



BUSINESS SYSTEMS

STRATEGY ► IMPLEMENTATION ► RESULTS

2001

FISCAL 2001 IN REVIEW

KPMG CONSULTING, INC.

THE YEAR IN REVIEW

Perhaps the most valuable
discipline we offer clients is our ability to
deliver the right strategy, implemented with
speed and purpose, designed to
produce results that exceed expectations.

DEAR FELLOW INVESTORS

Throughout this past year—a year of shifting economic fortunes and powerful dynamics in nearly every market segment we serve—our discipline has been a constant that clients could rely on again and again. The other constant in this environment has been change.

For us, change meant the move on February 8, 2001, from being private to becoming a public company by successfully completing the second-largest initial public offering in Nasdaq history. This event marked the achievement of a goal we set our sights on four years ago. So that we may better serve our clients. Invest in growing our business. Share the rewards of this growth with other stakeholders. Attract, retain, and reward the best and brightest people with equity.

It was the right decision.

Change has also meant the seesaw experience of scrambling to hold onto talent lured by the dot-com boom. Followed by the difficult decision to reduce our workforce when demand in some of our industries softened. It meant broadening our global footprint with the acquisition of 17 consulting businesses around the world. Creating a new, independent vision for our business. Communicating and instilling shared values among our team members across the world. Building a new brand on the foundation of our 100-year-old legacy.

In short, this year has required us to manage our business even more efficiently as it moved at an unprecedented pace. It has been as challenging as it sounds, and in this—our first—annual report, we share the story of a solid business that has performed well by constantly delivering value to our clients and by *managing, managing, managing* the fundamentals.



Randolph C. Blazer, Chairman and Chief Executive Officer

> > >

KPMG
CONSULTING
SERVES

72

OF THE
FORTUNE 100
BUSINESSES

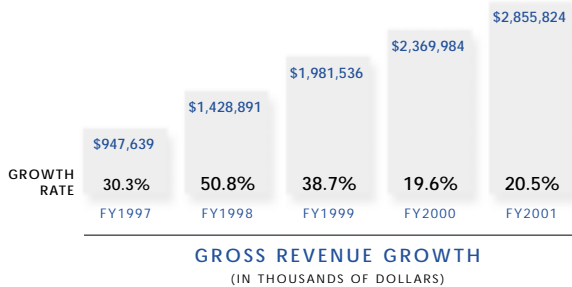
KPMG
CONSULTING
SERVES CLIENTS
THROUGH

5 global

INDUSTRY-FOCUSED
LINES OF
BUSINESS

MANAGING OUR GROWTH

Fiscal year 2001 marked our fifth straight year of record revenue growth. Our total revenues grew to \$2.9 billion, a 20.5 percent increase over the previous year. Operating earnings were \$130 million and operating earnings per diluted share were \$.91. Available public data also indicates that we again exceeded industry averages for revenue growth, marking the fifth consecutive year we have charted such performance.



EXPANDING OUR CLIENT RELATIONSHIPS

We have a track record for strong relationships with our top clients. We measure this against two metrics. First, we maintained a high retention rate among our existing clients. An indicator of our value to the clients we serve is the 33 percent increase in average revenue that we experienced

with our top clients. Second, we increased the number of Global 2000 businesses that we serve, from 501 to 531, confirming that clients value our ability to deliver consistently and globally.

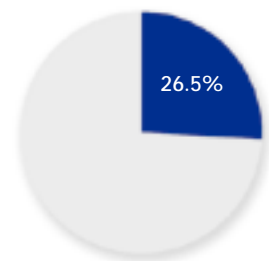
TAKING CARE OF OUR PEOPLE

Our most important asset is our more than 10,000 people worldwide—they are the experience, the knowledge, the innovation, the creativity, and the reason our clients choose us and choose us again.

Managing the essential asset of our people is one of the most important management challenges our company has, and we take it very seriously.

One of our top goals this year was to reduce voluntary turnover among our employees. In the fourth quarter, we reported annualized voluntary turnover of 16.6 percent, an achievement that represents voluntary turnover well below our historic levels and a strong balance between stability and fresh talent for our business. We reached this goal by issuing stock options to almost all of our employees. By instating a mid-year performance review period so that there are two opportunities to provide feedback to and motivation for our people each year. By providing

GLOBAL 2000 ACCOUNT PENETRATION



one of the industry's leading professional development programs, including 800 courses, many of which are now online.

