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360° KPMG
Annual Report 2009

RE-SCAN

KPMG EUROPE LLP

AUDIT ▪ TAX ▪ ADVISORY

24/6/10 289

Introduction

Our aim in creating KPMG Europe LLP was to provide our clients with unrivalled service and seamless access to our skills and insights across Europe

The speed of response required by our clients to navigate the economic crisis put that ambition to the test We believe we passed that test well, bringing issues and solutions to our clients with speed and focus

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During the year the KPMG Europe LLP group comprised interests in the KPMG firms in Belgium Germany Spain, Switzerland and the UK (see note 26) and it is through those firms (KPMG ELLP firms) that client services are delivered These interests are referred to as the legal group Unless otherwise specified all figures quoted in the review sections of this annual report refer to pro forma data for the entities covered by these interests as if this structure had been in place throughout 2008 and 2009 and ignore the impact of exchange rate fluctuations Further KPMG operations and entities in these countries whilst not controlled by KPMG Europe LLP within the meaning of the relevant Accounting Standard operate under the same principles as the legal group

Chairmen's statement

Welcome to KPMG Europe LLP's Annual Report for 2009, which records a year of tremendous progress for our firm despite challenging economic conditions

The report explains how we are working ever more closely with our clients to help them succeed in turbulent times and prepare for the upturn

It also looks at how we are transforming our own business Our aim is to be a truly client-centric organisation, known as Europe's leading professional services firm

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Rolf Nonnenmacher
Joint Chairman

John Griffith-Jones
Joint Chairman

Seeing economic events through our clients' eyes
Our financial year began as the world was struggling to contend with its most serious financial crisis in almost 80 years It ended as the first tentative signs of economic recovery were emerging, but with most forecasters agreeing with the IMF's prognosis that growth in 2010 would be 'subdued

The economic downturn has forced our clients, large and small to concentrate on securing their survival After years of strong growth many have been forced to re-examine their business models, restructure, conserve cash and working capital, boost efficiency and tighten risk management

Our main priority during the year was to mobilise our skills, people and ideas quickly to provide clients with the services and support they needed to succeed in this task

More recently some clients are beginning to emerge from the crisis, clearly focused on building a sustainable future and ready to grow again, so we are now switching our focus with them

Providing such support calls for a particular mindset which we have worked hard to develop in our people

Above all it is about client centricity being adept at seeing the world through clients' eyes The focus of so much of our work today is on understanding the needs of individual clients from the inside so that we can draw on the full range of our skills to provide them with the right services at the right time

In one sense the recession has worked in our favour It has sharpened our client-service skills significantly, to the point where the combined group is moving rapidly towards what we always intended it to be a proactive and client-centric organisation trusted to bring valuable insights and workable solutions to the market

Building our future
Our other key priority this year was to continue building the combined KPMG Europe LLP group

We might have hoped for a better economic backdrop to our second year as a merged firm But rather than put our expansion plans on hold we continued to pursue a whole range of strategic initiatives that will shape our performance over future years

The combined group as of 1 October 2009 comprises firms in 14 countries – Germany the UK, Switzerland, Spain, the Netherlands, Belgium, Luxembourg, Turkey and six Commonwealth of Independent States (CIS) countries including Russia – and has combined pro forma revenues of €4 5 billion with 31,000 employees

Realising benefits for all
We are now realising the benefits of joining together for our clients The combination of greater critical mass, sector focus and shared knowledge enables us to bring them better answers, quicker

In particular our scale has also allowed us to play a full and constructive part in tackling the financial crisis We have helped Governments, regulators and companies battle a storm that might have overwhelmed the banking system and inflicted far greater damage on the global economy We are keen to work closely with the regulators as they weigh up further reforms to prevent a repeat of the crisis

The client case studies in this report demonstrate the benefits our new integrated firm brings, as do significant engagement wins during the year at Rentokil Initial and Repsol They show how we are mobilising our best people across borders and across disciplines to offer clients a higher quality of insight and support

Chairmen's statement

Strength in Europe

We have helped Governments, regulators and companies battle a storm that might have overwhelmed the banking system and inflicted far greater damage on the global economy

The merger has also created some important synergies for us, not least our ability to establish common IT platforms infrastructure and new services Crucially it is also making the combined group a place where ideas and innovative thinking thrive

The excellent progress we have made means we are better placed to take advantage of new opportunities as the global economy recovers The merger is self-enforcing As we grow, the benefits of being one firm will multiply also

Professional quality
We remain very proud of our profession's standing We believe the importance of international accounting standards and robust auditing has been reinforced by the experiences of the last 12 months as both have withstood considerable pressure Lessons have been learned about the relationship between mark to market accounting and regulatory capital requirements which are being acted upon as we move forward This said, we remain acutely aware of the trust the capital markets place in our work The values of our people and our emphasis on quality remain the cornerstones of our business model

Adapting to a changing market
Inevitably our own financial performance was hit by the economic downturn

But, in this extraordinary climate, reporting pro forma revenue for the legal group virtually unchanged from a year ago in local currency terms is a creditable performance, of which we are proud

We achieved this whilst controlling our costs tightly and managing our people effectively Above all the results show how quickly we have adapted to changing market conditions deploying our skills in new ways to meet client needs

These results are a huge credit to people across the firm, whose hard work and flexibility have allowed us to make great progress in a very tough market

We are continuing to work hard to create a high-performance working environment where our outstanding professionals can flourish and achieve their very best We never lose sight of the fact that truly excellent client service depends on the skills and ideas of our people

We continued to invest in and support our communities Volunteering across the firm continues to rise and increasingly our people are looking to use their skills to make a meaningful difference During the year we raised €558,973 and €75 238 for our chosen UK and German People Charities the Alzheimer s Society and Deutsche Kinder-und-Jugendstiftung respectively and we are well on track to reach our two-year funding targets for these important causes

Ready for the recovery
As we have already indicated 2010 will be another challenging year for us But we are immensely confident about the future of KPMG Europe LLP

We are now a more flexible firm, better placed to bring increased understanding to the issues our clients face

We have a clear idea of where we expect growth to come in the next few years and are carefully targeting our resources towards these areas

Our determination to be the employer of choice in our profession and to maintain the highest standards of corporate social responsibility also remain undiminished

And after two tough economic years we are hopeful that the economies in which we operate will provide a more favourable environment for us to operate in

John Griffith-Jones
Rolf Nonnenmacher
Joint Chairmen

Benefit of truly integrated behaviour across borders

European Commission

With over 3,000 audits across Europe for its main research and technological development programme and related nuclear research programme, the European Commission was keen to find a firm that would be able to provide the range of skills required consistently across all countries

The combination of deep insight into the necessary audit procedures and extensive experience of similar projects for the EU, meant that KPMG was able to stand out from the competition and secure the four-year deal One of the deciding factors for the EU was the demonstration of KPMG s strongly integrated network across our member firms from 27 EU countries and nine EU-associated countries as part of the KPMG audit team The project delivery is to provide audits on the appropriate use of funds allocated by the European Commission for research actions

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Ulrich Maas
KPMG Lead Partner on European Commission

Chief Operating Officer's review

Richard Bennison
Chief Operating Officer

€3,495m
2009 revenues

In everything we do we start by asking ourselves one simple question – how will this benefit our clients? It's this relentless focus on providing the very best for our clients, at every stage of the economic cycle, that is driving KPMG Europe LLP forward

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Client performance indicators

Relationships client satisfaction score*

99%

Proactivity client satisfaction score*

99%

Value for money client satisfaction score*

95%

Satisfaction client satisfaction score*

100%

*% Satisfied or more than satisfied

KPMG Europe LLP was created to find new and better ways to serve our clients, bringing to them the best of our people from across the firm and the best of our Multi-disciplinary skills

During the year we have really pushed forward with this agenda, convinced that the quality of service we offer our clients will increasingly distinguish us from our competitors and be the linchpin of our future success

In a highly competitive market our present and prospective clients are demanding fresh thinking from us So our driving ambition is to bring them new ideas – relevant insights and solutions, rather than pre-packaged products and services Our task is to act as one firm working seamlessly across-borders and disciplines, to make sure that we get the right people in front of the right clients at the right time

To do so requires a proactive mindset Firstly it means building close and trusted relationships with clients so that we really understand the challenges they face

Secondly it means having the confidence to use our combined knowledge insight and skills to develop high-quality, tailor-made solutions that meet their needs

In nearly 12 months since I was appointed Chief Operating Officer, I've had the privilege of seeing how this agenda is gripping people across our organisation There is huge energy in our offices and it is all about getting our client proposition right

I know too from my many meetings with clients that they feel the difference a fact backed up by our regular client surveys I'm delighted that we continued to score very highly during the year on all four key measures of proactivity, relationships overall satisfaction and value for money as above

But we re under no illusions The better we get at this essential work, the more our clients will expect of us, as they should It's vital that we keep looking, day-to-day for new ways to improve

Financial performance
The legal group maintained revenues at €3,495 million, virtually unchanged compared to the prior year in local currency pro forma terms, despite the extraordinary market conditions We have focused hard on running an efficient and profitable business Tight control of costs, coupled with some early savings we are achieving through the merger, meant the legal group was able to post an operating profit of €444 million, the decline from last year s €495 million being mainly attributable to exchange rate movements

Our core Audit business performed strongly Given the maelstrom caused by the financial crisis and recession it was natural that audit committees looked to us to provide greater assurance and higher quality opinions We responded quickly and well

The absence of mergers and acquisitions (M&A) activity and the resulting collapse in demand for related advice meant our Tax practice had a more difficult year, although we saw continued robust growth in Germany and rising demand for transfer pricing advice and international executive services

The dearth of transactions affected Advisory too but we successfully repositioned our practice on restructuring and debt advisory work, and grew our powerful Performance and IT business to support client transformation projects This will continue to be a key area of future growth for us

People
The strength of our results also reflects the fantastic work people across the firm have done for our clients during the year

We have managed people with great care, continuing our commitment to recruit, develop and retain the best, within a civilised, supportive and rewarding workplace We want to be the employer of choice in our profession

Our raison d être is to bring the best people we have from across the firm together for the benefit of clients In the process we will give our people an unrivalled breadth and depth of international experience

Chief Operating Officer's review

Our raison d'être is to bring the best people we have from across the firm together for the benefit of clients In the process we will give our people an unrivalled breadth and depth of international experience

We have deliberately delayered our structures so that our lead partners can spend more time in the field building the sort of deep relationships with clients from which great service springs We're also looking to make it easier for more of our people to move about the firm on international assignments

And, despite the downturn we worked hard to preserve talent, maintained our development programmes and continued offering market-leading rewards

For example

- Our Flexible Futures programme meant we were able to retain talent for the future rather than cutting valuable resources to the bone
- Some 500 emerging leaders are now involved in our Building Capabilities programme, designed to develop future leaders who will have the right skills to deliver our client service promise
- At €186 million we believe our bonus pool remains the most generous per head in our profession
- We created over 100 new partners during the year, hiring an additional 30 from outside the firm

Our forward-thinking approach to people management is widely recognised For the second year in a row we were named the UK's Best Big Company to Work For by The Sunday Times and we received similar awards in Germany and Spain

Innovation and knowledge
We want to be known for the strength of our ideas both in how we serve our clients and how we manage our own affairs It s really exciting to see how people given the freedom to think differently, are thriving in the culture of innovation we are embedding across KPMG Europe LLP

One of our great strengths is the speed at which we are now sharing knowledge and ideas, across disciplines and between client teams – as can be seen in the case studies in this report

That – coupled with our continuing commitment to meet the very highest quality standards – means we can bring real benefits to clients, quickly, a vital advantage when markets are in such turmoil

Operational effectiveness
How we use technology is important too and we're making good progress here

We are now well advanced with our plans to create a shared services operation across the combined group A common SAP system – managing our finance, IT infrastructure and people processes – is up and running in the UK and Germany and is being rolled out in Spain

Technology is just as important in the client arena and we're looking to use it more inventively all the time For example, we are creating a cutting-edge engagement management system which will make sure that – from prospect to conclusion – client service is faster more efficient and less costly Pilot testing of our e-AudIT system – providing an end-to-end audit service – has also gone extremely well and will be fully rolled out in 2010

As the global economy recovers competition for talent will once again be incredibly fierce and we must draw on a wider pool of talent

For that reason we have joined forces with KPMG India to set up the KPMG Resources Centre (KRC) to provide both client and internal support services On a recent visit to the KRC project I was impressed with the overwhelming enthusiasm, professionalism and shared values that I find every day in KPMG Europe LLP

KPMG Europe LLP strategy

Looking ahead
Our goal in the next years is to become Europe's leading multi-disciplinary professional services firm We are convinced that by pursuing our seven strategic priorities even in these turbulent times we are on track to succeed

We are strengthening our focus on sector expertise across the range of solutions we provide in key growth areas such as financial services, public sector, and energy and natural resources

Audit will remain a core proposition for us The service we provide is highly valued by our clients and we are looking to provide them with greater assurance and increased quality in more efficient ways

Our Tax practice is very strong In a recent external global client satisfaction survey, we ran a close second to our nearest rival We are determined to improve that ranking

In Advisory growth will come from building a strong, IT-enabled performance business Work on this is already well advanced and we have successfully hired talented new people to strengthen our client proposition in this area

I'm tremendously proud of the work our people have done this year and the way they have pushed forward our client agenda

This gives me the confidence that, while markets may remain tough for some time to come our strategy of acting as one firm focusing on our clients across Europe will be successful

Richard Bennison
Chief Operating Officer

KPMG people are recognised as leaders in their fields

Melissa Geiger

Melissa became a KPMG partner at 32 and is currently one of the youngest partners in the UK firm She heads up the Financial Services M&A tax team in London and has managed the tax aspects of some of the largest and highest profile deals in the European private equity and banking market She was named as one of Management Today s 35 women under 35' in June 2009

Melissa has worked on assignments across the world, including Hong Kong, Manila, Chennai, Mumbai and also spent time on secondment to Frankfurt and San Francisco She attributes overcoming many professional challenges to having great role models and mentors in her life

' If I hadn't had exemplary role models when I was at school and in the early days of my career at KPMG I wouldn t have got where I am today It is only right that I give my time to help other women make the most of the opportunities available to them '

To this end Melissa is truly committed to being more than a superficial role model and mentors a number of women in KPMG s Emerging Leader programme She is also an active member in the Women of Achievement networking programme for sixth form girls

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We're constantly looking for ways to gain deeper insights into the issues our clients face. Armed with this knowledge we are then much better placed to provide them with the right solutions, drawing on all of our multi-disciplinary skills across Audit, Tax and Advisory.

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Mirroring the client structure to deliver cross-border Telefónica S A

As one of the world s leading telecom operators, Telefonica S A is continually looking out for inorganic growth opportunities As such they needed an advisor who was able to handle their international transactions

The reason for selecting KPMG to deliver a financial and tax due diligence project in Germany, including tax structuring advice was the joint German-Spanish team which mirrored the client's team structure This was seen as critical as both the Madrid-based Telefonica Finance, Tax and M&A team and the local Telefonica subsidiary team in Germany played key roles in the process This meant the team was able to leverage its combined client and local industry knowledge to meet Telefonica s expectations

In addition the co-ordination and clarity around roles for each team member ensured defined responsibilities and ownership of specific deliverables which the client saw as a major contributor to the project s success

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Celso Garcia Granda
KPMG Lead Partner on Telefonica S A

Joachim Schindler
Head of Audit

Audit

Audit revenues

+3.1%*

2009 €1,281 million

Clients are today demanding greater quality and a more insightful opinion from their auditors They also want clear evidence that audits are efficient and cost-effective These are long-term trends, not just the product of tough economic times We are investing heavily in skills and new technology to address these needs

- Audit revenues in the legal group increased in the year, reflecting our success in growing market share despite very testing economic conditions and growing price pressure With fees set up to 18 months in advance, these pressures will have a bigger impact on our results in the year ahead

- The financial crisis and recession have seen a sharp increase in 'going concern' issues and bankruptcies calling for greater scrutiny by auditors Audit committees and non-executive directors are also seeking far greater assurance on financial risk and governance issues They want the opinions we express to be of a very high quality

- We have responded to these competitive pressures by placing growing importance on really understanding our clients businesses Our scale is allowing us to deploy our people and technology in innovative ways, both in national markets and across-borders

- We are placing a strong focus on audit innovation in order to drive efficiency, improve consistency, further enhance audit quality and add greater value to our clients A significant global investment is being made in our new fully electronic audit tool – eAudIT Feedback received has been positive and encouraging and the tool is on track for full deployment in 2010 We are also focusing on quality through training guidance and the use of quality performance and engagement quality control reviews

- KPMG Europe LLP firms audit 60% of DAX 30 companies 25% of the FTSE 100 and 23% of Swiss SIX quoted companies, while KPMG in Spain (although not part of the legal group) audits 11% of the IBEX 35 There are also thriving audit practices serving national markets in all KPMG Europe LLP countries The quality of our work was once again recognised externally In the UK we were awarded 'Audit Team of the Year at the 2009 Accountancy Age awards for our work with the Audit Commission

- Significant wins during the year included a multi-year multiple framework contract with the European Commission, won against tough competition from all our main rivals Of particular note are the successful wins of the audit of the Spanish utility giant Endesa, and Rentokil Initial in the UK

- Changes to accounting, governance and banking regulations in Germany and Spain are leading to new opportunities Similar changes in Switzerland are already underpinning our performance there

* On a pro forma basis at constant exchange rates

Sue Bonney
Head of Tax

Tax

Tax revenues

-5.4%*

2009 €837 million

We have been helping clients grapple with the specific issues they face today For many, the immediate challenges are cash flow, working capital management, efficiency and performance It's important though that when looking at issues in the short term we continue to encourage clients to think beyond the present – to plan sustainable tax strategies for the future at a time when changing attitudes to tax mean that businesses' tax strategies are subject to scrutiny like never before We help clients make long-term tax decisions in light of global competition and knowledge sharing between tax jurisdictions but which can give individuals and businesses a clear and defendable advantage

- The sharp decline in M&A activity and transactions, particularly in the UK led to an overall 5 4%* reduction in revenues for the legal group While transactions are showing some signs of recovery, the pickup in activity is likely to be moderate in the months ahead until the credit markets really unlock

- Economic conditions are forcing many of our clients to look again at their business models and tax planning arrangements and this has led to big opportunities for us in a number of important sectors, including telecommunications consumer markets and energy and natural resources

- Changes to global trading and increased mobility of key personnel at our clients has meant transfer pricing and international executive services are two important growth areas which have led to a number of significant wins for us amongst them, Bank of America, Rio Tinto and a major car manufacturer and oil and gas producer in Germany

- Thanks to changes in domestic tax legislation in a number of countries we have seen increased demand for our services from clients looking to manage their relationship with tax authorities better Focus at the G20 on tax havens has led to new work for us with tax amnesties and this has encouraged a number of new clients to come to us for advice in declaring their tax arrangements

- Indirect tax work has also increased due to an increasing global focus on indirect taxes

- Market conditions are forcing many clients to focus on survival strategies While we are helping them to manage cash flow and working capital we are also encouraging them to plan tax strategies for the future rather than just concentrate on present difficulties

- Our people agenda remains crucial, particularly at a time when we have had to restructure our own activities to take account of structural changes in the market Our emphasis is on helping people to develop specialist skills in key areas and looking for ways to build our skills and our teams across the combined KPMG Europe LLP group in promising markets such as indirect taxation

- KPMG was voted 'Top Real Estate Tax Advisory Practice of the Year' by Euromoney magazine in the UK In Germany KPMG Tax won one of the top places in the Tax Advisors Awards run by the German publication Focus Money In the UK, we were named 'Accountancy Team of the Year at the Society of Trust and Estate Practitioners Private Client Awards 2009 Tax Advisor of the Year' at the Scottish Accountancy Awards and Private Client Practitioner voted two KPMG employees within its Top 35, Under 35'

Bernd Schmid
Head of Advisory

Advisory

Advisory revenues

-0.4%*

2009 €1,389 million

Whether focusing on restructuring, cost control, managing change or assessing the right time to return to the M&A market, our clients look to us for more than just an array of standard services Increasingly they want fresh thinking and ideas to help them navigate difficult times and prepare for economic recovery

- The sharp decline in transactions, traditionally a huge strength of the firm, had an inevitable impact on revenues in the legal group But an increase in restructuring work, performance and risk advice helped contain the effects and our revenues fell only marginally a strong performance We saw good growth in Spain, while Germany held its ground, the UK was hardest hit by the M&A drought

- Our client campaign Succeeding in Turbulent Times' helped us respond quickly to client demands in managing cash and working capital counterparty risk restructuring, performance and scenario planning

- More importantly pooling our resources and expertise across the combined group has helped us draw on a deeper pool of expertise to become more innovative and ideas-driven

- Our restructuring practice has continued to perform well with strong growth, working on a range of advisory and insolvency assignments In the UK we have had notable successes, including a ground-breaking Company Voluntary Arrangement for a fully listed public company JJB Sports plc – for which we won 'Business Recovery Project of the Year' at the 2009 Accountancy Age awards In addition our success also covers the first ever appointment under the Special Resolution Regime provisions of the Banking Act 2009 to the Dunfermline Building Society In Germany our team was heavily involved in the restructuring of one of the country's largest industrial conglomerates as well as many other assignments, and in Spain the insolvency of Martinsa Fadesa was one of many notable assignments

- Our Performance and Technology practice revenues held up well despite a sharp decline in discretionary spending by clients on advice Significant wins included the contract to provide consultancy support to the Olympic Security Directorate and Operation Quest for the UK Home Office

- Activity in the financial services sector drove demand for our risk and compliance services alongside our transactions business, and, with significant regulatory change still likely, this will remain a priority area in the coming year We have worked with Governments in all the KPMG Europe LLP countries on their response to the financial crisis, with major assignments in the UK, Germany and Spain

- Cost reduction, efficiency and managing change will remain at the top of the agenda for clients in the year ahead and we believe we are well placed to respond in the short term and when recovery gathers pace M&A activity is likely to remain muted for some time, although we expect to see more demergers and disposals of non-core businesses in 2010 and may see a growth in IPOs as equity markets improve

* On a pro forma basis at constant exchange rates

Having access to pan-European knowledge

Sibylle Kasparek

Sibylle was on assignment from Munich to KPMG s London Pensions Team during 2009 She originally joined KPMG in Germany working on M&A deals for Transaction Services, providing pension expertise for different countries

During her six-month assignment in London she worked on a number of international transactions, as well as projects focusing on the different aspects of UK pensions This allowed her to increase her experience of multi-country M&A projects and to build her knowledge of UK pensions substantially

I feel I have really benefited from my secondment, not only from the perspective of applying this new knowledge across other non-transaction projects, but also through having the experience of working with a large multi-skilled team and enjoying a taste of life in London '

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As the global economy stages a tentative recovery, so our clients' needs are changing. They still want our experience and skills to help navigate ongoing difficult conditions. But we are increasingly also working with them to plan how they will prosper whatever a restored economy brings

Markets – Industries

The economic stabilisation and recovery has had different impacts depending upon the market and region in which our clients operate For most commercial organisations cash, cost and risk control remain paramount, as does financing flexibility Cash control is also increasingly important in the public sector as public finances tighten

