KPMG N.V. integrated report FY19

Including the KPMG Accountants N.V. Transparency Report

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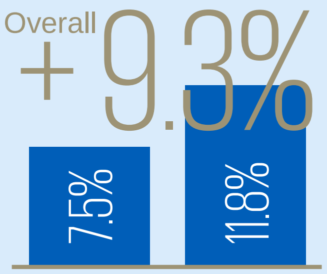
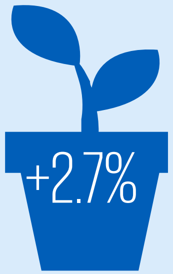
Revenue growth

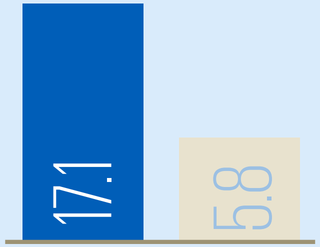


Profit before income tax growth



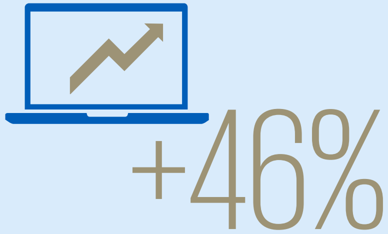
Investments (intangible assets)

(in €m)

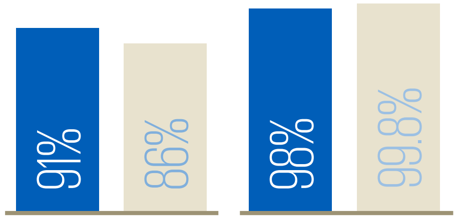


Audit technology investments growth

(compared to FY18)



Client satisfaction



KPMG is the second most valuable Dutch brand

(according to Brand Finance)

Audit quality (results internal inspections)

68% in FY18

75%

CO_2 neutral for 9 years

(renewable energy & VER)

FTEs
3,282 in FY18
3,563

Female employees
38% in FY18
39 %

Female hires
37% in FY18
41 %

Number of nationalities
66
PASSPORT

Average age
34

Investment in training
Budget compared to FY18
+12%

Well-being index
60% in FY18
72 %

Inspections praise (quality-oriented) working culture
AFM & ISZW

Retention rate
84% in FY18
84 %

Employee engagement
On a scale of 100
81

2.

Overview and strategy

2. Overview and strategy

The year at a glance: Trust & Growth, year 1

As a firm, KPMG N.V. (KPMG) will earn society's trust through the excellence and quality of our work, the integrity and strength of our people and culture, and our aspiration to empower the major transformations challenging our world today.

Societal transformations require solutions *now*, under pressure and with the clock ticking: the uncertainty of the global outlook in which our open, outward-looking country plays an important role, the need to embrace resilience and agility in the ongoing technological transformation of organisations. These transformations bring both dynamic risks and opportunities for disruption and digitalisation.

On an even larger scale, our society and the whole world is grappling with the dilemmas of climate change and welfare distribution. Society is looking for business leaders to make the right choices to transition to a clean technological future, a future that is fair and safe and in which we want our children to live. Empowering business leaders with options to make the right choices through our work as accountants and advisors makes us relevant. We have an inspiring purpose. With that comes a major responsibility.

Our strategic plan for FY19 provided guidance and focus on five strategic areas: Public Trust, Clients, People, Technology and Financial Strength. It is our belief that all these areas are relevant for our success and our ambitions.

Public Trust

In the first year of our Trust & Growth strategy, we focused relentlessly on quality. Given our position in society we put quality first on our strategic agenda and it is our clear conviction that this is the only way to build trust. We are achieving this through continuous investment or in our quality culture and our professionals. Over the years we have increased the time we invest in our engagements, and expanded the coaching and professional support we provide to our people.

We have put more focus on the needs of the individual professional and our teams by innovating the way we work. This allows us to spend focused time in the right way, to support the work-life balance in our teams and to invest in training and education. We have designed and improved on our quality (training) programme together with our Young Audit Quality Board to ensure that the needs and aspirations of future generations are an integral part of what we do, and that we are fit for the future.

We improved the score on our internal quality reviews on audit engagements from 68% to 75%. While we are pleased with this step up, at the same time we challenge ourselves to further improve in the audit domain as we realise that 75% audit quality is not enough. We will keep looking for root causes when we detect mistakes, and turn these into sustainable learnings. We are resolved to continue to improve, underpinned by a significant investment in quality, including the implementation of a new audit platform. We are responding to societal expectations to address fraud and continuity in a more proactive way: our internal consultations on fraud have more than tripled over the last three years.

We are fully aware of our public responsibility and our stakeholders' justified expectations from us of quality, integrity, objectivity and sound judgement. We engage in an active dialogue with the regulators and use each report and interaction as an impetus to improve. In FY19, the Minister of Finance established the Committee on the Future of the Audit Sector (CTA) with the aim of delivering proposals that will increase the overall quality of the Dutch accountancy sector. We welcomed the CTA's formation as we are wholly committed to doing what it takes to deliver and demonstrate quality, and stand open to the externally-validated, fact-based insights the CTA can provide.

We provided responses and input to the CTA on the quality improvement journey we have been on since 2014, as well as our views and vision about what measures would bring further improvement in the coming years. While we are awaiting its definitive recommendations, we will continue to reflect deeply on how we can address the challenges laid down in its intermediary report. One challenge for example, is how we can provide objective, equitable, measurable evidence of quality that is insightful for the markets. Another is how we can strengthen our culture deep down to the most profound layer of purpose and intrinsic motivation to serve the public interest. In the past, our stakeholders have not always seen this intrinsic motivation being demonstrated. This observation affects us deeply. It is a strong motivation for us to reflect on how we can nurture, live by and demonstrate our intrinsic commitment to quality as professionals.

Clients

We are proud of our relevance to our clients and society, and proud that we are trusted for our content, knowledge, commitment and technologies. All of the many assignments we carry out matter deeply to us, and are often pivotal for our clients. For example, in FY19, we orchestrated innovation and incubation processes for a large chemical company, we assisted a financial institution in its mission to capture customer loyalty in a sustainable way, we aligned systems and resources for a nationwide transport organisation, and we also led numerous strategic deals.

As thought leaders we addressed major societal issues such as healthcare, its sustainable funding, its quality and patient outreach, and mobility models of the future such as pay-per-use. Such work underpins important societal transformations and requires profound knowledge. We worked with client teams on addressing sustainability in the here and now, and value creation in the long term. We launched innovative business assurance propositions, emphasising the need for the awareness and implementation of standards to protect the integrity and responsible application of algorithms. Society needs to be able to trust us on such issues as they have become part of our everyday lives and influence the decisions we make.

People

KPMG is its people. Building on strong employee engagement and loyalty is one of our commitments and listening to our people is an important starting point. In response to our Global People Survey, we worked to redesign our rewards and recognition packages and each team's understanding of the Trust & Growth strategy. We are proud to have been able to attract and retain talent in a very competitive economic environment. This is proof of our ability to differentiate KPMG by offering our people something fundamentally valuable to them: the best development experience. This is why we increased our spending on learning & development. As one of many examples, we launched a fully digitalised platform for personalised training content, Degreed, to which all our employees have access and increasingly find their way. We are a young organisation, with an average employee age of 34. And we are diverse, with employees drawn from 66 nations. This is a source of inspiration. To keep ourselves open to new ideas and challenge entrenched management and organisational thinking, we set up our Young Board Now – a team of our talented young people who contribute to strategy and work with the Board of Management on two of our priority areas, People and Technology.

We took a further decisive step in making our organisation more inclusive and diverse. Inclusion is about all of us: creating a culture of inclusive collaboration that strives for equity and embraces, respects and values the individuality of our people. Diversity is about each of us, creating the best development opportunity for everyone. Our gender diversity at the top of the organisation is improving quickly: 50% of the Group Leadership Team, 25% of the Board of Management, 33% of the Supervisory Board (FY19), and 18.5% of partners and directors are women. We are certainly not resting on our laurels and are addressing diversity in a variety of ways, in a 10-point programme that aims to improve the traction from entry to KPMG through to the top levels of the organisation. We are treating this as a business priority: setting targets, holding ourselves accountable and validating our promotion, recruitment, review and remuneration processes to achieve diverse equity. We have virtually eliminated the gender pay gap. In FY19, we also launched programmes to ensure equal opportunity for people from diverse cultural backgrounds. In addition, to encourage all our people to celebrate cultural diversity in the company, we introduced the opportunity for them to take time off to attend a particular festivity of their choice. An unforgettable event, in FY19, was hundreds of colleagues fasting together and then breaking fast at the end of Ramadan, also together.

Technology

What is completely new and what patterns are we seeing that indicate that change is already underway in the first year of our strategy implementation? Firstly, the overwhelming majority of our work is now digitally empowered and responds to the four realities of the digital world: it is customer-centric, data analytical, is performed in alliances with partners, and increasingly explores the potency of scale and platforms.

Secondly, we have been successful in expanding our service towards end-to-end solutions together with our partners.

In tandem with our international network, we are prioritising services that enable organisations to connect to their markets with our Connected Enterprise solutions, and streamline their mid- and back-office systems accordingly with our Powered Enterprise solutions. Thirdly, we have developed new digital solutions for our own and our customers purposes, both in our own Digital Office and in co-creation with partners. All of this is resulting in an increasingly digitalised organisation in full transformation mode: we are digitalising our client propositions, our tools and ways-of-working, and our people profiles and expertise; our own robots are joining in the action too.

Financial Strength

Our first year of Trust & Growth showed strong financial results across our practice. We accelerated our rate of growth further, regaining our momentum in the sector. As part of the implementation of our strategy, our investments also increased. These investments relate to underlying strategic initiatives: digitalising our firm, being the leader in selected propositions and the frontrunner in client experience, and delivering on the best development experience for our people. We have developed new digital assets and services and doubled our investments in technology for the Assurance practice.

On a personal note

I am grateful to my fellow Board members. Right from the start, we worked as one team to put our strategic plans into action. Together, we are positive about what we achieved in FY19. We will further accelerate in the coming year, and I am looking forward to welcoming two new team members.

With the talent available, I am extremely confident that together we will keep up the momentum and push even further forward. We will continue to empower change in society and deliver value for our clients. We will continue to perform deeply relevant work, with confidence and responsibility. We are ready for year two of our Trust & Growth strategy, and another strong chapter of our story as KPMG, together.

Stephanie Hottenhuis, CEO of KPMG N.V.

3.

Guide to this integrated report

3. Guide to this integrated report

Our strategy is built on two pillars: Trust & Growth

Trust, because it is at the core of our DNA. Because the need for organisations which are trustworthy and can facilitate trust through the work they do is greater than ever. And because we need and want to provide our services with consistent quality and integrity. And **Growth**, because we aspire to remain a key player in providing assurance and advice to the market, and we need to keep up with the changing needs of stakeholders in order to earn that position.

We have defined five strategic focus areas that matter during our journey, and formulated a guiding ambition for each focus area:

- Public Trust – High standards in everything we do;
- People – The best development experience;
- Clients – A unique service experience;
- Technology – 100% digitally-enabled solutions;
- Financial Strength – Long-term above-average growth.

The following sections of this integrated report will guide you through the steps we have taken in each of the strategic focus areas. We will look into our accomplishments and examine what we need to do to raise the bar for ourselves.

For the purpose of this integrated report, we have used input from our stakeholder management activities together with results from our monthly media sentiment analysis to validate our strategy, the manner in which we are conducting our service delivery and our new service development. The combination of stakeholder input, strategy, media sentiment and last year's materiality assessment provided a gross topic list which was subsequently assessed on the criteria of business impact, stakeholder impact and value chain impact to arrive at the material topics and the materiality matrix below. These topics form the basis for our reporting in this integrated report.

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4.

Performance and developments

4. Performance and developments

Public Trust – High standards in everything we do

Introduction

Public Trust is at the core of our DNA and purpose. In this section, we share our approach to building public trust. We discuss what we are doing every day to achieve high standards in everything we do, followed by how we engage with our stakeholders on the topic. By discussing our branding, thought leadership and our engagement with society, we aim to become a part of the solution to challenges we face as society today.

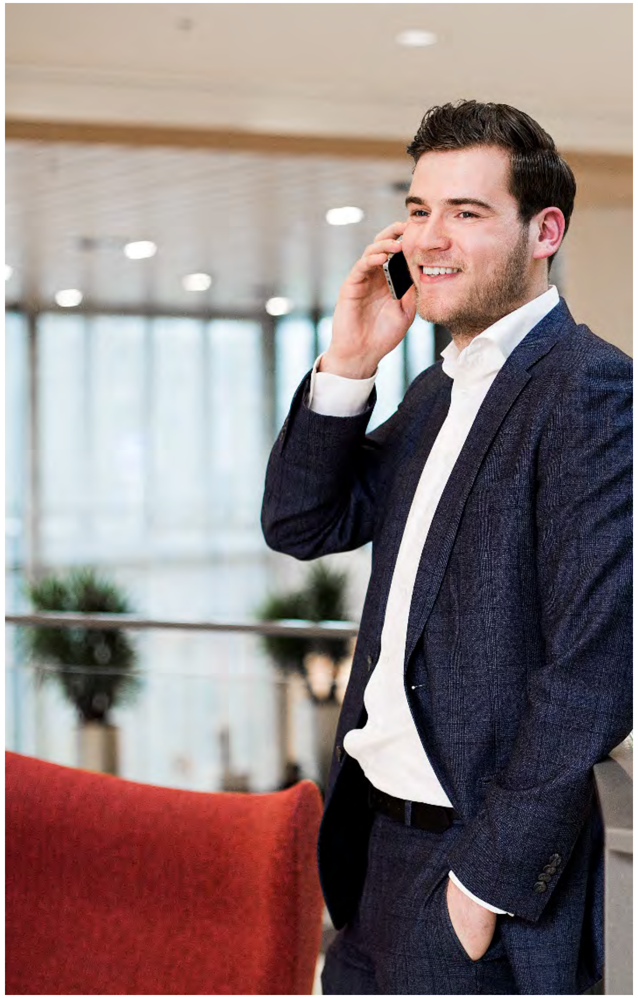
We need to be trustworthy if we are to receive trust. After all, an important part of our work is aimed at creating trust in societal and economic interactions by delivering our assurance and advisory products and services. Every day we focus on accomplishing our work with consistently high quality standards and integrity.

Quality vision

Society demands that we do better, and rightly so. Improving our audit process and execution and better explaining our findings. Until recently, our focus has been on improving our process by executing audits with more rigour. We have come to understand, however, that just following the rules in accordance with the standards is not enough. Our behaviour must instead be guided by our values, and our work by the relevance it has for society at large.

It is our belief that trust is also about being connected to our stakeholders and engaging in dialogue; doing so ensures that we remain relevant by providing quality and insights, which in turn engenders trust. This connection enables us to learn and improve. It is also why we revisited our quality vision and explicitly included stakeholder relevance, beyond compliance, as part of our quality vision.

Quality of information means that stakeholders and society have useful (i.e. relevant and reliable) information at their disposal when making economic decisions. Having confidence in reported information is crucial for an honest and transparent functioning of financial and economic processes. We see quality as a two-way street with on the one hand audit as an effective process and on the other hand audit as a relevant service. Audit is an effective process when KPMG provides high-quality audits that are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls. Audit is a relevant service when KPMG builds confidence by providing assurance about (financial) information that matters to stakeholders while also suggesting improvements to audited internal systems, processes and controls.



Quality as a relevant service

We operate in a universe of stakeholders. Engaging with them is fundamental to our business, because openness about expectations and challenges is an important part of delivering quality and building public trust. Being responsive to the needs of our stakeholders is essential to extend this trust even further. As a committed assurance and advisory firm, we believe that we have a responsibility to increase trust and confidence in the economy and society as a whole. That's why we interact continuously with our stakeholders. They provide the necessary outside-in view on the issues and expectations that are relevant to our business and therefore our impact on the world.

During this financial year, the Committee on the Future of the Audit Sector (CTA) played an important role in facilitating the debate on audit quality within the sector and its stakeholders. This independent committee, set up by the Minister of Finance to analyse whether and how audit quality in the Netherlands could be improved in a sustainable way, started its work in January.

We actively participated in a number of round tables regarding the future of the audit profession and we submitted our input in two public consultation rounds. In cooperation with the NBA, we delivered insights and information to the CTA at their request. The committee's final report is expected by February 2020.

Branding & thought leadership

One way of interacting with our stakeholders is via our branding and thought leadership programme. This year we continued to communicate our brand values to create awareness for our activities. With our brand campaign 'People-driven Progress' we assert that progress can only be deemed true progress if it benefits both individual people and society as a whole. This year we continued the brand campaign with a series of sub-campaigns targeted at proposition level for the domains of cyber security, digital transformation and business assurance. We have strengthened our position by telling true stories that show how KPMG can help companies to achieve sustainable progress.

Another way we can bolster trust in KPMG and its services is to step up our public communications and ensure that the positive contribution made by KPMG is apparent in relevant public debates. One way that we can do this is by making our expertise accessible by publishing reports and by organising events. We published 70 thought leadership documents and organised numerous events to share our expertise in FY19. One example of this was our contribution to the debate on the use of non-discriminatory algorithms in organisations. With our Municipality of Amsterdam case, we have actively contributed to the discussion about whether algorithms are black boxes and to what extent supervision on algorithms is desirable or necessary. A case on mental healthcare where we made a significant impact also received a lot of media attention and contributed to the political debate on the future of Dutch mental healthcare.

As in FY18, we conducted research in cooperation with the Dutch government on the subject of Brexit and its potential impact on the Dutch economy. We followed this up with numerous meetings, media interviews and publications, all of which will help to prepare Dutch society for the impact of Brexit.

Through our partnership with the Team Sunweb cycling team, we have claimed the yellow jersey for thought leadership on digital transformation and data analytics. We reached 37 million people through cycling competitions.

People-driven progress

New technologies are driving progress and have a major impact on our daily lives. But who is wondering whether these new technologies are actually adding value for people and society? Or questioning whether change is also sustainable progress?

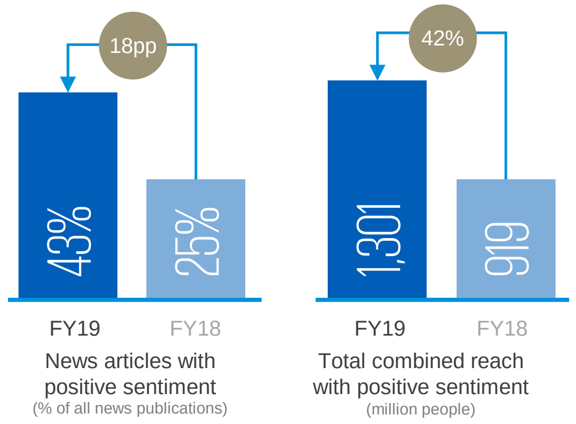
We believe that we can play that significant role in the digital revolution. Our auditors provide assurance on the reliability of data as the trusted party in the public domain. At the same time, our advisors are developing advanced (digital) solutions for tomorrow's economy.

For more than a century, this is how we have worked with clients and stakeholders in their search for trust or growth. We combine the latest technologies with what we have developed over those many years: a solid foundation of integrity, know-how, expertise and independent thinking. We believe that technology can only drive progress if it is used hand-in-hand with human insights and creativity.

That is our view of progress. Progress that matters.

That is KPMG.

Media performance KPMG in the Netherlands



and digital transformation events with our message about the added value of data analytics. One way to measure the success of these efforts is to look at media sentiment, and this improved every single quarter over the past financial year. Our fourth quarter spans the summer months, which tend to see fewer publications, but the sentiment was actually extremely positive in this period.

Quality is an effective process

We strive to create an environment focused on 'doing the right thing', with zero tolerance for reckless behaviour that is not aligned with our core values, and to promote quality as a business imperative. Responsibility for quality starts at the top and we are driving and reinforcing accountability at the level of each individual in the chain of command for the effectiveness of his or her actions in meeting our quality objectives. We are committed to ensuring that we have a common view, across the KPMG network, of the importance of KPMG earning the public's trust through our actions and behaviour, both professionally and personally.

Culture of quality

A culture of quality is key for a professional services firm such as ours. It plays an important role in the way we challenge ourselves, work together and interact with our environment. Culture and behaviour form the basis of our quality performance. Quality means that we work in accordance with the highest professional standards and within a high-end system of quality control. In addition, quality means that we strive for the highest level of independence, objectivity, ethics and integrity in all our activities. In FY19 our internal research showed that our professionals gave an 88% (FY18: 87%) approval rating to the improvements made to our coaching and quality control (AQI 6a).

“

Esther van Zeggeren
Director Brand Reputation and Marketing Management

I am very proud that we have achieved second place in the 'Valuable Brands' ranking by the advisory firm Brand Finance, headquartered in London. With €11.2bn in brand value, KPMG earned its place in this list of brands in the Dutch market.

This is a team effort and together we have worked hard on our exposure towards the market, in domains such as Business Assurance, Digital Transformation and Employer Branding.

We invest significant time and energy in building and maintaining a high performance culture based on common values and an inspiring purpose. To further improve quality performance, we have introduced several initiatives to increase cooperation, to balance work and life more equally and to broaden the involvement of young professionals in the process of delivering improvements. As part of this we introduced PTO ('Predictability, Teaming and Open communications'). Team members have told us they feel that the workload can be discussed better in a more open environment, while at the same time team members support each other in creating a more predictable work week. This initiative – and others – will benefit from the ideas and experiences of those involved. This is why we launched the Young Audit Quality Board (YAQB), where a group of young professionals from our Assurance practice provides fresh ideas in the field of audit quality.

Photo: Young Audit Quality Board.

From left to right: Taylor Adams, Egbert Eeftink, Liz Hassed, Robert Tuinsma, Hugo van den Hoogen, Josina Groot, Kevin Lelieveld, Robin van Broekhoven, Denise Djalali en Niels Paping. Melissa Jorritsma misses in this photo.

In a series of podcasts named 'The Audit Files', we discuss the audit profession, its relevance in society, its future and what it means to deliver quality. This series was used as the backbone of an internal communication campaign directed at our Assurance professionals.

As a result of these and other initiatives, the quality and culture survey for the audit has shown steady results for a number of years now. The FY19 survey showed an average positive culture score of 81% (FY18: 82%). These results were confirmed by two Dutch regulators: (1) the AFM concluded that the culture among partners and professionals within KPMG is positively focused on quality, and (2) the inspectorate for the labour department concluded positively on the work culture within KPMG. Together with the Young Audit Quality Board and the HR department, we continue to foster a culture that is focused on quality.

Learning organisation

We continued our quality coaching programme to help engagement teams during the execution of the audit. During the year the focus of the quality coaching programme was on auditing revenues and the programme was extended to include some other frequently observed topics from our Quality Performance Reviews (QPR). We evaluated the quality coaching programme on its (long-term) effectiveness and contribution to audit quality and concluded that the programme adds value to our audit process and professionals. At the same time, further enhancements can be made; we extended the quality coaching programme into next year and will evaluate it again in FY20.

Partner involvement remained stable at 10% of all OOB (AQI 1a) engagement hours (FY18: 9%). Partner involvement for non-OOB engagements (AQI 1b) was 7% of all engagement hours (FY18: 6%). These percentages align with our internal benchmarks of 10% and 6% respectively. The FY19 audit quality and culture survey landed on an average positive score (AQI 6b) of 81% (FY18: 82%) for the core value of leading by example (i.e. professionals communicate the importance of audit quality and take responsibility and accountability for delivering audit quality).

Internal inspections (Quality Performance Reviews or QPRs)

In addition to the quality performance of our Audit professionals, we also review assurance and advisory engagements. QPR is performed under the supervision of the Internal Audit & Compliance Office with a team of Dutch (local) and non-Dutch (non-local) reviewers at partner and senior manager level. Engagements are rated against KPMG's global quality baselines. Different baselines apply for audit and advisory engagements.

Audit engagements reviewed are rated as 'Satisfactory', 'Performance improvement necessary' or 'Unsatisfactory' depending on the nature and severity of the findings. The QPR process is overseen by a non-local lead reviewer. A centrally-led international Quality Performance Review team performs a number of these annual QPR reviews, especially for audits of listed and related entities. During the year under consideration, 58 Audit partners (FY18: 59) were the subject of an internal quality performance review for audit.

In Audit, 75% of reviewed engagements received a Satisfactory rating in FY19 (FY18: 68%) which is on target. If we drill down further into audits reviewed, we see an even more marked increase in Satisfactory scores to 79% for engagement year 2018 compared to 70% for engagement year 2017. We see a similar improvement in engagements rated unsatisfactory: 7% for engagement year 2018 compared to 13% for engagement year 2017. The average number of review findings per engagement also improved slightly from 2.8 to 2.5 for FY19.

Notwithstanding these improved results, we also identified areas where we can perform better. Quality coaching yields results, as shown by the decrease in the number of review findings in many areas targeted by coaching. However, we also note that quality coaching in the areas of auditing revenue and journal entry testing did not always prevent review findings from occurring. In addition, recurring findings were present for substantive analytical procedures, specific items testing and controls testing, although the number of findings for the latter two categories decreased compared to last year. QPR findings were communicated to Audit professionals during KPMG's annual professional update sessions as well as through virtual classrooms.

As mentioned above, internal quality reviews of advisory engagements follow a different baseline, where the engagements reviewed receive two ratings – one for engagement setup and one for engagement execution. Ratings are 'Green', 'Yellow' or 'Red'. Green and Yellow ratings are both grouped under 'Satisfactory' and are awarded when engagements are (substantially) compliant with Advisory standards. In FY19, 80 Advisory partners/directors (FY18: 55) were the subject of internal quality performance reviews under the Advisory baseline. These reviews show that 97% of engagements reviewed are compliant with Advisory standards. In the setup of engagements, findings show that further improvements can be made by more precisely differentiating between contracts for 'Services to Assist' and those for 'Secondment Engagements'. In terms of execution, further improvements have been advised in the areas of quality and completeness of engagement files and financial management.

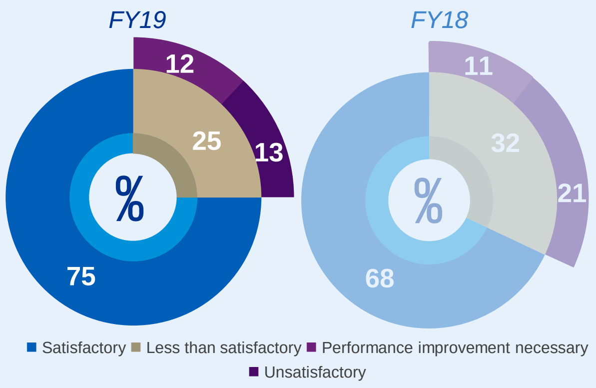
External inspections

During FY19, AFM started their latest inspection of the Big Four. This inspection consists of three parts: (1) quality culture, (2) quality circle (plan, do, check, act), and (3) quality safeguards contributing to audit quality. Findings and reports from this inspection are expected in February 2020. AFM did not inspect any specific engagement files during the year under review.

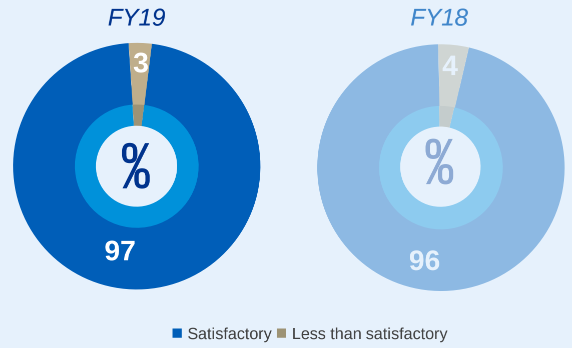
The PCAOB inspected three 2017 audit engagements during 2017/2018. In FY19 we received their report with findings on each of the files inspected and after reviewing them, we concluded that there was no impact on the auditor's reports issued. We have remediated all PCAOB findings to ensure that the engagement files are in accordance with auditing standards. Furthermore, the PCAOB inspected elements of our system of quality controls, including tone at the top, independence, training, and consultation. This part of the inspection also resulted in certain findings. In accordance with the PCAOB guidelines for remedial action, we are currently designing and discussing mitigating actions which will subsequently be reviewed by the PCAOB.

Audits performed for ISO 9001 (general quality framework), ISO 27001 (information security) and ISO 14001 (environmental management) all resulted in positive evaluations. New certifications for each designated area will remain valid for the next three years.

Audit partners & directors QPR scores



Advisory partners & directors QPR scores



Compliance with our quality management system

Personal independence

Professionals who were not fully compliant with our independence procedures have been reprimanded or sanctioned in accordance with our disciplinary policy. Within Audit, we identified 0.8% (FY18: 0.5%) of all Audit employees as not being fully compliant with independence procedures. Cases of non-compliance mostly relate to the required updates of our tracking system for personal investments (KICS) and timely completion of the annual compliance confirmation or annual independence training.

All exceptions were subsequently followed up and resolved. In none of these exceptions was the independence of KPMG as a firm impaired. Sanctions were issued if warranted.

Compliance with our system of quality controls

We make a distinction between discipline-related and quality-related non-compliance. We recorded 57 quality-related instances during the reporting year (FY18: 91). Most of the cases related to quality performance review ratings and restatements of financial statements. Discipline-related exceptions mainly related to late completion of annual compliance affidavits or late completion of mandatory e-learnings during the reporting year. More e-learnings have been identified as mandatory in FY19 than was previously the case, resulting in an increase in discipline-related violations.

We received seven notifications in total (FY18: seven) through our complaints and whistleblower hotline. Of the seven, two related to other KPMG entities and have been forwarded to those entities for further follow-up. The remaining notifications have been followed up without any serious issues being identified.

Audit Quality Indicators

Our efforts to improve quality are also measured via Audit Quality Indicators that have – in part – been established with the Dutch sector organisation for accountancy, the NBA. The definition of these AQIs and the scoring system are not set precisely enough. This could result in differences in scores between accountancy firms that apply a more strict approach and those that are more lenient.

KPMG is in favour of consensus within the sector – and among societal stakeholders – about the establishment of a set of indicators that are considered to represent audit quality and that are homogeneously applied by all actors. This is something that KPMG also addressed in its submission to the public consultation organised by the Dutch Committee on the Future of the Audit Sector (CTA).

KPMG Audit Quality Indicators	NBA AQI ref.	FY19	FY18
GPS and Pulse survey results related to coaching and audit quality	AQI 6.a	88%	87%
Culture survey	AQI 6.b	81%	82%
Investments in development of new audit technologies and tools	AQI 3	1.8%	1.3%
Partner involvement (OOB)	AQI 1.a	10%	9%
Partner involvement (non-OOB)	AQI 1.b	7%	6%
Hours spent by IT and other specialists (OOB)	AQI 11.a	18%	20%
Hours spent by IT and other specialists (non-OOB)	AQI 11.b	6%	5%
Chargeable hours	AQI 2	62%	62%
Retention of Audit professionals	AQI 5	86%	86%
Training hours per Audit professional	AQI 4	184	212
Technical resources support	AQI 7	5.7%	(a)5.6%
Percentage of technical consultations	AQI 8	14%	12%
Percentage of EQCRs	AQI 9	32%	30%
Number of hours spent on EQCR (as % of total hours on EQCR)	AQI 10	0.9%	1%
Number of restatements	AQI 14	1.7%	1.1%
Results from external inspections	AQI 12.a	0	n/a
Results from internal inspections	AQI 12.b	75%	68%
Independence violations	AQI 13	0.8%	0.5%

Note: (a) Corrected for data error in previous KPMG integrated report (reported in FY18: 5.1%).

