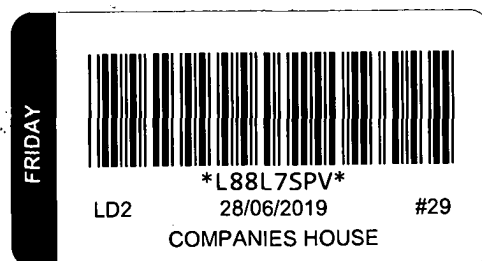


KPMG Holdings Limited

Directors' report and financial statements

Registered number 03512757

30 September 2018



Contents

Directors' report	1
Strategic report	3
Statement of directors' responsibilities in respect of the directors' report, strategic report and the financial statements	4
Independent auditor's report to the members of KPMG Holdings Limited	5
Income statement	7
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes	11

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2018.

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 2018 are set out in note 7.

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 the group's bank facilities. After making enquiries, the Board has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

Directors and directors' interests

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

AG Cates

P Long

AJ Stone Resigned 29 March 2018

SKG Willows

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 is not a member of KPMG LLP and therefore has no residual interest in any of the share capital of the company.

The company secretary is J Dean.

Disclosure of information to the auditor

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.

Directors' report continued

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

A handwritten signature in black ink, appearing to read 'J Dean', with a stylized flourish at the end.

J Dean
Company Secretary

15 Canada Square
London
E14 5GL

27 June 2019

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 £12,334,000 (2017: £26,892,000) as a result of impairment of investments totalling £12,281,000 (2017: £25,567,000) (see note 7). However, the company also received dividends of £28,638,000 (2017: £61,810,000) from subsidiary entities in 2018 resulting in a profit for the year of £15,948,000 (2017: £34,375,000).

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 £7,300,000 (2017: £33,500,000) was paid in the current year.

Financial position at the end of the year

At 30 September 2018, the company had net assets of £21,579,000 (2017: £12,931,000); the increase year on year as a result of retaining dividends received in the year.

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.

By order of the Board



J Dean
Company Secretary

15 Canada Square
London
E14 5GL

27 June 2019

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) as adopted by the EU and applicable law.

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 IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 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 2018 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) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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.

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.

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.

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.

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

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 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

Gatwick
28 June 2019



Grant Thornton

Income statement

For the year ended 30 September 2018

	<i>Note</i>	2018 £000	2017 £000
Revenue		-	-
Other operating expenses	3	(12,334)	(26,892)
Operating loss		<u>(12,334)</u>	<u>(26,892)</u>
Financial income	5	29,154	62,138
Financial expense	5	(968)	(1,050)
Net financial income		<u>28,186</u>	<u>61,088</u>
Profit before taxation		<u>15,852</u>	<u>34,196</u>
Tax income	6	96	179
Profit for the financial year		<u><u>15,948</u></u>	<u><u>34,375</u></u>

Statement of comprehensive income

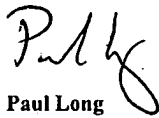
For the year ended 30 September 2018

	2018 £000	2017 £000
Profit for the financial year	<u>15,948</u>	<u>34,375</u>
Total comprehensive income for the year	<u><u>15,948</u></u>	<u><u>34,375</u></u>

Statement of financial position
At 30 September 2018

	<i>Note</i>	2018 £000	2017 £000
Assets			
Non-current assets			
Investments	7	51,021	62,474
Current assets			
Trade and other receivables	8	30,732	23,053
Cash and cash equivalents; bank balances		497	2,015
		<u>31,229</u>	<u>25,068</u>
Total assets		<u><u>82,250</u></u>	<u><u>87,542</u></u>
Equity and liabilities			
Equity			
Share capital	11	100	100
Retained earnings		21,479	12,831
		<u>21,579</u>	<u>12,931</u>
Current liabilities			
Short term bank borrowings	9	-	63,000
Trade and other payables	10	60,671	11,611
		<u>60,671</u>	<u>74,611</u>
Total liabilities		<u>60,671</u>	<u>74,611</u>
Total equity and liabilities		<u><u>82,250</u></u>	<u><u>87,542</u></u>

The financial statements on pages 7 to 20 were approved by the board of directors on 27 June 2019 and were signed on its behalf by:



Paul Long
 Director

KPMG Holdings Limited: 03512757

Statement of changes in equity
For the year ended 30 September 2018

	<i>Note</i>	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 October 2016		100	11,956	12,056
<i>Total comprehensive income</i>				
Profit for the financial year		-	34,375	34,375
<i>Transactions with owners of the company</i>				
Dividends paid during the year	13	-	(33,500)	(33,500)
Balance at 30 September 2017		100	12,831	12,931
<i>Total comprehensive income</i>				
Profit for the financial year		-	15,948	15,948
<i>Transactions with owners of the company</i>				
Dividends paid during the year	13	-	(7,300)	(7,300)
Balance at 30 September 2018		100	21,479	21,579