But now that some stability has re-emerged clients are increasingly looking at their business models to assess whether they are fit for purpose Some are taking the opportunity to integrate businesses acquired during a fast growth period, some are looking at what capacity they need if previous volumes do not return and some are looking to bring more flexibility into their business models to make them more agile and to increase variable costs Divestment of non-core businesses remains high on the management agenda

More stability is also renewing the appetite for inorganic growth, with many clients believing there is no better time to grow market share than when the economy is moving out of recession Those with strong balance sheets are beginning to look at how to use them others are looking at whether joint venture opportunities can bring synergy without draining cash and scarce resources

But whatever their situation, demand for advice remains strong Clients have made it clear that our combination of deep trusted relationships, exceptional skills and strong intellectual capital provides them with value in both planning and executing their strategies

Consumer & Industrial Markets (CIM)

Market snapshot Pharmaceuticals, and energy and natural resources have remained relatively stable throughout the downturn, consumer goods retail and civil aerospace are focused on cost control and restructuring, while automotive and chemicals are in a state of deep crisis which will take some time to resolve

Issues ahead We expect to see some recovery in all CIM markets in 2010 but while there will be growth the worst is not over yet There may be a pickup in transactions activity but with banks still cautious about lending we expect to see more joint ventures than takeovers, particularly among larger companies

KPMG snapshot

- In a very difficult year for many companies in the CIM arena, revenues for the legal group grew by 1 4%* a strong result given the state of our markets
- Automotive was an area of intense activity We worked with Volvo, and with a major German car manufacturer and we helped Jaguar Land Rover with its new business plans
- It was a very strong year in energy and natural resources with major projects for BP and Shell
- Transaction activity in pharmaceuticals remains modest indicating some pent-up demand as many deals have been put on hold Radical cost reduction is going on across the chemicals sector
- We continue to promote our thought leadership in key sectors through publications such as Automotive Now and Manufacturing Now, which have been well received by clients We staged our second Roundtable event during the year, attracting over 40 senior CEOs Our newly launched Sector Snippets newsletter service is designed to keep our clients and our own professionals up to date with important trends and statistics

Jeremy Anderson
Head of Markets and Financial Services

Financial Services (FS)

Market snapshot The collapse of Lehman Brothers in September 2008 unleashed the deepest crisis faced by the Financial Services sector in decades Swift action by Governments regulators institutions and their advisors averted a meltdown but led to a period of unprecedented restructuring Although stability has been restored many issues remain to be resolved

Issues ahead For banks that are now partly state owned, the priority is to regain independence Throughout the sector efforts to control costs and restore balance sheet strength remain high on the agenda M&A activity should resurface in 2010 Regulatory changes – particularly capital adequacy issues – will force many to re-examine their business models Dealing with toxic assets from the credit crisis remains an issue

KPMG snapshot

- Audit performed strongly in the year and KPMG Europe LLP member firms continue to audit some of the industry's biggest players including Allianz, HSBC and Credit Suisse Even with Tax and Advisory slightly down we still saw growth of 0 8%* in revenues in the legal group
- The rapid escalation of the financial crisis following Lehman s collapse meant we had to move fast to offer advice and support to our clients We worked as an advisor to Governments and central banks on their asset protection schemes and for banks receiving capital injections from the state
- Key wins across the combined group included important assignments with Swiss Re, AEGON and a number with the Spanish savings bank sector In Belgium we have been appointed as independent programme assurer for Bank van De Post's core system replacement programme
- Banking insurance and investment management are all global businesses and our approach has, for many years been global to serve the sector's needs We are developing new solutions for our clients such as our e-AudIT system which will be rolled out globally in 2010
- Tighter regulation in the FS industry in general – and governance and compliance for banks, insurers and investment managers – remains high on the agenda The major theme for insurance for the next years is Solvency II and we won important projects in this area with Aviva Chartis and a number of other major European insurance groups
- Following the crisis our priority has been to help clients return to stability – to level out – and how to address this has been a major theme in our Frontiers in Finance magazine
- KPMG won two major awards for our Islamic finance advice this year, we were also named Best Accounting Firm 2009' in the Reactions Global Insurance Awards and won two Management Consultant s Association Management Awards in the UK

* On a pro forma basis at constant exchange rates

Information, Communications & Entertainment (ICE)

Market snapshot Consumer spending on items like gaming travel, mobile phones and home-based entertainment (including subscription TV) held up surprisingly well in recession, suggesting hard-pressed consumers see phones and holidays as essentials However, a decline in business spending has affected the media sector, with advertising spend on TV and regional newspapers down, and other discretionary business spend in restaurants and hotels cut With business customers deferring traditional technology spend on hardware and software the focus in the sector has shifted to cost reduction, shared services and back-office efficiency as businesses look for ways to work smarter and faster

Issues ahead While a focus on cash and cost will continue, retaining and motivating talent will become increasingly important as businesses make further adjustments to their cost structures and engage in the types of business transformation which will enable them to prosper As part of this we have seen the first tentative signs of a recovery in transactions

KPMG snapshot

- The combined KPMG Europe LLP group has enabled us to draw on a deeper pool of talent sharing insights across sectors and countries By putting our clients' issues at the heart of our client service teams our specialists can combine their skills to develop true commercial solutions tailored to address these needs

- The ICE marketplace is distinct in two ways it is truly global and characterised by young dynamic companies Following huge growth often through novel production innovation many ICE companies are now facing up to the challenge of maintaining this growth and success Our ability to think beyond local boundaries is key to our effectiveness in helping these companies to succeed

- Total ICE revenues declined by 8 9%' in the year principally driven by Advisory where client cuts in discretionary and project spend impacted Fortunately we have seen few corporate failures in our sectors with companies being efficient at reducing their costs We are expecting further restructuring in the market with the stronger players positioned to capitalise quickly on any market upturn

- We are proud of our success across Europe leveraging our credentials and experience to work with global clients in the local European marketplace Our work has included supporting cost-saving and restructuring programmes such as designing and implementing a major IT organisation s finance transformation programme

- We are also working with global companies with European headquarters in Switzerland supporting them on a range of issues from optimising their supply chain to governance

- Country initiatives

  - In UK Media we led the disposal of Sit-up TV for Virgin Media, the only significant non-core asset sale in the sector last year

  - KPMG in Belgium is a leading advisor in the Belgian tax regime for audiovisual productions (including feature films, TV series and documentaries) We have advised a significant number of actors, private investors and film production companies on film financing Working with our colleagues in India this has now been extended to include certain Bollywood' productions

  - Led from Germany, we have carried out a detailed benchmarking exercise with leading telecommunication companies in Europe and North America and are using this insight to help key operators improve their processes and practices

Dieter Becker
Head of Consumer & Industrial Markets

Graeme Ross
Head of Information Communications & Entertainment

Ulrich Maas
Head of Infrastructure Government & Healthcare

Rustom Kharegat
Head of Private Equity

Infrastructure, Government & Healthcare (IGH)

Market snapshot The financial crisis has provoked Governments across the world to intervene extensively in their economies to cut short recession and stimulate growth Demand for advice and assistance from organisations that have broad public and private sector experience has been high particularly in support of state guarantee schemes

Issues ahead State support for financial institutions and strategic industries will continue through 2010 Due to higher budget deficits and debt, spending on advisory services aiming at improving efficiency and effectiveness will be prioritised These services include cost optimisation performance improvement, asset disposals, financial management and regulation

KPMG snapshot

- Revenues for the legal group grew by 5 5%* as we helped Governments and other public authorities tackle the financial crisis and counter the effects of recession Our detailed knowledge was much sought after by both public and private institutions, for instance in the UK s asset protection scheme, and in supporting the German Government with its measures for stabilising financial institutions

- We recorded a landmark multimillion euro win with the European Commission This multi-year multiple framework contract won against stiff competition from all our major competitors, will involve KPMG audit teams comprising colleagues from 27 EU countries and nine EU-associated countries

- We were selected to provide consultancy support to the Home Office-led Olympic Safety and Security Programme for the London 2012 Games

- There have been a number of strong wins including supporting the German Federal Ministry of Finance with a concept for modernising its budget and accounting system, helping the Go-Ahead Group improve procurement and providing IT advice to the Ferrovial Group We also provided landmark forensic analysis to one of the leading international transport and logistics services providers

- KPMG has worked with a large number of NHS organisations over several years, providing a range of services aimed at improving performance and building capability in areas such as commissioning strategy, clinical pathway redesign, separation of provision from commissioning clinical performance improvement, cost reduction and real estate strategy We have recently developed an approach known as 'hothousing which involves working across the whole health economy (including commissioners, general practitioners, hospitals and mental health providers) in order to implement transformational change

- The KPMG Public Governance Institute founded in Germany in 2005 to promote the highest standards of efficient public administration, has now been established in the UK and the US In Germany the Institute has triggered the creation of a new Executive Master of Public Management degree programme

* On a pro forma basis at constant exchange rates

Private Equity (PE)

Market snapshot With the exacerbation of the credit crunch and general deterioration in economic conditions in the last quarter of 2008 deal activity fell away sharply for both large and mid-size Private Equity houses and stayed relatively low throughout the year However some innovative deals and structures did emerge late in the year, though not on the old highly leveraged model The preoccupation for the sector was on performance and renegotiating covenants and credit lines for existing portfolio companies

Issues ahead US bond markets began to recover from mid 2009 and other debt markets are expected to follow suit in due course With asset prices low and vendor price expectations more moderate, deal making should return though transactions are likely to be smaller and less dependent on debt

KPMG snapshot

- The dramatic decline in the debt markets and the sudden collapse of deal making led to a 28 9%* decline in revenues in the legal group, but we maintained a leading presence in those deals that went ahead and moved quickly to strengthen our capital reconstruction role in the sector

- We advised Charterhouse Capital Partners on its £553 million acquisition of Wood Mackenzie, the largest Private Equity buyout in the first half of 2009 Our cross-functional team provided advice on the financial, tax, pensions and IT due diligence and tax structuring

- We were the sole financial advisor to Bodycote plc on the £420 million sale of their Testing Strategic Business Unit to Clayton, Dubilier & Rice Against a background of highly volatile market conditions this was one of the largest European primary buyouts in the second half of 2008

- We positioned ourselves as a lead advisor to Private Equity houses and their portfolio companies on debt refinancing and covenant renegotiation We created a new service – Sponsor Initiated Independent Business Reviews – to help prepare companies for vital negotiations with their banks to renew credit lines and covenants many of which had been breached This has won us work with important new clients, including KKR

- We won Accounting Firm of the Year from the European Venture Capital magazine in January and, in October, were named Corporate Finance Team of the Year by PE News

* On a pro forma basis at constant exchange rates

Helping Russian businesses invest in Switzerland

Simon Juon

Go online for more information
www kpmg eu/annualreport

Switzerland is an attractive location for Russian investors and also provides many business opportunities for Russian companies In 2008 the Swiss Tax practice established a Focus Group to help Russian clients deal with Swiss/Russian tax issues and to help them understand the opportunities available

This group based in Zurich and Geneva provides a broad range of tax services as well as playing a co-ordination role between clients and other Swiss groups using experienced and multilingual team members with specific knowledge and experience Simon Juon a manager in KPMG s Swiss Tax team is one such team member and is the first secondee to be based on the ground in Moscow His role is to help the Swiss team understand and anticipate the needs of our Russian clients, whilst developing his own knowledge and language skills for the benefit of KPMG in Switzerland

Delivering up-front to ensure overall completion timescales met

AEGON

AEGON decided to supplement IFRS as its key internal and external reporting basis with an Economic Capital balance sheet and revenue statement This was a major programme involving both the development of appropriate technical bases and the capability in terms of people, processes and technology to provide this information consistently across the Group

KPMG acted as advisors on all aspects of the design of both the basis and its operational capability Initially we worked extensively with the client to design the approach and develop a detailed accounting manual and training materials

Once the basis was complete KPMG designed an approach for redesigning reporting processes to support the new bases and, working closely with the client's Programme team KPMG rolled out this approach across all the major operating entities within the Group

Go online for more information
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Paul Bishop KPMG Partner on AEGON
Martin Deere KPMG Senior Manager on AEGON

National markets

Luc Wygaerts
Head of Markets, Belgium

The formation of KPMG Europe LLP has transformed the way we serve both our large international clients and the vital national companies that form the economic backbone of all the countries in which we operate Our approach to serving our clients is consistent whichever market we are serving we look to have the right people with the right tools in the right place at the right time to meet our clients' needs

In 2009 the group operated a network of 80 offices across the five countries represented in KPMG Europe LLP Maintaining this strong presence on the ground means we have the local market knowledge to really understand client concerns It also means we can pool our cross-border expertise, bringing an added dimension to the solutions we create for them

National market companies – those outside the main national indexes, such as the FTSE 100 – represent some 40%[1] of our revenues Our aim is to grow organically over the next five years with new countries joining KPMG Europe LLP and as such the national markets are vital to our overall success

Belgium

Market snapshot With a small national market local Belgian businesses depend heavily on exports and have been hit hard by the recession Forecasts predict a further decrease in domestic demand and a drop in exports, despite the rise in public consumption and public investment 75% of exports are to European Union countries, which are also being affected by the recession A recovery is not expected before the autumn of 2010

Issues ahead Re-evaluating business strategies with a focus on cash and cost control operational efficiency, and opportunities for acquisitions and disposals New regulations will have an impact on risk management and reporting In all sectors, and specifically in the public sector, the emphasis is on simplification and transformation of the business or service model

KPMG snapshot

- The difficult economic situation led to a fall in demand for traditional services and an increase in price pressures This resulted in 2009 revenue being 3% lower than the year before for the KPMG member firms in Belgium as a whole, notwithstanding a strong growth in the mid-market through the Accountancy practice [2]

- Key growth areas for the member firms in Belgium included IT and business performance advisory work, accounting services and public sector engagements where a growing presence has been established

- Belgian member firms played a key role in securing a multi-year contract with the European Commission, against strong competition from all our main rivals

- Although the Belgian Audit company is not yet part of the legal group, its progress is important to the other Belgian member firms Key new Audit wins during the year were achieved in the transportation and telecommunications sector Outside Audit, work with a number of important clients in the energy, automotive and public sector was renewed

- The Belgian member firms reclassified the client base between large corporates and national market companies the latter accounting for 27% of revenues This is helping to establish a clear brand proposition in key markets backed by a media campaign on the different lines of business

- A Private Equity line of business was created, mirroring other KPMG firms to help clients derive maximum value from their portfolio investments

- The Tax practice in Belgium was named Transfer Pricing Firm of the Year' by the International Tax Review and Ludo Frans of the KPMG Sports and Artists line of business won the 2009 'FinanceWorld Award for Tax Advice' organised by Kluwer

1 Figure excludes KPMG in Belgium
2 KPMG Europe LLP legal group controls only the Advisory function in Belgium The entities providing Tax and Accounting services are associates and the Audit function is not legally connected to KPMG Europe LLP However all these entities operate in close collaboration

Living as part of the company

Gas Natural and Unión Fenosa

The merger of Gas Natural with Union Fenosa in early 2009 created one of the leading Spanish public companies With many mergers proving unsuccessful Gas Natural was keen to ensure that integration was as comprehensive as possible

To achieve this Gas Natural wanted a team who had experience of integration and mergers that covered finance, information technology and human resource issues The well-established relationship between Gas Natural and KPMG meant a multi-disciplinary team was able to use experience and sector knowledge to really get under the skin of the integration issues

The key to delivering a successful integration for a company of the size and diversity of Gas Natural is to ensure the teams live within the company This approach provides a continued flow of information regarding the client's requirements and demonstrates the KPMG commitment This combination allows new solutions and proposals to be developed which ensure the two groups are integrated as efficiently as possible for the future

Go online for more information
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Fernando Garcia Ferrer
KPMG Lead Partner on Gas Natural

Robert Gutsche
Head of Markets, Germany

- The Accountancy practice has been awarded the Qfor quality label after a thorough external audit of its service offerings The audit encompassed all KPMG offices in Belgium and included internal processes as well as client perception and client satisfaction Apart from being an objective signal of reliability and quality this Qfor label also offers interesting grant opportunities for SMEs located in the Flemish region

- The KPMG member firms in Belgium have two important competence centres one on Simplification' in the public sector, and one on 'Infrastructure Asset Management'

- The Tax practice is a leading adviser in the Belgian tax regime for audiovisual productions (including feature films, TV series and documentaries) This applies not only to the tax and accounting treatment but also to simulation and computation of the returns that can be realised through investments Through such investment, the audiovisual industry is able to attract financial backing from private corporates through which an immediate tax exemption of 150% of the investment can be obtained

Germany

Market snapshot Germany s economy felt the effects of the global recession later than in the UK and the US The export-oriented economy was negatively affected in 2009 by the downturn in all major regions The economic situation remains rather weak, although economic activity stabilised in summer 2009 on a lower level of output Expectations for the coming year have brightened and a hesitant recovery is on its way supported by slowly growing domestic demand and moderately increasing export levels

Issues ahead Germany is likely to emerge slowly from recession during the next 12 months Clients will tend to remain focused on cost control, restructuring and performance in the coming year

KPMG snapshot

- KPMG succeeded in maintaining its market position under difficult external market conditions During the year we were more successful than our main competitors in retaining and winning clients and thus we increased our market share Yet 2010 promises to be another challenging year despite signs that the economy is emerging from recession

- In an extremely difficult environment revenues in Audit services kept up on previous year s levels Research carried out in June 2009 by World Accounting Intelligence showed that corporates will control expenditure on external services more carefully in the coming years, putting additional pressure on the market for Audit services

- We made strong gains in Advisory services to mid-market companies and see potential for significant growth here Overall Advisory's top line was almost flat during the year a good result given that many bigger companies reined in discretionary spend on advice to conserve cash There are some signs of transaction levels rising again, having come to a standstill in the first half of the year Furthermore restructuring is high on the agenda of companies – both family-owned businesses and big corporates – and we advised across different industries, for example telecommunications manufacturing and public sector

- We managed to gain market share against our main competitors in our Tax practice but price pressures and the rapid decline in M&A work offset the recent growth Transfer pricing and international executive services are promising growth areas and we won important assignments in the energy and automotive sectors Our aim is to build long-term relationships based on trust so that we can offer a wider range of Tax services

- 'BilMoG', the long-awaited reform of German GAAP (HGB), due to come into effect at the end of 2009, will create additional demand for risk management, corporate governance and accounting advice Our clients will have to deal with compliance topics in order to be in line with new legal requirements

Celso Garcia Granda
Head of Markets Spain

Spain

Market snapshot The bursting of the real estate bubble has played an important role in the severe downturn currently affecting the country Recovery is considered unlikely before the end of 2010 However other structural factors such as productivity and competitiveness also lie at the root of the current crisis and the downturn has exposed the need to refocus on efficiency, R&D and value adding activities Widespread failures in the property sector have spilled over into banking finance and other parts of the economy Nevertheless effective supervision by Spain s financial authorities prevented banks from further suffering during the sub-prime crisis

Issues ahead Access to credit for many companies will remain restricted, placing a continued heavy accent on cost reduction cash conservation, efficiency and restructuring Financial regulation reforms will also make governance and risk management an agenda item particularly in banking Significant restructuring in banking is thought more likely now after the approval of the Government s FROB fund set up for this purpose

KPMG snapshot

- Steps we have taken in recent years to build specialist services – particularly in restructuring and financial risk management – mean that our professionals are in high demand As a result we recorded strong growth across the firm despite very difficult market conditions

- National market companies account for around 60% of our revenues, with the remainder coming from working with Spanish or foreign-owned multinationals

- Following deep investment in people and skills, our restructuring practice was named Spain's Best Advisory Firm in Restructuring and Insolvency, 2009 by World Finance magazine We were involved in nearly all the major refinancing assignments in real estate during the year as well as in consumer markets and media In addition we were appointed as insolvency trustee in one of the biggest cases of insolvency in Spain Martinsa Fadesa

- We ve built a similar presence in financial risk management, drawing on local and international skills to advise many of Spain s top financial institutions and savings banks, including BBVA and Banco Popular We are advising on one of the first mergers in the savings bank sector Our goal is to become market leader in this sector where significant activity will be taking place Forensic work has also boomed in this stressed economic environment and we are now leading players in this arena

- Although Audit in Spain is not part of the KPMG Europe legal group it is an integral part of the operations of KPMG Spain and in spite of price pressures grew strongly thanks to new opportunities created by Spain's new accounting regulations Notable wins include the electricity giant, Endesa

- Tax also showed significant revenue growth supported by increased activity in people services tax outsourcing corporate tax advice and transfer pricing Our legal department remained focused on corporate, labour and litigation advisory services

- Energy and natural resources proved to be a very busy sector during the year growing at 47% mostly due to the trust the largest companies in the sector now have in our sector expertise As a result we won important assignments with Canal de Isabel II, Repsol and Gas Natural, among others

- With consumer spending falling sharply and access to credit remaining tight for many of our clients, our consumer industries team focused on providing cost optimisation debt management and restructuring advisory services

- The Private Equity sector has experienced a significant slowdown and has therefore shifted its focus from deal making to portfolio management However our close relationship with the Private Equity houses meant that we continued to advise them on several existing M&A opportunities and on key restructuring and performance projects within their existing portfolios

- We are placing an increasing emphasis on developing services that anticipate our clients' long-term needs and look to harness the skills of our colleagues across Europe to address client issues at home and abroad This approach has helped us win work supporting overseas acquisitions by Telefonica and the international expansion process of large Spanish infrastructure groups such as Ferrovial

Stuart Robertson
Head of Markets Switzerland

Switzerland

Market snapshot The economic downturn has struck Switzerland s economy later and less severely than most other economies, despite the fact that the country's Financial Services industry accounts for about 15% of GDP This can largely be attributed to the fact that the financial crisis had a lesser impact on wealth management and the insurance segment than on investment banking which is limited to two major players in Switzerland The highly diversified economy has also helped to mitigate the effects of the financial crisis The signs are that 2010 will not be an easy ride, both for the country s multinationals and the highly efficient firms that make up the Swiss national market The fact that some of the largest global players are headquartered in Switzerland creates a unique environment for our global activities and we need to provide fast access to the most experienced resources within KPMG The recovery of the stock markets bodes well especially for the Financial Services sector The return to economic growth of the industrials chemicals and pharmaceuticals sectors will hopefully follow

Issues ahead Adapting Switzerland's private banking practices to conform with OECD guidelines on tax disclosure represents a significant challenge Banks are rethinking their business models and will focus on leveraging their existing competitive advantages International private clients and family offices are seeking comprehensive advice across different jurisdictions Cost control and performance are high on corporate agendas and it is likely that M&A activity will accelerate in 2010 Most of these challenges also apply to the export-oriented manufacturing sector which is particularly vulnerable to the recession in major export markets and to the strong Swiss franc Healthcare and Government are further market segments with greater demand for professional services to improve efficiency