Stakeholder dialogue

We designed and implemented a formal stakeholder management programme to help capture issues and expectations as well as to maintain dialogue once initial contact has been made. We have a yearly agenda with selected topics, and stakeholder engagement is based on those topics and appropriate timing. Based on the volume of interactions or the importance of the relationship we have selected the following stakeholder groups as being the most relevant for our activities, both inbound and outbound.

Who are our stakeholder groups?	Why they are important to us?	How do we interact with them?
Employees	Employees provide the knowledge, skills and expertise necessary to deliver our services to our clients.	We constantly engage with our professionals through multiple internal communication channels, employee events, on the job training and through performance and development management. We hold regular meetings to discuss all aspects of our culture and the impact of our work on society with, among others, the works council. We measure perceptions during our Global People Survey.
Partners	Partners provide financial capital to support the firm’s business model and activities. Partners also lead engagement teams in our service delivery to clients.	We hold quarterly partner meetings informing them about the financial and operational performance of the firm as well as recent developments. In addition we interact during regular development meetings where we discuss both business performance and the personal development of each individual partner. We measure perceptions during our Global People Survey.
Clients and those charged with governance	They are the first-line consumers, using our services and insights to achieve and manage their own goals and objectives.	Communicating and engaging with clients is undertaken in many ways, such as during our service delivery, client satisfaction surveys, Client Connect visits by our Board members and client events (e.g. roundtables), including our Supervisory Board programme RAAD.
Suppliers and business partners	Suppliers and business partners provide products and services that enable us to conduct our activities. In some cases we opt to co-create relevant assets.	We request our contracting parties and suppliers to agree with our Supplier Code of Conduct in which we ask for their acknowledgement of the standards mentioned in the UN Global Compact.
Professional bodies and academia	Academia and professional bodies provide us with new insights into professional standards or scientific evidence for activities and practices that allow us improve the quality of our services.	A number of our professionals and partners participate in professional body working groups, that aim of which is to advance knowledge on topics for the professions as a whole. We also have among our people a number of academics who are active in universities and/or business schools, contributing to the education of the next generation of professionals.
Government and politics	Government determines the context and boundaries within which we conduct our activities through legislation and amendments.	We meet politicians as part of our regular stakeholder engagement programme and provide insights into relevant developments to support informed decision-making.
Communities and society	Communities and society partner with us in our social and educational development programmes.	We have a formal CSR programme in place focusing specifically on the Sustainable Development Goals (SDGs) of Good Health/Well-being, Quality Education and Climate Action, including our own Make it Happen fund and the Jan Hommen Scholarship.
Regulators	Regulators provide an independent assessment of the level of quality we deliver in audit engagements so that we can continuously improve our work.	We are under continuous supervision by AFM and PCAOB who perform periodic reviews of engagement files and our system of quality controls. We meet on a quarterly basis with AFM or more frequently if required. Other regulators apply an annual interaction cycle.
Users of financial statement information	Ultimately the users of financial statement information give us feedback on the relevance of our work.	During annual general meetings of shareholders we take the stage, present our main audit findings, and answer questions from the audience. In addition we have regular contact with representatives of users such as VEB and Eumedion to discuss concerns, issues and topics they view as important – from both an auditee and auditor perspective.
The media	The media are an important go-between in shaping our reputation and public opinion.	We engage with our extended stakeholders through the media to voice our views and opinions as well as participating in debates and conversations about our sector and profession. We educate journalists on how to read financial statements which allows them to write better and more informed articles.

Creating shared value

As one of the largest firms in the professional services sector, we bear a responsibility towards the world around us. Through the clients we advise, the people we employ and the communities we reach, we are committed to contributing to a fair and sustainable world. KPMG has committed itself worldwide to contributing to the 17 Sustainable Development Goals (SDG) of the United Nations. In our Corporate Responsibility strategy, we primarily focus on three of the 17 SDGs, while taking the other goals into account: Good Health and Well-being; Quality Education; and Climate Action.

In FY19, the Board of Management decided to introduce a revised pro bono programme for KPMG. The principle of this programme is to make four hours per person per year available to contribute to the priority SDGs through selected programmes. We call this programme the ‘12K Ambition’, referring to our ambition to deliver 12,000 hours of pro bono work by FY21.

KPMG Jan Hommen Scholarship

An example of our pro bono programme is the KPMG Jan Hommen Scholarship. Since 2016, the KPMG Jan Hommen Scholarship (KJHS) is one of our main community projects. Through the Jan Hommen Scholarship Foundation, KPMG grants a scholarship to vulnerable young people with an MBO (vocational education) background. KPMG sponsors these students, for up to a maximum of four years, in the form of a scholarship worth €2,500 per year, as well as the gift of a refurbished laptop. The KJHS is created and executed in cooperation with the not-for-profit Stichting StreetPro.

KPMG Jan Hommen Scholarship since 2016:

— 80 students participated in the development day;

— 24 students participated in the bootcamp;

— 20 students still in the programme;

— 6 students graduated/successfully completed the scholarship programme.

KPMG SoProfessioneel

KPMG SoProfessioneel is another pro bono project and constitutes a training programme specifically aimed at improving the personal and professional skills of single parents. The programme was set up in 2015 by a group of KPMG consultants together with the not-for-profit De Hippe Heks. KPMG SoProfessioneel is carried out in cooperation with another not-for-profit, Emancipatiecentrum Vrouw & Vaart. In FY19, 12 women received the certificate showing that they had successfully completed the programme.

Community investment in hours

# hours	FY19	FY18	*Variance*
Unskilled volunteer work	1,544	1,123	*37%*
Skilled volunteer work, including pro bono engagements	1,648	856	*93%*
Total	**3,192**	**1,979**	***61%***

2019 KPMG Jan Hommen Scholarship participants and their coaches

Laureano

“I feel the things I’ve experienced could break me or make me, and they made me what I am today.”

Our footprint

Through our Global Climate Response (GCR programme) KPMG aims to further reduce our environmental impact across our global network. Our emissions reduction target is a 10% net reduction per full-time equivalent (FTE) between 2016 and 2020.

In calendar year 2018 (CY18), we saw an increase in our total CO2 emissions of 6.7%, caused by a rise in air and car travel. Actions taken in this area since then include adapting our mobility policy to put a strong focus on promoting electric vehicles and encouraging employees to share cars. We also cut short-haul flights. Additional adjustments to our mobility policy are expected in FY20.

Environmental data	CY18	CY17
Natural gas consumption (in MWh)	0.836	0.970
Electricity consumption (in MWh)	5.20	5.67
Renewable electricity consumption	97%	96%
Paper usage (in kg)	43,145	46,141
Total waste (in kg)	219,983	231,992
Recycled waste (in kg)	209,174	209,403
Water usage (in 1,000 litres)	9,881	8,052
Air travel (in 1,000 km)	24,559	21,050
Car travel (in 1,000 litres)	3,630	3,428
Rail travel (in 1,000 km)	2,901	2,323
Total CO2 emissions (in tonnes)	17,047	15,970
Emission reductions (renewable energy and VER) (in tonnes)	-17,047	-15,970

We achieved a 5.2% reduction in our total waste in CY18. Furthermore, an average of 97% of the electricity purchased by KPMG in 2018 was procured from renewable energy sources. In addition, the amount of paper we procured in 2018 decreased for the third consecutive year, with 6.5% less paper used than in 2017.

We offset the CO2 emissions that were not reduced by investing in gold standard Voluntary Emission Reductions (VERs). In this way we carry out our services and engagements CO2-neutrally.

Our energy consumption (gas and electricity) and water usage is partly based on data that is extrapolated.

Climate-related risks and opportunities

We believe that our contribution to mitigating climate-related risks is through helping clients to understand the potential effects of climate change, determining the impacts of certain climate scenarios, establishing management, reporting and monitoring systems, and ensuring the appropriate disclosure of the financial risks associated with climate change.

The increasing acceptance of the opinion that climate change and other sustainability issues create risks for companies has triggered increasing interest from investors and requires harmonised disclosure. This has led us to contribute to the work of the United Nations Task Force on Climate-Related Financial Disclosures (TCFD) since its inception in 2016. There are increasing calls, including on the part of KPMG, for a model in which a worldwide standard is set for the disclosure of non-financial (including sustainability-related) information to investors.

As part of our efforts, on behalf of KPMG, Wim Bartels (partner Corporate Value in Control at KPMG Sustainability and Global Leader for Climate-related Risk Services) has led the Better Alignment Project of the Corporate Reporting Dialogue – a group that convenes eight international standard setters and frameworks, including IASB and FASB. The Better Alignment Project is a ground-breaking, two-year project that aims to harmonise reporting on sustainability.

KPMG also supports the development of new indicators for the circular economy. Under the flag of Factor10 of the World Business Council for Sustainable Development (WBCSD), 25 global companies have joined together to co-create Circular Transition Indicators.

Keeping track of our impact

UN Global Compact

KPMG Netherlands is a signatory of the United Nations Global Compact (UNGC) through our member firm affiliation with the KPMG International cooperative. 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 request our contracting parties and suppliers to agree with our Supplier Code of Conduct in which we ask for their acknowledgement of the abovementioned standards.

As part of our ongoing commitment to quality and progress, our CR achievements are regularly monitored.

EcoVadis – Gold medal

KPMG the Netherlands was awarded the gold standard by EcoVadis, an independent platform that assesses the quality of a company's CR management system through its policies, actions, and results. This result puts KPMG Netherlands among the top 5% of performers evaluated by EcoVadis.

ISO 14001 – Recertification

In FY19, our environmental management system was successfully audited according to the ISO 14001:2015 standards. This comprised a recertification that objectively demonstrated that our environmental management system is robust and advanced. KPMG was one of the first of the Big Four in the Netherlands to gain the ISO 14001 certificate in 2013.

People – The best development experience

Our People are Extraordinary

Our clients expect value and we can only deliver on that promise through the knowledge, experience and behaviour of our extraordinary people. It is essential that we continue to enhance the attractiveness of KPMG as an exciting firm with a long history but even more importantly, an opportunity-rich present and an exciting future. We focus on creating a work culture that offers the best learning experience and broad development opportunities, and urges people to fulfil their full potential.

In FY19 we welcomed our new chief HR officer as head of People, with the goal to further drive and accelerate the delivery of our 'People Agenda' as part of our 'Trust & Growth' strategy. This agenda is shaped by five pillars, each of which is discussed in this section:

— Inclusion and diversity;

— Innovative and data-driven recruitment;

— Talent development;

— Sustainable employability;

— Rewards and recognition.

Alex Baggerman
Head of People Development & Reward

"Learning something every day, with content that fits in with the individual employee's personal needs: the introduction of the new learning platform Degreed made it possible. Everybody at KPMG can now quickly and easily find and share all learning resources on Degreed: courses, articles, videos, books and more.

Everything is in one place, both mobile and on the desktop while each day features recommended content that is necessary to boost our skills.

The KPMG Young Board

In 2018, KPMG launched the KPMG Young Board. The Young Board is a group of eight engaged and energetic young people under the age of 30, who challenge and provide insights to the Board of Management on various strategic themes. Some examples include our branding, workforce of the future, culture, market focus, our key propositions and the digitalisation of our firm. The Young Board selects its own succession and provides input and reflection to the Board of Management and the leadership teams on significant, companywide topics, adding the perspective of the young generation of KPMG people to our Trust & Growth strategy implementation.

Photo: KPMG Young Board Now. From Left to right / up-down: Hessel van Straalen, Irene Waterweg, Lisanne van der Hijden, Mourad Fakirou, Carlijn van Dam, Hermi van Zyl, Margot van der Bijl, Vincent van 't Verlaat

The engagement of our people is one of the most important ways of knowing if we are on track with our ambitions. Employee engagement is measured annually in the Global People Survey (GPS). In FY19, the KPMG Global People Survey introduced a new way of measuring engagement. For comparison purposes, the previous index was measured as well. The main reason for an updated definition of the engagement score was to have a broader set of metrics that better reflect what our people consider important.

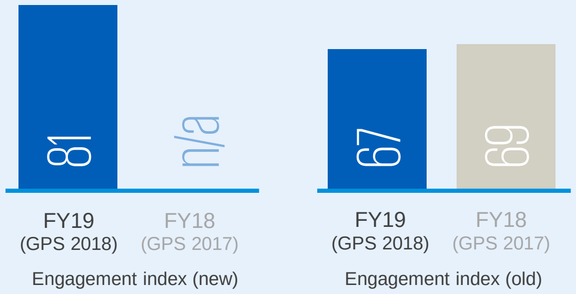
The minimal decline in the overall employee engagement score was a result of decreased scores in our people's ability to articulate our strategy upon the launch of Trust & Growth, and the need to adjust aspects of our rewards and recognition. We scored higher for diversity and inclusion, quality and risk, collaboration, learning opportunities and well-being. In response to the survey we have worked on an improved rewards and recognition framework (see further in this section) and intensified the communications about our strategy. We expect to see improved scores in these areas in the coming year.

Inclusion and diversity

For KPMG, inclusion and diversity are both business and moral imperatives that build trust and growth and compel us to stand up for what is right. Diverse teams are more likely to be innovative and excel in their performance. Inclusive work cultures that embrace ethical behaviour allow our people to position themselves for success. To us an inclusive culture goes far beyond gender. It is about the different aspects of a person such as, in addition to gender, cultural background, personality, ability, personal characteristics and stages of life.

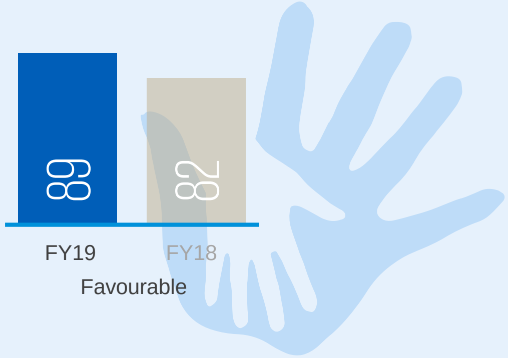
An inclusive work culture is a working environment where people feel they belong and can be their whole selves. We are satisfied that our people survey shows that with our action-oriented focus, we are successful in achieving further improvements, as shown in the bottom right chart.

Employee engagement
(On a scale of 100)



Inclusion and diversity
(On a scale of 100)

"I can be myself at work without worrying about how I'll be accepted."



Unbiased processes

In our view, if you cannot lead a culture of inclusion within a diverse team, you cannot lead a business. We treat inclusion and diversity as a business priority. This means that in FY19 we set targets and made our leaders accountable. We put the focus on unbiasing our processes and we monitored the equitable and fair application of our systems across genders.

Diverse leadership

In FY19, among our Group Leadership Team, 50% were females. On our Board of Management, 25% were females, and on our Supervisory Board 33% were females.

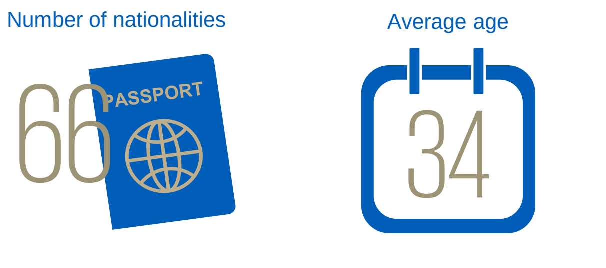
Inclusion and diversity action plan

This is our 10-point action plan for inclusion and diversity:

1. Diversity is a business priority and we set related targets to hold leaders accountable;
2. We review the equality and fairness of our processes for promotions, performance and pay rises;
3. We have ensured that there is no gender pay gap and will monitor pay equality going forward;
4. We address bias through diversity awareness training for leadership e.g. 'Beat your Bias';
5. We measure the performance of our leaders on inclusion through our Global People Survey (GPS);
6. For FY20, we have set a KPI to ensure there is 6% of cultural diversity in senior positions;
7. We continue to create gender and cultural two-way mentoring programmes;
8. In FY20, we will have an intercultural work-free celebration day for all staff;
9. We continue to contribute actively to all diversity networks of which we are a member;
10. We actively support gender and cultural diversity in leadership positions.

Dashboard

At this point, we do not measure cultural diversity. We are looking for ways to (voluntarily) measure this in the coming year. The status of our (gender) diversity at this moment is as follows:



Diversity in our workforce[(a)]	FY19	FY18
Female employees	39%	38%
Female partner/directors	18.5%	17.6%
Female board members	25%	25%
Female Supervisory Board members	33%	33%
Female Group Leadership Team members	50%	n/a
Female hires	41%	37%

Note: (a) Measured at 30 September, based on headcount, number of employees excluding contractors, interns and KPMG International.

Inclusive highlights

Continuation of 'Meer Kleur aan de Top'
KPMG contributes to a research programme of the Vrije Universiteit Amsterdam that relates to the question of how to achieve more culturally diverse leadership in top positions.

KPMG Pride
We intensified our learning opportunities at organisations such as Workplace Pride. We held a special KPMG Pride Lunch event to discuss the challenges faced by LGBTQ colleagues within our firm. Overseen by one of our board members, we raised the Rainbow Flag on International Coming Out Day during Amsterdam Pride Week.

The Ability Coaching Programme
A programme that supports lasting acceptance of employees with a disability or chronic illness. Additionally, we work together with organisations that promote the recruitment of IT specialists with autism spectrum disorder.

Cultural Diversity Awareness Programme
KPMG celebrates festivities from other cultures. Hundreds of our colleagues participated in 'Ramadan for a day' or joined the Diwali event. From FY20 onwards, one Christian holiday can be exchanged for a holiday from other cultures. For example, exchanging Pentecost for the Sugar Festival.

Charter Cross-Cultural Mentoring Programme
In FY19, the first KPMG participants took part in the Charter Cross-Cultural Mentoring Programme. This programme ties in with our ambitions of increasing cultural diversity at leadership level.

Innovative and data-driven recruitment

In order to attract, select and screen talented professionals, we strive to have the most innovative recruitment experience.

To do this and make it as personal and relevant as possible, we have invested in digitalising our processes based on innovative tooling. This helps us to minimise administrative and repetitive tasks, overcome unconscious bias and build a data-driven recruitment process.

In FY19, KPMG launched a completely revised employer branding campaign targeted at specific audiences, and a renewed and data-driven career site. This is helping us to further increase our reach in attracting top talent for our organisation.

Over the past year, we hired approximately 800 new talents (FY18: 600) and more than 500 interns.

FTEs per function	FY19	FY18
Assurance	1,771.4	1,709.5
Advisory	1,292.3	1,119.4
Corporate	498.8	453.5
Total	**3,562.5**	**3,282.4**

Note: As at 30 September of respective years, including inbound and outbound staff and global functions. As at 1 October 2018, Audit was renamed Assurance. The Business Assurance function, that was part of Advisory in FY18, moved to Assurance. Numbers in FY18 are corrected for this, for comparison purposes.

ONE KPMG Onboarding

During the ONE KPMG Onboarding in FY18, 768 new colleagues, joining KPMG Assurance, Advisory and Business Services, dived into KPMG's world for three days. The programme addressed the KPMG Story, our values and culture, markets and clients. This programme is designed to help new employees to get to know KPMG and each other through various (including outdoor) activities. The new colleagues, from campus recruits to equity partners, are motivated to reflect on their own personal purpose and personal development. In this way we give our new employees a solid grounding so they are up and running as soon as they start in their new job at KPMG from day 4.

Talent development

We attract top students and experienced hires and we are committed to supporting them in their 'Best Development Experience' to reach their full potential in their professions and as leaders.

In this, a digitally-enabled, tailor-made curriculum plays an important part, along with challenging engagements and peer-to-peer coaching. We have invested significantly in our specialist, person-to-person oriented Learning & Development. This focus on the development of our people will continue in the coming years, and some examples are given on this page.

Digital MBA

KPMG has an ambition to play a leading role in empowering the digital transformation of society. In order to mobilise every single leader in our firm to adopt that strategy, KPMG started the Digital MBA programme. This course furnishes all partners and directors of our firm with the knowledge and skills to help make KPMG successful in the digital era.

KPMG's Digital MBA supports this by creating one language about digital transformation and developing the required organisational digital leadership skillset. A Digital Academy for all employees is being developed in order to onboard every KPMG colleague on the journey to 100% digitally enabled solutions.

Degreed

We implemented Degreed, a lifelong learning platform that is used to discover learning content, develop skills, and certify the necessary expertise to deliver the best quality to our clients. Degreed supports our employees to track, share, curate, and validate their learning and skills from any source, including but not limited to: live and online courses, articles, blogs, videos, podcasts, work experience, skills, and events.

Since its launch in FY19 the platform has grown quickly and now facilitates the learning and development of 2,571 active users through a digital pathway, allowing all our employees to design their own development curriculum that is tailor-made to their needs and professional requirements.

Refresh of Development manager training

This year we introduced a new training developed especially for our Development managers. This role is key to delivering on our promise to provide the Best Development Experience to all our employees.

Through investing in our people leaders we enable them to become more effective in their roles and facilitate our employees to optimise their talents and performance.

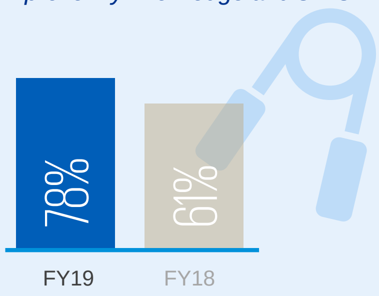
Career Development Centre

This year KPMG launched the Career Development Centre (CDC), encouraging internal employee mobility.

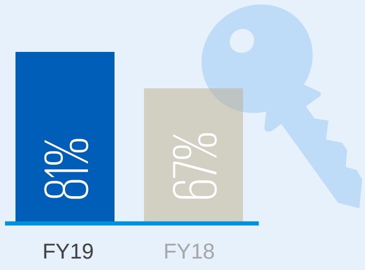
The CDC provides on- and offline insights into the career possibilities within KPMG and shares open vacancies, both short- and long-term. Because development starts with insights into one's own talents, the CDC offers career interviews and development assessments, allowing our people to gain insights into their preferences for certain roles and personal competencies.

Appreciation of learning within KPMG

"I am satisfied with the learning and development available to improve my knowledge and skills"

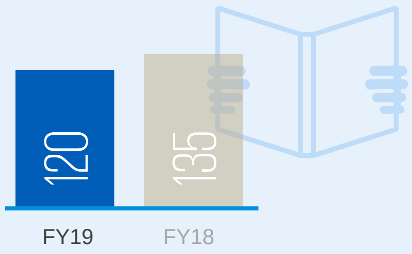


"I am able to access relevant training when I need it|



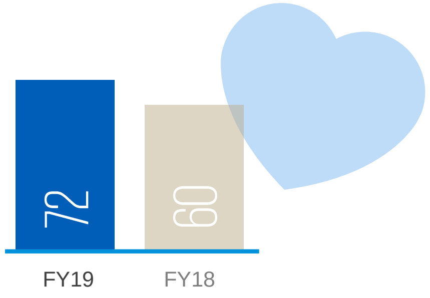
Source: Global People Survey

Average training hours



Sustainable employability

KPMG is committed to providing a work climate and culture that enables our employees to work in a productive, motivating and healthy way throughout their entire career. This includes our programmes to strengthen people's resilience and well-being, as well as ensuring a healthy work-life balance. In the Global People Survey, the response on the well-being indicator improved significantly from FY18 to FY19:



Personnel assessment of their own well-being at KPMG (on a scale of 100)

KPMG Health & Vitality team

Our Health & Vitality team aims to develop and embed specific policies related to health, safety and vitality in our organisation, providing awareness programmes as well as a vitality calendar which was launched in FY19. This supports our employees by allowing them to choose from different options that are suited to their specific individual needs. Some examples are:

— New Parent Programme;
— After Working Day Bootcamps;
— Company Counselling;
— Balance Room;
— Health Checks (Physical and Mental);
— Eyesight Checks;
— Birthmark Checks;
— Living a Healthy Life (e.g. stop smoking, how to eat healthily);
— Drive Safely;
— From Stress to Balance.

Age consciousness

The KPMG Health and Vitality team carried out research together with the KPMG Career Development Centre on the needs of each phase of life and each individual. The outcome of the research will be used to further optimise the vitality, well-being and health of our employees in different life stages.

Absenteeism

In FY19, our absenteeism was as low as 2.4%. This is a small increase from 2.2% in FY18, but is still below the Dutch national average and lower than the average in the Dutch financial sector. Our efforts to prevent absenteeism are continuing. A 'frequent absenteeism manual' has been developed, enabling our Development managers to discuss frequent absences of employees in order to prevent long-term absenteeism.

Investigation by the 'Inspectorate SZW'

The Dutch Inspectorate SZW, the general labour inspectorate, conducted sector-wide research into psychosocial/mental aspects of working in an assurance practice. The Inspectorate conducted an exploratory study into the psychosocial workload at KPMG Assurance, for which a number of interviews with KPMG employees were held. We are pleased with the positive conclusions drawn by the Inspectorate, confirming that we are effective in our health, well-being and vitality strategy, policies and programmes.

Rewards and recognition

In FY19 we reviewed our compensation & benefits policy versus societal and market trends. The implementation of our revised rewards and recognition policy updated our employment terms and conditions, and will allow us to continue to recruit and retain top talent now and in the future. To ensure that we aimed our efforts and investments at the right priorities across competencies, life stages and groups, over 1,800 staff members were consulted for their opinions on the existing policies and their preferences for the future. This allowed us to weigh everyone's interest. A set of changes were made covering a range of aspects within our compensation and benefits landscape. Some examples include specific changes to the base salary, an improved lease car policy incentivising the use of electric cars, increased flexibility in terms of leave and study schemes and the possibility to exchange a Christian holiday for an employee's own cultural festivity of choice.

The way forward in FY20

To deliver our Trust & Growth strategy, we are working to further strengthen and embed the cultural attributes and behaviours of inclusive collaboration, high performance and fast innovation. The KPMG of the future is collaborative, diverse, innovative, and makes a strong, positive difference to organisations, clients and society. This is at the heart of what we aim to deliver: people-driven progress.

Clients and Technology

Clients – Agile or irrelevant

The CEOs of all types of organisation are writing a new chapter on organisational resilience – one that focuses on agility and targets growth. Agility, because risks come from all angles (including climate change, disruptive technology, territorialism). While CEOs might be truly confident of their own businesses' prospects, confidence in the global economy is falling. And, with business model lifecycles shortening, the ability to be agile and actively self-disrupt will be critical.

Many CEOs are looking to create and sustain a culture of innovation, to drive agility by rethinking the operating model. They are masterminding a fundamental reboot of skills and technology, accelerating the adoption of advanced technology and undertaking the wholesale upskilling of their people.

KPMG aspires to be the first choice of trusted advisor to support organisations in realising their ambitions and challenging the status quo. After all, implementing agile approaches at an individual project level is relatively straightforward, but one-off initiatives will not usually have an enterprise-wide impact. This requires a fundamental rethink of the company's operating model.

Client experience

KPMG has developed a global framework for business development: the KPMG Way. This framework is supported by methodologies, tools and resources to help our people create a common, consistent and client-centric approach to every client across every country. By using

Jeroen Vlek
Director of Digital Assurance and Innovation

"The digitalisation of Audit & Assurance creates new ways we can help stakeholders, for example by providing assurance on artificial intelligence or robotics. Also, by enabling our teams with digital solutions, they can focus more on what really makes a difference, spending less time on administrative and repetitive tasks. We substantially exceeded our announced target of a thousand audit innovation deployments in FY19.

the KPMG Way methodologies, tools and resources, our people can better engage with our clients in understanding their issues, and help them to achieve their business objectives. We strive to provide a distinctive client experience, every time, everywhere.

To this end, we are focusing on the (digital) customer journey and implementing features to ensure that our clients really experience a distinct level of service from KPMG. Additionally, we have invested significantly in training and awareness in client relations and sales culture, making sure that our conversations with clients are targeted to their needs.

A newly established Strategic Account Management programme ensures that we are able to deliver on our promises, as can only be expected from the best.

Client engagements

It is vital for any company to continuously improve on the number of client engagements won. This requires a structured approach to the market with relevant propositions. In FY19 we expanded our brand campaign into consistent marketing campaigns for sales and awareness purposes, generating interest in our entire service offering among clients and potential clients alike.

Together with a more dedicated focus on pipeline management, we have achieved a step-change in KPMG's market approach. Looking forward, we see marketing automation initiatives being used in the near future. All these initiatives will be supportive and relevant in the context of the upcoming round of mandatory audit firm rotations, based on the principle which requires audited firms to change their auditor every ten years.

For KPMG, this principle is of the utmost importance, and we have established a project management office to guide the organisation through this period of opportunities.

Client satisfaction

To ensure both our relevance and client satisfaction, we continuously gather feedback in a combination of face-to-face interviews and online surveys. The feedback 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 swiftly.

Our Client Satisfaction Programme consists of three types of review: online reviews at engagement level, personal interviews at C-level with our top national and regional clients, and personal interviews after proposals with a certain minimum fee.

The decision about which clients will be interviewed is made by KPMG senior management, with the guideline that partners initiate online reviews on every client engagement they perform. Our leadership teams monitor the progress and outcome of all online and personal reviews. In FY19, we saw a 20% increase in the participation in our programme.

This voice of the client helps us to focus on our service delivery every day. Although our client satisfaction rating dipped slightly in the past year, as shown in the table alongside, the long-term trend is still positive, with the overall combined score increasing from 92% in FY17 to 94% in FY19. This is the result of the actions we have undertaken to keep client satisfaction high (with an ultimate target of 95%).

Meanwhile, our net promoter score for Audit decreased slightly in FY19, while at the same time it increased by four points for Advisory.

	FY19	FY18
Client satisfaction		
Audit	91.0%	86.0%
Advisory	98.0%	99.5%
KPMG net promotor score		
Audit	24	26
Advisory	64	60

Technology: 100% digitally enabled solutions

Our clients' needs have always been at the centre of our attention at KPMG. Over the past few years we have seen a change in our clients' demands in several areas. Our clients not only require top-notch knowledge in the field of audit, assurance, deal advisory, risk management or business consulting, but also ask us to provide the relevant software solution to underpin that knowledge. It is 'the new normal' that our clients actively ask us to provide digital services for consulting, audit services and other solutions. This is why KPMG started its own digital journey several years ago and continuously invests in a relevant portfolio of digital solutions for our clients. Our 'digital sales' are growing, accounting for 7.6% of Advisory revenues this year. KPMG uses an active 'build, buy, partner' strategy in order to build this portfolio.

In last year's annual review we described our investments in Innovation Factory. We also described the development of KPMG's Digital Risk Platform and KPMG's Sofy suite. This year we have taken considerable steps again. Below, we will highlight a few examples. We also took many active steps to empower our entire workforce to stay relevant in the digital era, learn about the latest emerging technologies, and understand the dynamics of digital business models.

Technology in audit

KPMG is deploying our digital audit platform, 'KPMG Clara'. KPMG Clara is a KPMG global integrated platform that houses our existing digital capabilities such as general ledger & sub-ledger analytics, automated audit procedures, process mining, pattern analysis and our client collaboration portal. It has been designed to incorporate new capabilities as they become available based on our global development roadmap and as generated by individual member firms.

On top of the KPMG Clara platform, our audit innovation team Daní developed and deployed numerous smart audit solutions, leveraging (emerging) technologies such as dynamic risk assessment, robotic process automation, computer vision, machine learning and data & analytics. These solutions drive audit quality and efficiency, and provide client insights. We substantially exceeded our announced target of a thousand audit innovation deployments. This shows the viability of technology and offers a promise of a more digitalised portfolio for our clients in the coming years.