Statement of cash flows

For the year ended 30 September 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Profit for the financial year		15,948	34,375
Adjustments for:			
Financial income	5	(29,154)	(62,138)
Financial expense	5	968	1,050
Tax income	6	(96)	(179)
Impairment losses on investments	7	12,281	25,567
Operating loss before changes in working capital		(53)	(1,325)
Increase in trade and other receivables		(7,442)	(4,376)
Increase in trade and other payables		48,989	405
Cash generated from/(absorbed) by operations		41,494	(5,296)
Interest paid	5	(956)	(999)
Group relief received		190	52
Net cash generated from/(absorbed) by operating activities		40,728	(6,243)
Cash flows from investing activities			
Dividend received	5	28,638	61,810
Interest received	5	479	305
Acquisition of investments	7	(1,063)	(21,000)
Disposal of investment	7	-	2,280
Net cash flows from investing activities		28,054	43,395
Cash flows from financing activities			
Repayment of bank borrowings	9	(63,000)	(10,000)
Proceeds from new bank borrowings	9	-	3,400
Dividends paid	13	(7,300)	(33,500)
Net cash flows from financing activities		(70,300)	(40,100)
Net decrease in cash and cash equivalents		(1,518)	(2,948)
Cash and cash equivalents at the beginning of the year		2,015	4,963
Cash and cash equivalents at the end of the year		497	2,015

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 as adopted by the European Union (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.

A number of amendments to adopted IFRSs have been endorsed by the European Union with effective dates such that they fall to be applied by the company. The following amendments to published standards are the only changes of relevance to these financial statements that have been applied in the year ended 30 September 2018.

- Amendments to IAS 7: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2017.
- Annual Improvements to IFRSs 2014-2016 Cycle; effective for periods beginning on or after 1 January 2017.

The company elected to early adopt the following IFRSs and related amendments in the year ended 30 September 2018:

- Annual improvements to IFRSs 2014-2016 Cycle; effective for periods beginning on or after 1 January 2018.

These amendments had no impact on these financial statements.

There are no other standards, interpretations or amendments that required mandatory application in the current year.

Future developments

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

- IFRS 9: 'Financial Instruments'; effective for periods beginning on or after 1 January 2018.
- Annual Improvements to IFRSs 2015-2017 Cycle; effective for periods beginning on or after 1 January 2019.

Based on preliminary assessments the adoption of these standards, interpretations and amendments are 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 pounds 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. The company has access to the group's bank facilities. After making enquiries, the Board has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

Notes continued

1 Accounting policies continued

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 re-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.

Non-derivative financial instruments

The company initially recognises 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 company is recognised as a separate asset or liability.

Non-derivative financial instruments comprise trade and other receivables (note 8), cash and cash equivalents, short term bank borrowings (note 9) and trade and other payables (note 10).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. The cash and cash equivalents are stated at their nominal values as this approximates to amortised cost.

Impairment losses

The carrying amounts of the company's financial assets are reviewed at each year end to determine whether there is any objective evidence that there is an indication of impairment which include default by a debtor or adverse changes in the payment status of debtors or issuers. If any such indication exists, the assets' recoverable amounts are estimated.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (being the effective interest rate computed at initial recognition of these financial assets). Receivables with a duration of less than 12 months are not discounted.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. An impairment loss in respect of a financial asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

2 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 assets and liabilities, revenue and expenses.

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.

Notes continued

2 Accounting estimates and judgements continued

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

Carrying value of investments

In considering the carrying value of investments, being £51,021,000 at 30 September 2018 (2017: £62,474,000), the company considers the current intentions with respect to the future plans for each subsidiary entity and 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 7). Sensitivity analysis suggests that a 60% reduction in the forecast level of profit would start to bring about an impairment in the carrying value of the investment of KPMG Crimsonwing.

3 Other operating expenses

Other operating expenses include the impairment losses on investments totalling £12,281,000 (2017: £25,567,000) (see note 7). In 2017, other operating expenses included £1,239,000 relating to the deferred consideration paid in respect of KPMG Boxwood Limited (see note 7).

Amounts paid to the auditor in respect of the audit of these financial statements totalled £5,000 (2017: £5,000) and were borne by KPMG LLP. The auditor provided no non-audit services during either year.

4 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.