THE RIGHT BUSINESS MODEL

Through all of this, our established business model—serving global, industry-specific lines of business—has anchored us with its stability and flexibility. It leverages our best asset—our people, who average 13.5 years of experience in the industries we serve. These professionals include our talented practitioners and seasoned, successful sales force. Our business model focuses on providing a return on investment to our clients by tailoring our offerings to their unique, industry-specific needs. In the coming pages, we present our business, and also describe our service offerings. We continue to serve corporate and government leaders in 18 major market segments, which are now organized into five global lines of business.

ALLIANCES WITH MARKET LEADERS

Another feature of our success for clients is our approach to alliance relationships. Our program is managed to produce value for our clients and to exact return on our investments. With many of the market-leading technology companies in the business, we mutually invest in the joint development of solutions to meet the unique business needs of our clients and work together to maintain a laser focus on serving them. Our alliances also offer us the advantage of access to new technologies and are a valuable source of lead generation.

In the year ahead, we will continue to pursue our vision—to become the most influential and respected business advisor and systems integrator in the world. Your support and your confidence in us and in our performance are greatly appreciated. We look forward to continuing our partnership with you and to rewarding your confidence in us as we strive to achieve our vision.



Randolph C. Blazer
Chairman and Chief Executive Officer

OUR PEOPLE
AVERAGE

13.5 years of
experience

IN THE INDUSTRIES
WE SERVE

KPMG
CONSULTING
EXPERIENCED A

33%
increase

IN REVENUE WITH
OUR TOP CLIENTS

KPMG CONSULTING:
OUR VISION

Our vision is to be the world's most
influential and respected business advisor
and systems integrator by
creating real and sustainable value
for our clients, growth opportunities
for our people, and
long-term value for our shareholders.

KPMG CONSULTING STRENGTHS

How do our clients measure the value of our contributions? By the extraordinary results we help them achieve. But what attracts new clients to us—and keeps existing clients with us—are our strategic strengths:

- Industry Expertise
- Experienced Workforce
- Innovative Results-Focused Solutions
- Enduring Relationships with World-Class Clients
- Strategic Alliances with Market Leaders
- Global Reach

The combination of these strengths, delivered through our industry-focused lines of business, allows us to consistently create competitive advantages for our clients, a rewarding and stimulating work environment for our people, and real value for our shareholders.

Regardless of which industry we work in, one constant remains. KPMG Consulting is dedicated to client success. It is this dedication that drives our own.

KPMG CONSULTING LINES OF BUSINESS

COMMUNICATIONS
+ CONTENT

PUBLIC SERVICES

HIGH TECHNOLOGY

CONSUMER
+ INDUSTRIAL
MARKETS

FINANCIAL
SERVICES



COMMUNICATIONS + CONTENT

SOLVING INDUSTRY CHALLENGES Deeply affected by the pervasive influence of the Internet and its implications, a shifting landscape of mergers and acquisitions, and seemingly daily advances in communications technology, our clients in this fiercely competitive segment seek solutions that enable rapid deployment of new services while reducing operational costs.

Content providers are becoming communications companies. And new competitors are emerging to change the rules of play for the industry. These clients need the value-added services that KPMG Consulting provides to support broadband access and distribution, content and network management, and secure transaction-based services.

Our Communications + Content clients include global and national telecommunications companies, wireless service providers, cable operators, Internet service providers, publishers, printers, advertising agencies, information service providers, and broadcasting companies. Our services to these companies help them deliver voice, video, and data to the world.

A TELECOMMUNICATIONS GIANT DELIVERS MORE PERSONAL SERVICE TO MILLIONS OF CUSTOMERS.

BUSINESS SYSTEM: Consolidated Call Center

STRATEGY: Centralize the most current customer and product data for one of the world's largest telecommunications companies so it's accessible from any call center in dozens of major markets across the U.S.

IMPLEMENTATION: Developed a Web-based customer service tool with a centralized database that can be updated by each call center through a Web browser. Automated the client's content management processes to deliver the most current product information through the same browser.

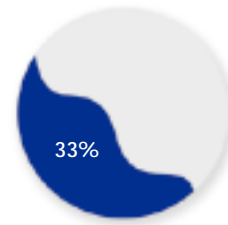
RESULTS: An infrastructure that can change and adapt to the needs of a dynamic business delivering precise and rapid service that makes customers feel like "one in a million."