KPMG snapshot

- Progress was made in our national key account sector despite the difficult market environment
- The fact that Swiss companies are generally well managed and tightly controlled – and largely addressing their performance and cost-savings programmes internally – has created a tougher environment for Advisory in 2009, which we weathered reasonably well The climate is shifting and we see considerable potential in the areas of helping companies cut costs and sell distressed assets In its recent survey Bilanz magazine placed KPMG among Switzerland s top five advisory and consulting firms
- While Audit had a good year – and Audit Financial Services a very good year with approximately 10% growth – it faces increasing pricing pressures Three client-centric initiatives in Audit and Advisory focus on serving our existing clients and reaching our targets by leveraging the full range of capabilities available This approach helps enhance our services and increase our market share
- Our Audit portfolio has been enriched with a number of important regional players and the not-for-profit client base has been strengthened with Advisory wins
- Given the volatility of the project-based Advisory business and the cost-reduction programmes of many firms, Advisory faced a number of challenges However, major Advisory (and Audit) wins were achieved with Swiss and Liechtenstein regulatory authorities along with some of Switzerland's largest banks and insurance entities In other industry segments we were able to win important engagements with global players and major national clients
- Tax continues to be very resilient and we see major opportunities to support clients in the year ahead, particularly multinational companies and banks
- We are investing in positioning services to clients particularly those national market customers served by our regional offices Similarly we are gearing our people development programmes to helping our people bring our full multi-disciplinary proposition to clients
- Greater mobility within KPMG Europe LLP has seen many more people transfer to roles across the firm One of the most visible benefits of the merger is our ability to move our specialist resources rapidly to meet our clients' needs

Malcolm Edge
Head of Markets UK

UK

Market snapshot In difficult economic conditions UK national market clients have looked for greater support in controlling costs cash and restructuring so they are ready for a return to growth Public sector clients were particularly active in seeking to boost efficiency and performance

Issues ahead As recession eases, businesses face a significant challenge balancing risk and the need to achieve growth Cost control and compliance will be a significant priority But for forward-looking organisations the next 12 months could provide an important opportunity to catch the rising economic tide by transforming performance, exploiting export markets and conducting transactions

KPMG snapshot

- Overall UK revenues from national market clients grew by nearly 2%, a strong performance in a very difficult market

- Within that we saw revenues from public sector clients grow strongly, with many public bodies looking to use private sector techniques to boost efficiency Key clients included Oldham Council and Trafford Borough Council Overall our market share is strong in education, health, local Government and housing associations where we are market leaders

- Advisory revenues grew, powered by a 55% growth in restructuring revenues and strong growth in our performance improvement services Work for clients in the energy and natural resources sector was another strong growth area

- Our restructuring work – including all types of formal insolvency appointments and a wide range of Advisory work to develop and implement practical solutions for our clients – grew strongly High-profile assignments included JJB Sports plc and Coffee Republic

- The creation of KPMG Europe LLP has helped us pool resources, share insight and develop new service offerings in our national markets An example of this is in Family Office work where we manage the investment and tax affairs of high net worth international families

- With many national market companies looking to export and expand overseas, our teams across KPMG Europe LLP are well placed to offer local market knowledge, sector insight and cross-border expertise

- Wins for the year included AG Barr the makers of Irn Bru, Royal Liver and Communisis

- We were proud to win 'Audit Team of the Year' and 'Business Recovery Project of the Year at the 2009 Accountancy Age awards

People

It takes people with outstanding talent, energy, understanding, commitment and ideas to provide clients with outstanding service That's why our people and client strategies are so closely interlinked and why we aim for excellence in both

The formation of KPMG Europe LLP has proved that when we excel at recruiting retaining, rewarding developing and mobilising our professionals we win work with the best clients, again and again

Equally, when we win exciting assignments with leading companies and institutions on the critical economic issues of the day, we attract the best people to KPMG

During the year we worked hard to maintain this virtuous circle in a very challenging market and we began to see the benefits of enlarging the combined group in terms of recruitment and winning work

We've looked at new ways to develop and support our people in building trusted long-term relationships with our clients

We ve also managed our huge investment in people skilfully This has meant we ve been able to control costs while continuing to respond flexibly to our clients' needs and continuing to build an inspiring workplace for our people

The success of our approach was again widely recognised During the year we were

- Named Best Big Company to Work For in the UK by The Sunday Times for the second year running and for the third time in four years
- The only one of the Big 4 accountancy firms to be named among Germany's top five employers for graduates in the Trendence Absolventenbarometer
- Ranked amongst the 100 best companies to work for in Spain by Merco Personas

But these accolades are not the end of the story We are determined to improve our performance further

Focusing on skills
During the year we made three key changes to our learning and development programmes to ensure our people continue to provide the best possible client service

- **Flexible learning – a new development curriculum**
  We are changing our core skills curriculum so that it can be delivered through a 'blended' approach This means that our staff can learn wherever and whenever they want, reducing classroom time and increasing time spent with our clients The first three of our new modules were designed and delivered across the combined group this year

- **Emerging leaders – ready for the future**
  Some 500 people from assistant to senior manager, are now part of the group s Emerging Leader programme, designed to accelerate their development by giving them early exposure to challenging cross-border and cross-function assignments Through this programme we aim to develop people who will stand shoulder-to-shoulder with the world's top business executives, winning their trust and respect

- **Partner development – never stop learning**
  Just as we must continue to develop our staff we must remember that our partners also have a duty to continually learn and develop their skills and knowledge We have created a number of unique learning opportunities for our partners this year, many of which were themed around our Succeeding in Turbulent Times initiative Through webex cross-functional learning sessions and invited speakers from Government and key financial institutions we ensured our partners were equipped to help their clients through the credit crunch with the best technical and commercial advice based on the most up-to-date market insights

Diverse clients, diverse people
Recognising the business benefits of greater diversity at the very highest positions in our profession, the KPMG Europe LLP Board has renewed its commitment to clear diversity goals, including where appropriate a target for the number of women reaching partner level For example in the UK, we have set a target of 16% women partners by 2012 up from the current level of 14%

In practical terms this means for example

- An ongoing commitment to REACH, a six-month training and mentoring programme aimed at women managers Now running in Switzerland, the UK and Germany, REACH aims to improve key professional development and client skills such as networking and profile building and to boost confidence

Sharing experiences to provide global consistency for clients

Sami Hermazoui Rodrigo

With a growing number of multinationals investing abroad, KPMG has been working hard on a collaborative approach to share best practice around cross-border working

For over four years Sami has been advising Spanish multinationals who are keen to have a single point of contact to manage their global tax compliance, accounting and book-keeping needs allowing them to focus on establishing themselves in new countries

As part of his development Sami undertook a year-long secondment with the Global Tax Outsourcing team based in London Here he managed a number of global projects, which he has been able to apply to subsequent Spanish client projects

"Gaining this global experience has helped me to provide the best possible service to my clients – it has been invaluable During my secondment I built up my knowledge and networks that I still use today to find global solutions to client issues "

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People

- Our Chairmen and Chief Operating Officer are also sponsoring a programme to provide added support and inspiring challenges to selected women and people from ethnic minorities with the talent and ambition to become partners, as they prepare for partnership

- Ongoing support for employees with families In Germany for example we support childcare for employees in a number of cities, and in the UK offer emergency childcare arrangements for all employees

- The year saw the development of a number of employee networks across KPMG Europe LLP including in the UK a Parents and Carers network, the Islamic Society and a new China Club, in Switzerland and Germany the women's network KNOW continues to provide resources and information for women employees and the establishment of a new network called Pride@KPMG for lesbian, gay, bisexual and transgender employees in Germany

Our work to make KPMG Europe LLP a genuinely inclusive organisation has seen us recognised as

- Gold Standard in the Business in the Community/Opportunity Now benchmark

- The only Big 4 accountancy firm in the Working Families Top 20

- Gold Members of the Employers' Forum on Disability (EFD)

- Stonewall Champions

- Included in the Top 50 places Where Women Want to Work for the past four years

- Awarded the Career and Family award certificate from the Hertie Foundation s berufundfamilie gGmbH in Germany This award honours KPMG s efforts to make it easier for employees to combine a career and family

Managing change
Despite tough economic times we've continued to develop and consolidate our approach to people management across the combined KPMG Europe LLP group

One of the key benefits of the merger is our ability to create the right teams for our clients, drawing on the skills of our best people across all our markets

We are doing all we can to encourage greater mobility in the firm, to make sure we can assemble and deploy teams at high speed

Partners act as Global Opportunities Champions to encourage people to move about internationally and we are simplifying procedures for such moves During the year some 780 people worked on overseas assignments either within the group or the wider KPMG International network

Other initiatives are helping us improve efficiency and performance

- **Managing for Excellence (MfE)** – This is our programme to make sure some 1 300 people management leaders (PMLs) across the combined group have the right tools and skills to create a high-performance culture in our teams Our explicit ambition is to be best in class in the way we manage performance This year saw the launch of MfE in Spain alongside the UK Germany and Switzerland

- **Common technology** – Our SAP finance and human resources IT system now operating in the UK and Germany and being implemented in Switzerland and Spain has provided the common platform that will let us harmonise our core people processes

- **Innovation** – We are managing our cost of delivery in innovative ways The newly expanded KPMG Resource Centre joint venture between KPMG Europe LLP and KPMG India is enabling us to tap a new pool of talent to handle important aspects of client work efficiently

Safeguarding talent
We are committed to retaining our talent wherever possible and have been determined to learn the lessons from the last recession where many professional services firms cut jobs heavily only to regret it later

Across KPMG Europe LLP and similarly in other KPMG practices, we have adopted innovative approaches to managing our resources

Our Flexible Futures programme offered colleagues the chance to opt for a shorter working week or to take leave on reduced pay but full benefits, if required by the firm

Although entirely voluntary this saw some 88% of people in KPMG in the UK elect to sign up for the programme which saved €3 8 million in the year The response indicated high levels of trust in the firm and became a talking point among clients Many asked us to explain the approach and we subsequently advised some on implementation of their own schemes

In Germany, we set up a programme to introduce additional flexible working hours and actively used our well-established time management system which allowed us to reduce overtime

Although recruitment was scaled back temporarily, we were determined to continue attracting new talent to the firm and recruited 1 200 graduates to the combined group during the year

Challenges ahead
2009 was undoubtedly a challenging year for us and our clients We were delighted that surveys of people across the combined KPMG Europe LLP group continued to show high levels of employee engagement

We have huge pride in our people and in the tremendous work they do for clients

As the global economy begins to recover our main challenge is to support them in this work in imaginative ways and to continue building a flexible, high-performance culture for the benefit of our people and our clients

The strength of the enlarged firm has no doubt made us more collaborative and innovative and enabled us to differentiate ourselves as true employers of choice

Greater knowledge of accounting systems across Europe

Marcus Evans

"Since joining the firm I have always known I would apply for a secondment in one of our other European offices For me this was one of my reasons for joining KPMG The opportunity came when a number of the European practices were recruiting Transaction Services professionals for long-term secondments

I chose Brussels, as I could speak French (one of the two national languages) and had several friends who recommended the city The move was made extremely easy – I received great support from KPMG in finding a house and settling in

I found KPMG Belgium simultaneously foreign and familiar In some ways the work was often extremely similar, but in other ways, very different, a new team, a new language and a new set of accounting standards

My colleagues in Brussels were very supportive helping me with a new language and accounting system, and I gained confidence in my new environment I was able to return the favour by helping others with English expressions for their reports and sharing experiences from UK projects

I found the experience of working for another European practice enriching on many fronts, professionally, culturally and personally"

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Corporate social responsibility (CSR) is a defining part of our ethos as a firm. As KPMG Europe LLP expands, our challenge is to find new ways to involve our people, clients, suppliers and community partners to make a sustainable difference in society.

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Providing depth and breadth of knowledge

UNICEF

As part of their overall strategy the United Nations Children's Fund (UNICEF) Private Fundraising and Partnership Division based in Geneva initiated an ambitious business rationalisation programme aimed at significantly improving the effectiveness and efficiency of the global UNICEF Cards and Gifts operations

To achieve this UNICEF was looking for a team with a strong international profile the experience of managing complex transformation and change management processes and the ability to work in a truly global environment UNICEF expectations have been fully met by a broad KPMG team overseen by Swiss Advisory Partner, Giulio De Lucia, and composed of several individuals including a dedicated change manager based in Switzerland

This work will enable UNICEF to radically transform its Cards and Gifts value chain, providing the ability to adapt to market conditions, improve their cost/income ratio and ultimately create a platform to enter new high potential market segments For KPMG, we know that in due course our work will help raise more money to save children s lives, providing a considerable source of inspiration to all those involved

Go online for more information
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Giulio De Lucia
KPMG Advisory Partner on UNICEF

Corporate social responsibility

Corporate social responsibility is part of the culture of KPMG Europe LLP and is part of our values and our business strategy

We are committed to behaving ethically, safeguarding the environment and using our skills to make a lasting contribution to communities

An active approach to CSR also helps us build valuable and trusted relationships with our people, our clients our suppliers and society at large

We are well on the way to completing a three-year programme to embed CSR across the KPMG Europe LLP group right down to local office level so that our people can get involved in their local communities near where they work and live

Where appropriate we are harmonising our approach to CSR with strong leadership from the KPMG Europe LLP Board consistent policies, dedicated resources and clear communication But our approach can be modified from country to country to reflect local culture and priorities

Volunteering, charitable donations and environmental conservation continue to be the three main pillars of our programme and we ve made strong progress on all three in the year

In a tough economic climate we ve also looked for smarter, more efficient, ways to implement our programme and for opportunities to involve our clients and suppliers

The value of volunteering
Volunteering and pro bono work can ultimately be more valuable to the communities we support than cash donations vital though these are We actively encourage our people to volunteer their time and skills

During the year in the combined group

- Over 5 000 people completed some 59 000 hours of volunteer or pro bono work
- We donated over €15 million to the causes we support in cash or in kind

In the UK and Germany we raised €558 973 and €75 238 for our two staff-selected People Charities the Alzheimer's Society and Deutsche Kinder-und-Jugendstiftung respectively Elsewhere donations are channelled through KPMG Foundations to charities such as Medicos sin Fronteras in Spain and Kid's Kidney Care in Switzerland

Our core areas of focus
Community programmes focus on four main themes – education employability, enterprise and environment, areas where we feel our own skills can have the greatest impact Projects include

- The newly opened City Academy in Hackney, London where working alongside the City of London, we are each investing amounts of more than €1 million Last year over 150 KPMG people volunteered at the Academy and in feeder primary schools
- KPMG Germany s Partners in Leadership programme – which enables business leaders and head teachers to share management knowledge – was recognised this year as a landmark project in Germany – land of ideas
- Socially excluded young people and entrepreneurs are the focus of several projects we support in Spain
- Employees in Switzerland provided application training to young people looking for apprenticeships and support in finding employment for well-qualified immigrants

- In Germany since 2006 social marketplaces have helped businesses and non-profit organisations build invaluable links with each other by trading services, skills and knowledge There have been around 50 markets in Germany since inception and KPMG has been involved in around half of these, with about 3 500 cooperation agreements signed between businesses and organisations KPMG in Belgium participated in the programme for the first time this year and both Germany and Belgium are participating again in 2010

Our annual Make a Difference Day provides our people with an opportunity to get involved in a huge range of projects In Germany we had an 11% increase in participation supporting more than 90 projects In Switzerland we had almost a 30% increase in participation supporting 23 environmental and social projects In the combined group a record 4 000 people participated in Make a Difference Day and team challenges supporting more than 300 projects within their local communities

Managing environmental impacts
We are dedicated to managing our environmental impacts proactively and we are committed to working together across borders to make an even bigger difference KPMG International's ambition is for member firms to reduce their carbon emissions by 25% by 2010 using a 2007 baseline KPMG Europe LLP is working hard to meet this target and this will be an area of great focus in the next 12 months

Germany has achieved accreditation to the demanding ISO 14001 environmental standard in just 14 months and the UK has maintained accreditation The carbon footprint in the combined KPMG Europe LLP group in 2008 was 2 893 tonnes per head We are expecting a reduction in 2009 and are working hard to reduce this even further in 2010

State of the art energy-efficient technology in our new Canary Wharf building in London opening in 2010 will allow us to cut carbon emissions by up to 50%

But travel particularly flying, continues to be a challenge Our efforts to tackle this are becoming more sophisticated For instance, KPMG last year became one of the first companies in Germany to achieve carbon-free rail travel Other low-carbon initiatives include

- Encouraging people to take the train

- Implementing car-sharing schemes across Europe to reduce emissions, recently launched in Switzerland

- Making greater use of our new tele- and video-conferencing facilities

Working with suppliers and clients
Each year the group purchases €750 million of goods and services from suppliers By working closely with suppliers we can make important strides towards meeting our sustainability goals

Since 2008 all new group-wide contracts worth more than €50 000 have included our suppliers code of conduct based on the 10 principles of the UN Global Compact In the next 12 months our ambition is to implement the code of conduct for all suppliers and to work with local businesses to encourage and improve sustainability practices

Actions like these underpin the sustainability services we offer our clients, for instance in advising them how to tackle climate change and in auditing their sustainability reports

There has been no sign of our suppliers or clients taking a more relaxed approach to sustainability during the downturn Indeed they increasingly look for real proof that we are living up to the high standards of sustainability we seek to promote

These shared values and ambitions reinforce our own commitment to embedding the sustainability agenda in every part of our business

Corporate governance

Corporate governance
As a major international organisation the group applies high standards of corporate governance The governance structure for KPMG Europe LLP (which is laid down in the partnership agreement and associated operating provisions) therefore mirrors that found in our major clients albeit adapted slightly to reflect the fact that the firm is wholly owned by its members who work within the organisation

We are also committed to ensuring that we stay at the forefront of good governance In that respect we welcome and have participated actively in the development of the Audit Firm Governance Code published recently by the ICAEW Although this is designed to be applicable only to UK audit firms, KPMG Europe LLP already complies with nearly all of its provisions We are now considering how best to meet the remaining provisions, primarily those relating to the appointment of independent non-executives, for KPMG Europe LLP as a whole

This section summarises the roles and responsibilities of those bodies defined by the KPMG Europe LLP governance provisions in maintaining these high standards Further details of the governance arrangements operating within KPMG Europe LLP are set out in the KPMG Europe LLP Transparency Report

The Joint Chairmen
KPMG Europe is led by its Joint Chairmen, Rolf Nonnenmacher and John Griffith-Jones The Chairmen are appointed by the Board but the decision must be ratified by an ordinary resolution of the partnership They have both served two years of their initial term of office of five years The Joint Chairmen are responsible for leading the Group One of the Joint Chairmen currently chairs the Board and the other chairs the Executive Underneath the Joint Chairmen are six main bodies that deal with key aspects of governance within the Group

These are

- The Board
- The Executive Committee
- The Audit Committee
- The Risk & Compliance Committee
- The Nominations Committee
- The Remuneration Committee

The Board
The KPMG Europe Board is responsible for ensuring that the group is run in the interests of the members as a whole and in a manner which is in keeping with the standing and reputation of the firm The Board s responsibilities include setting the group s strategy overseeing its implementation, considering overall financial performance and solvency, ensuring the maintenance of a sound approach to risk management and internal control and reviewing its effectiveness

The Board members are shown on pages 40 to 41

The seven members of the Executive and the Head of Risk and Compliance are appointed by the Board following consideration of the recommendations of the Joint Chairmen They are elected for a term of three years, renewable for such a period as the Board sees fit The non-executive members are recommended for appointment by the Nominations Committee in consultation with the Joint Chairmen They are elected for a term of three years and if required can serve for two terms

The Board met formally nine times in the year to 30 September 2009

The Executive Committee

The Executive is responsible for managing the day-to-day operations of the group Its responsibilities include recommending policy to the Board, developing and implementing the Business Plan based on the Board s strategic priorities and monitoring operating and financial performance During 2009 it met 25 times

The Audit Committee

The Audit Committee is responsible for monitoring the integrity of the financial statements of the Group (including assessing any significant financial reporting judgements contained therein), reviewing internal financial and operational controls overseeing the internal audit function and monitoring the relationship with the external auditors

The Audit Committee comprised three non-executive Board members and met formally four times in the year to 30 September 2009

The Risk & Compliance Committee

The Risk & Compliance Committee (which was formed in December 2008) is responsible for helping to ensure a culture of quality and integrity is maintained within the group and also to act as support for the Head of Risk and Compliance on the policies and procedures relating to professional risk management, quality control, and ethics and independence

The Risk and Compliance Committee comprised three non-executive Board members and met four times in the year to 30 September 2009

The Nominations Committee

The Nominations Committee is responsible for identifying candidates for appointment to the Board and other key appointments within the group It reports into the Board and the Joint Chairmen, as appropriate The committee comprised four members and met four times in the year to 30 September 2009

The Remuneration Committee

The Remuneration Committee is responsible for making recommendations on policies for partners' remuneration, approving the process used by the Executive Committee for determining individual partner remuneration, and determines the remuneration of the Joint Chairmen and the members of the Executive Committee KPMG Europe s policies for partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability leadership and living the values of the firm The Remuneration Committee consisted of five non-executive Board members and met six times to discuss partner renumeration for the year ended 30 September 2009

National firms

The various firms that comprise our group have governance structures appropriate to meet their national laws and regulations These are described in more detail in the relevant national transparency reports

Risk management
The KPMG Europe Board has the ultimate responsibility for ensuring that an appropriate system of risk management and internal quality control operates throughout the group – covering all enterprise risks that we face The risks that it seeks to manage fall into four main categories

- Financial risk
- Operational risk
- Strategic risk
- Professional risk

Financial risk The management of financial risk falls under the direct responsibility of the Chief Financial Officer, reporting into the Board member with responsibility for this area (the Head of Finance and Infrastructure) The Audit Committee has oversight of the process to ensure that all key financial risks facing the group are properly identified and are appropriately managed

Operational risk The Board member responsible for operational risk is the Chief Operating Officer of KPMG Europe LLP The Audit Committee has oversight of the process to ensure that all key operational risks are properly identified and are appropriately managed

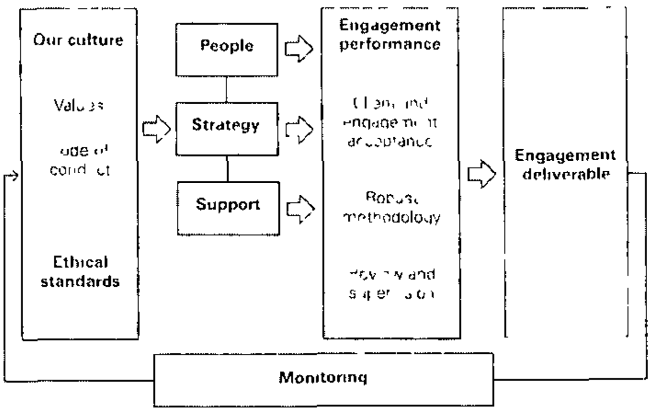
Strategic risk Strategy is under the direct control of the Board which considers and reviews the appropriateness of the group's strategy both on an ongoing basis and formally at its annual Strategy Day

Professional risk The Board member responsible for professional risk management within KPMG Europe LLP is the Head of Risk and Compliance The Risk and Compliance Committee which was formed in December 2008, provides additional board level focus on this important area The Head of Risk and Compliance is supported by a team of risk professionals at both group and country level