Digitalise the firm

Providing digital solutions is relevant for all our employees and is not exclusively the realm of our IT consulting team. Therefore we invested heavily in the education of our staff in emerging technologies and relevant aspects of digital business this year.

— We invested in an online learning platform. Through this platform our staff followed courses around coding, artificial intelligence and machine learning. Training was also provided in soft skills like storytelling. Finally, training was delivered on many digital business topics like design thinking, customer centricity, platform business models, the data economy and working in ecosystems.

— We created four digital podcasts to explain to our entire staff KPMG's digital strategy and how to make it work.

— We provided our partners and directors with a so-called 'Digital MBA'. This training was tailor-made for KPMG by a highly regarded business school.

The growth of our digital portfolio

With Sofy, KPMG provides an integrated suite of SaaS services to our clients. This platform also allows us to provide KPMG IP through a standardised SaaS service. Five years ago Sofy started with a focus on GRC solutions. Since then we have also developed solutions in the fields of tax, procurement and data quality.

Last year, the Sofy team trained many engagement teams in other KPMG member firms. This has now led to the adoption of the Sofy platform in countries like Australia, Brazil, Germany and the UK.

Leveraging our international network

Connected Enterprise

KPMG-commissioned research by Forrester revealed that the most successful organisations invest in eight capabilities that span all the attributes of the customer experience, resulting in a connected organisation that goes beyond cross-channel interactions. Based on those eight capabilities KPMG developed a Connected Enterprise framework to advise our clients about their digital journey. In FY19 KPMG created a new team combining all the necessary skills to help our clients in these eight areas.

In this team professionals with backgrounds in areas including strategy, data & analytics, digital, marketing strategy and customer experience now work together to help our clients to achieve an end-to-end digital transformation.

Powered Enterprise

Our IT consultants have served our clients in IT implementations for many years. In FY19 KPMG launched the Powered Enterprise methodology. This methodology builds on decades of experience and investment in business processes and technology applications to provide a low-risk route to transformation. A truly integrated solution consists of a powered operating model, execution suite and managed services. Then in FY19 a dedicated Dutch team was formed for Powered Enterprise, working closely together with the global team.

Leveraging our partnerships

We described above several of the platforms that KPMG in the Netherlands has been developing. Other digital solutions are currently under development. We also leverage our partnerships to provide relevant digital solutions to our clients.

— KPMG's Digital Risk Platform (DRP) and Microsoft have formed a strategic partnership to co-develop a top notch platform to support our clients in their risk processes. DRP brings together KPMG's unique intellectual property regarding risk and compliance and combines it with Microsoft's strong technology track record.

— KPMG is a proud partner of Outsystems and was awarded 'partner of the year' for FY19. We have leveraged the partnership by for instance creating a IFRS 17 solution on the platform.

— Celonis provides software for process mining. This year we built a solution – as part of KPMG's Connected Enterprise methodology – to use the process mining software for digital strategy assignments and also to optimise processes like purchase-to-pay, order-to-cash and other business processes.

Leveraging our ecosystem

In a digital world no organisation can be successful on its own. KPMG has partnered with several important partners in our ecosystem. Below you will find three inspiring examples:

— The Next Web: In FY16 KPMG was one of the founding partners of Tech Quarters (TQ) in Amsterdam, together with ABN AMRO, Google and Booking.com. Many Dutch start-ups have been able to reach the scale up phase through TQ, partly also with the help of our partners. KPMG decided this year to extend the partnership again to create relevant connections with start-ups and tech workers. This year KPMG infused the start-up community with knowledge about the ethics of AI and the platform economy;

— Epicenter: KPMG is a partner of Epicenter, a corporate innovation centre in the city of Amsterdam. At this inspiring location our teams have been connecting with clients regarding digital transformation and innovation;

— Holland PropTech: KPMG is a strategic partner of Global PropTech: an international innovation platform for the real estate sector. Together PropTech and KPMG have the mission to advise the real estate sector about digital transformation and innovation.

Audit and advisory fees

The tables provide a breakdown of the firm's revenue for FY19 segmented by service type. All amounts are based on our taxonomy of services and are provided per client legal 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.

We used the Dutch OOB definition as per NBA practice guideline 1138 to arrive at the segregation of revenue provided in the tables. 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 addition, in accordance with IFAC thresholds, no one audit client accounted for more than 15% of the total audit fees received by the firm in FY19.

€m	Statutory legal audits		Other statutory audits		Other audit reports & assurance (-related) reports		Total assurance services		Advisory services		Other services		Total	
FY19														
Statutory legal audits – OOB clients	49.9	*76%*	2.6	*4%*	13.6	*21%*	66.1	*100%*					66.1	*100%*
Statutory legal audits – Other clients	107.3	*79%*	13.3	*10%*	8	*6%*	128.6	*94%*	7.6	*6%*			136.2	*100%*
Statutory audits – Other clients			57	*78%*	8.4	*12%*	65.4	*90%*	7.4	*10%*			72.8	*100%*
Other audit reports and assurance (-related) reports – Other clients					8.5	*17%*	8.5	*17%*	41.8	*83%*			50.3	*100%*
Other clients									184.0	*90%*	21.0	10%	205.0	*100%*
Total	**157.2**	***30%***	**72.9**	***14%***	**38.5**	***7%***	**268.6**	***51%***	**240.8**	***45%***	**21.0**	**4%**	**530.4**	***100%***
FY18														
Statutory legal audits – OOB clients	37.7	*60%*	4.3	*7%*	20.6	*33%*	62.5	*100%*					62.5	*100%*
Statutory legal audits – Other clients	96.5	*78%*	14	*11%*	5.9	*5%*	116.3	*94%*	7.8	*6%*			124.1	*100%*
Statutory audits – Other clients			53.4	*81%*	4.5	*7%*	57.9	*87%*	8.3	*13%*			66.3	*100%*
Other audit reports and assurance (-related) reports – Other clients					10.2	*20%*	10.2	*20%*	40.7	*80%*			50.9	*100%*
Other clients									162.3	*89%*	20	10%	182.3	*100%*
Total	**134.1**	***28%***	**71.6**	***15%***	**41.2**	***8%***	**247**	***51%***	**219.2**	***45%***	**20**	**4%**	**486.1**	***100%***

Table: Segmentation of revenue and other income per type of service in €m.

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Financial Strength – Long-term above-average growth

Introduction

The financials for the firm are presented in the financial statements section of this report. 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 increased in FY19 by €43.3m or 9.3% to €509m. In our Assurance segment revenue increased by 7.5%. Revenue in our Advisory segment increased by 11.8% in FY19. Employee expenses increased by 7.4%, as a result of an increase of professional staff (10%), driven by additional staff hiring within our Assurance and Advisory businesses. Business Services staff also increased, mainly within HR, Marketing, Finance and Legal. The average number of equity partners decreased by 1 FTE to 138 FTEs.

Profit before income tax increased by 2.7% to €64.1m in FY19 which was driven by the growth in both our Audit and Advisory businesses. This was partly offset by additional investments in quality and innovation and value adjustments on certain of our assets. Going forward, we will continue to make significant investments in the further improvement of our quality and innovation. Only a limited part of the income tax expense is accounted for in the profit or loss account of KPMG because of an arrangement 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.

“

Rob Kreukniet
COO KPMG N.V.

I am proud of the high revenue growth we achieved in FY19. A part of this higher growth is achieved by large digital transformation projects. This is a first step in outperforming the market in the digital era.

The income tax expense takes into account temporary differences for which a deferred tax asset or liability has been accounted, as well as prior-year adjustments.

Contractual fees payable to Coöperatie KPMG U.A. amounted to €61.2m in FY19, an increase of €0.3m (0.5%) compared to the previous year.

Investment programme

In FY19, we continued our investment programme which is part of the execution of our Trust & Growth strategy. These investments relate to four underlying strategic initiatives: digitalise our firm, be a leader in selected propositions, be a frontrunner in client experience and deliver the best development experience for our people. Although the majority of these investments are expensed, the development of our digital assets (such as DRP and Sofy) has led to the capitalisation of €17m as intangible assets.

In addition, we have been investing and will continue to invest in the growth of our business through the expansion and renewal of our portfolio of services, in line with the shared, international KPMG vision and with a focus on technology-based consultancy such as cyber security and D&A, including research and development of relevant assets. In addition to our local investments in Sofy and DRP, we will leverage on global KPMG investments.

Capital expenditure on intangible assets in FY19 amounted to €17.1m (FY18: €5.8m) and mainly related to the development of assets and purchased software. Capital expenditure on property, plant and equipment remained limited (FY19: €4.5m; FY18: €2.8m) and was related to both replacement and new (software-related) investments.

During FY19 we continued our investments in audit quality and growth.

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 in the form of a contribution of up to €180,000 per partner as at 30 September 2019 to the Group's equity (30 September 2018: up to €160,000 per partner), and additional financing by partners as a result of the mandatory and voluntary loan programmes.

Total funding by the Cooperative as at 30 September 2019 amounted to €108.0m (30 September 2018: €91.2m), an increase than was the result of an increased financing per partner.

In addition, KPMG N.V. renewed its credit facility with its bank in FY19 for an amount of €50m, which can be used for both credit lines and guarantees. In the previous year, KPMG had a credit facility of €40m and a guarantee facility of €10m. Although the amount of funding increased compared to the previous year, the solvency ratio (taking into account equity and partner financing) decreased to 40.3% as at 30 September 2019 (30 September 2018: 41.0%), due to investments in software and increased trade receivables. Long-term partner funding at 30 September 2019 amounted to €61.7m (30 September 2018: €45.4m).

The Board of Management considers the capital and cash position of the Group to be healthy; it can withstand volatility and incidents within operations.

Business Services

Throughout this financial year, we continued to enhance the professionalisation of our Business Services departments with a focus on further improving quality, service and cost effectiveness. Priority has been given to the further integration of business services; bringing shared services together, implementing a 'one business services' vision and improving collaboration.

Initiatives have also been taken to unburden the organisation. Where necessary, we have improved the efficiency of our processes and strengthened our internal controls. During FY19 we will continue to work on the implementation of one integrated Business Services.

External codes of conduct

Most of the external codes of conduct we adhere to are mandatory and reflect either current laws and regulations, or policies and procedures issued by the Royal Netherlands Institute of Chartered Accountants. We monitor compliance with these codes of conduct and follow up on incidents of non-compliance as part of our regular oversight and compliance procedures.

As such, any incidents of non-compliance are included in our Compliance Office report. We refer to the section on 'Compliance with our system of quality controls' for further details.

5.

Governance and compliance

5. Governance and compliance

Supervisory Board report

Overview of the year

The Supervisory Board congratulates KPMG on its FY19 financial results. These results are solid with the concurrent delivery of above-average growth, increased profitability and a step up in long-term value-creating investments. These investments relate to underlying and pivotal strategic initiatives: to digitalise our firm, become the leader in selected propositions, be a frontrunner in client experience, and deliver the best development experience to our people. All are relevant for the overall goal of strengthening the position of KPMG.

Looking back at FY19, the Supervisory Board can conclude that KPMG has developed strongly in an environment that is becoming more dynamic, in terms of technology, economic developments and on the political front. It is a challenge for companies and institutions to retain the trust of society as a whole. KPMG has taken a large number of significant steps on the path to achieving this goal.

Given the dynamics in society, there is a great need for an assurance and advisory organisation that can offer certainty at a time when it is remarkably difficult to distinguish between facts and fabrications. The Supervisory Board is very pleased that KPMG is doing its utmost to become the clear choice to deliver this assurance.

In its advisory and supervisory capacity, the Supervisory Board has been supportive of the Board of Management in its ambition to raise quality and integrity to the highest possible level. We have concluded that over the past year these values have become even more deeply embedded in the DNA of the organisation and the people. In our view, the refusal to compromise on quality and integrity is essential to the future of KPMG. That the culture of KPMG is focused on quality has been confirmed by investigations of the AFM and internal assessments. The establishment of a Young Audit Quality Board and a Young Board are proof of how the management of KPMG is involving all generations in their Trust & Growth strategy, inevitably leading to cultural change.

The Supervisory Board has decided to convert the Public Interest Committee into an Assurance Quality Committee to support this more focused objective. This committee, led by Jolande Sap and involving all the members of the Supervisory Board, keeps the spotlight firmly on quality as the essential precondition to gain and retain the trust of both clients and society as a whole. This will remain a permanent element of the dialogue between the Supervisory Board and the Board of Management, to make quality improvements throughout the KPMG organisation both tangible and demonstrable. This is also what our clients and society are demanding.

We are very pleased to note that KPMG's clients appreciate our efforts to raise the bar in terms of quality and integrity. Thanks to KPMG's increased focus on its client journey, its more active role in external thought leadership and its branding activities, KPMG is now viewed as more relevant by its clients. The strong growth in revenues is a clear sign that this approach is working.

The march of technology and digitalisation represents an enormous opportunity for KPMG. The digital revolution is now in full swing and it is affecting every single sector, whether public or private. New technology is also having a disruptive effect on many business sectors. These organisations are increasingly looking to KPMG for the expertise and innovations they need to keep their business model both robust and future proof. The growth of KPMG's technology practice is very clear evidence of this.

For KPMG, the opportunities created by the disruptive force of digitalisation are greater than the threats posed by that same disruption. KPMG's own organisation needs to undergo its own transformation. KPMG has made this transformation a key part of its Trust & Growth strategy. The Supervisory Board fully supports KPMG's ambition to achieve an advanced form of digitalisation. This will of course require high levels of investment. The fact that the Board of Management and the partners are prepared to make these investments is evidence of their strength and self-confidence. It is abundantly clear that these developments will have an impact on the organisation's revenue model, which we view as an opportunity.

It is also clear that this increased focus on technology will have a major impact on the recruitment of new and training of existing staff members to meet the desired quality of staff members. KPMG will have to redouble its efforts to be an attractive employer for top talents if it wants to complete its own transformation. Efforts to retain staff will be an important part of this drive. The Supervisory Board would like to compliment KPMG on the strengthening of its employment terms and conditions. This is a clear signal that KPMG sees being a good employer as a priority and that it is willing to continue to invest on this front. The fact that KPMG's workforce needs to be more diverse may seem obvious, but is still a challenge. Gender diversity is generally high at leadership level and among new intakes, but KPMG needs to increase gender diversity at the middle management level and among the equity partners.

The Supervisory Board is pleased to note that the appointment of Stephanie Hottenhuis as CEO added impetus to the push for greater diversity. Her fresh perspective from outside the company and her enormous experience in the field of international professional advisory services is an enormous boost to KPMG's ambition to play a greater role in the world of assurance and advisory services. Whereas Rob Kreukniet extended his term, both Rob Fijneman and Egbert Eeftink decided not to opt for a second term as Board members. The Supervisory Board is grateful for their contribution over the past four and five years, during which Rob and Egbert left a positive mark on the firm. The position of Head of Assurance will be taken over by Marc Hogeboom effective 1 January 2020 and we are at present in the process of selecting a successor for the position of Head of Advisory.

On the topic of sustainability, the Supervisory Board concluded that KPMG is CO2 neutral, an important step towards a positive impact. With 100% renewable energy, and efficient buildings and waste management, a positive trend is visible in the environmental domain. At the same time, our CO2 emissions have risen over the past year, mainly due to (air) travel. This remains a challenge that the Supervisory Board will continue to table.

The social discourse about assurance on non-financial information is likely to have an impact on KPMG. Including creating opportunities in the field of assurance on non-financial information. A public debate has commenced on the premise that the new economy calls for new certainties, for instance with respect to algorithms or carbon accounting. The Supervisory Board applauds KPMG's thought leaders who are working on an international level (for example within the WBCSD) to establish new accounting standards for climate change. At the same time, at the behest of the Dutch Finance Minister the Committee on the Future of the Audit Sector is working on recommendations to improve the quality of the sector. KPMG has shared it public vision with the committee, and the Supervisory Board praises the Board of Management for its openness and its willingness to first look for improvements within its own organisation.

In the coming financial year, KPMG will use its Trust & Growth strategy to continue its accelerated growth. The Supervisory Board has a great deal of faith that KPMG will be able to meet new challenges, both internal and in the world around us, with great confidence. The Supervisory Board is convinced that this is thanks to the quality and the enormous efforts of everybody working at KPMG. These efforts ensure the continued growth of and trust in KPMG.

We are confident that our people work hard every single day, using their knowledge and expertise to realise progress for KPMG, our clients and society as a whole.

Bernard Wientjes, Chair of the Supervisory Board of KPMG N.V.

Supervisory Board overview

Tasks and responsibilities

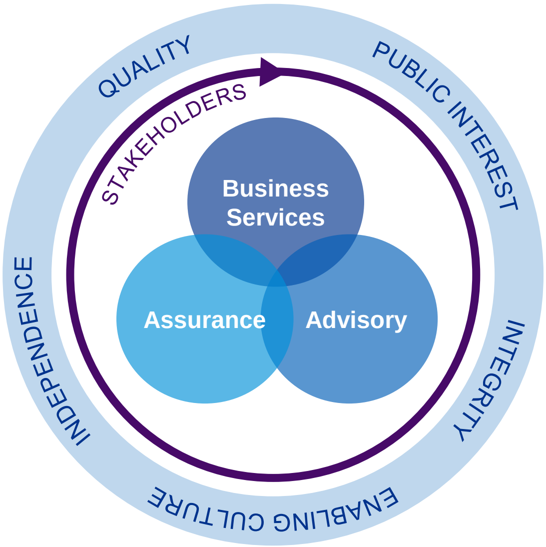
The Supervisory Board is chaired by Bernard Wientjes. The Supervisory Board, since May 2015, wholly consists of external members and operates independently, which is also reflected by its mandate in accordance with the applicable legal regime for a large Dutch corporate (‘structuurvennootschap’). The members of the Supervisory Board are listed in the paragraph ‘Overview of members of the Supervisory Board and its committees’ later in this chapter.

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 compliant with the Audit Firms (Supervision) Act and Decree as revised at 1 July 2018, and with the (no longer applicable since 1 January 2019) Code for Audit Firms and the NBA measures following on from the report ‘In het publiek belang - Maatregelen ter verbetering van de kwaliteit en onafhankelijkheid van de accountantscontrole’ (hereafter referred to as the Public Interest Report). The Supervisory Board endorses the general principles of the (revised) Dutch Corporate Governance Code and is committed to adhering to said principles insofar as this is reasonably suitable for a (non-listed) organisation such as KPMG.

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 which long-term value creation and safeguarding the public interest are key.

In accordance with the Public Interest Report, the Supervisory Board operates from the level of KPMG N.V., from where it supervises and advises on the Assurance and Advisory practices and the synergies, challenges and the quality-enhancing impact of the co-existence of these practices within KPMG. It also supervises and advises on the supporting organisation of KPMG, which 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 primarily focuses on the interests of KPMG and its business. To that end the Supervisory Board safeguards and balances the interests of all KPMG’s stakeholders. One of the primary responsibilities therein is to safeguard the public interest by ensuring KPMG’s independence, quality and integrity, driven by an enabling culture. The Supervisory Board strongly believes that a focus on the public interest will lead to creating and protecting (long-term) value for all of KPMG’s stakeholders.



Supervisory Board tasks and responsibilities

Public Interest Committee (dissolved as at 1 September 2019)

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 (PIE/OOB) licence holders should handle matters such as dealing with governance and decision-making, quality and risk management, internal oversight, independence and remuneration.

Until 1 September 2019 the Public Interest Committee was a committee of the Supervisory Board. As it is one of the primary responsibilities of the Supervisory Board to safeguard the public interest, the role and purpose of the Public Interest Committee was fully incorporated in the tasks and responsibilities of the Supervisory Board in accordance with the Public Interest Report. All members of the Supervisory Board were also members of the Public Interest Committee and the Supervisory Board also acted and operated as the Public Interest Committee.

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

In the period since the Code for Audit Firms was issued to date, nearly all the Code for Audit Firms principles have been legislated or regulated. The Code for Audit Firms was therefore terminated with effect from 1 January 2019. There was therefore no need to maintain the Public Interest Committee in this context. As such, the Supervisory Board decided to dissolve the Public Interest Committee as at 1 September 2019. Given the vital need to continue to focus on quality, the Supervisory Board instead established an Assurance Quality Committee with effect from 1 September 2019.

Key instruments

The key instrument used by the Supervisory Board to safeguard the public interest and the interests of other KPMG stakeholders, is its supervision of the organisation's (long-term) strategy, quality, culture and independence.

The Supervisory Board supervises, challenges and provides the Board of Management with constructive advice with regard to the aforementioned topics, as well as other topics. The main topics that were on the agenda of the Supervisory Board and its committees during the financial year are listed in the paragraph 'FY19 meetings'.

As to the aforementioned key instrument, the Supervisory Board focuses in particular on:

— Strategy and long-term value creation. The Supervisory Board is involved in the realisation of the long-term vision and strategy of KPMG, and structurally challenges and advises the Board of Management regularly. In this respect, the Supervisory Board also challenges the Board of Management on the topics of digitalisation & innovation, business growth, regulatory developments, new business models and services, and market image;

— Quality. The Supervisory Board leverages its position to enhance the quality of KPMG. It challenges and advises the Board of Management on the quality vision and strategy, as well as on quality steering policies and measures. It focuses on the acceleration of the change process regarding quality improvement and on shaping an enabling culture. In addition, when engaging in its responsibilities in the area of partner appointment and remuneration, the Supervisory Board considers quality a crucial factor. It also strives to contribute to relevant political and regulatory discussions on initiatives to optimise quality in the wider sector, such as the ongoing discussions in the Netherlands on (alternative) organisational structures;

— Culture. Ensuring sustainable growth and long-term value creation flourishes in a culture in which people are encouraged to participate in a professional and constructive manner and show strong leadership. Activities are undertaken continuously to further strengthen that culture. The Supervisory Board has a regular dialogue with the Board of Management on such activities and continuously encourages the Board of Management to improve the effectiveness of these activities. The Supervisory Board also considers demonstrating exemplary behaviour and challenging the Board of Management, partners and staff members on their behaviour to be an important element of enhancing the culture of the organisation. Furthermore, the Supervisory Board supports the culture of high performance, inclusive collaboration and fast innovation and fosters a culture of integrity and openness, in which people feel safe and supported to discuss behaviour and values.

The Supervisory Board is fully convinced of the positive impact of employee diversity (not only in terms of gender, but also (e.g.) background, expertise and experience) on the organisation's culture and is adamant about continuing to initiate and support diversity improving measures. As a confirmation of its continuing striving for diversity and inclusion across the organisation, KPMG signed the Declaration of Amsterdam of the Workplace Pride Foundation on 11 October 2018, International Coming Out Day. The Supervisory Board will stay focused on, and will continue to advocate, diversity within the organisation. It will use various means to do so, including actively promoting succession planning for key functions in the organisation and encouraging potential female successors;

— Independence. The Supervisory Board supports and advises the Board of Management on the system of quality control that is in place, which entails robust independence requirements for the organisation.

Stakeholders

(Members of) the Supervisory Board regularly meet(s) with (members of) the board of Coöperatie KPMG U.A. to monitor developments within the partner group. The Supervisory Board holds conversations and meetings with partners, employees and the Works Council. Input from these conversations facilitates the Supervisory Board in constantly assessing and evaluating its role within the firm.

The Supervisory Board, and the Chair of the Supervisory Board in particular, keeps in regular contact with KPMG International, as the status of the international KPMG network is relevant for the strategy and operation of the Dutch firm.

The Supervisory Board closely follows developments in the audit profession by taking part in the Big Four regular consultations with the NBA, AFM and the Accountancy Monitoring Committee (MCA), and by periodically getting an update about the Committee on the Future of the Audit Sector (CTA). The input from these sessions is used to advise the Board of Management on the quality vision, strategy, policies and programmes emphasising the public interest, long-term value creation, and the importance of an enabling culture.

FY19 meetings

The agenda of the Supervisory Board and its committees is governed by the topics and timing as laid down in the Supervisory Board's yearly planning for FY19, as well as by ad hoc topics. The yearly planning is based on the Supervisory Board's tasks and responsibilities, regulatory and social developments, and specific focus areas that are relevant for the organisation during the year.

A recurring item on the agenda of the Supervisory Board is 'Public interest', as part of which the Supervisory Board monitors and discusses legislative changes that impact (primarily) the audit function, as well as the findings, conclusions and measures following inspection reports from the regulators, PCAOB and AFM, and the possible impact of and response to the reports of the MCA and CTA. Different 'Deep Dives' were regularly on the agenda in FY19 to focus on important subjects such as advisory, assurance, markets and culture, diversity and inclusion. In each meeting during the financial year, specific attention was given to advising, reviewing and mobilisation of the long-term Trust & Growth strategy. The Supervisory Board concentrated on the execution of the strategy, adopting a critical and constructive attitude to the actions defined and progress made. The Supervisory Board focused in particular on a strong digital vision and game changers that create a competitive advantage and adding social value. In February 2019, all members of the Supervisory Board and all members of the Board of Management held an open discussion and brainstorming session about issues facing the assurance sector and discussed possible scenarios to deal with these issues.

The Supervisory Board held six meetings in FY19. At the time when the sixth meeting took place the Public Interest Committee was dissolved and the Assurance Quality Committee was installed to replace it. The Supervisory Board started all but one of these meetings with a closed session.

Almost all Supervisory Board members attended the six Supervisory Board meetings this financial year. Both Bernard Wientjes and René Steenvoorden missed one of the meetings and therefore have an attendance rate of 83%. The other four members of the Supervisory Board have an attendance rate of 100%.

Several Board of Management members attended the meetings as well and other senior management members were present if the agenda items dictated their participation. The external auditors attended (a part of) one meeting.

The Supervisory Board members had regular meetings with the Board of Management members offsite and/or informally as well as meetings with the members of the board of Coöperatie KPMG U.A.

Other main topics for the Supervisory Board meetings this financial year included:

- Review business performance from regular updates, consisting of markets and business development, organisational developments and financial performance;
- Monitor and discuss strategy and vision for the future, with focus on digital and long-term value creation;
- Resignation of the (former) Chief Human Resources Officer of the Board of Management;
- (Re)appointment of members of the Board of Management;
- Nomination reappointment of members of the Supervisory Board;
- Approval selection and termination process of partners;
- Monitor compliance with partner selection, appointment, performance evaluation and remuneration policies;
- Monitor compliance with senior management selection and appointment policy and employee remuneration policy;
- Remuneration of Board of Management (members);
- Evaluation of Board of Management and its members;
- Refresh governance of partner appointments;
- Deep dives into culture, diversity and inclusion, markets and digital;
- Updates on brand campaign (People-driven Progress);
- Review external audit plan;
- Public Trust:
  - Monitor and contribute to public discussion;
  - Monitor and advise on audit quality policies, programmes and results;
  - Relationship with stakeholders, including AFM;
- Approval of Internal Audit & Compliance Office year plan and monitor Internal Audit function;
- Monitor results of Quality Performance Reviews;
- Monitor (legacy) claims and incident handling and related policies;
- Review and signing of the KPMG N.V. Annual Report 2017/2018;
- Review and approval of FY19 budget;
- Update implementation Outlook strategy by Strategic Implementation Programmes officer;
- Global strategy.

Audit & Risk Committee

Tasks and responsibilities

The Audit & Risk Committee (ARC) is chaired by Gosse Boon. The committee has substantial expertise on finance and risk management systems and IT controls. The members of the Audit & Risk Committee are listed in the paragraph 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 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 has a substantial role in the preparation of the selection and nomination of the external auditor and it keeps in close contact with the external auditor. It reviews and advises on the annual accounts on the short- and longer-term budget. Furthermore, the Audit & Risk Committee focuses on investments on quality, Outlook strategy (successes) and GDPR compliance.

In accordance with the revised Dutch Corporate Governance Code, that prescribes a stronger positioning of the internal audit function, a separate internal audit function is in place. This independent and objective Internal Audit & Compliance Office focuses on the improvement of controls within KPMG and compliance with the internal system of quality control. The Head of Internal Audit and Compliance Office reports directly to the CEO as well as the Audit & Risk Committee.

FY19 meetings

According to a fixed schedule, the committee met seven times in the presence of the COO/CFO and Head of Finance (HoF) and the Head of Internal Audit & Compliance Office. Subject matter specialists were invited if and when deemed appropriate. Between meetings, regular contact took place between the Chair and the COO/CFO and/or HoF. One closed meeting with only the external auditor and the committee took place. René Steenvoorden missed one of the meetings in FY19 and therefore has an attendance rate of 86%. The other two members of the committee attended all meetings, and have an attendance rate of 100%. The COO/CFO attended all meetings on behalf of the Board of Management. The Head of Internal Audit & Compliance Office and the Head of Finance attended all but one of the meetings. The Country Quality & Risk Management Partner attended some of the meetings and the external auditor, BDO Audit & Assurance B.V., attended for part of four meetings.

The highlights and the minutes of all committee meetings were shared with the full Supervisory Board. This feedback included advice and recommendations regarding topics to be approved by the full Supervisory Board.

A recurring item on the agenda of the Audit & Risk Committee is the review of operational and financial performance and developments.

In the course of 2019, the CFO (non-Board position) stepped down. His activities were assumed by the COO/CFO. The ARC was involved in the definition of the profile and the selection of a new Head of Finance, who reports directly to the COO/CFO and has full access to the ARC.

With regard to the external audit, the committee reviewed the proposed audit scope, approach and fees for the FY19 audit. Independence on the part of BDO Audit & Assurance B.V. was confirmed. BDO Audit & Assurance B.V. does not provide services other than in the area of assurance.

The annual management letter was discussed in the Audit & Risk Committee meeting of 6 December 2018. The auditor did not identify any material weaknesses in internal controls. However, the committee took note of the observations regarding the IT general controls and discussed with management how to address these observations.

In the December 2019 meeting, the committee reviewed the draft annual accounts for FY19 as well as the draft integrated annual report. The key audit findings as presented by BDO Audit & Assurance B.V. were discussed, the most noteworthy being the provision for claims and legal proceedings, goodwill and other intangible assets.

With regard to the assurance regarding non-financials, management presented a roadmap regarding the transition from a mixture of limited and reasonable assurance towards reasonable assurance only. Progress against this roadmap is found to be adequate.

Without BDO Audit & Assurance B.V. being present, the committee assessed that the audit was performed satisfactorily, communications between the external auditor and KPMG were appropriate, the attitude of the auditor was found to be independent and sufficiently professionally critical, and the expertise and composition of the audit team was up to standard.

Soft controls were discussed using a standard framework and measurement system. It was noted that the level of the relevant scores was satisfactory and improving. Also, feedback was requested from the external and internal auditor providing input regarding the KPMG soft controls.

Regarding Internal Audit, the committee reviewed and endorsed the proposed internal audit scope (to which soft controls were added) and discussed findings, agreed actions and follow-up. Internal Audit has adequate staffing levels in light of their audit charter. Management agreed with the committee that follow-up on the findings needs improvement and actions have been taken accordingly.

The Country Quality & Risk Management Partner presented the outcome of the annual enterprise risk management process including an overview of gross and net (after mitigating measures) risks, the probability of their occurrence and the associated financial impact. The committee noted that this process is well embedded in the KPMG organisation.

The annual budget was discussed. Approval was recommended to the Supervisory Board. Monthly and quarterly business reports were discussed and challenged as appropriate, including follow-up on the so-called board priorities.

In the area of taxation, the number of outstanding tax issues is limited and declining. Follow-up on these issues is found to be adequate. Regarding insurance, coverage is found to be adequate as well. Finally, some of the other main topics discussed in the meeting were M&A policies, GDPR and funding.

