

# Annual Review 2010/2011

Ernst & Young the Netherlands

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# Profile



Ernst & Young is a global multidisciplinary provider of Assurance, Tax, Advisory and Transaction Advisory Services. Legal and notarial services are offered in the Netherlands through a strategic alliance between Ernst & Young Belastingadviseurs LLP and Holland Van Gijzen Advocaten en Notarissen LLP. Our professionals translate the problems facing our clients into services that provide solutions. The high standards we set on quality, transparency, integrity and professionalism form the framework in which we operate. Ernst & Young helps clients improve their financial performance and achieve growth and advises on risk management. Ernst & Young's history in the Netherlands dates back to 1883, making it the oldest firm in its profession.

## **Strong global organization**

We are part of a strong global organization. To meet efficiently and effectively our clients' demands for multidisciplinary services of the same recognizable quality everywhere in the world, Ernst & Young has a highly integrated global organization. Decision lines are very short and we are able to bundle exceptional knowledge and experience efficiently and select international teams that meet the clients' needs promptly.

Ernst & Young is organized into four geographical areas: Americas, EMEA (Europe, Middle East, India and Africa), Asia-Pacific and Japan.

Ernst & Young's activities in the Netherlands are a geographical part of the EMEA organization, consisting of 93 countries divided into 11 geographic

sub areas and the Financial Services sub area, which facilitates all services provided to the financial sector. Together with Belgium, the Netherlands forms the "BeNe" sub area. This report reflects the Netherlands operations including Holland Van Gijzen Advocaten en Notarissen LLP.

## **Quality**

We stand for "Quality in everything we do." As Ernst & Young, we play an important role in society. Transparency, reliability and independence underpin confidence in the financial markets and strengthen economic development. Quality for our clients is at the top of our agenda and we continuously seek improvement. More information can be found in our Transparency Report.

## **Our people**

In a knowledge organization such as ours, it is people, their professionalism, personality, competences, values and integrity, that determine the quality of our services. We attach great importance to good employment practices, which we believe are essential to attract and retain staff of the appropriate caliber. We give priority to professional and personal development, diversity, employment conditions and employee engagement. We also encourage international mobility to enable people to achieve their potential.

At the end of the fiscal year 2010/2011 Ernst & Young in the Netherlands employs 3,642 people and has 234 partners. Ernst & Young has 17 offices located throughout the Netherlands.

# Profile

## **Our values**

Our people share the same values worldwide. Our Values Statement is the universal Ernst & Young declaration that sets out who we are and what we stand for:

- People who demonstrate integrity, respect, and teaming
- People with energy, enthusiasm, and the courage to lead
- People who build relationships based on doing the right thing

Our values form the framework in which our people operate.

## **Corporate Responsibility**

We want to contribute to the sustainable performance of our clients and our own organization and thus to an economic climate in which sustainability comes first. In this light, we focus on:

- Entrepreneurship: encouraging sustainable growth business models
- Employees: good employment practices
- Environment: reducing the ecological footprint
- Community Engagement: sharing know-how and skills with society

More information is available in our Corporate Responsibility Report.



# Key figures<sup>1</sup>

(€000)

## Combined Statement of Ernst & Young Nederland LLP en Holland Van Gijzen Advocaten en Notarissen LLP

### Revenue

Fee income from rendering services  
Other income

Fee income per FTE

### Fee income by Service Line

Assurance  
Tax<sup>2</sup>  
Advisory  
Transaction Advisory Services

### Staff

Employee expenses per FTE  
Absence due to illness

### Average number of FTE staff and partners

Client serving staff  
Support staff

Total staff  
Partners

### Financial results

Operating profit  
Profit from continuing operations

Income available for distribution  
Average partners income<sup>3</sup>

2010/2011

Δ%

2009/2010

Δ%

2008/2009

633,864

-2.8

651,894

-5.8

691,761

19,228

25.1

15,375

459.3

2,749

**653,092**

**-2.1**

**667,269**

**-3.9**

**694,510**

170

0.6

169

0

169

293,078

-5.1

308,798

-4.3

322,707

232,051

0.3

231,274

-2.5

237,292

75,336

-8.5

82,347

-18.3

100,774

33,399

13.3

29,475

-4.9

30,988

**633,864**

**-2.8**

**651,894**

**-5.8**

**691,761**

66

3.1

64

0

64

3.1%

0.2-pts

2.9%

0.1-pts

2.8%

2,630

-0.4

2,641

0.1

2,638

875

-10.8

981

-19.3

1,215

3,505

-3.2

3,622

-6.0

3,853

234

-1.7

238

-0.4

239

**3,739**

**-3.1**

**3,860**

**-5.7**

**4,092**

148,480

-8.0

161,459

-2.0

164,679

128,091

-9.8

142,059

-4.2

148,274

112,519

-7.9

122,207

-2.4

125,178

481

-6.4

513

-2.0

524

1) Discontinued operations have been eliminated. Reference is made to the appendix of the financial statements.

Financial figures are presented as from fiscal year 2008/2009 as Ernst & Young Nederland LLP became member of the EMEIA area in that year.

2) Including fee income from Holland Van Gijzen Advocaten en Notarissen LLP.

3) Income to cover partners salary, pension, social security, business expenses and insurances, wage and corporate income tax and entrepreneurial profit.

# World of Ernst & Young

## Service Lines

ASSURANCE	TAX	ADVISORY	TRANSACTION ADVISORY SERVICES
<ul style="list-style-type: none"> <li>▸ External Audit</li> <li>▸ Accounting Compliance and Reporting</li> <li>▸ Climate Change and Sustainability</li> <li>▸ Financial Accounting Advisory</li> <li>▸ Fraud Investigation &amp; Dispute</li> </ul>	<ul style="list-style-type: none"> <li>▸ Business Tax</li> <li>▸ Human Capital</li> <li>▸ Indirect Tax</li> <li>▸ International Tax</li> <li>▸ Transaction Tax</li> <li>▸ Legal &amp; Notarial Services (through Holland Van Gijzen Advocaten en Notarissen LLP)</li> </ul>	<ul style="list-style-type: none"> <li>▸ Performance Improvement</li> <li>▸ Risk Management</li> <li>▸ IT Risk and Assurance</li> </ul>	<ul style="list-style-type: none"> <li>▸ Transaction Support</li> <li>▸ Valuation &amp; Business Modelling</li> <li>▸ Restructuring &amp; Working Capital</li> <li>▸ Lead Advisory</li> <li>▸ Operational Transaction</li> </ul>

