

# Consolidated income statement

Year ended 31 May 2008

	<i>Note</i>	<i>2008 £m</i>	<i>2007 £m</i>
<b>Revenue</b>	3	2,010	1,802
<b>Operating expenses</b>			
Expenses and disbursements on client assignments		(285)	(259)
Staff costs	4	(729)	(663)
Depreciation and amortisation		(45)	(38)
Other operating expenses		(330)	(285)
<b>Profit from operations</b>	5	621	557
Finance income	6	68	39
Finance cost	6	(35)	(32)
<b>Profit before tax</b>		654	564
Tax	7	(2)	(2)
<b>Profit for the year before partners' profit shares</b>		<b>652</b>	<b>562</b>
<b>Provision for partner pensions for current partners</b>		(12)	(3)
<b>Profit available for discretionary division amongst partners</b>	16	<b>640</b>	<b>559</b>

<b>Analysis of profit available for distribution to partners and retired partners</b>		
<b>Profit available for discretionary division amongst partners</b>	640	559
<b>Provision for partner pensions for current partners</b>	12	3
<b>Retired partner annuity cost</b>	31	10
<b>Total profit before partner and retired partner allocation</b>	<b>683</b>	<b>572</b>

# Consolidated statement of recognised income and expense

Year ended 31 May 2008

	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Actuarial (losses)/gains on defined benefit pension schemes	(11)	80
Exchange differences on translation of foreign operations	(2)	-
	<hr/>	<hr/>
<b>Net (expense)/income recognised directly in equity</b>	<b>(13)</b>	<b>80</b>
Profit for the financial year	640	559
	<hr/>	<hr/>
<b>Total recognised income for the period attributable to partners</b>	<b>627</b>	<b>639</b>
	<hr/>	<hr/>

# Consolidated balance sheet

As at 31 May 2008

	<i>Note</i>	<i>2008 £m</i>	<i>2007 £m</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	200	147
Intangible assets	10	11	13
Financial assets	11	33	71
		<hr/>	<hr/>
		244	231
<b>Current assets</b>			
Client and other receivables	12	661	582
Cash and cash equivalents		91	51
		<hr/>	<hr/>
		752	633
		<hr/>	<hr/>
<b>Total assets</b>		<b>996</b>	<b>864</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	199	183
Provisions	14	28	30
Partner capital	16	130	123
		<hr/>	<hr/>
		357	336
<b>Non-current liabilities</b>			
Retirement benefit obligation	19	67	74
Deferred tax	15	1	1
Provisions	14	511	490
		<hr/>	<hr/>
		579	565
<b>Equity</b>			
Partners' other reserves	16	60	(37)
		<hr/>	<hr/>
<b>Total liabilities and equity</b>		<b>996</b>	<b>864</b>
		<hr/>	<hr/>

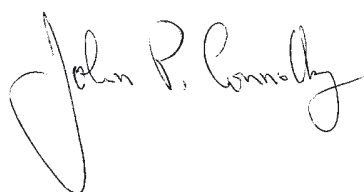
# Consolidated balance sheet continued

As at 31 May 2008

<b>Partners' interests</b>			
	<i>Note</i>	<i>2008 £m</i>	<i>2007 £m</i>
<b>The following balances relating to partners are included in the group balance sheet:</b>			
Partners' capital	16	130	123
Amounts due from partners (included in current assets)	16	(46)	(26)
Provision for current partner annuities (included in non-current liabilities)	16	238	249
Partners' other reserves	16	60	(37)
<b>Total partners' interests</b>		<b>382</b>	<b>309</b>

The financial statements on pages 36 to 68 were approved by the Board on 21 July 2008.