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

- Update and review FY19 budget;
- Update draft FY20 business plan;
- Review FY18 integrated report and annual accounts, including auditor’s report;
- Review Internal Audit and Compliance Office year plan;
- Review Audit IT agenda;
- Follow up IT infrastructure;
- Review FY18 annual accounts;
- Client satisfaction;
- Investments/funding;
- Review business performance and utilisation percentages;
- Update ERM;
- Review Internal Audit reports;
- Review insurance programme;
- Follow up management letter;
- GDPR update and follow-up;
- Soft controls;
- Update Audit Quality Improvement Council (AQIC);
- Tax planning;
- Review progress of Board of Management priorities and KPIs.

Remuneration & Appointment Committee

Tasks and responsibilities

The Remuneration & Appointment Committee was chaired by Laetitia Griffith in FY19. The committee has substantial expertise on human resources related topics. The members of this committee are listed in the paragraph 'Overview of members of the Supervisory Board and its committees'.

The responsibilities of the Remuneration & Appointment Committee of the Supervisory Board are stipulated in 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 therewith, 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. With effect from 1 July 2018 the committee advises the Supervisory Board on the approval, appointment, suspension and dismissal of external auditors in accordance with the Audit Firms (Supervision) Act and Decree.

FY19 meetings

The Remuneration & Appointment Committee held seven meetings in the financial year. All members attended these meetings, which sets the attendance rate at 100%. The CHRO attended two meetings on behalf of the Board of Management.

In addition to the seven formal meetings, the committee held several sessions on the performance evaluation of the Board of Management members and the resignation and (re)appointment of the Head of Assurance, COO and Head of Advisory.

The highlights and the minutes of all Remuneration & Appointment Committee meetings in FY19 were shared with the full Supervisory Board. This feedback included advice and recommendations regarding topics to be approved by the full Supervisory Board.

The focus topics of the Remuneration & Appointment Committee for this financial year were deep dives regarding: candidate experiences, strengthening an effective partnership, execution of GPS focus actions, remuneration review, workforce of the future, retention, performance improvement, diversity and inclusion, and employees' development experience

Other main topics for the Remuneration & Appointment Committee meetings this financial year included:

- Review performance of Board of Management (members);
- Resignation and (re)appointment of members of Board of Management;
- Remuneration of Board of Management (members);
- Assessment and composition of the Supervisory Board and its committees;
- (Re)appointment of Supervisory Board members;
- Advise Supervisory Board on selection process, appointments and exits of equity partners;
- Partner Improvement Plan;
- Review FY19 performance and FY20 plotting equity partners;
- Review evaluation and remuneration (process) of equity partners;
- Review causes of equity partners exits;
- Diversity and inclusion;
- Review selection, appointments, remuneration and exits of employees;
- Monitor succession planning and talent retention;
- Monitor People agenda;
- Update Trust & Growth agenda;
- Refresh governance regarding partner appointments.

Reference is also made to this year's remuneration report for further details of the above remuneration topics.

Assurance Quality Committee

Tasks and responsibilities

The Assurance Quality Committee was established on 1 September 2019 to enhance the focus on the acceleration of quality improvement of the assurance activities of KPMG N.V. and its subsidiaries. The committee is chaired by Jolande Sap. The design of the Assurance Quality Committee entails participation of all members of the Supervisory Board as members of the committee and attendance of all members of the Board of Management. The members of this committee are listed in the paragraph 'Overview of members of the Supervisory Board and its committees'.

The committee operates under a delegation of powers by the Supervisory Board.

The responsibilities of the Assurance Quality Committee are stipulated in the 'Reglement van de Assurance Kwaliteit Commissie van de Raad van Commissarissen', as published on the KPMG website. Its primary responsibilities are supervising the system of quality control, approval of the quality vision and strategy and the quality policies, followed by the supervision of the implementation and execution of the quality policies in the quality programme, as well as advising on all aspects related to the quality of the assurance activities.

FY19 meetings

As it was established on 1 September 2019, the Quality Assurance Committee held one meeting this financial year. René Steenvoorden missed this meeting and therefore has not yet attended a meeting. The other five members attended this meeting, and have an attendance rate of 100%. All Board of Management members and Aad Terlouw (Audit Quality Management Partner and Chair of the Audit Quality Improvement Council (AQIC)) attended the meeting and will be invited to attend each upcoming meeting.

Recurring items on the agenda of the Assurance Quality Committee are organisational quality, engagement quality, developments in the accountancy sector and public debate, audit innovation and rules of the profession (internal and external).

Other topics for the first meeting of the Assurance Quality Committee this financial year included:

- Quality plan and organisation in the Netherlands;
- Approval of the quality vision & policy;
- QPR outcomes;
- Current affairs:
  - Update on Head of Assurance;
  - Updates on focus topics.

Supervisory Board composition

Overview of members of the Supervisory Board and its committees

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.

The Supervisory Board has been tested on suitability (‘geschiktheid’) by the AFM in accordance with the (revised on 1 July 2018) Audit Firms (Supervision) Act and Decree and the suitability policy according to the Supervision Act on Audit Firms (‘Beleidsregel geschiktheid Wta’). After an in-depth process (including interviews) all Supervisory Board members were found to be suitable by the AFM at 25 April 2019.

The composition of the Supervisory Board in FY19 complied in full with the requirements of the Supervisory Board profile description. Two of the Supervisory Board members have specific knowledge of technology innovations and/or new business models. After FY19 had been closed, on 25 November 2019, Laetitia Griffith resigned from the Supervisory Board. She decided to give up her seat on the Supervisory Board to avoid a potential conflict of interest in light of her possible appointment as a member of the Supervisory Board of ABN AMRO.

The Supervisory Board and its committees consisted of the following members in FY19:

Supervisory Board	Date of first appointment	End date of first term	Date of reappointment	End date of second term	Audit & Risk Committee	Remuneration & Appointment Committee	Public Interest Committee (dissolved 1 Sep 2019)	Assurance Quality Committee (introduced 1 Sep 2019)
Bernard Wientjes, Chair	1 May 2015	30 Apr 2019	1 May 2019	30 Apr 2021	-	-	Chair	Member
Laetitia Griffith, Vice Chair	1 May 2015	30 Apr 2019	1 May 2019	25 Nov 2019	-	Chair	-	Member
Jolande Sap	19 Aug 2015	18 Aug 2019	19 Aug 2019	18 Aug 2023	Member	-	Member	Chair
Gosse Boon	1 Aug 2016	31 Jul 2020	-	-	Chair	-	Member	Member
Harry van Dorenmalen	1 Sep 2017	31 Aug 2021	-	-	-	Member	Member	Member
René Steenvoorden	1 Sep 2017	31 Aug 2021	-	-	Member	-	Member	Member

Diversity

The diversity policy for the Board of Management and the Supervisory Board is set out in their rules of procedure and in each profile description, and focuses on promoting (a culture of) diversity in terms of, but not exclusively, age, gender, education and work experience, combined with complementarity and inclusivity. KPMG N.V. believes strongly that creating this culture will enable the boards to perform their supervisory and advisory duties to the highest standard, overseeing the general course of affairs of KPMG N.V. and its subsidiaries on behalf of all its stakeholders.

The policy is followed for all (re)appointments to each board, and last year resulted in the appointment of our first female CEO/Chair to the Board of Management.

The gender diversity ratio of the Supervisory Board in FY19 was 33% female and 67% male. These ratios are compliant with the 30% ratio required under internal and external regulations.

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 of any material change in their positions.

All Supervisory Board members are also independent in accordance with the requirements under the Dutch Corporate Governance Code and the Audit Firms (Supervision) Act and Decree. KPMG maintains an overview of the other relevant positions on its website. At the beginning of every meeting of the Supervisory Board, any (new) other positions of members and the independence of its members are checked.

The members of the Supervisory Board are to notify the Chair of any potential conflict of interest.

Education programme

In addition to the extensive induction and education programme (which is supported by an extensive information pack) that each new member of the Supervisory Board has to follow 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, the Supervisory Board members are offered an ongoing training curriculum tailored to their specific needs. This curriculum consists of the following components: RAAD trainings, internal KPMG courses and e-learnings (e.g. on independence, data privacy and information protection). Specific courses were also offered in FY19 relating to the suitability testing by the AFM. The Supervisory Board members were trained on client acceptance, the system of quality control, accountancy laws and regulations, ISA, COS and eAudit, as well as on ethics and independence. Members of the Supervisory Board have also attended various relevant meetings, such as the congress of the Institute of Internal Auditors ('Instituut van Internal Auditors') and dialogue meetings of the European Platform for Leadership. This supports the Supervisory Board members in staying close to the developments in the organisation and its strategy as well as the leadership and senior management teams.

Supervisory Board and Board of Management evaluation

The Supervisory Board regularly assesses (without the Board of Management being present) its own functioning, the functioning of the various committees and that of individual Supervisory Board members. In this regard attention is paid to substantive aspects, the mutual interaction and the interaction with the Board of Management, as well as events that occurred in practice from which lessons may be learned. It also assesses its composition, its current and desired profile, competencies, expertise and possible additional training. Reference is made to the Supervisory Board's profile description 'Bijlage A: Reglement van de Raad van Commissarissen', as published on the KPMG website.

Following the performance evaluation by an external advisor in FY18, the Supervisory Board and the Board of Management members discussed, on 7 February 2019, the key topics that should be focused on in the remainder of FY19 and together they determined the desired cooperation and roles of the Board of Management and the Supervisory Board (members) per key topic.

The yearly (internal) evaluation by the Supervisory Board members of the Supervisory Board, its committees and its members takes place in the course of the current financial year, after which the Supervisory Board determines the focus topics for the subsequent financial year.

With regard to the performance of the Board of Management and its members in FY19, the Supervisory Board concluded its yearly evaluation in October 2019. In collaboration with the CEO/chair of the Board of Management the Supervisory Board held evaluation interviews with each of the members of the Board of Management to determine progress against agreed targets. The results of the evaluations have been discussed with the Board of Management members.

Financial statements and discharge

The FY19 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 and the external auditor. The unqualified opinion expressed by the external auditor on the financial statements is included in this integrated report.

The Supervisory Board requests 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.

Word of appreciation

The Supervisory Board would like to thank the Board of Management and all employees and partners of KPMG for their continuous efforts and dedication to the organisation, and looks forward to a successful year to come.

Amstelveen, 16 December 2019

Bernard Wientjes, Jolande Sap, Gosse Boon, Harry van Dorenmalen, René Steenvoorden

Supervisory Board KPMG N.V. From left to right: Gosse Boon, Jolande Sap, Harry van Dorenmalen, Laetitia Griffith, René Steenvoorden, Bernard Wientjes

Members of the Supervisory Board

A complete overview of current tasks and positions is included on our external website.

Bernard Wientjes (1943, male, Dutch)

Bernard is Chair of the Supervisory Board. He is an entrepreneur who has been in charge of a family-owned business for over three decades, and was chairman of the employer's association VNO-NCW. Bernard is, amongst other things, emeritus professor at Utrecht University, chairman of the Royal Association for the Chemical Industry, chairman of the 'Taskforce Bouwagenda' and chairman of the advisory council of the social security banking institution Sociale Verzekeringsbank.

Bernard was initially appointed on 1 May 2015 for a period of four years. On 1 May 2019 Bernard was reappointed for a second period of two years.

Laetitia Griffith (1965, female, Dutch)

Laetitia was Vice Chair of the Supervisory Board until her resignation on 25 November 2019. She is a councillor on 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 is chair of the supervisory board of Holding Nationale Goede Doelen Loterij and is a member of the supervisory boards of TenneT and Gassan Diamonds B.V.

Laetitia was initially appointed on 1 May 2015 for a period of four years. On 1 May 2019 Laetitia was reappointed for a second period of four years but resigned on 25 November 2019.

Jolande Sap (1963, female, Dutch)

Besides her membership of the Supervisory Board of KPMG N.V., Jolande is chair of the Dutch Federation for Health, chair of the supervisory boards of Arkin and of Fairfood. She is also a member of the supervisory boards of National Greenfund and KPN and a non-executive director of Renewi plc. Jolande was previously a member of the Dutch parliament (2008-2012) and political leader of GroenLinks (2010-2012). She is still closely involved with social issues linked to sustainability, healthcare, food supply and the clothing industry.

Jolande was initially appointed on 19 August 2015 for a period of four years. On 19 August 2019, Jolande was reappointed for a second period of four years.

Gosse Boon (1959, male, Dutch)

Gosse combines his membership of the Supervisory Board of KPMG N.V. with a chairmanship of the supervisory board of Albron. He is also member of the supervisory board of Royal BAM Group and lay judge (expert member) of the Enterprise Chamber, which is part of the Amsterdam Court of Appeal. Gosse was, amongst other roles, CFO and member of the executive board of Nutreco (until mid-2015) and Van Gansewinkel Group (until 2009).

Gosse was appointed on 1 August 2016 for a period of four years.

Harry van Dorenmalen (1955, male, Dutch)

Besides his membership of the Supervisory Board of KPMG N.V., Harry is chairman of TopTeam Sport (Sportinnovator), as well as chairman of the ICT committee at VNO and board member of the Almere Economic Board. Harry had a career at IBM for 35 years during which period he held various positions, ultimately as general manager of IBM the Netherlands and manager of IBM Benelux until 2017. He was awarded Officer in the Order of Orange-Nassau for his contributions to stimulating diversity in the corporate world.

Harry was appointed on 1 September 2017 for a period of four years.

René Steenvoorden (1967, male, Dutch)

René combines his membership of the Supervisory Board of KPMG N.V. with his work as global chief digital officer and chief information officer at Randstad. Prior to that, he was CIO at Rabobank and Essent and IT group manager at Procter & Gambler. He was also an engagement manager at McKinsey & Company. He was a founding member of the national Cyber Security Council. René is currently a member of the ECP Adviesraad, a member of the advisory board of Van der Laan & Company, and a guest lecturer at Nyenrode Business School.

René was appointed on 1 September 2017 for a period of four years.

Remuneration report

Remuneration policies are focused on quality, measurable performance, and the long-term impact on the four strategic focus areas: Public Trust, Clients, People and Operational Excellence. These are codified in the 'Performance metrics' for the four areas shown below. Underperformance in the area of quality cannot in principle be compensated by high performance in one of the other areas.

Public Trust	Clients	People	Operational Excellence
Compliance letter availability CPE compliance Non-compliance with internal policies and procedures Regulatory findings and ratings QPR ratings Quality improvement activities[(a)]	Client satisfaction ratings Client feedback (qualitative) Portfolio management	360-feedback from professionals Personal development Leading by example Upward appraisals	Financial performance

Note: (a) Including: acting as a professional practice partner, acting in a quality-related role, acting as EQCR, acting as trainer at technical updates, acting as QP reviewer.

All employees undergo annual goal-setting and performance and development reviews where everybody is evaluated on achieving predetermined agreed-upon goals, demonstrating KPMG global behaviours and capabilities for their level, and adhering to KPMG's values and attributes.

These evaluations are conducted by Development managers and partners who are in a position to assess the professionals' performance and development.

The performance grades influence the growth path of each individual, which links to the total amount of remuneration that professionals are paid. Results of annual counselling are also considered when promotion decisions are made. Total remuneration is periodically benchmarked against peer firms to assess market conformity of employee benefits.

Engagement leaders within KPMG are issued standardised quality and risk metrics feeding into their annual counselling process. Quality and risk metrics include a number of parameters, such as results of external regulatory reviews, timely completion of training, coaching, leading by example and outcomes of internal monitoring programmes. Based on the overall assessment grading is awarded and remuneration determined.

Partners in both Assurance and Advisory are subject to a KPMG clawback policy, under which the firm is able to recover any damages for demonstrably culpable conduct from the individual partner's profit share.

A deferred profit-sharing scheme is applicable for Assurance partners. KPMG retains 16.67% annually of the total/full profit payment with a projected release after a period of six years, in accordance with the NBA measure 3.5.

Partner remuneration

A management fee is payable to an equity partner as remuneration for professional services performed, pension contribution, insurance and entrepreneurial risk. Average profit per equity partner for FY19 was €443,000 (FY18: €438,000).

Performance grading is on a scale of 1 to 5: (1) Outstanding performance, (2) Highly effective performance, (3) Effective performance, (4) Inconsistent performance, and (5) Unsatisfactory performance.

Partners receiving scores of 5 or 4 are closely monitored by Assurance or Advisory leadership and where appropriate an individual improvement plan is implemented.

The performance management scores for equity partners is presented in the upper table on the next page.

Performance/development management and application of salary scales are performed by Assurance and Advisory leadership. Variable pay is based on performance.

The lower table alongside shows the distribution of equity partner remuneration. The percentage receiving on-target remuneration was 51% for FY19 (FY18: 56%). Above target and below target performance was 42% and 7% respectively (FY18: 43% and 1%).

Board of Management remuneration

Members of the Board of Management receive a fixed salary. Equity partners also acting as 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 conformity and their responsibilities. Equity partners fund their pensions from their remuneration. Non-equity partners participate in KPMG's collective pension scheme.

Based on the advice of the Remuneration & Appointment Committee, the Supervisory Board proposes the remuneration policy for the members of the Board of Management to the general meeting of KPMG N.V and determines the individual remuneration packages of members of the Board of the Management in accordance with the remuneration policy. The Supervisory Board awards variable pay after consultation with the Remuneration & Appointment Committee.

Individual Board of Management members are appraised by the Chair of the Board of Management first and by the Remuneration & Appointment Committee and Supervisory Board second. The Chair is appraised by the Remuneration & Appointment 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 & Appointment Committee, is responsible for balancing public interest, long-term value creation and sustainable business growth when determining the performance objectives and the final performance assessment in the light of the individual remuneration. Performance will be assessed through financial and non-financial indicators, including public trust, client satisfaction, corporate responsibility and social criteria.

Board of Management annual remuneration is disclosed in the financial statements section of this integrated report.

Supervisory Board remuneration

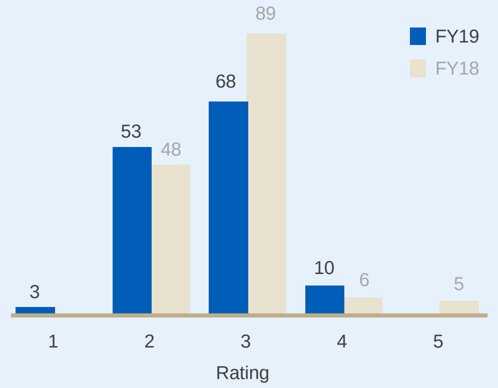
In FY19, two remuneration models applied to the Supervisory Board:

— Up to and including 31 March 2019, the Chair of the Supervisory Board received €60,000 and members of the Supervisory Board received €45,000;

— From 1 April 2019, the Chair of the Supervisory Board receives remuneration of €67,000 and a member receives €50,000. For memberships of one or more Supervisory Board committee(s), the remuneration is an additional €5,000, on top of which the Chair of a committee receives €2,500.

Remuneration is generally expected to cover all costs and is a fixed amount.

Performance management scores for equity partners (headcount)[(a)]



Distribution of equity partner remuneration (headcount)[(a)]

Performance rating	FY19	FY18
Below target 75%-90%	2	-
Below target 90%-95%	2	2
Below target 95%-100%	-	-
On target 100%	76	83
Above target 100%-105%	27	29
Above target 105%-110%	26	23
Above target 110%-125%	13	11

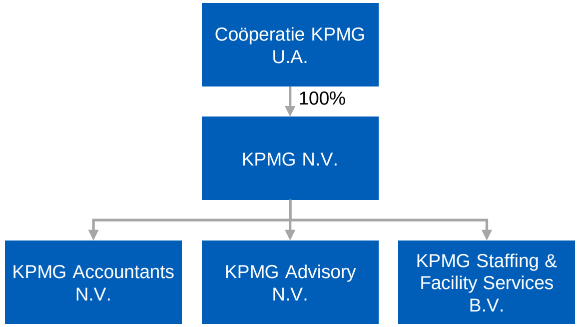
Note: (a) The difference between the total number of equity partners in FY19 in the above graph and table is explained by incoming and outgoing equity partners that did receive remuneration, but not a performance management score.

Governance

Legal structure and ownership

KPMG N.V. is the holding company of companies operating in the Assurance 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. 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. and/or its subsidiaries. The simplified legal structure within the firm in the reporting year is depicted in the figure below. Cooperative Board members are co-policymakers in the context of the Dutch Supervision Act on Audit Firms ('Wet toezicht accountantsorganisaties', hereafter 'Wta').

Simplified legal structure of KPMG N.V.



Supervisory Board

KPMG N.V.'s shareholder appoints Supervisory Board members, as nominated by the Supervisory Board, for an initial term of four years. Terms of reference for the Supervisory Board are available on our website as are relevant additional positions that individual members may hold. Supervisory Board members are co-policymakers in the context of the Wta.

For a more detailed description of the Supervisory Board, its committees and their activities, please refer to the report from the Supervisory Board and its committees.

Board of Management

Board of Management	
Diversity at 30 September 2019: 25% female	
CEO and Chair	Stephanie Hottenhuis
Chief Operating Officer Chief Financial Officer (since 1 Apr 19)	Rob Kreukniet
Chief Human Resources Officer (Until 14 Feb 19)	Bert Ferwerda
Head of Assurance (Until 1 Jan 20)	Egbert Eeftink
Head of Advisory (Until 30 Sep 19)	Rob Fijneman

The Supervisory Board appoints the members of the Board of Management after prior approval by KPMG N.V.'s shareholder. All appointments are for an initial term of four years. On 15 February 2019, Bert Ferwerda left KPMG and his position on the Board of Management. Instead of filling the CHRO position on the Board of Management, Stephanie Hottenhuis took over the CHRO tasks and responsibilities within the Board of Management. To support these additional tasks and responsibilities, Caroline Tervoort was appointed as Head of People effective 15 August 2019, with a direct reporting line to Stephanie Hottenhuis.

For most of FY19, the Board of Management consisted of one female and three male members. As such, although we have not yet met the target of 30%, we have improved gender diversity in the Board of Management. We will keep striving to achieve a more balanced composition, bearing in mind the knowledge and experience necessary for Board of Management membership.

The Board of Management of KPMG N.V. bears ultimate responsibility for the organisation and the main focus areas of our strategy. The Board of Management acts as formal policymakers ('beleidsbepalers') in the context of the Wta.

Stephanie Hottenhuis (1965)

Stephanie has been Chair of the Board of Management since 15 August 2018. She has over 20 years' experience in leading professional services firms. Prior to joining KPMG, she was a member of the executive board of Arcadis, an international, listed design and consultancy company. She has considerable experience in leading professional organisations in many global regions and technical environments. Prior to her role on the executive board, Stephanie consecutively led Arcadis' European region, the German company, the Asia entity, and was the global head of multinational clients. She was a member of the supervisory board of TenneT and served as chair of TenneT's remunerations and nominations committee, and later as a member of the audit committee. She holds master's degrees in business and in arts from the Radboud University in Nijmegen.

Rob Kreukniet (1962)

Rob is Chief Operating Officer and since 1 April 2019 Chief Financial Officer. He joined KPMG in 1988 and became partner in 1996. He worked as partner in KPMG's Brazil practice from 1995 until 1999. Since 2000, Rob 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, on which he had the responsibility for the corporate clients portfolio.

Bert Ferwerda (1960) – until 15 February 2019

Bert was Chief Human Resources Officer from 1 November 2014 until 15 February 2019. Bert 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 holds a master's degree in business management.

Egbert Eeftink (1962) – until 1 January 2020

Egbert is Head of Assurance and Chair of the Leadership Team Assurance 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 KPMG's Head of the Department of Professional Practice and is professor of financial reporting at VU University in Amsterdam. Egbert is also a special counsel at the Enterprise Chamber of the Amsterdam Court of Appeal. On 1 January 2020, Egbert will return to the Assurance practice in the role of auditor.

Rob Fijneman (1964) – until 30 September 2019

Rob was Head of Advisory and Chair of the Leadership Team Advisory from 15 July 2014 until 30 September 2019. Rob 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 has been a professor of IT auditing at Tilburg University and TIAS School for Business and Society. On 1 October 2019, Rob will return to the Assurance practice, a strategic area for KPMG.

From left to right: Rob Fijneman, Bert Ferwerda, Stephanie Hottenhuis, Rob Kreukniet, Egbert Eeftink.

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Office of the Board

The Office of the Board consists of a select number of key functions that report directly to and support the Board of Management in their day-to-day activities.

Group Leadership Team

Since October 2018, the Board of Management distinguishes enabling functions that support the achievement of KPMG's strategic ambition. The enabling functions are fully aligned with the five strategic focus areas of the Board of Management. The enabling functions enable the business functions to perform on all five strategic areas. The enabling functions and the Board of Management jointly form the Group Leadership Team.

Leadership Team Assurance (co-policymakers)

The Leadership Team Assurance, chaired by the Head of Assurance (who is a member of the KPMG N.V. Board of Management) is collectively charged with the operational management of the Assurance organisation. Members of the Leadership Team Assurance are co-policymakers in the context of the Wta.

Leadership Team Advisory

The Leadership Team Advisory, chaired by the Head of Advisory (who normally is a member of the KPMG N.V. Board of Management) is collectively charged with the operational management of the Advisory organisation.

Leadership Team Business Services

The Leadership Team Business Services, chaired by the COO/CFO (who is a member of the KPMG N.V. Board of Management) is collectively charged with the operational management of the Business Services organisation.

Office of the Board	
Diversity at 30 September 2019: 67% female	
Chief Financial Officer (Until 31 Mar 19)	Patrick de Graaf
Corporate Secretary, Board of Management	Veroni Feenstra-Vonk
Corporate Secretary, Supervisory Board (Since 1 May 19)	
General Counsel	Jacqueline Müller
Corporate Secretary, Supervisory Board (Until 30 Apr 19)	
Head of Internal Audit & Compliance Office	Marc Thunnissen

Enabling functions (part of Group Leadership Team)	
Diversity at 30 September 2019: 50% female	
Public Trust – Quality & Risk Country Quality & Risk Management Partner	Johan Faber
Public Trust – Brand & Reputation Head of Brand, Reputation & Marketing Management	Esther van Zeggeren
Clients Head of Markets	Edwin Herrie
People Head of People (Since 16 Aug 19)	Caroline Tervoort
Technology Head of Digital & Innovation	Karina Kuperus
Financial Strength CFO (Until 31 Mar 19)	Patrick de Graaf
Head of finance (Since 1 Aug 19)	Marc Broskij

Leadership Team Assurance	
Diversity at 30 September 2019: 25% female	
Head of Assurance	Egbert Eeftink
Audit Quality	Aad Terlouw
Head of Operations & Finance	Lex Gardien
Financial Services	Niels Paping
International Business	Arjan van Opzeeland
National Practice (& Change)	Mariska van de Luur
Corporate Clients	Johan Schrumpf
Business Assurance	Brigitte Beugelaar

Leadership Team Advisory	
Diversity at 30 September 2019: 29% female	
Head of Advisory	Rob Fijneman
CFO (1 Oct 18-31 Mar 19)	Patrick de Graaf
Head of Operations	Alline van Os
Technology Suite and Partnership & Alliances (Since 1 Apr 19)	Carlijn Buis
Technology suite (Until 31 Mar 19)	Peter Paul Brouwers
Deals suite	Marcel Groenendijk
Finance & Business Services suite	Waseem Alkhateeb
Strategy & Operations suite	Raymond Timmer
Risk & Regulatory suite	Roel Menken

Leadership Team Business Services	
Diversity at 30 September 2019: 38% female	
COO/CFO	Rob Kreukniet
Head of Operations	Dave Venmans
Legal	Jacqueline Müller
Brand, Reputation & Marketing Management	Esther van Zeggeren
Finance Until 31 Mar 19 Since 1 Aug 19	 Patrick de Graaf Marc Broskij
IT Services	Jonathan Meijer
Quality & Risk Management Group	Paul Spaans
People Until 15 Aug 19 Since 16 Aug 19	 Robbert Liedenbaum Caroline Tervoort

Organisational structure

The Board of Management distinguishes three business functions: Assurance, Advisory and Business Services.

Assurance and Advisory are organised around markets or solutions. The main units of Assurance are Corporate Clients, Financial Services and National Practice, International Business and Business Assurance.

The Advisory service portfolio is organised along five ‘suites’ and three ‘horizontals’ mirroring relevant client issues. The five suites are Strategy & Operations, Deals, Finance & Business Services, Risk & Regulatory and Technology. The three horizontals are Smart Tech Solutions, Partnerships & Alliances and People & Change.

Business Services provides services to both Assurance and Advisory, as well as to other staff functions.

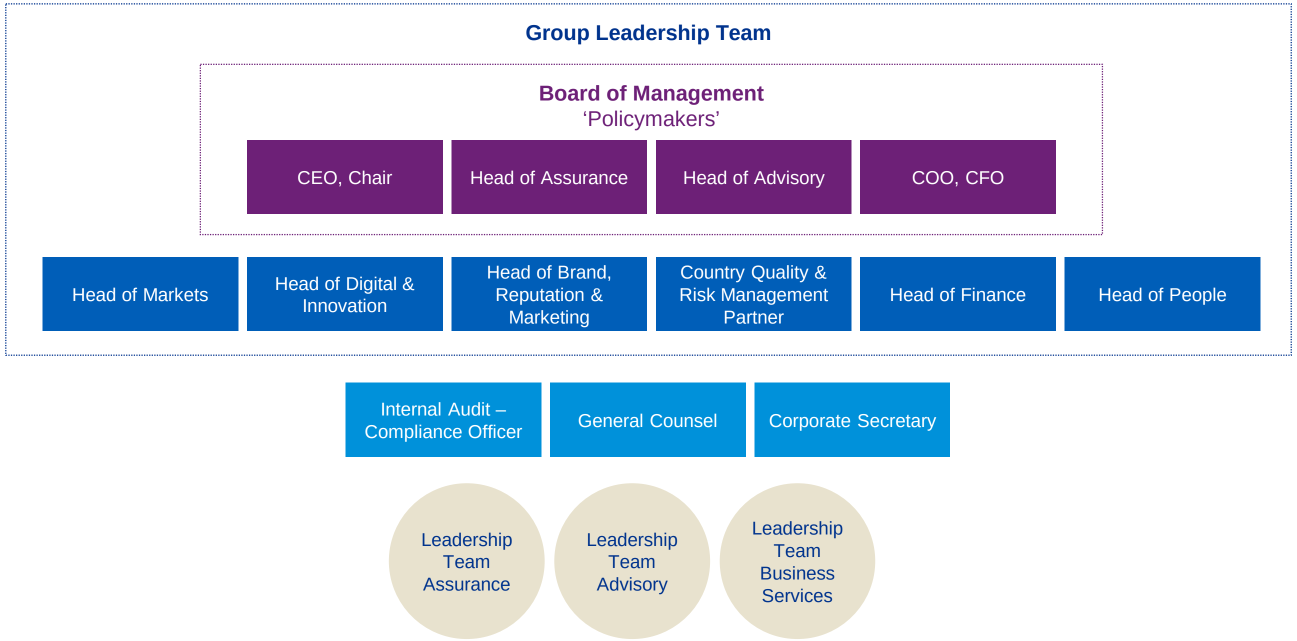
Network

KPMG International is an entity which is legally separate from KPMG N.V. KPMG International and the member firms are not in 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.

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 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 multinational clients, manage risk, and deploy global methodologies and tools. Each member firm has responsibility for the operation of its business and governance, 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, office locations and network turnover, can be found here.



