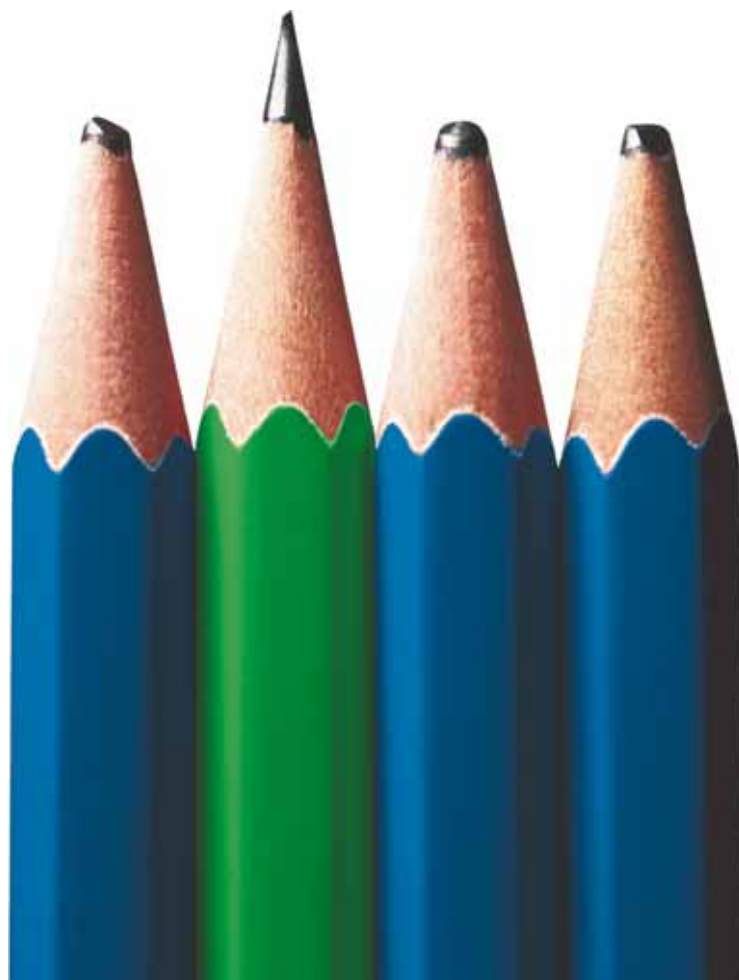


**Deloitte.**

Deloitte LLP  
Superior performance

Annual Report 2009



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# Report to partners

The Board presents its report to the members and the audited financial statements of Deloitte LLP for the year ended 31 May 2009. The financial statements incorporate the financial statements of Deloitte LLP and entities controlled by Deloitte LLP. The financial statements that will be filed at Companies House will comprise the consolidated financial statements together with the separate financial statements of Deloitte LLP.

The members of Deloitte LLP are known and referred to by both clients and staff as partners. Throughout the financial statements references to partners should be taken as referring to members, as defined by the Limited Liability Partnerships Regulations.

## Executive Group

Deloitte's activities are managed by the Senior Partner and Chief Executive and the Executive Group, which is appointed by the Senior Partner and Chief Executive. In keeping with our client service focus, members of the Executive Group are also actively engaged with our clients.

The members of the Executive Group are:

**John Connolly**, Senior Partner and Chief Executive, **Steve Almond**, Managing Director, Global, **Aidan Birkett**, Managing Director, Corporate Finance, **Sabri Challah**, Managing Partner, Corporate Development, **Stuart Counsell**, Managing Partner, Finance and Legal, **Cahal Dowds**, Managing Partner, Regions, **Martin Eadon**, Managing Director, Clients & Industries, **Margaret Ewing**, Vice Chairman, Senior Client Partner, **Heather Hancock**, Managing Partner, Brand & Innovation, **John Kerr**, Managing Partner, Talent, **Vince Niblett**, Managing Director, Audit, **David Owen**, Managing Director, Consulting, **Gerry Paisley**, Managing Partner, Practice Protection, **David Sproul**, Managing Director, Tax, **Richard Buck**, Managing Partner, Technology, **Panos Kakoullis**, Managing Partner, Super Scale Relationships, **Ian McNeil**, Managing Partner, Partner Edge Programme, **Tim Mahapatra**, Managing Partner, Client Capture and Penetration.

## Senior Partner and Chief Executive

John Connolly, the Senior Partner and Chief Executive of the UK firm of Deloitte has full executive authority for the management of the firm. The Senior Partner and Chief Executive is nominated by the Board of Partners and elected by the partners for a four-year term of office. John Connolly began his third term as Senior Partner and Chief Executive on 1 June 2007.

The responsibilities of the Senior Partner and Chief Executive fall under five principal headings:

- The business of Deloitte, including the development and management of services at the highest level of quality, and compliance with all regulations.
- The development of policies and strategic direction.
- Financial performance.
- Partners, including the development and management of our talent goals.
- International, representing the UK firm's association with Deloitte Touche Tohmatsu.

John Connolly is also the Chairman of the Board of Directors of Deloitte Touche Tohmatsu (DTT), the international organisation of which we are a member. In this separate role, John is able to help enhance quality throughout the network of member firms, and to share within the network the collective expertise and experience of client service, talent development and quality and risk management. The international network has a separate Chief Executive Officer, Jim Quigley.

## Board of Partners

The Board of Partners is responsible for the promotion and protection of partner interests and for the oversight of management. It approves Deloitte's long term strategies and has specific oversight of risk.

Like the Senior Partner and Chief Executive, the Chairman is nominated by the Board and elected by the partners and serves for a four-year term of office. David Cruickshank commenced his first term of office as Chairman on 1 June 2007. The separation of the roles of the Chairman and the Senior Partner and Chief Executive provides a strong measure of accountability for the executive team.

The current Board comprises:

David Cruickshank, **Chairman**, John Connolly, **Senior Partner and Chief Executive**, Steve Almond, Martin Eadon, Vince Niblett, David Owen, David Sproul, John Cullinane, Richard Edwards, Humphry Hatton, John Fotheringham, Sharon Fraser, Richard Norton, Ellie Patsalos, Ian Steele, Geoff Taylor and Denis Woulfe.

### Principal activity

The principal activities of Deloitte are the provision of Audit, Tax, Consulting and Corporate Finance services in the United Kingdom. In addition, professional services are provided in Switzerland and the Middle East by subsidiary entities.

### Strategy

Our strategy remains to be the pre-eminent professional services firm for clients and talent, reflected in superior growth and performance compared to market. The elements of our strategy are:

- A broader range of capability than our competitors delivered to clients through integrated and innovative solutions;
- A focus on exceptional quality;
- An environment where our people can develop and excel; and
- A culture that emphasises teaming and high performance.

### Structure

Deloitte LLP is incorporated as a Limited Liability Partnership under the Limited Liability Partnership Act 2000 and is wholly owned by its partners. The principal subsidiary undertakings of Deloitte LLP are set out in Note 21.

These financial statements are the accounts of Deloitte LLP and reflect the results for the year to 31 May 2009. The financial statements consolidate the accounts of Deloitte LLP and all its subsidiary undertakings (the 'group'), drawn up to 31 May each year.

### Name change

On 1 December 2008, the firm changed its legal name from Deloitte & Touche LLP to Deloitte LLP. The purpose of the change was to closer align the firm with its brand and how it is recognised in the market.

### Designated members

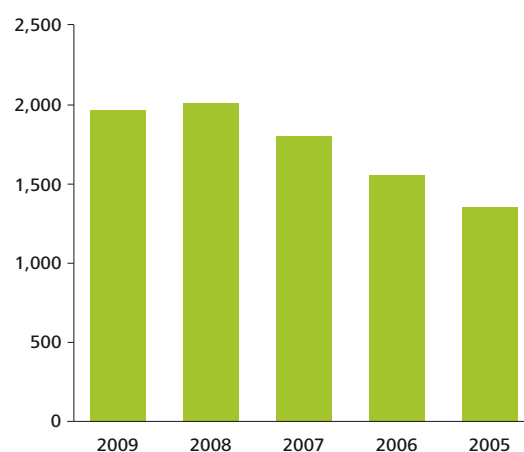
The designated members (as defined in the Limited Liability Partnerships Act 2000) during the year were: John Connolly, Steve Almond, Martin Eadon, Gerry Paisley, David Sproul and Bob Warburton. All the designated members served as members of the Deloitte LLP Executive Group, the most senior management committee, throughout the year.