## Our industries

Financial Services

Automotive

Consumer Products

Government & Public Sector

Life Sciences

Media & Entertainment

Oil & Gas

Power & Utilities

Private Equity

Real Estate

Technology

Telecommunications

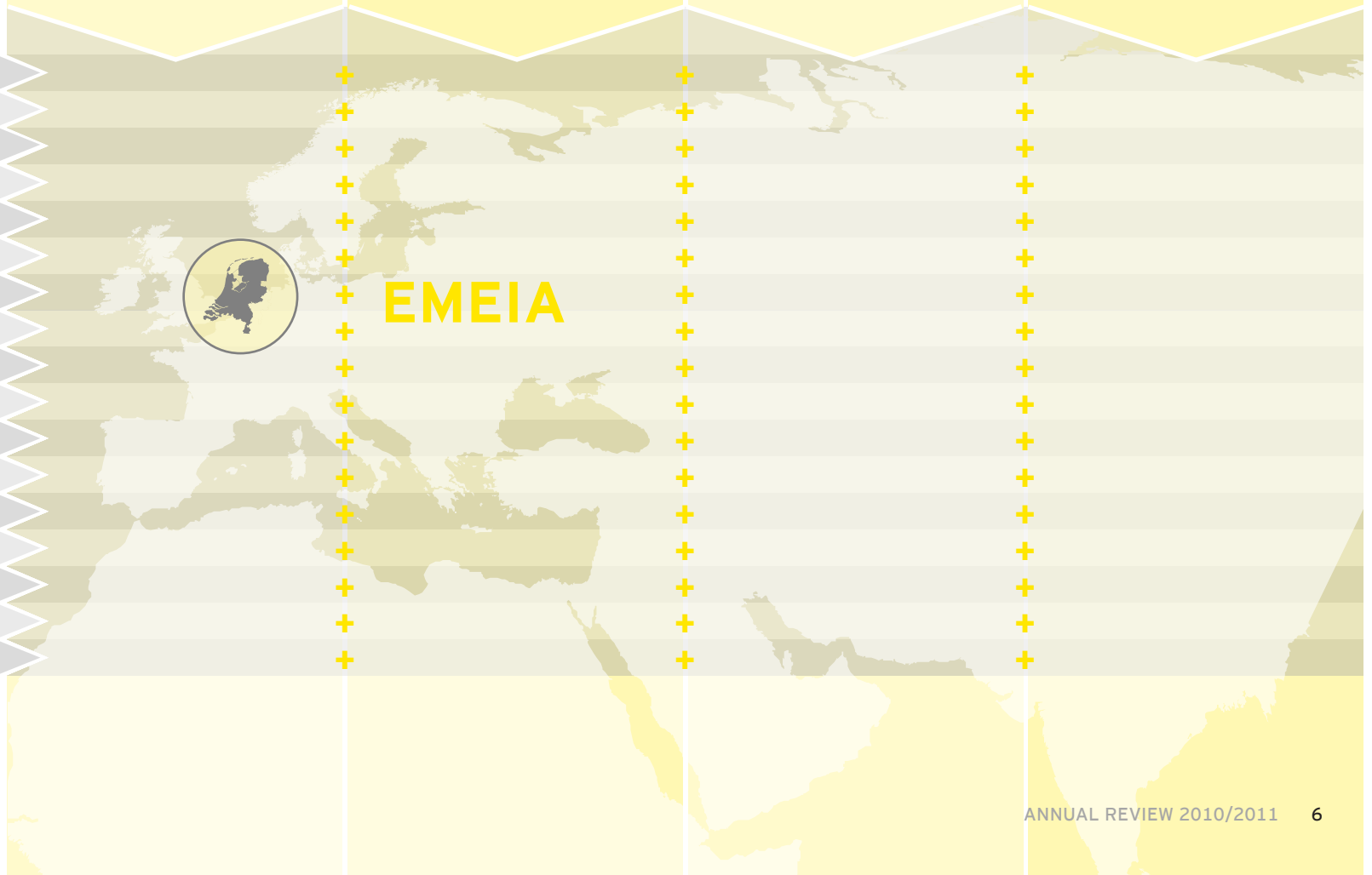
Diversified Industrial Products

Transport & Logistics

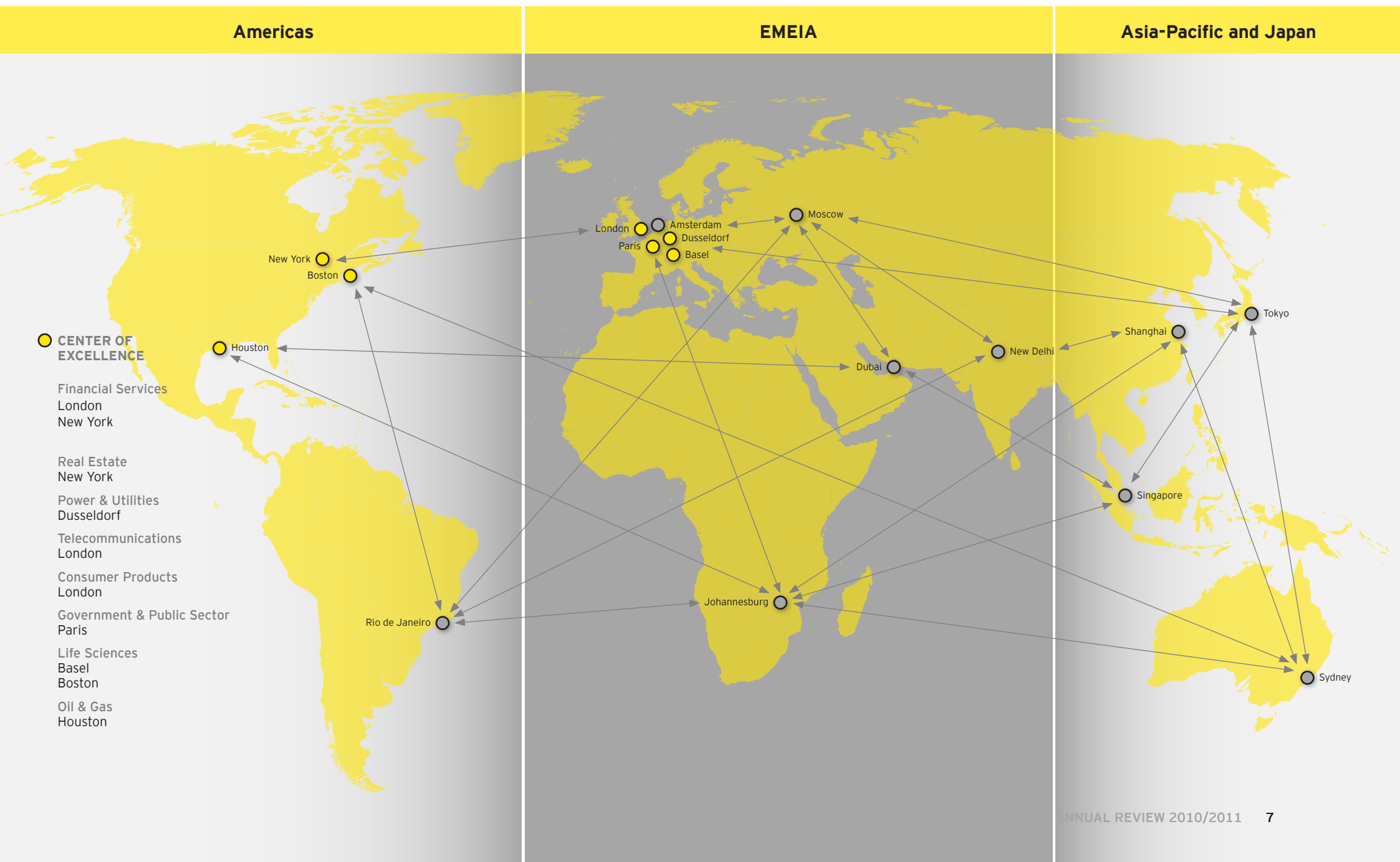
Professional Firms & Services

Health Care

Retail & Wholesale



# Ernst & Young Global integrated organization



# Report of the Board

## Letter from the Managing Partner

It is my pleasure to present the Annual Review of Ernst & Young in the Netherlands. This review considers the main developments and results of Ernst & Young in the Netherlands for the fiscal year 2010/2011 (July 1, 2010 - 30 June 2011). We have also published our first Corporate Responsibility Report this year. It is a first step towards a fully integrated report. Such publications are important in view of our ties with the local market and the position we hold in the Netherlands. We work internationally having our home base in the Netherlands. The same is true of our people and of the majority of our clients. Secondly, we have published this review because we endorse the core principles of good corporate citizenship. We are transparent. Transparency is in keeping with the social function we wish to fulfill. We therefore provide information on what we have done and what we stand for.

### Transparency

Because we have a role to play in society, we listen closely to what society and politicians are saying about us. And they are saying quite a lot! Since the financial crisis broke out, there has been a great deal of criticism about the role of auditors. We are open to criticism and take it seriously. And because we are fully aware that the social function is one of the auditor's most important functions, we take action.

We take action to further improve "Quality in Everything We Do". Quality improvement is an essential, never-ending task. In the year under review we raised the number of our Audit Quality Reviews, invested more in training and education and introduced special courses on professional skepticism and improved communication by the auditor. Furthermore, we started a far-reaching program, "Investing in Quality", to further strengthen our "Quality First" mindset and align our internal processes with our quality drive.

We are transparent about what we do and why we work the way we do. We observe the comply or explain principle to make clear what we do and what we will improve or what should stay as it is and why. We consider this in more detail in the Transparency Report published at the same time as this review.

### Basis for tomorrow

Although the economy has not yet returned to the level seen before the financial crisis, we succeeded in maintaining our revenue at a reasonable level with a modest decline of 2.1%. Tax turned in a solid performance and so did Transaction Advisory Services. Assurance showed a decrease compared to the previous year. Performance at Advisory was weakened by fierce competition brought about by the lower volume of work in the market. Our operating expenses were slightly lower than in the previous year, despite the substantial investments we made in the quality of our services. Consequently operating profit dropped to €148.5 million.



Pieter Jongstra



# Report of the Board

## Letter from the Managing Partner

Nevertheless, I can look back on the year with satisfaction because we can clearly see the benefits we have as a highly integrated global organization. Decision lines are very short, our innovative power is strengthened by the global knowledge we can draw on and share with each other and we can assemble international teams quickly to meet the needs of our clients. Our Global Compliance & Reporting services are a good example of this.

I am also pleased with all the investments we have made and the measures we have taken to strengthen our position as a multidisciplinary service provider. We have invested a great deal in systems, training courses and education, both in professional and non-professional areas. After all, we can always do better. Furthermore, we have sharpened our focus on client groups and markets and have a clear vision of our growth opportunities. During the year we further developed the growth markets we identified in the previous year, such as Health Care, Consumer Products and Real Estate, in which we can make a real difference. We have made additional investments in people and business development in these markets. The acquisition of Partake Consulting will also strengthen our position in the field of Enterprise Intelligence Business Performance. We are now market leader in Enterprise Intelligence in the Netherlands, Belgium and France.

We have also made great strides in the field of Corporate Responsibility. Awareness has been heightened. Corporate Responsibility is part of the DNA of our organization and thus our services. All these achievements might not be immediately visible in the results for this year but they have laid solid foundations for us to resume the upward trend.

### **Progress made towards market leadership**

The challenge facing Ernst & Young in the Netherlands is to constantly improve. Our strategy is directed at achieving market leadership by 2013. In other words, we want to be the best in the eyes of our clients. We want to be a global service provider to our clients, offering multidisciplinary services to a wide range of challenges and problems. We stand side by side with our clients and help them ask themselves the right questions. We do so, for example, through our global client programs, in which we investigate their businesses, strategies and successes worldwide and place the findings in their own settings so that they can understand the relevance of our investigations to their operations.

During the year, we carried out a series of studies within the EMEIA organization as part of the Competing for Growth theme in which we investigated the various factors that determine an enterprise's or organization's success. The studies and, for example, the Top 10 business risks publication form a solid platform for talks with our clients. Within the Dutch organization, the investigations have been refined for the local market.

# Report of the Board

## Letter from the Managing Partner

The clients' appreciation of our approach is reflected in the progress we have made in our market leadership. We measure four factors of market leadership: brand, revenue, relations and reputation. We have made significant progress in the past two years in particular in branding. An independent survey in the Netherlands of CFOs and CEOs of larger companies found that we are number one for favorability and attractiveness. With regard to revenue, the second key aspect of leadership, we are catching up with the market leader. During the past year we gave an extra boost to our market leadership ambition by launching an internal three-year program, EverY1, to inspire and challenge our staff.

### **2011/2012 another challenge**

The past year asked a great deal of us. The challenges in the year ahead will be just as great. In contrast to the emerging markets, growth in European countries will be limited. There are still many fundamental problems, such as the debt crisis in the euro zone. Efficiency and simplification will remain important issues in both the private and the public sector. We expect a further increase in demand for our expertise in a variety of areas.

We are seeking modest growth in the year ahead. Quality and efficiency will again have high priority. Finally, our firm must rise to the daunting challenge of recruiting and retaining talented employees now that conditions on the labor market are tightening again.

Being critical about ourselves is ultimately the best way to future-proof our quality standards. Continuous improvement also requires continuous investment in our people, not only to ensure they have and retain the right competences and skills but also to make them feel part of a larger whole, of one Ernst & Young. I realize we ask a lot of our people. I am proud of this vibrant organization and its passionate, hard-working professionals.

We are well on course and will continue at full steam. I would like to thank all our people for the dedication, knowledge, know-how and experience they have contributed to our performance. And I would also like to thank our clients, partners and suppliers for their trust.

**Pieter Jongstra**

*Managing Partner, Ernst & Young the Netherlands*

# Report of the Board

## Results<sup>4</sup> and Prospects

### Revenue

Ernst & Young in the Netherlands (including Holland Van Gijzen) reported revenue for the fiscal year 2010/2011 ending June 30, 2011 of €653.1 million, a decline of 2.1% on the previous fiscal year. Volume, i.e. the number of charged hours, modestly increased during the year. On balance, however, revenue was lower on account of higher investments in quality, fierce competition and economic slowdown. Hence, revenue per charged hour was lower than in the previous fiscal year.

Assurance remains our largest Service Line, with revenue of €293.1 million, though its revenue dropped by 5.1% compared to the previous fiscal year as a reflection of the competition and slowdown. We also spent more non-chargeable hours per client on quality improvements. Tax followed with revenue of €232.1 million, an increase of 0.3% since it was able to keep its volume and price at a good level. Advisory's reported revenue dropped by 8.5% to €75.3 million. Here, price competition and declining demand were the main drivers of the negative trend. Transaction Advisory Services (TAS) increased its revenue by 13.3% to €33.4 million, which was caused by a substantial increase in volume.

4) Discontinued operations have been eliminated.  
Reference is made to the appendix of the financial statements.

### Revenue

	2010/2011	2009/2010	
	€000	€000	Δ%
Assurance	293,078	308,798	-5.1
Tax	232,051	231,274	0.3
Advisory	75,336	82,347	-8.5
Transaction Advisory Services	33,399	29,475	13.3
Rendering of services	633,864	651,894	-2.8
Other income	19,228	15,375	25.1
	<b>653,092</b>	<b>667,269</b>	<b>-2.1</b>



# Report of the Board

## Results and Prospects

### Operating expenses

Our operating expenses slightly decreased by 0.2% to €504.6 million.

The operating expenses consist of purchased services, employee expenses, depreciation and amortization, and other operating expenses. Purchased services, i.e. cost of services and expenses attributable directly to engagements, showed a decline of 5.9% which is largely a reflection of the revenue development. Due to diminishing investments in tangible and intangible assets, depreciation and amortization dropped by 3.4% to €17.2 million.

Other operating expenses mainly include cost of premises, other staff expenses (e.g. recruitment, training, etc.), travel and office expenses, IT costs, international charges and foreign exchange results. Overall, the rise in other operating expenses of €3.7 million was the net effect of increases in premise and office expenses and decreases in other staff expenses and IT costs.

### Operating expenses

	2010/2011	2009/2010	
	€000	€000	Δ%
Purchased services	69,907	74,269	-5.9
Employee expenses	232,746	232,664	0.0
Depreciation and amortization	17,156	17,760	-3.4
Other operating expenses	184,803	181,117	2.0
	<b>504,612</b>	<b>505,810</b>	<b>-0.2</b>

# Report of the Board

## Results and Prospects

Our employee expenses remained stable to €232.7 million, largely the outcome of a €1.1 million increase in salaries and bonuses offset by a €1.3 million decline in pension contribution. In comparison with the previous year the average number of client serving staff and support staff decreased by 3.2%, causing a reduction in staff expenses. Here, our global organization continues to provide substantial quality and cost benefits in streamlining services. However, an increase in average salaries offset the reduction by 3.8%. On balance salaries and bonuses increased by 0.6%. The reduction in pension contributions, was caused mainly by a one-time contribution of €1.2 million in previous year. Finally, social security charges basically remain flat (1.3%).