Our group operates systems designed to manage rather than eliminate the risk of failure to achieve business objectives arising from any of these risks As such these systems can only provide reasonable assurance against material misstatement or loss The Board either directly or through one of its committees has reviewed the effectiveness of the system of internal controls in operation during the year

How we deliver engagement quality
Our systems of quality control are designed to meet the expectations of our clients as well as the rules and standards issued by our regulators

The system of quality control that we employ can be depicted as follows



A detailed description of our systems of quality control is set out in our 2009 Transparency Report which can be accessed at the following link www kpmg eu/annualreport

A summary of some of the main elements of our system of quality control is as follows

1 Our culture
We recognise the importance of delivering quality services and are committed to doing so As such, a commitment to quality remains as one of the key strategic priorities for our group

Our values are another important factor that influences the culture of our firm Our final and most important value is that above all we act with integrity Our values are communicated to all of our people and are embedded into the performance appraisal process that our people follow Our commitment to professionalism and integrity is also enshrined in our code of conduct This describes the principles and standards of ethical conduct that KPMG requires and is underpinned by the core value of integrity

2 Our ethical standards
We are committed to achieving a high standard of ethical behaviour in everything that we do We operate rigorous policies, procedures and tools to help ensure that our partners and employees are free from prohibited financial interests in and prohibited relationships with our audit clients their management directors and significant owners and therefore comply with all applicable independence standards

3 Our people processes
One of the key drivers of quality is ensuring that the right partners and staff members with the right skills are assigned to an engagement To help ensure that we recruit and retain the right people, we adopt rigorous HR policies and procedures covering matters such as recruitment, performance evaluation professional development, compensation and partner admission In assigning people to specific engagements we evaluate a range of factors including their skill set, professional and industry experience and the nature of the engagement

4 Rigorous procedures for acceptance and continuance of clients and engagements
We have established policies and procedures for deciding whether or not to act for clients These include performing annual evaluations of the risks arising from being associated with a specific client as well as evaluations to determine whether or not KPMG is willing and able to provide a specific service to a client

5 A methodology which delivers effective engagement performance
Fundamental to our professional services are the quality controls which are embedded throughout the various standardised engagement processes and methodologies applicable to our various services These quality controls include policies and guidance to help ensure that the work performed by our people meets applicable regulatory requirements professional standards and internal standards on quality Appropriate review and supervision is one of the other key tools that we utilise to help to control the quality of our engagement deliverables

6 Monitoring and compliance
Policies and procedures are monitored regularly to ensure continuing relevance and effectiveness In addition independent reviews (including reviews of a sample of individual engagements/engagement leaders) are performed each year to assess the effectiveness of and compliance with the required risk management and quality control policies and procedures

Board members

01 John Griffith-Jones
Joint Chairman and UK Senior Partner
Home city London

02 Prof Dr Rolf Nonnenmacher
Joint Chairman and German Senior Partner
Home city Frankfurt am Main

03 Richard Bennison[1]
Chief Operating Officer
Home city London

04 Hubert Achermann
Swiss Senior Partner, Chairman of Remuneration Committee and non-executive Board member
Home city Zurich

05 Jeremy Anderson
Head of Markets
Home city London

06 Mike Ashley
Head of Risk and Compliance
Home city London

07 Guy Bainbridge
Chairman of Audit Committee and non-executive Board member
Home city London

08 Sue Bonney
Head of Tax
Home city London

09 Jurgen van Breukelen[2]
Home city Amsterdam

10 Andrew Cranston[3]
Russian and CIS Senior Partner and non-executive Board member
Home city Moscow

11 Rachel Campbell
Head of People
Home city London

12 Herman Dijkhuizen[2]
Dutch Senior Partner
Home city Amsterdam

13 Malcolm Edge
Member of Remuneration Committee and non-executive Board member
Home city Manchester

14 Dr Bernd Erle
Head of Finance and Infrastructure
Home city Berlin

15 Jaap van Everdingen[2]
Home city Amsterdam

16 Hans-Jurgen Feyerabend
Member of Risk & Compliance Committee and non-executive Board member
Home city Frankfurt am Main

17 Michael Gewehr
Member of Remuneration Committee and non-executive Board member
Home city Duesseldorf

18 Harald von Heynitz
Chairman of Nominations Committee and non-executive Board member
Home city Munich

19 Alistair Johnston
Non-executive Board member
Home city London

20 Johannes Pastor
Member of Audit Committee and non-executive Board member
Home city Munich

21 Karin Riehl[3]
Luxembourg Senior Partner and non-executive Board member
Home city Luxembourg

22 Jack van Rooijen[2]
Home city Utrecht

23 Bernd Schmid
Head of Advisory
Home city Stuttgart

24 Joachim Schindler
Head of Audit
Home city Berlin

25 John M Scott[4]
Spanish Senior Partner, member of Remuneration Committee and non-executive Board member
Home city Madrid

26 Dr Ashley Steel
Member of Risk & Compliance Committee and non-executive Board member
Home city London

27 Dieter Widmer
Member of Audit Committee and non-executive Board member
Home city Zurich

28 Luc Wygaerts[5]
Belgian Senior Partner member of Remuneration Committee Risk & Compliance Committee and non-executive Board member
Home city Brussels

29 Stefan Zwicker
Non-executive Board member
Home city Zurich

1 Appointed 1 January 2009
2 Attends the Board in an advisory capacity and will be formally appointed to the Board once membership of KPMG Europe LLP is finalised
3 Appointed 1 October 2009
4 Appointed 1 October 2008
5 Appointed 1 April 2009

Colin Cook was a member of the Board until his retirement on 31 December 2008

To maintain independence from the Board the other members of the Nominations Committee are drawn from the members at large and are currently Phillip Hallauer (Zurich) Wolfgang Zieren (Dusseldorf) and Mel Egglenton (Birmingham)

Report to the members

The Board (as set out on pages 40 to 41) submits its report together with the audited consolidated financial statements of KPMG Europe LLP and its subsidiary undertakings (the group) for the year ended 30 September 2009 The report to the members should be read in conjunction with the other sections of this annual report The financial statements to be filed at Companies House will comprise the group financial statements and the separate financial statements of KPMG Europe LLP

Legal structure

KPMG Europe LLP (the partnership) is incorporated in the United Kingdom as a limited liability partnership (LLP) under the Limited Liability Partnerships Act 2000 It was wholly owned by its members throughout the year The partnership, which has its headquarters in Frankfurt am Main Germany, has dual registration

- In the UK registered number OC324045, registered address 8 Salisbury Square, London EC4Y 8BB
- In Germany (in the commercial register at the District Court of Frankfurt am Main) registered number HRA 44574, registered address 60439 Frankfurt am Main, Marie-Curie-Strasse 30

At 30 September 2009, the group comprised the KPMG member firms in the UK, Germany and Switzerland together with certain entities of the KPMG member firms in Spain and Belgium The intention of the merger with the KPMG member firms in these countries was that the entire firm be included within the group However for contractual and regulatory reasons, this is not currently possible and certain entities principally the audit firms in both countries are therefore excluded from the group In all cases, ELLP has call options to acquire 100% of the share capital of those entities currently excluded from the group, the conditions for which are set out in note 8

The principal subsidiary undertakings of the partnership are set out in note 26 Details on the governance of the group are set out in the Corporate governance section on pages 36 to 39 which also discusses the group's approach to risk management

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of the partnership during the year were John Griffith-Jones, Rolf Nonnenmacher, Joachim Schindler and Richard Bennison Colin Cook was also a designated member until he retired on 31 December 2008

Principal activity

The group offers audit tax and advisory services across Europe

Strategy

The Chief Operating Officer discusses the group's strategy on pages 6 to 9

Financial performance

The group's results cover the KPMG member firms in the UK Germany and Switzerland together with certain entities of the KPMG member firm in Spain for the year to 30 September 2009 and certain entities of the KPMG member firm in Belgium for six months to that date (see note 8) Comparative results cover the UK and Germany alone (see note 1)

Group revenue was boosted by the completion of mergers with KPMG Switzerland, Spain and Belgium However the fall in the value of the pound sterling against the euro over the year resulted in the UK s decline in revenue of 1 6% in local currency translating to a decline of 14% in euro terms Hence the group s reported revenue of €3 495 million was virtually unchanged compared to the prior year in local currency, pro-forma terms

Revenues in the Audit function held up well against increasing pricing pressure, showing pro-forma growth of 3 1% in local currency terms Demand for Tax services suffered particularly in the UK in the absence of substantial volumes of merger and acquisition activity and as clients exercised tight control over discretionary spend Advisory broadly maintained revenues at their 2008 level Transaction Services and Corporate Finance suffered from the absence of major deals especially in Private Equity, whilst Forensic Governance & Compliance Performance and Restructuring all benefited from clients' concentration on enhanced efficiency, profit and cash flow maximisation Performance across each of the group's functions is discussed more fully on pages 12 to 14

As required by IFRS, operating profit for the financial year is shown after deduction of members' remuneration payable under local employment and service contracts but before all profit shares payable to UK partners The operating profit of €444 million is, as a consequence almost entirely denominated in pounds sterling Substantially all the reduction of €51 million compared to 2008 is attributable to the weakening of the pound against the euro

Average full-time equivalent headcount of the group on a pro-forma basis for the year was 21,055 This was a fall of 3%, arising in all of the group's operating segments as the firm managed its resources in reaction to weak demand for services, including the innovative Flexible Futures programme adopted in several countries Partners and employees were offered the chance to opt for reduced working hours, or leave of absence at partially reduced pay

Net assets and liquidity

The group's statement of financial position at 30 September 2009 includes the assets and liabilities of the KPMG member firms in the UK Germany, Switzerland, and certain entities of the KPMG member firms in Spain and Belgium, at 30 September 2008 UK Germany and Switzerland

The balance sheet of the group continues to be strong Operations are generally financed by members' capital and other reserves which together totalled €688 million at 30 September 2009 Bank facilities of €503 million are also available to the group against which €158 million had been drawn at 30 September 2009

Capital is provided by each member on becoming a partner and totalled €99 million at 30 September 2009 (2008 €97 million) The increase reflects a mixture of additional capital from partners in Spain and Belgium and additional capital from new partners in the UK Germany and Switzerland, offset by adverse exchange rate impacts Capital is only repayable on retirement or resignation and is therefore relatively stable from year to year

The group's main assets attributed to the client service segments are trade receivables and unbilled amounts for client work Both categories are monitored monthly at departmental and function levels The prompt rendering of fees for work done, and collection of the resulting receivables, are important aspects of the group s monitoring of financial risks After reflecting the impact of exchange rate movements on non-euro balances these assets totalled €545 million at 30 September 2009 compared to €648 million at 30 September 2008

The group s operating activities are normally cash generative, save for investments in property, plant and

Report to the members
continued

equipment and intangible assets Cash outflows are strongly influenced by the timing and amounts of payments in respect of profit shares and bonuses to members and staff Additionally, there was considerable investment in the group's infrastructure, reflected in €131 million additions to property, plant and equipment (after deducting the capitalisation of amounts previously treated as prepayments, in respect of the new UK headquarters building at 15 Canada Square, London) and €31 million to intangible assets

Going concern
The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairmen's statement on pages 2 to 5 The financial position of the group, its cash flows and liquidity position are discussed above In addition, note 22 to the financial statements sets out the group's objectives, policies and processes for risks arising from the group's use of financial instruments, in particular its exposure to credit and liquidity risks The borrowing facilities, together with details of amounts drawn down under these borrowing facilities, are also set out in note 22

The group has considerable financial resources together with well-established relationships with many clients and suppliers across different geographic areas and industries As a consequence, the Board believes that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook

After making enquiries, the Board has a reasonable expectation that the group 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

Post balance sheet events
During 2009, the KPMG International member firms in the Netherlands, Luxembourg and the Commonwealth of Independent States (CIS, comprising Russia, Ukraine, Armenia, Kazakhstan, Kyrgyzstan and Georgia) all voted to join the group the partnership obtained control over the Netherlands and part of the Luxembourg firms in October 2009 but control over the CIS is subject to various regulatory clearances such that legal completion is expected to occur only later in the year ending 30 September 2010 Control over the remaining entities in Luxembourg is subject to the introduction of the EC 8th Directive into Luxembourg law, anticipated to be before 30 September 2010 In the meantime, these are treated as associated entities

Additionally, the KPMG International member firm in Turkey voted during 2009 to merge into KPMG Europe LLP with effect from 1 October 2009, but legal provisions in Turkey mean that the partnership will own no shares in the existing entities and will not have control over them See also note 28

Treasury and risk policies
The group's presentation currency is the euro The principal functional currencies of the group's operating subsidiaries in the year were the euro, pounds sterling and the Swiss franc The principal treasury risks of the group relate to exchange rate, liquidity and interest – full details of the group's policies and management of treasury risks are set out in note 22 to the financial statements The principal trading risks faced relate to the current uncertain economic position, discussed by the Chief Operating Officer on pages 6 to 9, and the possibility of professional negligence claims, against which the group has a substantial level of insurance cover and extensive risk management policies, as discussed in the Corporate governance section on pages 36 to 39

Members' remuneration
The distributable profits for each accounting period are determined by the Board and are allocated to each member by the Executive Committee A member may receive income under a contract with a subsidiary company, or as a profit share from the partnership or a subsidiary LLP Policies on the allocation of profits and drawings, and on members' capital, are discussed in note 1 on pages 52 to 53

Creditor payment policy
We agree commercial terms with suppliers (including payment terms) and, if performance accords with these terms, we abide by the agreed payment arrangements Trade creditors of the group at 30 September 2009 were equivalent to 27 days' purchases (2008 25 days), based on the amounts invoiced by suppliers during the year

Statement of members' responsibilities in respect of the Report to the members and the group financial statements
The members are responsible for preparing the Report to the members and the group financial statements in accordance with applicable law and regulations

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the 2008 Regulations) require the members to prepare group financial statements for each financial year Under that law the members have elected to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law

Under Regulation 8 of the 2008 Regulations the members 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 group and of the profit of the group for that period

In preparing these financial statements, the members 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 as adopted by the EU, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

Under Regulation 6 of the 2008 Regulations the members are responsible for keeping adequate accounting records that are sufficient to show and explain the partnership's transactions and disclose with reasonable accuracy at any time its financial position and enable them to ensure that its financial statements comply with those regulations 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

The members are responsible for the maintenance and integrity of the corporate and financial information included on the group's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

During the year, these responsibilities were exercised by the Board on behalf of the members

Report of the independent auditor to the members of KPMG Europe LLP

We have audited the group financial statements of KPMG Europe LLP for the year ended 30 September 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes These financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent financial statements of KPMG Europe LLP for the year ended 30 September 2009

This report is made solely to the members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006 as applied by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 Our audit work has been undertaken so that we might state to the 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 partnership and the members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of members and auditors

The members' responsibilities for preparing the report to the members and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the 'Statement of members' responsibilities in respect of the Report to the members and the group financial statements'

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) It is our responsibility to form an independent opinion based on our examination, and to report our opinion to you

In addition we report to you if, in our opinion, KPMG Europe LLP has not kept adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us, or the group financial statements are not in agreement with the accounting records and returns, or if we have not received all the information and explanations we require for our audit

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements This other information comprises only the Report to the members and the information on pages 1 to 41 We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements

Basis of audit opinion

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

Opinion

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 30 September 2009 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 Companies Act 2006 as applied by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

Grant Thornton UK LLP

Stephen P S Weatherseed
Senior Statutory Auditor
for and on behalf of
Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants
London
11 December 2009

Consolidated income statement
for the year ended 30 September 2009

	Note	2009 €m	2008 €m
Revenue	2	3,495	3,387
Other operating income	4	120	96
Personnel costs	5	(1,948)	(1,865)
Depreciation and amortisation	10, 11	(52)	(61)
Other operating expenses	6	(1,171)	(1,062)
Operating profit		**444**	**495**
Financial income	7	121	110
Financial expense	7	(113)	(87)
Net financial income		**8**	**23**
		452	518
Negative goodwill arising in the year	8	–	176
Profit before taxation		**452**	**694**
Tax expense	9	(6)	(3)
Profit for the financial year, attributable to members as owners of the parent entity		**446**	**691**

Consolidated statement of comprehensive income
for the year ended 30 September 2009

	Note	2009 €m	2008 €m
Profit for the financial year		**446**	**691**
Other comprehensive income			
Foreign exchange translation differences		(74)	(74)
Change in fair value of available-for-sale assets		3	(3)
Actuarial (losses)/gains on defined benefit pension plans	20	(164)	55
Related tax effect	9	21	(29)
Other comprehensive income for the year, net of tax		**(214)**	**(51)**
Total comprehensive income for the year, attributable to members as owners of the parent entity		**232**	**640**

Consolidated statement of financial position
at 30 September 2009

Assets

	Note	2009 €m	2008 €m
Non-current assets			
Property, plant and equipment	10	387	110
Intangible assets	11	88	63
Securities and other investments	12	58	40
Deferred tax assets	13	49	31
Tax receivable	9	14	15
Employee benefits	20	28	71
Non-current loans and receivables	14	65	13
		689	343
Current assets			
Trade and other receivables	15	929	1,269
Amounts due from members	21	146	154
Other investments	16	96	119
Tax receivable		12	26
Cash and cash equivalents	17	270	283
		1,453	1,851
Total assets		**2,142**	**2,194**
Equity and liabilities			
Equity attributable to members, as owners of the parent entity			
Other reserves classified as equity	21	589	762
Liabilities			
Non-current liabilities			
Employee benefits	20	105	12
Provisions	19	165	173
Deferred tax liabilities	13	5	13
Other non-current liabilities	10	9	8
		284	206
Current liabilities			
Short-term bank borrowings	22	158	95
Trade and other payables	18	749	765
Tax payable		34	37
Amounts due to members	21	194	181
Provisions	19	35	51
Members' capital	21	99	97
		1,269	1,226
Total liabilities		1,553	1,432
Total equity and liabilities		**2,142**	**2,194**

Total members' interests

Members' capital	99	97
Other reserves	589	762
	688	859
Amounts due from members	(146)	(154)
Amounts due to members	194	181
Total members' interests	**736**	**886**

The financial statements on pages 45 to 78 were approved by the members on 11 December 2009 and were signed on their behalf by

John Griffith-Jones Joint Chairman

Prof Dr Rolf Nonnenmacher Joint Chairman

Consolidated statement of changes in equity
at 30 September 2009

	Members other reserves €m	Fair value reserve €m	Translation reserve €m	Total equity €m
Balance at 1 October 2007	655	–	(16)	639
Total comprehensive income				
Profit for the financial year	691	–	–	691
Foreign exchange translation differences	–	–	(74)	(74)
Change in fair value of available-for-sale assets	–	(3)	–	(3)
Actuarial gains and losses on defined benefit pension plans	55	–	–	55
Related tax effect	(29)	–	–	(29)
Total comprehensive income	717	(3)	(74)	640
Profits allocated to members during the year	(514)	–	–	(514)
Other transactions with members	(3)	–	–	(3)
Balance at 30 September 2008	855	(3)	(90)	762
Total comprehensive income				
Profit for the financial year	446	–	–	446
Foreign exchange translation differences	–	–	(74)	(74)
Change in fair value of available-for-sale assets	–	3	–	3
Actuarial gains and losses on defined benefit pension plans	(164)	–	–	(164)
Related tax effect	21	–	–	21
Total comprehensive income	303	3	(74)	232
Profits allocated to members during the year	(395)	–	–	(395)
Other transactions with members	(10)	–	–	(10)
Balance at 30 September 2009	**753**	**–**	**(164)**	**589**

Consolidated statement of cash flows
for the year ended 30 September 2009

	Note	2009 €m	2008 €m
Cash flows from operating activities			
Profit for the financial year		446	691
Adjustments for			
Tax expense	9	6	3
Negative goodwill arising in the year	8	–	(176)
Depreciation and amortisation	10,11	52	61
Financial income	7	(121)	(110)
Financial expense	7	113	87
		496	556
Decrease in trade and other receivables		238	114
Decrease in trade and other payables		(144)	(85)
Decrease in provisions and employee benefits		(31)	(34)
Cash generated from operations		**559**	**551**
Interest and other financial costs paid		(7)	(6)
Corporate taxes paid		(16)	(26)
Net cash flow from operating activities before transactions with non-salaried members		536	519
Payments to or on behalf of members without employment or service contracts		(413)	(545)
Net cash flows from operating activities		**123**	**(26)**
Cash flows from investing activities			
Cash acquired on business combinations (net of cash paid)	8	2	282
Proceeds from sale of property plant and equipment		1	1
Interest and other financial income received	7	9	14
Disposal of investments and securities		29	11
Acquisition of property plant and equipment		(131)	(163)
Development and acquisition of capitalised intangible assets	11	(31)	(41)
Net cash flows from investing activities		**(121)**	**104**
Cash flows from financing activities			
Short-term bank borrowings		63	95
Loans advanced		(17)	–
Capital introduced by members	21	14	14
Capital repayments to members	21	(7)	(14)
Net cash flows from financing activities		**53**	**95**
Net increase in cash and cash equivalents		55	173
Cash and cash equivalents – beginning of the year		283	163
Effects of exchange rate fluctuations		(68)	(53)
Cash and cash equivalents at the end of the year	17	**270**	**283**

Notes
forming part of the consolidated financial statements

1 Accounting policies

KPMG Europe LLP (the partnership) was incorporated in the UK on 17 November 2006 as a limited liability partnership (LLP) under the Limited Liability Partnerships Act 2000 It has its seat in Frankfurt am Main, Germany and is also registered with the Handelsregister Frankfurt

The consolidated financial statements include the financial statements of the partnership and its subsidiary undertakings (the group)

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all group entities In these financial statements, the following International Financial Reporting Standards as adopted by the European Union (adopted IFRSs) and related amendments and interpretations to published standards are reflected for the first time

- Revision to IAS 1 'Presentation of Financial Statements Revised 2007 voluntary adoption as this standard is effective only for financial years beginning on or after 1 January 2009
- Amendments to IAS 32 and IAS 1 'Puttable financial instruments and obligations arising on liquidation voluntary adoption, as this standard is effective only for financial years beginning on or after 1 January 2009

The amendment to IAS 1 has had an impact on presentation of the group's financial statements resulting in a new primary statement the Statement of changes in equity, but has had no other impact Hence no restated information as at the date of earliest application, 30 September 2007, is presented as this would have been unchanged from the data presented at that time The amendment to IAS 32 and IAS 1 has had no impact on the group s financial statements

The group voluntarily adopted IFRS 8 Operating segments' in the year ended 30 September 2008 This standard is mandatory only for listed entities and for such entities is mandatory only for financial years beginning on or after 1 January 2009

A number of new amendments and interpretations have been endorsed by the European Union as part of adopted IFRSs but are not yet effective None of these amendments are expected to have a significant impact on the group's financial statements

Basis of preparation

These financial statements have been prepared in accordance with adopted IFRSs The financial statements have been approved by the members The financial statements are prepared on the historical cost basis except that all derivative financial instruments and certain other financial instruments are stated at their fair value

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities income and expenses Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27

The functional currency of the partnership and the presentation currency of the group is the euro The financial statements are presented in millions of euro (€m)