KPMG N.V. operational structure at 30 September 2019

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 from any other organisation. KPMG implemented an Enterprise Risk Management Framework to identify and mitigate strategic risks. Identification, evaluation, management and monitoring of the most significant risks are Board of Management responsibilities in conjunction with other leadership levels in the organisation. Mitigating actions are taken where possible in order to reduce these risks to acceptable levels. The approach to risk management, and an overview of the principal risks and uncertainties facing our firm are set out on the following pages. The quality of our internal controls and other mitigating actions are 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 in 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 delivering them contributes to our purpose. We only engage in activities through which we are able to make an impact for our clients and for our professionals without compromising on the quality and ethical standards to which we hold ourselves. We train and develop our professionals to be leaders of tomorrow to ensure that they not only mitigate risks, but also act on potential opportunities for KPMG. We ensure that our activities are sustainable and serve and support society as a whole.

Top strategic risks and related controls

The following table details the top strategic risks, providing context to the risk identified, the potential impact, and the related internal control measures to mitigate the risk.

Description	Potential impact	Measures
Public Trust Failure to ensure that our behaviour including (audit) service delivery respects public trust and public interest and is consistent with our corporate values.	— Reputational damage in the marketplace from press publicity resulting in loss of major clients or inability to attract new talent into our firm — Regulatory sanctions — Licence to operate in jeopardy	— Independent Supervisory Board and Public Interest Committee — External members within the Board of Management — Active stakeholder dialogue
Regulatory relationships Failure to maintain good relationships with regulators or not meeting expectations as a result of failure to address any adverse findings from regulatory inspections to the regulator's satisfaction.	— Loss of major audit clients — The inability to attract new talent into our firm — Reputational damage in the marketplace from press publicity — Regulatory sanctions	— We nominated specific individuals responsible for interaction with regulatory authorities and created a clear framework for understanding local regulatory matters — Majority of our Board of Management are 'Qualified Individuals' with appropriate (audit) experience and background — Relevant leadership has visibility of local regulatory findings
Audit failure Major or multiple audit failures or non-compliance with applicable professional standards (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 — The inability to attract new talent into our firm — Regulatory fines and/or temporary or permanent loss of audit licence — Litigation and claims	Audit quality controls include: — Board of Management monitoring called 'Steering on Quality' — Continuous quality improvement programmes based on root cause analysis and maintaining a robust system of quality management — A tone from the top which emphasises quality, ethics and integrity — Client and engagement acceptance procedures — Clear standards and robust audit methodology and tools — Controls over recruitment, development and assignment of our professionals — Commitment to technical excellence including performance management — Controls to deliver an effective and efficient audit — Commitment to continuous improvement through monitoring
Impact of political and media sentiment Failure to act upon a critical incident in terms of attitude towards our clients, service delivery, conduct or impact on society.	— Reputational damage and regulatory scrutiny — Loss of major clients — Increased risk of litigation	— Engagement quality and risk management controls — Issue management procedures through collaboration between Brand & Reputation, Quality & Risk Management and Legal departments — Contingency programmes to manage reputational impact of incidents

1. KPMG in FY19 at a glance
2. Overview and strategy
3. Guide to this integrated report
4. Performance and developments
5. Governance and compliance
6. Financial statements
7. Other information
8. Appendices

Description	Potential impact	Measures
Major litigation/regulatory investigation 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 — Reputational damage and resulting regulatory scrutiny — Excessive use of leadership time in resolving issues	— General engagement quality and risk management controls — Default position of engagement contracts being prepared under local law and jurisdiction — Rigorous and robust inter-firm contracting protocols when working with other KPMG member firms
Appropriateness of clients and services 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 — Regulatory sanctions including temporary loss of licence — Loss of major clients — Increased risk of litigation	Our internal quality controls system includes: — Client and engagement acceptance procedures, including proprietary systems for checking for conflicts of interest — Detailed policies and procedures around auditor independence — Strict new product and service approval processes — Routine compliance programmes — Code of Conduct and Values — Whistleblowing hotlines in operation — Money laundering reporting procedures in place
Regulatory change Major change in regulations 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 — Caps on market share for audit clients — Joint audits — Mandatory rotation or retendering — Further prohibitions on auditors providing non-audit services to their audit clients	— An established plan for regulatory liaison — Robust contingency planning in place for each of the potential likely regulatory outcomes — Board programme for mandatory firm rotation
IT penetration, data security and privacy failure, technological dependencies, and business continuity Failure to prevent and protect (client) confidentiality or (personal) data.	— Inability to ensure continued service delivery — Reputational damage — Loss of clients — Potential litigation or regulatory action/fines	— Robust IT security policies and processes — ISO 27001 accreditation — Ongoing training and awareness campaigns — Business Continuity Management
Reacting to new trends and failure to innovate Inability to quickly and effectively match key skills to growth areas due to organisational barrier, 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 — Failure to match resources to demand could result in an excessive cost base in areas of reducing demand — Failure to develop future leaders with the right experience and international mindset — Quality implications of having the wrong people delivering services	— Monitoring of resource levels and functional hot spots — Partner career paths and development — Partner succession planning — Global mobility programme in place — Engagement acceptance processes consider skills and competencies of the team — Partner in Charge for Innovation and innovation unit (Digital Assurance & Innovation)

Description	Potential impact	Measures
People engagement 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 — Lower productivity — Loss of key talent — Loss of reputation in marketplace as an ‘employer of choice’ — Less adherence to our Code of Conduct and Values	— KPMG Story — An embedded group of People Management Leaders — Sophisticated appraisal and reward processes — Ongoing review of global performance management and development programmes — Ongoing initiatives to address feedback from people surveys
Focused execution Inability to execute our strategy as per our business planning to ensure the future success of our firm.	— Loss of reputation in marketplace as an ‘employer of choice’ — Not achieving our objectives, goals and ambitions — Reduced morale among partners and professionals	— Central Project Management Office — Board governance and external Supervisory Board — Cascading strategic KPIs to individual professionals
Talent management and diversity and inclusion 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 — Loss of reputation in the marketplace with clients — Succession planning fails — Loss of opportunities for multi-disciplinary engagement revenue	— Special training programme in place focusing on leaders of the future — Annual promotion process and pay review — Defined partner career paths and development framework — Partner succession planning — Diversity task force and designated programme management
Culture for change and collaboration Inability to demonstrate a commitment to a positive quality-driven culture and ethical behaviour or to work together to deliver the best solution.	— Reduced morale among partners and professionals — Loss of talent leading to service delivery issues and a reduction in quality Loss of opportunities for multi-disciplinary engagement revenue — Loss of reputation in the marketplace as an ‘employer of choice’ — Less adherence to our Code of Conduct and Values — Increase in failures of engagement quality and non-compliance	— KPMG Story — Outlook Strategy Playbook — A tone from the top which emphasises quality, ethics and integrity — Clear standards and robust audit methodology and tools — Controls over recruitment, development and assignment of our professionals — An embedded group of People Management Leaders — Ongoing initiatives to address feedback from people surveys — Roadshows to share experiences and collaborative successes

Financial risks

Exposure to financial risks can be segregated into the following types of financial risks. These risks did not yield significant or material effects during the year under consideration.

Credit risk

This risk relates to the loss that may be incurred if a counterparty defaults. It is limited mainly by depositing cash with banks rated BBB or higher 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 of mitigating risk actions

We monitor the effectiveness of mitigating actions as part of ongoing 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 for improvements are reported through processes that are meant to proactively identify emerging risks and to improve quality and provide insights. We refer to our in control statement for further details.

Our relentless focus on quality

In our industry, reputation and trust are highly interdependent with the quality of our services, and this is also the aspect of the auditing profession that is under most scrutiny by the general public. In this paragraph we describe the absolute focus on quality and how this works out for both Audit and Advisory.

Quality, supported by our methodologies and processes, is at the heart of our culture of integrity and our drive for continuous improvement. We are committed to working closely with regulators, audit committees, investors and businesses to meet the expectations of audit quality.

We use the KPMG Story as the framework for all our communications. Our business plan describes the communication areas that we will focus on: the quality trust agenda, the cultural change programme as a key element from the KPMG Story and the strategic growth agenda in Advisory.

We demonstrate our commitment to society by sharing our expertise in specific areas, like cyber security and D&A. We actively seek to adapt and communicate our knowledge and insights on a broad range of topics in such a way that it becomes more relevant for society at large.

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In control statement

The measures and procedures that serve as the basis for the system of quality controls for KPMG Accountants N.V. as 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 system of quality controls 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 operates 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, 16 December 2019

Stephanie Hottenhuis, Egbert Eeftink, Rob Kreukniet

System of quality controls

Overall system of quality controls

A robust and consistent system of quality controls is an essential requirement in delivering high-quality services. Accordingly, KPMG has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual that all member firms and their personnel must comply with.

How policies are applied

KPMG policies and associated procedures are designed to comply with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

These policies and procedures are based on the ISQC 1 issued by the International Auditing and Assurance Standards Board (IAASB) and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to member firms that perform statutory audits and other assurance and related service engagements.

KPMG's policies reflect individual quality control elements to help personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards. Amendments to KPMG's risk and quality policies, including ethics and independence policies, are communicated by email alerts and virtual classrooms.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. The

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Johan Faber
Country Quality & Risk Management Partner

Continuous investment in our quality system has led to recognition by our international KPMG network. They have given KPMG NL the status of Enhanced Risk Infrastructure, as a testimony of the quality of our framework.

system of quality controls applies to all KPMG personnel. While many of KPMG's quality control processes are cross-functional and apply equally to advisory work, the primary focus of the framework requirements (such as for the Transparency Report) relates to audit.

Quality Framework

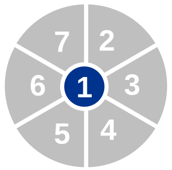
At KPMG, quality is not just about reaching the right opinion or advice, but also about how to reach that opinion or advice. It is therefore also about the processes, thought and integrity behind our work.

The Quality Framework identifies seven drivers of audit quality:

To help all professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, KPMG has developed its Quality Framework which introduces a common language used by all KPMG member firms to describe what we believe drives quality and to highlight how every professional at KPMG contributes to the delivery of that quality.

'Tone at the top' sits at the core of the Quality Framework's seven drivers of quality and helps to ensure that the right behaviours permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others.

1. Tone at the top



The culture of KPMG is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviours to permeate throughout the KPMG network, starting from the very top. We promote a culture in which consultation is encouraged and recognised as a strength.

Our values

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Value: "Above all, we act with integrity". Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice to clients and rigorously maintaining independence. Our Values, which have been

KPMG values

We **lead by example** at all levels in a way that exemplifies what we expect of each other and our clients.

We **work together** to bring out the best in each other and create strong and successful working relationships.

We **respect the individual** for who they are and for their knowledge, skills and experience as individuals and team members.

We **seek the facts and provide insight** by challenging assumptions and pursuing facts to provide insight as trusted and objective business advisors.

We are **open and honest in our communication** and share information, insight and advice frequently, and constructively manage tough situations with courage and candour.

We are **committed to our communities** to act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities.

Integrity is a critical characteristic that stakeholders expect and rely on. Therefore, above all **we act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

explicitly codified for a number of years, are embedded into working practices at KPMG. For example, they are considered in the performance appraisal process that our people follow, and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to partner.

Code of Conduct

KPMG Code of Conduct incorporates our Values and defines the standard of ethical conduct that is required from all KPMG people. It sets out KPMG's ethical principles and helps partners and employees to understand and uphold those principles. In addition, the Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to his or her job function and level of responsibility.

It has provisions that 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; and

— Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The commitments in the Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our Values or professional responsibilities. KPMG has procedures and established channels of communication so that personnel can report ethical and quality issues without fear of retaliation. In addition, the KPMG 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 itself, its employees or the senior leadership.

Leadership responsibilities for quality and risk management

KPMG's leaders and leadership teams demonstrate their commitment to quality, ethics and integrity, and communicate their focus on quality to clients, stakeholders and society. It is essential that everyone involved in performing audits recognises that quality is his or her responsibility. However, KPMG leadership plays a critical role in setting the right tone and leading by example.

The Board of Management is responsible for quality and for the system of quality controls.

The Head of Assurance and Head of Advisory have primary responsibility for quality and are assisted by the Country Quality & Risk Management Partner in maintaining KPMG's system of quality controls. Part of the selection criteria for these individuals is that they have sufficient and appropriate experience and ability and have the necessary authority to properly discharge their roles. Their responsibilities include:

— Setting the right 'tone at the top' by demonstrating an unwavering commitment to KPMG's highest standards of professional excellence, including scepticism, objectivity, and independence;

— Developing and implementing strategies to monitor and maintain the knowledge and skills required of partners and employees to fulfil their professional responsibilities;

— Working with the Country Quality & Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

The Country Quality & Risk Management Partner, who is an experienced partner with primary oversight responsibility and accountability for the direction and proper execution of risk compliance and quality control in the member firm, reports to the member firm senior partner and consults with Area Quality and Risk Management Leaders within KPMG International. However, we stress that risk management and quality matters are not solely the responsibility of leadership or specialist groups but are a fundamental responsibility of all KPMG people.

The Audit Quality Improvement Council (AQIC) is responsible for considering audit quality trends (including issues arising through quality performance and regulatory reviews). It evaluates quality issues by performing root cause analyses and makes recommendations to leadership on (policy) changes related to audit quality issues.

2. Association with the right clients

Rigorous client and engagement acceptance and continuance policies and processes help to protect KPMG's reputation, support our brand and are an important part of our ability to provide quality professional services. Accordingly, KPMG has established policies and procedures in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client. An annual re-evaluation of all audit clients is undertaken. In addition, clients are re-evaluated if there is any indication that there may be a change in their risk profile. Recurring or long running non-audit engagements are also the subject of annual re-evaluations.

Before accepting a client, KPMG undertakes an evaluation of a prospective client. This involves an assessment of the prospective client's principals, its business and other service-related matters. This also involves background checks on the prospective client, its key management and significant beneficial owners. A key focus is on the integrity of management at a prospective client, and the evaluation considers breaches of laws and regulations, anti-bribery and corruption, and human rights, among the factors to consider.

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's global conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is done in consultation with other senior personnel and includes a review by quality and risk management leadership or KPMG International as required.

Where audit services are to be provided 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 business and personal 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. A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and KPMG standards, or if there are other quality and risk issues that cannot be appropriately mitigated.

Where a member firm obtains information that indicates that it should withdraw from an engagement or from a client relationship, it consults internally and identifies any required legal and regulatory steps. It also communicates as required with those charged with governance and any other appropriate authority.

CEAC acceptance rates	FY19	FY18
Percentage of new audit clients/engagements not accepted	2.8%	7%
Percentage of discontinued (legal) audit engagements during the audit process	0.4%	0.1%
Number of incidents reported to regulators	0	1

The main reason for not accepting clients was an imbalance between the risks and rewards, especially as audit appointments were proposed after the client's financial year-end. The main reasons for the terminations were the bankruptcy of clients or clients being unable and/or unwilling to provide KPMG with sufficient underlying quality information that would be required to finalise the audit (in most cases information related to earlier years).

 |

3. Clear standards and robust tools

All KPMG professionals are expected to adhere to KPMG's policies and procedures (including ethics and independence policies) and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

Significant resources are dedicated to keeping standards and tools complete and up to date. KPMG International's global audit methodology is based on the requirements of the ISAs. The methodology is set out in KPMG International's Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG believes enhance the quality of audit.

This global audit methodology is supported by eAudIT, KPMG International's electronic audit tool, which provides auditors with the methodology, guidance, and industry knowledge needed to perform high-quality audits. eAudIT's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders.

Investments in the development of new audit technologies and tools amounted to 1.8% of Assurance revenue in FY19 (FY18: 1.3%) (AQI 3). In absolute terms, this represents a 46% increase in spend on new audit technologies and tools.

Ethics and independence

KPMG has detailed independence policies and procedures, incorporating the requirements of the 'Verordening inzake de onafhankelijkheid van accountants bij assurance opdrachten' (ViO) and International Ethics Standards Board for Accountants (IESBA) Code of Ethics. These are set out in KPMG's Global Q&RM Manual and the KPMG Professional Code. Automated tools facilitate compliance with these requirements.

KPMG provides all relevant personnel (including all partners) with independence training that is appropriate to their grade and function on an annual basis. KPMG also provides all personnel with training on the Global Code of Conduct and ethical behaviour, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards and KPMG's policies on a biennial basis.

Upon acceptance of assignment or employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation. In addition, all KPMG personnel are required to confirm their understanding of, and compliance with, the Code of Conduct upon joining and on an annual basis thereafter. KPMG maintains an ongoing compliance audit and inspection programme to test the compliance of its personnel with personal independence rules and requirements.

As part of our regular process, 110 professionals across the firm were the subject of personal independence audits in FY19 (FY18: 175). The high volume of audits in FY18 was due to a policy change imposed by KPMG International in that year.

Partner and firm rotation

Partner rotation

KPMG's rotation policies are consistent with the ViO and IESBA Code of Ethics. Partners are the subject of periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these partners may not participate in the audit or in any way influence the outcome of the audit.

KPMG monitors the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and develops transition plans to enable the allocation of replacement partners with the necessary competence and capability to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

Firm rotation

In the Netherlands KPMG is required to act for a specific audit client for a maximum period of 10 years and not to act as auditor for that client for a specified period thereafter – referred to as the 'cooling off period'. Member firms have processes in place to track and manage audit firm rotation.

Non-audit services

In addition to identifying potential conflicts of interest, KPMG's system, Sentinel™, facilitates compliance with auditor independence requirements. Certain information on all prospective engagements that includes service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™, lead audit engagement partners are required to maintain group structures for their audit clients as well as their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-audit service as well as the safeguards available to address those threats. Sentinel™ enables lead audit engagement partners for entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

Business relationships

KPMG has policies and procedures in place that are designed to ensure their business relationships are maintained in accordance with the ViO and IESBA Code of Ethics. Examples of these relationships include business alliances, use of third-party service providers to assist in the performance of client engagements, and procurement relationships.

Independence clearance for prospective audit clients

Prior to accepting a financial statement audit engagement for a prospective audit client, KPMG conducts independence procedures to review and evaluate independence as part of the acceptance procedures covering non-audit services and business relationships.

Conflicts of interest

Sentinel™, KPMG's web-based application, is the tool all KPMG member firms must use for potential conflict identification so that these can be addressed in accordance with legal and professional requirements. KPMG has risk management resources ('Resolvers') who are responsible for reviewing any potential conflict that is identified and to resolve the conflict. The outcome must be documented. Additional safeguards may be necessary, for example establishing formal dividers between engagement teams serving different clients so that the confidentiality of all clients' affairs is maintained.

Breaches and disciplinary policy

All KPMG personnel are required to report any independence breach as soon as they become aware of it. In the event of failure to comply with KPMG's independence policies, whether identified in a compliance review, self-declared or otherwise, professionals are subject to a disciplinary policy. KPMG has a documented disciplinary policy in relation to breaches of firm policies. The disciplinary policy has been communicated to all professionals and applies to all breaches of rules, incorporating incremental sanctions reflecting the seriousness of any violation. Any breach of auditor independence regulations is reported to those charged with governance at the audit client, on the basis agreed with them.

Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders, are reflected in their individual quality and risk metrics.

Client confidentiality, information security, data privacy & IT security

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including the Global Code of Conduct, training, and the annual affidavit/confirmation process that all professionals are required to complete. KPMG has 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. KPMG has 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 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 the Quality and Risk Management Group (QRMG).

4. Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that KPMG professionals have the skills and experience to deliver on our vision. This requires recruitment, promotion and retention of professionals and a robust capacity and resource management process. KPMG behaviours, which are linked to our Values, are designed to help articulate what is required for success – both individually and collectively. One of KPMG's global behaviours is 'Delivering duality'.

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 onboarding programme, which includes training in areas such as ethics and independence, quality and risk management principles and our people management procedures.

Personal development

It is important that all KPMG professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills. In relation to audit, opportunities are provided for professionals to develop the skills, behaviours and personal qualities that form the foundation of a successful career in auditing.

Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. KPMG professionals are developed further for high performance through coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

Inclusion and diversity programmes

At KPMG, we work hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experience and perspectives.

Leadership and management teams also need to reflect the diversity of our organisation and the diversity of our clients. Our inclusion and diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across the KPMG network.

Evaluation, compensation and promotion

All professionals, including partners, have annual goal settings and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge.

The compensation and promotion policies are clear, simple and linked to the performance review process. This helps our people know what is expected of them, and what they can expect to receive in return.

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. The expectations of each role are described through a role profile.

KPMG has a process for admission to the partnership that is rigorous, thorough and involves appropriate representatives of leadership. KPMG uses criteria for admission to the partnership that are consistent with a commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

To encourage audit quality, newly promoted partners and directors need to demonstrate their commitment to audit quality before being promoted. The Audit Quality Curriculum for Partner Promotion (AQCPP) consists of requirements for all new partners. Additional requirements have been set for partners signing audit opinions in respect of public interest entities. The requirements relate to professional qualifications, the outcome of quality reviews, a technical role and experience requirements.

KPMG monitors quality and compliance incidents and maintains quality metrics for the purpose of partner assignments and also for the purposes of partner evaluation, promotion and remuneration. Quality is the main driver for assignments, evaluations, promotions and remuneration of our professionals. The quality performance of partners is evaluated on key quality and compliance metrics and assessed as part of their performance management cycle.

These evaluations are conducted by performance managers and partners who are in a position to assess their performance and include an assessment of performance in the relevant areas including quality, sales, people and operations. Quality incidents may be (partly) compensated within the quality performance area (e.g. by audit quality support), but this area cannot be compensated by high performance in the other four/three areas.

When deemed necessary partners may be requested to complete a Partner Improvement Plan. KPMG's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

Going beyond performance reviews and compensation, the KPMG behaviours are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviours are a constant reference point, articulating to our people what is required for success individually and collectively.

KPMG has introduced a deferral and clawback mechanism in respect of partner income. Under the scheme, a part of partner income is deferred, building up to a full-year profit share in six years; after the deferral period it is paid out over a time period depending on the non-occurrence of quality issues. Damages as a result of demonstrably culpable conduct by partners may be recovered from individual partners' deferred profit shares. Audit partners are subject to this deferral and clawback scheme. Advisory partners are not subject to the clawback scheme.

Assignment of professionals

KPMG has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skillsets, relevant professional and industry experience, and the nature of the assignment or engagement. A listing of those partners who act as external auditors on legal audits as per the EU Directive can be found on the AFM website.

The Head of Assurance and Head of Advisory are responsible for the partner assignment process. Key considerations include partner experience, accreditation, and capacity — based on an annual partner portfolio review — to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

The engagement partner is a key participant in planning meetings, reviews key documentation and bears overall responsibility for all engagement deliverables and in particular for 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.

We monitor senior staff involvement throughout the year. The table shows the team involvement in audit engagements in FY19 and FY18.

	FY19		FY18	
	Hours	**%**	**Hours**	**%**
Legal audits				
(Equity) partner, directors	139,392	7%	125,552	7%
(Senior) manager	325,862	17%	319,171	17%
Other	1,460,691	76%	1,395,042	76%
Total	**1,925,944**	**100%**	**1,839,765**	**100%**
Non-legal audits				
(Equity) partner, directors	13,046	6%	12,988	6%
(Senior) manager	43,319	21%	41,757	21%
Other	146,258	72%	147,117	73%
Total	**202,623**	**100%**	**201,862**	**100%**
PIE/OOB audit clients				
(Equity) partner, directors	34,098	10%	31,381	9%
(Senior) manager	70,047	20%	76,406	22%
Other	254,436	71%	240,349	69%
Total	**358,581**	**100%**	**348,137**	**100%**
Non-PIE/OOB audit clients				
(Equity) partner, directors	105,594	7%	94,126	6%
(Senior) manager	255,664	16%	241,885	16%
Other	1,205,955	77%	1,153,920	77%
Total	**1,567,213**	**100%**	**1,489,931**	**100%**

Team involvement in hours and percentages of hours

The actual involvement of senior staff ((senior) managers and partners) on OOB audit engagements in FY19 was 10% of all engagement hours for partners and 20% for (senior) managers, which is just below the target of >10% for partners and >20% for (senior) managers.

For non-OOB audit engagements the involvement in FY19 was 7% of all engagement hours for partners and 16% for (senior) managers which is higher than the targets of >6% for partners and >12% for (senior) managers.

KPMG monitors the proportion of experienced and unexperienced staff by comparing the actual number of employees against the planned levels. A negative deviation from these planned levels reflects that the number of unexperienced staff is higher relative to experienced staff. The deviation at the end of FY19 was +2.1% (FY18: -0.6%) against a target of maximum -2.5%. This means the balance of experienced employees on audit teams has improved compared to last year.

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 bringing resources to where they are needed (most). As a result, the average hours over and above base hours decreased from 7.5% in FY17 to 6.5% in FY18 to 5.5% in FY19.

5. Commitment to technical excellence and quality service delivery

All KPMG professionals are provided with the technical training and support they need and have access to appropriate levels for consultation.

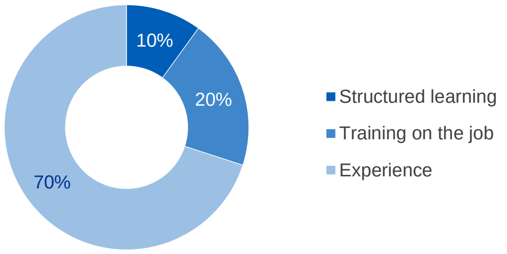
In addition to personal development, KPMG policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Learning and Development 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, 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 staff with a core training programme for junior staff and periodic and annual update training for qualified and experienced staff and partners.

In addition to structured technical training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

Learning at KPMG uses a 70:20:10 learning model.



Professional practice support

Technical support is available including access to a networks of specialists and the technical departments, which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

The technical departments consist of the Department of Professional Practice (DPP), the Internal Audit & Compliance Office (IACO) and the Quality and Risk Management Group (QRMG). With 5.6% of the total audit FTEs, the technical resource support remains above target (5%).

Technical support is also available through the International Standards Group (ISG), and for work on SEC foreign registrants the US Capital Markets Group, based in New York, or the Accounting and Reporting Group based in London. The Dutch partner in charge of the NL US desk is a fully accredited SEC Reviewing Partner, which is relatively uncommon outside of the US member firm, enabling the Dutch member firm to provide full audit services to its SEC registered audit clients.

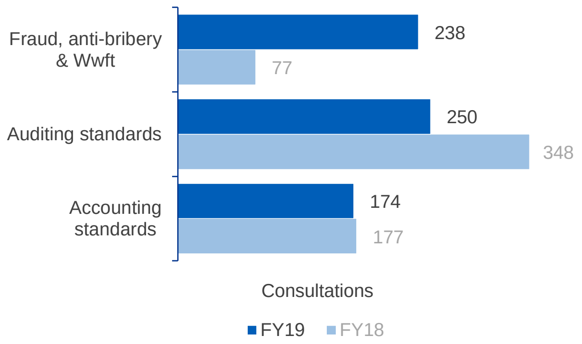
The ISG works with Global IFRS and ISAs topic teams with geographic representation from around the world to promote consistency in the interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis. The ISG also facilitates information sharing between the DPP network to ensure that sector-specific issues are dealt with proactively.

Consultation

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 audit engagement professionals in addressing such matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. Appropriate consultation support is provided to audit engagement professionals through the DPP.

The total number of consultations in FY19 was 662 (FY18: 602). An overview of technical consultations is presented below, with the total number of consultations in FY19 higher than in the previous year. Consultations on fraud, anti-bribery and Wwft tripled as a result of a legal requirement to notify of any instance of an objective indicator of unusual transactions (e.g. doing business in high-risk countries).

The objective indicator requirement was withdrawn by the government in October 2019. Auditing standards consultations decreased due to a reduction in the scope of consultation requirements, in particular in relation to extended auditor reports.



Access to specialist networks

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 specialist skills (e.g. IT, tax, treasury, pensions, valuation, forensic) to be assigned to a specific audit engagement is part of the engagement acceptance and continuance process.

Specialists who are members of an audit team are provided with training on audit concepts.

The actual involvement of specialists in audit on OOB engagements was 18% (FY18: 20%) of all engagement hours which is higher than the target of >15%. For non-OOB engagements the involvement rate was 6% (FY18: 5%) which is above the target of 5%.

The table below shows the specialist hours worked on audit engagements in FY19 and FY18 and these hours as a percentage of total engagement hours.

	FY19		FY18	
	Hours	%	Hours	%
Legal audits	150,177	8%	148,327	8%
Non-legal audits	23,969	12%	25,737	13%
PIE/OOB audit clients	62,820	18%	68,498	20%
Non-PIE/OOB audit clients	87,357	6%	79,404	5%
Total	**324,322**		**321,967**	

Accrediting and licensing

All KPMG professionals are required to comply with applicable professional licensing rules and satisfy the continuous professional development (CPD) requirements in the jurisdiction where they practice. Policies and procedures are designed to ensure that those individuals that require a licence to undertake their work are appropriately licensed. KPMG is responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework.

In addition, within the network, specific requirements apply for partners and managers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply for US Generally Accepted Accounting Principles (GAAP), US Generally Accepted Auditing Standards, and the Standards (GAAS) of the Public Company Accounting Oversight Board (PCAOB) for SEC engagements performed outside the US. These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

6. 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.

Timely partner and manager involvement

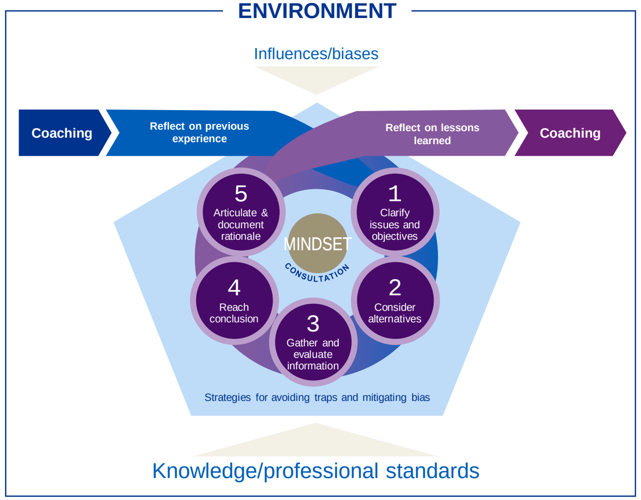
Involvement and leadership from the engagement partner during the planning process and early in the engagement process helps set the appropriate scope and tone for the engagement, and helps the engagement team to obtain the maximum benefit from the partner's experience and skills. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters that are significant to the engagement, including critical areas of judgment and significant risks.

Emphasis on professional scepticism

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence or advice options. Professional audit scepticism features prominently throughout auditing standards and receives significant attention from regulators. Our system of quality controls emphasises the importance of maintaining an attitude of professional scepticism throughout the engagement.

KPMG's professional judgment process facilitates good judgment by introducing a structured approach to areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasises the importance of having the right mindset — the need to apply professional scepticism.

KPMG's professional judgement process



Our professional judgment process recognises the need to be aware of, and alert to, biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- Clarifying the issues and objectives;
- Considering alternatives;
- Critically assessing evidence by challenging management's assumptions and following up contradictory or inconsistent information;
- Reaching a conclusion;
- Documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

The use of the professional judgment process and the application of professional scepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Ongoing mentoring, supervision and review

We understand that skills are built over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, KPMG promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring and supervision during an engagement involves:

- Engagement partner participation in planning discussions;
- Tracking the progress of the engagement;
- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;
- Helping engagement team members address any significant matters that arise during the engagement and modifying the planned approach appropriately;
- Identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring and supervision is a timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

Appropriate involvement of the EQCR or second partner

Engagement Quality Control Reviewers (EQCRs) and second partners (in Advisory) are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team.

