KPMG Holdings Limited

Directors' report and financial statements

Registered number 03512757

30 September 2019

Contents

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2019.

The company

KPMG Holdings Limited (the company) is a wholly owned subsidiary of KPMG LLP (see note 13). The company's ultimate controlling party is KPMG LLP (together with the subsidiary undertakings, the group).

Nature of the business

The company acts as a holding and co-ordinating company for a number of companies associated with KPMG LLP. The investments of the company at 30 September 2019 are set out in note 8.

Events since the year end

Since the year end, the Covid-19 pandemic has caused considerable disruption to the global economy. Notwithstanding that, Covid-19 is deemed to be a non-adjusting post balance sheet event. Having considered the impact of Covid-19 on the group and company (see going concern statement below) the directors consider that there are no non-adjusting post balance sheet events that require disclosure in these financial statements as a result of Covid-19.

Treasury policies

The company's treasury policies focus on ensuring that there are sufficient funds to finance the business. Full details of the impact for the company of these treasury policies and management of the associated risks are given in note 12 to the financial statements.

Relationships and resources

Relationships with the community

All community support work of the group in the UK is channelled through KPMG LLP. Similarly, environmental matters in the UK are managed through KPMG LLP. The company made no political or charitable contributions in either the current or prior year.

Going concern

The financial position of the company, its cash flows and liquidity position are discussed in the strategic report on page 3. The company has access to a broad range of business expertise within the group and as a consequence, the Board believes that the company is well placed to manage its business risks successfully, including those arising as a result of Covid-19 and may arise as a result of Brexit. The resilience measures taken by the group early in the pandemic, including liquidity enhancing measures such as deferral of payments to partners, have improved the group's immediate and longer-term resilience. At the date of this report, the majority of the group's staff and partners continue to work remotely, following guidance issued by the UK government. Despite these challenges, we do not expect client service delivery to be materially affected following the effective transition to remote working.

Forecasts have been prepared for the group for the period through to 30 September 2022, reflecting on the Covid-19 pandemic and the possible impact on the group's operational activities, liquidity, borrowing facilities and related covenant requirements. These forecasts reflect a range of downside scenarios, including a Plausible but Severe scenario that demonstrates that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period when liquidity enhancing measures that are readily available to the group are taken into account. Other downside scenarios demonstrate that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period without the need to implement any further cost mitigation or liquidity enhancing measures.

These group forecasts have been reviewed by the directors and the company's ultimate parent entity, KPMG LLP, has agreed to provide financial support to the company for the foreseeable future. The Board therefore has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

Directors' report continued

Directors and directors' interests

The directors who held office during the year were as follows:

P Long	Resigned 30 June 2019
AG Cates	
SKG Willows	
JM Holt	Appointed 30 June 2019
J Dean	Appointed 30 June 2019

Subsequent to the year end, on 26 February 2021, SKG Willows resigned as director of the company.

Disclosure of information to the auditor

The directors in office at the end of the financial year had no direct interest in the shares of the company or any of its subsidiaries but, by virtue of their position as members of KPMG LLP, had an indirect interest in the entire share capital of the company. P Long and J Dean are not members of KPMG LLP and therefore had no residual interest in any of the share capital of the company. The company secretary is J Dean.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and Grant Thornton UK LLP will therefore continue in office.

By order of the Board

J Dean
Company Secretary

15 Canada Square
Canary Wharf
London
E14 5GL

26 March 2021

Strategic report

Strategy

The company's strategy reflects that of KPMG LLP. The purpose of the group is to turn knowledge into value for the benefit of its clients, its people and the capital markets. The group's business plan continues to focus on people, client relationships, quality and reputation, and profitable growth. Performance of the group is monitored regularly throughout the year using a range of key performance indicators (KPIs).

The company acts as a holding company within the group and is engaged solely with the transactions associated with this activity. Hence, there were no specific KPI's relating solely to the performance of the company.

Performance and development during the year

The company incurred an operating loss of £20,164,000 (2018: £12,334,000) as a result of impairment of investments totalling £14,407,000 (2018: £12,281,000) (see note 8) and expected credit losses recognised under IFRS 9 of £4,200,000. However, the company also received dividends of £54,042,000 (2018: £28,638,000) from subsidiary entities in 2019 resulting in a profit for the year of £33,931,000 (2018: £15,948,000).

