

## KPMG Holdings Plc

### Directors' report and financial statements

30 September 1998

Registered number 3512757



This company was formerly named KPMG Holdings Limited and Trushelfco (No 2320) Limited.

## **Directors' report and financial statements**

### **Contents**

Directors' report	1
Statement of directors' responsibilities	4
Report of the auditors to the members of KPMG Holdings Plc	5
Consolidated profit and loss account	6
Balance sheets	7
Notes	8

## **Directors' report**

The directors present the annual report and the audited financial statements of the Company for the period ended 30 September 1998.

### **Status and principal activities**

The company was incorporated on 18 February 1998 and re-registered as a public company on 31 July 1998. The company was formed to hold the principal investments of the UK partnership of KPMG. These comprise KPMG Audit Plc, KPMG Plc and a number of employment companies formed to administer Profit Related Pay schemes. These companies ('the Profit Related Pay companies') employ the staff occupied in the businesses of the UK partnership of KPMG, KPMG Audit Plc and KPMG Plc.

KPMG is an international association of accounting firms comprising locally owned national practices, substantially all of which trade under the name of KPMG or a derivative thereof and all of which follow common standards and procedures subject only to variation for national circumstances.

KPMG Audit Plc is registered to carry on audit work by the Institute of Chartered Accountants in England and Wales and carries out statutory audits and certain related work for listed companies and entities in the regulated financial services industry.

KPMG Plc was formed in the year to provide a range of specialist advisory services.

### **Business review**

The company acts as a holding company and apart from the transactions associated with this activity it does not otherwise trade. The principal investments made since incorporation and the company's investments at 30 September 1998 are set out in note 9.

KPMG Audit Plc has enjoyed substantial growth, with gross fees rising by 25% to £158.5million, largely as a result of significant work for its regulated clients. Its investment in new audit methodology has continued and the benefits of the initial investments it made last year are now starting to come through.

The Profit Related Pay companies have also had a successful year with sales outside the KPMG Holdings group rising by 22% to £294.2million.

### **Dividends**

The directors recommend that a final ordinary dividend of £9.90 per share be approved, being a total dividend of £495,000 for the year.

### **Policy on the payment of creditors**

The company does not have suppliers. Services to the group are provided principally by the UK partnership of KPMG. Arrangements are in place to settle these accounts one month in arrears. Services provided by other suppliers are not material and no amounts were outstanding at the year end. The group does not follow a specific standard or code for their payment; its policy is to agree terms of business with the suppliers and to settle their accounts in accordance with such agreed terms.

## Directors' report *(continued)*

### Directors and directors' interests

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

	Appointed	Resigned
G Acher	30 September 1998	
TM Gateley	8 December 1998	
MDV Rake	30 March 1998	
PA Reid	30 March 1998	
CM Sharman	30 March 1998	9 December 1998
EJZ Zuercher	18 February 1998	30 March 1998
DCJ Rowe	18 February 1998	30 March 1998

The Company is wholly owned by the UK partnership of KPMG. Therefore, the directors who held office at the end of the financial period had no direct interest in the shares of the Company although they had an indirect interest in the entire share capital by virtue of their position as partners in that partnership.

### Employees

Every effort is made to ensure that there is no discrimination, direct or indirect, against disabled persons in any human resources policies or actions, including recruitment. Employees who became disabled will, wherever possible, be retained in employment with the same opportunities for training and career development.

Considerable emphasis is placed on open and effective communication between directors, audit directors (who are separately partners in the UK partnership of KPMG) and the PRP companies' employees. This communication operates principally through regular meetings, newsletters and electronic mail bulletins.

### Political and charitable contributions

The Company made no political or charitable contributions during the year.

### Year 2000

The UK partnership of KPMG has carried out a comprehensive assessment of year 2000 risks which encompassed business systems and processes operated both by the partnership and by its subsidiary undertakings, including KPMG Holdings Plc. Full details of this review and the actions following from it are given in the annual report of KPMG UK.

Compliance work on current systems will be completed in the second quarter of 1999. Contingency plans are also being prepared for unexpected year 2000 failures that may affect business critical systems and equipment. However, the general expectation by those who have studied best practice in managing the year 2000 problem is that even the best run projects will face some compliance failures. Whilst there can be no assurance that year 2000 projects will be fully successful, we are confident that our ability to service our clients will not be materially affected.