An EQCR is required to be appointed for audits, including any related review(s) of interim financial information of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or head of Assurance. A second partner in Advisory is required for all engagements due to applicable laws, regulations or professional standards, engagements that are graded high risk, unless exempted by the Risk Management Partner, or where specific functional or member firm guidance is applicable.

Although the engagement partner is ultimately responsible, the EQCR or second partner must be satisfied that all significant questions raised have been resolved before an engagement can be considered to be completed.

During the year under consideration, EQCRs were performed on 32% of legal audit engagements, which is higher than the 30% in FY18. EQCR partners accounted for 0.9% (FY18: 1%) of total engagement hours compared to a target bandwidth of 1.2%-2%.

7. 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 Improvement Council (AQIC) to assess quality-related findings, including developments, to initiate and monitor the enhanced root cause analysis process and subsequently define mitigating actions in the form of advice to the Leadership Team Assurance. The Council is chaired by the Quality Management Partner and works closely together the Country Quality & Risk Management Partner 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 Leadership Team Assurance, the Country Quality & Risk Management Partner, the Board of Management and the Supervisory Board on audit quality trends, measures and remedial action taken by the firm, and the effectiveness of those remedial actions.

Internal monitoring and compliance programmes

We are committed to continually improving the quality, consistency and efficiency of our audits. Integrated quality monitoring and compliance programmes enable member firms to identify quality deficiencies, to perform root cause analyses and to develop, implement and report remedial action plans in respect of both individual audit engagements and the member firm's system of quality control. KPMG's integrated quality and monitoring programmes include the Quality Performance Review (QPR) programme, the Risk Compliance Programme (RCP), the Information Protection Group programme (IPG) and the Global Compliance Review (GCR) programme.

The quality, monitoring and compliance programmes are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. Member firms are required to compare the results of internal monitoring programmes with the results of any external inspection programmes and take appropriate action.

Our monitoring programmes evaluate both:

- Engagement performance in compliance with the applicable standards, laws and regulations and KPMG International policies and procedures;
- Compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programmes are communicated within each member firm, and the overall results and lessons from the programmes are considered and appropriate action is taken at local, regional and global levels. The internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively at a member firm level.

Three inspection programmes developed and administered by KPMG International are conducted annually across the Assurance and Advisory, and where relevant Business Services, functions: QPR, IPG and RCP. Additionally all member firms are covered at least every three years by the cross-functional GCR programme. This year the GCR was performed in January 2019 with satisfactory results in particular on the annual RCP programme and certain other KPMG International requirements.

Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

Audit Quality Performance Reviews (QPR)

The QPR programme assesses engagement level performance and identifies opportunities to improve engagement quality.

Risk-based approach in QPR

Each engagement leader is reviewed at least once in a three-year cycle. A risk-based approach is used to select engagements.

KPMG conducts the annual QPR programme in accordance with global QPR instructions. The reviews are performed at the local level and are monitored regionally and globally. Audit QPR reviews are overseen by a senior experienced lead reviewer who is independent from the member firm.

Compliance with our system of quality controls

The Internal Audit & Compliance Office performs specific monitoring procedures on compliance-related topics, which are out of scope of the internal audits. In addition, the Compliance Office monitors internal compliance with the system of quality controls through its issue tracker. The Internal Audit & Compliance Officer reports findings on a regular basis to the policymakers for further follow up.

Risk Compliance Programme (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, KPMG perform a robust assessment programme consisting of documentation of quality controls and procedures, related compliance testing, and reporting of exceptions, action plans and conclusions. The objectives of the RCP are to:

- Monitor, document and assess the extent of compliance of the member firm's system of quality controls with global quality and risk management policies and key legal and regulatory requirements relating to the delivery of professional services;
- Provide the basis for member firms to evaluate that the member firm and its personnel comply with relevant KPMG professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, the member firm is required to develop appropriate action plans.

Global Compliance Review (GCR)

Each member firm is subject to a GCR conducted by the global GCR team, independent of the member firm, at least once in a three-year cycle. The GCR provides independent oversight of a member firm's assessment of its system of quality controls, including:

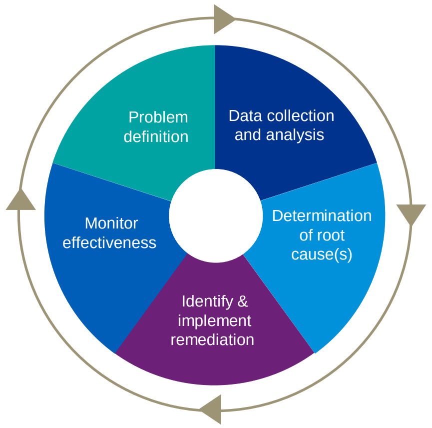
- The member firm's commitment to quality and risk management (tone from the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- The completeness and robustness of the member firm's RCP, by evaluating whether there was:
  - Appropriate documentation of policies, processes and related controls in place;
  - Adequate testing of the effectiveness of controls;
  - Proper conclusions in relation to issues and corrective action necessary as reported in the RCP action plan.

The GCR team performing the reviews is independent of the member firm, objective and knowledgeable about global quality and risk management policies. KPMG is required to develop action plans to respond to all GCR findings and agree these with the GCR team. Progress on action plans is monitored by a global GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG), and where necessary to appropriate KPMG International and regional leadership, to ensure timely remedial actions.

Root Cause Analysis (RCA)

KPMG performs RCA to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. The RCA 5-Step Principles are as follows:

The RCA 5-step Principles



It is the responsibility of KPMG to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified. The Head of Assurance is responsible for the development and implementation of action plans including identification of solution owners. The AQIC initiates and monitors the execution of the RCAs and subsequently defines mitigating actions for its advice to the Leadership Team Assurance.

Recommendations for improvements

At a global level, KPMG International reviews the results of the quality monitoring programmes, analyses member firm root causes and action plans and develops additional global actions as required.

The Global Audit Quality Transformation Team considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues, and makes recommendations to the Global Audit Steering Group on audit quality issues.

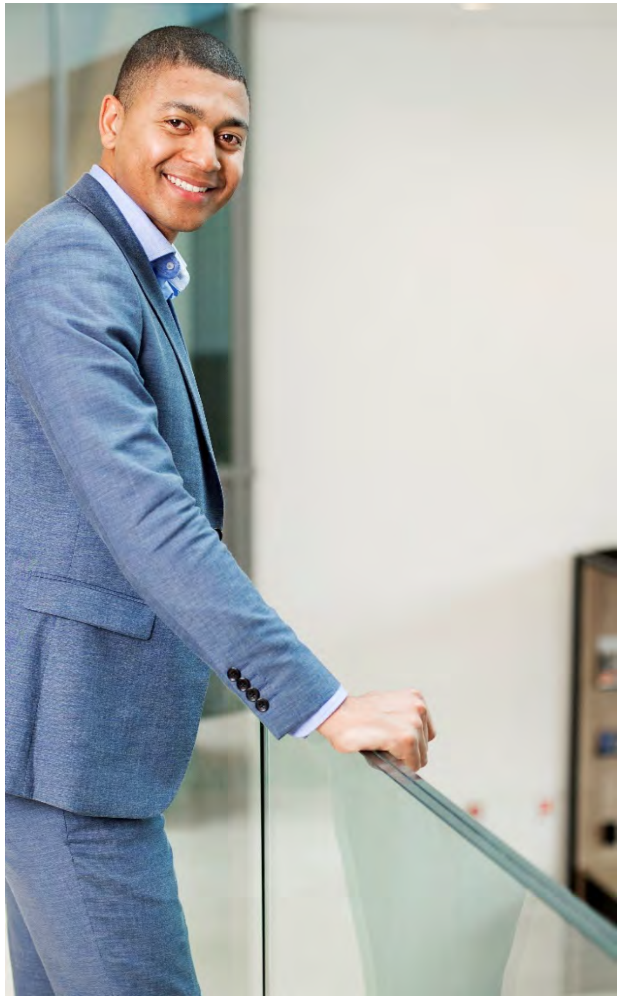
Global remediation plans to date include holistic actions aimed at culture and behaviour and at driving consistent engagement team performance. The global actions also include training, tools and guidance to drive consistency and ensure that we have the fundamentals right and that best practice is shared across the network.

Regulatory feedback and dialogue

KPMG has regular two-way communication with the local regulator, AFM. At international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level. At a regional level, we also have regular dialogue with representatives of the Committee of European Auditing Oversight Bodies (CEAOB).

6. Financial statements

6. Financial statements



Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 September 2019

The notes on pages 86 to 121 inclusive are an integral part of these consolidated financial statements.

€000	Note	2018/2019	(a)2017/2018
Revenue	5	509,432	466,176
Other income	6	20,971	20,044
Total operating income		**530,403**	**486,220**
Costs of outsourced work and other external charges		52,851	47,146
Employee benefits expenses	7	260,572	242,681
Depreciation and amortisation	5, 13, 14	8,019	6,684
Impairment on trade receivables	17	-1,670	-
Other expenses	8	135,762	122,115
Total expenses		**455,534**	**418,626**
Operating result		**74,869**	**67,594**
Share in result of non-consolidated associated companies	15	-2,210	-1,743
Impairment loss on non-consolidated associated companies	15	-2,383	-
Finance income	9	96	14
Finance expenses	10	-6,278	-3,468
Profit before income tax		**64,094**	**62,397**
Income tax expense	11	2,077	1,440
Fees payable to Coöperatie KPMG U.A.	12	61,187	60,873
Profit for the year		**830**	**84**
Other comprehensive income after taxes		-	-
Total comprehensive income for the year		**830**	**84**
Profit attributable to:			
Owners of the Company		924	148
Non-controlling interest		-94	-64
		830	**84**

Note: (a) The Group initially applied IFRS 9 and IFRS 15 at 1 October 2018. Under the transition methods chosen, comparative information has been restated, whereby IFRS 15 has been implemented using the full retrospective method.

Consolidated statement of financial position

As at 30 September 2019, before appropriation of results

The notes on pages 86 to 121 inclusive are an integral part of these consolidated financial statements.

€000	Note	30 Sep 19	[a]30 Sep 18
Assets			
Non-current assets			
Intangible assets and goodwill	13	31,056	18,185
Property, plant and equipment	14	11,412	10,598
Investments in equity accounted investees	15	-	4,593
Other financial assets	16	473	1,097
Contract assets	5	29	4
Deferred tax assets	11	2,933	4,105
		45,903	38,582
Current assets			
Contract assets	5	38	1
Receivables	17	146,541	133,057
Income taxes	11	-	1
Cash and cash equivalents	18	57,879	36,256
		204,458	169,315
Total assets		**250,361**	**207,897**

€000	Note	30 Sep 19	[a]30 Sep 18
Equity and liabilities			
Group equity	19		
Share capital		5,500	5,500
Share premium		14,940	13,500
Reserves		5,472	14,026
Profit for the year		924	148
Total equity attributable to equity holders of the Company		26,836	33,174
Non-controlling interest		-	-7,977
Total Group equity		26,836	25,197
Non-current liabilities			
Loans and borrowings	20	34,847	20,027
Employee benefits	21	2,713	2,675
Provisions	22	372	6,080
Contract liabilities	5	7	28
Deferred tax liabilities	11	159	148
		38,098	28,958
Current liabilities			
Loans and borrowings	20	48,247	46,022
Contract liabilities	5	68	132
Trade and other payables	23	100,721	83,128
Income taxes	11	-	-
Employee benefits	21	29,120	23,483
Provisions	22	7,271	977
		185,427	153,742
Total liabilities		**223,525**	**182,700**
Total Group equity and liabilities		**250,361**	**207,897**

Note: (a) The Group initially applied IFRS 9 and IFRS 15 at 1 October 2018. Under the transition methods chosen, comparative information has been restated, whereby IFRS 15 has been implemented using the full retrospective method.

Consolidated statement of cash flows

For the year ended 30 September 2019

The notes on pages 86 to 121 inclusive are an integral part of these consolidated financial statements.

€000	Note	2018/2019	(a)2017/2018
(Loss)/profit for the year		830	84
Adjustments for:			
Income tax expense	11	2,077	1,440
Impairment of trade receivables and contract assets	17	-1,670	-
Depreciation and amortisation	5, 13, 14	8,019	6,684
Finance income	9	-96	-14
Finance expenses	10	6,278	3,468
Share in result of equity accounted investees	15	2,210	1,743
Impairment loss on non-consolidated associated companies	15	2,383	-
Cash flows before movements in working capital and provisions		20,031	13,405
Change in contract assets		-62	1
Change in unbilled services and advance billings	17	7,802	3,723
Change in receivables	17	-9,686	-13,288
Change in contract liabilities		-85	-176
Change in trade and other payables	23	7,435	13,493
Change in provisions	22	586	-6,341
Change in employee benefits	21	5,675	209
Cash flows (used in)/from operating activities		31,696	11,026
Interest and bank charges paid	10	-1,455	-591
Interest received		96	14
Income tax paid	11	-915	-886
Net cash from operating activities		**29,422**	**9,563**
Acquisition of property, plant and equipment	14	-4,489	-2,842
Investment in software	13	-17,136	-5,788
Acquisition of equity accounted investees		-	-2,789
Loans to equity accounted investees	15, 16	-750	-1,097
Net cash used in investing activities		**-22,375**	**-12,516**
Addition to share premium by partners		3,190	3,120
Net (repayment)/proceeds of loans and borrowings from partners	20	13,879	15,560
Net (repayment)/proceeds of loans and borrowings from former partners	20	1,239	-420
Interest paid to Coöperatie KPMG U.A. re partners and former partners	10	-3,346	-2,877
Dividends paid to Coöperatie KPMG U.A.		-1,750	-640
Acquisition of remaining shares Innovation Factory B.V.	25	-525	-
Net (repayment)/proceeds of employee bonds	20	1,889	-
Net cash from financing activities		**14,576**	**14,743**
Net change in cash and cash equivalents	18	**21,623**	**11,790**
Cash and cash equivalents at 1 October	18	36,256	24,466
Cash and cash equivalents at 30 September		**57,879**	**36,256**

Note: (a) The Group initially applied IFRS 9 and IFRS 15 at 1 October 2018. Under the transition methods chosen, comparative information has been restated, whereby IFRS 15 has been implemented using the full retrospective method.

Consolidated statement of changes in equity

The notes on pages 86 to 121 inclusive are an integral part of these consolidated financial statements.

€000	Share capital	Share premium	[a]Reserves	[a]Profit for the year	[a]Total equity attributable to equity holders	Non-controlling interest	[a]Total equity
Balance at 1 October 2017, as previously reported	5,500	11,020	14,023	289	30,832	-7,913	22,919
Adjustment on initial application of IFRS 15, net of tax	-	-	-16	-270	-286	-	-286
Balance at 1 October 2017	**5,500**	**11,020**	**14,007**	**19**	**30,546**	**-7,913**	**22,633**
2016/2017 result appropriation	-	-	19	-19	-	-	-
Total comprehensive income for the year							
Profit/(loss) for 2017/2018	-	-	-	148	148	-64	84
Other comprehensive income for the year	-	-	-	-	-	-	-
Transactions with owners of the Company, recognised directly in equity							
Contributions and distributions							
Dividend paid	-	-640	-	-	-640	-	-640
Additions by partners	-	3,120	-	-	3,120	-	3,120
Balance at 30 September 2018	**5,500**	**13,500**	**14,026**	**148**	**33,174**	**-7,977**	**25,197**
Balance at 1 October 2018, as previously reported	5,500	13,500	14,312	17	33,329	-7,977	25,352
Adjustment on initial application of IFRS 15, net of tax	-	-	-286	131	-155	-	-155
Balance at 1 October 2018	**5,500**	**13,500**	**14,026**	**148**	**33,174**	**-7,977**	**25,197**
2017/2018 result appropriation	-	-	148	-148	-	-	-
Total comprehensive income for the year							
Profit/(loss) for 2018/2019	-	-	-	924	924	-94	830
Other comprehensive income for the year	-	-	-	-	-	-	-
Transactions with owners of the Company, recognised directly in equity							
Acquisition of Innovation Factory B.V.	-	-	-768	-	-768	137	-631
Dissolution of KPMG-gebouw Amstelveen II B.V.	-	-	-7,934	-	-7,934	7,934	-
Contributions and distributions							
Dividend paid	-	-1,750	-	-	-1,750	-	-1,750
Additions by partners	-	3,190	-	-	3,190	-	3,190
Balance at 30 September 2019	**5,500**	**14,940**	**5,472**	**924**	**26,836**	**-**	**26,836**

Note: (a) The Group initially applied IFRS 9 and IFRS 15 at 1 October 2018. Under the transition methods chosen, comparative information has been restated, whereby IFRS 15 has been implemented using the full retrospective method.

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 Assurance or Advisory business segments. Coöperatie KPMG U.A. ('the Cooperative') holds the shares in KPMG N.V. The only members of the Cooperative are the practice companies of the partners. The services of the partners are made available to the Cooperative on the basis of a management agreement. 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 Group's investments in associates. The Company and its subsidiaries are jointly referred to as 'KPMG' or 'the Group'.

1.2 Reporting period

The Company's financial year runs from 1 October of a calendar year to 30 September of the following calendar year.

The financial statements for 2018/2019 were approved for issue by the Board of Management on 16 December 2019.

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 a 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 euros, which is the Company's functional currency. All amounts are in thousands of euros unless stated otherwise; in addition, 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, and income and expenses. The estimates and associated assumptions are based on past experience and various other factors that are considered reasonable in the circumstances.

The results form the basis for the Group'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 the revision in question 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 consideration and future periods.

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

— Note 13 Intangible assets;

— Note 15 Investments in equity accounted investees;

— Note 17 Measurement of unbilled services and trade receivables;

— Note 22 Provision for claims/legal proceedings;

— Note 24 Financial instruments and associated risks.

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 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 any such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which any 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 Note 24 Financial instruments and associated risks.

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 new standards, interpretations and amendments to a standard with a date of initial application of 1 October 2018 unless otherwise stated:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Annual Improvements to IFRS Standards 2014-2016 Cycle.

The implementation of IFRIC 22 and the Annual Improvements to IFRS Standards has not had any effect on profit or equity. A number of other changes to IFRSs are not applicable to KPMG.

The nature and effect of the changes in IFRS 9 and IFRS 15 are explained below.

IFRS 9 Financial Instruments

General

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in other expenses. Impairment losses on other financial assets are presented under 'finance expenses', similar to the presentation under IAS 39, and are not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018/2019 but have not been generally applied to comparative information.

The impact, net of tax, of the transition to IFRS 9 on the opening balance of reserves, retained earnings and NCI is not considered to be material.

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Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had any significant effect on the Group's accounting policies in relation to either financial liabilities or derivative financial instruments.

The table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 October 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 October 2018 is not considered to be material.

	Note	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets					
Other financial assets	16	Loans and receivables	Fair value through profit or loss	895	895
Other financial assets	16	Loans and receivables	Amortised cost	202	202
Receivables	17	Loans and receivables	Amortised cost	127,926	127,926
Cash and cash equivalents	18	Loans and receivables	Amortised cost	36,256	36,256
Financial liabilities					
Loans and borrowings – Non-current	20	Other financial liabilities	Amortised cost	20,027	20,027
Loans and borrowings – Current	20	Other financial liabilities	Amortised cost	46,022	46,022
Trade and other payables	23	Other financial liabilities	Amortised cost	73,628	73,628

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Group has determined that the application of the IFRS 9 impairment requirements at 1 October 2018 does not result in a material impact on the allowance for impairment.

The Group does not apply hedge accounting, therefore no adjustments are necessary with regard to hedge accounting.

Transition

The Group took advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. The impact of the implementation of IFRS 9 is not considered to be material.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 retrospectively using the practical expedient in paragraph C5(d) of IFRS 15, under which the Group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue for all reporting periods presented before the date of initial application (1 October 2018).

The following table summarises the impact, net of tax, of the transition to IFRS 15 on retained earnings at 30 September 2017.

Impact of transition to IFRS 15

	Note	Impact of adopting IFRS 15 at 1 Oct 2017
Retained earnings		
Fees for setup activities (SaaS licences)	a	-2
Costs related to setup activities (SaaS licences)	b	-
Fees for SaaS licences and deployment services	c	-334
Deployment services prior to go-live date of the SaaS licences	d	50
Impact as at 1 October 2017		**-286**

The following tables summarise the various impacts of adopting IFRS 15 on the Group's financial statements.

Impact on the consolidated statement of financial position as at 30 September 2018

	Note	As previously reported	Adjustment on initial application of IFRS 15, net of tax	As reported
Assets				
Contract assets	b,d	-	5	5
Others		207,892	-	207,892
Total assets		**207,892**	**5**	**207,892**
Equity				
Reserves	a,b,c,d	14,312	-286	14,026
Profit for the year	a,c	17	131	148
Others		11,023	-	11,023
Total equity		25,352	-155	25,197
Liabilities				
Contract liabilities	a,c	-	160	160
Others		182,540	-	182,540
Total liabilities		182,540	160	182,700
Total equity and liabilities		**207,892**	**5**	**207,897**

Impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2018

	Note	As previously reported	Adjustment on initial application of IFRS 15, net of tax	As reported
Revenue	a,b,c	466,049	127	466,176
Costs of outsourced work and other external charges	a,b	-47,154	8	-47,146
Employee benefits expenses	a,b	-242,721	40	-242,681
Depreciation and amortisation	d	-6,640	-44	-6,684
Others		-169,581	-	-169,581
Profit/(loss) for the period		**-47**	**131**	**84**
Total comprehensive income for the period		**-47**	**131**	**84**

a. Fees for setup activities (SaaS licences): The Group's software-related contracts may include non-refundable upfront fees for setup activities that do not directly result in the transfer a service to the customer, but that are necessary to allow the Group to provide the use of the software licence to the customer. Under IAS 18, revenue for these upfront fees was recognised at a point in time once the software was delivered. Under IFRS 15, non-refundable upfront fees correspond to an advance payment for future services, and revenue is recognised over time during the period that these services are provided.

b. Costs associated with setup activities (SaaS licences): As mentioned above, the Group's software-related contracts may include non-refundable upfront fees for setup activities that do not themselves directly result in the transfer a service to the customer, but that are necessary to allow the Group to provide the use of the software licence to the customer. Under IAS 18, these costs were expensed as and when they were incurred. Under IFRS 15, costs incurred prior to the go-live date are instead capitalised and amortised over the period of the contract.

c. SaaS licences and deployment services: The Group's software-related contracts correspond to Software as a Service (SaaS) licences, and may include deployment services of the SaaS licence. Under IAS 18, SaaS licences and deployment services were accounted for separately. Revenue for SaaS licences was recognised over the period that the licence was granted to the customer, and revenue for the deployment services was recognised over the period that the deployment services were performed. Under IFRS 15, in most of the contracts, SaaS and deployment services are assessed as a single performance obligation, and revenue for the combined performance obligation on those contracts is recognised during the period when the customer has the ability to consume and receive the benefit of its access to the SaaS, which is deemed to start at the date that the first SaaS module is deployed to the customer.

d. Costs associated with deployment services prior to the go-live date of the SaaS licences: As mentioned above, the Group's software-related contracts correspond to SaaS licences, and may include deployment services of the SaaS licence. Under IAS 18, SaaS licences and deployment services were accounted for separately, and the costs associated with deployment services were expensed as and when they were incurred. Under IFRS 15, in most of the contracts, SaaS and deployment services are assessed as a single performance obligation, and costs incurred prior to the go-live date of the SaaS are capitalised and amortised over the period of the contract.

Impact on the consolidated statement of cash flows for the year ended 30 September 2018

	As previously reported	Adjustment on initial application of IFRS 15, net of tax	As reported
Profit/(loss) for the year	-47	131	84
Adjustments for:			
Depreciation and amortisation	6,640	44	6,684
Other adjustments	6,637	-	6,637
Cash flows before movements in working capital & provisions	13,230	175	13,405
Change in contract assets	-	1	1
Change in contract liabilities	-	-176	-176
Others	-2,204	-	-2,204
Cash flows (used in)/from operating activities	11,026	-	11,026
Others	-1,463	-	-1,463
Net cash from operating activities	9,563	-	9,563
Net cash used in investing activities	-12,516	-	-12,516
Net cash from financing activities	14,743	-	14,743
Net change in cash and cash equivalents	**11,790**	**-**	**11,790**

IFRS 15 does not have an impact on the Group's accounting policies with respect to other revenue streams (see Note 5).

For additional information about the Group's accounting policies relating to revenue recognition, see Note 5.

Amendments to IAS 28

The amendments to IAS 28: Long-term Interests in Associates and Joint Ventures that are applicable for annual periods beginning after 1 January 2019 were adopted by KPMG with effect from 1 October 2018. The amendments clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The implementation of these amendments has not had any impact on profit or equity.

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3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all companies included in the consolidation, except those explained in Note 2, which addresses 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 2019, and have not been applied in preparing these consolidated financial statements:

— IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an impact assessment on its consolidated financial statements. The most significant impact identified is that the Group will recognise new assets and liabilities for its rental property and lease cars. As at 1 October 2019, the Group will recognise €128,763 in right-of-use assets and €128,627 in lease liabilities.

In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and the interest expense on lease liabilities. If the lease portfolio and other parameters remain similar during 2019/2020, then the impact of IFRS 16 on the result before income tax is not expected to be material as the increase in depreciation and finance expense would be largely offset by the decrease in operating lease expenses. Similarly, in 2019/2020 operating cash flows are expected to increase and financing cash flows to decrease by approximately €21.9m as repayment of the principal portion of the lease liabilities will be classified as cash flow from financing activities while previously the lease payments were classified as cash flows from operating activities.

The Group does not have to make adjustments for leases in which it is a lessor.

The adoption of IFRS 16 will not have an impact on the Group's ability to comply with the financial covenants in connection with the credit facility described in Note 24.3.

The impact of the new accounting policies is subject to change until the Group presents its first financial statements that include the date of initial application.

Transition

On transition to IFRS 16, the Group can choose whether to:

— Apply the IFRS 16 definition of a lease to all its contracts; or

— Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Group applies the practical expedient to grandfather the definition of a lease on transition. This means that it applies IFRS 16 to all contracts entered into before 1 October 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

As a lessee, the Group can apply the standard using either:

— A retrospective approach; or

— A modified retrospective approach with optional practical expedients.

The Group initially applies IFRS 16 on 1 October 2019, using the modified retrospective approach, applying the election consistently to all of its leases.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group applies the practical expedient to exclude initial direct costs from the measurement of the right-of-use assets. Finally, upon transition the Group will apply a single discount rate to portfolios of leases with reasonable similar characteristics;

— IFRIC 23 Uncertainty over Income Tax Treatments clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, in cases where there is uncertainty over income tax treatments under IAS 12. The interpretation is not expected to have a material impact on profit or equity;

— Annual Improvements to IFRS Standards 2015-2017 Cycle. These improvements relate to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs and are not expected to have a material impact on profit or equity.

A number of other changes to IFRSs are not applicable to KPMG.

3.2 Consolidation principles

3.2.1 Business combinations

All business combinations are accounted for using the acquisition method. 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. The consideration is measured at the fair value of the liabilities incurred by the Group to the previous owners. 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.

Where the excess is positive, goodwill is recognised, subject to annual impairment testing. 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.

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. The 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 the preparation of 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.

3.2.6 Investments in equity accounted investees (associates)

The Group's investments in equity accounted investees comprise 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 on which the 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 currencies 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 economically hedge exposure to foreign exchange risks of recognised monetary assets or liabilities, hedge accounting is not applied. Any gain or loss on the hedging instrument is recognised in the statement of profit or loss.

3.5 Financial instruments

3.5.1 Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.5.2 Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

— It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. The Group has not elected to present subsequent changes in the investment's fair value in OCI for any equity investments.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Group has not designated any financial asset to be measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

For the purposes of assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

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

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value, and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has the following other non-derivative financial liabilities: loans and borrowings, and trade and other payables.

3.5.3 Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

3.5.4 Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.5 Derivative financial instruments

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

3.5.6 Accounting policies applicable to comparative figures

As the Group did not apply IFRS 9 retrospectively, the accounting policies applicable to the comparative figures relating to financial instruments differ from the current accounting policies. Under the previous accounting policy, 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 any 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 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 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 are 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.

Depreciation 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

Goodwill is stated at cost less accumulated impairment losses, if any. An impairment loss is recognised when the recoverable amount 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 and licences are 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 the 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, except for licences with an indefinite useful life, as follows:

- Customer relationships, 5 years;
- Order books, 3 months;
- Software, 5 to 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.

The useful life of an intangible asset that is not being amortised is reviewed in each annual reporting period to determine whether events and circumstances continue to support an indefinite useful life for that asset.

3.8 Unbilled services

Unbilled services represent the gross unbilled amount that is 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.

Unbilled services are 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, and only to the extent that the asset’s carrying amount on the reporting date 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 recognises loss allowances for ECLs on:

- Financial assets measured at amortised cost; and
- Contract assets.

The Group currently does not own any debt investments measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt securities and bank deposits that are determined to have a low credit risk at the reporting date; and
- Other debt securities and bank balances for which the credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

The Group considers a debt security to have a low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher as per Moody's, or BBB- or higher as per S&P or Fitch.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract, and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI, if any, are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

The Group measures ECLs on a collective basis, financial assets are grouped on the basis of shared credit risk characteristics, where the main driver is instrument type. Additionally, credit-impaired or defaulted loans are assessed individually.

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3.9.3 Accounting policies applicable to comparative figures

As the Group did not apply IFRS 9 retrospectively, the accounting policies applicable to the comparative figures relating to impairment of financial assets differ from the current accounting policies.

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 the 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.

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 benefits 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 the term of the obligations.

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

3.11 Provisions

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

The Group has initially applied IFRS 15 from 1 October 2018. The effect of initially applying IFRS 15 is described in Note 2.5.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The Group has elected to apply the practical expedient of IFRS 15.63, where it does not adjust the promised amount of the consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies, is provided below.

Assurance and advisory services

Nature and timing of satisfaction of performance obligations, including significant payment terms

The Group has determined that for assurance and advisory services, the customer controls all of the work in progress as the services are being provided. Also, under those contracts the services provided do not create an asset with an alternative use to the Group because it relates to facts and circumstances that are specific to the customer and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

Invoices are issued according to contractual terms and are usually payable within 15 days. Uninvoiced amounts are presented as unbilled services.

Revenue recognition

Revenue is recognised over time by measuring the proportion that costs incurred to date bear to the estimated total costs of the service.

For those contracts with a constrained variable consideration that is highly susceptible to factors outside the Group's influence (e.g. success fees), the constrained amount is not included in the transaction price until the uncertainty associated with the variable consideration is resolved.

In contracts with multiple performance obligations, the standalone selling price of assurance and advisory services is estimated based on the cost plus margin approach.

SaaS licences

Nature and timing of satisfaction of performance obligations, including significant payment terms

Customers obtain control of the SaaS over time, during the period in which the customer has the ability to consume and receive benefits from its access to the SaaS. Invoices are issued according to contractual terms and are usually payable within 15 days. Uninvoiced amounts are presented as unbilled services.

Revenue recognition

Revenue is recognised over time using a time basis as a measure of progress after the go-live date of the SaaS.

In contracts with multiple performance obligations, the standalone selling price of SaaS is based on the list prices at which the Group sells the SaaS licences. In case discounts are given in those contracts, and there is no observable evidence that the discount corresponds entirely to a single performance obligation, the discount is allocated proportionally to all the performance obligations of the contract.

3.13 Other income

Included in other income 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 leased 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.

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 the depreciation expense on those assets is recognised.

3.14 Operating lease payments

Lease contracts in respect 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 excluding 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 for paying 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 2018/2019 the tax rate applied was 25% (2017/2018: 25%).