5 Financial income and expense

Accounting policy

Financial income and expense comprises dividends received, loan interest expense, 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:	2018 £000	2017 £000
Bank Interest	2	4
Dividends received	28,638	61,810
Interest income on group balances (see note 8)	477	301
Exchange gains	37	23
Financial income	29,154	62,138
Loan interest expense	-	(4)
Bank interest expense	(250)	(851)
Interest expense on group balances (see note 10)	(706)	(126)
Exchange losses	(12)	(69)
Financial expense	(968)	(1,050)

The total interest income and expense arising from financial assets and liabilities that were not classified as fair value through profit or loss were £479,000 (2017: £305,000) and £956,000 (2017: £981,000) respectively.

Notes continued

6 Tax 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.

	2018	2017
	£000	£000
Current year		
UK corporation tax on profits for the year at 19% (2017: 19.5%)	-	-
Group relief receivable	(96)	(179)
	<hr/>	<hr/>
Tax income in income statement	(96)	(179)
	<hr/>	<hr/>
Profit before taxation	15,852	34,196
	<hr/>	<hr/>
Profit, multiplied by the average standard rate of corporation tax in the UK of 19% (2017: 19.5%)	3,012	6,668
Impact of items not taxable	(3,108)	(6,847)
	<hr/>	<hr/>
Actual tax credit for the year, as above	(96)	(179)
	<hr/>	<hr/>

Payment for group relief surrendered is generally made at 19% (2017: 19.5%). No deferred tax arose in either year.

Factors affecting the tax charge in future periods

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016 respectively. This will reduce the company's future current tax charges accordingly

Notes continued

7 Investments

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

Cost	
At beginning of year	108,787
Additions	828
Disposals	-
	<hr/>
At end of year	109,615
	<hr/>
Impairment	
At beginning of year	46,313
Impairment loss charged during the year	12,281
	<hr/>
At end of year	58,594
	<hr/>
Net book value	
At 30 September 2018	51,021
	<hr/>
At 30 September 2017	62,474
	<hr/>

On 27 April 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.

During the year ended 30 September 2017, the company paid £20,000,000 for further shares in KPMG Audit Holdings Limited, a fully owned subsidiary. The company also paid the final instalment of deferred consideration in respect of the acquisition of Nunwood Investments Limited.

In June 2017, the company disposed of 10% interest in its subsidiary, KPMG Investments Malta Limited, to the KPMG member firm in the Netherlands, under a pre-existing options contract. The company received £2,280,000 in respect of this disposal.

Impairment losses recognised during the year ended 30 September 2018 include £8,550,000 of the investment in KPMG Audit Holdings Limited following significant losses incurred in that entity and £3,731,000 recognised following receipt of dividends from the underlying subsidiary entities.

At 30 September 2017, the company had an interest in KCapital, a KPMG International entity. The cost of the investment, being £6,617,000, was fully impaired during the year following assessment of the fair value of that entity's underlying investments. Other investments in subsidiaries totalling £18,950,000 were impaired during the previous year, including £11,500,000 of the investment in KPMG Audit Holdings Limited reflecting significant losses incurred in that entity. The remaining £7,450,000 impairment loss was recognised following receipt of dividends from the underlying subsidiary entities.

During the year ended 30 September 2017, the company expensed £1,239,000 deferred consideration in respect of the acquisition of KPMG Boxwood Limited; this payment did not fall to be capitalised under IFRS 3 and so was expensed within other operating expenses.

At 30 September 2018, in addition to the investment in KCapital, the company had an interest in ITCC, a KPMG International entity, and the following entities:

Notes continued

7 Investments continued

	Incorporated in	Principal activity	% 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	Specialist advisory services	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	Holding entity	100
Knowledge Systems (Nunwood) Limited	England ¹	Internal IT services	15
KPMG Boxwood Limited	England ¹	Specialist advisory services	100
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	Specialist advisory services	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	Internal IT services	75
KPMG UK (Americas) Inc (formerly Nunwood Inc)	USA ³	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	USA ¹¹	Advisory support services for KPMG firms	33
Crimsonwing Limited (formerly Crimsonwing Malta Plc)		Specialist advisory services	75
KPMG Crimsonwing (Malta) Limited	Malta ⁵	Specialist advisory services	100
KPMG Crimsonwing Limited	England ¹	Specialist advisory services	100
KPMG Crimsonwing BV	Netherlands ⁴	Specialist advisory services	100

Registered offices:

1. 15 Canada Square, Canary Wharf, London, E14 5GL
2. Portico Building, Marina Street, Pieta
3. CT Corporation System, 111 Eight Avenue, New York, NY10011
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, Lodhus Excellus, Apollo Mills Compound N.M. Joshi Marg, Mahalaxmi Mumbai, Mumbai City, MH400011
8. Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda
9. C/o Trident Trust Company (Mauritius) Limited, 5th Floor, Barkly Wharf, Le Caudan Waterfront, Port Louis, Republic of Mauritius
10. 6th Floor, Tower C, Building No 10, DLF Cyber City, Phase – II Gurgaon, Gurgaon HR 122002
11. 3 Chestnut Ridge Road, Montale, 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.