## Directors' report *(continued)*

### Auditors

Grant Thornton were appointed auditors in the period. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 24 March 1999 and signed on its behalf by



Nigel K Challis  
*Secretary*

8 Salisbury Square  
London  
EC4Y 8BB

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## Report of the auditors to the members of KPMG Holdings Plc

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on pages 8 and 9.

### Respective responsibilities of the directors and the auditors

As described on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

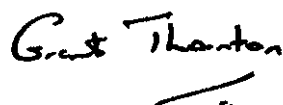
### Basis of opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 September 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Grant Thornton  
*Registered Auditors*  
*Chartered accountants*

25 March 1999  
London

**Consolidated profit and loss account**  
*for the year ended 30 September 1998*

	<i>Note</i>	1998 £000	1997 £000
<b>Turnover</b>	<b>2</b>	<b>452,763</b>	<b>367,943</b>
Increase in gross work in progress		2,500	7,091
External charges : direct expenses		(17,094)	(12,575)
		<hr/>	<hr/>
Staff costs and related charges	3	438,169	362,459
Other operating charges		(369,011)	(298,196)
		(68,937)	(64,162)
		<hr/>	<hr/>
<b>Operating profit</b>	<b>2</b>	<b>221</b>	<b>101</b>
Interest receivable	5	614	717
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	<b>6</b>	<b>835</b>	<b>818</b>
Tax on profit on ordinary activities	7	(272)	(260)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>563</b>	<b>558</b>
Proposed dividend	8	(495)	(488)
		<hr/>	<hr/>
<b>Retained profit for the financial year</b>	<b>14</b>	<b>68</b>	<b>70</b>
		<hr/>	<hr/>

All activities derive from continuing operations. The basis of presentation of the group's results is set out in note 1.

There are no recognised gains or losses in either 1998 or 1997 other than the profit for the period.




**Balance sheets**  
 at 30 September 1998

	Notes	Group 1998 £000	1997 £000	Company 1998 £000
<b>Fixed assets</b>				
Investments	9	-	-	1,300
<b>Current assets</b>				
Stocks	10	9,059	6,704	-
Debtors	11	48,272	38,592	500
Cash		20,161	22,098	-
		77,492	67,394	500
Creditors: amounts falling due within one year	12	(64,728)	(54,698)	(1,745)
<b>Net current assets/(liabilities)</b>		12,764	12,696	(1,245)
<b>Total assets less current liabilities</b>		12,764	12,696	55
<b>Net assets</b>		12,764	12,696	55
<b>Capital and reserves</b>				
Called up equity share capital	13	50	-	50
Share capital to be issued	13	-	50	-
Merger reserve	14	12,450	12,450	-
Profit and loss account	14	264	196	5
<b>Equity shareholders' funds</b>	15	12,764	12,696	55

These financial statements were approved by the Board of Directors on 24 March 1999 and were signed on its behalf by:

  
 Mike DV Rake  
 Chairman

  
 P Alan Reid  
 Finance Director

## Notes

(forming part of the financial statements)

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention.

#### *Basis of consolidation and presentation of financial information*

The company was incorporated on 18 February 1998 and, as a result of the reorganisation of the structure of KPMG UK, on 21 July 1998 it became the holding company of certain undertakings within KPMG UK. In accordance with FRS 6 *Mergers and acquisitions* this group reorganisation has been reflected in the consolidated financial statements of the company under the principles of merger accounting. Therefore, the financial statements present the results of the group for the entire year, and a full year's comparative information and a comparative consolidated balance sheet are also presented.

Subsidiaries acquired for other than as part of this group reorganisation are accounted for in the consolidated financial statements using the acquisition method of accounting. The results of these subsidiaries are therefore included in the consolidated financial statements from their date of acquisition.

#### *Cashflows*

The company is a wholly owned subsidiary undertaking of the UK partnership of KPMG. This partnership draws up combined financial statements which are publicly available and include the company. A separate cashflow statement has not therefore been presented in these financial statements.

#### *Investments*

In the company's financial statements, fixed asset investments are carried at cost less any required provision for impairment.

#### *Presentation of the profit and loss account*

Advantage has been taken of the exemption provided by section 230 of the Companies Act 1985 not to present a profit and loss account of the company. The profit of the company for the period is set out in note 14.

#### *Turnover*

Turnover represents the amounts (excluding value added tax) derived from the provision of completed work for clients during the period and amounts charged to the UK partnership of KPMG for the provision of staff. Interim billings on account of other work not yet complete are not included.