Basis of consolidation and equity accounting

The bringing together on 1 October 2007 of the KPMG International member firms in Germany and the UK and the subsequent addition of the member firm in Switzerland, and, during the year ended 30 September 2009 certain entities of the member firms in Spain and Belgium were regarded by the respective countries' partners as being mergers of like-minded professional services firms not involving an 'acquisition' in the normal sense No attempt was made in the merger negotiations to value each firm on an arm s length basis other than for the impact of harmonising accounting policies

However, adopted IFRSs do not permit the possibility of accounting for a business combination as a merger or through the pooling of interests method Rather, IFRS 3 Business Combinations' requires that all cases meeting the definition of a business combination must be accounted for as an acquisition The creation of the group and subsequent mergers each contain aspects that meet the definition of a business combination Hence the initial merger between KPMG LLP and KPMG AG (then KPMG Deutsche Treuhand-Gesellschaft AG) was presented in the financial statements as an acquisition by the larger party KPMG LLP acting through the newly incorporated vehicle of the partnership Subsequent mergers are also treated as acquisitions

Subsidiaries are entities controlled by the partnership Control exists when the partnership has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that are currently exercisable or convertible are taken into account The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies Associates are accounted for using the equity method and are initially recognised at cost The consolidated financial statements include the group's share of the total comprehensive income of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases

Business combinations

As part of its transition to adopted IFRSs, KPMG LLP elected not to restate any business combinations that took place prior to 1 October 2004, its date of transition Business combinations prior to this date have been accounted for under KPMG LLP s previous accounting framework, UK GAAP The transfer in 2002 to KPMG LLP of the business formerly carried on in the UK by a general partnership with unlimited liability under English law was accounted for in accordance with the principles of merger accounting

For business combinations effected since 1 October 2004 fair values that reflect conditions at the date of the business combination and the terms of each business combination are attributed to the identifiable assets liabilities and contingent liabilities acquired These amounts represent their cost of acquisition Goodwill is recognised where the cost of the business combination exceeds the total of these fair values Where the excess is positive, it is treated as an intangible asset, subject to annual impairment testing Where the excess is negative (referred to in these financial statements as negative goodwill), it is recognised immediately in the income statement

1 Accounting policies continued
The mergers which formed the group or have arisen since formation, reflect expectations that future profits arising in the 'acquired' member firms from their existing client contracts and relationships will continue in practice substantially to accrue to the partners in the acquired' firms This is to be contrasted with a commercial acquisition where the purchase is made specifically to give the acquirer full access to the profits and cash flows of the entity acquired Accordingly, in considering the value to be ascribed to intangible assets in the acquired firm, allowance is made for an arm s length assessment of the remuneration of partners in each country for their services to the group, as distinct from that part of their total reward estimated to be attributable to a return on the capital they own in the group

Intangible assets have been recognised in respect of customer relationships and order books Those in respect of customer relationships are amortised over 10 or 20 years considered to be the expected lives over which benefit is obtained from that relationship in each country Those in respect of order books are written off over a period that matches the benefit arising under the contract, typically three to six months

Foreign currency
Transactions in each entity in currencies other than its 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 are translated in each entity 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

For presentation purposes, the assets and liabilities of subsidiary undertakings with a functional currency other than euro including goodwill and fair value adjustments arising on consolidation are translated at foreign exchange rates ruling at the balance sheet date The revenues and expenses of such undertakings are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of transactions Exchange differences arising from this translation are taken directly to equity and recognised in the translation reserve They are reclassified from equity to profit or loss as a reclassification adjustment when the gain or loss on disposal is recognised

Revenue
Revenue represents the fair value of the consideration receivable in respect of professional services provided during the year, inclusive of direct expenses incurred on client assignments but excluding value added tax Where the outcome of a transaction can be estimated reliably, revenue associated with the transaction is recognised in the income statement by reference to the stage of completion at the year end provided that a right to consideration has been obtained through performance Consideration accrues as contract activity progresses by reference to the value of work performed Hence revenue in respect of service contracts represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant

Where the outcome of a transaction cannot be estimated reliably revenue is recognised only to the extent that the costs of providing the service are recoverable No revenue is recognised where there are significant uncertainties regarding recovery of the consideration due or where the right to receive payment is contingent on events outside the control of the group Expected losses are recognised as soon as they become probable based on the latest estimates of revenue and costs

Unbilled revenue is included in trade and other receivables as Unbilled amounts for client work Amounts billed on account in excess of the amounts recognised as revenue are included in Trade and other payables

Taxation
For those group entities that are UK LLPs, taxation on all profits is solely the personal liability of the individual members Consequently neither taxation nor related deferred taxation arising in respect of the partnership (or its subsidiary KPMG LLP) is accounted for in these financial statements

All distributions to members of these LLPs are made net of income tax, such amounts retained are paid to the local tax authorities by the entities, on behalf of the individual members, when this tax falls due These amounts retained for tax are treated in the financial statements in the same way as other profits of the partnership and its subsidiary LLP and so are included in 'Members' other interests or in 'Amounts due to members depending on whether or not division of profits has occurred

The companies dealt with in the consolidated financial statements are subject to local corporate taxes based on their profits for the accounting period Tax and any deferred taxation of these companies are recorded in the consolidated income statement or consolidated statement of comprehensive income under the relevant heading and related balances are carried as tax payable or receivable in the consolidated 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 balance sheet date and any adjustment to tax payable in respect of previous years

Deferred tax in subsidiary companies 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 following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

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 balance sheet date 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

Financial income and expense
Financial income comprises interest and dividend income on funds invested (including available-for-sale financial assets and held-to-maturity investments) discount on property prepayment expected returns on defined benefit pension plan assets, gains on derivatives recognised in profit or loss, exchange gains and other income Interest income is recognised as it accrues using the effective interest method Dividend income is recognised on the date that the group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date

Notes

forming part of the consolidated financial statements continued

1 Accounting policies continued

Financial expense comprises exchange losses, interest cost on short-term bank borrowings losses on derivatives recognised in profit or loss, interest cost on defined benefit pension plan liabilities discount on provisions and other finance costs All borrowing costs are recognised in profit or loss using the effective interest method

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses Parts of an item of property, plant and equipment having different useful lives are accounted for as separate items

Leases under which the group assumes substantially all the risks and rewards of ownership are classified as finance leases Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments assessed at inception of the lease Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset

Depreciation is provided to write off the cost less the estimated residual value of property plant and equipment and is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment The estimated useful lives are as follows

Leasehold buildings	50 years
Office furniture fittings and equipment	5–10 years
Computer and communications equipment	2–5 years
Motor vehicles	5 years

The residual value, if not insignificant, is reassessed annually

Intangible assets

Expenditure on research is recognised in the income statement as an expense as incurred Expenditure on internally generated software is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources to complete development The expenditure capitalised includes the cost of materials direct labour and an appropriate proportion of overheads Other development expenditure is recognised in the income statement as an expense as incurred

Capitalised development expenditure and software and licences that are acquired by the group and have a finite useful life are measured at cost less accumulated amortisation and impairment losses

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use The estimated useful life of software and licences and of internally generated software is five to eight years

Goodwill, customer relationships and order books are discussed in 'Business combinations' above Goodwill is stated at cost less any accumulated impairment losses Customer relationships and order books are stated at cost less accumulated amortisation

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in securities trade and other receivables cash and cash equivalents, loans and borrowings, trade and other payables, members' capital and amounts due to and from members

Securities

If the group has a positive intent to hold to maturity securities for which the amounts due are fixed or determinable and have a fixed maturity, then they are considered to be held-to-maturity financial instruments and are classified as non-current securities unless due to mature in less than 12 months These assets are initially measured at fair value, calculated by reference to their quoted bid price Subsequent to initial recognition, these assets are measured at amortised cost, using the effective interest method, less any impairment losses

Other investments

Other investments held by the group mainly comprise bonds, equities and shares in investment funds These assets are classified either as available-for-sale or at fair value through profit or loss and are stated at fair value, calculated by reference to their stock exchange price at the year end

Any resultant gain or loss on those assets classified as available-for-sale is recognised directly in other comprehensive income, in the fair value reserve, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses When these investments are derecognised, the cumulative gain or loss is reclassified from the fair value reserve to profit or loss Where these investments are interest bearing, interest calculated using the effective interest rate method is recognised in profit or loss

Any resultant gain or loss on those assets classified as fair value through profit or loss is recognised in the income statement

Non-current loans and receivables

Non-current loans and receivables are initially recognised at fair value, based upon the estimated present value of future cash flows discounted at the market rate of interest at the year end Subsequent to initial recognition non-current loans and receivables are recorded at amortised cost

Trade and other receivables

Trade and other receivables (except unbilled amounts for client work) are recognised at fair value, based upon discounted cash flows at prevailing interest rates or at their nominal amount less impairment losses if due in less than 12 months Subsequent to initial recognition trade and other receivables are valued at amortised cost less impairment losses

Short-term bank borrowings

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

Trade and other payables

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

Cash and cash equivalents

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

Notes

forming part of the consolidated financial statements continued

1 Accounting policies continued

Members' capital

The capital requirements of the group are determined from time to time by the Board, following recommendations from the Executive Committee Each member is required to subscribe a proportion of this capital after taking into account any capital already contributed by the member to an LLP or other entity (being a subsidiary of the partnership) of which he is also a member Hence members' capital of the group represents capital subscribed by members of the partnership to either the partnership or a subsidiary entity

No interest is paid on capital

On leaving the partnership, a member's capital must be repaid within one month of the leaving date, unless other arrangements have been agreed between the member and the Executive Committee

Members' capital is therefore considered a liability and is stated at its nominal value, being the amount repayable

This classification was reviewed in light of the amendment to IAS 32 and IAS 1 regarding the classification of a puttable financial instrument However the terms of members' capital do not meet all of the criteria to be met in order to justify classification as an equity instrument and classification as a liability remains appropriate

Amounts due to and from members

Amounts due to and from members are stated at their nominal value, as this approximates to amortised cost

Derivative financial instruments and hedging

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational financing and investment activities In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes The derivative financial instruments used do not satisfy the criteria to be classified as hedging instruments and are treated as financial assets or liabilities held for trading

Derivative financial instruments are recognised at fair value Those with a positive fair value are classified within 'Other investments , derivative financial instruments with a negative fair value are classified within 'Trade and other payables' Attributable transaction costs are recognised in profit or loss when incurred Subsequent gains or losses on remeasurement of fair value are recognised immediately in profit or loss The fair value of interest rate swaps is the estimated amount that the group would receive or pay at the year end, taking into account current interest rates and the current creditworthiness of the swap counterparties The fair value of forward exchange contracts is their market price at the year end

Unbilled amounts for client work

Unbilled amounts for client work relate to service contract receivables on completed work where the fee has yet to be issued or where the service contract is such that the work performed falls into a different accounting period Unbilled amounts for client work are stated at cost plus profit recognised to date (in accordance with the revenue accounting policy above) less provision for foreseeable losses and net of amounts billed on account

Impairment

The carrying amounts of the group's assets (except employee benefit and deferred tax assets) are reviewed at each year end to determine whether there is any indication of impairment If any such indication exists the assets' recoverable amounts are estimated For goodwill the recoverable amount is estimated at each balance sheet date

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 short duration are not discounted The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its 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 In respect of other assets (except those classified as available-for-sale), an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

Leases

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability

Provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract Provision is made for the present value of foreseeable rental commitments in respect of surplus property, after offsetting any future sub-letting income that could be earned Surplus property includes premises which will become redundant as a result of steps to which the group is committed

Notes

forming part of the consolidated financial statements continued

1 Accounting policies continued

The group has conditional commitments to pay annuities to certain former members (and dependants) of KPMG LLP a subsidiary of the partnership, including individuals who were partners in the unlimited liability partnership whose business was transferred to KPMG LLP in 2002 These annuities are payable only out of the profits of KPMG LLP, on which they constitute a first charge The present value of the best estimate of the expected liabilities for future payments to retired members or their dependants is provided in full, gross of attributable taxation that is deducted by KPMG from payments to annuitants, as a charge against income at the point at which the contractual right arises Any changes in the provision for former members' annuities arising from changes in former members and their dependants or in financial estimates and actuarial assumptions are recognised in the income statement The unwinding of discount is presented in the income statement as a 'Financial expense' The payment of former members' annuities is shown as a movement against the provision

A substantial level of insurance cover is maintained in respect of professional negligence claims This cover is principally written through mutual insurance companies Premiums are expensed as they fall due Where appropriate provision is made for the uninsured cost to the group of settling negligence claims Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the position of the group in any dispute with other parties

Employee benefits

The group operates various defined contribution pension plans for which the charge for the year represents the contributions payable to the plans in respect of the accounting period An accrual or prepayment is included in the balance sheet to the extent to which such costs do not equate to the cash contributions paid in the year

The group also operates several defined benefit pension plans including three closed plans Two of these plans are closed to new entrants and provide benefits on final pensionable pay whilst the other is closed to new entrants and to current service and provides benefits based on average pensionable pay The group's net obligations in respect of its defined benefit plans are calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of plan assets (at bid price) is deducted The liability discount rate is the yield at the year end on AA credit rated bonds that have maturity dates approximating to the terms of each plan s obligations The calculations are performed by qualified actuaries using the projected unit credit method

When the benefits of a plan are improved the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested To the extent that the benefits vest immediately the expense is recognised immediately in the income statement

Actuarial gains and losses are recognised in the period in which they occur directly into equity through the statement of comprehensive income

Surpluses are recognised on defined benefit pension plans only to the extent that they are considered to be recoverable by the group, taking account of future service by members of, and contributions payable to the relevant plan

Allocation of profits and drawings

The allocation of group profits to those who were members of the partnership during the financial year occurs at the discretion of the Board following finalisation of the annual financial statements As is permitted by the Limited Liability Partnerships Regulations and the Partnership Agreement, allocated profits may not necessarily represent all the profits arising in a particular financial year if the Board considers it appropriate to retain profits or to allocate profits previously retained

During the year, members in certain countries receive salary under their separate contracts of employment with subsidiary legal entities and are entitled to bonuses under the same contracts of employment Members in other countries receive remuneration by rendering charges for their services personally or from a company under their control Such items are considered to be expenses of the group and are treated as Personnel costs' in the income statement Amounts remaining unpaid at the end of the year in respect of bonuses are classified as 'Amounts due to members'

During the year, members working within KPMG LLP receive monthly drawings, and from time to time, additional profit distributions The level and timing of the additional distributions are decided by the Executive Committee, taking into account cash requirements for operating and investing activities Similarly, drawings or distributions may be paid by the partnership All such drawings and profit distributions to members represent payments on account of current year profits and are reclaimable from members until profits have been allocated Any over-distribution of profits during the year is also recoverable from members

Pending the allocation of profits and their division between members, therefore, drawings and on-account profit distributions paid to such members during the year are shown as 'Amounts due from members' Unallocated profits are shown in Equity as Other reserves In both cases, necessarily, amounts that may be determined as due from and attributable to members who retired from the partnership or KPMG LLP in the year may be included

Notes
forming part of the consolidated financial statements continued

2 Segmental reporting

Segment information is presented in respect of the group s segments, reflecting the group s principal management and internal reporting structures

The group is managed internally through the functions of Audit Tax and Advisory Audit Tax and Advisory are therefore considered as separate operating segments for the purposes of presenting segment information under IFRS 8 The segments are identified for internal reporting purposes according to the nature of services provided, principal services provided by each segment include

Segment
Audit
Provision of statutory and regulatory attestation services, provision of advice in compliance with changing reporting and regulatory requirements

Tax
Advice and compliance assistance in relation to tax, remuneration planning and pensions

Advisory
Provision of advice on embedding governance risk management and internal controls and on compliance with changing regulatory requirements, deal support from pre-deal evaluation to completion and post-deal enterprise-wide integration, following business disposals, mergers or acquisitions provision of restructuring and recovery advice including corporate and personal insolvency, financial advice on public and private transactions including mergers and acquisitions flotations and valuations, provision of accounting, investigation and business skills to assist clients involved in contentious financial matters provision of cost optimisation advice, IT-enabled transformation support to ensure targeted business benefits are delivered and effective operating models and business processes designed, to improve front and back office functions and position business for maximised growth, finance transformation advice on improving the effectiveness and efficiency of the finance function

Information by segment is as follows

Segmental reporting 2009

	Audit €m	Tax €m	Advisory €m	Total €m
Gross revenue (as reported internally)	1,268	864	1 347	3 479
Financial accounts adjustments				16
Total group revenue				**3,495**
Segmental results (as reported internally)	460	308	474	1 242
Central costs				(798)
Net financial income				8
Total group profit before taxation				**452**
Total segment assets (as reported internally)	107	186	252	545
Unallocated assets				1 597
Total assets				**2,142**

Segmental reporting 2008

	Audit €m	Tax €m	Advisory €m	Total €m
Gross revenue (as reported internally)	1,183	861	1 331	3,375
Financial accounts adjustments				12
Total group revenue				**3,387**
Segmental results (as reported internally)	438	317	499	1,254
Central costs				(759)
Net financial income				23
Negative goodwill arising in the year				176
Total group profit before taxation				**694**
Total segment assets (as reported internally)	143	214	291	648
Unallocated assets				1 546
Total assets				**2,194**

Certain adjustments are made to revenue reported in the financial statements compared to that reported internally In addition certain judgements taken in respect of revenue on incomplete contracts may differ for financial accounts purposes These issues have no impact on segmental results

2 Segmental reporting continued

Central costs represent the costs of central support and infrastructure such as property and IT costs, marketing, training and other general overhead expenses (including depreciation amortisation and other non-cash items) These are not directly controllable by the segments and are not allocated to them in the group's internal reporting Allocation of such items to the segments would involve subjective assessments and it is not therefore considered appropriate

Assets attributed to the segments for internal reporting purposes comprise trade receivables and unbilled amounts for client work All other assets, including non-current assets balances with members and cash are controlled centrally and are not allocated across functions There is no internal reporting of liabilities by segment hence no segmental disclosures are given

Geographical disclosures

Revenue from external clients and non-current assets (excluding deferred tax assets employee benefits and investments held-to-maturity) by geographical segments are as set out below Both revenue and non-current assets are based on those arising in legal entities situated in each country

Geographical segment

	Revenue		Non current assets	
	2009 €m	2008 €m	**2009 €m**	2008 €m
United Kingdom	1 823	2,129	446	110
Germany	1 217	1,232	71	93
Other countries	455	26	24	12
	3,495	**3,387**	**541**	**215**

Major clients

The group has no reliance on any one client – no more than 1 4% (2008 1 3%) of group revenue is attributable to the largest client

3 Pro-forma information

The following data provides pro-forma information presented as if the group had existed in its form at 30 September 2009 through the two years ended on that date – that is, including the relevant Spanish and Belgian entities and KPMG Switzerland throughout

Pro-forma revenue and growth rates (at constant exchange rates) by national sub-group for the year ended 30 September 2009 were

	2009 €m	**%**
United Kingdom	1,858	(1 6)
Germany	1,241	(1 7)
Other countries	460	2 7
Inter-country eliminations	(52)	–
	3,507	**(0 4)**

These pro-forma revenues and growth rates (at constant exchange rates) can be analysed by function as follows

	2009 €m	**%**
Audit	1,281	3 1
Tax	837	(5 4)
Advisory	1 389	(0 4)
	3,507	**(0 4)**

On a pro-forma basis, as if the group had existed through the two years ended 30 September 2009 average full-time equivalent headcount would have been 21 055 (2008 21 741) – a fall of 3%

Notes
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3 Pro forma information continued
Market revenues
Pro-forma revenue by market is given below, with growth rates compared to 2008, and on constant exchange rates

	2009 €m	%
Consumer & Industrial Markets	1 270	1 4
Financial Services	940	0 8
Infrastructure Government & Healthcare	787	5 5
Information, Communications & Entertainment	407	(8 9)
Private Equity	103	(28 9)
	3,507	**(0 4)**

4 Other operating income
Included in other operating income are the following items

	2009 €m	2008 €m
Charges to other KPMG International member firms	45	54
Support cost charges to other entities in KPMG Spain and KPMG Belgium	31	–
Rental income	11	10
Other items	33	32
	120	**96**

5 Members and other personnel
The average numbers of members (being those who are members of the partnership) and other personnel of the group during the year were as follows

	2009 Full-time equivalent	2008 Full-time equivalent
Members	1,114	851
Other personnel	19 783	17,919
	20,897	**18,770**

The average numbers of members and other personnel by function were as follows

	2009 Full time equivalent	2008 Full time equivalent
Audit	6,965	6 340
Tax	4,987	4,605
Advisory	6,234	5,737
Central	2,711	2,088
	20,897	**18,770**

The aggregate employment costs of personnel are set out below These include those costs of members receiving salary and bonuses under contracts of employment and service contracts with subsidiary entities but exclude amounts in respect of members receiving an allocation of profit of the partnership or KPMG LLP

Employment costs

	2009 €m	2008 €m
Salaries (including bonuses)	1 717	1,652
Social security costs	141	137
Cost of employee benefits (note 20)	90	76
Personnel costs per income statement	**1,948**	**1,865**
Net financing cost/(income) charged/(credited) to the income statement in respect of defined benefit pension plans	2	(8)
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans	164	(55)
Total personnel related costs	**2,114**	**1,802**

Notes

forming part of the consolidated financial statements continued

6 Other operating expenses

Other operating expenses include property and IT costs, marketing, training and other general overhead expenses, together with direct expenses incurred on client assignments Also included in other operating expenses are impairment losses on trade receivables of €8 million (2008 €3 million)

Amounts totalling €160 000 were payable to the group auditors Grant Thornton, for audit services, in respect of the partnership and the consolidated financial statements (2008 €141,000) A further €636,000 (2008 €722,000) was payable to the group auditors and €57 000 (2008 €nil) payable to other auditors in respect of subsidiary entities financial statements In addition, the group auditors received €45 000 (2008 €50 000) for the audit of certain of the group pension plans The group auditors and their associates did not provide any other non-audit services during either year

7 Financial income and expense

	2009 €m	2008 €m
Expected return on defined benefit pension plan assets (note 20)	73	74
Discount on property prepayment	7	13
Interest income on bank deposits	5	11
Net change in fair value of financial assets at fair value through profit or loss	5	–
Interest income on held-to-maturity securities	2	1
Interest income on available-for-sale financial assets	–	2
Exchange gains	27	2
Other financial income	2	7
Financial income	**121**	**110**
Interest on defined benefit pension plan liabilities (note 20)	(75)	(66)
Discount on provisions (note 19)	(5)	(7)
Interest expense on short-term bank borrowings	(3)	(6)
Exchange losses	(24)	(4)
Other financial costs	(6)	(4)
Financial expense	**(113)**	**(87)**

The total interest income for financial assets that were not classified as fair value through profit or loss was €7 million (2008 €14 million) The total interest expense for financial liabilities that were not classified as fair value through profit or loss was €3 million (2008 €6 million)