Signed on behalf of the Board,



**John Connolly**  
Senior Partner and Chief Executive



**Bob Warburton**  
Managing Partner, Finance & Legal

# Consolidated cash flow statement

Year ended 31 May 2008

	2008 £m	2007 £m
Profit from operations	621	557
Adjustments for:		
Depreciation, amortisation & impairment	45	38
Impairment of financial assets	1	(1)
Loss on disposal of property, plant and equipment	1	-
Increase in provisions	50	8
Decrease in retirement benefit obligations	(18)	(13)
Operating cash inflows before movements in working capital	700	589
(Increase)/decrease in receivables	(74)	44
Increase/(decrease) in payables	17	(36)
Cash generated by operations	643	597
Corporate taxes paid	(3)	(3)
<b>Net cash flow from operating activities</b>	<b>640</b>	<b>594</b>
<b>Investing activities</b>		
Interest received	28	9
Proceeds on disposal of financial assets	43	3
Purchase of subsidiary	-	4
Proceeds on disposal of property, plant and equipment	6	7
Purchase of property, plant and equipment	(103)	(59)
Purchase of investments	(1)	-
<b>Net cash used in investing activities</b>	<b>(27)</b>	<b>(36)</b>
<b>Financing activities</b>		
New loans	(5)	(2)
Payments to and on behalf of partners	(550)	(476)
Retirement benefits paid to former partners	(21)	(21)
Repayment of capital to former partners	(9)	(6)
Partners' capital introduced	16	15
Interest paid	(4)	(5)
Decrease in bank overdrafts	-	(22)
<b>Net cash used in financing activities</b>	<b>(573)</b>	<b>(517)</b>
<b>Net increase in cash and cash equivalents</b>	<b>40</b>	<b>41</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>51</b>	<b>10</b>
<b>Cash and cash equivalents at end of year</b>	<b>91</b>	<b>51</b>
<b>Cash and cash equivalents comprise</b>		
Cash at bank	<b>91</b>	<b>51</b>

# Notes to the financial statements

Year ended 31 May 2008

## 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.

### 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 IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments.

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

IFRS 8 'Operating Segments' revises disclosure in relation to an entity's operating segments and is effective for accounting periods beginning on or after 1 January 2009.

IAS 23 'Borrowing Costs' is effective for accounting periods beginning on or after 1 January 2009.

IFRIC 14 'The Limit on Defined Benefit Asset' is effective for accounting periods beginning on or after 1 January 2008.

IFRS 3 'Business Combinations (2008)' is effective for business combinations on or after 1 July 2009.

The adoption of these Standards and Interpretations in future periods is not expected to have a material impact on the financial statements of the group.

IAS 32 'Financial Instruments: Presentation' was amended to require certain "Puttable Financial Instruments and Obligations Arising on Liquidation" to be reclassified from financial liabilities to equity and is effective for annual periods beginning on or after 1 January 2009. IAS 1 'Presentation of Financial Statements' was amended concurrently to require additional disclosure for puttable financial instruments that are classified as equity following the IAS 32 amendment. The amendment to IAS 1 is also effective for annual periods beginning on or after 1 January 2009.

The amendment to IAS 32, should it be endorsed for use in Europe, may result in the reclassification of partner capital

from current liabilities to equity. The impact of a reclassification will not be material to the income statement.

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 & Touche LLP and entities controlled by Deloitte & Touche LLP (its subsidiaries) made up to 31 May each year.

Control is achieved where Deloitte & Touche 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.

### 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

# Notes to the financial statements

Year ended 31 May 2008

## 1. Accounting policies (continued)

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 also 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 trade 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 & Touche 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.

### 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

# Notes to the financial statements

Year ended 31 May 2008

## 1. Accounting policies (continued)

### 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 available for sale or as loans and receivables as appropriate. 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. The subsequent measurement of financial assets depends on their classification, as follows:

### Available for sale financial assets

Listed redeemable notes held by the group that are traded in an active market are classified as being available for sale and are stated at fair value. Interest is determined by applying the effective interest rate method and is recognised in income along with any foreign currency gains/losses. Other gains and losses arising from changes in fair value are recognised directly in equity. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the profit or loss for the year.

### Loans and receivables

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

### 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. 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

# Notes to the financial statements

Year ended 31 May 2008

## 1. Accounting policies (continued)

### Client receivables

Client receivables are initially recognised at fair value, and are subsequently measured at amortised cost less appropriate allowances for estimated irrecoverable amounts.