Employee expenses	2010/2011	2009/2010	Δ%
	€000	€000	
Salaries and bonuses	186,813	185,702	0.6
Social security charges	23,879	23,577	1.3
Pension contribution	22,054	23,385	-5.7
	<b>232,746</b>	<b>232,664</b>	<b>0.0</b>



# Report of the Board

## Results and Prospects

The average number of client serving staff during the fiscal year 2010/2011 declined by 0.4% to 2,630 FTEs. Including partners, the average number of client serving professionals was 2,864 FTEs. As a result of the global integration, the number of support staff fell significantly, by 10.8% to 875 FTEs. Consequently, the ratio of client serving professionals to support staff improved from 2.9 to 3.3.

Average number of FTE staff and partners	2010/2011	2009/2010	Δ%
Client serving staff	2,630	2,641	-0.4
Partners	234	238	-1.7
Client serving professionals	2,864	2,879	-0.5
Support staff	875	981	-10.8
	<b>3,739</b>	<b>3,860</b>	<b>-3.1</b>

# Report of the Board

## Results and Prospects

### Results

In the light of these developments, our operating profit declined by 8.0% to €148.5 million. Including the effect of an increase in financial expenses of €1.0 million and taxes being flat, profit from continuing operations for fiscal year 2010/2011 came to €128.1 million. In comparison with fiscal year 2009/2010 profit declined by 9.8%.

Profit for the financial year	2010/2011	2009/2010	Δ%
	€000	€000	
<b>Operating profit</b>	<b>148,480</b>	<b>161,459</b>	<b>-8.0</b>
Finance income and expenses	-19,655	-18,664	5.3
<b>Profit before tax</b>	<b>128,825</b>	<b>142,795</b>	<b>-9.8</b>
Income tax expenses	-734	-736	-0.3
<b>Profit from continuing operations</b>	<b>128,091</b>	<b>142,059</b>	<b>-9.8</b>

# Report of the Board

## Results and Prospects

### Equity

On 30 June 2011 contractual terms with respect to repayment of partners capital of only Ernst & Young Nederland LLP were amended. Prior to 30 June 2011 partners had an unconditional entitlement to a yearly interest allowance as well as an unconditional entitlement to immediate repayment of the capital provided after termination of the partnership. From 30 June 2011 both the interest allowance and the repayment of partners capital are subject to decisions of the Board of Ernst & Young Nederland LLP. As a result of these amendments the classification of the partners capital amounting to €75 million changed from a financial liability at 30 June 2010 into equity at 30 June 2011 which is more in line with the economic reality. In addition, equity further increased by €5.5 million regarding the interest allowance on partners capital.

The combined statement of financial position as of 30 June 2011 shows a positive equity of €34.9 million and net current partners interest of €69.6 million. The settlement of the drawing rights in 2006/2007 and 2008/2009 negatively impacted equity and will be funded each year by then profit-sharing partners up to 2026. Overall the financial position is sound.

### Cash flow

Our cash position declined by €18.8 million to €68.6 million at the end of fiscal year 2010/2011. Our operational cash flow diminished by €20.2 million to €145.2 million. This was driven to a large extent by the decline in revenue and an increase of the revenue days. We have taken steps to reduce the working capital. Investments in tangible and intangible assets and proceeds from disposals led to cash in from investment of just €0.1 million. Finally, cash out from financing activities decreased by €12.9 million to €164.1 million, mainly the result of lower profit distributions to and withdrawals from partners.

# Report of the Board

## Results and Prospects

Cash flow	2010/2011	2009/2010	
	€000	€000	Δ%
Net cash flows from operating activities	145,234	165,467	-12.2
Net cash flows used in investing activities	77	-3,832	-102.0
Net cash flows used in financing activities	-164,079	-176,999	-7.3
<b>Net cash flow</b>	<b>-18,768</b>	<b>-15,364</b>	<b>22.2</b>
Net cash and cash equivalents in 1 July	87,319	102,683	
Net cash flow	-18,768	-15,364	
<b>Net cash and cash equivalents in 30 June</b>	<b>68,551</b>	<b>87,319</b>	

### Prospects for fiscal year 2011/2012

Due to the current economic circumstances, including the continuing debt crisis in Europe, reduced trust and declining GDP growth rates in the second quarter of calendar year 2011, it is difficult to make predictions about fiscal year 2011/2012

# Report of the Board

## Human Resources

In a knowledge organization such as ours, the quality is determined by our people, their professionalism, personality, competences, values and integrity. We attach great importance to being an employer of choice, which we believe is essential if our people are to perform to their full potential. Our people are also essential in terms of the organization's ability to attract and retain people of the appropriate caliber. We therefore recognize the great importance of professional and personal development, Diversity & Inclusiveness and vitality.

### Changes within the organization

Over the past three years, our people have seen a number of internal changes which made significant demands on their flexibility. In 2008, Ernst & Young transitioned into becoming a highly integrated global organization, adopting an ambitious strategy to pursue market leadership by 2013. The strategy calls for even more attention to quality and operational excellence. During the transition period, the organization also had to contend with the effects of the global economic crisis. We took drastic measures to reduce operational expenditure, including a freeze on wage costs. An efficiency program was introduced which involved restructuring processes such as secretarial support and financial administration. This inevitably increased the staff workload.

At the same time, we continued to pursue further quality improvement. We became more alert to the individual performance of employees and we examined the extent to which certain positions met the organizational requirements. We approached all change processes with due caution, devoting a lot of attention to the social aspects, i.e. the implications for staff. Every effort was made to find alternative employment for those whose job ceased to exist. It must be remembered that the measures affected not only the staff who left us, but also those who remained. In these circumstances, it is of paramount importance that working conditions and opportunities for professional and personal development are maintained at a very high level.

At the end of fiscal year 2010/2011, the staff level was 3,642 (headcount), excluding partners. We welcomed 655 new employees and took leave of 728 employees. This outflow was a logical result of the usual annual turnover in combination with an efficiency program aimed at reducing the number of support staff through globalization by adopting alternative working methods. In parallel, we saw the off-shoring of some client service activities. Although we have been pursuing this avenue on a limited scale, it is clear that it is more efficient to have some of the more routine work (for example some of our compliance work) carried out by the Global Talent Hub in India. The off-shoring process anticipates also the likely shortages in the labor market in Europe.





# Report of the Board

## Human Resources

### Learning & Development

During the year, the organization's expenditure on learning and development amounted to €9.3 million. Relative to staff numbers, this increase per capita was due in part to the greater focus on quality as well as the desire to promote professionalism and to create a more critical mindset among professionals.

Ernst & Young introduced Ernst & Young and You (EYU) for its people a few years ago; a holistic approach that connects learning, experiences and coaching to facilitate our people to take ownership of their own potential, whether social, emotional or professional, and of their own personal wellbeing. The approach encourages people to improve their performance and optimize their career opportunities. It seeks to develop knowledge, skills and competences by offering learning opportunities and connecting them to on-the-job-experiences and it stimulates a coaching mindset that applies to every employee's daily interaction with clients, colleagues and superiors. The global nature of our organization benefits both clients and staff. We encourage employees to gain experience across Service Lines, sectors and geographical locations at home and abroad. Our focus on international mobility offers staff yet another opportunity to develop their talents. During the year, 92 employees took up a posting abroad within the EY organisation, while 42 people from other countries spent time working in the Netherlands. We are currently examining the possibility of linking postings to pro bono projects in countries such as India.

Many of our training programs are international in nature. During the year, a number of milestone events were organized for staff who were recently promoted to a certain level within the organization, such as senior staff, manager or senior manager. The milestone events are of several days' duration and are attended by hundreds of staff from all over the world, including many from the Netherlands. The events are considered extremely inspiring and motivational experiences, greatly contributing to the sense of unity and the global character of our organization.

### Diversity & Inclusiveness

We would like our people to reflect the diversity of talent available in society at large. Our clients rightfully expect this of us. In recent years, we have been successful in increasing the number of women in senior positions. In 2005, only 3% of our partners were female. By fiscal year 2010/2011, this figure has increased to 9.6%. To ensure retention of female managers, senior managers and directors, we offer individual support in their personal and professional development through our Career Watch program, in which experienced partners are involved as mentors and coaches. During the year, Women's Leadership Programs took place at national and EMEIA level and a substantial number of women from the Netherlands participated. We have set firm targets to increase the number of women in senior positions by the end of fiscal year 2012/2013: 12.5% of partners, 20% of directors and 30% of senior managers. We participate in the Talent to the Top program.

# Report of the Board

## Human Resources

At the close of the fiscal year, the Leadership Team of the sub area Belgium and the Netherlands welcomed Hanne Jesca Bax as the second female Dutch partner (six Dutch partners are members of this Board that further includes three Belgian partners).

Diversity is not just a matter of gender balance. It also relates to ethnic background and that is why we started creating awareness of interpersonal relationships and possible prejudices by offering awareness workshops and the Career Watch program. The outcome of these awareness workshops will offer a foundation to create a more balanced workforce from a true Diversity & Inclusiveness perspective.

In total, 62 employees took part in the Career Watch program.

### **Vitality: Fit4theJob**

We have high expectations of our people and offer them every opportunity to develop their full potential. Accordingly, we invest in a number of programs to promote a safe, healthy and comfortable working environment. During the year, we invested €427,000 in health and wellbeing programs. Our main vitality program is called: "Fit4theJob", which has enjoyed a massive surge in participation since it was first launched in 2009. Since its launch, more than 700 employees have taken part in one or more components of the program. It is our ambition that all employees will eventually participate. Fit4theJob is an all-embracing concept to stimulate vitality and well-being: it comprises a health and lifestyle questionnaire, a health check, training sessions at various levels and workshops on topics such as sleep, diet, relaxation, exercise and coping with stress.

Fit4theJob focuses on personal vitality and wellbeing. Participants have access to on-line support via intranet and can seek support from a health expert. Staff can also take part in the various sports programs organized by the regional offices. Within the framework of EYU, Fit4theJob will be complemented by Fit2Lead in fiscal year 2011/2012, in which participants can develop their coaching skills.

Fit4theJob is an extension of the Top Performer program for our partners. Top Performer has been running since mid-2008 and 42% of our partners have taken part since. Both programs encourage participants to examine their lifestyles and devote attention to those aspects which influence health, resilience and energy management. Under the guidance of top-class athletes, they achieve a better balance within six months. An improvement is noted in every aspect of vitality: 85% feel fitter, 51% report improved concentration at work, 75% have more stamina and 63% experience a better work-life balance. During the year we expanded our Top Performer program outside our organization. We invited 12 senior executives from various Dutch companies to take part in the program as guests. The initiative was warmly received and a next group of senior executives has now joined the Top Performer program. Some executives from this program are now in their own company.

The vitality program and other efforts to optimize working conditions kept absenteeism around 3.1% in fiscal year 2010/2011 well in line with the previous year (2.9% in fiscal year 2009/2010).

More detailed information on our staff can be found in our Corporate Responsibility Report.

# Report of the Board

## Market

The global Ernst & Young organization is a multidisciplinary service provider. Our position within Ernst & Young EMEA enables us to select a fitting team for every client issue, consisting of people with the right expertise and skills and the most appropriate background and/or nationality. This is a source of innovative strength. Our people are permanently in contact with each other all over the world and share their knowledge and experience in our clients' interests. Their knowledge and expertise are combined in global dedicated centers of excellence. These centers bundle all our specialized market and sector knowledge and initiate worldwide studies on a raft of subjects for the entire global organization. These studies are then adapted at national, sector and industry level in our client programs. A good example is the Competing for Growth study. This Ernst & Young survey of more than 1,400 enterprises, institutions and senior executives around the world was carried out towards the end of 2010 to identify those areas in which successful companies stand out from their competitors. We apply this insight into how such companies work in order to explain to our clients why certain companies are so successful and we provide our clients with assistance in the necessary change processes.