U.S. GROSS REVENUE BY LINE OF BUSINESS FOR FY2001
(IN THOUSANDS OF DOLLARS)



COMMUNICATIONS + CONTENT
\$524,767

GLOBAL 2000 COMMUNICATIONS + CONTENT ACCOUNT PENETRATION FOR FY2001



KPMG CONSULTING

SERVES

8 of the Top 10

U.S.-BASED TELECOMMUNICATIONS COMPANIES

SERVES

3 of the Top 5

U.S. WIRELESS COMPANIES

SERVES

4 of the Top 5

CABLE PROVIDERS

Leads

MAJOR TELECOMMUNICATIONS COMPANIES IN MEETING REGULATORY OPEN COMPETITION REQUIREMENTS



PUBLIC SERVICES

SOLVING INDUSTRY CHALLENGES Public services organizations are under pressure to improve efficiency, streamline services, and keep pace with advances in technology. But most important, they have to deliver results that maximize the value of every tax dollar.

Our clients in this line of business include federal, state, and local government agencies, private and public higher education institutions, and health care organizations. We serve all U.S. Federal executive departments, as well as all of the U.S. Department of Defense Military Services. We also serve the 10 largest states by population, as well as some of the nation's largest research institutions.

We help our clients to improve their operations by implementing technology and delivering integration services that improve administrative effectiveness, streamline information management, and increase operational efficiency.

IMPROVING BUSINESS PERFORMANCE AND EFFICIENCY FOR GOVERNMENT AGENCIES.

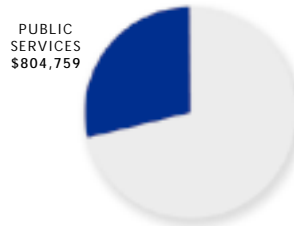
BUSINESS SYSTEM: Web-based Decision Support System

STRATEGY: Capture and make available operational data to improve the business performance of a large national health organization. Integrate 26 separate nationwide institutes and centers by making existing data Internet-accessible.

IMPLEMENTATION: Built an integrated, Web-enabled data warehouse and decision support system organized into six distinct data marts to address personnel costs, travel, inventory management, budgeting and finance, procurement, and workforce demographics.

RESULTS: More efficient analysis of information and better decision support through access to diverse data repositories to more than 6,000 staff members.

U.S. GROSS REVENUE BY LINE OF BUSINESS FOR FY2001
(IN THOUSANDS OF DOLLARS)



KPMG CONSULTING

IS A
Top 50

PRIME FEDERAL
CONTRACTOR
IN THE U.S.

SERVES
**21 of
the 26**

U.S. FEDERAL
GOVERNMENT
AGENCIES

SERVES THE
**10 largest
states**

IN THE U.S.

SERVES
1/3+

U.S. RESEARCH
UNIVERSITIES



HIGH TECHNOLOGY

SOLVING INDUSTRY CHALLENGES Time is constantly at a premium for the hardware, software, and life sciences companies that make up our client base in this line of business. Whether they are established growth companies or venture-backed start-ups, our clients are looking for solutions that accelerate their growth and improve operations.

Companies in this segment are often at the forefront of trends that redefine industries with new business models, access to new customers, trading partner integration, and workforce productivity.

Our teams in this arena respond to the demands of Internet-time with a full array of services encompassing strategy, design, technology, and integration. These clients choose us in the most competitive and time-compressed situations for our proven ability to rapidly deliver end-to-end integration that scales to fit the dynamic nature of their enterprise.

LARGE-SCALE DISTRIBUTOR OF TECHNOLOGY PRODUCTS GOES BUSINESS-TO-BUSINESS IN 90 DAYS.

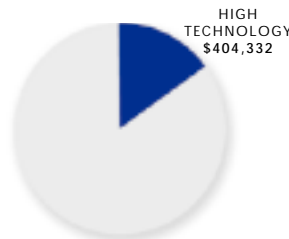
BUSINESS SYSTEM: Virtual Supply Chain and Partner Collaboration System

STRATEGY: Enhance the value of the distributorship to its customers by creating a virtual supply chain to provide real-time online access to order status, purchasing information, inventory levels, and product presentations.

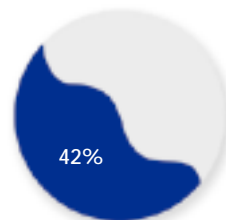
IMPLEMENTATION: Created and launched two Web sites in 90 days. One provides customers with personalized profiles based on buying behavior; the other is the first Internet-based business community for technology product customers, resellers, and vendors.

RESULTS: Client's customer satisfaction and retention is now at an all-time high, with the Web-based business forum allowing distributors to easily enter into virtual partnerships and new business opportunities.

