(570)
Balance at beginning of year	539	(1)	538	532
Profit for the financial year	622	34	656	620
Other comprehensive expense for the year	(1)	(1)	(2)	–
Total comprehensive income	621	33	654	620
Allocated profit in financial year	(588)	(54)	(642)	(588)
T	(588)	(54)	(642)	(588)
Balance at end of year	572	(22)	550	564

## **1 Accounting policies**

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

### **Basis of preparation**

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

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

The Group has considered recently published IFRSs, new interpretations and amendments to existing standards that are mandatory for the period. New standards, amendments and interpretations do not have a material effect on the Group's financial statements or they are not considered to be applicable.

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

### **Future requirements**

IAS 19 'Employee benefits' is effective for the accounting period to June 2014. The standard makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The most significant changes are that actuarial gains and losses will be recognised immediately in other comprehensive income and the net pension asset or liability will be recognised on the statement of financial position.

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

- IAS 24 (revised) 'Related party disclosures' is effective for the accounting period to June 2012. The revised standard clarifies the definition of a related party.
- An amendment to IFRIC 14 regarding 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective for the accounting period to June 2012. The amendment permits a voluntary prepayment of a minimum funding requirement to be recognised as an asset.

- IAS 1 (revised) 'Presentation of financial statements' is effective for the accounting period to June 2013. The standard requires items presented in other comprehensive income to be grouped on the basis of whether or not they are potentially recycled to profit or loss.
- IFRS 9 'Financial instruments' is expected to be effective for the accounting period to June 2016. The standard is the first step in the project to replace IAS 39 'Financial instruments: recognition and measurement' and covers the classification and measurement of financial assets. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39.
- The IASB has published a group of five new accounting standards on consolidation and joint arrangements. IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements', IFRS 12 'Disclosure of interests in other entities', IAS 27 'Separate financial statements' and IAS 28 (revised) 'Investments in associates and joint ventures' become effective for the accounting period to June 2014.
- IFRS 13 'Fair value measurement' is effective for the accounting period to June 2014. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

### **Critical accounting estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of 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 principal estimates and assumptions that could have a significant effect upon the Group's financial results relate to the fair value of unbilled turnover on client assignments, receivables valuation, provisions in respect of client claims, onerous property costs and goodwill impairment. In addition, the net deficit or surplus disclosed for each defined benefit pension scheme is sensitive to movements in the related actuarial assumptions, in particular those relating to discount rate, inflation and mortality. Present values are calculated using discount rates reflecting the currency and maturity of the items being valued. Further details of estimates and assumptions are set out in each of the relevant accounting policies and detailed notes to the financial statements.



### 1 Accounting policies continued

#### Consolidation

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

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

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

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

#### Turnover

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

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

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

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

#### Property, plant and equipment

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

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

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

#### Intangible assets

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

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

#### Goodwill

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

## 1 Accounting policies continued

### **Impairment of non-financial assets**

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

### **Investments**

Investments in subsidiary undertakings are stated at cost less impairment.

### **Leases**

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

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

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

### **Borrowings**

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

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

### **Provisions and contingent liabilities**

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

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

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

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

### **Retirement benefits**

The Group operates an ongoing defined contribution pension scheme for its staff. Both of the Group's defined benefit pension scheme arrangements were closed to future service accrual with effect from 1 January 2014.

Contributions to defined contribution schemes are charged to the income statement as they fall due.

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

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## **1 Accounting policies** continued

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

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

### **Termination benefits**

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

### **Members' pensions and annuities**

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

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

### **Allocation of profits and drawings**

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

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

### **Foreign currencies**

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

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

The assets and liabilities of the Group's foreign undertakings are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on consolidation on the retranslation of foreign undertakings, if any, are classified as equity and transferred to reserves.

### **Financial instruments**

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

## **1 Accounting policies** continued

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

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

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

Trade and other payables are measured at amortised cost.

Members' capital, which is measured at fair value, is repayable on members' retirement. This is classified as a financial liability

-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.

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

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

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

## **Financial guarantees**

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

## **Taxation**

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

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

Deferred tax in relation to these companies is recognised, using the liability method, on all temporary differences at the statement of financial position 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 statement of financial position date and expected to apply in the periods in which the temporary differences reverse.

## 2 Staff costs

### Group

	2011 £m	2010 £m
Salaries, including termination benefits of £5m (2010: £13m)	922	870
Social security costs	95	89
Pension costs (note 16)		
– defined contribution schemes	46	41
– current service cost of defined benefit pension schemes	15	17
	1,078	1,017

The average monthly number of employees during the year was 17,079 including practice support staff of 3,543 (2010: 16,533 including practice support staff of 3,513).