### Cash and cash equivalents

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

### Bank borrowings

Interest-bearing bank loans and overdrafts are recognised at fair value on initial recognition. Interest is included in finance cost and is determined using the effective interest rate method.

### Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost. Interest income is recognised by applying the effective interest rate, except for short-term payables when the recognition of interest would be immaterial.

### 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 as 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 & Touche LLP. Partners' capital may only be withdrawn when a partner retires from the LLP. Because partners may retire from the partnership with less than one year's notice, partner capital has been classified as a current liability.

Partners' non-current liabilities represent provisions for the pension annuities of current partners. 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 2008

## 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 consider that the following estimates and judgements are likely to have the most significant effects on the amounts recognised in the financial statements:

### **Retirement benefit obligation**

The pension liability in respect of the defined benefit scheme has been independently valued based on information provided by the group in terms of the pensionable pay and contributions to the scheme. The assumptions set out in Note 19 are based on the best estimates available. 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. In addition, the assumptions set out in Note 14 are based on the best estimates available. 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.

# Notes to the financial statements

Year ended 31 May 2008

## 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 methodology.

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.

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

# Notes to the financial statements

Year ended 31 May 2008

## 3. Operating Segments (continued)

	<i>Audit</i> 2007 £m	<i>Tax</i> 2007 £m	<i>Consulting</i> 2007 £m	<i>Corporate</i> <i>Finance</i> 2007 £m	<i>Unallocated</i> 2007 £m	<i>Total</i> 2007 £m
Revenue	557	508	430	307	-	<b>1,802</b>
Expenses and disbursements	(80)	(64)	(82)	(33)	-	<b>(259)</b>
Net revenue	<u>477</u>	<u>444</u>	<u>348</u>	<u>274</u>	<u>-</u>	<b><u>1,543</u></b>
Profit from operations	146	165	115	131	-	<b>557</b>
Finance income					39	<b>39</b>
Finance cost					(32)	<b>(32)</b>
Profit before tax						<b>564</b>
Tax					(2)	<b>(2)</b>
Profit for the year						<b><u>562</u></b>
Total assets	112	168	86	102	396	<b>864</b>
Total liabilities & equity	2	2	5	1	854	<b>864</b>

Included in group revenue is revenue of approximately £52m (2007: £31m) which arose from supplying professional services to the group's largest client.

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:

	2008 £m	2007 £m
Financial Services	504	424
Telecoms, Media & Technology	286	242
Consumer Business	202	173
Government & Public Sector	198	192
Manufacturing	162	164
Energy, Infrastructure & Utilities	157	146
Other	112	115
Real Estate	107	90
Private Equity	92	83
Tourism, Hospitality & Leisure	85	83
Life Science	68	57
Professional Partnerships	37	33
	<b><u>2,010</u></b>	<b><u>1,802</u></b>

# Notes to the financial statements

Year ended 31 May 2008

## 4. Staff costs

### Employees

The average number of people employed by the group during the year (excluding partners) was:

	<i>2008</i> <i>No.</i>	<i>2007</i> <i>No.</i>
Client-serving:		
Audit	3,886	3,769
Tax	2,371	2,249
Consulting	2,114	1,835
Corporate Finance	1,054	900
	<hr/> 9,425	<hr/> 8,753
Support	1,932	1,939
	<hr/> <b>11,357</b>	<hr/> <b>10,692</b>

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

	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Salaries	624	568
Social security costs	66	59
Pension costs (Note 19):		
Defined contribution	28	23
Defined benefit	11	13
	<hr/> <b>729</b>	<hr/> <b>663</b>

# Notes to the financial statements

Year ended 31 May 2008

## 5. Profit from operations

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

	2008 £m	2007 £m
Operating lease rentals		
- land and buildings	51	49
- other	2	1
Depreciation of property, plant and equipment	43	36
Amortisation of intangible assets	2	2
Net foreign exchange (gain)/loss	(2)	2
	<u>68</u>	<u>39</u>

Audit fees and expenses for the year ended 31 May 2008 were £0.2m (2007: £0.2m) and fees for other services were £0.1m (2007: £0.1m) which related to the audit of subsidiary financial statements.

