KPMG

# Protecting and creating value

**Integrated Report 2015-2016**

Including the KPMG Accountants N.V.
Transparency Report

# Chairman's letter

Dear Reader,

The title of this year's Integrated Report is *Protecting and Creating value*, which is in essence our core business: helping our clients and the public interest through our expertise and experience to protect their financial and non-financial assets and to create new, additional value.

This truly Integrated Report describes our progress, covering both our financial statements and non-financial information. We trust to provide you with clear insight into how we have been working to protect and create value.

We have worked hard, with the commitment and dedication of all of our partners and employees, to further build KPMG after a period of turbulence. We have built on a solid foundation by investing in quality and innovation in our business. We have improved our market and client focus significantly. At the same time, we have focused firmly on changing our company culture. The combination of these efforts have made 2015/2016 an extraordinarily intense year for all of us, but it has also been extremely rewarding to make such substantial progress.
The results of our efforts are reported in the following pages. The KPMG Story has helped to deepen our sense of purpose and our values and the promise we make to our stakeholders.

In the course of dialogue sessions with all of our employees we each individually signed the KPMG Pledge as a symbol of our commitment to these values. In these sessions, all our qualified auditors also took their professional oath.

Taking a look back, in 1917 Piet Klijnveld started a modest accounting firm. In 1930 Jacob Kraayenhof was appointed partner and the firm was renamed to Klynveld Kraayenhof and Co.

The two founders could probably never have imagined that now, nearly 100 years later, their firm would be one of the cornerstones of KPMG, a global accounting and advisory firm with approximately 175,000 employees in 155 countries.

And we believe they would be delighted to learn that the theme chosen to celebrate the Centennial of KPMG in the Netherlands in 2017 is 'True Value'. This theme reflects the importance we place on positioning KPMG at the heart of Dutch society. *True Value* represents our drive to contribute to the impact of businesses on society not only economically, but also ecologically, socially and culturally. As active members of Dutch society we hope to initiate, support and accelerate the debate on important and diverse societal issues, such as the circular economy, urbanisation, data & analytics and cyber security and cultural diversity. We acknowledge that large firms such as KPMG have an additional responsibility to be at the forefront of new trends and developments, and to support those tasked to act, thus helping society to develop in a sustainable way. Over the last year we have concentrated our efforts in the public domain on sharing our knowledge with the public at large as well on supporting the public debate with constructive and positive suggestions.

Clients tell us that they rely on our global expertise, knowledge and experience and we want to live up to that reliance with passion, working shoulder-to-shoulder with them. We focused on developing and offering innovative approaches and solutions that will deliver real results.

At KPMG, everything starts with knowledge. Over the last 100 years, we have developed our firm into a different kind of 'university'. We have an annual intake of more than 400 newly-qualified academics and professionals. It is encouraging that the market and the trade press and general media are acknowledging the quality and content of our regular publications. These publications are primarily aimed at providing better insights for our clients and, as such, contribute towards our goal of actively offering additional value to society as a whole.

Having said this, we are acutely aware that we still have to complete a serious task to further regain public trust. In 2016, we have worked with the authorities to resolve painful issues from the past. But we also know that public confidence will only return in full gradually, as we continue to work on the outstanding issues.

On 1 November 2016 the Dutch Monitoring Committee Accountancy published its report. This report provides a mirror for the sector as a whole. We trust that we are on the right track with our improvement plans.

Our Centennial which will be celebrated with all our stakeholders during 2017, marks the start of a new era. We look forward to a new, inspiring century ahead.

We are deeply thankful to our clients, our professionals and all other stakeholders, including our regulators, for their continued support of KPMG.

The Board of Management,

**Albert Röell**
Chairman

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# 1.
# Report of the Supervisory Board

# Year overview

This year, the Supervisory Board spent a considerable amount of time familiarising itself with KPMG's operating methods, processes, organisation and culture. The KPMG Story which has now been launched across the global KPMG organisation and which is aimed at continuous change in the areas of both culture and conduct, played a key role in that process. The KPMG Pledge introduced for all employees in the Netherlands is an important pillar in this process of cultural change. The Pledge is a personal commitment to the values of KPMG. The Supervisory Board attended the first official KPMG Story gathering on 6 June 2016, where the members of the Board of Management, the Audit and Advisory Boards and a group of future leaders took the Pledge.

The Supervisory Board devoted its time and attention to an extensive and comprehensive induction and education programme. Individual members of the Supervisory Board attended several regional and business unit meetings. The purpose of this attendance was twofold. Firstly, it enabled members of the Supervisory Board to gain in-depth knowledge of the organisation, the working methods and the people of KPMG. Secondly, it provided an opportunity for the members of the Supervisory Board to inform KPMG's partners and employees about their role and the way they carry out their tasks.

The 2015/2016 financial year was the first full year in which KPMG had a Supervisory Board made up entirely of independent, external members. On 2 February 2016, Steven van Schilfgaarde stood down as a member of the KPMG Supervisory Board. We are grateful to him for the contribution he made to the revised interpretation of the supervisory role of the Supervisory Board. Gosse Boon joined the Supervisory Board on 1 August 2016. As a chartered accountant and former CFO and with his extensive knowledge of KPMG's core business, he is a welcome addition to the Supervisory Board.

When reviewing its own functioning over the past year, the Supervisory Board concluded that it has the knowledge, experience and capabilities required to properly exercise its supervisory and advisory tasks and its role as a Public Interest Committee.

There were also some changes in the Board of Management. Barbara Lamberts, CFO, stood down from the Board of Management and left KPMG early 2016. We are grateful to her for her contribution to the redesign of our finance department. Han van Delden, whose responsibility included markets, resigned from his post on 30 June 2016, to focus entirely on his client- and market-facing activities. We are grateful to him and are pleased that Han remains available for specific Board projects for which his expertise and experience will be particularly valuable.

The Board of Management, consisting of equity partners and external members, has a well-balanced combination of know-how, experience and executive strengths.

The Supervisory Board is confident that the Board of Management, headed by Albert Röell, is more than capable of making the process of culture change, quality improvement and increased market focus a success. This process will contribute to regaining public trust and delivering a sustainable operating result. The 2017-2019 business plan, which the Supervisory Board has discussed in-depth with the Board of Management in a number of meetings, forms the basis of this process.

Although KPMG is looking firmly to the future, we are in all modesty also aware that a number of legacy issues from the past continue to affect the public perception of KPMG and the broader accountancy sector. The Supervisory Board fully supports the Board of Management in resolving these matters when and where possible, allowing the company to focus entirely on the future and realise its growth objectives.

The world around us is changing rapidly. The traditional roles of auditors and advisors will be redefined. Digitalisation and big data offer the profession new opportunities for continued automation of the audit processes, and this can be used to improve the quality of audits. This can also help KPMG in meeting the requirements of regulators for the quality of audits. The Supervisory Board has discussed quality, public trust and the regulatory requirements with the AFM.

The Supervisory Board is confident that KPMG can meet the challenges in the audit sector. Although quality improvement is a priority on the agenda of the company and part of a continuous and comprehensive programme, it will no doubt take time before the consistent level of quality is achieved.

However, the commitment and quality of KPMG's employees will lead to positive results.

Rapid changes also affect the core of KPMG's advisory work. The Supervisory Board has taken a number of deep dives to take a critical look at Advisory's growth strategy, which is based on Strategic Growth Initiatives. There are challenges and opportunities in the plans by which KPMG will develop impactful client propositions in data & analytics, regulatory change and cyber security, that support KPMG in realising its growth targets in the 2017-2019 business plan.

The Supervisory Board has made diversity one of its key priorities. Diversity goes beyond gender, and includes all other aspects of diversity. Diversity among the members of the Board of Management, the partners, directors and managers is modest. The Supervisory Board is convinced that diversity will increase the reservoir of potential talent and will also contribute to a more balanced company culture.

The 2015/2016 financial results are satisfactory. The company's funding has been strengthened. There is still a lot of work to be done, but the outlook is positive. The Supervisory Board wishes to express its appreciation for the dedication and commitment of all partners and employees.

Company pride will continue to be strengthened by the progress KPMG is making and the impact of the KPMG Story activities. Next financial year is the KPMG Centennial year in which the positioning of KPMG and further restoring public trust are central themes, which coincide well with the priorities of the Supervisory Board.

The following sections will give you a detailed and comprehensive overview of the tasks and responsibilities of the Supervisory Board and its committees, the composition of the committees, the induction and education programme, its ongoing assessment of its roles and its meetings and activities in the financial year 2015/2016.

# 2015/2016 Report Supervisory Board, also Public Interest Committee

## Tasks and responsibilities

The Supervisory Board is chaired by Bernard Wientjes. The Supervisory Board fully consists of external members and operates independently, which is also reflected by its mandate in accordance with the applicable legal regime for a large Dutch corporate (*'structuurvennootschap'*). The members of the Supervisory Board are listed in the paragraph Composition- Overview of members of the Supervisory Board and its committees.

Its roles and responsibilities are laid down in the Articles of Association and in the Rules of Procedure of the Supervisory Board as published on the KPMG website. The rules of procedure are fully compliant with the Code for Audit Firms and the NBA measures following from the report *'In het publiek belang. Maatregelen ter verbetering van de kwaliteit en onafhankelijkheid van de accountantscontrole'* (hereafter referred to as Public Interest Report).

The Supervisory Board is responsible for supervising and advising the Board of Management of KPMG and overseeing the general course of affairs of KPMG and its businesses.

In accordance with the Public Interest Report, the Supervisory Board operates from the level of KPMG N.V., wherefrom it supervises and advises on the Audit and Advisory practices and the synergies and challenges of the co-existence of these practices within KPMG. It also supervises and advises on the supporting organisation of KPMG, that implements, facilitates and monitors the internal risk and control measures and the enterprise risk management system.

In the execution of its tasks, the Supervisory Board takes into account the interests of KPMG and safeguards the interests of KPMG's stakeholders. The primary responsibility of the Supervisory Board is to safeguard public interest by ensuring KPMG's independence, quality and integrity. The Supervisory

Board strongly believes that focus on public interest will lead to creating and protecting value for KPMG's stakeholders.

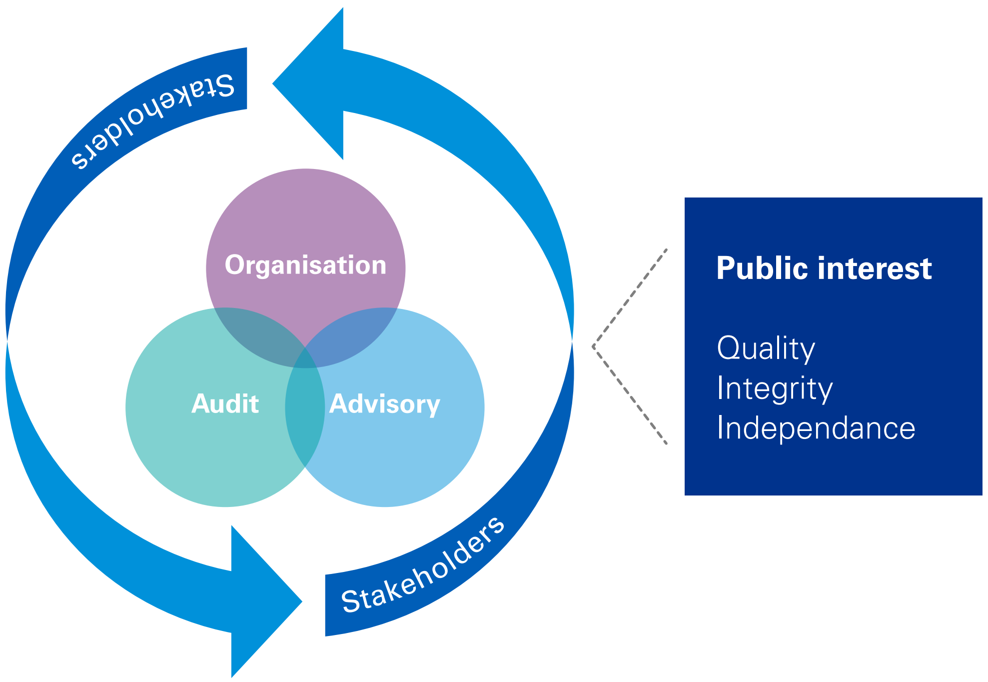



**Figure 1.** Supervisory Board tasks and responsibilities

## Public Interest Committee

The Public Interest Committee was set up in accordance with the Code for Audit Firms.

KPMG endorses the values and principles set out in the Code for Audit Firms. KPMG signed the covenant of the code for Audit Firms on 28 June 2012. This Code was issued by the NBA and sets out principles for the way Public Interest Entity license holders should handle matters such as dealing with governance and decision-making, quality and risk management, internal oversight, independence and remuneration.

The Public Interest Committee is a committee of the Supervisory Board. As it is the main responsibility of the Supervisory Board to safeguard the public interest, the role and purpose of the Public Interest Committee have been fully incorporated in the tasks and responsibilities of the Supervisory Board. All members of the Supervisory Board are also members of the Public Interest Committee and the Supervisory Board also acts and operates as the Public Interest Committee. This follows from measure 2.5 of the Public Interest report.

As the Public Interest Committee, the Supervisory Board has specific and additional responsibilities in safeguarding the public interest of the audit report and in supervising the remuneration of the external auditors, other partners and the board members of the audit organisation.

## Key instruments

Key instrument for the Supervisory Board to safeguard the public interest is to monitor independence, quality and integrity.

The Supervisory Board is critical and provides constructive advice with regard to the presented (quality) policies and programmes and the progress made in relation to the number of incidents, legal cases and the status and progress of the AFM file inspections (via Compliance Office and Regulatory Office updates, including the results of the annual Quality Performance Reviews, ERM update and Issue Control).

Another important task of the Supervisory Board is to ensure the correct implementation of the NBA measures as indicated in the Public Interest Report. The design of our quality improvement measures was monitored by the AFM via the *'AFM Dashboard 2015 Toekomstgerichte Verbetermaatregelen'.*

Based on the '*AFM Dashboard 2015 Toekomstgerichte Verbetermaatregelen',* the AFM concluded in October 2015 on a rating of 4.6 (on a scale of one to five) for KPMG in respect of the design of our quality improvement measures. Subsequently, the AFM is in the process of conducting an investigation into the implementation of the designed (audit quality) measures. The request for information from the AFM hereto was clustered around the following themes: i) in control, ii) internal supervision and iii) behaviour and culture. The AFM report is expected in the first half of 2017. Publication of the report of the sector findings is also expected in the first half of 2017.

Relevant for the quality of the audit is the quality of the professionals in the organisation. In that respect the appointment, professional development and succession planning, performance and remuneration of the Board of Management, partners and senior management are key. The Supervisory Board has a substantial impact on those policies via a formalised role specifically defined in its rules of procedure.

Integrity of the organisation is an important element of its culture. A variety of activities are undertaken to further improve the culture in this respect; from the KPMG Story to systems of reporting irregularities. The Supervisory Board has in-depth discussions with the Board of Management on these activities and continuously encourages the Board of Management on improving the effectiveness of these activities.

The Supervisory Board regularly reviews and advises on the policies implementing independence requirements for the organisation and monitors the practice thereof.

## Stakeholders

The Supervisory Board has met regularly with the Board of Coöperatie KPMG U.A. to monitor developments within the partner group. The Supervisory Board has had conversations and held meetings with partners, employees and the Works Council. Input from these conversations facilitated the Supervisory Board in constantly assessing and evaluating its role within the firm.

The Supervisory Board keeps in regular contact with KPMG International, as the Dutch firm plays an important role in the international KPMG network and KPMG International has been an important supporter of the Dutch firm.

The Supervisory Board closely follows developments of the audit profession by taking part in the Big Four regular consultations with the NBA and AFM. The input from these sessions is used to advise the Board of Management on quality policies and programmes emphasising the public interest.

## 2015/2016 meetings

At the beginning of the financial year the Supervisory Board and its committees determined their essential meeting topics in an annual plan based on their tasks and responsibilities, regulatory and social developments and specific focus areas relevant for the organisation. This process will be repeated on an annual basis.

In light of the induction of the Supervisory Board in its first year the Supervisory Board decided to review and discuss all meeting topics with the full Supervisory Board for the first part of the financial year. Consequently, the Remuneration & Appointment Committee started its meetings on 7 December 2015 and the Audit & Risk Committee on 16 February 2016.

The Supervisory Board and the Public Interest Committee held seven meetings and various conference calls during the financial year. The agenda topics for each meeting were based on the annual plan for 2015/2016. The Supervisory Board and the Public Interest Committee started the meetings with a closed session.

Except on two occasions all Supervisory Board members attended all Supervisory Board and Public Interest Committee meetings this financial year. Several Board of Management members attended the meetings as well and other senior management members were present if the agenda items dictated such participation. The external auditor attended one meeting.

The Supervisory Board challenged and discussed the following topics:

- Assessment of effectiveness governance model and role in international network
- Review long term strategic challenges
- Review and adjustment of composition Board of Management
- Remuneration Board of Management
- Review and adjustment of composition Supervisory Board and its Committees
- Schedule of terms Supervisory Board members ('rooster van aftreden')
- Approval partner selection process
- Monitoring compliance with partner selection, appointment, performance evaluation and remuneration policies
- Monitoring compliance with senior management selection and appointment policy and employee remuneration policy
- Monitoring causes exits of partners and employees
- Deep Dives Audit and Advisory
- Diversity and Inclusion policy of the organisation, the Board of Management and the Supervisory Board and monitoring results of the Diversity and Inclusion programme
- Evaluation Supervisory Board, its members and its committees
- Evaluation Board of Management and its members
- Review KPMG sanction policy
- Determining the year planning Supervisory Board and its Committees 2016/2017
- Review time spent by Board of Management members

– Public trust
  • Monitoring and advice on audit quality policies, programmes and results
  • Review and advice issue control framework
  • Monitoring audit independence
  • Relationship stakeholders
  • Review and advice on media profile
– Selection and nomination external auditor KPMG N.V.
– Monitoring Enterprise Risk Management policy and progress programmes on top risks
– Monitoring Compliance Office reports, results Quality Performance Reviews
– Business updates, consisting of markets and business development, organisational developments and financial performance
– Monitoring legacy issues
– Review and signing of the Annual Report 2014/2015 of KPMG N.V., in the presence of the external auditor
– Review and approval of three-year business plan FY2017-19
– Approval partners' investment policy
– Update Audit Quality Issues Council
– Updates on regulatory related topics
– Relationships stakeholders, including AFM
– Meeting Big Four
– Progress and status of AFM and PCAOB inspections
– Approval amendments to deferred payment/Clawback policy

The Supervisory Board members also had regularly meetings with the Board of Management members offsite and informally.

# Audit & Risk Committee

## Tasks and responsibilities

Jolande Sap fulfilled the position of Chairman of the Audit & Risk Committee as of 2 February 2016. Gosse Boon assumed the position of Chairman of this committee as of 9 September 2016. The committee has substantial expertise on finance and risk management systems. The members of the Audit & Risk Committee are listed in paragraph Composition - Overview of members of the Supervisory Board and its committees.

The responsibilities of the Audit & Risk Committee are stipulated in the 'Reglement van de Audit & Risk Commissie van de Raad van Commissarissen', as published on the KPMG website. Its primary responsibilities concern monitoring compliance with independence requirements, internal risk management systems, relevant laws and regulations and monitoring financing of operations and financial reporting. The committee monitors the tax planning policy and application of information- and communication technology. It also had a substantial role in the preparation of the selection and nomination of the external auditors and it keeps in close contact with the external auditors.

It reviews and advises on the annual accounts and annual budget. Specific for this committee is that it also has a role in the evaluation of the organisational aspects that are of influence on the quality of audits, independence, integrity and the stakeholder interests.

## 2016 meetings

The Audit & Risk Committee started its meetings on 16 February 2016 and held four meetings. The agenda topics for each meeting were based on the annual plan 2015/2016. From the Board of Management, the Head of Audit and the COO/CFO attended all meetings. The Country Quality & Risk Management Partner attended most meetings as well. The external auditor attended one meeting.

The significant topics for the Audit & Risk Committee meetings this financial year included:

- Update ERM
- Review Compliance Office report
- Review planning Integrated Report 2015/2016
- Review operational and financial performance
- Update Rules of the Profession & Independence
- Review results KPMG International Global Compliance Review
- Review policy Partner Financial Mentoring
- Tender process external auditor & preparation nomination external auditor
- Review Audit Plan 2015/2016, in the presence of the external auditor
- Review Professional Indemnity Insurance
- Review Accounting policies and other company policies
- Review Tax policies
- Review business plan FY2017-19
- Review amendments to deferred payment/Clawback policy
- Review adjustments voluntary loans and interest rates

# Remuneration & Appointment Committee

## Tasks and responsibilities

The Remuneration & Appointment Committee is chaired by Laetitia Griffith. The members of this committee are listed in paragraph Composition - Overview of members of the Supervisory Board and its committees.

The responsibilities of the Remuneration & Appointment Committee of the Supervisory Board are stipulated by the *'Reglement van de Remuneratie- en Benoemingscommissie van de Raad van Commissarissen'*, as published on the KPMG website. Its primary responsibilities are advising the Supervisory

Board on remuneration, selection and appointment policies and monitoring compliance thereof and submitting proposals on remuneration and (re)appointments. The committee also reviews the performance of the members of the Board of Management and the Supervisory Board.

## 2015/2016 meetings

The Remuneration & Appointment Committee started with its meetings on 7 December 2015 and held five meetings. The agenda topics for each meeting were based on the annual plan 2015/2016. From the Board of Management, the Chairman and the CHRO attended all meetings.

The significant topics for the Remuneration & Appointment Committee meetings this financial year included:

- Assessment and composition Board of Management
  - Succession of Jan Hommen by Albert Röell as Chairman of the Board of Management as of 1 November 2015
  - Succession of Marc Hogeboom by Egbert Eeftink as Head of Audit as of 1 October 2015
  - Creating a new board position COO and the appointment of Rob Kreukniet in that position as of 1 October 2015. The board responsibility of the former CFO (Barbara Lamberts) was assumed by the COO as of 15 December 2015
  - Redirect board responsibility for Markets and Clients to the Chairman of the Board of Management and reducing the number of board positions with the board position for Markets and Clients, as of 30 June 2016
- Review performance targets Board of Management members
- Evaluation functioning Board of Management members
- Prepare proposals for remuneration Board of Management members
- Monitor time spending Board of Management members
- Assessment and composition Supervisory Board and its Committees
  - Selection and nomination of Gosse Boon as a new member of the Supervisory Board as of 1 August 2016
- Prepare schedule of terms Supervisory Board members ('rooster van aftreden')
- Monitor and challenge progress Diversity and Inclusion programme
- Evaluation selection criteria and advise on approval appointment process equity partners 2015
- Review performance rating 2015 and plotting 2016 equity partners
- Review causes equity partners exits
- Review selection, appointments and exits employees
- Review sanction policy

Reference is also made to the chapter People for this year's remuneration report for a further elaboration of abovementioned remuneration topics.
The Remuneration & Appointment Committee also had a number of conference calls with the chairman of the Board of Management and/or the CHRO and had conversations with the individual Board of Management members during this financial year.

# Composition

The required areas of expertise and competences of the Supervisory Board members are included in the Supervisory Board profile description as published on the KPMG website. Each of the Supervisory Board members has been vetted against the requirements of the Supervisory Board profile description and a capability matrix, both based on the expected suitability testing of (co)policy makers of the accountancy organisation. The appointment of Gosse Boon, being a *'registeraccountant'* (chartered accountant), is an important addition to the expertise and competences of the Supervisory Board.

The current composition of the Supervisory Board fully complies with the requirements of the Supervisory Board profile description. The Supervisory Board consists of the following members:

| | Date of appointment | End date first term | Agreed date of resignation (subject to reappointment) | Audit & Risk Committee | Remuneration and Appointment Committee | Public Interest Committee |
|---|---|---|---|---|---|---|
| **Bernard Wientjes, Chairman** | 01-05-2015 | 01-05-2019 | 01-05-2019 | Member, until and including 08-09-2016 | Member, until and including 08-09-2016 | Chairman |
| **Laetitia Griffith, Vice Chairman** | 01-05-2015 | 01-05-2019 | 01-05-2020 | - | Chairman | Member |
| **Steven van Schilfgaarde** | 01-05-2015 | 01-05-2019 | 02-02-2016 | Chairman, until 01-02-2016 | - | Member |
| **Jan Maarten Slagter** | 01-05-2015 | 01-05-2019 | 01-05-2023 | - | Member | Member |
| **Jolande Sap** | 19-08-2015 | 19-08-2019 | 01-05-2022 | Member, acting Chairman as of 02-02-2016 until and including 08-09-2016 | - | Member |
| **Gosse Boon** | 01-08-2016 | 01-08-2020 | 01-05-2024 | Member, Chairman as of 09-09-2016 | - | Member |

**Table 1.** Supervisory Board members

# Independence

All Supervisory Board members qualify as independent in accordance with KPMG's policy for Supervisory Board members based on the applicable rules and regulations. Independence is monitored by the Ethics & Independence unit within Quality & Risk Management. Members of the Supervisory Board are to notify the Ethics & Independence Director on any material changes in their positions. KPMG maintains an overview of the other relevant positions on its website. All Supervisory Board members are independent in accordance with the requirements under the Dutch Corporate Governance Code. The members of the Supervisory Board are to notify the Chairman of any potential conflict of interest.

# Education programme

Supervisory Board members have been welcomed – partly prior to their appointment – with an extensive induction and education programme in order to prepare themselves for their tasks and responsibilities as a Supervisory Board and committee member in the context of the structure of KPMG, related governance and stakeholders, to become acquainted with the organisation, leadership, senior management and to develop a deeper understanding of the businesses of KPMG and the international network. The programme is supported by an extensive information pack.

Further, the programme entails a series of courses and meetings with leadership and senior management. This detailed programme educates the Supervisory Board members on what the audit and advisory practices entail and how they function. At the same time, the Supervisory Board members inform KPMG's partners and employees about their role and the way in which it is being performed.

In addition, the Supervisory Board members are offered an ongoing training curriculum, consisting of the following components: RAAD trainings, Internal KPMG courses and e-learnings.

Specific courses are also offered relating to the suitability testing of (co)policy makers of the audit firm as included in the draft regulations to implement (amongst others) such testing.
The requirements of that suitability testing have already been included in the Supervisory Board profile description.

Supervisory Board members attended the following meetings and events to expedite obtaining knowledge of the organisation and its people:

1. The General Meeting of Members of Coöperatie KPMG U.A.
2. Information sessions with partners and directors prior to the General Meeting
3. Region/office meetings
4. Festive events for partners and directors
5. Speed dating Advisory
6. A day in the field with an audit engagement team
7. eAudIT workshop
8. The KPMG diversity and inclusion networking event

# Evaluation Supervisory Board and Board of Management

The Supervisory Boards regularly assesses whether it comprises of the right knowledge, experience and capabilities to properly fulfil its supervisory and advisory tasks, as well as its public interest tasks and responsibilities. In that perspective the Supervisory Board profile description is assessed at least on a yearly basis.

Reference is made to the Supervisory Board's profile description *'Bijlage A Reglement van de Raad van Commissarissen'*, as published on the KPMG website.

The right knowledge and capability mix within the Supervisory Board and the Supervisory Board profile description were leading in the process of selection and appointment of Gosse Boon. With the appointment of Gosse Boon the Supervisory Board concluded that it comprises the right knowledge, experience and capabilities to properly fulfil its tasks.

The internal annual evaluation of the functioning of the Supervisory Board, its members and its committees took place in June of this financial year (without the presence of the Board of Management). Following such evaluation, the Supervisory Board concluded to have a positive and constructive relationship with the Board of Management, the Board of Coöperatie KPMG U.A., the partners, the Works Council and KPMG International. The current governance structure is concluded to be effective but the complexity will continue to be monitored closely.

The Supervisory Board is positive about the existing mutual trust and transparency of communication between its members. The Supervisory Board and its committees operate effectively.

The Supervisory Board concluded that the offered education programme adequately supports the knowledge and training needs of its members.

The combination of supervision, counselling and representation of the public interest have demanded a lot of time and attention of the Supervisory Board. Although a lot of the focus of the Supervisory Board was on audit quality improvement, in the future the focus shall shift to more long-term strategy of audit and advisory.

With regard to the performance of the Board of Management and its members, the Supervisory Board concluded in its yearly evaluation in June (without the presence of the Board of Management members) that the Board of Management operates effectively. It held performance evaluation interviews with each of the members of the Board of Management to determine progress against agreed targets. Good progress was made on these targets. The input collected from partners, employees and Coöperatie KPMG U.A. was included in the discussions.

# Financial statements and discharge

The 2015/2016 annual report has been prepared by the Board of Management. The financial statements are part of the Integrated Report. The financial statements have been audited by the external auditor. Its findings have been discussed with the Supervisory Board in the presence of the Board of Management. The unqualified opinion expressed by the external auditor on the financial statements is included in this Integrated Report.

The Supervisory Board submits the 2015/2016 Financial Statements to its shareholder for adoption. The Supervisory Board proposes that the Annual General Meeting, in accordance with article 20 of the Articles of Association, discharges the members of the Board of Management for their management in the reporting year and the members of the Supervisory Board for its supervision.

Amstelveen, 1 December 2016

**Bernard Wientjes | Laetitia Griffith | Jolande Sap | Jan Maarten Slagter | Gosse Boon**

# Members Supervisory Board

**(A complete overview of current tasks and positions is included on our external website)**

**Bernard Wientjes**
1943, Dutch

Bernard Wientjes is chairman of the Supervisory Board. He is an entrepreneur who has been in charge of a family-owned business for over three decades. In 2014 he was appointed as professor Business and Leadership at Utrecht University. Prior to that Bernard Wientjes was, among other things, chairman of the employer's association VNO-NCW and a member of the board at Villeroy & Boch.

**Laetitia Griffith**
1965, Dutch

Laetitia Griffith is vice chairman of the Supervisory Board. Laetitia Griffith is Counsellor in the Council of State effective 2012. Prior to that she was, inter alia, a member of the Dutch parliament, a member of the executive board of the municipality of Amsterdam and worked at the Department of Justice. Laetitia Griffith is chairman of the association *Vereniging Nederlandse Veiligheids-branche* and board member of VNO-NCW.

**Jolande Sap**
1963, Dutch

Jolande Sap is, inter alia, chairman of the Netherlands Public Health Federation NPHF and chairman of Fairfood International since 2013. She is also member of the supervisory board of KPN. Prior to that she was a member of the Dutch parliament (2008-2012) and political leader of the party GroenLinks (2010-2012). She is still closely involved with social topics linked to sustainability, health care, food supply and the clothing industry.

**Steven van Schilf-gaarde** (1964, Dutch) until 2 February 2016

Steven van Schilfgaarde was ad interim CFO and executive board member of KPN. Previous position held by Steven van Schilfgaarde included CEO of Getronics. He is a certified controller (*'registercontroller'*).

**Jan Maarten Slagter**
(1969, Dutch)

Jan Maarten Slagter was appointed as associate director of Hill & Knowlton as of 1 September 2016. Previously he had chaired the association *Vereniging van Effectenbezitters* and was a correspondent for the Financieel Dagblad in London. Further he was programme director of the New Board Programme at Nyenrode Business University as of 2014. Jan Maarten Slagter is an external expert member of the Capital Markets committee of the AFM.

**Gosse Boon**
(1959 Dutch), as of 1 August 2016

Gosse Boon is a chartered accountant (*'register-accountant'*), a business economist and company lawyer and since 2012 among others non-executive director at IDH, The Sustainable Trade Initiative. Until mid-2015 he was CFO and member of the Board of Directors of Nutreco. Before that he has been, among others, CFO and member of the Board of Directors of Van Gansewinkel Group, CFO Unilever Chili and CFO Unilever Brazil.

# 2.

# KPMG at a glance

The public trusts us

Our people are extraordinary

Our clients see a difference in us

Operational excellence enables us

# The public trusts us

1,234 engagement quality control **reviews** on Audit **engagements**

1,258 in FY2014/15

269 **audit reports** for OOB **statutory** audit clients

287 in FY2014/15

1,885 **audit reports** for other **statutory** audit clients

2,048 in FY2014/15

**Quality performance reviews**

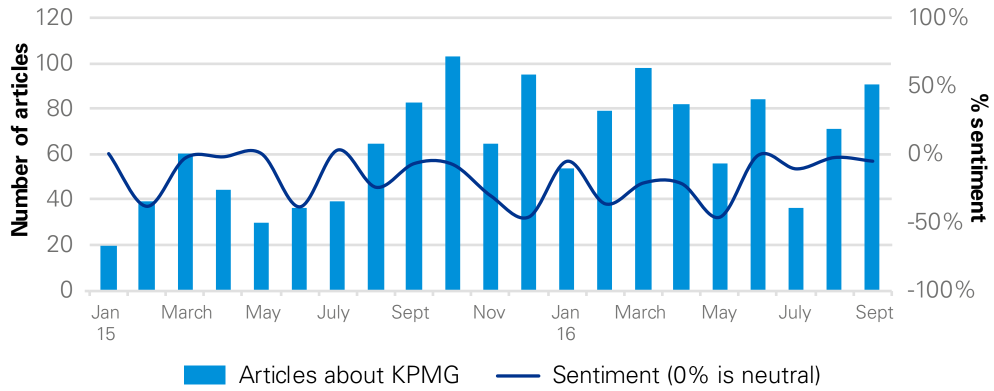
77% Audit engagements **satisfactory**

76% in FY2014/15

98% Advisory engagements **satisfactory**

98% in FY2014/15

**Media sentiment**




AFM assessed **design** of our **improvement measures** with 4.6 score (5 point scale)

PCAOB outcome of **audit engagement review** 2 out of 3 files **satisfactory**

**Jan Hommen Scholarship** (founded in 2016)

8 students were awarded a EUR 2,500 scholarship for 2 - 4 years

93% of the electricity was used from **renewable sources**

EUR 721,464 **in charitable contributions and donations**

EUR 629,782 in FY2014/15

KPMG

# Our people are extraordinary

**KPMG Story sessions** with ALL **employees** including NBA oath and KPMG Pledge

2,849 **FTEs**
2,852 in FY2014/15

33.6%
33.8% in FY2014/15

66.4%
66.2% in FY2014/15

11.2% **partners**
10.4% in FY 2014/15

88.8% **partners**
89.6% in FY2014/15

7.4% **directors**
4.6% in FY2014/15

92.6% **directors**
95.4% in FY2014/15

83.9% **of professionals remained** with KPMG
82% in FY2014/15

2.8% **absenteeism**
2.7% in FY2014/15

42 talents in **Emerging Leader Programme**
26 in FY2014/15

23 talents in **Young Talent Programme**
24 in FY2014/15

112.92 **hours on** training & development per employee
79.03 in FY2014/15

64% employee engagement index
58% in FY2014/15

80% employee pride in KPMG
71% in FY2014/15

# Our clients see a difference in us

**90% overall satisfied clients**
91% in FY2014/15

| Relation-ship | Quality of service | Added value | Passionate |
|---|---|---|---|
| 94% | 89% | 79% | 77% |
| 96% in FY2014/15 | 90% in FY2014/15 | 76% in FY2014/15 | 80% in FY2014/15 |

| Innovative | Results driven | Global mind-set | Expert |
|---|---|---|---|
| 60% | 65% | 67% | 72% |
| 63% in FY2014/15 | 70% in FY2014/15 | 68% in FY2014/15 | 74% in FY2014/15 |

**41.2 net promotor score (NPS)**
38.0 in FY2014/15

**27.5 NPS Audit**
31.2 in FY2014/15

**53.4 NPS Advisory**
44.5 in FY2014/15

**151 public interest entity audit clients**
205 in FY2014/15

# Operational excellence enables us

12 offices **in NL**
12 in FY2014/15

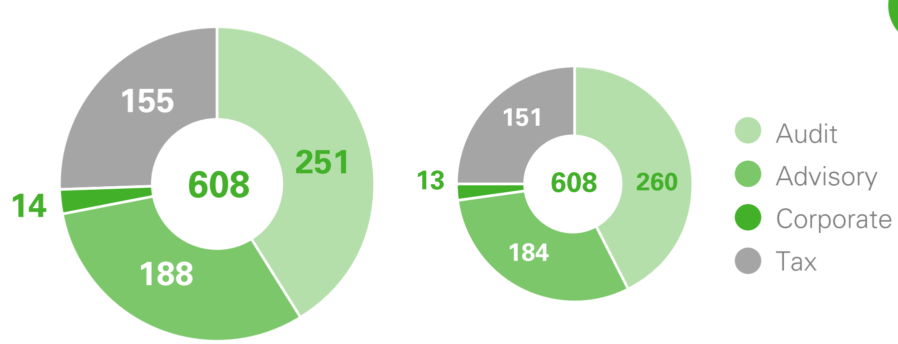
50,468 **m² in use**
60,801 in FY2014/15

67,410 **m² contracted**
84,603 in FY2014/15

30% solvency **ratio**
26% in FY2014/15

479,763 **total** operating income
463,957 in FY2014/15

## Revenue
(in EUR million)




FY2015/16 FY2014/15

143,418 net engagement revenue
**from statutory legal audits**
135,492 in FY2014/15

67,502 **Audit operating result**
67,508 in FY2014/15

62,116 **Advisory operating result**
59,181 in FY2014/15

178,1 net engagement revenue
**per Audit FTE**
183,1 in FY2014/15

212,1 net engagement revenue
**per Advisory FTE**
213,9 in FY2014/15

2,263 **lease cars**
on 1 Jan 2016

84% **$CO_2$** <129 gm/km
73% on 1 Jan 2016

106 **electric lease cars**
on 30 Sept 2016
58 on 30 Sept 2015

61 **electric charging stations**
41 in FY2014/15

# 3.

# Report of the Board of Management

# Introduction

Our 2015/2016 financial year ((FY2015/16) reflects the major changes we have been able to make in more ways than one. The organisation as a whole has been steered into calmer waters.

In the last few years, KPMG has gone through an intense period with the combination of an economic crisis that impacted the demand for our advisory services and put significant pressure on our audit fees, the introduction of a mandatory audit firm rotation process and a number of high-profile legal cases. KPMG has responded to these challenges with a comprehensive change programme. We re-established a solid foundation in 2015 and started building for the future.

Our Supervisory Board consisting of external members is now fully operational and has already proven to be an important sparring partner for the Board of Management providing healthy challenge. Business- and quality-related changes were implemented in our four key areas: public trust, people, clients, and operational excellence. Looking back over the financial year 2015/2016, we can conclude the following.

We have focused our priorities on audit quality and cultural change which is delivering steady results. We have successfully completed our True Blue programme and have taken good steps forward with the KPMG Story programme.

We continue to make large investments in (audit) quality. Progress is being made but we are not yet where we need to be. A positive landmark in terms of audit quality was the high score we received from the AFM for our design of our quality improvement measures. The mandatory audit firm rotation has resulted in a satisfactory outcome overall, although our market share decreased slightly.

In our Advisory practice, we note a slight growth in our result. We have invested in selected strategic growth initiatives (SGIs), such as cyber security and data & analytics. We have focused on key accounts as part of our aim to become a more client-centric organisation.

Our periodic pulse check scores on employee satisfaction are showing good improvements, albeit coming from relatively low values. Our employee attrition rate has improved further and is at a satisfactory level. Great attention is being paid to inclusion and diversity. This topic will remain on the Board's agenda in the coming years.

Supported by strong cost management, we have been able to realise healthy results. We are actively managing legacy issues (legal claims), which may require a few years to resolve.

We are embarking on the journey towards our Centennial in 2017. We have made good progress with our strategic agenda, although there are still significant challenges ahead. First of all, we look forward to further intensifying our cooperation with KPMG Meijburg & Co. We will continue our strong client and market focus to achieve more substantial growth in the period 2017-2019. Furthermore, we will continue our relentless focus on regaining public trust and, last but not least, on attracting and retaining top talent.

# The KPMG Story

We are building One KPMG. In our International network and in the Netherlands. Unifying approximately 175,000 colleagues to perform at their best. Delivering solutions that bring real results to our clients. The KPMG Story serves as our universal framework. It describes our purpose, values, vision, strategy and promise.

We believe in the power of our values as the moral and practical compass in our day to day behaviour. In leading by example. As individuals but also as a firm. In working together and respecting the individual. In seeking facts and providing insight. In open and honest communication with our stakeholders. We are dedicated to improving the communities in which we work and live. And above all, we act with integrity.

That is our promise to the market: working with passion, shoulder-to-shoulder with our clients, to deliver real results by integrating innovative approaches and deep expertise.

The KPMG Story helps us to deepen our sense of purpose, values and the promise we make to society and our markets. During the year, we have started with the organisation-wide roll-out of the KPMG Story, involving all partners, professionals and support staff. We have held more than 100 dialogue sessions with partners, professionals and support staff to discuss our purpose and values using case studies.

At the end of the year nearly all our partners, professionals and support staff have participated in these dialogue sessions and have individually signed the KPMG Pledge as a symbol of their commitment to our values. From there on the Pledge will be integrated in the on boarding of all new joiners. In these sessions, the qualified auditors will also have taken the professional oath as mandated by the Dutch NBA.

KPMG

# This is KPMG and this is our story

When we unify behind our story we perform at our best.

## This is why we're here

Inspire Confidence. Empower Change.

**This is our Purpose.**

## This is what we believe in

– Lead by example
– Respect the individual
– Work together
– Communicate openly and honestly
– Seek the facts and provide insight
– Improve communities
– Act with integrity

**These are our Values.**

## This is what we want to be

The Clear Choice:
– Our people are extraordinary
– Our clients see a difference in us
– The public trusts us

**This is our Vision.**

KPMG

# Stakeholder dialogue

## Stakeholder management

We regularly engage with stakeholder groups through a structured stakeholder dialogue process. Both the Supervisory Board and Board of Management are actively involved in this process, within the parameters of their respective roles and responsibilities.

We organised regular meetings with important stakeholder groups during the year 2015/2016. These meetings had specific agendas and discussion topics. In general, the topics were geared towards understanding what stakeholders' expectations are and whether we are able to meet those expectations through our business conduct or service delivery.

## Stakeholder expectations

Stakeholder expectations have been grouped under the following topics/themes. We have incorporated these expectations into our business strategy.

| Theme | Topics |
|---|---|
| Protecting value | – Conduct high quality audits<br>– Conduct independent audits<br>– Identify risks impacting continuity<br>– Develop solutions for managing risks<br>– Provide insights based on data |
| Creating value | – Help the client to grow or improve<br>– Identify business opportunities and help to realise them<br>– Provide insights based on data |
| Relevant and transparent communication | – Ensure that stakeholders receive relevant information<br>– Treat information confidentially |
| Sustainable business conduct | – Act responsibly and sustainably<br>– Contribute to society |
| Employer of Choice | – Give employees the opportunity to do their job well<br>– Offer a great place to work<br>– Make employees proud to work for KPMG<br>– Offer personal and professional development |
| Knowledge sharing and innovation | – Work together with third parties and professional bodies<br>– Contribute to society<br>– Bring fresh ideas to clients |

**Table 2.** Stakeholder expectations

| Stakeholder group | Clients, including those charged with governance | Employees and partners of KPMG | Citizens, government and politicians | Regulators | Users of financial statements, including media | Professional bodies and academia |
|---|---|---|---|---|---|---|
| Engaging topics | | | | | | |
| Ways in which we engage | – During service delivery<br>– Client satisfaction surveys<br>– Site visits<br>– Management reporting<br>– Client roundtable discussions<br>– Client care visits by Board of Management<br>– RAAD (Supervisory Board programme) | – Internal communications<br>– Employee events<br>– On the job training<br>– Performance development process<br>– Talent management<br>– Partner & director information sessions<br>– KPMG internal portal<br>– Global people survey | – Proactive public affairs programme with government and politicians on a range of relevant business issues<br>– Regular contact with NGOs, industry experts, opinion leaders and media<br>– Knowledge sharing events and meetings<br>– Thought leadership | – Follow up and learnings from inspection findings<br>– Ongoing dialogue on quality-related issues and responses<br>– Knowledge sharing regarding audit quality and auditing standards<br>– Dialogue on specific themes (such as prevention of fraud and corruption) | – Annual meeting of shareholders<br>– (Long-form) auditor's reports<br>– Educational sessions with journalists<br>– Interaction with broadcast media and leading Dutch newspapers | – Active involvement and participation in working groups and professional bodies (such as NBA, NOREA, and IIA)<br>– Contribute to and engage with Foundation for Auditing Research<br>– Contribute to universities through making talents, resources and data available |
| Strategic link | | | | | | |

Table 3. Expectations and engagement

# Strategy

We are operating in a dynamic business environment. Change is happening everywhere, many 'old' business models are challenged by new disruptive developments. Constant change is the new normal. The digital agenda is impacting society, our clients and ourselves, organisational boundaries are less relevant and the network and ecosystem era is fully alive. Our clients join forces, partnerships are established in response to circumstances as they arise and client and stakeholder agendas are volatile.

We want to be 'the clear choice' for clients, employees and society at large when it comes to leading the change or providing the confidence to making the change.