The company's operations generally absorb cash, funded either through dividends from subsidiary entities or bank financing facilities available to the group. A dividend of £34,400,000 (2018: £7,300,000) was paid in the current year.

Financial position at the end of the year

At 30 September 2019, the company had net assets of £21,110,000 (2018: £21,579,000).

The company's receivables and payables are entirely with fellow group undertakings.

Future development and performance

Risk management and internal control systems exist within the group to ensure that risks affecting the future development and performance of the group are mitigated. As set out above, the nature of the business is such that all transactions of the company are with fellow group undertakings. Accordingly, the directors do not consider there to be any external risks and uncertainties affecting the future development and performance of the company.

At the time of finalising this report, the board of KPMG LLP continue to monitor closely the evolving situation with Covid-19 and its likely impact on the operating activities of the group and company. Mitigating actions were taken quickly following lockdown in the UK in order to minimise the impact on the group's operating activities, profitability and liquidity. As set out in the going concern statement, forecasts demonstrate that the group will continue to generate profits for the foreseeable future; in the event that Covid-19 further impacts the group's and company's operating activities, the group are well placed to take further mitigating actions as appropriate.

By order of the Board

J Dean
Company Secretary

15 Canada Square
Canary Wharf
London
E14 5GL

26 March 2021

Statement of directors' responsibilities in respect of the directors' report, strategic report and the financial statements

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concem basis of accounting unless they either intend to liquidate the company or to cease operation, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of KPMG Holdings Limited

Opinion
We have audited the financial statements of KPMG Holdings Limited (the 'company') for the year ended 30 September 2019 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit
Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information
The directors are responsible for the other information. The other information comprises the information included in the directors' report and strategic report Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of KPMG Holdings Limited continued

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Grant Thornton UK LLP

Jonathan Maile BSc (Hons) FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

Crawley
26 March 2021

Grant Thornton

Income statement
For the year ended 30 September 2019

	Note	2019 £000	2018 £000
Revenue		-	-
Impairment losses on receivables		(4,200)	-
Other operating expenses	4	(15,964)	(12,334)
Operating loss		(20,164)	(12,334)
Financial income	6	55,093	29,154
Financial expense	6	(986)	(968)
Net financial income		54,107	28,186
Profit before taxation		33,943	15,852
Tax (expense)/income	7	(12)	96
Profit for the financial year		33,931	15,948

Statement of comprehensive income
For the year ended 30 September 2019

	2019 £000	2018 £000
Profit for the financial year	33,931	15,948
Total comprehensive income for the year	33,931	15,948

Statement of financial position
At 30 September 2019

	Note	**2019 £000**	2018 £000
Assets			
Non-current assets			
Investments	*8*	**35,064**	51,021
Trade and other receivables	*9*	**24,286**	-
		59,350	51,021
Current assets			
Trade and other receivables	*9*	**16,004**	30,732
Cash and cash equivalents: bank balances		**3,082**	497
		19,086	31,229
Total assets		**78,436**	82,250
Equity and liabilities			
Equity			
Share capital	*11*	**100**	100
Retained earnings		**21,010**	21,479
		21,110	21,579
Current liabilities			
Trade and other payables	*10*	**57,315**	60,671
Corporation Tax		**11**	-
Total liabilities		**57,326**	60,671
Total equity and liabilities		**78,436**	82,250

The financial statements on pages 7 to 22 were approved by the board of directors on 26 March 2021 and were signed on its behalf by:

J Dean
Director

KPMG Holdings Limited: 03512757

Statement of changes in equity

For the year ended 30 September 2019

	Note	**Share capital £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 October 2017		100	12,831	12,931
Total comprehensive income				
Profit for the financial year		-	15,948	15,948
Transactions with owners of the company				
Dividends paid during the year	*13*	-	(7,300)	(7,300)
Balance at 30 September 2018		100	21,479	21,579
Total comprehensive income				
Profit for the financial year		-	33,931	33,931
Transactions with owners of the company				
Dividends paid during the year	*13*	-	(34,400)	(34,400)
Balance at 30 September 2019		100	**21,010**	**21,110**