### Business performance

Against tough market conditions, Deloitte's performance during the year was quite outstanding. Overall net revenues were maintained in a shrinking market. An exceptional level of profitability was achieved, with profits before tax of £564m.

There was very strong growth in many of our business areas, including Financial Services, Public Sector, Reorganisation Services, Specialist Advisory, ERS, Swiss Practice and Enterprise Applications.

### Revenue (£m)



Turning to each of our service lines:

### Audit

The Audit business had another good year with net revenues up 7% in challenging markets. Our continued success in Audit is grounded on industry specialisation and the ability to innovate and respond to changing client needs. Whilst these attributes have contributed to success across the Audit division, they have underpinned the double digit growth in the Financial Services Audit practice and also in the security, risk and regulatory areas.

Whilst the economic environment is expected to remain uncertain, our ability to win new work and retain existing mandates (such as Visa Europe, Lloyd's of London, Bibby Line Group, Melrose PLC), should see our Audit business go on delivering growth in market share.

## Consulting

Consulting net revenue grew by nearly 3%, a very good performance in an addressable market that shrank considerably during the year. Strong revenue growth was achieved in the public sector, across financial services and in the media industry where in each sector we were retained to support a number of major undertakings. Predictably, the most sought after service offerings related to business and performance improvement programmes such as Finance Transformation and Enterprise Cost reduction, as well as providing highly effective project and programme management across a number of disciplines.

## Corporate Finance

Corporate Finance net revenues declined by 9% as a result of difficult market conditions affecting M&A in particular. Nevertheless, there were strong performances in some 'deals-related' businesses including Post Merger Integration, Operations Due Diligence, Debt Advisory and Distressed M&A. Not surprisingly, our Reorganisation Services practice reported the highest growth, followed by our specialist advisory operations (Real Estate, Government and Infrastructure and Economic Consulting) and Forensic and Dispute services.

## Tax

Tax has achieved a market leading performance in a very challenging business environment, with net revenues declining by 7%. The slowdown in transactions across the corporate, private equity and real estate areas resulted in business volumes down approximately 30% in these areas. In other areas we have been very pleased with our performance, with growth in revenues in the tax services provided to FTSE100 companies, international expatriate services and indirect tax services. The increased focus by both tax payers and revenue authorities on tax risk and governance, and the resolution of tax disputes and litigation has also led to a growth in activity across these areas.

## People

Staff costs at £781m were 7.1% higher, reflecting our continued investment in our people. The average headcount during the year was 1.7% higher than the previous year with 12,228 partners and members of staff working across the group.

## Assets and liabilities

Total assets are £894m and total partners' interests are £107m.

Provisions include the net present value for annuities payable to both retired and current partners of £553m. Payment of these annuities is conditional on the future generation of profits within the group.

## Cash flow

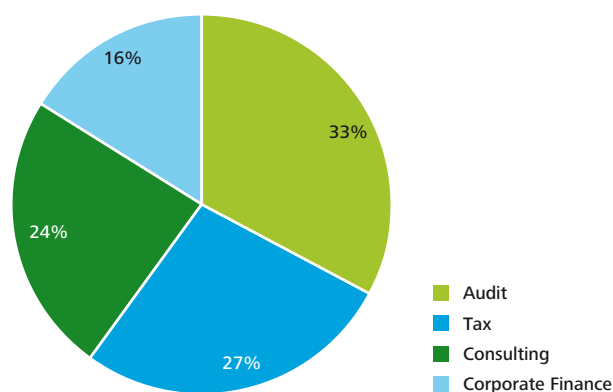
Profit after interest, tax and working capital movements generated a positive operating cash flow for the year of £657m.

The main treasury risks relate to interest, liquidity and currency. The primary currency is sterling but certain expenses and charges from overseas offices are denominated in other currencies. Some fees are rendered in other currencies and the foreign subsidiary undertakings have functional currencies different from that of the group. The volume and timing of currency inflows and outflows provide a natural hedge and Deloitte does not undertake formal hedging transactions. Complex financial instruments are not used and speculative activity is not undertaken.

## Finance and capital structure

At the balance sheet date fixed capital amounted to £127m or £186,000 per partner. Profit distributable to partners is determined by the firm's equity accounts which are based on accounting policies which differ from IFRS. The principal difference relates to the accounting treatment of annuities and pension schemes. The distributable profit for the year based on the equity accounts was £601m, the balance of which will, in accordance with the current distribution policy, be released to partners in the 12 month period following the year end. On the basis of the equity accounts partners' interests at the balance sheet date amounted to £726m.

Service line revenue



The balance of Deloitte's funding is provided by bank facilities. We continue to maintain a significant level of committed undrawn facilities to enable us to respond rapidly to opportunities and to fund initiatives without the need for specific financing.

#### Partners' drawings and capital

All partners are equity partners and share in the profits and subscribe the entire capital of Deloitte LLP. Each partner's capital subscription is linked to his or her share of profit and is repaid in full on ceasing to be a partner. The rate of capital subscription is determined from time to time depending upon the financing requirements of the business.

Partners draw a proportion of their profit share in 12 monthly on account instalments during the year in which the profit is made, with the balance of their profits, net of a tax retention, paid in instalments in the subsequent year. All payments are made subject to the cash requirements of the business. Tax retentions are paid to HM Revenue and Customs on behalf of partners with any excess being released to partners as appropriate.

#### Partners' profit sharing

Partners share profits based upon a comprehensive evaluation of their individual contribution to the achievement of the group's strategic objectives.

Partners are assigned to an equity group, which is reviewed annually and which describes the attributes, skills and broad performance expected of them. Each equity group carries a wide band of profit sharing units so that relative contributions can be recognised.

Seven key criteria are used for assessing the performance and contribution of each partner to the success of Deloitte. These are:

- **Quality**  
Each partner must be a role model for quality in their professional work
- **Talent**  
Contribution to mentoring, leading, recruitment, engagement, development and training our people
- **Clients**  
Client portfolio managed and roles carried out
- **Brand and Eminence**  
Market related activity including regulatory relations, thought leadership, innovation and brand protection roles

- **Revenue Generation, Growth, Business Building**  
Contribution to business development building and relationship building

- **Financial Success**  
Overall contribution to the financial success of Deloitte

- **Leadership and Management**  
Contribution to the group's broad success through leadership and management roles

Partners within all equity groups are expected to be ambassadors for Deloitte LLP externally and leaders by example to all of our employees in everything they do. Certain attributes transcend all equity groups. These are:

- Unassailable integrity;
- Quality service to our clients;
- The highest levels of technical excellence;
- Development of people;
- Compliance with the group's policies and standards and external regulatory requirements; and
- High quality management of risk.

Partners who provide audit services are expected to be responsive to their clients' service needs, but they are not evaluated or remunerated on the selling of other services to their audit clients.

Partner performance is evaluated in all designated competencies, beginning with the Board's approval of the profit sharing strategy proposed by the Senior Partner and concluding with the Board's review of the recommended profit allocation and equity group going forward for each individual partner, the conclusions of which are disclosed in full to all partners. A committee of partners is tasked with overseeing the management process to ensure consistent and equitable treatment.

#### Creditor payment policy

Deloitte's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure suppliers are made aware of the terms of payment and abide by the terms of payment.

Trade creditors of the group at 31 May 2009 were equivalent to 16 days' (2008: 12 days') purchases, based on the average daily amount invoiced by suppliers during the year.

### Political donations

It is Deloitte's policy not to give cash contributions to any political party or other groups with a political agenda. However, we do seek to develop and maintain constructive and balanced relationships with the main representative political parties and may make available partner, staff and advisor resources, and technical and factual information on occasion.

