

Deloitte.

The Annual

Deloitte & Touche LLP Report & Financial Statements 2005

Raising the bar



Audit • Tax • Consulting • Corporate Finance •

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Introduction

Welcome to the 2005 Annual Report and Financial Statements of Deloitte in the UK.

We have more than 9,000 exceptional people in our firm including almost 2,000 who joined us during the last year. Deloitte has the broadest and deepest range of skills of any professional services firm and we have a straightforward goal: To be recognised as the pre-eminent and most trusted professional services firm, famous for the calibre of our people and respected for the exceptional quality of our work.

Our professional services are delivered through our four business divisions: Audit, Tax, Consulting and Corporate Finance. We serve UK Government and a broad range of public sector departments, major international and UK corporates, mid market and high growth smaller companies and many private individuals. As our Report this year illustrates, our clients are engaged across all industry sectors.

At Deloitte, we see ourselves as part of the wider community – one which embraces not only the business world, but also the public sector, charities, non government organisations and our local communities. Fulfilling our responsibilities to these communities is important to our people and we and they play an active role in doing so – through a range of activities from donations to charity, through to donations of people's time.

Embedded in our firm is a code which underpins our adherence to exceptional standards of quality, ethics and integrity. It defines our professional behaviour – enabling us to sustain the trust that clients and the wider business community place in us. Our ethical principles and our shared values form the foundations of our firm.

A year of success

- Revenues increased by 8.8% to £1,355m
- Operating profit increased 11.6% to £433m
- Best Tax Team – LexisNexis UK Tax Awards and ranked number 1 for the UK in the International Tax Review World's Leading Tax Advisor
- Deloitte named Best Managed Firm at the European Practice Management Awards
- Won new FTSE 100 and 250 audit clients
- Recruited 850 new graduates
- Recognised as being within top three graduate employers for those seeking a career in consulting
- Recruited over 1,100 experienced hires
- Promoted 50 people to partner including 20 direct entry partners
- John Connolly was Accountancy Age's Personality of the Year and ranked in Personnel Today's Top 40 HR Power Players for the second consecutive year
- Staff involved in community programmes donated approximately 15,000 hours

Senior Partner and Chief Executive's Report

I am pleased to present 'The Annual'. The people of Deloitte in the UK are very proud of our firm and in particular the contribution we make to business, the public sector and the wider community. Despite the challenges of regulation, a slowing economy and change generally, our business has achieved a high level of performance. We have a clear strategy and we have focused on executing our plans. Deloitte has an exceptional reputation for our people, for our client service quality and for our business performance. Our goal is to continue raising the bar and delivering more to meet the requirements of our clients and the aspirations of our people.

Our focus on quality

Focusing on delivering quality to our clients and achieving high standards in everything we do forms the very foundation of our business. We believe in providing our clients with technically excellent, innovative and practical solutions to their business issues, whilst remaining independent and objective. Quality and integrity are engrained in the culture and values of our people, with our partners taking ultimate responsibility for the quality of services and advice we give. We strive year on year to improve our ability to meet the needs of our clients.

Our people and the community

We continue to attract extremely talented new people to Deloitte and all our people continue to develop and excel in delivering high quality contributions to our firm. Our annual people commitment survey showed marked improvements across a whole range of key areas which are important to our progress. I was especially proud that 93% of our people would recommend the firm as a place to get advice or service.

Our talent strategy continues to be one of my own key priorities and we are continuing to raise our game as well as our investment which has been increased significantly. Our reappraisal of the market led to significant enhancement of rewards and we have just announced to our people more improvements in the benefits package. The inputs and ideas of our people continue to drive change in our approach to talent development.

In the last year, we appointed over 50 new partners, including 20 appointed from competitor organisations, and 15 new principals. We continue to tackle the diversity challenge and we are making progress. We have exceeded our promotion targets for women to our most senior grades a year ahead of the target date.

Deloitte has a clear commitment to achieving and maintaining high standards in each of the areas within the broad spectrum of Corporate Responsibility. Regular engagement with our key stakeholders informs and guides our policies and initiatives. We continue to support the community through our people and later in The Annual we describe some of our people's terrific activities. Several of our partners and staff were extensively involved with the Olympic bid and we were proud to have three of our partners with the London team in Singapore in the closing bid process and to hear the superb news of London's win. We also support the community by financial donations. This year the firm donated £1m to the Tsunami Appeal which was also supported with a further £150,000 from our staff. We donated £100,000 to the London Bombings Relief Fund as well as our regular programme of support.

Finally, even though our impact on the environment is relatively low in comparison with other sectors, it is our stated policy to minimise the environmental impacts of our operations and services. We focused our efforts this year in recycling, waste management and energy consumption. We also recognise our responsibilities with regard to our suppliers' performance in this area.



Our business performance

Our business progressed well in each of our four divisions: Audit, Tax, Consulting and Corporate Finance. We continued to be selected for large complex engagements in each of our industry sectors and client segments and in the focus on the market section we have highlighted many of our achievements and areas where our success and quality have been recognised. During the financial year we acted as auditors, advisors or consultants to over 80% of the FTSE100 companies and increased significantly our involvement with the FTSE250 and mid market companies.

Turnover increased by 8.8% to £1.36 billion following growth of 4.9% last year. Audit was the highest growth business at 15.7% reflecting many new audit appointments, a very strong year in risk and regulatory advisory and significant assignments associated with our clients implementing International Financial Reporting Standards.

Tax growth slowed this year to just 2.6% in part reflecting the impact on businesses of the increased scrutiny on tax planning by the Inland Revenue. The climate change, however, is enabling Deloitte to emerge as the quality practice in the market place.

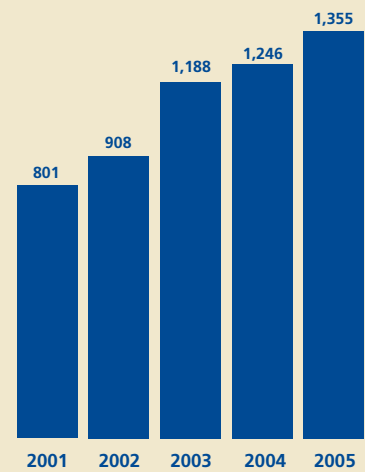
Our Tax practice has doubled in size in just three years and achieved the market leadership position in specialist areas including real estate tax, our technology tax group and our mergers and acquisitions tax team. We were proud to be ranked Number 1 in the International Tax Review World's Leading Tax Advisor category.

Growth in Consulting turnover was 6.2% but the underlying growth in the services provided by our people exceeded 11%. Our strategy for Consulting has been to take a unique position as a high value, business advisory practice and differentiated by our ability to execute and offer a distinctive range of capabilities including strategy, operations, technology and human capital.

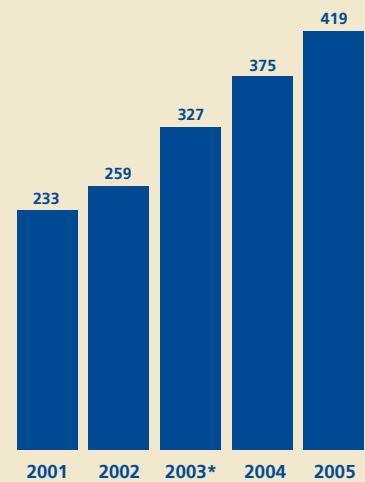
Our growth in Corporate Finance of 11.5% reflects an exceptional position in Private Equity, an increasing market share supporting clients in major transactions, refinancings/reorganisations and growth in a number of our specialist advisory businesses including M&A, Specialist Finance and Forensic and Litigation Support.

Profit before taxation was £418.5m, an increase of 11.6%. This profit improvement was generated through our revenue growth, our focus on higher value projects, our investment in people, market and technology and our management of costs. We continued to exercise robust working capital management practices which has ensured we have retained a strong balance sheet. The average profit share of partners was £702,000, an increase of 13% over the previous year average.

Revenue (£m)

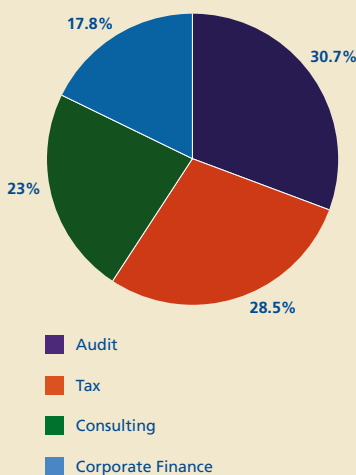


Profit before taxation (£m)

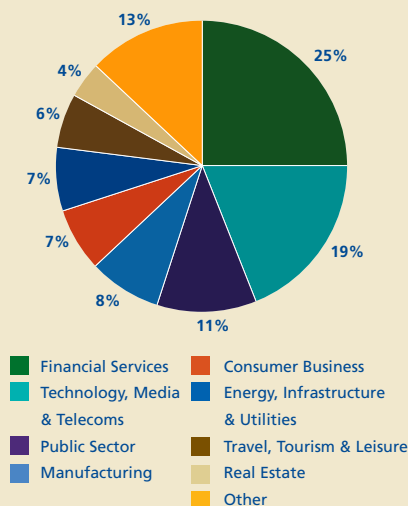


* Before Andersen transaction and integration cost

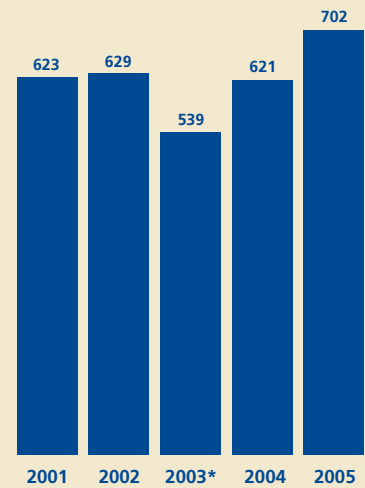
Revenue by service line



Revenue by industry



Profit per partner (£000)



* Before Andersen transaction and integration cost

Business environment

The UK business environment is set to become more challenging over the next couple of years. After a decade of exuberance, consumers are becoming more restrained as they lose their appetite for more debt and as higher taxes reduce take-home pay. Consumer spending growth is likely to slow to just 1.5% both this year and next, compared to the average of 3.4% in the last ten years. Even with a rise in tax rates, the public sector is set to become a much less expansionary influence as the growth of government spending falls back sharply.

Those companies exposed to the international environment are unlikely to fare much better as an economic slowdown in the United States and continuation of weak activity in the Euro-zone weighs down on global demand.

Accordingly, GDP growth may moderate from 3% in 2004 to below 2% this year but rising to 2% in 2006. Consistent with this, real profits are likely to be broadly flat this year and next after growth of about 5% last year.

But this is not a tale of gloom and doom. Following the first interest rate cut in two years from the Monetary Policy Committee, we could see interest rates falling all the way to 3.5% by the end of next year and this will cushion the blow and help the economy to recover well. Lower interest rates could also prompt a weakening of the exchange rate which would be a boon to all those businesses heavily involved in exporting or competing with foreign suppliers. Indeed the slowdown in economic activity may turn out to be a blessing in disguise as it creates a more balanced economy.

Moreover, once the consumer retrenchment has run its course, there is no reason why the UK should not return to high rates of economic growth.

Deloitte's own research shows that within a volatile environment building resilience into a business is imperative since one in four UK listed corporates never recover the value lost due to unexpected, one-off events. In the year ahead, understanding the complex meshing of global and domestic issues will be critical in exploiting opportunities and to building lasting and sustainable business. The prowess of the Indian and Chinese economies is a significant factor driving global markets and this influence will increase.

The impact of regulatory regimes will become a central pillar in the economic competitiveness debate. Both on a domestic and international level, new rules are coming into place around a vast array of issues from International Financial Reporting Standards to the Operating and Financial Review at home. The key to success may lie in the UK authorities devising smarter rather than more complex regulations – as regulatory regimes increasingly differentiate the competitive advantage of nations. The challenge for policy makers will be to innovate to provide a more balanced regulatory regime around financial vehicles such as hedge funds. Notably the EU needs to move swiftly to recast some of the existing directives in a much more pragmatic fashion – such as it is proposing with the 26th regime in financial services – to help kick start a flagging Euro-zone economy.

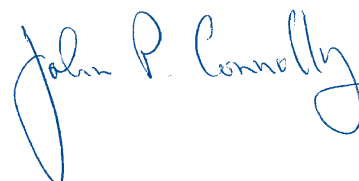
The wall of money residing with private equity and hedge funds will bring a new dynamic to the transaction market in the UK and Europe over the near term. A revival in the European M&A market could be an important ingredient in re-igniting the sluggish Euro-zone economy but also provide useful opportunities for UK companies.

Looking ahead

The investments and emphasis of our firm and that of our competitors in the actions to restore the public trust in accounting and the role of auditors is slowly starting to yield positive reactions and I am confident this will continue. The recent draft proposals from Government regarding Auditor Liability Reform are helpful and we continue to provide our input to the development of appropriate solutions. Providing a reasonable degree of protection, to what is an uninsurable liability, continues to be vital to enabling improvements in reporting which in turn will benefit global capital markets.

I am confident that our business strategy of bringing a very broad range of skills to assist our clients, the exceptional cadre of people in Deloitte and our obsessive passion for quality will deliver further success for our firm in the year ahead.

Finally, I want to thank all Deloitte people for their contributions to the firm this year. I hope you have continued to enjoy being in the firm and are proud of our contribution to business and the community in the UK. I believe we have an exciting year ahead and I look forward to working with you as we take our firm to the next level.



John Connolly
Senior Partner and Chief Executive

Our focus on quality

The standards we set ourselves.

“Focusing on delivering quality to our clients and achieving high standards in everything we do forms the very foundation of our business. We believe in providing our clients with technically excellent, innovative and practical solutions to their business issues, whilst remaining independent and objective. Quality and integrity are engrained in the culture and values of our people, with our partners taking ultimate responsibility for the quality of services and advice we give. We strive year on year to improve our ability to meet the needs of our clients.” John Connolly, Senior Partner and Chief Executive’s Report

To assist in the delivery of quality and compliance with regulation, our people are supported by excellent processes and systems. For instance we have comprehensive industry and professional learning programmes and rigorous client acceptance and review processes.

Our success at delivering quality services is underpinned by the consultative environment in which our people work. It sits at the heart of our recruitment programme, our promotion process, our training programmes and our remuneration structure. Linking our people, their recognition and rewards, to quality is integral in achieving our aim of delivering exceptional work.

Listening to our clients

Our clients demand assurance that the advice and opinions we provide to them are based on technical excellence, objectivity and integrity. These attributes are supported by systems and processes that give comfort to our clients that those standards will be achieved.

Our clients also benefit from association with a firm that exhibits real quality. Deloitte has policies to ensure high standards of work and applies rigorous client acceptance procedures to ensure that we make appropriate decisions as to which engagements we will take on and which clients we will work for.

We take pride in understanding and meeting the needs of our clients. Accordingly, we take our clients' feedback on our performance very seriously. Our Client Service Assessment process seeks independent and formal evaluations of the level of satisfaction of our clients. The latest review results show a very high level of satisfaction among our clients for the services they have received. The core strengths identified by our clients include our professionalism and technical expertise as well as our commitment, knowledge and understanding of our clients. Our open culture is also identified as generating trust.

Focusing passionately on quality

Our focus on quality is continual. We continue to invest considerable time developing and improving our quality framework and embedding it within each of our service lines. This initiative, headed by our Senior Partner and driven forward by the firm's Practice Protection Group, is designed to embed world class quality systems and processes throughout our business, empowering our people to deliver exceptional service. Deloitte's approach to quality is focused on delivering the service that our clients demand in the way that they, and those with external oversight of us, expect. Doing so successfully and efficiently allows us to meet the challenges of increasing regulation, changing and developing standards and ever more complex engagements. Just as importantly our processes deliver service in a way which benefits our clients and accordingly establishes a source of value and competitive advantage for us.

The quality framework brings a rigorous approach across all of our service offerings in areas such as client and engagement acceptance, evaluation of and responses to engagement risk and assessment of existing and new service offerings. Its primary purpose is to underpin our commitment to quality, integrity and ethical behaviour in each of our service lines, whilst keeping the responsibility for quality to those who deliver service to our clients. Engagement partners remain fully responsible for the quality of the services they provide. We have also appointed a partner in each of the service lines who assumes responsibility for the reporting and oversight of quality and risk management issues and who are senior members of each service line's management team.

A key element of our approach is the implementation of effective monitoring and reporting processes. These processes are designed to improve our monitoring not just of past performance but to provide indicators of potential emerging issues to enable us to take pre-emptive or corrective action as quickly as possible if the need should arise.

Practice Protection Group

Supporting our client-serving professionals, our Practice Protection Group – led by a member of the Deloitte Executive Group – is responsible for the oversight of the firm's quality, ethics and risk management processes. The group comprises compliance, risk management, information security and internal audit specialists, providing an all-round function to support the management of quality and risk.

The Practice Protection Group provides practical support and advice to the client-serving professionals, particularly in connection with clients or engagements which span more than one service line. In addition, it establishes and promulgates firmwide quality, risk management and compliance strategy and policy; manages claims and insurance and drives compliance with regulatory requirements in relation to all of the firm's business activities, including interaction with regulators.

Independence and ethics

Independence and ethics are a vital business issue for us. Doing the right thing is one of the characteristics of our firm. Our business success, our ability to recruit and develop the best people and our reputation are all based on the quality of our client service, our people and the maintenance of high ethical and professional standards by all our people across all our activities.

With major legislative and regulatory developments across the world resulting in additional rules and regulations, it is imperative that we remain focused on independence and ethics. We have had systems and processes in place for many years to help safeguard the objectivity of our people and the firm and to avoid conflicts of interest on client assignments. For instance, in the year to 31 May 2005, no client accounted for more than 1.6% of our total income.

Our National Ethics and Compliance Partner works directly with the Senior Partner and the Board to set the strategy and priorities for ethics and compliance and has operational responsibility for managing the Ethics and Compliance Programme. Under his direction, we are launching a programme for all of our people reinforcing our independence policies and our codified ethical principles and shared values, which are summarised overleaf.

This programme is important as we continue our relentless focus on delivering high quality in all of our work. Words and concepts are not enough, we are confident that they are demonstrated through the tone set by the leaders of our practice and the behaviour and actions of each of our people.



Our ethical principles

Honesty and integrity – “We act with honesty and integrity.”

- We are straightforward and honest in our professional and business relationships.
- We are truthful about the services we provide, the knowledge we possess, and the experience we have gained.

Professional behaviour – “We operate within the letter and the spirit of applicable laws.”

- We comply with professional standards and applicable laws and regulations.
- We avoid any action that may discredit our firm or our professions.
- We strive not only to do what is legal, but also what is right.

Competence – “We bring appropriate skills and capabilities to every client assignment.”

- We understand that the public and our clients expect our work to meet high professional standards.
- We use due care to ensure that client needs are matched with Deloitte personnel who have the competence required for their assignments.