Statement of cash flows

For the year ended 30 September 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the financial year		**33,931**	15,948
Adjustments for:			
Financial income	*6*	**(55,093)**	(29,154)
Financial expense	*6*	**986**	968
Tax expense/(income)	*7*	**12**	(96)
Impairment losses on investments	*8*	**15,957**	12,281
Impairment losses on receivables	*9*	**4,200**	-
Operating loss before changes in working capital		**(7)**	(53)
Increase in trade and other receivables		**(13,673)**	(7,442)
(Decrease)/increase in trade and other payables		**(3,453)**	48,989
Cash (absorbed by)/generated from by operations		**(17,133)**	41,494
Interest paid	*6*	**(986)**	(956)
Group relief received		**96**	190
Net cash (absorbed by)/generated from operating activities		**(18,023)**	40,728
Cash flows from investing activities			
Dividend received	*6*	**54,042**	28,638
Interest received	*6*	**966**	479
Acquisition of investments	*8*	**-**	(1,063)
Net cash flows from investing activities		**55,008**	28,054
Cash flows from financing activities			
Repayment of bank borrowings		**-**	(63,000)
Dividends paid	*13*	**(34,400)**	(7,300)
Net cash flows from financing activities		**(34,400)**	(70,300)
Net increase/(decrease) in cash and cash equivalents		**2,585**	(1,518)
Cash and cash equivalents at the beginning of the year		**497**	2,015
Cash and cash equivalents at the end of the year		**3,082**	497

Notes

Forming part of the financial statements

1 Accounting policies

KPMG Holdings Limited (the company) is a company incorporated in the United Kingdom. In accordance with the exemption available in IAS 27, these financial statements present information about the company as a separate entity and not about its group. Details of the group in which the results of the company are consolidated are given in note 13.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 (adopted IFRSs) and have been approved by the directors.
Accounting policies that relate to the financial statements as a whole are set out below, while those that relate to specific areas of the financial statements are shown in the corresponding note. All accounting policies have been applied consistently to all periods presented in these financial statements, with the exception of those changed as a result of adopting new IFRSs during the year (see note 2). A number of new IFRSs have effective dates such that they fall to be applied by the company. The following standards are the only changes of relevance to these financial statements that have been applied in the year ended 30 September 2019.

- IFRS 9: 'Financial Instruments'; effective for periods beginning on or after 1 January 2018 (note 2).

The company elected to early adopt the following IFRSs and amendments in the year ended 30 September 2019:

- Annual improvements to IFRSs 2015-2017 Cycle; effective for periods beginning on or after 1 January 2019.
- IFRIC 23: 'Uncertainty over Income Tax Treatments'; effective for periods beginning on or after 1 January 2019.

With the exception of the impact of adopting IFRS 9, set out in note 2, these amendments resulted in a small number of insignificant changes to disclosures given in the company's financial statements but otherwise had no impact.
There are no other standards, interpretations or amendments that required mandatory application in the current year.

Future developments

There are a number of new interpretations and amendments issued by the International Accounting Standards Board (IASB) that are effective for financial statements after this reporting period. The most relevant are:

- Amendments to References to the Conceptual Framework in IFRS Standards: effective for periods beginning on or after 1 January 2020 (endorsed 29 November 2019).
- Amendments to IAS 1 and IAS 8 'Definition of Material': effective for periods beginning on or after 1 January 2020 (endorsed 29 November 2019).
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7); effective for periods beginning on or after 1 January 2020 (endorsed 15 January 2020).

Based on preliminary assessments the adoption of these interpretations and amendments is not expected to have a significant impact on either the company's results, financial position or disclosures.

Basis of preparation

The financial statements have been prepared on the historical cost basis. The functional and presentation currency of the company is pound sterling. The financial statements are presented in thousands of pounds (£000) unless stated otherwise.

Going concern

The financial position of the company, its cash flows and liquidity position are discussed in the strategic report on page 3. The company has access to a broad range of business expertise within the group and as a consequence, the Board believes that the company is well placed to manage its business risks successfully, including those arising as a result of Covid-19 and may arise as a result of Brexit. The resilience measures taken by the group early in the pandemic, including liquidity enhancing measures such as deferral of payments to partners, have improved the group's immediate and longer-term resilience. At the date of this report, the majority of the group's staff and partners continue to work remotely, following guidance issued by the UK government. Despite these challenges, we do not expect client service delivery to be materially affected following the effective transition to remote working.