Disclosures on such matters for companies are covered by the Political Parties, Elections and Referendums Act. Although the scope of this Act does not cover Limited Liability Partnerships, we regard it as appropriate to disclose equivalent details. For the period ended 31 May 2009 Deloitte donated £7,160 to the Conservative Party through the provision of staff and advisor resources.

### Going concern

The financial position of the group, its cash flows and liquidity position are described above. In addition Note 19 of the financial statements provides details of the borrowing facilities and includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The group has considerable financial resources, including net cash of £72m and £400m of undrawn committed facilities due to expire between October 2009 and August 2010, and has a strong focus on working capital management. The group's forecasts indicate that it is not dependent upon the renewal of facilities which are due for renewal within the next 12 months. In addition we have a broad client base across each of our service lines and industry offerings. The Board believes that the group is well placed to manage its business risks successfully.

The Board, following a review of its profit and cash flow plans, has concluded, at the time of approving the financial statements, that the parent partnership and the group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

### Statement of partners' responsibilities in respect of the financial statements

The Limited Liability Partnerships (LLP) Regulations 2001, as amended by The Limited Liability Partnerships (Amendment) Regulations 2005, made under the Limited Liability Partnerships Act 2000 require the partners to prepare financial statements for each financial year which give a true and fair view of the state of affairs of Deloitte LLP and of the group and of the profit or loss of the group for the year.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

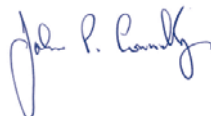
Under the LLP Regulations, the partners are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the group and which enable them to ensure that the financial statements comply with those regulations. The partners have a general responsibility for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The responsibilities are exercised by the Board on behalf of the partners.

### Auditors

Grant Thornton UK LLP will be proposed for reappointment.

Approved by the Board and signed on behalf of the Board



**John Connolly**

Senior Partner and Chief Executive  
21 July 2009

# Report of the independent auditor to the partners of Deloitte LLP

We have audited the group financial statements of Deloitte LLP for the year ended 31 May 2009 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent partnership financial statements of Deloitte LLP for the year ended 31 May 2009.

This report is made solely to the partners, as a body, in accordance with Section 235 of the Companies Act 1985 as applied by the Limited Liability Partnerships Regulations 2001. Our audit work has been undertaken so that we might state to the partners 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 partners as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of partners and auditors

The partners' responsibilities for preparing the Report to Partners and the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of partners' responsibilities.

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).

We report to you our opinion as to whether the group financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 as applied by the Limited Liability Partnerships Regulations 2001.

In addition, we report to you if, in our opinion, Deloitte LLP has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report to Partners and consider whether it is consistent with the audited financial statements. This other information comprises only pages 1 to 5. 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

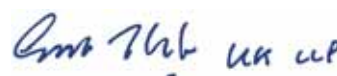
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the partners 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 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, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the group as at 31 May 2009 and of the profit for the group for the year then ended; and
- Have been properly prepared in accordance with the Companies Act 1985 as applied by the Limited Liability Partnerships Regulations 2001.



**Grant Thornton UK LLP**  
Registered Auditor  
Chartered Accounts

London  
21 July 2009



# Consolidated income statement

Year ended 31 May 2009

	Note	2009 £m	2008 £m
Revenue	3	1,969	2,010
<b>Operating expenses</b>			
Expenses and disbursements on client assignments		(254)	(285)
Staff costs	4	(781)	(729)
Depreciation and amortisation		(41)	(45)
Other operating expenses		(312)	(330)
<b>Profit from operations</b>	5	581	621
Finance income	6	41	68
Finance cost	6	(58)	(35)
<b>Profit before tax</b>		564	654
Tax	7	(2)	(2)
<b>Profit for the year before provision for pensions for current partners</b>		562	652
Provision for pensions for current partners		(36)	(12)
<b>Profit for the financial year</b>	15	526	640

## Reconciliation with profit distributable to partners

Profit for the financial year distributable to partners based on the firm's equity accounts	601	641
Adjustments for IFRS not adopted in the firm's equity accounts	(75)	(1)
<b>Profit for the financial year</b>	<b>526</b>	<b>640</b>

The profit distributable to partners is determined in accordance with accounting policies which differ from IFRS. The principal difference relates to the accounting treatment of annuities and pension schemes.

# Consolidated statement of recognised income and expense

Year ended 31 May 2009

	2009 £m	2008 £m
Actuarial losses on defined benefit pension schemes	(183)	(11)
Exchange differences on translation of foreign operations	1	(2)
<b>Net expense recognised directly in equity</b>	<b>(182)</b>	<b>(13)</b>
Profit for the financial year	526	640
<b>Total recognised income for the year attributable to partners</b>	<b>344</b>	<b>627</b>

# Consolidated balance sheet

As at 31 May 2009

	Note	2009 £m	2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	221	200
Intangible assets	9	10	11
Financial assets	10	4	33
		<u>235</u>	<u>244</u>
<b>Current assets</b>			
Client and other receivables	11	587	661
Cash and cash equivalents		72	91
		<u>659</u>	<u>752</u>
<b>Total assets</b>		<b><u>894</u></b>	<b><u>996</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	185	199
Provisions	13	29	28
Partner capital	15	10	10
		<u>224</u>	<u>237</u>
<b>Non-current liabilities</b>			
Retirement benefit obligation	18	234	67
Deferred tax	14	2	1
Provisions	13	558	511
Partner capital	15	117	120
		<u>911</u>	<u>699</u>
<b>Equity</b>			
Partners' other reserves	15	(241)	60
<b>Total liabilities and equity</b>		<b><u>894</u></b>	<b><u>996</u></b>

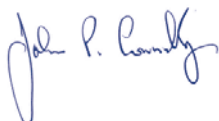
# Consolidated balance sheet (continued)

As at 31 May 2009

<b>Partners' interests</b>			
	Note	2009 £m	2008 £m
<b>The following balances relating to partners are included in the consolidated balance sheet:</b>			
Partners' capital (included in current and non-current liabilities)	15	127	130
Amounts due from partners (included in current assets)	15	(18)	(46)
Provision for current partner annuities (included in non-current liabilities)	15	239	238
Partners' other reserves	15	(241)	60
<b>Total partners' interests</b>		<b>107</b>	<b>382</b>

The financial statements on pages 7 to 36 were approved by the Board on 21 July 2009.

Signed on behalf of the Board,



John Connolly



Bob Warburton

# Consolidated cash flow statement

As at 31 May 2009

	2009 £m	2008 £m
Profit for the year before provision for pensions for current partners	562	652
Adjustments for:		
Tax on profits	2	2
Depreciation, amortisation & impairment	41	45
Impairment of financial assets	1	1
Profit on disposal of subsidiary	(1)	–
Loss on disposal of property, plant and equipment	1	1
Finance income	(41)	(68)
Finance expense	58	35
Increase in provisions	15	69
Decrease in retirement benefit obligations	(11)	(18)
Operating cash inflows before movements in working capital	627	719
Decrease/(increase) in receivables	46	(74)
(Decrease)/increase in payables	(14)	17
Cash generated by operations	659	662
Corporate taxes paid	(2)	(3)
<b>Net cash flow from operating activities</b>	<b>657</b>	<b>659</b>
<b>Investing activities</b>		
Interest received	3	9
Repayment of loans	28	43
Proceeds on disposal of subsidiary	1	–
Proceeds on disposal of property, plant and equipment	6	6
Purchase of property, plant and equipment	(68)	(103)
Purchase of investments	–	(1)
<b>Net cash used in investing activities</b>	<b>(30)</b>	<b>(46)</b>
<b>Financing activities</b>		
New loans	–	(5)
Payments to and on behalf of partners	(617)	(550)
Retirement benefits paid to former partners	(23)	(21)
Repayment of capital to former partners	(15)	(9)
Partners' capital introduced	12	16
Interest paid	(3)	(4)
<b>Net cash used in financing activities</b>	<b>(646)</b>	<b>(573)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(19)</b>	<b>40</b>
Cash and cash equivalents at beginning of year	91	51
Cash and cash equivalents at end of year	72	91
Cash and cash equivalents comprise		
Cash at bank	72	91

# Notes to the financial statements

Year ended 31 May 2009

## 1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year and the preceding year apart from the classification of partner capital. As described in note 19 only capital relating to partners who have agreed to retire during the following financial year has been classified as a current liability. In the previous year all partner capital was classified as a current liability.

### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

In the current year, the group has adopted IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. There has been no significant effect on the consolidated financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations, that are likely to affect future financial statements, which have not been applied in these financial statements were in issue but not yet effective:

- IAS 1 'Presentation of financial statements'. This revised standard affects the presentation of changes in equity;
- IFRS 3 'Business Combinations'. This standard affects the accounting treatment of consideration and related costs in respect of future acquisitions; and
- IFRS 8 'Operating segments'. This standard requires the use of a 'management approach' to segment reporting, under which information is presented on the same basis as that used for internal reporting purposes.

The partners anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the financial statements of the group except for:

- the presentation of changes in equity and the introduction of a Statement of Comprehensive Income when IAS 1 comes into effect for periods commencing on or after 1 January 2009;

- treatment of the acquisition of subsidiaries when IFRS 3 comes into effect for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009; and
- additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets.

### Consolidation

The consolidated financial statements incorporate the financial statements of Deloitte LLP and entities controlled by Deloitte LLP (its subsidiaries) made up to 31 May each year.

Control is achieved where Deloitte LLP has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

# Notes to the financial statements

Year ended 31 May 2009

## 1. Accounting policies (continued)

### Revenue

Revenue represents amounts chargeable to clients for professional services provided during the year including recoverable expenses on client assignments but excluding Value Added Tax.

Services provided to clients, which at the balance sheet date have not been billed to clients, are recognised as revenue.

Revenue recognised in this manner is based on an assessment of the fair value of the services provided at the balance sheet date as a proportion of the total value of the engagement. Revenue is only recognised where the group has a contractual right to receive consideration for work undertaken and no revenue is recognised on contingent engagements until the contingent event crystallises.

Provision is made against unbilled amounts on those engagements where the right to receive payment is contingent on factors outside the control of the group. Unbilled revenue is included in client and other receivables.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term or to the first break clause where applicable.

### Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the relevant functional currency at the rates ruling at that date. These translation differences are dealt with in the income statement.

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the

consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of Deloitte LLP, and the presentation currency for the consolidated financial statements.

The assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising on the retranslation of the foreign operations, if any, are classified as equity and transferred to the group's other reserves.

### Taxation

The taxation payable on profits of the Limited Liability Partnership is the personal liability of the partners and is not dealt with in these financial statements. A retention from profit distributions is made to fund the taxation payments on behalf of partners.

The tax expense represents the sum of the current and deferred tax relating to the corporate subsidiaries. The current tax expense is based on taxable profits of these companies. Taxable profit excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax in the subsidiaries is generally recognised, using the liability method, in respect of temporary differences at the balance sheet date between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases. Deferred tax is measured at the tax rates enacted or substantively enacted at the balance sheet date and which are expected to apply in the periods in which the temporary differences reverse. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

# Notes to the financial statements

Year ended 31 May 2009

## 1. Accounting policies (continued)

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment loss. The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over the estimated useful economic lives as follows:

Leasehold improvements:	Period of lease
Fixtures and fittings:	5-10 years
Computer equipment:	3-5 years
Motor vehicles:	4 years

The residual value, if not insignificant, is reassessed annually in addition to useful lives.

### Intangible assets

Intangible assets are recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

The direct cost of staff in the development of computer systems for the group has been capitalised as an intangible asset and is being amortised on a straight-line basis over a period of ten years. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Goodwill arising on acquisitions is recognised as an asset and initially measured at cost, being the excess of the cost of acquisition over the group's interest in the fair value of identifiable assets and liabilities recognised.

### Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

Any impairment loss in respect of goodwill is not reversed. In the case of other assets an impairment loss is reversed where there are changes in the estimated recoverable amount.

### Financial assets

Financial assets are classified as loans and receivables. Loans and receivables have fixed or determinable payments that are not quoted in an active market.

Financial assets include cash and cash equivalents, investments, client receivables, amounts due from other member firms of the Deloitte Touche Tohmatsu (DTT) organisation, including long-term loans and amounts due from partners. The group determines the classification of its financial assets at initial recognition and they are initially recorded at fair value.



# Notes to the financial statements

Year ended 31 May 2009

## 1. Accounting policies (continued)

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents comprise cash in hand, on demand deposits and other short-term highly liquid investments.

### Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate, except for short-term payables when the recognition of interest would be immaterial. The group determines the classification of its financial liabilities at initial recognition. Financial liabilities include trade payables, amounts due to other member firms of the DTT organisation and partner capital.

### Financial guarantees

Financial guarantees are recorded as liabilities if it is anticipated that they will crystallise as liabilities. In these circumstances financial guarantees are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation.

### Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate is charged to the income statement as a finance cost.

### Retirement benefit obligations

The group operates both defined benefit and defined contribution schemes. The net deficit or surplus for the defined benefit schemes is calculated in accordance with IAS 19 'Employee Benefits', based on the present value of the defined benefit obligations at the balance sheet date less the fair value of the schemes' assets.

The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognisable asset is limited to that which the group can benefit from in the future.

Past service cost is recognised immediately in the income statement to the extent that the benefits are already vested. Otherwise, the past service cost is amortised on a straight-line basis over the average period until the benefits become vested.

The group's payments to the defined contribution retirement benefit schemes are charged to the income statement as they fall due.

### Partners' interests

Partners subscribe capital in proportion to their equity interest in Deloitte LLP. Partners' capital may only be withdrawn when a partner retires from the LLP. Partner capital has been classified as a liability.

Partners' non-current liabilities represent provisions for the pension annuities of current partners and partner capital. The provision relates to annuities payable, under the Partner Pension Plan, which commence when the partner reaches the age of 60. The annuities are unfunded and are dependent upon the future generation of profits.

Drawings by partners on account of profits have been classified as amounts due from partners within current assets.

# Notes to the financial statements

Year ended 31 May 2009

## 2. Critical accounting judgements and key sources of estimation

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenue, expenses, assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and expectations of future events that are considered reasonable in the circumstances. Actual results may differ from those estimated.

Management considers that the following estimates and judgements are likely to have the most significant effects on the amounts recognised in the financial statements.

### Retirement benefit obligations

The pension liability in respect of the defined benefit schemes has been independently valued based on information provided by the group in terms of the pensionable pay and contributions to the schemes. The liabilities disclosed for the defined benefit schemes are sensitive to movements in the related actuarial assumptions, in particular those relating to discount rate and mortality. The group will continue to review these assumptions against the group's experience and market data, and adjustments will be made in future periods where appropriate.

### Provision for partner annuities

The provision for annuities for both retired and current partners has been independently valued based on information provided by the group in terms of future levels of pension annuity, current partner retirement rates and mortality. This data is based on the experience within the group over the last four years. The liabilities disclosed for the partner annuities are sensitive to movements in the related actuarial assumptions, in particular those relating to discount rate and mortality. The group will continue to review these assumptions against the group's experience and market data, and adjustments will be made in future periods where appropriate.

## 3. Operating segments

The group has four reportable operating segments: Audit, Tax, Consulting and Corporate Finance. The audit segment provides audit, internal audit, regulatory, risk & control and accounting & financial reporting services. The tax segment provides business tax, employer and personal tax services. The consulting segment provides strategy, operations, human capital, enterprise application and technology integration services as well as actuarial & insurance solutions. The corporate finance segment provides transaction support, reorganisation services, forensics & dispute services and advisory services.

The reportable segments reflect the group's principal management and internal reporting structures and are strategic business units that offer different services. They are managed separately because each business requires different skills and methodologies.

The accounting policies of the operating segments are the same as those described in the summary of accounting policies. The group evaluates the performance of the segments on the basis of net revenue and profit or loss from operations before finance income, finance cost and tax expense.

Performance assessment of the segments includes a review of certain assets such as client receivables, amounts to be billed to clients and prepayments, segment liabilities reviewed include accruals and specific staff liabilities. All other assets and liabilities, including non-current assets, balances with partners, cash, provisions and retirement benefit balances are controlled centrally and are not allocated across service lines.

