PricewaterhouseCoopers LLP
Annual Report 2008

Leading in a changing world

PRICEWATERHOUSECOOPERS

Key performance indicators

Client experience

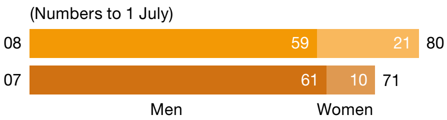
Client satisfaction score[1]

PwC brings fresh insight[1]

People experience

People engagement score[2]

Partner admissions



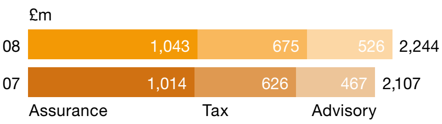
Sustainability and Environment

CO_2 emissions[3]

Time volunteered in the working day

Financial

Turnover – growth 7%



Profit per partner[4]

1 Figures based on a client poll to assess their view on how well we engage with them.
2 Figures based on *youmatter* survey. See page 15 for more information.
3 See page 24 for more information.
4 Prior year underlying profit per partner restated to exclude partners on secondment overseas.

Leading in a changing world

We cannot predict the future, but we can plan for it. Our *Emerging Leaders Programme* is accelerating the development of our firm's future leaders. Participants contribute to a wide range of strategic projects, working with leaders from across the firm and in the community to develop the skills they will need to face the challenges of our ever-changing world.

Seven emerging leaders
Left to right:
Gareth Hughes
Joanne Mallon
Lucy Barton
Duncan Scott
Richard Thompson
Shima Heydari
Katy Shaw

Contents

Chairman
Leading our markets, leading by example
'PwC is the number one professional services firm both in the UK and globally.'
02

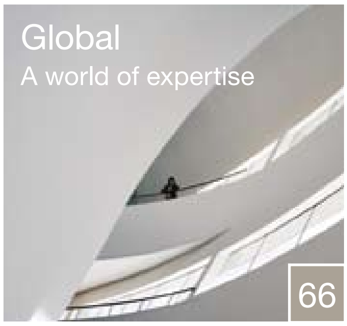
Managing partner
A changing world creates challenges and opportunities
06

People
The better our people, the better our business
14

Managing our environmental impact
A better business for everyone
22

Governance
Responsible leadership
26

Financial
Investing for the future
32



Global
A world of expertise
66

2008 highlight awards and accolades

THE TIMES TOP 100 GRADUATE EMPLOYERS 2008 – EMPLOYER OF THE YEAR

CommunityMark developed by Business in the Community

THE 2008 global AWARDS – Accountancy Firm of the Year

THE SUNDAY TIMES 20 BEST BIG COMPANIES TO WORK FOR 2008

THE SUNDAY TIMES BEST GREEN COMPANIES 2008

Leading our markets, leading by example

‘Our vision is clear: to be a commercial powerhouse that does the right thing for our clients, our people and our communities.’

I am delighted as newly elected Chairman to welcome you to our 2008 annual report.

A clear vision

Our vision is clear: to be a commercial powerhouse that does the right thing for our clients, our people and our communities. We will focus on being innovative, agile and commercially dynamic.

We are investing in our strategic priorities. We expect our Performance Improvement Consulting, Human Resource Services and Sustainability and Climate Change businesses to continue to grow strongly. We will also deliver improved efficiency through the re-engineering of our audit and support functions. We will continue our focus on providing a better experience for our clients, by creating an environment where we can recruit, retain and develop exceptionally talented people.

Global economic challenge

Over the last year, we have responded to significant developments within each of the three key drivers of our business: the UK economy, the global economy and transactional activity. Though these changes have presented us with many challenges, they have also created many opportunities for our business.

The current economic instability has inevitably knocked business confidence and led to reduced transactional activity. The credit crunch has impacted on the economic cycle and lowered growth expectations for many businesses. We have been proactive, offering our clients innovative solutions and practical support.

Economic power has continued to shift from Europe, Japan and North America towards the emerging markets and petrochemical economies. By 2050, we expect the E7 (Brazil, China, India, Indonesia, Mexico, Russia and Turkey) to be around 50% larger than the current G7 (Canada, France, Germany, Italy, Japan, UK and US). At current rates of growth, we expect that China will overtake the US as the world's largest economy by around 2025.

Now, more than ever, the UK must recognise that it is not, in financial terms, an island, but simply one of many players in the greater global economy. These shifts make great demands on our business, not least in terms of providing increasing numbers of people in those areas of the world that are experiencing the most rapid growth. The opportunities for our people are exciting, presenting great prospects for professional and personal development.

Keeping the UK competitive

We share our clients' concern over the risks to the continued competitiveness of the UK economy. The quantity and scope of regulation combined with the level of uncertainty and complexity in this country's tax system are particular causes for concern, and remain at the top of the agenda for leading UK-based businesses. While this may generate work for us, I recognise that it damages the competitiveness of the UK economy and makes this country a less attractive place for foreign investors.

Improving public services

Turning to the public sector, both central and local government face a tough challenge in meeting ever-higher expectations for public services against a tightening fiscal background. As a result, we are working with government in a range of ways, including organisational transformation, efficiency improvement and smarter procurement.

Our public responsibilities

I believe that we have an important role to play in supporting stability and confidence in the capital markets, particularly during a period of economic uncertainty. We will not neglect our responsibilities on either front.

We also remain committed to working with the regulatory community, investors and other stakeholders to ensure that our industry delivers a relevant and valuable service and, in doing so, provides an interesting and rewarding place for our people to work.

Through our insight, knowledge and experience, PricewaterhouseCoopers (PwC) provides leadership in the business community and public sector. Where we have expert knowledge and an informed point of view, we will continue to lead the debates that shape both business and society.

Position of strength

It is 10 years since Price Waterhouse and Coopers & Lybrand merged to create the most successful global professional services firm. The breadth, quality and number of our clients are all powerful indications of our continuing leadership in the marketplace. We are responsible for 39% of FTSE 100 audits (2007: 39%) and act for almost every other FTSE 100 company in one or more parts of our business.

We have the appetite to win major new audit engagements, building on a compelling proposition of quality, experience, credentials and long-term commitment to this fiercely competitive market.

We also have a strong profile in the Private Equity, Mid-Cap, Entrepreneur and Private Company Markets, leveraging our industry expertise and the strength

‘Over the past year, we performed strongly in the leading independent indices that measure corporate responsibility and sustainability performance.’

Cambridge’s universal truths

Our pioneering sustainability project, run by the Cambridge Programme for Industry, has changed how Human Resource Services partner Matthew Thorogood thinks.

‘When I was starting out, no one talked about things like climate change, resource management, demographics and sustainability. For everyone on the course, spending time with some of the world’s leading researchers and thinkers was a real watershed. We were left in no doubt that these issues will dominate the social, political and economic agendas for the rest of this century.

‘Companies that understand this will survive and prosper, and companies that don’t will suffer. Since completing the course, I’ve been working with people from our Performance Improvement Consulting practice and our core Sustainability and Climate Change team to see how we can assist HR functions to align their sustainability and people strategies.

‘Companies are changing their thinking, and we can help them deliver real results. The fact is, people want to work for businesses that share their personal values. So, instead of viewing the sustainability agenda as a challenge, companies should be using it to drive their recruitment, improve their retention rates, engage and motivate their staff, and raise brand awareness. In short, sustainability can improve the bottom line.’

of our extensive regional network. We play a leading role as part of the PwC global network, providing a seamless service to the ever-increasing number of organisations seeking to do business, both inside and outside the UK.

All of our businesses operate in a broad market in which we compete against many different organisations, not just our traditional competitors. Our clients seek high quality, timely and strategic advice that we deliver with honesty, integrity and passion. When working with clients to resolve their most complex challenges, we combine different areas of expertise in a single solution. In this way, we provide our clients with an unmatched breadth of capability and reach and deliver the best of PwC.

Investing for growth

To deliver our strategy and create a vibrant organisation, we take long-term strategic investment decisions to grow new revenues. One example is the investment we have made in our Sustainability and Climate Change practice.

The firm has provided a range of sustainability and climate change services for more than 15 years. However, over the last year, we have responded to client needs by bringing on board new partners and specialist staff.

As a result, we are able to offer our clients a comprehensive service, ranging from impact assessment and strategy formulation through to the specific challenges of climate change and carbon management assurance and reporting. As part of this investment, we have developed a pioneering sustainability programme with the Cambridge University Programme for Industry, which has now been attended by around 200 of our partners. A key focus of this programme has been to consider the impact on our clients of sustainability and climate change trends, issues and policy developments.

Sustainability is a major issue for many of our clients and will shape their business for the future. We are delighted to work with them to meet this significant challenge.

Investing in talent

I am proud of the calibre and skills of our people and their commitment to delivering an exceptional service to our clients. Our performance in 2008 was the result of their efforts and I would like to thank everyone for their energy, dedication and professionalism. Bright, committed people remain the lifeblood of our business. Consequently, we are determined to continue to provide them with outstanding career opportunities that allow each person to fulfil their potential.

Our firm is a dynamic organisation, a fact reflected in our willingness to invest for the long term, particularly in people. This year, we have admitted 80 new partners to the firm – a statement of our intent for medium and long-term growth. During the year, nearly 2,500 people have joined us. Our reputation for developing our people's potential also continues to grow – a critical factor in a talent-driven organisation.

It is impossible to mention talent without addressing the challenge of diversity in our workplace. We recruit from the full breadth of talented people in our society. This year, we increased the proportion of women admitted to the partnership and we now have more than 100 female partners. 40% of our graduate recruits in 2008 were women, and 24% came from ethnic minority backgrounds. We have made strenuous efforts to see this balance reflected throughout the firm. I will make sure that this remains a key strategic priority. I am particularly committed to ensuring that people from a more diverse background come through to the most senior leadership positions.

Our role in the community

We take our responsibility as a corporate citizen seriously. My goal is for PwC to move beyond current best-practice. I want our firm to innovate and trial new strategies and approaches that will minimise our environmental impact and further enhance our role in the communities within which we live and work.

Over the past year, we performed strongly in the leading independent indices that measure corporate responsibility and sustainability performance. Highlights include being the highest ranked professional services firm in The Sunday Times Best Green Companies and achieving Platinum status in the Business in the Community (BITC) Corporate Responsibility Index, scoring over 95% for the fourth year running.

We have much to be proud of in our existing and long-standing community programmes. I believe that we have the opportunity to use our experience and professional expertise to make a critical difference.

We are delighted to be one of a small number of organisations that have been awarded the BITC CommunityMark in recognition of our pioneering commitment to communities throughout the UK. The award demonstrates the success of our approach and the strength of our community affairs programme.

Looking forward

2008 marked the end of Kieran Poynter's second term as Chairman. We are enormously grateful for all he has done, not only in his eight years as Chairman, but also throughout his career, all of which was spent with the firm.

Thanks in no small part to Kieran, this is a great time to lead our firm. We are an exceptional organisation with exceptional clients and people.

While our market position offers significant opportunities, it also brings significant responsibilities. We will continue to deliver on both counts.

For the future, I believe we will become even more successful. We have the potential to be an iconic organisation with a culture and values that enable us to do the right thing for our clients, our people and our communities.

Thank you to our clients and our people for all your support this year.

Ian Powell

Ian Powell
Chairman

A changing world creates challenges and opportunities

The year in review; how our business performed; and developing our business

Over the past 12 months, we have achieved solid growth and improved profitability despite encountering the most difficult economic environment we have seen for more than a decade. At the same time, we have pursued an investment strategy that continues to make PwC the distinctive professional services firm.

As a result, our firm is in very good shape to meet the challenges that lie ahead. We have a well-balanced portfolio of services with significant global reach and an intense focus on the quality of our client service.

We are investing in key growth areas throughout our business and, in particular, in the areas of Performance Improvement Consulting, Human Resource Services and our Sustainability and Climate Change business, while increasing our investment in enhancing the delivery of our core services.

With an unmatched breadth of expertise and reach, we always strive to deliver the best of PwC to our clients.

At the end of this section, there is a summary of the performance highlights of each of our businesses.

Richard Collier-Keywood
Managing Partner

Putting people first

Jeff Thompson, head of Performance Improvement Consulting, explains the success of our *What would you like to change?* campaign.

'When you put people and involvement at the heart of change programmes, the programmes deliver. That's the message underlying our *What would you like to change?* campaign because, after all, putting people first means starting by asking them what they want.

'Change is often an unnerving experience for people, particularly where their jobs are concerned. Sudden change or the arrival of consultants can trigger that nervous reaction and be the reason why change programmes eventually unravel. Lasting success is dependent on the skill with which consultants can involve, work alongside and integrate with the people in the business.

'Our campaign is all about involvement: we've encouraged both businesses and individuals to get involved. We are customers, citizens, employers or employees, patients and parents, and that means we each come into contact with PwC's clients.

'To deliver effective transformation projects, we need to understand first-hand the issues facing our clients; involving the public has helped us to do that. We've had thousands of responses that we have taken to our clients to raise awareness of the issues that people care about and to bring our expertise.

'We have taken the same approach to transform ourselves – by asking our people, we have developed some terrific insight into our business. *What would you like to change?* reminds us to start by putting the needs of our clients first.'

‘Our ambition is to be the iconic professional services firm that delivers exceptional client service and a great experience for our people’.