Our strategy is based on the following four pillars:

## The public trusts us

## Our people are extraordinary

## Our clients see a difference in us

## Operational excellence enables us

Within the boundaries of these pillars we have formulated the following strategic responses:

- Drive a relentless focus on excellent service by continuously improving quality, consistency and efficiency;
- Build public trust;
- Deploy our highly talented people globally;
- Maintain a strong focus on inclusion and diversity;
- Take a long-term, sustainable view;
- Act as a multidisciplinary firm, collaborating seamlessly internally;
- Maintain a passionate focus on clients and stakeholders;
- Bring insights and innovative ideas to the table;
- Strike a proper balance between investments and results;
- Build an effective and efficient organisation supporting core processes and service delivery.

The Board of Management (BoM) determines our strategy and goals after consulting functional leadership teams. These leadership teams are responsible for operational implementation. The BoM identified 11 strategic priorities which are a recurring agenda item allowing the BoM to monitor what has been achieved during the reporting period, what actions commenced, and what actions need to be done additionally. Indicators to measure progress and impact of implementation are reported in the monthly Management Report (see page 34 for further details). Key indicators are mapped to one of the four strategic focus areas, as follows.

KPMG

## The public trusts us

Page 41

| Performance target | Key indicators |
|---|---|
| Strong external perception of our reputation | Media coverage |
| Dependable consistent high levels of quality | Internal quality inspections |
| | Partner involvement on legal audits |
| | Consultation with specialists |
| Robust risk management & independence | Audit fees vs advisory fees |
| | Independence compliance |
| | General compliance |
| We demonstrate social responsibility | Volunteering hours |
| | Cash contribution and donations |

## Our people are extraordinary

Page 62

| Performance target | Key indicators |
|---|---|
| Our partners lead by example | Employee surveys |
| Consistently high levels of engagement and performance | Employee surveys |
| | Training investment |
| | Performance management (employee engagement index) |
| Diversity in our workforce | Male/female ratio |

## Our clients see a difference in us

Page 79

| Performance target | Key indicators |
|---|---|
| Top brands want to work with KPMG | Market share |
| Leading multidisciplinary solutions to address our clients' issues | Multidisciplinary offerings |
| Clients are promoting KPMG, its clients and its solutions | Net promoter score |
| | Client satisfaction scores |

## Operational excellence enables us

Page 92

| Performance target | Key indicators |
|---|---|
| KPMG continuously renews and improves itself to pass on a stronger and better organisation to the next generation | Solvency ratio |
| | Funding by Coöperatie KPMG U.A. |
| | Revenue |
| | Profit before income tax |

## The public trusts us

Public trust is existential in our industry. Auditors work on the basis of (international) legislation and it is thus society that grants us our licence to operate. Our Advisory practice , although not rooted in legislation, is dependent on our expertise such as it is perceived and appreciated by clients and influencers. As such, it is dependent on the opinion of a broad range of companies, professional individuals and bodies and (non-)governmental organisations.

## Our people are extraordinary

When Piet Klijnveld established KPMG in 1917 he also had a vision for his people: high-performing professionals delivering high-quality work, based on training programmes and female diversity.

Our extraordinary people are characterised by care and courage, sharing a lasting pride in our firm. They are smart, curious and relish a challenge. And we thrive on developing the leaders of tomorrow.

## Our clients see a difference in us

We want to bring our collective Audit and Advisory expertise, knowledge and insights to the market providing solutions to the variety of complex problems and challenges our clients face. We help our clients to protect their financial and non-financial assets and help them to create new additional value. We do this with passion and purpose, integrating innovative approaches and deep expertise to deliver real results. We deliver these results for corporate clients, clients in the financial services sector, larger companies in the middle market, larger family-owned businesses and clients in the not-for-profit and public sectors.

## Operational excellence enables us

Continuously improving the efficiency and effectiveness of our operations, processes and procedures maximises our ability to invest in value creation for stakeholders, talent development and sustainable growth and value creation for our stakeholders, as well as minimising our ecological footprint.

# Value creation

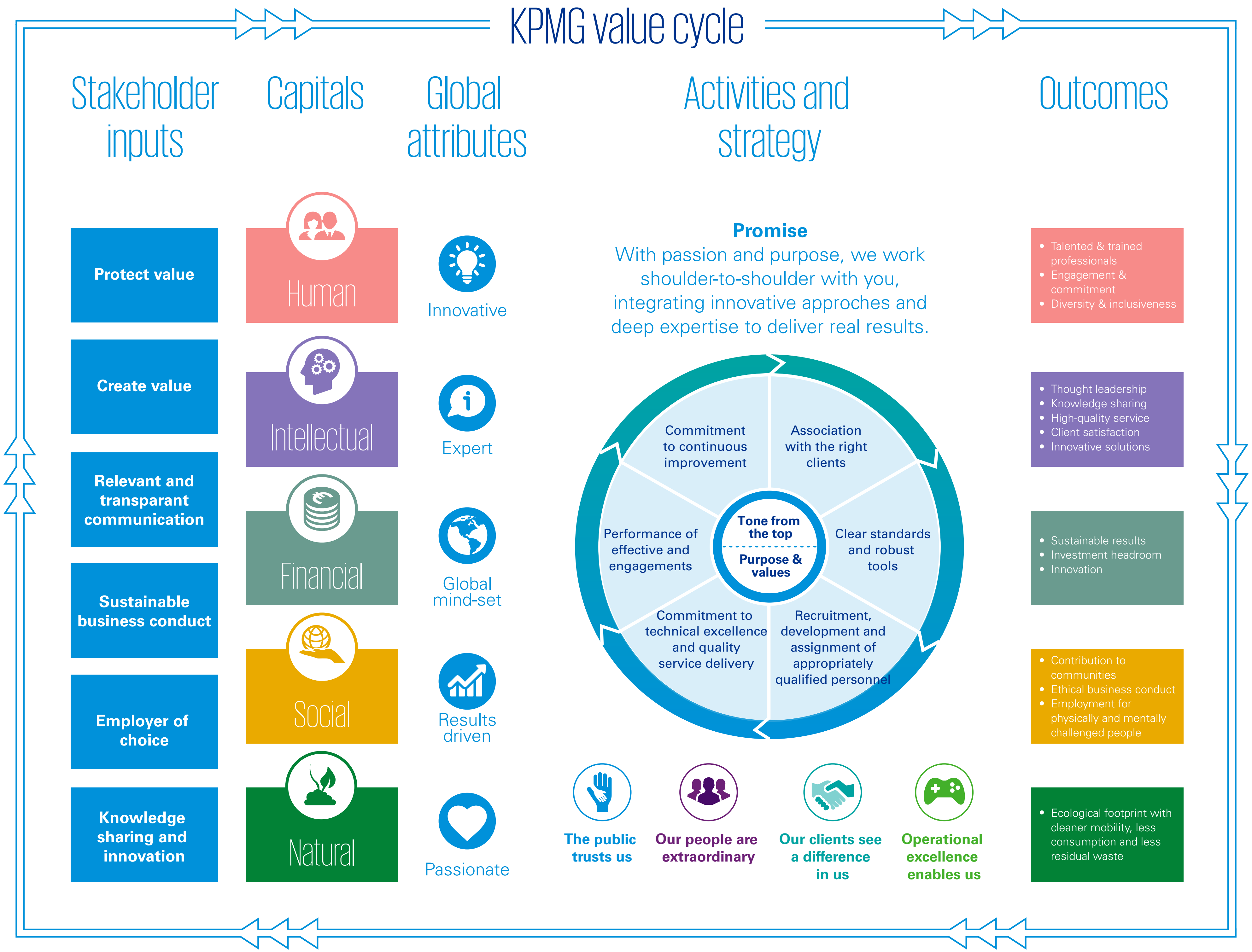



**Figure 2.** Value creation

# Members Board of Management

**Albert Röell (1959)**

Albert Röell has been the Chairman of the Board of Management since 1 November 2015. Albert has more than 30 years of experience in financial and professional services. Following his tenure with McKinsey & Company, he continued his career at ING, where he held various management positions. He was the CEO and Chairman of KAS BANK N.V. from 2005 until 9 September 2015.

**Egbert Eeftink (1962)**

Egbert Eeftink is Head of Audit and Chairman of the Audit Board effective 1 October 2015. He joined KPMG in 1986 and became partner in 1996. He has extensive experience as external auditor to both listed and non-listed entities, both nationally and internationally. Egbert has held various professional roles, both within KPMG and outside the firm. He served as Head of the Department of Professional Practice and is professor of Financial Reporting at VU University in Amsterdam and a special counsel at the Enterprise Chamber of the Amsterdam Court of Appeal.

**Bert Ferwerda (1960)**

Bert Ferwerda is Chief Human Resources Officer effective 1 November 2014. Bert Ferwerda is a seasoned Human Resources professional with extensive experience gained in senior executive positions at ABN Amro, IBM and Rabobank, where he served as Global Head of HR. Prior to his responsibilities in HR, he worked in several sales and sales management and business unit management positions at IBM. Bert Ferwerda holds a master's degree in Business Management.

**Rob Fijneman (1964)**

Rob Fijneman is Head of Advisory and Chairman of the Advisory Board. Rob Fijneman joined KPMG in 1986 and became partner in 1997. From 1999 to 2009 he held various management positions within IT Advisory and Risk Consulting. His main area of focus is corporate clients, both as lead partner and IT sparring partner. He holds a post master's degree in Accountancy and a PhD in IT auditing. Since 2004 Rob Fijneman has been a professor of IT auditing at Tilburg University and TIAS School for Business and Society.

**Rob Kreukniet (1962)**

Rob Kreukniet is Chief Operating Officer. He joined KPMG in 1988 and became partner in 1996. He worked as partner in the Brazil practice of KPMG from 1995 until 1999. Since 2000, Rob Kreukniet has been the external auditor for various publicly listed entities operating in a range of sectors, including the agriculture industry, consumer goods and engineering. He is a former member of the Audit Board in which he had the responsibility for the corporate clients portfolio.

# 4.

# Our leadership teams

# Our leadership teams

## Board of Management

| | |
|---|---|
| Chairman | Albert Röell |
| Chief Operating Officer | Rob Kreukniet |
| Chief Human Resources Officer | Bert Ferwerda |
| Head of Audit | Egbert Eeftink |
| Head of Advisory | Rob Fijneman |

## Audit Board

| | |
|---|---|
| Chairman | Egbert Eeftink |
| COO & CFO | Lex Gardien |
| Financial Services & Audit innovation | Peti de Wit |
| Region Randstad North & HR | Kees Bakker |
| National Practice other regions | Roland Smeets |
| Quality & Risk | Johan Faber |

## Corporate

| | |
|---|---|
| Chief Financial Officer | Patrick de Graaf |
| Corporate Secretary | Veroni Feenstra |
| General Counsel | Jacqueline Müller |
| Quality & Risk Management Partner | Marc Thunnissen |

## Advisory Board

| | |
|---|---|
| Chairman | Rob Fijneman |
| Head of Operations & CFO | Patrick de Graaf |
| COO | Alline van Os |
| Head of Markets | Edwin Herrie |
| Head of Innovation | Karina Kuperus |
| Head of Solutions | Peter Paul Brouwers |

## Business Support

| | |
|---|---|
| Compliance Office | Waldo Bakker |
| Corporate Communications | Eric Bouwmeester |
| Marketing & Sales | Frits Bergsma |
| Human Resources | Florien de Nijs |
| Corporate Responsibility | Jolanda van Schaik |
| Facilities | Dave Venmans |
| IT Services | Eric van den Broek |

## Advisory capability teams

| | |
|---|---|
| Asset Based Services | Karina Kuperus |
| Deal Advisory | Khalid Bakkali |
| Management Consulting | Waseem Alkhateeb |
| Risk Consulting | Roel Menken |

# 5.
# Public trust

## The public trusts us

| Performance target | Key indicators | FY2015/16 | FY2014/15 |
|---|---|---|---|
| Strong external perception of our reputation | Media coverage | -6% | -7% |
| Dependable consistent high levels of quality | Internal quality inspections | Audit 77%<br>Advisory 72% | Audit 76%<br>Advisory 76% |
| | Partner involvement on legal audits | 9% | 9% |
| | Consultation with specialists | 1,151 | 1,226 |
| Robust risk management & independence | Audit fees vs advisory fees | 1: 0.22 | 1: 0.21 |
| | Independence compliance | 15 | 22 |
| | General compliance | 93 | 101 |
| We demonstrate social responsibility | Volunteering hours | 2,218 hours | 2,115 hours |
| | Cash contribution and donations | EUR 721,464 | EUR 629,782 |

**Table 4.** Public trust key performance indicators

# The public trusts us

In our industry, reputation and trust are highly interdependent with the quality of our services. Quality is also the aspect for which the auditing profession is most under scrutiny with the general public. In this report we extensively describe our relentless focus on quality and the impact of this for both the Audit and Advisory practices.

We actively manage our reputation from the perspective that public trust must be earned, that it is society that gives us our licence to operate.

We use the KPMG Story as the framework for all our communications. Our three-year 2017-2019 business plan describes the communication areas on which we will focus: the quality agenda, the cultural change programme as a key element of the KPMG Story and the strategic growth agenda in Advisory.

We demonstrate our commitment to society by sharing our expertise in specific areas, such as cyber security and big data. We actively seek to adapt and communicate our knowledge and insights on a broad range of topics to raise awareness and encourage debate among society at large.

The programme of our Centennial celebration in 2017 is built around our three of our four vision areas: clients, society (public trust) and people. Through this programme, titled True Value, and the active inclusion of these three key stakeholder groups we expect to create relevance and to positively contribute to public trust.

Our commitment to society is also expressed through our Corporate Responsibility (CR) strategy in which lifelong learning, inclusiveness and corporate citizenship are key themes. More about our commitment to communities can be read at the end of this chapter, as well as how we integrate our CR policy into key business processes such as client proposals, procurement and our human resources policies.

Relations with governments, authorities and the media play a key role in the process of building trust and improving our reputation. We pursue a proactive approach in which we demonstrate an open, positive and constructive attitude.

## We are on a journey

During 2015/2016, we completed our audit quality improvement programme 'Activ8 your Audit Quality' which commenced in 2014, and we implemented all improvement measures from the NBA's 53-point improvement plan 'In the Public Interest'.

In October 2015, the AFM assigned an encouraging overall score of 4.6 (on a five point scale) to the design of our quality improvement measures. These improvement measures provide an essential means for further improving the quality of our audits and, by doing so, regaining public trust.

At the same time, we understand that high-quality audits cannot be achieved through specific improvement measures and quality programmes alone. To be effective and sustainable, the improvements need to be embedded in a quality driven culture across the organisation as a whole.

We have made significant investments in audit quality over the past years and we have achieved a lot. We firmly believe that audit quality has improved over the last two years and we have positive signals that we are on the right track. But at the same time we acknowledge that there are further steps to take.

Our root cause analyses indicate that there is no silver bullet that will easily resolve this. We will continue our focus on further improving audit quality based on all elements (drivers) of the KPMG Audit Quality Framework. This includes further improving the knowledge of our audit methodology and other relevant audit and accounting standards, the cooperation with subject matter experts and the use of data & analytics.

# Relentless focus on quality

## Framework

Quality is integral to our business and is the responsibility of every partner and professional in our organisation. Our processes, our systems and controls and our training are all designed to enable our professionals to provide high-quality audit or advice on which the stakeholders can rely. Our quality framework consists of seven drivers that are all equally important to achieving high-quality performance and that support our efforts in developing and maintaining a quality driven culture.

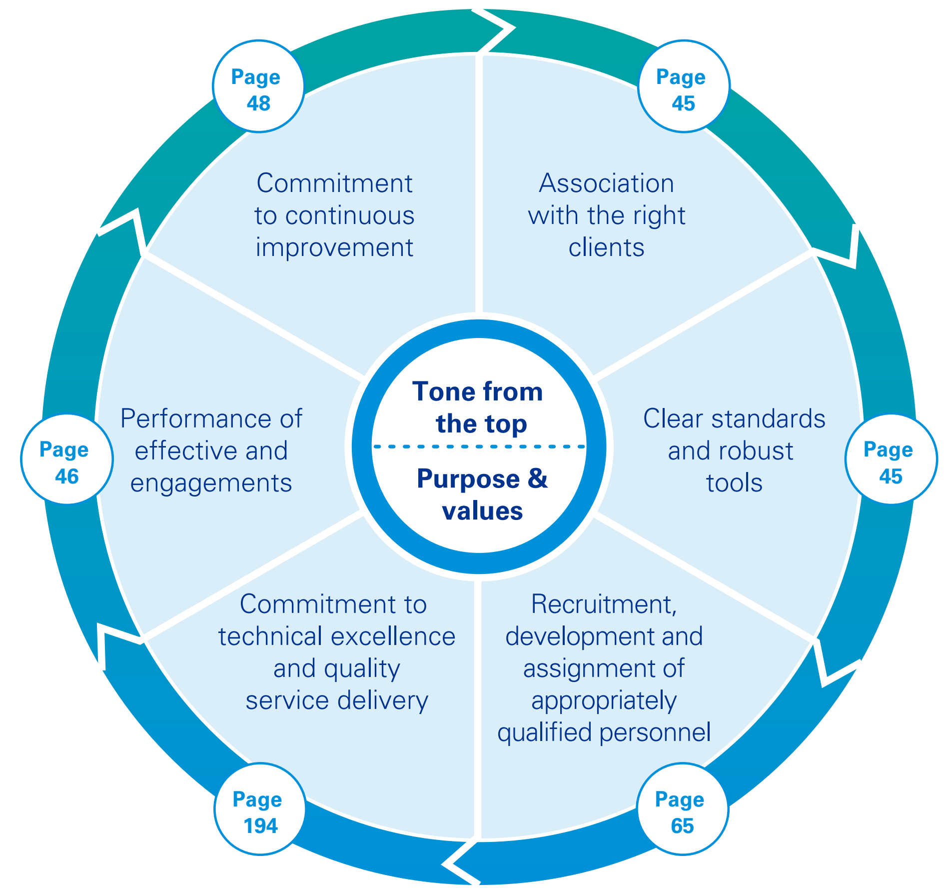



**Figure 3.** Our system of quality controls

# Tone from the top and purpose and values

Tone from the top is at the core of our quality framework and enables the right behaviour by our professionals in doing the right thing. We have focused our priorities on quality and cultural change, which is delivering tangible results. During the year, our 'True Blue' change programme was succeeded by the KPMG Story.

Our KPMG professional conference was focused entirely on audit quality and a professional mind-set. The conference included dialogue sessions titled 'Proud to be an auditor', where we shared personal experiences on 'moments that matter': defining moments where we stood our ground as auditors in the public interest.

We measure progress on cultural change using a subset of questions from our global people survey (GPS) and our pulse check surveys. The GPS is carried out in all KPMG member firms worldwide, whereas the pulse check survey only applies for Dutch employees.

**Relevant questions from our people surveys**

- Partners are approachable and accessible to employees;
- Partners demonstrate consistency between what they say is important and what they do;
- There is open and honest two-way communication at KPMG;
- The leadership of the firm does a good job of communicating the reasons behind important changes that are made;
- The leadership of the firm is committed to ethical business practices and conduct;
- There is appropriate emphasis on quality at KPMG.

68% of the respondents were positive towards the progress made on cultural change (51% in FY2014/15). We are satisfied with this positive development, which indicates that we are moving in the right direction.

KPMG

# Association with the right clients

Before accepting an organisation as a KPMG client, we carry out an extensive client analysis process. This involves an assessment of its principles, its governance and business, and other service-related matters. We undertake a re-evaluation of all clients and engagements annually, and we may decline or discontinue working with clients.

In FY2014/15 we made significant improvements to our client acceptance and continuation process, by centralising the related processes to enhance consistency. We have taken initiative to further refine this process.

As a result of the centralised and thorough process, we discontinued working with clients who were unable to meet our expected level of quality. The hours freed up were used to relieve the existing pressure on time available for audits of other clients.

We monitor and measure our association with the right clients using specific quality indicators. These include: (a) the number of clients that have been discontinued due to their inability to meet our expected levels of quality; (b) for clients that were accepted, the number of legal audit engagements that were discontinued before completion of the audit engagement; and (c) the number of incidents reported to the AFM and other regulators.

| | FY2015/16 | FY2014/15 |
|---|---|---|
| Number of audit clients/engagements not accepted | 1.3% | 2% |
| Number of discontinued (legal) audit engagements during the audit process | 13 | 12 |
| Number of incidents reported to regulators | 3 | 10 |

**Table 5.** Association with the right clients

# Clear standards and robust tools

We provide a range of guidance and tools to support our professionals in meeting our standards for quality. This includes the requirements under accounting, auditing, ethics & independence and other quality control standards, as well as other relevant laws and regulations.

The requirements and related internal guidance for performing audits are evolving over time. To avoid frequent changes and enhance clarity in terms of the professional guidelines applying to our professionals, we released a single and comprehensive set of standards in FY2015/16 (as was also done in the previous year) called 'Rules of the game 2016'. This single set of standards will not be modified or supplemented during the year, unless necessary in response to changes in laws and regulations. The 'Rules of the game 2016' were released on 1 June 2016, one month earlier than in the previous year (1 July 2015).

We monitor and measure clear standards and robust tools by measuring our investments in the development of new audit technologies and tools, which amounts to 0.5% of revenue. Other investments amount to 2.4% of revenue.

# Performance of effective and efficient engagements

Involvement and leadership from the engagement partner in the early stage of an engagement is important. This helps to set the right scope and tone for the engagement and helps the engagement team to obtain the maximum benefits from the partner's experience and skills. Timely involvement of the engagement partner at other stages of the engagement as appropriate allows the engagement partner to identify and address matters of significance to the engagement, including critical areas of judgement and significant risks. A key part of effective monitoring, coaching and supervision is the timely review of the work performed by others, so that significant matters are identified, discussed and addressed promptly.

## Quality & risk management for Advisory engagements

Engagement acceptance procedures within the Advisory practice include the following key elements that are assessed before an engagement is accepted:

– Do we have appropriately trained and experienced engagement teams available to deliver the proposed service?

– Which methods and tools will be used during delivery to achieve the objectives of the engagement in an optimal way?

– Can we agree with the client on appropriate (legal) terms & conditions and is the client willing to pay a fee which enables us to deliver the quality desired?

– Will third parties be involved in our service delivery (such as subcontractors) and will our deliverables be shared with third parties?

## New Advisory services

New Advisory services are assessed thoroughly before being offered to a first client. In practice, we notice that new Advisory services are partly asset-based. Consultancy knowledge and experience is made available to clients via software applications, or these applications are used by our engagement teams to deliver our services more effectively and/ or efficiently.

Regarding asset-based services, a new assessment framework has been developed which covers topics like IT security, quality of the software used and licence arrangements.

Our organisation implemented a funnelling process to control the flow from first idea to final rollout and maintenance of asset based services. For both the assessment and the rollout of these services, close cooperation with other large member firms of the KPMG network has been established.

## New and existing Advisory strategic alliances

In today's world, clients benefit from alliances that advisory companies such as ours establish with third parties. These alliance partners can be for example start-ups, software companies, hosting companies. Forming these alliances is supervised by the Function Quality & Risk Management Partner as auditors' independence requirements limit our possibilities to engage with alliance partners. In addition, reputation and quality of our alliance partners are considered as an essential to engage with such alliance partners in the light of maintaining our market profile.

# Engagement quality control review

An engagement quality control review (EQCR) is required for all engagements that are graded as high-risk. These include all audits, and related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQCR under applicable laws or regulations, and other (Audit or Advisory) engagements as designated by the Country Quality & Risk Management Partner.

In the Audit practice, all partners are subject to a minimum number of EQCRs per year. EQCRs are carried out by another audit partner, and the engagement is completed only when the EQCR partner is satisfied that all significant questions have been raised and that those questions have been resolved.

During the year under review 1,234 EQCRs were performed on Audit engagements, which is slightly down from 1,258 in FY2014/15. EQCR partners' share in total engagement hours was 4.4 hours (4.6 in FY2014/15).

# Commitment to continuous improvement

## Root cause analysis (RCA)

Performing RCA is an important element of continuous improvement. Issues are best solved by remediating their underlying root causes, as opposed to merely addressing the immediately obvious symptoms. A 'root cause' is the most basic cause (or causes) that can reasonably be identified and remediated. Robust RCA is therefore key to understanding and properly responding to audit quality issues.

We perform RCA at engagement level and at firm level. Depending on the issue identified, we may collect specific audit quality indicators (AQIs) and perform an analysis of soft controls and core values. In our experience, the root cause is hardly ever a single factor or just one thing; it is usually a combination of behaviour, facts and circumstances that together have caused an audit quality issue to occur. Our root cause analyses indicate that there is no silver bullet or magic key that will easily resolve audit quality issues.

**Margret Henderson,**
Quality & Risk Management Partner

As part of our quality programme, we changed the way we perform root cause analysis. One of the key changes is that we have introduced soft controls and core value analysis. That means that when we analyse a quality issue, we now also look at the behavioural aspects and how teams have worked together. Interviews and workshops, as part of the root cause analysis, are held by an audit expert and a behavioural expert. Another key change is the use of audit quality indicators to analyse an audit quality issue. The hard facts and the soft elements form a strong combination, to really get to the 'why of the why'.

Professionals strive to be the best at what they do. Deficiencies identified during an inspection (either internal or external) have a huge impact on these professionals. Working together with the central RCA team helps them to understand what happened, what they can do to avoid this in the future and what they need from the organisation to achieve that. Going through such a process is a great learning experience for all involved.

## Audit Quality Issues Council (AQIC)

KPMG recognises the value of in-depth analysis to enable the firm to take timely measures to improve audit quality. In 2015/2016, we set up an Audit Quality Issues Council with relevant stakeholders from the quality functions, audit leadership, business and a behavioural expert.

The AQIC is tasked with evaluating identified audit quality issues, prioritising them, carrying out root cause analysis (RCA) and suggesting remedial actions resulting from RCA. The AQIC advises the Board of Management and the Audit Board on remedial actions to address audit quality issues, and evaluates the effectiveness of the remedial actions by monitoring audit quality indicators and the outcome of internal and external inspections.

## Foundation for Auditing Research (FAR)

KPMG actively participates in the Foundation for Auditing Research. This independent foundation was established on 20 October 2015 and aims to enhance audit knowledge in various areas including technical or tacit knowledge and process or behavioural knowledge. KPMG, as well as a number of other audit firms, is a member of the FAR board and provides funding and data to enable an independent research programme to be carried out. Independent academics and audit practice leaders work together in FAR to accelerate the assimilation of audit research findings to the Audit practice. FAR is one part of the NBA improvement measures.

# Compliance with our quality management system

## Personal independence

Professionals who were not compliant with our independence procedures have been dealt with in accordance with our disciplinary policy for independence. Cases of non-compliance mostly relate to inaccurate or untimely updates of our tracking system for personal investments (KICS).

As in previous years, none of the violations relate to personal loans from (SEC) audit clients, insurance policies with (SEC) audit clients and bank deposits or credit cards from (SEC) audit clients. In addition, no violations related to prohibited services. Furthermore, all violations were remediated.

As part of our regular process, 74 professionals across the firm were subject to personal independence audits (FY2014/15: 154).

| | FY2015/16 | | | FY2014/15 | | |
|---|---|---|---|---|---|---|
| | Partners | Other | Total | Partners | Other | Total |
| Audit | 4 | 2 | 6 | 2 | 5 | 7 |
| Advisory | 5 | 3 | 8 | 7 | 6 | 13 |
| Support | - | 1 | 1 | - | 2 | 2 |
| **Total** | **9** | **6** | **15** | **9** | **13** | **22** |

**Table 6.** Independence infringements

| | FY2015/16 | FY2014/15 |
|---|---|---|
| Prohibited investments | 1 | 1 |
| Updates of KPMG Investment Compliance System (KICS) | 14 | 21 |
| **Total** | **15** | **22** |

**Table 7.** Violations per type

## Compliance with internal procedures

We note an overall decrease in the total number of non-compliance incidents as compared to last year. We distinguish between discipline related and quality related non-compliance. We recorded 93 quality related breaches during the reporting year (FY2014/15: 101). The majority of these quality related non-compliance incidents pertain to quality of engagement performance and initiating audit engagements before completion of acceptance procedures.

Although we see an overall decrease of violations we remain committed to further improvement.

We received six notifications (FY2014/15: 11) through our whistleblowing hotline. We followed up on five notifications. No issues were identified. One notification is still pending. All instances of non-compliance were followed up by either the Compliance Officer or the respective Heads of Audit or Advisory depending on the seriousness of the non-compliance.

During FY2015/16 there were six financial statements (FY2014/15: five) on which KPMG had performed the audit in the previous year, in which we identified misstatements that had a material impact on the financial statements, and which require a retrospective correction in next year's financial statements. In one situation this required an immediate notification in accordance with T9 BW2 art. 362.6. None of these financial statements relate to public interest entities.

# Inspections

Inspections, both internally and by regulators, are carried out to evaluate the work performed compared to our high standards. Where these inspections reveal deficiencies we analyse these deficiencies and where relevant perform a root cause analysis to learn and improve. At the same time, we take remedial action to rectify any findings in our audit work and audit documentation.

## Internal

**Quality performance reviews (QPRs)**
QPRs are performed by the Compliance Office with a team of Dutch (local) and non-Dutch (non-local) reviewers at partner and senior-manager level. The process is overseen by a non-local lead reviewer. In FY2015/16 a centrally led international QPR team started and carried out a number of QPR reviews at various KPMG member firms, with a particular focus on the audit of listed and related entities.

During the year under review, 59 Audit partners and 73 Advisory partners/directors were subject to internal quality reviews which equates to 48% (43% in FY2014/15) and 53% (46% in FY2014/15) of the respective total eligible population of partners/directors.

A 'Satisfactory' or 'Green' grading implies that (i) the work performed, the evidence obtained and the documentation produced complies with our internal policies, applicable (auditing) standards and legal and regulatory requirements, and (ii) the key judgements on significant matters in the engagement (in respect of the audit opinion) were appropriate.

A 'Performance improvement necessary' (PIN) or 'Yellow' grading is attributed where the engagement deliverable is generally supported by the work performed and is appropriate, however improvements are necessary in one or more significant area(s), including the documentation of the work performed.

An 'Unsatisfactory' or 'Red' grading is attributed where the engagement was not performed in accordance with the firm's policy and professional standards in significant areas, in particular where there are significant deficiencies in the financial statements themselves (Audit), documentation of the (audit) work performed, or the actual work undertaken.

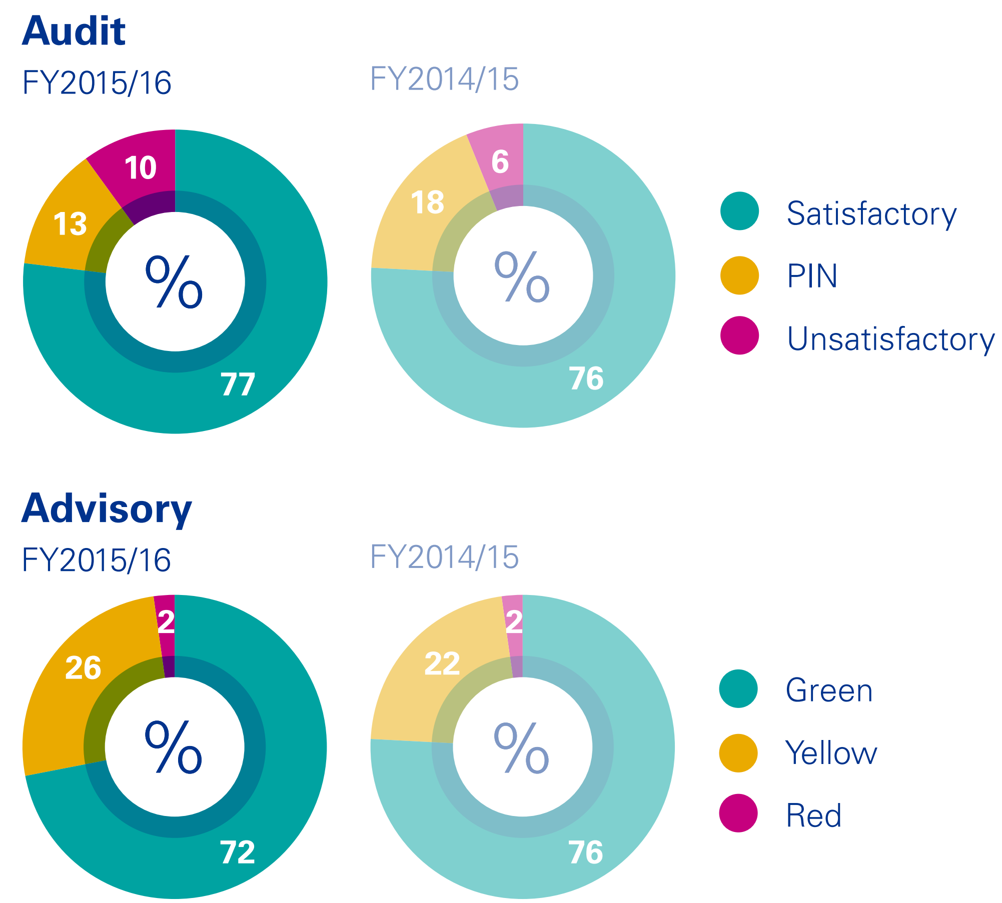



**Figure 4.** QPR scores Audit and Advisory partners/directors

The number of satisfactory scores for Audit are comparable to last year. We see a slight shift from PIN scores to unsatisfactory scores and we also see an increase of the average number of findings per engagement, which increased from 1.8 to 3.1 during the year under review. This is partly the result of a change in the definition of a 'finding'. We have identified the initial root causes of these less than satisfactory scores and have taken action accordingly. We will perform a root cause analysis to further analyse these findings in order to assess if additional remedial actions are necessary.

The Advisory results show a slight deterioration compared to last year. Reasons for the less than satisfactory PIN grades of Advisory engagements mostly relate to untimely completion of engagement acceptance procedures or non-compliance with certain aspects of those acceptance procedures (all non-independence related).

**Global compliance review (GCR)**
Every three to four years, KPMG International performs a GCR evaluating the elements of our system of quality control. The overall outcome of the 2016 review was positive with some minor findings, and showed significant improvements compared to the previous GCR in 2012.

## External

**PCAOB**
In November 2015, the United States regulator (PCAOB) performed a regular periodic inspection of three 2014 audit engagement files (two foreign issuers and one substantial role engagement). Two of these audit files were also inspected by the AFM as part of what is known as its 'joint inspection'. On 29 September 2016 the PCAOB released its final report, with no findings in respect of two of the audit files inspected. The findings in respect of one audit file have been addressed with no adjustments being made to either the group reporting or to our audit opinion thereon.

As part of its inspection the PCAOB also evaluated elements of our system of quality control. In its final report, the PCAOB reported no findings related to the elements of our system of quality control inspected separately from the audit files.

**AFM**
*Regular inspection*
As part of their regular inspections, since November 2015, the AFM has been carrying out inspections on eight audit engagement files in respect of 2014 and 2015. The inspection process on the eight files is ongoing and has not been finalised.

The preliminary inspection results indicate findings in respect of a number of audit files, with some of these findings under discussion. These preliminary inspection results confirm our own assessment that there are still steps to be taken. Based on the nature of the preliminary inspection results and our root cause analyses, we are proceeding with our current audit quality programme. The AFM plans to report its findings in the first half of 2017.

*Administrative fine*

On 16 March 2016, the AFM imposed an administrative fine of EUR 1,245,000 based on its inspection findings in respect of the 2011-2012 audit files. The fine was based on the AFM's conclusion that we as a firm had violated our duty of care (article 14 of the Dutch Audit Firms Supervision Act ('Wta')). KPMG has remediated all findings in the respective audit files. Remediation has not led to any changes to the financial statements or audit opinion thereon. We give top priority to further improving the quality of our audit work and documentation, in the present and in the future. We will continue our constructive dialogue thereon with the AFM.

*Implementation of improvement measures*

The AFM is investigating the implementation of the improvement measures in two phases. It completed phase 1 of its review of the design of our improvement measures in October 2015, resulting in 4.6 score on a 5 point scale. In May 2016, the AFM has started phase 2 by investigating the implementation of these measures. Phase 2 of the investigation covers amongst others the following three areas:

– **In control:** The AFM is evaluating whether the Board of Management is 'in control' in relation to the quality of legal audits and how that is influenced by culture surveys and root cause analyses;

– **Supervisory Board:** The AFM is evaluating the way the Supervisory Board assumed and executed its role and responsibilities in relation to the quality of legal audits;

– **Culture and behaviour:** The AFM is evaluating amongst others how professionals experience the changes in the quality driven culture. There was a focus on the tone from the top and exemplary behaviour of the Board of Management that enables professionals to demonstrate the behaviour expected in a quality-driven culture.

The preliminary results of phase 2 of the investigation support our assessment that we are well on track with the implementation and operating effectiveness of our improvement measures, but that there are still further steps to be taken. The AFM plans to report its findings in the first half of 2017.

*Other*

Audits performed for ISO 9001 (general quality framework), ISO 27001 (data security) and ISO 14001 (environmental management) all resulted in positive evaluations and continuance of our certification in the designated areas.

Files investigated by other regulators (e.g. the Dutch ministry of Education, Culture and Science (OCW), Auditdienst Rijk (ADR)) and others were found to be compliant with one minor exception.

# The way forward

Our focus for FY2016/17 will be on increasing the time available to perform high-quality audits, accelerating our development and implementation of technology-enabled and data-driven audits and further improving our professionals’ knowledge of our audit methodology. The implementation of our plan to further improve audit quality will take time (three to five years) to complete, before it is fully assimilated across the entire organisation and entirely reflected in the audit files.

We will continue to promote and underline the importance of our purpose and values-driven culture. The programme around the KPMG Story will continue in FY2016/17 with the aims of strengthening internal dialogue, discussing dilemmas and defining how purpose and values should and will drive our behaviour.

FY2016/17 marks KPMG’s Centennial in the Netherlands, as it will be 100 years since Piet Klijnveld established an audit firm that would later become one of the founding firms of the global KPMG network. Our Centennial year will also mark the launch of True Value, our renewed contribution to society and societal issues.

# Commitment to our communities

If we look at our practices all around the world and the people in our member firms, including the professionals in the Dutch firm, we all, in one way or another, contribute to all 17 of the UN global goals for sustainable development through our client work. Our Corporate Responsibility (CR) programmes particularly focus on lifelong learning (goal 4) and climate action (goal 13). We have a Corporate Responsibility strategy in place to address our commitment to our communities and our ambitions in terms of the reduction of our ecological footprint and the integration of CR into our business processes. Below we summarise a number of initiatives that we have taken as part of our commitment.

## Quality education

**KPMG Jan Hommen Scholarship**

The KPMG Jan Hommen Scholarship is one of our community projects with a focus on education and our lifelong learning ambitions. When Jan Hommen, the previous CEO of KPMG the Netherlands, retired he founded this scholarship as he strongly believes in education and in particular that of MBO students who form the largest group in society contributing to the Dutch economy.

The KPMG Jan Hommen Scholarship is an innovative programme created in cooperation with the *Stichting StreetPro* (which aims to coach youngsters to become socially independent) to financially support MBO students throughout their four years of education. It is a programme developed to financially support MBO students who are struggling to make ends meet, but also to help them to (re)discover what their talents are, build their self-confidence and help them fight to realise their dreams and ambitions. In March 2016 KPMG was proud to award eight students a scholarship of EUR 2,500 per annum for periods varying from two to a maximum of four years. As well as professional coaching from StreetPro, these students will also be mentored by a KPMG professional who will support them in building up their professional network, improving their communication and presentation skills or learning how to deal with social media.

**JINC**

JINC *('Jongeren Incorporated')* gives young people from eight to 16 years of age the opportunity to experience what the labour market has to offer and what skills one needs for specific jobs. JINC's projects reach more than 40,000 students annually at primary and secondary school levels. The goal is to enable them to make the right choices in terms of their education, to reduce the likelihood of students dropping out and to give them better long-term employment prospects.

KPMG is a strong believer that the best way in which we can contribute to society is by performing our services for our clients and at the same time sharing our knowledge to give back to society. Because of its cooperation with JINC, KPMG is now active at all levels in the education system. From primary school to secondary education and university, KPMG is active or has developed programmes to support students, in particular from vulnerable groups, to give them the best possible start in the labour market.

**Veroni Feenstra,**
Senior Manager and
Corporate Secretary

## Business leaders fight Alzheimer's

ALZHEIMER LAB is a collaborative effort of leading Dutch organisations and their top talents and the Alzheimer's Centre of the **VU University Medical Centre (VUmc) Amsterdam**. We are building a bridge between committed researchers and enterprising thinkers. Together, we ensure that The Great Forgetting does not fade from public awareness. That cooperation is unique. Together with top talents in the corporate world, we develop and realise projects that generate visibility and engagement, every single day, and also result in a sustainable inflow of funding for research.

Alzheimer's creeps into your life, slowly and unnoticed. It has now become a part of the lives of so many people that all of us know someone who is affected by the disease. One in five people over the age of 65 will suffer from Alzheimer's; a new patient is added every 15 minutes.

KPMG is one of the organisations that founded the ALZHEIMER LAB initiative, and for the third year in a row we are fighting for a world without Alzheimer's, as co-organiser and participant.

**Why do I personally want to make a contribution?**

Because I have seen from close by what a huge impact Alzheimer's disease can have. Because I believe in an approach in which we as an organisation can use our expertise and our time to contribute a lot more than just money. And because in my role within the LAB organisation I can play to my own strengths. ALZHEIMER LAB is a win-win-win: for a world without Alzheimer's, for KPMG and for me.

**SO Professioneel and Jeugd Engine**
'*SO Professioneel*' and '*Jeugd Engine*' are projects that were developed and are being run by KPMG professionals as a follow-on from our previous BRIGHT project. Since the last final of the BRIGHT competition almost two years ago, KPMG is very proud to see a number of its professionals still working with so much dedication to support particularly vulnerable groups in society. From a CR perspective, we believe that KPMG professionals become more accomplished and better auditors and advisors when they are more aware and confronted with local, societal and international issues. Our CR programmes are aimed at further developing that perspective. We feel also that projects that are 'home-grown' and run by KPMG professionals might have the biggest impact on the individuals involved themselves and of course at the same time on the specific target groups. In the case of *SO Professioneel*, low-income single parents from non-western European backgrounds are offered a specially developed programme to help increase their chances of gaining employment and increasing their income. The programme includes a series of 12 workshops hosted by KPMG professionals.

*Jeugd Engine* is another legacy of the BRIGHT programme and is a project run by KPMG professionals in the north-east of the Netherlands, in the Groningen area. It is about bringing together young people who have difficulty accessing the labour market and/or who are long-term unemployed. Jeugd Engine is meant to act as a catalyst for bringing different parties together, people looking for work, organisations looking for employees and other stakeholders and interested parties such as local authorities (municipalities) and unemployment agencies who have an interest in reducing unemployment figures and who could benefit the most from the youngsters' talents.


## Reduced inequalities and responsible consumption

**Sustainable procurement | Supplier code | Targets**

We note that our clients and prospects increasingly require evidence to demonstrate that we have a responsible supply chain. As a professional services firm, KPMG Netherlands is visible to all types of businesses, and has a global impact through our services and supply chain. We believe that a strong commitment and a strategic approach to sustainable development is essential for managing the challenges and opportunities of a rapidly changing global environment. We view our suppliers as partners and care about the way they do business. The KPMG supplier code of conduct is a result of our ambition to establish a proactive collaboration with our suppliers in the promotion of lawful, professional and fair practices that integrate respect for human rights, business ethics and the environment. Our suppliers' performance and alignment to high standards of business is an important and impactful part of the value chain for KPMG Netherlands. We expect our suppliers to in turn communicate the code to related entities, suppliers and subcontractors who support them in supplying to KPMG Netherlands, so that they are aware of and understand the standards set within the code.

KPMG Netherlands is a signatory of the United Nations Global Compact (UNGC) through our member firm affiliation with the KPMG International cooperative, signalling our commitment to responsible and ethical business practices in the marketplace. We are committed to maintaining the highest legal, environmental, ethical and professional standards, consistent with the UNGC's ten principles in the areas of human rights, labour, the environment and anti-corruption.

We recently updated our supplier code of conduct to reflect these principles, as well as national legislation and KPMG policies that are already embedded within the firm's ethos. In addition to our supplier code of conduct, Corporate Procurement together with Corporate Responsibility challenge our selected suppliers to actively support our environmental targets of operating $CO_2$-neutrally and ensuring a social return on investment in the services we deliver. Following the launch of KPMG's Sustainable Procurement plan, Corporate Purchasing took significant steps to embed the plan's targets in the contracts and KPIs of our suppliers.

## Climate action

**COP 21 (Communication on Progress)**
With the additional challenges of COP22 just recently being revealed, KPMG looks back on COP21 by contributing to an agreement with great potential.

KPMG International played an active role in sharing our insights into the 2015 UN Climate Negotiations in Paris. Apart from the work of our Climate Change & Sustainability Services practice, of which the Dutch Sustainability department is also part, KPMG International has committed to action in two areas:

- The Carbon Price Communiqué, which makes the case for fixing a price for carbon emissions as one of the main building blocks of an effective and ambitious climate change policy;

- The Statement on Fiduciary Duty and Climate Change Disclosure by the Climate Standards Disclosure Board, which aims to bring climate change disclosures into mainstream corporate reports, given that the disclosures are of relevance to investors.

KPMG member firms around the world including the Dutch firm are committed to reducing their impact on the environment, addressing local environmental challenges and working with clients to advance environmental sustainability.