### LLP

There were no employees in the LLP during the year (2010: nil).

## 3 Other operating costs

### Depreciation and amortisation

	2011 £m	2010 £m
Depreciation of property, plant and equipment (note 7)	21	18
Amortisation of intangible assets (note 8)	6	6
	27	24

### Other operating charges

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

	2011 £m	2010 £m
Operating lease rentals:		
– land and buildings	90	80
– plant and machinery	9	10
	99	90

Other operating charges also include profits on disposal of business of £13m (2010: nil).

Total fees and expenses payable to the auditors Crowe Clark Whitehill LLP for the year ended 30 June 2011 were £0.4m (2010: £0.4m). Of these, audit fees relating to the LLP and Group consolidation were £0.3m (2010: £0.3m), and other services in respect of the audit of subsidiary companies and other statutory requirements were £0.1m (2010: £0.1m).



#### 4 Finance income and expense

	2011 £m	2010 £m
<b>Finance income</b>		
Interest receivable	1	1
Expected return on pension scheme assets (note 16)	81	75
	82	76
<b>Finance expense</b>		
Interest payable	(2)	(1)
Unwinding of discount on provisions (note 14)	(1)	(2)
Amortisation of actuarial losses on retirement benefits (note 16)	(13)	(10)
Interest cost on pension scheme obligations (note 16)	(81)	(78)
	(97)	(91)
<b>Net finance expense</b>	<b>(15)</b>	<b>(15)</b>

#### 5 Tax expense in corporate subsidiaries

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

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

	2011 £m	2010 £m
Current tax on income of corporate subsidiaries for the year	29	29
Compensating payment due from LLP members	(20)	(6)
Deferred tax movements (note 17)	2	—
<b>Tax expense in corporate subsidiaries</b>	<b>11</b>	<b>23</b>

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

	2011 £m	2010 £m
Profit on ordinary activities of corporate entities before tax	18	20
Tax expense at UK standard rate of 27.5% (2010: 28%)	5	6
Impact of items not deductible for tax purposes	6	5
Transfer pricing charge not met by compensating payment from members	—	12
	11	23

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

## **6 Members' profit shares**

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

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

	2011 Number	2010 Number
UK members	815	820
Members on secondment overseas	28	25
	843	845

During the year, 28 members (2010: 25 members) were on secondment overseas. Excluding these members the average profit per member was £763,000 (2010: £759,000), calculated by dividing the total profit available for division among members by the average number of members in the UK. The amount invested by all members in the business, represented by total members' interests at 30 June 2011, divided by the number of members, amounts to an average investment per member of £842,000 (2010: £822,000).

The final allocation and distribution of profit to members is made after the financial statements have been approved. The estimated profit attributable to the Chairman, the member with the largest entitlement to profit, is £3.7m (2010: actual profit £3.6m, estimated profit £3.6m).

The investment in the business at 30 June 2011 of the Chairman, represented by his estimated share of total members' interests, was £3.5m (2010: actual investment £3.5m, estimated investment £3.5m).

## 7 Property, plant and equipment

### Group

	Freehold property £m	Leasehold property £m	Fittings, furniture and equipment £m	Total £m
<b>Cost</b>				
At beginning of prior year	6	20	139	165
Additions	—	5	29	34
Disposals	—	—	(21)	(21)
At end of prior year	6	25	147	178
Additions	—	4	68	72
Disposals	—	(2)	(8)	(10)
At end of year	6	27	207	240
<b>Accumulated depreciation</b>				
At beginning of prior year	1	17	80	98
Depreciation charge for the year	—	2	16	18
Disposals	—	—	(19)	(19)
At end of prior year	1	19	77	97
Depreciation charge for the year	—	1	20	21
Disposals	—	(2)	(7)	(9)
At end of year	1	18	90	109
Net book amount at end of prior year	5	6	70	81
Net book amount at end of year	5	9	117	131

Group capital commitments contracted but not provided for at 30 June 2011 amounted to £2m (2010: £41m); there were no capital commitments in the LLP (2010: nil). There were no assets under construction in property, plant and equipment in 2011 (2010: £31m).