### **Increase in international business**

The Dutch market is a mature market. Moreover, it was a challenging market. Although the economy is slowly recovering, companies are still cautious and are keeping a close eye on costs. The impact of cost savings was particularly marked in the public sector.

The main trends in both the private sector and the public sector during the fiscal year were: economy measures, simplification and risk management. Furthermore major multinational clients usually require a range of services that they prefer to source from a single supplier. These, for example, must ensure that their documents complying with local legislation and regulations in all the countries in which they are located. The need for international coordination during the preparation and submission of financial statements is obvious. In consequence, Global Compliance & Reporting, the discipline that combines the expertise of Assurance and Tax, has expanded rapidly thanks to our global organization.

### **Promoting and fostering Entrepreneurship and growth**

Growth companies play a vital role in the economy. They create jobs and are a source of innovation. A number of years ago, we opted to focus on entrepreneurship and growth, and formed a dedicated Strategic Growth Markets (SGM) team. It specializes in advising rapidly growing companies with clear potential, as well as family owned businesses and start-ups. The strength of our service provision lies in our global organization in combination with many years international experience in dealing with companies in all phases of development, from start to undisputed market leadership.



# Report of the Board

## Market

### Entrepreneur Of The Year program

One means by which we encourage entrepreneurship is the Entrepreneur Of The Year program. In the Netherlands, the title Entrepreneur Of The Year is now recognized as a very prestigious business award, recognizing (young) entrepreneurs who manage to get the best out of themselves and their business setting - something that we ourselves strive to do. There are three categories: Emerging Entrepreneur Of The Year, Accelerating Entrepreneur Of The Year and Master Entrepreneur Of The Year. The winner in each category is selected by means of a number of elimination rounds, a visit to the company concerned and extensive deliberations by an expert panel of judges. The winner of the Master category goes on to compete for the title World Entrepreneur Of The Year, awarded annually to the very best of the winners of over fifty national contests. The presentation ceremony is held in Monaco. We have been organizing the competition in the Netherlands for the past 15 years. It has given rise to a very extensive international network of entrepreneurs - the Ernst & Young Entrepreneur Of The Year Society - of which all finalists automatically become a member.

### International network meetings

We also promote entrepreneurship by bringing the right people into contact with each other. During the year we organized several international network meetings for our clients. At a multiday event in Dubai we invited clients from every EMEIA country to meet all our 30 partners in the Middle East. At a similar event in Germany, we introduced clients to our partners from India. Such initiatives are highly appreciated and are facilitated by our global organization.

### Sharper market strategy

Our market strategy centers on our ambition to become the leader by 2013 in the markets, sectors, regions and services we have selected. We define market leadership in terms of brand, revenue, relations and reputation. Independent research shows that we have moved up from fourth to second place since the new organization was established in 2008. We score high on both service reputation and brand recognition. Ernst & Young has a particularly strong reputation in Tax. Advisory also scored high, taking third place in the annual Incompany 100 client satisfaction survey of consultancy firms in the Netherlands. Our advisory practice scored particularly well for its know-how, specific expertise and client relations.

During the year, we refined our market leadership strategy both internally and externally. In our target markets, we have identified a number of potential growth areas that can accelerate our market leadership. In accordance with the Ernst & Young global strategy, we will commit additional investments in people and business development in these markets. By way of example, the following chapter takes a closer look at three of these growth markets and at our Financial Services. It also illustrates our approach in the other markets in which we operate, such as Automotive, Consumer Products, Government & Public Sector, Life Sciences, Media & Entertainment, Oil & Gas, Power & Utilities, Private Equity, Real Estate, Technology, Telecommunications, Diversified Industrial Products, Transport & Logistics, Professional Firms & Services, Health Care, Retail & Wholesale.

# Report of the Board

## Market

### **FINANCIAL SERVICES (FS)**

EMEIA Financial Services (FS) brings together strengths in financial services. It enhances our client service, through better and faster teaming and of multi-disciplinary services and a more connected approach to our go-to-market initiatives.

EMEIA Financial Services completed preparations during the year for an FS Learning Forum to underpin the global organization and cooperation.

About 4,000 of our EMEIA young people (senior staff/manager level) met in Rome in July 2011. The agenda included recent developments in the financial sector and ways to help our clients address them appropriately.

### **Market developments**

The stability of the financial system has not yet been restored. There are still fundamental problems holding back economic recovery. In Europe, 94 financial institutions - chiefly in the United Kingdom, Ireland, Germany and the Netherlands - are receiving financial support in one form or another from their national governments. No government wishes to continue this support indefinitely. Ultimately, control must be returned to private parties and state aid must be withdrawn. The question, however, is how privatization should take place: with the greatest added value or at the lowest cost to the taxpayer, and in such a way that it stimulates economic growth.

Following a period of relative calm owing to the financial crisis, the transaction market picked up slightly during the past year. The European Commission required many financial institutions to dispose of certain entities. They will have more freedom to pursue their own strategies in the coming period. As a result, we foresee consolidation in the insurance market in the years ahead.



# Report of the Board

## Market

Fierce competition in the Assurance market was and still is leaving its mark on FS. We succeeded in maintaining our position as market leader. This will remain our priority for the coming period.

The financial crisis has prompted companies to pay more attention to compliance and cost savings. To meet the needs of our clients, we introduced Continuous Process Monitoring. Supported by data analysis, this method enables us to analyze and optimize weaknesses in corporate processes quickly and systematically.

Other topical issues include exploitative insurance policies and IT support. Corporate Responsibility activities are also expected to increase in the years ahead.

### Developments in reporting

Fundamental changes will be made in the way insurers report on their insurance contracts in a number of years' time. Additional expertise will also be required to deal with changes in the banking industry (including asset management and pension administration) in response to the financial crisis. These are important developments for which companies will need substantial support. To this end, Assurance and Advisory are working closely with each other and offering integrated services. This integrated approach to banks, insurers and other financial institutions takes account of the latest

developments in both IFRS and complex regulations such as Basel III, Solvency II and UCITS IV. A great deal will again be expected from our specially trained professionals in the years ahead. There will be changes in the report insurers must issue on their business yet the market for experience actuaries will remain tight.

Our EMEIA FS IFRS desk operating from Amsterdam is very active. The team is closely involved in specific client issues and together with our international specialists is responsible for FS publications and studies on IFRS developments that are relevant to the financial sector.

Ernst & Young audits the sustainability reports of several large financial institutions. Through our audits we wish to raise our clients' awareness of the opportunities presented by sustainability. During the year, for example, we published a study of the quality of the sustainability reports of the top 25 companies in the financial sector in Europe.

### Growing regulation

The Defined Contribution Pension Institution (PPI) in the Netherlands, Basel III, Solvency II, the AIFM directive and UCITS IV in Europe are just a handful of examples of the continuous regulatory changes that apply specifically to the financial sector. We are also exposed to new developments coming from the United States. A good example is FATCA (Foreign Account Tax Compliance Act).

# Report of the Board

## Market

The US fiscal authorities require foreign financial institutions to provide information on US account holders. Interpretation of the Act is complex and its implementation will require considerable modifications in reporting and client identification systems. These multidisciplinary engagements are an opportunity for the international FS organization to prove its worth by sharing international knowledge with our clients.

### **International cooperation**

The level of integration of FS into our EMEIA organization provides our clients with direct access to all the international expertise available within our organization. To give one example, we have introduced a risk management method in the Netherlands developed in Switzerland. For several other clients we are applying the specialized banking expertise of our colleagues in London. This is reflected in the development of our engagement portfolio, especially at Advisory. FS saw Advisory's revenue increase during the year. We have made substantial investments to strengthen our position in advisory engagements as well as in the assurance market in recent years.

Our FS tax activities also reported growth. More engagements were carried out at financial institutions in both the Netherlands and internationally. The way in which FS operates increased the number of multidisciplinary engagements we carry out. The number of professionals in the FS tax practice was further increased through the addition of specialists in International Tax Services and Transaction Tax.

### **Thought Leadership**

The second Amsterdam Financial Forum was held in June 2011 with many renowned speakers from home and abroad. The event, which we organize in collaboration with Holland Financial Center, offers national and international politicians, supervisors, academics and managers of financial institutions a platform to debate global trends in the financial sector. For more than 20 years we have also been organizing the highly appreciated "Eye on" meetings within the sector. During these meetings, we highlight developments in the banking industry, insurance industry, pension sector and asset management.

# Report of the Board

## Market

### HEALTH CARE

Health Care has been one of the strongest sectors within Ernst & Young for 25 years. We serve all types of care provision (hospital, mental health care, homecare, elderly care and primary health care), care entrepreneurs, care insurers and the biotechnology, pharmaceutical and medical technology industries. On legal issues, we work closely with a team of specialists at Holland Van Gijzen. The use of these specialists in our IT Risk and Assurance Services has great added value in the care sector. Many of our professionals also have personal experience in the sector.

With a growing client portfolio and greater input from the various Service Lines, the Health Care sector group can look back on a good year and a further strengthening of its market leadership.

#### Market developments

The health care sector is undergoing a fundamental transformation. Demand for care services is outstripping economic growth. The ageing population and growing demand for ever more expensive care services mean the current system is financially untenable. The government will have to take sweeping measures to rein in the demand for care and enable its sustainable funding. These measures will have major consequences for all types of care providers.

They will have to modify their operations in essential areas and make clear strategic decisions on their product offers and client focus. Otherwise, they will not be able to operate profitably enough. The key to success is a highly innovative culture that focuses on quality and stakeholder management. Good risk management, ICT, appropriate internal supervision, transparent accountability and a healthy financial position will be essential.

#### Tactical plans

The spread of market forces is exposing health care providers to price risks and occupancy risks. It is forcing many of them to manage far more by financial results and directly related performance indicators such as productivity, use of other assets and the level of overheads. This new approach requires a radical transformation. We helped many clients undergo this process during the year. Institutions must also operate more flexibly and match their capacity to demand. To promote structural improvements in effectiveness and quality, we launched a new product named Tactical Plans. It enables institutions to adapt their capacity sustainably and tailor it to demand. This increases occupancy rates, improves the balance between production and staff deployment and accelerates admission and lead times.

# Report of the Board

## Market

### **Cooperation required**

Institutions in the health care sector are increasingly having to cooperate to enhance their efficiency and reduce their costs. An increasing number of strategic alliances are being forged, horizontally between university medical centers and vertically between hospitals and home carers. In addition, alliances are also being formed with players outside the health care sector such as private parties in the real estate and food sectors. Our involvement ranges from providing advice in a variety of areas to putting the right parties into contact with each other. Our wide knowledge of governance, fiscal and legal issues, private equity and our extensive network is exceedingly valuable in these services.

### **Changing role of care insurers**

The role of insurers in the health care sector is also changing and the Dutch government is giving them a more prominent management role in the care system. They are no longer focusing predominantly on the efficient purchase of total volumes. In addition to keen prices, other quality standards are becoming more decisive, such as admission and lead times, waiting times and hospital bed-hours.

### **ICT and internet**

The wide-ranging functionalities of ICT and the internet to exchange information represent a revolution for patients, care providers and care insurers. The developments are rapidly succeeding each other.

Initially, priority was given to information exchange among care providers. The move towards electronic data interchange is irreversible. Information exchange between doctors and patients is also growing in importance. Patients also have access to more channels to contact each other, for example through internet forums. The use of ICT and the internet to exchange information enhances efficiency and helps meet the growing demand for health care. It also helps keep costs under control. It offers our specialists many opportunities to help our clients organize and secure their processes.