The measurement of deferred tax reflects the tax consequences that would ensue 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, interest received, interest paid and dividends received are presented under the cash flow from operating activities and investing activities if applicable. Dividends paid, issuance of share capital and interest paid to (former) partners 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 operating segments:

— Assurance;

— Advisory.

As at 1 October 2018, the Group changed its operating segments from Audit and Advisory to Assurance and Advisory. The main difference is that the 'Business Assurance' unit has moved from the Advisory segment to the Audit segment and together they are referred to as Assurance. This is in line with the change in management reporting and provides the Board of Management with better insight based on differences in products and services, as well as regulatory environment. The comparative information has been adjusted accordingly.

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 mainly comprise corporate assets, head office expenses, and income tax assets and liabilities. These are reported under 'Corporate'.

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.

2018/2019 segmentation	Assurance	Advisory	Corporate	Intersegment eliminations	Total
Revenue and profit					
Revenue	295,365	214,168	-101	-	509,432
Revenue from intersegment transactions	-	797	-	-797	-
	295,365	214,965	-101	-797	509,432
Other income	725	1,448	18,798	-	20,971
Total operating income	**296,090**	**216,413**	**18,697**	**-797**	**530,403**
Operating result	71,792	60,951	-57,874	-	74,869
Finance income	-	70	26	-	96
Finance expenses	-679	-1,440	-4,159	-	-6,278
Share in result of non-consolidated associated companies	-	-2,210	-	-	-2,210
Impairment loss on non-consolidated associated companies	-	-2,383	-	-	-2,383
Profit before income tax	71,113	54,988	-62,007	-	64,094
Profit before tax/revenue (%)	*24.2*	*25.5*			*12.1*
Taxation					-2,077
Fees payable to Coöperatie KPMG U.A.					-61,187
Profit for the year					**830**
FTEs					
Partners	*79*	*51*	*8*	-	*138*
Other professionals	*1,532*	*1,146*	-	-	*2,678*
Support staff	*118*	*56*	*453*	-	*627*
Total FTEs	*1,729*	*1,253*	*461*	-	*3,443*
Intangible assets and goodwill					
Capital expenditure	-	14,254	2,882	-	17,136
Reclassification	-	-	-30	-	-30
Amortisation	-	2,485	1,750	-	4,235
Property, plant and equipment					
Capital expenditure	-	-	4,489	-	4,489
Reclassification	-	-	30	-	30
Depreciation	-	-	3,705	-	3,705
Assets by segment					
Non-current assets	-	24,143	21,731	-	45,874
Investments in equity accounted investees	-	-	-	-	-
Contract assets	-	67	-	-	67
Unbilled services and trade receivables	61,062	61,430	2,225	122	124,839
Other current assets	4,853	801	73,927	-	79,581
Total assets					**250,361**
Liabilities by segment					
Contract liabilities	-	75	-	-	75
Prepayments	34,595	6,019	1	122	40,737
Other liabilities	16,345	494	165,874	-	182,713
Total liabilities					**223,525**

2017/2018 segmentation[a]	Assurance	Advisory	Corporate	Intersegment eliminations	Total
Revenue and profit					
Revenue	274,660	191,516	-	-	466,176
Revenue from intersegment transactions	-	1,838	-	-1,838	-
	274,660	193,354	-	-1,838	466,176
Other income	1,724	1,075	17,245	-	20,044
Total operating income	**276,384**	**194,429**	**17,245**	**-1,838**	**486,220**
Operating result	62,868	55,990	-51,264	-	67,594
Finance income	-	-	14	-	14
Finance expenses	-	-	-3,468	-	-3,468
Share in result of non-consolidated associated companies	-	-1,743	-	-	-1,743
Profit before income tax	**62,868**	**54,247**	**-54,718**	**-**	**62,397**
Profit before tax/revenue (%)	*22.9*	*28.3*			*13.4*
Taxation					-1,440
Fees payable to Coöperatie KPMG U.A.					-60,873
Profit for the year					**84**
FTEs					
Partners	*81*	*52*	*6*	*-*	*139*
Other professionals	*1,444*	*989*	*-*	*-*	*2,433*
Support staff	*112*	*49*	*402*	*-*	*563*
Total FTEs	*1,637*	*1,090*	*408*	*-*	*3,135*
Intangible assets and goodwill					
Capital expenditure	-	3,076	2,712	-	5,788
Reclassification	-	168	-	-	168
Amortisation	-	801	1,397	-	2,198
Property, plant and equipment					
Capital expenditure	-	-	2,842	-	2,842
Reclassification	-	-	-168	-	-168
Depreciation	-	-	4,442	-	4,442
Assets by segment					
Non-current assets	-	13,017	20,968	-	33,985
Investments in equity accounted investees	-	4,593	-	-	4,593
Contract assets	-	5	-	-	5
Unbilled services and trade receivables	58,450	51,442	1,187	-	111,079
Other current assets	5,131	513	52,591	-	58,235
Total assets					**207,897**
Liabilities by segment					
Contract liabilities	-	160	-	-	160
Prepayments	26,634	3,942	-	-	30,576
Other liabilities	15,742	552	135,670	-	151,964
Total liabilities					**182,700**

Note: (a) Adjusted for comparison purposes.

5. Revenue

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 2.5.

Revenue streams

The Group primarily generates revenue from single or multiple performance obligations to deliver assurance and advisory services. The main component of these contracts is labour. An increasing number of the Group's contracts contain software licences, and other services derived from licences.

€000	2018/2019	[(a)]2017/2018
Revenue from contracts with customers	509,432	466,176
	509,432	**466,176**

Note: (a) Adjusted for comparison purposes, see Note 2.5 Impact of IFRS 15.

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary service lines. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 4).

€m	Statutory legal audits	Other statutory audits	Other auditor reports & assurance (-related) reports	Total assurance services	Advisory services	Total
2018/2019						
Statutory legal audits – OOB clients	49.9	2.6	13.6	66.1	–	66.1
Statutory legal audits – other clients	107.3	13.3	8.0	128.6	7.6	136.2
Statutory audits – other clients	–	57.0	8.4	65.4	7.4	72.8
Other auditor reports and assurance (related) reports – other clients	–	–	8.5	8.5	41.8	50.3
Other clients	–	–	–	–	184.0	184.0
Total	**157.2**	**72.9**	**38.5**	**268.6**	**240.8**	**509.4**
Of which income related to:						
Assurance	157.2	72.9	37.6	267.7	29.6	297.3
Advisory	–	–	0.9	0.9	211.3	212.2
Corporate	–	–	–	–	-0.1	-0.1
Intersegment	–	–	–	–	–	–
Total	**157.2**	**72.9**	**38.5**	**268.6**	**240.8**	**509.4**
2017/2018						
Statutory legal audits – OOB clients	37.7	4.3	20.6	62.6	–	62.6
Statutory legal audits – other clients	96.5	14.0	5.9	116.4	7.8	124.2
Statutory audits – other clients	–	53.4	4.5	57.9	8.3	66.2
Other auditor reports and assurance (related) reports – other clients	–	–	10.2	10.2	40.7	50.9
Other clients	–	–	–	–	162.3	162.3
Total	**134.2**	**71.7**	**41.2**	**247.1**	**219.1**	**466.2**
Of which income related to:						
Assurance	134.2	71.7	40.6	246.5	27.4	273.9
Advisory	–	–	0.6	0.6	191.7	192.3
Corporate	–	–	–	–	–	–
Intersegment	–	–	–	–	–	–
Total	**134.2**	**71.7**	**41.2**	**247.1**	**219.1**	**466.2**

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	30 Sep 19	(a)30 Sep 18
Receivables, which are included in 'trade and other receivables'	**90,515**	79,976
Contract assets	**67**	5
Contract liabilities	**75**	160

Note: (a) Adjusted for comparison purposes, see Note 2.5 Impact of IFRS 15.

The contract assets primarily relate to costs incurred to fulfil contracts where the Group performs setup activities required to provide Software as a Service (SaaS) licences. These costs were determined based on the cost price of consulting hours related to the setup activities that were performed before the go-live date of the SaaS licences. Contract assets are amortised over the period in which the SaaS licence is provided to the customer. The amount of amortisation of contract assets during the period ended 30 September 2019 was €79 (30 September 2018: €44).

The contract liabilities primarily relate to upfront fees for setup activities that do not themselves result in the transfer of a service to the customer, but that are necessary in order for the use of the SaaS licences to be provided to the customer. As at 30 September 2019, the amount of contract liabilities was €75. This will be recognised as revenue over the period in which the SaaS licence is provided to the customer, which is expected to occur over the next two years.

An amount of €156 that was recognised in contract liabilities at the beginning of the period was recognised as revenue for the period ended 30 September 2019.

Transaction price allocated to the remaining performance obligations

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

6. Other income

Other sources of income include 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 leased 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.

7. Employee benefits expenses

	2018/2019	(a)2017/2018
Salaries and other employee benefits expenses	212,424	197,894
Social security costs	29,825	26,426
Pension costs	15,140	14,721
Long-term employee benefits	347	236
Severance expenses	2,836	3,404
	260,572	**242,681**

Note: (a) Adjusted for comparison purposes, see Note 2.5 Impact of IFRS 15.

The average salary per FTE decreased by 3.1% in 2018/2019 (previous year: decrease 0.1%). Total employee expenses increased by 7.4% in 2018/2019 (previous year: increase 4.6%). The number of staff and partners is shown below.

Average FTEs	2018/2019	2017/2018
Number of staff and partners		
Professional staff	2,678	2,433
Support staff	538	486
Support staff for KPMG International	89	77
Number of staff	**3,305**	**2,996**
Partners	138	139
	3,443	**3,135**

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8. Other expenses

	2018/2019	2017/2018
Other employee expenses	41,107	35,403
Travelling, car leases and representation expenses	30,608	28,231
Housing expenses	22,025	21,781
Office and IT expenses	11,196	9,492
Other expenses	30,826	27,208
	135,762	**122,115**

Other employee expenses increased as a result of higher costs of hiring third parties and study expenses. Travelling, car leases and representation expenses increased as a result of higher costs for car leases, for reasons including an increase in FTE numbers. Office and IT expenses increased due to higher IT costs, which was in turn due to an increase in cloud service expenses. Other expenses increased due to higher costs for professional indemnity. Total litigation expenses (including related legal expenses and movements in provisions) included in other expenses amounted to €1.1m in 2018/2019 (2017/2018: €0.5m gain).

An amount of €10.4m was recognised in other expenses in 2018/2019 related to research and development costs (2017/2018: €3.7m).

9. Finance income

	2018/2019	2017/2018
Interest income on deposits	1	-
Foreign exchange results	-	-
Unwinding of discount on provisions	-	-
Interest income from loans to equity accounted investees	70	2
Other finance income	25	12
	96	**14**

10. Finance expenses

	2018/2019	2017/2018
Interest expense on employee bonds	38	-
Interest expense due to Coöperatie KPMG U.A.	3,346	2,877
Foreign exchange results	974	87
Unwinding of discount on provisions	-	30
Changes in fair value of loans to associated company	1,440	-
Interest and bank charges	480	474
	6,278	**3,468**

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 are 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 2018/2019, the average tax rate was 24.7% (2017/2018: 24.9%).

The table below presents a reconciliation between accounting profit and taxable profit.

	2018/2019	2017/2018
Profit before tax	64,094	62,397
Expenses related to early retired partners	-1,719	-1,310
Tax-exempt income	-702	-611
Non-deductible expenses	7,814	2,680
Temporary differences	-3,271	-3,202
Taxable profit	**66,216**	**59,954**
Of which taxable by:		
Subsidiaries not part of the fiscal unity	-881	-292
KPMG N.V.	3,411	3,021
Coöperatie KPMG U.A.	945	887
Practice companies of the individual equity partners	62,741	56,338

11.1 Amounts recognised in profit or loss

	2018/2019	2017/2018
Current tax expense		
Current year	856	745
Adjustments for prior years	38	-32
	894	713
Deferred tax expense		
Recognised deductible temporary differences	1,183	727
Tax expense on continuing operations	**2,077**	**1,440**

11.2 Movement in deferred tax balances

	Net balance at 1 Oct	Recognised in profit or loss (see 11.1)	Net balance at 30 Sep	Deferred tax asset	Deferred tax liability
2017/2018					
Intangible assets	-30	-118	-148	-	-148
Property, plant & equipment	4,613	-659	3,954	3,954	-
Jubilee benefits	122	29	151	151	-
Deferred tax balance	**4,705**	**-748**	**3,957**	**4,105**	**-148**
2018/2019					
Intangible assets	-148	-11	-159	-	-159
Property, plant & equipment	3,954	-1,168	2,786	2,786	-
Jubilee benefits	151	-4	147	147	-
Deferred tax balance	**3,957**	**-1,183**	**2,774**	**2,933**	**-159**

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. €510 of the amount recognised in profit or loss relates to changes in enacted or substantially enacted tax rates. 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

With effect from 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.

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 €92 (2017/2018: €92), car allowances amounting to €2,291 (2017/2018: €2,387) and interest on financing totalling €3,346 (2017/2018: €2,877). These costs are shown in the statement of profit or loss and other comprehensive income under other expenses and finance expenses, respectively.

13. Intangible assets and goodwill

	Goodwill	Customer relationships & similar items	Software	Internally developed software	Licences	Total
Balance at 1 Oct 17						
Cost	6,395	1,921	11,174	1,949	544	21,983
Accumulated amortisation and impairment	-	1,211	6,224	121	-	7,556
Carrying amount	**6,395**	**710**	**4,950**	**1,828**	**544**	**14,427**
Movements during 2017/2018						
Additions	-	-	2,712	3,076	-	5,788
Reclassifications	-	-	-	168	-	168
Amortisation	-	-282	-1,397	-444	-	-2,123
Impairment	-	-	-	-59	-16	-75
Disposals cost	-	-	-	-	-	-
Disposals accumulated amortisation	-	-	-	-	-	-
Balance at 30 Sep 18	**6,395**	**428**	**6,265**	**4,569**	**528**	**18,185**
Cost	6,395	1,921	13,886	5,168	544	27,914
Accumulated amortisation and impairment	-	1,493	7,621	599	16	9,729
Balance at 30 Sep 18	**6,395**	**428**	**6,265**	**4,569**	**528**	**18,185**
Movements during 2018/2019						
Additions	-	-	2,882	14,254	-	17,136
Reclassifications	-	-	-30	-	-	-30
Amortisation	-	-187	-1,750	-1,652	-	-3,589
Impairment	-	-	-	-646	-	-646
Disposals cost	-	-373	-	-721	-	-1,094
Disposals accumulated amortisation	-	373	-	721	-	1,094
Balance at 30 Sep 19	**6,395**	**241**	**7,367**	**16,525**	**528**	**31,056**
Cost	6,395	1,548	16,738	18,701	544	43,926
Accumulated amortisation and impairment	-	1,307	9,371	2,176	16	12,870
Balance at 30 Sep 19	**6,395**	**241**	**7,367**	**16,525**	**528**	**31,056**

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

The remaining periods of amortisation at 30 September 2019 were:

- Customer relationship and similar items, 3 years (30 September 2018, 4 years);
- Software, 2 to 8 years (30 September 2018, 2 to 8 years).

Software

Software mainly relates to back-office systems.

Internally developed software

Internally developed software mainly relates to digital risk software. During 2018/2019 an amount of €14,254 was capitalised (2017/2018: €3,076).

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 Sep 19	30 Sep 18
KPMG Advisory	6,395	6,395

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 its value in use. Determination of the value in use is performed by using estimated future cash flows, based on the business plan 2019-2020 approved by the Board and further financial projections for the financial years through 2021-2022. 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 2019-2020 and further financial projections for the financial years through 2021-2022. For the period 2019-2020 through 2021-2022, average revenue growth of 10% is included, and for the period thereafter growth of 0%;
- A discount rate of 10.1% (2017/2018: 10.0%) 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;
- An indefinite growth rate of 0% (2017/2018: 0%).

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 analysis has been performed taking into consideration a change in the pre-tax weighted average cost of capital. An increase of 5 percentage points confirms sufficient headroom in the cash generating unit.

Based on the outcome of the impairment tests, no impairments have been recorded.

14. Property, plant and equipment

	Fixtures, fittings and alterations	Computers and communications equipment	Office furniture and equipment	Total
Balance at 1 Oct 17				
Cost	10,311	10,800	18,218	39,329
Accumulated depreciation and impairments	5,373	6,431	15,159	26,963
Carrying amount	4,938	4,369	3,059	12,366
Movements during 2017/2018				
Additions	632	1,006	1,204	2,842
Reclassifications	-	-168	-	-168
Depreciation	-1,157	-1,662	-1,623	-4,442
Disposals	-	-	-	-
Disposals cost	-	-3,766	-19	-3,785
Disposals accumulated depreciation	-	3,766	19	3,785
Balance at 30 Sep 18	**4,413**	**3,545**	**2,640**	**10,598**
Cost	10,943	7,897	19,403	38,243
Accumulated depreciation and impairments	6,530	4,352	16,763	27,645
Balance at 30 Sep 18	**4,413**	**3,545**	**2,640**	**10,598**
Movements during 2018/2019				
Additions	1,426	2,305	758	4,489
Reclassifications	-	30	-	30
Depreciation	-1,077	-1,844	-784	-3,705
Disposals	-	-	-	-
Disposals cost	-209	-3,120	-12,428	-15,757
Disposals accumulated depreciation	209	3,120	12,428	15,757
Balance at 30 Sep 19	**4,762**	**4,036**	**2,614**	**11,412**
Cost	12,160	7,112	7,733	27,005
Accumulated depreciation and impairments	7,398	3,076	5,119	15,593
Balance at 30 Sep 19	**4,762**	**4,036**	**2,614**	**11,412**

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 Sep 19	30 Sep 18
Associates	-	4,593

Investments in equity accounted investees relates to a 49.91% interest in AdviceGames Topholding B.V. (2017/2018: 49.91%).

At the end of financial year 2018/2019, negative operating results combined with a cash shortage led the Group to impair the investment to nil. The impairment loss amounts to €2,383 and is included in 'Impairment loss on non-consolidated associated companies'. In addition, loans provided to the associate were revalued by €1,440 to an amount of €454, which is included in Finance expenses. 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 2019-2020 and further financial projections for the financial years through 2021-2022;
- A discount rate of 34.6% to calculate the present value of the estimated future cash flows;
- An indefinite growth rate of 0%.

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

Furthermore, the Group holds a 15% interest in KPMG Investments Malta Ltd (30 September 2018: 15%). The other 85% of the shares are held by other KPMG member firms (30 September 2018: 85%). The activities of KPMG Investments Malta Ltd mainly consist 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 2018/2019 amounted to a loss of €2,210 (2017/2018: a loss of €1,743).

16. Other financial assets

	30 Sep 19	30 Sep 18
Profit share derivative of the employee bonds	19	-
Loans to equity accounted investees	454	1,097
	473	**1,097**

During financial year 2018/2019, the loans provided to AdviceGames Topholding B.V., including a newly provided loan of €750, were revalued by €1,440 to an amount of €454. Reference is made to Note 15.

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in Note 24.

17. Receivables

	30 Sep 19	(a) 30 Sep 18
Unbilled services	32,274	29,915
Trade receivables	92,565	81,098
Due from equity accounted investees	173	65
Other receivables	11,291	10,355
Prepayments	10,238	11,624
	146,541	**133,057**

Note: (a) Adjusted for comparison purposes.

Every quarter, the recoverable amounts of unbilled services and trade receivables are estimated. The important factors to be considered when estimating unbilled services and trade receivables are historical performance, the terms and conditions of contract, work progress and results of work performed. The financial position of the debtor is important when assessing the loss allowance.

17.1 Unbilled services

	30 Sep 19	30 Sep 18
Unbilled services	32,274	29,915
Advance billings	-40,737	-30,576
Balance of unbilled services and advance billings	**-8,463**	**-661**

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.

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 expected credit losses amounting to €829 (2017/2018: net of impairment loss of €2,152). In the statement of profit or loss and other comprehensive income a profit of €1,670 (2017/2018: loss of €330) was recognised under impairment on trade receivables (2017/2018: 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 €20m (2017/2018: €20m), which is divided into 800 shares of €25 each (2017/2018: 800 shares of €25 each). The issued share capital consists of 220 (2017/2018: 220) shares at a nominal value of €25 each (2017/2018: €25 each), representing a total nominal value of €5.5m (2017/2018: €5.5m). 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 Reserves

The reserves contain the profits of previous years.

19.3 Non-controlling interests

Non-controlling interests as at 30 September 2019 amounted to €nil (2017/2018: -€7,977). The non-controlling interests related to a minority interest of 30% in KPMG-gebouw Amstelveen II B.V., an entity which was dissolved during financial year 2018/2019, and to a minority interest of 20% in Innovation Factory B.V., which was acquired by the Group during financial year 2018/2019.

19.4 Appropriation of profit

The Group’s profit totals €924 and the Company proposes to add this amount to the reserves.

20. Loans and borrowings

	30 Sep 19	30 Sep 18
Non-current loans and borrowings		
Loans from Coöperatie KPMG U.A. (partners)	33,319	19,030
Loans from Coöperatie KPMG U.A. (former partners)	1,528	997
Total non-current loans and borrowings	34,847	20,027
Current loans and borrowings		
Employee bonds	1,926	-
Loans from Coöperatie KPMG U.A. (partners)	40,679	41,089
Loans from Coöperatie KPMG U.A. (former partners)	5,642	4,933
Total current loans and borrowings	48,247	46,022
	83,094	**66,049**

20.1 Employee bonds

Starting in 2018/2019, employees have the opportunity to participate in short-term employee bonds with a maturity of one year, a 3% fixed base rate interest, which is 0.7% above market interest, and a variable surplus based on the realised profit before tax of KPMG N.V. In 2019, 1,899 bonds with a nominal value of €1 were issued, of which 10 bonds were redeemed early.

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

The interest charged on current accounts, included in loans, is 1.1% (2017/2018: 1.0%). Partners participate in a mandatory loan programme totalling €16.7m as at 30 September 2019 (30 September 2018: €8.6m), bearing interest of 8.0% (2017/2018: 8.0%). Partners also have the opportunity to subscribe to deposits with a duration varying between one and five years. The total amount subscribed as at 30 September 2019 was €28.7m with an interest rate of 3.25 to 8% depending on the duration of the loan (30 September 2018: €27.6m with an interest rate of 3.25 to 8.0%).

Movements in financing by partners:

	2018/2019	2017/2018
Balance at 1 October	**60,119**	**44,559**
Fees to partners under management agreements	61,187	60,873
Interest due to Coöperatie KPMG U.A. relating to partners	3,134	2,742
Other movements (net withdrawal)	-50,442	-48,055
Balance at 30 September	**73,998**	**60,119**

Other movements mainly refer 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 early retirement liabilities to former partners and had an average term of 2.8 years (2017/2018: 1.8 years); these liabilities are not interest-bearing. The average interest on current loans from former partners is 0.9% (2017/2018: 0.7%).

21. Employee benefits

	30 Sep 19			30 Sep 18		
	<1 year	>1 year	Total	<1 year	>1 year	Total
Long-term employee benefit obligations	377	2,713	3,090	239	2,675	2,914
Short-term employee benefit obligations	28,743	-	28,743	23,244	-	23,244
	29,120	**2,713**	**31,833**	**23,483**	**2,675**	**26,158**

Employee benefits consist of long-term pension plans that supplement WIA (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, profit shares of the employee bonds and holiday allowances.

Movements in long-term employee benefits:

	2018/2019	2017/2018
Balance at 1 October	**2,914**	**2,969**
Utilised	-227	-295
Addition	403	210
Unwinding of discount	-	30
Balance at 30 September	**3,090**	**2,914**
Short-term employee benefit obligations	28,743	23,244
	31,833	**26,158**

22. Provisions

Movements in provisions in 2018/2019:

	Claims & legal proceedings	Vacant properties	Total
Balance at 1 October[(a)]	**6,116**	**941**	**7,057**
Utilised	-132	-747	-879
Reclassification from accrual	475	-	475
Additions	597	-	597
Exchange rate differences	393	-	393
Balance at 30 September	**7,449**	**194**	**7,643**

Note: (a) Adjusted for comparison purposes.

The provision for claims and legal proceedings 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 in question 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. The amounts provided for include legal expenses and are presented net of expected reimbursements from the insurance company where appropriate.

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 the provisions are expected to be utilised are as follows:

	30 Sep 19			(a)30 Sep 18		
	<1 year	**>1 year**	**Total**	**<1 year**	**>1 year**	**Total**
Claims and legal proceedings	7,077	372	7,449	224	5,892	6,116
Provision for vacant properties	194	-	194	753	188	941
	7,271	**372**	**7,643**	**977**	**6,080**	**7,057**

Note: (a) Adjusted for comparison purposes.

23. Trade and other payables

	30 Sep 19	(a)30 Sep 18
Advance billings/payments	40,737	30,576
Trade payables	9,470	3,448
Tax and social insurance contributions	28,227	25,623
Other current liabilities	11,819	12,685
Accruals	10,468	10,796
	100,721	**83,128**

Note: (a) Adjusted for comparison purposes.

Please refer to Note 17.1 for details on advance billings/payments.

The Group's liquidity risk relating to trade and other payables is disclosed in Note 24.3.

Trade payables increased mainly due to higher payables resulting from timing differences. Accruals were made primarily to cover housing expenses, charges for third-party services still to be paid and insurance premiums. The increase in advance billings was mainly due to tight declaration schemes in the invoicing process of Assurance and an increase in advance billings to the largest clients.

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 consideration 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 consideration.

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 AdviceGames Topholding B.V. KPMG Advisory N.V. has provided AdviceGames Topholding B.V. with a convertible loan with an initial value of €895. Conversion of the loan amount to shares of AdviceGames Topholding B.V. is possible any time after 5 September 2020, or in the event of an additional investment in AdviceGames Topholding B.V. by KPMG Advisory N.V., or upon the occurrence of an event of default. The remaining loan amount plus the accrued interest will be converted into a number of ordinary shares B. The price is calculated as the lower of the fair value per share or the most recent price paid for shares of AdviceGames Topholding B.V. by KPMG. Currently, none of the abovementioned conditions has been met and KPMG cannot convert the loan amount. The loan is presented under Note 16 Other financial assets.

24.1.3 Concentration 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 credit facility. The Group has current accounts of over €15m at the same bank (2017/2018: over €15m) 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 (AA- according to S&P Global).

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 BBB 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 exposure.

24.2.1 Trade and other receivables

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. The important factors to be considered when estimating unbilled services and trade receivables are historical performance, 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 loss allowance.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, where instrument type is the main driver. Additionally the Group monitors the economic environment in the Netherlands.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

24.2.2 Exposure to credit risk

The maximum exposure to credit risk at 30 September was as follows:

	30 Sep 19	30 Sep 18
Unbilled services	32,356	29,915
Trade receivables	93,394	83,250
Due from equity accounted investees	627	1,162
Other receivables	11,291	10,355
Cash and cash equivalents	57,879	36,256
	195,547	**160,938**

Loss allowance

Debtor and unbilled services ageing analysis:

	30 Sep 19		30 Sep 18	
	Gross	Loss allowance	Gross	Loss allowance
Not yet due: age 0-15 days	73,989	147	38,626	-
Overdue: age 16-180 days	47,364	200	41,671	295
Overdue: age 181-365 days	3,279	217	1,669	575
Overdue: age over 365 days	1,291	347	1,349	1,282
	125,923	**911**	**83,315**	**2,152**

Trade receivables due from equity accounted investees are included in the debtor ageing analysis.

The movement in the loss allowance in respect of trade receivables during the year is presented below.

	2018/2019	2017/2018
Balance at 1 October	**2,152**	**2,352**
Added	636	1,273
Written off	-1,348	-470
Released	-611	-1,003
Balance at 30 September	**829**	**2,152**

24.2.3 Cash and cash equivalents

At 30 September 2019, the Group held cash and cash equivalents of €57,879 (30 September 2018: €36,256). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated on average A, based on Moody's, S&P and Fitch ratings (ranging from BBB+ to AA-). Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have a low credit risk based on the external credit ratings of the counterparties.

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 combined credit and guarantee facility of €50m (2017/2018: a credit facility of €40m and a guarantee facility of €10m), of which no draw down was done (2017/2018: no draw down) in the form of guarantees. A first right of pledge has been granted to the bank on trade receivables as security. The credit facility is available until 30 June 2024. Interest payable is based on the average 1-month EURIBOR rate plus a margin of 1.95%.

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

Summary of financial liabilities:

	Carrying amount	Contractual cash flow	Due within 1 year	Due between 1 and 5 years	Due after 5 years
30 September 2019					
Loans and borrowings from partners	81,168	100,397	49,883	32,109	18,405
Loans and borrowings from employee bonds	1,926	1,926	1,926	-	-
Trade and other payables	100,721	100,721	100,721	-	-
Employee benefits	30,348	30,348	29,021	251	1,076
	214,163	**233,392**	**181,551**	**32,360**	**19,481**
30 September 2018					
Loans and borrowings	66,049	78,108	48,777	24,144	5,187
Trade and other payables	83,128	83,128	83,128	-	-
Employee benefits	24,785	24,785	23,442	266	1,077
	173,962	**186,021**	**155,347**	**24,410**	**6,264**

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. The financial assets of the Group primarily consist 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 2019, a general rise in interest rates by one percentage point would have no effect on the Group's profit before tax (30 September 2018: negative effect of €0.1m), and no effect on equity (30 September 2018: 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 years	>2 years <3 years	>3 years <4 years	>4 years <5 years	Longer than 5 years	Total carrying amount
2018/2019								
Cash and cash equivalents	*-0.1%*	57,879	-	-	-	-	-	57,879
Coöperatie KPMG U.A.	*0.0%*	4,209	611	611	611	611	7,078	13,731
Coöperatie KPMG U.A. current account relating to partners	*1.0%*	-37,532	-	-	-	-	-	-37,532
Loans from partners	*7.1%*	-7,356	-12,828	-5,691	-2,541	-5,083	-16,699	-50,198
Loans from former partners	*0.7%*	-5,642	-393	-274	-191	-101	-568	-7,169
Employee bonds	*2.9%*	-1,926	-	-	-	-	-	-1,926
		9,632	**-12,610**	**-5,354**	**-2,121**	**-4,573**	**-10,189**	**-25,215**
2017/2018								
Cash and cash equivalents	*-0.2%*	36,256	-	-	-	-	-	36,256
Coöperatie KPMG U.A.	*0.0%*	3,667	611	611	611	611	8,347	14,458
Coöperatie KPMG U.A. current account relating to partners	*1.0%*	-33,995	-	-	-	-	-	-33,995
Loans from partners	*7.1%*	-10,761	-1,460	-13,728	-3,606	-2,454	-8,573	-40,582
Loans from former partners	*0.6%*	-4,933	-253	-61	-24	-24	-635	-5,930
		-9,766	**-1,102**	**-13,178**	**-3,019**	**-1,867**	**-861**	**-29,793**

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

24.4.2 Currency risk

In the normal course of business, foreign currency risks are limited as transactions are carried out in foreign currencies on a limited basis, and assets and liabilities are usually denominated in euros.