Inter-segment revenue is not material as revenue is shared proportionately by those service lines delivering services to clients.

# Notes to the financial statements

Year ended 31 May 2009

## 3. Operating segments (continued)

	Audit 2009 £m	Tax 2009 £m	Consulting 2009 £m	Corporate Finance 2009 £m	Unallocated 2009 £m	Total 2009 £m
<b>Revenue</b>	<b>647</b>	<b>523</b>	<b>478</b>	<b>321</b>	–	<b>1,969</b>
Expenses and disbursements	(80)	(64)	(72)	(38)	–	(254)
Net revenue	567	459	406	283	–	1,715
<b>Profit from operations</b>	<b>188</b>	<b>160</b>	<b>127</b>	<b>106</b>	–	<b>581</b>
Finance income					41	41
Finance cost					(58)	(58)
Profit before tax						564
Tax					(2)	(2)
Profit for the year						562
Total assets	144	190	97	95	368	894
Total liabilities & equity	8	3	2	8	873	894

	Audit 2008 £m	Tax 2008 £m	Consulting 2008 £m	Corporate Finance 2008 £m	Unallocated 2008 £m	Total 2008 £m
<b>Revenue</b>	<b>619</b>	<b>567</b>	<b>469</b>	<b>355</b>	–	<b>2,010</b>
Expenses and disbursements	(89)	(76)	(75)	(45)	–	(285)
Net revenue	530	491	394	310	–	1,725
<b>Profit from operations</b>	<b>177</b>	<b>185</b>	<b>123</b>	<b>136</b>	–	<b>621</b>
Finance income					68	68
Finance cost					(35)	(35)
Profit before tax						654
Tax					(2)	(2)
Profit for the year						652
Total assets	139	200	86	102	469	996
Total liabilities	6	3	3	3	981	996

Included in group revenue is revenue of approximately £59m (2008: £52m) which arose from supplying professional services to the group's largest client.

# Notes to the financial statements

Year ended 31 May 2009

## 3. Operating segments (continued)

In order to best manage and drive the business, the group is managed using a matrix structure which incorporates both service lines and the nature of the market to which the services are supplied. Revenue by market is:

	2009	2008
	£m	£m
Financial Services	554	504
Telecoms, Media & Technology	248	286
Government & Public Sector	227	198
Consumer Business	213	202
Manufacturing	179	162
Real Estate, Hospitality & Leisure	157	192
Energy, Infrastructure & Utilities	143	157
Other	86	112
Life Science	70	68
Private Equity	53	92
Professional Partnerships	39	37
	<u>1,969</u>	<u>2,010</u>

## 4. Staff costs

The average number of partners and employees during the year were:

	2009	2008
	No.	No.
Partners	681	672
Other personnel	11,547	11,357
	<u>12,228</u>	<u>12,029</u>

The average number of partners and employees by service line were as follows:

	2009	2008
	No.	No.
Fee earners:		
Audit	4,210	4,091
Tax	2,560	2,558
Consulting	2,258	2,251
Corporate Finance	1,216	1,177
	<u>10,244</u>	<u>10,077</u>
Central leadership and support	1,984	1,952
	<u>12,228</u>	<u>12,029</u>

# Notes to the financial statements

Year ended 31 May 2009

## 4. Staff costs (continued)

Staff costs incurred during the year in respect of the employees were:

	2009 £m	2008 £m
Salaries	666	624
Social security costs	70	66
Pension costs (Note 18):		
Defined contribution	32	28
Defined benefit	13	11
	<b>781</b>	<b>729</b>

## 5. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	2009 £m	2008 £m
Operating lease rentals		
– land and buildings	49	51
– other	1	2
Depreciation of property, plant and equipment	40	43
Amortisation of intangible assets	1	2
Net foreign exchange gain	(4)	(2)

Audit fees and expenses for the year ended 31 May 2009 were £0.2m (2008: £0.2m) and fees for other services were £0.1m (2008: £0.1m) which related to the audit of subsidiary financial statements.

In addition, the auditors received £21,000 (2008: £21,000) for the audit of the group pension schemes. The auditors and their associates did not provide any non-audit services during either year.

## 6. Finance income and cost

	2009 £m	2008 £m
<b>Finance income</b>		
Interest receivable	3	9
Unwinding of discount on provisions	–	19
Expected return on pension scheme assets (Note 18)	38	40
	<b>41</b>	<b>68</b>
<b>Finance cost</b>		
Interest payable on bank loans and overdrafts	3	4
Other interest payable and unwinding of discount on provisions	22	1
Interest on pension scheme obligations (Note 18)	33	30
	<b>58</b>	<b>35</b>

# Notes to the financial statements

Year ended 31 May 2009

## 7. Tax

The taxation charge, which arises in the corporate entities included within these financial statements, comprises:

	2009 £m	2008 £m
Current tax	6	7
Compensating payments due from partners	(4)	(4)
Adjustment in respect of prior periods	–	(1)
	<hr/>	<hr/>
Tax expense in corporate subsidiaries	2	2

The tax expense at the standard rate can be reconciled to the actual tax expense as follows:

	2009 £m	2008 £m
Profit on ordinary activities of corporate entities before tax	7	10
	<hr/>	<hr/>
UK Corporation Tax	2	3
Effects of:		
– adjustments to tax charge in respect of previous periods	–	(1)
	<hr/>	<hr/>
Tax expense in corporate subsidiaries	2	2

UK Corporation Tax is calculated at 28% (2008: 29.67%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The UK tax charge in respect of the corporate entities includes an additional amount as a result of UK transfer pricing legislation. The cost of this is offset by compensating payments made by the partners of Deloitte LLP to the subsidiaries, which are dealt with through partners' interests.

# Notes to the financial statements

Year ended 31 May 2009

## 8. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
<b>Cost</b>					
At 1 June 2007	129	66	44	39	278
Additions	65	22	6	10	103
Disposals	(31)	(14)	(12)	(12)	(69)
At 1 June 2008	163	74	38	37	312
Additions	29	16	12	11	68
Disposals	–	(4)	–	(13)	(17)
At 31 May 2009	192	86	50	35	363
<b>Depreciation</b>					
At 1 June 2007	56	36	25	14	131
Charge for the year	14	15	9	5	43
Disposals	(29)	(14)	(12)	(7)	(62)
At 1 June 2008	41	37	22	12	112
Charge for the year	13	17	5	5	40
Disposals	–	(4)	–	(6)	(10)
At 31 May 2009	54	50	27	11	142
<b>Net book amount</b>					
At 31 May 2009	138	36	23	24	221
At 31 May 2008	122	37	16	25	200

Capital commitments contracted but not provided for as at 31 May 2009 amounted to £5m (2008: £21m).

## 9. Intangible assets

### IT Software

	Total £m
<b>Cost</b>	
At 31 May 2009, 1 June 2008 and at 1 June 2007	17
<b>Amortisation</b>	
At 1 June 2007	4
Charge for the year	2
At 1 June 2008	6
Charge for the year	1
At 31 May 2009	7
<b>Net book amount</b>	
At 31 May 2009	10
At 31 May 2008	11

# Notes to the financial statements

Year ended 31 May 2009

## 10. Financial assets

	Investments £m	Loans £m	Total £m
<b>Valuation/cost</b>			
At 1 June 2007	46	32	78
Additions	1	5	6
Disposals/repayments	(42)	(4)	(46)
At 1 June 2008	5	33	38
Additions	–	–	–
Repayments	–	(29)	(29)
At 31 May 2009	5	4	9
<b>Provision</b>			
At 1 June 2007	3	4	7
Provided in the year	–	1	1
Released	–	(3)	(3)
At 1 June 2008	3	2	5
Provided in the year	1	–	1
Released	–	(1)	(1)
At 31 May 2009	4	1	5
<b>Net book amount</b>			
At 31 May 2009	<b>1</b>	<b>3</b>	<b>4</b>
At 31 May 2008	<b>2</b>	<b>31</b>	<b>33</b>

Investments of £1m represent the investment in Deloitte Touche Tohmatsu's (DTT's) captive insurance company Nautilus Indemnity Holdings Ltd (18.1%).