Actions include:
- Achieving ambitious emissions reduction targets;
- Developing new approaches to account for natural and social capital;
- Supporting collaborative projects with partners such as the UN Global Compact (Dutch dependence) and the Circular Hotspot;
- Serving as leading providers of climate change and sustainability services for our clients.

**Global Green Initiative (GGI)**

We believe that material climate change risks will significantly impact the welfare and well-being of people within the societies in which we operate. We view material climate change opportunities as those that will offer significant opportunities to improve our business operations, reduce operating costs and/or offer new services to KPMG member firm clients.

Since 2008, our member firm has been part of the KPMG Global Green Initiative (GGI), a commitment to addressing climate change by focusing on three pillars:

1. To measure, reduce and report on KPMG's global emissions across the KPMG network;
2. To support environmental projects within our wider commitment to our communities, and advance sustainability;
3. To work with our partners, employees, suppliers and clients to help them reduce their climate change impacts.

The GGI initially had a pan-KPMG network ambition to reduce combined greenhouse gas emissions per FTE by 25% by 2010, starting from a 2007 baseline. We achieved this target.

A new target was set in 2011 that sought a further 15% reduction in net emissions per FTE by the end of 2015, compared to 2010. Since 2010, we have reduced our net emissions per FTE by 10%.

Furthermore, an average of 93% of the electricity purchased by KPMG in the Netherlands is now procured from renewable energy sources.

**ISO 14001:2015 certificate**

KPMG the Netherlands is ISO 14001:2015 certified for its environmental management system. KPMG was one of first of the Big Four in the Netherlands to gain the 14001 certificate, in 2013. KPMG successfully renewed and updated the certificate to the new ISO 14001:2015 norm in 2016.

Besides our $CO_2$ emissions targets, KPMG focuses on the increased use of renewable energy and continuous reduction of energy usage. Additionally, we offset the remainder of our $CO_2$ emissions by redeeming Verified Emission Reduction certificates (also in part Gold Standard certificates since 2015), which supports us in our goal of being carbon neutral.

**EcoVadis**

EcoVadis operates a platform that allows companies to assess the environmental and social performance of their global suppliers. KPMG recorded the support we give our clients in the EcoVadis online assessment tool, in order to evaluate our performance in the areas of reducing business risks and driving performance and innovation in our supply chain. This resulted in a Silver CSR rating for our Corporate Responsibility programme.

**Energy Efficiency Directive**

The 2012 Energy Efficiency Directive (EED) established a set of binding measures to help the EU reach its 20% energy efficiency improvement target by 2020. Under the directive, all EU countries are required to use energy more efficiently at all stages of the energy chain from its production to its final consumption. The EED is ambitious. It is meant to fill the gap between existing framework directives and national/international measures on energy efficiency and the 2020 EU target for energy savings. KPMG, in cooperation with local authorities and our service supplier, drafted initial plans to save energy and propose investment if necessary to reach the set targets. These plans are also reflected in the environmental management system for our main offices in Amstelveen and The Hague, with the other offices to follow.

## Promoting diversity

**AGORA**

In line with our renewed ambitions for a more inclusive KPMG, we committed ourselves to the Stichting Agora, a network with the ambition to raise more awareness and create more opportunities for people with a multi-cultural background in accessing the labour market, promotion prospects and retention. The network gives its participants the chance to share knowledge and expertise, discuss dilemmas and host empowerment sessions on these topics.

**Traineeship for people with a disability**

KPMG, in collaboration with Emma at Work, created two traineeships within KPMG for people with physical or intellectual disabilities. The trainees get the chance to gain work experience in various departments such as the Audit and Advisory practices or in the back-office administration. As well as the traineeship, the trainees are offered the opportunity to further develop their professional skills by participating in workshops, trainings and courses supported by KPMG Learning & Development. KPMG expects this traineeship to offer opportunities and address the needs of professionals in the social return on investment target group, a development from which KPMG expects to benefit across the entire organisation.

# 6. Our people

KPMG

## Our people are extraordinary

| Performance target | Key indicators | FY2015/16 | FY2014/15 |
|---|---|---|---|
| Our partners lead by example | Employee surveys | 60% | 50% |
| Consistently high levels of engagement and performance | Employee surveys | 58% | 64% |
| | Training investment | EUR 11.2 million | EUR 11.6 million |
| | Performance management (employee engagement index) | 64% | 58% |
| Diversity in our workforce | Male/female ratio* | 66.4% - 33.6% | 66.2% - 33.8% |

** Total number of employees excluding contractors, interns and KPMG International*

**Table 8.** People key performance indicators

# It's all about talent

## Talent development

We believe that it is essential to attract and retain the best people. KPMG professionals distinguish themselves by being forward thinkers, having a global mind-set and adding value by being passionate experts in what they do.

We offer opportunities for those who want to make an impact. From financial statement audits to non-financial and sustainability assurance, cyber security to data & analytics, we are a full range professional services firm. We are also incubators who supply experienced professionals to the market place. Recruitment is one of the core activities for KPMG to ensure we attract and retain top talented professionals. KPMG professionals themselves can refer potential talents through the 'Refer a Friend' programme.

During FY2015/16 471 FTEs (FY2014/15: 523) joined our firm, while 417 FTEs (FY2014/15: 612) left the firm. Our retention rate – the percentage of employees remaining with the firm – is 83.9% (FY2014/15: 82%). The decline of retention for all employees was impacted by redesign programmes in Business Support. Overall absenteeism remained relatively low at 2.8% (FY2014/15: 2.7%).

KPMG

| | Audit | Advisory | Corporate | Total |
|---|---|---|---|---|
| **FY2015/16** | | | | |
| Equity partners | 71 | 53 | 8 | **132** |
| Professionals | 1183 | 957 | - | **2140** |
| Support staff | 104 | 59 | 414 | **577** |
| **Total** | **1,358** | **1,069** | **422** | **2,849** |
| **FY2014/15** | | | | |
| Equity partners | 76 | 55 | 9 | **140** |
| Professionals | 1,190 | 935 | - | **2,125** |
| Support staff | 107 | 62 | 418 | **587** |
| **Total** | **1,373** | **1,052** | **427** | **2,852** |

**Table 9.** FTEs per function per FY

In 2016 we renewed and broadened our performance management tool by initiating KPMG's talent management model to identify each professional's individual strengths and opportunities. Using the model we provide support, mentoring and training on the job through external coaches or senior colleagues. Performance managers regularly sit with individual professionals to develop a tailor-made challenging and inspiring development plan.

Of course, talents are not created overnight. Professionals are never left on their own. KPMG values continuous education and development for both starters and seasoned professionals. We provide the best individual learning experience by mixing national and international, and internal and external trainings. This includes post-graduate courses at top universities.

A global mobility programme is available for professionals seeking an opportunity to work abroad with KPMG. In FY2015/16 45 professionals were on short- and long-term secondments and 113 professionals from other member firms were inbound in the Netherlands (short- and long-term). International experience is key when dealing with international clients. It broadens personal perspectives and develops a more global mind-set of our professionals.

**Reint Willem van Dijk,**
Partner Audit

**"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn."**

*(Alvin Toffler)*

Developing senior leadership capabilities, growing self-awareness, reflecting on personal development and building strong networks are some of the goals of the **EMA Chairman's 25 programme.** This flagship leadership programme developed and provided by KPMG International together with one of the leading business schools in the world, takes one year and consists of six modules across Europe.

During this programme I learned about value creation, cultural differences and how to recognise and use them as a benefit and about building strong networks and high-performing teams. In the coaching groups led by executive coaches I was able to reflect on myself and to learn from my colleagues' insights and experiences. We also visited several international clients and talked about their leadership style and culture and the key to their success.

We recognised that our clients are increasingly international, technology change is accelerating, millennials want to be global citizens and, therefore, international collaboration and agility is key.

During the programme we worked on four projects – 'Client of the future', Global mind-set & collaboration', 'Technology and innovation', and 'Mobility - global citizens' – and presented our findings to the KPMG EMA Board. To me the programme felt like an intensive and valuable journey with 24 colleagues from the EMEA region, who I did not know beforehand, but who became good friends within KPMG.

# Recruitment, development and assignment of personnel

We provide opportunities for professionals to develop the skills, behaviour and personal qualities that form the foundation for a successful career in Audit, Advisory or Business Support. We have procedures in place to assign both engagement partners and employees to a specific engagement based on their individual skillset, relevant professional and industry experience, and overall workload compared to the nature and requirements of the assignment or engagement.

## Recruitment

The effects of mandatory firm rotation and successive audit quality improvement programmes have resulted in an increased workload and time commitment for our partners and employees. In combination, these effects have increased the pressure on our workforce and have left limited resources in terms of time and concentration to fully absorb all the changes across the entire organisation. During the year under review, we have started to increase our capacity using various measures.

In Audit, we have fully met our recruitment targets during the year. At the same time, our retention of professionals of 85.2% is higher than in the previous year (FY2014/15: 74%). On a net basis, our professional staff was relatively stable compared to FY2014/15 (excluding MKB). For the next year, we will continue to invest in professional resources to ensure that we have sufficient qualified professionals to deliver quality work.

## Audit quality curriculum for partner promotion

To foster audit quality, our professionals need to demonstrate their commitment to audit quality before they can be promoted to the roles of partners and directors. The audit quality curriculum for partners (AQCP) details the requirements for all new partners. Additional requirements have been laid down for partners signing audit opinions in respect of listed entities. The requirements relate to professional qualifications, the outcome of quality reviews, technical roles and experience required. Right now, 46 new partners and partner candidates are investing in themselves by working on their AQCP.

## Quality as the main driver for promotion and remuneration

Audit quality is the main driver for assignment, evaluation, promotion and remuneration of our professionals. Quality performance of partners is assessed as part of their performance management cycle. Quality incidents may be (partly) compensated within the same performance area of quality (e.g. by audit quality support), but cannot be cancelled out by high performance in other areas (e.g. clients, people management or operational performance).

In FY2014/15 we introduced a deferral and clawback mechanism in respect of partner income.

In situations where we identify quality incidents, partners are given the opportunity to improve their performance by completing a partner improvement plan (PIP). A PIP covers a period of two years in which partners receive extra support depending on their individual needs. At the end of the year under review, five partners were working on a PIP.

## Assignment

To help manage and reduce workload, we have implemented a more advanced resource planning system providing more clarity about planning, vacancies and allocation of resources. This will further assist us in balancing workload by allocating resources to where they are needed (most).

## Access to specialist networks

Our engagement teams have access to a network of local and global specialists in the KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills. The need for specialist skills (e.g. IT, tax, treasury, pensions, valuation, forensics) to be assigned to a specific audit engagement is part of the engagement acceptance and continuance process. The involvement of specialists in audit in FY2015/16 amounted to 10.66% of audit hours compared to 13.63% in the previous year.

| | FY2015/16 | | FY2014/15 | |
|---|---|---|---|---|
| Legal audits | 132,331 | 12% | 143,400 | 15% |
| Non-legal audits | 50,416 | 9% | 75,961 | 12% |
| PIE/OOB audit clients | 77,615 | 27% | 77,271 | 27% |
| Non-PIE/OOB audit clients | 105,132 | 7% | 142,090 | 11% |

**Table 10.** Numbers of hours (specialists)

# Commitment to technical excellence

| | FY2015/16 | FY2014/15 |
|---|---|---|
| Audit | 161 | 95 |
| Advisory | 82 | 81 |
| Business Support | 17 | 23 |
| **Total** | **113** | **79** |

**Table 11.** Average training hours per FTE

## Training

Our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements. Our technical training curriculum covers all grades of professional staff with a core training programme for junior professionals and periodic and annual update training for qualified and experienced professionals and partners.

For FY2015/16 the training programme for experienced professionals and partners consisted of the KPMG Professional Conference, EQCRP peer-to-peer sessions, IFRS updates, preparation for challenging conversations with clients on difficult professional issues and fair audit fees, virtual classrooms and e-learnings. The average number of training hours (internal and external training) increased in FY2015/16 compared to the previous year.

## Diversity in our workforce

We acknowledge diversity as being vital to achieve our purpose. We want to inspire confidence in the world around us and deliver innovative solutions that our clients need. That requires building teams of talent that are diverse in more areas than simply gender diversity. Not only will this reflect the nature of our clients' businesses, it will allow us to express different viewpoints and bring well-rounded perspectives to our clients. We are gradually and increasingly seeing results on our diversity targets. Overall, however, we still do not meet the requirement of 30% as set by the Dutch charter 'Talent to the Top'.

In 2016 we established a diversity task force consisting of leadership team members, business representatives and Supervisory Board members. One of the first initiatives launched by the taskforce is 'Two-way Career Mentoring', where female professionals are coached by senior male partners – and vice versa. The male partners are given specific targets for retaining female professionals. We also relaunched our (international) Women's Network to foster discussion and debate on the subject of gender diversity and we remain committed to diversity networks such as ECHO and AGORA. We will introduce a 'Young Parents Programme' which will address the dilemmas posed by building family life in combination with highly demanding jobs.

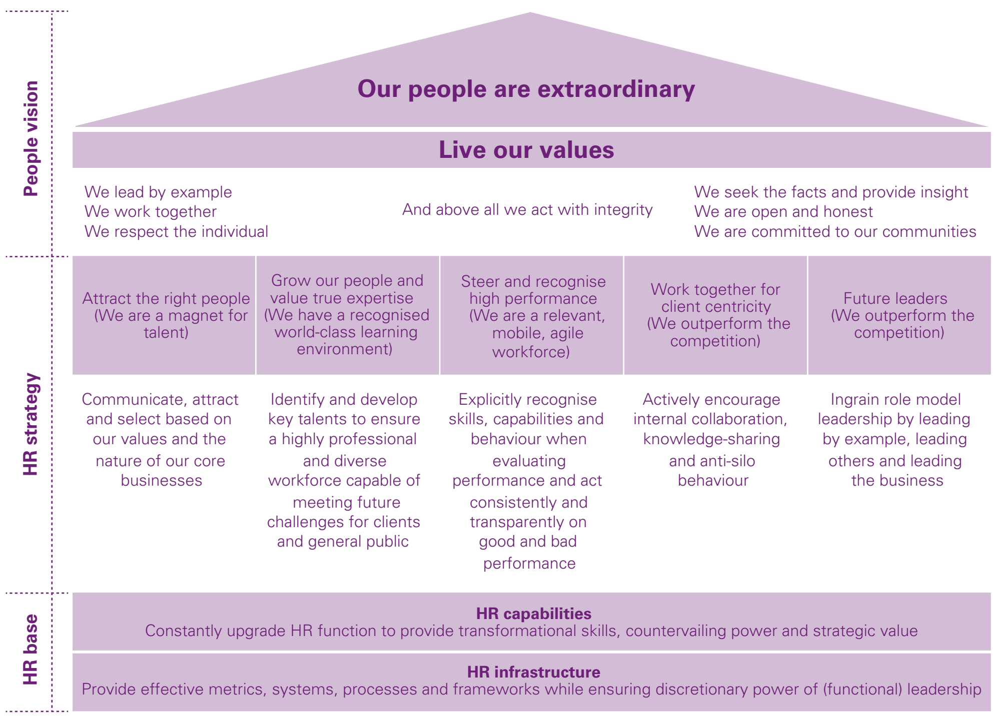



**Figure 5.** Our people vision

Even more important than diversity is our ambition to be an inclusive culture: an environment where everybody can have his or her place, irrespective of background, sexual orientation, religion, skin colour, et cetera. We have launched a number of initiatives to drive a more inclusive culture. For instance, we have set up a KPMG diversity and inclusion network. Diversity awareness training will be deployed during FY2016/17.

## Future leaders

Our top talented professionals are selected for the Emerging Leader Programme (ELP) or Young Talent Programme (YTP). EPL provides opportunities for talented professionals to develop their business acumen as they work on actual challenges for clients or KPMG itself. Presentations to the leadership from other member firms are part of the ELP curriculum to help develop even better stage presence and impact. YTP participants enjoy cross-functional traineeships to broaden their horizons beyond strictly the Audit or Advisory functions. We believe that future leaders should be able to see both sides of the professional story thus enabling them to provide a better service to our clients and making a lasting impact on society.

During FY2015/16, 42 professionals participated in ELP and 23 professionals took part in the YTP traineeship. Of the total, 9 and 7 female professionals participated in ELP and YTP respectively.

**Rosemarie van Alst,**
Senior Manager Risk Consulting IT Advisory

The **Emerging Leader Programme** provides international training possibilities and one-on-one coaching or mentoring. For me, this programme helps by opening many doors to reach experiences I hadn't thought possible. I got the opportunity to become an account manager for a large client, providing me with opportunities to both stretch in developing my client contact skills and in matching the client's questions to broad KPMG solutions. In my client engagements I had the freedom to build my teams across all KPMG functions and I was challenged to participate in key proposals. I strive to make clients and my KPMG team enthusiastic about our close cooperation.

Being in the programme brings you face to face with KPMG leadership several times a year, discussing future plans and the development of KPMG. The input that emerging leaders provide is appreciated and I feel a responsibility for bringing KPMG to the best possible level. From challenging the KPMG business plans to presenting global people survey results back to the partners, I can actively participate in projects which are important to me and to the future of KPMG.

This is a boost for my personal development in terms of building my leadership skills as well as better understanding all the challenges an organisation such as KPMG faces. From the start of the programme, my mentor challenged my development plan to boost my development but also to regularly reflect on my progress and ambitions. The programme helped me to build my international KPMG network through international training courses in which my personal effectiveness, business development and leadership skills were challenged.

Now I get a lot of energy and fresh ideas from helping to facilitate these courses and mentoring the next generation of young talents and emerging leaders. Being an emerging leader is a great compliment that boosts my energy to strive for the best in myself at KPMG.

# Work-life balance

Some of our business teams have volatile working hours, usually accompanied by tight deadlines. And we have a relatively young workforce, whose careers and personal life are both blossoming. Balancing these two opposing forces can be a challenge, as shown by the results from our internal global people survey (GPS). Despite this challenge, absenteeism remained relatively stable in 2015/2016 at 2.8%. Work-life balance and more broadly speaking vitality remains a key topic in our strategy however.

In 2015 we piloted with 'KPMG Vitality', an awareness programme designed to assist professionals in taking care of their body, diet, sleep and time management, to enable peak performance.

The workload for Audit professionals has increased significantly during recent years, due to a combination of the increased workload in the period of mandatory firm rotation and the efforts to implement audit quality initiatives. Over the past year, we have implemented nearly all of the sector improvement measures included in the report 'In the public interest' as well as implementing other improvement points following the results of our internal and external inspections.

To help manage and reduce workload, we have implemented a new resource planning system that provides more clarity about planning, vacancies and the allocation of resources. This will further assist us in balancing workloads by allocating resources to where they are needed (most). Our recruitment targets for the coming years will be higher than usual to ensure that we continue to have sufficient professionals to do the work.

# A culture of collaboration for service quality

## Engagement and pride in KPMG

When we come together we create extraordinary solutions for clients and stakeholders at large. Employee engagement is measured through the Employee Engagement Index (EEI) as part of our people survey. EEI measures employee motivation to contribute and display organisational citizenship behaviour (trust, respect, growth and development). The overall EEI score increased as compared to last year with 6% to 64%, mainly as a result of clear communication on our purpose, vision and values as well as reinforcing leading by example by partners and directors. Pride in KPMG rose to 80%, an increase of 9% compared to FY2014/15. Commencing this reporting year,

KPMG

we are monitoring our employees' perception of quality improvement and in the last pulse check survey a majority of 68% of all employees (FY2014/15: 60%) had a positive opinion on 'Tone from the top' and its impact on audit quality.

We value collaboration to the extent that we have implemented specific indicators for it as part of the annual employee appraisal process.

# Audit Quality 'Piet Klijnveld' awards

We have introduced Quality Awards to encourage and foster quality. Our professionals can nominate teams or colleagues who distinguish themselves in the area of audit quality or coaching for a Quality Award in seven different categories. One of the nominees is selected for the annual Piet Klijnveld Award, named after the founder of our Dutch firm.

**Emiel Ekamper,**
Manager Audit

**The Piet Klijnveld Award is presented to a KPMG professional who provides a tremendous added value to quality and quality improvement.**

This year, Manager Emiel Ekamper won the Piet Klijnveld Award. Egbert Eeftink, Head of Audit said: "Emiel safeguards high quality with enthusiasm and flair. He is an example for many colleagues in his home office Groningen, in the region and for KPMG in its entirety. He is an outstanding example of someone who is able to exceed our professional standard."

## Professional practice support

Technical specialists are available to advise and support engagement professionals on significant accounting and auditing matters, and on legal and risk management & independence issues. In total, an average of 78.2 FTEs are part of the Department of Professional Practice (DPP), Compliance Office and the Quality & Risk Management Group (QRMG) (FY2014/15: 72.7 FTEs).

The number of partners/directors and (senior) managers in those departments was 13.9 FTEs and 29 FTEs respectively in the reporting year (FY2014/15: 13.6 FTEs and 62.5 FTEs respectively).

| Subject | FY2015/16 | FY2014/15 |
|---|---|---|
| **Audit** | | |
| Accounting standards | 174 | 209 |
| Auditing standards | 315 | 303 |
| Fraud and anti-bribery/Wwft | 95 | 116 |
| | **584** | **628** |
| **Audit & Advisory** | | |
| Risk management | 93 | 104 |
| Independence | 88 | 142 |
| Legal/contract review | 386 | 352 |
| | **567** | **598** |
| **Total** | **1,151** | **1,226** |

**Table 11.** Number of consultations with specialists

With the introduction of the renewed long-form audit report the number of (mandatory) consultations on auditing standards increased in FY2014/15 and that number remained high in FY2015/16. Consultations on independence were high in FY2014/15 as a result of the mandatory firm rotation, and returned to the normal level in FY2015/16.

## Encouraging employee mobility

In 2016, a new internal vacancy database was launched to better facilitate business and support professionals in switching careers or looking for other learning opportunities. Professionals working for other functions bring new and fresh perspectives resulting in enriched working environments where we collaborate in making an impact.

## Purpose-driven culture

As part of our continuing efforts to reinforce our core values, purpose and collaboration we also organised cross-functional dialogue sessions to discuss the dilemmas and challenges we encounter in our everyday work, and how to deal with those pressures. The sessions ended with a celebration of KPMG's core values by taking the KPMG Pledge in which employees acknowledge KPMG's core values and promise to take them into consideration in all their decisions and interactions with relevant stakeholders.

## Team involvement

Senior manager involvement in audits decreased slightly in FY2015/16, while partner involvement remained stable. Partner involvement for PIE/OOB audit clients is within our internal target bandwidth of 8%-10%.

KPMG

| | FY2015/16 | | FY2014/15 | |
|---|---|---|---|---|
| **Legal audits** | | | | |
| (Equity) partner, director | 96,846 | 9% | 92,186 | 9% |
| (Senior) manager | 227,527 | 20% | 239,411 | 24% |
| Other | 805,632 | 71% | 653,514 | 66% |
| **Total** | **1,130,005** | **100%** | **985,111** | **100%** |
| **Non-legal audits** | | | | |
| (Equity) partner, director | 55,526 | 8% | 73,135 | 9% |
| (Senior) manager | 138,872 | 20% | 173,578 | 22% |
| Other | 516,418 | 73% | 560,368 | 69% |
| **Total** | **710,816** | **100%** | **807,081** | **100%** |
| **PIE/OOB audit clients** | | | | |
| (Equity) partner, director | 51,247 | 9% | 56,072 | 11% |
| (Senior) manager | 171,488 | 30% | 177,654 | 35% |
| Other | 342,182 | 61% | 275,957 | 54% |
| **Total** | **564,917** | **100%** | **509,683** | **100%** |
| **Non-PIE/OOB audit clients** | | | | |
| (Equity) partner, director | 182,131 | 8% | 201,477 | 8% |
| (Senior) manager | 627,500 | 26% | 741,069 | 30% |
| Other | 1,607,689 | 67% | 1,542,626 | 62% |
| **Total** | **2,417,320** | **100%** | **2,485,172** | **100%** |

**Table 17.** Team involvement in hours and percentage of hours (Audit only)

# The way forward

Attracting and retaining top talent is a key driver behind our goals as talented professionals are our main resource for service delivery. Statistics also show that our professionals face challenges in balancing work and life and managing their respective workloads. Employee morale is high as evidenced by recent GPS scores. However, GPS scores also show that we need to improve diversity in our workforce, both in Audit and Advisory. FTE numbers are expected to remain stable for Audit and increase for Advisory in the periods to come.

In our Audit segment, we will further invest in data analytics and IT innovation skills and at the same time invest in audit quality & work-life balance. In our Advisory segment, we aim to invest in further development of account management skills, embed asset based consulting and attract senior hires in growth areas. We will launch new initiatives in our KPMG Vitality programme as part of the Centennial project as we believe that work-life balance will become and remain one of the keys to the long-term success of professional service firms and therefore KPMG.

We will also focus on retaining top talented professionals to meet our clients' expectations and their demand for the best insights, the best tools and the highest impact on growth and results. This includes striving to implement a more formal succession management process and continued efforts to promote an inclusive and diverse culture.

A Learning & Development Council was recently set up with representatives from HR and the business functions and will commence its work in FY2016/17, mainly ensuring the learning curriculum meets today's demands and future requirements. The Council also leads innovations in learning and development as newer generations of professionals have different learning needs and abilities, including a combination of offline and online instruments.

To conclude, we will expand activities regarding our alumni network.

# Remuneration report

The Remuneration & Appointment Committee is a Supervisory Board committee which advises the Supervisory Board on amongst others approving and adjusting remuneration, on selection and appointment policies and monitoring compliance therewith and proposals on remuneration and (re)appointments of the Board of Management members. The committee also reviews the performance of the members of the Board of Management and the Supervisory Board. Remuneration policies are focused on quality, measurable performance, and the long-term impact on our four strategic vision areas: public trust, our people, our clients and operational excellence. Underperformance in the area of e.g. our people cannot be compensated by high performance in one of the other vision areas.

All employees undergo annual goal-setting and performance reviews during which they are evaluated on achieving predetermined and agreed goals, demonstrating the appropriate KPMG behaviour for their level within the organisation, and adhering to KPMG's values and attributes. These evaluations are conducted by performance managers and partners who are in a position to assess the professionals' performance.

The performance grades influence next to potential the total amount of remuneration that professionals are paid. The results of the annual reviews are also considered when promotion decisions are being made. Total remuneration is periodically benchmarked against peer firms to assess market conformity of employee benefits.

Engagement leaders within our firm are issued standardised quality and risk metrics that feed into their annual evaluation process (see figure on the next page). Quality and risk metrics include a number of parameters, such as the results of internal and external reviews, completion of training, coaching, leading by example and outcomes of internal monitoring programmes. Based on the overall assessment a grading is awarded and remuneration determined.

KPMG

| Public trust/ quality | People | Clients | Operational excellence |
|---|---|---|---|
| Compliance letter availability | 360-feedback from professionals | Client satisfaction ratings | Financial performance |
| Compliance with continuous professional development | Personal development | Client feedback (qualitative) | |
| Acting as professional practice partner | Leading by example | Portfolio development | |
| Acting in a quality related role | Upward appraisals | | |
| Acting as EQCR | | | |
| Acting as trainer at technical training updates | | | |
| Acting as QP reviewer | | | |
| Non-compliance with policies and procedures | | | |
| Regulatory findings and ratings | | | |
| QPR ratings | | | |

**Figure 6.** Performance metrics

Both Audit and Advisory equity partners are subject to a claw-back policy, under which KPMG can recover any damages for demonstrably culpable conduct from individual partners' profit shares. As part of the claw-back policy, a deferred payment scheme is applicable for Audit partners. KPMG retains 30% of variable profit payment each year. This retained profit will be released after a period of six years. At 1 October 2016, this was adjusted to an annual retention of 16.67% of the total partner income, in accordance with the NBA's measure 3.5.

## Partner remuneration and profit per equity partner

The management fee that is payable to an equity partner is remuneration for professional services performed, pensions, insurances and for entrepreneurial risk. The average profit per equity partner for FY2015/16 was EUR 460,000 (FY2014/15: EUR 390,000).

The Board of Management grades each equity partner after consulting the Audit and Advisory Boards. The partner grade determines the base remuneration for the designated partner. Total remuneration is dependent on individual performance in combination with the overall profitability of KPMG N.V. The variable pay bandwidth is limited at +25% or -25% relative to 'on target' performance as determined during annual goal setting. Within this bandwidth, the Board of Management can grant additional variable income at its discretion, depending on (exceptional) performance relative to agreed targets. The Remuneration & Appointment Committee advises the Supervisory Board on monitoring compliance with the remuneration policy for equity partners.

Grading is done on a five-point scale: 1 for Outstanding performance, 2 Highly effective performance, 3 Effective performance, 4 Inconsistent performance and 5 Unsatisfactory performance. Partners receiving scores of 4 or 5 are closely monitored by the Audit or Advisory Board and where appropriate an individual improvement plan is implemented.

Performance management for non-equity partners is done by the Audit and Advisory Boards. Variable pay is based on past year performance.

| | Audit | | Advisory | |
|---|---|---|---|---|
| **Rating** | **FY2015/16** | **FY2014/15** | **FY2015/16** | **FY2014/15** |
| 1 | 4 | 2 | 8 | 3 |
| 2 | 38 | 35 | 32 | 34 |
| 3 | 90 | 89 | 73 | 69 |
| 4 | 10 | 8 | 14 | 12 |
| 5 | - | 3 | 3 | 3 |

**Table 13.** Performance management scores for partners/directors

The table on the right shows the distribution of partners relative to their target remuneration. The percentage with on-target remuneration was 55% for FY2015/16 (FY2014/15: 53%). The percentages with above-target and below-target performance were 34% and 10% for FY2015/16 respectively (FY2014/15: 38% and 9%).

| **Performance rating** | | **FY2015/16** | **FY2014/15** |
|---|---|---|---|
| Below target | 75%-90% | 1 | 5 |
| | 90%-95% | 4 | 3 |
| | 95%-100% | 9 | 5 |
| On-target | 100% | 75 | 77 |
| Above target | 100%-105% | 17 | 19 |
| | 105%-110% | 23 | 19 |
| | 110%-125% | 6 | 18 |
| **Total** | | **135** | **146** |

**Table 14.** Allocation in numbers of equity partner remuneration

During the year 16 equity partners (6 for Audit and 10 for Advisory) left the firm. The Board of Management appointed 12 new equity partners on 1 October 2016.

## Board of Management remuneration

Members of the Board of Management receive a fixed salary. Equity partners who were also Board of Management members are excluded from profit sharing, but can receive a maximum of 10% in variable pay based on actual performance.

Non-equity partner board members receive no variable pay. Their remuneration is determined on the basis of market levels and their responsibilities.

Equity partners fund their own pensions from their remuneration. Non-equity partners participate in KPMG's collective pension scheme.

Based on the advice from the Remuneration Committee, the Supervisory Board determines the remuneration policy for the members of the Board of Management and the individual remuneration packages of members of the Board of Management. The Supervisory Board awards variable pay after consultation with the Remuneration Committee.

Individual board members are appraised by the Chairman of the Board of Management in the first instance and then by the Remuneration Committee and Supervisory Board. The Chairman is appraised by the Remuneration Committee and the Supervisory Board. Actual performance is appraised using predetermined performance objectives taking individual and firm performance criteria into consideration. The Supervisory Board, based on advice from the Remuneration Committee, is responsible for balancing the public interest and sustainable business growth when determining the performance objectives and the final performance assessment that determines the individual's variable remuneration. Performance is assessed using financial and non-financial indicators, such as people engagement, public trust, client satisfaction, corporate responsibility and social criteria. Performance criteria will be revisited in FY2016/17 and amended if and where necessary.

The Board of Management annual remuneration is disclosed in the Financial Statements section of this Integrated Report.

## Supervisory Board remuneration

Supervisory Board members receive a fixed remuneration of EUR 60,000 for the Chair of the Supervisory Board and EUR 45,000 for other Supervisory Board members, including the Vice-Chair. Remuneration is generally expected to cover all the members' costs.

# 7.
# Our clients

## Our clients see a difference in us

| Performance target | Key indicators | FY2015/16 | FY2014/15 |
|---|---|---|---|
| Top brands want to work with KPMG | Market share | 23% | 20% |
| Leading multidisciplinary solutions to address our clients' issues | Multidisciplinary offerings | 68% | 72% |
| Clients are promoting KPMG, its clients and its solutions | Net promoter score | 41% | 38% |
| | Client satisfaction scores | 90% | 91% |

**Table 15.** Clients key performance indicators

# Introduction

We are in the business of protecting and creating value: helping clients, stakeholders and society as a whole to take informed decisions about future investments, current undertakings and past performance. Our service portfolio of audit & assurance, risk consulting, management consulting and deal advisory reflects these two aspects of our business. We help clients to protect value in areas like cybersecurity, forensics, internal audit services and financial statements audits. Creating value is visible in our corporate finance and transaction services, as well as in our performance in strategy and transformation engagements.

The world around us is changing rapidly. The traditional roles of auditors and advisors will be redefined. Digitalisation and big data offer the profession new opportunities. KPMG has developed client propositions in six areas: data & analytics, regulatory compliance, strategy, transformation, asset-based services and cyber security.

KPMG drives continuous insight and performance for our clients through technology focused on areas as health, finance, customers and risk & compliance. We will continue to show we are an innovative organisation by organising events around innovation, including connecting start-up communities with large corporates. We will manage the entire process from idea generation to market readiness, using a common set of criteria (e.g. commercial validity and business case, operating model and adherence to all KPMG risk & independence requirements) for idea acceptance and further development.

All revenue is generated by the Dutch member firm and although we distinguish regions within the Netherlands for management control purposes, there are no specific regional differences to be reported.

# Market developments

The force and speed with which technological innovation is moving through the economy is creating an inflection point for businesses. The impact will be so great, that we expect more and more companies to be significantly transformed within the three years. The vast majority of Chief Executive Officers (CEOs) is concerned whether their company's current products and/or services will even be relevant to customers three years from now. CEOs recognise the need to foster a culture of innovation, to respond quickly to technological opportunities and to invest in new processes. Most companies recognise that they are now handling issues that they have never grappled with before.

## Regulatory impact

The professional services industry has been significantly impacted by regulatory developments over the last couple of years. Independence regulations have led to further restrictions on the services that could to be provided to audit clients.

## Mandatory firm rotation

A significant impact for the industry has been the impact of the implementation of the EU law on mandatory firm rotation (MFR). The mandatory audit firm rotation has led us to look differently at our business model. Where long-term relationships (sometimes for decades) with our audit clients used to be commonplace, the term for public interest entities is now limited to a maximum of 10 years.

Although the end of the first round of mandatory firm rotation in the Netherlands has come to the end, the EU MFR ruling will continue to impact our firm through mandatory rotation in other EU countries, which has just started and will last until 2022.

Because of its traditional stronghold in listed audit clients, mandatory firm rotation has a significant impact on our Audit's revenue. The mandatory rotation has resulted in a satisfactory overall result, although our market share decreased slightly. The actual transitioning to new clients and away from existing clients happened later than expected, impacting both our FY2015/16 and FY2016/17 results.

**Rens Rozekrans,**
Advisory Risk Consulting Partner and Lead Partner for Regulatory Change

## Regulatory change: focus on cognitive IT solutions

We see that the majority of the regulatory issues affect our clients in the financial sector and involve the implementation of new regulations, such as MiFID II, IFRS 4 and Basel 4. Other legislation, such as anti-money-laundering measures, has a much wider impact.

In our vision, smart IT solutions play a crucial role in gaining more control over the cost of compliance. We anticipate that in two years' time the assessment of new regulations, in combination with the existing policies and procedures of a company, will be done with the help of cognitive IT solutions. We have already carried out our first tests in using cognitive tools to interpret MIFID II for specific client issues.

A global KPMG initiative is the development of a repository with all the legislation by country, which is automatically updated on a daily basis. At this point in time we already have all the US and EU legislation recorded, and we are now working on the legislation specific to the EU member states, as well as countries such as China, Australia and South Africa. We expect that such a repository, in combination with cognitive solutions, will be part of our asset-based services in the near future.

We see a strong focus on new rules and regulations in the financial services sector which will have to be implemented with a relatively short horizon, sometimes creating sub-optimal solutions. We will therefore strive to give clients a deeper understanding of the upcoming regulatory changes in order to help them to better implement these new rules.

The public version of this Regulatory 'Horizon' is available on our website.

# Technology developments

Technology gives KPMG the opportunity to redefine the audit. In line with the increase in the application of technology at our clients we also see a significant impact of IT in our audit approach. KPMG is investing in new technology that unlocks our clients' data to realise an efficient and effective audit. In 2015/2016 we also took the first steps in machine learning and cognitive intelligence by using the data from our audits.

KPMG's audit professionals are integrating IT into their daily (audit) work more and more. Data & analytics innovations dig deeper into the data, revealing more about the business and its risks. What this all means for us is better audit evidence resulting in a higher quality audit. What it means for our clients is new insights into their businesses. Our data & analytics programme turns data into insights, that contribute to sustainable business value. We will focus on trusted analytics to ensure that our analytics underpin important decisions that affect individuals, businesses and societies. We will explain the models used to provide comfort on data, analytics and underlying controls. Traditionally, data & analytics started as an element of our focus on protecting value, nowadays it is a driver for change. Data leakage and predictive analytics clearly demonstrate the value generated.

## Data driven approach

We have developed and used all types of data & analytics insights in recent years. Multiple suppliers were involved in developing these and we also used our alliance partners in this journey. In 2016 we started focusing on turning data insights into business value. The customer lens is critical in this respect. Many organisations are transforming themselves based on a customer-centric approach. We help organisations in shaping this strategy, using data insights to develop a roadmap and by being a solution centre for ongoing support. A data driven approach is key for business model transformations. Basically, we use this approach across our portfolio of services, thereby also changing the way we deliver our services.

This impacts both our Audit and Advisory services. We have a highly skilled team of data scientists, business advisors and auditors working together. In our ecosystem we shape the next steps in collaboration with academia and alliance partners.

## Cyber security

Cyber security focuses traditionally on protecting value. We will focus on cyber security as a business topic beyond the bounds of technical technology risk issues. In certain industries cyber security can be used as a business enabler and to drive competitive advantage. Of course we will continue to contribute to the protecting value agenda through training and knowledge sharing in relevant fora and by developing cyber assets.

## From cyber fear to cyber resilience

**John Hermans,**
Partner Risk Consulting IT Advisory and Lead Partner of our Cyber security practice

Cyber security has been in the spotlight for the past few years. Due to the number and seriousness of cyber incidents, the importance of tackling cyber issues in the context of the extensive digitalisation of most organisations, and the media's focus on such incidents, this area requires the attention of board, directors and managers everywhere.

The topic needs to be tackled in the appropriate way however, and with a certain subtlety, as a component of integral risk management.

KPMG organised a series of sessions for Board of Management and Supervisory Board members, including a dedicated course for Supervisory Board members on dealing with IT topics. In these sessions we moved away from negative fear messages, and we guided the participants along the cyber journey with the focus on 'just deal with it', or as we call it moving towards 'cyber resilience'. I cannot think of any organisation that is immune from becoming a victim of cyber security. But clearly, the cyber risk profiles of organisations differ. The starting point of this journey towards cyber resilience is identifying the topic as a strategic risk. Subsequently the cyber risk profile and the risk appetite have to be defined by the board. Risk profile and cyber risk appetite will drive an organisation's cyber transformation programme to achieve the required level of cyber resilience. As part of this cyber transformation programme we clearly see more and more emphasis on early detection of possible cyber incidents. We bring advanced detection and simulation capabilities to the table for our clients, combined with improved cyber specific incident response capabilities to allow our clients to get back to business as usual.

# Investing in innovation

## Intellectual property

We develop tooling and methodologies internally that allows us to incorporate KPMG brand-specific advantages and give us control of the significance and timing of amendments and enhancements. This is also important in light of compliance with standards and regulations regarding professional services (particularly Audit & Assurance). Internal development also mitigates the likely risks of (future) dependency on third-party software or products.

## Innovation

KPMG's success is based on identifying new and improving existing products, services and experiences for our clients to help them by providing insights, mitigating risks and generally creating and protecting their value. We invest – either as a firm or as part of the network – in technology, digital assurance and emerging disruptive breakthroughs that we believe have the potential to offer additional value to our clients and sustainable growth to our firm.

Our main innovation units are located in Montvale (US) and Amstelveen (Netherlands) while we also cooperate with other member firms' locations including those in the United Kingdom, Germany and France. Through the network levy KPMG's international development centre in Montvale is funded when it comes to audit methodology, global software and tooling and global product and service development. More often, however, we provide direct support to (global) projects by having Dutch professionals participate in these projects and share their knowledge and expertise.

In addition to our main innovation activities, we contribute to various scientific research and university programmes.

We expect investments in innovation to increase in the future as the pace of new developments and emerging trends also increases.

**Innovating with Dynamic Audit**

The future of audit is bright as far as we are concerned. We see many areas where as an audit profession, we can evolve and add additional value. The question we want to discuss is: which of those potential enhancements and innovations matter most to investors?

KPMG launched 'Dynamic Audit', an initiative to enhance the quality and value of the audit. Data & analytics are at the core of Dynamic Audit and next to that, active dialogue with our stakeholders. We have created a unique forum called the 'Value of Audit' to hear first-hand what investors, regulators, academics and business executives want from auditors and the wider corporate reporting model. We have already held roundtable discussions in Frankfurt, Johannesburg, Singapore and Toronto, with more to follow.

Our stakeholders have told us they expect more. In particular, they are looking for a broader range of assurance on items that are currently not included in statutory financial statements – such as performance indicators, sustainability and other financial and non-financial metrics that drive value for investors. Through Dynamic Audit, KPMG will gain a better understanding of the broader range of metrics that matter to stakeholders.

**Award-winning audit innovation**
Another way we are innovating is by introducing 'Lean' methodologies into Audits. Lean methodologies have been used for years to enhance operational efficiency and business performance, but applying Lean methodologies to the financial statement audit to help enhance audit quality and increase value is a KPMG innovation. We are introducing Lean methodologies into our audits, and the results and responses from organisations have been positive. This KPMG-approach has been recognised as 'Audit Innovation of the Year' by the International Accounting Bulletin.

Financial statements remain a cornerstone of the current reporting model, but as business needs and risks evolve, so must the audit model in order to remain relevant. Innovation is not always a concept associated with audit. Innovation, however, is at the heart of our strategy to respond to the unprecedented challenges and opportunities we face as auditors. We are changing how we operate, being proactive in listening to our stakeholders and embracing technology and new processes that are enabling us to make audit more relevant and to continue to raise the bar on quality.

On a regular basis, we asked our stakeholders, including audit committees, regulators, standard setters and management, to share their insights into the most pressing issues facing the audit model, report and profession. And if more of this stakeholder-relevant information is captured in an annual report, should companies be asking: would an auditor's eye on this information be valuable to investors or other stakeholders? We showcased highlights from these interviews on our Value for Audit web pages and *economia* magazine has written about the global roundtable series culminating in a summary report (PDF 1.3 MB).

We continue to deploy SMART Audit using 13 design principles (including Lean, hard stops on risk assessment and completion phases, PBC assessment, quality coaches, standardised audit practices, and data & analytics). SMART Audit standardises the audit approach in specific areas of our client portfolio.

# Strategic growth initiatives (SGIs)

Strategic growth initiatives (SGIs) are a critical element of KPMG becoming the clear choice for clients. Built on two objectives – accelerating our growth, and changing the way in which we deliver innovative services and solutions to our clients – the SGIs act as a catalyst, providing the platform to transform our firm by placing solutions to clients' most pressing issues at the centre of our business. In the past two years, we have developed strong foundations across all six SGIs and are now firmly in a period of commercialisation. We have established a governance structure, identified global and local SGI leaders, consolidated and globalised key solutions, connected and educated global networks of professionals, formed new alliances and built on existing ones. This is all underpinned by an approach that allows us to work closely with local teams and global accounts to bring our SGI solutions to market.

Our strategy and transformation agenda is based on partnering with clients to create disruptive, innovative ideas, and to deliver real results. It should also create a special place for our people to work. Technology is a key driver for change and will remain so.

Since 2012 we have a community of innovators that is active in our portfolio, working with external start-up communities, universities and other parties. Innovation is directly focused on improving our solutions and in responding to mega trends such as digitalisation and changes in workforce. As a global firm, we have identified six global SGIs based on client demands in different market sectors. Investments are made globally to develop these SGIs which include:

- Cyber security;
- Data & analytics;
- Regulatory compliance;
- Strategy;
- Transformation;
- Asset-based services.

Our SGI leads have made significant progress in shaping these SGIs and bringing them to the market place. We highlighted some elements of this progress based on interviews with two SGI leaders.

# High quality audits and fair compensation

Quality audits and highly qualified professionals go hand in hand with receiving a fair compensation for delivering those quality audits. We can only safeguard audit quality if we strike a sound balance between the efforts required and reasonable rewards. It is our professional responsibility to ensure that we receive an audit fee that is commensurate with our work and the engagement risk involved. As in the previous reporting year, we have had to respectfully disengage from a number of clients who were either unable or unwilling to provide us with fair compensation for our professional services.

# Account management programme

Progress was monitored on individual accounts per sector in the financial services, corporate clients and public sectors. We introduced the KPMG Way to develop the account management skills of our top talents. This approach will continue in the coming years to ensure proper succession planning. This year's efforts were also focused around the so-called transition accounts following the mandatory audit firm rotation.