### LLP

	Leasehold property £m
<b>Cost</b>	
At beginning and end of prior year	17
Disposals	(2)
At end of year	15
<b>Accumulated depreciation</b>	
At beginning of prior year	15
Depreciation charge for the year	1
At end of prior year	16
Depreciation charge for the year	—
Disposals	(2)
At end of year	14
Net book amount at end of prior year	1
Net book amount at end of year	1

## 8 Intangible assets and goodwill

### Group

	Customer rela	ftware £m	Total intangible assets £m	Goodwill £m
<b>Cost</b>				
At beginning of prior year	8	50	58	21
Exchange differences	1	–	1	–
Additions	–	6	6	–
Acquisition of subsidiaries	–	–	–	16
Disposals	–	(1)	(1)	–
At end of prior year	9	55	64	37
Exchange differences	(1)	–	(1)	(1)
Additions	–	5	5	–
Acquisition of subsidiaries (note 25)	–	–	–	4
Disposals	–	(1)	(1)	–
At end of year	8	59	67	40
<b>Accumulated amortisation/impairment</b>				
At beginning of prior year	–	36	36	4
Amortisation charge for the year	2	4	6	–
Disposals	–	(1)	(1)	–
At end of prior year	2	39	41	4
Amortisation charge for the year	1	5	6	–
Disposals	–	(1)	(1)	–
At end of year	3	43	46	4
<b>Net book amount at end of prior year</b>	7	16	23	33
<b>Net book amount at end of year</b>	5	16	21	36

## 8 Intangible assets and goodwill continued

### LLP

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

£26m of the Group's £36m of goodwill at 30 June 2011 is in respect of the firm's investment in the Middle East, which is considered to be a single cash generating unit. The recoverable amount for goodwill has been determined based on value in use, being the present value of future cash flows based on financial budgets approved by management. The discount rate applied against the anticipated future cash flows is based on a pre-tax estimated weighted average cost of capital of 13% (2010: 13%).

Cash flows with an average annual revenue growth assumption of 20% for the first five years have been used (2010: 15%). Cash flows beyond the five year period have been extrapolated using a 5% historic long-term GDP annual regional growth rate (2010: 5%). A reasonable change in the key assumptions does not have a significant impact on the difference between value in use and the carrying value.

There was no impairment charge to the Group's or LLP's goodwill during the current or prior year.



**9 In**

	Group		LLP	
	Other investments £m	Other investments £m	Investments in subsidiary undertakings £m	Total £m
Cost				
At beginning of year	3	3	44	47
Acquisitions	—	—	8	8
At end of year	3	3	52	55
Accumulated impairment				
At beginning of year	—	—	2	2
Impairment charge for the year	—	—	—	—
At end of year	—	—	2	2
Net book amount at end of prior year	3	3	42	45
Net book amount at end of year	3	3	50	53

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

The principal additional investment in subsidiary undertakings relates to the LLP's further investment in PricewaterhouseCoopers (Middle East Group) Limited.

A list of principal subsidiary undertakings is given in note 23.

## 10 Trade and other receivables

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
Client receivables	360	344	318	305
Due from overseas PwC member firms	31	26	29	24
Trade receivables	391	370	347	329
Amounts due from members	20	18	—	—
Other receivables	22	29	4	7
Prepayments	40	42	16	14
Unbilled amounts for client work	236	204	214	186
	709	663	581	536

Group and LLP trade receivables are primarily denominated in sterling, with £56m being denominated in US dollars/US dollar linked currencies (2010: £57m) and £20m being denominated in euros (2010: £11m). The book value of trade and other receivables (Group and LLP) is consistent with fair value in the current and prior year.

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

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

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
30 days or less, fully performing	267	240	243	218
31 to 180 days, past due and full				
	(17)	(17)	(14)	(14)
	391	370	347	329

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

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
Balance at beginning of year	(17)	(21)	(14)	(18)
Charged to the income statement	(11)	(6)	(8)	(2)
Released unused during the year	5	3	4	1
Utilised during year	6	7	4	5
Balance at end of year	(17)	(17)	(14)	(14)

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

## 11 Cash and cash equivalents

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
Cash at bank and in hand	18	27	4	1
Short-term deposits	253	348	253	348
	271	375	257	349

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

## 12 Trade and other payables

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
<b>Current</b>				
Trade payables	65	57	—	—
Amounts owed to Group undertakings	—	—	227	228
Other payables including taxation and social security	111	115	20	30
Accruals	257	230	8	9
Progress billings for client work	82	77	73	68
	515	479	328	335

Group trade payables are primarily denominated in sterling, with £20m being denominated in US dollars/US dollar linked currencies (2010: £30m) and £15m being denominated in euros (2010: £9m). The book value of trade and other payables (Group and LLP) is consistent with fair value in the current and prior year. Current trade payables (Group) include amounts owing to overseas PwC member firms totalling £48m (2010: £44m).

Other current payables including taxation and social security comprise:

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
Other taxes and social security	79	80	—	—
Other payables	32	35	20	30
	111	115	20	30

Other non-current liabilities of £34m (Group) mainly represent capital loans provided by non-controlling interest partners in subsidiary undertakings consolidated into the Group (2010: £28m).