U.S. GROSS REVENUE BY LINE OF BUSINESS FOR FY2001
(IN THOUSANDS OF DOLLARS)



GLOBAL 2000 HIGH TECHNOLOGY ACCOUNT PENETRATION FOR FY2001



KPMG CONSULTING

SERVES THE
World's Top 11

HEALTH AND PHARMACEUTICAL COMPANIES

SERVES
9 of the Top 10

GLOBAL ELECTRONICS COMPANIES

SERVES
8 of the Top 10

GLOBAL SOFTWARE COMPANIES



CONSUMER + INDUSTRIAL MARKETS

KPMG CONSULTING

SOLVING INDUSTRY CHALLENGES Within this line of business are four major market sectors—retail, consumer packaged goods, industrial and automotive markets, and chemical and energy companies.

Our clients in these industries are engaged in unprecedented transformation. As established businesses take advantage of today’s technologies, they are approaching their traditional business and new opportunities in innovative new ways. Clients are deploying enterprise solutions portals, private trading networks, workforce productivity tools, and other innovations made possible by the Internet and technology advances—all with an eye toward reducing operating costs, improving customer loyalty, enhancing competitiveness, and increasing market share.

The services we offer to these businesses are likewise broad and deep, encompassing everything from supply chain and channel integration, to sales automation and call centers, to workforce applications and electronic storefronts.

CHANNEL INTEGRATION IMPROVES CUSTOMER MARKETING AND RETENTION FOR A PROVEN RETAILER.

BUSINESS SYSTEM: Customer Relationship Management

STRATEGY: Translate the proven retail business of one of the world’s largest and most successful retailers to the Internet, to improve marketing effectiveness and customer retention, and to grow profits.

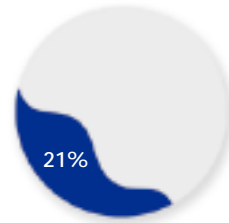
IMPLEMENTATION: Launched a program that included one-to-one marketing, management of client’s marketing campaign, and data analysis and integration of the points at which a customer interacts via stores, the Web site, call centers, and delivery and service personnel—all designed to make shopping easier, faster, and more satisfying for their customers.

RESULTS: Created more frequent and more productive customer interactions, resulting in more new customers, additional sales, and increased customer loyalty.

U.S. GROSS REVENUE BY LINE OF BUSINESS FOR FY2001
(IN THOUSANDS OF DOLLARS)



GLOBAL 2000 CONSUMER + INDUSTRIAL MARKETS ACCOUNT PENETRATION FOR FY2001



SERVES

6 of the Top 10

GLOBAL RETAILERS

SERVES

5 of the World’s Top 15

CHEMICAL COMPANIES

SERVES

6 of the World’s Top 10

AUTO MAKERS

SERVES

5 of the Top 10

GLOBAL OIL AND GAS COMPANIES



FINANCIAL SERVICES

SOLVING INDUSTRY CHALLENGES The pace of consolidation and convergence in the financial services industry is creating terrific pressure for companies to embrace new competitive strategies. These companies are also evolving new business models that will help them better serve customers, more effectively manage their businesses, reduce the costs of doing business, and generate new sources of revenue.

In this line of business, we serve global diversified financial institutions, banks, insurance companies, securities firms, and real estate companies. We are helping many of the world's largest financial institutions take advantage of the opportunities created by the digital revolution. Our offerings focus on delivering strategic, operational, and technology services that help leverage existing systems, integrated with new technologies.

ONE OF THE WORLD'S LARGEST INSURANCE FIRMS—WITH ITS CUSTOMERS—JOINS THE INTERNET REVOLUTION.

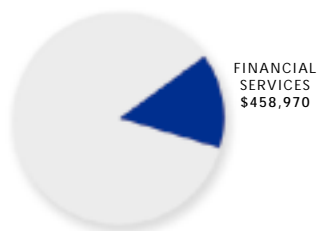
BUSINESS SYSTEM: Online Benefits Administration

STRATEGY: Provide this insurance company's customers with an online benefits enrollment system that could support our client's future growth, marketing programs, and product distribution, and at the same time enhance customer service.

IMPLEMENTATION: Using our industry-specific analysis, assessment, and implementation approach along with our World-Class Human Resources™ solutions, we designed and developed an Internet-based, self-service benefits administration system for the client's small-business customers.

RESULTS: Reduced administrative costs and improved customer retention, enabling the client's customers to save time, effort, and money managing their employee benefits.