#### *Staff costs and related charges*

Staff costs and related charges include the salary and social security cost of employees of the PRP companies and directors and audit directors of KPMG Audit Plc, together with charges for the time of partners in the UK partnership of KPMG who are not audit directors of KPMG Audit Plc.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Fixed assets and depreciation*

The group does not own or finance lease any fixed assets. The property and equipment which it uses in the course of its business are owned by the UK partnership of KPMG. This partnership renders charges to the group in respect of the use of such assets.

#### *Work in progress*

Gross work in progress is stated at the lower of cost and net realisable value. For this purpose cost of work in progress is defined as the payroll cost of directors and employees (including audit directors) and charges by the UK partnership of KPMG for the time of partners who are not audit directors, plus direct expenses and applicable overheads.

Payments received on account of work in progress are shown as a deduction from gross work in progress; payments received on account in excess of the carrying value of the relevant work in progress are included in creditors.

#### *Pensions*

The group operates two defined contribution pension schemes for the benefit of employees, the KPMG Staff Pension Fund which is a contracted-in scheme, and the KPMG Group Personal Pension Plan. The KPMG Group Personal Pension Plan was introduced from April 1997 and replaced the KPMG (COMP) Staff Pension Scheme for the purposes of contracting out of the State Earnings Related Pension Scheme. The KPMG (COMP) Staff Pension Scheme was wound up as at 27 March 1998 and all of its assets transferred to alternative arrangements. The amount charged against profits in respect of these three schemes represents the contributions payable by the group for the accounting period.

In addition the group operates the KMG Thomson McLintock Pension Scheme which is a defined benefits scheme, closed to new entrants, providing benefits based on final pensionable pay. Amounts are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. A provision or prepayment is included in the balance sheet to the extent to which such costs do not equate to the actual cash contributions paid in the year.

## Notes (continued)

### 2 Segmental information

Substantially all of the group's turnover is in the United Kingdom and is derived from two classes of business. Segmental information is as follows:

	Audit and related work 1998 £000	Provision of staff 1998 £000	Total 1998 £000	Audit and related work 1997 £000	Provision of staff 1997 £000	Total 1997 £000
Gross turnover	158,542	346,437	504,979	127,260	285,228	412,488
Inter-segment turnover	-	(52,216)	(52,216)	-	(44,545)	(44,545)
Turnover to third parties	158,542	294,221	452,763	127,260	240,683	367,943
Operating profit	192	29	221	22	79	101
Operating net liabilities	(5,251)	(789)	(6,040)	(8,920)	(384)	(9,304)
Non operating net assets			18,804			22,000
Total net assets			12,764			12,696

### 3 Staff numbers and costs

The average number of persons employed by the group during the year analysed by category, was as follows:

	1998 Number	1997 Number
Directors	3	-
Audit directors and company secretary	311	315
Other employees	9,247	8,319
	9,561	8,634

**Notes (continued)**

**3 Staff numbers and costs (continued)**

The aggregate payroll costs of these persons were as follows :

	1998 £000	1997 £000
Salaries	327,735	268,861
Social security costs	28,874	21,677
Other pension costs	7,258	6,165
	<u>363,867</u>	<u>296,703</u>

In addition, as explained in note 1, the group is charged for the time of partners in the UK partnership of KPMG who are not audit directors of KPMG Audit Plc. The total amount charged to the group in respect of the year was £5,144,000 (1997: £1,493,000 ).

**4 Remuneration of directors**

	1998 £000	1997 £000
Directors' emoluments in respect of qualifying services	<u>139</u>	<u>-</u>

The emoluments of the highest paid director were £63,000.

**5 Interest receivable**

	1998 £000	1997 £000
Bank interest	<u>614</u>	<u>717</u>

**6 Profit on ordinary activities before taxation**

	1998 £000	1997 £000
<i>Profit on ordinary activities before taxation is stated after charging :</i>		
Auditors' remuneration as auditors:		
- Company	-	-
- Group	17	13
Auditors' remuneration for non audit services:		
- Company	-	-
- Group	<u>2</u>	<u>3</u>

## Notes (continued)

### 7 Taxation

	1998 £000	1997 £000
UK corporation tax at 31% (1997 : 32%)	267	256
Underprovision in prior period	5	4
	<u>272</u>	<u>260</u>

### 8 Dividends

	1998 £000	1997 £000
Final dividend proposed of £9.90 per share	495	-
Dividends paid in 1997 to the company's parent undertaking by companies now included in the group	-	488
	<u>-</u>	<u>488</u>

### 9 Investments

Shares in group undertakings, at cost

	Company £000
At incorporation	-
Group reorganisation	50
Additions	1,250
	<u>1,300</u>
At 30 September 1998	<u>1,300</u>