## 13 Borrowings

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
Current				
Bank borrowings	15	12	—	—
Other loans	8	18	—	5
	23	30	—	5

The Group's borrowings are denominated in US dollars.

The carrying amounts of short-term borrowings approximate their fair value.

## 14 Provisions

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

Disclosed as:

	Group 2011 £m	Group 2010 £m	LLP 2011 £m	LLP 2010 £m
Current	6	7	5	6
Non-current	52	59	31	41
	58	66	36	47

### Annuities

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

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

## **14 Provisions** continued

### **Client claims provision**

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

### **Property provisions**

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

## **15 Members' capital**

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

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

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

	Group and LLP 2011 £m	Group and LLP 2010 £m
Current	14	14
Non-current	144	141
	158	155

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



## 16 Retirement benefits

The Group operates an ongoing defined contribution pension scheme for its staff. Both of the Group's defined benefit pension scheme arrangements were closed to future service accrual with effect from 5 April 2011, although certain current employee benefits remain linked to final salary.

### Defined contribution schemes

Costs of £46m (2010: £41m) were recognised by the Group in respect of defined contribution schemes. Costs of defined contribution schemes in the LLP were nil (2010: nil).

### Defined benefit schemes

The Group's two defined benefit pension schemes are the PwC Pension Fund (Fund) and the DH&S Retirement and Death Benefits Plan (Plan). Both schemes are funded and their assets are held separately from those of the Group. The liabilities arising in the defined benefit schemes are assessed by independent actuaries, using the projected unit credit method. Both schemes are valued formally every three years, with the last valuation at 31 March 2008. The 31 March 2011 valuation is currently underway.

### Assumptions

The principal actuarial assumptions used were as follows:

	30 June 2011	30 June 2010	30 June 2009
Discount rate	5.5%	5.3%	6.2%
Inflation (RPI)	3.6%	3.2%	3.3%
Expected rate of increase in salaries	3.6%	3.2%	3.3%
Expected rate of increase in pensions in payment	2.9%	2.6%	2.8%
Expected return on Fund assets	6.0%	5.8%	6.4%
Expected return on Plan assets	6.2%	6.0%	6.7%

In December 2010 UK Government introduced changes which require pensions schemes to use the consumer price index (CPI) where appropriate, taking into account pension scheme rules. For the Fund and the Plan, the majority of liabilities continue to be indexed on an RPI basis, while future increases to deferred member pensions before retirement now increase using CPI. The CPI rate used at 30 June 2011 was 2.9%.

The figures at 30 June 2011 featured in this report assume that mortality of scheme members will be in line with nationally published PA92 mortality tables, incorporating projected mortality improvements and adjustment for the medium cohort effect, plus an annual mortality improvement underpin of 1.25% (2010: 1.00%) for males and 1.00% (2010: 0.75%) for females. The following table illustrates the actual life expectancy for a current pensioner member aged 65 at 30 June 2011 and a future pensioner member aged 45 at 30 June 2011:

	2011		2010	
	Fund Years	Plan Years	Fund Years	Plan Years
Life expectancy of current pensioners at age 65				
– male	23.1	23.1	22.7	22.7
– female	25.9	25.9	25.5	25.5
Life expectancy of future pensioners at age 65				
– male	25.4	25.4	24.7	24.7
– female	27.9	27.9	27.1	27.1

## Notes to the financial statements continued

### 16 Retirement benefits continued

#### Income statement

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

	2011			2010		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Operating cost						
Current service cost	(12)	(3)	(15)	(14)	(3)	(17)
Finance income and expense						
Expected return on scheme assets	51	30	81	47	28	75
Interest cost	(51)	(30)	(81)	(49)	(29)	(78)
Amortisation of actuarial losses	(7)	(6)	(13)	(5)	(5)	(10)
	(19)	(9)	(28)	(21)	(9)	(30)

#### Statement of financial position

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

	2011			2010		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Fair value of scheme assets	1,035	568	1,603	873	493	1,366
Present value of defined benefit obligations	(1,027)	(580)	(1,607)	(960)	(570)	(1,530)
Net surplus (deficit)	8	(12)	(4)	(87)	(77)	(164)
Unrecognised actuarial losses	104	81	185	165	129	294
Net retirement benefit asset	112	69	181	78	52	130

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

	2011			2010		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
At beginning of year	78	52	130	59	32	91
Current service cost	(12)	(3)	(15)	(14)	(3)	(17)
Expected return on scheme assets	51	30	81	47	28	75
Interest cost	(51)	(30)	(81)	(49)	(29)	(78)
Contributions by employer	53	26	79	40	29	69
Amortisation of actuarial losses	(7)	(6)	(13)	(5)	(5)	(10)
At end of year	112	69	181	78	52	130

## 16 Retirement benefits continued

### Scheme assets

The changes in defined benefit scheme assets were as follows:

	2011			2010		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Fair value of scheme assets at beginning of year	873	493	1,366	735	410	1,145
Expected return on scheme assets	51	30	81	47	28	75
Actuarial gains on assets	69	32	101	71	38	109
Contributions by employer	53	26	79	40	29	69
Benefits paid	(11)	(13)	(24)	(20)	(12)	(32)
Fair value of scheme assets at end of year	1,035	568	1,603	873	493	1,366

The actual return on scheme assets in the year ended 30 June 2011 was a £182m gain (2010: £184m gain).