Objectivity – “We are objective in forming our professional opinions and the advice we give.”

- We do not allow bias, conflict of interest, or undue influence of others to override our professional judgements.
- We address differences of opinion and handle them constructively and professionally.

Confidentiality – “We respect the confidentiality of information”

- We prohibit disclosure of information to anyone inside or outside our firm without the legal or professional right to know.
- We do not misuse information of our clients, our firm, or our people for personal advantage or for the benefit of third parties.

Fair business practices – “We are committed to fair business practices.”

- We receive fees that reflect the value of services provided and responsibilities assumed, and are considered fair and reasonable by our clients.
- We respect our competitors and do not compete unfairly.

Responsibility to society – “We recognise and respect the impact we have on the world around us.”

- We take our role in society seriously and do not cause intentional harm.
- We support contributions to the communities where we operate.

Respect and fair treatment – “We treat all our colleagues with respect, courtesy, and fairness.”

- We understand the impact that our individual behaviour has on our firm, our colleagues and society, and always work to take responsible action.
- We encourage and value the diverse mix of people, viewpoints, talents and experiences found at Deloitte.
- We are fair in our behaviour and our policies promote equal opportunity for all.

Accountability and decision making – “We lead by example, using our shared values as our foundation.”

- We recognise that we are role models and that we set behavioural standards for our professions and each other.
- We make decisions based on our shared values and expect our leaders and colleagues to do the same:
 - Integrity
 - Outstanding value to clients
 - Commitment to each other
 - Strength from cultural diversity.

Our focus on the market

Our focus is on our clients and their needs. With our expert knowledge of their market place we are in a unique position to be able to offer specialised and tailored advice.

The combination of deep industry expertise, an unyielding commitment to client service and a range of industry focused, issue-based solutions allows us to truly stand out in a market where differentiation, quality and value are the keys to success.

Our industry programmes are a vital part of our firm's activities and are key to helping our clients understand the major market issues they face. They are connected closely to the global industry programmes that run through the wider Deloitte Touche Tohmatsu organisation and allow us to bring global expertise and best practice from around the world.

In the next few pages we showcase some of the work we do for clients, the thought leadership we undertake, our perspective on the major issues in each industry along with the recognition we receive.

Consumer Business

The modern consumer is more fickle, challenging, value conscious and informed than ever before. Changes in lifestyle, the internet and concerns over health and sustainability all contribute to make today's trading environment for retailers and their suppliers the toughest ever faced.

“Deloitte has provided extensive consulting, corporate finance and tax work during the year, supporting the Business Transformation Programme within Britvic – with their insight into our business they continue to be one of our key strategic partners.”

John Gibney, Finance Director, Britvic

Deloitte works with companies to provide innovative and industry specific solutions which allow them not only to meet but to exceed the challenges of the day.

Walk down any high street or around an out of town shopping centre in the UK and you will see Deloitte clients wherever you look. ASDA, Arcadia, Tesco and House of Fraser are just a few of the flagship retail businesses our teams have worked with this year. Our experience is not limited solely to retail, however, and stretches right across the supply chain.

A trip to any supermarket brings consumers into contact with brands owned by leading companies who trust us to provide them with the necessary advice and insight needed to ensure success in a market where differentiation is key. Our clients, such as SAB Miller, are served by teams throughout the country and we are particularly proud of our longstanding relationships with key regionally based businesses such as Timpson, the family shoe repair and key-cutting business, which we have watched grow from 150 to 550 stores generating £100m in sales.

As consumers continue to demand ever greater value, service and levels of innovation from the places they shop and the goods they purchase, so these needs are reflected in the expectations that consumer business companies have of their advisors. Our uniquely broad range of services allows us to provide our clients with this value. This is reflected in the nature of our work with Britvic where we provided tax, Sarbanes-Oxley s404 readiness and HR transformation advice.

The consumer business sector has seen a number of mergers and acquisitions during the year. We advised both Bridgepoint Capital and Management on the £65m management buy out of Faith Shoes, one of the UK's leading fashion footwear retailers. We provided acquisition due diligence and sale and purchase agreement support services to H.J. Heinz regarding their agreement with Groupe Danone S.A. to acquire a number of its leading culinary sauce brands in an all cash transaction. The transaction included the HP, Lea & Perrins and Rajah brands and a perpetual license to market Amoy Asian sauces and products in Europe.

Our work with our clients is underpinned by a dedicated programme of thought leadership and industry insight. Many of

our clients have been able to benefit from individual briefings from our team and from Dr Ira Kalish, DTT's industry focused global economist. We also publish a number of milestone annual reports the most notable of which are the Annual Global Powers of Retailing which is now in its eighth year and the Christmas Consumer Confidence survey, now in its 10th year. These two publications alone led to Deloitte partners from all service lines and geographies within the UK practice being quoted via media outlets including BBC TV, BBC Radio, CNBC, The Times, The Guardian, The FT, Retail Week and The Grocer.

We have also published a series of issue based insights, most notable of which have been 'Chips with everything' a view on Radio Frequency Identification (RFID) within the supply chain, 'Hanging in the balance' a study of retailer and supplier relationships and 'Food for thought' a view of the challenges facing the food industry in the coming years. The quality of content of the latter publication further reinforced our position as a leading authority on the food industry and led to one of our consulting partners, Lawrence Hutter, being the most quoted spokesperson on this topic in the UK media immediately after the recent Sudan 1 food dye scare.

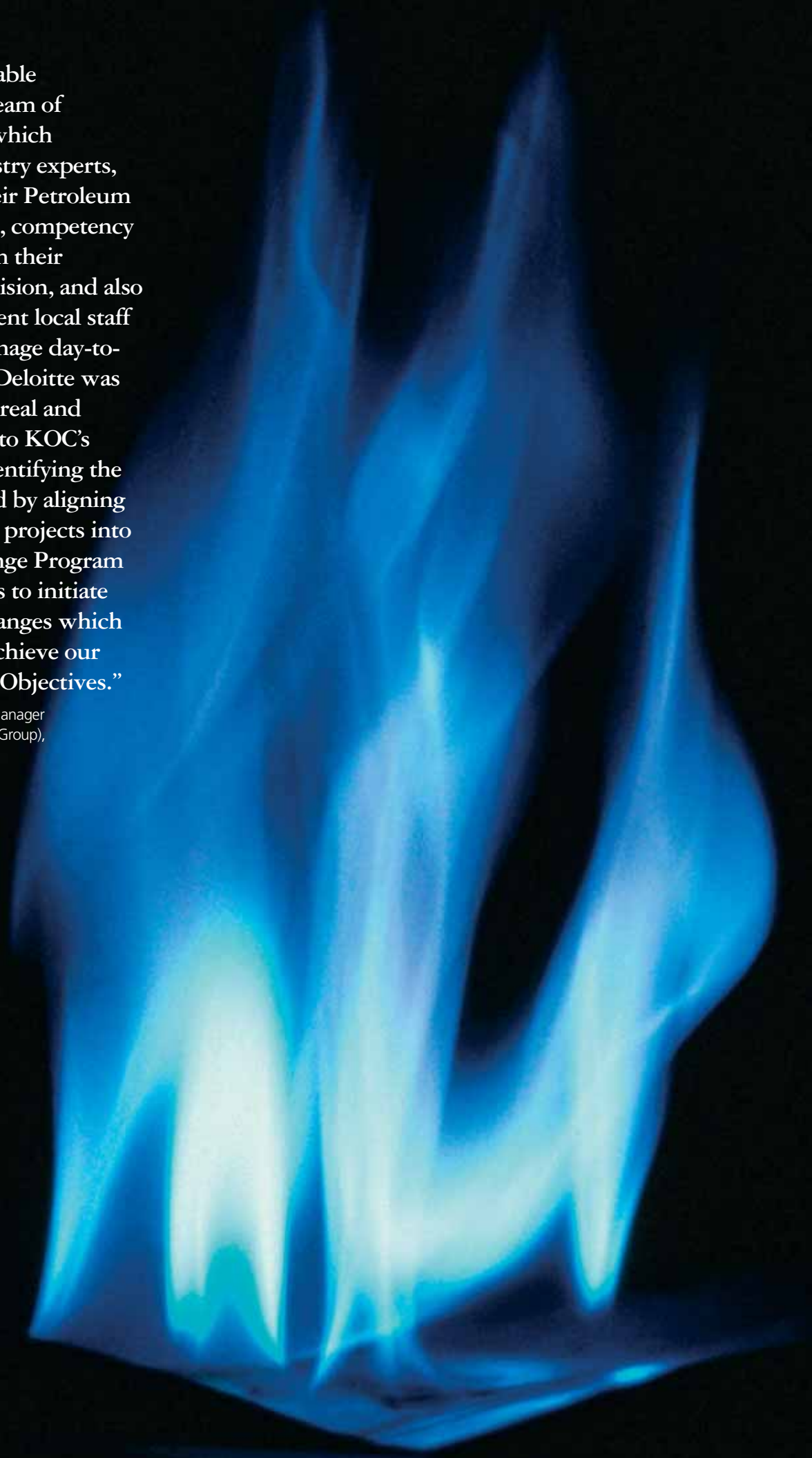
“The world's retail giants will just keep getting bigger as stagnating growth in their home markets forces them to seek expansion in Asia, Central Europe and Latin America, consultants Deloitte said on Thursday. All have expanded internationally or have plans to do so and Richard Lloyd-Owen, head of Consumer Business, believes this is the only real route to growth for the retail behemoths and for many of their smaller rivals.”

Reuters, 27 January 2005



“Deloitte was able to mobilise a team of professionals which included industry experts, taken from their Petroleum Services group, competency specialists from their Consulting division, and also highly competent local staff in order to manage day-to-day activities. Deloitte was able to deliver real and tangible value to KOC’s business by identifying the key drivers and by aligning diverse critical projects into a Unified Change Program that enabled us to initiate operational changes which can aid us to achieve our 2020 Strategic Objectives.”

Khalid Al-Saif, Project Manager
(Management Support Group),
Kuwait Oil Company



Energy, Infrastructure & Utilities

We provide services from assurance on financial performance to upstream oil and gas data provision and analysis; from taxation advice to programme management. We have a range of clients that includes Shell, BP, Balfour Beatty and Severn Trent.

“Carl Hughes, UK Head of Energy at Deloitte, says: ‘Companies are more prepared to invest in countries with a higher economic or political risk than, say, 10 years ago because of the greater need to find reserves and higher oil prices. They prefer to do this than to overpay for more mature assets.’ ”

The Independent on Sunday, 6 February 2005

Following the restatements over the last year of oil reserves previously reported, we stimulated a review of reserves reporting practices by publishing the report, ‘Presenting the full picture’, about oil and gas reserves measurement and reporting in the 21st century. We believe that focusing only on ‘proved’ reserves information is limiting, outdated and prone to misrepresentation.

Deloitte has extensively advised the Department of Trade and Industry on two significant restructuring transactions in the nuclear energy sector. The £5 billion restructuring of British Energy (BE) was completed in January 2005 with the re-listing of new equity and bonds on the London and New York Stock Exchanges, and included new arrangements for the funding of BE’s nuclear liabilities. The restructuring of BNFL and the creation of the Nuclear Decommissioning Authority (NDA) was completed on 1 April 2005;

the NDA has strategic responsibility for decommissioning and clean-up of 20 UK civil nuclear sites incorporating an estimated £48 billion of the UK’s nuclear liabilities and will have an annual budget in excess of £2 billion.

The influence of our thought leadership is also apparent in our involvement with the annual European gas conference (Flame) in which we play a leading role. We have formed a number of strategic alliances with the UK Energy Institute, Water UK, the World Economic Forum, the UK Oil Industry Accounting Committee and the UK Oil Industry Taxation Committee. These help to build upon our industry expertise and insight for the benefit of our clients.

During the year Deloitte was appointed auditor to the FTSE 100 water company, Severn Trent plc. This audit win has helped to build our portfolio of FTSE 100 audit clients which also includes United Utilities and Anglo American. United Utilities became a Deloitte audit client in 2002. Following the sale of its electricity supply business, the company now provides electricity distribution and water and waste services to a geographic area covering seven million customers.

Over the last year Deloitte has been advising BP Shipping on how to implement the new accountabilities given to them under BP’s Management Framework – the guidebook as to how BP will operate in the future. This has involved assisting with the drafting of new Marine Operations Standards, developing an implementation plan, defining the associated IT requirements and understanding the implications on the rest of BP of this part of the Management Framework. This programme is at the heart of BP’s push to manage the risks associated not just with shipping oil and oil products, but also those associated with other marine activity, in support of any part of the group, in any part of the world. In support of this programme, Deloitte is working with BP Shipping not just on developing the implementation plan, but also on how best to engage with the rest of the BP Group in this important endeavour.

Deloitte’s engagement to perform a ‘State of the Company Assessment’ for Kuwait Oil Company (KOC) involved establishing an assessment of KOC’s activities, a comparison of this assessment against both best practice and also KOC’s strategic objectives. The development of a Performance Management Framework Tool also allowed KOC’s business to be benchmarked on an ongoing basis.

“Deloitte delivered on the promises it made to United Utilities during the tender process. Strong partners with excellent expertise have been provided both at Group and the division, and we are pleased to see such a robust and challenging approach from our auditor.”

Norman Broadhurst, chairman of the Audit Committee, United Utilities



“2004 was a landmark for Abbey, the takeover by Grupo Santander was the largest cross-border banking transaction in Europe. Deloitte advised Abbey throughout. We are now part of the world’s ninth largest bank, by market capitalisation and the largest in the Eurozone, serving 35 million customers in 40 countries. Santander gives Abbey the experience, expertise and systems to build on the last two years’ work, accelerating our plans to transform the business and become Britain’s best bank.”

Nathan Bostock, Abbey Finance and Markets Director.

Financial Services

We serve many of the major global players, applying local expertise at their UK headquarters or major operations. Deloitte is committed to serving the retail banking, insurance, investment banking and investment management sectors. We publish annually our 'Global Financial Services Industry Outlook' by sector.

We recently surveyed senior management of large retail financial services institutions including more than 50 regulatory and risk directors in the UK, reporting the results in our 'Financial services at a watershed' study. A convergence of new regulations and new business economics is poised to change the face of retail financial services in the UK. At present, most financial services institutions are preparing for these regulations in a piecemeal fashion and many are finding it a challenge. For these reasons 2005 is in many respects a watershed year.

Only those who are now thinking innovatively and strategically and taking action accordingly will secure a stronger competitive position when the dust settles. If an institution is to be a winner then management will need to work hard on the strategic and delivery elements of the equation. Pressures on margins and the need for 'Treating Customers Fairly' are intensifying pressures on management and costs, therefore the focus on properly framed innovation has never been more critical to maintaining competitive advantage. The key for all, lies in the alignment and balancing of investments and operational activities around three Cs – capital, cost and customer.

Our philosophy at Deloitte is that innovation is not just about new ideas, but about strategic implementation with a focus on value-add and we are therefore delighted to support the Institute of Financial Services/Deloitte Financial Innovation Awards for the second year running.

Growth strategies were analysed in a global study entitled 'Glittering Prize'. This has found that process and service innovations have a much greater impact on growth than product innovations. The study goes on to develop the notion of an Innovation Premium, which can help financial services institutions measure their level of innovation value. The study focuses on growth,

customer insights and the gap between the world's five leading and five least innovative financial services institutions.

We contribute to the financial services industry by both the application of our expertise and our thought leadership. Deloitte provided extensive support to Egg through the transformation of the finance and risk function in the challenging IFRS and Basel II regulatory environment. Our experts from regulation, systems integration, budgeting, forecasting and data warehousing worked with client team members to deliver an exceptional service on time, ensuring that Egg was one of the first UK financial services institutions to produce results according to new IFRS accounting rules.

We are external auditors to The Royal Bank of Scotland Group, one of the world's largest banks and headquartered in Scotland, and Abbey, Alliance & Leicester, Amlin, Close Brothers, Marsh, Merrill Lynch, Morgan Stanley, Royal Bank of Canada and Willis. We are proud that we have extensive client relationships with almost all of the major global financial services institutions. We also serve clients focused almost exclusively on the UK market. For example, we have been appointed as external auditors to the Leeds & Holbeck Building Society. Deloitte differentiated itself through demonstrating a sharp focus on the key challenges facing building societies.

Our survey, 'Titans take hold', demonstrated for the majority of our financial services clients that while the relocation of business functions (offshoring) to a lower cost location is underway, the key to success is execution and risk mitigation. During the year, a third annual 'Global Security Survey' was produced after questioning Chief Security Officers and security management teams. The results show that human factors are overtaking technology as the leading

IT security threat at the world's largest financial services institutions. In particular, phishing and pharming (luring people to disclose sensitive information by using bogus emails and websites) are two new security threats that financial services institutions faced in the past year. We also prepared a report, 'Key Correlation Assumptions in ICA for Life Offices', for the Association of British Insurers. This highlights that risk diversification can typically reduce capital requirements for life insurers by between 25% and 50% under the Financial Services Authority's new Individual Capital Assessment regime.

We also contribute to the industry agenda from the practitioner and consumer viewpoints. Russell Collins, industry leader for our financial services practice in the UK, is a representative on the Financial Services Practitioner Panel, providing input to the Financial Services Authority to help it meet its statutory objectives. Caroline Gardner of Deloitte was recently appointed to the Consumer Panel.

“The FSA selected Deloitte to carry out a survey on the costs of regulation. This study, which will report its findings later this year, is expected to provide the most comprehensive examination to date of the costs of doing business in the UK financial services industry.”

Financial Times, 'Regulator counts costs of its rules', 26 May 2005

Government & Public Sector

We serve the public sector – Central Government, Local & Regional Government, and the National Health Service. Our advice centres on helping our clients to improve the performance and productivity of their organisations and their governance arrangements, enabling them to deliver their priorities.

Government retains ownership of over 300 entities with a combined turnover of £14 billion. It has recognised that there is scope for improving financial management and corporate governance by creating the Shareholder Executive to enhance performance within this portfolio. Deloitte has worked extensively with the Shareholder Executive advising on its most significant holdings: British Energy, Royal Mail and BNFL.

We have also advised Central Government and during the year delivered an online service to support VAT registration for Her Majesty's Revenue & Customs (HMRC). We delivered a high quality service in only four months and the result has been a significant take up with 93% of online applicants reporting a satisfactory experience. A higher proportion of online applications are now more accurately completed compared to paper applications and the improved data quality has reduced HMRC effort to gather the correct data and decreased the time to process applications.

We have significantly increased the services we are providing both to the Department of Health as well as the wider National Health Service (NHS). These services address a wide range of client and policy issues including the transformation and restructuring of the NHS's supply chain, the introduction of new service providers from the independent sector, consolidation and restructuring of many of the Department's Arms Length Bodies; and new commercial policies around the supply and reimbursement of pharmaceutical products. We have also performed advisory work on new hospital build programmes under PFI/PPP arrangements and provided support to NHS Trusts seeking to achieve Foundation status. Many of our projects are achieving hundreds of millions in efficiency savings that can and will be redirected back into frontline patient services.