In addition, the auditors received £21,000 (2007: £19,000) for the audit of the group pension schemes. The auditors and their associates did not provide any non-audit services during either year.

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## 6. Finance income and cost

	2008 £m	2007 £m
<b>Finance income</b>		
Interest receivable	28	9
Expected return on pension scheme assets (Note 19)	40	30
	<u>68</u>	<u>39</u>
<b>Finance cost</b>		
Interest payable on bank loans and overdrafts	4	5
Other interest payable and unwinding of discount on provisions	1	1
Interest on pension scheme obligations (Note 19)	30	26
	<u>35</u>	<u>32</u>

# Notes to the financial statements

Year ended 31 May 2008

## 7. Tax

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

	2008 £m	2007 £m
Current tax	7	6
Compensating payments due from partners	(4)	(4)
Adjustment in respect of prior periods	(1)	-
	<u>2</u>	<u>2</u>
Tax expense in corporate subsidiaries	<u>2</u>	<u>2</u>

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

	2008 £m	2007 £m
Profit on ordinary activities of corporate entities before tax	10	8
UK Corporation tax	3	2
Effects of:		
- adjustments to tax charge in respect of previous periods	(1)	-
	<u>2</u>	<u>2</u>
Tax expense in corporate subsidiaries	<u>2</u>	<u>2</u>

UK Corporation tax is calculated at 29.67% (2007: 30%) 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 & Touche LLP to the subsidiaries, which are dealt with through partners' interests.

## 8. Partners' share of profits

Profits are shared amongst the partners after the end of the year in accordance with agreed profit sharing arrangements.

The average profit per partner is calculated by dividing the profit for the year before partners' profit shares by the average number of partners.

	2008 No.	2007 No.
Average number of partners	<u>672</u>	<u>641</u>
	<u>£'000</u>	<u>£'000</u>
Average profit per partner	<u>970</u>	<u>877</u>

The share of profit that has been allocated since the year end to the Senior Partner, who was the partner with the largest entitlement to profits in 2008, was £5,696,000 (2007: £4,656,000).

# Notes to the financial statements

Year ended 31 May 2008

## 9. Property, plant and equipment

	<i>Leasehold improvements £m</i>	<i>Computer equipment £m</i>	<i>Fixtures and fittings £m</i>	<i>Motor vehicles £m</i>	<i>Total £m</i>
<b>Cost</b>					
At 1 June 2006	109	57	39	40	245
Additions	21	21	6	11	59
Acquisitions	1	-	1	-	2
Disposals	(2)	(12)	(2)	(12)	(28)
At 1 June 2007	129	66	44	39	278
Additions	65	22	6	10	103
Disposals	(31)	(14)	(12)	(12)	(69)
At 31 May 2008	163	74	38	37	312
<b>Depreciation</b>					
At 1 June 2006	44	36	22	14	116
Charge for the year	13	12	5	6	36
Disposals	(1)	(12)	(2)	(6)	(21)
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 31 May 2008	41	37	22	12	112
<b>Net book amount</b>					
At 31 May 2008	<b>122</b>	<b>37</b>	<b>16</b>	<b>25</b>	<b>200</b>
At 31 May 2007	<b>73</b>	<b>30</b>	<b>19</b>	<b>25</b>	<b>147</b>

Capital commitments contracted but not provided for as at 31 May 2008 amounted to £21m (2007: £38m).