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

	30 June 2011	30 June 2010	30 June 2009
Equities	7.8%	7.7%	7.9%
Bonds	5.5%	5.3%	6.2%
Gilts	4.3%	4.2%	4.4%
Cash	4.0%	3.9%	4.4%

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

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

	Value at 30 June 2011			Value at 30 June 2010		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Equities	463	268	731	370	241	611
Bonds	152	99	251	127	80	207
Gilts	340	184	524	314	69	383
Cash	80	17	97	62	103	165
	1,035	568	1,603	873	493	1,366

## Notes to the financial statements continued

### 16 Retirement benefits continued

#### Defined benefit obligations

The changes in defined benefit obligations were as follows:

	2011			2010		
	Fund £m	Plan £m	Total £m	Fund £m	Plan £m	Total £m
Present value of defined benefit obligation at beginning of year	(960)	(570)	(1,530)	(806)	(479)	(1,285)
Current service cost	(12)	(3)	(15)	(14)	(3)	(17)
Interest cost	(51)	(30)	(81)	(49)	(29)	(78)
Actuarial (losses) gains on obligations	(15)	10	(5)	(111)	(71)	(182)
Benefits paid	11	13	24	20	12	32
Present value of defined benefit obligation at end of year	(1,027)	(580)	(1,607)	(960)	(570)	(1,530)

#### Actuarial gains and losses

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>Fund</b>					
Fair value of scheme assets	1,035	873	735	792	813
Present value of defined benefit obligation	(1,027)	(960)	(806)	(803)	(824)
<b>Net surplus (deficit)</b>	<b>8</b>	<b>(87)</b>	<b>(71)</b>	<b>(11)</b>	<b>(11)</b>
Actuarial experience gains (losses) on assets	69	71	(109)	(85)	13
Actuarial (losses) gains on obligations due to experience	(5)	16	(4)	(2)	(1)
<b>Plan</b>					
Fair value of scheme assets	568	493	410	415	423
Present value of defined benefit obligation	(580)	(570)	(479)	(446)	(470)
<b>Net deficit</b>	<b>(12)</b>	<b>(77)</b>	<b>(69)</b>	<b>(31)</b>	<b>(47)</b>
Actuarial experience gains (losses) on assets	32	38	(52)	(44)	(6)
Actuarial gains (losses) on obligations due to experience	2	5	(2)	3	8

## 16 Retirement benefits continued

### Sensitivity analysis

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

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

	Fund Decrease (Increase) £m	Plan Decrease (Increase) £m	Total £m
0.25% increase to discount rate	50	30	85
0.25% increase to salary increases	(5)	(2)	(7)
0.25% increase to inflation	(26)	(16)	(42)
One year increase to life expectancy	(18)	(11)	(29)

### Future cash funding

The most recent full actuarial valuations for both the Fund and the Plan were as at 31 March 2008 under the new Scheme Funding Regulations (Pensions Act 2004), and formed the basis for the update to 30 June 2011 used in these financial statements. For the year ended 30 June 2011, Mercer Ltd was the actuary for the Fund and the Plan.

Total cash contributions to the schemes during the year ended 30 June 2011 were £79m, including £32m of contributions arising from the 31 March 2008 valuation, together with a further £32m of additional contributions. The Group expects to pay contributions next year of £28m.

## 17 Deferred tax

Deferred tax is calculated in full under the liability method on temporary differences arising in corporate subsidiaries, using a tax rate of 28% for the period to 31 March 2011 and 26% thereafter (2010: 28%).

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

	2011 £m	2010 £m
Balance at beginning of year	4	4
Acquired with subsidiary	1	—
Charged to the income statement	(2)	—
Balance at end of year	3	4

The Group has no deferred tax liabilities (2010: nil).

Further changes to the UK Corporation tax system were announced in the March 2011 Budget Statement including a reduction in the main rate of corporation tax to 26% from 1 April 2011 which was enacted at the statement of financial position date.