8 Business combinations

Negative goodwill of €176 million arose in 2008 on the following business combinations
- €128 million arose on the merger with the KPMG member firm in Germany the partnership paid €36 million satisfied in members capital, for net identifiable assets, liabilities and contingent liabilities of €164 million The negative goodwill was attributable mainly to undistributable reserves
- €48 million arose on the merger with the KPMG member firm in Switzerland and the acquisition of Queen Street Mutual Company PCC Limited, the partnership paid €25 million, satisfied by €16 million in cash and €9 million in members' capital, for net identifiable assets, liabilities and contingent liabilities of €73 million

With effect from 1 October 2008, the partnership acquired all the shares in certain entities (providing tax and advisory services) in the KPMG International member firm in Spain (together KPMG Spain) – in exchange for members capital in the partnership totalling €1 million and cash of €3 million Call options were also granted over all the share capital in KPMG Auditores SL which provides audit services these options are not yet exercisable and have a negligible fair value This entity is thus not controlled by the partnership and was not party to the business combination

KPMG Spain was previously owned solely by its partners From October 2008, these partners became members of the partnership and had an ownership interest in the partnership All these entities exhibit a number of particular attributes, which include
- Individuals promoted to member or joining from outside at that level, are required to contribute a pre-defined sum as capital at an amount that is the same for all individuals in each group member country
- These levels of capital take no account of the 'value of and in particular the amount of any goodwill inherent, in the member firm involved, and attract no possibility of capital appreciation
- On leaving the firm members receive no compensation for the value of the firm, or any inherent goodwill, sold' at the date of retirement nor for any increase in this value or inherent goodwill that might be attributed to their efforts on the firm's behalf they are rather repaid the same amount originally contributed as capital

Accordingly the fair value of the members' interests is equal to the amount contributed As for previous mergers within the group the merger with KPMG Spain meets the definition of a business combination under IFRS 3 and must be presented as an acquisition by the partnership

Notes

forming part of the consolidated financial statements continued

8 Business combinations continued

The financial arrangements agreed amongst the members in respect of this merger do not fall easily within the considerations that IFRS 3 requires be applied to commercial acquisitions In particular, although the partnership has the power to determine how the profits of each of its subsidiary national firms are to be distributed, members will in practice continue to be largely remunerated from the profits arising in the country in which they are based This will be as salaries or bonuses under their local contracts of employment or service contracts or, in the UK and for any future countries whose structure is that of a partnership as profit shares with no differentiation made between remuneration for services to the group and return on capital subscribed

The merger with KPMG Spain had the following effect on the group's assets and liabilities at acquisition

	Pre-acquisition carrying amounts €m	Fair value adjustments €m	**Recognised on acquisition €m**
Property, plant and equipment	6	–	6
Intangible assets	3	4	7
Other financial assets	18	–	18
Other non-current assets	1	–	1
Trade and other receivables	111	–	111
Cash and cash equivalents	2	–	2
Trade and other payables	(123)	–	(123)
Short-term bank borrowing	(10)	–	(10)
Deferred tax liabilities	–	(1)	(1)
Provisions	(3)	–	(3)
Other non-current liabilities	(4)	–	(4)
Net identifiable assets, liabilities and contingent liabilities	**1**	**3**	**4**
Goodwill on acquisition			–
Consideration paid, including members' capital			**4**

Loss for the year ended 30 September 2009 of €0 4 million is included within these consolidated financial statements in respect of KPMG Spain

Pre-acquisition carrying amounts were determined based on accounts of KPMG Spain prepared as at 30 September 2008 under applicable adopted IFRSs The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values which approximated to their pre-acquisition carrying amounts in nearly all cases The following fair value adjustments arose

- Intangible assets totalling €4 million have been recognised less deferred tax of €1 million, for the current value of anticipated income streams resulting from the customer relationships and order book of KPMG Spain This calculation (in accordance with the accounting policies in note 1) reflects charges for the use of the KPMG brand (assessed against comparable publicly available data for entities in service industries) for the workforce and working capital of KPMG Spain (net of applicable taxes) and a charge for the services of equity partners which excludes their estimated return on capital It assumes a future average churn rate for customer relationships of 10 years The resulting cash flows were discounted to current values using an estimated weighted average cost of capital
- No value is ascribed to KPMG Spain's use of the KPMG brand in Spain as neither the partnership nor KPMG Spain controls these rights
- Fair value reviews were carried out on a number of other liabilities, including contingent liabilities for unrecognised professional negligence claims, and on assets, including the carrying value of contingent fee assignments

8 Business combinations continued

In addition to the merger with KPMG Spain, with effect from 1 April 2009, the group acquired 100% of the shares in certain entities (providing advisory and certain internal services) in the KPMG International member firm in Belgium (together KPMG Belgium)

These interests were acquired in exchange for members' capital in the partnership totalling €1 5 million

In keeping with the matters discussed above KPMG Belgium's joining the group is also regarded internally as a merger but under IFRS 3 must be accounted for as an acquisition This transaction had the following effect on the group's assets and liabilities on acquisition

	Pre-acquisition carrying amounts recognised on acquisition €m
Property, plant and equipment	1
Intangible assets	1
Deferred tax assets	1
Trade and other receivables	16
Cash and cash equivalents	4
Trade and other payables	(21)
Short-term bank borrowing	(6)
Provisions	(1)
Net identifiable assets, liabilities and contingent liabilities	**(5)**
Goodwill on acquisition	7
Consideration paid, satisfied in members' capital	**2**

Pre-acquisition carrying amounts were determined based on accounts of KPMG Belgium prepared as at 31 March 2009 under applicable adopted IFRSs The values of assets liabilities and contingent liabilities recognised on acquisition are their estimated fair values which approximated to their pre-acquisition carrying amounts in all cases An evaluation of the current value of anticipated income streams resulting from the customer relationships and order book of KPMG Belgium was prepared but indicated that no fair value arose from these assets

Profit for the six months ended 30 September 2009 of €0 5 million is included within these consolidated financial statements in respect of KPMG Belgium

If these transactions had taken place at the beginning of the year, consolidated revenue would have been €3 507 million with no impact on group profits

As part of the conditions of the merger with KPMG Belgium, the partnership also obtained

- 49% ownership in but not control over, three entities forming part of the KPMG International member firm in Belgium which provide tax and accounting services Consideration of €0 4 million was satisfied in members' capital These entities are treated as associates of the partnership The partnership has a call option to acquire the remaining 51% of these entities exercisable only when Belgian professional rules permit 100% non-Belgian ownership
- A call option over 100% of the shares in a further Belgian entity which provides audit services However the call option is not currently exercisable Hence, this entity is not considered a subsidiary or associate of the partnership

No value is attributable to these options The cost to the group of exercising these options does not change over time, nor does the net asset value of the entities being acquired since profits (or losses) generated between the date of the mergers and the date of exercising the options will accrue to the partners in each country Hence, although the options fall to be treated as derivative instruments they have negligible fair value

Notes
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9 Tax expense

Group companies are subject to a variety of income taxes based on their taxable profits at rates between 25% and 34%

Limited liability partnerships, however, are not subject to taxation, rather their members are subject to personal income tax, mainly in the UK, which is a personal liability of the members individually

The tax expense recognised in the income statement is analysed as follows

	2009 €m	2008 €m
Current tax expense		
Current year	20	11
Adjustment in respect of prior years	1	(1)
Deferred tax expense (note 13)	(5)	2
	16	12
Compensation payment to be made by members of KPMG LLP	(10)	(9)
Total tax expense in income statement	**6**	**3**

Corporation tax charges in the UK arise largely as a result of the impact of UK transfer pricing legislation The compensation payment is a payment made by the members of KPMG LLP in order to compensate the UK subsidiaries for this increased corporation tax charge

The group is required under IAS 12 Income taxes' to present the following tax reconciliation in respect of group profits

	2009 €m	2008 €m
Profit before taxation	452	694
Less profit arising in limited liability partnerships, on which tax is payable by the members personally	(431)	(501)
Profit before taxation arising in group companies	**21**	**193**
Tax at 30% (2008 – 30%) being the average rate of corporate taxes levied on the profits of group companies	6	58
UK corporation tax arising on UK transfer pricing arrangements	10	9
Impact of tax exempt items including negative goodwill and differences between profits under adopted IFRSs and profits under local tax legislation net of relevant deferred tax	–	(54)
Impact of different applicable tax rates for subsidiary undertakings	–	(1)
Taxes payable by subsidiary undertakings	16	12
Compensation payment to be made by members of KPMG LLP	(10)	(9)
Total tax expense in income statement	**6**	**3**

The tax (credit)/expense recognised in the statement of comprehensive income is as follows

	2009 €m	2008 €m
Net change in fair value of available-for-sale financial assets	1	3
Actuarial gains and losses on defined benefit pension plans	(22)	26
	(21)	**29**

Included in non-current assets is tax receivable of €14 million (2008 €15 million) which represents the current value of tax refunds in Germany, receivable over eight years

Notes

forming part of the consolidated financial statements continued

10 Property, plant and equipment

	Leasehold buildings €m	Computer and communications equipment €m	Office furniture fittings and equipment €m	Motor vehicles €m	Total €m
Cost					
Balance at 1 October 2007	–	67	144	14	225
Acquisition of subsidiaries	–	11	26	1	38
Additions	–	8	32	5	45
Disposals	–	(16)	(46)	(3)	(65)
Exchange movements	–	(7)	(15)	(2)	(24)
Balance at 30 September 2008	–	63	141	15	219
Acquisition of subsidiaries	–	3	4	–	7
Additions	267	20	38	4	329
Disposals	–	(10)	(24)	(3)	(37)
Exchange movements	(10)	(6)	(15)	(2)	(33)
Balance at 30 September 2009	**257**	**70**	**144**	**14**	**485**
Depreciation and impairment					
Balance at 1 October 2007	–	50	92	7	149
Charge for the year	–	16	20	3	39
Disposals	–	(16)	(45)	(3)	(64)
Exchange movements	–	(5)	(9)	(1)	(15)
Balance at 30 September 2008	–	45	58	6	109
Charge for the year	–	15	20	3	38
Disposals	–	(10)	(24)	(2)	(36)
Exchange movements	–	(5)	(7)	(1)	(13)
Balance at 30 September 2009	**–**	**45**	**47**	**6**	**98**
Net book value					
At 1 October 2007	–	17	52	7	76
At 30 September 2008	–	18	83	9	110
At 30 September 2009	**257**	**25**	**97**	**8**	**387**

The leasehold buildings relate entirely to the group s new premises at 15 Canada Square, London leased under a finance lease which will come into use in 2010 Hence the net book value of assets owned under a finance lease was €257 million (2008 €nil)

A parallel operating lease on the land exists, under which prepayments of €40 million have been made (note 14) The operating lease has a term of 999 years, from May 2009

At 30 September 2008, payments at that time equivalent to €256 million, under the previous contract for the assignment of these leases over 15 Canada Square fell to be categorised as prepayments within trade and other receivables (note 15) These were recategorised on completion in April 2009 to operating lease prepayments (as discussed above) or additions to leasehold buildings Further payments totalling €69 million arose in the current year Included in non-current liabilities is €3 million, the final payment under the finance lease which is payable in October 2010

11 Intangible assets

	Goodwill €m	Customer relationships and order books €m	Interally generated software €m	Purchased software and licences €m	Total €m
Cost					
Balance at 1 October 2007	–	–	39	–	39
Acquisition of subsidiaries	–	14	8	2	24
Additions	–	–	40	1	41
Disposals	–	(8)	–	–	(8)
Exchange movements	–	–	(5)	–	(5)
Balance at 30 September 2008	–	6	82	3	91
Acquisition of subsidiaries	7	4	2	2	15
Additions	–	–	31	–	31
Disposals	–	(3)	(12)	–	(15)
Exchange movements	–	–	(10)	–	(10)
Balance at 30 September 2009	**7**	**7**	**93**	**5**	**112**
Amortisation					
Balance at 1 October 2007	–	–	16	–	16
Charge for the year	–	8	13	1	22
Disposals	–	(8)	–	–	(8)
Exchange movements	–	–	(2)	–	(2)
Balance at 30 September 2008	–	–	27	1	28
Charge for the year	–	3	10	1	14
Disposals	–	(3)	(12)	–	(15)
Exchange movements	–	–	(3)	–	(3)
Balance at 30 September 2009	–	–	**22**	**2**	**24**
Net book value					
At 1 October 2007	–	–	23	–	23
At 30 September 2008	–	6	55	2	63
At 30 September 2009	**7**	**7**	**71**	**3**	**88**

Internally generated software mainly comprises the SAP-based ERP system, which has a remaining amortisation period of seven years

Goodwill was generated on the merger with certain entities of the KPMG member firm in Belgium (see note 8) The recoverable amount of the goodwill has been determined based on the anticipated profits to be generated by these entities assuming growth rates reflecting past experience but adjusted to reflect current market conditions No goodwill impairment arises

12 Securities and other investments

The net book value of securities and other investments held by the group were as follows

	2009 €m	2008 €m
Fixed income securities	43	27
Shares in investment funds	12	11
Other investments	3	2
	58	**40**

Included within other investments is €0 5 million (2008 €nil) representing the group's share of net assets of associates (see note 26)

Notes

forming part of the consolidated financial statements continued

13 Deferred taxes

Recognised deferred tax assets and liabilities relating to the following balance sheet items were

	Assets 2009 €m	Liabilities 2009 €m	Assets 2008 €m	Liabilities 2008 €m
Assets				
Non-current assets				
Intangible assets	3	(2)	1	(3)
Property, plant and equipment	–	(2)	–	(2)
Other non-current assets	–	(3)	–	(3)
Current assets				
Trade receivables	–	(1)	–	(2)
Receivables for unbilled services	–	(13)	–	(10)
Securities	–	(1)	–	(4)
Liabilities				
Non-current liabilities				
Pensions and similar obligations	47	–	26	–
Other provisions	15	(1)	12	(4)
Current liabilities				
Other provisions	–	(5)	–	(2)
Other liabilities	7	(1)	8	(1)
Offsetting	(24)	24	(18)	18
Offset of tax losses available to be carried forward	1	–	2	–
Balance at 30 September	**49**	**(5)**	**31**	**(13)**

There were no significant unrecognised deferred tax assets and liabilities at 30 September 2009 or 2008

Movements during the year were

	Opening balance €m	Deferred tax credit/ (expense) €m	Credit/ (charge) recognised in equity €m	Closing balance €m
Assets				
Non-current assets				
Intangible assets	(2)	3	–	1
Property plant and equipment	(2)	–	–	(2)
Other non-current assets	(3)	–	–	(3)
Current assets				
Trade receivables	(2)	1	–	(1)
Receivables for unbilled services	(10)	(3)	–	(13)
Securities	(4)	4	(1)	(1)
Liabilities				
Non-current liabilities				
Pensions and similar obligations	26	(1)	22	47
Other provisions	8	6	–	14
Current liabilities				
Other provisions	(2)	(3)	–	(5)
Other liabilities	7	(1)	–	6
Offset of tax losses available to be carried forward	2	(1)	–	1
Total	**18**	**5**	**21**	**44**

No deferred tax arose on the acquisitions in the year

Notes
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14 Non-current loans and receivables

	2009 €m	2008 €m
Property prepayment (note 10)	40	–
Loans	21	10
Other non-current receivables	4	3
	65	**13**

15 Trade and other receivables

	2009 €m	2008 €m
Trade receivables	536	657
Unbilled amounts for client work	256	215
Prepayment – property (note 10)	–	256
Other prepayments	58	60
Other receivables	44	32
Amounts owed by other KPMG International member firms	35	49
	929	**1,269**

Group trade receivables are shown net of impairment losses amounting to €18 million (2008 €14 million), the movement for the year is recognised in 'Other operating expenses' An aged analysis of overdue trade receivables is given in note 22

Trade and other receivables are due within 12 months

16 Other investments

	2009 €m	2008 €m
Bonds	39	44
Shares in investment funds	29	32
Fixed income securities	14	29
Equities	14	13
Derivative financial assets	–	1
	96	**119**

17 Cash and cash equivalents

	2009 €m	2008 €m
Short-term deposits	233	233
Bank balances	37	50
Cash and cash equivalents in the statement of financial position	**270**	**283**

Notes

forming part of the consolidated financial statements continued

18 Trade and other payables

	2009 €m	2008 €m
Accruals	408	450
Amounts billed on account	137	100
Other payables	72	93
Other taxes and social security	79	89
Trade payables	33	24
Amounts due to other KPMG International member firms	20	9
	749	**765**

Included in accruals are amounts payable to personnel (excluding members) in respect of bonuses

19 Provisions

	Annuities €m	Property provisions €m	Obligations to employees (other than pensions) €m	Other €m	Total €m
Balance at 1 October 2008	69	36	40	79	224
Acquisition of subsidiaries	–	–	–	4	4
Utilised during the year	(5)	(1)	(11)	(8)	(25)
Transfers	–	–	–	(12)	(12)
Income statement					
– Provisions made during the year	–	4	13	15	32
– Provisions released during the year	(2)	(1)	(1)	(9)	(13)
– Unwinding of discounted amounts	4	1	–	–	5
Exchange differences	(9)	(1)	–	(5)	(15)
Balance at 30 September 2009	**57**	**38**	**41**	**64**	**200**
Non-current	53	37	41	34	165
Current	4	1	–	30	35
	57	**38**	**41**	**64**	**200**

The provision for former members annuities reflects conditional commitments to pay annuities to certain former members (and dependants) of KPMG LLP or its predecessor partnership, and is recorded gross of basic rate tax (see note 1)

The provision for former members' annuities is expected to be utilised as follows

	2009 €m	2008 €m
Within 12 months of the balance sheet date	4	5
Between one and five years	14	18
Between five and fifteen years	22	27
In more than fifteen years	17	19
	57	**69**

Notes

forming part of the consolidated financial statements continued

19 Provisions continued

The principal actuarial assumptions used in assessing the provision for former members' annuities are that increases in annuities payable will follow the retail prices index (2009 3 25%, 2008 3 75%) and that, after application of mortality rates the resulting amounts are discounted at 5 6% (2008 6 9%)

The mortality tables used for the former members' annuities provision at both 30 September 2009 and 2008 were consistent with those applied in respect of the UK defined benefit pension plans (see note 20)

Property provisions represent the cost of office space which is not currently used by the group or will become redundant as a result of steps to which the group is committed The net obligation under such leases has been provided for property provisions of €1 million (2008 €2 million) will be utilised within 12 months and the balance is expected mainly to be utilised within the next five years

Obligations to employees mainly comprise obligations arising in Germany from part-time early retirement working arrangements which are expected mainly to be utilised within four to eight years

Other provisions include assessments of possible amounts payable in respect of certain operational risks but also reflect provisions in respect of negligence claims brought against the group by third parties Where appropriate, provision is made for the uninsured cost (including related legal costs) to the group of settling negligence claims Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the commercial interests of the group These provisions are expected mainly to be utilised within five years

20 Employee benefits

The cost of employee benefits included within personnel costs for the year was

	2009 €m	2008 €m
Contributions to defined contribution pension plans	62	61
Current service cost for defined benefit pension plans	28	15
Cost of employee benefits	**90**	**76**

Net financing cost of €2 million (2008 net financing income of €8 million) relating to defined benefit pension plans is also considered to be a part of the net cost of employee benefits

The closing net assets and liabilities in respect of employee benefits were as follows

	Assets		Liabilities	
	2009 €m	2008 €m	**2009 €m**	2008 €m
Capitalised value of reinsurance policies	2	2	–	–
Capitalised value of risk insurance policies	8	8	–	–
UK defined benefit plans	–	–	(93)	(12)
German defined benefit plans	18	57	–	–
Swiss defined benefit plans	–	4	(12)	–
	28	**71**	**(105)**	**(12)**

The capitalised value of pension-related risk insurance policies relates to claims against an insurance company which provides cover under certain risk insurance policies for certain employees On the death of an employee before reaching pensionable age, KPMG AG is obliged to pay predefined lump sums to surviving dependants The insurance company reimburses KPMG AG for all such payments made The reimbursable amounts are recognised as an asset at the level of the corresponding liability which is reflected in the defined benefit obligation below

Defined contribution pension plans

The group has two defined contribution pension plans operated in the UK the stakeholder pension plan and the KPMG Staff Pension Fund – post-April 2000 fund which is closed to new entrants The charge for the year for these plans represents those contributions payable to them in respect of the accounting period

Employers' contributions paid in Germany under state social security legislation are made to separate legal entities which manage such contributions and payments to current and future pensioners Because KPMG AG has no future obligation to make good any shortfalls in the funding of these entities beyond these fixed contributions these payments meet the definition in IAS 19 of contributions to a defined contribution pension plan and so fall to be disclosed above

No contributions to the defined contribution pension plans were outstanding at the end of either financial year

Notes

forming part of the consolidated financial statements continued

20 Employee benefits continued

Defined benefit pension plans

The group has several defined benefit pension plans For disclosure purposes, these are grouped geographically

Defined benefit pension plans in the UK

There are two defined benefit pension plans in the UK

The KPMG Staff Pension Fund – pre-April 2000 fund (the pre-2000 fund) is a plan closed to new entrants and to current service, providing benefits based on average salary Contributions from members were paid up to 1 April 2000 The group's contributions are agreed between the group and the trustee based on advice from the independent actuary, Hewitt Bacon & Woodrow, derived from triennial valuations using the attained age method, an agreed funding plan is in place

The KMG Thomson McLintock Pension Scheme (the TMcL plan) is a defined benefit plan, closed to new entrants, providing benefits based on final pensionable pay The plan is contributory for members and the group's contributions are the balance of the cost of providing the benefits contributions payable are agreed between the group and the trustee based on advice from the independent actuary, Hewitt Bacon & Woodrow, derived from triennial valuations using the attained age method Agreement was reached during the year with the trustees such that additional contributions payable under the previous funding plan have now ceased

Defined benefit pension plan in Germany

A defined benefit pension plan is operated in Germany covering employees in substantially all the German entities The plan which is closed to new entrants provides benefits based on final pensionable pay and is non-contributory for members No predefined amounts are set for the group's contributions

Defined benefit pension plan in Switzerland

A pension plan is operated in Switzerland which falls to be treated as a defined benefit pension plan With effect from 1 January 2008, the KPMG Personalvorsorgestiftung was reorganised to provide benefits in three classes basic, plus, and super The plan provides for either a lump sum payment on retirement or a pension computed after taking account of the Swiss state social security pension Although the pension provided is a predetermined percentage of the accumulated fund for each member of the scheme and the contributions of both employee and employer are pre-defined (varying with seniority within the firm age and the class of membership) the group is liable for the cost of intervening interest and accordingly the plan ranks as a defined benefit plan under IAS 19

Defined benefit pension plans – valuation and disclosure

Valuations of the defined benefit pension plans have been provided on an IAS 19 basis as at 30 September 2009 and 30 September 2008 by KPMG professionally qualified in-house actuaries in the UK and by independent external actuaries in Germany and Switzerland

The principal actuarial assumptions (expressed as weighted averages) used for the valuations were as follows

Actuarial assumptions

	UK plans		German plan		Swiss plan	
	2009 %	2008 %	**2009 %**	2008 %	**2009 %**	2008 %
Discount rate	5 6	6 9	5 5	6 25	3 35	3 95
Future salary increases*	4 25	4 75	3 0	3 0	1 5	1 5
Increase in pensions in payment**	3 2	3 65	1 7	1 7	0 1	0 1
Inflation	3 25	3 75	1 7	1 7	1 3	1 5