We have continued to have a significant role in advising on the accounting treatment of PFI/PPP deals under the Government's Private Finance programme to improve public sector assets such as schools, hospitals, roads and rail systems. Examples where we have assessed the accounting treatment for Government departments are the £5 billion Channel Tunnel Rail Link for the Department of Transport and a new £1.5 billion Satellite system for the Ministry of Defence.

In housing, we recently advised on one of the first Housing Revenue Accounts PFI pathfinder projects to refurbish 1,800 homes in the Swarcliffe area of Leeds and are assisting Manchester MBC with its two PFI projects. In waste, we are supporting PFI procurements in a number of authorities including Somerset County Council, Nottinghamshire County Council and the London Borough of Tower Hamlets. We have been appointed as an advisor to DEFRA to review waste PFI proposals. In highways and transport, we are supporting Birmingham MBC with the largest single authority PFI project to date, its £2.2 billion highways PFI and we are continuing to support street lighting PFI projects in the London Borough of Barnet, Derby Council and Coventry MBC.

“Deloitte has given the Council access to the specialised expert advice. The advice has proved cost effective, and has saved us hundreds of thousands of pounds.”

Stephen Hughes,
Strategic Director of Corporate Resources,
(now Acting Chief Executive),
Birmingham City Council

Deloitte has also supported the London Borough of Greenwich in its efforts to secure £1.4m of specific grant funding and helped the Council to deliver efficiency gains which could not have been achieved without Deloitte's support.

Local authorities in the UK are working with Deloitte to deliver the e-government agenda and transform the way they deliver services to customers. At Gateshead MBC we have developed strategies for customer service driven transformation and are now helping the Council to implement its ambitious agenda. At Medway Council we implemented sophisticated customer relationship management systems that link together the front office of the Council with the business systems used across the 'back office' of the organisation.


Deloitte advised Docklands Light Railway (DLR) throughout its tender for the contract to extend the railway to Woolwich Arsenal. The 30 year contract with Woolwich Airport Rail Enterprises (WARE) includes a new tunnel under the Thames and an innovative financing mechanism to reduce financing cost by taking advantage of the credit standing of DLR's parent company, Transport for London.

National Savings and Investments has outsourced its operations in what is believed to be the largest and most comprehensive Public Private Partnership deal in Europe. We have provided a range of services including internal audit, risk management, information security, project assurance, PAYE and regulatory compliance advice.

“The Deloitte team really challenged our thinking around the e-purse strategy and helped us to refine our views about the nature of the e-purse opportunity.”

Jay Walder, Managing Director,
Finance & Planning, Transport for London





“All of us at Phoenix are delighted with the sale of Covenant for £170m to Electra. We are also very pleased with Deloitte’s performance as our advisor on the sale. Paul Kaiser, David Jones, Paul Zimmerman and their colleagues were magnificent throughout.”

Hugh Lenon, Chief Executive, Phoenix Equity Partners

Life Sciences & Healthcare

Our team covers the pharmaceuticals, biotechnology, medical devices and private healthcare sectors. Our clients include companies as diverse as Alizyme, GlaxoSmithKline and Shire Pharmaceuticals.

In conjunction with the Economist Intelligence Unit, Deloitte presented a paper on 'The future of the Life Sciences industries'. Based on a global survey of senior industry executives, and an executive forum held in London in February, the report highlights key issues for the industry as it seeks to evolve further over the next ten years. The survey results showed that 92% of Life Sciences executives expect further consolidation in the next decade, with 82% expecting significant M&A activity.

We have already seen much of this activity in the marketplace, with a significant number of flotations, acquisitions, collaborations and fundraisings, particularly across the biotechnology and healthcare sectors. Deloitte was awarded HgCapital's Rainmaker award for the second consecutive year for the highest number of deals in the healthcare sectors (including Electra Partners' sale of Ashbourne Healthcare to management backed by HBOS, advice to Nuffield Hospitals on their acquisition of Vanguard Healthcare from 3i and Sona Positive Health from Kleinwort Capital and the sale of Covenant Healthcare by Phoenix Private Equity to Electra Partners).

We provided financial and tax advice on numerous flotations and fundraisings in both the pharmaceutical and biotechnology sectors, including those by Ardana, Biofusion and ML Labs. And we advised on numerous acquisitions and disposals, such as UCB's £1.5 billion acquisition of the Celltech Group, where we were subsequently engaged by UCB to advise the group both on the integration of the two businesses and, separately, the implications to the group of its adoption of International Financial Reporting Standards.

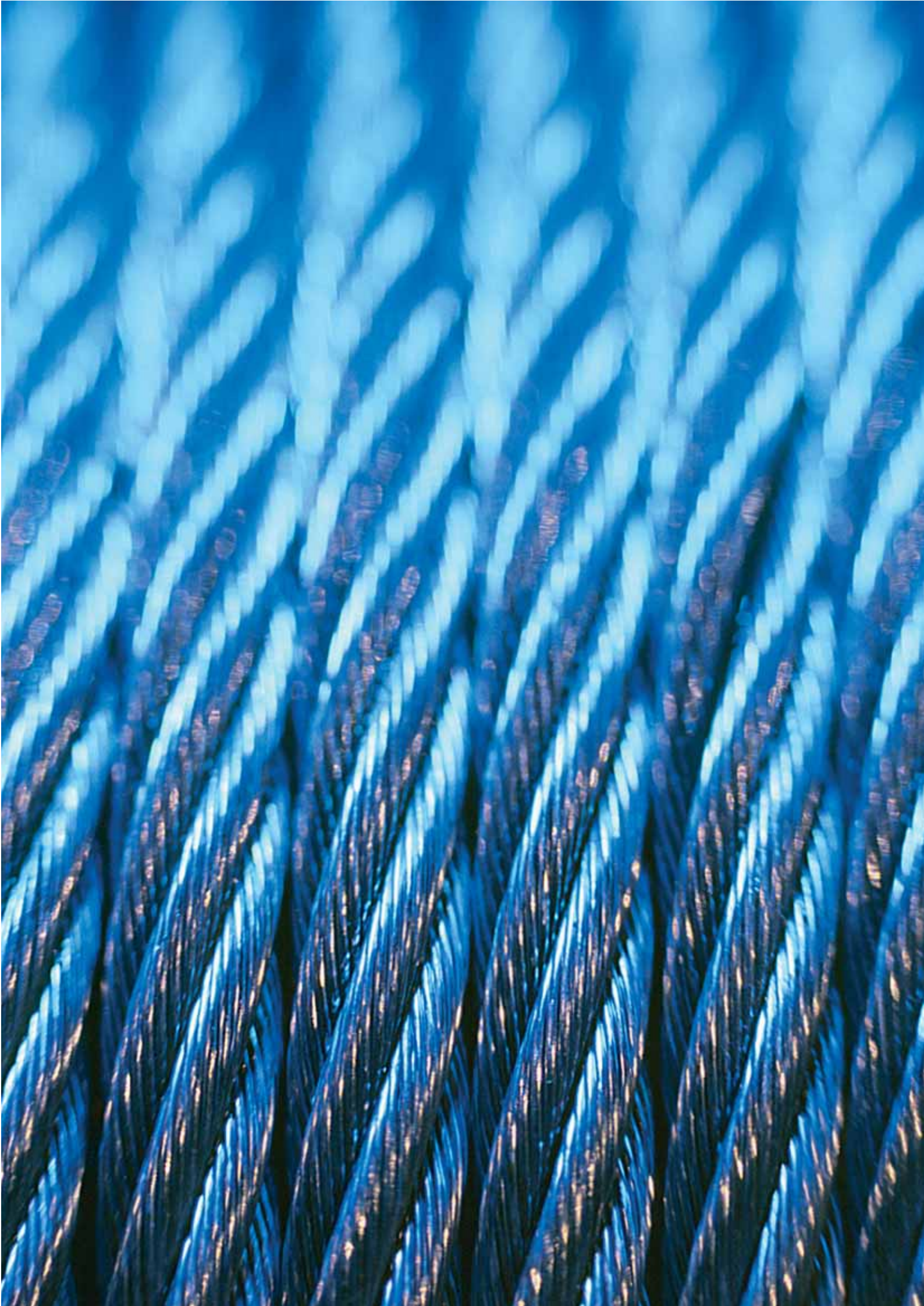
Deloitte continues to provide a wide range of professional consulting services across the complete spectrum of activities.

We have seen a drive to improve supply chains through improved forecasting and resource planning systems. The industry is still struggling to extract true value from their customer relationship management tools and the retention and management of top talent is a challenge that the executive team are now treating as a key business case for change.

We are members of both the BioIndustry Association and the Association of the British Pharmaceutical Industry, as well as various regional organisations such as Medilink East, an organisation that exists to stimulate growth in the medical devices industry in the East of England. We have continued with our support of significant events such as BioPartnering Europe and the Cordia Biotechnology Convention through a combination of sponsorship, participation in steering committees and presentations and look forward to being active participants in World Life Sciences Week in October 2005.

“Andrew Daley, leader of Life Sciences and Healthcare at Deloitte, explains the demanding environment now faced by those in the sector. “Those charged with delivering strategy wonder what to make of the current landscape. The need for flexibility within the pharmaceutical and biotechnology sectors is an imperative. This is easier said than done; making it a reality is a big challenge.”

World Pharmaceutical Frontiers 2005 Volume 1



Manufacturing

We serve a wide-range of clients in this sector. These include UK-based manufacturing companies as well as overseas subsidiaries of multinational companies particularly from the US and Japan.

Our manufacturing group provides practical support to clients who are responding to today's complex challenges. We provide support that includes developing and executing strategies that integrate the people, processes and technologies within our clients and work with them to help improve performance, enhance shareholder value and accomplish long-term growth.

We advised the Renault F1 Team on R&D tax credit claims. The work was won following delivery of a comprehensive scoping study and required a team effort from the Deloitte engagement teams in order to demonstrate the value of the work to the client group. The Deloitte R&D team have been working closely with the engagement team and the tax depreciation group to ensure the optimisation of the claims for R&D relief and R&D Capital Allowances.

Deloitte has major audit clients in the manufacturing sector including Tomkins, the global engineering and manufacturing group, and Tyco International, a diversified manufacturing and service company. We are also the preferred supplier for UK corporate tax compliance services to BOC Group, a leading global manufacturer of industrial gases, high vacuum systems, and the provision of temperature-controlled distribution services. It is the second largest producer of industrial gases in the world. In 2004 the group, which is headquartered in Surrey, generated revenues of £5 billion.

Deloitte develops thought leadership focused on strategy development, organisational change, economics and

technology. We are committed to helping our clients' businesses continually improve their competitive position and assist the manufacturing industry sustain a robust operating environment. Our industry research has analysed the increasingly complex and fragmented supply chain environment, the implications for manufacturers, and the challenges and best practices. Our benchmark database, collected from more than 750 companies throughout Europe, North America, Asia Pacific and Africa, provides insights into supply chain strategies, operations, and performance metrics of geographically dispersed businesses. The fourth and most recent report, 'Unlocking the value of globalisation: Profiting from continuous optimisation', reveals that more than 80% of the world's most global companies are not capturing full value from their global investments.

Our access to a network of professionals outside the UK has given us particular insight into the growth markets for manufacturing as well as the competitive pressures facing UK manufacturing. We have excellent knowledge of emerging markets and the growth opportunities within them.

We sponsor the Best Factory Awards to celebrate the best of UK manufacturing in companies both large and small, which is run in partnership with Cranfield School of Management and the magazine Works Management. Deloitte sponsors Cranfield to distribute a comprehensive audit questionnaire to interested manufacturers and to engage and identify the best in each industry category. The results are collated into an accessible and comparative benchmarking survey which allows all participants to measure themselves against the very best in the industry.

“Nissan was very proud to win three categories in the Best Factory Awards last year. Any initiative that promotes, recognises and rewards best practice within the manufacturing sector, in particular the essential role of benchmarking, is to be praised. The very thorough application process is, in itself, a valuable exercise for any manufacturing company to participate in.”

Trevor Mann, Deputy Managing Director,
Nissan Motor Manufacturing UK

Mergers & Acquisitions

While corporate M&A activity continued at low levels compared to before January 2002, private equity houses were active and represented the core of the M&A transaction market.

Funds managed by the leading 25 private equity houses now total around £153 billion across the world and during the year we have acted for houses representing around £66 billion of this total.

Deloitte continues to focus on both the corporate and private equity M&A markets. We are particularly proud of our geographic reach and have access to a world class network of specialist M&A teams across all critical jurisdictions. We continue to add to our M&A capabilities and are able consistently to assemble transaction teams with unrivalled skills and experience for even the most complex assignments.

Private Equity

It is estimated that 2.7m people in the UK are employed by private equity backed companies, equivalent to 18% of the private sector workforce. The Centre For Management Buy Out Research (CMBOR) – sponsored by Deloitte and Barclays Private Equity – estimates that the total value of UK buy out activity in 2004 was an impressive £20.5 billion, the second highest annual total. CMBOR attributes this to a renewed interest in mega buy outs, with 47 deals worth over £100m completed by the end of 2004.

Deloitte was at the forefront of this activity advising some of the biggest private equity firms from Europe and the US, acting in 9 of the 12 largest European buy out transactions in 2004.

One of Deloitte's top private equity clients, KKR, last year bought Vendex, a leading European retailer with approximately 1,700 stores and 40,000 employees across seven countries. The deal, worth around £2.4 billion, is the largest buy out to date in The Netherlands and Deloitte member firms provided due diligence and tax services.

We also advised on the £200m double acquisition and subsequent merger of Shearings Holidays and Coach Holiday Group by 3i Group, following a number of attempts to merge the two businesses over the last 15 years. In the healthcare sector we advised on Blackstone's £1.2 billion acquisitions of Southern Cross Healthcare and NHP.

As the market evolves, innovative restructuring and refinancing structures increasingly feature in successful buy outs. For example, we advised on the £2.2 billion refinancing of Spirit Group, the pub business owned by Texas Pacific Group, Blackstone and Merrill Lynch Global Private Equity which involved, unusually, both bank finance and a whole business securitisation.

Similarly, we advised CVC, Texas Pacific Group and Merrill Lynch Global Private Equity on the £1.7 billion buy out of Debenhams 18 months ago, and since then have advised Debenhams on a refinancing of their property portfolio, a £0.5 billion property joint venture transaction with The British Land Company and, most recently, a £2.1 billion reorganisation and refinancing of the retail business.

Corporate M&A

One of the biggest deals last year was the £8.8 billion takeover of Abbey National by Santander Central Hispano. We supported our client in this ground-breaking transaction.

In the ever-active pub sector, we provided acquisition due diligence, tax structuring advice and sale and purchase agreement support to Punch Taverns on the £355m acquisition of the InnSpired Group and related disposals. We also advised Spirit Group on the £535m sale of Premier Lodge to Whitbread.

Post Merger Integration

In a world where 70% of mergers fail to deliver the expected benefits and on average 35% of management leaves the combined business in the first year, our results-focused approach to integration radically improves post-merger business performance. Our ten largest integration clients have outperformed their stock market peer group by 31%; the average business executing a major integration underperforms the market by 19%.

We assisted with the largest radio integration of Capital Radio with GWR Group, an existing audit client, to form Gcap Media. This assistance has included advising on the formulation of the integration objectives required to deliver long-term value creation, the most appropriate integration infrastructure to deliver these objectives and detailed integration planning. In addition, we have also provided assistance with the identification of critical 'Day 1' tasks that needed to be implemented in order to keep the business safe. Just another example of bringing in a range of specialists all of whom have crucially an M&A mindset.



Professional Practices

Over many years we have emerged as the dominant advisor to UK-based professional practices with a depth of resource and range of service offerings that are unrivalled. We have grown by serving and advising the diverse, global and complex needs of our successful clients.

Our clients include leading actuaries, surveyors, architects and law firms. We advise over 50% of the top 50 UK-based law firms and advise a growing number of overseas firms particularly the UK arms of US firms.

Our approach is to deliver tailored services in the areas of audit, global structuring, international partnership taxation, assignment services, personal tax and wealth management, forensic investigations, indirect taxes, property taxes and consulting. Her Majesty's Revenue & Customs consulted our team during the development of the Current Year Basis of assessment and our renowned tax specialists are uniquely aware of the inter-relationship between UK and international tax regimes for partnerships.

We are also highly experienced as advisors on partnership mergers and on the implications of limited liability partnerships' (LLP) incorporation. Our partners have developed specialist knowledge and understanding of the business, compliance, tax and cultural implications of converting to LLP status. Our partners have been at the forefront of the LLP movement from the start having been consulted by Government at the time the legislation was being drafted through to the wave of take-up in this new operating vehicle.

Our industry model has also led to our professionals providing specialist advice on areas such as IT systems selection and implementation, change management, human resource initiatives and strategy implementation.

Key to our success has been our willingness to constantly adapt our approach to reflect the changing needs of our clients. Globalisation has generated a demand for international advice and we have worked with our global network to first develop and then strengthen their own dedicated teams. Growth has allowed many clients to recruit very able and sophisticated in-house resource. Risk and regulatory matters have become far more significant and our active participation in the debates and our in-house understanding of the issues has become essential to delivering best advice.

Allen & Overy LLP is an excellent example of a highly successful firm that we have advised. We have served Allen & Overy LLP for very many years and have worked with them as they have grown from a substantially domestic UK business to one of the world's leading global law firms with operations in 20 different jurisdictions.

By the time that Allen & Overy LLP determined to become the first of the 'Magic Circle' law firms to convert to a UK LLP, the firm had become a very sophisticated business with excellent in-house support teams capable of undertaking much of the LLP conversion work themselves. Our role was therefore to offer support and an external advisory view wherever required including areas such as addressing the groundbreaking international tax issues arising on a global conversion, accounting matters and in particular disclosure implications and the practical lessons we had learned from our work on other LLP conversions, including our own.

Deloitte subsequently won the tender for appointment as the statutory auditor to Allen & Overy LLP further expanding the breadth of the services we provide to them.

As we look forward, Allen & Overy LLP are due to take delivery of their new London headquarters at Bishops Square, Spitalfields and Deloitte can point to involvement in advising on the nature of the deal, financing options and the formulation of capital allowance claims linked to fit out costs. Add to this continued expansion into new overseas territories and Allen & Overy LLP's desire to always be operating at the cutting edge and the ability of our Professional Practices team to serve this successful firm becomes clear.