Loans represent a long-term loan to DTT which is a US dollar denominated, interest bearing, unsecured loan. Interest is paid annually at 1.5% over the 6 month US dollar LIBOR rate on the balance immediately before each year's repayment.



# Notes to the financial statements

Year ended 31 May 2009

## 11. Client and other receivables

	2009 £m	2008 £m
Client receivables	320	344
Amounts to be billed to clients	196	209
Amounts due from other member firms of the DTT organisation	14	31
Amounts due from partners	18	46
Other receivables	12	12
Prepayments and accrued income	27	19
	<b>587</b>	<b>661</b>

Client receivables are shown after impairment provisions for bad and doubtful debts of £13m (2008: £12m), movements on which are as follows:

	2009 £m	2008 £m
As at the start of the year	12	15
New and additional provisions	13	11
Recoveries	(8)	(10)
Write-offs	(4)	(4)
As at the end of the year	<b>13</b>	<b>12</b>

Client receivables are presumed to be impaired at any point where full recoverability of the debt is considered doubtful. Reasons for impairment could include the client being unable to pay or a dispute over either the services provided or the fees incurred. Full provision is made for all debts which are considered to be impaired. The £13m provision relates to UK based clients. A total of £10m (2008: £11m) relates to individually impaired receivables of which £9m (2008: £10m) is for receivables which are over nine months past due.

The group has a policy of providing for all debts to the extent that they are not considered recoverable. The provision is also determined by reference to past default experience. In determining the recoverability of the client receivable the group considers any change in the credit quality of the client receivable.

A detailed review of the creditworthiness of each and every client is completed before an engagement commences and the concentration of credit risk is limited due to the client base being large and unrelated. Accordingly, the group believes that there is no further credit provision required in excess of the provision for doubtful debts.

Clients are required to settle invoices on invoice presentation or on such other date as is agreed in the engagement terms for that client. Although terms do vary, invoices are considered past due after 14 days have elapsed following the invoice date; for 2009 the non-impaired current client receivables amount to £105m (2008: £112m). No collateral is held for client receivables; amounts due from other member firms of DTT are generally payable on presentation.

# Notes to the financial statements

Year ended 31 May 2009

## 11. Client and other receivables (continued)

An analysis of the age of client receivables and amounts due from member firms of DTT that are not impaired but are past due at the year end is presented below:

	2009 £m	2008 £m
Less than 1 month	104	131
1 – 3 months	88	99
3 – 6 months	30	27
6 – 9 months	7	6
At 31 May	<b>229</b>	<b>263</b>

## 12. Trade and other payables

	2009 £m	2008 £m
Progress billings for client work	21	27
Trade payables	18	14
Amounts due to other member firms of the DTT organisation	12	11
Corporation tax	2	2
Social security and other taxes	49	56
Other payables	7	12
Accruals and deferred income	76	77
	<b>185</b>	<b>199</b>

# Notes to the financial statements

Year ended 31 May 2009

## 13. Provisions

	Surplus property £m	Retired partner annuities £m	Current partner annuities £m	Professional liability claims £m	Total £m
At 1 June 2008	27	264	238	10	539
Additional provision in the year	3	17	13	3	36
Transfer	–	35	(35)	–	–
Utilisation of provision	(7)	(23)	–	(2)	(32)
Released unused	–	–	–	(1)	(1)
Unwinding of discount	1	18	17	–	36
Adjustment for change in discount rate	–	3	6	–	9
Net movement in provision	(3)	50	1	–	48
At 31 May 2009	<b>24</b>	<b>314</b>	<b>239</b>	<b>10</b>	<b>587</b>
				<b>2009</b> £m	<b>2008</b> £m
Included in current liabilities				29	28
Included in non-current liabilities				558	511
				<b>587</b>	<b>539</b>

### Surplus property

The surplus property provision is provided to cover the expected losses on sublet and vacant properties where expected revenues are less than cost. The provision has been estimated using current costs and has been discounted to present value at a rate of 6% (2008: 6%).

### Retired and current partner annuities

The annuities payable to retired and current partners are unfunded, are conditional upon the future generation of profits and are capped in each year at 8% of the applicable group profit.

The provision for retired and current partners' annuities is the present value of the future obligation of the group to provide retirement annuities to partners.

The principal actuarial assumptions which have been used in calculating the liabilities, after the application of mortality rates, are as follows:

	2009 % p.a.	2008 % p.a.
Discount rate	6.6	6.7
Price inflation	3.4	3.5

The discount rate of 6.6% (2008: 6.7%) is based on the yield on the over 15 years AA rated Corporate Bond Index.

# Notes to the financial statements

Year ended 31 May 2009

## 13. Provisions (continued)

The assumed discount rate, inflation rate and partner profit share increases, all have a significant effect on the provisions. The following table shows the sensitivity of the value of the partner annuities to changes in these assumptions.

Assumption	Change in assumption	Impact on annuity provision	
		(Decrease)/Increase £m	%
Discount rate	Increase by 0.25%	(22)	4
Inflation rate	Increase by 0.25%	18	3
Partner profit share increase	Increase by 0.25%	2	–

## Professional liability claims

The provision for professional liability claims represents the group's estimate of the potential liability arising from claims that have been notified to the group. No separate disclosure is made of the cost of claims covered by insurance, as to do so could seriously prejudice the position of the group.

## 14. Deferred taxation

Deferred taxation provided for in the financial statements is set out below:

	Accelerated capital allowances £m
At 1 June 2007 and at 1 June 2008	1
Charge to income	1
At 31 May 2009	<u>2</u>

# Notes to the financial statements

Year ended 31 May 2009

## 15. Partners' interests

	Partners' capital £m	Amounts due from partners £m	Provision for current partner annuities £m	Partners' equity – other reserves £m	Total £m
<b>Partners' interests at 1 June 2007</b>	123	(26)	249	(37)	309
Profit for the financial year available for division among partners	–	–	–	640	640
Allocated profits	–	526	–	(526)	–
Pension scheme actuarial loss	–	–	–	(11)	(11)
Translation reserve	–	–	–	(2)	(2)
Movement in provision	–	–	(11)	–	(11)
Drawings and distributions	–	(546)	–	–	(546)
Compensating payment due to subsidiary undertakings	–	–	–	(4)	(4)
Capital:					
Introduced	16	–	–	–	16
Repaid	(9)	–	–	–	(9)
<b>Partners' interests at 1 June 2008</b>	<b>130</b>	<b>(46)</b>	<b>238</b>	<b>60</b>	<b>382</b>
Profit for the financial year available for division among partners	–	–	–	526	526
Allocated profits	–	641	–	(641)	–
Pension scheme actuarial loss	–	–	–	(183)	(183)
Translation reserve	–	–	–	1	1
Movement in provision	–	–	1	–	1
Drawings and distributions	–	(613)	–	–	(613)
Compensating payment due to subsidiary undertakings	–	–	–	(4)	(4)
Capital:					
Introduced	12	–	–	–	12
Repaid	(15)	–	–	–	(15)
<b>Partners' interests at 31 May 2009</b>	<b>127</b>	<b>(18)</b>	<b>239</b>	<b>(241)</b>	<b>107</b>

Deloitte LLP's profits are divided based on units allocated to partners. The unit allocation is completed after the year end and accordingly there was no automatic division of profits among the partners at 31 May 2009. As a result, the balance of profit available for division among the partners as at 31 May 2009 is included in other reserves.

Partners' other reserves rank after unsecured creditors and loans, and other debts due to partners rank pari passu with unsecured creditors in the event of a winding up.

Partner capital of £10m (2008: £10m) has been included as a current liability and £117m (2008: £120m) has been included as a non-current liability.