* Not relevant for the UK pre 2000 fund

** For the UK this relates to post-April 1997 service only – there are no increases in pensions in payment for pre-April 1997 service

The expected return on the plans' assets was 6 3% (2008 6 9%) for the UK plans 4 6% (2008 5 0%) for the German plan and 4 0% (2008 4 3%) for the Swiss plan, the differences reflecting the different mix of asset investments in each plan as detailed below and reflecting different market rates of return in each country The expected rates of return on plan assets are determined by reference to relevant indices The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plans' investment portfolios

All plans have been valued using mortality assumptions which retain prudent allowance for future improvement in longevity The mortality tables used for the UK plans at both 30 September 2009 and 2008 were PNXA00 projected by year of birth for both current and future pensioners with an allowance made for future improvements via the medium cohort effect and a mortality improvement floor (1 25% for males, 0 75% for females)

The German and Swiss plans at both 30 September 2009 and 2008 used UK PXA92 tables with an allowance for the short cohort effect

Notes
forming part of the consolidated financial statements continued

20 Employee benefits continued
These tables lead to life expectancies for a pensioner retiring today at age 60 of 25 4 to 27 6 years (males) and 28 3 to 29 4 years (females), and for a pensioner retiring at age 60 but now aged 45 of 26 2 to 29 5 years (males) and 29 0 to 30 6 years (females)

The fair values of the plans' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised and the present value of the plans' liabilities which are derived from cash flow projections over long periods and thus are inherently uncertain, were

Plan assets and liabilities

	UK plans		German plan		Swiss plan	
	2009 €m	2008 €m	**2009 €m**	2008 €m	**2009 €m**	2008 €m
Equities	361	372	–	–	85	80
Corporate and Government bonds	141	150	288	141	133	125
Property	–	–	–	–	29	22
Cash and cash equivalents	2	2	244	370	22	22
Capitalised value of reinsurance policies	–	–	70	67	–	–
Fair value of plans' assets	504	524	602	578	269	249
Present value of funded defined benefit obligations	(597)	(536)	(584)	(521)	(281)	(245)
Present value of net (obligation)/surplus being the net (liability)/asset in the statement of financial position	**(93)**	**(12)**	**18**	**57**	**(12)**	**4**

Movements in the present value of the funded defined benefit obligations for the plans were as follows

	UK plans		German plan		Swiss plan
	2009 €m	2008 €m	**2009 €m**	2008 €m	**2009 €m**
At 1 October	(536)	(678)	(521)	(599)	(245)
Current service cost	(1)	(1)	(10)	(14)	(17)
Interest on obligations	(33)	(37)	(32)	(29)	(10)
Actuarial gains/(losses)	(121)	87	(47)	96	(11)
Benefits paid	17	17	26	25	23
Employee contributions	–	–	–	–	(10)
Exchange movements	77	76	–	–	(11)
At 30 September	**(597)**	**(536)**	**(584)**	**(521)**	**(281)**

The total current service costs of €28 million (2008 €15 million) are recognised in Personnel costs in the consolidated income statement The total interest on obligations of €75 million (2008 €66 million) is charged to the income statement within 'Financial expense' Movements in the fair value of the plans' assets were as follows

	UK plans		German plan		Swiss plan
	2009 €m	2008 €m	**2009 €m**	2008 €m	**2009 €m**
At 1 October	524	707	578	556	249
Expected return on plan assets	32	45	29	29	12
Actuarial gains/(losses)	30	(141)	(10)	(7)	(5)
Benefits paid	(17)	(17)	(25)	(25)	(23)
Contributions by employers	7	8	30	25	15
Employee contributions	–	–	–	–	10
Exchange movements	(72)	(78)	–	–	11
At 30 September	**504**	**524**	**602**	**578**	**269**

The total expected return on plan assets of €73 million (2008 €74 million) is recognised in 'Financial income in the consolidated income statement The actual return on the plans' assets was €62 million (2008 €(96) million) for the UK plans €19 million for the German plan (2008 €22 million) and €7 million for the Swiss plan

Notes
forming part of the consolidated financial statements continued

20 Employee benefits continued

Actuarial gains/(losses) recognised in the year may be analysed as follows

	UK plans		German plan		Swiss plan
	2009 €m	2008 €m	**2009 €m**	2008 €m	**2009 €m**
Actuarial gains/(losses) on obligations	(121)	87	(47)	96	(11)
Actuarial gains/(losses) on assets	30	(141)	(10)	(7)	(5)
Actuarial loss on risk insurance policies	–	–	–	(1)	–
Actuarial gains not recognised due to impact of asset ceiling	–	21	–	–	–
	(91)	**(33)**	**(57)**	**88**	**(16)**

Actuarial gains and losses arise as a result of a change in assumptions or represent experience adjustments Actuarial gains and losses are recognised in the statement of comprehensive income in the period in which they occur Cumulative net actuarial losses reported in the statement of comprehensive income since 1 October 2004 the transition date to adopted IFRSs, are €3 million (2008 cumulative gains of €161 million)

The history of experience gains and losses while the relevant entities have been within the group is as follows

	UK plans					German plan		Swiss plan	
	2009 €m	2008 €m	2007 €m	2006 €m	2005 €m	**2009 €m**	2008 €m	**2009 €m**	2008 €m
Present value of the defined benefit obligation	(597)	(536)	(678)	(772)	(745)	(584)	(521)	(281)	(245)
Fair value of plans' assets	504	524	707	681	626	602	578	269	249
Present value of net surpluses/(obligations)	(93)	(12)	29	(91)	(119)	18	57	(12)	4
Experience gains and (losses) arising on plans' liabilities	–	9	3	(15)	3	7	(2)	(11)	n/a
Experience gains and (losses) arising on plans assets	30	(141)	18	25	64	(10)	(7)	(5)	n/a

Other matters

The group expects to contribute approximately €46 million to its defined benefit pension plans in the next financial year Apart from these contributions, there were no other transactions between the group and the pension plans during the year

Contributions of €2 million (2008 €nil) were outstanding in respect of the Swiss plan at the end of the financial year

Because taxation in LLPs is a personal liability of the individual members, no deferred tax on the UK pension plan balances falls to be recorded in the group financial statements However deferred tax assets of €44 million in respect of the German plan (2008 €25 million) and €3 million in respect of the Swiss plan (2008 €1 million) are reflected in the group financial statements as shown in note 13

The assets of the UK defined benefit and defined contribution plans are held separately from those of the group administered by AON Trust Corporation Limited as independent trustee or Standard Life in the case of the stakeholder pension plan Non-current assets of the German pension plan have been transferred to KPMG Pension Trust e V and KPMG Partner Vermogensverein e V The assets of the Swiss defined benefit plan are held within independent pension foundations

21 Equity, members' capital and other interests

Equity includes members other reserves comprising certain amounts retained from profits arising in previous years pending their allocation to members Other movements in members other reserves mainly represent compensation amounts payable to UK subsidiary undertakings for corporation tax liabilities (note 9)

Equity also includes the fair value reserve arising on the revaluation of available-for-sale assets, and translation reserves, being those exchange differences arising on the translation of non-euro subsidiaries are also included within equity

Notes
forming part of the consolidated financial statements continued

21 Equity, members' capital and other interests continued
Movements in members' capital are as follows

	€m
Balance at 1 October 2007	59
Capital introduced by members	14
Capital allocated in respect of acquisitions	45
Repayments of capital	(14)
Exchange movements	(7)
Balance at 30 September 2008	97
Capital introduced by members	14
Capital allocated in respect of acquisitions	2
Repayments of capital	(7)
Exchange movements	(7)
Balance at 30 September 2009	**99**

Members' other interests comprise amounts due (to)/from members as follows

	2009 €m	2008 €m
Amounts due from members	146	154
Amounts due to members	(194)	(181)
	(48)	**(27)**

Amounts due from members relate to drawings and on-account profit distributions paid to members of UK LLPs

Amounts due to members relate to tax withheld from allocated profits for members of UK LLPs and contractual amounts due to German Swiss, Spanish and Belgian members There are no loans or other amounts payable to members In the event of a winding up of an LLP amounts due to members may be set-off against amounts due from members but would otherwise rank as unsecured creditors Such balances (and members' capital) rank after other unsecured creditors The amounts payable to members from the German and Swiss companies would rank in preference to unsecured creditors on a liquidation of those entities and those in the Spanish and Belgian companies would rank alongside unsecured creditors

22 Financial instruments
Financial instruments held by the group arise directly from its operations Members' capital and amounts due to and from members also fall to be treated as financial instruments The main purpose of these financial instruments is to finance the operations of the group It is, and has been throughout the period under review the group's policy that no trading in financial instruments shall be undertaken

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

The 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 consolidated financial statements

Notes
forming part of the consolidated financial statements continued

22 Financial instruments continued

a) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the group 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 group uses derivatives on a case-by-case basis in order to manage market risks The group does not hold or issue derivative financial instruments for trading purposes

Interest rate risk

The group 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 the year

Exchange rate risk

The functional currency of the partnership is the euro The functional currencies of each of its subsidiaries are assessed individually and are considered to be euro pound sterling, Swiss franc or US dollar However certain expenses and charges from other KPMG International member firms or other international relationships are denominated in currencies other than the functional currency of each entity In addition, some fees are rendered in other currencies where this is requested by the clients involved

The group maintains currency cash balances and uses currency swaps or forward foreign exchange contracts in order to cover exposure to existing foreign currency receivables and payables and also to committed future transactions denominated in a foreign currency

In respect of other monetary assets and liabilities denominated in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances

Equity price risk

Equity price risk arises from fair value through profit and loss equity securities Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by at least one Board member or the Chief Financial Officer

The primary goal of the group s investment strategy is to maximise investment returns, management is assisted by external advisors in this regard In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis

b) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from clients securities and other investments

Trade and other receivables

Exposure to credit risk is monitored on a routine basis and credit evaluations are performed on clients as appropriate The group does not require security in respect of financial assets

The group s exposure to credit risk is influenced mainly by the individual characteristics of each client Credit risk is monitored frequently with close contact with each client and routine billing and cash collection for work done

The group establishes allowances for impairment that represent its estimate of incurred losses in respect of trade and other receivables and investments This allowance comprises a specific loss component that relates to individually significant items, and a collective loss component This component is established for groups of similar assets in respect of losses that have been incurred but not yet identified and is determined from historical data in each country of payment statistics for similar financial assets updated for current economic conditions

22 Financial instruments continued

Securities, other investments and derivatives

Cash investments are made only in liquid securities, mainly fixed-term deposits or Government or high quality corporate bonds and are monitored regularly Derivatives are concluded with high-quality counterparties only and are monitored regularly

The maximum exposure to credit risk is represented by the carrying amount of the group's financial and other assets as set out in the table below

	2009 €m	2008 €m
Trade receivables	536	657
Bank balances and cash deposits	270	283
Amounts due from members	146	154
Non-current loans and receivables	25	13
Other receivables	44	32
Amounts owed by other KPMG International member firms	35	49
Loans and receivables	**1,056**	**1,188**
Shares in investment funds	41	43
Available-for-sale	**41**	**43**
Fixed income securities	57	56
Held-to-maturity	**57**	**56**
Bonds	39	44
Equities	14	13
Derivatives	–	1
Fair value through profit and loss	**53**	**58**
Total financial assets	**1,207**	**1,345**
Unbilled amounts for client work	256	215
	1,463	**1,560**

Impairment losses

The ageing of receivables that were overdue at the reporting date was

	Gross 2009 €m	Impairment 2009 €m	Gross 2008 €m	Impairment 2008 €m
Trade receivables				
Overdue 1–30 days	59	–	84	–
Overdue 31–180 days	79	3	73	4
More than 180 days	28	15	12	10
	166	**18**	**169**	**14**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows

	2009 €m	2008 €m
Balance at 1 October	14	4
Acquisition of subsidiaries	2	7
Impairment loss recognised	8	3
Impairment loss reversed	(5)	–
Exchange differences	(1)	–
Balance at 30 September	**18**	**14**

There are no significant impairment provisions against other financial assets

Notes
forming part of the consolidated financial statements continued

22 Financial instruments continued

c) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due The group 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 invested according to the assessment of rates of return available through the money market or from bonds or equities

The Treasury department monitors the group 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 group has access to committed overdraft and revolving credit facilities which are drawn down as required

The group has the following financial liabilities, measured at amortised cost

	2009 €m	2008 €m
Accruals	408	450
Amounts due to members	194	181
Short-term bank borrowings	158	95
Members capital	99	97
Other payables	72	93
Trade payables	33	24
Amounts due to other KPMG International member firms	20	9
Other non-current liabilities	9	8
	993	**957**

None of the group s financial liabilities are interest bearing, with the exception of the short-term bank borrowings (see below) Hence the contractual cash flows in all cases equal the carrying amount Trade payables and accruals, amounts due to other KPMG International member firms and amounts due to members are repayable within one year As set out in the accounting policies, members capital is repayable within one month of each member s leaving date Other non-current liabilities are repayable within two to five years

Committed borrowing facilities of €503 million (2008 € 510 million) were available at 30 September 2009 to the group Actual amounts drawn were €158 million (2008 €95 million) Of these facilities, €68 million (2008 € 53 million) expired in one year or less, a revolving credit facility of €396 million (2008 €457 million) expiring in two to four years and €39 million (2008 € nil) had no fixed expiry date Although the revolving facility expires in two to four years the short-term bank borrowings drawn from time to time under the facility usually have a maximum term of three months The availability of this revolving facility was dependent on certain conditions, including a minimum level of members' capital all of which were satisfied at the balance sheet date The revolving credit facility is secured on the lease of 15 Canada Square London the remaining facilities are unsecured Certain of these facilities are available to all entities within KPMG Spain and KPMG Belgium, including those not consolidated within the group

d) Interest rate risk

The financial assets and liabilities of the group are non-interest bearing with the exception of the following

	2009 €m	2008 €m
Fixed rate instruments		
Securities	57	56
Bonds	39	44
Loans	6	10
	102	**110**
Variable rate instruments		
Short-term bank borrowings	(158)	(95)
Bank balances and cash deposits	270	283
Loans	15	–
	127	**188**

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 €2 million (2008 €3 million) This analysis assumes that all other variables, in particular foreign currency rates, remain constant

Notes
forming part of the consolidated financial statements continued

22 Financial instruments continued

e) Exchange rate risk

As set out above the subsidiaries of the group generally trade in their functional currencies The group has no material receivables or payables denominated in non-functional currencies at either 30 September 2009 or 2008

The net bank balances and cash deposits in non-functional currencies were €16 million (2008 €14 million) in US dollars and €1 million (2008 €1 million) in euro

There were open forward foreign exchange contracts at 30 September 2009 to sell US$6 million in exchange for pound sterling and to buy US$17 million in exchange for euro (2008 to buy US$16 million in exchange for euro) In addition there were open swap contracts at 30 September 2009 to sell Swiss franc 27 million in exchange for euro (2008 to sell Swiss franc 27 million) The fair value of these contracts at 30 September 2009 was €(0 2) million (2008 €0 6 million)

The following significant exchange rates applied during the year

	Average rate		Reporting date spot rate	
	2009	2008	**2009**	2008
Pound sterling	0 8750	0 7613	0 9100	0 7880
Swiss franc	1 5139	n/a	1 5086	1 5750
US dollar	1 3529	1 5020	1 4662	1 4047

f) Equity price risk

The only financial assets which are considered to be exposed to equity price risk are equity securities totalling €14 million (2008 €13 million) The call options to acquire certain entities in Spain and Belgium (see note 8) are not subject to equity price risk as the cost to the group remains unchanged over time, as does the value of net assets to be acquired

g) Fair values

The estimated fair values of the group's financial assets and liabilities approximate their carrying values at 30 September 2009 and 2008, largely owing to their short maturity The bases for determining fair values are disclosed in note 1

23 Operating leases

The group's total commitments under non-cancellable operating leases are as follows

Non-cancellable operating lease rentals

	2009 €m	2008 €m
Within one year	117	120
Between one and five years	315	410
More than five years	304	507
	736	**1,037**

A number of office facilities are leased under operating leases The periods of the leases vary, lease payments are generally subject to rent review every five years in the UK but normally are fixed in other countries

In the UK the land element of the new building at 15 Canada Square London also falls to be classified as an operating lease However, all significant amounts due under the operating lease have been prepaid and no amounts require inclusion in the analysis above

Operating lease disclosures

	2009 €m	2008 €m
Amounts receivable from sub-let properties		
– within one year	8	10
– within two to five years	8	18
Operating lease cost for the year in 'Other operating expenses'	111	104
Operating lease income for the year in 'Other operating income'	11	10

The group also leases certain computer equipment office equipment and motor vehicles under operating leases These leases typically run for a period of three years

Notes

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24 Capital commitments

Capital commitments for contracted purchases of property plant and equipment at the end of the financial year, for which no provision has been made, were €9 million (2008 €14 million) for the group These commitments are expected to be settled in the following financial year In addition the group is contracted to pay amounts of €54 million (2008 €58 million) in respect of the fit-out of the property at 15 Canada Square, London

25 Related parties

The group has a related party relationship with its key management considered to be the Board members of the partnership (pages 40 to 41)

Transactions with key management

The members of the Board are responsible for planning, directing and controlling the activities of the group They are all members of the partnership Those members of the Board who are members of KPMG LLP share in its profits, both the partnership and KPMG LLP divide profits amongst members only after the financial statements have been finalised and approved by members Other members of the Board are entitled to remuneration and performance bonuses under employment or service contracts with other subsidiary entities

The estimated total salaried remuneration, performance bonuses and profit entitlement due to the key management in respect of the current year totalled €39 million for the group The actual salary, bonus and profit allocated in respect of the previous year was €30 million The estimated cost of short-term employment benefits provided to the key management was €0 2 million for the year (2008 €0 2 million) and the estimated current service pension cost was €0 5 million (2008 €0 2 million)

There were no balances due to or from key management at 30 September 2009 or 2008 save in respect of relevant shares of profit (or related taxation), performance bonuses and members capital As discussed in note 1 members of the LLPs receive monthly drawings and other distributions representing payments on account of current year profits These amounts are classified as Amounts due from members until allocation of the current year profits In addition, performance bonuses and amounts that are retained from allocated profits in respect of taxation liabilities that fall on individual members are classified as 'Amounts due to members' and are expected to be paid in the short term

Amounts outstanding from/(to) key management are as follows

	2009 €m	2008 €m
Amounts due from key management	3	4
Amounts due to key management	(15)	(8)
	(12)	**(4)**

Total members capital invested by key management amounted to €2 5 million at 30 September 2009 (2008 €2 6 million)

A member of key management holds a controlling interest in KPMG Rechtsanwaltsgesellschaft mbH, Stuttgart, Germany (RAG) The group provides resources and support services to RAG the volume of which is immaterial from a group perspective

Notes

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26 Subsidiary and associated undertakings

At 30 September 2009 the principal subsidiaries and associates of the group were as follows

Subsidiary undertakings	Incorporated in	Principal activity	% of ordinary shares
KPMG LLP	England	Audit, tax and advisory services	100[1]
KPMG Audit Plc	England	Statutory audits and related services	100[2]
KPMG UK Limited	England	Employment company	100[2]
KPMG AG Wirtschaftsprufungsgesellschaft	Germany	Audit, tax and advisory services	100
KPMG AG/SA	Switzerland	Audit, tax and advisory services	100[2]
KPMG Abogados SL	Spain	Tax services	100
KPMG Asesores SL	Spain	Advisory services	100
KPMG Advisory CVBA	Belgium	Advisory services	100
Associate undertakings			
KPMG Belastingconsulenten en Juridische Adviseurs CVBA	Belgium	Tax and accounting services	49

1 Percentage of voting rights held
2 Held indirectly through intermediate holding companies

All of the subsidiary undertakings make up their accounts to 30 September and are consolidated within these financial statements The associate undertakings also make up their accounts to 30 September The partnership holds call options over those shares in the Belgian tax practice which it does not currently own and over entities providing audit services in Belgium and Spain, none of these options are currently exercisable and no value is attributable to them

27 Accounting estimates and judgements

Management has discussed and agreed with the Audit Committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates

Key sources of estimation uncertainty

Revenue on service contracts

In calculating revenue on service contracts the group makes certain estimates as to the stage of completion of those contracts In doing so, the group estimates the remaining time and external costs to be incurred in completing contracts and clients willingness and ability to pay for the services provided A different assessment of the outturn on a contract may result in a different value being determined for revenue and also a different carrying value being determined for unbilled amounts for client work

Trade and other receivables

The total carrying amount of trade receivables and unbilled amounts for client work is €792 million (2008 €872 million) net of impairment losses on trade receivables and after giving consideration to the clients' willingness to pay those amounts accrued in respect of incomplete contracts A different assessment of the recoverability of either balance may result in different values being determined

Employee benefits

The net defined benefit liabilities of the group's pension plans of €77 million are based on certain assumptions as to mortality (note 20), based on current published tables and discount rates reflecting current market trends in each country If either were to change, there is a risk that there would be further variance in the actuarial gains and losses

In addition, the average expected returns on assets in each plan reflect the anticipated balance in each plan's investment portfolio based on current investment decisions If the investment strategy were to change there is a risk that there would be further variance between the actual and expected return on assets and hence in the actuarial gains and losses As all actuarial gains and losses are recognised in these financial statements, the resulting provision for employee benefits may also differ from that disclosed in these financial statements

Former members' annuities

The group has used certain assumptions in assessing the provision for former members' annuities of €57 million as set out in note 19 The assumptions used are based upon the current profile of the former members concerned and currently published mortality tables If either were to change the assumptions used in calculating the provision would no longer be appropriate The resulting variation in the underlying assumptions may result in a value for the provision that is different from that disclosed

27 Accounting estimates and judgements continued

Claims

The group from time to time receives claims in respect of professional negligence It defends such claims vigorously but makes provision for the possible amounts considered likely to be payable up to the deductible under the group's related insurance arrangements A different assessment of whether each case is more likely than not to result in a settlement, or of the possible cost involved may result in a different provision and cost

Property provisions

Property provisions of €38 million are calculated based on certain assumptions regarding the ability to sub-let the property, specifically the amount of time it may take to sub-let and the rental income that may be obtained A different assessment of the market conditions and sub-lease income achievable may result in a different value being determined for such provisions

Acquisition accounting

Under IFRS 3 'Business Combinations', the acquirer is required to determine fair values (reflecting conditions at the date of the business combination and its terms) for the identifiable assets, liabilities and contingent liabilities acquired Within such items will be intangible assets reflecting the current value of anticipated income streams from the customer relationships and the open order book of the party acquired In assessing the value of such items, the group has to make assumptions on matters such as the future profits likely to arise after reflecting charges for the services of the workforce (including the services of those individuals who separately are members of the partnership) and for the use of the KPMG brand, as well as the anticipated period over which benefits from existing customer relationships may endure