Tough times ahead

We expect tough trading conditions over the coming year. However, we remain confident that the breadth of our services, the strength of our client relationships, the quality of our people and our focus on the market will enable us to continue to grow our business. We will, moreover, back that belief by continuing to take long-term investment decisions and developing leading solutions for our clients.

Our ambition is to be the iconic professional services firm that delivers exceptional client service, a great experience for our people and quality earnings for our partners. At the same time, we aim to be a responsible leader and innovator in society.

We recognise two dimensions in managing our firm: our market and our business. Our market dimension is divided into six segments: FTSE 100, Mid-Cap, Public Sector, Private Equity,

The Client Experience

Glyn Barker
Vice Chairman

‘There is nothing more important than looking after clients. For me, that’s what this firm is all about.

‘We don’t just aspire to be the best. We also seek to differentiate ourselves from the competition by offering an exceptional client experience. To achieve that, we have to do much more than just employ technically competent and commercially minded people. We also have to nurture the right qualities in our people by giving them the training, guidance and opportunities they need to become fully rounded business professionals.

‘As part of our commitment to this objective, we recently launched our Client Experience Awards to recognise and reward partners and staff who consistently provide exceptional client service by investing in client relationships, putting themselves in their client’s shoes, sharing and collaborating and focusing on client value.

‘I was delighted to see so many examples of exceptional service to clients. It’s clear to me that our people truly recognise the importance of knowledge sharing, are willing to go the extra mile again and again, and understand how little things can make such a big difference. The awards provide ample evidence that we really do deliver an exceptional client experience.’

Inbound and Entrepreneurs and Private Companies (EPC). These segments are supported by our industry expertise and regional leadership. Our business is structured through three Lines of Service: Assurance, Tax and Advisory.

Market growth opportunities

Despite the current economic conditions, we see particular opportunities for growth in the Mid-Cap, Public Sector and EPC segments. The significant relationships we have built in the FTSE 100 and with Private Equity clients offer us a great opportunity to deliver the expertise of the entire firm to our clients.

For Inbound clients, the strength of our international network is key to our success in the UK. We are working increasingly closely as a network of PwC firms to ensure that we respond rapidly to the significant changes being experienced in the global economy, focusing in particular on emerging markets and those economies benefiting from substantial petrochemical revenues.

In terms of industry, the global credit crunch has led to major changes in financial services that we believe hold considerable opportunities for long-term growth for our firm in the UK. Energy, mining and healthcare are three further industry sectors where we see strong potential for growth.

Our domestic network represents a major asset for the firm. Our scale and reach give us the opportunity to deliver the full range of PwC services nationally to our clients, whatever their size, complexity or location.

Sea change

Account director James Compston was part of a team led by Performance Improvement Consulting Partner Gavin Sanderson, which advised BP on the transformation of its North Sea operations.

‘BP has been working in the North Sea for more than 40 years. BP identified the need to transform its business there to position it for a successful future, against a backdrop of rising costs, increasing complexity and declining production. Its strategic intent continues to be to maintain safe, reliable operations and improve the cycle time for new oil and gas developments.

‘PwC were initially engaged by BP to provide internal benchmarking, contract reviews and cost challenge for its North Sea business – by using existing data, but providing fresh insights and comparisons across the business units. After initial cost savings were identified through this work, the BP and PwC project team supported the fundamental restructuring of the business from an asset-based organisation to a functionally based organisation, as well as simplifying and streamlining the ways of working.

‘The programme has allowed a much simpler organisation to be defined, clarified accountabilities and standardised work methods, leading to reduced waste and complexity. The shift to greater standardisation allows individuals to channel efforts into fresh opportunities, new technologies and continuous performance improvement. Key processes are being reduced in complexity by up to 90%, resulting in a streamlined organisation. Activities launched by the transformation programme have already identified significant cost savings for 2008.

‘Since the transformation was launched, the North Sea business has delivered three successive quarters of improved performance and is on track to deliver its 2008 goals.’

Managing partner

A changing world creates challenges and opportunities

Developing our business

We believe we can further develop our Assurance business and grow our market share for audits in FTSE 100, Mid-Cap and EPC businesses. We are also investing in additional service capability in our transaction-related and risk assurance offerings.

In our Tax practice, we also see significant growth potential in the Mid-Cap and EPC segments of the economy. At the same time, we are investing to strengthen our Human Resource Services capability and indirect tax expertise.

In our Advisory practice we continue to invest to grow our consulting business. Our market-leading Restructuring practice will be focusing on supporting our clients in this challenging economic environment. We envisage good market share opportunities across the Mid-Cap and in EPC for our Corporate Finance

Improved primary performance

Business Recovery Services director Quentin Cole was part of a team that provided Croydon Primary Care Trust (PCT) with an effective and sustainable solution.

‘In recent years, we’ve helped a lot of NHS organisations overcome substantial financial deficits and yet stay focused on the standard of patient care to local communities. What made this job different was that the client was in good financial health with a strong track record.

‘The PCT’s management team recognised that some of its peers had, by going through the turnaround process, become much stronger in terms of project management capabilities and in the delivery of efficiency programmes. Our role was to embed turnaround principles into the organisation in order to enhance project management disciplines and support the delivery of a challenging annual savings programme.

Our project team recognised the importance of delivering a sustainable solution that transferred our skills and knowledge to the PCT staff. So, we recommended that the trust rapidly set up a programme management office (PMO). In order to support management, a dedicated executive level programme director, drawn from the PwC turnaround director panel, was introduced to lead the PMO and work alongside the PwC and PCT team.

‘As well as savings, the PCT has now extended programme management into areas of investment. Everyone had their part to play. This was very much a partnership.’

business in the coming year.
We are also combining a significant investment programme in our Sustainability and Climate Change practice with existing expertise to make sure it is embedded across all of our relevant service offerings.

Our internal support services play a vital role in the efficient delivery of services to our clients. We will continue to focus our efforts to ensure that we have procedures that are simple, effective and efficient across the firm.

Looking long term

Although we expect to experience challenging trading conditions over the next year, our intention is to continue to take long-term investment decisions for the benefit of our clients, our people and our business. We are confident that our focus on the needs of our clients in the market, the level of innovation in our services, the enduring strength of our client relationships and the quality of our people will enable us to continue to grow our business.

HMRC information security review

Kieran Poynter
Chairman until 30 June 2008

'In October 2007 the Chancellor of the Exchequer announced to Parliament that HM Revenue and Customs (HMRC) had lost two compact discs containing personal details, including bank account numbers, for all families entitled to child benefit – some 25 million people.
At the same time, he announced that he had appointed me to investigate this incident and conduct a wide-ranging review of information security at HMRC, with a view to making recommendations for improvement.

'The review was conducted in two parts: the investigation of the lost discs and the wider review.

'A forensic team led by PwC Advisory partner Andrew Clark worked closely with the Independent Police Complaints Commission and the Metropolitan Police. Interviews with about 30 officials and a forensic review of their emails built a clear picture of the multitude of small communication errors that ultimately led to a loss of data.

'The wider review was conducted at the same time as the Cabinet Office reviewed data security across government and we worked closely with that team. HMRC is a very large organisation employing over 80,000 people in some 900 premises across the country. The team conducting the wider review was led by PwC partners Philip Wright and Marcus Robinson and included IT, organisation structure and Human Resources specialists.

'At the start, I agreed with the acting chairman of HMRC and the Chancellor that I would make recommendations as the work progressed rather than simply issuing a report. This enabled the PwC team of 50 people to work constructively with HMRC officials and for me to report that HMRC had accepted all of my recommendations and had already started work on implementing them.

'HMRC and Treasury officials were pleased with the thoroughness of the approach and the personal style of our people, which helped them to value their PwC experience.'

Business performance highlights

Assurance

Richard Sexton
Head of Assurance

- We have the leading audit market share for both the FTSE 100 and FTSE 250 companies (39% and 29%, respectively)
- We were involved in at least two out of every five completed Private Equity deals over £25m in 2007
- We were awarded Private Equity Accountancy Firm of the Year at the European Venture Capital Awards and Due Diligence Advisor of the year at the *Acquisitions Monthly* Awards 2008
- We won three out of every five major audit proposals we took part in
- We continued to achieve impressive growth in our due diligence service offerings and other transaction-related services
- We enjoyed strong growth in risk assurance services within our private and public sector businesses

3% increase
in turnover year on year

£1,043m FY08 turnover
£1,014m FY07 turnover

Tax

Barry Marshall
Head of Tax

- We have the leading reputation for advising on difficult and complex issues and we are the Big Four firm most used across a range of tax services over the past 12 months

  Taylor Nelson Sofres Global Tax Monitor; 211 primary UK buyers of tax services were asked about firms used for 19 individual tax-related service lines during 2007
- We won Pensions and Benefits Consultancy of the Year for the second year running (*Professional Pensions*), UK Transfer Pricing Firm of the Year (*International Tax Review*) and Tax Team of the Year for our mergers and acquisitions team (*Accountancy Age*)
- PwC has the best reputation in the UK HR consultancy market and leads in overall market penetration

  Lighthouse UK HR monitor survey
- Our Total Tax Contribution framework, which sets a standard approach for identifying all the taxes that a company pays, continues to provide fresh insight to the true size and breadth of our clients' tax contributions

8% increase
in turnover year on year

£675m FY08 turnover
£626m FY07 turnover

Advisory

Kevin Ellis
Head of Advisory

- We were awarded Advisory Firm of the Year at the Finance Directors' Excellence Awards (*Real FD* magazine in partnership with the CBI). 764 finance directors voted, praising in particular the firm's capability for providing high quality advice and support in all manner of corporate transactions and challenges
- We won Mid-Market deal of the Year at the *Acquisitions Monthly* Awards
- We launched our Managing in a Downturn campaign, providing practical advice in the areas of strategy, finance, operations and stakeholder management
- Independent research showed we are positively differentiating our Performance Improvement Consulting practice from the competition

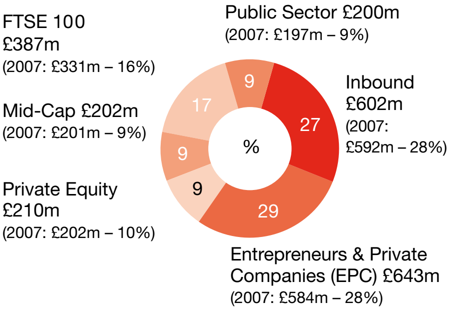
Lighthouse Global UK Consulting market positioning survey – Autumn 2007. Findings taken from 203 interviews conducted with senior decision-makers/users of consulting services within the public and private sectors

