

# Report from the Executive Board

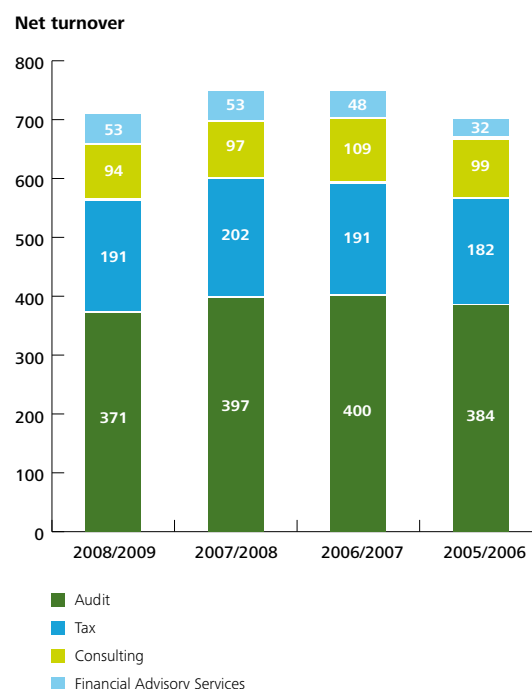
From 1 June 2008 to 31 May 2009 Deloitte face a difficult and testing time as the economic downturn accelerated and weakened the market for professional business services in the Netherlands. Revenues fell by 3.4% on a like-for-like basis, adjusted for €14 million revenues of Audit businesses divested in 2008. Revenues adjusted for the cost of work that Deloitte subcontracts to others fell by 2.4%. At the same time, profit margins declined significantly as the number of employees was higher than required for the volume of business.

We took decisive action to offset the impact of the downturn and maintained a disciplined market approach. Overcapacity in some areas resulted in redundancies, while we sought to retain our highest-quality talent and continued strategic investments in the development of our people.

Measures were taken to progress towards lower and more flexible cost structures that are aligned to the realities of the market. For the year 2008/2009 actions were taken to manage salary-related costs, which included the adoption of a lower payout ratio for variable remuneration, the limited renewal of fixed contracts, improvement of credit management to better manage working capital and significant reduction of overhead costs. For the current year, 2009/2010 actions were

taken to use additional vacation days, to adjust our salary growth scale to the economic circumstances making sure we are still able to recognise our talent for their achievements and to make the variable remuneration profit dependent.

As competition in the market intensified, there was downward pressure on pricing. The size of individual assignments decreased. To counterbalance this, Deloitte engaged in smart pricing where necessary and sought to strengthen its existing client relationships through broader service offerings.



Notwithstanding these challenges, Deloitte implemented its strategy to drive innovation, quality and talent in the market. The year, while tough, saw significant achievements, including important new client mandates, stronger market positions and increased levels of external recognition.

#### Market focus

Despite softer growth in the markets and price pressure, Deloitte strengthened its position in industry segments with new high-profile clients. The successful targeting of Financial Services and Local Government services was led by experienced partners who offered sector insights and a practical cross-functional approach.

Deloitte also provided strategic advice and execution to new and existing clients in the private and public sectors. In the corporate market, important mandates were secured from ABN Amro, DSM, Endemol and Philips. In the public sector, work was performed for Gemeente Rotterdam, ministries of OCW and VROM, among others.

The firm's dedicated focus on the mid-market and SME segment was strengthened with business programmes and initiatives such as 50 Best Managed companies, FAST 50, the Family Business Programme and a subscription-based controller offering for the SME market. Numerous training initiatives were launched in the year, aimed at preparing Deloitte professionals to meet the specific needs of this dynamic segment.

At the same time, the recession provided new opportunities for Audit to play a lead role in the restoration of business confidence. For companies and investors alike, the need for dependable information about finances and risk factors has become paramount. The implementation of fair value accounting, International Financial Reporting Standards (IFRS), advanced risk management systems and more efficient internal processes and controls, is drawing on Audit's ability to advise and implement in an integrated way.

During the year 2008/2009, activities undertaken through the cooperation agreement Deloitte Société Européenne (DSE) with member firms in Germany, Belgium, Denmark and Central Europe, were further extended. The agreement allows for jointly aligned investments that enhance the overall market position of the Deloitte firms and further improve cross border services. This cooperation delivers clear benefits to our clients and new opportunities for our people. During the year, several market-oriented initiatives were launched to involve more partners in the firms, although the pace of some of these slowed down as a result of the financial crisis. For the current year, a further extension and acceleration of the activities carried out under the DSE umbrella is foreseen.

Some of our successful client relationships are highlighted as case studies on pages 10, 24, 32 and 40 in this review.