U.S. GROSS REVENUE BY LINE OF BUSINESS FOR FY2001
(IN THOUSANDS OF DOLLARS)



GLOBAL 2000 FINANCIAL SERVICES ACCOUNT PENETRATION FOR FY2001



KPMG CONSULTING

SERVES

9 of the World's Top 10

BANKING INSTITUTIONS

SERVES

the Top 4

CAPITAL MARKETS COMPANIES

SERVES

4 of the World's 10 largest

INSURANCE COMPANIES

ALLIANCES

THE MOST
IMPORTANT BENEFIT
IS THAT OUR

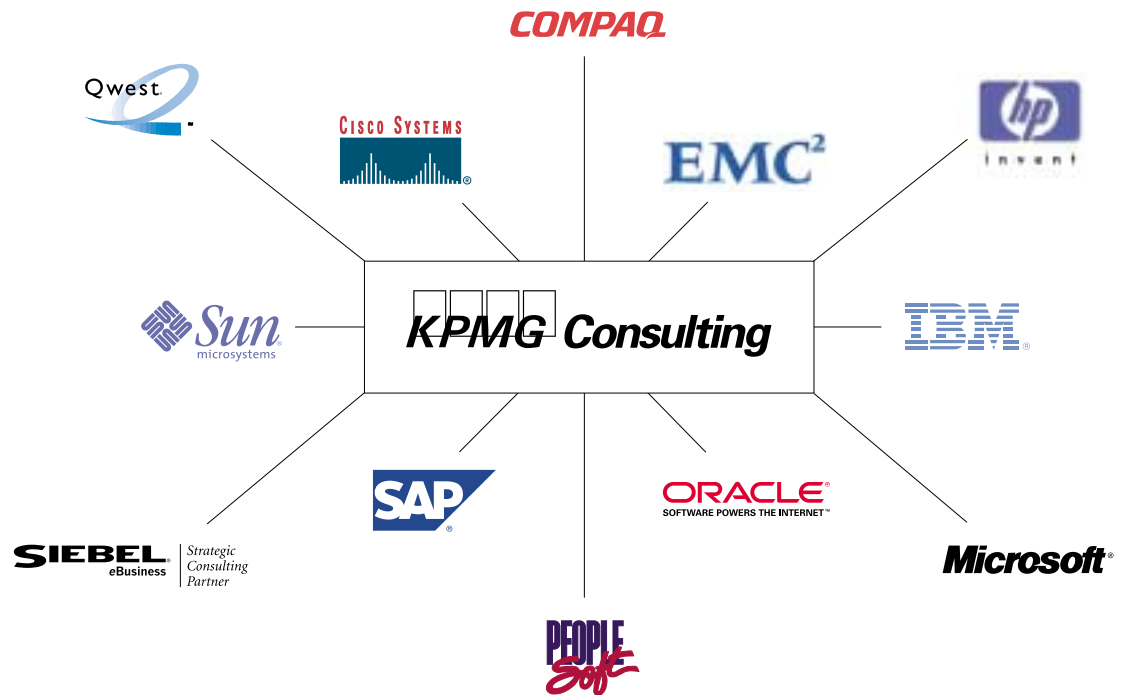
**alliance
partners
share our
absolute
commitment**

TO OUR CLIENTS'
SUCCESS.

ENHANCING CLIENT VALUE THROUGH COLLABORATION WITH MARKET LEADERS

To bring our clients best-in-class solutions, we have formed alliances with market-leading technology companies. More than simple marketing agreements, these relationships are an investment in the joint development of solutions to serve the unique business needs of our clients. We invest in training and certifying our consultants in these leading technologies, and together our focus is on successful deployment.

The resources of our alliance partners combined with our own industry expertise in business systems strategy and implementation make our alliance program a valuable resource to our clients. But perhaps the most important benefit is that our partners share our absolute commitment to our clients' success. With this shared vision and our combined resources and innovation, we can achieve our goals of delivering innovation and real business value to our clients.



SOLUTIONS

INNOVATIVE RESULTS-FOCUSED SOLUTIONS

Across all industries, we help our clients take advantage of unparalleled opportunities for growth and efficiency by leveraging new technologies. Many of our solutions are pre-architected, so we can move rapidly from business systems strategy to implementation to produce results quickly. These solutions address the most pressing needs of today's complex business environment.

The solutions we deliver include:

Enterprise Solutions Maximize business efficiency through enterprise-wide business applications for finance, HR, operations, and workforce productivity.

Supply Chain Management Optimize the movement of goods and services to customers through trading partner connectivity, purchasing, advanced planning, and supply chain automation.

Emerging Technologies, including Wireless Gain competitive advantage through deployment of new technologies, such as wireless, to increase employee productivity, enhance customer service, and reach new markets.

Customer Relationship Management (CRM) Improve acquisition and retention of customers through sales and channel automation, integrated Web call centers, marketing and customer intelligence, and billing and customer care.