13% increase
in turnover year on year

£526m FY08 turnover
£467m FY07 turnover

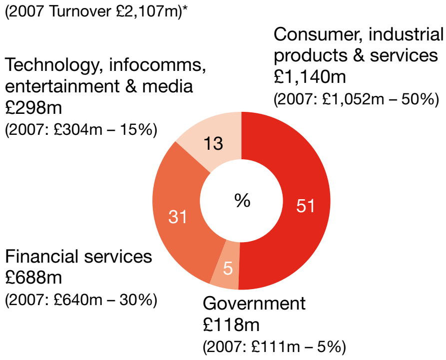
Market analysis

2008 Turnover £2,244m
(2007 Turnover £2,107m)*



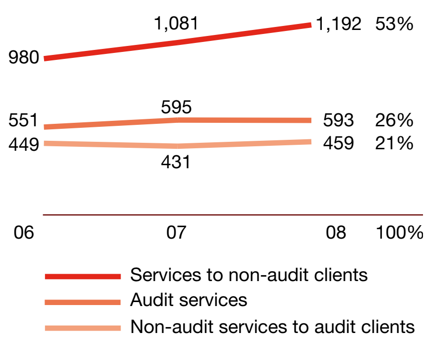
Industry analysis

2008 Turnover £2,244m
(2007 Turnover £2,107m)*



Service analysis

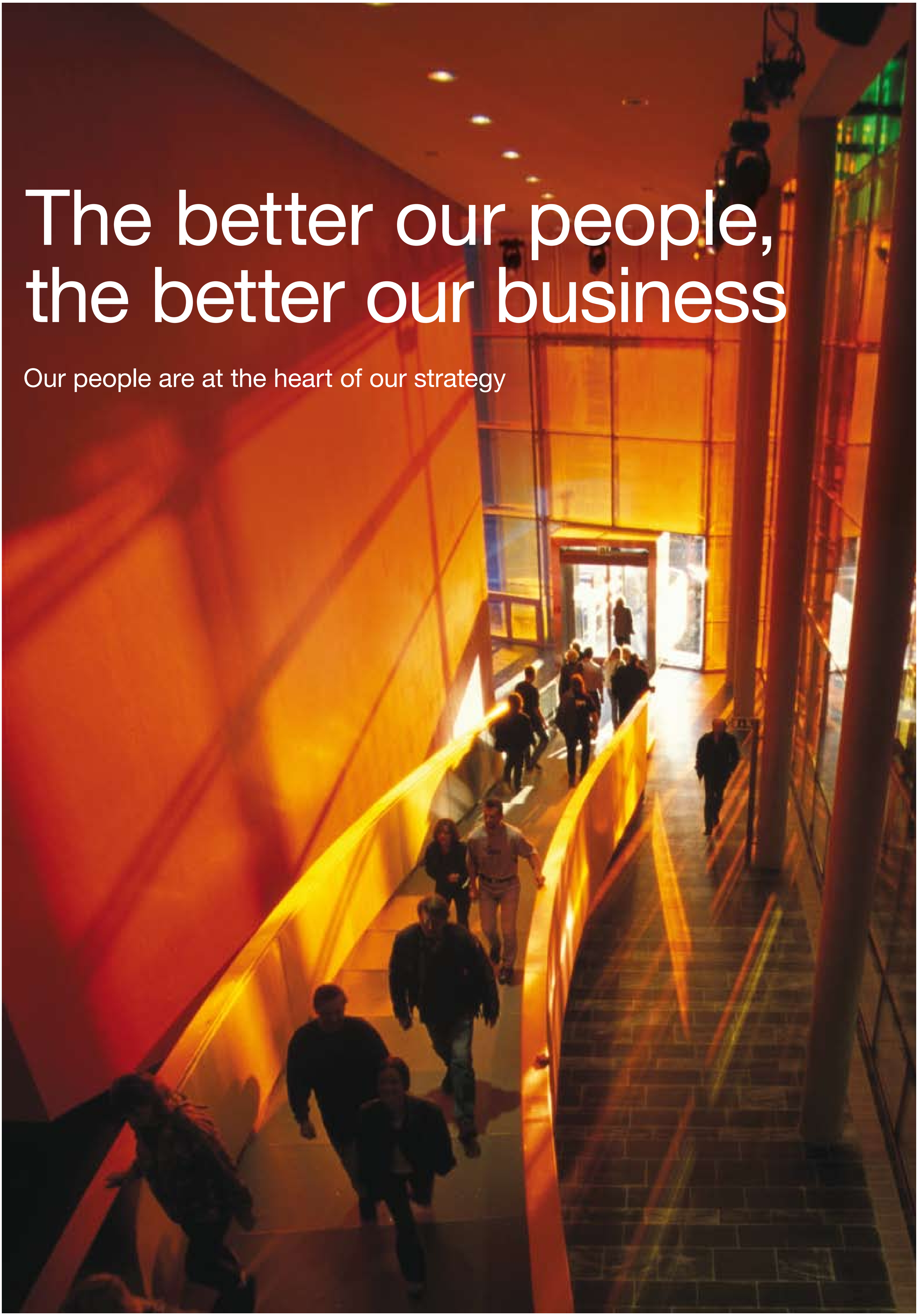
Turnover £m



*Note: Market and industry prior year analyses have been restated to conform with the current year presentation.

The better our people, the better our business

Our people are at the heart of our strategy



To our clients, our people are PwC. Providing a Client Experience that is truly exceptional requires a diverse group of talented people and an environment in which we can all flourish and reach our full potential. The better our people, the better our business. It's that simple.

Nurturing talent

Creating an environment where talented people feel motivated starts at the top. As the leadership team, we have a responsibility to set a clear direction and enable our people to deliver their best.

We test our progress through our *youmatter* survey, which we conduct twice a year. This invites responses to a range of questions on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree). The results from our April 2008 survey show that engagement levels among our people are high and rose between November 2007 and April 2008, from an average mean of 3.97 to 4.02 out of 5.

88%* are proud to work here; 79%* of us are satisfied with PwC as a place to work; while 75%* would recommend PwC to a friend. 74%* are satisfied with the actions PwC is taking to be socially responsible. Results like this helped us to achieve another top 20 placing in The Sunday Times Best Big Companies to Work For survey.

One of our roles is to train accountants, tax specialists, actuaries, lawyers and others who will, after a period of time with us, pursue their careers in a whole range of other situations in the public and private sectors in the UK and overseas. Given this, we expect a degree of staff turnover, while at the same time seeking to retain our best people by offering them attractive career options. Against that background, voluntary staff turnover remained low this year at just 13% (2007: 12%). Pleasing as this figure is, we do not take our people's loyalty for granted.

Bringing in the best

We invest a huge amount of effort to identify and recruit the most talented students and experienced recruits. For the fifth successive year, we have been voted the UK's top graduate employer in The Times Top 100 List of Graduate Employers. The same survey also named us the Employer of Choice in the Accountancy sector.

James Chalmers
Head of Strategy and Talent

88% of our people are proud to work for PwC

youmatter survey, April 2008

Measuring people engagement

The composite 'People Engagement Score' is an average of responses to 7 key questions:

People engagement

Satisfield	I am satisfied with PwC as a place to work
Motivated	I am willing to go the extra mile for the success of PwC
Aligned	I understand how my objectives are important in delivering the firm's strategy
Proud	I am proud to work at PwC
Customer focused	I am passionate about providing exceptional client service
Loyal	I expect to be working at PwC one year from now
Advocate	I would recommend PwC to my friends and family as a great place to work

Responses range from 1 (Strongly Disagree) to 5 (Strongly Agree) and average out to give an overall score of between 1 and 5.

*Note: From November 2007, we changed a significant number of the questions in our *youmatter* survey and, in recording responses, moved from a four-point to a five-point scale. Accordingly, this year's results are not directly comparable with those for the previous year.

Follow the leader

Head of Transaction Services for the North West, Manchester-based partner Christine Adshead recently completed the six-week Responsible Leadership Programme.

'I needed some time to think about leadership and challenge myself as a leader. When you're constantly trying to engage and support other people, it's easy to lose sight of your own development.

'During the programme, I worked with charities that care for young homeless people and abused children. I met women who worked or had worked as prostitutes and mothers who could not afford to send their children to school. It was a humbling experience: being a partner at PwC meant nothing to them, of course.

'One of the teams I worked with was so much more motivated than the others. It had a truly inspirational leader, who had created a culture of trust and openness by maintaining a constant two-way dialogue with her team.

'She didn't control people, she influenced and persuaded them. I realised that if you're really passionate about something, you'll find ways to encourage people to change their behaviour and make what you believe happen.

'I now feel more grounded and more confident in unfamiliar situations. I've gained a broader perspective and a higher threshold when dealing with life's little frustrations. And I'm more aware of what I can offer that's different from other people.'

26% of partner admissions in 2008 are women
(2007: 14%)

Despite this leadership position, we continue to innovate to make the opportunity to join PwC even more appealing. We now offer greater choice through the *PwC Exper1ence*, which combines a firm-wide approach to developing top quality business skills with, where relevant, the gaining of a professional qualification.

Of the students who received an offer to join us, 87% chose to accept, including a number of international students who bring diversity to the talent pool and help support further penetration of priority markets overseas.

Our *One. For All* campaign, which helps us attract and recruit graduates from a broad range of degree disciplines at over 80 universities, has now been redesigned in order that we can better measure our carbon footprint, take steps to reduce it and offset what remains. Not only does this chime with the values of the graduate population, it is simply the right thing to do.

Through increased use of technology, we were able to provide a better service to candidates, achieve greater engagement, increase speed and cost-effectiveness and, at the same time, take steps to reduce the firm's carbon footprint. Results like this helped us to 15th place in The Sunday Times 50 Best Green Companies, a position we aim to improve on next year.

In addition to recruiting over 1,000 students, we recruited nearly 1,500 experienced hires from diverse backgrounds. Of that figure, 21 joined as direct-entry partners. We also appointed 56 new partners at the beginning of the year and another 59 on 1 July 2008.

Developing distinctiveness

We seek to offer our clients new perspectives. Accordingly, we need to provide opportunities for our people to acquire distinctive skills and knowledge. Examples of this include international assignments, community partnerships and voluntary programmes.

Each year, our *Emerging Leaders Programme* accelerates the development of almost 100 people of exceptionally high potential. A structured programme and real life business assignments help them acquire the skills they will need to develop into our next generation of leaders.

The *Responsible Leadership Programme* is another example of PwC's innovative approach to developing leadership skills. It gives partners the opportunity to work with, and provide their skills to, inspirational leaders from charitable and not-for-profit organisations.

Because our clients increasingly look to us for international perspectives and insight, we encourage our people to undertake assignments overseas and invite inbound assignments from other countries. At year end, 462 of our people were working abroad and 764 people had joined us in the UK from offices overseas.

Diversity and inclusion

To achieve our business goals, our people must feel included. We are continuing to develop an organisational culture where all individuals are valued, able to flourish and progress to senior levels.

One important measure of our progress is the increasing diversity of our new partners, in particular our internal admissions. In 2008, almost 14% are from an ethnic minority background and 26% are women. While this latter figure compares favourably against last year's number of 14%, increasing the diversity of our people at all levels remains a priority for us.

Our people networks continue to grow and develop. These include PwCwomen and the PwC Parents network. We will shortly launch our new network for people with disabilities, which will support our work with the Employers Forum on Disability, enabling us to become a more disability confident organisation.

Our progress in diversity is also demonstrated by our benchmarking results. We achieved ninth place in the Stonewall Workplace Equality Index and received Gold status from Race for Opportunity. In the most recent Aurora survey, we were also named one of The Times Top 50 Places Where Women Want to Work.

Committed to our communities

We know we have exceptional people and we know they can make a real difference to the communities around us.

Our community programmes offer opportunities for our people to develop their skills in settings that are different from their regular day jobs and which challenge them on a personal and professional level. They help us strengthen and develop new business relationships while underpinning our values of excellence, teamwork and leadership.

We use the London Benchmarking Group reporting model to calculate our contributions to the community. In 2008, 4,650 (2007: 3,810) of our people were supported in their volunteering activities by the firm. Of that figure, 3,700 (2007: 2,900) were involved in employee volunteering programmes during working hours, contributing a total of 40,900 (2007: 37,400) hours.

Our total community contribution – including cash, time and in-kind support – amounts to £6.8m (2007: £5.9m).

'We know we have exceptional people and we know they can make a real difference to the communities around us.'

21

We are one of only 21 organisations in the UK to have achieved the BITC CommunityMark

Sharing our skills

One of the primary goals of our community programmes is to promote the social inclusion of young people. We seek to do this through creative and active partnerships that focus on:

- Education: we aim to raise educational achievement, particularly in basic skills, encourage active citizenship and provide support for teachers
- Employability skills: we help develop the skills that employers seek and run CV workshops and interview technique sessions to help young people become ready for the world of work
- Environment: as well as improving the environment in our local communities, we help educate young people about environmental issues
- Staff support: we support the charities with which our people volunteer outside working hours, recognising this commitment through our annual Volunteering Awards Scheme and our Matched Giving Programme

The things we do

Here are just a few examples of our many community programme activities.

In London, we have established a partnership with the School for Social Entrepreneurs through which we support their students with bursaries and mentors.

In the East Midlands, where we provide reading volunteers to a number of primary schools, we helped around 100 children from three of those schools perform in a music workshop at the Albert Hall in Nottingham.

In Northern Ireland, we have developed projects to support schools across the community.

In Scotland, our programmes include: head teacher co-coaching; giving strategic advice to small charities; and environmental volunteering projects with a number of organisations, including the Scottish Wildlife Trust and The National Trust for Scotland.

Our Government & Public Sector practice provided professional advisory support to five charitable and not-for-profit organisations. After each organisation had outlined the issues and challenges they currently face, teams were challenged to provide a diagnosis and outline an approach for the way forward. This was later followed up with pro bono support.

A brighter future

M&A tax manager Claire Knollys has provided mentoring at the Gateway Training Centre, Southwark for the charity, Tomorrow's People, which assists young people, many of whom have come from unsettled backgrounds and had limited opportunities for education.

'The first challenge was simply getting them to talk. Their confidence had all been chipped away. When they finally did start talking, all these issues came out.

'The long-term goal of the programme is to get people back into education, training or work. To do that, we focus on short-term objectives, like improving their interview technique. How should you behave? What about your posture? What clothes should you wear?

'The programme has made me less cynical. I now know that we can all do something about long-term unemployment. All the people on the programme really need is someone who believes in them.

'Working at Gateway challenged me by putting me in a place where I wasn't always comfortable. But it was also a lot of fun.'

Tedros Hagos was until recently one of Claire's mentees: 'Before I came to Gateway, I didn't know how to find a job. I didn't even know how to write a CV. They've opened my eyes. They've shown me the right way to go.'

In partnership with the Education Enterprise Trust, over 100 volunteers have delivered businessdynamics sessions to 30 schools, having an impact on some 2,800 students across the UK.

Recognition

For the third year running, we have scored 100% in the community section of the Business in the Community (BITC) Corporate Responsibility Index.

We are one of only 21 organisations to have been awarded the BITC CommunityMark, a new national standard that recognises organisations that have demonstrated a long-term, high-level commitment to community investment and are deemed the best investors in their communities. We are delighted that PwC has been recognised by its community partners as having a best-in-class community programme.

40,900

working hours contributed in employee volunteering programmes in 2008
(2007: 37,400)

‘We want to sustain an environment in which we attract great people who freely give their best every day.’

Leading edge

As part of the Spark project to build entrepreneurship in social enterprise, Human Capital senior manager Victoria McMillan joined an Emerging Leaders Programme team that combined leadership learning with providing insights to a social enterprise – Gilead Foundations, an organic farm and rehabilitation community in Devon for people with serious drug and alcohol addictions.

‘Gilead’s programme is amazingly successful, with fantastic rehabilitation rates. That’s all down to their inspirational leadership team.

‘We focused on the business side of their enterprise, looking at simple changes and different ways of working to leverage maximum return on their efforts. We noticed, for example, that the team spent a lot of time responding to sudden crises. So, we explored how they could become more proactive through improved planning and helped them look at the viability of a new commercial venture using their organic milk production.