A different assessment on these matters may have resulted in a different value being ascribed to the assets and hence to the goodwill capitalised or the negative goodwill reflected in the income statement For example a 5% reduction in the assumed cost of members' services would have increased the recognised fair value of intangible assets of the relevant Spanish entities by €1 million A 5% increase in the charge assumed for the use of the KPMG brand would reduce the recognised fair values of intangible assets by €1 million in Spain Neither change would have had any impact on the recognised intangible assets for Belgium

Critical accounting judgements in applying the group's accounting policies

Acquisition accounting

IFRS 3 Business Combinations, requires that all cases meeting the definition of a business combination must be accounted for as an acquisition The creation of the group in 2008 and subsequent mergers each met the definition of a business combination Hence fair values must be determined for the identifiable assets, liabilities and contingent liabilities acquired and for the cost of the acquisition, even though internally these transactions were each regarded as a pooling of interests with no attempt to value each firm on an arm s length basis other than for the impact of harmonising accounting policies See also note 8

Similarly the basis for co-working with the entities in Spain and Belgium not controlled by the group, and the precise terms of the related merger documentation, were not drafted to clarify control within the context of the relevant accounting standard The group has assessed that certain entities fall to be regarded only as associates over which significant influence is exercised and that other entities are subject to neither control nor significant influence, even though all these entities constitute integral parts of the operations of the KPMG member firms in these countries

Those members of the partnership who joined the group on 30 September 2008 on the merger with KPMG Switzerland and subsequently on 1 October 2008 and 1 April 2009 on the mergers with KPMG Spain and Belgium respectively may under certain conditions require by majority vote the return to them in 2010 of the shares in each of KPMG Switzerland KPMG Spain or KPMG Belgium in exchange for a cash payment equal to the net asset value of each of those groups at that time Although in certain circumstances it might be possible for these members to obtain a higher value for these shares than recorded net asset value, the probability of this arising is assessed as remote Accordingly, no incremental value is attributed to the equity instrument arising from this special voting right in assessing the cost of consideration for the 'acquisition' of KPMG Switzerland in 2008 and subsequently, KPMG Spain and KPMG Belgium

28 Post balance sheet events

With effect from 1 October 2009 the partnership obtained control over KPMG Nederland NV, the parent company for the KPMG International member firm providing audit and advisory services in the Netherlands (KPMG Netherlands) and the local partners will shortly become members of the partnership Consideration was in the form of financial instruments that will rank as current liabilities of the group alongside other members capital and are anticipated to have a fair value not significantly different from the fair value of the net assets acquired The separate KPMG International member firm providing tax services in the Netherlands, KPMG Meijburg & Co, was not involved

28 Post balance sheet events continued
The merger will fall to be treated as a business combination in the group's 2010 financial statements The estimated carrying amounts of the assets and liabilities of KPMG Netherlands immediately prior to the merger were as follows

	Provisional pre-acquisition carrying amounts €m
Property plant and equipment	23
Trade and other receivables	104
Other receivables	23
Cash and cash equivalents	62
Property held for sale	166
Trade and other payables	(179)
Short-term bank borrowings	(168)
Provisions	(11)
Identifiable net assets	**20**

The fair value of the amounts to be recognised at the acquisition date in respect of KPMG Netherlands' assets liabilities and contingent liabilities and the fair value of the cost of investment have not yet been assessed and will be disclosed in the 2010 consolidated financial statements

During October 2009, the partnership obtained control over the tax practice of the KPMG International member firm in Luxembourg (KPMG Luxembourg) following its merger with the group The partners in KPMG Luxembourg sold 49% of their shares to the partnership and granted call options over the remaining shares and other rights in exchange for which they became members of the partnership and were credited with partnership capital The fair value of the capital credited to the Luxembourg partners is €4 million At the same time, the partnership acquired a 49% interest in the audit and advisory practice The remaining shares will be acquired when Luxembourg has introduced the EC 8th Directive into law

The merger with KPMG Luxembourg will fall to be treated as a business combination in the group's 2010 financial statements The estimated carrying amounts of the assets and liabilities immediately prior to the merger were as follows

	Provisional pre-acquisition carrying amounts €m
Property plant and equipment	8
Trade and other receivables	30
Other receivables	3
Cash and cash equivalents	5
Trade and other payables	(10)
Short-term borrowings	(10)
Provisions	(22)
Identifiable net assets	**4**

The fair value of the amounts to be recognised at the acquisition date in respect of assets, liabilities and contingent liabilities of the KPMG Luxembourg firm and the fair value of the cost of investment, have not yet been assessed and will be disclosed in the 2010 consolidated financial statements

Additionally a merger agreement was signed in October 2009 under which subject to various regulatory clearances, the partnership will gain control over the KPMG International member firm in the Commonwealth of Independent States (CIS) The CIS firm covers entities providing audit, tax and advisory services in Russia, Ukraine, Armenia Georgia Kazakhstan and Kyrgyzstan This merger is expected to complete later in the current financial year

A separate merger agreement was also signed in October 2009 with the KPMG International member firm in Turkey, under which the group will establish a new Turkish-incorporated subsidiary to carry out advisory engagements but otherwise will have no ownership in or control over existing Turkish entities, since this is prohibited under Turkish law The partnership has guaranteed bank loan facilities available to KPMG Turkey of US$10 5 million (€7 million)

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KPMG Europe LLP
Parent financial statements 2009

KPMG EUROPE LLP

AUDIT ▪ TAX ▪ ADVISORY

Statement of members' responsibilities in respect of the financial statements

KPMG Europe LLP (the partnership) was incorporated in the UK on 17 November 2006 as a limited liability partnership (LLP) under the Limited Liability Partnerships Act 2000 It has its seat in Frankfurt am Main, Germany and is therefore also registered with the Handelsregister, Frankfurt

The Board (as set out on pages 40 to 41) was responsible for setting the partnership's strategy and overseeing its implementation during the year ended 30 September 2009 The Board was also responsible for ensuring that the partnership maintained a sound approach to defining the system for risk management and internal control and for reviewing its effectiveness during the year

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the 2008 Regulations) require the members to prepare financial statements for each financial year Under that law the members have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law

Under Regulation 8 of the 2008 Regulations the members 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 partnership and of the profit of the partnership for that period

In preparing these financial statements the members 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 as adopted by the EU, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business

Under Regulation 6 of the 2008 Regulations the members are responsible for keeping adequate accounting records that are sufficient to show and explain the partnership's transactions and disclose with reasonable accuracy at any time the financial position of the partnership and enable them to ensure that the financial statements comply with those regulations They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the partnership and to prevent and detect fraud and other irregularities

The members are responsible for the maintenance and integrity of the corporate and financial information included on the partnership s website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

During the year these responsibilities were exercised by the Board on behalf of the members

Report of the independent auditor to the members of KPMG Europe LLP

We have audited the parent financial statements of KPMG Europe LLP for the year ended 30 September 2009 which comprise the statements of comprehensive income, financial position, changes in equity and cash flows, and notes 1 to 9 These financial statements have been prepared under the accounting policies set out therein

We have reported seperately on the group financial statements of KPMG Europe LLP for the year ended 30 September 2009

This report is made solely to the members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006 as applied by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 Our audit work has been undertaken so that we might state to the 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 limited liability partnership and the members as a body for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of members and auditors

The members' responsibilities for preparing the annual report and the parent financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the 'Statement of members' responsibilities in respect of the financial statements'

Our responsibility is to audit the parent financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) It is our responsibility to form an independent opinion based on our examination, and to report our opinion to you

In addition we report to you if, in our opinion, KPMG Europe LLP has not kept adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us, or the parent financial statements are not in agreement with the accounting records, or we have not received all the information and explanations we require for our audit

We read the other information contained in the group Annual Report and consider whether it is consistent with the audited parent financial statements This other information comprises only the Report to the members and the information on pages 1 to 41 of the group Annual Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent financial statements

Basis of audit opinion

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

Opinion

In our opinion the parent financial statements

- give a true and fair view of the state of the limited liability partnership's affairs as at 30 September 2009 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 Companies Act 2006 as applied by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

Grant Thornton UK LLP

Stephen P S Weatherseed
Senior Statutory Auditor
for and on behalf of
Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants
London
11 December 2009

Statement of comprehensive income
for the year ended 30 September 2009

	2009 €'000	2008 € 000
Profit for the financial year	**414**	**544**
Total comprehensive income for the year – attributable to members	**414**	**544**

Statement of financial position
at 30 September 2009

	Note	2009 €'000	2008 € 000
Non-current assets			
Investments	3	52,736	45,660
		52,736	45,660
Current assets			
Trade and other receivables	4	352	8
Amounts due from members	7	1,401	–
Cash and cash equivalents	5	2,900	795
		4,653	803
Total assets		**57,389**	**46,463**
Equity			
Equity attributable to members			
Other reserves classified as equity		414	544
		414	544
Current liabilities			
Trade and other payables	6	2,406	1,179
Amounts due to members		80	–
Members' capital	7	54,489	44,740
		56,975	45,919
Total equity and liabilities		**57,389**	**46,463**

The financial statements on pages 3 to 11 were approved by the members on 11 December 2009 and were signed on their behalf by

John Griffith-Jones Joint Chairman

Prof Dr Rolf Nonnenmacher Joint Chairman

Statement of changes in equity
at 30 September 2009

	Members other reserves € 000
Balance at 1 October 2007	–
Total comprehensive income	
Profits for the financial year	544
Profits allocated to members during the year	–
Balance at 30 September 2008	544
Total comprehensive income	
Profits for the financial year	414
Profits allocated to members during the year	(544)
Balance at 30 September 2009	**414**

Statement of cash flows
for the year ended 30 September 2009

	Note	2009 € 000	2008 € 000
Cash flows from operating activities			
Profit for the financial year		414	544
Adjustments for			
Financial income		(2 469)	(1,598)
		(2 055)	(1,054)
Increase in trade and other receivables		(340)	(3)
Increase in trade and other payables		1 229	1 169
Cash flows from operating activities before transactions with members		**(1,166)**	**112**
Payments to members		(1,735)	–
Net cash flows from operating activities		**(2,901)**	**112**
Cash flows from investing activities			
Acquisition of investments	3	(4,346)	(265)
Interest received		331	32
Dividend and profit share received		1,926	1,566
Net cash flows from investing activities		**(2,089)**	**1,333**
Cash flows from financing activities			
Capital introduced by members		10,100	4,160
Capital repayments to members		(3,005)	(4,810)
Net cash flows from financing activities		**7,095**	**(650)**
Net increase in cash and cash equivalents		2,105	795
Cash and cash equivalents – beginning of the year		795	–
Cash and cash equivalents at the end of the year		**2,900**	**795**

Notes

forming part of the financial statements

1 Accounting policies

KPMG Europe LLP (the partnership) is incorporated in the UK as a limited liability partnership under the Limited Liability Partnerships Act 2000 It has its seat in Frankfurt am Main Germany and is therefore also registered with the Handelsregister, Frankfurt These financial statements present information about the partnership as a separate entity and not about its group

The accounting policies set out below have been applied consistently to all periods presented in these financial statements In these financial statements, the following International Financial Reporting Standards as adopted by the European Union (adopted IFRSs) and related amendments and interpretations to published standards are reflected for the first time

- Revision to IAS 1 'Presentation of Financial Statements Revised 2007' voluntary adoption as this standard is effective only for financial years beginning on or after 1 January 2009
- Amendments to IAS 32 and IAS 1 'Puttable financial instruments and obligations arising on liquidation' voluntary adoption as this standard is effective only for financial years beginning on or after 1 January 2009

The amendment to IAS 1 has had an impact on presentation of the partnership s financial statements only in that a new primary statement is required, the statement of changes in equity There is no impact on previously disclosed statements of financial position and hence no additional disclosure is required The amendment to IAS 32 and IAS 1 has had no impact on these financial statements

A number of new amendments and interpretations have been endorsed by the European Union as part of adopted IFRSs, but are not yet effective and have not been adopted by the partnership None of these amendments is expected to have a significant impact on the partnership s financial statements

Basis of preparation

These financial statements of the partnership have been prepared in accordance with adopted IFRSs The financial statements have been approved by the members The financial statements are prepared on the historical cost basis

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities income and expenses Management consider that there are no such judgements or estimates that require disclosure

The functional and presentation currency of the partnership is the euro The financial statements are presented in thousands of euro (€ 000)

Taxation

The partnership's profit is potentially subject to German trade tax However, income taxes on all profits of the partnership are solely the personal liability of the individual members Consequently neither taxation nor related deferred taxation arising in respect of the partnership is accounted for in these financial statements

Financial income and expense

Financial income comprises interest income on funds invested, profit shares received from a subsidiary limited liability partnership and dividends received from subsidiary companies to the extent that they relate to profits arising since the date of acquisition Interest income is recognised as it accrues using the effective interest method Dividends and profit shares are recognised when the partnership's right to receive payment is established

Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents trade and other payables and members capital

Investments

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits The cash and cash equivalents are stated at their nominal values Due to their short maturity period this approximates to their fair value

Trade and other payables

Trade and other payables are initially valued at fair value, based upon the nominal amount due Subsequent to initial recognition they are recorded at amortised cost which in most cases approximates to fair value

Members' capital

The capital requirements of the partnership are determined from time to time by the Board following recommendations from the Executive Committee Each member is required to subscribe a proportion of this capital after taking into account any capital already contributed by the member to an LLP or other entity (being a subsidiary of the partnership) of which he is also a member Hence, members capital of the partnership represents capital subscribed to the group by members of the partnership except for amounts subscribed to a subsidiary entity No interest is paid on capital

On leaving the partnership an individual member's capital must be repaid within one month of the leaving date, unless other arrangements have been agreed between the member and the Executive Committee

Members' capital is therefore considered a liability and is stated at its nominal value being the amount repayable

This classification was reviewed in light of the amendment to IAS 32 and IAS 1 regarding the classification of a puttable financial instrument However, the terms of members' capital do not satisfy all of the criteria to be met in order to justify classification as an equity instrument and the classification as a liability is still considered to be appropriate

Notes
forming part of the financial statements continued

1 Accounting policies continued
Amounts due to and from members
Amounts due to and from members are stated at their nominal value

All distributions to members are made net of amounts relating to members' tax liabilities Such amounts are withheld by subsidiary entities from dividends paid to the partnership

Impairment
The carrying amounts of the partnership's assets are reviewed at each year end to determine whether there is any indication of impairment 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 short duration are not discounted The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its 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 In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised

Allocation of profits and drawings
The allocation of profits to those who were members of the partnership during the financial year occurs at the discretion of the Board following finalisation of the annual financial statements As is permitted by the Limited Liability Partnerships Regulations and the Partnership Agreement allocated profits may not necessarily represent all the profits arising in a particular financial year, if the Board considers it appropriate to retain profits or to allocate profits previously retained

Pending the allocation of profits and their division between members, therefore, unallocated profits are shown in Equity as 'Other reserves'

2 Profit and loss account
In presenting these financial statements together with the group financial statements, the partnership is taking advantage of the exemption in Section 408 (4) of the Companies Act 2006 not to present its individual income statement and related notes as part of these approved financial statements

Amounts payable to the auditors for audit services in respect of the partnership and the group financial statements were €160,000 (2008 €141,000)

Notes

forming part of the financial statements continued

3 Investments

	Subsidiaries		Associates	Total
	Shares € 000	Loans € 000	Shares € 000	€ 000
Cost and net book value				
Balance at 1 October 2007	–	–	–	–
Acquisitions	36,540	9,120	–	45,660
Balance at 30 September 2008	36,540	9 120	–	45,660
Acquisitions	5,895	655	526	7,076
Balance at 30 September 2009	**42,435**	**9,775**	**526**	**52,736**

On 1 October 2007 the partnership acquired from the local partners all of the shares in KPMG AG (then KPMG Deutsche Treuhand-Gesellschaft AG) the parent entity for the KPMG International member firm in Germany, for €36 3 million, in exchange for members' capital Costs of €270,000 were incurred Additionally, on 1 October 2007 the partnership acquired all of the voting rights in KPMG LLP, the parent entity for the KPMG International member firm in the UK, at nil cost

On 30 September 2008 KPMG AG acquired from the local partners all the shares in KPMG Holding AG, the parent entity for the KPMG International member firm in Switzerland The acquisition was partly in cash and partly by crediting the Swiss partners with members capital in the partnership The partnership then lent KPMG AG the equivalent amount this loan has no fixed repayment terms and will bear interest at rates to be agreed from time to time

With effect from 1 October 2008 the partnership acquired all the shares in certain entities of the KPMG member firm in Spain providing tax and advisory services (together KPMG Spain) – for consideration of €0 8m in members' capital in the partnership and €3 4 million in cash €655 000 was lent to KPMG Spain on similar terms to the loan to KPMG AG above

With effect from 1 April 2009, the group acquired 100% ownership and control over certain entities of the KPMG member firm in Belgium providing advisory and certain internal services These interests were acquired in exchange for members' capital in the partnership totalling €1 5 million

Costs of €366 000 were incurred in connection with these acquisitions

At the same time 49% ownership (but not control) was obtained (in exchange for members' capital of €0 4 million) over KPMG Belgium entities providing tax and accounting services these are treated as associates Costs of €82,000 were incurred

Further details of these acquisitions and details of the partnership s subsidiaries and associates are given in notes 8 and 26 to the group financial statements

Subsequent to the year end, the partnership

- Obtained control over KPMG Nederland NV, the parent company for the KPMG International member firm providing audit and advisory services in the Netherlands (KPMG Netherlands) and the local partners will shortly become members of the partnership Consideration was in the form of financial instruments that will rank as current liabilities of the group alongside other members' capital and are anticipated to have a fair value not significantly different from the fair value of the net assets acquired The separate KPMG International member firm providing tax services in the Netherlands, KPMG Meijburg & Co, was not involved
- Obtained control over the tax practice of the KPMG International member firm in Luxembourg following its merger with the group and acquired a 49% interest in related audit and advisory entities but without control these entities are therefore regarded as associates Members capital of €4 million was credited to the partners in the Luxembourg firm
- Signed a merger agreement under which subject to various regulatory clearances, the partnership will gain control over the KPMG International member firm in the Commonwealth of Independent States (CIS) The CIS firm covers entities providing audit, tax and advisory services in Russia Ukraine Armenia Georgia Kazakhstan and Kyrgyzstan This merger is expected to complete later in the current financial year
- Signed a merger agreement with the KPMG International member firm in Turkey under which the partnership will establish a new Turkish-incorporated subsidiary to carry out advisory engagements but otherwise will have no ownership in or control over existing Turkish entities since this is prohibited under Turkish law As a result of this merger the partnership has guaranteed bank facilities available to the Turkish firm totalling US$10 5 million (€7 million)

Notes
forming part of the financial statements continued

4 Trade and other receivables

	2009 € 000	2008 € 000
Other receivables and prepayments	352	8
	352	**8**

All trade and other receivables are due within 12 months

5 Cash and cash equivalents

	2009 € 000	2008 € 000
Bank balances	100	5
Short-term deposits	2,800	790
Cash and cash equivalents in the statement of financial position	**2,900**	**795**

6 Trade and other payables

	2009 € 000	2008 € 000
Amounts due to subsidiaries	2 014	991
Other payables	136	12
Accruals	256	176
	2,406	**1,179**

7 Equity and members' capital
Equity includes members' other reserves comprising certain amounts retained from profits arising in previous years pending their allocation to members

Movements in individual members' capital are as follows

	€ 000
Balance at 1 October 2007	–
Capital credited on acquisition of investments	45,390
Capital introduced by members	4 160
Repayments of capital	(4,810)
Balance at 30 September 2008	44 740
Capital credited on acquisition of investments	2 734
Capital introduced by members	10,100
Repayments of capital	(3 085)
Balance at 30 September 2009	**54,489**

Members other interests comprise amounts due from members of €1,401,000 (2008 €nil)

Amounts due to members relate to capital repayable to retiring members There are no loans or other amounts payable to members In the event of a winding up, amounts due to members may be set-off against amounts due from members but would otherwise rank as unsecured creditors Such balances (and individual members' capital) rank after unsecured creditors

Notes

forming part of the financial statements continued

8 Financial instruments

The partnership's risk management objectives, policies and processes are covered by those of the group as set out in note 22 to the group financial statements

a) Credit risk

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, namely

	2009 € 000	2008 € 000
Loans and receivables		
Other receivables and prepayments	352	8
Bank balances	100	5
Short term deposits	2,800	790
Amounts due from members	1,401	–
	4,653	**803**

Impairment losses

There were no overdue trade receivables at either 30 September 2009 or 30 September 2008 There were no impairment provisions against trade receivables or other financial assets at either year end

b) Liquidity risk

The partnership's financial liabilities are amounts due to subsidiaries accruals and members capital None of these are interest bearing hence the contractual cash flows in all cases equal the carrying amount Amounts due to subsidiaries and accruals are all repayable within one year As set out in the accounting policies, members capital is repayable within one month of the members' leaving date

The partnership had no committed borrowing facilities at 30 September 2009 or 30 September 2008

c) Interest rate risk

The financial assets and liabilities of the partnership are non interest bearing with the exception of bank balances and cash deposits which are variable rate instruments and the amounts due from subsidiaries which are interest bearing as set out in note 3 A change of 100 basis points in interest rates during the year would have increased or decreased the partnership's profit by €0 1 million (2008 €nil) This analysis assumes that all other variables remain constant

d) Exchange rate risk

There were no significant balances at the end of the year, or transactions during the year denominated other than in euro

e) Fair values

The fair values of financial assets and liabilities approximate to their carrying amounts in all cases due to their short maturity

9 Related parties

The partnership has a related party relationship with its key management, considered to be the Board members of KPMG Europe LLP (pages 40 to 41) The partnership also has a related party relationship with its subsidiaries as set out in note 26 to the group financial statements

Transactions with key management

The members of the Board are responsible for planning directing and controlling the activities of the group They are all members of the partnership The partnership does not divide profits amongst members until after the financial statements have been finalised and approved by members

The estimated profit entitlement from the partnership due to the key management in respect of the current year totalled €690,000 The actual profit allocated by the partnership in respect of the previous year was €544 000

There were no balances due to or from the partnership s key management at 30 September 2009 or 2008 save in respect of relevant shares of profit (or related taxation) and individual members' capital Total members capital invested by key management amounted to €1,374 000 at 30 September 2009 (2008 €1,280,000)

Transactions with subsidiaries

During the year, the partnership received a dividend of €791,000 (2008 €530,000) from KPMG AG and a profit share of €1 345,000 (2008 €1,036,000) from KPMG LLP In addition the partnership was charged €648,000 (2008 €449,000) by KPMG LLP and €1,365,000 (2008 €669,000) by KPMG AG in respect of stewardship costs incurred by them on its behalf

At 30 September 2009, the partnership owed €648,000 (2008 €449 000) to KPMG LLP €1,365,000 (2008 €532 000) to KPMG AG and €nil (2008 €10 000) to KPMG Europe Holdings Limited

At 30 September 2009 the partnership had lent €655,000 (2008 €nil) to KPMG Spain and received related interest income of €25 000 (2008 €nil) and had lent €9,120,000 to KPMG AG (Germany) (2008 €9,120 000) and received related interest income of €274,000 (2008 €nil)