The company's principal investments since incorporation were as follows:

On 21 July 1998 the company issued 49,998 ordinary shares in exchange for the whole of the issued share capitals of KPMG Audit Plc, KPMG (SSBA) Limited, KPMG (NBA) Limited and KPMG (CBA) Limited. These last three companies hold all of the share capitals of the Profit Related Pay companies. The investments in KPMG Audit Plc, KPMG (SSBA) Limited, KPMG (NBA) Limited and KPMG (CBA) Limited have been consolidated using the merger method of accounting; a merger reserve of £12,450,000 resulted. In the years to 30 September 1998 and 1997 KPMG Audit Plc reported profits of £535,000 and £500,000 respectively.

On 21 July 1998 the company subscribed £1,250,000 cash for 4,999,997 ordinary shares in KPMG Plc. This acquisition has been consolidated using the acquisition method of accounting. The assets of KPMG Plc at acquisition were cash of £1,250,000 and no goodwill arose on the acquisition. KPMG Plc had not traded prior to its acquisition.

## Notes (continued)

### 9 Investments (continued)

On 28 September 1998 the company subscribed for the whole of the ordinary shares of KPMG UK Limited in exchange for the shares it held in KPMG (SSBA) Limited, KPMG (NBA) Limited and KPMG (CBA) Limited.

At 30 September 1998 the company's principal subsidiaries, all of which are included in the consolidation, are as follows:

	Principal Activity	Percentage of ordinary shares
KPMG Audit Plc	Statutory audits and related services	100
KPMG Plc	Specialist advisory services	100
KPMG South East Region Limited	Employment company <sup>1</sup>	100
KPMG Midlands Region Limited	Employment company <sup>1</sup>	100
KPMG North East Region Limited	Employment company <sup>1</sup>	100
KPMG North West Region Limited	Employment company <sup>1</sup>	100
KPMG West Region Limited	Employment company <sup>1</sup>	100
KPMG Scottish Region Limited	Employment company <sup>1</sup>	100
KPMG UK Limited	Intermediate holding company <sup>1</sup>	100
KPMG (SSBA) Limited	Intermediate holding company <sup>1</sup>	100
KPMG (NBA) Limited	Intermediate holding company <sup>1</sup>	100
KPMG (CBA) Limited	Intermediate holding company <sup>1</sup>	100

<sup>1</sup> Held indirectly through intermediate holding companies

In addition the company has a number of wholly owned non-trading subsidiaries. A full list of the company's subsidiaries will be appended to the company's next annual return.

### 10 Stocks : net work in progress

	Group	
	1998 £000	1997 £000
Gross work in progress	13,366	10,866
Payments received on account	(4,307)	(4,162)
	<u>9,059</u>	<u>6,704</u>
	=	=

Notes (continued)

11 Debtors

	Group		Company
	1998	1997	1998
	£000	£000	£000
Fee debtors	15,443	9,198	-
Amounts owed by the UK partnership of KPMG	24,932	21,884	-
Amounts owed by overseas practices of KPMG	1,966	220	-
ACT recoverable	125	122	-
Other debtors	2,001	3,283	500
Prepayments and accrued income	3,805	3,885	-
	<u>48,272</u>	<u>38,592</u>	<u>500</u>

All amounts are due within one year except group ACT recoverable which is due after more than one year.

12 Creditors : amounts falling due within one year

	Group		Company
	1998	1997	1998
	£000	£000	£000
Bank overdraft	103	98	-
Payments received on account	4,540	3,317	-
Amounts owed to the UK partnership of KPMG	23,276	22,832	1,250
Taxation	146	249	-
ACT payable	125	122	-
Dividends payable	495	488	495
Other creditors	9,482	1,428	-
Taxation and social security	13,207	12,713	-
Accruals and deferred income	13,354	13,451	-
	<u>64,728</u>	<u>54,698</u>	<u>1,745</u>

13 Share capital

The share capital at 30 September was as follows :

	1998	1997
	£000	£000
<i>Authorised</i>		
Equity : ordinary shares of £1 each	50	-
<i>Allotted, called up and fully paid</i>		
Equity : ordinary shares of £1 each	50	-
<i>Shares to be issued</i>		
Equity: ordinary shares of £1 each	-	50



## Notes (continued)

### 13 Share capital (continued)

Two ordinary shares were allotted for £2 cash on incorporation. 49,998 ordinary shares were allotted fully paid on 21 July 1998 in exchange for the whole of the issued share capitals of KPMG Audit Plc, KPMG (SSBA) Limited, KPMG (NBA) Limited and KPMG (CBA) Limited.