‘Spending time with the students of the rehabilitation programme broadened my awareness of how difficult it is to break the cycle of addiction. The whole experience has really helped me crystallise my own leadership style.’

Ian Samuel, Gilead’s CEO: ‘We were quite overwhelmed by their expertise and knowledge. They certainly challenged us to think outside the box.’

Spark
Igniting social enterprise to prevent homelessness

We recognise the important role that the arts can play in connecting with young people who find it difficult to engage in formal learning. In Manchester, we have developed an education programme with the Royal Exchange Theatre that has, for the third year running, been accredited with a Big Tick in the BITC Awards for Excellence.

Our Cardiff office was awarded the Career Wales Award for corporate volunteering. The office’s literacy programme for primary schools had been running for a year at the time of the award.

Our offices in Scotland received the Scottish Total Talent Award in the BITC Awards for Excellence in recognition of how we develop our people through our community initiatives.

Future plans

We want to sustain an environment in which we attract great people who freely give of their best every day. This report covers some, but by no means all, of the ways in which we help our people to excel. We have created a broad range of experience and development opportunities to help our partners and staff fulfil their potential and to benefit the communities in which we work.

Recruiting outstanding people, nurturing their talent and developing their leadership and commercial skills means that we are well placed to deliver exceptional client service and make PwC the iconic firm that we aspire to be. It all comes back to the fact that the better our people, the better our business.

Grabbing opportunities

Through the Emerging Leaders Programme, Forensic Services manager Jonathan Holmes served as executive assistant to a member of PwC's Board.

'To be perfectly honest, I thought long and hard before taking the job. I'd only just completed a nine-month secondment to the Financial Services Authority.

'So, accepting this new assignment meant I would end up spending even longer away from Forensic Services – and I wasn't sure how that would impact on my career in the long run.

'Then again, it was such a great opportunity. The way I see it, at PwC there are a lot of bouncing balls and if one bounces your way, you've got to grab it.

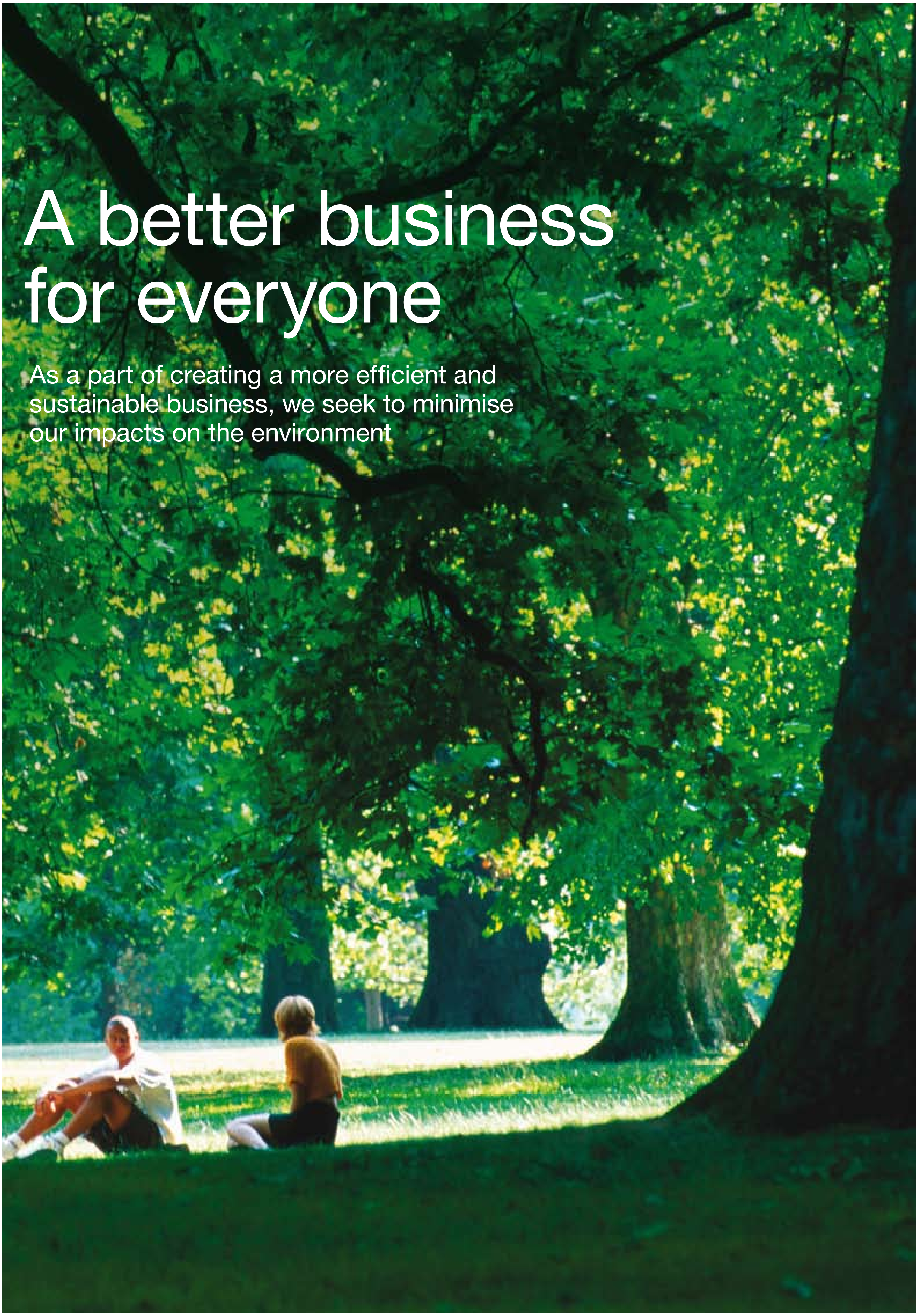
'I'm so glad I did. I've worked on some really challenging projects, including getting insight into our strategies in the emerging markets. I've even been out to India a couple of times.

'I've now got a much better understanding of how the firm works. I've also improved my people skills and learned the importance of networking. You've got to find time for people and try to look at things from their point of view.

'So now, when I attend meetings, I know I really add value. That's because I can offer a different perspective.'

A better business for everyone

As a part of creating a more efficient and sustainable business, we seek to minimise our impacts on the environment



Managing our environmental impact is simply the right thing to do. Moreover, it meets the expectations of existing and potential clients, our people and potential recruits. It also contributes to society, makes us more efficient and improves our bottom line.

Working with clients

We know that we can make by far our biggest contribution to the sustainability agenda through our work in the client marketplace. Consequently, we have invested in our Sustainability and Climate Change business, enabling us to offer advice to more clients across a broader range of sustainability issues.

Working with our people

We encourage our people to think about environmental issues at home as well as at work. We've raised awareness by extending our regional environment champions network, running local initiatives and through regular environmental reporting in our internal communications.

We are developing new tools to help our people understand and manage their environmental impacts, both at home and at work, including a climate awareness website and a carbon calculator.

Our efforts have been endorsed through our continued high performance in the Business in the Community Corporate Responsibility Survey and The Sunday Times 50 Best Green Companies awards, where we were ranked 15th.

Managing our operations

The main elements of our own environmental and climate change strategy are:

- Reducing total waste production, increasing the percentage of waste recycled and sending no waste to landfill by 2013. This year, total waste production was down by over 5%, improving on our 3% target, and waste recycling rates were up 1% to 62%
- Further reducing office energy consumption by 10% next year, building on this year's performance, where we reduced energy consumption by 6% and now consume 28% less energy than in 2003, the first year we reported energy figures
- Seeking to reduce air travel by investing in alternatives. We estimate we have again avoided over a million kilometres through the use of video conferencing and telesuite services. We have also set individual reduction targets for our significant travellers and incentivised all our people to reduce their air travel through our partnership with the World Land Trust. Nonetheless, air travel, and travel in general, remains a challenge. We are working hard to slow the growth trend in air travel, but, in 2008, we did not meet our target

Keith Tilson
Chief Financial Officer

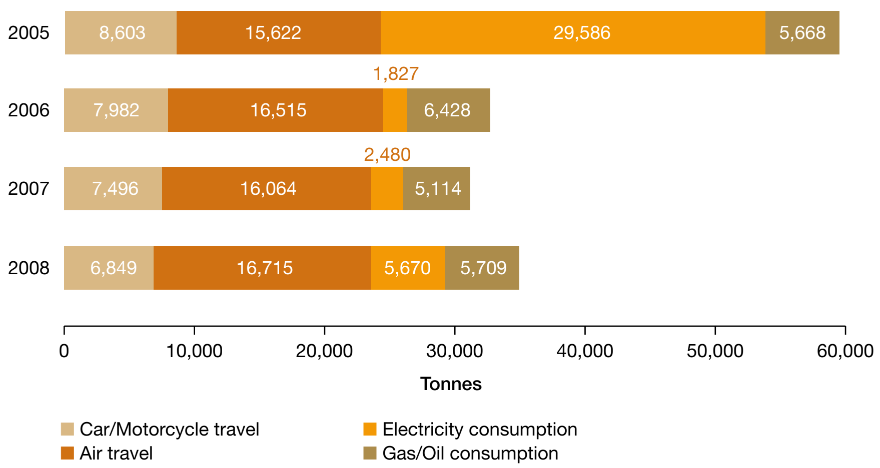
'We have invested in our Sustainability and Climate Change business, enabling us to offer advice to more clients across a broader range of sustainability issues.'

- Ensuring we use our property efficiently from both a cost and an environmental perspective

- Offsetting our total CO_2 emissions. We have just completed our second year of carbon neutrality by offsetting our emissions through our agreement with Climate Care, buying carbon credits certified under the Voluntary Carbon Standard. We buy 10% more than our measured emissions in order to provide a margin for emissions that are not easily measured, such as rail travel

- Ensuring we have better quality management information. This year we have implemented an improved environment management system, for which we are currently undergoing certification to ISO 14001

CO_2 emissions by source



The significant drop in CO_2 emissions from 2005 is explained by the fact that we switched in 2006 to renewable electricity. We have applied a zero CO_2 factor to our renewable electricity as per Defra Guidelines (34.7m kwh for 2008).

Energy consumption has fallen 6% this year, but total reported CO_2 emissions have increased 12% to 34,943 tonnes. In the main, the increase is caused by two factors: i) a reduction in the the proportion of renewable energy supplied arising from our move to short-term office accommodation in London, which will be reversed when we move into 7 More London Riverside; and ii) an increase in air mileage.

CO_2 figures based on Defra guidelines June 2007. Prior year figures have been restated to conform with current year presentation and to reflect improved data collection.

All environment data excludes offices in the Channel Islands.

Using property efficiently

Our property portfolio represents one of our major environmental impacts. Moreover, the way we utilise our property as part of the working environment is critical to the culture of our business, has a significant influence on morale and productivity, and impacts on our operating costs.

Our property strategy covers:

- Office location – where practical, we seek to be close to major public transport hubs

- Space utilisation – with our people being increasingly mobile, we have reduced our space per person from 115ft^2 to approximately 90ft^2 since 2003

- Ensuring any new buildings we occupy are built to excellent environmental standards and those we refurbish improve their environmental performance

- Creating a productive, vibrant working environment that continues to meet the changing needs of our business

Our commitment to this agenda is encapsulated in our Future Working Environment programme.

This seeks to ensure that we continually develop the design and sustainability standards of our building and refurbishment projects in response to changes in working practices. Offices refurbished through our programme this year included Hull, Southampton and Leeds, as well as Hays Galleria, Union Street and 80 Strand in London.

To be occupied in 2011, 7 More London Riverside will be an innovative workplace for more than 5,000 of our people in London and will be completed to exemplary environmental standards. The building will produce less than 40% of the carbon emissions produced by a building constructed to today's building regulations.

Supply chain management

We published our responsible purchasing policy in 2007. This identifies managing environmental issues in our supply chain as one of three key aspects of our supplier management strategy:

Environment management:

We include environmental issues in our core tender assessment process, and also work in partnership with suppliers to reduce the environmental impacts of their services. We hold a regular forum with our key suppliers to generate ideas for improved environmental efficiency. This year, we moved to use 100% recycled copier paper in all our offices, and are working on reducing the packaging entering our business.

Ethics:

We strive to treat suppliers fairly and to pay to term, and this year on average paid within 16 days (2007: 15 days). We regularly survey suppliers for their opinions on us – this year, we were pleased that our average rating for fairness and reasonableness as a client was 8.8 out of 10.

Social and welfare issues in the supply chain:

We adopted the London Living Wage in August 2007 after working with the London Citizens organisation. We have received a Living Wage Employers award from TELCO (The East London Communities Organisation). The London Living Wage rate is set each year by the Mayor of London and is currently 35% above the minimum wage. We have also introduced a regional living wage, paying 12% above the national minimum wage set by the Government. We are fully committed to both these initiatives.

World Land Trust (WLT)

In June 2008 we launched a scheme in partnership with the WLT to incentivise air travel reduction. For every tonne of CO_2 saved, the firm will make a donation to the WLT, sufficient to purchase and protect one acre of endangered rainforest in central Ecuador.

'Our new London building will be completed to exemplary environmental standards.'