The Finance Act 2011 also includes legislation to reduce the rate to 25% from 1 April 2012 and further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes had not been substantively enacted at the statement of financial position date and, therefore, are not included in these financial statements. If these changes had applied at 30 June 2011, they would not have been sufficiently material to alter the deferred tax disclosures shown above.

There was no deferred tax arising in the LLP.

## 18 Total members' interests

### Group

	Members' interests				Non-controlling interests	
	Members' capital £m	Reserves £m	Amounts due to (from) members £m	Total £m	Reserves £m	Amounts due to (from) non-controlling interests £m
Balance at beginning of prior year	144	479	(18)	605	18	—
Profit for the prior year available for division among members	—	622	—	622	20	—
	144	1,101	(18)	1,227	38	—
Allocated profit	—	(570)	570	—	(40)	40
Movement on cash flow hedges	—	8	—	8	—	—
Introduced by members	42	—	—	42	—	—
Repayment of capital	(31)	—	—	(31)	—	—
Drawings and distributions	—	—	(570)	(570)	—	(40)
Other movements	—	—	—	—	1	—
Balance at beginning of year	155	539	(18)	676	(1)	—
Profit for the current year available for division among members	—	622	—	622	34	—
	155	1,161	(18)	1,298	33	—
Allocated profit	—	(588)	588	—	(54)	54
Movement on cash flow hedges	—	(1)	—	(1)	—	—
Introduced by members	31	—	—	31	—	—
Repayment of capital	(28)	—	—	(28)	—	—
Drawings and distributions	—	—	(588)	(588)	—	(54)
Movement in compensating payment due to subsidiary undertakings	—	—	(2)	(2)	—	—
Other movements	—	—	—	—	(1)	—
Balance at end of year	158	572	(20)	710	(22)	—



## 18 Total members' interests continued

### LLP

	Members' capital £m	Reserves £m	Amounts due to (from) members £m	Total £m
Balance at beginning of prior year	144	469	—	613
Profit for the prior year available for division among members	—	634	—	634
	144	1,103	—	1,247
Allocated profit	—	(570)	570	—
Introduced by members	42	—	—	42
Repayment of capital	(31)	—	—	(31)
Drawings and distributions	—	—	(570)	(570)
Other movements	—	(1)	—	(1)
Balance at beginning of year	155	532	—	687
Profit for the current year available for division among members	—	620	—	620
	155	1,152	—	1,307
Allocated profit	—	(588)	588	—
Introduced by members	31	—	—	31
Repayment of capital	(28)	—	—	(28)
Drawings and distributions	—	—	(588)	(588)
Other movements	—	—	—	—
Balance at end of year	158	564	—	722

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

## 19 Commitments under operating leases

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

	2011		2010	
	Land and buildings £m	Other assets £m	Land and buildings £m	Other assets £m
Within one year	63	6	63	6
1–2 years	69	4	58	4
2–3 years	62	1	61	1
3–4 years	56	—	55	—
4–5 years	37	—	50	—
More than five years	443	—	461	—

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## **20 Financial instruments**

### **Financial risk management**

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

- Trade receivables – The balance represents amounts invoiced in respect of services provided to clients for which payment has not yet been received.
- Cash and cash equivalents – The Group manages its cash resources in order to meet daily working capital requirements. Cash and any outstanding debt are kept to a minimum and liquid fund deposits are maximised.
- Members' capital – The Group requires members to provide long-term financing, which is classified as a liability and is payable on retirement.
- Debt – The Group's policy permits short-term variable rate facilities with a maximum facility maturity of five years and long-term fixed borrowing with a maximum maturity of ten years. In addition to members' capital and capital loans provided by non-controlling interests, at 30 June 2011, the Group had £2m (2010: £1m) of long-term borrowings included in other non-current liabilities.

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

### **Liquidity risk**

The Group's most significant treasury exposures relate to liquidity. The Group manages the risk of uncertainty in its funding operations by spreading the maturity profile of its borrowings and deposits. Committed facilities are arranged with minimum headroom of 25% of forecast maximum debt levels. The Group's facilities at 30 June 2011 totalling £299m (2010: £278m) are predominantly held with five leading international banks, with the main £225m facility due to expire in June 2015, with an optional additional one year.

### **Credit risk**

Cash deposits and other financial instruments with banks and financial institutions give rise to counterparty risk.

The Group manages this counterparty risk by reviewing their credit ratings regularly and limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The minimum long-term credit rating of all banks and financial institutions who held the Group's short-term deposits during the year was A+.

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

### **Interest rate risk**

The Group's borrowings and any surplus cash balances are held at variable interest rates linked to London interbank offered rate (LIBOR). Outstanding borrowings were undertaken in US dollars to reflect the composition of the Group's assets that the borrowings are funding. A movement in the interest rate of 50 basis points on borrowings and surplus cash balances through the year would have resulted in a change in pre-tax profit of £1m.