Notes continued

1 Accounting policies continued

Going concern continued

Forecasts have been prepared for the group for the period through to 30 September 2022, reflecting on the Covid-19 pandemic and the possible impact on the group's operational activities, liquidity, borrowing facilities and related covenant requirements. These forecasts reflect a range of downside scenarios, including a Plausible but Severe scenario that demonstrates that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period when liquidity enhancing measures that are readily available to the group are taken into account. Other downside scenarios demonstrate that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period without the need to implement any further cost mitigation or liquidity enhancing measures.

These group forecasts have been reviewed by the directors and the company's ultimate parent entity, KPMG LLP, has agreed to provide financial support to the company for the foreseeable future. The Board therefore has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

Foreign currency

Transactions in currencies other than the company's functional currency are recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement within financial income or expense, as appropriate.

2 Changes in significant accounting policies

IFRS 9 'Financial Instruments' (IFRS 9)

The company has initially applied IFRS 9 from 1 October 2018. The new standard replaces IAS 39 'Financial instruments: recognition and measurement' and addresses the classification, measurement, impairment and de-recognition of financial instruments, including new hedge accounting requirements.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale and instead contains three principal classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. From 1 October 2018, all financial assets which were previously classified as loans and receivables under IAS 39 are classified as financial assets measured at amortised cost (see note 12).

IFRS 9 has also introduced a new model for impairment which is based on assessing changes in credit quality from the initial recognition of a financial instrument. The model requires expected credit losses (ECL) to be determined, being a probability-weighted estimate of the difference between the cash flows that are expected to be received and the cash flows that are due under the contract. As a result, the company has adopted a forward-looking credit loss model instead of the historical incurred credit loss model previously applied under IAS 39 (see note 9).

The adoption of IFRS 9 has not had a significant effect on the company's accounting policies related to financial instruments and on the carrying amounts of financial assets and financial liabilities reported at 30 September 2018 under IAS 39 (see note 12). No adjustment for the company has been recognised in brought forward reserves in the year ended 30 September 2019, reflecting the introduction of a new model for impairment on adoption of IFRS 9.

As a result of the adoption of IFRS 9, the company has adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require impairment of financial assets to be presented in a separate line item in the income statement and other comprehensive income, if material. Previously, the impairment loss on trade receivables was included in 'Other operating expenses'. This change in presentation has had an immaterial impact on these financial statements. Additionally, the company has adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures in respect of 2019 but not generally applied to comparative information.

Notes continued

3 Accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, significant estimates and assumptions that affect the application of policies and reported amounts of revenue and expenses, assets and liabilities.

These judgements and significant estimates are based on historical experience and other factors, including market data and expectations of future events that are believed to be reasonable and constitute management's best assessment at the date of the financial statements. They are continually re-evaluated and actual experience could differ from the estimates, resulting in adjustments being required in future periods. Where appropriate, present values are calculated using discount rates reflecting currency and maturity of the items being valued.

The directors of the company consider that the following is a critical accounting judgement arising in the application of the company's accounting policies:

Treatment of investment in operations in India

The company holds investments in the group's operations in India. Other group entities have service agreements with, and benefit from, the activities of these operations. On a consolidated basis, the group has classified these entities as joint operations.

However, the directors do not consider that the company individually has both control and derives benefit from the operations and as such has not accounted for them as joint operations in these separate financial statements. A different assessment as to the relationship with these operations may result in a different treatment in these financial statements.

In addition, estimates that may carry a significant risk of resulting in a material adjustment to the carrying amount of the assets and liabilities within the next financial year are considered as follows:

Carrying value of investments

In considering the carrying value of investments, being £35,064,000 at 30 September 2019 (2018: £51,021,000), the company considers the current intentions with respect to the future plans for each subsidiary entity, the group operating agreements in place, or planned to be in place, with these entities and the estimated future profitability of those subsidiaries as a result.

A different assessment of the future profitability may result in a different value being determined for investments and any resulting impairment (see note 8).