Responsible leadership

The team that runs our business

Managing the firm

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

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

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

Ian Powell was elected Chairman and Senior Partner with effect from 1 July 2008 for a period of four years. On that date, he renamed the Management Board the 'Executive Board'. 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 holds one main monthly meeting, but also conducts formal business at additional meetings as necessary.

Transparency proves an asset

Assurance director Tina Trickett worked on a groundbreaking assignment for The CarbonNeutral Company.

'The carbon offset industry has come under increasing scrutiny in recent years, with some people questioning its integrity. The industry claims to sell carbon credits, they say, but does it actually deliver?

'The CarbonNeutral Company, one of the world's major carbon offset companies, recognised that the industry needed to raise its standards and asked us to provide assurance to show that they really do what they say they do. So, we reviewed the key steps of The CarbonNeutral Company's carbon management accounting and reporting systems against management's defined policy and tested the carbon data.

'The end result was The CarbonNeutral Company's *Carbon Report 2006/07*, which contained a carbon balance statement showing the company's carbon assets and liabilities for that year. The carbon balance statement was subject to our assurance. No company in the UK has ever done anything like this, so it got a lot of attention.

'Through the report, we've achieved increased levels of transparency, bringing value to both the client and their customers. And we've proved that transparency pays – The CarbonNeutral Company say that their reporting has materially influenced customer decisions.'

Executive Board

Ian Powell
Chairman and Senior Partner

James Chalmers
Head of Strategy and Talent

Kevin Ellis
Head of Advisory

Richard Collier-Keywood
Managing Partner

The Board for the year ended 30 June 2008

For the year ended 30 June 2008, the Management Board was chaired by Kieran Poynter, whose second term of office ran for three years from 1 July 2005. The following served throughout the year:

Kieran Poynter, Chairman

Glyn Barker, Managing Partner – Clients and Markets

Keith Tilson, Managing Partner – Operations and Finance

Paul Cleal, Head of Human Capital

Richard Collier-Keywood, Head of Tax

Moira Elms, Head of Marketing, Communications and Business Development

Owen Jonathan, General Counsel

Ian Powell, Head of Advisory

Richard Sexton, Head of Assurance

Ian Powell is responsible for the leadership and strategic direction of the UK firm and its role in PwC's global network. His background is in Assurance and Restructuring, where he has advised leading international financial institutions and corporates. Ian joined the firm in 1977, became a partner in 1991 and has worked in Birmingham, Manchester and London. He has a degree in Economics from Wolverhampton Polytechnic. He previously headed the Advisory practice.

James Chalmers is Head of Strategy and Talent. He graduated from Oxford University with an Engineering degree and joined the firm in 1985, becoming a partner in 1997. He has extensive experience providing Assurance services to multinational clients and has been on long-term secondments to clients in the banking and healthcare sectors. Before joining the Board, he was a member of the Assurance leadership team.

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

Kevin Ellis leads our Advisory practice. He graduated in Industrial Economics from Nottingham University, joined the firm in 1984 and became a partner in 1996. Until recently, he was head of Business Recovery Services.

Owen Jonathan 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 subsequently CEO of South China Morning Post (Holdings) Ltd.

Barry Marshall leads our Tax practice. He has an MBA from Warwick University. Barry joined the firm in 1980 and became a partner in 1988. Barry's international experience includes acting as the global leader of our international tax structuring network.

Kevin Nicholson works with the Regional Leaders on strategy, planning and execution. He graduated from Newcastle Polytechnic with a degree in English and History. He joined the firm in 1991 and became a partner in 2000. He has spent time in the North East, New York and Hong Kong and previously headed our Entrepreneurs and Private Clients division.

Paul Rawlinson is responsible for Markets and Industries. It is his job to drive revenues across our top tier client base and put in place the Industry and Segment programmes that will ensure effective cascade of learning and credentials from our brand-defining clients. He has a History degree from Cambridge University, joined the firm in 1982 and became a partner in 1994. Paul has extensive experience as a Transaction Services partner in the Private Equity and Corporate markets.

Richard Sexton leads our Assurance practice. He has a degree in Mathematics and Business Finance from Southampton University and joined the firm in 1980. He has been a partner for 17 years and spent time in New York and Hong Kong. He previously led our London Assurance practice.

Keith Tilson 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.

The majority of our Executive Board maintain significant client facing responsibilities.

The current members of the Supervisory Board, all of whom served throughout the period from 1 July 2007, except as indicated below, are:

Gerry Lagerberg*, Chairman

Pam Jackson, Deputy Chair

Mohammed Amin†

Clare Bolton* (appointed on 1 November 2007)

Colin Brereton

Ann Cottis (resigned to accept a management position on 31 October 2007)

John Dowty†

Roy Hodson*††

Gordon Ireland**

Mike Karp*

Ron McMillan

Pat Newberry†

Ian Rankin*†

Duncan Skailes

Julia Smithies*

Graham Williams†

Ex officio member:

Kieran Poynter (to 30 June 2008)

Ian Powell (from 1 July 2008)

* Senior Management Remuneration Committee member

** Senior Management Remuneration Committee Chairman

† Audit Committee member

†† Audit Committee Chairman

The Supervisory Board

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

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

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

The Audit 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. It oversees the management of those risks, including financial control, compliance and independence.

It also reviews the firm's financial statements and considers the scope, results and effectiveness of internal and external audit, including reviewing the external auditors' independence and any non-audit services and fees.

The Chief Financial Officer (previously the Managing Partner – Operations and Finance), together with the internal and external auditors, attend the committee's meetings by invitation. It met five times in the year ended 30 June 2008 (2007: five times).

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

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

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

The Executive Board, in reviewing the effectiveness of the system of internal control, can confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified in the review.

Maintaining quality

Our client, regulatory and public interest responsibilities demand that we consistently deliver reliable and high quality work. Our approach to quality is supported by our Code of Conduct, which embodies our core values of excellence, teamwork and leadership. The key elements enabling us to maintain our reputation for quality include the following:

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.

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

Quality 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.

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

Investing for the future

Our figures for 2008

Members' report

The Executive Board submits its report and the audited consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2008. This Members' report should be read in conjunction with the other sections of this annual report.

Financial performance

Our turnover grew 7% to £2,244m, compared with growth of 6% in the prior year. Turnover growth remained strong in the first half but weakened in the latter part of the year, reflecting trends in the UK and global economies and a reduction in the level of deal-related activity.

Operating costs

Staff costs increased 4% to £956m, reflecting the impact of pay awards, a 7% increase in staff bonuses to £76m and a 3% increase in average staff headcount.

We continued to retain tight control over other operating costs which, expressed as a percentage of turnover, improved to 15.4%, compared to 15.8% in the prior year. However, some increases were unavoidable, most notably in property costs, the costs associated with ensuring we comply with the increasing burden of regulation and the costs of recruiting and training staff.

We measure the quality of our infrastructure and support services by reference to both service level agreements and cost and by regular *Your Services Your Say* surveys.

Our latest survey results show that internal service satisfaction levels have remained high at 93% (2007: 89%)*.

Staff pensions

Some 7,500 of our staff are active members of the firm's various pension arrangements. The majority are members of the firm's defined contribution scheme, with some 1,500 staff being members of, or having eligibility to join, one of the firm's defined benefit arrangements.

The latest triennial actuarial reviews of the defined benefit schemes, as at 31 March 2008, are currently underway. The actuarial valuations carried out for the purpose of these accounts indicate a total deficit of £42m, compared to £58m in the prior year.

The decrease in the deficit primarily reflects an increase in the long-term discount rate used to value scheme liabilities, combined with additional cash contributions made by the firm, offset by reductions in asset values and increases in life expectancy.

Profit for the financial year

Total profit for the financial year of £675m comprises profit available for division among members of £664m and profit attributable to minority interests of £11m.

After adjusting for the exceptional £71m gain on the disposal of Southwark Towers in the prior year, underlying profit available for division among members increased 7% from £622m to £664m. Underlying average profit per partner, which is stated after excluding the impact of members on overseas secondment, increased 2%, up from £778,000 to £797,000.

Keith Tilson
Chief Financial Officer

Net assets and financing

Our balance sheet remains strong, with net assets of £508m (2007: £516m). Profit after interest, tax and working capital adjustments generated a positive operating cash flow of £653m (2007: £619m).

The firm is financed through a combination of members' capital, undistributed profits and borrowing facilities. Members' capital contributions totalling £116m (2007: £110m) are determined by the Executive 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.

*Note: The *Your Services Your Say* survey changed format in Spring 2008. The comparative satisfaction score includes very satisfied, satisfied and neutral responses.

The firm's bank facilities, which totalled £138m at the year-end (2007: £138m), are provided under five-year arrangements that expire in January 2010. The facilities are spread across a number of banks and are maintained at levels sufficient to meet the expected peak cash requirements of the business.

Our treasury focus is on ensuring there are sufficient funds available to finance the business and 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 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) has 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 (2007: 39%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the member's role. These objectives include ensuring 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 and interim profit allocations, based on a percentage of their individual responsibility income.

Total tax contribution

We generate substantial revenues for contribution to the UK's public finances. Our tax footprint of taxes borne and taxes collected includes employment, property, indirect and environmental taxes. During the year, we paid business taxes amounting to £139m (2007: £120m), the largest of these being the National Insurance Contributions (NIC) paid in respect of our people.

We also collected taxes on behalf of the Government during the year of £484m (2007: £463m), the most significant of which were net VAT and PAYE. These taxes represent the value we add and the contribution we make through our business activities.

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

Total tax contribution to 30 June 2008

	2008 £m	2007 £m
Business taxes paid		
Employers' NIC	81	74
Business rates	11	9
Corporate tax	33	24
PAYE/NIC on benefits	8	8
Insurance premium tax	1	1
Other	5	4
	139	120
Business taxes collected		
Net VAT	242	240
PAYE	198	183
Employees' NIC	44	40
	484	463

profits of the LLP, together with a further 1% National Insurance Contribution. The Group administers the payment of these taxes and makes periodic distributions of profit to enable members to settle their tax liabilities.

Creditor payment policy

We seek to agree commercial payment terms with our suppliers and, provided performance is in accordance with these terms, to make payments accordingly. The number of days outstanding between receipt of invoice and date of payment, calculated by reference to the amount owed to the Group's trade creditors at the year-end as a proportion of the total amounts invoiced by suppliers during the year, was 16 days (2007: 15 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, the exchange of information relevant to effective policy development and the encouragement of liaison between parties and groups affected by legislation or policy. In considering any assistance, the Executive Board has regard to the possible impact on clients of the firm and the firm's overall reputation. We provided some 1,200 hours of free technical support to political parties during the year (2007: 410 hours).

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of PricewaterhouseCoopers LLP during the year were Kieran Poynter, Glyn Barker, Keith Tilson, Owen Jonathan and Andrew Smith. From 1 July 2008, the designated members are Ian Powell, Richard Collier-Keywood, Keith Tilson and Owen Jonathan.

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

- Select suitable accounting policies and then apply them consistently, subject to any changes disclosed and explained in the financial statements

- Make judgements and estimates that are reasonable and prudent

- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

- Prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the LLP or Group will continue in business

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

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

Auditors

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

On behalf of the Executive Board

Ian Powell

Ian Powell, Chairman
8 August 2008

Independent auditors' report to the members of PricewaterhouseCoopers LLP

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

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

Respective responsibilities of the members and auditors

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

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information is set out in the sections headed Chairman, Managing partner, People, Managing our environmental impact, Governance, Financial and Global. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent LLP financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the LLP and the Group as at 30 June 2008 and of the profit of the Group for the year then ended

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

Horwath Clark Whitehill LLP

Horwath Clark Whitehill LLP
Chartered Accountants and
Registered Auditors, London
8 August 2008

Consolidated income statement

for the year ended 30 June 2008

	Notes	2008 £m	2007 £m	Increase
Turnover				
Assurance		1,043	1,014	3%
Tax		675	626	8%
Advisory		526	467	13%
	2	**2,244**	2,107	7%
Expenses and disbursements on client assignments		(278)	(235)	
Net revenue		**1,966**	1,872	5%
Staff costs	3	(956)	(917)	4%
Depreciation, amortisation and impairment	4	(29)	(29)	
Gain on disposal of property asset	4	–	71	
Other operating charges	4	(316)	(303)	4%
Operating profit		**665**	694	
Finance income	5	98	85	
Finance expense	5	(77)	(68)	
Profit on ordinary activities before taxation		**686**	711	
Tax expense in corporate subsidiaries	6	(11)	(9)	
Profit for the financial year		**675**	702	
Profit attributable to minority interests	18	11	9	
Profit available for division among members	18	664	693	
Profit for the financial year		**675**	702	

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

Alternative performance measure – underlying profit

	2008 £m	2007 £m	Increase
Profit for the financial year	**675**	702	
Exclude exceptional item:			
Gain on disposal of property asset	–	(71)	
Underlying profit for the financial year	**675**	631	7%
Underlying profit attributable to minority interests	11	9	
Underlying profit available for division among members	664	622	7%