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### Focus and innovation

Deloitte's focus on markets and people paid off as the firm found new ways to channel its knowledge and experience. Innovative delivery models for traditional and new services were also brought to market. This approach distinguished the firm as a qualitative player in the market with unique integrated service offerings (ISOs).

As a multidisciplinary integrator providing both strategic advice and implementation, Deloitte was an appropriate partner for clients facing complex challenges in the year. Numerous client-focused initiatives were launched under the ISO umbrella, including:

- **Navigating the Downturn** (see box page 18)
- **Tax Aligned Supply Chain:** (Tax, Consulting, IT implementation) A service that seeks to raise profits by restructuring supply chain activities and aligning them with methods that take advantage of direct and indirect tax benefits.
- **Governance, Risk & Compliance:** This includes the design and implementation of solutions that guarantee good governance and the fulfillment of regulatory governance requirements; the development of a framework that leads to a full integration and adoption of the risk and control cycle within business processes and the preparation of corporation tax returns and advising clients on all matters related to their returns.
- **Mergers & Acquisitions:** This ISO delivers solutions for every transaction process through collaboration of diverse specialists. Depending on the transaction, we put together a team of merger-and-acquisition specialists, due diligence advisers, industry and financial experts, tax consultants and management consultants.

The 'One Deloitte' approach was strengthened through the firm's multiple innovation drives. One of these, an internal campaign, originated over 500 new business ideas from Deloitte staff. The most promising were

developed into concrete market propositions during an Innovator Week in Dubai and resulted in projects for XBRL - the open standard supporting information modelling and a Public Sector dashboard.

Deloitte's efforts to communicate its initiatives in this area to its employees were recognised externally through an award by the Dutch Advertisers Association. The firm's dedicated approach to innovation is unique among its peers and will continue to be a key business driver.

For more information about innovation at Deloitte, please refer to page 21 of this review.

### Brand building

Our brand visibility in the market increased as we achieved the biggest share of voice among our peers in free coverage media. The firm received recognition as best business partner of the big 4 from InCompany500. The campaign for our Navigating the Downturn offering and our highly successful recruitment campaign led to good visibility in the market and reinforced the Deloitte brand. These achievements highlight our strategic focus on being an eminent player in the market.

We nurtured external recognition by offering industry knowledge and insights in areas where we excel, such as the creation of tax efficiencies; the latest consumer trends in the fields of technology, media and telecom; the functioning of Dutch housing corporations; new tendencies in remuneration practices; data security and the promotion of entrepreneurship in the workplace. In 2009/2010 we will extend our thought leadership by focusing on new topics such as fostering innovation as a growth driver.

Deloitte is recognised externally as a thought leader and an integrator in the market with offerings across functions. By combining its capabilities in this way, the firm provides unique added-value services to its clients and leadership in the industry.



### **Navigating the downturn**

With the economic downturn, markets are becoming increasingly competitive and companies face a range of serious challenges. With the future uncertain, companies in the Netherlands cannot stand still. Rather, they must evaluate and adapt to evolving circumstances. Deloitte has developed an integrated service offering (ISO) to enable them to do just this.

Launched in November 2008, our Navigating the Downturn integrated service offering provides companies with a quick insight into which downturn forces are affecting them and helps them develop and execute a focused plan. The integrated offering focuses on optimising the business portfolio, controlling costs, mitigating risks, optimising tax and improving cash flow and funding.

The approach consists of three phases. To begin with, a downturn analysis is undertaken to assess improvement opportunities, priorities and root causes to determine the appropriate solution. Secondly, quick wins and medium- to long-term improvement opportunities are identified, which are prioritised in a detailed plan. Finally, the roll out and full implementation takes place, with Deloitte assisting at every stage.

“This ISO has been remarkably successful and positioned Deloitte as a fast-moving innovator in the Dutch market,” says Oscar Snijders, who leads the team that is responsible for the offering. “We are uniquely positioned to help companies navigate the downturn and our multi-disciplinary teams can analyse data from many points of view.”

The launch was supported by an extensive advertising campaign in the business media that has become widely recognised. “The feedback has been exceptional and we’re thinking ahead about how this ISO will develop over time as markets recover,” says Snijders.

## Performance by function

### Audit

There was a reduced demand for services in this area, in addition to strong price pressures. Competitiveness also increased due to greater transparency in pricing. Notwithstanding, there were significant new engagements in the year, most notably in the public sector, SME market and financial services. Overall, the net revenues decreased by more than 3.2% on a like-for-like basis. The operating results decreased with 7%.

As the mainstay of our business, representing over 50% of our total revenues, Audit continued to play a fundamental role in the strategic positioning of the firm. The downturn in the market has reduced overall demand for some of our services, but it has also increased our customers' appetite for greater certainty and security in their operations.