Carrying value of intercompany receivables

The carrying value of amounts due from other UK group undertakings is £38,941,000 at 30 September 2019 (2018: £29,468,000) after recognising an ECL of £4,200,000 (2018: £nil). In calculating the ECL, the company have made certain assumptions as to the probability of the risk of loss occurring based on future forecasts of those businesses and scenarios reflecting sensitivities of those forecasts. A different assessment of the probability weightings attributed to each scenario may result in a different value being determined for that ECL (see note 9).

4 Other operating expenses

Other operating expenses include the impairment losses on investments totalling £15,957,000 (2018: £12,281,000) (see note 8).

Amounts paid to the auditor in respect of the audit of these financial statements totalled £5,000 (2018: £5,000) and were borne by KPMG LLP. The auditor provided no non-audit services during either year.

5 Personnel numbers and costs

The company employed no staff during the period. Management services are carried out on behalf of the company by fellow group undertakings; no charges are levied for these services. No remuneration was paid to the directors for their services to the company.

Notes continued

6 Financial income and expense

Accounting policy

Financial income and expense comprises dividends received, interest income and expense on group balances, bank interest income and expense and foreign exchange gains and losses. Dividend income is recognised on the date the company's right to receive payment is established. Interest income and expense is recognised as it accrues, using the effective interest method.

Recognised in profit or loss:	**2019 £000**	2018 £000
Bank Interest	**2**	2
Dividends received	**54,042**	28,638
Interest income on group balances (see note 9)	**964**	477
Exchange gains	**85**	37
Financial income	**55,093**	29,154
Bank interest expense	**-**	(250)
Interest expense on group balances (see note 10)	**(986)**	(706)
Exchange losses	**-**	(12)
Financial expense	**(986)**	(968)

The total interest income and expense arising from financial assets and liabilities that were not classified as fair value through profit or loss were £966,000 (2018: £479,000) and £986,000 (2018: £956,000) respectively.

7 Tax expense/(income)

Accounting policy

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement or statement of comprehensive income under the relevant heading and related balances are carried as tax payable or receivable in the statement of financial position.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

	2019 £000	2018 £000
Current year		
UK corporation tax on profits for the year at 19% (2018: 19%)	**11**	-
Group relief receivable	**-**	(96)
Group relief adjustments in respect of the prior year	**1**	-
Tax expense/(income) in the income statement	**12**	(96)

Notes continued

7 **Tax expense/(income)** continued

	2019 £000	2018 £000
Profit before taxation	**33,943**	15,852
Profit, multiplied by the average standard rate of corporation tax in the UK of 19% (2018: 19%)	**6,449**	3,012
Impact of items not taxable	**(6,438)**	(3,108)
Adjustment in respect of prior periods	**1**	-
Actual tax credit for the year, as above	**12**	(96)

Payment for group relief surrendered is generally made at 19% (2018: 19%). No deferred tax arose in either year.

Factors affecting the tax charge in future periods

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. Subsequently, in the March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge.

8 **Investments**

The company's investments are stated at cost less provision for impairment.

	£000
Cost	
At beginning and end of year	109,615
Impairment	
At beginning of year	58,594
Impairment loss charged during the year	15,957
At end of year	74,551
Net book value	
At 30 September 2019	**35,064**
At 30 September 2018	51,021

During the year ended 30 September 2018, the company acquired 100% ownership in the two legal entities that form KPMG Gibraltar – KPMG Limited and KPMG Advisory Limited – for a cash consideration of £1,063,000 including £235,000 paid for transfer of receivable balances with other KPMG International member firms.

In the year ended 30 September 2019, impairment losses of £14,407,000 were recognised reflecting future trading and profitability expectations on the following businesses:

- Makinson Cowell: Impairment losses of £7,750,000 were recognised, reducing the investment carrying value to reflect the expected future income stream given the significant reduction in activity over recent years. Subsequent to year end, the decision was taken to wind down the Makinson Cowell operations within the group, further supporting that impairment.
- Nunwood: Impairment losses of £2,500,000 were recognised, reducing the investment carrying value to reflect the value in use calculation and the carrying value of the asset at group.

Notes continued

8 Investments continued

- Microsoft Business Services (formerly Crimsonwing): Impairment losses of £4,000,000 were recognised, reducing the investment carrying value to reflect the value in use calculation and the carrying value of the asset at group.
- Gibraltar: Impairment losses of £157,000 were recognised, reducing the investment carrying value to reflect the expected future income stream.