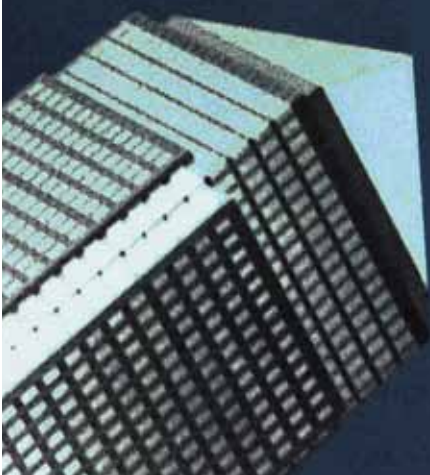


“Deloitte, the professional services firm, plans to increase its property corporate finance and consulting team from 40 to 100. The firm is actively hiring to take advantage of what it sees as a new wave of property outsourcing in both the private and public sectors. ‘We are bringing in high profile people to build the business’ said Andy Rothery, head of real estate at Deloitte.”

The Financial Times

‘Deloitte aims to ride the wave in property’

30 November 2004



Real Estate

One firm: all your property solutions. From assurance on financial performance to tax efficient financial structuring of portfolio investments; from funding property developments to ensuring occupiers' estates support wider strategic business objectives, Deloitte's innovative advice unlocks value for all stakeholders.

The evolving property market has seen occupiers and corporates demanding more flexibility resulting in increasingly innovative property outsourcing deals. Deloitte advised on every public sector property outsourcing deal so far and last year we were instrumental in the first private sector outsourcing contract for Aviva where major construction was central to the deal.

The creation of Aviva, formerly known as CGNU, came at a time of huge change in the insurance industry and followed the mergers of, first, General Accident and Commercial Union and, subsequently, Norwich Union. The mergers were a catalyst to the revitalisation of the company's property portfolio. Aviva wanted to modernise its working environment and refurbish a major HQ in Norwich while gaining flexibility across the UK to deal with future changes in the business. We helped define the issues and their solutions from the planning stages to the completion of the deal with Land Securities Trillium. We advised on cost optimisation and dealt with the tax and accounting implications.

Over the last year the property industry has undergone much change with respect to the challenge to upward only rent reviews, the introduction of Real Estate Investment Trusts and the tax treatment of limited liability partnerships. Deloitte has been instrumental in shaping the legislation for property derivatives and we continue to play a leading role in raising the Government's awareness of the important part this industry plays in the wider economy.

“Phil Nicklin is a tax partner, real estate solutions, at Deloitte and is leading the Treasury’s working group of tax specialists on REITs. ‘The major hurdle is designing a regime that preserves the tax take, is compatible with UK obligations under its tax treaties and complies with EU law. This is easier said than done.’ ”

Estates Gazette, 2 April 2005

We have strategic relationships with several industry organisations notably the British Property Federation which has achieved a considerable degree of success in representing to Government the interests of the property owning and investing industry. We are active participants in the education and research programmes of these organisations contributing to our industry expertise. We have won awards for the best Stamp Duty team at the LexisNexis Tax Awards.

There are 20 real estate companies in the FTSE 250 and we act for nine, either as auditors or advisors, these include British Land and Hammerson. We are also market leaders in acting for private property investors such as Grosvenor, the largest international privately owned property company in the UK, as well as Canary Wharf and Apollo Real Estate Advisors.

We are auditor and principal tax advisors to British Land, one of the UK's largest property companies with property assets worth £14 billion under management. Last year the company completed a £2 billion debt refinancing, acquired property worth £1.3 billion, announced its £800m offer for Pillar Property and was the first in the sector with IFRS restatement information.

We also provide support to investment funds. Active Asset Investment Management is launching the aAIM Property Fund I and Deloitte is providing financial advice. The fund is being created by means of an offer for subscription giving a total fund size of between £300m and £500m including borrowings. Deloitte's advice involved the fund's structure and the best way for monies to be committed by investors who include Premiership footballers, rock stars and other wealthy individuals. Deloitte is also providing tax and accounting advice on the structuring and listing of the fund.

Technology, Media & Telecoms

The Technology, Media & Telecommunications sectors are once again facing a period of transformation as the speed of technical change recasts customer relationships and business models. Deloitte advises the companies at the heart of this transformation: 88% of media, 68% of technology and 100% of telecom leaders in the UK FTSE 350 index.

Our strategic, operational and financial expertise is being harnessed to support clients across the TMT sectors. We have led the industry's thinking on convergence via executive dinners with clients, major industry reports and keynote speeches at FT Broadcast and New Media and Intellect's Consumer Electronics conferences.

The UK's technology sector is at a pivotal moment. Given the emergence of new technologies and the rise of powerhouses, such as India and China, companies have to change their business strategies in order to adapt for success. Deloitte's report, 'The ball's in our court' looks at the sector's challenges and opportunities over the next five years and how the UK can best capitalise on these. It was launched in conjunction with the London Stock Exchange, with a keynote introduction from Lord Sainsbury, Under-Secretary of State for Science and Innovation.

The media sector is being reinvented, with change catalysed by digitisation, faster networks and a growing range of media devices. A key consequence is the fragmentation of audiences, as addressed in our report 'Television networks in the 21st Century' and commentary at the Institute of Economic Affairs Future of Broadcasting conference.

The telecoms sector, both wireline and wireless, is being transformed through rapidly evolving wireless technologies, from VoIP (Voice over Internet Protocol) to Wireless LAN. In a research piece entitled 'The hundred year storm', Deloitte has used disruptive innovation theory to advise network operators on balancing legacy investments while exploiting emerging technological advance.

The highlighted convergence transformation is creating a fundamental shift in value that Deloitte forecasts will generate at least \$1 trillion in product and service revenues for the TMT sectors through to 2010.

Our clients

Our clients' strategic, operational and financial issues are being driven by these trends. Deloitte's TMT practitioners are at the centre of supporting the operational transformation underway.

News International appointed Deloitte to help develop their commercial strategy and to programme manage their print transformation programme – the biggest capital investment ever made in the future of UK newspaper publishing.

Deloitte was retained by COLT Telecom to assist in replacing their Oracle-based financial systems with a new shared service across 13 countries. This work was won in part through our knowledge of the client gained through supporting the organisation's Sarbanes-Oxley s404 readiness programme.

“Technology is a significant driving force for the BBC's business transformation programme. In partnership with Siemens Business Services, we are now working on a ten year technology strategy that will ensure we can create a Digital BBC for a Digital Britain.”

John Varney, CTO, BBC
Deloitte is at the heart of delivering that transformation with Siemens at the BBC.

Siemens Business Services selected Deloitte as its change management supplier in the contract to assist with the delivery of this major change programme. We are also working on other projects with the BBC, most notably assisting them with their property services sourcing strategy for their extensive portfolio.


Our corporate finance and transaction services teams have supported deals from lead advisory to financial, commercial due diligence and post merger integration support.

Vivista provides integrated communications and IT solutions to the public sector, in particular to the fire and police services. Deloitte advised on the sale of the company on behalf of the management team and the private equity owner Kleinwort Capital.

Deloitte audits the following FTSE 100 clients: Vodafone, BSkyB, WPP, Daily Mail and General Trust and Reed Elsevier.

We are also leading tax advisor to the TMT sectors, supporting 79% of the FTSE 350's TMT clients.

Sony Computer Entertainment Europe Group is responsible for the marketing sales and distribution of PS one® and PlayStation®2 hardware and software. Deloitte was appointed this year to advise the Group's direct and indirect tax teams on various consulting and compliance issues – assisting with management reporting, process and tax software solutions for the Group, and consulting on the Group's global tax compliance solution. We also coordinate VAT advice for the Group on issues impacting on overseas operations as well as offering strategic VAT advice in the UK.



“Jolyon Barker, head of the TMT practice at Deloitte, said that the growth of digital TV and accompanying deterioration in network audiences would force broadcasters to look at other platforms as they seek to lessen their reliance on advertising. ‘The need to be looking at your product in a far more multimedia way is essential today.’ ”

The Guardian, 20 April 2005

A high-angle, top-down photograph of a man diving into a swimming pool. The man is shirtless and wearing black briefs and a white swim cap. He is in a vertical, head-down position, with his arms tucked in front of his head. The pool's blue tiles and the ripples of the water are visible around him. The lighting is bright, creating a clear view of his physique and the surrounding environment.

“The Deloitte tax team have used their in-depth industry knowledge, and brought in other Deloitte specialists, to help us complete a major sale and leaseback transaction, fulfil our compliance obligations and provide tax efficient solutions for our business.”

Jon Mortimore, Finance Director, Travelodge

Tourism, Hospitality & Leisure

We provide services to major international tour operators, hotel chains, resorts and recreation complexes, airline, cruise line, transport, sports business, venue and major events.

We work with nine out of ten of the UK's biggest passenger airlines, encompassing 85% of all passengers carried in the UK; the top four UK casino operators comprising 85% of the total market; 73% of the UK's leading branded pubs and over half of the English Premiership football clubs.

Over the past 12 months, we have advised on 21 out of the 24 major transactions which will shape the future of the UK tourism, hospitality and leisure industries, ranging from hospitality asset sale and manage-back to restructuring.

“Alex Kyriakidis, a travel and hospitality partner with Deloitte, said: ‘People are taking more short breaks instead of just taking a two-week holiday. Low cost airlines are also stimulating the market. Fleeing grey skies in search of sun continues to motivate Britons to travel. Tour operators are also beginning to offer consumers new long-haul destinations such as Dubai which are attractive and offer value for money.’ ”

Financial Times
‘Britons going abroad widen spending gap’
18 December 2004

During the last two years Deloitte has played a proactive role in supporting the successful London bid to host the summer Olympics in 2012. One of our partners, Neil Wood, has spent two years on secondment to London 2012 Limited as Finance Director.

In the hotel sector, we assisted InterContinental Hotels Group (IHG) in the £1 billion sale and manage-back of a portfolio of UK hotels by providing bidders with integrated commercial and financial vendor due diligence – a first for such a hotel transaction.

Travelodge's £400m sale and leaseback of 135 properties to Prestbury Hotels was a landmark transaction representing the first sale and leaseback of a hotel chain's entire property portfolio. The deal has allowed Travelodge to take advantage of the significant investor appetite for exposure to UK real estate assets backed by good quality tenant covenants. The transaction is likely to provide a blueprint for similar financing transactions for other hotel chains in the UK and potentially worldwide. Deloitte was the tax and financial advisor.

We won the audit and tax advisory work of the Rugby Football Union in November 2004 after advising on several high profile consulting projects, including the South Stand at Twickenham.

We published the 14th edition of the Deloitte Annual Review of Football Finance in June 2005. This definitive guide to European football finance provides not only a track record up to the end of the 2003/04 season, but also includes some pointers as to how the industry has developed in 2004/05 and is likely to change in the future. The eighth edition of the Deloitte Football Money League was published in February. It profiles the top 20 largest clubs in the world's most popular sport and is the most contemporary analysis of income generated from day-to-day football business operations.

The HotelBenchmark Survey by Deloitte is the only place where data on hotel performance trends across five continents can be easily accessed. Every month, rate and occupancy data are collected from over 6,500 hotels across 400 markets in 140 countries. Earlier this year, Daily HotelBenchmark was launched in response to the industry's need for more timely data on how clients compete in the marketplace. Off the back of the success and reputation of the HotelBenchmark Survey, Deloitte has won the contract to provide the first ever financial benchmarking survey for the UK Health Club industry. The survey is supported by Greens, David Lloyd, Esporta, Fitness First, Holmes Place, Livingwell and LA Fitness and the first reports will go to the clubs in October.

We were invited to present and moderate CEO panels at all six of the major global conferences in Tourism, Hospitality and Leisure, including The New York University 27th Annual International Hospitality Industry Investment Conference in June and The 5th Global Travel & Tourism Summit in New Delhi, India in April.

“Deloitte used their industry knowledge to help us maximise performance on the business side of our organisation.”

Nick Eastwood, Finance Director,
Rugby Football Union

Our focus on people and community

Our focus on people embraces not just the people of Deloitte but our responsibilities to the wider community within which we operate.

As a people business we understand the need to provide an environment where our people can excel professionally to their highest abilities. We also recognise the value of our people not only to our own business but to the wider community.

We have an Executive partner responsible for talent issues and this year we have appointed a partner dedicated to championing corporate responsibility. The Corporate Responsibility Partner reports annually, as a minimum, to the Board and Executive Group on practices and performance and recommends actions for approval as necessary.

“Our vision is to make Deloitte the outstanding firm in the UK, renowned in the marketplace for our quality and integrity of service, depth and range of capability and for the talent and commitment of our people.”

John Connolly, Senior Partner and Chief Executive.

Recognition

We are pleased that our efforts to manage our corporate responsibilities have been continually recognised by a strong ranking in the Business in the Community Corporate Responsibility Index over the past three years. This year we improved our positioning once again, appearing 57th in the Index.

Our People

We have outstanding people. Our firm’s success is inextricably linked to having high quality, highly motivated people and we recognise the need to engage them.

We consult regularly with our people about their aspirations for the firm and all our people were invited to hear directly about our strategy and to discuss it with our most senior partners.

We launched a Connections programme that enables the most senior partners in the firm to hear directly from high potential people in the management group about issues that affect them.

While formal mechanisms help to engage our people, we believe that the way our leaders interact with our people on a daily basis has the most significant impact. This year we have introduced an upward feedback process which allows our people to provide feedback on any partner or principal in the firm focusing on the extent to which they exhibit role model behaviour. Following positive feedback with the partner group, this feedback mechanism will be extended to directors in financial year 2006.

“The Club is for networking, professional development and the retention, development and progression of women in the investment banking industry. We have busy jobs but we make the time to get together to promote the industry.”

Vimi Grewal
Deloitte partner and Co-President
of the City Women’s Club

Left to right:
Betsy Nelson, JP Morgan
Karyn Daud, Deloitte
Nathalie Degans, Morgan Stanley
Vimi Grewal, Deloitte



What our people think of us

Each year we conduct a survey of commitment levels and seek feedback from our people about what is important to them. During the year, we saw commitment strengthening across all grades, in each service level and in each geographic location.

77% of our people completed this year's survey, up from 57% last year

88% of our people strongly believe Deloitte is a client-focused firm

93% of our people would recommend Deloitte to clients

Building successful careers

A key element of our firm's success is creating an environment in which our people can succeed and enjoy the best experiences of their career by working for first-class clients and providing first-class business advice.

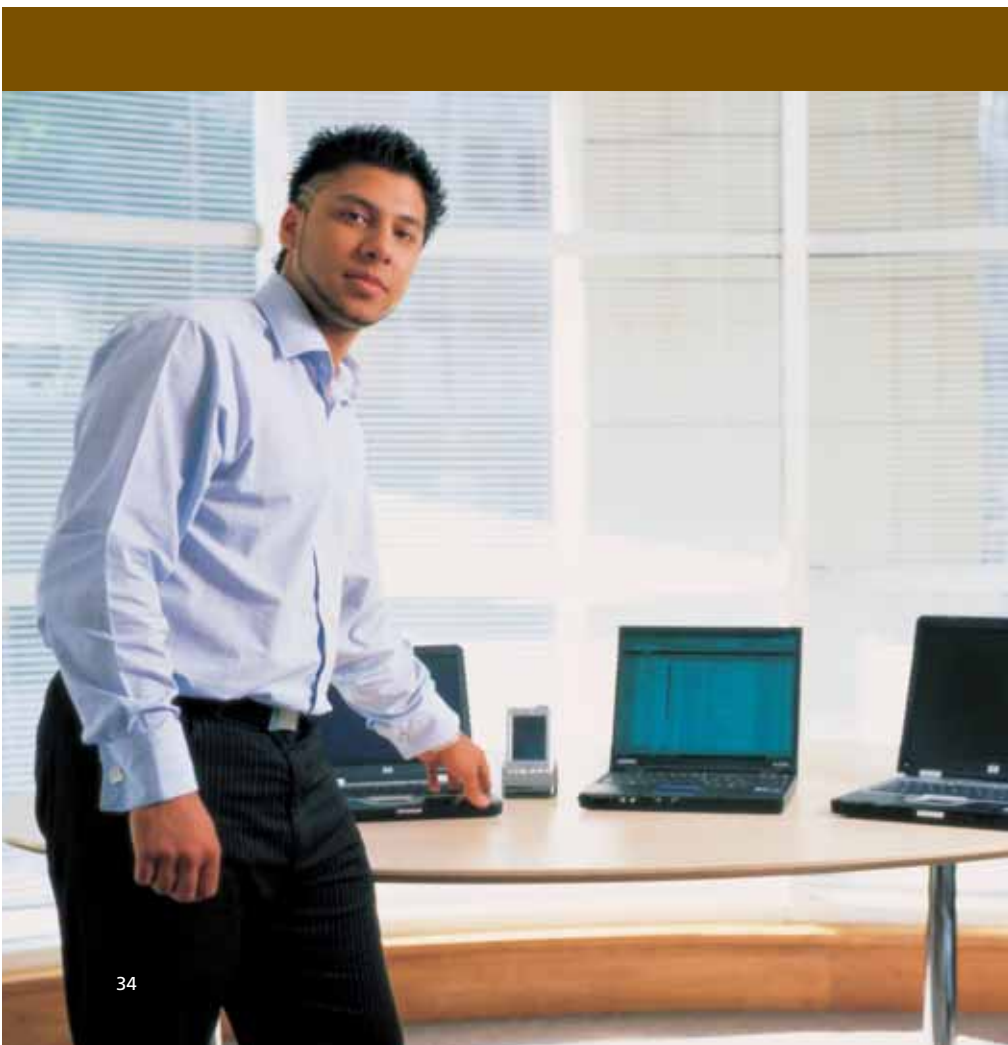
We aim to be the number one place for career and personal development and take a broad and balanced approach to the needs of our people recognising that different people want and need different things at different stages of their careers. The opportunity to learn never stops – whether through self-directed learning, international secondments, community programmes or formal development programmes. This year we launched a number of exciting new programmes including Your Successful Career at Deloitte which assists our people training for professional qualifications to plan for successful career choices. We also launched a development programme for our partners aimed at maximising the quality of client relationships.

We are investing over £2m in this programme and estimate that 50% of our partners will participate in the programme

in its first 18 months. Our strong alumni network also benefits from development programmes which we run for them.

Our commitment to diversity is absolute and we are working hard to maximise the benefits of a truly diverse workforce. Our efforts have been recognised externally as we were one of only three organisations short-listed for the inaugural CBI First Women Awards in a special award category for organisations who are outstanding in promoting women in the workplace. Internally we saw positive evidence of improvement with women comprising 30% of our new partner promotions in 2005.

We also have a scholarship scheme that supports students in gaining insight into professional services during their gap year between school and university. Next year we are almost doubling the size of the scheme to 45 students, with 50% being taken on in London and 50% in the regional offices. We also run a vacation programme for 2nd and 3rd year students – one week training plus six weeks experience. Last year we took on 60 nationally, this year it will be 120 nationally.



“Signing up for the Skills4IT course was one of the best decisions I have ever made. Through the programme I gained work experience and qualifications that led to me being taken on permanently within Deloitte’s IT department, I’ve been here three years and it’s challenging but lots of fun.”