### **Thought Leadership**

We again published a number of study reports on developments in the market during the year and we adapted the Competing for Growth study to the Dutch care sector. In our eHealth publication, we described the impact of ICT and the internet on data interchange between patients, care providers and care insurers. As in previous years, we again carried out our trendsetting governance study in 2010. We assessed the governance and transparency of the annual reports of the 100 largest care institutions. The institution with the highest score was honored during a strategic roundtable with prominent players in the field of governance. In view of the growing importance of ICT, risk management, fraud fighting and sustainability, we shall pay special attention to these and similar issues in our 2011 governance study. We also published our health care financial barometer in June 2011. It presents an analysis of the main financial trends in the health sector.

# Report of the Board

## Market

To mark the 25th anniversary of the Dutch Health Care Sector Group of Ernst & Young, we organized a seminar entitled New Funding Flows. The seminar considered the sector group's 25-year history and top speakers entered into discussions with more than 200 representatives of the sector, including supervisors, clients and our own people.

### REAL ESTATE

The Real Estate market sector specializes in construction and property companies, infrastructure, housing associations, developers, investors and financial institutions. Businesses in the hotel and recreation industry can also turn to it for advice. Real estate is not only an important investment category but also plays an important role in other sectors. After personnel costs, property represents the biggest cost item to many business. Moreover, infrastructure, including social infrastructure, is a growth area: private parties are increasingly investing in motorways, airports, seaports, power stations and bridges. They see infrastructure as a serious alternative to real estate owing to its stable cash flows and its being inflation proof. Governments also need advice in this area, for example on ways to finance infrastructure.

For our clients, we perform audits and provide advisory services in the fields of tax, risk management, sustainability, financing, implementation of regulations, strategy setting, accommodation policy, location studies, due diligence and the valuation of real estate portfolios.

A growing number of clients from outside the real estate sector are coming to us for advice, such as hospitals that require assistance developing, financing or implementing a construction plan.

### Stable revenue despite problems in the sector

The real estate industry was hit exceptionally hard by the financial crisis and our clients have had to cope with declining values, vacancies, financing problems and a sharp increase in regulation. Our revenue suffered badly from the sudden fall in the number of transactions in all segments apart from the A1 segment of scarce and expensive investment properties. We foresee no improvement in the immediate future. The crisis is still lingering and the risk of a double dip is ever present, especially in the real estate sector.

At the same time the crisis also had a positive impact on our activities, however, and on balance our revenue for the year was stable. We advised more clients on valuations and on portfolio refinancing and restructuring than in the previous year. Furthermore, many real estate owners sought our advice on the growing number of vacancies and enormous falls in value. The vacancy rate in the office market, which is largely structural in nature, is estimated at 15% and may rise to more than 25%. Demographic changes and the New World of Work are aggravating the problem, while the growth in internet sales and the overhang on the retail market also present a threat to the value of retail property.



# Report of the Board

## Market

Our clients needed more refinancing assistance during the year and banks often asked us to review real estate loans. Financing and refinancing remain difficult for many companies owing to the fall in real estate values and caution among banks. These problems are benefitting our fiscal and legal services.

### **Increased regulation takes its toll**

Fraud has caused a great deal of reputational damage in the sector. Supervision, good governance, appropriate and integrated risk management and fraud prevention are hot issues. The sector as a whole is understandably paying more attention to quality, culture and conduct. These developments and the associated increase in regulations and initiatives taken by many industry organizations such as the IVBN and NEPROM generated additional advisory work for us during the year. New and complex regulations have hastily been introduced in the sector. Concrete examples include Basel III, Solvency II, the AIFM directive and fundamental changes in reporting rules. Our clients are facing the daunting task of implementing the new regulations and adapting their operational management, directly and indirectly. The new reporting rules are having a direct impact on real estate values and alliance forming.

### **Corporate Responsibility is a must**

The rapid emergence of Corporate Responsibility in the real estate sector can be seen in our engagement portfolio. Demand for strategic advice has risen and we are being involved more often in the preparation and certification of sustainability reports. Our clients increasingly wish to report non-financial information. We advise them on the selection and calculation of relevant key figures. There is also growing demand for clarification of what Corporate Responsibility means to the real estate sector and construction companies.

Another development is the compulsory introduction of energy labels for offices and retail outlets. With many leaseholders, including government institutions, requiring a C energy label, lessors are having to determine where added value investments need to be made in sustainability.

### **Thought Leadership**

The crisis in the real estate sector is having a direct impact on our profession and Ernst & Young is willing to bear its responsibility for it. We actively contributed to *Zeg waar het op staat* ("Tell it as it is"), a public management letter on commercial real estate drafted by the Netherlands Institute of Chartered Accountants (NBA).

# Report of the Board

## Market

One of the recommendations it made was that the real estate sector should have professional and critical auditors with the right expertise. We fully endorse this recommendation and accordingly made additional investments in quality during the year. Forensic and valuation specialists, for example, have worked on audit engagements for our larger and complex construction and real estate clients. Thought leadership entails more than publications. Cooperation with industry organizations is essential, not only to share our know-how but also to provide our clients with even better advice. We are actively engaged in such organizations as the EPRA, INREV, ULI and IVBN.

### **International cooperation**

The real estate and construction world is not immune to globalization. That is why our EMEIA and Global sector groups work closely with more than 7,000 specialized real estate advisors. This has the great benefit of enabling us to advise our clients on investments all over the world.

## **CONSUMER PRODUCTS**

Consumer Products concentrates on multinationals in the food, beverage, home & personal care and tobacco sub-sectors. Our clients are active in virtually every part of the world and we accordingly pursue a global account strategy. We offer a comprehensive, multidisciplinary and integrated service package.

### **Excellent results**

Consumer Products had an excellent year. Marked growth was reported in revenue, with Advisory showing the relatively sharpest increase. Tax was accountable for two-thirds of revenue and Advisory for one-fifth.

The increase in revenue reflects the continued solid performance of this sector. Our clients produce the basic necessities of life and have successfully anticipated the economic situation. They are systematically investing in the development of new markets and products. In revenue terms, Consumer Products, which serves one-fifth of our 20 biggest clients, is the third largest sector within Ernst & Young.

# Report of the Board

## Market

### Global client strategy

Consumer Products illustrates the strength of our global organization. The Global Consumer Products Center, located in London, acts as the hub of our organization, providing worldwide support to our 10,000 professionals working in the sector. The strong growth of our activities means it is essential that we recruit, train and retain the right, talented people. Our policy of encouraging international mobility is bearing fruit. The success of our global account strategy and our multidisciplinary service offer is expressed in our advisory services in the field of tax effective supply chain management. We advise clients on the global design of supply chains, corporate restructurings, the impact of alternative systems, transfer pricing, direct and indirect taxes and accounting. We help them devise and implement the most suitable structure for their organizations, improve their processes and control their operating expenses.

During the year, a considerable proportion of the increase in our revenue was derived from these advisory services, which combine many disciplines: advisory (supply chain, finance, risk management, sustainability, performance improvement, customer and IT), tax (direct tax and indirect tax), legal and human capital services.

### Saturation in Western Europe and North America

The West European and North American consumer product markets are very competitive. Market saturation means margins are tight.

The battle for consumers is prompting entrepreneurs to give highest priority to cost reduction, logistics efficiency and risk management. We expanded our activities in these areas during the year.

### Growth in emerging markets

Our clients' growth potential lies chiefly in emerging markets. Economic growth there is 4% to 5% higher than in developed markets. Of the world population, 82% live in emerging markets and 92% of newborn children come into the world there. In the years ahead, 75% of the growth in Consumer Products' markets will be realized in the BRIC countries (Brazil, Russia, India and China) and Turkey. To capitalize on the growth opportunities in these markets, producers must match their products with local market demands. They must also set the right price to maximize market penetration and ensure that distribution is reliable. This is no simple undertaking in markets that are known for their informal economies, poor infrastructure, rapidly changing rules and a volatile political and economic climate. We therefore saw a sharp across-the-board rise in demand for our services during the year.

Growth in emerging markets is certainly not only organic. This was demonstrated during the year by the sharp growth of our M&A business, which we expect to continue in the coming period. Our own studies have shown that in the fourth quarter of 2010 60% of the main M&A transactions took place in emerging markets and that buyers in 40% of those transactions were located in an emerging market.

# Report of the Board

## Market

### Services on the Dutch market

The global account strategy naturally allows the services to be tailored to local market conditions. On the Dutch market, we assisted both our Dutch and international clients in specific areas such as franchising and benchmarking. We also advised and helped our clients in fiscal and competition areas. On request, we maintain contacts for them with the Tax and Customs Administration, the Netherlands Competition Authority (NMa) and the European Commission.

### Corporate Responsibility

Sustainability is high on our clients' policy agendas. Businesses are pursuing Corporate Responsibility more vigorously and are increasingly involving stakeholders throughout the entire supply chain and seeking support. Sustainability is becoming a standard requirement but consumers are not yet willing to pay more for it. Quality, price and choice are still the main factors that determine a purchase decision. Our view is that enterprises gain a competitive advantage if they integrate sustainability into their strategies and organizations and succeed in designing their supply chains as efficiently and effectively as possible. Our own studies have found that supply chains often influence between 50% and 70% of an enterprise's costs and between 15% and 20% of its cash. The significant savings opportunities this offers are being applied largely to invest in growth markets.

### Thought Leadership

We took a number of initiatives during the year to consolidate our position as Thought Leader. The seventh edition of our annual Global Consumer Products Top 30 conference was held in Paris in May 2011, taking as its theme Reaching Consumers Effectively Globally. Trends that were discussed included the growing power of consumers and the challenges manufacturers are facing to protect their margins in a climate of high raw material costs and limited disposable incomes.

We also published a number of study reports on trends during the year. Studies were issued on the success factors for transactions in emerging markets and on growth opportunities in Africa and Russia. We published an analysis of the 11 biggest risks facing manufacturers of consumer products, including a summary of risks that may arise in the future. We also issued several recurrent publications such as our Consumer Products Deals Quarterly for businesses and investors. Every three months, it describes worldwide developments in our four main sectors (beverages, food, home & personal care and tobacco) and presents analyses and background studies of the transactions executed and expected. In a series of publications we inform our clients on a timely basis of the main developments in consumer products.

# Report of the Board

## Our services in 2010/2011

### ASSURANCE

- ▶ **External Audit**
- ▶ **Accounting Compliance and Reporting (ACR)**
- ▶ **Financial Accounting Advisory Services (FAAS)**
- ▶ **Fraud Investigation & Dispute Services (FIDS)**
- ▶ **Climate Change and Sustainability Services (CCaSS) - as from July 1, 2011**

Our role in society and relevance as auditors were subject to significant debate during the year. The financial crisis has placed the audit function under a magnifying glass. Supervisors, politicians, academics and journalists are asking whether auditors are paying enough attention to risks at the companies they audit; whether the quality of audit procedures is adequate; and whether auditors are independent from their clients. These issues of relevance, quality and independence were raised both in the Netherlands and at European level. The broad debate touches upon the essence of the future of our profession: society relies on assurance provided by an auditor and many stakeholders feel this assurance should go beyond financial statements to include non-financial information such as statements on risks and risk management. For the future of our profession, it is vital that there is no doubt about the high quality standards and independence of auditors.

This debate will continue in the period ahead and we are actively participating in it. We have held and will continue to hold constructive dialogues with relevant stakeholders including company management, non-executive directors, shareholders, politicians and regulators. In fiscal year 2010/2011, we continued our permanent efforts to further increase the quality of our work and we strictly enforced our policies on independence. In our Transparency Report, which is published at the same time as this Annual Review, these efforts regarding quality and independence are explained in more detail.