### **Foreign currency risk**

The major part of the Group's income and expenditure is in sterling. Other than the Middle East business, fees and costs denominated in foreign currencies are mainly in connection with professional indemnity insurance and transactions with overseas PwC 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

### Financial assets and liabilities by category

	2011				2010			
	Loans and receivables £m	Available- for-sale £m	Derivatives used for hedging £m	Other financial liabilities £m	Loans and receivables £m	Available- for-sale £m	Derivatives used for hedging £m	Other financial liabilities £m
<b>Assets</b>								
Trade and other receivables	669	—	—	—	621	—	—	—
Investments	—	3	—	—	—	3	—	—
Cash and cash equivalents	271	—	—	—	375	—	—	—
<b>Liabilities</b>								
Trade and other payables	—	—	—	436	—	—	—	399
Borrowings	—	—	—	23	—	—	—	30
Members' capital	—	—	—	158	—	—	—	155
Other non-current liabilities	—	—	—	34	—	—	—	28
<b>Forward foreign- exchange contracts</b>								
Cash flow hedges	—	—	—	—	—	—	1	—

### Int

-term deposits with banks of £253m (2010: £348m) are subject to floating interest rates of less than one year. All other financial assets and financial liabilities are non-interest earning. The Group had interest rate swaps with a notional principal amount of £1m (2010: £2m).

### Currency profile of financial assets and liabilities

The major part of the Group's income and expenditure is in sterling. After taking into account forward contracts and known US dollar and euro denominated assets and liabilities, the Group had net US dollar denominated liabilities at 30 June 2011 of £5m (2010: net denominated assets of £9m) and net euro denominated liabilities at 30 June 2011 of £1m (2010: net denominated liabilities of £6m).

### Derivative financial instruments

Forward foreign-exchange contracts all mature in less than a year, and have been valued using forward market prices prevailing at the statement of financial position date. The ineffective portion of cash flow hedges recognised in the income statement was a £1m loss (2010: £1m gain). The effective portion of cash flow hedges recognised directly in other comprehensive income was nil (2010: £1m gain). The notional principal amount of forward foreign-exchange contracts was £78m (2010: £81m).

## **20 Financial instruments** continued

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

	2011 £m	2010 £m
Forward foreign exchange contracts		
Balance at beginning of year	1	(7)
Fair value gains and losses on cash flow hedges recycled from other comprehensive income to the income statement	(1)	7
Fair value gains and losses recognised in other comprehensive income	–	1
Balance at end of year	–	1

The movements in the income statement relating to derivatives held by the Group are as follows:

	2011 £m	2010 £m
Forward foreign exchange contracts		
Fair value gains and losses on cash flow hedges recycled from other comprehensive income to the income statement	(1)	7
Ineffective portion of fair value gains and losses on cash flow hedges recognised in the income statement	(1)	1
Fair value gains and losses on available-for-sale derivatives	–	(1)

Interest rate swap contracts all mature within a year and have been valued using market prices prevailing at the statement of financial position date. The related fair values recognised in the income statement were nil (2010: nil).

## **21 Contingent liabilities and financial guarantees**

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

The LLP has entered into a US dollar 52m (2010: US dollar 47m) loan guarantee with a third-party bank in connection with a loan to an entity in the PwC global network.

The LLP has also provided a guarantee in respect of the future lease commitment of a subsidiary company for the office premises at 7 More London.

The LLP guarantees the bank borrowings of a subsidiary company, which is included in the consolidated statement of financial position. At the year-end, the relevant subsidiary company bank borrowings were nil (2010: nil).

## 22 Reconciliation of profit after tax to operating cash flows

	Group		LLP	
	2011 £m	2010 £m	2011 £m	2010 £m
Profit after taxation	656	642	620	634
Tax on profits	11	23	–	–
Adjustments for:				
– Depreciation and amortisation	27	24	2	3
– Impairment of investment	–	–	–	2
– Loss on disposal of property, plant and equipment	–	1	–	–
– Gain on disposal of business	(13)	–	(13)	–
– Finance income	(82)	(76)	(85)	(77)
– Finance expense	97	91	95	89
Changes in working capital (excluding the effects of acquisitions)				
– (Increase) in trade and other receivables	(42)	(58)	(45)	(15)
– Increase (decrease) in trade and other payables	34	67	(6)	8
– (Decrease) increase in provisions and other non-current liabilities	(3)	19	(12)	3
– (Increase) in retirement benefit assets	(64)	(52)	(64)	(52)
Cash generated from operations	621	681	492	595

## 23 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 incorporated in Great Britain, except for PricewaterhouseCoopers (Middle East Group) Limited which is incorporated in Guernsey, with the Group owning 100% of the ordinary shares and the local Middle East partners owning 'B' shares. In accordance with IAS 27 the Group has control as a result of owning 100% of the ordinary shares. The 'B' shares provide certain income access rights to the local Middle East partners.