Abdin Ahmed
An assistant in the Deloitte UK IT services team

Our contribution to the community

Our community investment programme provides our people with an opportunity to work together to give something back to our local communities. We focus our effort on supporting young people in disadvantaged communities across the UK.

Community programmes

Each year we give more than 15,000 hours of professional time to the community, providing support in three main areas: enterprise, education and employability.

Enterprise: 60 of our staff and partners are involved in the Prince's Trust business programme. They provide mentoring support and guidance to young people who have set up their own businesses with the help of a loan from the Trust.

Education: 250 of our staff and partners mentor secondary school and college students helping them fulfil their potential and raise their attainment at GCSE.

Employability: our award-winning employability programme Skills4industry helps young people into employment. More than £500,000 development funding was granted by the Department for Education and Skills in 2004/05. This has enabled us to roll out courses in IT and retail and develop new courses in hospitality and administration. From September 2005 more than 350 trainees will enrol on 23 Skills4industry courses running at 12 Further Education Colleges across England.

“The success of women in the workplace is a business imperative. While organisations must focus on flexible working policies, more needs to be done to ensure that cultural practices support employers’ good intentions.”

David Sproul, Managing Partner – Talent, Financial Times, 9 March 2005

“Mentoring at Oaklands School has been extremely rewarding. I really want to see my mentees succeed and I act as an objective sounding board in helping them to achieve their ambitions.”

Jenni Shemmerly
Consultant and school mentor



“The commitment, enthusiasm and world class knowledge of our people and the excitement of being part of the UK’s fastest growing professional services firm make Deloitte an exciting place to call home.”

Heather Hancock, Consulting partner in Leeds and a Trustee of The Prince’s Trust.

Charitable giving

At the end of 2004 we concluded our highly successful two year partnership with ChildLine and Marie Curie Cancer Care raising more than £500,000 through payroll giving and fundraising.

3,400 of our partners and staff took part in the vote for our new national charities for 2005/06. More than 100 different nominations were received and the British Heart Foundation and Leukaemia Research were elected in the final vote.

Several thousand of our people have taken part in charity fundraising events during the year. Quiz nights, race nights, fun runs and bike rides are all part of the Deloitte way of coming together to raise money for good causes. 50 of our people ran for charity in the 2005 London Marathon and more than 500 Deloitte people entered the City of London Run.

2,100 of our staff give more than £500,000 each year to charity through the firm’s payroll giving scheme. Deloitte is now one of the Top 20 payroll giving companies in the UK. Our innovative FLY4CHARITY promotions have introduced more than 1,000 new members to the scheme during the past year.

The Deloitte Foundation made donations of £400,000 to a wide variety of charities, with a particular focus on causes supporting children and young people, health and the community. One-third of the Foundation’s budget is used to provide matched funding for staff contributions, to payroll giving and charity fundraising.

Following the SE Asian Tsunami disaster on Boxing Day 2004 the UK firm made a donation of £1m to the Disasters Emergency Committee appeal. Our staff raised an additional £146,000 for the same cause in a matter of just a few days. After the London incidents on 7 July 2005 Deloitte donated £100,000 to the London Bombings Relief Fund.



“I will be joining Deloitte having spent two years as a teacher. I have really benefited from this experience – the programme provides leadership training and in joining Deloitte I’m sure I will be able to transfer many of the skills I’ve learnt while at School.”

Filipe Morgan
At Wembley High Technology College
on the Teach First programme

Deloitte is in partnership with Teach First which is an initiative that gives graduates an opportunity to work in challenging schools before pursuing alternative careers.

Sponsoring sports and the arts

Deloitte has a broad range of sponsorship programmes that include supporting the arts, culture and sport. A key partnership has been made with the National Portrait Gallery and Deloitte is the Gallery's Contemporary Photography Displays partner. This support includes funding a young photographer's award, as well as acquisitions and providing opportunities for the exhibitions to be toured in the UK. In the last year displays have been exhibited in Birmingham, Edinburgh and Liverpool. Through this sponsorship Deloitte's people have free access to all exhibitions.

Our impact on the environment

It is Deloitte's policy to minimise the significant impacts of our operations on the environment. We incorporate corporate responsibility and environmental assessment criteria in our procurement processes to ensure we work with our suppliers to limit our impact on the environment. We encourage energy efficiency and recycling, and promote waste minimisation and environmentally friendly waste disposal. We discourage avoidable travel and invest in the latest communications technology to provide viable alternatives. We are developing a training and awareness programme to be delivered to all our people to help effect behavioural change.

In June 2005 Deloitte's Chief Executive was a co-signatory to a letter expressing strong support for action to mitigate climate change. The statement, prepared by the G8 Climate Change Roundtable, convened by the World Economic Forum, was presented to Prime Minister Tony Blair, on Thursday 9 June. The statement emphasised the need to act on climate change and stresses the importance of market-based solutions.

“I have been able to continue playing hockey for Wales. I have the flexibility to attend training sessions and work around international events.”

Josh Smith,
Deloitte analyst
and international hockey player



Leadership and governance

Our partners are the leadership of Deloitte. Almost without exception, our partners retain client service responsibilities and it is their integrity and unsurpassed commitment to quality and client service, working with their client service teams, which delivers excellence to our clients. Our partners also take primary responsibility for the development of all of our people.

Senior Partner and Chief Executive Officer

John Connolly, the Senior Partner and Chief Executive Officer, has full executive authority for the management of Deloitte. The Senior Partner is nominated by the Board of Partners and elected by the partners for four terms of office. The responsibilities of the Senior Partner fall under five principal headings:

- the business of Deloitte, including the development and management of professional 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 on the Board and Executive Committee of Deloitte Touche Tohmatsu.

Executive Group

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

The members of the Executive Group are:

| | |
|--------------------------|-----------------------------------------------------------------------|
| John Connolly | A corporate finance partner, Senior Partner and Chief Executive. |
| Steve Almond | An audit partner and Managing Partner Strategy & Planning. |
| Aidan Birkett | A restructuring specialist and Managing Partner Corporate Finance. |
| Stuart Counsell | A corporate finance partner and Managing Partner Regions. |
| David Cruickshank | An international tax partner and Managing Partner Tax. |
| Martin Eadon | An audit partner, Chief Operating Officer and Managing Partner Audit. |
| David Owen | A consulting partner and Managing Partner Consulting. |
| Nick Owen | A consulting partner and Managing Partner Marketing. |
| Gerry Paisley | An audit partner and Managing Partner Practice Protection. |
| Graham Richardson | An audit partner and Managing Partner Client Programmes. |
| Jim Sloane | A consulting partner and Managing Partner Industries. |
| David Sproul | A tax partner and Managing Partner Talent. |
| Bob Warburton | An audit partner and Managing Partner Finance & Legal. |



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. The Board is composed of the Chairman, the Senior Partner, both of whom are elected by the partners, a further ten elected partners and five Executive Group partners proposed by the Senior Partner and affirmed by the partners.

The current Board comprises:

| | |
|------------------------|------------------------------------|
| Martin Scicluna | Chairman |
| John Connolly | Senior Partner and Chief Executive |

Elected members:

Sandra Burling, Sabri Challah, Cahal Dowds, Sharon Fraser, Bruce Gordon, Tony McClenaghan, Gerry Murphy, Les Platts, Brian Whitefoot, Lionel Young

Executive Group members:

Steve Almond, Stuart Counsell, Martin Eadon, Graham Richardson, David Sproul

Corporate governance

Through the Board's oversight of management and the operation of the audit, remuneration and nomination committees, Deloitte is able to adhere to the highest levels of internal Corporate Governance and risk management oversight.

Audit Committee

The Audit Committee monitors all reporting, accounting, financial and control aspects of the executive management's activities. It receives reports from our internal audit team and our external auditors, reports to each meeting of the Board and is a fundamental part of our risk management process.

The Audit Committee reviews the policies and overall process for identifying and assessing business risks and managing their impact on Deloitte, and liaises closely with the external auditors regarding the results of the audit. It receives regular assurance reports from management and others on the operational effectiveness of matters related to risk and control and monitors the timeliness of, and the effectiveness of, corrective action taken by management.

Remuneration Committee

The Remuneration Committee determines and monitors the objectives and the profit shares of the Chairman and Senior Partner. The process for determining partner profit share is outlined on page 45.

Nomination Committee

The Nomination Committee produces a candidate list for elections to the Board to achieve the representation and diversity required.

Internal Audit

Deloitte's internal audit team is a key element of the continuous review of the effectiveness of our system of internal control. Reporting to the Managing Partner Practice Protection, the internal audit team is a combination of permanent staff and client-serving secondees from our internal audit service line. The team reviews both financial and non-financial processes, working closely with our external auditors and reporting on a formal basis to the Audit Committee.

Executive Group and Board of partners

Left to right: Sabri Challah, Sandra Burling, Graham Richardson, David Sproul, Jim Sloane, John Connolly, Nick Owen, Bob Warburton, Stuart Counsell, David Cruickshank, Martin Scicluna, Lionel Young, Gerry Murphy, Tony McClenaghan, Martin Eadon, David Owen, Gerry Paisley, Bruce Gordon, Steve Almond, Brian Whitefoot, Cahal Dowds, Sharon Fraser, Aidan Birkett, Les Platts



Global organisation

Organisations that think and act both globally and locally will sustain leadership. Deloitte & Touche LLP is the UK member firm of Deloitte Touche Tohmatsu (DTT), an organisation of member firms that provide professional services and advice with an emphasis on performance, integrity and quality. Key among DTT's strengths is the global reach of its firms. Today, DTT is focused on client service through a global strategy that is carried out locally in nearly 150 countries.

With almost 120,000 people worldwide, DTT's member firms deliver services that can be categorised in four broad functional areas: audit, tax, corporate finance and consulting services. The people of DTT member firms serve more than half of the world's largest companies as well as large national enterprises, public institutions, privately owned companies and successful, fast-growing global companies.

DTT's member firms are owned and managed locally by their respective national management and governance bodies, but retain membership in a global family. This gives DTT extraordinary insight and perspective on local matters, from regulation and specific market needs to maximisation of talent and expertise. The structure also enables the global organisation to establish policies and the member firms to tailor those policies into quality assurance procedures that comply with local regulatory, legislative and professional requirements.



Financial review

Financial overview

Revenue was up 8.8% at £1,355m. Profit available for distribution to members was 11% higher at £415m. The average profit share of members was £702,000, an increase of 13% over the previous year.

Staff costs at £490m were 6% higher. The average headcount during the year was broadly unchanged although the year end numbers were 5.9% higher than at the end of last year. Other operating expenses at £223m were 11% higher, an increase fuelled partly by higher recruitment costs and partly by changed assumptions in determining the present value of provisions for liabilities and charges.

Net assets

Net assets at 31 May 2005 were £281m. This included fixed assets of £207m and net current assets of £324m. At the year end we had net positive bank balances of £26m. Provisions include the net present value of annuities payable to retired partners. The cost of the payment of partner pensions is capped at 8% of profits in any year. In the year just ended, the pensions paid totalled 2.1% of the relevant profit in the year.

Cash flow

Profit after interest, tax and working capital movements, generated a positive operating cash flow for the year of £446m (2004 – £427m). After capital expenditure and transactions with partners there was a positive cash flow of £59m (2004 – £40m).

Our main treasury risks relate to interest, liquidity and currency. We do not engage in speculative activity or use complex financial instruments. The primary currency is sterling but certain expenses and charges from overseas offices are denominated in other currencies and some fees are rendered in other currencies. The volume and timing of currency inflows and outflows provide a natural hedge and Deloitte does not undertake formal hedging transactions.

Finance and capital structure

Average bank borrowings during the year were £18.7m. Approximately 94% of net assets are financed by partner capital and undistributed profit. At the balance sheet date partner capital and undistributed profit amount to £478,000 per partner. Fixed capital amounts to £111m or £188,000 per partner. The balance of undistributed profit will, in accordance with our current distribution policy, be released to partners in the 12 month period following the year end.

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.

Report and financial statements

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Report to the members

The Board presents its report to the partners ('members') and the audited financial statements of Deloitte & Touche LLP for the year ended 31 May 2005.

Principal activity

The principal activity of Deloitte & Touche LLP is the provision of audit, tax, consulting and corporate finance services in the UK. In addition, consulting services are provided in other European countries through a number of corporate entities, details of which are set out on page 65.

Group structure

These financial statements are the statutory accounts for Deloitte & Touche LLP and reflect the results for the year to 31 May 2005. The financial statements consolidate the accounts of Deloitte & Touche LLP and all its subsidiary undertakings (the 'group'), drawn up to 31 May each year.

Designated members

The designated members during the year were:

J P Connolly – Chief Executive

M J A Eadon – Chief Operating Officer

S Almond

A G Paisley

P M Shawyer (retired 23 September 2004)

D Sproul

R W Warburton

All the designated members served as members of the Deloitte & Touche LLP Executive Group, the most senior management committee, throughout the year with the exception of P M Shawyer who served until the date of his retirement.

Report to the members

Members' drawings and the subscription and repayment of members' capital

All members are equity members and share in the profits and subscribe the entire capital of Deloitte & Touche LLP. Each member's capital subscription is linked to his or her share of profit and is repaid in full on retirement. The rate of capital subscription is determined from time to time depending upon the financing requirements of the business.

Members draw a proportion of their profit share in twelve monthly 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 members with any excess being released to members as appropriate.

Members' profit sharing

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

Members are assigned to a role level, reviewed annually, which describes the attributes, skills and broad performance expected of them. Each role level carries a wide band of profit sharing units so that relative contributions can be recognised. Members at all role levels are expected to be ambassadors for Deloitte & Touche LLP externally and leaders by example to all of our staff in everything they do. Certain attributes transcend all role levels. These are:

- unassailable integrity;
- quality service to our clients;
- the highest levels of technical excellence;
- development of people;
- compliance with Deloitte policies and standards and external regulatory requirements; and
- high quality management of risk.

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

Member performance is evaluated in all designated competences, 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 role level going forward for each individual member, the conclusions of which are disclosed in full to all members. A committee of the Board is tasked with overseeing the management process to ensure consistent and equitable treatment.

Report to the members

Creditor payment policy

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

Trade creditors of the group at 31 May 2005 were equivalent to 20 days (2004: 16 days) purchases, based on the average daily amount invoiced by suppliers during the year.

Going Concern

The Board considers that the financial resources available to Deloitte & Touche LLP are adequate to meet its operational needs for the foreseeable future. Consequently, the going concern basis has been adopted in preparing these financial statements.

Statement of members' responsibilities in respect to the financial statements

The Limited Liability Partnerships (LLP) Regulations 2001 made under the Limited Liability Partnerships Act 2000 require the members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of Deloitte & Touche LLP and of the group and of the profit or loss of the group for the year. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether 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.

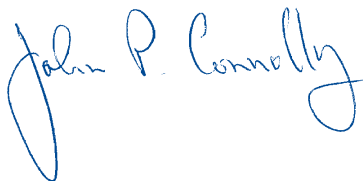
Under the LLP Regulations 2001, the members are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the group and which enable them to ensure that the financial statements comply with those regulations. The members have a 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 members.

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
12 August 2005

Independent auditors' report to the members of Deloitte & Touche LLP

We have audited the financial statements of Deloitte & Touche LLP for the year ended 31 May 2005 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members, as a body, in accordance with the Companies Act 1985 as modified by the Limited Liability Partnerships Regulations 2001. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the partnership and the members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the members and auditors

The members' responsibilities for preparing the report to the members and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of members' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 as modified by the Limited Liability Partnerships Regulations 2001. We also report to you if, in our opinion, the members' report is not consistent with the financial statements, if Deloitte & Touche LLP has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and transactions with the partnership is not disclosed.

We read other information contained in the members' report and consider whether it is consistent with the audited financial statements. This other information comprises only the report to the members and the Senior Partner and Chief Executive's report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the 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 financial statements.

Independent auditors' report to the members of Deloitte & Touche LLP (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the partnership and the group as at 31 May 2005 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 modified by the Limited Liability Partnerships Regulations 2001.

A handwritten signature in blue ink that reads "Grant Thornton UK LLP". The signature is written in a cursive, flowing style.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants

London
12 August 2005

Note: The maintenance and integrity of the Deloitte & Touche LLP website is the responsibility of the members: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated profit and loss account

Year ended 31 May 2005

| | Note | 2005 £m | 2004 £m |
|---------------------------------------------------------------------------------------------------------------------------|------|---------------------|---------------------|
| Turnover | 2 | 1,355.5 | 1,246.3 |
| Operating costs | | | |
| Expenses and disbursements on client assignments | | (182.1) | (165.3) |
| Staff costs | 4 | (490.1) | (462.3) |
| Depreciation and other amounts written off tangible fixed assets | 3 | (28.0) | (30.4) |
| Other operating expenses | | <u>(222.7)</u> | <u>(200.7)</u> |
| Operating profit | | 432.6 | 387.6 |
| Net interest payable | 5 | <u>(14.1)</u> | <u>(12.5)</u> |
| Profit on ordinary activities before taxation | 3 | 418.5 | 375.1 |
| Taxation | 6 | <u>(3.2)</u> | <u>(1.0)</u> |
| Profit for the financial year before members' remuneration and profit shares, available for division among members | 14 | <u>415.3</u> | <u>374.1</u> |

Consolidated statement of total recognised gains and losses

Year ended 31 May 2005

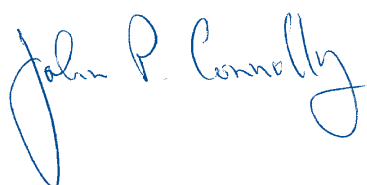
| | Note | 2005 £m | 2004 £m |
|--------------------------------------------------------------------------------------------------------------------|------|--------------|--------------|
| Profit for the financial year before members' remuneration and profit shares, available for division among members | | 415.3 | 374.1 |
| Provision for annuities payable to members who retired in the year | 14 | (32.5) | (28.6) |
| Total recognised gains relating to the year | | 382.8 | 345.5 |

Consolidated balance sheet

31 May 2005

| | Note | 2005 £m | 2005 £m | 2004 £m | 2004 £m |
|-------------------------------------------------------|------|------------|--------------|------------|--------------|
| Fixed assets | | | | | |
| Tangible assets | 8 | 141.9 | | 141.3 | |
| Investments | 9 | 64.9 | | 56.6 | |
| | | | 206.8 | | 197.9 |
| Current assets | | | | | |
| Debtors | 10 | 483.9 | | 479.6 | |
| Cash at bank and in hand | | 26.4 | | 43.4 | |
| | | 510.3 | | 523.0 | |
| Creditors: amounts falling due within one year | 11 | (186.1) | | (248.1) | |
| Net current assets | | | 324.2 | | 274.9 |
| Total assets less current liabilities | | | 531.0 | | 472.8 |
| Provisions for liabilities and charges | 12 | | (250.3) | | (223.6) |
| Net assets | | | 280.7 | | 249.2 |
| Members' other interests | | | | | |
| Members' capital | 14 | | 110.6 | | 108.2 |
| Other reserves | 14 | | 170.1 | | 141.0 |
| | | | 280.7 | | 249.2 |
| Total members' interests | | | | | |
| Members' other interests | 14 | | 280.7 | | 249.2 |
| Amounts due from members | 14 | | (18.7) | | (37.5) |
| | | | 262.0 | | 211.7 |