### Good performance in a difficult market

Competition in the financial audit market was fierce. At the same time, we invested significantly in quality. Our quality drive was based not only on the outcomes of our own quality assessments, but also on the quality agenda introduced by the Netherlands Institute of Chartered Accountants (NBA), on the investigations carried out by the Netherlands Authority for the Financial Markets (AFM) and on the public debate regarding audit quality. Not only did we invest in the education of our people and in our quality systems, we also spent more time complying with the increased expectations of those charged with governance and quality control. In consequence, on average we spent more non-billable hours per client on quality during the year than in the previous year. This resulted in reduced profitability per engagement.



# Report of the Board

## Our services in 2010/2011

At the top of the market - large listed companies - we retained our solid position in the Netherlands and even expanded it strongly at European level. In our main sectors, we were particularly successful in the public and semi-public sectors, where we further increased our market share. In the health care sector, too, we won many new clients. In the segment of enterprises with between 100 and 2,000 employees, we achieved modest growth and were able to consolidate our leading position.

Our Financial Accounting Advisory Services delivered strong growth. We won several large engagements during the year to assist clients in the fields of, for example, reporting, annual accounting processes, closing processes and IFRS adoption projects. Although we have provided these services for many years, we were particularly successful last year because we set up a dedicated team of specialists to focus solely on this advisory market.

The market is displaying more interest in fraud, compliance and security risks. This is demonstrated by solid growth in revenue from our Fraud Investigation and Dispute Services. We expect this development to continue.

A good example of knowledge sharing and cooperation within our EMEIA organization in this field is the 2011 European Fraud Survey, a large-scale study of 2,300 respondents from the factory floor to the C suite in 25 countries. It contrasts the views found in the developing markets on such matters as employee perceptions of fraud, bribery and corruption, their company's response to the challenges posed by these risks and the response of regulators and law enforcement agencies.

### **Investing in quality**

The quality of our work is all-important. We seek continuous improvements and again raised our investments in the education of our people and in quality-related processes. For example, we developed courses for our people to further refine their professional and critical attitude, which is of increasing importance given the public debate and the initiatives taken by the NBA such as white papers and an action plan. We also significantly expanded our compliance office in order to address the increasing importance of governance over quality. Our processes are fully aligned with Ernst & Young Global, as we operate our Assurance practice on a global scale. For example, we have a fully automatic audit process, with electronic working papers that can be accessed over the internet by internationally operating teams. We definitely believe we have a telling competitive advantage in this field.

# Report of the Board

## Our services in 2010/2011

### **Ernst & Young is ready for SBR**

The Dutch government launched its Standard Business Reporting program (SBR) in 2009 to enable standardized reporting processes. It uses XBRL (eXtensible Business Reporting Language), an international reporting standard to exchange financial data over the internet. SBR has many significant advantages. The data providers (enterprises, auditors, accountants) can now produce and submit obligatory reports to public authorities and banks more efficiently.

The government will make SBR compulsory in 2013. In the first instance, the information flows will relate to corporate income tax and personal income tax. In later years, the program will be extended to include the filing of financial statements with the Chamber of Commerce and statistical returns with Statistics Netherlands (CBS). In anticipation of these changes, Ernst & Young launched a project to enable its clients to prepare tax returns and financial statements in SBR format for automatic filing. Both the reporting practice (ACR) of Ernst & Young Accountants LLP and the tax return practice (BTC) of Ernst & Young Belastingadviseurs LLP were involved. A client portal was set up for clients to read their SBR reports and sign them digitally for automatic filing. SBR ensures that all reports (tax returns, financial statements and the like) are sent to the client at the same time. This improves not only quality but also efficiency and convenience to the client. Some 150 clients are taking part in the pilot project that started in June 2011.

Enterprises are showing more interest in working with XBRL. They are not using SBR solely as a means to communicate with public bodies. They see XBRL as a vital step towards the further design and digitization of their internal and external reporting procedures. Their interest is accompanied by the need for advice and assistance on the organization of XBRL reporting procedures. Ernst & Young has trained a multidisciplinary team of consultants, auditors and tax specialists to advise clients on the implementation of XBRL.

### **Corporate Responsibility**

The number of engagements to provide assurance on non-financial data increased during the year. The growth of this market is related in part to the increased desire among enterprises to report on their social and environmental performance and to have their reports verified by a specialist. During the year, we carried out 80 verifications of CO<sub>2</sub> emission levels for enterprises seeking ISO 17020 certification. We were also the first audit firm in the Netherlands to issue a fully integrated auditor's report on the integrated annual report, social report and financial statements issued by the Port of Rotterdam Authority. Other engagements related to risk management, the design and operation of corporate governance, opinions, measurements and supervisory board reports.

# Report of the Board

## Our services in 2010/2011

### **Tought Leadership**

We actively participate in the many discussions being held in both the Netherlands and Europe on the role of the auditor. During the year, we organized several roundtable meetings with a variety of stakeholders to discuss their expectations and the future of our profession. In July 2010 we published a white paper, *Betere communicatie door de externe accountant* ("Better communication by the external auditor"), in which we made proposals on how auditors can improve their communication with society and clients. Several publications considered the changing role of supervisory directors and their role as communicators. We also published a study of how leading audit committees are currently improving their effectiveness against a backdrop of increasing pressure from regulators and shareholders.



# Report of the Board

## Our services in 2010/2011

### TAX

- ▶ **Business Tax Services**
- ▶ **Human Capital**
- ▶ **Indirect Tax (VAT, Customs & International Trade, State & Local Tax)**
- ▶ **International Tax Services**
- ▶ **Legal and Notarial Services**
- ▶ **Transaction Tax**

#### **Stable growth in target group segments**

Tax again turned in a robust performance in fiscal year 2010/2011. Our Tax practice has proven relatively insensitive to the financial crisis and has kept its volume in terms of hours and price at a good level. Revenue and profit remained stable, especially on large multinational engagements, in an economic climate that has not yet returned to the level seen before the crisis.

Since 2009 we have been implementing a clear policy of focusing only on those markets in which we can grow. This policy has borne fruit, as evidenced by the growth we have achieved in our target group segments. We have increased our market share in the Priority Accounts segment (predominantly listed accounts at the top end of the market). All sub-Service Lines achieved

appreciable growth in cross-border engagements, especially International Tax. Our inbound practice performed well: among our clients we can count a growing number of foreign, chiefly American and Asian, enterprises that locate their European head offices in the Netherlands. In the Family Owned Business segment, too, we strengthened our position among medium-sized and large enterprises. Our market share declined only in the smaller enterprises segment without growth potential. This shift is consistent with our strategy and is also reflected in the decline in the total number of clients.

#### **Growth of international contracts thanks to our global organization**

We made great strides developing our global services during the year. Internationally, we stand out for our EMEIA Tax Center, which was established in June 2008 upon the introduction of the EMEIA organization. This virtual center of excellence bundles the strengths of about 150 specialists and carries out cross-border activities such as global compliance and reporting and tax effective supply chain management projects. The Dutch practice is one of the largest and most specialized within the EMEIA organization. Our tax account leaders, each of whom heads a team of specialists, are themselves specialists in a particular area. They are therefore good sparring partners for clients. Together with other specialists, they can be deployed internationally wherever they are needed.



# Report of the Board

## Our services in 2010/2011

Ernst & Young Nederland has operated desks outside the Netherlands for many years: Dutch personnel who hold office at our practices abroad. Worldwide, we have five desks. The fifth was added to the organization on June 30, 2011. They assist our clients in the local country and liaise with clients in other countries. Our mobility program encourages our staff to cultivate their talents proactively by temporarily working abroad. During the year, 35 members of staff were able to work abroad.

We also expanded our think-tank during the year. It is made up of specialists in indirect taxes and corporate income tax from the EMEIA Tax Centre, the EMEIA Desk and other colleagues. These professionals, sometimes from as many as 30 countries, organize meetings so that clients can discuss cross-border issues. This activity illustrates the strength of our global organization and our Thought Leadership, as do the many international studies we carry out. Examples include the 2011 Tax Policy Outlooks covering Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and the reports Seizing the Opportunity in Global Compliance and Reporting, and Survey and Trends in Indirect Tax issued in 2011.

### **Integrated approach with Holland Van Gijzen bearing fruit**

The strategic alliance between Ernst & Young Belastingadviseurs LLP with Holland Van Gijzen Advocaten en Notarissen LLP (HVG) proved to be of great value during the past year. The measures and investments in the first half of the fiscal year paid dividends in the second half and HVG turned in good results, thanks to strong performance by its subsidiary in New York.

This was particularly true in the Health Care, Power & Utilities, Real Estate and Financial Services sectors.

HVG is a partner of an international Ernst & Young law network of more than 500 lawyers located in 19 jurisdictions in Europe. With their input, we can operate in many countries on behalf of Global Compliance & Reporting and for Mobility. Legal services have assumed an important position within EMEIA. The number of European countries with a law practice will be increased in the years ahead.

### **New services**

We developed a number of new services in the Netherlands during the year that will enable our clients to benefit from our international organization. Our Tax Policy and Controversy Services team keeps our clients up to date about global tax developments. We track developments, analyze them and clearly map out the consequences. One of the tools we use is the Quarterly Briefing. On behalf of our clients, we maintain national and international contacts with politicians and other stakeholders involved in taxation. We also offer our clients international support if there are uncertainties or conflicts with the tax authorities.

Global Compliance & Reporting is an important and very successful service. Offering multidisciplinary services to multinationals, it is an alliance between our tax return practice and Accounting, Compliance & Reporting. Its services include the global coordination of our clients' returns and the preparation of

# Report of the Board

## Our services in 2010/2011

their annual financial statements. The EMEIA Tax Center plays a key role in this service by putting the strengths of our highly integrated global organization into practice and enabling us to mobilize our people quickly.

We introduced a very innovative new service during the year that combines our IT data analysis and tax capacities. In global indirect tax management, our specialists identify potential improvements in our clients' worldwide databases in order to maximize the geographical efficiency of indirect tax remittances. This service is also used to optimize cash management. We also help clients arrange their VAT remittances and refunds as efficiently as possible. The method and procedure can also be applied in respect of corporate income tax on, for example, inventory valuations.

### **Corporate Responsibility**

We took a more coordinated approach to Corporate Responsibility during the year by setting up a separate team. The dedicated Climate Change and Sustainability Services team concentrates on all fiscal measures and issues relating to sustainability. The team advises on legislation and regulations in the fields of climate change and sustainability. We look in particular at the benefits available to enterprises, such as environmental levies, the greening of vehicle fleets and sustainable assets and the fiscal opportunities of valuing and trading CO<sub>2</sub> emission rights. CR is also concerned with greener employee benefits, sustainable buildings and machinery and the fiscal opportunities of personnel policy.

# Report of the Board

## Our services in 2010/2011

### ADVISORY

- ▶ **Performance Improvement**
- ▶ **Risk Management**
- ▶ **IT Risk and Assurance**

#### **A year of contraction and growth**

For Advisory, fiscal year 2010/2011 was a mixed year. The contraction of the advisory market as a whole did not leave our results unaffected. The contraction was attributable chiefly to the decline in the number of engagements in the public sector and lower revenue from some major clients. The steady fall in the number of engagements for central government that had commenced in 2009 continued during the past year. Since 2010, ministries have not been allowed to spend more than 10% of their personnel expenses on external staff. We mitigated the impact by successfully turning our sights towards local authorities in line with the decentralization trend within the public sector. In the financial sector and the consumer products sector, we increased our revenue on the previous year.

“Our acquisition of Partake Consulting is a good example of how we expand and innovate our services as market leader in the enterprise intelligence market.”

*Gijs de Vries, Advisory Leader.*

The repercussions of the financial crisis can still be felt. The advisory market witnessed increased competition across the board and pressure on prices. We are seeing not only keener competition between the large firms but also from smaller and/or specialized advisors. With a third place, Advisory scored well in the annual Incompany 100 survey of client satisfaction with consultancy firms in the Netherlands. Our advisory practice scored particularly well on know-how, specific expertise and client relations. In line with the pressure on performance, staff numbers declined by 10%.