In addition, impairment losses of £1,550,000 were recognised following receipt of dividends from the underlying subsidiary entities (2018: £3,731,000). During the year ended 30 September 2018 impairment losses of £8,550,000 were also recognised in respect of the investment in KPMG Audit Holdings Limited following significant losses incurred in that entity.

At September 2019, the company had an interest in KCapital and ITCC, both KPMG International entities, in addition to the following entities:

Subsidiary undertakings	Incorporated in	Principal activity	Percentage of ordinary shares
Held directly:			
KPMG United Kingdom Plc	England[1]	Specialist advisory services	100
KPMG UK Limited	England[1]	Employment company	100
KPMG Sourcing Limited	England[1]	In liquidation	100
KPMG CIO Advisory Limited	England[1]	Specialist advisory services	100
Makinson Cowell Limited	England[1]	Specialist advisory services	100
KPMG Overseas Services Limited	England[1]	Support services for KPMG firms	100
KPMG Nunwood Investments Limited	England[1]	In liquidation	100
KPMG Boxwood Limited	England[1]	Specialist advisory services	100
Knowledge Systems (Nunwood) Limited	England[1]	In liquidation	15
KPMG Audit Holdings Limited	England[1]	Holding entity	100
K Nominees Limited	England[1]	Dormant entity	100
KPMG Resource Centre Private Limited	India[7]	Audit support services for KPMG firms	50
KPMG Global Advisory Holdings (Bermuda) LP	Bermuda[8]	Holding entity	50
KPMG Investments Malta Limited	Malta[2]	Holding entity	75
Daymer International Limited	England[1]	Specialist advisory services	100
KPMG Limited	Gibraltar[6]	Audit services	100
KPMG Advisory Limited	Gibraltar[6]	Advisory services	100
Held indirectly:			
KPMG Audit Plc	England[1]	Statutory audits and related services	100
KPMG Business Intelligence Limited	England[1]	In liquidation	100
Makinson Cowell (US) Limited	England[1]	Support services	100
KPMG Nunwood Holdings Limited	England[1]	Holding entity	100
KPMG Nunwood Consulting Limited	England[1]	Specialist advisory services	100
Knowledge Systems (Nunwood) Limited	England[1]	In liquidation	85
KPMG UK (Transatlantic) LLC (formerly KPMG UK (Americas) Inc)	USA[3]	Internal advisory services	100
GKAS (Mauritius) Limited	Mauritius[9]	Holding entity	50
KPMG Global Services Management Private Limited	India[10]	Advisory support services for KPMG firms	33
KPMG Global Services Private Limited	India[10]	Advisory support services for KPMG firms	33
KPMG Global Services Inc	US[11]	Internal advisory services	33
Crimsonwing Limited (formerly plc)	Malta[5]	Holding entity	75
KPMG Crimsonwing (Malta) Limited	Malta[5]	Specialist advisory services	75
KPMG Crimsonwing Limited	England[1]	Specialist advisory services	75
KPMG Crimsonwing BV	Netherlands[4]	Specialist advisory services	75

Notes continued

8 Investments continued

Registered offices:

1. 15 Canada Square, Canary Wharf, London, E14 5GL
2. Portico Building, Marina Street, Pieta
3. The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington. New Castle County, Delaware, 19801
4. Seinstraat 32, 1223DA Hilversum
5. Lignum House, Aldo Moro Road, Marsa, MRS9065
6. 3B Leisure Island Business Centre, Ocean Village, Gibraltar
7. 1st Floor, Lodha Excellus, Apollo Mills Compound N.M. Joshi Marg, Mahalaxmi Mumbai City, MH 400011
8. Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda
9. C/o Trident Trust Company (Mauritius) Limited, 5th Floor, Barkly Wharf, Le Caudan Waterfront, Port Louis, Republic of Maurtius
10. 6th Floor, Tower C, Building No 10, DLF Cyber City, Phase - || Gurgaon, Gurgaon HR 122002
11. 3 Chestnut Ridge Road, Montvale, New Jersey, USA 07645

All of the above companies make up their accounts to 30 September each year and are incorporated in England and Wales except where noted.