These financial statements on pages 49 to 82 were approved by the Board on 12 August 2005.
Signed on behalf of the Board,



John Connolly
Senior Partner and Chief Executive



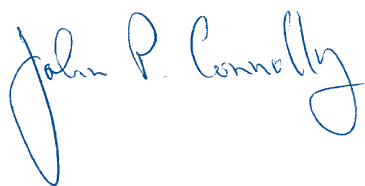
Bob Warburton
Managing Partner, Finance & Legal

Balance sheet

31 May 2005

| | Note | 2005 £m | 2005 £m | 2004 £m | 2004 £m |
|-------------------------------------------------------|------|------------|--------------|------------|--------------|
| Fixed assets | | | | | |
| Tangible assets | 8 | 125.5 | | 124.6 | |
| Investments | 9 | 27.1 | | 27.1 | |
| | | | 152.6 | | 151.7 |
| Current assets | | | | | |
| Debtors | 10 | 503.8 | | 556.8 | |
| Cash at bank and in hand | | 10.6 | | 20.8 | |
| | | 514.4 | | 577.6 | |
| Creditors: amounts falling due within one year | 11 | (198.7) | | (310.3) | |
| Net current assets | | | 315.7 | | 267.3 |
| Total assets less current liabilities | | | 468.3 | | 419.0 |
| Provisions for liabilities and charges | 12 | | (241.8) | | (215.0) |
| Net assets | | | 226.5 | | 204.0 |
| Members' other interests | | | | | |
| Members' capital | 14 | | 110.6 | | 108.2 |
| Other reserves | 14 | | 115.9 | | 95.8 |
| | | | 226.5 | | 204.0 |
| Total members' interests | | | | | |
| Members' other interests | 14 | | 226.5 | | 204.0 |
| Amounts due from members | 14 | | (18.7) | | (37.5) |
| | | | 207.8 | | 166.5 |

These financial statements on pages 49 to 82 were approved by the Board on 12 August 2005.
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 2005

| | Note | 2005 £m | 2004 £m |
|----------------------------------------------------------------------------|------|-------------|---------------|
| Net cash inflow from operating activities | 17 | 463.1 | 441.8 |
| Returns on investments and servicing of finance | 18 | (14.1) | (12.5) |
| Taxation | 18 | (3.1) | (2.5) |
| Capital expenditure and financial investment | 18 | (36.9) | (26.7) |
| Acquisitions and disposals | 18 | 2.0 | - |
| Transactions with members and former members | 18 | (351.6) | (359.8) |
| Increase in cash in the year | | 59.4 | 40.3 |
| Reconciliation of net cash flow to movement in net funds/(debt) | 19 | | |
| Increase in cash in the year | | 59.4 | 40.3 |
| Net debt at 1 June 2004 | | (33.0) | (73.3) |
| Net funds/(debt) at 31 May 2005 | | 26.4 | (33.0) |

Notes to the Financial Statements

Year ended 31 May 2005

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year and the preceding year.

Basis of preparation

The financial statements consolidate the accounts of Deloitte & Touche LLP and all its subsidiary undertakings (the 'group'), drawn up to 31 May each year. No individual profit and loss account is presented for Deloitte & Touche LLP as permitted by section 230 of the Companies Act 1985.

Accounting convention

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including the Statement of Recommended Practice, 'Accounting by Limited Liability Partnerships'. They have been prepared under the historical cost convention, modified to include the revaluation of certain fixed asset investments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Deloitte & Touche LLP and all its subsidiaries. The acquisition method of accounting has been adopted.

Acquisitions and disposals

On the acquisition of a business, fair values are attributed to the group's share of separable net assets. Where the cost of acquisition exceeds the fair values attributable to such net assets the difference is treated as purchased goodwill and capitalised in the balance sheet in the year in which it arises and amortised over its estimated useful life.

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Tangible fixed assets

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets 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 2005

1. Accounting policies (continued)

Investments

Fixed asset investments are stated at cost less provision for any impairment, except quoted fixed interest corporate bonds and Government stock, which are stated at market value. The quoted investments are held by the captive insurer, Peterborough Insurance PCC Limited and changes in market value are reflected in the profit and loss account.

Turnover

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

Amounts to be billed to clients

Services provided to clients, which at the balance sheet date have not been billed to clients, have been recognised as turnover. Turnover 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. 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 debtors.

Taxation

The taxation payable on profits of the Limited Liability Partnership is the personal liability of the members. A retention from profits is made to fund the payments of taxation on behalf of members.

The companies dealt with in these consolidated financial statements are subject to corporation tax based on their profits for the accounting period. The tax liabilities and any deferred taxation of these companies are recorded in the profit and loss account under the relevant heading and any related liability is carried as a creditor in the consolidated balance sheet.

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 at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term.

Provisions

Provision is made for the best estimate of expected losses from onerous contracts, in particular in respect of surplus property.

The present value of the best estimate of the expected liabilities for future payments to retired members, or their dependants, is provided in full as a transfer from undistributed profit when the member retires, and is recognised in the statement of total recognised gains and losses at that time. Any changes in the provision for former members' annuities arising from changes in former members and their dependants, or in financial estimates and actuarial assumptions, are recorded in the profit and loss account.

Provision is made on a case by case basis in respect of the cost of defending claims and, where appropriate, the estimated cost of settling claims net of insurance recoveries.

Notes to the Financial Statements

Year ended 31 May 2005

1. Accounting policies (continued)

Discounting

Longer term provisions for surplus property and former members' annuities are shown at the present value of the expected liability. 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 profit and loss account as interest payable.

Pensions

Deloitte & Touche LLP operates two pension schemes for staff, the Deloitte & Touche UK Pension Scheme and the Deloitte & Touche Retirement Plan. These are accounted for in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs' ('SSAP 24'). The Deloitte & Touche UK Pension Scheme contains three sections, two final salary sections which are closed to new entrants and a money purchase section. The Deloitte & Touche Retirement Plan is a money purchase scheme which is also closed to new entrants. The costs of the final salary sections are charged against profit so as to spread the cost over the service lives of the participating employees in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll. Contributions to the money purchase sections are charged to the profit and loss account when they become payable. The transitional disclosure requirements set out in Financial Reporting Standard 17 'Retirement benefits' ('FRS17') have been applied and these are provided in note 21.

Deferred taxation

The companies included within these consolidated financial statements are subject to corporation tax based on their profits for the financial year.

Deferred tax is recognised in respect of all timing differences in the corporate entities that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Notes to the Financial Statements

Year ended 31 May 2005

2. Turnover and segmental analysis

Turnover and profit on ordinary activities before taxation by major service line are as follows:

| | Turnover | | Profit before taxation | |
|-------------------|----------------|----------------|------------------------|--------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Audit | 415.7 | 359.3 | 116.7 | 97.0 |
| Tax | 386.4 | 376.6 | 131.3 | 127.7 |
| Consulting | 312.4 | 294.2 | 78.0 | 59.1 |
| Corporate Finance | 241.0 | 216.2 | 92.5 | 91.3 |
| | 1,355.5 | 1,246.3 | 418.5 | 375.1 |

All activities are continuing except for the turnover of £1.9m (2004: £2.4m) attributable to B&W Deloitte Sarl which was sold during the year, see note 9 for further details. Profit before tax to the date of sale was £0.3m (2004: £0.7m). The results of B&W Deloitte Sarl are included in the results of Consulting until the date of disposal.

Geographic analysis of turnover

Turnover by origin is as follows:

| | 2005 £m | 2004 £m |
|--------|----------------|----------------|
| UK | 1,347.7 | 1,238.8 |
| Europe | 7.8 | 7.5 |
| | 1,355.5 | 1,246.3 |

Turnover by destination is as follows:

| | 2005 £m | 2004 £m |
|---------------|----------------|----------------|
| UK | 1,165.8 | 1,071.8 |
| Europe | 94.9 | 87.2 |
| North America | 81.2 | 74.8 |
| Rest of World | 13.6 | 12.5 |
| | 1,355.5 | 1,246.3 |

Notes to the Financial Statements

Year ended 31 May 2005

2. Turnover and segmental analysis (continued)

Net asset analysis

The segmental analysis of net assets is as follows:

| | 2005 | 2004 |
|------------------------------------|--------------|--------------|
| | £m | £m |
| Audit | 108.8 | 100.3 |
| Tax | 143.6 | 132.0 |
| Consulting | 77.0 | 62.9 |
| Corporate Finance | 85.2 | 94.8 |
| Unallocated assets and liabilities | (133.9) | (140.8) |
| | 280.7 | 249.2 |

Unallocated assets and liabilities mainly comprise investments, cash at bank and in hand, bank borrowings, provisions and tax balances.

3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

| | 2005 | 2004 |
|------------------------------------------------------------|-------------|-------------|
| | £m | £m |
| Operating lease payments: | | |
| – land and buildings | 40.4 | 40.1 |
| – other | 1.4 | 1.6 |
| Depreciation and amortisation on owned assets: | | |
| – tangible fixed assets | 28.0 | 30.4 |
| Loss on sale of tangible fixed assets | 1.3 | 2.9 |
| (Gain)/Loss on sale of investments | (0.9) | 3.0 |
| Auditors' remuneration: audit fees - Grant Thornton UK LLP | 0.2 | 0.2 |

Notes to the Financial Statements

Year ended 31 May 2005

4. Staff costs

The average number of people employed during the year (excluding members) was:

| | 2005 | 2004 |
|-----------------------|--------------|--------------|
| | No. | No. |
| Client-serving staff: | | |
| Audit | 2,722 | 2,755 |
| Tax | 1,838 | 1,847 |
| Consulting | 1,466 | 1,449 |
| Corporate Finance | 714 | 682 |
| | <hr/> | <hr/> |
| | 6,740 | 6,733 |
| Support staff | 1,827 | 1,814 |
| | <hr/> | <hr/> |
| | 8,567 | 8,547 |
| | <hr/> | <hr/> |

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

| | 2005 | 2004 |
|-------------------------------|--------------|--------------|
| | £m | £m |
| Salaries | 412.2 | 390.8 |
| Social security costs | 43.6 | 39.4 |
| Other pension costs (note 21) | 34.3 | 32.1 |
| | <hr/> | <hr/> |
| | 490.1 | 462.3 |
| | <hr/> | <hr/> |

A salary sacrifice scheme is in place for employees who are members of the pension schemes. The effect of this has been to decrease salaries by £8.2m (2004: £6.2m) and increase other pension costs by £8.2m (2004: £6.2m).

Notes to the Financial Statements

Year ended 31 May 2005

5. Net interest payable

| | 2005 £m | 2004 £m |
|-------------------------------------------------------------------|-------------------|-------------------|
| Interest payable on bank loans and overdrafts | (2.8) | (8.5) |
| Interest receivable | 5.0 | 2.6 |
| Other interest payable and unwinding of discount on provisions | (16.3) | (6.6) |
| | <hr/> | <hr/> |
| Net interest payable | (14.1) | (12.5) |

6. Taxation

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

| | 2005 £m | 2004 £m |
|---------------------------------------------|-------------------|-------------------|
| UK corporation taxation charge for the year | 2.4 | 1.2 |
| Adjustments in respect of prior periods | 0.2 | - |
| Foreign taxation | 0.5 | - |
| | <hr/> | <hr/> |
| Total current taxation | 3.1 | 1.2 |
| Deferred taxation – timing differences | 0.1 | (0.2) |
| | <hr/> | <hr/> |
| Taxation on profit on ordinary activities | 3.2 | 1.0 |

| | 2005 £m | 2004 £m |
|---------------------------------------------------------------------|-------------------|-------------------|
| Profit on ordinary activities of corporate entities before taxation | 5.2 | 3.3 |
| | <hr/> | <hr/> |
| Taxation on profit on ordinary activities at 30% (2004: 30%) | 1.6 | 1.0 |
| | <hr/> | <hr/> |
| Factors affecting the charge for the year: | | |
| – capital allowances in excess of depreciation | (0.5) | (0.2) |
| – disallowable expenditure | 1.2 | 0.4 |
| – other timing differences | 0.1 | - |
| | <hr/> | <hr/> |
| UK corporation tax charge for the year | 2.4 | 1.2 |

Notes to the Financial Statements

Year ended 31 May 2005

7. Members' share of profits

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

The Statement of Recommended Practice, 'Accounting by Limited Liability Partnerships', requires that the average profit per member is calculated by dividing the profit for the financial year before members' remuneration and profit shares, by the average number of members.

| | 2005 No. | 2004 No. |
|---------------------------|--------------------|--------------------|
| Average number of members | 592 | 602 |
| | £'000 | £'000 |
| Average profit per member | 702 | 621 |

The share of profits that has been allocated since the year end to the Chief Executive, who was the member with the largest entitlement to profits in 2005, was £3,632,600 (2004: £2,868,500).

Notes to the Financial Statements

Year ended 31 May 2005

8. Tangible fixed assets

Group

| | Leasehold improvements £m | Computer equipment £m | Fixtures and fittings £m | Motor vehicles £m | Total £m |
|-----------------------|---------------------------------|-----------------------------|--------------------------------|-------------------------|--------------|
| Cost | | | | | |
| At 1 June 2004 | 89.3 | 52.8 | 39.6 | 42.0 | 223.7 |
| Additions | 9.0 | 14.1 | 1.6 | 11.5 | 36.2 |
| Disposals | (1.1) | (9.8) | (1.9) | (11.7) | (24.5) |
| At 31 May 2005 | 97.2 | 57.1 | 39.3 | 41.8 | 235.4 |
| Depreciation | | | | | |
| At 1 June 2004 | 22.4 | 28.6 | 17.2 | 14.2 | 82.4 |
| Charge for the year | 8.6 | 9.4 | 4.0 | 6.0 | 28.0 |
| Disposals | (0.9) | (9.4) | (1.5) | (5.1) | (16.9) |
| At 31 May 2005 | 30.1 | 28.6 | 19.7 | 15.1 | 93.5 |
| Net book value | | | | | |
| At 31 May 2005 | 67.1 | 28.5 | 19.6 | 26.7 | 141.9 |
| At 31 May 2004 | 66.9 | 24.2 | 22.4 | 27.8 | 141.3 |

Included in computer equipment for both the group and the Limited Liability Partnership are new business systems at a cost of £9.4m (2004: £6.7m) which have not been depreciated as they did not become operational until June 2005.

Limited Liability Partnership

| | Leasehold improvements £m | Computer equipment £m | Fixtures and fittings £m | Motor vehicles £m | Total £m |
|-----------------------|---------------------------------|-----------------------------|--------------------------------|-------------------------|--------------|
| Cost | | | | | |
| At 1 June 2004 | 72.3 | 51.0 | 38.6 | 42.0 | 203.9 |
| Additions | 7.3 | 15.7 | 1.6 | 11.5 | 36.1 |
| Disposals | (1.0) | (9.7) | (1.8) | (11.7) | (24.2) |
| At 31 May 2005 | 78.6 | 57.0 | 38.4 | 41.8 | 215.8 |
| Depreciation | | | | | |
| At 1 June 2004 | 20.8 | 27.4 | 16.9 | 14.2 | 79.3 |
| Charge for the year | 7.4 | 9.3 | 4.0 | 6.0 | 26.7 |
| Disposals | (0.9) | (8.2) | (1.5) | (5.1) | (15.7) |
| At 31 May 2005 | 27.3 | 28.5 | 19.4 | 15.1 | 90.3 |
| Net book value | | | | | |
| At 31 May 2005 | 51.3 | 28.5 | 19.0 | 26.7 | 125.5 |
| At 31 May 2004 | 51.5 | 23.6 | 21.7 | 27.8 | 124.6 |

Notes to the Financial Statements

Year ended 31 May 2005

9. Fixed asset investments

Group

| | Investments £m | Loans £m | Total £m |
|--------------------------|--------------------|--------------------|--------------------|
| Cost or valuation | | | |
| At 1 June 2004 | 49.6 | 10.9 | 60.5 |
| Additions | 6.1 | 1.7 | 7.8 |
| Revaluation | 1.4 | - | 1.4 |
| Disposals | (0.2) | (0.7) | (0.9) |
| At 31 May 2005 | <u>56.9</u> | <u>11.9</u> | <u>68.8</u> |
| Provision | | | |
| At 1 June 2004 | 2.6 | 1.3 | 3.9 |
| Provided in the year | 0.1 | - | 0.1 |
| Disposals | (0.1) | - | (0.1) |
| At 31 May 2005 | <u>2.6</u> | <u>1.3</u> | <u>3.9</u> |
| Net book value | | | |
| At 31 May 2005 | <u>54.3</u> | <u>10.6</u> | <u>64.9</u> |
| At 31 May 2004 | <u>47.0</u> | <u>9.6</u> | <u>56.6</u> |

Investments include quoted fixed interest corporate bonds and government stock, which are stated at market value amounting to £52.3m (2004: £44.8m) and unquoted investments totalling £2.0m (2004: £2.2m) which are stated at cost less provision for diminution in value.

Loans represent long-term loans to Deloitte Touche Tohmatsu (DTT) which are repayable between 5 to 15 years. Interest is charged at commercial rates.

Notes to the Financial Statements

Year ended 31 May 2005

9. Fixed asset investments (continued)

Limited Liability Partnership

| | Investment in group undertakings £m | Investments £m | Loans £m | Total £m |
|-----------------------|----------------------------------------------|-------------------|--------------------|--------------------|
| Cost | | | | |
| At 1 June 2004 | 18.4 | 4.8 | 10.9 | 34.1 |
| Additions | 0.1 | - | 1.7 | 1.8 |
| Disposals | (0.4) | (0.2) | (0.7) | (1.3) |
| At 31 May 2005 | <u>18.1</u> | <u>4.6</u> | <u>11.9</u> | <u>34.6</u> |
| Provision | | | | |
| At 1 June 2004 | 3.1 | 2.6 | 1.3 | 7.0 |
| Provided in the year | 0.5 | 0.1 | - | 0.6 |
| Disposals | - | (0.1) | - | (0.1) |
| At 31 May 2005 | <u>3.6</u> | <u>2.6</u> | <u>1.3</u> | <u>7.5</u> |
| Net book value | | | | |
| At 31 May 2005 | <u>14.5</u> | <u>2.0</u> | <u>10.6</u> | <u>27.1</u> |
| At 31 May 2004 | <u>15.3</u> | <u>2.2</u> | <u>9.6</u> | <u>27.1</u> |

On 28 February 2005 Deloitte & Touche LLP sold its holding in B&W Deloitte Sarl. Cash proceeds of £2.0m were received for net assets of £1.1m which resulted in a profit on sale of £0.9m.