# Notes to the financial statements

Year ended 31 May 2008

## 10. Intangible assets

### IT Software

*Total  
£m*

#### Cost

At 31 May 2008, 1 June 2007 and at 1 June 2006

17

#### Amortisation

At 1 June 2006

2

Charge for the year

2

At 1 June 2007

4

Charge for the year

2

At 31 May 2008

6

#### Net book amount

At 31 May 2008

11

At 31 May 2007

13

# Notes to the financial statements

Year ended 31 May 2008

## 11. Financial assets

	<i>Investments</i> <i>£m</i>	<i>Loans</i> <i>£m</i>	<i>Total</i> <i>£m</i>
<b>Valuation/cost</b>			
At 1 June 2006	46	30	76
Additions	-	2	2
Revaluation of investments	3	-	3
Disposals	(3)	-	(3)
	<hr/>	<hr/>	<hr/>
At 1 June 2007	46	32	78
Additions	1	5	6
Disposals	(42)	(4)	(46)
	<hr/>	<hr/>	<hr/>
At 31 May 2008	5	33	38
	<hr/>	<hr/>	<hr/>
<b>Provision</b>			
At 1 June 2006	3	3	6
Provided in the year	-	1	1
	<hr/>	<hr/>	<hr/>
At 1 June 2007	3	4	7
Provided in the year	-	1	1
Disposals	-	(3)	(3)
	<hr/>	<hr/>	<hr/>
At 31 May 2008	3	2	5
	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>			
At 31 May 2008	<b>2</b>	<b>31</b>	<b>33</b>
	<hr/>	<hr/>	<hr/>
At 31 May 2007	<b>43</b>	<b>28</b>	<b>71</b>
	<hr/>	<hr/>	<hr/>

At 31 May 2007 investments included £42m of quoted fixed interest corporate bonds and government stock which were stated at fair value. These were disposed of during the year. Investments also include £2m (2007: £1m) of unquoted debt investments which are stated at cost less provision for impairment.

Loans represent long-term loans to Deloitte Touche Tohmatsu (DTT) which are repayable within 3 years. Interest is charged at commercial rates which are between 3.5% and 6.2%. A total of £24m of loans was repaid in full on 10 July 2008.

# Notes to the financial statements

Year ended 31 May 2008

## 12. Client and other receivables

	2008 £m	2007 £m
Client receivables	344	315
Amounts to be billed to clients	209	196
Amounts due from other member firms of the DTT organisation	31	16
Amounts due from partners	46	26
Other receivables	12	16
Prepayments and accrued income	19	13
	<b>661</b>	<b>582</b>

Client receivables are shown after impairment provisions for bad and doubtful debts of £12m (2007: £15m), movements on which are as follows:

	2008 £m	2007 £m
As at the start of the year	15	15
New and additional provisions	11	11
Recoveries	(10)	(7)
Write-offs	(4)	(4)
As at the end of the year	<b>12</b>	<b>15</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. A provision of £12m has been made against client receivables of £13m. The £12m provision relates to UK based clients. A total of £11m relates to individually impaired receivables of which £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 credit worthiness 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 2008 the non-impaired current client receivables amount to £112m (2007: £109m). 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 2008

## 12. 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:

	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Less than 1 month	131	119
1 – 3 months	99	76
3 – 6 months	27	23
6 – 9 months	6	4
	<hr/>	<hr/>
At 31 May	<b>263</b>	<b>222</b>

## 13. Trade and other payables

	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Progress billings for client work	27	20
Trade payables	14	17
Amounts due to other member firms of the DTT organisation	11	12
Corporation tax	2	3
Social security and other taxes	56	49
Other payables	12	10
Accruals and deferred income	77	72
	<hr/>	<hr/>
	<b>199</b>	<b>183</b>

# Notes to the financial statements

Year ended 31 May 2008

## 14. Provisions

	<i>Surplus property £m</i>	<i>Retired partner annuities £m</i>	<i>Current partner annuities £m</i>	<i>Professional liability claims £m</i>	<i>Total £m</i>
At 1 June 2007	29	231	249	11	520
Additional provision in the year	5	50	56	6	117
Transfer	-	23	(23)	-	-
Utilisation of provision	(8)	(21)	-	(4)	(33)
Released unused	-	-	-	(3)	(3)
Unwinding of discount	1	13	15	-	29
Adjustment for change in discount rate	-	(32)	(59)	-	(91)
Net movement in provision	(2)	33	(11)	(1)	19
At 31 May 2008	<b>27</b>	<b>264</b>	<b>238</b>	<b>10</b>	<b>539</b>
				<i>2008 £m</i>	<i>2007 £m</i>
Included in current liabilities				28	30
Included in non-current liabilities				511	490
				<b>539</b>	<b>520</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% (2007: 6%).