Within Advisory, working in ecosystems is the name of the game; forming joint teams with our clients to solve issues and strategic partnerships with other advisory and technology firms. We have shaped our quality and risk procedures to reflect these new working models. Of course we continue to perform assurance work and specific investigations and to support our Audit function in which our assurance based risk procedures apply.

Delivering integrated solutions is based on deep expertise in the following key areas:

– Identifying, controlling and monitoring business risks (risk consulting);
– Improving efficiency and effectiveness across the value chain (management consulting);
– Managing the portfolio of business activities (deal advisory).

Our deep expertise is constantly expanded based on global methodologies, clients' insights and feedback and internal and external benchmarking. Advisory expertise also supports our Audit function. Integrated teams are working together to perform high quality audits. We encourage the exchange of talents and expertise between Audit and Advisory to increase the quality of our delivery and to foster talent development.

Changing demands also apply to Advisory services themselves. Technology has been demonstrated to be disruptive and parts of our portfolio will be embedded in asset based services. We now have assets in the areas of forensics, supplier evaluations, data & analytics, culture scanning and innovation. This advisory disruption will lead to further transformations, using our partnerships and alliances to deliver these new services effectively. Some examples of our innovation efforts include our alliance with Microsoft to shape new data & analytics assets, with IBM Watson to develop and improve cognitive analytics and with CrimsonWing to deliver Microsoft Dynamic services. Our big data team has also introduced new data leakage approaches in the last year.

# Client interactions

## KPMG Way

In 2016 we launched KPMG's global initiative to implement the KPMG Way. The KPMG Way will deliver a consistent and exceptional client experience to help push up our win rate and grow our business, resulting in us developing a sustainable presence with our chosen clients. The KPMG Way clearly sets out our common approach to sales and business development and the key elements of that approach. To be clear, the KPMG Way is not a training programme, it is a demonstrable commitment to a leadership and coaching mind-set that will create and enable an environment in which we will grow our business development capabilities and result in win more work in the marketplace.

## Client satisfaction programme

The feedback that we receive through our Client Satisfaction Programme is reviewed firm wide as well as by individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions suggested in the client feedback are immediately followed up by the engagement partner to ensure that concerns about quality or service are dealt with on a timely basis. Our client care programme consists of meetings with our top clients and the use of online technology. This is not limited to the Netherlands, but is also used to collect input from client stakeholders outside the Netherlands.

In FY2015/16 the key outcome was that 90% of our clients were satisfied with the overall quality of our work performed. We can surmise that there is a high likelihood that we are being considered or recommended for follow-up programmes and activities. We can still improve in terms of proactive knowledge sharing and sharing our points of view based on both sector expertise and solution developments. Therefore we have strengthened our markets and clients organisation through our rigorous focus on these value adding components. The voice of the customer is focusing our efforts daily.

Our net promoter score (NPS) was 41.2 (FY2014/15: 38) in FY2015/16 for the firm as a whole, with scores of 27.5 for Audit (FY2014/15: 31.2) and 53.4 for Advisory (FY2014/15: 44.5).

# 7. Our clients

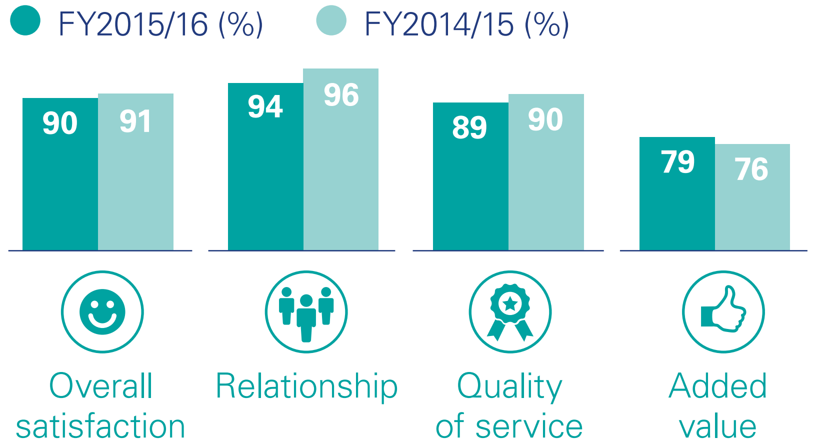



**Figure 7.** Client satisfaction scores

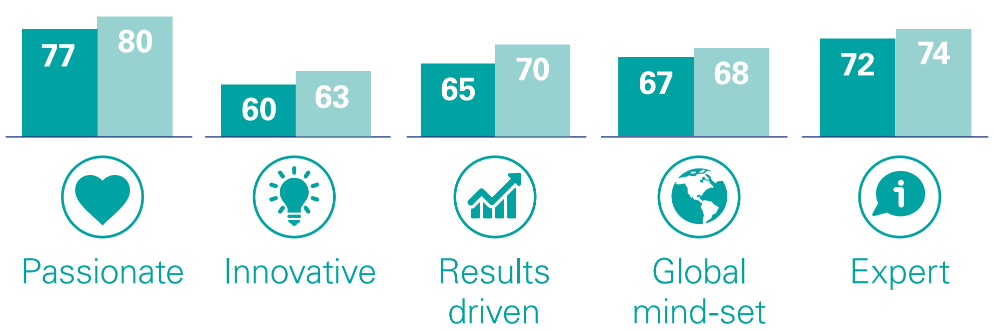



**Figure 8.** Brand attributes scores

## Seminars

In 2016 we organised various events and seminars to help our clients shape their thoughts and insights. We organised an event for investment managers which specifically addressed the issue of True Value. This event was visited by many of the investment managers in the Netherlands. Furthermore we organised several events and roundtables related to cyber security; as also mentioned in our global CEO outlook, cyber security remains a key concern for many of our clients.

## RAAD programme

In FY2015/16 KPMG broadened its Board Programme and rebranded it to RAAD. RAAD is designed for Board of Management and Supervisory Board members, but also focuses on more junior talent. The new RAAD magazine was launched, and in total 26 RAAD meetings were held, with topics such as remuneration policy, social engineering and cybercrime and corporate governance.

In early 2016 we also specifically addressed IT and innovation. The new corporate governance code includes strict guidelines for the Supervisory Board and its IT capabilities. It states that "At least one member of the Supervisory Board should have expertise specific knowledge on technology, innovation and new business models."

To address this, KPMG organised a series of lectures with five in-depth sessions on IT specifically developed for Supervisory Board members. The first five sessions were successfully concluded in June 2016 with 15 Supervisory Board members.

# The way forward

Technology will drive the speed of change and growth. Client issues are often complex and a rapid response is asked for. Key topics in this respect are transformation, technology and talent. Our portfolio of solutions is aligned with these key clients topics. The demand for our services will differ by sector and is often either driven by macroeconomic factors and/or the consequence of changing regulations.

In the Audit segment an increased market focus through organic growth will be achieved by expanding our audit-related service offering beyond traditional audits and by expanding assurance services within audit engagements. In the Advisory segment, growth will come from strategic growth initiatives and innovation in everything we do by, including initiatives such as creating an asset-based services unit.

During FY2016/17 we will finalise the implementation of the KPMG Way as well as advancing account management for larger and corporate accounts.

## Expanded use of data and analytics

KPMG audits continue to be powered by data & analytics capabilities. We have also undertaken a multi-year investment programme to develop more advanced tools for faster analysis of enormous volumes of data in order to better enable turning data into audit evidence and helping to uncover additional business insights.

## Assurance related services

Traditionally, we have been strongly associated with the audit of financial statements. We believe this connection will still exist in years to come, but assurance is more than just audit. We provide assurance on all activities and disclosures that matter to stakeholders, contributing to the completeness, accuracy and reliability of that information. We are therefore investing in the further development of assurance over financial and non-financial information – used for reporting, managing, governing, transacting and investing. The innovative data & analytics developed within Dynamic Audit will also enhance our ability to provide assurance in other areas.

We leverage our auditing knowledge in domains other than financial statements. Our Capital Markets Accounting Advisory Services (CMAAS) group provides advice and support to clients facing complex accounting issues or considering (initial) public offerings. We also have dedicated professionals advising national practice (non-PIE/OOB) clients on growing and controlling their businesses to an even greater extent.

# 8.

# Operational excellence

## Operational excellence enable us

| Performance target | Key indicators | FY2015/16 | FY2014/15 |
|---|---|---|---|
| KPMG continuously renews and improves itself to pass on a stronger and better organisation to the next generation | Solvency ratio | 30.1% | 25.8% |
| | Funding by Coöperatie KPMG U.A. | EUR 70.8 million | EUR 72.0 million |
| | Revenue | EUR 453 million | EUR 457 million |
| | Profit before income tax | EUR 67 million | EUR 50 million |

**Table 16.** Operational excellence key performance indicators

The financial figures for the firm are presented in the financial statements section of this report from page 103 onwards. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS) and with Section 2:362(9) of the Dutch Civil Code.

# Results for the year

Revenue decreased in the financial year by 0.8% to EUR 453 million. In the Audit segment, revenue decreased by 3.7% in FY2015/16 mainly as a result of the mandatory firm rotation, the divestment of KPMG MKB B.V. and the enactment of our Bottom 500 programme (review of Audit client portfolio) that was implemented in FY2014/15, whereas in the Advisory segment revenue increased by 2.9%.

Employee expenses decreased by 0.6%, primarily as a result of lower average salary costs per FTE. The number of professional staff FTEs increased slightly by 0.7% due to an increase of 2.4% in FTEs within Advisory. FTEs within Business Support decreased slightly by 1.7% as a result of a restructuring of the support activities. The average number of equity partners decreased by 8 FTEs to 132 FTEs.

Other operating expenses amounted to EUR 135 million in FY2015/16 and were in line with the previous year. Other expenses include accruals for legal claims and legal expenses, including a best estimate of the expected outcome of an investigation of a subsidiary of the company by the Public Prosecutor regarding the development of the Laan van Langerhuize building in Amstelveen. Significant changes in the other expenses related to increased housing costs resulting from the termination of a lease contract, offset by lower office, IT and other expenses including reductions in corporate costs, and less impairment losses on trade receivables.

Profit before income tax increased by 33.3% to EUR 67 million in FY2015/16. The profit before tax (prior to recharge of Business Support and corporate costs) for Audit was stable (EUR 68 million) and in Advisory increased by EUR 2 million (3.3%) to EUR 62 million. The increase in Advisory is directly related to the increased revenue. Corporate results improved as a result of cost savings in various Business Support departments and overall lower net one-off costs. In FY2014/15 significant one-off costs occurred in relation to our legacy issues.

During FY2015/16 and going forward, we continued and will continue the significant investments in the improvement of our (Audit) quality. As a consequence, the FY2015/16 operational result relating to our Audit and Advisory showed a small increase. The significant improvement in our FY2015/16 results, is mainly attributable to a decrease in our Corporate Cost, as a result of redesign projects in our shared service departments and, on balance, lower incidental costs. In FY2014/15, our overall result was impacted by incidental costs, partly in relation to our legacy issues.

Only a limited part of income tax expense is accounted for in the profit or loss account of KPMG because of an agreement with the tax authorities for corporate income tax purposes, under which the total net income before tax is subject to corporate income tax at the level of Coöperatie KPMG U.A., KPMG N.V. and the practice companies of the individual equity partners. The income tax expense takes into account temporary differences for which a deferred tax asset or liability has been accounted for as well as previous year's adjustments. Also included in FY2014/15 income tax is an income tax assessment relating to the abovementioned development of the Laan van Langerhuize building in Amstelveen, which was paid during FY2015/16.

The improved results allowed for higher contractual fees payable to Coöperatie KPMG U.A.; an increase of EUR 17 million (37.0%) to EUR 63 million was achieved.

# Investment programme

In FY2014/15, KPMG launched a EUR 54 million investment programme to accelerate the execution of our 2017-2019 business plan. KPMG International is contributing to this three-year programme via a grant of EUR 30 million (USD 33.9 million), which is recognised in other income.

We have been improving our systems and processes to ensure we move forward in improving our levels of quality and efficiency. Furthermore, we adapted our shared services (housing, IT, etc.) to the changing market demands. This meant reducing office space and redesigning most of our Business Support departments which led to reductions of FTEs in those departments. In addition, we evaluated the standards and criteria for equity partners, resulting in a number of equity partners leaving the firm.

In addition, we have been investing and will further invest in the growth of our business through the expansion and renewal of our portfolio of services, in line with the joint, international KPMG vision and with a focus on technology-based consultancy such as cyber security and data & analytics, including research and development of relevant assets.

Investments in property, plant and equipment remained limited and were mainly made to replace computer and communication equipment. The main investments were made in the development of our service portfolio (including asset based services), the education of our people and investments in audit quality.

# Audit versus Advisory fees

Table 17 provides the breakdown of the revenue of the firm for FY2015/16 (table 18 contains FY2014/15) segmented by service type. All amounts are based on our taxonomy of services and are per legal client entity. Statutory legal audits are those where there is a legal obligation to have the financial statements audited by an independent auditor. These come in two forms: audits for PIE/OOB clients and for non-PIE/OOB clients. Other audit reports and assurance (-related) reports include other financial statement audits, attestation reports, sustainability assurance, ISAE 3402 certification, IT audits etc. Advisory engagements consist of all engagements that have no elements of certification or audit. Other income mainly relates to recharges for housing and IT to KPMG International and KPMG Meijburg.

Our clients expect us to deliver Advisory services to assist them in resolving their issues and challenges. However we observe strict compliance with independence standards: we do not offer all services to all clients. In accordance with IFAC thresholds, no one audit client accounted for more than 10% of the total fees received by the firm in FY2015/16.

| FY2015/16 EUR million | Statutory legal audits | | Other statutory audits | | Other auditor reports and assurance (related) reports | | Total Assurance services | | Advisory services | | Other services and adjustment to net revenue | | Net turn over as per annual report | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Statutory legal audits – PIE/OOB clients | 42.1 | 82% | 3.1 | 6% | 5.6 | 11% | **50.8** | **99%** | 0.5 | 1% | - | 0% | **51.3** | **100%** |
| Statutory legal audits – other clients | 101.3 | 75% | 13.0 | 10% | 5.7 | 4% | **120.0** | **89%** | 15.3 | 11% | - | 0% | **135.3** | **100%** |
| Statutory audits – other clients | - | 0% | 53.4 | 74% | 7.5 | 10% | **60.9** | **84%** | 11.5 | 16% | - | 0% | **72.4** | **100%** |
| Other auditor reports and assurance (related) reports – other clients | - | 0% | - | 0% | 7.2 | 22% | **7.2** | **22%** | 25.0 | 78% | - | 0% | **32.2** | **100%** |
| Other clients | - | 0% | - | 0% | - | 0% | **-** | **0%** | 145.6 | 90% | 16.3 | 10% | **161.9** | **100%** |
| **Total** | **143.4** | **32%** | **69.5** | **15%** | **26.0** | **6%** | **238.9** | **53%** | **197.9** | **44%** | **16.3** | **3%** | **453.2** | **100%** |

**Table 17.** Segmentation of revenue per type of service in EUR million (FY2015/16).

| FY2014/15 EUR million | Statutory legal audits | | Other statutory audits | | Other auditor reports and assurance (related) reports | | Total Assurance services | | Advisory services | | Other services and adjustment to net revenue | | Net turn over as per annual report | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Statutory legal audits – PIE/OOB clients | 39.5 | 80% | 4.4 | 9% | 4.5 | 9% | **48.4** | **98%** | 1.1 | 2% | - | 0% | **49.5** | **100%** |
| Statutory legal audits – other clients | 95.9 | 68% | 17.3 | 12% | 8.4 | 6% | **121.6** | **86%** | 19.4 | 14% | - | 0% | **141.0** | **100%** |
| Statutory audits – other clients | - | 0% | 56.6 | 72% | 10.9 | 14% | **67.5** | **86%** | 11.4 | 14% | - | 0% | **78.9** | **100%** |
| Other auditor reports and assurance (related) reports – other clients | - | 0% | - | 0% | 11.0 | 38% | **11.0** | **38%** | 18.2 | 62% | - | 0% | **29.2** | **100%** |
| Other clients | - | 0% | - | 0% | - | 0% | **-** | **0%** | 143.0 | 90% | 15.5 | 10% | **158.4** | **100%** |
| **Total** | **135.5** | **30%** | **78.3** | **17%** | **34.8** | **7%** | **248.50** | **54%** | **193.1** | **43%** | **15.5** | **3%** | **457.0** | **100%** |

**Table 18.** Segmentation of revenue per type of service in EUR million (FY2014/15).

# Strengthening our capital position

The Board of Management's policy is to maintain a strong capital position in order to retain the confidence of clients, creditors and finance providers and to ensure the future development of business activities. The group is largely financed by Coöperatie KPMG U.A., partly in the form of a contribution of up to EUR 120,000 per partner to the group's equity, a mandatory loan programme and partly in the form of voluntary loans. Total funding by the Cooperation as at 30 September 2016 amounted to EUR 70.8 million (30 September 2015: EUR 72.0 million), a slight decrease as a result of a lower number of partners compared to FY2014/15, partly compensated by an increased financing per partner.

In addition KPMG N.V. renewed its credit facility with the bank in FY2015/16 for an amount of EUR 50 million; an additional EUR 20 million can be used as a guarantee facility. Although the amount of funding decreased slightly compared to previous year, the solvency ratio (taking into account equity and partner financing) improved to 30.1% (30 September 2015: 25.8%). In addition, the duration of the funding by partners changed to more long-term funding (long-term funding at 30 September 2016 amounted to EUR 43.5 million (30 September 2015: EUR 27.0 million). The long-term funding also includes deferred payments as required by the NBA.

The Board of Management considers the capital position of the group as healthy; it can withstand volatility and incidents within operations. Our capital position will be strengthened further in the coming few years by increased partner funding and the execution of the NBA deferred payment scheme.

# Legacy issues

We are looking firmly to the future with an absolute focus on the quality of our work. We are convinced that delivering sustainable quality, together with a modest, positive and constructive attitude in society will enable us to regain public trust. We are also fully aware that the past, sometimes the distant past, still affects public perception of KPMG today.

It is against this background that we are working on concluding various legal matters where possible.

In our FY2014/15 report, we reported on the conclusion of the fiscal dispute related to the development of the Laan van Langerhuize building in Amstelveen. The Public Prosecutor continues the investigation of a subsidiary of the company regarding the development of the Laan van Langerhuize building. legal provisions increased due to both a change in estimates as well as a change in insurer. For more details we refer to the 'Financials Statements' section in chapter 10.

# Business Support

Throughout FY2015/16, we have worked hard on the further professionalisation of our Business Support departments with a focus on further improving the quality, service and the cost effectiveness. Priority has been given to the integration of business services; bringing shared services together, implementing one Business Support and improving collaboration. Initiatives have also been taken to unburden the organisation. To increase the cost effectiveness we have significantly reduced the m2 of our facilities, reduced low impact activities and stopped unnecessary out of pocket spending. Where necessary, we have improved the efficiency of our processes and strengthened our internal controls. During FY2016/17 we will continue to work on the implementation of one integrated Business Support.

# Footprint

KPMG is committed to further reducing its $CO_2$ emissions. Following the global ambition set by KPMG International, KPMG in the Netherlands aimed to contribute to a 15% reduction in net greenhouse gas emissions per FTE by 2015 (from 2010 baseline). We were able to improve collection of the data on our gross usage as well as arriving at more accurate conversion factors. Sustainability performance is measured per calendar year (CY) and consequently the reporting of our progress lags a year behind our financial year.

To reduce our carbon footprint further, the Board of Management supports collaborative action by the HR, facilities, mobility, CR and finance departments by encouraging the use of economical (hybrid) cars, electric cars, use of electric taxis and company bicycles, and promoting fuel-efficient driving, video conferencing and web meetings.

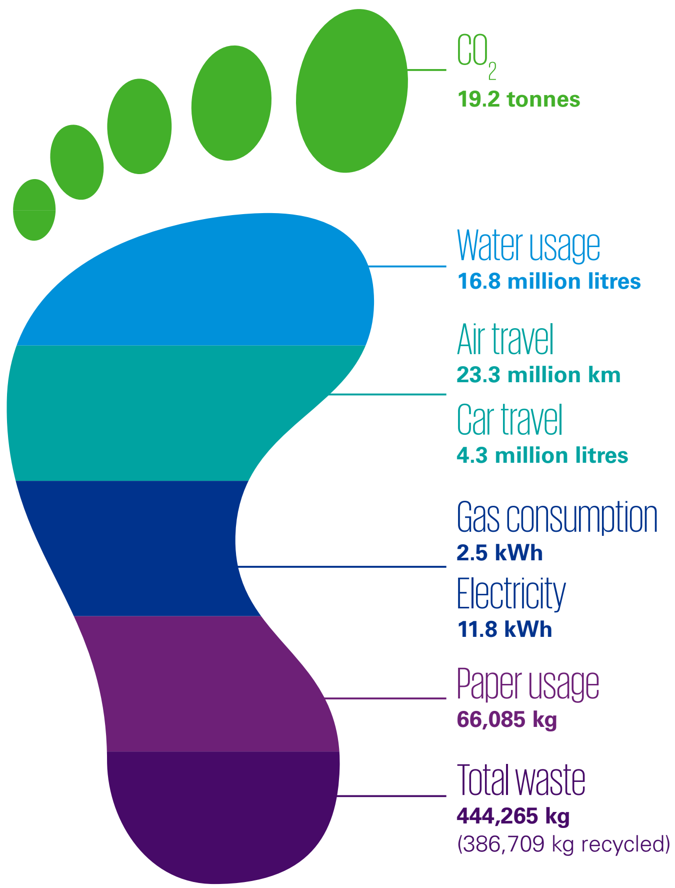



**Figure 9.** Carbon footprint

**Kathleen Westerdijk,**
Director Corporate Control

(Re)joining KPMG in September 2015, I felt myself inspired by our collective purpose, which is to Inspire Confidence, Empower Change. We aim to be the clear choice in the market. We do this by striving continuously to improve ourselves by interacting with each other and our surroundings. Specifically for the Business Support departments we strongly focussed on operational excellence during the 2015/2016 financial year.

Increased technological opportunities, digitalisation, automation and robotics have found their way into both primary and secondary operational processes, such as those within Finance, HR and IT. Within Business Support we have initiated a broad range of improvement initiatives to improve our efficiency and the quality of our work, to strengthen our financial control and to ensure that we can deliver what is required by our (internal) customers. As well as our updated systems and processes, we also focus on having the best people working for us, with the aim of being future-proof. We have recruited new qualified personnel to ensure that we have the right people in the right places. In addition, resulting from our yearly Global People Survey we deployed several initiatives to further develop our employees and to learn from each other in developing our carreer opportunities and act as One KPMG/ One business support.

Ultimately, our focus on operational excellence enables us to achieve optimal performance in all our processes by being effective, efficient and in control. In my vision this is not a one-off event, it is about creating a culture of operational excellence; one in which our employees are all enabled to continuously think about process improvements and true efficiency to deliver optimal and integrated business support. From here we will strive for an integrated business support function in which all support staff are collaboratively working together in a chain, which will provide the best service to the employees of KPMG, its clients and the market.

KPMG

| Category | CY 2015 | CY 2014 |
|---|---|---|
| Gas | 0.1841 | 0.1846 |
| Electricity | 0.4680 | 0.4680 |
| Petrol | 2.2917 | 2.2917 |
| Diesel | 2.6546 | 2.6480 |
| Other | 1.5059 | 1.5000 |
| Rail | 0.0280 | 0.0280 |
| Air flights (average) | 0.1483 | 0.1466 |

**Table 19.** Conversion factors per KPMG International

The $CO_2$ conversion factors developed by KPMG International are based on generally accepted conversion protocols such as DEFRA. For air flights detailed factors are available per type (economy class, business class, etc.). Conversion for car travel is done per litre.

Early in 2015, KPMG adopted a communication tool that displays our environmental ambitions and results in the form of understandable and transparent data on narrowcasting screens and intranet at our offices. In addition, energy saving tips are shared, e.g. recycling is promoted, as is the use of bicycles to visit local clients. This project, initiated by KPMG Facilities and in line with the ISO 14001:2004 guidelines, creates awareness amongst our employees about our environmental goals and what they can do to contribute to realising our ambitions in this area.

| Environmental data[1] | CY 2015 | CY 2014 |
|---|---|---|
| Natural gas consumption (in 1,000 kWh) | 2,512 | 2,909 |
| Electricity consumption (in 1,000 kWh) | 11,817 | 10,959 |
| Renewable electricity consumption | 97% | 96% |
| Paper usage (in kg) | 66,085 | 112,470 |
| Total waste (in kg) | 444,265 | 499,284 |
| Recycled waste (in kg) | 386,709 | 399,056 |
| Water usage (in 1,000 litres) | 16,822 | 18,850 |
| Air travel (in 1,000 km) | 23,274 | 22,525 |
| Car travel (in 1,000 litres) | 4,268 | 4,626 |
| **$CO_2$ emissions (in tonnes)** | | |
| Gas, electricity, heating & cooling | 5,993 | 5,665 |
| Car travel | 10,644 | 11,419 |
| Air travel (average) | 2,516 | 2,519 |
| Train travel | 75 | 77 |
| Gross $CO_2$ emission | 19,228 | 19,680 |
| Emission reductions (renewable energy and VER) | -19,228 | -19,680 |

**Table 20.** Environmental data

1 As KPMG in the Netherlands shares its offices and facilities with KPMG Meijburg & Co, the figures in this table represent the combined data.

# External codes of conduct

Most external codes of conduct we adhere to are mandatory in nature and reflect either currently applicable laws and regulations, or policies and procedures issued by the Dutch Professional Association of Accountants. We monitor compliance with these codes of conduct and follow up on incidents of non-compliances as part of regular oversight and compliance procedures. As such, any non-compliances are included in the reports of our Compliance Office. We refer to the paragraph on 'Compliance with our system of quality controls' for further details.

# 9.

# In control statement

# 9. In control statement

The measures and procedures that serve as the basis for the system of quality controls for KPMG Accountants N.V. outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by the firm comply with the relevant laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of Management has considered:

- The design and operation of the quality control system as described in this report;
- The findings from the various compliance programmes operated by the firm (including the KPMG International compliance programmes and our local compliance monitoring programmes);
- Findings from regulatory and internal inspections;
- Subsequent follow-up and/or remedial actions, in particular those relating to quality improvement, as also explained in this report.

Taking this into account, the Board of Management confirms with a reasonable level of assurance that the system of quality controls within the firm operated effectively and a structured process to ensure that our professionals maintain their level of knowledge and skills, including continuous professional education, is in place.

Further, the Board of Management confirms that an internal review of independence compliance within the firm has been conducted.

Amstelveen, 1 December 2016

**Albert Röell | Egbert Eeftink | Bert Ferwerda | Rob Fijneman | Rob Kreukniet**

# 10.

# Financial statements

KPMG

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# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 September 2016

| | Note | 2015/2016 | 2014/2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| Revenue | 4 | 453,154 | 457,000 |
| Other income | 5 | 26,609 | 6,957 |
| **Total operating income** | | **479,763** | **463,957** |
| | | | |
| Costs of outsourced work and other external charges | | 46,742 | 46,061 |
| Employee benefits expenses | 6 | 217,227 | 218,488 |
| Depreciation and amortisation | 13, 14 | 9,447 | 9,263 |
| Other expenses | 7 | 134,908 | 137,344 |
| **Total expenses** | | **408,324** | **411,156** |
| | | | |
| **Operating result** | | **71,439** | **52,801** |
| | | | |
| Finance income | 8 | 781 | 1,602 |
| Finance expenses | 9 | -5,607 | -4,448 |
| **Profit before income tax** | | **66,613** | **49,955** |

| | Note | 2015/2016 | 2014/2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| Income tax expense | 11 | 1,508 | -971 |
| Fees payable to Coöperatie KPMG U.A. | 12 | 63,435 | 46,314 |
| **Profit for the year** | | **1,670** | **4,612** |
| | | | |
| Other comprehensive income after taxes | | - | - |
| **Total comprehensive income for the year** | | **1,670** | **4,612** |
| **Profit attributable to:** | | | |
| Owners of the Company | | 3,248 | 10,462 |
| Non-controlling interest | | -1.578 | -5,850 |
| | | **1,670** | **4,612** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.
The notes on pages 109 to 155 inclusive are an integral part of these consolidated financial statements

# Consolidated statement of financial position

As at 30 September 2016, before appropriation of results

| | Note | 30 September 2016 | 30 September 2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| **Assets** | | | |
| *Non-current assets* | | | |
| Intangible assets and goodwill | 13 | 15,399 | 19,200 |
| Property, plant and equipment | 14 | 14,165 | 16,557 |
| Investments in equity accounted investees | 15 | 1,300 | 1,300 |
| Other financial assets | 16 | 191 | 2,994 |
| Deferred tax assets | 11 | 5,427 | 5,939 |
| | | 36,482 | 45,990 |
| *Current assets* | | | |
| Receivables | 17 | 111,809 | 120,738 |
| Income taxes | 11 | 1 | 4,563 |
| Cash and cash equivalents | 18 | 41,532 | 37,286 |
| | | 153,342 | 162,587 |
| **Total assets** | | **189,824** | **208,577** |
| **Equity and liabilities** | | | |
| *Group equity* | 19 | | |
| Share capital | | 5,500 | 5,500 |
| Share premium | | 9,960 | 9,700 |
| Reserves | | 10,775 | 3,379 |
| Profit for the year | | 3,248 | 10,462 |
| Total equity attributable to equity holders of the Company | | 29,483 | 29,041 |

| | Note | 30 September 2016 | 30 September 2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| Non-controlling interest | | -6,922 | -5,344 |
| **Total Group equity** | | **22,561** | **23,697** |
| *Non-current liabilities* | | | |
| Loans and borrowings | 20 | 21,258 | 3,657 |
| Employee benefits | 21 | 2,922 | 3,083 |
| Provisions | 22 | 15,232 | 7,449 |
| Deferred tax liabilities | 11 | 30 | - |
| | | 39,442 | 14,189 |
| *Current liabilities* | | | |
| Loans and borrowings | 20 | 27,522 | 45,305 |
| Trade and other payables | 23 | 64,299 | 80,183 |
| Income taxes | 11 | 16 | 16,080 |
| Employee benefits | 21 | 26,539 | 24,701 |
| Provisions | 22 | 9,445 | 4,422 |
| | | 127,821 | 170,691 |
| **Total liabilities** | | **167,263** | **184,880** |
| **Total Group equity and liabilities** | | **189,824** | **208,577** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.
The notes on pages 109 to 155 inclusive are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 30 September 2016

| | Note | 2015/2016 | 2014/2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| Profit for the year | | 1,670 | 4,612 |
| | | | |
| *Adjustments for:* | | | |
| Income tax expense | 11 | 1,508 | -971 |
| Depreciation and amortisation | 13, 14 | 9,447 | 9,263 |
| Finance income | 8 | -781 | -1.602 |
| Finance expenses | | 5,607 | 4,448 |
| Cash flows before movements in working capital and provisions | | 17,451 | 15,750 |
| | | | |
| Change in unbilled services and advance billings | 17 | -2,544 | 12,347 |
| Change in receivables | 17 | 8,919 | -2,206 |
| Change in trade and other payables | 23 | -11,948 | 208 |
| Change in provisions | 22 | 12,806 | 6,087 |
| Change in employee benefits | 21 | 1,677 | -1,142 |
| Cash flows from operating activities | | 26,361 | 31,044 |
| | | | |
| Interest paid | 9 | -1,347 | -3,116 |
| Interest received | | 781 | 1,019 |
| Income tax paid | 11 | -12,468 | -1,982 |
| **Net cash from operating activities** | | **13,327** | **26,965** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.
The notes on pages 109 to 155 inclusive are an integral part of these consolidated financial statements.

| | Note | 2015/2016 | 2014/2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| Acquisition of property, plant and equipment | 14 | -4,030 | -1,496 |
| Proceeds from sale of property, plant and equipment | 14 | - | 44 |
| Acquisition of businesses net of cash | 13 | - | -846 |
| Investment in back office software | 13 | -606 | -196 |
| Other investments | 15, 16 | 492 | -2,028 |
| **Net cash used in investing activities** | | **-4,144** | **-4,522** |
| | | | |
| Addition to share premium by new partners | | 2,360 | 800 |
| Net (repayment)/proceeds of loans and borrowings from partners | 20 | 4,333 | -9,299 |
| Net (repayment)/proceeds of loans and borrowings from former partners | 20 | -4,404 | 778 |
| Interest paid to partners and former partners | 9 | -1,949 | -1,397 |
| Dividends paid to Coöperatie KPMG U.A. | | -5,166 | -3,745 |
| Repayment of loans and borrowings | 20 | -111 | -129 |
| **Net cash from financing activities** | | **-4,937** | **-12,992** |
| | | | |
| Net increase in cash and cash equivalents | 18 | 4,246 | 9,451 |
| Cash and cash equivalents at 1 October | 18 | 37,286 | 27,835 |
| **Cash and cash equivalents at 30 September** | **18** | **41,532** | **37,286** |

# Consolidated statement of changes in equity

| | Share capital | Share premium | Reserves | Profit for the year | Total equity attributable to equity holders | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 October 2014** | **5,500** | **10,400** | **2,360** | **3,264** | **21,524** | **6** | **21,530** |
| 2013/2014 Result appropriation | - | - | 3,264 | -3,264 | - | - | - |
| **Total comprehensive income for the year** | | | | | | | |
| Profit for 2014/2015 | - | - | - | 10,462 | 10,462 | -5,850 | 4,612 |
| Other comprehensive income for the year | - | - | - | - | - | - | - |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | |
| Dividend paid | - | -1,500 | -2,245 | - | -3,745 | - | -3,745 |
| Additions by new partners | - | 800 | - | - | 800 | 500 | 1,300 |
| **Balance at 30 September 2015** | **5,500** | **9,700** | **3,379** | **10,462** | **29,041** | **-5,344** | **23,697** |
| **Balance at 1 October 2015** | **5,500** | **9,700** | **3,379** | **10,462** | **29,041** | **-5,344** | **23,697** |
| 2014/2015 Result appropriation | - | - | 10,462 | -10,462 | - | - | - |
| **Total comprehensive income for the year** | | | | | | | |
| Profit for 2015/2016 | - | - | - | 3,248 | 3,248 | -1,578 | 1,670 |
| Other comprehensive income for the year | - | - | - | - | - | - | - |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | |
| Dividend paid | - | -2,100 | -3,066 | - | -5,166 | - | -5,166 |
| Additions by new partners | - | 2,360 | - | - | 2,360 | - | 2,360 |
| **Balance at 30 September 2016** | **5,500** | **9,960** | **10,775** | **3,248** | **29,483** | **-6,922** | **22,561** |

The notes on pages 109 to 155 inclusive are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

## 1. General

### 1.1 Reporting entity

KPMG N.V. ('the Company') is the holding company of companies that operate in the Audit or Advisory business segments (KPMG). Coöperatie KPMG U.A. holds the shares in KPMG N.V. The only members of the Cooperative are the practice companies of the partners. On the basis of a management agreement the services of the partners are made available to the Cooperative. The Cooperative subsequently makes the services of the partners available to KPMG N.V. and its subsidiaries.

Coöperatie KPMG U.A. is the ultimate parent company of KPMG N.V. KPMG N.V. is registered with the trade register in the Netherlands and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

KPMG N.V. has its registered office at Laan van Langerhuize 1-11, 1186 DS Amstelveen, the Netherlands. The Company's consolidated financial statements for the year include the financial statements of the Company and its subsidiaries and the Company's investments in associates. The Company and its subsidiaries are jointly referred to as 'the Group'.

### 1.2 Reporting period

The Company's financial year runs from 1 October to 30 September of the following calendar year. The financial statements for 2015/2016 were approved for issue by the Board of Management on 1 December 2016.

## 2. Basis of preparation

### 2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS) and with Section 2:362(9) of the Netherlands Civil Code. The consolidated financial statements have also been prepared on historical cost basis, unless otherwise stated in the respective note or note 3 significant accounting policies.

### 2.2 Functional currency

These consolidated financial statements are presented in euro, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

### 2.3 Use of estimates and judgements

The preparation of financial statements in conformity with EU IFRS requires the Board of Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported values of assets and liabilities, income and expenses. The estimates and associated assumptions are based on past experience and various other factors considered reasonable in the circumstances. The results form the basis for the Groups's assessment of the carrying amounts of the assets and liabilities that are not readily evident from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are assessed periodically. Any revised estimates are accounted for in the period in which they are revised, if such revision only affects that period, or the period in which the revision is made and future periods, if the revision has implications for both the period under review and future periods.

Critical accounting estimates have been made in respect of the following items:

- Note 11 - Deferred tax assets;
- Note 13 - Intangible assets;
- Note 17 - Measurement of unbilled services and trade receivables;
- Note 22 - Provision for claims/legal proceedings;
- Note 22 - Provision for vacant properties;
- Note 24 - Financial instruments.

**Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 24 – financial instruments

### 2.4 Going concern

The financial statements have been prepared on a going concern basis.

### 2.5 Changes in IFRS and other accounting policies/ Accounting policies adopted for the preparation of consolidated financial statements

The Group has adopted the following amendments to a standard and new interpretation with a date of initial application of 1 October 2015 unless otherwise stated.

- IFRIC 21 Levies;
- Changes to IFRS 3 Business Combinations;
- Changes to IFRS 8 Operating Segments;
- Changes to IFRS 13 Fair Value Measurement;
- Changes to IAS 24 Related Party Disclosure.

The nature and effect of the changes are explained below.

**IFRIC 21 Levies**

The Group has adopted IFRIC 21 Levies with a date of initial application of 1 January 2014. The interpretation clarifies that a levy is not recognised until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation. The application of IFRIC 21 has not had any effect on profit or equity.

**IFRS 3 Business Combinations**

The amended standard clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
In addition, the amended standard clarifies that a contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.
The application of the amended standard has not had any effect on profit or equity.

**IFRS 8 Operating Segments**

Requirements have been included in the standard to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated.
The application of the amended standard has not had any effect on the disclosures.

**IFRS 13 Fair Value Measurement**

The amended standard clarifies in the basis of conclusion that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
In addition, the amended standard clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

The application of the amended standard has not had any effect on profit or equity.

**IAS 24 Related Party Disclosures**
The definition of a related party was extended to entities as part of key management. Previously, key management would refer to personnel only. The application of the amended standard has not had any effect on the disclosures.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods accounted for in these consolidated financial statements and by all companies included in the consolidation, except those explained in note 2, which address changes in accounting policies.

**3.1 New standards and interpretations not yet adopted**
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements:

- **IFRS 9 Financial instruments**
  Amongst others, IFRS 9 includes the introduction of a single classification approach for financial assets driven by 'business model' and 'contractual cash flow characteristics', a change from the incurred loss model to a forward looking Expected Credit Loss model and introduces a model that better aligns hedge accounting with risk management. The standard is effective for annual periods beginning on or after 1 January 2018. The Group will implement this standard in financial year 2018-2019;

- **IFRS 15 Revenue from contracts with customers**
  The standard clarifies the principles for recognising revenue from contracts with customers and is effective for annual periods beginning on or after 1 January 2018. The Group will implement this standard in financial year 2018-2019;

- **IFRS 16 Leases**
  IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019. The Group will implement this standard in financial year 2019-2020.

The Group is currently preparing an impact assessment.

**3.2 Consolidation principles**

*3.2.1 Business combinations*
For business combinations, fair values that reflect conditions at the date of the business combination and the terms of each business combination are attributed to the identifiable assets,

liabilities and contingent liabilities acquired. Consideration is measured at the fair value of liabilities incurred by the Group to the previous owners. Goodwill is recognised where the cost of the business combination exceeds the total of the fair values of the identifiable assets, liabilities and contingent liabilities acquired.

Where the excess is positive, goodwill is recognised, subject to annual impairment testing. Where the excess is negative it is recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

For the consolidation of Innovation Factory the anticipated-acquisition method is applied. Under the anticipated-acquisition method the interests of the non-controlling shareholders that hold the written put options or forwards are consolidated by the Group, even though legally the Group does not own these interests.

### *3.2.2 Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

A list of significant subsidiaries is included in note 25.

### *3.2.3 Non-controlling interest*

Non-controlling interest represent the net assets not held by the Group and are presented within the total equity in the consolidated statement of financial position, separately from equity attributable to the shareholders of the Group. Total result and each component of other comprehensive income are attributed to the equity holder and to the non-controlling interests. Changes in the Group's' interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

### *3.2.4 Loss of control of subsidiaries*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of other comprehensive income. Any resulting gain or loss is recognised in the statement of profit or loss.

### *3.2.5 Transactions eliminated on consolidation*

Intra-group balances, intra-group transactions and any unrealised gains or losses on transactions within the Group are eliminated in preparing the consolidated financial statements.

Unrealised gains on transactions with equity accounted investees and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

KPMG

*3.2.6 Investments in equity accounted investees (associates)*

The Group's' investments in equity accounted investees comprise of investments in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power in another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's' investment includes goodwill identified at acquisition, net of accumulated impairment losses. The consolidated financial statements include the Group's' share of the income and expenses and other comprehensive income of equity accounted investees, after adjustment to align the accounting policies with those of the Group, from the date significance influence commences until the date that significance influence ceases. When the Group's' share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term loans, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The result on a sale of equity accounted investees is accounted for as part of operating result in the consolidated statement of profit or loss and comprehensive income.

**3.3 Foreign currency**

Transactions in foreign currencies are translated to functional currency at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income.

**3.4 Hedge accounting**

When derivative financial instruments are used to hedge exposure to foreign exchange risks of recognised monetary assets or liabilities, hedge accounting is not applied. A gain or loss on the hedging instrument is recognised in the statement of profit or loss.

**3.5 Financial instruments**

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Non-derivative financial liabilities are classified into either financial liabilities at fair value through profit or loss, or other financial liabilities.

Financial instruments are initially stated at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

After initial recognition, financial instruments are valued in the manner described below.

**Loans and receivables**
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise of trade and other receivables.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's' cash management included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**Available-for-sale financial assets**
Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

**Other non-derivative financial liabilities**
The Group has the following other non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

**Derivative financial instruments**
Derivatives are carried after their initial recognition at fair value.

### 3.6 Property, plant and equipment

*3.6.1 Owned assets*
Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where property, plant and equipment consist of significant parts that have different useful lives, they are accounted for as separate items under property, plant and equipment.

*3.6.2 Subsequent costs*
Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group and the cost of the asset can be measured reliably. All other costs are recognised as expenses in the statement of profit or loss and other comprehensive income when they are incurred.

*3.6.3 Depreciation*
Depreciation is recognised in the statement of profit or loss and other comprehensive income in accordance with the straight-line method over the estimated useful life of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:
- fittings, fixtures and alterations up to 10 years depending on the lease term;
- computers and communications equipment 5 to 8 years;
- office furniture and equipment 5 to 8 years.

Amortisation methods, estimated useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3.7 Intangible assets and goodwill

#### *3.7.1 Goodwill*

All business combinations are accounted for using the acquisition method. The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Negative goodwill arising on an acquisition is recognised directly in the income statement. Costs related to the acquisition, that are incurred by the Group in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is stated at cost less accumulated impairment losses, if any. An impairment loss is recognised when the realisable value of the cash generating unit to which the goodwill pertains, is lower than its carrying value.

#### *3.7.2 Intangible assets*

Customer relationships and order books are acquired through business combinations and stated at cost, being the fair value at acquisition date less accumulated amortisation and impairment losses. Purchased software is stated at cost. Software development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, the costs of software development are recognised in profit or loss as incurred. Subsequent to initial recognition, software is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on research activities is recognised in profit or loss as incurred.

Each category is amortised over its estimated useful life for the current years, as follows:
- Customer relationships 5 years;
- Order books 3 months;
- Software 5-8 years;
- Software under construction is not amortised until ready for use or sale.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3.8 Unbilled services

Unbilled services represent the gross unbilled amount expected to be collected from customers for rendering services performed to date. It is measured at cost plus profit recognised to date, in proportion to the progress of the project, less progress billings and recognised losses.

This is presented as part of receivables for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as part of trade and other payables.

### 3.9 Impairment

*3.9.1 Intangible and tangible assets*

The carrying amount of the Group's tangible and intangible assets with a definite useful life, is reviewed in case there is an objective indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated. When the recoverable amount is lower than the carrying amount an impairment loss is recognised in the consolidated income statement. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time, irrespective of indications that they are impaired.

The recoverable amount of an asset represents the greater of the fair value less cost to sell and the value in use. In determining the value in use, the present value of the estimated future cash flows is calculated on the basis of a discount factor before tax which reflects the current market estimates of the time value of money and the specific risk to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or 'CGU').

Impairment losses in respect of goodwill cannot be reversed. An impairment loss related to other assets is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. An impairment loss is in that case reversed only as far as the carrying amount of the asset on the reporting date does not exceed the carrying amount that would have been determined in the case no impairment loss was ever recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

*3.9.2 Financial Assets measured at amortised cost*

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

#### *3.9.3 Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI.

### 3.10 Employee benefits

#### *3.10.1 Pension schemes*

The Group has a pension plan (het.kpmg.pensioen) for all employees. This pension plan is an individual defined contribution plan and is administered by an insurance company.