Investments are unquoted investments which are stated at cost less provision for diminution in value.

Loans represent long-term loans to Deloitte Touche Tohmatsu which are repayable between 5 to 15 years. Interest is charged at commercial rates.

Notes to the Financial Statements

Year ended 31 May 2005

9. Fixed asset investments (continued)

Deloitte & Touche LLP has an investment in the following companies:

| Principal subsidiary undertakings | Holding | Proportion of voting rights and shares held | Country of incorporation | Nature of business |
|--------------------------------------------------------|----------|---------------------------------------------|--------------------------|------------------------------|
| Deloitte MCS Limited | Ordinary | 100% | Great Britain | Consulting services |
| Deloitte & Touche Wealth Management Limited | Ordinary | 100% | Great Britain | Personal financial services |
| Deloitte & Touche Private Clients Limited | Ordinary | 100% | Great Britain | Personal financial services |
| Deloitte Total Reward and Benefits Limited | Ordinary | 100% | Great Britain | Investment advisory services |
| Deloitte & Touche Public Sector Internal Audit Limited | Ordinary | 100% | Great Britain | Internal audit services |
| B&W Deloitte GmbH | Ordinary | 100% | Germany | Actuarial services |
| B&W Deloitte GmbH | Ordinary | 100% | Switzerland | Actuarial services |
| B&W Deloitte Limited | Ordinary | 100% | Ireland | Actuarial services |
| B&W Deloitte BV | Ordinary | 100% | Holland | Actuarial services |
| B&W Deloitte S.r.l. | Ordinary | 100% | Italy | Actuarial services |
| Peterborough Insurance PCC Limited | Ordinary | 100% | Guernsey | Captive insurance company |
| Joint venture | | | | |
| beprofessional.com Limited | Ordinary | 50% | Great Britain | Professional services |
| Other | | | | |
| Nautilus Indemnity Holdings Limited | Ordinary | 17.35% | Bermuda | Captive insurance company |

Notes to the Financial Statements

Year ended 31 May 2005

10. Debtors

Group

| | 2005 | 2004 |
|-------------------------------------------------------------|--------------|--------------|
| | £m | £m |
| Amounts to be billed to clients | 85.5 | 124.9 |
| Client debtors | 314.7 | 249.7 |
| Amounts due from members | 18.7 | 37.5 |
| Amounts due from other member firms of the DTT organisation | 34.7 | 30.8 |
| Other debtors | 17.7 | 13.5 |
| Prepayments and accrued income | 12.6 | 23.2 |
| | 483.9 | 479.6 |

Limited Liability Partnership

| | 2005 | 2004 |
|-------------------------------------------------------------|--------------|--------------|
| | £m | £m |
| Amounts to be billed to clients | 71.5 | 104.6 |
| Client debtors | 230.6 | 201.1 |
| Amounts due from members | 18.7 | 37.5 |
| Amounts due from subsidiary undertakings | 129.2 | 173.8 |
| Amounts due from other member firms of the DTT organisation | 34.7 | 10.0 |
| Other debtors | 8.7 | 9.1 |
| Prepayments and accrued income | 10.4 | 20.7 |
| | 503.8 | 556.8 |

Notes to the Financial Statements

Year ended 31 May 2005

11. Creditors: amounts falling due within one year

Group

| | 2005 £m | 2004 £m |
|-----------------------------------------------------------|--------------|--------------|
| Bank loans and overdrafts | - | 76.4 |
| Trade creditors | 17.7 | 13.3 |
| Amounts due to other member firms of the DTT organisation | 15.6 | 21.6 |
| Corporation tax | 1.1 | 1.0 |
| Social security and other taxes | 42.2 | 36.9 |
| Other creditors | 45.7 | 37.0 |
| Accruals and deferred income | 63.8 | 61.9 |
| | 186.1 | 248.1 |

Limited Liability Partnership

| | 2005 £m | 2004 £m |
|-----------------------------------------------------------|--------------|--------------|
| Bank loans and overdrafts | 4.5 | 79.0 |
| Trade creditors | 16.2 | 11.9 |
| Amounts due to subsidiary undertakings | 36.3 | 85.1 |
| Amounts due to other member firms of the DTT organisation | 15.6 | 21.6 |
| Social security and other taxes | 35.1 | 23.9 |
| Other creditors | 39.8 | 35.2 |
| Accruals and deferred income | 51.2 | 53.6 |
| | 198.7 | 310.3 |

12. Provisions for liabilities and charges

Group

| | 1 June 2004 £m | Statement of total recognised gains and losses £m | Charged to profit and loss account £m | Released unused during the year £m | Utilised £m | 31 May 2005 £m |
|-------------------------------|----------------------|------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------|----------------|----------------------|
| Surplus property | 37.5 | - | 9.0 | - | (11.5) | 35.0 |
| Former members' annuities | 166.4 | 32.5 | 21.6 | - | (19.1) | 201.4 |
| Deferred taxation | 0.7 | - | 0.1 | - | - | 0.8 |
| Professional liability claims | 19.0 | - | 7.4 | (8.0) | (5.3) | 13.1 |
| | 223.6 | 32.5 | 38.1 | (8.0) | (35.9) | 250.3 |

Notes to the Financial Statements

Year ended 31 May 2005

12. Provisions for liabilities and charges (continued)

The surplus property provision is provided to cover the expected losses on sublet and vacant properties where expected revenues are less than expenditure. The provision has been professionally assessed by DTZ Debenham Tie Leung. The provision has been estimated using current costs and has been discounted to present value at a rate of 6.0% (2004: 6.0%).

The majority of the group's liability for former members' annuities is conditional upon the future generation of profits. The provision for former members' annuities is provided to cover annuities payable to retired members. £170.6m (2004: £139.5m) of the provision relates to annuities payable under the Partner Pension Plan which commence payment when the retired partner reaches the age of 60. Annuities payable under the Partner Pension Plan are unfunded but are conditional upon the future generation of profit and are capped in total in each year at 8% of the applicable group profit.

The provision for former members' annuities has been professionally assessed by Hewitt Bacon & Woodrow Limited and is the present value of the future obligation of the group to provide retirement annuities to former members. The provision in respect of members retiring in the current year of £32.5m has been recognised in the consolidated statement of total recognised gains and losses.

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

| | 2005 | 2004 |
|-------------------------------|--------------|--------------|
| | £m | £m |
| In less than two years | 36.1 | 32.6 |
| Between two and five years | 32.7 | 30.3 |
| Between five and ten years | 37.3 | 31.6 |
| Between ten and fifteen years | 32.9 | 26.3 |
| In more than fifteen years | 62.4 | 45.6 |
| | 201.4 | 166.4 |

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

| | 2005 | 2004 |
|-----------------|-------------|-------------|
| | % p.a. | % p.a. |
| Discount rate | 5.2 | 5.8 |
| Price inflation | 2.7 | 3.0 |

The discount rate of 5.2% (2004: 5.8%) is based on the yield on the over 15 years AA rated corporate bond index.

Notes to the Financial Statements

Year ended 31 May 2005

12. Provisions for liabilities and charges (continued)

Limited Liability Partnership

| | 1 June 2004 £m | Statement of total recognised gains and losses £m | Charged to profit and loss account £m | Released unused during the year £m | Utilised £m | 31 May 2005 £m |
|-------------------------------|----------------------|------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------|----------------|----------------------|
| Surplus property | 37.5 | - | 9.0 | - | (11.5) | 35.0 |
| Former members' annuities | 166.4 | 32.5 | 21.6 | - | (19.1) | 201.4 |
| Professional liability claims | 11.1 | - | 5.2 | (5.8) | (5.1) | 5.4 |
| | 215.0 | 32.5 | 35.8 | (5.8) | (35.7) | 241.8 |

13. Deferred taxation

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

Group

| | 2005 £m | 2004 £m |
|--------------------------------|------------|------------|
| Accelerated capital allowances | 0.8 | 1.0 |
| Other timing differences | - | (0.3) |
| | 0.8 | 0.7 |

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

Notes to the Financial Statements

Year ended 31 May 2005

14. Members' interests

Group

| | Members' other interests | | | Loans and other debts due to/(from) members | Total members' interests |
|-----------------------------------------------------------------------|---------------------------|-------------------------|--------------|---------------------------------------------------------|--------------------------------|
| | Members' capital £m | Other reserves £m | Total £m | £m | £m |
| Members' interests at 1 June 2004 | 108.2 | 141.0 | 249.2 | (37.5) | 211.7 |
| Profit for the financial year available for division among members | - | 415.3 | 415.3 | - | 415.3 |
| Members' interests after profit for the year | 108.2 | 556.3 | 664.5 | (37.5) | 627.0 |
| Allocated profits | - | (353.7) | (353.7) | 353.7 | - |
| Provision for annuities to members retiring in year | - | (32.5) | (32.5) | - | (32.5) |
| Drawings and distributions | - | - | - | (334.9) | (334.9) |
| Capital: | | | | | |
| Introduced | 10.5 | - | 10.5 | - | 10.5 |
| Repaid | (8.1) | - | (8.1) | - | (8.1) |
| Members' interests at 31 May 2005 | 110.6 | 170.1 | 280.7 | (18.7) | 262.0 |

Deloitte & Touche LLP's profits are divided based on units issued to members. The unit allocation is completed after the year end and accordingly, there was no automatic division of profits among the members and only certain fixed shares of profit had been allocated as at 31 May 2005. As a result, the balance of profit available for division among the members as at 31 May 2005 is included in other reserves. Drawings by members on account of profits for the year have been classified as amounts due from members.

Members' other interests rank after unsecured creditors, and loans and other debts due to members rank pari passu with unsecured creditors in the event of a winding up. The amount of capital that each member is required to subscribe is determined by Deloitte & Touche LLP's Board and under the Members Agreement of Deloitte & Touche LLP a member can only withdraw capital when he or she ceases to be a member.

Notes to the Financial Statements

Year ended 31 May 2005

14. Members' interests (continued)

Limited Liability Partnership

| | Members' other interests | | | Loans and other debts due to/(from) members £m | Total members' interests £m |
|-----------------------------------------------------------------------|---------------------------|-------------------------|--------------|---------------------------------------------------------------|--------------------------------------|
| | Members' capital £m | Other reserves £m | Total £m | | |
| Members' interests at 1 June 2004 | 108.2 | 95.8 | 204.0 | (37.5) | 166.5 |
| Profit for the financial year available for division among members | - | 406.3 | 406.3 | - | 406.3 |
| Members' interests after profit for the year | 108.2 | 502.1 | 610.3 | (37.5) | 572.8 |
| Allocated profits | - | (353.7) | (353.7) | 353.7 | - |
| Provision for annuities to members retiring in year | - | (32.5) | (32.5) | - | (32.5) |
| Drawings and distributions | - | - | - | (334.9) | (334.9) |
| Capital: | | | | | |
| Introduced | 10.5 | - | 10.5 | - | 10.5 |
| Repaid | (8.1) | - | (8.1) | - | (8.1) |
| Members' interests at 31 May 2005 | 110.6 | 115.9 | 226.5 | (18.7) | 207.8 |

Notes to the Financial Statements

Year ended 31 May 2005

15. Leasing commitments

At 31 May 2005, the group was committed to making the following payments during the next year in respect of operating leases:

| | Land and buildings 2005 | Other 2005 | Land and buildings 2004 | Other 2004 |
|--------------------------------|----------------------------------------|-----------------------|----------------------------------------|-----------------------|
| | £m | £m | £m | £m |
| Operating leases which expire: | | | | |
| Within one year | 0.7 | 1.2 | 0.9 | 0.3 |
| Within two to five years | 4.4 | 1.0 | 2.2 | 0.9 |
| In more than five years | 49.9 | - | 53.3 | - |
| | 55.0 | 2.2 | 56.4 | 1.2 |

16. Capital commitments

| | 2005 | 2004 |
|-------------------------------------------------------------|-------------|-------------|
| | £m | £m |
| Contracted for but not provided in the financial statements | 4.3 | 3.5 |
| Authorised but not yet contracted for | 29.3 | 3.2 |

17. Reconciliation of operating profit to net cash inflow from operating activities

| | 2005 | 2004 |
|-------------------------------------------|--------------|--------------|
| | £m | £m |
| Operating profit | 432.6 | 387.6 |
| Depreciation | 28.0 | 30.4 |
| Loss on sale of tangible fixed assets | 1.3 | 2.9 |
| (Profit)/loss on disposal of investments | (0.9) | 3.0 |
| Provision for investments | 0.1 | 1.3 |
| Revaluation of investments | (1.4) | - |
| Movements in: | | |
| Debtors | (24.8) | 89.7 |
| Creditors | 14.9 | (48.3) |
| Provisions for liabilities and charges | 13.3 | (24.8) |
| Net cash inflow from operating activities | 463.1 | 441.8 |

The movements in debtors and creditors are stated after taking into account the disposal of B&W Deloitte Sarl (see note 9).

Notes to the Financial Statements

Year ended 31 May 2005

18. Gross cash flows

| | 2005 £m | 2004 £m |
|--------------------------------------------------------|----------------|----------------|
| Returns on investments and servicing of finance | | |
| Interest received | 5.0 | 2.6 |
| Interest paid | (19.1) | (15.1) |
| | (14.1) | (12.5) |
| Taxation | | |
| | (3.1) | (2.5) |
| Capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | (36.2) | (45.5) |
| Purchase of fixed asset investments | (6.1) | (0.3) |
| Proceeds on sale of tangible fixed assets | 6.3 | 11.0 |
| Proceeds on sale of investments | 0.1 | 10.5 |
| Loan repaid from Deloitte Touche Tohmatsu | 0.7 | - |
| Loan to Deloitte Touche Tohmatsu | (1.7) | (2.4) |
| | (36.9) | (26.7) |
| Aquisitions and disposals | | |
| Proceeds on sale of subsidiary | 2.0 | - |
| | 2.0 | - |
| Transactions with members and former members | | |
| Payments to and on behalf of members | (334.9) | (342.0) |
| Retirement benefits paid to former members | (19.1) | (16.9) |
| Repayment of capital to former members | (8.1) | (18.0) |
| Members' capital introduced | 10.5 | 17.1 |
| | (351.6) | (359.8) |

19. Analysis of change in net debt

| | 1 June 2004 £m | Cash flow £m | 31 May 2005 £m |
|--------------------------|----------------------|-----------------|----------------------|
| Cash in hand and at bank | 43.4 | (17.0) | 26.4 |
| Overdraft | (76.4) | 76.4 | - |
| | (33.0) | 59.4 | 26.4 |

Notes to the Financial Statements

Year ended 31 May 2005

20. Contingent liabilities

The group has:

- guaranteed the performance of Liberata plc, a former subsidiary of Deloitte & Touche, under certain of its contracts. The maximum amount payable under the guarantees at any point in time is the value of services rendered by Liberata plc under these contracts in the previous twelve months. At 31 May 2005 the contingent liability in respect of these guarantees amounted to approximately £70m. The contracts expire on various dates between January 2007 and March 2008. The group has the benefit of a counter indemnity for the full amount of these liabilities from those members and former members in Deloitte & Touche who are also minority shareholders in Liberata plc;
- guaranteed a performance bond of £5m, given by Barclays, to the Deloitte & Touche Pension Fund; and
- entered into a several guarantee to guarantee a proportion of certain liabilities of Deloitte Touche Tohmatsu. At 31 May 2005 the contingent liability under this guarantee amounted to \$126.1m.

21. Pension commitments

Pension benefits for eligible staff are funded through two main arrangements, the Deloitte & Touche UK Pension Scheme (D&TUKPS) and the Deloitte & Touche Retirement Plan (D&TRP). A number of smaller pension schemes, all defined contribution schemes, which were closed to new members were also in operation during the year.

The pension charge for the year was:

| | 2005 | 2004 |
|------------------------------|-------------|-------------|
| | £m | £m |
| Defined benefit scheme | 24.0 | 23.0 |
| Defined contribution schemes | 10.3 | 9.1 |
| | 34.3 | 32.1 |

During the year the group paid contributions of £30.4m in total to the pension schemes (2004: £17.1m). This included a special contribution of £10m.

Notes to the Financial Statements

Year ended 31 May 2005

21. Pension commitments (continued)

D&TUKPS

The D&TUKPS comprises three sections of which two, the Final Salary Section (FSS) and the Deloitte & Touche Pension Fund Section (D&TPFS), are defined benefit arrangements and one, the Money Purchase Section (MPS), is a defined contribution arrangement.

The most recent formal actuarial valuation of the D&TUKPS was carried out as at 30 September 2002 using the projected unit method. At that date, the market value of the defined assets of the FSS was £109m. This represented 58% of the value of the benefits accrued to members allowing for future increases in earnings. The next formal actuarial valuation will be carried out as at 30 September 2005.

The principal long-term assumptions in the 30 September 2002 valuation of the FSS were:

| | per annum % p.a. |
|----------------------|----------------------------|
| Future pay increases | 3.75 |
| Investment return | 5.94 |
| Increase in the RPI | 2.25 |

Following the 30 September 2002 valuation, a new schedule of contributions was agreed and signed which increased the employer contributions in respect of the FSS from 5% to 13.5% of members' contributions salary with effect from 1 November 2003. In addition, this new schedule of contributions introduced a salary sacrifice arrangement for members following which the employee contribution of 7.5% was consolidated with the employer contribution such that the total contribution was 21%.

The 30 September 2002 valuation identified a past service deficit of £80m. As a result, the principal employer agreed to an arrangement under the new schedule of contributions whereby additional contributions will be made if an agreed target funding ratio is not achieved each year. In this way, the FSS will be returned to a fully funded status over the expected remaining service lives of the members of the FSS.

The contracted-out FSS of the D&TUKPS was closed to new members with effect from 1 June 2001. Employees aged 30 and over are now invited to join the MPS which is a contracted-in defined contribution arrangement. In the MPS, employees contribute at 4% of basic salary, restricted to a maximum of the earnings cap. The employer credit in the MPS is 4% of basic salary for members aged between 30 and 39 and 6% of basic salary for members aged 40 and over – in both cases the maximum salary is restricted to the earnings cap. During the year ended 31 May 2005, these credits were funded in full by the group. A salary sacrifice arrangement exists for members of the MPS such that the employer credits total 105% of the member's salary sacrifice plus the relevant age-related employer credit.

Notes to the Financial Statements

Year ended 31 May 2005

21. Pension commitments (continued)

D&TUKPS (continued)

In May 2004 the D&TPFS was created following the merger of the Deloitte & Touche Pension Fund (D&TPF) with the D&TUKPS. The D&TPF was a contracted-out final salary arrangement which closed to new members in July 2002.