# Notes to the financial statements

Year ended 31 May 2008

## 14. Provisions (continued)

### 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:

	2008 % p.a.	2007 % p.a.
Discount rate	6.7	5.7
Price inflation	3.5	3.2

The discount rate of 6.7% (2007: 5.7%) is based on the yield on the over 15 years AA rated Corporate Bond Index.

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%	(20)	4
Inflation rate	Increase by 0.25%	13	3
Partner profit share increase	Increase by 0.25%	3	1

### 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.

## 15. Deferred taxation

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

	Accelerated capital allowances £m
At 1 June 2006 and at 1 June 2007	1
Charge to income	-
At 31 May 2008	1

Deferred taxation is generally recognised on a full provision basis, without discounting, on all temporary differences for taxation purposes in the corporate entities included within these financial statements.

# Notes to the financial statements

Year ended 31 May 2008

## 16. Partners' interests

	<i>Partners' capital £m</i>	<i>Amounts due from partners £m</i>	<i>Provision for current partner annuities £m</i>	<i>Partners' equity – other reserves £m</i>	<i>Total £m</i>
<b>Partners' interests at 1 June 2006</b>	114	(14)	258	(212)	146
Profit for the financial year available for					
division among partners	-	-	-	559	559
Allocated profits	-	460	-	(460)	-
Pension scheme actuarial gain	-	-	-	80	80
Movement in provision	-	-	(9)	-	(9)
Drawings and distributions	-	(472)	-	-	(472)
Compensating payment due to					
subsidiary undertakings	-	-	-	(4)	(4)
Capital:					
Introduced	15	-	-	-	15
Repaid	(6)	-	-	-	(6)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Partners' interests at 31 May 2008</b>	<b>130</b>	<b>(46)</b>	<b>238</b>	<b>60</b>	<b>382</b>

Deloitte & Touche 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 and only certain fixed shares of profit had been allocated as at 31 May 2008. As a result, the balance of profit available for division among the partners as at 31 May 2008 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.

# Notes to the financial statements

Year ended 31 May 2008

## 17. Operating lease commitments

At 31 May 2008, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Operating lease payments which fall due:				
Within one year	60	1	59	1
Within two to five years	217	4	217	1
In more than five years	537	-	424	-
	<b>814</b>	<b>5</b>	<b>700</b>	<b>2</b>

## 18. Contingent liabilities

The group has:

- guaranteed the performance of Liberata plc, a former subsidiary of Deloitte & Touche general partnership, under certain of its contracts. The maximum amount payable under the guarantee is approximately £30m (2007: £30m) and the contract expires on 4 January 2009. The group has the benefit of a counter indemnity for the full amount of these liabilities from certain former shareholders in Liberata plc; and
- entered into a several guarantee to guarantee a proportion of certain liabilities of Deloitte Touche Tohmatsu. At 31 May 2008 the contingent liability under this guarantee amounted to £26m (2007: £38m).

## 19. Retirement benefit schemes

### Defined contribution schemes

The group operates occupational defined contribution schemes 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 £28m (2007: £23m) represents contributions payable to these schemes by the group.

### Defined benefit schemes

The group provides retirement benefit 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 2008. 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 2008.

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.

# Notes to the financial statements

Year ended 31 May 2008

## 19. Retirement benefit schemes (continued)

	2008	2007
	%	%
The principal actuarial assumptions at the balance sheet date:		
Discount rate	6.7	5.7
Expected return on scheme assets	8.9	8.9
Inflation	3.5	3.2
Future salary increases	5.0	4.7
Future pension increases	3.4	3.1

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

The actuarial valuation assumes that mortality will be in line with nationally published PA92 mortality tables as adjusted to allow for future improvements in life expectancy including the published medium cohort improvement factors. The assumed life expectations on retirement at age 65 are:

	2008	2007
Retiring today:		
Males	22	22
Females	25	24
Retiring in 20 years:		
Males	22	22
Females	25	25