#### *3.10.2 Long-term employee benefits*

The net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to determine its present value. The discount rate is the yield at the reporting sheet date on AA+ credit-rated corporate bonds that have maturity dates approximating to the term of the obligations.

These employee benefits relate primarily to supplementary WAO (Occupational Disability Insurance Act) benefits and a provision for long-service benefits.

### 3.11 Povisions

A provision is recognised in the statement of financial position when, as a result of a past event, the Group has a legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

### 3.12 Revenue

Revenue from audit and advisory services performed is recognised in the statement of profit or loss and other comprehensive income in proportion to the stage of completion of the relevant engagement at the reporting date. The stage of completion is determined by assessing the status of the work performed, or by measuring the proportion that costs incurred to date bear to the estimated total costs of the service. No revenue is recognised if there is significant uncertainty regarding the collection of the fee due or the costs involved.

An expected loss on any revenue contract is recognised immediately in profit or loss. Costs incurred in the period prior to securing a signed contract are recognised directly in profit or loss. When the outcome of a project cannot be estimated reliably, revenue from services is only recognised to the extent of contract costs incurred that are likely to be recoverable.

Included in revenue are amounts billed to third parties for services other than audit and advisory services. This relates to housing expenses and IT services charged externally, primarily to Meijburg & Co and KPMG International, who occupy buildings hired by the Group. Furthermore, the Group employs personnel working for KPMG International at KPMG Staffing & Facility Services B.V. These costs are rebilled in full to KPMG International.

### 3.13 Other income

Grant amounts and comparable items of income are recognised in the same period as the relevant expenses. Grants are recognised as receivable upon the actual occurrence of, or an earlier obligation to incur, the related investment or expense. Grants are recognised in other income in the same period as the relevant expenses. To the extent that grants recognised relate to depreciable assets, grant amounts are recognised in other income over the periods and in the proportions in which depreciation expense on those assets is recognised.

### 3.14 Operating lease payments

Lease contracts of which the majority of the risks and rewards inherent to ownership do not lie with the Group are classified as operating leases.

Payments made under operating leases are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### 3.15 Finance expenses

Finance expenses comprise interest payable on borrowings, calculated using the effective interest method, and foreign exchange gains and losses.

### 3.16 Finance income

Interest income is recognised as it accrues in the statement of profit or loss and other comprehensive income using the effective interest method.

### 3.17 Fees payable to Coöperatie KPMG U.A.

In accordance with the regulations of KPMG N.V. and the management agreements, the partners are entitled to a variable contractual fee as a compensation for services performed. This variable fee is equal to the profit after tax of KPMG N.V. before deducting the variable fee and excluded for the amount the Board of Management proposes to add to the reserves.

These contractual fees payable are recognised as expenses in the profit or loss and comprehensive income.

**3.18 Income taxes**

It has been agreed with the Dutch Tax Authorities that the partners' practice limited companies will be entitled to the Group's profits and that these practice limited companies will be liable to pay tax on these profits. As a result, the amount of income taxes payable by the Group itself will be limited.

**Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. For the financial year 2015/2016 the tax rate applied was 25%.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**3.19 Principles for presentation of the consolidated cash flow statement**
The cash flow statement is prepared according to the indirect method.

The funds in the cash flow statement consist of cash and cash equivalents. Cash equivalents can be considered to be highly liquid investments.

Considering the nature of the Group's operations, the share in the results of equity accounted investees and dividends received is regarded as part of cash flows from operating activities.

Cash flows in foreign currencies are translated at the rate at the date of the cash flow. Exchange rate differences concerning finances are shown separately in the cash flow statement.

Corporate income taxes, issuance of share capital, interest received, interest paid and dividends received are presented under the cash flow from operating activities and investing activities if applicable. Dividends paid are presented under the cash flow from financing activities.

## 4. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group has the following primary business segments:
- Audit
- Advisory

These segments are identified as reportable segments based on differences in products and services, as well as regulatory environment.

All operating segments' operating results are reviewed regularly by the Board of Management to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

As the Group operates in the Netherlands, there is only one geographic segment.

The pricing of intersegment transactions is determined in accordance with the applicable internal policies.

## Segmentation 2015/2016

| | Audit | Advisory | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Revenue and profit** | | | | | |
| Revenue | 250,726 | 188,218 | 14,210 | - | 453,154 |
| Revenue from intersegment transactions | 0 | 5,701 | 0 | -5,701 | 0 |
| | 250,726 | 193,919 | 14,210 | -5,701 | 453,154 |
| Other income | - | - | 26,609 | - | 26,609 |
| **Total operating income** | **250,726** | **193,919** | **40,819** | **-5,701** | **479,763** |
| | | | | | |
| Operating result | 67,502 | 62,116 | -58,179 | - | 71,439 |
| Finance income | - | - | 781 | - | 781 |
| Finance expenses | - | - | -3,262 | - | -3,262 |
| Impairment loss | - | -392 | -1,953 | - | -2,345 |
| | | | | | |
| **Profit before income tax** | **67,502** | **61,724** | **-62,613** | **-** | **66,613** |
| Profit before tax/ revenue (%) | 26.9 | 32.8 | | | 14.7 |
| | | | | | |
| Taxation | | | | | -1,508 |
| Fees payable to Coöperatie KPMG U.A | | | | | -63,435 |
| **Profit for the year** | | | | | **1,670** |
| | | | | | |
| *FTEs* | | | | | |
| Partners | 71 | 53 | 8 | - | 132 |
| Other professionals | 1,183 | 957 | - | - | 2,140 |
| Support staff | 104 | 59 | 414 | - | 577 |
| **Total FTEs** | **1,358** | **1,069** | **422** | **-** | **2,849** |

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| | Audit | Advisory | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Intangible assets and goodwill** | | | | | |
| Acquisitions | - | - | - | - | - |
| Amortisation | - | 1,628 | 1,397 | - | 3,025 |
| | | | | | |
| **Property, plant and equipment** | | | | | |
| Capital expenditure | - | - | 4,030 | - | 4,030 |
| Depreciation | - | - | 6,422 | - | 6,422 |
| | | | | | |
| **Assets by segment** | | | | | |
| Non-current assets | - | 9,252 | 25,930 | - | 35,182 |
| Impairment on non-current assets | - | - | - | - | - |
| Investments in equity accounted investees | - | 1,300 | - | - | 1,300 |
| Unbilled services and trade receivables | 43,926 | 44,520 | 3,559 | - | 92,005 |
| Other current assets | - | 11,469 | 49,868 | - | 61,337 |
| Other investments | - | - | - | - | - |
| | | | | | |
| **Total assets** | | | | | **189,824** |
| | | | | | |
| **Liabilities by segment** | | | | | |
| Prepayments | 19,227 | 5,979 | - | - | 25,206 |
| Equity and other liabilities | 21,998 | 2,311 | 140,309 | - | 164,618 |
| | | | | | |
| **Total liabilities** | | | | | **189,824** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.

## Segmentation 2014/2015*

| | Audit | Advisory | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Revenue and profit** | | | | | |
| Revenue | 259,994 | 183,656 | 13,350 | - | 457,000 |
| Revenue from intersegment transactions | 292 | 4,735 | 0 | -5,027 | 0 |
| | 260,286 | 188,391 | 13,350 | -5,027 | 457,000 |
| Other income | - | - | 6,957 | - | 6,957 |
| **Total operating income** | **260,286** | **188,391** | **20,307** | **-5,027** | **463,957** |
| | | | | | |
| Operating result | 67,508 | 59,181 | -73,888 | - | 52,801 |
| Finance income | - | 583 | 1,019 | - | 1,602 |
| Finance expenses | - | -10 | -4,438 | - | -4,448 |
| | | | | | |
| **Profit before income tax** | **67,508** | **59,754** | **-77,307** | **-** | **49,955** |
| Profit before tax/Revenue (%) | 26.0 | 32.5 | | | 10.9 |
| | | | | | |
| Taxation | | | | | 971 |
| Fees payable to Coöperatie KPMG U.A. | | | | | -46,314 |
| **Profit for the year** | | | | | **4,612** |
| | | | | | |
| *FTEs* | | | | | |
| Partners | 76 | 55 | 9 | - | 140 |
| Other professionals | 1,190 | 935 | - | - | 2,125 |
| Support staff | 107 | 62 | 418 | - | 587 |
| **Total FTEs** | **1,373** | **1,052** | **427** | **-** | **2,852** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.

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| | Audit | Advisory | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Intangible assets and goodwill** | | | | | |
| Acquisitions | - | 1,202 | - | - | 1,202 |
| Amortisation | - | 1,949 | 1,393 | - | 3,342 |
| | | | | | |
| **Property, plant and equipment** | | | | | |
| Capital expenditure | - | - | 1,342 | - | 1,342 |
| Depreciation | - | 19 | 5,902 | - | 5,921 |
| | | | | | |
| **Assets by segment** | | | | | |
| Non-current assets | - | 12,048 | 32,642 | - | 44,690 |
| Impairment on non-current assets | - | - | - | - | - |
| Investments in equity accounted investees | - | 1,300 | - | - | 1,300 |
| Unbilled services and trade receivables | 48,325 | 53,828 | 2,936 | - | 105,089 |
| Other current assets | - | 1,338 | 56,160 | - | 57,498 |
| | | | | | |
| **Total assets** | | | | | **208,577** |
| | | | | | |
| **Liabilities by segment** | | | | | |
| Prepayments | 20,345 | 7,415 | - | - | 27,760 |
| Equity and other liabilities | 9,645 | 4,798 | 166,374 | - | 180,817 |
| | | | | | |
| **Total liabilities** | | | | | **208,577** |

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## 5. Other income

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Grant KPMG International and comparable items of income | 26,609 | 6,957 |
| | **26,609** | **6,957** |

The Group is party to a grant agreement of USD 33.9 million with KPMG International, based on mutually agreed terms, to accelerate the realisation of its business plan. Under the agreement, grants can be made available over the period up to 30 September 2018.

In financial year 2015/2016, the Group received a reimbursement from Coöperatie KPMG U.A. with respect to agreed specified items incurred by the Group.

## 6. Employee benefits expenses

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Salaries | 180,251 | 178,629 |
| Social security costs | 22,107 | 21,824 |
| Pension costs | 13,484 | 13,387 |
| Long-term employee benefits | 145 | 378 |
| Severance expenses | 1,240 | 4,270 |
| | **217,227** | **218,488** |

The average salary per FTE increased by 0.9% (previous year: 4.2%). Total employee expenses decreased by 0.6%.

### Number of staff and partners

| | 2015/2016 | 2014/2015 |
|---|---|---|
| *(Average FTEs)* | | |
| Number of staff: | | |
| Professional staff | 2,140 | 2,125 |
| Support staff | 504 | 521 |
| Support staff for KPMG International | 73 | 66 |
| | 2,717 | 2,712 |
| Partners | 132 | 140 |
| | **2,849** | **2,852** |

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## 7. Other expenses

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Other employee expenses | 34,260 | 35,059 |
| Travelling, car leases and representation expenses | 27,210 | 29,188 |
| Housing expenses | 30,881 | 25,187 |
| Office and IT expenses | 8,001 | 10,570 |
| Other expenses | 34,556 | 37,340 |
| | **134,908** | **137,344** |

Housing expenses increased resulting from the termination of a lease contract. Office and IT expenses decreased resulting from lower IT costs. Other expenses decreased mainly resulting from less impairment losses on trade receivables.

An amount of EUR 2.3 million is recognised in the other expenses related to research and development costs (2014/2015: EUR 1.3 million).

## 8. Finance income

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Interest income on deposits | 21 | 52 |
| Foreign exchange results | 453 | 886 |
| Changes in fair value derivatives | - | 583 |
| Other finance income | 307 | 81 |
| | **781** | **1,602** |

## 9. Finance expenses

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Interest expense due to Coöperatie KPMG U.A. | 1,949 | 1,397 |
| Amortised cost effective interest rate | - | - |
| Changes in fair value of derivatives | 392 | - |
| Impairment loss | 1,953 | - |
| Unwinding of discount on provisions | 40 | 70 |
| Other finance costs | 1,273 | 2,981 |
| | **5,607** | **4,448** |

The impairment loss relates to other investments and is explained in note 16.1. The decrease in other finance costs is due to relatively high interest payable on tax assessments with respect to previous years in 2014/2015.

## 10. Acquisitions of businesses

There have been no acquisitions during the reporting period.

## 11. Income taxes

Under management agreements, all earnings of KPMG N.V. are distributed to the partners, through Coöperatie KPMG U.A., who pay tax on these earnings. The Group has a ruling for corporate income tax purposes, under which the total net income before tax is subject to corporate income tax at the level of Coöperatie KPMG U.A., KPMG N.V. and the practice companies of the individual equity partners. Consequently, the income taxes payable by the Group itself is limited and determined by applying a formula.

Tax on the profit share of KPMG N.V. is calculated using the average tax rate applicable to the year. For 2015/2016, the average tax rate was 24.9% (2014/2015: 24.9%). The Group's effective tax rate was 26.1% (2014/2015: -0.4%).

The negative effective tax rate of the previous year was caused by an accrual made in 2013/2014 for income taxes related to a dispute as mentioned in paragraph 11.3, of which part was released in financial year 2014/2015.

In the table below, a reconciliation between accounting profit and taxable profit is presented.

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Profit before tax from continuing operations | 66,613 | 49,955 |
| Expenses related to early retired partners | -1,106 | -6,772 |
| Tax-exempt income | -4,888 | -653 |
| Non-deductible expenses | 3,105 | 5,913 |
| Temporary differences | -186 | -2,635 |
| **Taxable profit** | **63,538** | **45,808** |
| | | |
| *Of which taxable by:* | | |
| Subsidiaries not part of the fiscal unity | -5,973 | -3,983 |
| KPMG N.V. | 5,776 | 2,635 |
| Coöperatie KPMG U.A. | 699 | 206 |
| Practice companies of the individual equity partners | 63,036 | 46,950 |

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### 11.1 Amounts recognised in profit or loss

| | 2015/2016 | 2014/2015 |
|---|---|---|
| **Current tax expense** | | |
| Current year | 776 | 64 |
| Adjustments for prior years | 190 | 4,904 |
| | 966 | 4,968 |
| | | |
| **Deferred tax expense** | | |
| Recognised deductible temporary differences | 542 | -5,939 |
| | | |
| **Tax expense on continuing operations** | **1,508** | **-971** |

The adjustments for prior years in financial year 2014/2015 mainly relates to a tax assessment received by a subsidiary of the Group, KPMG-gebouw Amstelveen II B.V. of EUR 14.0 million. This was partly offset by the tax effect of depreciation of related assets in KPMG N.V. for the period 2009-2015 of EUR 4.1 million and the release of a provision accounted for this matter in prior year of EUR 5.0 million. The Group also recorded a deferred tax asset of EUR 5.9 million, reflecting the future depreciation of these assets involved.

### 11.2 Movement in deferred tax balances

| | Net balance at 1 October | Recognised in profit or loss | Net balance at 30 September | Deferred tax asset | Deferred tax liability |
|---|---|---|---|---|---|
| **2014/2015** | | | | | |
| Intangible assets | - | 9 | 9 | 9 | - |
| Property, plant and equipment | - | 5,930 | 5,930 | 5,930 | - |
| | **-** | **5,939** | **5,939** | **5,939** | **-** |
| **2015/2016** | | | | | |
| Intangible assets | 9 | -30 | -21 | 9 | 30 |
| Property, plant and equipment | 5,930 | -658 | 5,272 | 5,272 | - |
| Early retirement benefits | - | 146 | 146 | 146 | - |
| **Net tax liabilities** | **5,939** | **-542** | **5,397** | **5,427** | **30** |

The key factors that determine the valuation of deferred tax assets are the probability of future taxable profits, the tax rates that are expected to be applied to temporary differences when they reverse and the assumption that it is expected that the carrying amount can be recovered. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

**11.3 Current tax balances**

As of financial year 2014/2015, Coöperatie KPMG U.A. is head of the fiscal unity for income tax purposes. Consequently, current tax balances only relate to group companies that are not included in the fiscal unity, as well as adjustments related to previous years.

A subsidiary of the Group had a dispute with the Dutch Tax Authorities regarding the tax treatment of a part of the development costs of the Laan van Langerhuize building in Amstelveen. This subsidiary received a corporate income tax assessment of EUR 15.5 million (including EUR 1.5 million of interest) and a supplemental value added tax assessment of EUR 3.0 million. These tax assessments, which had been provided for in the 2014/2015 financial statements, were paid during financial year 2015/2016.

## 12. Fee payable to Coöperatie KPMG U.A.

The management fee that is payable to the partners, through Coöperatie KPMG U.A., is remuneration for professional services performed and for entrepreneurial risk. Partners must make their own pension arrangements and pay social security costs from this fee.

The level of the management fees payable to individual partners reflects their roles and specific responsibilities as well as corresponding levels of performance and to a certain extent reflects growth based on seniority in the initial years.

In addition to their management fee, the practice companies of the partners also received expense allowances amounting to a total of EUR 124 (2014/2015: EUR 452), car allowances amounting to EUR 2,155 (2014/2015: EUR 2,460) and interest on financing totalling EUR 1.9 million (2014/2015: EUR 1.4 million). These costs are shown in the statement of profit or loss and other comprehensive income under other expenses and finance costs, respectively.

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## 13. Intangible assets and goodwill

| | Goodwill | Customer relationships and similar items | Software | Internally developed software | Total |
|---|---|---|---|---|---|
| **Balance at 1 October 2014** | | | | | |
| Cost | 7,777 | 9,280 | 11,174 | - | 28,231 |
| Accumulated amortisation and impairment | - | 5,194 | 2,037 | - | 7,231 |
| **Carrying amount** | **7,777** | **4,086** | **9,137** | **-** | **21,000** |
| | | | | | |
| *Movements during 2014/2015* | | | | | |
| Additions | - | - | - | 340 | 340 |
| Acquisition of subsidiaries | - | 1,202 | - | - | 1,202 |
| Amortisation | - | -1,939 | -1,393 | -10 | -3,342 |
| **Balance at 30 September 2015** | **7,777** | **3,349** | **7,744** | **330** | **19,200** |
| | | | | | |
| Cost | 7,777 | 10,192 | 11,174 | 340 | 29,483 |
| Accumulated amortisation and impairment | - | 6,843 | 3,430 | 10 | 10,283 |
| **Balance as at 30 September 2015** | **7,777** | **3,349** | **7,744** | **330** | **19,200** |
| | | | | | |
| *Movements during 2015/2016* | | | | | |
| Additions | - | - | - | 606 | 606 |
| Adjustment | -1,382 | - | - | - | -1,382 |
| Amortisation | - | -1,546 | -1,397 | -82 | -3,025 |
| **Balance at 30 September 2016** | **6,395** | **1,803** | **6,347** | **854** | **15,399** |
| | | | | | |
| Cost | 6,395 | 10,030 | 11,174 | 946 | 28,545 |
| Accumulated amortisation and impairment | - | 8,227 | 4,827 | 92 | 13,146 |
| **Balance as at 30 September 2016** | **6,395** | **1,803** | **6,347** | **854** | **15,399** |

The key factors that determine the valuation of intangible assets as a result of acquisitions, are based upon contractual conditions, existing clients and engagements, past results and scenarios of future results, and discount factors based upon the type and maturity of the organisation, and the industry the company is part of.

The remaining periods of amortisation at 30 September 2016 are:

- Customer relationship and similar items 6 years;
- Software 3-5 years.

**Software**
Software mainly relates to the implementation of a new back office system developed by KPMG International.

**Internally developed software**
Internally developed software fully relates to innovation software. During 2015/2016 an amount of EUR 606 was capitalised (2014/2015: EUR 340).

**Impairment testing for cash-generating units containing goodwill**
For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units (CGUs). The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| KPMG MC Sourcing | 3,233 | 3,233 |
| KPMG MC Health | 1,201 | 1,201 |
| KPMG MC FM | 1,327 | 1,327 |
| Other individually not significant | 634 | 2,016 |
| **Total** | **6,395** | **7,777** |

All CGU's are part of the KPMG Advisory business segment. Annually, the Group carries out impairment tests on capitalised goodwill, based on the estimated cash flows of the related CGU. The CGU represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's' operating segment as reported in note 4. The recoverable amount of the relevant CGU is determined on the basis of their value in use. Determination of the value in use is performed by using estimated future cash flows, based on the business plan 2016-2017 approved by the Board and further financial projections for the financial years through 2020-2021. Cash flows after this period are extrapolated by using a growth rate to calculate the terminal value.

Key assumptions in the cash flow projections are:

- Total revenue growth and result development: based on historical performance and expected future market developments, business plan 2016-2017 and further financial projections for the financial years through 2020-2021;
- Discount rate (pre-tax weighted average cost of capital) of 9.6% for all CGU's to calculate the present value of the estimated future cash flows; pre-tax discount rates have been applied. The pre-tax discount rates are determined on the basis of the individual post-tax weighted average cost of capital calculated for each CGU;
- An indefinite growth rate of 0% was used for all CGU's.

The values assigned to the key assumptions represent management's assessment of future trends in the respective markets and are based on both external and internal sources (historical and forward looking data).

A sensitivity test has been performed taking into consideration a change in the pre-tax weighted average cost of capital. An increase of 5 percentage point confirms sufficient headroom in all cash generating units.

Based on the outcome of the impairment tests, no impairments have been recorded. The decrease in other individually not significant goodwill amounts relates to the recalculation of an earn-out liability.

## 14. Property, plant and equipment

| | Fixtures, fittings and alterations | Computers and communications equipment | Office furniture and equipment | Total |
|---|---|---|---|---|
| **Balance at 1 October 2014** | | | | |
| Cost | 13,730 | 17,250 | 20,370 | 51,350 |
| Accumulated depreciation and impairments | 7,527 | 11,422 | 11,375 | 30,324 |
| **Carrying amount** | **6,203** | **5,828** | **8,995** | **21,026** |
| | | | | |
| *Movements during 2014/2015* | | | | |
| Additions | 327 | 932 | 83 | 1,342 |
| Acquisition of subsidiaries | - | 108 | 2 | 110 |
| Depreciation | -1,213 | -2,182 | -2,526 | -5,921 |
| Disposals | - | - | - | - |
| **Balance at 30 September 2015** | **5,317** | **4,686** | **6,554** | **16,557** |
| | | | | |
| Cost | 14,042 | 11,157 | 20,155 | 45,354 |
| Accumulated depreciation and impairments | 8,725 | 6,471 | 13,601 | 28,797 |
| **Carrying amount** | **5,317** | **4,686** | **6,554** | **16,557** |
| | | | | |
| *Movements during 2015/2016* | | | | |
| Additions | 873 | 2,531 | 626 | 4,030 |
| Depreciation | -1,545 | -2,506 | -2,371 | -6,422 |
| Disposals | - | - | - | - |
| **Balance at 30 September 2016** | **4,645** | **4,711** | **4,809** | **14,165** |
| | | | | |
| Cost | 11,519 | 10,243 | 20,704 | 42,466 |
| Accumulated depreciation and impairments | 6,874 | 5,532 | 15,895 | 28,301 |
| **Carrying amount** | **4,645** | **4,711** | **4,809** | **14,165** |

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**Pledges**

Property, plant and equipment, with the exception of assets under construction, are subject to a first pledge in favour of Coöperatie KPMG U.A. as security for loans advanced.

## 15. Investments in equity accounted investees

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| **Associates** | **1,300** | **1,300** |

The investments in associates refers to an initial payment of EUR 1,300 relating to the acquisition of a 5% interest in KPMG Investments Malta Ltd. The other 95% of the shares are held by other KPMG member firms. The activities of KPMG investments Malta Ltd mainly exist of the delivery of computer software and professional services. The Group's' share in the profit or loss from continuing operations, post-tax profit or loss from discontinued operations, other comprehensive income and total comprehensive income of associates in 2015/2016 amounts to EUR nil (2014/2015: EUR nil).

## 16. Other financial assets

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| Other investments | - | 1,953 |
| Derivatives at fair value through profit or loss | 191 | 583 |
| Loans and receivables | - | 458 |
| | **191** | **2,994** |

### 16.1 Other investments

Other investments refers to initial payments in creating a 2.9% interest in KPMG Capital Holding Ltd. The fund is being established to invest in opportunities that will generate benefits across a number of KPMG International member firms. During financial year 2015/2016, the investment is impaired to nil as a result of the development of the related businesses. The impairment loss amounts to EUR 1,953 and is included in finance expenses, note 9.

### 16.2 Derivatives at fair value through profit or loss

Derivatives relate to a call option over 25% of the shares in KPMG Investments Malta Ltd. The Group's fair value information related to derivatives is disclosed in note 24.

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in notes 24.2 and 24.4.

### 16.3 Loans and receivables

Loans and receivables refer to a loan which was granted to a third party regarding the management buy-out of the BPO activities. The interest rate is 8% and is added to the loan. The loan was paid in full during financial year 2015/2016.

## 17. Receivables

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| Unbilled services | 23,306 | 23,316 |
| Trade receivables | 67,599 | 81,773 |
| Insurance reimbursement claims | - | 459 |
| Due from equity accounted investees | 1,100 | - |
| Other receivables | 6,878 | 7,013 |
| Prepayments | 12,926 | 8,177 |
| | **111,809** | **120,738** |

Every quarter, the recoverable amounts of unbilled services and trade receivables are estimated. Profit is recognised pro rata in relation to the progress of each project concerned. The important factors to be considered when estimating unbilled services and trade receivables are the terms and conditions of contract, work progress and results of work performed. The financial position of the debtor is important when assessing the provision for doubtful debts. The measurement of unbilled services and trade receivables is assessed quarterly.

A different estimate of the value of unbilled services and trade receivables can lead to different amounts of income and other expenses being recognised and to different figures for unbilled services and trade receivables presented in the statement of financial position.

### 17.1 Unbilled services

Advance billings are included in trade and other payables, please refer to note 23. Unbilled services are subject to a first pledge in favour of Coöperatie KPMG U.A. as security for loans advanced.

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| Unbilled services | 23,306 | 23,316 |
| Advance billings | 25,206 | 27,760 |
| **Balance of unbilled services and advance billings** | **-1,900** | **-4,444** |

### 17.2 Trade receivables

All trade receivables are due within one year. They are subject to a first pledge in favour of the bank in connection with the credit facility provided and a second pledge in favour of Coöperatie KPMG U.A. as security for loans advanced.

Trade receivables are shown net of impairment losses amounting to EUR 2,605 (2014/2015: EUR 5,286). In the statement of profit or loss and other comprehensive income a benefit of EUR 567 (2014/2015: expense of EUR 1,876) has been recognised under other expenses.

### 17.3 Other

All other receivables are due within one year. The prepayments include prepaid insurance premiums and rental expenses.

## 18. Cash and cash equivalents

Bank balances, including business savings accounts, are subject to a first pledge in favour of the bank in connection with the credit facility provided. In addition, they are subject to a second pledge in favour of Coöperatie KPMG U.A. as security for loans advanced.

## 19. Group equity

### 19.1 Share capital

The Company has an authorised capital of EUR 20 million (2014/2015: EUR 20 million), which is divided into 800 shares of EUR 25 each (2014/2015: 800 shares of EUR 25 each). The issued share capital consists of 220 (2014/2015: 220) shares at a nominal value of EUR 25 each (2014/2015: EUR 25 each), representing a total nominal value of EUR 5.5 million (2014/2015: EUR 5.5 million). All of the shares are fully paid up.

KPMG N.V. is obliged to distribute all earnings that constitute profits as contractual fees to Coöperatie KPMG U.A. or as dividend, except for the amount the Board of Management proposes to add to the reserves.

### 19.2 Other reserves

The other reserves contains the profits of previous years.

### 19.3 Non-controlling interests

Non-controlling interests as at 30 September 2016 amounts to EUR -6,922 (2014/2015: EUR -5,344) and relates to amongst others the minority interest of 30% in KPMG-gebouw Amstelveen II B.V., the minority interest of 50% in Culture Factory B.V. and the minority interest of 20% in Innovation Factory B.V., Innovation Factory Intellectual Property B.V. and Innovation Factory Software Services B.V.

### 19.4 Appropriation of profit

The Group's profit totals EUR 3,248 and the Company proposes to add the profit to the reserves.

## 20. Loans and borrowings

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| **Non-current loans and borrowings** | | |
| Bank loans | 293 | 358 |
| Loans Coöperatie KPMG U.A. (partners) | 18,686 | - |
| Loans Coöperatie KPMG U.A. (former partners) | 2,279 | 3,299 |
| **Total non-current loans and borrowings** | **21,258** | **3,657** |
| **Current loans and borrowings** | | |
| Bank loans | 229 | 275 |
| Loans from Coöperatie KPMG U.A. (partners) | 15,821 | 30,174 |
| Loans from Coöperatie KPMG U.A. (former partners) | 11,472 | 14,856 |
| **Total current loans and borrowings** | **27,522** | **45,305** |
| | **48,780** | **48,962** |

### 20.1 Bank loans

Bank loans refers to a loan to Innovation Factory at 6.45%. The loan expires on 1 January 2022 and is repayable in quarterly instalments.

### 20.2 Loans from Coöperatie KPMG U.A. relating to partners

The interest charged on current loans is 1.4% (2014/2015: 2.3%). Partners also have the opportunity to subscribe on deposits with a duration varying between one and five years. The total amount subscribed as per 30 September 2016 was EUR 21.4 million with an interest rate of 5.0 to 8.0% depending on the duration of the loan (2014/2015 EUR 15.1 million at 4.5% for one year deposits only).

Movements in financing by partners:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Balance at the beginning of the year | 30,174 | 39,473 |
| Fees to partners under management agreements | 63,435 | 46,314 |
| Interest due to Coöperatie KPMG U.A. relating to partners | 1,731 | 1,100 |
| Other movements (net withdrawal) | -60,833 | -56,713 |
| **Balance at the end of the year** | **34,507** | **30,174** |

Other movements refer mainly to amounts withdrawn by partners.

**20.3 Loans from Coöperatie KPMG U.A. relating to former partners**
Non-current loans from Coöperatie KPMG U.A. relating to former partners comprise of early retirement liabilities to former partners and have an average term of 3.0 years (2014/2015: 3.3 years); these liabilities are not interest bearing. The average interest on current loans from former partners is 1.1% (2014/2015: 1.5%).

## 21. Employee benefits

Employee benefits consist of long-term pension plans that supplement WAO (Occupational Disability Insurance Act) benefits, provisions for long-service entitlements, and a number of special schemes and current employee benefit obligations relating to accrued holiday allowances, bonuses and overtime as well as holiday entitlements.

Short-term employee benefit obligations mainly relate to accruals for variable pay and holiday allowances.

Movements in long-term employee benefits:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| **Balance at 1 October** | **5,854** | **3,415** |
| Utilised | -1,337 | -370 |
| Addition | 239 | 2,755 |
| Unwind of discount | 18 | 50 |
| Change in discount rate | 32 | 4 |
| **Balance at 30 September** | **4,806** | **5,854** |
| Short-term employee benefit obligations | 24,655 | 21,930 |
| | **29,461** | **27,784** |

| | 30 September 2016 | | | 30 September 2015 | | |
|---|---|---|---|---|---|---|
| | < 1 year | > 1 year | Total | < 1 year | > 1 year | Total |
| Long-term employee benefit obligations | 1,884 | 2,922 | 4,806 | 2,771 | 3,083 | 5,854 |
| Short-term employee benefit obligations | 24,655 | - | 24,655 | 21,930 | - | 21,930 |
| | **26,539** | **2,922** | **29,461** | **24,701** | **3,083** | **27,784** |

## 22. Provisions

Movements in provisions in 2015/2016:

| | Legal claims | Vacant properties | Total |
|---|---|---|---|
| **Balance at 1 October** | **9,571** | **2,300** | **11,871** |
| Utilised | -1,555 | -1,497 | -3,052 |
| Released | -2,755 | - | -2,755 |
| Added | 16,661 | 1,930 | 18,591 |
| Unwind of discount | - | 22 | 22 |
| **Balance at 30 September** | **21,922** | **2,755** | **24,677** |

The provision for legal claims relates to claims and proceedings against the Group on the grounds of alleged failure to perform professional duties and other legal matters. The Group carries professional indemnity insurance. The provision for claims/legal proceedings is determined following an evaluation of the matters that resulted in the Group being held liable by third parties, or the matters in which the relevant circumstances are such that it is reasonable to assume that they will result in the Group being held liable on the grounds of alleged failure to perform professional duties. An assessment has been made on a case-by-case basis as to whether it is probable that the case will involve an outflow of resources from the Group. The estimates of both the probability of an outflow of resources and the amounts required are subjective. In general, such proceedings are long-term in nature and estimates are therefore revised from time to time. Although the number of claims and procedures are decreasing, provisions increased due to both a change in estimates as well as a change in insurer. The amounts provided for include legal expenses and are presented net of expected reimbursements from the insurance company where appropriate.

The provision for legal claims includes a best estimate of the expected outcome of an investigation of a subsidiary of the company by the public prosecutor regarding the development of the Laan van Langerhuize building in Amstelveen. The public prosecutor continues investigating this matter. The related tax assessments were paid during financial year 2015-2016 (see Income taxes – note 11).

The provision for vacant properties relates to space in leased properties which is currently not used. The key factors that determine the provision for leased vacant properties are the tenancy period, the duration of the vacancy in relation to the remaining lease terms and the other terms and conditions of the lease, an assessment of the options to surrender the lease or to sublet the space leased to third parties, and an estimate of any rental income that may be earned as a result. The periods within which provisions are expected to be utilised are as follows:

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| | 30 September 2016 | | | 30 September 2015 | | |
|---|---|---|---|---|---|---|
| | < 1 year | > 1 year | Total | < 1 year | > 1 year | Total |
| Legal claims | 8,630 | 13,292 | 21,922 | 3,300 | 6,271 | 9,571 |
| Provision for vacant properties | 815 | 1,940 | 2,755 | 1,122 | 1,178 | 2,300 |
| | **9,445** | **15,232** | **24,677** | **4,422** | **7,449** | **11,871** |

## 23. Trade and other payables

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| Advance billings/payments | 25,206 | 27,760 |
| Trade payables | 2,990 | 6,338 |
| Tax and social insurance contributions | 24,104 | 27,693 |
| Other current liabilities | 2,077 | 4,307 |
| Accruals | 9,922 | 14,085 |
| | **64,299** | **80,183** |

Please refer to note 17.1 for detail on advance billings/payments.

The Groups' liquidity risk relating to trade and other payables is disclosed in note 24.3.

Trade payables decreased mainly due to lower payables to car lease companies resulting from timing differences. Other current liabilities decreased due to lower obligations regarding business acquisitions and a lower liability for short term legal expenses. Accruals have been made primarily to cover housing expenses, charges for third-party services still to be paid and insurance premiums.

Included in tax and social security contributions prior year is a liability with respect to a VAT assessment imposed by the tax authorities with respect to fiscal year 2010 relating to the tax treatment of development costs in KPMG-gebouw Amstelveen II B.V.

## 24. Financial instruments and associated risks

### 24.1 General

*24.1.1 Background and policies*
Financial instruments that are used by KPMG N.V. arise directly from normal business operations. During the period under review it was KPMG N.V.'s policy not to trade in financial instruments.

The Group is exposed to credit, interest, liquidity and foreign exchange risks as part of its normal business operations. The Group does not trade in financial derivatives and has procedures and policies in place to limit the credit risk relating to counterparty default or market risk.

If a counterparty defaults in its payments due to the Group, any resulting losses will be limited to the fair value of the instruments concerned. The contract values or notional principals of the financial instruments are only an indication of the extent to which such financial instruments are used, and do not reflect credit or market risks.

These notes provide information about the extent to which the Group is exposed to the specified risks and also the objectives, policies and processes relating to the measurement and management of these risks as well as management of capital by the group.

The Board of Management evaluates and confirms the policy for mitigating each of these risks as summarised below. There were no changes to the policy during the period under review.

The Board of Management has general responsibility for establishing and supervising risk management. The Group's risk management policy is used to identify and analyse the risks to which the Group is exposed, to set risk limits and controls and to monitor and minimise risks. The risk management policy and the relevant systems are regularly tested against changes in market conditions and the Group's business activities.

*24.1.2 Specific financial instruments*
Based on an agreement between KPMG Advisory N.V. and IF Holding B.V., IF Holding B.V. has granted a put option to KPMG to, according to agreed conditions, sell the shares held by KPMG in Innovation Factory Intellectual Property B.V., Innovation Factory Software Services B.V. and Innovation Factory B.V. to IF Holding B.V. for one euro.

Based on the same agreement KPMG will acquire 27% of the shares in the coming two years for a maximum amount of EUR 4 million. For the remaining 20% of the shares of Innovation Factory Intellectual Property B.V., Innovation Factory Software Services B.V. and Innovation Factory B.V. from IF Holding B.V., IF Holding B.V. has granted a call option to KPMG to acquire, according to agreed conditions, these shares for a maximum amount of EUR 4 million.

Based on an agreement between KPMG Advisory N.V. and KPMG Holdings limited, KPMG Holdings limited has granted a call option to KPMG to, according to agreed conditions, acquire 25% of the shares in KPMG Investments Malta limited (KIML). The option can be exercised in the 14 day period after 31 March 2017, at a price per share paid at the day of acquisition of KIML.

Based on an agreement between KPMG Advisory N.V. and THT Consultancy B.V. (THT), THT has granted a call option to KPMG to, according to agreed conditions, acquire 50% of the shares in Culture Factory B.V. Under agreed conditions, THT has the right to acquire 50% of the shares in Culture Factory B.V. from KPMG. The call option of KPMG to purchase the remainder of the shares in the Culture Factory B.V. can be exercised in up to 3 tranches during the exercise periods, being from 31 December 2018 for three years (2/5th of the shares held by THT), from 31 December 2019 for three years (2/3rd of the shares held by THT) and from 31 December 2020 for three years (remaining shares) at market value.

#### *24.1.3 Concentrations of risks*

The operational activities of the Group relate to a diversity of clients and suppliers mainly in the Netherlands. As a result the concentration of risks for the operations of the Group is limited, except for the geographic risk. Funding of operations is arranged by a diversity of partners through Coöperatie KPMG U.A. and an additional bank's credit facility. The Group has deposits of more than EUR 40 million at the same bank and we note that this results in a concentration of risks associated with this bank. This bank is also one of the Group's clients for professional non-audit services. We have confirmed that from an independence perspective this is allowed; all transactions with this bank are at arm's length. The Group closely monitors the credit rating of this bank.

### 24.2 Credit risk

It is inherent in the nature of the activities of the organisation that it is exposed to credit risk. This risk relates to the loss that may be incurred if a counterparty defaults. It is limited mainly by depositing cash with rated A or higher banks and by the large number and diversity of clients that owe amounts to the organisation for unbilled services and trade and other receivables. The carrying amount of each financial asset represents the maximum credit risk.

#### *24.2.1 Trade and other receivables/trade and other payables*

The exposure to credit risks is monitored continuously, and the creditworthiness of all clients is checked for transactions exceeding a certain amount. The Group does not require protection in respect of non-current financial assets.

Credit risk exposure is mitigated by the large number and diversity of clients and therefore by diversifying risk. Only a limited percentage of revenue is attributable to each single client and, as a result, there is no major concentration of credit risk at the level of individual clients.

The recoverable amount of unbilled services and trade receivables is estimated on an ongoing basis. Profit is recognised on a pro rata basis in relation to the progress of the project concerned. The important factors to be considered when estimating unbilled services and trade receivables are the terms and conditions of the contract and the progress and results of the work performed. The financial position of the debtor is important when assessing the provision for doubtful debts. The measurement of unbilled services and trade receivables is assessed on an ongoing basis. A different estimate of the value of unbilled services and trade receivables can lead to different amounts of income and other expenses being recognised and to different figures for unbilled services and trade receivables recognised in the statement of financial position.

### *24.2.2 Exposure to credit risk*

Maximum exposure to credit risk at 30 September is as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Non-current receivable | - | 458 |
| Unbilled services | 23,306 | 23,316 |
| Trade receivables | 71,304 | 87,058 |
| Due from equity accounted investees | 432 | - |
| Current tax assets | 1 | 4,563 |
| Other receivables | 6,878 | 7,013 |
| Insurance reimbursement claims | - | 459 |
| Prepayments | 12,926 | 8,177 |
| Cash and cash equivalents | 41,532 | 37,286 |
| | **156,379** | **168,330** |

### *24.2.3 Provision for doubtful debts*

Debtor ageing analysis:

| | 30 September 2016 | | 30 September 2015 | |
|---|---|---|---|---|
| | Gross | Provision | Gross | Provision |
| Not yet due: age 0-15 days | 37,539 | 151 | 36,681 | 16 |
| Overdue: age 16-180 days | 28,091 | 37 | 43,973 | 832 |
| Overdue: age 181-365 days | 2,626 | 568 | 3,076 | 1,331 |
| Overdue: age over 365 days | 3,048 | 1,849 | 3,328 | 3,106 |
| | **71,304** | **2,605** | **87,058** | **5,285** |

Provisions for doubtful debts are determined for each individual debtor. It has been established on the basis of historical insolvency frequency data and the current economic conditions that no additional provisions for impairment are necessary.

Movement in the provision for doubtful debts:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| **Balance at 1 October** | **5,285** | **5,830** |
| Added | 5,095 | 6,536 |
| Written off | -2,144 | -1,607 |
| Released | -5,631 | -5,474 |
| **Balance at 30 September** | **2,605** | **5,285** |

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### 24.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities as they fall due. The Group's liquidity management policy is to ensure as far as possible that there are sufficient liquid funds available to be able to meet its liabilities when due without incurring unacceptable losses or damaging its reputation.

The aim of the Group's treasury policy is to ensure that there are sufficient funds available to finance day-to-day activities. Surplus funds are deposited in business savings accounts or held for specified periods.

The Group has a loan facility of EUR 50 million (2014/2015: EUR 50 million) and a guarantee facility of EUR 20 million, of which a draw down was made of EUR 2.8 million (2014/2015: EUR 9.7 million) in the form of guarantees. A first right of pledge has been granted to the bank on trade receivables as security. The loan facility is available until 30 June 2019. Interest payable is based on the average 1-month EURIBOR rate plus a margin of 1.95%.

The Group has to comply to certain covenants in connection with the credit facility made available by the bank. These covenants relate to the maintenance of a certain solvency ratio, EBITDA, asset coverage, sales coverage and operational result. During the financial year, the Group complied with all covenant requirements.

Summary of financial liabilities:

| | Carrying amount | Contractual cash flow | Due within 1 year | Due after 1 year |
|---|---|---|---|---|
| **30 September 2016** | | | | |
| Loans and borrowings | 48,780 | 48,780 | 27,522 | 21,258 |
| Trade and other payables | 64,299 | 64,299 | 64,192 | 107 |
| Employee benefits | 25,331 | 25,331 | 23,839 | 1,492 |
| | **138,410** | **138,410** | **115,553** | **22,857** |
| **30 September 2015** | | | | |
| Loans and borrowings | 48,962 | 49,220 | 45,323 | 3,897 |
| Trade and other payables | 80,183 | 80,183 | 78,058 | 2,125 |
| Employee benefits | 22,703 | 22,703 | 21,128 | 1,575 |
| | **151,848** | **152,106** | **144,509** | **7,597** |

### 24.4 Market risk

Market risk is the risk that changes in market prices, such as exchange rates and interest rates, will affect the income of the Group or the value of its assets. The aim is to keep these market risks within acceptable limits, while maximising income. In the longer term, however, permanent changes in exchange and interest rates will have an impact on consolidated profits.

#### *24.4.1 Interest rate risk*

Interest rate risk mainly relates to interest-bearing financial liabilities as a result of the funding positions by (former) partners.

Financial assets of the Group consist primarily of investments in non-current assets, trade receivables and cash and cash equivalents. Trade and other receivables do not bear interest.

It is estimated that as at 30 September 2016, a general rise in interest rates by one percentage point would have a negative effect on the Group's profit before tax of EUR 0.2 million (30 September 2015: negative EUR 0.1 million) and no effect on equity (30 September 2015: no effect).

The table below presents the effective interest rates for interest-bearing financial assets and financial liabilities at the reporting date and the contractual maturities for these assets and liabilities (excluding interest receipts and payments):

| | Effective interest rate | < 1 year | > 1 year < 2 year | > 2 year < 3 year | > 3 year < 4 year | > 4 year < 5 year | Longer than 5 years | Total carrying amount |
|---|---|---|---|---|---|---|---|---|
| **2015/2016** | | | | | | | | |
| Cash and cash equivalents | 0.0% | 41,532 | - | - | - | - | - | 41,532 |
| Current account Coöperatie KPMG U.A. including partners | 1.4% | -13,346 | - | - | - | - | 6,569 | -6,777 |
| Loans from partners | 6.4% | -2,475 | - | -5,390 | - | -17,975 | -1,890 | -27,730 |
| Loans from former partners | 0.0% | -11,472 | -841 | -455 | -376 | -265 | -342 | -13,751 |
| Bank loans | 6.5% | -229 | -65 | -65 | -65 | -65 | -33 | -522 |
| | | **14,010** | **-906** | **-5,910** | **-441** | **-18,305** | **4,304** | **-7,248** |
| | | | | | | | | |
| **2014/2015** | | | | | | | | |
| Receivables | 8.0% | - | - | - | - | 458 | - | 458 |
| Cash and cash equivalents | 0.1% | 37,286 | - | - | - | - | - | 37,286 |
| Current account Coöperatie KPMG U.A. including partners | 2.3% | -15,049 | - | - | - | - | - | -15,049 |
| Loans from partners | 4.5% | -15,125 | - | - | - | - | - | -15,125 |
| Loans from former partners | 0.8% | -14,856 | -1,088 | -839 | -457 | -271 | -644 | -18,155 |
| Bank loans | 6.5% | -275 | -68 | -68 | -68 | -68 | -86 | -633 |
| | | **-8,019** | **-1,156** | **-907** | **-525** | **119** | **-730** | **-11,218** |

Part of the current account partners is non-interest bearing.