The most recent triennial valuation of the D&TPF, before the merger, was carried out as at 1 April 2001 using the projected unit method. At this date the market value of the defined assets was £101m. This represented 96% of the value of the benefits accrued to members allowing for future increases in earnings. The principal assumptions used were: future pay increases 4.0%, investment return 5.5% and increase in the RPI 2.5%.

On the transfer of the D&TPF into the D&TUKPS the Trustee and principal employer agreed that the employer contributions in respect of the D&TPFS should be the same as applied to the D&TPF prior to the transfer as stated below. It was also agreed that the additional funding arrangement as outlined above for the FSS should apply to the D&TPFS.

Employer contributions for the D&TPFS during the year were 11.9% of active members' pensionable salary and employee contributions were 5%. Active members of the D&TPF participate in a salary sacrifice arrangement and as a consequence employee contributions are consolidated with the employer contribution such that the total contribution is 16.9%.

D&TRP

The D&TRP is a contracted-out money purchase scheme, which closed to new members in July 2002. Contributions to the scheme are made by means of a salary sacrifice arrangement. Members are required to make an age-related salary sacrifice of between 0% and 5% of pensionable salary and the employer contributes 105% of the member's salary sacrifice. In addition, the employer makes age-related supplementary contributions of between 0% and 10% of pensionable salary. Supplementary contributions in respect of members not participating in a salary sacrifice arrangement are between 0% and 5% of pensionable salary for employees and between 0% and 10% of pensionable salary for the employer.

Life assurance

Life assurance benefits for all eligible staff are funded through the D&TUKPS. A charge is levied on the group for the cost of providing the lump sum death in service benefit.

Notes to the Financial Statements

Year ended 31 May 2005

21. Pension commitments (continued)

FRS17 Additional disclosures

The following disclosures are made in accordance with FRS 17 'Retirement benefits', an accounting standard that is not required to be adopted in full before the year ending 31 May 2006. The disclosures in this note are based on informal valuations at 31 May 2003, 2004 and 2005 completed by a qualified independent actuary, Hewitt Bacon & Woodrow Limited.

Since the FSS and D&TPFS are closed, the current service cost, as a percentage of relevant members' pay, is expected to increase gradually as the members reach retirement.

Main financial assumptions

The principal assumptions used by the independent qualified actuaries for FRS17 purposes were:

| | 2005 % p.a. | 2004 % p.a. | 2003 % p.a. |
|-----------------------------------------|----------------|----------------|----------------|
| Inflation | 2.7 | 3.0 | 2.5 |
| Rate of long-term increase in salaries | 4.2 | 4.5 | 4.0 |
| Rate of increase of pensions in payment | 2.7 | 2.8 | 2.5 |
| Discount rate for scheme liabilities | 5.2 | 5.8 | 5.1 |

Expected returns on assets

The assets in the scheme and the expected rates of return were:

| | Long-term rate of return expected at 31 May 2005 % p.a. | Value at 31 May 2005 £m | Long-term rate of return expected at 31 May 2004 % p.a. | Value at 31 May 2004 £m | Long-term rate of return expected at 31 May 2003 % p.a. | Value at 31 May 2003 £m |
|------------------------------|---------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------------------------|----------------------------------|
| Equities | 7.4 | 287.6 | 8.1 | 234.8 | 7.4 | 199.3 |
| Fixed Interest Gilts | - | - | 5.0 | 4.0 | 4.4 | 6.4 |
| Total market value of assets | | 287.6 | | 238.8 | | 205.7 |

Notes to the Financial Statements

Year ended 31 May 2005

21. Pension commitments (continued)

The following amounts would have been recognised in the financial statements under the requirements of FRS17:

Amount charged to operating profit

| | 2005 £m | 2004 £m |
|------------------------|-------------|-------------|
| Current service cost | 12.3 | 12.9 |
| Past service cost | 0.1 | 0.1 |
| | <hr/> | <hr/> |
| Total operating charge | 12.4 | 13.0 |

Amount credited to other finance income

| | 2005 £m | 2004 £m |
|------------------------------------------|--------------|--------------|
| Expected return on pension scheme assets | 19.4 | 15.1 |
| Interest on pension scheme liabilities | (22.3) | (19.4) |
| | <hr/> | <hr/> |
| Net cost | (2.9) | (4.3) |

Statement of total recognised gains and losses

| | 2005 £m | 2004 £m |
|----------------------------------------------------------------------------------|---------------|-------------|
| Actual return less expected return on pension scheme assets | 15.6 | 14.9 |
| Experience gains and losses arising on the scheme liabilities | (3.1) | 2.3 |
| Changes in assumptions underlying the present value of the scheme liabilities | (57.1) | 20.9 |
| | <hr/> | <hr/> |
| Actuarial valuation recognised in statement of total recognised gains and losses | (44.6) | 38.1 |

Balance sheet

| | 2005 £m | 2004 £m | 2003 £m |
|-------------------------------------|----------------|----------------|----------------|
| Total market value of assets | 287.6 | 238.8 | 205.7 |
| Present value of scheme liabilities | (469.8) | (381.2) | (376.9) |
| | <hr/> | <hr/> | <hr/> |
| Deficit in scheme | (182.2) | (142.4) | (171.2) |
| Related deferred tax asset | 10.7 | 8.4 | 10.1 |
| | <hr/> | <hr/> | <hr/> |
| Net pension liability | (171.5) | (134.0) | (161.1) |

Notes to the Financial Statements

Year ended 31 May 2005

21. Pension commitments (continued)

If the above amounts had been recognised in the financial statements, the group's net assets and reserves would be as follows:

| | 2005 £m | 2004 £m |
|-----------------------------------------------------------------------|--------------|--------------|
| Net assets excluding pension liability | 318.1 | 282.7 |
| Net pension liability | (171.5) | (134.0) |
| Net assets including pension liability | 146.6 | 148.7 |
| Members' other interests excluding pension liability | 318.1 | 282.7 |
| Net pension liability | (171.5) | (134.0) |
| Members' other interests – other reserves including pension liability | 146.6 | 148.7 |

The assets and reserves in the above table are stated net of the £37.4m pension liability (2004: £33.5m) calculated under SSAP 24, which is included within 'other creditors' within these financial statements.

Notes to the Financial Statements

Year ended 31 May 2005

21. Pension commitments (continued)

Movement in deficit during the year

| | 2005 £m | 2004 £m |
|----------------------------------|----------------|----------------|
| Deficit at beginning of the year | (142.4) | (171.2) |
| Current service cost | (12.3) | (12.9) |
| Contributions | 20.1 | 8.0 |
| Past service costs | (0.1) | (0.1) |
| Other finance cost | (2.9) | (4.3) |
| Actuarial (loss)/gain | (44.6) | 38.1 |
| Deficit at end of year | (182.2) | (142.4) |

History of experience gains and losses

| | 2005 £m | 2004 £m |
|-----------------------------------------------------------------|------------|------------|
| Difference between expected and actual return on scheme assets: | | |
| • Amount | 15.6 | 14.9 |
| • Percentage of scheme assets | 5% | 6% |
| Experience gains/(losses) on scheme liabilities: | | |
| • Amount | (3.1) | 2.3 |
| • Percentage of the present value of the scheme liabilities | 1% | 1% |
| Experience gains/(losses) on scheme liabilities: | | |
| • Amount | (44.6) | 38.1 |
| • Percentage of the present value of the scheme liabilities | 10% | 10% |

Notes to the Financial Statements

Year ended 31 May 2005

22. Financial instruments

Deloitte & Touche LLP's policy is to prudently manage the funds or borrowings of the group, and not to speculate in money market or foreign exchange dealings.

Short-term debtors and creditors, as defined in Financial Reporting Standard 13, 'Derivatives and other financial instruments: disclosures' ('FRS13'), have been omitted from all financial instrument disclosures, other than those relating to currency risk. As permitted by FRS13, the disclosures relate to the group only and do not include separate disclosure in respect of Deloitte & Touche LLP.

Interest rate risk

The financial assets comprise cash deposits of £26.4m (2004: £43.4m) and fixed asset investments of £64.9m (2004: £56.6m). The group's borrowings and any surplus cash balances are held at variable rates linked to LIBOR. The fixed asset investments earn interest at fixed rates of interest.

Liquidity risk

Financial risk is managed by ensuring sufficient liquidity is available to meet foreseeable needs.

During the year, borrowing facilities of £270m were negotiated with two leading international banks. These facilities are due to expire between 28 February 2006 and 31 March 2006 and renewal of the facilities, based on forecast requirements, will be renegotiated with expected renewal at satisfactory levels.

The maturity profile of the financial liabilities at 31 May 2005 was as follows:

| | 2005 £m | 2004 £m |
|-------------------------------------------------------------------|--------------|--------------|
| Facilities | <u>270.0</u> | <u>270.0</u> |
| Financial liabilities maturing in one year or less, or on demand: | | |
| Bank loans and overdrafts | <u>-</u> | <u>76.4</u> |

Undrawn committed borrowing facilities available at 31 May 2005 were £270.0m (2004: £193.6m).

Foreign currency risk

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 subsidiaries and transactions with Deloitte Touche Tohmatsu member firms.

The group does not hedge or enter into forward or derivative transactions and is exposed to translation and transaction foreign currency exchange risk.

The group had the following net foreign currency denominated monetary assets and liabilities:

| | 2005 £m | 2004 £m |
|-------------|-------------|-------------|
| US Dollar | 33.7 | 24.6 |
| Euro | 1.5 | 5.4 |
| Swiss Franc | 0.2 | 0.3 |
| | <u>35.4</u> | <u>30.3</u> |

Notes to the Financial Statements

Year ended 31 May 2005

22. Financial instruments (continued)

Fair value of financial assets and financial liabilities

Set out below is a comparison of fair values and book values of all the group financial instruments by category.

Fair values for investments denominated in US dollars have been calculated at year end exchange rates. Fair values for cash and debt are equal to book value owing to the short maturity of these instruments.

| | 2005 | 2005 | 2004 | 2004 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
| | Book value | Fair value | Book value | Fair value |
| | £m | £m | £m | £m |
| Cash at bank and in hand | 26.4 | 26.4 | 43.4 | 43.4 |
| Investments | 64.9 | 64.9 | 56.6 | 56.6 |
| Short-term borrowings | - | - | (76.4) | (76.4) |

23. Related party transactions

Deloitte & Touche LLP has relied upon the exemption given in Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions between itself and its subsidiary undertakings.

Partners

| | | | | | |
|--------------------|--------------------|--------------------|-----------------------|----------------------|---------------------|
| Tamsin Abbey | Ken Bransom | Andrew Daley | Byron Griffin | Philip Johnson | Anne-Marie Malley |
| John Adam | Louise Brett | Nick Dargan | Nick Griffin | Nick Johnson | Lee Manning |
| Ralph Adams | Caroline Britton | Nigel Davey | Debbie Griffiths | Nigel Johnson | Simon Manning |
| Chris Adams | Chris Brough | John Davidson | Gwyn Griffiths | Philip Johnson | Mohan Manuel |
| Kevin Ahern | David Brown | Mark Davies | Stephen Griggs | Duncan Johnston | Anna Marks |
| Neil Allcock | Ed Brown | Tim Davis | Andrew Grimstone | David Jones | Jason Marsh |
| Peter Allred | Ian Brown | Tim Davy | Oliver Grundy | Andrew Jones | Angus Martin |
| Steve Almond | Ian A. Brown | Bill Dawson | | Dan Jones | Elizabeth Martin |
| Iraj Amiri | Robert Bryant | Stephen Dickens | | Martyn Jones | Andrew Martyn-Johns |
| Pauline Anderson | Richard Buck | Christopher Digby | Martin Hagen | Michael Jones | Chris Maton |
| Debbie Anthony | Andrew Buckle | Simon Dixon | David Hall | Neil Jones | Rob Matthews |
| John Antoniazzi | Gavin Bullock | Mike Dobby | David Halstead | Louis Jordan | John Maxey |
| Tim Archer | Glyn Bunting | Bill Dodwell | Gordon Hamilton | | Bob Maxwell |
| Dean Arnold | Sandra Burling | Patrick Doherty | Gavin Hamilton-Deeley | | Stuart McCabe |
| Carol Arrowsmith | Elizabeth Burnie | Mark Doleman | Richard Hammell | Neville Kahn | Tony McClenaghan |
| Alexander Arterton | Andrew Burns | Gordon Dootson | Simon Hammett | Jan Kamieniecki | Nigel McCrea |
| Keith Ashworth | Tony Butcher | Cahal Dowds | John Hammond | Philip Kaye | Simon McCready |
| Carol Atha | Alex Butterworth | Andrew Downes | Heather Hancock | Tom Keenan | Trevor McDonagh |
| Mark Atkinson | | Tom Downing | Kendra Hann | Jack Kelly | Kenneth McFarlane |
| George Atterbury | Cindy Cahill | Bob Doye | Edward Hanson | Bernard Kenny | Carole McGregor |
| Shaun Austin | Donald Campbell | Malcolm Drysdale | John Hardy | John Kerr | Ian McIsaac |
| Penny Avis | George Campion | Eliza Dungworth | John Hardy | Michael Kerr | Gordon McKechnie |
| Terry Awan | Nic Carrington | David Dutt | Deepak Haria | Nicola Kerr | Ian McNeil |
| | Jeremy Casson | | Andy Harris | Martin Kilburn | Lisa McNulty |
| Richard Baddon | Ross Cattell | Martin Eadon | Neil Harris | John Kilby | Mark McQueen |
| Mark Baines | David Caukill | Rose Edmunds | Peter Hartill | Carl King | Carl Mellor |
| James Baird | Sabri Challah | Nick Edwards | Mike Hartley | Doug King | Nigel Mercer |
| Michael Baird | Alison Chapman | Richard Edwards | Chris Harvey | Martin Kitcatt | Roger Miles |
| Adrian Balcombe | Stephen Charge | Maghsoud Einollahi | Orlando Harvey Wood | Stephen Knight | Philip Mills |
| Andrew Ball | Warren Chester | George Elkington | Humphry Hatton | Richard Knights | Kerr Mitchell |
| Rick Ballard | Rajeev Chopra | Matt Ellis | Julian Hawkins | Dennis Knowles | Nikki Mitchell |
| Jolyon Barker | Andrew Clark | Roger Esler | Alison Haynes | Angus Knowles-Cutler | Fergus Mitchell |
| Daniel Barlow | Ian Clark | David Evans | Laurence Hedditch | Eggie Kock | Margaret Mitchell |
| David Barnes | Harold Clarke | Hugh Evans | Derek Henderson | Ian Krieger | Peter Moller |
| Stuart Barnett | Jeff Clarke | Nick Evans | Stuart Henderson | Alex Kyriakidis | Rod Moonie |
| Sue Barratt | Paul Clarke | Phill Everson | John Henshall | | Jason Moore |
| Catherine Barton | David Claxton | | Mary Hensher | Anthony Landes | Alan Morgan |
| Ian Barton | John Clennett | Douglas Farish | Warwick Hensley | Sarah Lavan | Andy Morris |
| Richard Barton | David Cobb | Tony Farnworth | William Higgins | Mark Lawrie | Tony Morris |
| Richard Baxter | Emma Codd | Paul Feechan | Paula Higgleton | Martin Laws | Craig Muir |
| Dan Beanland | Tony Cohen | Alan Fendall | Mark Hill | Julia Le Blan | Peter Muir |
| Allan Beardsworth | Robin Cohen | James Ferguson | Andrew Hillman | Julian Leake | Mark Mullins |
| Neil Beaton | Bill Cohen | Sally Fisher | Carol Hindle | Chris Leck | Gerry Murphy |
| Mark Beddy | Neil Coles | Chris Fitzgibbon | David Hindley | Mark Lee-Amies | Tim Murphy |
| Sean Beech | Russell Collins | Mark FitzPatrick | Jonathan Hinton | James Leigh | David Murray |
| David Bell | Vince Colvin | Albert Fleming | Peter Hipperson | Phil Lemanski | Richard Muschamp |
| Richard Bell | Greg Conminos | Richard Flinn | Andy Hodge | Simon Letts | |
| Mike Bell | Sue Conder | Linda Foster | Tony Hodgson | Tom Lewthwaite | Paul Nash |
| David Belward | Joe Conneely | John Foster Thomas | Robert Hodgkinson | Mike Lloyd | Kirsty Newman |
| Joanne Bentley | John Connolly | John Fotheringham | Peter Holmes | Richard Lloyd-Owen | Peter Newman |
| Mark Bezant | Tony Cooper | Pesh Framjee | Ian Hook | Phil Lobb | Andy Newsome |
| Bharat Bhayani | Bill Cooper | Paul Franek | Richard Houston | Jane Lodge | Vince Niblett |
| Robin Binks | Michael Corrigan | Norbert Frank | Ross Howard | Gerry Loftus | Henry Nicholson |
| John Binns | Stuart Cottee | Sharon Fraser | Neville Howard | Pat Loftus | Phil Nicklin |
| Trevor Birch | Stuart Counsell | Nicola Freeman | Andrea Howl | David Logan | David Noon |
| John Bird | Emma Cox | | Colin Hudson | Darren Longley | David Norton |
| Aidan Birkett | Richard Crane | Rick Garrard | Neil Hudson | Chris Loughran | Richard Norton |
| Richard Blackwell | David Crawford | Kirsty Garrard | Carl Hughes | Nikki Lovejoy | |
| Zahir Bokhari | Simon Creedy-Smith | Allan Gasson | David Hughes | Howard Lovell | Peter O'Donoghue |
| Alison Bond | Kevin Cresswell | Michael Gell | David Hume | Jane Lucien-Scholte | Roy O'Neil |
| Clive Bouch | David Cruickshank | Colin Gibson | Lawrence Hutter | Paul Lupton | James O'Riordan |
| Tony Bowers | Neil Cruickshanks | Lis Gibson | | Daniel Lyons | Jonnie Oldham |
| Gerry Boyle | Michael Cullen | Richard Gilroy | Frank Ilett | | Richard Olver |
| Jim Boyle | John Cullinane | Mark Goodey | Will Inglis | John Macintosh | David Owen |
| Marcus Boyle | Greg Culshaw | Andrew Gordon | Joe Ippolito | Carol MacKinnon | George Owen |
| Charles Bradbrook | Jane Curran | Bruce Gordon | | Iain MacKinnon | Nick Owen |
| Rob Bradbury | Andrew Curwen | Andrew Goulden | Alastair James | Iain Macmillan | Simon Owen |
| Neville Bramwell | | Jon Graham | Ross James | Anthoula Madden | |
| Greg Branch | | Peter Gratton | Martin Jenkins | Timothy Mahapatra | |
| Steve Brandon | | Vimi Grewal | Nick Johnson | Patrick Maher | |
| | | | Nigel Johnson | | |

Partners

Mark Pacitti
 Gerry Paisley
 Stephen Palmer
 Demos Papasavvas
 David Parry
 Peter Parsons
 Shirish Patel
 David Paterson
 Ellie Patsalos
 Tony Patteson
 Chris Pearson
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