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

	2008	2007
	£m	£m
Fair value of scheme assets	417	445
Present value of scheme obligations	(484)	(519)
	<u>(67)</u>	<u>(74)</u>
Deficit in the scheme and liability recognised in the group balance sheet		

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

	2008	2007
	£m	£m
Operating expenses:		
Current service cost	11	13
Finance cost:		
Interest cost	30	26
Expected return on scheme assets	(40)	(30)
	<u>1</u>	<u>9</u>

# Notes to the financial statements

Year ended 31 May 2008

## 19. 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:

	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Fair value of scheme assets at 1 June	445	352
Expected return on scheme assets	40	30
Actuarial (losses)/gains	(75)	54
Contributions from the sponsoring employers	19	22
Benefits paid	(12)	(13)
	<hr/>	<hr/>
Fair value of scheme assets at 31 May	<b>417</b>	<b>445</b>

The actual return on scheme assets was as follows:

	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Expected return on scheme assets	40	30
Actuarial (losses)/gains on scheme assets	(75)	54
	<hr/>	<hr/>
	<b>(35)</b>	<b>84</b>

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:

	<i>Expected return</i>		<i>Fair value of assets</i>	
	<i>2008</i> <i>%</i>	<i>2007</i> <i>%</i>	<i>2008</i> <i>£m</i>	<i>2007</i> <i>£m</i>
Equity instruments	8.9	8.9	411	444
Other	8.9	8.9	6	1
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>8.9</b>	<b>8.9</b>	<b>417</b>	<b>445</b>

# Notes to the financial statements

Year ended 31 May 2008

## 19. 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:

	2008 <i>£m</i>	2007 <i>£m</i>
Present value of defined benefit obligation at 1 June	519	519
Current service cost	11	13
Interest cost	30	26
Actuarial gains on scheme liabilities	(64)	(26)
Benefits paid	(12)	(13)
	<b>484</b>	<b>519</b>
Present value of defined benefit obligation at 31 May	<b>484</b>	<b>519</b>

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

	2008 <i>£m</i>	2007 <i>£m</i>
Actuarial (losses)/gains on scheme assets	(75)	54
Actuarial gains on scheme liabilities	64	26
	<b>(11)</b>	<b>80</b>
Cumulative amount of actuarial gains recognised in the statement of recognised income and expense	<b>33</b>	<b>44</b>

The four year history of experience adjustments is as follows:

	2008 <i>£m</i>	2007 <i>£m</i>	2006 <i>£m</i>	2005 <i>£m</i>
Fair value of scheme assets	417	445	352	288
Present value of scheme obligations	(484)	(519)	(519)	(470)
	<b>(67)</b>	<b>(74)</b>	<b>(167)</b>	<b>(182)</b>
Experience adjustments to scheme assets	(75)	54	32	14
Experience adjustments to scheme liabilities	-	(7)	8	(3)

# Notes to the financial statements

Year ended 31 May 2008

## 19. Retirement benefit schemes (continued)

The estimated amount of contributions expected to be paid to the schemes during the current financial year is £18 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.

<i>Assumption</i>	<i>Change in assumption</i>	<i>Impact on scheme liabilities</i>	
		<i>(Decrease)/Increase</i>	
		<i>£m</i>	<i>%</i>
Discount rate	Increase by 0.25%	(21)	4
Inflation rate	Increase by 0.25%	21	4
Salary increases	Increase by 0.25%	2	-
Mortality	Increase by 1 year	13	3

## 20. 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 drawing down on the overdraft facilities. The group's structure is regularly reviewed to ensure that it remains relevant to the business and its plans for growth. There are established treasury policies that are reviewed regularly to ensure they remain relevant to our business. 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.