# Notes to the financial statements

Year ended 31 May 2009

## 16. Operating lease commitments

At 31 May 2009, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings 2009 £m	Other 2009 £m	Land and buildings 2008 £m	Other 2008 £m
Operating payments which fall due:				
Within one year	59	2	60	1
Within two to five years	215	3	217	4
In more than five years	517	–	537	–
	<b>791</b>	<b>5</b>	<b>814</b>	<b>5</b>

## 17. Contingent liabilities

The group has entered into a several guarantee to guarantee a proportion of certain liabilities of DTT. At 31 May 2009 the contingent liability under this guarantee amounted to £68m (2008: £26m).

## 18. Retirement benefit schemes

### Defined contribution schemes

The group operates an occupational defined contribution scheme and stakeholder arrangements for employees, as well as a number of closed schemes.

In all cases the schemes' assets are held separately from those of the group in trustee administered or, in the case of stakeholder, contract based arrangements.

The total cost charged to the income statement of £32m (2008: £28m) represents contributions payable to these schemes by the group.

### Defined benefit schemes

The group provides retirement benefits through defined benefit schemes. The defined benefit sections of the schemes are closed to new members. Under the schemes, employees are entitled to retirement benefits of up to two-thirds of their final salary, subject to HMRC limits, on attainment of retirement ages between 60 and 65. No other post retirement benefits are provided. The schemes are funded schemes.

The pension scheme assets are held in a separate Corporate Trustee administered fund to meet the long-term pension liabilities for past and present employees.

The schemes' assets are stated at their bid value as at 31 May 2009. The schemes' liabilities have been updated from the most recent actuarial valuation, as at 30 September 2005, by an independent qualified actuary to assess the liabilities as at 31 May 2009.

The liabilities of the defined benefit schemes are measured by discounting the best estimate of future cash flows to be paid out by the schemes using the projected unit credit method. This amount is reflected in the deficit in the balance sheet.

In addition the group operates a defined benefit scheme for its employees in Switzerland.

# Notes to the financial statements

Year ended 31 May 2009

## 18. Retirement benefit schemes (continued)

	2009	2008
	%	%
The principal actuarial assumptions at the balance sheet date:		
Discount rate	6.6	6.7
Expected return on scheme assets	8.4	8.9
Inflation	3.4	3.5
Future salary increases	4.9	5.0
Future pension increases	3.3	3.4

Benefits are valued at the date from which they can be taken without actuarial reduction for early payment.

The actuarial valuation at 2009 assumes that mortality will be in line with standard "00" series mortality tables updated for year of use in line with the medium cohort improvements with a scaling factor of 95% for males and 75% for females, with an allowance for the future improvements in line with the medium cohort with an additional underpin to annual improvements in mortality rates of 1.0% per annum for males and females.

The assumed life expectations on retirement at age 65 are:

	2009	2008
Retiring today:		
Males	23	22
Females	27	25
Retiring in 20 years:		
Males	25	22
Females	29	25

The amount recognised in the consolidated balance sheet arising from the obligations in respect of the defined benefit schemes is as follows:

	2009	2008
	£m	£m
Fair value of scheme assets	387	417
Present value of scheme obligations	(621)	(484)
Deficit in the scheme and liability recognised in the consolidated balance sheet	(234)	(67)

The amounts recognised in the consolidated income statement in respect of the defined benefit schemes are as follows:

	2009	2008
	£m	£m
Operating expenses:		
Current service cost	13	11
Finance income and cost:		
Interest cost	33	30
Expected return on scheme assets	(38)	(40)
	8	1

# Notes to the financial statements

Year ended 31 May 2009

## 18. Retirement benefit schemes (continued)

Actuarial gains and losses have been reported in the statement of recognised income and expense.

The movements in the defined benefit schemes' assets were as follows:

	2009 £m	2008 £m
Fair value of scheme assets at 1 June	417	445
Swiss scheme assets	52	–
Expected return on scheme assets	38	40
Actuarial losses	(131)	(75)
Contributions from the sponsoring employers	26	19
Benefits paid	(15)	(12)
	<u>387</u>	<u>417</u>
Fair value of scheme assets at 31 May		

The actual return on scheme assets was as follows:

	2009 £m	2008 £m
Expected return on scheme assets	38	40
Actuarial losses on scheme assets	(131)	(75)
	<u>(93)</u>	<u>(35)</u>

The expected return on assets is determined using current and projected economic and market factors and after taking actuarial advice.

The calculation incorporates the expected return on risk-free investments and the historical risk premium associated with other invested assets.

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		Fair value of assets	
	2009 %	2008 %	2009 £m	2008 £m
Equity instruments	8.4	8.9	325	411
Other	8.4	8.9	62	6
	<u>8.4</u>	<u>8.9</u>	<u>387</u>	<u>417</u>



# Notes to the financial statements

Year ended 31 May 2009

## 18. Retirement benefit schemes (continued)

The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class.

The changes in defined benefit obligations were as follows:

	2009 £m	2008 £m
Present value of defined benefit obligations at 1 June	484	519
Swiss scheme liability	54	–
Current service cost	13	11
Interest cost	33	30
Actuarial losses/(gains) on scheme liabilities	52	(64)
Benefits paid	(15)	(12)
	<u>621</u>	<u>484</u>
Present value of defined benefit obligations at 31 May		

The analysis of the actuarial gains and losses recognised in the statement of recognised income and expense is as follows:

	2009 £m	2008 £m
Actuarial losses on scheme assets	(131)	(75)
Actuarial (losses)/gains on scheme liabilities	(52)	64
	<u>(183)</u>	<u>(11)</u>
Total actuarial loss		
Cumulative amount of actuarial (losses)/gains recognised in the statement of recognised income and expense	<u>(150)</u>	<u>33</u>

The five year history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	387	417	445	352	288
Present value of scheme obligations	(621)	(484)	(519)	(519)	(470)
	<u>(234)</u>	<u>(67)</u>	<u>(74)</u>	<u>(167)</u>	<u>(182)</u>
Deficit in the schemes					
Experience adjustments to scheme assets	(131)	(75)	54	32	14
Experience adjustments to scheme liabilities	(29)	–	(7)	8	(3)

# Notes to the financial statements

Year ended 31 May 2009

## 18. Retirement benefit schemes (continued)

The estimated amount of contributions expected to be paid to the schemes during the current financial year is £23 million. This includes contributions for future accrual and contributions towards eliminating the deficit.

The assumed discount rate, inflation rate, salary increases and mortality all have a significant effect on the valuation. The following table shows the sensitivity of the value of the defined benefit obligations to changes in these assumptions.

Assumption	Change in assumption	Impact on annuity provision	
		(Decrease)/Increase £m	%
Discount rate	Increase by 0.25%	(24)	(4)
Inflation rate	Increase by 0.25%	19	3
Salary increases	Increase by 0.25%	2	–
Mortality	Increase by 1 year	15	3

## 19. Financial instruments

### Capital structure

The group is financed by partner capital. In addition, the short-term working capital requirements of the group will be met by the bank facilities. The group's capital structure and treasury policies are regularly reviewed to ensure that they remain relevant to the business and its plans for growth. The group aims to minimise the level of short-term borrowing and this is achieved through the active management and targeting of receivables; client receivables and amounts due to be billed to clients. A number of entities within the group are regulated by the Financial Services Authority and as such are subject to certain regulatory capital requirements. These requirements were met throughout the financial year.

Financial instruments comprise unquoted investments, loans, short-term borrowings, cash, client and other receivables and trade and other payables, amounts due to and from other member firms of the DTT organisation, partners' capital and amounts due from partners. Financial instruments give rise to liquidity, credit, interest rate and foreign currency risks, information about these risks and how they are managed is set out below.

The carrying amounts of financial instruments are as follows:

	2009 £m	2008 £m
<b>Financial assets</b>		
Unquoted investments	1	2
Loans to DTT	3	31
Client receivables	320	344
Amounts to be billed to clients	196	209
Amounts due from other member firms of the DTT organisation	14	31
Amounts due from partners	18	46
Other receivables	12	12
Cash and deposits	72	91
<b>Loans and receivables</b>	<b>636</b>	<b>766</b>
<b>Financial liabilities</b>		
Amounts due to other member firms of the DTT organisation	(12)	(11)
Partner capital	(127)	(130)
Progress billings for client work	(21)	(27)
Trade payables	(18)	(14)
Other payables	(7)	(12)
<b>Liabilities at amortised cost</b>	<b>(185)</b>	<b>(194)</b>
<b>Total net financial instruments</b>	<b>451</b>	<b>572</b>

# Notes to the financial statements

Year ended 31 May 2009

## 19. Financial instruments (continued)

### Liquidity risk

The ultimate responsibility for liquidity risk management lies with the Executive Group, which has developed an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities and by continually monitoring forecast and actual cash flows.