Balance sheets

at 30 June 2008

	Notes	Group 2008 £m	Group 2007 £m	LLP 2008 £m	LLP 2007 £m
Non-current assets					
Property, plant and equipment	8	68	72	3	4
Intangible assets	9	9	12	3	–
Investments	10	3	3	11	11
Retirement benefit assets	16	62	38	62	38
		142	125	**79**	53
Current assets					
Trade and other receivables	11	618	581	590	554
Cash and cash equivalents	12	333	369	323	357
		951	950	**913**	911
Total assets		**1,093**	1,075	**992**	964
Current liabilities					
Trade and other payables	13	(419)	(387)	(351)	(311)
Provisions	14	(9)	(6)	(8)	(5)
Members' capital	15	(6)	(5)	(6)	(5)
		(434)	(398)	**(365)**	(321)
Non-current liabilities					
Retirement benefit obligations	16	–	(7)	–	(7)
Other payables	13	(1)	(1)	–	–
Provisions	14	(39)	(43)	(32)	(36)
Deferred tax liabilities	17	(1)	(5)	–	–
Members' capital	15	(110)	(105)	(110)	(105)
		(151)	(161)	**(142)**	(148)
Total liabilities		**(585)**	(559)	**(507)**	(469)
Net assets		**508**	516	**485**	495
Members' equity					
Reserves	18	499	511	485	495
Minority interests	18	9	5	–	–
Total members' equity		**508**	516	**485**	495
Total members' interests					
Members' capital		116	110	116	110
Reserves		499	511	485	495
Amounts due from members (included in trade and other receivables)		(19)	(19)	–	–
Total members' interests	18	**596**	602	**601**	605

The financial statements on pages 37 to 65 were authorised for issue and signed on 8 August 2008 on behalf of the members of PricewaterhouseCoopers LLP by:

Ian Powell

Keith Tilson

Cash flow statements

for the year ended 30 June 2008

	Group		LLP	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Cash flows from operating activities				
Cash generated from operations (note 22)	653	619	601	565
Tax paid by corporate subsidiaries	(33)	(24)	–	–
Net cash inflow from operating activities	**620**	595	**601**	565
Cash flows from investing activities				
Purchase of property, plant and equipment	(19)	(28)	–	–
Purchase of intangible assets	(6)	(2)	(3)	–
Proceeds from sale of property, plant and equipment	1	74	–	73
Proceeds from sale of other businesses	15	–	2	–
Purchase of investments	–	(1)	–	(1)
Proceeds from sale of investments	–	4	–	4
Interest received	13	13	13	12
Net cash inflow from investing activities	**4**	60	**12**	88
Cash flows from financing activities				
Distributions to members	(676)	(583)	(653)	(572)
Distributions to minority interests	(7)	(4)	–	–
Interest paid	(1)	(1)	–	–
Compensating payment by members	18	17	–	–
Capital contributions by members	15	22	15	22
Capital repayments to members	(9)	(19)	(9)	(19)
Net cash outflow in financing activities	**(660)**	(568)	**(647)**	(569)
Net increase (decrease) in cash and cash equivalents	(36)	87	(34)	84
Cash and cash equivalents at beginning of year	369	282	357	273
Cash and cash equivalents at end of year (note 12)	**333**	369	**323**	357

Statements of changes in members' equity

for the year ended 30 June 2008

	Group			LLP
	Available for division among members	Attributable to minority interests	Total	Total
	£m	£m	£m	£m
Balance at beginning of prior year	**402**	**–**	**402**	**380**
Total recognised income – profit for the financial year	693	9	702	687
Movement in cash flow hedges	(1)	–	(1)	–
Allocated profit in financial year	(583)	(4)	(587)	(572)
Balance at beginning of year	**511**	**5**	**516**	**495**
Total recognised income – profit for the financial year	664	11	675	643
Allocated profit in financial year	(676)	(7)	(683)	(653)
Balance at end of year	**499**	9	**508**	485

Notes to the financial statements

for the year ended 30 June 2008

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 issued and effective as at 30 June 2008, and with those parts of the Companies Act 1985 applicable to limited liability partnerships reporting under IFRS.

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

The principal accounting policies are unchanged compared with the year ended 30 June 2007.

During the period, the Group adopted the following new IFRS and amendment to IFRS, neither of which had any impact on its results or financial position:

- IFRS 7 'Financial Instruments: Disclosures'
- Amendment to IAS 1 'Presentation of Financial Statements Capital Disclosures'

Future requirements

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

- IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective from the accounting period to June 2009. The interpretation provides general guidance on the amount of a pension surplus that may be recognised as an asset
- IFRS 8 'Operating segments' is effective from the accounting period to June 2010. This standard requires the use of a 'management approach' to segment reporting, under which information is presented on the same basis as that used for internal reporting purposes
- A revised IAS 1 'Presentation of financial statements' is effective from the accounting period to June 2010. This revised standard affects the presentation of changes in equity and introduces a statement of comprehensive income

Critical accounting estimates and judgements

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

The estimates and assumptions that could have a significant effect upon the Group's financial results relate to provisions in respect of client claims, onerous property costs, receivables impairment and the fair value of unbilled turnover on client assignments. In addition, the net deficit or surplus disclosed for each defined benefit pension scheme is sensitive to movements in the related actuarial assumptions, in particular those relating to discount rate and mortality. Further details of all of these estimates and assumptions are set out in each of the relevant accounting policies and detailed notes to the financial statements.

Consolidation

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

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

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

1 Accounting policies (continued)

Turnover

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

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

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

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

Exceptional items

The items separately presented as exceptional are those that are material and non-recurring in nature and, in the judgement of management, should be disclosed separately in order to provide an indication of the Group's underlying business performance. Items classified as exceptional in the income statement may include significant gains or losses where they arise from: disposal or restructuring of businesses, disposal of properties, plant and equipment, or changes to defined benefit pension arrangements.

Property, plant and equipment

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

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

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

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

Intangible assets

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

Goodwill – on the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such assets, liabilities and contingent liabilities acquired. Goodwill arising on acquisitions is capitalised with an indefinite useful life.

Impairment of non-financial assets

Goodwill and assets that are subject to depreciation or amortisation are reviewed for impairment, both annually and whenever changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Leases

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

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

Notes to the financial statements

for the year ended 30 June 2008

1 Accounting policies (continued)

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

Provisions

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

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

Retirement benefit obligations

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

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

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

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

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

Members' pensions and annuities

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

Allocation of profits and drawings

During the year the 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 balance sheet under trade and other payables. Where drawings exceed the allocated profits, then the excess is included in trade and other receivables. The same treatment is used for members who retire during the year.

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

1 Accounting policies (continued)

Foreign currencies

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

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

Financial instruments

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

Investments in subsidiary undertakings are stated at fair value, which is cost less impairment.

Unquoted investments with no reliable external measure of fair value are designated as available-for-sale and carried at a fair value, which is 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 carried at fair value, which is represented by their invoiced value less any subsequent reductions through provisions for impairment. Provisions for impairment represent an allowance for doubtful debts that is estimated, based upon current observable data and historical trends.

Members' capital which is repayable on members' retirement, is classified as a liability.

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

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

Financial guarantees

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

Contingent liabilities

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

Taxation

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

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

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

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

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

Notes to the financial statements

for the year ended 30 June 2008

2 Segment reporting

The Group is organised and managed through three Lines of Service: Assurance, Tax and Advisory. Operating costs that are specifically attributable are allocated directly to individual segments. Inter-segment turnover arises when specialists work across Lines of Service and is disclosed on a net basis. The internal transfer rates for these transactions were revised in 2008 and prior year comparative figures have been restated on a consistent basis. Line of Service turnover has been restated before the impact of these internal transactions.

The majority of the Group's central costs are allocated under bases within documented service level agreements. Other central costs are apportioned having regard to the appropriate cost driver. The unallocated profit item below represents the gain on disposal of the Southwark Towers property asset in the prior year. Finance income, finance expense and tax expense in corporate subsidiaries are unallocated.

					2008					2007
	Assurance	**Tax**	**Advisory**	**Unallocated**	**Total**	Assurance	Tax	Advisory	Unallocated	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Turnover										
Turnover	**1,043**	**675**	**526**	**–**	**2,244**	1,014	626	467	–	2,107
Inter-segment turnover	(43)	33	10	–	–	(56)	37	19	–	–
	1,000	708	536	–	2,244	958	663	486	–	2,107
Turnover increase	3%	8%	13%		7%	4%	13%	4%		6%
Operating profit	**268**	**247**	**150**	–	**665**	266	219	138	71	694
Operating profit %	26%	37%	29%			26%	35%	30%		
Net assets										
Segment assets	287	248	163	395	1,093	288	214	166	407	1,075
Segment liabilities	(251)	(183)	(134)	(17)	(585)	(248)	(152)	(131)	(28)	(559)
	36	**65**	**29**	**378**	**508**	40	62	35	379	516
Other segment items										
Depreciation, amortisation and impairment	(15)	(8)	(6)	–	(29)	(15)	(8)	(6)	–	(29)
Capital expenditure	13	7	5	–	25	15	8	7	–	30

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

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

3 Staff costs

Group

	2008 £m	2007 £m
Salaries	816	785
Social security costs	87	81
Pension costs (note 16)		
– defined contribution schemes	34	31
– defined benefit schemes	19	20
	956	917

The average number of Group employees during the year was:

	2008 Number	2007 Number
Assurance	6,763	6,528
Tax	3,703	3,468
Advisory	2,788	2,746
Shared Services and National Functions	1,935	2,043
	15,189	14,785

LLP

There were no employees in the LLP during the year (2007: nil).

Notes to the financial statements

for the year ended 30 June 2008

4 Other operating costs

Depreciation, amortisation and impairment

	2008 £m	2007 £m
Depreciation of owned assets (note 8)	21	21
Amortisation of owned assets (note 9)	8	8
	29	29

Gain on disposal of property asset

Operating profit in the prior year included an exceptional gain of £71m arising on the sale of the Southwark Towers long leasehold property asset in the year, which consisted of sales proceeds of £73m, the settlement of a related finance lease obligation valued at £6m, less the disposal of related assets with a value of £8m.

Other operating charges

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

	2008 £m	2007 £m
Operating lease rentals:		
– land and buildings	68	65
– plant and machinery	13	13
	81	78

During the year the trust administration business of PricewaterhouseCoopers CI LLP was disposed of for a profit of £12m. This gain is included net against costs in other operating charges.

Total fees and expenses payable to the auditors Horwath Clark Whitehill LLP for the year ended 30 June 2008 were £0.4m (2007: £0.4m). Of these, audit fees relating to the LLP and Group consolidation were £0.2m (2007: £0.2m), and other services in respect of the audit of subsidiary companies and other statutory requirements were £0.2m (2007: £0.2m).

5 Finance income and expense

	2008 £m	2007 £m
Finance income		
Interest receivable	13	13
Expected return on pension scheme assets (note 16)	85	72
	98	85
Finance expense		
Interest payable	(1)	(1)
Unwinding of discount on provisions (note 14)	(1)	(1)
Interest on pension scheme obligations (note 16)	(75)	(66)
	(77)	(68)
Net finance income	**21**	17

6 Tax expense in corporate subsidiaries

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

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

	2008 £m	2007 £m
Current tax comprising UK corporation tax expense at 29.5% (2007: 30%) based on taxable profits for the year	33	32
Compensating payment due from LLP members	(18)	(19)
Deferred tax movements (note 17)	(4)	(4)
Tax expense in corporate subsidiaries	**11**	9

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

	2008 £m	2007 £m
Profit on ordinary activities of corporate entities before tax	**13**	10
Tax expense at UK standard rate of 29.5% (2007: 30%)	4	3
Expenses not deductible for tax purposes	7	6
	11	9

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

Notes to the financial statements

for the year ended 30 June 2008

7 Members' profit shares

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

The average monthly number of members during the year was:

	2008 Number	2007 Number
Assurance	350	337
Tax	245	236
Advisory	220	204
Other	18	22
	833	799
Members on secondment overseas	20	23
	853	822

During the year, 20 members (2007: 23 members) were on secondment overseas. Excluding these members the average profit per member was £797,000 (2007 average profit per member: £867,000; underlying average profit per member excluding gain on disposal of property asset: £778,000). In the prior year financial statements underlying average profit per member was stated before adjustment to exclude members on secondment overseas and was disclosed as £757,000.

The amount invested by all members in the business, represented by total members' interests at 30 June 2008, divided by the number of members at that date, amounts to an average investment per member of £700,000 (2007: £737,000).

The estimated profit attributable to the Chairman who held office during the year, the member with the largest entitlement to profit, is £3.0m (2007 actual and estimated underlying profit: £2.8m).

The investment in the business at 30 June 2008 of the Chairman who held office during the year, represented by his estimated share of total members' interests was £2.7m (2007 actual and estimated investment: £2.7m).

8 Property, plant and equipment

Group

	Freehold property £m	Leasehold property £m	Property held under finance lease £m	Fittings, furnishings and equipment £m	Total £m
Cost					
At beginning of prior year	**5**	**33**	**6**	**196**	**240**
Additions	1	–	–	27	28
Disposals	–	(13)	(6)	(74)	(93)
At end of prior year	**6**	**20**	**–**	**149**	**175**
Additions	–	–	–	19	19
Disposals	–	–	–	(29)	(29)
At end of year	**6**	**20**	**–**	**139**	**165**
Accumulated depreciation					
At beginning of prior year	**1**	**23**	**3**	**140**	**167**
Depreciation charge for the year	–	1	–	20	21
Disposals	–	(9)	(3)	(73)	(85)
At end of prior year	**1**	**15**	**–**	**87**	**103**
Depreciation charge for the year	–	1	–	20	21
Disposals	–	–	–	(27)	(27)
At end of year	**1**	**16**	**–**	**80**	**97**
Net book amount at end of prior year	5	5	–	62	72
Net book amount at end of year	**5**	**4**	**–**	**59**	**68**

Group capital commitments contracted but not provided for at 30 June 2008 amounted to £2m (2007: £1m); there were no capital commitments in the LLP (2007: nil).