# Notes to the financial statements

Year ended 31 May 2008

## 20. Financial instruments (continued)

Financial instruments comprise debt investments, loans, short-term borrowings, cash, client receivables and trade 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:

	2008 £m	2007 £m
<b>Financial Assets</b>		
Quoted debt investments	-	42
<b>Available for sale</b>	-	42
Unquoted debt investments	2	1
Loans to DTT	31	28
Client receivables	344	315
Amounts due from other member firms of the DTT organisation	31	16
Amounts due from partners	46	26
Other receivables	12	16
Cash and deposits	91	51
<b>Loans and receivables</b>	557	453
<b>Financial Liabilities</b>		
Amounts due to other member firms of the DTT organisation	(11)	(12)
Partner capital	(130)	(123)
Trade payables	(14)	(17)
<b>Liabilities at amortised cost</b>	(155)	(152)
<b>Total net financial instruments</b>	<b>402</b>	<b>343</b>

# Notes to the financial statements

Year ended 31 May 2008

## 20. 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 £410m were negotiated with two leading international banks. These facilities are due to expire between 30 June 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 2008 the group had available £410m (2007: £370m) 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 £14m (2007: £17m) mature within one year. Partner capital of £130m (2007: £123m) is repayable when the partner retires. As less than one year's notice is required partner capital is considered to mature within one year. 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 immediately, subject to partner retirement, or within a three month timeframe. In practice the majority of the partner capital balance is viewed as being of a long term nature and in most cases capital introduced by new partners is expected to replace that of retiring members.

### 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 amount receivable from DTT is 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 2008

## 20. Financial instruments (continued)

Except for the several guarantees (Note 18) provided to Liberata and Deloitte Touche Tohmatsu 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:

	2008 £m	2007 £m
Financial assets	557	495
Amounts to be billed to clients	209	196
Guarantees	56	68
Total credit risk	<b>822</b>	<b>759</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 £91m (2007: £51m) 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 loans to DTT earn interest at a variable rate of interest linked to either US or UK 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 undertakes certain transactions denominated in foreign currencies, hence its exposure to exchange rate fluctuations arises. 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 European and 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):

	2008 £m	2007 £m
Euro	55	29
US Dollar	36	40
Swiss Franc	(7)	5
	<b>84</b>	<b>74</b>

# Notes to the financial statements

Year ended 31 May 2008

## 20. 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 the Sterling strengthens 10% against the relevant currency. For a 10% weakening of the Sterling against the relevant currency, there would be an equal and opposite impact on the profit and the balances would be negative.

	<i>Euro</i>		<i>US Dollar</i>		<i>Swiss Franc</i>	
	<i>currency impact</i>		<i>currency impact</i>		<i>currency impact</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Profit or loss	1	-	2	3	1	-

The group's sensitivity to foreign currency has decreased since 10 July 2008 due to the repayment of \$47m US Dollar denominated loans.

### 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 group's profit for the year ended 31 May 2008 would increase/decrease by £515,000 (2007: £200,000).

### 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 2008 and 31 May 2007 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:

	<i>2008</i>	<i>2007</i>
	<i>Fair value</i>	<i>Fair value</i>
	<i>£m</i>	<i>£m</i>
Within one year	27	3
In the second year	2	9
In the third year	2	10
In the fourth year	-	2
In the fifth year	-	1
After five years	-	3

## 21. Related party transactions

Transactions between Deloitte & Touche 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 £44m (2007: £34m). This includes the profit share of the Senior Partner.

# Notes to the financial statements

Year ended 31 May 2008

## 22. Subsidiary undertakings

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

<b>Principal subsidiary undertakings</b>	<i> Holding</i>	<i> Proportion of voting rights and shares held</i>	<i> Country of incorporation</i>	<i> Nature of business</i>
Deloitte MCS Limited	Ordinary	100%	England & Wales	Consulting 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
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
B&W Deloitte GmbH	Ordinary	100%	Germany	Actuarial services
B&W Deloitte GmbH	Ordinary	100%	Switzerland	Actuarial services
Peterborough Insurance PCC Limited	Ordinary	100%	Guernsey	Captive insurance company
<b>Other</b>				
beprofessional.com Limited	Ordinary	50%	England & Wales	Professional services
Nautilus Indemnity Holdings Limited	Ordinary	18.1%	Bermuda	Captive Insurance company

On 4 July 2008 an agreement was signed for the sale of B&W Deloitte GmbH (Germany) to Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, a German limited liability company, for a consideration of £1.2m. The sale is due to be completed later in the year.