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*24.4.2 Currency risk*

In the normal course of business, foreign currency risks are limited as transactions are carried out in foreign currency on a limited basis, and assets and liabilities are also usually denominated in euros. In financial year 2014/2015, the Group entered into a grant agreement of USD 33.9 million with KPMG International, to accelerate the realisation of its business plan. Under the agreement, grants in USD can be made available over the period up to 30 September 2018. The majority of the related expenses will be denominated in euros. When derivative financial instruments are used to hedge exposure to foreign exchange risks associated with recognised monetary assets or liabilities, hedge accounting is not applied and any gain or loss on a hedging instrument is recognised in the statement of profit or loss and other comprehensive income.

It is estimated that a general drop in the value of the euro by one percentage point relative to other currencies would have reduced the Group's profit before tax for 2015/2016 by approximately EUR 0.1 million (2014/2015: EUR 0.1 million) and no effect on equity (30 September 2015: no effect).

**24.5 Fair value**

The principal methods and assumptions used to estimate the fair values of financial instruments are set out below. For all instruments below the fair value measurement is based upon level 3, unobservable inputs. There were no transfers of levels during 2015/2016 to other levels of fair value measurement input.

Fair values per class of financial assets and liabilities can be summarised as follows:

| | Financial assets at fair value through profit or loss | | Available-for-sale financial assets | | Loans and receivables | | Other financial liabilities | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| **2015/2016** | | | | | | | | |
| Total financial assets | 191 | 191 | - | - | 153,342 | 153,342 | - | - |
| Total financial liabilities | - | - | - | - | - | - | 113,095 | 113,095 |
| **2014/2015** | | | | | | | | |
| Total financial assets | 583 | 583 | 1,953 | 1,953 | 163,045 | 163,045 | - | - |
| Total financial liabilities | - | - | - | - | - | - | 145,225 | 145,225 |

*24.5.1 Derivatives*

The fair value of the call option over 25% of the shares in KPMG Investments Malta Ltd. is calculated using a binomial option pricing model. The following parameters have been used in the valuation:

- The strike price is set to the contractual EUR 0.83 per share (2014/2015 EUR 0.83);
- The stock price is EUR 0.73 (2014/2015 EUR 0.83);
- The time to expiration of the option is set to 0.5 years (2014/2015 1.5 years);
- The risk free interest is set to -0.816% (2014/2015: -0.26%) based on Dutch Government interest rates for a 0.5 year (2014/2015: 1.5 year) period per 30 September 2016 (source: Bloomberg);
- The volatility is set to 30.0% (2014/2015: 30.26%) based on the median and median volatility over the last half year (2014/2015: 1.5 years) of a peer group of listed companies.

A change of 1% in volatility does not have a significant impact on the fair value of the option.

Movements in the fair value can be specified as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| **Balance at the beginning of the year** | **583** | - |
| Changes in fair value recognised in financial income | - | 583 |
| Changes in fair value recognised in financial expenses | -392 | - |
| **Balance at the end of the year** | **191** | **583** |

*24.5.2 Cash and cash equivalents*

In view of the short maturity of deposits, their fair value is equal to nominal value.

*24.5.3 Interest-bearing loans and borrowings*

In determining the value of the obligations to partners and former partners the present value of future cash flows is calculated using a discount rate before tax that reflects current market assessments of the time value of money and the specific risks relating to the liability. As interest on loans and borrowings is determined at market based, fair value is approximately equal to carrying amount.

*24.5.4 Trade and other receivables/ trade and other payables*
For receivables and payables with a maturity of less than one year, face value is considered to be a reflection of fair value. All other receivables and payables are discounted to determine their fair values.

**24.6 Capital management**
The Board of Management's policy is to maintain a strong capital position in order to retain the confidence of clients, creditors and finance providers and to ensure the future development of business activities. The Group is largely financed by Coöperatie KPMG U.A., partly in the form of a contribution of up to EUR 120 per partner to the Group's equity, and partly in the form of loans.

Average financing per partner (excluding other reserves) amounted to EUR 387 as at 30 September 2016, compared with EUR 334 as at 30 September 2015. Total financing by partners as at 30 September 2016 amounted to 26.3% of total assets (30 September 2015: 21.8%).

The Group may repurchase shares from Coöperatie KPMG U.A. and sell them back to Coöperatie KPMG U.A. in connection with partners who are leaving or joining the Group. These transactions are carried out at nominal value plus a share premium. During financial year 2014/2015, the Group has started preparations to improve the capital structure of the Group, amongst others by a planned increase in partner financing through its shareholder, which is effected as from financial year 2015/2016.

## 25. List of subsidiaries

Unless otherwise stated, the following subsidiaries are wholly owned by KPMG N.V.

| | |
|---|---|
| KPMG Accountants N.V. | Amstelveen |
| KPMG Advisory N.V. | Amstelveen |
| KPMG Management Services B.V. | Amstelveen |
| KPMG Staffing & Facility Services B.V. | Amstelveen |
| KPMG-gebouw Amstelveen II Holding B.V. | Amstelveen |
| KPMG-gebouw Amstelveen II B.V. (70%) | Amstelveen |
| EquaTerra B.V. | Amstelveen |
| EquaTerra Sourcing Management B.V. | Amstelveen |
| Plexus Medical Group N.V. | Amsterdam |
| Bridging Solutions B.V. | Hilversum |
| Innovation Factory Intellectual Property B.V. (53.3%) | Amsterdam |
| Innovation Factory Software Services B.V. (53.3%) | Amsterdam |
| Innovation Factory B.V. (53.3%) | Amsterdam |
| Culture Factory B.V. (50%) | Amstelveen |

During the reporting period a profit of EUR 241 was allocated to the non-controlling interests in the Innovation Factory entities.

Although the Group owns half of Culture Factory B.V. and has half of the voting power, management has determined that the Group controls this entity. The Group controls this subsidiary by virtue of an agreement with one of its other shareholders. The other 50% of the shares of Culture Factory B.V. is held by the non-controlling interest. During the reporting period a loss of EUR 162 was allocated to the non-controlling interest.

## 26. Liabilities and assets not recognised in the consolidated statement of financial position

### 26.1 Leases

The Group has long-term property leases, operating leases for cars, personal computers, photocopiers and printers, and commitments under long-term sponsorship agreements totalling EUR 237,409 (2014/2015: EUR 247,990).

Non-cancellable operational leases:

| | 30 September 2016 | | | | 30 September 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Property leases | Operating leases (cars) | Other contracts | Total | Property leases | Operating leases (cars) | Other contracts | Total |
| Within 1 year | 16,250 | 13,249 | 10,235 | 39,734 | 19,775 | 13,745 | 6,615 | 40,135 |
| Between | | | | | | | | |
| 1-5 years | 58,244 | 17,861 | 13,998 | 90,103 | 68,076 | 16,024 | 7,151 | 91,251 |
| After 5 years | 107,444 | - | 128 | 107,572 | 116,046 | - | 558 | 116,604 |
| | **181,938** | **31,110** | **24,361** | **237,409** | **203,897** | **29,769** | **14,324** | **247,990** |

The future rental income from sub-leases is as follows:

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| Within 1 year | 3,401 | 4,405 |
| Between 1 and 5 years | 10,578 | 13,233 |
| After 5 years | 17,358 | 19,894 |
| | **31,337** | **37,532** |

The following operating lease and rental expenses were recognised in the consolidated statement of profit or loss and other comprehensive income:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Properties | 19,147 | 21,952 |
| Cars | 16,690 | 16,894 |
| Other contracts | 6,615 | 9,956 |

### 26.2 Tax Group

Together with its 100% subsidiaries, including KPMG N.V., Coöperatie KPMG U.A. forms a tax group for corporate income tax purposes; each of the companies of the tax group is, under the relevant standard tax conditions, jointly and severally liable for the tax payable by all of the companies in the tax group. As the head of the income tax fiscal unity, the Cooperative pays the income tax assessments. However, KPMG N.V. incurs the total income tax expense of the tax group, except for the amount attributable to the Cooperative under the ruling with the Dutch Tax Authorities.

KPMG N.V. is part of a tax group for value added tax purposes, headed by Coöperatie KPMG U.A.; each of the companies of the tax group is, under the relevant standard tax conditions, jointly and severally liable for the tax payable by all of the companies in the tax group.

#### 26.3 Guarantees
The Group has a loan facility of EUR 50 million (2014/2015: EUR 50 million) and a guarantee facility of EUR 20 million, of which a draw down was made of EUR 2.8 million (2014/2015: EUR 9.7 million) in the form of guarantees.

The Group has issued a letter of comfort relating to a facility of USD 600 million (2014/2015: USD 400 million) for KPMG International. In this letter of comfort the Company confirms that it is a member of KPMG International and that it will pay its contribution in accordance with the Articles of Association of KPMG International and the 'Membership Agreement'. The letter of comfort has a duration of 5 years as from November 2016.

#### 26.4 Legal disputes
Claims have been filed and proceedings have been instituted against the Group on the grounds of alleged failure to perform professional duties. The Group evaluates if relevant circumstances are such that it is reasonable to assume that they will result in the Group entity being held liable on the grounds of alleged failure to perform professional duties. A decision is taken on a case-by-case basis as to whether it is probable that settlement of the case will involve an outflow of resources from the Group. In those cases, a provisions is accounted for. The Group carries professional indemnity insurance.

Pursuant to Section 403 of Book 2 of the Netherlands Civil Code, KPMG Staffing & Facility Services B.V. is severally liable for the debts arising from legal acts of KPMG-gebouw Amstelveen II Holding B.V.

#### 26.5 Contingent assets
The Company entered into a reimbursement agreement with Coöperatie KPMG U.A. where Coöperatie KPMG U.A. will reimburse the Company for agreed specified items.

## 27. Collaboration agreements and related parties

#### 27.1 Collaboration agreements
**Meijburg & Co**
In the Netherlands, the Group collaborates with an independent firm of tax consultants, Meijburg & Co. The financial figures of this firm are not included in the consolidated financial statements of KPMG N.V.

**KPMG International**
KPMG N.V., registered with the trade register in the Netherlands, is a subsidiary of Coöperatie KPMG U.A. and a member firm of the KPMG network of independent member firms affiliated with KPMG International. As a result of this affiliation, the Group collaborates closely with other KPMG member firms.

### 27.2 Related parties

*27.2.1 Parent company*

Coöperatie KPMG U.A. holds the shares in KPMG N.V. The members of the Cooperative are the practice companies owned by partners. Under these agreements, the services of the partners are made available to the Cooperative, which in turn makes these services of the partners available to KPMG N.V. and its subsidiaries.

Transactions between the Group and Coöperatie KPMG U.A. during 2015/2016 can be specified as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Management fees | -63,435 | -46,314 |
| Interest paid to KPMG U.A. | -1,949 | -1,397 |
| Dividends paid | -5,166 | -3,745 |
| Other amounts received | 8,000 | - |

At 30 September 2016 the following positions relate to Coöperatie KPMG U.A.:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Loans received from Coöperatie KPMG U.A. | 48,258 | 48,329 |

*27.2.2 Key management*

**Board of management**

As per 30 September 2016, of the board of management 3 members (2014/2015: 3 members) indirectly hold 2% (2014/2015: 2%) of shares in the Group in aggregate.

Compensation of the Group's key management includes management fees and profit distributions, salaries, non-cash benefits and contributions to a post-employment defined benefit plan and can be specified as follows:

| 2015/2016 | A.A. Röell | E. Eeftink | B. Ferwerda | R.G.A. Fijneman | R.P. Kreukniet | J. van Delden | B. Lamberts | Total |
|---|---|---|---|---|---|---|---|---|
| FTE | 0.92 | 1.0 | 1.0 | 1.0 | 1.0 | 0.75 | 0.13 | 5.8 |
| | | | | | | | | |
| Management fees | - | 600 | - | 600 | 600 | 450 | - | 2,250 |
| Short-term incentives | - | 60 | - | 60 | 60 | 45 | - | 225 |
| Short-term employee benefits | 592 | - | 395 | - | - | - | 72 | 1,059 |
| Post-employment benefits | 24 | - | 26 | - | - | - | 3 | 53 |
| Termination benefits | - | - | - | - | - | - | 102 | 102 |
| Interest on loans | - | 24 | - | 32 | 4 | 19 | - | 79 |
| Other short-term benefits | 12 | 16 | 18 | 22 | 21 | 17 | 4 | 110 |
| | | | | | | | | |
| **Total** | **628** | **700** | **439** | **714** | **685** | **531** | **181** | **3,878** |

| 2014/2015 | J. Hommen | A.J.A. Cranston | B. Ferwerda | R.G.A. Fijneman | M.A. Hogeboom | J. van Delden | B. Lamberts | Total |
|---|---|---|---|---|---|---|---|---|
| FTE | 1.0 | 1.0 | 0.87 | 1.0 | 1.0 | 1.0 | 0.87 | 6,74 |
| | | | | | | | | |
| Management fees | - | - | - | 550 | 550 | 550 | - | 1,650 |
| Short-term incentives | - | - | - | - | - | - | - | - |
| Short-term employee benefits | 660 | 1,134 | 346 | - | - | - | 320 | 2,460 |
| Post-employment benefits | - | - | 23 | - | - | - | 16 | 39 |
| Interest on loans | - | - | - | 20 | 7 | 14 | - | 41 |
| Other short-term benefits | 13 | 14 | 19 | 22 | 17 | 22 | 15 | 122 |
| **Total** | **673** | **1,148** | **388** | **592** | **574** | **586** | **351** | **4,312** |

**Supervisory board**
Supervisory board members received a remuneration of 218 (2014/2015 EUR 88) and can be specified as follows:

| 2015/2016 | B.E.M. Wientjes | G. Boon | L.J. Griffith | J.C.M. Sap | S. van Schilfgaarde | J.M. Slagter | Total |
|---|---|---|---|---|---|---|---|
| FTE | 1.0 | 0.17 | 1.0 | 1.0 | 0.33 | 1.0 | 4.50 |
| | | | | | | | |
| Short-term benefits | 60 | 8 | 45 | 45 | 15 | 45 | 218 |

| 2014/2015 | B.E.M. Wientjes | L.J. Griffith | J.C.M. Sap | S. van Schilfgaarde | J.M. Slagter | Total |
|---|---|---|---|---|---|---|
| FTE | 0.42 | 0.42 | 0.13 | 0.42 | 0.42 | 1.81 |
| | | | | | | |
| Short-term benefits | 25 | 19 | 6 | 19 | 19 | 88 |

*27.2.3 Equity accounted investees*
Included in trade receivables are the following amounts related to equity accounted investees:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Associates | 1,100 | - |

# Company statement of financial position

The statement of financial position was drawn up before appropriation of profit.

| | Note | 30 September 2016 | 30 September 2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| **Assets** | | | |
| *Non-current assets* | | | |
| Investments in subsidiaries | 2 | 7,671 | 9,624 |
| Receivables | | - | 458 |
| Deferred tax assets | | 5,418 | 5,930 |
| | | 13,089 | 16,012 |
| *Current assets* | | | |
| Amounts due from group companies | | 68,769 | 65,433 |
| Income taxes receivable | | - | 4,563 |
| Cash and cash equivalents | 3 | 31,262 | 37,251 |
| | | 100,031 | 107,247 |
| **Total assets** | | **113,120** | **123,259** |

| | Note | 30 September 2016 | 30 September 2015* |
|---|---|---|---|
| *(in thousands of euros)* | | | |
| **Equity and liabilities** | | | |
| *Shareholders' equity* | 4 | | |
| Share capital | | 5,500 | 5,500 |
| Share premium | | 9,960 | 9,700 |
| Other statutory reserves | | 147 | - |
| Other reserves | | 4,788 | 3,379 |
| Profit for the year | | 1,461 | 4,622 |
| **Shareholders' equity** | | **21,856** | **23,201** |
| *Non-current liabilities* | | | |
| Loans and borrowings | 5 | 20,965 | 3,299 |
| *Current liabilities* | | | |
| Loans and borrowings | 5 | 27,293 | 45,030 |
| Amounts owed to group companies | | 751 | 14,814 |
| Tax and social insurance contributions | | 16,322 | 17,473 |
| Provisions for subsidiaries | 6 | 25,406 | 19,442 |
| Trade and other payables | | 527 | - |
| | | 70,299 | 96,759 |
| **Total liabilities** | | **91,264** | **100,058** |
| **Shareholders' equity and liabilities** | | **113,120** | **123,259** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.
The notes on pages 157 to 167 inclusive form an integral part of these company financial statements.

# Company statement of profit or loss and other comprehensive income

For the year ended 30 September 2016

| | 2015/2016 | 2014/2015* |
|---|---|---|
| *(in thousands of euros)* | | |
| Share in results from participating interests, after tax | 9,292 | 4,968 |
| Other results after tax | 55,604 | 45,968 |
| Contractual fees payable to Coöperatie KPMG U.A. | -63,435 | -46,314 |
| **Net result after tax** | **1,461** | **4,622** |

*) The presentation of the 2014/2015 numbers has been adjusted for comparison purposes.
The notes on pages 157 to 167 inclusive form an integral part of these company financial statements.

# Notes to the company financial statements

All amounts are in thousands of euros unless otherwise stated.

## 1. Basis of preparation

### 1.1 General

The company financial statements were prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code and they form part of the financial statements of KPMG N.V. Since the figures of KPMG N.V. are included in the consolidated financial statements that form part of these financial statements, the Company's statement of profit or loss and other comprehensive income has been presented in abridged form in accordance with Section 402, Part 9, Book 2 of the Netherlands Civil Code.

For the valuation of assets and liabilities and in determining the result in its company financial statements, KPMG N.V. has availed itself of the option provided for in article 362 par. 8, Book 2 of the Dutch Civil Code. This states that the policies regarding the valuation of assets and liabilities and determination of the result of the company financial statements correspond with those applied for the consolidated financial statements, which are prepared in conformity with IFRS as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code. The relevant accounting policies set out in notes 2 and 3 to the consolidated financial statements, have been applied consistently to all periods accounted for in these company financial statements.

### 1.2 Accounting policies

**Participating interests in group companies**

Participating interests in group companies are accounted for in the company financial statements according to the equity method. Refer to the basis of consolidation accounting policy in the consolidated financial statements.

**Results of participating interests**

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realised.

The terms governing profits of group companies are laid down by contract between KPMG N.V. and its operating companies, which specifies that 97.5% of their revenue – less any amount payable by the relevant companies to KPMG Staffing & Facility Services B.V. for services provided by KPMG Staffing & Facility Services B.V. to the companies concerned, and less expenses that they are required to bear themselves – must be paid to KPMG N.V. for the provision of services by partners and finance.

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## 2. Non-current financial assets

A summary of the main subsidiaries is provided in note 25 of the notes to the consolidated financial statements. A full list of subsidiaries, joint ventures and associates is filed with the Chamber of Commerce in Amsterdam, the Netherlands.

Movements in these investments during the 2015/2016 financial year:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| **Balance at 1 October** | **9,624** | **8,940** |
| Acquisitions | - | 729 |
| Disposals | - | -25 |
| Impairments | -1,953 | - |
| Share in results | 9,292 | 4,968 |
| Dividends received | -11,080 | -10,828 |
| Provision for subsidiaries | 1,788 | 5,840 |
| **Balance at 30 September** | **7,671** | **9,624** |

Please refer to note 6 on disclosure relating to the provision for subsidiaries.

## 3. Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and bank balances and are freely available. The interest rate applicable to business savings accounts was 0.0%; in the previous year 0.4% over the first EUR 2.5 million.

## 4. Shareholders' equity

Movements in equity can be specified as follows:

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| | Share capital | Share premium | Other statutory reserves | Other reserves | Profit for the year | Total equity attributable to equity holders |
|---|---|---|---|---|---|---|
| **Balance at 1 October 2014** | **5,500** | **10,400** | **-** | **2,360** | **3,264** | **21,524** |
| 2013/2014 Result appropriation | - | - | - | 3,264 | -3,264 | - |
| **Total comprehensive income for the year** | | | | | | |
| Profit for 2014/2015 | - | - | - | - | 4,622 | 4,622 |
| Other comprehensive income for the year | - | - | - | - | - | - |
| **Transaction with owners of the Company, recognised directly in equity** | | | | | | |
| Dividend paid | - | -1,500 | - | -2,245 | - | -3,745 |
| Additions | - | 800 | - | - | - | 800 |
| **Balance at 30 September 2015** | **5,500** | **9,700** | **-** | **3,379** | **4,622** | **23,201** |
| **Balance at 1 October 2015** | **5,500** | **9,700** | **-** | **3,379** | **4,622** | **23,201** |
| 2014/2015 Result appropriation | - | - | - | 4,622 | -4,622 | - |
| Addition to other statutory reserves | - | - | 147 | -147 | - | - |
| **Total comprehensive income for the year** | | | | | | |
| Profit for 2015/2016 | - | - | - | - | 1,461 | 1,461 |
| Other comprehensive income for the year | - | - | - | - | - | - |
| **Transaction with owners of the Company, recognised directly in equity** | | | | | | |
| Dividend paid | - | -2,100 | - | -3,066 | - | -5,166 |
| Additions | - | 2,360 | - | - | - | 2,360 |
| **Balance at 30 September 2016** | **5,500** | **9,960** | **147** | **4,788** | **1,461** | **21,856** |

Other details of equity are disclosed in note 19 to the consolidated financial statements and the consolidated statement of changes in equity.

**4.1 Share capital**
The Company has an authorised capital of EUR 20 million (2014/2015: EUR 20 million), which is divided into 800 shares of EUR 25 each (2014/2015: 800 shares of EUR 25 each). The issued share capital consists of 220 (2014/2015: 220) shares at a nominal value of EUR 25 each (2014/2015: EUR 25 each), representing a total nominal value of EUR 5.5 million (2014/2015: EUR 5.5 million). All of the shares are fully paid up.

KPMG N.V. is obliged to distribute all earnings that constitute profits as contractual fees to Coöperatie KPMG U.A. or as dividend, except for the amount the Board of Management proposes to add to the reserves.

**4.2 Other statutory reserves**
Other statutory reserves relates to legal reserves under Dutch law, reflecting retained profits from equity accounting investees as far as the Group is not able to manage the distribution thereof independently.

**4.3 Other reserves**
The other reserves contains the profits of previous years.

**4.4 Reconciliation between consolidated group equity attributable to shareholders and statutory shareholders' equity**
Consolidated group equity attributable to shareholders and statutory shareholders' equity can be reconciled as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Consolidated group equity attributable to shareholders at 30 September | 29,483 | 29,041 |
| Provision for subsidiaries | -7,627 | -5,840 |
| **Statutory shareholders' equity** | **21,856** | **23,201** |

**4.5 Reconciliation between consolidated result attributable to shareholders and statutory result**
Consolidated result attributable to shareholders and statutory shareholders result can be reconciled as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Consolidated result attributable to shareholders at 30 September | 3,248 | 10,462 |
| Provision for subsidiaries | -1,787 | -5,840 |
| **Statutory result** | **1,461** | **4,622** |

**Appropriation of profit**
The Company's profit totals EUR 1,461 and the Company proposes to add the profit to the reserves.

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## 5. Loans and borrowings

| | 30 September 2016 | 30 September 2015 |
|---|---|---|
| Partners: | | |
| - non-current loans Coöperatie KPMG U.A. | 18,686 | - |
| - current loans Coöperatie KPMG U.A. | 15,821 | 30,174 |
| | **34,507** | **30,174** |
| Former partners: | | |
| - non-current loans Coöperatie KPMG U.A. | 2,279 | 3,299 |
| - current loans Coöperatie KPMG U.A. | 11,472 | 14,856 |
| | **13,751** | **18,155** |
| **Total loans and borrowings** | **48,258** | **48,329** |

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Balance at 1 October | 30,174 | 39,473 |
| Fees paid to partners under management agreements, through Coöperatie KPMG U.A. | 63,435 | 46,314 |
| Interest due to partners | 1,731 | 1,100 |
| Other movements (net withdrawal) | -60,833 | -56,713 |
| **Balance at 30 September** | **34,507** | **30,174** |

Other movements refer mainly to amounts withdrawn by partners.

### 5.1 Loans and borrowings relating to partners

The interest charged on current loans is 1.4% (2014/2015: 2.3%). Partners also have the opportunity to subscribe on deposits with a duration varying between one and five years. The total amount subscribed as per 30 September 2016 was EUR 21.4 million with an interest rate of 5.0 to 8.0% depending on the duration of the loan (2014/2015 EUR 15.3 million at 4.5% for one year deposits only).

### 5.2 Loans and borrowings relating to former partners

Non-current loans from former partners comprise of early retirement liabilities to former partners and have an average term of 3.0 years (2014/2015: 3.3 years); these liabilities are not interest bearing. The average interest on current loans from former partners is 1.1% (2014/2015: 1.5%).

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## 6. Provision for subsidiaries

The Company has provided for the negative equity of KPMG-gebouw Amstelveen II B.V.

Movement in provision:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Balance at 1 October | 19,442 | - |
| Added | 5,964 | 19,442 |
| **Balance at 30 September** | **25,406** | **19,442** |

The periods within the provision is expected to be utilised are as follows:

| | 30 September 2016 | | | 30 September 2015 | | |
|---|---|---|---|---|---|---|
| | < 1 year | > 1 year | Total | < 1 year | > 1 year | Total |
| Provision for subsidiaries | 25,406 | - | 25,406 | 19,442 | - | 19,442 |

## 7. Financial instruments

With respect to general information on financial instruments and associated risks, reference is made to note 25 of the consolidated financial statements.

### 7.1 Exposure to credit risk

Maximum exposure to credit risk at 30 September is as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Non-current receivables | - | 458 |
| Amounts due from group companies | 68,769 | 65,433 |
| Current tax assets | - | 4,563 |
| Cash and cash equivalents | 31,262 | 37,251 |
| | **100,031** | **107,705** |

### 7.2 Liquidity risk

Summary of financial liabilities:

| | Carrying amount | Contractual cash flows | Due within 1 year | Due after 1 year |
|---|---|---|---|---|
| **30 September 2016** | | | | |
| Loans and borrowings | 48,258 | 48,258 | 27,293 | 20,965 |
| Amounts owed to group companies | 751 | 751 | 751 | - |
| Tax and social insurance contributions | 16,322 | 16,322 | 16,322 | - |
| **Total** | **65,331** | **65,331** | **44,366** | **20,965** |
| | | | | |
| **30 September 2015** | | | | |
| Loans and borrowings | 48,329 | 48,390 | 45,030 | 3,360 |
| Amounts owed to group companies | 14,814 | 14,814 | 14,814 | - |
| Tax and social insurance contributions | 17,473 | 17,473 | 17,473 | - |
| **Total** | **80,616** | **80,677** | **77,317** | **3,360** |

Other details on financial instruments are provided in note 24 to the consolidated financial statements.

KPMG

## 8. Related parties

The Company's related parties comprise subsidiaries and KPMG Coöperatie U.A.

### 8.1 Parent company

Please refer to note 27.2.1 of the consolidated financial statement for information related party information with respect to Coöperatie KPMG U.A.

### 8.2 Subsidiaries

Transactions between the Company and its subsidiaries relate to contractual fees and dividends received, and recharges for insurance expenses and licence fee expenses.

The transactions can be specified as follows:

| | Received contractual fees | Received dividend | Expenses charged |
|---|---|---|---|
| **2015/2016** | | | |
| KPMG Accountants N.V. | 25.279 | 5,582 | 14,095 |
| KPMG Advisory N.V. | 19,468 | 5,498 | 13,394 |
| KPMG Management Services B.V. | -583 | - | 132 |
| **Total** | **44,164** | **11,080** | **27,621** |

| | Received contractual fees | Received dividend | Expenses charged |
|---|---|---|---|
| **2014/2015** | | | |
| KPMG Accountants N.V. | 23,273 | 5,619 | 10,379 |
| KPMG Advisory N.V. | 24,690 | 5,073 | 8,955 |
| KPMG Management Services B.V. | -2,398 | - | 886 |
| MKB B.V. | -1,732 | 136 | - |
| KPAS B.V. | -440 | - | - |
| **Total** | **43,394** | **10,828** | **20,220** |

In addition to the above, KPMG N.V. pays on behalf of its subsidiary KPMG Staffing & Facility Services B.V. various expenses such as employee expenses and other operating expenses. These payments total EUR 232 million in 2015/2016 (2014/2015: EUR 235 million).

Transactions between the Company and its subsidiaries are generally settled through current accounts. The current accounts are not interest-bearing.

### 8.3 Key management

Please refer to note 27.2.2 of the consolidated financial statement for information related party information with respect to key management.

## 9. Liabilities not recognised in the company statement of financial position

### 9.1 Joint and several liability and guarantees

The Company has given guarantees that its subsidiaries, whose financial figures are included in the consolidated financial statements, will comply with certain contractual obligations.

The Company has a loan facility of EUR 50 million (2014/2015: EUR 50 million) and a guarantee facility of EUR 20 million, of which a draw down was made of EUR 2.8 million (2014/2015: EUR 9.7 million) in the form of guarantees.

The Company has issued a letter of comfort relating to a facility of USD 600 million (2014/2015: USD 400 million) for KPMG International. In this letter of comfort the Company confirms that it is a member of KPMG International and that it will pay its contribution in accordance with the Articles of Association of KPMG International and the 'Membership Agreement'. The letter of comfort has a duration of 5 years as from November 2016.

### 9.2 Tax group

Together with its 100% subsidiaries, including KPMG N.V., Coöperatie KPMG U.A. forms a tax group for corporate income tax purposes; each of the companies of the tax group is, under the relevant standard tax conditions, jointly and severally liable for the tax payable by all of the companies in the tax group. As the head of the income tax fiscal unity, the Cooperative pays the income tax assessments. However, KPMG N.V. incurs the total income tax expense of the tax group, except for the amount attributable to the Cooperative under the ruling with the Dutch Tax Authorities.

KPMG N.V. is part of a tax group for value added tax purposes, headed by Coöperatie KPMG U.A.; each of the companies of the tax group is, under the relevant standard tax conditions, jointly and severally liable for the tax payable by all of the companies in the tax group.

### 9.3 Contingent assets

The Company entered into a reimbursement agreement with Coöperatie KPMG U.A. where Coöperatie KPMG U.A. will reimburse the Company for agreed specified items.

## 10. Number of partners

On average, 132 (2014/2015: 140) partners were active for the Company under management agreements.

## 11. Remuneration of the Board of Management

Details of the remuneration of members of the Board of Management are disclosed in note 27.2.2 to the consolidated financial statements.

## 12. Auditors' remuneration

The remuneration of the Company's auditors for the 2015/2016 financial year was EUR 0.1 million (2014/2015: EUR 0.1 million) and is exclusively related to the audit of financial statements of the Company.

Amstelveen, 1 December 2016

**Board of Management:**
A.A. Röell (chairman)
E. Eeftink
B. Ferwerda
R.G.A. Fijneman
R.P. Kreukniet

**Supervisory Board:**
B.E.M. Wientjes (chairman)
G. Boon
L.J. Griffith
J.C.M. Sap
J.M. Slagter

# 11. Other information

KPMG

## Independent auditor's report

Please refer to the report of the independent auditor on the next page.

## Provisions in the Company's Articles of Association governing the appropriation of profit

Article 26 of the Company's Articles of Association reads as follows:

- Distribution of profit pursuant to the provisions of this article shall be made after approval of the financial statements disclosing that such distribution is permitted.

- The profit shall be at the disposal of the General Meeting of Shareholders.

- The Company may make distributions to the shareholders and other persons entitled to distributable profits only to the extent that its capital and reserves exceed the sum of the issued capital and the reserves that must be maintained by law.

- A deficit may only be offset against the statutory reserves to the extent permitted by law.

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To the General Meeting of Shareholders and the Supervisory Board
and the Board of Management of KPMG N.V.

**Grant Thornton**
**Accountants en Adviseurs B.V.**
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**INDEPENDENT AUDITOR'S REPORT**

**Report on the Audit of the Financial Statements**

**Opinion**
We have audited the accompanying financial statements 2015-2016 of KPMG N.V. , Amstelveen, as set out on pages 103 to 167. The financial statements include the consolidated and company financial statements.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of KPMG N.V. for the year ended September 30, 2016, its financial result and its cash flows in the year 2015 – 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements give a true and fair view of the financial position of KPMG N.V. for the year ended September 30, 2016 and of its result for year 2015 - 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated statement of financial position for the year ended September 30, 2016;
2. the following statements for 2015 - 2016: consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
3. notes comprising a summary of the significant accounting policies and other explanatory information.



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The company financial statements comprise:

1. the company balance sheet for the year ended September 30, 2016;
2. the company profit and loss account for the year 2015 - 2016; and
3. notes comprising a summary of the accounting policies and other explanatory information.

**Basis for Our Opinion**
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of KPMG N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Materiality**
Misstatements can arise from fraud or error and will be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 4.6 million (2014 – 2015 EUR 4.6 million). The materiality is based on profit before income tax (7%). We consider profit before income tax as the most appropriate benchmark since KPMG N.V. is a profit oriented organization and the profit will be allocated to Coöperatie KPMG U.A.. We have set lower materiality levels for group entities of KPMG N.V.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 230,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

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**Scope of the Group Audit**
KPMG N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of KPMG N.V.

Because we are ultimately responsibility for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were, the size and/or risk profile of the group entities or operations.
On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial statements or specific items.

The group audit mainly focused on significant group entities. Those group entities are considered significant based on revenues, total assets and profit before interest and tax or because of risks identified. We have performed audit procedures ourselves at the following group entities:

- KPMG Accountants N.V.
- KPMG Advisory N.V.
- KPMG Management Services B.V.
- KPMG Staffing & Facility Services B.V.

We have performed review procedures or other specified audit procedures at other group entities.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

**Our Key Audit Matters**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board and Board of Management. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit on the financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

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**Revenue recognition and valuation of unbilled services and trade receivables**

*Description*

The allocation of revenues to financial years and the valuation of unbilled services and trade receivables is an important focus area in our audit as it contains uncertain elements such as the extent to which the contracted services are delivered at the assumed quality level and collectability of unbilled services and trade receivables as well. The assessment of revenue recognition and the valuation of unbilled services and trade receivables requires professional judgment as it is based on underlying assumptions which are subjective and uncertain by nature as well. The uncertainties mainly concern the accuracy of estimates of the expected time and expenses needed to finalize fixed price engagements in comparison to the fees that are expected to be received upon finalization.

*Summary audit procedures performed*

We have evaluated the internal controls surrounding revenue recognition and the valuation process of unbilled services and trade receivables in order to assess which additional procedures are deemed necessary.

We further performed additional audit procedures, such as testing a sample of balance-confirmations received from partners who are responsible for these engagements as well as verification of developments after balance sheet date. We further audited conditions with formal documentation around audit engagements, compared realization rates during and after the financial year and performed a review and test of the unbilled services and trade receivables per year end based on a number of critical characteristics, including most significant unbilled services balances.

*Our observation*

Based on the audit procedures performed we observed that the assumptions and estimates used for revenue recognition and the valuation of the unbilled services and trade receivables are appropriately chosen and applied.

**Valuation of the provision for legal claims**
*Description*

The completeness and accuracy of the provision for legal claims is an important key audit matter because of it's potential significance, in combination with the fact that this provision is mainly based on estimates and assumptions. Estimates are subjective in nature and require professional judgment. The main complexity is whether the provisioning criteria for recognition are met and whether the valuation of the provision is accurate and adequately disclosed.

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*Summary audit procedures performed*

We performed audit procedures for the provision for legal claims and made a distinction between the provision related to claims and proceedings against KMPG N.V. on the grounds of alleged failure to perform professional duties (hereinafter: professional indemnity) and other legal matters.

We performed audit procedures for the provision for professional indemnity. These procedures consisted of evaluating the management assessment of the provision and the assumptions and estimates used. We further evaluated the provision using internal partner confirmations (PCC), external confirmations from lawyers used, discussions with legal staff and Board of Management of KPMG N.V., insurance policies, publicly available information and past experience we have in our role as external auditor over the last seven years, as well as consulting Management and Supervisory Board minutes.

The audit procedures performed for other legal matters mainly consisted of evaluating the assessment of the Management Board of this provision and analysing the information obtained from external lawyers supporting KPMG N.V. as well as other sources in these matters.

*Our observation*

Based on the audit procedures performed we observed that the valuation of the provision for legal claims is based on appropriate assumptions and estimates.

**Responsibilities of Board of Management and the Supervisory Board for the Financial Statements**

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report as set out on 27 to 37 in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements and the Report of the Board of Management.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

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**Our Responsibilities for the Audit of the Financial Statements**

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

**Report on other legal and regulatory requirements**

Report on the Board of Management report and the other information

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code (concerning our obligation to report about the management board report and other data), we declare that:

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.

- Further we report that the Board of Management report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the Supervisory Board as auditor of KPMG N.V. in 2010, as of the audit for year 2009-2010 and have operated as statutory auditor ever since that date.

Amsterdam, 1 December 2016

Grant Thornton Accountants en Adviseurs B.V.

N.H.B. Jonker
Registeraccountant

KPMG

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To the readers of the KPMG N.V. Integrated Report 2015/2016

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## INDEPENDENT ASSURANCE REPORT

We have been engaged by the Board of Management of KPMG N.V. (hereafter: KPMG) to provide assurance on the non-financial information as defined in the appendix About this report, paragraph External assurance in the Integrated Report 2015/2016. The non-financial information, including the identification of material issues, is the responsibility of the Board of KPMG. Our responsibility is to issue an assurance report on the non-financial information.

### Scope of assurance engagement

Our engagement was designed to provide limited assurance on whether the non-financial information is fairly presented, in all material respects, in accordance with the reporting criteria. The cross references in the non-financial information to other parts of the Integrated Report and the information contained in these other parts are not part of the scope of our assurance engagement.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance. We do not provide assurance on the feasibility of goals, expectations and ambitions of KPMG.

### Reporting criteria used by KPMG

KPMG applies the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative, together with internally developed guidelines, for reporting on non-financial information, as also disclosed in the GRI section of the Integrated Report. The non-financial information should be viewed against this disclosure.

### Assurance standard

We conducted our engagement in accordance with the Dutch Standard 3810N: "Assurance engagements relating to sustainability reports". This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to provide assurance on non-financial information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.



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### Work performed to reach a conclusion

We carried out the following work for the major KPI's as disclosed in the transparency report of KPMG N.V., External assurance:

- A media analysis and internet search to identify relevant environmental, safety and social issues for KPMG in the reporting period
- Interviewing staff at corporate level who are responsible for the information provided in the non-financial information;
- Reviewing the design and implementation of systems and processes for collection and processing, including aggregation of data into non-financial information;
- Reviewing internal and external documentation on a sample basis to determine whether the non-financial information is adequately supported

As part of our assurance procedures we discussed changes to the draft reports with KPMG, and reviewed the final version of the non-financial information to ensure that it reflected our findings. The non-financial information in scope for this engagement is defined in the following paragraphs in the Integrated Report 2015/2016:

| | |
|---|---|
| Quality Performance Reviews | page 51 |
| Client Satisfaction and Net Promotor Score | page 88, 89 (only Figure 7 on page 89) |
| Employee Engagement | page 70, 71 (only paragraph Engagement and pride in KPMG) |
| CO2 emissions | page 97, 99 (only paragraph Footprint Figure 9, Table 19 and Table 20) |

### Conclusion

Based on the procedures performed, as described above, we conclude that the non financial information does not, in all material respects, appear to be unfairly stated in accordance with the reporting criteria applied by KPMG.

Amsterdam, 1 December 2016

Grant Thornton Accountants en Adviseurs B.V.

N.H.B. Jonker
Registeraccountant

# 12. Appendices

# About this report

## Report boundary

This report covers KPMG N.V. and its subsidiaries. Meijburg & Co is a separate KPMG member firm and therefore not included in this report, except where specifically stated or required. Material topics relate to KPMG N.V. (Audit and Advisory) as a whole unless stated otherwise.

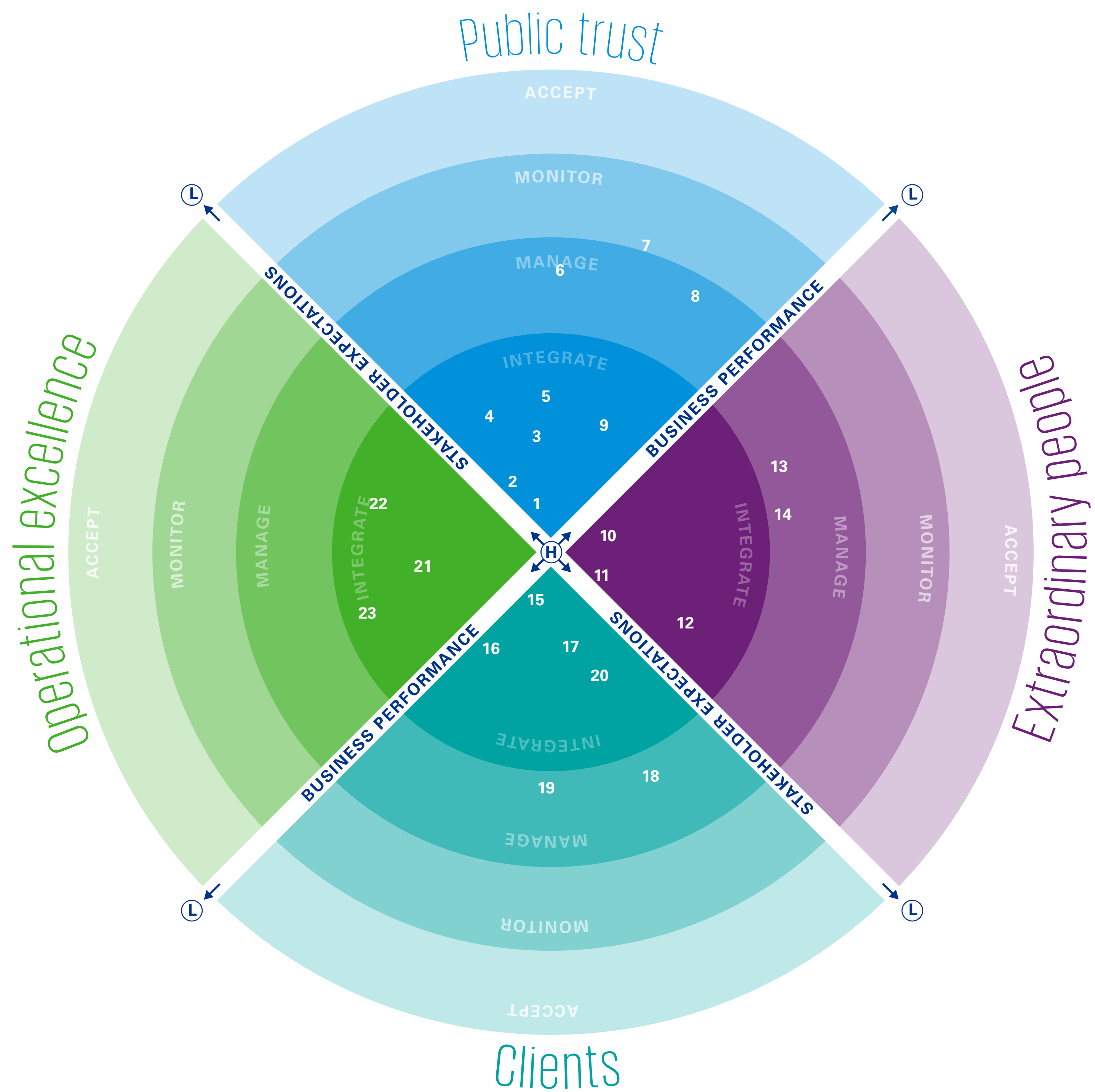
## Materiality assessment

In accordance with GRI G4 reporting guidelines we drafted a materiality matrix expressing relative importance of topics considering both internal (strategy) and external (stakeholder) factors. In addition, GRI's comprehensive reporting framework was used to ensure all related aspects are accounted for. The table on the right depicts the conclusions drawn from this process.