Integration Services Accelerate time-to-market and improve enterprise operations through application and data sharing of business systems across the organization, whether it is legacy, client/server, or Internet-based.

Managed Services Reduce costs and focus key resources on competitive differentiators through outsourcing and automation of business functions such as order management, billing, and customer care.

Infrastructure Solutions Maximize security, scalability, and performance of business systems with planning, design, procurement, and deployment of networks, servers, and operation centers.

Strategy and Business Process Maximize the return on investment of business systems initiatives through upfront assessment, prioritization, business case development, and execution planning.

Our Broadband Solutions Centers offer clients a new kind of value to help them compete, in a market where speed of development and deployment of technology solutions are essential to success. The Centers provide a world-class broadband development and testing environment. This environment allows clients to jump-start new projects, reduce the impact on current operations, and mitigate risk in implementing new technologies into their existing systems. It's an approach that makes the most of Internet speed, flexibility, and innovation.

- Ready-to-use resources in world-class facilities
- The newest technologies from best-in-class providers
- Collaborative environments to accelerate project development

OUR solutions address

THE MOST PRESSING
NEEDS OF TODAY'S
COMPLEX BUSINESS
ENVIRONMENT.

FINANCIAL OVERVIEW

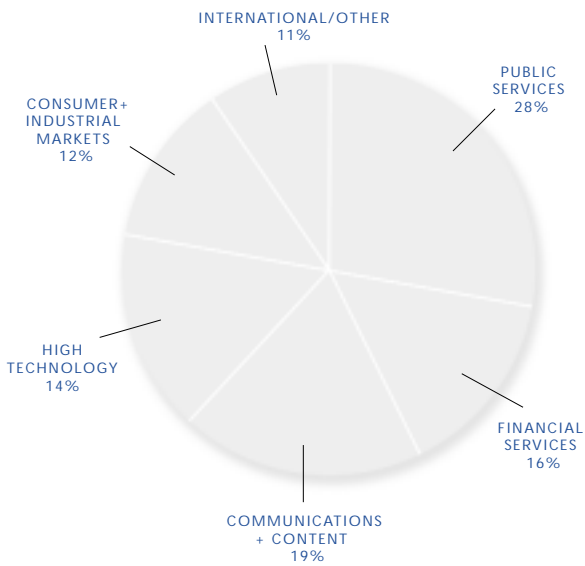
The Company's operating earnings and diluted earnings per share for the fiscal year ended June 30, 2001, were \$130 million and \$.91, respectively, excluding the impact of one-time items. Revenue for the fiscal year ended June 30, 2001, was \$2.9 billion, an increase of nearly \$500 million, or 20.5 percent, over the prior-year level of \$2.4 billion. Including the impact of one-time items, the Company earned \$35.0 million and had a net loss per diluted share of \$1.19, after the effects of preferred stock dividends and a net noncash preferred stock conversion discount in connection with our initial public offering, completed in February 2001.

The increase in revenue was primarily driven by growth in the Communications + Content, High Technology, and Public Services business units with 55 percent, 52 percent, and 13 percent growth respectively, as well as increasing revenue from our international practices, partially offset by a 13 percent decline in Financial Services revenue.

Communications + Content's revenue of \$525 million, which represented growth of \$187 million, or 55 percent, was attributable to continuing opportunities with major telecommunications carriers as the result of new operations and business systems offerings. High Technology's revenue of \$404 million, which represented growth of \$139 million, or 52 percent, was principally due to increased enterprise integration services to established market leaders.

Public Services' revenue of \$805 million, which represented growth of \$92 million, or 13 percent, was attributable to the federal, state, and local segments. International and other revenue, net of Health Care, tripled to \$239 million as a result of acquisitions and organic growth, primarily in the Latin America and Asia Pacific regions. The Company's revenue growth was partially offset by a \$68 million, or 13 percent, decline in Financial Services revenue as a result of a weakening of demand for services in the latter half of the fiscal year.

The Company's revenue is broadly diversified across different industries and solutions. The chart below displays the revenue mix by industry for the fiscal year ended June 30, 2001.



Stockholders' equity was \$632.1 million at June 30, 2001, and represented 63 percent of assets. The Company had 157.6 million common shares outstanding on June 30, 2001.

On August 7, 2001, the Company announced a stock repurchase program of up to \$100 million of the Company's outstanding common stock.