Growth was reported in a number of service areas during the year owing to the sharp focus on those sectors in which Ernst & Young can excel with its know-how and experience. Services were developed to give our business new growth prospects. The growth, however, was not enough to compensate for the further decline in revenue particularly in the public sector. Limited growth and more opportunity for recruitment are expected in fiscal year 2011/2012.

# Report of the Board

## Our services in 2010/2011

### Acquisition strengthens IT Advisory Services

We appreciably strengthened our position in IT advisory services with the acquisition of Partake Consulting in July 2011. The firm provides services in the Enterprise Intelligence segments (consolidation, budgeting, forecasting, reporting and information analysis) and is the leading player in the Netherlands, Belgium, France and the United Kingdom. This acquisition has made Ernst & Young market leader in enterprise intelligence in the first three countries. The services strengthen our activities to support the CFO agenda and achieve the growth ambitions of our EMEIA organization. We welcomed 60 people and gained 250 clients. We also gained access to new business intelligence tools. Enterprise intelligence is a growth market worldwide.

### Efficient sourcing

To alleviate the pressure on prices, we outsourced more of our work during the year to our Global Talent Hub in India, which can deliver certain services at lower cost but to the same high quality standards. The work includes the performance of parts of internal audits, testing Sarbanes Oxley rules, data analysis and parts of the IT advisory practice. A further benefit of this efficient sourcing is that we can build up leading practices that improve our own services.

### New growth prospects

There was marked growth during the year in a number of service areas cutting across all sectors, such as Finance Transformation. Growth was realised in the fields of cost control, shared service centers, activity based costing and finance reporting. Other interesting growth areas are supply chain operations (goods flow management, often in combination with tax effective supply chain management), enterprise risk management and assisting internal audit departments or outsourcing the internal audit function.

The ISAE 3402 standard was introduced during the year to replace SAS 70. This standard covers third party assurance reports and applies chiefly to the financial sector. A third party assurance report testifies that a service organization to which a user organization has outsourced certain activities is in control. Ernst & Young carried out more engagements in this area and built up a leading position during the year.

Based on the worldwide proven and applied Lean Six Sigma improvement method, Ernst & Young developed a tool for application in the health care sector in fiscal year 2010/2011. We won two large engagements in this sector during the year. Finally, we also invested in a new approach to client projects (known as CUBE) using the group genius in a creative and innovative working environment in order to accelerate processes and achieve breakthroughs.

# Report of the Board

## Our services in 2010/2011

### **Corporate Responsibility**

The provision of sustainability services is another new area. Central coordination is provided by Assurance. To support enterprises effectively in their pursuit of operational sustainability, Advisory developed the Activity Based Footprint Model during the year. The model builds on the activity based costing concept to calculate the carbon footprint. The model, which has since been brought to market, is a good example of how steps can be taken from the existing practice to make new applications. We will continue to develop sustainability and related products in fiscal year 2011/2012.

### **Sharing knowledge**

We paid extra attention to a wide range of subjects during the year.

For our annual ICT Barometer, for example, we carried out an investigation of cybercrime. We also investigated where public organizations could make savings by using IT systems more intelligently.

Building on the EY-wide Lessons from Change program, we published a series of articles in the magazines *De Tijd* and *L'Echo* on the fundamental changes that are needed in every area of business such as market approach, finance, risk and IT. We also considered crisis communication from the standpoint: prepare to avert disaster; prepare to act when disaster strikes.

# Report of the Board

## Our services in 2010/2011

### TRANSACTION ADVISORY SERVICES

- ▶ **Transaction Support**
- ▶ **Valuation & Business Modeling**
- ▶ **Restructuring & Working Capital Management**
- ▶ **Lead Advisory**
- ▶ **Operational Transaction Services**

#### **A year of building and deepening**

There was an increase in transaction activities during the year as our clients, both corporates and private-equity parties, returned to the market. We also saw greater interest from US and Asian parties in Dutch enterprises. Although confidence has returned to a reasonable level, the situation is not yet stable. More importance is being attached to thorough preparation. Enterprises are also exploring alliance and joint venture opportunities more than in the past. We used fiscal year 2010/2011 to strengthen and expand our activities across the board, applying new expertise in some areas. The strengthening reflects the Ernst & Young EMEA strategy of deploying strong Transaction Advisory Services teams and exchanging professionals internationally.

#### **Capital agenda at the heart of the service**

Transaction Advisory Services' activities and advice are directed at corporate capital agendas. Transactions' services cover four areas: capital retention, capital maximization, capital raising and capital investment. Our ambition is to advise entrepreneurs during all stages of their operations in order to optimize their application and use of capital.

#### **Another good performance by Transaction Support**

Transaction Support can again look back on a good year in which it maintained the strong performance achieved in fiscal year 2009/2010. This was attributable in large part to the relatively stable development of transactions in those sectors in which we are active both inside and outside the Netherlands. We were involved in a large number of cross-border transactions during the year involving Dutch multinationals making acquisitions abroad, especially in emerging markets. We also provided more services to foreign buyers of Dutch businesses in the technology sector, especially from the US and Asia.



# Report of the Board

## Our services in 2010/2011

Prices in the transaction market came under pressure. Revenue was held at the previous year's level by an increase in the volume of hours. We sharpened our focus and strengthened our private equity practice during the year in keeping with market developments.

### **Valuation & Business Modeling stable**

Performance at Valuation & Business Modeling was stable. There is a constant demand for the services offered by this successful sub-Service Line and the group has been the strongest grower in Transactions in recent years. Many valuations are made for engagements carried out by our auditors and our tax advisors. There was also strong demand for business modeling, in which we help clients draw up well-considered investment and funding plans to support their decision-making or increase the comfort provided to the financiers of capital intensive projects.

### **Good year for Restructuring & Working Capital Management**

In the still hesitant economic climate, there was an increase in the number of financing engagements and requests for independent advice. As in the previous year we also won engagements in the banking sector. The number of engagements in the real estate sector was higher. Substantial growth was realized in the field of working capital management.

This reflects the strong need among enterprises for liquidity to comply with the ever stricter financing requirements introduced by banks in response to the financial crisis and the economic recession. Ernst & Young advises companies on how to free up cash within their business processes.

### **Lead Advisory is back in business**

After a period of reduced activity as a result of the crisis, we expanded and strengthened the Lead Advisory team that concentrates on the preparation of transactions during the year. Our regional embedding in combination with Ernst & Young's excellent global organization facilitated many successful transactions during the year.

### **Growth at Operational Transaction Services**

Enterprises are increasingly recognizing the importance of integration and the actual realization of synergy gains. The Operational Transaction Services sub-Service Line completed its first full year. And not without success! The team is made up of very experienced professionals in integration and operational due diligence with a proven track record. They are involved in the entire transaction process by first identifying a company's synergy potential and then investigating how the synergy gains can be realized. The team remains involved until the integration is completed.



# Report of the Board

## Our services in 2010/2011

### **Professionals and knowledge sharing in the global organization**

The global organization also proved its strength within Transaction Advisory Services. A dedicated team is handpicked for every engagement, with the multidisciplinary and nearly always international partners coming from a variety of Service Lines. We can draw on the right industry and sector specialists from both the Dutch Ernst & Young organization and our global organization.

We also make a great deal of use of the international knowledge centers and provide international studies to our Dutch clients. Within EMEA, we publish periodic studies on the M&A market and issue the quarterly Capital Confidence Barometer: a survey among CFOs, CEOs and heads of M&A of their confidence in the economy and the implications for the M&A market. The Working Capital Management Report 2011 was also published during the year, as was the Towards Transaction Excellence report on the internal conditions enterprises must satisfy to improve the value of a transaction. We also published a study entitled *Op weg naar een nieuw perspectief* (Towards a New Perspective) on how private equity investors create value by studying European exits in 2009.

# Report of the Board

## Quality & Risk Management and in Control Statement

Quality & Risk Management (Q&RM) is at the heart of our strategy. We continually strive to improve our Q&RM processes. We promote a culture of integrity, as well as the performance of high-quality services, among all our professionals. Our Global Code of Conduct provides a clear set of standards and behaviors that guide our actions and our business conduct. In addition, we have specific anti-bribery and insider trading policies. Overall responsibility for the design and execution of an effective risk management policy and an internal control system for the Dutch Ernst & Young organization lies with the sub area Leadership Team of Belgium and the Netherlands, with a substantial proportion of the tasks being delegated to the Chief Operating Officer and the Quality & Risk Management leader. The leaders of the Service Lines integrate risk management into their operational activities.

The Quality & Risk Management system is described in detail in the Transparency Report issued by Ernst & Young Accountants LLP. That description relates only to the Assurance Service Line but similar Quality & Risk Management systems are in operation at the other Service Lines.

### Quality management

The main Q&RM processes include quality control programs, client and engagements acceptance and continuance and independence.

### Quality control programs

We have implemented quality control programs for our Service Lines. The primary goal of these programs is to determine whether our systems of quality controls are appropriately designed and followed in the execution of engagements. The programs are executed annually by the Service Lines, for which engagements are selected on a risk-based approach. The objective is to review engagements of approximately one-third of our partners each year. The execution of the program is led by EMEIA partners outside Belgium and the Netherlands. The results of these programs are evaluated and communicated so that quality improvement actions can be taken.

In addition to these programs, selected engagements are reviewed by the EMEIA compliance team. This team consists of professionals from different countries within the EMEIA area. Finally, our Central Quality & Risk Management group carries out an annual review of selected engagements.

### Client and engagement acceptance and continuance

Ernst & Young's client and engagement acceptance policy sets out the principles to determine whether to accept or to continue with a client or engagement. The acceptance process involves a careful consideration of the risk characteristics of a prospective client or engagement and includes several due diligence procedures. In addition, the global conflicts policy defines categories of conflicts of interest, the process for identifying such conflicts and provisions for managing such conflicts.



# Report of the Board

## Quality & Risk Management and in Control Statement

To coordinate client and engagement acceptance and continuance efficiently, the intranet-based tool GTAC (Global Tool for Acceptance and Continuance) has been developed. This tool takes users step-by-step through the acceptance and continuance requirements.

### Independence

Our independence policies and processes are designed to comply with the independence requirements. These were also conducted in fiscal year 2010/2011 and included:

- An annual confirmation with Ernst & Young's Global Independence Policy by Ernst & Young Nederland
- An annual confirmation with Ernst & Young's Global Independence Policy by our professionals, with partners being required to confirm quarterly
- Completion of an annual independence training course by our professionals

### Risk management

As a business service provider, Ernst & Young is active in various markets and is exposed to market, strategic, operational and compliance risks that are inherent in its activities. Ernst & Young's policy is designed to identify and control risks at an early stage. Assurance carried out a scenario analysis during the year that will be linked to an early warning system.

The main risks are shown in the table below. They are organized into market risks and strategic risks and operational and compliance risks. We would note that there may be other significant risks that might emerge as such at a later stage. The risks identified not only represent threats to our organization but also offer opportunities to achieve our ambitions.