We are keenly aware of the relevance of Audit in the current market environment and the crucial role it has to play in restoring confidence through fair value accounting. It will contribute to the long-term sustainability of business operations by providing the market with a clear understanding of risk factors.

Audit is increasingly assisting companies looking to align their cost base to the realities of the market and those seeking refinancing options or new financial terms, by providing reliable and up-to-date financial information. The growing number of local companies that are voluntarily implementing International Financial Reporting Standards (IFRS) are also benefitting from Audit's advisory and execution capabilities.

In 2009/2010 we see these opportunities, among others, driving growth in Audit. There is greater interest in the supervision of investment programmes - especially in the public sector - and of internal processes and controls that help increase efficiency levels. Such opportunities have

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emerged in risk management and advisory services that help companies steer their way through complex laws and regulations. We have also seen good uptake of our specific controller proposition for the SME segment.

### Tax

Overall the business volume declined and net revenues were 5.3% lower than last year. The reduction in volume occurred most notably in the large international companies segment and in the amount of work referred from Deloitte offices in other countries, especially the United States and United Kingdom. Operating results also declined and are over 30% lower than the previous year, primarily as a result of overcapacity in people.

Notwithstanding these challenges, there are growing opportunities for Tax, most notably with Tax Aligned Supply Chain and Tax Management Consulting, including Tax Control Framework and Transfer Pricing.

### Consulting

Consulting showed relative stability during the year from a business volume point of view. Net revenues declined by 2.6% as a result of lower levels of subcontracted work. Operating results showed significant reduction of almost 50%. This was mainly caused by overcapacity of people at the beginning of the financial year. As a result, measures were taken to reduce headcount in line with business volume.

### Financial Advisory Services (FAS)

The crisis in the financial markets affected the service lines of FAS unequally. Corporate Finance and Transaction Services saw lower activity levels overall. Real Estate Advisory showed significant growth in the year, while Actuarial & Employee Benefits was unaffected.

The overall revenue levels remained the same as last year which is a major achievement in the current market. Operating results are slightly lower than last year as a result of pricing pressure and some overcapacity.

### Sustainability

As a leading professional services organisation, Deloitte has much to contribute to the political, economic, legal (integrity) and social development of the communities in which it operates.

Deloitte seeks to leverage its expertise and knowledge to further its own sustainability agenda and that of its clients. It uses its insights to communicate its vision on sustainability to different stakeholders. Deloitte is committed to a comprehensive sustainability strategy to deliver concrete results in the areas of people, clients, integrity and ecological footprint.

A strong commitment we have made in this area is to reduce harmful emissions. A key part of our sustainability agenda is our goal to reduce carbon emissions by 40% from our 2006/2007 baseline by 2011. In 2008/2009 we made steady progress towards this goal.

The Deloitte Foundation will be another important area of sustainability. The foundation is a non-profit vehicle designed to facilitate Deloitte's contribution to society by investing time, funds and the expertise of its professionals in sustainable education and skills building.

For more information about sustainability at Deloitte, please refer to page 29 of this review.

### People focus

We also invested in our talent strategy, given that people are our most important asset. Our ambition is to become a best place to work so that we can deliver a high standard of excellence to our clients through attracting and engaging the best people.

During 2008/2009 we launched a three-year strategy to

achieve people leadership through effective recruitment, increase engagement and HR excellence.

For more information please refer to page 37 of this report.

### Looking ahead

In 2010 and beyond we will continue to implement our proven value-creating strategy with its focus on markets, quality and people. We will drive forward our innovation pipeline and our integrated approach to clients' needs through our multi-disciplinary teams.

The current financial year will be at least as challenging as the last. There are no structural signs of an economic recovery and business volumes are declining. We have taken significant steps to reduce overhead costs and direct costs. Creative measures, such as additional holidays, have increased our flexibility. In this way, we believe we are very well prepared for the challenges ahead, while being able to retain the talent in our organisation.

We will maintain our investments in our strategic priorities. The investment in tangible fixed assets will increase by €5.4 million as a result of the opening of new offices in 2009/2010.

Our existing credit agreement and partner financing structure are expected to provide us with sufficient funding for the next couple of years, even taking into account the current business climate.

In June, the Board of Deloitte Touche Tohmatsu appointed Jan Dalhuisen as the EMEA Regional Managing Partner. As a result, Jan will step down from the Executive Board of Deloitte Netherlands in September 2009. Since his appointment to the Executive Board in 2002, Jan has been a passionate driver of Deloitte's repositioning in the Netherlands and a valued member of the executive team.

On 14 July 2009, Erik Beelaerts van Blokland, Chairman of our Supervisory Board, passed away unexpectedly. We lost a wise, insightful and warm person, who has contributed significantly to our organisation during his seven years of leadership. We would like to express our deepest gratitude and appreciation for what Erik has meant for Deloitte and to all of us personally.