LLP

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

Notes to the financial statements

for the year ended 30 June 2008

9 Intangible assets

Group

	Goodwill £m	Computer software £m	Total £m
Cost			
At beginning of prior year	**4**	**55**	**59**
Additions	–	2	2
Disposals	–	(6)	(6)
At end of prior year	**4**	**51**	**55**
Additions	–	6	6
Disposals	–	(3)	(3)
At end of year	**4**	**54**	**58**
Accumulated amortisation			
At beginning of prior year	**4**	**35**	**39**
Amortisation charge for the year	–	8	8
Disposals	–	(4)	(4)
At end of prior year	**4**	**39**	**43**
Amortisation charge for the year	–	8	8
Disposals	–	(2)	(2)
At end of year	**4**	**45**	**49**
Net book amount at end of prior year	–	12	12
Net book amount at end of year	**–**	**9**	**9**

LLP

	Computer software £m	Total £m
Cost		
At beginning of year	**–**	**–**
Additions	3	3
At end of year	**3**	**3**
Accumulated amortisation		
At beginning and end of year	**–**	**–**
Net book amount at end of prior year	–	–
Net book amount at end of year	**3**	**3**

10 Investments

	Group £m	LLP £m
Cost at beginning and end of year		
Investments in Group undertakings	–	8
Other investments	5	5
	5	**13**
Impairment at beginning and end of year		
Other investments	(2)	(2)
Net book amount at beginning and end of year	**3**	**11**

There were no movements in shares held by the LLP in Group undertakings in the year. A list of principal subsidiary undertakings is given in note 23.

Other investments comprise holdings in entities that provide services to member firms of the PricewaterhouseCoopers network around the world. Impairment of other investments represents a significant or prolonged decline in the fair value of relevant assets below their cost.

The book value of investments (Group and LLP) is consistent with fair value in the current and prior year.

Notes to the financial statements

for the year ended 30 June 2008

11 Trade and other receivables

	Group 2008 £m	Group 2007 £m	**LLP 2008 £m**	LLP 2007 £m
Client receivables	354	329	346	323
Due from overseas PricewaterhouseCoopers member firms	6	5	30	30
Trade receivables	360	334	376	353
Amounts due from members	19	19	–	–
Other receivables	13	18	10	11
Prepayments	36	29	17	12
Unbilled amounts for client work	190	181	187	178
	618	581	**590**	554

Group and LLP trade receivables are denominated in sterling, except for £11m denominated in US dollars (2007: £7m) and £18m denominated in euros (2007: £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 all denominated in sterling and do not contain impaired assets.

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

	Group 2008 £m	Group 2007 £m	**LLP 2008 £m**	LLP 2007 £m
30 days or less, fully performing	229	232	240	249
31 to 180 days, past due but not impaired	130	101	134	104
More than 180 days, past due and impaired	13	11	13	10
Impairment provision	(12)	(10)	(11)	(10)
	360	334	**376**	353

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

	Group 2008 £m	Group 2007 £m	**LLP 2008 £m**	LLP 2007 £m
Balance at beginning of year	(10)	(9)	(10)	(9)
Charged to the income statement	(8)	(6)	(7)	(5)
Released unused during the year	3	2	3	1
Utilised during year	3	3	3	3
Balance at end of year	**(12)**	(10)	**(11)**	(10)

12 Cash and cash equivalents

	Group 2008 £m	Group 2007 £m	LLP 2008 £m	LLP 2007 £m
Cash at bank and in hand	25	28	15	16
Short-term deposits	308	341	308	341
	333	369	**323**	357

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

13 Trade and other payables

	Group 2008 £m	Group 2007 £m	LLP 2008 £m	LLP 2007 £m
Current				
Trade payables	33	26	–	–
Amounts owed to Group undertakings	–	–	244	219
Other payables including taxation and social security (see below)	116	109	18	16
Accruals	193	189	14	14
Progress billings for client work	77	63	75	62
	419	387	**351**	311

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 PricewaterhouseCoopers member firms totalling £18m (2007: £16m).

Other current payables including taxation and social security comprise:

	Group 2008 £m	Group 2007 £m	LLP 2008 £m	LLP 2007 £m
Corporation tax	16	16	–	–
Other taxes and social security	81	76	–	–
Other payables	19	17	18	16
	116	109	**18**	16

Non-current other payables of £1m (Group) represent members' capital loans provided by members of the other LLPs consolidated into the Group (2007: £1m).

Notes to the financial statements

for the year ended 30 June 2008

14 Provisions

Group	Client claims £m	Property £m	Group Total £m	Client claims £m	Property £m	LLP Total £m
Balance at beginning of year	**22**	**27**	**49**	**22**	**19**	**41**
Charged to income statement	7	7	14	7	6	13
Released unused during the year	(5)	(1)	(6)	(5)	(1)	(6)
Unwinding of discount	–	1	1	–	1	1
Cash payments	(4)	(6)	(10)	(4)	(5)	(9)
Balance at end of year	**20**	**28**	**48**	**20**	**20**	**40**

Disclosed as:	**Group 2008 £m**	Group 2007 £m	**LLP 2008 £m**	LLP 2007 £m
Current	9	6	8	5
Non-current	39	43	32	36
	48	49	**40**	41

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

Provisions 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 a rate of 6.65% (2007: 5.75%). The provision covers residual lease commitments of up to seven years and is after allowance for existing or expected sublet rental income.

15 Members' capital

	Group £m	LLP £m
Balance at beginning of year	**110**	**110**
Contributions by members	15	15
Repayments to members	(9)	(9)
Balance at end of year	**116**	**116**

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 balance sheet date. Total members' capital analysed by repayable dates is as follows:

	Group £m	LLP £m
Current	6	6
Non-current	110	110
	116	**116**

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

16 Retirement benefit obligations

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

Defined contribution schemes

Costs of £34m (2007: £31m) were recognised by the Group in respect of defined contribution schemes. Costs of defined contribution schemes in the LLP were nil (2007: nil).

Defined benefit schemes

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

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

Assumptions

The principal actuarial assumptions used were as follows:

	30 June 2008	30 June 2007	30 June 2006
Discount rate	6.65%	5.75%	5.25%
Inflation	3.70%	3.15%	2.85%
Expected rate of increase in salaries	4.70%	4.40%	4.10%
Expected rate of increase in pensions in payment	3.00%	2.75%	2.55%
Expected return on PwC PF assets	6.70%	7.05%	6.50%
Expected return on DH&S Plan assets	7.05%	6.70%	6.25%

At 30 June 2008, the actuarial valuations 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% for males and 0.75% for females. At 30 June 2007, the PA92 mortality tables were used with medium cohort improvements, but without any additional improvement underpin.

The following table illustrates the life expectancy for a member aged 65 at 30 June 2008 (current pensioner) and a member aged 45 at 30 June 2008 (future pensioner):

		2008		2007
	PwC PF Years	**DH&S Plan Years**	PwC PF Years	DH&S Plan Years
Life expectancy of current pensioners at age 65				
– male	21.5	21.5	21.3	21.3
– female	24.5	24.5	24.2	24.2
Life expectancy of future pensioners at age 65				
– male	23.8	24.4	22.8	23.1
– female	26.6	27.1	25.7	25.9

Notes to the financial statements

for the year ended 30 June 2008

16 Retirement benefit obligations (continued)

Income statement

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

			2008			2007
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Operating cost						
Current service cost	(15)	(4)	(19)	(15)	(4)	(19)
Recognised actuarial loss	–	–	–	–	(1)	(1)
Finance income and expense						
Expected return on pension scheme assets	57	28	85	48	24	72
Interest on pension scheme defined benefit obligations	(48)	(27)	(75)	(42)	(24)	(66)
	(6)	**(3)**	**(9)**	(9)	(5)	(14)

Balance sheet

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

			2008			2007
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Fair value of scheme assets	792	415	1,207	813	423	1,236
Present value of defined benefit obligations	(803)	(446)	(1,249)	(824)	(470)	(1,294)
Net deficit	**(11)**	**(31)**	**(42)**	**(11)**	**(47)**	**(58)**
Unrecognised actuarial losses	66	38	104	49	40	89
Net retirement benefit asset (obligation)	**55**	**7**	**62**	**38**	**(7)**	**31**

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

			2008			2007
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
At beginning of year	**38**	**(7)**	**31**	12	(19)	(7)
Current service cost	(15)	(4)	(19)	(15)	(4)	(19)
Recognised actuarial loss	–	–	–	–	(1)	(1)
Finance income and expense	9	1	10	6	–	6
Contributions by employer	23	17	40	35	17	52
At end of year	**55**	**7**	**62**	38	(7)	31

16 Retirement benefit obligations (continued)

Scheme assets

The changes in defined benefit scheme assets were as follows:

	2008			2007		
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Fair value of scheme assets at start of year	**813**	**423**	**1,236**	735	396	1,131
Expected return on scheme assets	57	28	85	48	24	72
Actuarial gain (loss) on assets	(85)	(44)	(129)	13	(6)	7
Contributions by employer	23	17	40	35	17	52
Benefits paid	(16)	(9)	(25)	(18)	(8)	(26)
Fair value of scheme assets at end of year	**792**	**415**	**1,207**	813	423	1,236

The actual return on scheme assets in the year ended 30 June 2008 was £44m loss (2007: £79m gain).

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

	30 June 2008	30 June 2007	30 June 2006
Equities	8.00%	8.10%	7.80%
Bonds	5.75%	5.40%	4.90%
Cash	5.00%	5.75%	4.50%

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

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

	Value at 30 June 2008			Value at 30 June 2007		
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	398	211	609	496	207	703
Bonds	375	203	578	312	210	522
Cash	19	1	20	5	6	11
	792	**415**	**1,207**	813	423	1,236

Defined benefit obligations

The changes in defined benefit obligations were as follows:

	2008			2007		
	PwC PF	**DH&S Plan**	**Total**	PwC PF	DH&S Plan	Total
	£m	**£m**	**£m**	£m	£m	£m
Present value of defined benefit obligation at start of year	**(824)**	**(470)**	**(1,294)**	(794)	(472)	(1,266)
Current service cost	(15)	(4)	(19)	(15)	(4)	(19)
Interest cost	(48)	(27)	(75)	(42)	(24)	(66)
Actuarial gain on obligations	68	46	114	9	22	31
Benefits paid	16	9	25	18	8	26
Present value of defined benefit obligation at end of year	**(803)**	**(446)**	**(1,249)**	(824)	(470)	(1,294)

Notes to the financial statements

for the year ended 30 June 2008

16 Retirement benefit obligations (continued)

Actuarial gains and losses

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

	2008 £m	2007 £m	2006 £m	2005 £m
PwC PF				
Fair value of scheme assets	792	813	735	619
Present value of defined benefit obligation	(803)	(824)	(794)	(808)
Net deficit	**(11)**	(11)	(59)	(189)
Actuarial experience gains (losses) on assets	(85)	13	46	46
Actuarial gains (losses) on obligations due to experience	(2)	(1)	7	(13)
DH&S Plan				
Fair value of scheme assets	415	423	396	329
Present value of defined benefit obligation	(446)	(470)	(472)	(438)
Net deficit	**(31)**	(47)	(76)	(109)
Actuarial experience gains (losses) on assets	(44)	(6)	12	24
Actuarial gains (losses) on obligations due to experience	3	8	(7)	(7)

Sensitivity analysis

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

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

	PwC PF Decrease (Increase) £m	DH&S Plan Decrease (Increase) £m	Total £m
0.25% increase to discount rate	35	20	55
0.25% increase to salary increases	(5)	(4)	(9)
0.25% increase to inflation	(18)	(13)	(31)
1 year increase to life expectancy	(17)	(8)	(25)

Future cash funding

The most recent full actuarial valuations for both the PwC PF and the DH&S Plan as at 31 March 2008 are in progress under the new Scheme Funding Regulations (Pensions Act 2004), and formed the basis for the update to 30 June 2008 used in these financial statements. The actuaries are Aon Consulting for the PwC PF and Mercer Human Resource Consulting for the DH&S Plan.

Total cash contributions to the schemes during the year ended 30 June 2008 were £40m, including £21m of additional contributions. The Group expects to pay contributions next year of £32m, including additional contributions of £13m.

17 Deferred tax

Deferred tax is calculated in full under the liability method on temporary differences arising in the corporate subsidiaries using a tax rate of 28% (2007: 30% for the period to 31 March 2008 and 28% thereafter).

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

	2008 £m	2007 £m
Balance at beginning and end of year	**2**	2

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

	2008 £m	2007 £m
Balance at beginning of year	**(7)**	(11)
Deferred income and other temporary differences	4	4
Balance at end of year	**(3)**	(7)
Net deferred tax liability at beginning of year	**(5)**	(9)
Movement in year	4	4
Net deferred tax liability at end of year	**(1)**	(5)

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

There was no deferred tax arising in the LLP.