9 Trade and other receivables

Accounting policy

Trade and other receivables are initially recognised at fair value, based upon discounted cash flows at prevailing interest rates or at their nominal amount if due in less than 12 months. Subsequent to initial recognition, trade and other receivables are valued at amortised cost less impairment losses.

Impairment – Policy applicable from 1 October 2018

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15). The loss allowance is measured at an amount equal to lifetime ECLs.

When estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

	2019	2018
	£000	£000
Amounts due from other UK group undertakings	**38,941**	29,468
Amounts due from other KPMG International member firms	**1,349**	1,264
	40,290	30,732
Non-current	**24,286**	-
Current	**16,004**	30,732
	40,290	30,732

Trade and other receivables fall due within 12 months.

Amounts due from other UK group undertakings include loans net of impairment losses of £4,200,000 (2018: £nil); the net remeasurement of the loss allowance for the year is recognised in the income statement. Interest on the loan balance is recognised in the income statement within 'financial income' (see note 6).

Notes continued

10 Trade and other payables

Trade and other payables are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost.

	2019	2018
	£000	£000
Amounts due to other UK group undertakings	**57,315**	60,621
Accruals	**-**	50
	57,315	60,671

Amounts due to other UK group undertakings include loans advanced by the parent entity, KPMG LLP. Interest on the loan balance is recognised in the income statement within 'financial expense' (see note 6).

11 Share capital

	2019	2018
	£000	£000
Authorised, allotted, called up and fully paid		
100,000 Ordinary shares of £1 each	**100**	100

The share capital of the company is entirely owned by KPMG LLP (see note 13). Capital requirements are considered by the group from time to time. The share capital of the company is considered to be the only capital to be managed, the objectives for managing capital being to ensure that the company remains solvent. There are no externally imposed capital requirements.

12 Financial instruments

Accounting policy – Policy applicable from 1 October 2018

Recognition and initial measurement

Financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instruments.

A financial asset or financial liability is initially measured at fair value plus, transactions costs that are directly attributable to its acquisition. The company has no financial instruments measured at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at either amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held with the objective of collecting contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Subsequent measurement and gains and losses

Financial assets at amortised cost – these are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Notes continued

12 Financial instruments continued

Financial liabilities

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Accounting policy – policy applicable before 1 October 2018

The company initially recognised loans and receivables on the date that they originated.

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

The company classified financial assets as loans and receivables. Loans and receivables were measured at amortised cost using effective interest method.

Other financial liabilities were classified as measured at amortised cost using effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Risk management framework

Financial instruments held by the company arise directly from its operations. The main purpose of these financial instruments is to finance the operations of the company. It is, and has been throughout the period under review, the policy of the company and the group that no trading in financial instruments shall be undertaken.

The company has exposure to market risk, credit risk and liquidity risk arising from its use of financial instruments. This note presents information about the company's exposure to each of the above risks. The company adheres to group objectives, policies and processes for measuring and managing risk.

The KPMG LLP board has overall responsibility for the establishment and oversight of the group's risk management framework. The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Further quantitative disclosures are included throughout these financial statements.

Notes continued

a) Accounting classifications and fair values

The estimated fair values of the company's financial assets and liabilities approximate their carrying values at 30 September 2019 and 2018, largely owing to their short maturity. The basis for determining fair values are disclosed throughout these financial statements. The following table shows the classification and carrying amounts of the company's financial assets and financial liabilities. The company has no financial instruments carried at fair value at either 30 September 2019 or 30 September 2018.

	Note	**2019 £000**	2018 £000
At amortised cost (2018: loans and receivables)			
Amounts due from other UK group undertakings	*9*	**38,941**	29,468
Cash and cash equivalents		**3,082**	497
Amounts due from other KPMG International member firms	*9*	**1,349**	1,264
Total financial assets at amortised cost		**43,372**	31,229
Non-derivative financial liabilities measured at amortised cost			
Amounts due to other UK group undertakings	*10*	**57,315**	60,621
Total non-derivative financial liabilities measured at amortised cost		**57,315**	60,621
Total net financial instruments		**(13,943)**	(29,392)

b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The company uses derivatives on a case by case basis in order to manage market risks. The company does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The company faces interest rate risks from investing and financing activities. The positions held are closely monitored by the Treasury function and proposals are discussed to align the positions with market expectations. Use of interest rate options is considered but no such derivatives were entered into during either the current or prior year. The financial assets and liabilities of the company are non-interest bearing, with the exception of certain of the balances with other UK group undertakings and the bank balances which are variable rate instruments.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates during the year would have increased or decreased profit by £251,000 (2018: £302,000). This analysis assumes that all other variables remain constant.