Notes continued

8 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.

	2018 £000	2017 £000
Amounts due from other UK group undertakings	29,468	21,815
Amounts due from other KPMG International member firms	1,264	1,238
	<u>30,732</u>	<u>23,053</u>

Trade and other receivables fall due within 12 months.

Amounts due from other UK group undertakings include loans repayable on demand. Interest on the loan balance is recognised in the income statement within 'financial income' (see note 5).

9 Short term bank borrowings

Accounting policy

Short term bank borrowings are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, short term bank borrowings are recorded at amortised cost. Borrowing costs arising on short term bank borrowings are expensed as incurred within financial expense.

	2018 £000	2017 £000
Short term bank borrowings	-	63,000

The company has drawn down £nil (2017: £63,000,000) against a committed borrowing facility available to its immediate parent undertaking, KPMG LLP and certain of its subsidiaries. This facility is a revolving credit facility of £375 million (2017: £550 million) expiring in January 2023. The revolving credit was secured on KPMG LLP's lease over property at 15 Canada Square, London until disposal of the property in January 2018 at which point the facility was reduced to £375 million. Drawdowns under the facility incur an interest charge of 1% above LIBOR.

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.

	2018 £000	2017 £000
Amounts due to other UK group undertakings	60,621	11,609
Accruals	50	2
	<u>60,671</u>	<u>11,611</u>

Amounts due from other UK group undertakings include loans repayable on demand. Interest on the loan balance is recognised in the income statement within 'financial expense' (see note 5).

Notes continued

11 Share capital

	2018 £000	2017 £000
<i>Authorised, allotted, called up and fully paid</i>		
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

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.

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 2018 and 2017, largely owing to their short maturity. The basis for determining fair values of financial assets and liabilities 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 2018 or 30 September 2017.

	Note	2018 £000	2017 £000
Loans and receivables			
Amounts due from other UK group undertakings	8	29,468	21,815
Cash and cash equivalents: bank balances		497	2,015
Amounts due from other KPMG International member firms	8	1,264	1,238
Total financial assets - loans and receivables		31,229	25,068
Non-derivative financial liabilities measured at amortised cost			
Short term bank borrowings	9	-	63,000
Amounts due to other UK group undertakings	10	60,621	11,609
Total non-derivative financial liabilities measured at amortised cost		60,621	74,609
Total net financial instruments		(29,392)	(49,541)

Notes continued

12 Financial instruments continued

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 or swaps is considered but no such derivatives were in fact 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 and short-term bank borrowings 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 £302,000 (2017: £628,000). 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.

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 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 18.

There were no significant impairment provisions against the company's financial assets at either 30 September 2018 or 30 September 2017.

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 18. All of those financial liabilities are measured at amortised cost. None of the company's current financial liabilities are interest bearing with the exception of certain of the balances with other UK group undertakings and short term bank borrowings (see notes 9 and 10). Hence, the contractual cash flows equal the carrying amount. All financial liabilities are repayable within 12 months.

Notes continued

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 are consolidated for the year ended 30 September 2018 and 30 September 2017 is that of KPMG LLP and its subsidiaries. The group financial statements of KPMG LLP for the year ended 30 September 2018 and 30 September 2017 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:

	2018 £000	2017 £000
Interest income on group balances	(477)	(301)
Interest expense on group balances	706	126
Group relief – current year	(96)	(179)
Group relief – prior year adjustments	-	-
	<u> </u>	<u> </u>

During the year the company received a dividend from its subsidiary entities of £28,638,000 (2017: £61,810,000) and paid a dividend to its parent entity during the year of £7,300,000 (2017: £33,500,000).

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

	2018 £000	2017 £000
Trade and other receivables		
Amounts due from other UK group undertakings	29,468	21,815
	<u> </u>	<u> </u>
Trade and other payables		
Amounts due to other UK group undertakings	60,621	11,609
	<u> </u>	<u> </u>

Transactions with key management personnel

The directors of the company at 30 September 2018 (with the exception of P Long) 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 2018 or 30 September 2017.

14 Events after the year end

Subsequent to the year end, the company received dividends of £49,250,000 from subsidiaries and paid a dividend of £34,400,000 to its parent entity.