Notes to the financial statements

for the year ended 30 June 2008

18 Total members' interests

	Members' interests				Minority interests	
	Members' capital £m	Reserves £m	Amounts due to (from) members £m	Total £m	Reserves £m	Amounts due to (from) minority interests £m
Group						
Balance at beginning of prior year	**107**	**402**	**(17)**	**492**	**–**	**–**
Profit for the prior year available for division among members	–	693	–	693	9	–
	107	**1,095**	**(17)**	**1,185**	**9**	**–**
Allocated profit	–	(583)	583	–	(4)	4
Movement on cash flow hedges	–	(1)	–	(1)	–	–
Introduced by members	22	–	–	22	–	–
Repayment of capital	(19)	–	–	(19)	–	–
Drawings and distributions	–	–	(583)	(583)	–	(4)
Movement in compensating payment due to subsidiary undertakings	–	–	(2)	(2)	–	–
Balance at beginning of year	**110**	**511**	**(19)**	**602**	**5**	**–**
Profit for the current year available for division among members	–	664	–	664	11	–
	110	**1,175**	**(19)**	**1,266**	**16**	**–**
Allocated profit	–	(676)	676	–	(7)	7
Introduced by members	15	–	–	15	–	–
Repayment of capital	(9)	–	–	(9)	–	–
Drawings and distributions	–	–	(676)	(676)	–	(7)
Balance at end of year	**116**	**499**	**(19)**	**596**	**9**	**–**

	Members' capital £m	Reserves £m	Amounts due to (from) members £m	Total £m
LLP				
Balance at beginning of prior year	**107**	**380**	**–**	**487**
Profit for the prior year available for division among members	–	687	–	687
	107	**1,067**	**–**	**1,174**
Allocated profit	–	(572)	572	–
Introduced by members	22	–	–	22
Repayment of capital	(19)	–	–	(19)
Drawings and distributions	–	–	(572)	(572)
Balance at beginning of year	**110**	**495**	**–**	**605**
Profit for the current year available for division among members	–	643	–	643
	110	**1,138**	**–**	**1,248**
Allocated profit	–	(653)	653	–
Introduced by members	15	–	–	15
Repayment of capital	(9)	–	–	(9)
Drawings and distributions	–	–	(653)	(653)
Balance at end of year	**116**	**485**	**–**	**601**

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

19 Commitments under operating leases

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

	2008		2007	
	Land and buildings £m	**Other assets £m**	Land and buildings £m	Other assets £m
Within one year	67	8	67	9
1–2 years	64	3	67	4
2–3 years	62	1	62	1
3–4 years	61	–	57	–
4–5 years	58	–	58	–
More than five years	545	–	603	–

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

20 Financial instruments

Financial risk management

The Group 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 10 years. The Group had no requirement for long-term borrowings (other than members' capital) at 30 June 2008

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 2008 with six leading international banks total £138m (2007: £138m) and are due to expire in January 2010.

Notes to the financial statements

for the year ended 30 June 2008

20 Financial instruments (continued)

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+. There were no other significant concentrations of credit risk at the balance sheet date, due to the Group's trade and other receivable balances being spread across a large and unrelated client base.

Interest rate risk

The Group's principal borrowings and any surplus cash balances are held at variable interest rates linked to London interbank offered rate (LIBOR). Borrowings are all undertaken in sterling to reflect the composition of the Group's balance sheet, which includes only minor amounts of non-sterling assets and liabilities. The Group's policy requires that asset finance be undertaken without creating significant interest-rate exposure. A movement in the interest rate of 50 basis points through the year would have resulted in a change in post-tax profit of £1m.

Foreign currency risk

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

Financial assets and liabilities by category

				2008				2007
	Loans and receivables	**Available-for-sale**	**Derivatives used for hedging**	**Other financial liabilities**	Loans and receivables	Available-for-sale	Derivatives used for hedging	Other financial liabilities
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Trade and other receivables	618	–	–	–	581	–	–	–
Investments	–	3	–	–	–	3	–	–
Cash and cash equivalents	333	–	–	–	369	–	–	–
Liabilities								
Trade and other payables	–	–	–	419	–	–	–	387
Members' capital	–	–	–	116	–	–	–	110
Forward foreign-exchange contracts								
Cash flow hedges	–	–	(1)	–	–	–	(1)	–

20 Financial instruments (continued)

Interest rate profile of financial assets and financial liabilities

Group and LLP short-term deposits with banks of £308m (2007: £341m) are subject to floating interest rates of less than one year. All other financial assets and financial liabilities are non-interest earning.

Currency profile of financial assets and liabilities

The major part of the Group's income and expenditure is in sterling. After taking into account forward contracts and known US dollar and euro denominated assets and liabilities, the Group had net US dollar denominated assets at 30 June 2008 of £5m (2007: £10m) and net euro denominated assets at 30 June 2008 of £6m (2007: £2m).

Derivative financial instruments

Forward foreign-exchange contracts all mature in less than two years, and have been valued using forward market prices prevailing at the balance sheet date. The related fair value and ineffective cash flow hedges recognised in the income statement were nil (2007: nil). Effective cash flow hedges recognised directly in equity were £1m (2007: £1m). The notional principal amount of forward foreign-exchange contracts was £48m (2007: £24m).

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

	2008 £m	2007 £m
Forward foreign-exchange contracts		
Balance at beginning of year	**(1)**	–
Cash flow hedges released from reserves	1	–
New cash flow hedges recognised in reserves	(1)	(1)
Balance at end of year	**(1)**	(1)

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.

In July 2006, the LLP entered into a US$47 million loan guarantee with a third-party bank in connection with a loan to an entity in the PwC global network.

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

The LLP guarantees the bank borrowings of subsidiary companies, which are included in the consolidated balance sheet. At the year end, subsidiary company bank borrowings were nil (2007: nil).

Notes to the financial statements

for the year ended 30 June 2008

22 Reconciliation of profit after tax to operating cash flows

	Group		LLP	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Profit after taxation	**675**	702	**643**	687
Tax on profits	11	9	–	–
Depreciation, amortisation and impairment	29	29	1	1
Loss (gain) on disposal of property, plant and equipment asset	1	(71)	–	(67)
Gain on disposal of other businesses	(14)	–	(2)	–
Finance income	(98)	(85)	(98)	(84)
Finance expense	77	68	76	67
Increase in trade and other receivables	(37)	(8)	(36)	(5)
Increase in trade and other payables	32	24	40	17
Decrease in provisions and other payables	(2)	(17)	(2)	(19)
Decrease in retirement benefit obligations	(21)	(32)	(21)	(32)
Cash generated from operations	**653**	619	**601**	565

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 are incorporated in Great Britain.

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

Companies	**Principal activity**
PricewaterhouseCoopers Services	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
Limited Liability Partnerships	
PricewaterhouseCoopers CI LLP	Professional services
PricewaterhouseCoopers Legal LLP	Legal services

24 Related party transactions

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

Contracts and leases not novated to PricewaterhouseCoopers LLP

Following the transfer of business on establishment of the LLP, certain contracts and leases have not yet been novated to the LLP, pending receipt of third-party consents. Arrangements are in place for the LLP to deal with these contracts and leases from day to day. No charge is made for these arrangements and no amounts are due to, or by, the LLP at 30 June 2008 (2007: nil) under these arrangements.

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

Arrangements are in place for the LLP to supply services to the United Kingdom Partnership in connection with client assignments. For the year ended 30 June 2008, the LLP provided services to the United Kingdom Partnership to the value of £396,000 (2007: £112,000) under these arrangements. There were no balances outstanding at the end of the year (2007: nil).

Administrative support to PricewaterhouseCoopers United Kingdom Partnership

On behalf of its members, the LLP provides certain administrative services to support the United Kingdom Partnership, including the calculation of annuities and paying agent arrangements in connection with the pension annuities due to certain former partners of that partnership. The LLP charged the United Kingdom Partnership £200,000 for these support services for the year ended 30 June 2008 (2007: £200,000). There were no balances outstanding at the end of the year (2007: 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 £57m (2007: £52m).

Key management compensation

The Executive Board (known as the Management Board during the year) represents key management personnel for the purposes of the Group's related party disclosure reporting. The estimated profit attributable to key management personnel amounts to £17.3m (2007 actual underlying profit: £16.7m; estimated underlying profit: £16.5m) and comprises their estimated share of the Group's profit available for distribution among members.

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:

	2008 £m	2007 £m
Purchase of services from related parties		
PricewaterhouseCoopers Services	1,269	1,195
Provision of services to related parties		
Other subsidiaries	(9)	(14)
	1,260	1,181
Year-end balances with related parties		
PricewaterhouseCoopers Services	(229)	(210)
Other subsidiaries	(8)	(8)
	(237)	(218)

A world of expertise

Samuel A DiPiazza Jnr,
CEO of PricewaterhouseCoopers International Limited

The UK firm, along with the other PwC firms across the world, is a member of PricewaterhouseCoopers International Limited (a company limited by guarantee and registered in England). Each member firm is legally separate, locally owned and locally managed. This legal structure gives each member firm the flexibility and autonomy to respond quickly and effectively to local conditions in the marketplace.

It also gives them access to the network's shared resources, methodologies, knowledge and expertise. In return, each firm commits to abide by a set of common policies and maintain agreed quality standards. In the PwC network, there are PwC firms in 150 countries with a combined headcount of more than 146,000 people.

A wealth of expertise

Our global mobility programme plays a key role helping to share expertise and knowledge around the network. Over the past 12 months 3,228 partners and staff (2007: 3,078) from PwC member firms in 103 countries (2007: 102) were posted internationally on short and long-term transfers or assignments.

Leadership roles

The UK firm plays an important leadership role within the global network. Ian Powell (Chairman and Senior Partner UK) has joined Samuel A DiPiazza Jnr, the CEO of PricewaterhouseCoopers International Limited, as a member of the global leadership team, along with a number of other UK partners, namely Paul Boorman (Global Operations), Richard Collier-Keywood (Global Tax), Moira Elms (Global People & Culture, Brand & Communications) and Peter Wyman (Global Public Policy and Regulatory Matters).

Thought leadership

The UK firm also plays a major role in contributing to global research and thought leadership. The prestigious annual PricewaterhouseCoopers Global CEO survey, the 11th version of which was launched at the World Economic Forum meeting at Davos in January 2008, is just one example (www.pwc.com/ceosurvey).

Our head of macroeconomics, John Hawksworth, continues to lead the development of a series of reports on how the global economic picture might look in the years to 2050. The latest such report takes a look at how rapid global growth can be reconciled with moving to a low carbon economy (www.pwc.com/world2050).

We also contribute to the global industries programme, providing thought leadership on the most important issues for the industry sectors we support. Recent examples include:

- ***Making the most of collaboration: an international survey of public service co-design*** takes a look at how users and providers are working together to design better public services

- ***Power Deals:*** an annual review of mergers and acquisitions in the global power sector warns that the staggering levels of deal activity in the European market are unlikely to continue

- ***Global Entertainment & Media Outlook:*** covers trends and issues impacting more than 50 countries across 15 industry sectors, ranging from internet advertising to broadcasting to theme parks

‘Member firms have the flexibility and autonomy to respond quickly and effectively to local conditions in the marketplace.’

Recognising our responsibilities

Responsible corporate behaviour is an important aspect of the PwC culture. Examples include:

The Power of 10:
To mark the 10th anniversary of PricewaterhouseCoopers, the PwC network teamed up with The United Nations High Commissioner for Refugees (UNHCR) to raise money to build schools, train teachers and provide educational supplies for more than 20,000 Darfur refugee children in Eastern Chad. In the 10 days of the appeal, in June 2008, over £2m was raised worldwide by PwC partners, staff and firm contributions, including £115,000 from the UK alone.

Samuel A DiPiazza Jnr, said: ‘To celebrate 10 years of PricewaterhouseCoopers, we wanted to work closely with the United Nations [High Commissioner for Refugees agency] to develop a project that supported our long-standing focus on education. At the same time, we wanted to harness the power of our organisation to try to make a meaningful difference to the global community.’

Project Ulysses:
Ulysses is a prestigious PwC leadership programme that places small teams from around the world to work on projects in developing countries, helping to build sustainable businesses and improve people’s lives. This summer, UK partner Brian Lochead joined colleagues from the Netherlands and South Korea on a Ulysses project in Gujarat, western India. Brian’s work for the Self Employed Women’s Association involved creating a procurement, sales and distribution network, allowing small farmers and labourers to sell their products directly to the market.

A new view

Tom Richards, a senior manager in Human Resource Services, recently completed a two-year secondment to PwC Chile’s Santiago office.

‘The job came up when PwC won the global international mobility work for BHP Billiton, which had recently moved its base metals division’s HQ from the US to Chile. Santiago had very quickly become a key location for the BHP Billiton international assignment programme, so they asked PwC to identify an international mobility specialist to help the local PwC firm build up a team focused exclusively on providing tax services to international assignees.

‘The first thing I had to do was identify the right people for the team. Then, I had to get them up to speed on international mobility issues with a view to making them self-sufficient within two years. I won’t claim it was easy, but I got a lot out of it.

‘I now have first-hand experience of running a new business. I’ve learned to see things from a completely different – South American – perspective. I’ve become more self-reliant, because, in a smaller practice like Santiago, you simply don’t have the level of support that’s available in London. And I’ve built a much stronger network of international contacts.’

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