The following one-time events occurred during the year. The Company's 49 percent ownership interest in an affiliate, Qwest Cyber.Solutions LLC ("QCS"), was redeemed for a nominal amount. In accordance with the ownership interest exchange, the Company's investment in QCS of \$63 million was written off through a noncash charge to earnings. The Company also incurred a net noncash preferred stock conversion discount of \$131.3 million relating to the conversion of its Series A Preferred Stock into common stock. Additionally, the Company incurred a \$20 million charge related to a reduction in workforce initiative during the fourth quarter.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of KPMG Consulting, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of KPMG Consulting, Inc. (successor to the consulting business of KPMG LLP) as of June 30, 2000 and 2001 and the related combined statements of income before partner distributions and benefits, changes in equity and cash flows for the year ended June 30, 1999 and the seven months ended January 31, 2000 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the five months ended June 30, 2000 and the year ended June 30, 2001 (not presented herein); and in our report dated August 7, 2001, we expressed an unqualified opinion on those combined/consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed combined/consolidated financial statements is fairly stated in all material respects in relation to the combined/consolidated financial statements from which it has been derived.

Grave Thornton LLP

New York, New York

August 7, 2001

Basis of Presentation—As of January 31, 2000, KPMG LLP separated its consulting business from its remaining businesses, and transferred it to KPMG Consulting, Inc. Prior to January 31, 2000, the Company was a division of KPMG LLP, which was operated in partnership form; commencing January 31, 2000, the Company is operating in corporate form. See Note 1 of Notes to Financial Statements included in the Company's 2001 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

KPMG CONSULTING, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	FIVE MONTHS ENDED JUNE 30, 2000	YEAR ENDED JUNE 30, 2001
Revenues	\$1,105,166	\$2,855,824
Costs of service:		
Professional compensation	443,781	1,026,470
Other direct contract expenses	259,801	751,951
Amortization of goodwill and other intangible assets	8,575	31,474
Impairment charge	8,000	7,827
Other costs of service	119,653	365,381
Total costs of service	<u>839,810</u>	<u>2,183,103</u>
Gross margin	265,356	672,721
Selling, general and administrative expenses	192,920	451,792
Special payment to managing directors	34,520	-
Operating income	<u>37,916</u>	<u>220,929</u>
Interest expense	(16,306)	(17,175)
Interest income	6,178	2,386
Gain on sale of assets	-	6,867
Equity in losses of affiliate and loss on redemption of equity interest in affiliate	(15,812)	(76,019)
Minority interests	<u>(439)</u>	<u>(140)</u>
Income before taxes	11,537	136,848
Income tax expense	<u>29,339</u>	<u>101,897</u>
Net income (loss)	(17,802)	34,951
Dividend on Series A Preferred Stock	(25,992)	(31,672)
Preferred stock conversion discount	-	(131,250)
Net loss applicable to common stockholders	<u>\$ (43,794)</u>	<u>\$ (127,971)</u>
Loss per share:		
Net loss applicable to common stockholders- basic and diluted	<u>\$ (0.58)</u>	<u>\$ (1.19)</u>
Weighted average shares-basic and diluted	<u>75,843,000</u>	<u>107,884,143</u>

KPMG CONSULTING, INC.

(Successor to the Consulting Business of KPMG LLP)

CONDENSED COMBINED STATEMENTS OF INCOME BEFORE
PARTNER DISTRIBUTIONS AND BENEFITS

(in thousands)

	YEAR ENDED JUNE 30, 1999	SEVEN MONTHS ENDED JANUARY 31, 2000
Revenues	\$1,981,536	\$1,264,818
Costs of service:		
Professional compensation*	744,450	436,214
Other direct contract expenses	374,091	263,106
Amortization of goodwill and other intangible assets	6,572	8,957
Other costs of service	276,874	203,821
Total costs of service*	1,401,987	912,098
Gross margin*	579,549	352,720
Selling, general and administrative expenses	325,276	220,743
Operating income*	254,273	131,977
Interest expense	(25,157)	(27,339)
Equity in losses of affiliate	(622)	(14,374)
Minority interests	(111)	28
Income before partner distributions and benefits*	\$ 228,383	\$ 90,292

*Excludes payments for partner distributions and benefits.