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

Companies	Principal activity
PricewaterhouseCoopers Services Limited	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
PricewaterhouseCoopers (Middle East Group) Limited	Professional services
Sustainable Finance Limited	Professional services
PricewaterhouseCoopers Overseas Limited	Professional services
Diamond Advisory Services Limited	Professional services
Limited Liability Partnerships	
PricewaterhouseCoopers CI LLP	Professional services
PricewaterhouseCoopers Legal LLP	Legal services

## 24 Related party transactions

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

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

Arrangements are in place for the LLP to supply services to the United Kingdom Partnership in connection with client assignments. For the year ended 30 June 2011, the LLP provided services to the United Kingdom Partnership to the value of £185,000 (2010: £248,000) under these arrangements. There were no balances outstanding at the end of the year (2010: nil).

### *Administrative support to PricewaterhouseCoopers United Kingdom Partnership*

On behalf of its members, the LLP provides certain administrative services to support the United Kingdom Partnership, including the calculation of annuities and paying agent arrangements in connection with the pension annuities and certain other post-retirement payments due to certain former partners of that partnership. The LLP charged the United Kingdom Partnership £200,000 for these support services for the year ended 30 June 2011 (2010: £200,000). There were no balances outstanding at the end of the year (2010: nil). Amounts paid during the year to the annuitants on behalf of the continuing members in their capacity as partners in the United Kingdom Partnership totalled £77m (2010: £72m).

### *Key management compensation*

The Executive Board represents key management personnel for the purposes of the Group's related party disclosure reporting. The final allocation and distribution of profit to members is made after the financial statements have been approved. The estimated profit attributable to the ten (2010: ten) members of the Executive Board during the financial year, comprising their estimated share of the Group's profit available for distribution among members, amounts to £20.6m (2010: actual profit attributable of £19.9m, estimated profit attributable of £19.7m).

### *LLP*

The subsidiary undertakings as described in note 23 are related parties of the LLP. The transactions and year-end balances with these related parties are as follows:

	2011 £m	2010 £m
Purchase of services from related parties		
PricewaterhouseCoopers Services Limited	1,356	1,233
Other subsidiaries	18	14
Provision of services to related parties		
Other subsidiaries	(16)	(14)
	1,358	1,233
Year-end balances with related parties		
PricewaterhouseCoopers Services Limited	(236)	(234)
Other subsidiaries	9	6
	(227)	(228)



## 25 Acquisitions of subsidiaries

On 3 November 2010, the Group acquired a 100% interest in Diamond Advisory Services Limited (formerly Diamond Management & Technology Consultants Limited) for total consideration of £8m. Diamond Advisory Services Limited is a strategic management consultancy company.

The acquisition of Diamond Advisory Services Limited had the following effect on the Group's assets and liabilities at acquisition:

	Fair value £m
Deferred tax asset	1
Cash	2
Trade and other receivables	2
Trade and other payables	(1)
Net identifiable assets, liabilities and contingent liabilities acquired	4
Goodwill on acquisition	4
Total purchase consideration	8
Consideration satisfied by:	
Cash	8
Total purchase consideration in cash (net of cash and cash equivalents acquired)	6

The pre-acquisition carrying amounts in respect of the Group's acquisitions have been determined based on the relevant financial statements prepared as of the acquisition date. The values of assets, liabilities and contingent liabilities recognised on acquisition are estimated fair values which approximate to pre-acquisition carrying amounts in all cases.

The goodwill on acquisition of £4m is attributable to the value of Diamond Advisory Services Limited's existing workforce. This does not meet the criteria to be separately recognised from goodwill.

In the prior year, the Group acquired a 100% interest in Paragon Consulting Holdings Limited (PCHL) and its subsidiaries, an enterprise performance management technology business, for total consideration of £5m, including deferred consideration of £1m. Subsequent to the acquisition, the majority of PCHL's business assets and liabilities were transferred to the LLP for consideration of £7m.

Also in the prior year, the Group acquired the business of Al Yasmeen Consulting LLC (formerly PricewaterhouseCoopers Jordan WLL) for total consideration of £1m. It also acquired further Middle East business operations which were integrated into the PwC Middle East practice. The fair value of the consideration was £11m. The Group recognised £16m of goodwill in the prior year in respect of acquisitions.

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

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