A topic is identified as a reportable (material) issue depending on impact on stakeholder expectations and business performance. The Board of Management classifies topics into the following four categories:

| Category | Explanation |
| --- | --- |
| Integrate | Issues within this category are considered to be of such importance that inclusion is necessary in either the core strategy or Board level focus. These material issues are reported in the main sections of the Report. |
| Manage | Issues in this category are important for the value creation of KPMG. These issues require functional leadership attention and are reported in either the main body of the report or in the appendices depending on relations with core issues. |
| Monitor | Issues in this category might influence business performance, but are not considered as requiring specific Board or leadership attention. These issues are ordinarily only reported in the appendices of the Report. |
| Accept | This category relates to all other issues that could potentially impact business performance, but that are not considered to be directly applicable to our business or that are deemed immaterial. These issues are not reported on. |

**Table 21.** Impact assessment response




**Figuur 10.** Our materiality assessment

### Public trust

1. Conduct high quality audits
2. Conduct independent audits
3. Ensure that stakeholders receive relevant information
4. Treat information confidentially
5. Act responsibly and sustainably
6. Work together with third parties and professional bodies
7. Contribute to society
8. Provide insights based on data
9. Identify risks impacting continuity

### Extraordinary people

10. Give employees the opportunity to do their job well
11. Offer a great place to work
12. Make employees proud to work for KPMG
13. Diversity & inclusiveness
14. Offer personal and professional development

### Clients

15. Identify risks impacting continuity
16. Develop solutions for managing risks
17. Help clients to grow or improve
18. Identify business opportunities and help to realise them
19. Proivde insights based on data
20. Bring fresh ideas to clients

### Operational excellence

21. Sustainable results
22. Ecological footprint
23. Efficient & effective organisation

KPMG

## Topics included in this report

The following table provides the reader with a reference guidefor material topics as per the aforementioned materiality assessment and the relevant section in this report.

## Supply chain

We believe the nature of providing auditing services dictates we are (part of) our own supply chain (primary supply chain). Independence and ensuring our service delivery is not significantly dependent on particular suppliers or subcontractors is crucial. We do directly impact clients and other stakeholders due to the very essence of our services, which is to provide assurance and support change for enhanced decision making. This report only details issues and results that pertain to our firm and its group companies.

We are part of other entities' supply chains (secondary supply chain) in our capacity as end- users for products and services, such as IT, lease cars and energy. We exercise our influence to the extent possible to motivate and move suppliers to deliver products and services that are aligned with our purpose, corporate values and strategy. KPMG International is a member of UN Global Compact and through them we are committed ourselves to the 10 principles. We have implemented a Supplier Code of Conduct.

| Nr. | Material Topic | Discussed on pages |
|---|---|---|
| 1 | Conduct high quality audits | 42,43,50-53 |
| 2 | Conduct independent audits | 50,95 |
| 3 | Ensure that stakeholders receive relevant information | 41,44,46, 79-88 |
| 4 | Treat information confidentially | 50 |
| 5 | Act responsibly and sustainably | 54-60,97,99 |
| 6 | Work together with third parties and professional bodies | 49,54-60 |
| 7 | Contribute to society | 54-60 |
| 8 | Provide insights based on data | 82-84 |
| 9+15 | Identify risks impacting continuity | 79-88 |
| 10 | Give employees the opportunity to do their job well | 62-68 |
| 11 | Offer a great place to work | 70-73 |
| 12 | Make employees proud to work for KPMG | 70-71 |
| 13 | Diversity & inclusiveness | 67 |
| 14 | Offer personal and professional development | 64-69 |
| 16 | Develop solutions for managing risks | 79-88 |
| 17 | Help clients to grow or improve | 79-88 |
| 18 | Identify business opportunities and help to realise them | 79-88 |
| 21 | Sustainable results | 92-93 |
| 22 | Ecological footprint | 97,99 |
| 23 | Efficient & effective organisation | 97 |

**Table 22.** Material topics

## Comparability of information

We have made adjustments to key performance indicators regarding (audit) quality following new NBA guidelines and improved data availability. Comparative figures have been adjusted accordingly.

## External assurance

Grant Thornton provides limited assurance on selected key indicators, namely: Quality Performance Reviews; Client Satisfaction and Net Promoter Score, Employee Engagement and $CO_2$ emissions.

# Governance & risk management

## Introduction

KPMG is the registered trademark of KPMG International and is the name by which the member firms of KPMG International are commonly known. KPMG N.V. (also: the firm) delivers cross-border Audit and Advisory services to help its national and international clients negotiate risks and thrive in the varied environments in which they do business. Tax services are delivered by KPMG Meijburg & Co, which has a separate member firm agreement with KPMG International.

KPMG has its registered office at Laan van Langerhuize 1-11, 1186 DS Amstelveen, the Netherlands and operates out of 11 satellite offices throughout the Netherlands. The firm's consolidated financial statements for the year include the financial statements of the firm and its subsidiaries and the firm's investments in associates.

The firm's financial year for this report runs from 1 October 2015 to 30 September 2016.

## Governance

**Legal structure and ownership**
KPMG N.V. is the holding company of companies operating in Audit and Advisory business segments. Coöperatie KPMG U.A. ('the Cooperative') holds the shares in KPMG N.V. Individual equity partners are members of the Cooperative through their professional companies. Members of the Cooperative Board are appointed by the equity partner meeting. On the basis of a management agreement the services of the partners are made available to the Cooperative. The Cooperative subsequently makes these services available to KPMG N.V. or its subsidiaries. The legal structure within the firm in the reporting year is depicted in the figure on the next page. Cooperative Board members are co-policymakers in the context of the Wta.

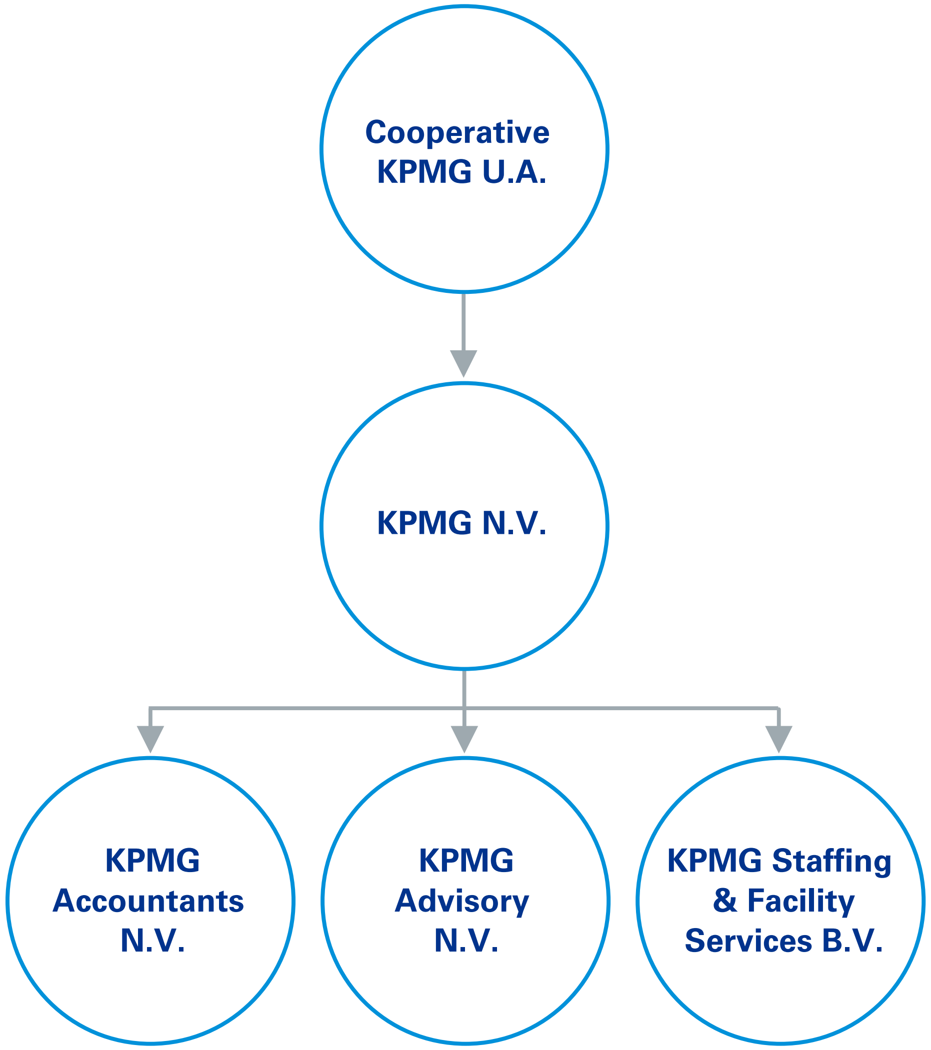



**Figure 11.** Legal structure of KPMG N.V.

**Supervisory Board**
KPMG N.V.'s shareholder appoints Supervisory Board members for an initial term of four years. Terms of reference for the Supervisory Board are available from our website as are additional positions individual members may hold. Supervisory Board members are co-policymakers in the context of the Wta.

All members of the Supervisory Board also serve as members of the Public Interest Committee as referred to in the NBA Audit Firm Code. For a more detailed description of the Supervisory Board, its committees and their activities, please be referred to the report from the Supervisory Board and its committees.

**Board of Management**
The Supervisory Board - after of KPMG N.V.'s shareholder - appoints the members of the Board of Management. All appointments are for an initial term of 4 years.

The Board of Management of KPMG N.V. bears ultimate responsibility for the organisation and the main pillars of our strategy. The Board of Management acts as formal policy makers ('beleidsbepalers') in the context of the Dutch Supervision Act on Audit Firms (Wet toezicht accountantsorganisaties; hereafter Wta).

**Audit Board members are co-policymakers**
The practice leaders for Corporate Clients, Financial Services and National Practice, together with the Functional Quality and Risk Management Partner Audit and the COO/CFO Audit form the Audit Board, chaired by the Head of Audit (member of the Board of Management). Collectively the team is charged with the operational management of the audit organisation. Members of the Audit Board are co-policy makers in the context of the Wta.

### Organisational structure

In all, the Board distinguishes two main units: Audit and Advisory, which are supported by Business Support. Audit and Advisory are organised around markets or solutions. The main units of Audit are Corporate Clients, Financial Services and National Practice. For Advisory the main units are Management Consulting, Risk Consulting and Deal Advisory. The Office of the Board consists of the Board's Strategy Office, Corporate Communications, Corporate Social Responsibility and Legal. Business Support provides services to both Audit and Advisory.

### Network arrangements

*Legal structure*

KPMG International is an entity which is legally separate from KPMG N.V.. KPMG International and the member firms are not a global partnership, joint venture or partnership with each other. No member firm has any authority to oblige or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to oblige or bind any member firm. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

*Responsibilities and obligations of member firms*

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete

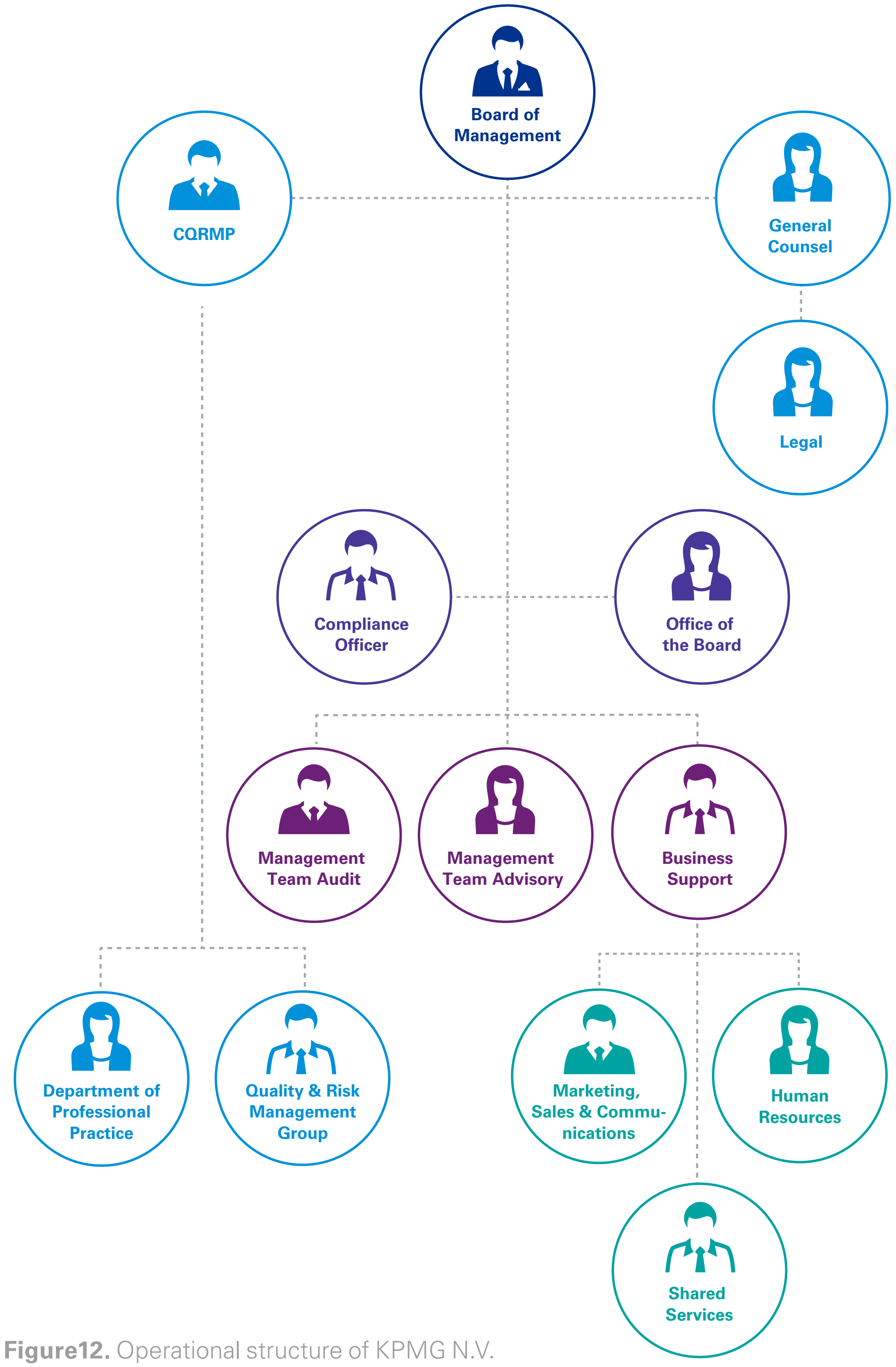



**Figure12.** Operational structure of KPMG N.V.

effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

Details about KPMG International, including the governance arrangements, can be found here.

## Risk management

Executing our strategy and implementing actions to achieve our objectives also bear risks. Risks are a part of everyday life and in that respect we are no different. KPMG implemented an Enterprise Risk Management Framework to identify and mitigate strategic risks. Identification, evaluation, management and monitoring of the most significant risks are a Board responsibility. Mitigating actions are taken where possible in order to reduce these risks to acceptable levels. The approach to risk management, principal risks and uncertainties facing our firm are set out below. The quality of our internal controls is periodically assessed to ensure that our mitigating measures remain effective.

**Risk philosophy**
Our brand value is based on our credibility, quality and commerce. Erosion of our brand may adversely affect our position in the market and the trust the general public places upon our services. We face a number of significant risks and inherent complexities in our business, together with a highly regulated and commercially competitive environment. Risk Management is designed and implemented to ensure the security of our business and the delivery and impact of our services. We engage in the delivery of professional services only if these services can be provided in such a way that it contributes to our central mission. We only engage in activities in which we are able to make an impact at our clients and for our professionals without compromising the quality and ethical standards we hold ourselves to. We train and develop our professionals to be leaders of tomorrow to ensure that they not only mitigate risks, but likewise act on potential opportunities for KPMG. We ensure that our activities are sustainable and serve and support society as a whole.

**Risk assessment**
The following tables provide insight into how we approach the firm's risk assessment in terms of likelihood and impact, both of which are the same as last year.

| Classification of risk impact | Non-financial | | | Financial |
|---|---|---|---|---|
| | Quality | Markets | People | EUR |
| **Catastrophic** | Extensive negative media coverage & enduring disruption of client or industry confidence | Total loss of confidence, breakdown in relationships, leading to loss of majority of clients | Loss of reputation as a good employer, unable to retain or hire effectively | Going concern |
| **Major** | Extended negative national or industry wide coverage & some disruption to client confidence | Loss of confidence leading to loss of major clients | Dissatisfied employees, significant loss of key talent | >15m |
| **Moderate** | Negative local coverage & short-term disruption to local client confidence | Loss of confidence leading to loss of some local clients | Dissatisfied employees, some loss of key talent | 2.5-15m |
| **Minor** | Negative coverage barely noticeable | Isolated cases of dissatisfied clients | Small numbers of dissatisfied employees | < 2.5m |

**Table 23.** Determining risk appetite

| Classification of likelihood of occurrence | % |
|---|---|
| **Probable** | > 60% |
| **Possible** | 30%-60% |
| **Unlikely** | 10%-30% |
| **Remote** | < 10% |

**Table 24.** Determining risk likelihood

**Top strategic risks and related controls**

The following table details the top strategic risks, providing context to the risk identified and the related internal controls to mitigate the risk.

| Description | Potential impact | Measures |
|---|---|---|
| PUBLIC TRUST<br>Failure to ensure that our behaviour including (audit) service delivery acknowledges public trust and public interest. | – Reputational damage in marketplace from press publicity resulting in loss of major clients or inability to attract new talent into our firm<br>– Regulatory sanctions<br>– License to operate in jeopardy | – Independent Supervisory Board and Public Interest Committee<br>– External members within the Board of Management<br>– Active stakeholder dialogue |
| REGULATORY RELATIONSHIPS<br>Failure to maintain good relationships with audit regulators or deal with any adverse findings from regulatory inspections to the regulator's satisfaction. | – Loss of major audit clients<br>– The inability to attract new talent into our firm<br>– Reputational damage in marketplace from press publicity<br>– Regulatory sanctions | – We nominated specific individuals responsible for interaction with regulatory authorities and a clear framework for understanding local regulatory matters<br>– Majority of our Board are 'Qualified Individuals' with appropriate (audit) experience and background<br>– Relevant leadership have visibility of local regulatory findings |
| AUDIT FAILURE<br>Major or multiple audit failures (as a consequence of signing an incorrect audit opinion and/or poor quality auditing) resulting in litigation and/or regulatory action. | – The loss of a number of audit clients due to reputational damage<br>– The inability to attract new talent<br>– Regulatory fines and/or temporary or permanent loss of audit licence<br>– Litigation and claims | Audit quality controls include:<br>– A tone from the top which emphasises quality, ethics and integrity<br>– Client and engagement acceptance procedures<br>– Clear standards and robust audit methodology and tools<br>– Controls over recruitment, development and assignment of our professionals<br>– Commitment to technical excellence including performance management<br>– Controls to deliver an effective and efficient audit<br>– Commitment to continuous improvement through monitoring |

**Table 25.** Strategic risks and responses

KPMG

| Description | Potential impact | Measures |
|---|---|---|
| MAJOR LITIGATION / REGULATORY INVESTIGATION<br>Major litigation or regulatory investigation arising as a result of actual or suspected failure of our services which we delivered either domestically, in another jurisdiction or jointly together with other firms in the KPMG network. | – Significant defence costs and/or settlement costs incurred/ regulatory sanctions<br>– Reputational damage and resulting regulatory scrutiny<br>– Excessive use of leadership time in resolving issues | – General engagement quality and risk management controls<br>– Default position of engagement contracts being prepared under local law and jurisdiction<br>– Rigorous and robust inter-firm contracting protocols when working with other KPMG member firms |
| APPROPRIATENESS OF CLIENTS AND SERVICES<br>Acceptance of clients that are inappropriate to our brand and/or delivery of services which are either illegal, unethical, contravene professional standards, or are otherwise perceived by investors, regulators or other stakeholders as inappropriate. | – Reputation in the marketplace impacted by working for the wrong clients or delivering the wrong service<br>– Regulatory sanctions including temporary loss of licence<br>– Loss of major clients<br>– Increased risk of litigation | Our internal quality controls system includes:<br>– Client and engagement acceptance procedures, including proprietary systems for checking for conflicts of interest<br>– Detailed policies and procedures around auditor independence<br>– Strict new products and services approval processes<br>– Routine compliance programmes<br>– Code of Conduct and Values<br>– Whistle-blowing hotlines in operation<br>– Money laundering reporting procedures in place |
| REGULATORY CHANGE<br>Major change in regulation impacting on our business model from either the European Commission, national legislation, international or national regulators or from clients themselves in anticipation of regulatory changes. | – Audit only firms undermining the multidisciplinary partnership concept<br>– Caps for market share for audit clients<br>– Joint audits<br>– Mandatory rotation or retendering<br>– Further prohibitions on auditors providing non-audit services to their audit clients | – An established plan for regulatory liaison<br>– Robust contingency planning in place for each of the potential likely regulatory outcomes<br>– Board programme for mandatory firm rotation |

**Table 25.** Strategic risks and responses

| Description | Potential impact | Measures |
|---|---|---|
| DATA LOSS<br>Failure to protect client confidential or personal data. | – Reputational damage<br>– Loss of clients<br>– Potential litigation or regulatory action/ fines | – Robust IT security policies and processes<br>– ISO 27001 accreditation<br>– Ongoing training and awareness campaigns |
| REACTING TO NEW TRENDS<br>Inability to quickly and effectively match key skills to growth areas due to organisational barriers; skills shortages; slowness in identifying/recruiting appropriate skills; or a lack of staff mobility and/or flexibility. | – Failure to quickly and fully exploit growth opportunities resulting in loss of revenue<br>– Failure to match resource to demand could result in an excessive cost base in areas of reducing demand<br>– Failure to develop future leaders with the right experience and international mind set<br>– Quality implications of having the wrong people deliver services | – Monitoring of resource levels and functional hot spots<br>– Partner career paths and development<br>– Partner succession planning<br>– Global mobility programme in place<br>– Engagement acceptance processes consider skills and competencies of the team<br>– Partner in Charge for Innovation and Innovation Council |
| PEOPLE ENGAGEMENT<br>Reduced morale potentially caused by high workloads impacting work life balance; poor internal communications; uncertainty around career development; and reward packages being perceived as uncompetitive. | – Demotivated staff leading to service delivery issues and a reduction in quality<br>– Lower productivity<br>– Loss of key talent<br>– Loss of reputation in marketplace as an 'employer of choice'<br>– Less adherence to our Values & Code of Conduct | – KPMG Story<br>– An embedded group of People Management Leaders<br>– Sophisticated appraisal and reward processes<br>– Ongoing review of global performance management and development programmes<br>– Ongoing initiatives to address feedback from people surveys |

**Table 25.** Strategic risks and responses

KPMG

| Description | Potential impact | Measures |
| --- | --- | --- |
| FOCUSED EXECUTION<br>Inability to execute our strategy against our business planning to ensure the future success of our firm. | – Loss of reputation in marketplace as an 'employer of choice'<br>– Not achieving our objectives, goals and ambitions<br>– Reduced morale among partners and professionals | – Central Project Management Office<br>– New Board governance<br>– True action programme<br>– Cascading strategic KPIs to individual professionals |
| TALENT MANAGEMENT<br>Inability to recruit and retain sufficiently qualified, motivated and experienced people or to build lead partner capability. | – Loss of talent leading to service delivery issues and a reduction in quality<br>– Loss of reputation in marketplace with clients<br>– Succession planning fails<br>– Loss of opportunities for multi-disciplinary engagement revenue | – Special training programme in place focusing on leaders of the future<br>– Annual promotion process and pay review<br>– Defined partner career paths and development framework<br>– Partner succession planning |

**Table 25.** Strategic risks and responses

**Financial risks**
Exposure to financial risks can be segregated into the following types of financial risks.

**Credit risk**
This risk relates to the loss that may be incurred if a counterparty defaults. It is limited mainly by depositing cash with rated A or higher banks and by the large number and diversity of parties that owe amounts to the organisation for unbilled services. The carrying amount of each financial asset represents the maximum credit risk.

The exposure to credit risks is monitored continuously, and the creditworthiness of all clients is checked for transactions exceeding a certain amount. KPMG N.V. does not require protection in respect of non-current financial assets. Credit risk exposure is mitigated by the large number and diversity of clients and therefore by diversifying risk.

**Liquidity risk**
Liquidity risk is the risk that KPMG N.V. will be unable to meet its financial liabilities as they fall due. KPMG N.V.'s liquidity management policy is to ensure as far as possible that there are sufficient liquid funds available to be able to meet its liabilities when due without incurring unacceptable losses or damaging its reputation.

The aim of KPMG N.V.'s treasury policy is to ensure that there are sufficient funds available to finance day-to-day activities. Surplus funds are deposited in business savings accounts or held for specified periods.

**Market risk**
Market risk is the risk that changes in market prices, such as exchange rates and interest rates, will affect the income of KPMG N.V. or the value of its assets. The aim is to keep these market risks within acceptable limits, while maximising income. In the longer term, however, permanent changes in exchange and interest rates will have an impact on consolidated profits.

Further disclosures regarding the abovementioned risks is included in the financial statements section of this report.

**Financial Instruments**
KPMG uses financial instruments in the normal course of its business, including share capital, receivables from and liabilities to (former) equity partners and in mitigating financial risks. Further information is included in the financial statements section of this Report.

**Effectiveness on mitigating risk actions**
We monitor effectiveness of mitigating actions as part of on-going monitoring of internal controls through risk compliance audits and quality performance reviews. The Board evaluates its system of quality controls on a yearly basis.

Opportunities of improvement are reported through processes meant to proactively identify emerging risks and to improve quality and provide insights. We refer to our in control statement for further details.

## System of quality controls

**Summary of our system of quality controls**


**Figure 13.** Our system of quality controls

**Tone from the top**
Strong leadership or tone from the top means leadership clearly demonstrating and communicating its commitment to quality, ethics and integrity as well as to clients, stakeholders, and society at large. Purpose & Values are core to our value creation and help ensure that the right behaviours permeate across our entire firm. Explicitly codified Values are embedded into our working practices, including performance appraisals and consideration for promotions to more senior positions, including partner.

Our Code of Conduct sets out KPMG's ethical principles, and helps partners and employees to understand and uphold those principles. Individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with these principles or professional responsibilities. The Code also emphasises each partner and employee to be personally responsible for following legal, professional, and ethical standards applicable to his or her job function and level of responsibility. We require KPMG people to:

– Comply with all applicable laws, regulations and KPMG policies;

– Report any illegal acts, whether committed by KPMG personnel, clients or other third parties;

– Report breaches of risk management policies by KPMG firms or people;

– Uphold the highest levels of client confidentiality;

– Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The Board actively drives and protects corporate values and does not shy away from acting on any non-compliances or value behaviour that is under par.

Furthermore, the Board has regular stakeholder dialogue ensuring stakeholder expectations, public trust and interest in auditor's reports are front and centre stage in its decision making processes.

In addition the KPMG International hotline is a vehicle for KPMG partners, employees, clients and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, its employees or the senior leadership of a KPMG member firm.

**Association with the right clients**

Before accepting a client, we first rigorously evaluate the prospective client, which involves an assessment of its principals, its business, and other service-related matters. We perform background checks on the prospective client, its key management and beneficial owners. Management's integrity is a key focus point. Central risk management approves prospective client evaluations and if a client is considered to be 'high risk' the Functional Quality and Risk Management Partner is involved in approving the evaluation.

We undertake re-evaluation of all clients and engagements annually and will decline or discontinue any client who is unable to meet to our expected levels of quality. More commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagement we perform for that client

In turn, each prospective engagement is also evaluated; in practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The engagement partner evaluates a prospective engagement in consultation with other senior personnel and quality and risk management leadership as required. A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (including use of SentinelTM, a worldwide online tool for accepting engagements), as well as a range of factors specific to the type of engagement, including for audit services, the competence of the client's financial management team.

In addition, when taking on a statutory (legal) audit for the first time, the prospective engagement team is required to perform additional independence evaluation procedures including a review of any non-audit services provided to the client and of other relevant relationships.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

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We will decline a prospective client or engagement if potential independence or conflict issues cannot be resolved satisfactorily in accordance with professional and firm standards, or there are other quality and risk issues that cannot be appropriately mitigated.

We also use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place.

**Clear standards and robust tools**

We provide a range of tools to support our professionals in meeting our standards for quality. This includes relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations

*Independence*

We provide all relevant personnel (including all partners and client service professionals) with annual independence training appropriate to their grade and function and provide all new personnel with relevant training when they join.

All personnel are required to sign an independence confirmation upon joining one of our operating firms. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period.

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

*Non-audit services and conflicts of interest*

Every engagement entered into by any KPMG member firm is required to be included in the system prior to starting work. The system then enables lead audit engagement partners for restricted entities to review and approve, or deny, any proposed service wherever in the world the service is proposed to be provided and wherever the member firm is based.

SentinelTM system is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the resolution of all matters is documented. If issues remain unresolved, the engagement is declined or terminated.

*Business relationships/suppliers*

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable independence requirements.

*Methodology and tools*

Our methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages the use of specialists when appropriate and also requires the use of certain specialists in the core audit engagement team when certain criteria are met.

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*Audit methodology and tools*
Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in the KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs where KPMG believes these enhance the quality of our audits. KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

*Advisory methodologies and tools*
The Advisory Service Directory is developed and updated, in response to specific needs articulated by Advisory leadership. Importantly, development is both a field-driven and collaborative process. It brings together representatives of member firms with KPMG's Global Services Centre to produce globally-available resources that address client needs. The toolkits library contains methods, tools and knowledge resources that have been developed to support Advisory professionals as they deliver services and build client relationships in today's challenging business environment. The Advisory Services Directory features the most current information regarding approved global offerings that are available, or are currently under development, to help address our client's business needs. Methodologies and tools are available for multiple service lines and engagement types.

**Client confidentiality, information security and data privacy**
The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, that all of our professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations. We are ISO 27001 certified.

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG [insert name] personnel.

A National IT Security Officer (NITSO), with the necessary authority, skills and experience, leads the information security function. The NITSO is in charge of the operating firm's information security programme and works closely with the local IT services and Quality and Risk Management Group (QRMG).

*Recruitment, development and assignment of appropriately qualified personnel*
We provide opportunities for professionals to develop the skills, behaviours and personal qualities that form the foundations of a successful career in Audit or Advisory.

*Recruitment*
All candidates applying for professional positions are required to submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding programme, which includes training in areas such as ethics and independence, quality and risk management principles and our people management procedures.

We work hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

*Performance evaluation, promotion and compensation*
All professionals undergo annual goal-setting and performance reviews. Each professional is evaluated on attainment of agreed-upon goals, demonstration of the KPMG global behaviours for their level, and adherence to the KPMG values and attributes. These evaluations are conducted by performance managers and partners who are in a position to assess the professionals' performance.

The performance grades directly influence the total amount of remuneration that professionals are paid. The results of the annual counselling are also considered when promotion decisions are being made.

All engagement leaders within our firm are issued with standardised quality and risk metrics which are fed into their annual counselling process. The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training, and the outcome of internal monitoring programmes. As part of these metrics, an overall grading is awarded.

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return. Our compensation policies do not permit audit partners to be compensated for the sale of non-audit services to their audit clients.

A common senior grading model and career path framework has been implemented for all partners across our firm. This outlines the various roles a partner may undertake throughout his/her career, the level of seniority associated with the roles and the potential career routes a partner may take to achieve the roles/level of seniority. Expectations of each role are described through a role profile.

*Personal development*
It is important that all our professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, stretch

assignments, country rotational and global mobility opportunities and the like. Performance evaluation and compensation For some time now, the 'glue' that binds all of our people processes and policies together for our employees has been our Core Values. We use these to shape performance management processes, to underpin learning and development offerings and also promotion processes.

*Assignment*
We have procedures in place to assign both engagement partners and professionals to a specific engagement by evaluating their individual skill set, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for allocating particular engagement partners to clients.

*Employee Engagement*
Biennially our people are invited to participate in an independent Global People Survey (GPS) which measures their attitudes and provides an overall Employee Engagement Index (EEI). The GPS also provides insights about what drives engagement across different demographic groups and how we are faring in selected categories. In alternate years we run short Pulse surveys.

## Commitment to technical excellence and quality service delivery

**Consultation and Professional Practice Support**
We promote a culture in which consultation is recognised as a strength and that encourages personnel to consult on difficult or contentious matters. To assist engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant risk, accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Technical support is available to our operating firms for work on SEC foreign registrants through the International Standards Group (ISG) as well as the US Capital Markets Group, based in New York or ELLP's US Accounting and Reporting Group based in London. Commencing FY2013/14 the Dutch partner in charge of the NL US desk is a fully accredited SEC Reviewing Partner, enabling the Dutch member firm to provide full audit services to its SEC registered audit clients.

The ISG works with global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis. The ISG has a network of contacts and holds regular calls both in relation to auditing and IFRS to update country professional practice representatives.

**Accreditation and licensing**
All KPMG professionals are required to comply with applicable professional licence rules within their practice jurisdiction. Internal accreditation and licensing policies ensure professionals have the appropriate knowledge and experience for their assigned engagements.

We have requirements for many of our services (for example for US audit and accounting work, International Financial Reporting Standards, Transactions Services and Corporate Finance) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary. In addition, we require that all eligible professionals satisfy the Continuing Professional Development requirements of their professional bodies.

**Access to specialist networks**

Our engagement teams have access to a network of local and global specialists in KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills. The need for specialists (e.g. information technology, tax, treasury, pensions, forensic) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

**Technical training**

In addition to personal development discussed earlier, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

A Learning and Development Council identifies annual training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom methods. Learning and Development teams work with subject matter experts and leaders from GSC, the ISG and DPP, as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

Our technical training curriculum covers all grades of employees with a core training programme for junior staff and periodic and annual update training for qualified and experienced staff and partners. Learning is not confined to the classroom — rich learning experiences are available at the moment of need through coaching and just in time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

Training attendance and completion is monitored at country level through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements. Non-attendance at mandatory training is captured as one of the measures on the quality and risk metrics.

## Performance of effective and efficient engagements

How an engagement is conducted is as important as the final result. KPMG people are expected to demonstrate certain key behaviours and follow certain policies and procedures in the performance of effective and efficient engagements.

The engagement partner is a key participant in planning meetings, reviews key documentation and bears overall responsibility for all engagement deliverables. In particular documentation relating to significant matters arising during the engagement and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to- day liaison with the client and team.

Involvement and leadership from the engagement partner early in the engagement process helps set the appropriate scope and tone for the engagement and helps the engagement team to obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgement and significant risks.

**Critical assessment of audit evidence with emphasis on professional scepticism**
The analysis of the audit evidence requires each of our team members to exercise professional judgement and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Our Audit Quality Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit. Professional judgement training has been embedded in our core Audit technical training programme for junior staff as well as being included in our periodic and annual update training for qualified and experienced staff and partners.

**Ongoing mentoring and on-the-job coaching, supervision and review**
We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

A key part of effective monitoring, coaching and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

**Appropriate involvement of the engagement quality control (EQC) reviewer**
An EQC reviewer is required to be appointed for all engagements that are graded high risk (such as the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with high public profile, engagements that require an EQC review under applicable laws or regulations, and other (Advisory) engagements as designated by the Country Quality & Risk Management Partner.

The engagement is completed only when the EQC reviewer is satisfied that all significant questions have been raised and that those questions have been resolved.

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## Commitment to continuous improvement

We have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights. To that extent we have installed an Audit Quality Issues Council to assess quality related findings, to monitor the enhanced root cause analysis process and subsequent track mitigating actions. The Council works closely together with QRMG Quality and the FQRMP Audit to monitor the implementation and effectiveness of audit quality remedial actions and ensure compliance with external and internal audit quality requirements.

In addition, the Council reports to the Audit Board, the CQRMP, Board of Management and Supervisory Board on audit quality issue trends, measures and remedial action taken by the firm and the effectiveness of those remedial actions.

**Root cause analysis (RCA)**
Performing RCA is an important element of continuous improvement. Issues are best solved by remediating their underlying root causes, as opposed to merely addressing the immediately obvious symptoms. A 'root cause' is the most basic cause (or causes) that can reasonably be identified and remediated. Robust RCA is therefore key to understanding and properly responding to audit quality issues.

We perform RCA at engagement level and at firm level. Depending on the issue identified, we may collect specific audit quality indicators (AQIs) and perform an analysis of soft controls and core values. In our experience, the root cause is hardly ever a single factor or just one thing; it is usually a combination of behaviour, facts and circumstances that together have caused an audit quality issue to occur. Our root cause analyses indicate that there is no silver bullet or magic key that will easily resolve audit quality issues.

**Compliance with our system of quality controls**
The Compliance Officer and Compliance Office perform specific procedures on compliance related topics, which are out of scope of the operational audits. In addition, the Compliance Office monitors internal compliance with the system of quality controls through its issue tracker. The Compliance Officer reports findings on a quarterly basis to the policy makers for further follow up.

**Risk Compliance Programme (RCP)**
The objectives of the RCP are to monitor, document and assess, the extent of compliance with the system of quality control established through KPMG's Global Quality and Risk Management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services.

**Global Compliance Review (GCR)**
GCRs are performed by reviewers independent of the member firm led by the Global Compliance Group and are carried out once in a three-year cycle. These reviews focus on significant governance, risk management and independence and finance processes (including an assessment of the robustness of the firm's Risk Compliance Programme). Each major review area is assigned a rating by the GCR review team, ranging from 'Green', 'Yellow' to 'Red'. The rating is dependent on the level of serious deficiencies a firm has.

**Quality Performance Review (QPR)**
The QPR is the cornerstone of our efforts to monitor engagement quality and one of our primary means of ensuring that member firms are collectively and consistently meeting both KPMG International's requirements and applicable professional standards.

The QPR identifies opportunities to improve engagement quality. Remedial action plans fare required at an engagement and operating firm level. We disseminate our findings from the QPR to our professionals through written communications, internal training tools, and meetings.

All partners receiving a LTS rating are subject to a review in the following year and all partners receiving an unsatisfactory rating are subject to a review of at least one other engagement in the current year. The ratings from the annual QPR are included in the annual quality & risk metrics generated for all partners.

# Public interest entity audit clients

The following list represents public interest clients as at 30 September 2016 for which KPMG partners have either signed an audit opinion on behalf of KPMG Accountants N.V. or commenced work on the legal audit (in accordance with the Wta: 'organisaties van openbaar belang').

Accell Group N.V.

Access Finance B.V.

Algemene Friese Onderlinge Schadeverzekeringsmaatschappij "Zevenwouden" U.A. (Zevenwouden)

Allianz Risk Transfer N.V.

AMG Advanced Metallurgical Group N.V.

AnderZorg N.V.

Ansvar Verzekeringsmaatschappij N.V.

Anthos Bank B.V.

Arcona Property Fund N.V.

Ares European CLO III B.V.

ASM International N.V.

ASML Holding N.V.

Asset Repackaging Trust Five B.V.

Asset Repackaging Trust SIX B.V.

Azivo Zorgverzekeraar N.V.

Bank Mendes Gans N.V.

B.A.T. Netherlands Finance B.V.

Bank ten Cate & Cie N.V.

Batenburg Techniek N.V.

Bunq B.V.

Cadogan Square CLO B.V.

Cadogan Square CLO II B.V.

Cadogan Square CLO III B.V.

Cadogan Square CLO IV B.V.

Cairn CLO II B.V.

Cairn CLO III B.V.

Chapel 2003-1 B.V.

Chapel 2007 B.V.

Colonnade Securities B.V.

Corbion N.V.

Core Laboratories N.V.

Corsair (Netherlands) B.V.

Credit Europe Bank N.V.

Daimler International Finance B.V.

Dalradian European CLO III B.V.

Dalradian European CLO IV B.V.

DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V.

DECO 14 - Pan Europe 5 B.V.

Dryden 32 Euro CLO 2014 B.V.

Duchess VI CLO B.V.

Duchess VII CLO B.V.

EBN Finance Company B.V.

EDP Finance B.V.

Eolo Investments B.V.

Eurocommercial Properties N.V.

Exfin Capital B.V.

EXMAR Netherlands B.V.

Fornax (Eclipse 2006-2) B.V.

GarantiBank International N.V.

Gemalto N.V.

Goudse Levensverzekeringen N.V.

Goudse Schadeverzekeringen N.V.

Green Park CDO B.V.

Groothandelsgebouwen N.V.

Hyde Park CDO B.V.

Hypenn RMBS I B.V.

Hypenn RMBS II B.V.

Hypenn RMBS III B.V.

Hypenn RMBS IV B.V.

ING Bank N.V.

ING Groenbank N.V.

ING Groep N.V.

Intertrust N.V.

Intreas N.V.

Jubii Europe N.V.

Jubilee CDO I-R B.V.

Jubilee CDO IV B.V.

Jubilee CDO V B.V.

Jubilee CDO VI B.V.

Jubilee CDO VII B.V.

Jubilee CDO VIII B.V.

Jubilee CLO 2014-XII B.V.

Jubilee CLO 2014-XIV B.V.

Jubilee CLO 2015- XV B.V.

Jubilee CLO 2015-XVI B.V.

Kiadis Pharma N.V.

Koninklijke DSM N.V.

LeasePlan Corporation N.V.

LeasePlan Finance N.V.

Linde Finance B.V.

Loyalis Leven N.V.

Loyalis Schade N.V.

LSP Life Sciences Fund N.V.

LUKOIL International Finance B.V.

Madrileña Red de Gas Finance B.V.

Malin CLO B.V.

Menzis N.V.

Menzis Zorgverzekeraar N.V.

Monastery 2004-I B.V.

Monastery 2006-I B.V.

Movir N.V.

N.V. Levensverzekering-Maatschappij "De Hoop"

N.V. Luchthaven Schiphol

N.V. Nationale Borg-Maatschappij

Nationale-Nederlanden Bank N.V.

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Neways Electronics International N.V.

NN Group N.V.

NN Non-Life Insurance N.V.

NN Paraplufonds 1 N.V.

NN Paraplufonds 2 N.V.

NN Paraplufonds 3 N.V.

NN Paraplufonds 4 N.V.

NN Re (Netherlands) N.V.

OCI N.V.

Onderlinge Levensverzekering Maatschappij 's Gravenhage U.A.

Onderlinge Verzekering Maatschappij Donatus U.A.

Onderlinge Verzekering Maatschappij Univé Hollands Noorden U.A.

Onderlinge Waarborgmaatschappij SAZAS U.A.

Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg MediRisk B.A.

Palmer Capital Emerging Europe Equity Fund N.V.

Palmer Capital Russian Midcap Fund N.V.

Pangaea ABS 2007-1 B.V.

Qiagen N.V.

Redexis Gas Finance B.V.

Regent's Park CDO B.V.

Robeco Afrika Fonds N.V.

Robeco Balanced Mix N.V.

Robeco Customized US Large Cap Equities N.V.

Robeco Dynamic Mix N.V.

Robeco Growth Mix N.V.

Robeco Hollands Bezit N.V.

Robeco N.V.

Robeco Safe Mix N.V.

Robeco Solid Mix N.V.

Robeco US Conservative High Dividend Equities N.V.

Robein Leven N.V.

Roche Finance Europe B.V.

Rockall CLO B.V.

Rolinco N.V.

Rothschilds Continuation Finance B.V.

SPP Infrastructure Financing B.V.

Syngenta Finance N.V.

ThinkCapital ETF's N.V.

TVM verzekeringen N.V.

Unilever Insurances N.V.

Unilever N.V.

Univé Dichtbij Brandverzekeraar N.V.

Univé Oost Brandverzekeraar N.V.

Univé Regio+ Brandverzekering N.V.

VVAA Levensverzekeringen N.V.

VVAA Schadeverzekeringen N.V.

Wereldhave N.V.

Wood Street CLO 1 B.V.

Wood Street CLO II B.V.

Wood Street CLO III B.V.

Wood Street CLO IV B.V.

Wood Street CLO V B.V.

Wood Street CLO VI B.V.

Yarden Uitvaartverzekeringen N.V.