Exchange rate risk

The functional currency of the company is pounds sterling. However, certain transactions with other KPMG International member firms are denominated in other currencies. The company has access to group currency cash balances in order to cover exposure to existing foreign currency receivables and payables and also to committed future transactions denominated in a foreign currency.

Notes continued

12 Financial instruments continued

c) Credit risk

Credit risk is the risk of financial loss to the company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables.

The company establishes allowances for impairment that represent its estimate of expected credit losses in respect of trade and other receivables. Impairment information is included in note 9. There are no impairment provisions against other classes of assets, other than the impairment loss recognised against the investments (see note 8).

The maximum exposure to credit risk is represented by the carrying amount of the company's financial assets as set out in section a) on page 20.

d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to the group's reputation.

The focus of the group's treasury policy is to ensure that there are sufficient funds to finance the business. Surplus funds are normally invested according to the assessment of rates of return available through the money market.

The Treasury function monitors the company's cash position daily and it is the group's policy to use finance facilities or to invest surplus funds efficiently. Limits are maintained on amounts to be deposited with each banking counterpart and these are reviewed regularly in the light of market changes.

The company has non-derivative financial liabilities as set out in the table in section a) on page 20. All of those financial liabilities are measured at amortised cost. None of the company's financial liabilities are interest bearing with the exception of certain of the balances with other UK group undertakings (see note 10). Hence, the contractual cash flows equal the carrying amount. All financial liabilities are repayable within 12 months.

13 Related parties

The company is wholly owned by KPMG LLP, a limited liability partnership registered in England and Wales. KPMG LLP is the company's ultimate controlling party.

The largest group in which the results of the company were consolidated for the year ended 30 September 2019 and 30 September 2018 is that of KPMG LLP and its subsidiaries. The group financial statements of KPMG LLP for the year ended 30 September 2019 and 30 September 2018 are available to the public at www.kpmg.com/uk.

The company has a related party relationship with its fellow group undertakings. The company also has a related party relationship with key management, considered to be the statutory directors of the company.

Transactions with other UK group undertakings

Whilst management services are carried out on behalf of the company by fellow group undertakings, no charges are levied for these services.

Transactions with other UK group undertakings during the year were as follows:

	2019	2018
	£000	£000
Interest income on group balances	**(964)**	(477)
Interest expense on group balances	**986**	706
Group relief – current year	**-**	(96)
Group relief – prior year adjustments	**1**	-

During the year the company received a dividend from its subsidiary entities of £54,042,000 (2018: £28,638,000) and paid a dividend to its parent entity during the year of £34,400,000 (2018: £7,300,000).

Notes continued

13 **Related parties** continued

At the year end, balances with other UK group undertakings were as follows:

	2019	2018
	£000	£000
Trade and other receivables		
Amounts due from other UK group undertakings	**38,941**	29,468
Trade and other payables		
Amounts due to other UK group undertakings	**57,315**	60,621

Transactions with key management personnel

The directors of the company at 30 September 2019 (with the exception of J Dean) are all separately members of KPMG LLP and therefore have an interest in the transactions set out above.

Key management personnel receive no directors' emoluments for their services to the company. There are no other transactions with key management personnel. There were no balances due to or from key management at either 30 September 2019 or 30 September 2018.

14 **Events after the year end**

Since the year end, the Covid-19 pandemic has caused considerable disruption to the global economy. Notwithstanding that, Covid-19 is deemed to be a non-adjusting post balance sheet event. Having considered the impact of Covid-19 on the group and company (see going concern statement below) the directors consider that there are no non-adjusting post balance sheet events that require disclosure in these financial statements as a result of Covid-19.

Subsequent to the year end, the company has received dividends of £59,194,000 from subsidiaries and paid a dividend of £51,300,000 to its parent entity.