# Report of the Board

## Quality & Risk Management and in Control Statement

Type of risk	Potential impact	Controls
<b>Market and strategic risks</b>		
<ul style="list-style-type: none"> <li>▸ Deterioration in international economic situation and business location climate in the Netherlands</li> </ul>	<ul style="list-style-type: none"> <li>▸ Declining demand for our services (internationally and in the Netherlands) owing to weaker economic activity and relocation of activities abroad</li> </ul>	<ul style="list-style-type: none"> <li>▸ The Ernst &amp; Young focus (internationally and in the Netherlands) on growth opportunities (Competing for growth, EverY1 campaign) and attention/contribution to improving the business location climate in the Netherlands</li> </ul>
<ul style="list-style-type: none"> <li>▸ Increased national and international debate of the role of auditors (e.g. due to the credit crisis), their license to operate and business model</li> <li>▸ Potentially ineffective regulation of statutory audits and audit organizations</li> </ul>	<ul style="list-style-type: none"> <li>▸ Formalization of the audit profession, excessive regulation leading to high compliance costs and lower quality</li> <li>▸ Danger of need to modify the full service concept and/or break up of the international Ernst &amp; Young organization</li> </ul>	<ul style="list-style-type: none"> <li>▸ Active input into public debate of the relevance of audits with assurances on quality, independence and good communication</li> <li>▸ Good cooperation with AFM and other supervisors (national and international)</li> </ul>
<b>Operational and compliance risks</b>		
<ul style="list-style-type: none"> <li>▸ Non-compliance with strict internal quality requirements</li> <li>▸ Breaches of applicable regulations</li> </ul>	<ul style="list-style-type: none"> <li>▸ Reputational damage, claims and litigation leading to loss of income and/or high costs</li> </ul>	<ul style="list-style-type: none"> <li>▸ Strict enforcement of stringent quality &amp; risk management system to ensure the highest quality and monitor compliance with regulations</li> </ul>
<ul style="list-style-type: none"> <li>▸ Inadequate ability to recruit and retain top talent owing to scarcity on the labor market and the influence of increased legislation and regulation on the attractiveness of our profession</li> </ul>	<ul style="list-style-type: none"> <li>▸ May undermine the high quality of services and healthy growth</li> </ul>	<ul style="list-style-type: none"> <li>▸ Policy of being employer of choice</li> <li>▸ Priorities are education and development, vitality, diversity and the Top Performance program</li> <li>▸ Promotion of international mobility of people and work within Ernst &amp; Young</li> </ul>
<ul style="list-style-type: none"> <li>▸ Reliance on international information technology</li> </ul>	<ul style="list-style-type: none"> <li>▸ System failure or inadequate availability can be detrimental to client services</li> </ul>	<ul style="list-style-type: none"> <li>▸ The international information infrastructure of Ernst &amp; Young satisfies the highest criteria on security and continuity</li> <li>▸ The load set on PCs contains most of the software for client services</li> </ul>
<ul style="list-style-type: none"> <li>▸ Reliance on third parties for funding</li> </ul>	<ul style="list-style-type: none"> <li>▸ Inadequate access to and availability of funding can be detrimental to operations</li> </ul>	<ul style="list-style-type: none"> <li>▸ Capital contribution of partners is contractually arranged with further funding structured through loans from partners, banks and the international Ernst &amp; Young organization</li> <li>▸ Steering by and monitoring of working capital</li> </ul>
<ul style="list-style-type: none"> <li>▸ Possible claims (against Ernst &amp; Young in the Netherlands and/or internationally) with major financial implications</li> </ul>	<ul style="list-style-type: none"> <li>▸ Award of a large claim can lead to reputational damage, profit erosion or even a threat to the organization</li> </ul>	<ul style="list-style-type: none"> <li>▸ Strict enforcement of stringent quality &amp; risk management system</li> <li>▸ Professional indemnity insurance subject to available opportunities</li> </ul>

# Report of the Board

## Quality & Risk Management and in Control Statement

Ernst & Young not only aspires to the highest quality in its services but also permanently seeks improvements in its own organization. The risk management and internal control system are no exception. The most important areas in which improvements were identified and initiated during fiscal year 2010/2011 and previous years related to timely and full compliance with applicable procedures on completion of engagements and adequate documentation of the work performed. International internal quality review programs are the main tool to monitor compliance with all prescribed procedures and their documentation and to identify the remedial measures thought appropriate. An important part of the steering is formed by incorporating findings of the quality review programs (and for the Assurance Service Line, of investigations carried out by the AFM) in the training programs for the professionals.

### **In control statement**

The Board of Ernst & Young Nederland LLP is responsible for designing and operating an effective risk management and internal control system. This includes implementing and if necessary adjusting international Ernst & Young policies and procedures, establishing and maintaining processes as well as guiding people's behavior in such a way that the company can achieve its objectives. In the year under review, we analyzed and evaluated the risk management and internal control system, including the risks to which our organization is exposed.

Based on this review and cognizant of their inherent limitations as described below, the Board has concluded that there is reasonable assurance that in the year under review:

- It understood to what extent strategic and operational objectives were being realized
- The internal and external financial reports were reliable
- Applicable laws and regulations were complied with

Furthermore, there are no reasons to believe that the internal risk management and control system will not work properly in the current year.

It is important to note that a risk management and internal control system, no matter how well designed and operated, provides only reasonable assurance regarding achievement of an entity's objectives. Achievement of objectives is affected by limitations inherent in all management processes including the inherent risk that errors and violations can occur as a result of human failure. Any assessment of effectiveness in future periods is subject to the risk that the risk management and internal control system may become inadequate because of changes in conditions.

***Rotterdam, September 27, 2011***

Pieter Jongstra  
Giljam Aarnink  
Kees van Boxel

# Report of the Board

## Corporate Governance

Good entrepreneurship, integrity, respect, supervision, transparent reporting and the rendering of account are the mainstays of Ernst & Young's corporate governance policy.

### Structure

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited (EYG), each of which is a separate legal entity. Ernst & Young Global Limited is a UK company limited by guarantee and does not provide services to clients. Ernst & Young Global limited is the central entity of the Ernst & Young network and coordinates the member firms and cooperation among them. Its objectives include promotion of the provision by its member firms of seamless consistent, high-quality, client service, worldwide. Ernst & Young is organized into four geographical areas: Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. Ernst & Young's activities in the Netherlands are geographically part of the EMEIA area, consisting of 93 countries subdivided into 11 regional sub areas and the Financial Services sub area, which facilitates the services provided to the financial sector. The other Dutch activities of Ernst & Young are part of the sub area Belgium and the Netherlands.

Ernst & Young (EMEIA) Limited is for me a UK company limited by guarantee and is the principal governance entity for the EYG member firms in the EMEIA area. Ernst & Young EMEIA Limited facilitates the coordination of the firms within (EMEIA) and cooperation between them, but it does not control or manage or have any ownership interest in Ernst & Young in the Netherlands.

Ernst & Young Europe LLP (Ernst & Young Europe) is an UK limited liability partnership, a member of Ernst & Young Global Limited and Ernst & Young (EMEIA) Limited. Ernst & Young Europe LLP is owned by partners of Ernst & Young member firms in Europe. It is an audit firm registered with the ICAEW but it does not carry out audits or provide any professional services. Ernst & Young Europe LLP has a controlling interest in Ernst & Young Nederland LLP.

Ernst & Young's two principal Global bodies include:

### Global Executive

At the highest level, the Global Executive brings together the leaders of Ernst & Young functions, services and geographies and consists of Chairman and Chief Executive Officer of EYG, and includes its Chief Operating Officer, the Area Managing Partners, the global functional leaders – the Global Managing Partners of People, Markets, Quality & Risk Management, and Operations and Finance; and the global service line Vice Chairs – Assurance, Advisory, Tax and Transaction Advisory Services – and the Global Vice Chair – Public Policy. The Global Executive also includes a representative from the emerging markets practices.

### Global Advisory Council

The Global Advisory Council is the main advisory body of the global Ernst & Young organization. It comprises a number of member-firm partner-level professionals (referred to as "partners") drawn from across the four areas and includes independent non-executive representatives ("INEs").



# Report of the Board

## Corporate Governance

The partners, who otherwise do not hold senior management roles, are elected by their peers for a three-year term, with a provision for one successive re-appointment. The INEs are nominated by a dedicated committee. The Global Advisory Council advises EYG on policies, strategies and the public interest aspects of its decision making. The approval of the Global Advisory Council is required for a number of significant matters that could affect Ernst & Young.

Ernst & Young Europe's two principal bodies are:

### Europe Executive

The Europe Executive effectively operates as the board of Ernst & Young Europe and has authority and accountability for strategy execution and operations management in four dimensions: People, Quality, Growth and Operational Excellence. It consists of the Europe Managing Partner, the Europe Chief Operating Officer, the leaders for Markets, People, Quality & Risk Management, the Service Line leaders for Assurance, Advisory, Transaction Advisory Services and Tax and all sub area Managing Partners of the sub areas in Europe.

### Europe Advisory Council

Ernst & Young Europe has an elected Europe Advisory Council, which is composed of a number of partners of the EYG member firms in Europe.

It serves in an advisory role to the Europe Executive on policies, strategies and other matters and its approval is required for a number of significant matters, e.g. appointment of the Europe Managing Partner, the financial reports of Ernst & Young Europe and material transactions.

### Legal structure of Ernst & Young in the Netherlands

Assurance, tax, advisory, transaction and advisory services are performed by Ernst & Young Accountants LLP. Ernst & Young Accountants LLP is licensed by the AFM to carry out statutory audits (including audits of public interest entities). Ernst & Young Belastingadviseurs LLP provides tax advisory services and has a strategic alliance with a firm of lawyers and notaries, Holland Van Gijzen Advocaten en Notarissen LLP. Ernst & Young Actuarissen B.V. provides actuarial services, Ernst & Young CertifyPoint B.V. is an independent and impartial certification body which specializes in certification frameworks and certification systems and Ernst & Young VAT Rep B.V. provides VAT representation services.

### Coordination

Ernst & Young Nederland LLP is the coordinating and facilitating entity of the Dutch Ernst & Young organization but does not provide any services to clients. Ernst & Young Europe LLP, together with the private practice firms of the Dutch partners, is a member of Ernst & Young Nederland LLP. Ernst & Young Nederland LLP, together with the relevant firms of the partners, is a member of Ernst & Young Accountants LLP and Ernst & Young Belastingadviseurs LLP.

# Report of the Board

## Corporate Governance

### Management

Ernst & Young Nederland LLP is governed by a Board of Directors elected by Ernst & Young Europe LLP. Current Board Members are Pieter Jongstra (Chairman), Giljam Aarnink and Kees van Boxel. The Board of Directors provides coordinating leadership in order to optimize the shared course of the business and practices of Ernst & Young Accountants LLP and Ernst & Young Belastingadviseurs LLP and to promote their joint strategy. The Board of Directors accounts for the performance of its tasks to the members, including Ernst & Young Europe LLP. The directors are entitled through their respective practice firms to a proportion of the profit but do not receive separate remuneration for their director role.

### Sub Area Partner Forum

The Belgium and Netherlands Sub Area Partner Forum (SAPF) is an advisory body that convenes on a regular basis to discuss matters of interest, provide input into the Europe Advisory Council and to advise the Sub Area Managing Partner and the Board. The SAPF comprises 12 members, 9 members from the Netherlands and 3 members from Belgium. Members of the SAPF may not be involved in Service Line management or the Leadership Team. The SAPF is elected by the partners of the Belgian and Netherlands Ernst & Young organization and operates on the basis of a 3 year cycle with members being eligible to participate for a maximum of 6 years.

### Kring

The Leadership Team meets at minimum three times per year with a group of external senior advisors ('Kring') from the Netherlands and Belgium and who are representative of the broad range of society in which Ernst & Young operates. The Leadership Team uses the Kring to sound on business matters. Advice from the Kring is not binding in any way to Ernst & Young.

### Regulations

Ernst & Young has various regulations that set the frameworks for the performance of the various bodies or implement the rules applying within Ernst & Young. They include:

- *Members' Agreement*
- *Fundamental rules*
- *Regulations*
- *Anti-bribery and insider trading policies*
- *Independence policy*
- *Global Code of Conduct and the Ernst & Young Values*
- *EY/Ethics, a global ethics hotline to provide Ernst & Young people, clients and others outside the organization with a confidential means to report activity that may involve unethical or improper behavior that may be in violation of professional standards or otherwise inconsistent with our Global Code of Conduct*

The Global Code of Conduct is available on our website.



***About Ernst & Young***

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