Liquidity risk arises from the group's ongoing financial obligations, including settlement of financial liabilities such as trade and other payables. The group's financing requirements vary during the year, partly as a result of payments to and on behalf of partners and partly as a result of other major payments such as for leasehold improvements.

During the year, borrowing facilities of £400m were negotiated with two leading international banks. These facilities are due to expire between 1 October 2009 and 7 August 2010 and renewal of the facilities, based on forecast requirements, will be negotiated with expected renewal at satisfactory levels. At 31 May 2009 the group had available £400m (2008: £410m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. These facilities are considered more than adequate to finance variations in working capital.

Cleared funds held at banks are monitored on a daily basis and surplus amounts are placed on short-term deposits or invested on the money market. It is the group's policy to invest surplus amounts for periods of up to three months. At the year end all surplus funds were held in either on demand accounts or on the money market. Funds in the group's captive insurance company are placed on deposit for periods of up to three months.

Trade payables of £18m (2008: £14m) mature within one year. Partner capital of £127m (2008: £130m) is repayable when the partner retires. Under the Partnership Agreement partners must give 6 months notice ending on 31 May if they wish to retire. However, this can be shortened by mutual agreement. This element of partner capital, £10m (2008 £10m), will be repaid within 12 months and has been disclosed as a current liability. The earliest date for all other partner capital, £117m (2008 £120m), is 7 June 2010 and therefore this has been disclosed as a non-current liability. A partner's capital is repaid within seven days of retirement. In 2008, all partner capital was classified as a current liability. The amount of undiscounted cash outflows for financial liabilities are equal to their carrying amount as both trade payables and partner capital are non-interest bearing. The timing of these undiscounted cash outflows is potentially due for repayment within a maximum six month timeframe.

### Credit risk

Credit risk primarily refers to the risk that a client will default on its contractual obligations resulting in financial loss to the group and the group has adopted a policy of only dealing with creditworthy clients. Credit risk also arises from amounts to be billed to clients, amounts due from other member firms of the DTT organisation, loans, cash and cash equivalents and guarantees.

Client receivables consist of a large number of clients, spread across diverse industries and geographical areas and covering a wide range in terms of credit quality. Ongoing credit evaluation is performed on the financial condition of client receivables and the group does not have any significant credit risk exposure to any single client or any group of clients having similar characteristics. Unbilled receivables are typically billed to clients within a month of arising and invoices are generally payable within 14 days or as agreed per the engagement terms.

All work carried out on behalf of other member firms of the DTT organisation is subject to a DTT member firm agreement which specifies the exact terms and conditions of each engagement. Invoices are generally payable upon presentation. The credit risk arising from amounts owed by DTT member firms is deemed to be low and is therefore accepted by the group. None of the amounts receivable from DTT are considered to be impaired.

The credit risk on liquid funds is limited because the leading banks used are those with high credit ratings (long term AA- as a minimum) assigned by international credit rating agencies and cash deposits are placed only with the group's relationship banks.

# Notes to the financial statements

Year ended 31 May 2009

## 19. Financial instruments (continued)

Except for the several guarantee (Note 17) provided to DTT the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the group's maximum exposure to credit risk. This amount is:

	2009 £m	2008 £m
Financial assets	636	766
Guarantees	68	56
Total credit risk	<b>704</b>	<b>822</b>

### Interest rate risk

Interest rate risk arises from cash and cash equivalents and interest bearing investments and loans. Interest on cash and cash deposits of £72m (2008: £91m) is earned at a variable rate linked to LIBOR. Interest on short-term borrowings is paid at a variable rate linked to LIBOR. Investments include unquoted investments which are non-interest bearing. The long-term loan to DTT earns interest at a variable rate of interest linked to US Dollar LIBOR. It is recognised that interest rates are liable to fluctuate and the group accepts this risk and does not consider it to be material to the group.

### Foreign currency risk

The group is exposed to exchange rate fluctuations since it undertakes certain transactions denominated in foreign currencies. The group's income and expenditure is primarily in sterling. However, some fees and costs are denominated in foreign currencies, as are the transactions of the Swiss subsidiaries and transactions with DTT member firms.

The group does not hedge or enter into forward or derivative transactions and is mainly exposed to US Dollar foreign currency risk. Balances in foreign currency bank accounts are held to facilitate cash management and, on occasion, to provide an economic hedge of future foreign currency expenditure. Other than foreign currency bank accounts and the US Dollar denominated loans to DTT the group has no significant assets or liabilities denominated in currencies other than sterling. It is recognised that exchange rates are liable to fluctuate and the group accepts this risk and does not consider it to be material to the group.

The following table is a summary of the group's net foreign currency denominated monetary assets/(liabilities):

	2009 £m	2008 £m
Euro	19	55
US Dollar	23	36
Swiss Franc	(10)	(7)
	<b>32</b>	<b>84</b>

# Notes to the financial statements

Year ended 31 May 2009

## 19. Financial instruments (continued)

### Foreign currency sensitivity analysis

The following tables detail the group's sensitivity to a 10% increase and decrease in the Sterling amount against the relevant currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in exchange rates. A positive number below indicates an increase in profit where Sterling strengthens 10% against the relevant currency. For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on profit and the balances would be negative.

	Euro currency impact		US Dollar currency impact		Swiss Franc currency impact	
	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	£m	£m
Profit or loss	–	1	1	2	1	1

### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the impact on the group's profit for the year ended 31 May 2009 would have been negligible (2008: £515,000) due to the low value of the impact on the income statement of interest receivable and payable.

### Fair value

Fair values for loans denominated in US Dollars have been calculated using year end exchange rates. The estimated fair values of all other financial instruments of the group are approximate to their book values as at 31 May 2009 and 31 May 2008 largely owing to their short maturity.

All financial assets and liabilities are receivable and repayable on demand or within one year except the following loans which are included within financial assets:

	2009	2008
	Fair value	Fair value
	£m	£m
Within one year	–	27
In the second year	–	2
In the third year	–	2
After five years	3	–

## 20. Related party transactions

Transactions between Deloitte LLP and its subsidiaries, which are related parties, have been eliminated on consolidation.

Members of the Executive Group are recognised as the group's key management personnel and their remuneration is regarded as a related party transaction. The share of profit allocated to the partners who were members of the Executive Group during the year amounted to £40m (2008: £44m). This includes the profit share of the Senior Partner.

# Notes to the financial statements

Year ended 31 May 2009

## 21. Subsidiary undertakings

The financial statements consolidate the results and financial position of the group, including principal subsidiary undertakings listed below:

Principal subsidiary undertakings	Holding	Proportion of voting rights and shares held	Country of incorporation	Nature of business
Deloitte MCS Limited	Ordinary	100%	England & Wales	Consulting services
Deloitte PCS Limited	Ordinary	100%	England & Wales	Personal financial services
Deloitte Total Reward and Benefits Limited	Ordinary	100%	England & Wales	Investment advisory services
Deloitte & Touche Public Sector Internal Audit Limited	Ordinary	100%	England & Wales	Internal audit services
Deloitte & Touche Management AG	Ordinary	100%	Switzerland	Management company
Deloitte AG	Ordinary	100%	Switzerland	Professional services
Deloitte Financial Advisory Services AG	Ordinary	100%	Switzerland	Financial advisory services
Deloitte Consulting GmbH	Ordinary	100%	Switzerland	Consulting services
B&W Deloitte GmbH	Ordinary	100%	Switzerland	Actuarial services
Deloitte Corporate Finance Limited	Ordinary	50%	United Arab Emirates	Financial advisory services
Peterborough Insurance PCC Limited	Ordinary	100%	Guernsey	Captive insurance company



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