### 14 Reserves

	Group	Company
	Merger reserve 1998 £000	Profit and loss account 1998 £000
Balance at 1 October 1997 (group)	12,450	196
Balance on incorporation (company)	-	-
Retained profit for the year	-	68
	<hr/>	<hr/>
Balance at 30 September 1998	12,450	264
	<hr/> <hr/>	<hr/> <hr/>

The profit of the company before distributions for the period was £500,000.

### 15 Reconciliation of movement in shareholders' funds

Group	1998 £000	1997 £000
Profit for the financial year	563	558
Proposed dividend (see note 8)	(495)	(488)
	<hr/>	<hr/>
Retained profit for the financial year	68	70
Opening shareholders' funds	12,696	12,626
	<hr/>	<hr/>
Closing shareholders' funds	12,764	12,696
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 16 Pensions

The charge for the year comprises:

	1998 £000	1997 £000
The KPMG Staff Pension Fund	6,645	4,376
The KPMG Group Personal Pension Plan	250	51
The KPMG (COMP) Staff Pension Scheme	-	1,534
The KMG Thomson McLintock Pension Scheme	363	204
	<hr/> 7,258 <hr/>	<hr/> 6,165 <hr/>

The KPMG Staff Pension Fund and the KPMG Group Personal Pension Plan are defined contribution schemes and the charge for the year represents those contributions payable to the schemes in respect of the accounting period. The KPMG (COMP) Staff Pension Scheme was discontinued from 5 April 1997 and no further contributions were payable.

The KMG Thomson McLintock Pension Scheme provides benefits based on final pensionable pay, amounts being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by an independent actuary on the basis of triennial valuations using the attained age method.

The most recent valuation of the KMG Thomson McLintock Pension Scheme was carried out by the scheme actuary, Bacon & Woodrow, as at 31 March 1998. The valuation showed that the market value of the scheme's assets was £64,223,000 and represented 100% of the present value of the benefits that had accrued to members, after allowing for expected future increases in earnings. The principal actuarial assumptions for the valuation of the past service liabilities were that the annual rate of return on investments would be:

- 1.0% higher than the annual rate of increase in pensionable salaries, and
- 3.0% higher than the annual increase to pensions in payment.

Longer term actuarial assumptions were used for assessing the cost of future service benefits. These were that the annual rate of return on investments would be:

- 2.0% higher than the annual rate of increase in pensionable salaries, and
- 4.5% higher than the annual guaranteed increase to pensions in payment.

## Notes (continued)

### 16 Pensions (continued)

The KMG Thomson McLintock Pension Scheme is contributory for members, and the group's contributions are the balance of cost of providing the benefits. In accordance with the actuary's recommendations, the group contributed at a rate of 9.6% of pensionable salary up to 31 January 1998 and thereafter at the minimum rate required for contracting out purposes. The scheme actuary has taken account of the withdrawal of tax relief on UK equity dividends from July 1997 in making this recommendation.

There were no outstanding contributions at the end of the financial year.

The assets of the KPMG Staff Pension Fund and the KMG Thomson McLintock Pension Scheme are held separately from those of the group and administered by Royal Exchange Trust Company Limited, as independent trustee. The assets of the KPMG Group Personal Pension Plan are held by Norwich Union on behalf of the plan members.

### 17 Directors' interests in contracts

The group is charged by the UK partnership of KPMG for the use of facilities and other services provided to it. The aggregate amount of these charges in the year to 30 September 1998 was £58,770,000 (1997:£53,578,000). The directors of the Company are all separately partners in the UK partnership and, therefore, have an interest in these transactions.

### 18 KPMG UK

The group is wholly owned by the UK partnership of KPMG, which is its only controlling party and its ultimate parent undertaking. The only combination in which the results of the Company is included is that of KPMG. The accounts of KPMG UK are available to the public and may be obtained from the principal place of business, 8 Salisbury Square, London, EC4Y 8BB. Accordingly no additional disclosure is required of transactions with other entities that are part of, or an investee of, KPMG UK.

## KPMG Holdings Plc

### Company profit and loss account

*for the period from 18 February 1998 to 30 September 1998*

	1998 £000
Income from shares in group undertakings	500
Profit on ordinary activities before taxation	500
Tax on profit on ordinary activities	-
Profit for the financial year	500
Proposed dividend	(495)
Retained profit for the financial year	5