

Financial Reporting

1 July 2007 to 30 June 2008

In the 2007/2008 financial year, the global economy lost momentum, and in Switzerland a cooling down of the economy was felt. Yet even in this challenging environment, we managed to post further growth in revenues across virtually all our Service Lines. The Ernst & Young Group in Switzerland saw an increase in revenue of CHF 35.5 million (6.7%) to CHF 562.6 million. A particularly successful performance was shown by Tax und Legal Services and from Transaction Advisory Services within the Advisory Services business unit. By contrast, revenue growth in Audit Services was slower than in the previous year.

Audit Services

Compared to the previous year, Audit Services generated revenues of CHF 313.1 million, an increase of CHF 3.8 million. In comparison to other Service Lines, this moderate 1.2% growth reflects the ongoing difficult market situation for audit services. The audit of annual financial statements is a complex service with continually increasing technical and regulatory requirements that require increased work to deliver the service. At the same time, the audit market continues to be fiercely contended.

Advisory Services:

In Advisory Services, revenue increased over the prior year by CHF 6.9 million (+ 11.0%) to CHF 69.6 million. This sustained strong growth is based primarily on the high demand for our Transaction Advisory Services. Significant growth was also recorded in our - as yet small - Business Advisory Services, where we are preparing for increased growth through substantial investment.

In a challenging macroeconomic environment, we expect the market to draw more and more on our expertise in corporate restructuring in the months to come; hence our assumption that our advisory services will continue to show above-average growth in the future.

Tax and Legal Services

Tax and Legal Services achieved a further improvement on its strong growth in the previous year, with a revenue increase of CHF 25.1 million (+ 18.6%) to some CHF 160.0 million. In this Service Line, we continue to profit from the relocation of many foreign companies to Switzerland. As a result, there has been significant growth in International Tax Services, with its Transfer Pricing and Tax Effective Supply Chain Management (TESCM) services, and in Human Capital (providing support to expatri-

ates). Other strong growth areas included Transaction Tax as well as Tax Accounting and Risk Advisory Services (TARAS).

A disproportionately large contribution to growth came from Legal Services through their advisory activities in company and contract law, as well as in transactions. Legal Services complement our other services and are an important success factor for our integrated advisory business.

Accounting Services

Accounting Services saw a slight drop in revenue by CHF 0.2 million (- 1.1%) to CHF 20.0 million. Regulatory changes have significantly limited the scope of activities for Accounting Services compared with the past.

Balance sheet

Current assets showed a significant increase in other receivables, caused by a marked rise in receivables from companies in the Ernst & Young network. By contrast, the residual amount that remained on the balance sheet last year from the sale of an equity participation has since been received. Work-in-progress is reported net of advance payments from clients. While the gross volume of work-in-progress was slightly lower, advance payments decreased by a larger amount. As a result, there was a net increase in work-in-progress. Prepaid expenses and accrued income also rose.

Besides the usual additions to fixed assets in the field of information technology amounting to CHF 3 million (previous year: CHF 3.7 million), assets under construction of CHF 2.1 million were recognized in non-current assets. Assets under construction include the project planning costs directly attributable to the new offices in Zurich.

The marked increase in short-term liabilities is due, on the one hand, to the reclassification of a CHF 6 million bank loan that was previously carried as a long-term liability and that will mature at the end of July 2009. The other factor was a higher volume of accounts payable. The largest increase among short-term liabilities, however, was recorded in accrued expenses and deferred income (CHF 25.9 million). These are made up of variable salaries for the past financial year as well as for unused vacation and overtime and for amounts due to companies in the Ernst & Young network relating to training, IT services, and employee secondments.

Liquidity situation

A substantial amount of the available cash and cash equivalents of CHF 83.0 million will be used for the payment of variable salary components in the last quarter of the 2008 calendar year. The financing required in the 2008/2009 financial year for our operational business and to carry out our planned investments will be financed from current revenues and from available cash.

The Group does not engage in speculative activities for the purpose of cash management and does not employ complex financial instruments. The vast majority of our cash flow is in Swiss francs. Forward foreign currency hedging transactions may be carried out on an individual basis in US dollars and euros to hedge significant liabilities in these currencies.

Outlook

As a result of the financial crisis and the cooling of the global economy, we expect a highly competitive market environment for the months ahead. We remain convinced, however, of our ability to further increase our market share even in this challenging period. In this regard, we are already benefiting from the intensified collaboration within the global Ernst & Young network.

We anticipate moderate growth in our traditional auditing business. In the coming year, listed and economically significant companies in Switzerland will continue to use our services in the field of internal control systems and risk assessment, especially in light of the revised Code of Obligations. Given the growing complexity of accounting and reporting standards, we also expect a growing demand for advisory services in matters relating to international financial reporting.

In tax and legal advisory services, we anticipate continued positive influences as a result of the relocation of international groups to Switzerland. For its part, the secondment of employees to Switzerland and from Switzerland abroad, along with the demand for advisory services it generates, will provide additional stimulus. In the area of tax accounting in line with international accounting standards, we anticipate a growing demand for support. The same applies to controls, processes, and risk management in tax matters.

Owing to the current state of the financial markets, we expect a drop in activities in the private-equity sector. Depending on the situation in the stock markets, however, we are likely to see

increased levels of industrial investor participation in the transaction market. In an economically challenging environment, we expect above all a growth in demand for support from our highly qualified practitioners in corporate restructuring. In the other areas of our Advisory Services, we are positioned for continued above-average growth.