KPMG CONSULTING, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	JUNE 30, 2000	JUNE 30, 2001
A S S E T S		
Current assets:		
Cash and cash equivalents	\$ 26,991	\$ 45,914
Accounts receivable, net	318,182	377,476
Unbilled revenues, net	238,128	180,355
Other current assets	84,299	101,014
Total current assets	<u>667,600</u>	<u>704,759</u>
Investment in affiliate	66,075	-
Property and equipment, net of depreciation	51,546	66,947
Goodwill, net of amortization	74,773	118,977
Other intangible assets, net of amortization	56,514	70,406
Other assets	35,130	38,546
Total assets	<u>\$ 951,638</u>	<u>\$ 999,635</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of notes payable	\$ 24,924	\$ 11,594
Acquisition obligations	82,200	15,000
Accounts payable	32,011	65,632
Accrued payroll and related liabilities	144,288	174,884
Distribution payable to managing directors	73,230	-
Other current liabilities	135,958	86,999
Total current liabilities	<u>492,611</u>	<u>354,109</u>
Notes payable, less current portion	42,383	1,846
Other liabilities	34,219	11,568
Total liabilities	<u>569,213</u>	<u>367,523</u>
Series A Mandatorily Redeemable Convertible Preferred Stock	1,050,000	-
Stockholders' equity (deficit):		
Preferred Stock, \$.01 par value, 10,000,000 shares authorized	-	-
Common Stock, \$.01 par value, 1,000,000,000 shares authorized		
76,827,853 shares issued on June 30, 2000 and		
158,568,922 shares issued on June 30, 2001, including		
999,006 shares reserved,		
75,880,842 shares outstanding on June 30, 2000 and		
157,569,916 shares outstanding on June 30, 2001	759	1,576
Additional paid-in capital (deficit)	(643,415)	656,293
Accumulated deficit	(17,802)	(14,523)
Notes receivable from stockholders	(5,845)	(7,950)
Accumulated other comprehensive loss	(1,272)	(3,284)
Total stockholders' equity (deficit)	<u>(667,575)</u>	<u>632,112</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 951,638</u>	<u>\$ 999,635</u>

WE KNOW WHAT WORKS FOR OUR CLIENTS, OUR SHAREHOLDERS, OURSELVES.

At KPMG Consulting, we have built a reputation for success, founded on enduring values, put into action every day. They are the yardsticks against which we measure our past performance, and upon which we set our expectations for the future. We are a company of professionals, an accomplished team dedicated to our clients, our shareholders, and to each other. We are driven by our mutual desire to create outstanding results in everything we do. It is this spirit that infuses our drive to be the best.



Executive Management Team from left to right: David W. Black, Executive Vice President and General Counsel, Robert C. Lamb, Jr., Executive Vice President and Chief Financial Officer, Randolph C. Blazer, Chairman and Chief Executive Officer, Bradley J. Schwartz, Group Executive Vice President, Worldwide Client Service, and Michael J. Donahue, Group Executive Vice President and Chief Operating Officer

KPMG CONSULTING
BOARD OF DIRECTORS

Randolph C. Blazer
Chairman and Chief Executive Officer
KPMG Consulting, Inc.

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Senior Vice President Customer Advocacy,
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SAP America, Inc.

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New School University
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Federal Reserve System

KPMG CONSULTING
EXECUTIVES

Randolph C. Blazer
Chairman and Chief Executive Officer

Michael J. Donahue
Group Executive Vice President
and Chief Operating Officer

Bradley J. Schwartz
Group Executive Vice President,
Worldwide Client Service and Financial Services

David W. Black
Executive Vice President and General Counsel

Robert C. Lamb, Jr.
Executive Vice President
and Chief Financial Officer

Peter L. N. Chiddy
Executive Vice President, Canada

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Executive Vice President, High Technology

John Condon
Executive Vice President, Europe

Ross Curtis III
Executive Vice President, Sales

Mary H. Devine
Senior Vice President and Corporate Controller

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William Simon
Executive Vice President, International

Mary E. Sullivan
Vice President, Human Resources

Thomas G. Wilde
Executive Vice President,
Consumer + Industrial Markets

Paul K. Yonamine
Executive Vice President, Asia Pacific



STOCKHOLDER INFORMATION

Annual Meeting

The Annual Meeting of Stockholders of KPMG Consulting, Inc. will be held on Wednesday, November 7, 2001, at 9:30 a.m. at the Sheraton Premiere Hotel, Junior Ballroom, 8661 Leesburg Pike, Vienna, Virginia 22182.

Form 10-K Annual Report

Readers who wish to obtain a copy of our Form 10-K Annual Report as filed with the Securities and Exchange Commission should contact Deborah Mandeville, Investor Relations, 99 High Street, Boston, MA 02110-2371, or use the corporate Web site to link to our filings with the Securities and Exchange Commission.

Registrar and Transfer Agent

Equiserve Trust Company, N.A.
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Mail Stop 45-02-62
Canton, MA 02021
781.575.2000

Trading Symbol

KCIN (Nasdaq National Market)

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