# NBA audit quality indicators

| Nr | Indicator | Page |
|---|---|---|
| 1 | Partner and manager involvement | 73 |
| 2 | Chargeable hours | 73 |
| 3 | Investments in development of new audit technologies and tools | 46 |
| 4 | Training hours per audit professional | 67 |
| 5 | Retention of professionals on audit engagements | 62 |
| 6 | Survey results related to coaching and audit quality | 44 |
| 7 | Technical support resources | 71-72 |
| 8 | Number of technical consultations | 72 |
| 9 | Number of EQCRs carried out | 47 |
| 10 | Numbers of hours spend on EQCR and/or related activities | 47 |
| 11 | Hours spent by IT and other specialists | 66 |
| 12 | Results from internal and external inspections | 50-53 |
| 13 | Independence violations | 50 |
| 14 | Number of restatements | FY2015/16: 6 (FY2014/15: 5) |

# GRI disclosure table

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Strategy and Analysis** | | |
| **G4-1** | Statement from the most senior decision-maker about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability. | Strategic priorities and key topics for the short and medium term with regard to sustainability, including respect for internationally recognised standards and how such standards relate to long term organisational strategy and success. | 33 | Audit Firm Code (AFC) 1.1 |
| | | Broader trends (such as macroeconomic or political) affecting the organisation and influencing sustainability priorities. | 28 | |
| | | Key events, achievements, and failures during the reporting period. | 28 | |
| | | Views on performance with respect to targets. | 41, 62, 79, 92 | |
| | | Outlook on the organisation's main challenges and targets for the next year and goals for the coming 3-5 years. | 28, 54, 73, 90 | |
| | | Other items pertaining to the organisation's strategic approach | 33 | |
| **G4-2** | **SECTION ONE** should focus on the organisation's key impacts on sustainability and effects on stakeholders, including rights as defined by national laws and relevant internationally recognised standards. This should take into account the range of reasonable expectations and interests of the organisation's stakeholders. This section should include: | **Section 1:** description of significant economic, environmental and social impacts of the organisation, and associated challenges and opportunities. This includes the effect on stakeholders' rights as defined by national laws and the expectations in internationally recognised standards and norms. | 28-37 | |
| | | **Section 1:** an explanation of the approach to prioritising these challenges and opportunities. | 28-37 | |
| | | **Section 1:** key conclusions about progress in addressing these topics and related performance in the reporting period. This includes an assessment of reasons for underperformance or over-performance. A description of the main processes in place to address performance and relevant changes. | 28-37 | |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | **SECTION TWO** should focus on the impact of sustainability trends, risks, and opportunities on the long- term prospects and financial performance of the organisation. This should concentrate specifically on information relevant to financial stakeholders or that could become so in the future. | **Section 2:** description of the most important risks and opportunities for the organisation arising from sustainability trends. | 182-188 | AFC 1.5 |
| | | **Section 2:** Prioritization of key sustainability topics as risks and opportunities according to their relevance for long-term organisational strategy, competitive position, qualitative, and (if possible) quantitative financial value drivers. | 31-36, 183-188 | |
| | | **Section 2:** Table(s) summarising:<br>- Targets, performance against targets, and lessons learned for the current reporting period<br>- Targets for the next reporting period and medium term objectives and goals (that is, 3-5 years) related to key risks and opportunities. | <br>23-26<br><br>41, 62, 79, 92 | |
| | | **Section 2:** concise description of governance mechanisms in place specifically to manage these risks and opportunities, and identification of other related risks and opportunities. | 179-182 | |
| | | **Organisational Profile** | | |
| **G4-3** | | Report the name of the organisation. | Cover | |
| **G4-4** | | Report the primary brands, products, and services | 179 | |
| **G4-5** | | Report the location of the organisation's headquarters. | 179 | |
| **G4-6** | | Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report. | 179 | |
| **G4-7** | | Report the nature of ownership and legal form. | 179-180 | |
| **G4-8** | | Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries). | 79 | |
| **G4-9** | | Report the scale of the organisation, including:<br>a. Total number of employees<br>b. Total number of operations<br>c. Net sales (for private sector organisations) or net revenues (for public sector organisations)<br>d. Total capitalization broken down in terms of debt and equity (for - Quantity of products or services provided | 23-26 | |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-10** | | a. Report the total number of employees by employment contract and gender.<br>b. Report the total number of permanent employees by employment type and gender.<br>c. Report the total workforce by employees and supervised workers and by gender.<br>d. Report the total workforce by region and gender.<br>e. Report whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.<br>f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries). | 23-26 | Break-down considered not to be material for detailed disclosure |
| **G4-11** | | Report the percentage of total employees covered by collective bargaining agreements. | | 0% |
| **G4-12** | | Describe the organisation's supply chain. | 36, 178 | |
| **G4-13** | | Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including:<br>- Changes in the location of, or changes in, operations, including facility openings, closings, and expansions<br>- Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations)<br>- Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination | 179 | |
| **G4-14** | | Report whether and how the precautionary approach or principle is addressed by the organisation. | 35 | |
| **G4-15** | | List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses. | 49, 100 | |
| **G4-16** | | List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation:<br>- Holds a position on the governance body<br>- Participates in projects or committees<br>- Provides substantive funding beyond routine membership dues<br>- Views membership as strategic | 49, 100 | |
| | | **Identified Material Aspects and Boundaries** | | |
| **G4-17** | | a. List all entities included in the organisation's consolidated financial statements or equivalent documents.<br>b. Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report.<br>The organisation can report on this Standard Disclosure by referencing the information in publicly available consolidated financial statements or equivalent documents. | 150 | |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-18** | | a. Explain the process for defining the report content and the Aspect Boundaries.<br>b. Explain how the organisation has implemented the Reporting Principles for Defining Report Content. | 176-178 | |
| **G4-19** | | List all the material Aspects identified in the process for defining report content. | 176-178 | |
| **G4-20** | | For each material Aspect, report the Aspect Boundary within the organisation, as follows:<br>- Report whether the Aspect is material within the organisation<br>- If the Aspect is not material for all entities within the organisation (as described in G4-17), select one of the following two approaches and report either:<br>- The list of entities or groups of entities included in G4-17 for which the Aspect is not material or<br>- The list of entities or groups of entities included in G4-17 for which the Aspects is material<br>Report any specific limitation regarding the Aspect Boundary within the organisation. | 176-178 | |
| **G4-21** | | For each material Aspect, report the Aspect Boundary outside the organisation, as follows:<br>- Report whether the Aspect is material outside of the organisation<br>- If the Aspect is material outside of the organisation, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified<br>- Report any specific limitation regarding the Aspect Boundary outside the organisation | 176-178 | |
| **G4-22** | | Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements. | 179 | |
| **G4-23** | | Report significant changes from previous reporting periods in the Scope and Aspect Boundaries | 179 | No particular changes |
| | | **Stakeholder Engagement** | | |
| **G4-24** | | Provide a list of stakeholder groups engaged by the organisation. | 32 | |
| **G4-25** | | Report the basis for identification and selection of stakeholders with whom to engage. | 32 | |
| **G4-26** | | Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process. | 31-32 | |
| **G4-27** | | Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns. | 31-32 | |

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| Disclosure | | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Report Profile** | | |
| **G4-28** | | Reporting period (such as fiscal or calendar year) for information provided. | Cover | Fiscal year |
| **G4-29** | | Date of most recent previous report (if any). | 14-12-2016 | This report |
| **G4-30** | | Reporting cycle (such as annual, biennial). | | Annual |
| **G4-31** | | Provide the contact point for questions regarding the report or its contents. | | info@ kpmg.nl |
| **G4-32** | | Report the 'in accordance' option the organisation has chosen. Report the GRI Content Index for the chosen option (see tables below). | | Compre-hensive |
| **G4-33** | | c. Report the organisation's policy and current practice with regard to seeking external assurance for the report.<br>d. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.<br>e. Report the relationship between the organisation and the assurance providers.<br>f. Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report. | 179 | |
| | | **Governance** | | |
| **G4-34** | | Report the governance structure of the organisation, including committees of the highest governance body.<br>Identify any committees responsible for decision-making on economic, environmental and social impacts. | 179-182 | AFC 0.3<br>AFC 2.1<br>AFC 2.2<br>AFC 2.3 |
| **G4-35** | | Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees. | 179-182 | |
| **G4-36** | | Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body. | 179-182 | |
| **G4-37** | | Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body. | 11 | |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-38** | | Report the composition of the highest governance body and its committees by:<br>- Executive or non-executive<br>- Independence<br>- Tenure on the governance body<br>- Number of each individual's other significant positions and commitments, and the nature of the commitments<br>- Gender<br>- Membership of under-represented social groups<br>- Competences relating to economic, environmental and social impacts<br>- Stakeholder representation | 8-21 | |
| **G4-39** | | Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organisation's management and the reasons for this arrangement). | | Not applicable |
| **G4-40** | | Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members, including:<br>- Whether and how diversity is considered<br>- Whether and how independence is considered<br>- Whether and how expertise and experience relating to economic, environmental and social topics are considered<br>- Whether and how stakeholders (including shareholders) are involved | 8-21 | |
| **G4-41** | | Report processes for the highest governance body to ensure conflicts of interest are avoided and managed.<br>Report whether conflicts of interest are disclosed to stakeholders, including, as a minimum:<br>- Cross-board membership<br>- Cross-shareholding with suppliers and other stakeholders<br>- Existence of controlling shareholder<br>- Related party disclosures | 8-21 | AFC 2.1<br>AFC 2.2<br>AFC 2.3 |
| **G4-42** | | Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts | 8-21 | |
| **G4-43** | | Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics. | 8-21 | |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-44** | | Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment.<br><br>Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organisational practice. | 8-21 | AFC 1.2<br>AFC 2.4<br>AFC 3.2 |
| **G4-45** | | Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.<br><br>Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities. | 8-21 | AFC 2.3<br>AFC 2.4<br>AFC 2.5<br>AFC 3.2 |
| **G4-46** | | Report the highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics. | 8-21 | |
| **G4-47** | | Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities. | 8-21 | |
| **G4-48** | | Report the highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered. | 8-21 | |
| **G4-49** | | Report the process for communicating critical concerns to the highest governance body. | 8-21 | |
| **G4-50** | | Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them. | | Not disclosed |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-51** | | g. Report the remuneration policies for the highest governance body and senior executives for the below types of remuneration:<br>› Fixed pay and variable pay:<br>› Performance-based pay<br>› Equity-based pay<br>- Bonuses<br>- Deferred or vested shares<br>› Sign-on bonuses or recruitment incentive payments<br>› Termination payments<br>› Clawbacks<br>› Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees<br>h. Report how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives. | 8-21, 74-77 | |
| **G4-52** | | Report the process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organisation. | 74-77 | |
| **G4-53** | | Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable. | 74-77 | |
| **G4-54** | | Report the ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country. | | The ratio between junior trainee and non-equity partner is approximately 7:1 |
| **G4-55** | | Report the ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country | | Not disclosed |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Ethics and Integrity** | | |
| **G4-56** | | Describe the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics. | 29-30 | AFC 0.1<br>AFC 0.2 |
| **G4-57** | | Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organisational integrity, such as helplines or advice lines. | 189-198 | |
| **G4-58** | | Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines. | 50,<br>189-198 | |
| | | **Disclosures on Management Approachby** | | |
| **G4-DMA** | | i. Report why the Aspect is material. Report the impacts that make this Aspect material.<br>j. Report how the organisation manages the material Aspect or its impacts.<br>k. Report the evaluation of the management approach, including:<br>- The mechanisms for evaluating the effectiveness of the management approach<br>- The results of the evaluation of the management approach<br>- Any related adjustments to the management approach | 31-32 | AFC 1.4<br>AFC 1.6 |
| | | **Category Economic** | | |
| | | **Economic Performance** | | |
| **G4-EC1** | | a. Report the direct economic value generated and distributed (EVG&D) on an accruals basis including the basic components for the organisation’s global operations as listed below. If data is presented on a cash basis, report the justification for this decision and report the basic components as listed below:<br>› Direct economic value generated:<br>› Revenues<br>› Economic value distributed:<br>› Operating costs<br>› Employee wages and benefits<br>› Payments to providers of capital<br>› Payments to government (by country)<br>› Community investments<br>› Economic value retained (calculated as ‘Direct economic value generated’ less ‘Economic value distributed’)<br>b. To better assess local economic impacts, report EVG&D separately at country, regional, or market levels, where significant. Report the criteria used for defining significance. | 105 | AFC 3.1 |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-EC2** | | Report risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure, including:<br>- A description of the risk or opportunity and its classification as either physical, regulatory, or other<br>- A description of the impact associated with the risk or opportunity<br>- The financial implications of the risk or opportunity before action is taken<br>- The methods used to manage the risk or opportunity<br>- The costs of actions taken to manage the risk or opportunity | 182-188 | |
| **G4-EC3** | | c. Where the plan's liabilities are met by the organisation's general resources, report the estimated value of those liabilities.<br>d. Where a separate fund exists to pay the plan's pension liabilities, report:<br>- The extent to which the scheme's liabilities are estimated to be covered by the assets that have been set aside to meet them<br>- The basis on which that estimate has been arrived at<br>- When that estimate was made<br>e. Where a fund set up to pay the plan's pension liabilities is not fully covered, explain the strategy, if any, adopted by the employer to work towards full coverage, and the timescale, if any, by which the employer hopes to achieve full coverage.<br>f. Report the percentage of salary contributed by employee or employer.<br>g. Report the level of participation in retirement plans (such as participation in mandatory or voluntary schemes, regional or country-based schemes, or those with financial impact). | 118 | |
| **G4-EC4** | | h. Report the total monetary value of financial assistance received by the organisation from governments during the reporting period, including, as a minimum:<br>- Tax relief and tax credits<br>- Subsidies<br>- Investment grants, research and development grants, and other relevant types of grants<br>- Awards<br>- Royalty holidays<br>- Financial assistance from Export Credit Agencies (ECAs)<br>- Financial incentives<br>- Other financial benefits received or receivable from any government for any operation<br>i. Report the information above by country.<br>j. Report whether, and the extent to which, the government is present in the shareholding structure. | | No assistance received |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **Market Presence** | | | | |
| **G4-EC5** | | a. When a significant proportion of the workforce is compensated based on wages subject to minimum wage rules, report the ratio of the entry level wage by gender at significant locations of operation to the minimum wage.<br>b. Report whether a local minimum wage is absent or variable at significant locations of operation, by gender. In circumstances in which different minimums could be used as a reference, report which minimum wage is being used.<br>c. Report the definition used for 'significant locations of operation'. | | Not applicable |
| **G4-EC6** | | a. Report the percentage of senior management at significant locations of operation that are hired from the local community.<br>b. Report the definition of 'senior management' used.<br>c. Report the organisation's geographical definition of 'local'.<br>d. Report the definition used for 'significant locations of operation'. | | Not applicable |
| **Category Environmental** | | | | |
| **Materials** | | | | |
| **G4-EN1** | MATERIALS USED BY WEIGHT OR VOLUME | Report the total weight or volume of materials that are used to produce and package the organisation's primary products and services during the reporting period, by:<br>- Non-renewable materials used<br>- Renewable materials used | | Not applicable |
| **G4-EN2** | PERCENTAGE OF MATERIALS USED THAT ARE RECYCLED INPUT MATERIALS | Report the percentage of recycled input materials used to manufacture the organisation's primary products and services. | | Not applicable |
| **Energy** | | | | |
| **G4-EN3** | ENERGY CONSUMPTION WITHIN THE ORGANISATION | e. Report total fuel consumption from non-renewable sources in joules or multiples, including fuel types used.<br>f. Report total fuel consumption from renewable fuel sources in joules or multiples, including fuel types used.<br>g. Report in joules, watt-hours or multiples, the total:<br>- Electricity consumption<br>- Heating consumption - Cooling consumption<br>- Steam consumption<br>h. Report in joules, watt-hours or multiples, the total:<br>- Electricity sold<br>- Heating sold - Cooling sold<br>- Steam sold<br>i. Report total energy consumption in joules or multiples.<br>j. Report standards, methodologies, and assumptions used.<br>k. Report the source of the conversion factors used. | 97, 99 | |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-EN4** | ENERGY CONSUMPTION OUTSIDE OF THE ORGANISATION | a. Report energy consumed outside of the organisation, in joules or multiples.<br>b. Report standards, methodologies, and assumptions used.<br>c. Report the source of the conversion factors used | | Not applicable |
| **G4-EN5** | ENERGY INTENSITY | a. Report the energy intensity ratio.<br>b. Report the organisation-specific metric (the ratio denominator) chosen to calculate the ratio.<br>c. Report the types of energy included in the intensity ratio: fuel, electricity, heating, cooling, steam, or all.<br>d. Report whether the ratio uses energy consumed within the organisation, outside of it or both. | | Not material |
| **G4-EN6** | REDUCTION OF ENERGY CONSUMPTION | a. Report the amount of reductions in energy consumption achieved as a direct result of conservation and efficiency initiatives, in joules or multiples.<br>b. Report the types of energy included in the reductions: fuel, electricity, heating, cooling, and steam.<br>c. Report the basis for calculating reductions in energy consumption such as base year or baseline, and the rationale for choosing it.<br>d. Report standards, methodologies, and assumptions used. | 97, 99 | |
| **G4-EN7** | REDUCTIONS IN ENERGY REQUIREMENTS OF PRODUCTS AND SERVICES | a. Report the reductions in the energy requirements of sold products and services achieved during the reporting period, in joules or multiples.<br>b. Report the basis for calculating reductions in energy consumption such as base year or baseline, and the rationale for choosing it.<br>c. Report standards, methodologies, and assumptions used. | | Not applicable |
| | | **Water** | | |
| **G4-EN8** | TOTAL WATER WITHDRAWAL BY SOURCE | a. Report the total volume of water withdrawn from the following sources:<br>- Surface water, including water from wetlands, rivers, lakes, and oceans<br>- Ground water<br>- Rainwater collected directly and stored by the organisation<br>- Waste water from another organisation<br>- Municipal water supplies or other water utilities<br>b. Report standards, methodologies, and assumptions used. | 97, 99 | |
| **G4-EN9** | WATER SOURCES SIGNIFICANTLY AFFECTED BY WITHDRAWAL OF WATER | a. Report the total number of water sources significantly affected by withdrawal by type:<br>- Size of water source<br>- Whether or not the source is designated as a protected area (nationally or internationally)<br>- Biodiversity value (such as species diversity and endemism, total number of protected species)<br>- Value or importance of water source to local communities and indigenous peoples<br>b. Report standards, methodologies, and assumptions used. | | Not applicable |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-EN10** | PERCENTAGE AND TOTAL VOLUME OF WATER RECYCLED AND REUSED | a. Report the total volume of water recycled and reused by the organisation.<br>b. Report the total volume of water recycled and reused as a percentage of the total water withdrawal reported under Indicator G4-EN8.<br>c. Report standards, methodologies, and assumptions used. | | Not applicable |
| | | **Emissions** | | |
| **G4-EN15** | DIRECT GREENHOUSE GAS (GHG) EMISSIONS (SCOPE 1) | a. Report gross direct (Scope 1) GHG emissions in metric tons of $CO_2$ equivalent, independent of any GHG trades, such as purchases, sales, or transfers of offsets or allowances.<br>b. Report gases included in the calculation (whether $CO_2$, CH4, N2O, HFCs, PFCs, SF6, NF3, or all).<br>c. Report biogenic $CO_2$ emissions in metric tons of $CO_2$ equivalent separately from the gross direct (Scope 1) GHG emissions.<br>d. Report the chosen base year, the rationale for choosing the base year, emissions in the base year, and the context for any significant changes in emissions that triggered recalculations of base year emissions.<br>e. Report standards, methodologies, and assumptions used.<br>f. Report the source of the emission factors used and the global warming potential (GWP) rates used or a reference to the GWP source.<br>g. Report the chosen consolidation approach for emissions (equity share, financial control, operational control). | 97, 99 | |
| **G4-EN16** | ENERGY INDIRECT GREENHOUSE GAS (GHG) EMISSIONS (SCOPE 2) | a. Report gross energy indirect (Scope 2) GHG emissions in metric tons of $CO_2$ equivalent, independent of any GHG trades, such as purchases, sales, or transfers of offsets or allowances.<br>b. Report gases included in the calculation, if available.<br>c. Report the chosen base year, the rationale for choosing the base year, emissions in the base year, and the context for any significant changes in emissions that triggered recalculations of base year emissions.<br>d. Report standards, methodologies, and assumptions used.<br>e. Report the source of the emission factors used and the global warming potential (GWP) rates used or a reference to the GWP source, if available.<br>f. Report the chosen consolidation approach for emissions (equity share, financial control, operational control). | 97, 99 | |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-EN17** | OTHER INDIRECT GREENHOUSE GAS (GHG) EMISSIONS (SCOPE 3) | a. Report gross other indirect (Scope 3) GHG emissions in metric tons of $CO_2$ equivalent, excluding indirect emissions from the generation of purchased or acquired electricity, heating, cooling, and steam consumed by the organisation (these indirect emissions are reported in Indicator G4-EN16). Exclude any GHG trades, such as purchases, sales, or transfers of offsets or allowances.<br>b. Report gases included in the calculation, if available.<br>c. Report biogenic $CO_2$ emissions in metric tons of $CO_2$ equivalent separately from the gross other indirect (Scope 3) GHG emissions.<br>d. Report other indirect (Scope 3) emissions categories and activities included in the calculation.<br>e. Report the chosen base year, the rationale for choosing the base year, emissions in the base year, and the context for any significant changes in emissions that triggered recalculations of base year emissions.<br>f. Report standards, methodologies, and assumptions used.<br>g. Report the source of the emission factors used and the global warming potential (GWP) rates used or a reference to the GWP source, if available. | 97, 99 | |
| **G4-EN18** | GREENHOUSE GAS (GHG) EMISSIONS INTENSITY | h. Report the GHG emissions intensity ratio.<br>i. Report the organisation-specific metric (the ratio denominator) chosen to calculate the ratio.<br>j. Report the types of GHG emissions included in the intensity ratio: direct (Scope 1), energy indirect (Scope 2), other indirect (Scope 3).<br>k. Report gases included in the calculation | | Not applicable |
| **G4-EN19** | REDUCTION OF GREENHOUSE GAS (GHG) EMISSIONS | a. Report the amount of GHG emissions reductions achieved as a direct result of initiatives to reduce emissions, in metric tons of $CO_2$ equivalent.<br>b. Report gases included in the calculation (whether $CO_2$, CH4, N2O, HFCs, PFCs, SF6, NF3, or all).<br>c. Report the chosen base year or baseline and the rationale for choosing it.<br>d. Report standards, methodologies, and assumptions used. e. Report whether the reductions in GHG emissions occurred in direct (Scope 1), energy indirect (Scope 2), other indirect (Scope 3) emissions. | 97, 99 | |
| **G4-EN20** | EMISSIONS OF OZONE-DEPLETING SUBSTANCES (ODS) | a. Report production, imports, and exports of ODS in metric tons of CFC-11 equivalent.<br>b. Report substances included in the calculation.<br>c. Report standards, methodologies, and assumptions used.<br>d. Report the source of the emission factors used. | | Not applicable |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| G4-EN21 | NOX, SOX, AND OTHER SIGNIFICANT AIR EMISSIONS | a. Report the amount of significant air emissions, in kilograms or multiples for each of the following:<br>- NOX<br>- SOX<br>- Persistent organic pollutants (POP)<br>- Volatile organic compounds (VOC)<br>- Hazardous air pollutants (HAP)<br>- Particulate matter (PM)<br>- Other standard categories of air emissions identified in relevant regulations<br>b. Report standards, methodologies, and assumptions used.<br>c. Report the source of the emission factors used. | | Not applicable |
| G4-EN22 | TOTAL WATER DISCHARGE BY QUALITY AND DESTINATION | a. Report the total volume of planned and unplanned water discharges by:<br>- Destination<br>- Quality of the water including treatment method<br>- Whether it was reused by another organisation<br>b. Report standards, methodologies, and assumptions used. | | Not applicable |
| G4-EN23 | TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD | a. Report the total weight of hazardous and non-hazardous waste, by the following disposal methods:<br>- Reuse<br>- Recycling<br>- Composting<br>- Recovery, including energy recovery<br>- Incineration (mass burn)<br>- Deep well injection<br>- Landfill<br>- On-site storage<br>- Other (to be specified by the organisation)<br>b. Report how the waste disposal method has been determined:<br>- Disposed of directly by the organisation or otherwise directly confirmed<br>- Information provided by the waste disposal contractor<br>- Organisational defaults of the waste disposal contractor | | Not reported by type as this is considered to be not material for further disclosure |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-EN24** | TOTAL NUMBER AND VOLUME OF SIGNIFICANT SPILLS | c. Report the total number and total volume of recorded significant spills.<br>d. For spills that were reported in the organisation's financial statements, report the additional following<br>e. information for each such spill:<br>- Location of spill - Volume of spill<br>- Material of spill, categorised by:<br>- Oil spills (soil or water surfaces)<br>- Fuel spills (soil or water surfaces)<br>- Spills of wastes (soil or water surfaces)<br>- Spills of chemicals (mostly soil or water surfaces)<br>- Other (to be specified by the organisation)<br>f. Report the impacts of significant spills. | | Not applicable |
| | | **Effluents and Waste** | | |
| **G4-EN25** | WEIGHT OF TRANSPORTED, IMPORTED, EXPORTED, OR TREATED WASTE DEEMED HAZARDOUS UNDER THE TERMS OF THE BASEL CONVENTION2 ANNEX I, II, III, AND VIII, AND PERCENTAGE OF TRANSPORTED WASTE SHIPPED INTERNATIONALLY | a. Report the total weight for each of the following:<br>- Hazardous waste transported<br>- Hazardous waste imported - Hazardous waste exported<br>- Hazardous waste treated<br>b. Report the percentage of hazardous waste shipped internationally. | | Not applicable to our professional service firm |
| **G4-EN26** | IDENTITY, SIZE, PROTECTED STATUS, AND BIODIVERSITY VALUE OF WATER BODIES AND RELATED HABITATS SIGNIFICANTLY AFFECTED BY THE ORGANISATION'S DISCHARGES OF WATER AND RUNOFF | Report water bodies and related habitats that are significantly affected by water discharges based on the criteria described in the Compilation section below, adding information on: - Size of water body and related habitat - Whether the water body and related habitat is designated as a protected area (nationally or internationally) - Biodiversity value (such as total number of protected species) | | Not applicable |
| | | **Products and Services** | | |
| **G4-EN27** | EXTENT OF IMPACT MITIGATION OF ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES | a. Report quantitatively the extent to which environmental impacts of products and services have been mitigated during the reporting period.<br>b. If use-oriented figures are employed, report the underlying assumptions regarding consumption patterns or normalization factors. | | Not applicable |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| G4-EN28 | PERCENTAGE OF PRODUCTS SOLD AND THEIR PACKAGING MATERIALS THAT ARE RECLAIMED BY CATEGORY | Report the percentage of reclaimed products and their packaging materials for each product category. b. Report how the data for this Indicator has been collected. | | Not applicable |
| | | **Compliance** | | |
| G4-EN29 | MONETARY VALUE OF SIGNIFICANT FINES AND TOTAL NUMBER OF NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS | a. Report significant fines and non-monetary sanctions in terms of:<br>- Total monetary value of significant fines<br>- Total number of non-monetary sanctions<br>- Cases brought through dispute resolution mechanisms<br>b. Where organisations have not identified any non-compliance with laws or regulations, a brief statement of this fact is sufficient. | | No material fines |
| | | **Transport** | | |
| G4-EN30 | SIGNIFICANT ENVIRONMENTAL IMPACTS OF TRANSPORTING PRODUCTS AND OTHER GOODS AND MATERIALS FOR THE ORGANISATION'S OPERATIONS, AND TRANSPORTING MEMBERS OF THE WORKFORCE | a. Report the significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce. Where quantitative data is not provided, report the reason.<br>b. Report how the environmental impacts of transporting products, members of the organisation's workforce, and other goods and materials are mitigated.<br>c. Report the criteria and methodology used to determine which environmental impacts are significant. | | Not applicable |
| | | **Overall** | | |
| G4-EN31 | TOTAL ENVIRONMENTAL PROTECTION EXPENDITURES AND INVESTMENTS BY TYPE | d. Report total environmental protection expenditures by:<br>- Waste disposal, emissions treatment, and remediation costs<br>- Prevention and environmental management costs | | Not applicable |
| | | **Environmental Grievance Mechanisms** | | |
| G4-EN34 | NUMBER OF GRIEVANCES ABOUT ENVIRONMENTAL IMPACTS FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS | a. Report the total number of grievances about environmental impacts filed through formal grievance mechanisms during the reporting period.<br>b. Of the identified grievances, report how many were:<br>- Addressed during the reporting period<br>- Resolved during the reporting period<br>c. Report the total number of grievances about environmental impacts filed prior to the reporting period that were resolved during the reporting period. | | Not applicable |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Category Social** | | |
| | | **Labor Pratices and Decent Work** | | |
| | | **Employment** | | |
| **G4-LA1** | TOTAL NUMBER AND RATES OF NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY AGE GROUP, GENDER AND REGION | a. Report the total number and rate of new employee hires during the reporting period, by age group, gender and region.<br>b. Report the total number and rate of employee turnover during the reporting period, by age group, gender and region. | 62-63 | Not all elements are considered material for reporting purposes |
| **G4-LA2** | BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY OR PART- TIME EMPLOYEES, BY SIGNIFICANT LOCATIONS OF OPERATION | a. Report the benefits which are standard for full-time employees of the organisation but are not provided to temporary or part-time employees, by significant locations of operation. These include, as a minimum:<br>- Life insurance<br>- Health care<br>- Disability and invalidity coverage<br>- Parental leave<br>- Retirement provision<br>- Stock ownership<br>- Others<br>b. Report the definition used for ‘significant locations of operation’. | | 0%. Type of benefits are equal to all employees |
| **G4-LA3** | RETURN TO WORK AND RETENTION RATES AFTER PARENTAL LEAVE, BY GENDER | a. Report the total number of employees that were entitled to parental leave, by gender. Report the total number of employees that took parental leave, by gender.<br>b. Report the total number of employees who returned to work after parental leave ended, by gender.<br>c. Report the total number of employees who returned to work after parental leave ended who were still employed twelve months after their return to work, by gender. e. Report the return to work and retention rates of employees who took parental leave, by gender. | | Not material |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Labor/Management Relations** | | |
| **G4-LA4** | MINIMUM NOTICE PERIODS REGARDING OPERATIONAL CHANGES, INCLUDING WHETHER THESE ARE SPECIFIED IN COLLECTIVE AGREEMENTS | a. Report the minimum number of weeks' notice typically provided to employees and their elected representatives prior to the implementation of significant operational changes that could substantially affect them.<br>b. For organisations with collective bargaining agreements, report whether the notice period and provisions for consultation and negotiation are specified in collective agreements. | | Termination by KPMG: <5 yr: 1 month; 5-10 yr: 2 months; 10-15 yr: 3 months; >15 yr: 4 months. Exceptions may apply. Termination by employees: 1-3 months depending on functional level |
| | | **Training and Education** | | |
| **G4-LA9** | AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE BY GENDER, AND BY EMPLOYEE CATEGORY | Report the average hours of training that the organisation's employees have undertaken during the reporting period, by:<br>- Gender<br>- Employee category | 67 | |
| **G4-LA10** | PROGRAMMES FOR SKILLS MANAGEMENT AND LIFELONG LEARNING THAT SUPPORT THE CONTINUED EMPLOYABILITY OF EMPLOYEES AND ASSIST THEM IN MANAGING CAREER ENDINGS | a. Report on the type and scope of programmes implemented and assistance provided to upgrade employee skills.<br>b. Report on the transition assistance programmes provided to facilitate continued employability and the management of career endings resulting from retirement or termination of employment | 67-69, 194-195 | |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| G4-LA11 | PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS, BY GENDER AND BY EMPLOYEE CATEGORY | Report the percentage of total employees by gender and by employee category who received a regular performance and career development review during the reporting period | | 100% |
| | | **Diversity and Equal Opportunity** | | |
| G4-LA12 | COMPOSITION OF GOVERNANCE BODIES AND BREAKDOWN OF EMPLOYEES PER EMPLOYEE CATEGORY ACCORDING TO GENDER, AGE GROUP, MINORITY GROUP MEMBERSHIP, AND OTHER INDICATORS OF DIVERSITY | a. Report the percentage of individuals within the organisation's governance bodies in each of the following diversity categories:<br>- Gender<br>- Age group: under 30 years old, 30-50 years old, over 50 years old<br>- Minority groups<br>- Other indicators of diversity where relevant<br>b. Report the percentage of employees per employee category in each of the following diversity categories:<br>- Gender<br>- Age group: under 30 years old, 30-50 years old, over 50 years old<br>- Minority groups<br>- Other indicators of diversity where relevant | | Not all aspects reported as these are deemed not material for detailed disclosure. |
| | | **Equal Remuneration for Women and Men** | | |
| G4-LA13 | RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN BY EMPLOYEE CATEGORY, BY SIGNIFICANT LOCATIONS OF OPERATION | a. Report the ratio of the basic salary and remuneration of women to men for each employee category,  by significant locations of operation.<br>b. Report the definition used for 'significant locations of operation'. | | 83.1% (FY2014/ 15: 84.8%) |
| | | **Labor Pactices Grievance Mechanisms** | | |
| G4-LA16 | NUMBER OF GRIEVANCES ABOUT LABOR PRACTICES FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS | a. Report the total number of grievances about labor practices filed through formal grievance mechanisms during the reporting period.<br>b. Of the identified grievances, report how many were:<br>- Addressed during the reporting period<br>- Resolved during the reporting period<br>c. Report the total number of grievances about labor practices filed prior to the reporting period that were resolved during the reporting period. | | Not applicable |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Society** | | |
| | | **Local Communities** | | |
| **G4-SO1** | PERCENTAGE OF OPERATIONS WITH IMPLEMENTED LOCAL COMMUNITY ENGAGEMENT, IMPACT ASSESSMENTS, AND DEVELOPMENT PROGRAMMES | Report the percentage of operations with implemented local community engagement, impact assessments, and development programmes, including the use of:<br>- Social impact assessments, including gender impact assessments, based on participatory processes<br>- Environmental impact assessments and ongoing monitoring<br>- Public disclosure of results of environmental and social impact assessments<br>- Local community development programmes based on local communities' needs | | Not applicable |
| | | - Stakeholder engagement plans based on stakeholder mapping<br>- Broad based local community consultation committees and processes that include vulnerable groups<br>- Works councils, occupational health and safety committees and other employee representation bodies to deal with impacts<br>- Formal local community grievance processes | | |
| **G4-SO2** | OPERATIONS WITH SIGNIFICANT ACTUAL AND POTENTIAL NEGATIVE IMPACTS ON LOCAL COMMUNITIES | Report operations with significant actual and potential negative impacts on local communities, including:<br>- The location of the operations<br>- The significant actual and potential negative impacts of operations | | Not applicable |
| | | **Anti-Corruption** | | |
| **G4-SO3** | TOTAL NUMBER AND PERCENTAGE OF OPERATIONS ASSESSED FOR RISKS RELATED TO CORRUPTION AND THE SIGNIFICANT RISKS IDENTIFIED | d. Report the total number and percentage of operations assessed for risks related to corruption.<br>e. Report the significant risks related to corruption identified through the risk assessment. | | 100% |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| G4-SO4 | COMMUNICATION AND TRAINING ON ANTI-CORRUPTION POLICIES AND PROCEDURES | a. Report the total number and percentage of governance body members that the organisation's anti- corruption policies and procedures have been communicated to, broken down by region.<br>b. Report the total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to, broken down by employee category and region.<br>c. Report the total number and percentage of business partners that the organisation's anti-corruption policies and procedures have been communicated to, broken down by type of business partner and region.<br>d. Report the total number and percentage of governance body members that have received training on anti- corruption, broken down by region.<br>e. Report the total number and percentage of employees that have received training on anti-corruption, broken down by employee category and region. | | 100% |
| G4-SO5 | CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN | a. Report the total number and nature of confirmed incidents of corruption.<br>b. Report the total number of confirmed incidents in which employees were dismissed or disciplined for corruption.<br>c. Report the total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption.<br>d. Report public legal cases regarding corruption brought against the organisation or its employees during the reporting period and the outcomes of such cases | | Not disclosed |
| | | **Public Policy** | | |
| G4-SO6 | TOTAL VALUE OF POLITICAL CONTRIBUTIONS BY COUNTRY AND RECIPIENT/ BENEFICIARY | a. Report the total monetary value of financial and in-kind political contributions made directly and indirectly by the organisation by country and recipient/beneficiary.<br>b. Report how the monetary value of in-kind contributions was estimated, if applicable. | | None made |
| | | **Anti-competitive Behaviour** | | |
| G4-SO7 | TOTAL NUMBER OF LEGAL ACTIONS FOR ANTI-COMPETITIVE BEHAVIOR, ANTI-TRUST, AND MONOPOLY PRACTICES AND THEIR OUTCOMES | a. Report the total number of legal actions pending or completed during the reporting period regarding anti- competitive behavior and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant.<br>b. Report the main outcomes of completed legal actions, including any decisions or judgments. | | None |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| | | **Compliance** | | |
| **G4-SO8** | MONETARY VALUE OF SIGNIFICANT FINES AND TOTAL NUMBER OF NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH LAWS AND REGULATIONS | c. Report significant fines and non-monetary sanctions in terms of:<br>- Total monetary value of significant fines<br>- Total number of non-monetary sanctions<br>- Cases brought through dispute resolution mechanisms<br>d. If the organisation has not identified any non-compliance with laws or regulations, a brief statement of this fact is sufficient.<br>e. Report the context against which significant fines and non-monetary sanctions were incurred. | | None |
| | | **Grievance Mechanisms for Impacts on Society** | | |
| **G4-S11** | NUMBER OF GRIEVANCES ABOUT IMPACTS ON SOCIETY FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS | a. Report the total number of grievances about impacts on society filed through formal grievance mechanisms during the reporting period.<br>b. Of the identified grievances, report how many were:<br>- Addressed during the reporting period<br>- Resolved during the reporting period<br>c. Report the total number of grievances about impacts on society filed prior to the reporting period that were resolved during the reporting period. | 53 | |
| | | **Product Responsibility** | | |
| | | **Customer Health and Safety** | | |
| **G4-PR1** | PERCENTAGE OF SIGNIFICANT PRODUCT AND SERVICE CATEGORIES FOR WHICH HEALTH AND SAFETY IMPACTS ARE ASSESSED FOR IMPROVEMENT | Report the percentage of significant product and service categories for which health and safety impacts are assessed for improvement. | | Not applicable |
| **G4-PR2** | TOTAL NUMBER OF INCIDENTS OF NON-COMPLIANCE WITH REGULATIONS AND VOLUNTARY CODES CONCERNING THE HEALTH AND SAFETY IMPACTS OF PRODUCTS AND SERVICES DURING THEIR LIFE CYCLE, BY TYPE OF OUTCOMES | a. Report the total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services within the reporting period, by:<br>- Incidents of non-compliance with regulations resulting in a fine or penalty<br>- Incidents of non-compliance with regulations resulting in a warning<br>- Incidents of non-compliance with voluntary codes<br>b. If the organisation has not identified any non-compliance with regulations and voluntary codes, a brief statement of this fact is sufficient. | 50-53<br>Reported cases of fraud: 1 (0)<br>Wwft notifications: 40 (62)<br>Incidents reported to regulator: 3 (10)<br>Disciplinary cases: 4 (0) | |

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| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-PR3** | TYPE OF PRODUCT AND SERVICE INFORMATION REQUIRED BY THE ORGANISATION'S PROCEDURES FOR PRODUCT AND SERVICE INFORMATION AND LABELING, AND PERCENTAGE OF SIGNIFICANT PRODUCT AND SERVICE CATEGORIES SUBJECT TO SUCH INFORMATION REQUIREMENTS | a. Report whether the following product and service information is required by the organisation's procedures for product and service information and labeling:<br>- The sourcing of components of the product or service<br>- Content, particularly with regard to substances that might produce an environmental or social impact<br>- Safe use of the product or service<br>- Disposal of the product and environmental/social impacts<br>- Other (explain)<br>b. Report the percentage of significant product or service categories covered by and assessed for compliance with such procedures. | 51-53 | |
| **G4-PR4** | TOTAL NUMBER OF INCIDENTS OF NON-COMPLIANCE WITH REGULATIONS AND VOLUNTARY CODES CONCERNING PRODUCT AND SERVICE INFORMATION AND LABELING, BY TYPE OF OUTCOMES | a. Report the total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by:<br>- Incidents of non-compliance with regulations resulting in a fine or penalty<br>- Incidents of non-compliance with regulations resulting in a warning<br>- Incidents of non-compliance with voluntary codes<br>b. If the organisation has not identified any non-compliance with regulations and voluntary codes, a brief statement of this fact is sufficient. | 50 | |
| **G4-PR5** | RESULTS OF SURVEYS MEASURING CUSTOMER SATISFACTION | Report the results or key conclusions of customer satisfaction surveys (based on statistically relevant sample sizes) conducted in the reporting period relating to information about:<br>- The organisation as a whole<br>- A major product or service category<br>- Significant locations of operation | 89-90 | |
| | | **Marketing Communications** | | |
| **G4-PR6** | SALE OF BANNED OR DISPUTED PRODUCTS | c. Report whether the organisation sells products that are:<br>- Banned in certain markets<br>- The subject of stakeholder questions or public debate<br>d. Report how the organisation has responded to questions or concerns regarding these products. | | Not applicable |

| | Disclosure | Further explanation | Page | Reference |
|---|---|---|---|---|
| **G4-PR7** | TOTAL NUMBER OF INCIDENTS OF NON-COMPLIANCE WITH REGULATIONS AND VOLUNTARY CODES CONCERNING MARKETING COMMUNICATIONS, INCLUDING ADVERTISING, PROMOTION, AND SPONSORSHIP, BY TYPE OF OUTCOMES | a. Report the total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by:<br>- Incidents of non-compliance with regulations resulting in a fine or penalty<br>- Incidents of non-compliance with regulations resulting in a warning<br>- Incidents of non-compliance with voluntary codes<br>b. If the organisation has not identified any non-compliance with regulations and voluntary codes, a brief statement of this fact is sufficient. | 50 | AFC 3.2 |
| | | **Customer Privacy** | | |
| **G4-PR8** | TOTAL NUMBER OF SUBSTANTIATED COMPLAINTS REGARDING BREACHES OF CUSTOMER PRIVACY AND LOSSES OF CUSTOMER DATA | a. Report the total number of substantiated complaints received concerning breaches of customer privacy, categorised by:<br>- Complaints received from outside parties and substantiated by the organisation<br>- Complaints from regulatory bodies<br>b. Report the total number of identified leaks, thefts, or losses of customer data.<br>c. If the organisation has not identified any substantiated complaints, a brief statement of this fact is sufficient. | 50 | |
| | | **Compliance** | | |
| **G4-PR9** | MONETARY VALUE OF SIGNIFICANT FINES FOR NON-COMPLIANCE WITH LAWS AND REGULATIONS CONCERNING THE PROVISION AND USE OF PRODUCTS AND SERVICES | a. Report the total monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.<br>b. If the organisation has not identified any non-compliance with laws or regulations, a brief statement of this fact is sufficient. | 53 | |

# Glossary

In the course of this report several abbreviations were introduced and used. The following table provides an overview of these abbreviations together with their full description or explanation.

| Abbreviation | Explanation |
|---|---|
| AFM | *Autoriteit Financiële Markten* (Netherlands Authority for the Financial Markets) |
| AQCP | Audit quality curriculum for partners |
| AQI | Audit quality indicator |
| AQIC | Audit Quality Issues Council |
| BW | *Burgerlijk Wetboek* (Civil Code) |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CHRO | Chief Human Resources Officer |
| CMAAS | Capital Markets Accounting Advisory Servicey |
| CO | Compliance Officer |
| COO | Chief Operating Officer |
| COP | Communication on Progress (Conference of parties; Paris climate agreement) |
| CSM | Corporate Security Manager |
| C(S)R | Corporate (Social) Responsibility |
| CY | Calendar year |

| Abbreviation | Explanation |
|---|---|
| AQI | Audit quality indicator |
| DEFRA | Department of Environment, Food and Rural Affairs |
| DPP | Department of Professional Practice |
| EED | Energy Efficiency Directive |
| EEI | *Employee Engagement Index* |
| ELLP | Europe Limited Liability Partnership |
| EMA | Europe, Middle East & Africa |
| ELP | Emerging Leader Programme |
| EQCR | Engagement quality control review |
| ERM | Enterprise & risk management |
| EU | Europe(an) |
| EUR | Euro |
| FAR | Foundation for Auditing Research |
| FTE | Full time equivalent |
| FY | Financial year |
| GCR | Global compliance review |
| GGI | Global Green Initiative |
| gm | Gram |
| GRI | Global Reporting Initiative |
| GSI | Global Service Centre |
| HR | Human Resources |
| IESBA | International Ethics Standards Board for Accountants |
| IFAC | International Federation of Accountants |
| IFRS | International Financial Reporting Standards |
| ISA | International Standards on Auditing |

| Abbreviation | Explanation |
|---|---|
| ISG | International Standards Group |
| ISO | International Organisation for Standardisation |
| KAM | KPMG Audit Manual |
| kg | Kilo |
| KICS | KPMG Investment Compliance System |
| km | Kilometre |
| kWh | Kilowatt-hours |
| MBO | *Middelbaar beroepsonderwijs* (intermediate vocational education) |
| MiFID | Markets in Financial Instruments Directive |
| MKB | *Midden- en kleinbedrijf* (small & medium enterprises) |
| MFR | Mandatory firm rotation |
| NBA | *Koninklijke Nederlandse Beroepsorganisatie van Accountants* (Royal Netherlands Institute of Chartered Accountants) |
| NGO | Non-governmental organisation |
| NITSO | National IT Security Officer |
| NL | The Netherlands |
| NPS | Net Promotor Score |
| N.V. | *Naamloze vennootschap* (public limited company) |
| OCW | *Onderwijs, Cultuur en Wetenschap* (Dutch ministry of Education, Culture and Science) |
| PBC | Prepared by clients |
| PCAOB | Public Company Accounting Oversight Board |
| PIE/OOB | Public Interest Entities/*Organisaties van Openbaar Belang* |

| Abbreviation | Explanation |
|---|---|
| PIN | Performance improvement necessary |
| PIP | Partner improvement plan |
| QP | Quality performance |
| QPR | Quality performance review (internal inspection of engagements to assess compliance with professional standards, including quality) |
| QRMG | Quality & Risk Management Group |
| RCA | Root cause analysis |
| RCP | Risk compliance programme (internal inspection on compliance with the firm's risk management and independence procedures) |
| SEC | Securities and Exchange Commission |
| SGI | Strategic growth initiative |
| U.A. | Uitgesloten aansprakelijkheid |
| UN | United Nations |
| US | United States of America |
| VEB | Vereniging voor Effectenbezitters (Dutch Association of Shareholders) |
| VER | Verified energy renewable |
| VNO-NCW | Largest employers' organisation in the Netherlands |
| vs | versus |
| Wwft | *Wet ter voorkoming van witwassen en financieren van terrorisme* (Anti-Money Laundering and Counter-Terrorist Financing Act) |
| Wta | *Wet toezicht accountantsorganisaties* (Dutch Audit Firms Supervision Act) |
| YTP | Young Talent Programme |

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