When derivative financial instruments are used to economically 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 no effect on the Group’s profit before tax for 2018/2019 (2017/2018: no effect), and no effect on equity (30 September 2018: 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 2018/2019 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		Financial assets at fair value through OCI		Financial assets at amortised cost		Other financial liabilities	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
2018/2019								
Other financial assets	473	473	-	-	-	-	-	-
Total financial assets	**473**	**473**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and borrowings	-	-	-	-	-	-	83,094	83,094
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**83,094**	**83,094**
2017/2018								
Other financial assets	895	895	-	-	202	202	-	-
Total financial assets	**895**	**895**	**-**	**-**	**202**	**202**	**-**	**-**
Loans and borrowings	-	-	-	-	-	-	66,049	66,049
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**66,049**	**66,049**

24.5.1 Cash and cash equivalents

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

24.5.2 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 based on market rates, fair value is approximately equal to the carrying amount.

Considering that the obligations to employees have a maturity of less than one year, face value is considered to be a reflection of fair value.

24.5.3 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.

24.6 Capital management

The Board of Management's policy is to maintain a strong capital position (equity and partner financing) 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 €180 per partner to the Group's equity (30 September 2018: up to €160 per partner), and partly in the form of loans.

Average financing per partner (excluding other reserves) amounted to €675 as at 30 September 2019, compared with €565 as at 30 September 2018. Total financing by partners as at 30 September 2019 amounted to 40.3% of total assets (30 September 2018: 41.0%).

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. With effect from financial year 2015/2016, the Group started improving its capital structure, amongst others by increasing long-term partner financing through its shareholder.

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 Staffing & Facility Services B.V.	Amstelveen
— KPMG-gebouw Amstelveen II Holding B.V.	Amstelveen
— Innovation Factory B.V.	Amsterdam

During the reporting period, the company’s share in Innovation Factory B.V. increased by 20% to 100% and KPMG-gebouw Amstelveen II B.V. was dissolved.

There were no other changes in shareholdings.

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 €178,982 (2017/2018: €189,178).

Non-cancellable operating leases:

	30 Sep 19				30 Sep 18			
	Property leases	Operating leases (cars)	Other contracts	Total	Property leases	Operating leases (cars)	Other contracts	Total
Within 1 year	15,292	13,834	1,746	30,872	16,086	13,381	3,656	33,123
Between 1-5 years	49,166	18,857	603	68,626	52,018	16,945	1,237	70,200
After 5 years	79,484	-	-	79,484	85,855	-	-	85,855
	143,942	**32,691**	**2,349**	**178,982**	**153,959**	**30,326**	**4,893**	**189,178**

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

	30 Sep 19	30 Sep 18
Within 1 year	3,028	3,095
Between 1 and 5 years	8,684	10,041
After 5 years	12,359	13,759
	24,071	**26,895**

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

	2018/2019	2017/2018
Properties	16,695	16,392
Cars	18,387	17,515
Other contracts	3,656	9,509

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 in 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 in 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.

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26.3 Guarantees

The Group has a combined credit and guarantee facility of €50m (2017/2018: a guarantee facility of €10m), of which no draw down was made (2017/2018: no draw down) in the form of guarantees.

The Group issued a letter of comfort relating to a facility of $600m (2017/2018: $600m) 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 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 whether the 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 provision is recorded. The Group carries professional indemnity insurance.

26.5 Joint and several liability

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.

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 2018/2019 can be specified as follows:

	2018/2019	2017/2018
Management fees	-61,187	-60,873
Interest paid to Coöperatie KPMG U.A.	-3,346	-2,877
Dividends paid	-1,750	-640

At 30 September 2019, the following positions relate to Coöperatie KPMG U.A.:

	30 Sep 19	30 Sep 18
Loans received from Coöperatie KPMG U.A.	81,168	66,049

 |

27.2.2 Key management

Board of Management

As at 30 September 2019, of the board of management 3 members (2017/2018: 3 members) indirectly held 2% (2017/2018: 2%) of shares in the Group in aggregate.

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

	S. Hottenhuis	E. Eeftink	B. Ferwerda	R.G.A. Fijneman	R.P. Kreukniet	Total
2018/2019						
FTEs	*1.0*	*1.0*	*0.3*	*1.0*	*1.0*	*4.3*
Management fees	-	609	-	609	609	1,827
Short-term incentives	-	61	-	37	61	159
Short-term employee benefits	677	-	155	-	-	832
Post-employment benefits	20	-	10	-	-	30
Interest on loans	-	47	-	42	20	109
Other short-term benefits	19	22	4	19	20	84
Termination benefits	-	-	429	-	-	429
Total	**716**	**739**	**598**	**707**	**710**	**3,470**

	S. Hottenhuis	A.A. Röell	E. Eeftink	B. Ferwerda	R.G.A. Fijneman	R.P. Kreukniet	Total
2017/2018							
FTEs	*0.13*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*5.13*
Management fees	-	-	600	-	600	600	1,800
Short-term incentives	-	-	36	-	36	36	108
Short-term employee benefits	98	110	-	401	-	-	609
Post-employment benefits	3	4	-	26	-	-	33
Interest on loans	-	-	41	-	39	14	94
Other short-term benefits	2	16	18	41	20	20	117
Termination benefits[a]	-	1,286	-	-	-	-	1,286
Total	103	1,416	695	468	695	670	4,047

Note: (a) After he stepped down as CEO, Albert Röell was appointed as Advisor to the Supervisory Board with a continuation of his labour agreement. As at 1 November 2018 his labour agreement ended.

Supervisory Board

Supervisory Board members received remuneration of €312 (2017/2018: €285) and can be specified as follows:

	B.E.M. Wientjes	G. Boon	H.J. van Dorenmalen	L.J. Griffith	J.C.M. Sap	R.A. Steenvoorden	Total
2018/2019							
FTEs	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*6.0*
Short-term benefits	65	50	49	50	49	49	312

	B.E.M. Wientjes	G. Boon	H.J. van Dorenmalen	L.J. Griffith	J.C.M. Sap	R.A. Steenvoorden	Total
2017/2018							
FTEs	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*6.0*
Short-term benefits	60	45	45	45	45	45	285

27.2.3 Equity accounted investees

The following amounts relate to equity accounted investees:

	2018/2019	2017/2018
Trade receivables	173	65
Other financial assets	454	1,097

Other financial assets relate to loans to equity accounted investees which were granted in financial years 2017/2018 and 2018/2019. A loan of €200 is due after five years and a convertible loan of €897 is due after two years. Both loans bear interest at 6% per annum. During financial year 2018/2019, two additional loans totalling €750 were provided with a maturity of two years, bearing interest at 2% per annum. The loans are presented after a decrease in fair value of €1,440.

Company statement of financial position

As at 30 September 2019

The statement of financial position was drawn up before appropriation of profit.

The notes on pages 124 to 128 inclusive form an integral part of these company financial statements.

€000	Note	30 Sep 19	[(a)]30 Sep 18
Assets			
Non-current assets			
Investments in subsidiaries	29	24,155	19,938
Deferred tax assets		2,933	4,105
		27,088	24,043
Current assets			
Amounts due from group companies		70,534	77,709
Cash and cash equivalents	30	57,528	34,910
		128,062	112,619
Total assets		**155,150**	**136,662**

Note: (a) Adjusted for comparison purposes.

€000	Note	30 Sep 19	[(a)]30 Sep 18
Equity and liabilities			
Shareholders' equity	31		
Share capital		5,500	5,500
Share premium		14,940	13,500
Legal reserves		9,337	3,574
Other reserves		-3,865	2,536
Profit for the year		924	131
Shareholders' equity		**26,836**	**25,241**
Non-current liabilities			
Loans and borrowings	32	33,924	20,027
Current liabilities			
Loans and borrowings	32	47,244	46,022
Amounts owed to group companies		26,853	-
Tax and social insurance contributions		19,385	18,038
Provisions for subsidiaries	33	-	26,425
Trade and other payables		908	909
		94,390	91,394
Total liabilities		**128,315**	**111,421**
Shareholders' equity and liabilities		**155,150**	**136,662**

Note: (a) Adjusted for comparison purposes.

Company statement of profit or loss and other comprehensive income

For the year ended 30 September 2019

The notes on pages 124 to 128 inclusive form an integral part of these company financial statements.

€000	2018/2019	[a]2017/2018
Share in results from participating interests, after tax	13,678	12,439
Other results after tax	48,433	48,565
Contractual fees payable to Coöperatie KPMG U.A.	-61,187	-60,873
Net result after tax	**924**	**131**

Note: (a) Adjusted for comparison purposes.

Notes to the company financial statements

All amounts are in thousands of euros unless stated otherwise.

28. Basis of preparation

28.1 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.

28.2 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.

29. 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 2018/2019:

	2018/2019	2017/2018
Balance at 1 October	**19,938**	**19,547**
Share in results	13,678	12,536
Dividends received	-8,693	-12,162
Provision for subsidiaries	-	17
Direct change in equity subsidiaries	-768	-
Balance at 30 September	**24,155**	**19,938**

Please refer to Note 33 on disclosure relating to the provision for subsidiaries.

30. 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% (2017/2018: 0.0%).

31. Shareholders' equity

Movements in equity can be specified as follows:

	Share capital	Share premium	Legal reserves	Other reserves	Profit for the year	Total equity attributable to equity holders
Balance at 1 Oct 17, as previously reported	5,500	11,020	1,000	5,396	-	22,916
Adjustment on initial application of IFRS 15, net of tax	-	-	-	-16	-270	-286
Balance at 1 Oct 17	**5,500**	**11,020**	**1,000**	**5,380**	**-270**	**22,630**
2016/2017 result appropriation	-	-	-	-270	270	-
Addition to legal reserves	-	-	2,574	-2,574	-	-
Total comprehensive income for the year						
Profit for 2017/2018	-	-	-	-	131	131
Other comprehensive income for the year	-	-	-	-	-	-
Transaction with owners of the Company, recognised directly in equity						
Dividend paid	-	-640	-	-	-	-640
Additions	-	3,120	-	-	-	3,120
Balance at 30 Sep 18	**5,500**	**13,500**	**3,574**	**2,536**	**131**	**25,241**
Balance at 1 Oct 18, as previously reported	5,500	13,500	3,574	2,822	-	25,396
Adjustment on initial application of IFRS 15, net of tax	-	-	-	-286	131	-155
Balance at 1 Oct 18	**5,500**	**13,500**	**3,574**	**2,536**	**131**	**25,241**
2017/2018 result appropriation	-	-	-	131	-131	-
Addition to legal reserves	-	-	5,763	-5,763	-	-
Total comprehensive income for the year						
Profit for 2018/2019	-	-	-	-	924	924
Other comprehensive income for the year	-	-	-	-	-	-
Transaction with owners of the Company, recognised directly in equity						
Acquisition of Innovation Factory	-	-	-	-769	-	-769
Dividend paid	-	-1,750	-	-	-	-1,750
Additions	-	3,190	-	-	-	3,190
Balance at 30 Sep 19	**5,500**	**14,940**	**9,337**	**-3,865**	**924**	**26,836**

Other details of equity are disclosed in Note 19 to the consolidated financial statements and the consolidated statement of changes in equity.

31.1 Share capital

The Company has an authorised capital of €20m (2017/2018: €20m), which is divided into 800 shares of €25 each (2017/2018: 800 shares of €25 each). The issued share capital consists of 220 (2017/2018: 220) shares at a nominal value of €25 each (2017/2018: €25 each), representing a total nominal value of €5.5m (2017/2018: €5.5m). 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.

31.2 Legal reserves

The legal reserve for participating interests, which amounts to €9,337 (2017/2018: €3,574), pertains to participating interests that are measured at net asset value. The reserve is equal to the share in the results and direct changes in equity (both calculated on the basis of the Company's accounting policies) of the participating interests since the first measurement at net asset value, less the distributions that the Company has been entitled to since the first measurement at net asset value, and less distributions that the Company may effect without restrictions. As to the latter share, this takes into account any profits that may not be distributable by participating interests that are Dutch limited companies based on the distribution tests to be performed by the management of those companies. The legal reserve is determined on an individual basis.

31.3 Other reserves

The other reserves contain the profits of previous years.

31.4 Appropriation of profit

The Company's profit totals €924 and the Company proposes to add this amount to the reserves.

32. Loans and borrowings

	30 Sep 19	30 Sep 18
Partners		
Coöperatie KPMG U.A. non-current loans	32,396	19,030
Coöperatie KPMG U.A. current loans	41,602	41,089
	73,998	60,119
Former partners		
Coöperatie KPMG U.A. non-current loans	1,528	997
Coöperatie KPMG U.A. current loans	5,642	4,933
	7,170	5,930
Total loans and borrowings	**81,168**	**66,049**

Movements in financing by partners can be specified as follows:

	2018/2019	2017/2018
Balance at 1 October	**60,119**	**44,559**
Fees paid to partners under management agreements, through Coöperatie KPMG U.A.	61,187	60,873
Interest due to partners	3,134	2,742
Other movements (net withdrawal)	-50,442	-48,055
Balance at 30 September	**73,998**	**60,119**

Other movements mainly refer to amounts withdrawn by partners.

32.1 Loans and borrowings relating to partners

The interest charged on current accounts, included in current loans, is 1.1% (2017/2018: 1.0%). Partners participate in a mandatory loan programme totalling €16.7m as at 30 September 2019 (30 September 2018: €8.6m), bearing interest of 8.0% (2017/2018: 8.0%). Partners also have the opportunity to subscribe to deposits with a duration varying between one and five years. The total amount subscribed as at 30 September 2019 was €28.7m with an interest rate of 3.25 to 8% depending on the duration of the loan (2017/2018: €27.6m with interest of 3.25 to 8.0%).

32.2 Loans and borrowings relating to former partners

Non-current loans from former partners comprise early retirement liabilities to former partners and have an average term of 2.8 years (2017/2018: 1.8 years); these liabilities are not interest-bearing. The average interest on current loans from former partners is 0.9% (2017/2018: 0.7%).

33. Provision for subsidiaries

The Company had provided for the negative equity of KPMG-gebouw Amstelveen II B.V. During financial year 2018/2019, KPMG-gebouw Amstelveen II B.V. was dissolved.

Movement in provision:

	2018/2019	2017/2018
Balance at 1 October	**26,425**	**26,370**
Added	-	55
Dissolution of subsidiary	-26,425	-
Balance at 30 September	**-**	**26,425**

The periods within which the provision is expected to be utilised are as follows:

	30 Sep 19			30 Sep 18		
	<1 year	>1 year	Total	<1 year	>1 year	Total
Provision for subsidiaries	-	-	-	26,425	-	26,425

34. Financial instruments

With respect to general information on financial instruments and associated risks, reference is made to Note 24 to the consolidated financial statements.

34.1 Exposure to credit risk

The maximum exposure to credit risk at 30 September is as follows:

	30 Sep 19	30 Sep 18
Amounts due from group companies	70,534	77,709
Cash and cash equivalents	57,528	34,910
	128,062	**112,619**

34.2 Liquidity risk

Summary of financial liabilities:

	Carrying amount	Contractual cash flow	Due within 1 year	Due between 1 and 5 years	Due after 5 years
30 September 2019					
Loans and borrowings	81,168	100,397	50,807	32,109	17,481
Total	**81,168**	**100,397**	**50,807**	**32,109**	**17,481**
30 September 2018					
Loans and borrowings	66,049	78,108	48,777	24,144	5,187
Total	**66,049**	**78,108**	**48,777**	**24,144**	**5,187**

Other details on financial instruments are provided in Note 24 to the consolidated financial statements.

35. Related parties

The Company's related parties comprise subsidiaries and KPMG Coöperatie U.A.

35.1 Parent company

Please refer to Note 27.2.1 to the consolidated financial statements for information with respect to the related party Coöperatie KPMG U.A.

35.2 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:

	Contractual fees received	Dividend received	Expenses charged
2018/2019			
KPMG Accountants N.V.	34,035	6,595	7,588
KPMG Advisory N.V.	21,967	2,098	7,239
Total	**56,002**	**8,693**	**14,827**
2017/2018			
KPMG Accountants N.V.	26,988	6,559	8,081
KPMG Advisory N.V.	24,764	5,866	7,444
Total	**51,752**	**12,425**	**15,525**

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 totalled €304m in 2018/2019 (2017/2018: €280m).

Transactions between the Company and its subsidiaries are generally settled through current accounts. The current accounts are not interest-bearing.

At 30 September, the following payable and receivable positions related to subsidiaries of the Company:

	30 Sep 19	30 Sep 18
KPMG Accountants N.V	3,594	7,945
KPMG Advisory N.V.	66,940	53,986
KPMG Staffing & Facility Services B.V.	-26,853	15,775

35.3 Key management

Please refer to Note 27.2.2 to the consolidated financial statements for related party information with respect to key management.

36. Liabilities not recognised in the company statement of financial position

36.1 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 combined credit and guarantee facility of €50m (2017/2018: a guarantee facility of €10m), of which no draw down was done (2017/2018: no draw down) in the form of guarantees.

The Company has issued a letter of comfort relating to a facility of $600m (2017/2018: $600m) 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 five years from November 2016.

36.2 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 within 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.

37. Number of partners

On average, 138 (2017/2018: 139) FTE partners were active for the Company under management agreements.

38. 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.

39. Auditors' remuneration

The remuneration of the Company's auditors for 2018/2019 financial year was €0.3m (2017/2018: €0.3m), of which €0.3m related to the audit of financial statements of the Company.

Amstelveen, 16 December 2019

Board of Management:	**Supervisory Board:**
S. Hottenhuis (chair)	B.E.M. Wientjes (chair)
E. Eeftink	G. Boon
R.P. Kreukniet	H.J. van Dorenmalen
	J.C.M. Sap
	R.A. Steenvoorden

7.

Other information

7. Other information

Independent auditor's report

Please refer to the report of the independent auditor on the following pages.

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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The Netherlands

Independent auditor's report

To: the shareholders and Supervisory Board of KPMG N.V.

A. Report on the audit of the financial statements 2018/2019 included in the annual report

Our opinion

We have audited the financial statements for the year ended 30 September 2019 of KPMG N.V. based in Amstelveen. The financial statements comprise the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The consolidated financial statements comprise: 1. the consolidated statement of financial position as at 30 September 2019; 2. the following statements for 2018/2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of KPMG N.V. as at 30 September 2019 and of its result and its cash flows for 2018/2019 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 which comprise: 1. the company balance sheet as at 30 September 2019; 2. the company profit and loss account for 2018/2019; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed company financial statements give a true and fair view of the financial position of KPMG N.V. as at 30 September 2019 and of its result for 2018/2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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 EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant

independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 4,440,000. The materiality has been calculated with reference to a benchmark of profit before income tax (representing 7% of reported profit before income tax) which we consider to be one of the principal considerations for users of the financial statements in assessing the financial performance of the company. 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 € 222,000 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.

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.

Our group audit mainly focused on significant group entities. We consider an entity significant when:

- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

To this extend, for the purpose of the audit of group financial statements, we performed audit procedures to all of the group entities, being;

- KPMG Accountants N.V.;
- KPMG Advisory N.V.;
- KPMG Staffing & Facility Services B.V.;
- Innovation Factory B.V.;
- KPMG-gebouw Amstelveen II Holding B.V.

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 on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION AND VALUATION OF UNBILLED SERVICES	OUR AUDIT APPROACH
The existence of revenue and valuation of unbilled services is a key audit matter due to its significance and the fact that revenue recognition and valuation of unbilled services are subject to estimates of individual partners regarding the expected time to finalize fixed price engagements and realization of unbilled services. Because the risk of fraud in revenue recognition is a presumed risk in our audit based on audit requirements, combined with the fact that revenue is a key business driver for KPMG, we consider revenue recognition to be a key audit matter. The disclosure from KPMG N.V. on the revenue recognition and valuation of unbilled services is provided in notes 3.8, 3.12 and 17 to the financial statements.	We reviewed the revenue recognition process to ensure the policy is in accordance with IFRS 15. We also reviewed the internal controls related to revenue recognition and valuation of unbilled services. Our audit procedures included, amongst others, assessing the appropriateness of the company's revenue recognition accounting policies and performing substantive procedures relating to the recognition of revenue, including the timing of revenue recognition, calculation of deferred revenue and valuation of unbilled services. We performed substantive procedures for revenue including reconciliation with authorized engagement letters, substantive procedures with respect to credit notes after balance sheet date and substantive procedures regarding the accuracy of hourly rates. We have performed detailed testing of jobtime-shoptime, analysis of realization rates per engagement, analysis whether the balance of the work in progress at year-end is invoiced in the next financial year and tested the unbilled services by performing retrospective testing. We discussed the findings of these analysis with the responsible management.

COMPLETENESS AND VALUATION OF THE PROVISION FOR CLAIMS AND LEGAL PROCEEDINGS	OUR AUDIT APPROACH
The completeness and valuation of the provision for claims and legal proceedings is a key audit matter because of subjectivity regarding the chosen principles and assumptions. To determine the amount of the provision, the estimated expected settlements including legal expenses are set off against the amount covered by the insurance companies according to the company's insurance policy. The remaining	During our audit we received an overview of claims either recognized in the provision and/or disclosed in the financial statements. Our audit procedures included an assessment of the principles used, establishing the consistency of the used approach as well as establishing the reliability of the internal estimates made. We evaluated the PCC process (internal partner claim confirmation process). We reviewed external confirmations (lawyer letters and insurance companies) and lawyer costs.

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exposure, deducted by amounts already settled, will be recognized as a provision. This process is important for our audit, because the estimation process is complex and is based on assumptions. The disclosure from KPMG N.V. on the provision is provided in notes 3.11 and 22 to the financial statements.	We discussed the case overview with KPMG legal staff and management and reviewed Management and Supervisory Board minutes. We assessed the maximum coverage of the insurance policy and the payment of the insurance premium. Furthermore we also performed a retrospective test on the provision as per 30 September 2018.
CAPITALIZATION AND VALUATION INTANGIBLE FIXED ASSETS	**OUR AUDIT APPROACH**
The capitalization and the valuation of the intangible fixed assets is significant to our audit due to the extent of the capitalized amount, the nature of this item and the significant judgement involved in determining if the recognition criteria are met in accordance with IAS 38 - Intangible assets. During the year 2018/2019 € 14.3 million development expenses (internally developed software) were capitalized. This amount mainly relates to the development expenses of a specific application. The disclosure from KPMG N.V. on the intangible fixed assets is provided in notes 3.7 and 13 to the financial statements.	Our substantive audit work focused on the capitalization and valuation of the capitalized development expenses of this specific application. We verified the expenses incurred against the applicable capitalization criteria pursuant to IAS 38. We challenged management's assessment as to whether the development expenses meet the recognition criteria. We reconciled capitalized expenses to external contracts, received invoices of third parties and internal expenses (hours spent and corresponding rates) and determined adequate distinction in research and development stages (whether only the latter were capitalized). We furthermore assessed expected future economic benefits by means of forecasts and we checked and challenged assumptions and linked them to underlying documentation. We had meetings with the finance team, project team, controllers and management of KPMG N.V. and we verified the information we obtained orally by external and internal documentation and other available audit information. Our audit approach also included an assessment of the overall governance of the approval process of the software-project and testing the internal controls related to this project. We also considered the adequacy of the disclosures in the financial statements.

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B. Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- KPMG in FY19 at a glance
- Overview and Strategy
- Guide to this integrated report
- Performance and developments
- Governance and compliance
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of KPMG N.V. on 14 March 2019, as of the audit for financial year 2018/2019 and have operated as statutory auditor ever since the financial year 2016/2017.

D. Description of responsibilities regarding the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting

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frameworks mentioned, 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.

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.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are 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.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- 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 entity'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 entity'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 a 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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Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determine the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the 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 information or specific items.

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 the key audit matters: those matters that were of most significance in the audit of the financial statements. 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.

Rijswijk, 16 December 2019

For and on behalf of BDO Audit & Assurance B.V.,

Signed: N.W.A. van Nuland RA

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Laan van Zuid Hoorn 165, 2289 DD Rijswijk
The Netherlands

Independent assurance report

To: the shareholders and Supervisory Board of KPMG N.V.

A. Report on the non financial information as defined in Section 8 'Appendices', paragraph 'Comparability of information' in the Integrated Report 2018-2019 of KPMG N.V.

Our opinion and conclusion

We have audited the below mentioned Key Performance Indicators ('KPI's'), item 1) till item 10), and we have reviewed the below mentioned KPI item 11), as included in the non-financial information as defined in Section 8 'Appendices', paragraph 'Comparability of information' in the Integrated Report 2018-2019 of KPMG N.V., based in Amstelveen (hereafter: 'The non-financial information'). An audit is aimed at obtaining a reasonable level of assurance. A review is aimed at obtaining a limited level of assurance.

The non-financial information includes, among others, the following KPI's:

1) Client Satisfaction (page 31: table Client Satisfaction)
2) Net Promotor Score (page 31: table KPMG Net Promotor score)
3) Number of EQCR reviews (page 141: # engagement quality control reviews on audit engagements)
4) Number of audit reports (page 141: # audit reports for OOB statutory audit clients & # audit reports for other statutory audit clients)
5) QPR scores (page 18: figure QPR scores Audit partners/ directors and QPR Scores Advisory partners/directors)
6) Donations (page 141: Volunteering hours and Cash donations & contributions)
7) Percentage of employee engagement (page 6: % employee engagement)
8) Percentage of employee pride in KPMG (page 142: % employee pride in KPMG)
9) # New talents in Emerging Leader Programme (page 142: # New talents in Emerging Leader Programme)
10) # Talents in Young Talent Programme (page 142: # Talents in Young Talent Programme)
11) CO2 Emissions (page 22: Table Environmental data)

In our opinion, the non-financial information KPI's item 1) till item 10) in the Integrated Report 2018-2019 of KPMG N.V. present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to (audit) quality indicators as well as corporate responsibility, as represented in these KPI's; and
- the thereto related events and achievements for the year 2018-2019

in accordance with the reporting criteria as included in the section 'reporting criteria'.

Based on the procedures performed nothing has come to our attention that causes us to believe that the non-financial information KPI item 11) does not present, in all material respects, a reliable and adequate view of:

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- the policy and business operations with regard to corporate responsibility, as represented in this KPI; and
- the thereto related events and achievements for the year 2018-2019

in accordance with the reporting criteria as included in the section 'Reporting criteria'.

Basis for our opinion and conclusion

We conducted our examination in accordance with Dutch law, including the Dutch Standard 3810N, "Assurance engagements relating to sustainability reports". Our responsibilities under this standard are further described in the section "Our responsibilities for audit and review of the non-financial information as defined in the Integrated Report 2018-2019 of KPMG N.V." 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. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on item 1 till 10.
We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion on item 11.

B Reporting criteria

The non-financial information needs to be read and understood together with the reporting criteria. KPMG N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used by KPMG N.V. for the preparation of the non-financial information (KPI's 1 till 11) are (based on) the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards, option Comprehensive).

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

C. Description of responsibilities

Responsibilities of management and the Supervisory Board for the non-financial information

Management is responsible for the preparation of reliable and adequate non-financial information in accordance with the reporting criteria as included in the section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the management regarding the scope of the non-financial information are summarized in Section 8 'Appendices', paragraph 'Comparability of information' in the Integrated Report 2018-2019.

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Management is also responsible for such internal control as the management determines is necessary to enable the preparation of the non-financial information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the reporting process of KPMG N.V.

Our responsibilities for the audit and review of the non-financial information

Our responsibility is to plan and perform the audit and review procedures in a manner that allows us to obtain sufficient and appropriate audit and assurance to provide a basis for our opinion.

Our audit procedures have been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Our review procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review is therefore substantially less than the assurance obtained in an audit.

We apply the 'Nadere voorschriften kwaliteitssystemen)' (NVKS, regulations for quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

In order to obtain sufficient and appropriate assurance information we have carried out the following procedures for all KPI's:

- Interviewing employees at KPMG N.V. who are responsible for the information which are the base for the non-financial information;
- Reviewing the design and implementation for the collection and processing, including aggregation of data into non-financial information;
- Performing analytical procedures for each individual KPI;
- Reconciling each individual KPI with the primary source of assurance information;

- For the KPI's item 1) till item 10), for which we have provided reasonable assurance , we have carried out the following audit procedures additional to the procedures 1 to 4 above:
- Substantive procedures (on a sample basis) to determine whether the non-financial information is adequately supported.

- Please note that we have not performed the mentioned audit and review procedures of this assurance report on the remaining KPI's as included in the non-financial information and consequently do not provide assurance on these KPI's.

BDO

Rijswijk, 16 December 2019

For and on behalf of BDO Audit & Assurance B.V.,

Signed: N.W.A. van Nuland RA

8.

Appendices

8. Appendices

Report boundary

This report covers KPMG N.V. and its subsidiaries. KPMG Meijburg & Co is a separate KPMG member firm and therefore not included in this report, except where specifically stated or required.

The contents of this report focus on topics material to both KPMG N.V. and its stakeholders. Material topics relate to KPMG N.V. (Assurance and Advisory) as a whole unless stated otherwise. We distilled these topics from the materiality assessment/matrix included in section 3 of the report. Section 4, where it covers stakeholder dialogue and stakeholder management, discusses the stakeholder engagement process and topic list discussed with them.

In accordance with GRI Standards we drafted a materiality matrix expressing relative importance of topics considering both internal (strategy) and external (stakeholder) factors. In addition, GRI Standards were used to ensure all related aspects were accounted for. A topic is identified as a reportable (material) issue depending on impact on stakeholder expectations and business performance. See page 8 for the outcomes of the materiality assessment.

Supply chain

We are part of a supply and value creation chain revolving around informed decision-making. We believe in people-driven progress that is achieved by inspiring confidence and empowering change.

The IIRC framework for Integrated Reporting identifies six core types of capital: human, intellectual, manufactured, social, financial and natural capital. The graphic on the next page provides an overview of how we use all the aforementioned capital to address material stakeholder expectations and the value we thus create through our unique propositions. At its core, our three most significant types of capital are human capital, intellectual capital and our social or relationship capital. We are a people business and without our people our service delivery would be non-existent. They are crucial for delivering quality and delivering our vision of being the standard in our sector, together with our collective knowledge, which is captured in our intellectual capital.

Our intellectual capital is where we place our methodology and our unique way of working. Social capital pertains to the shared values we have and the contribution to our communities. Natural capital consists of the natural resources we consume (i.e. our ecological footprint) during our service delivery. Manufactured capital consists of developing digital assets to help clients with intellectual capital for their own benefit, although we do not produce physical products of course. Financial or monetary capital is necessary to attract and retain the other capital. Our value creation is based on our role in the 'supply chain' of trust and informed decision-making.

Our contribution or value creation lies in our ability to leverage human capital and intellectual capital for the benefit of increasing social capital: by fulfilling our role impeccably as the trusted party in the economic markets and improving societal decision-making through our knowledge and insights. We are here to bring the fluidity, flexibility and sound judgment required to achieve sustainable and insightful change in the world, in our clients, our organisations and our communities. Whether applied globally or locally, to the world's biggest challenges or a market's smallest issues, we help to enable informed decision-making. Doing so requires an understanding of the facts and opinions that are embedded in the interactions between people, processes and systems. Hence, our strong belief in the importance of building multidisciplinary teams in our Assurance and Advisory practices, where we foster independent thinking, input and dialogue, because 'we' transcends 'me', and because we are about people-driven progress.

The graphic on the following page depicts our supply and value creation chain.

KPMG Supply and Value Chain

Partnerships
(Who do we work with?)

We work together with regulators and standard setters to build and maintain public trust as well as managing mutual expectations regarding our role in the information supply chain.

We collaborate with business partners to develop relevant (digital) solutions for our clients.

We source suppliers to provide us the necessary resources that enable us to maximise our potential to deliver on our purpose.

We contribute to professional bodies and research institutes to solidify knowledge and provide evidence to support better practices that help to advance our professions, our clients and society as a whole.

We engage in dialogue with relevant stakeholders and interest groups to learn about their expectations and respond accordingly.

Activities
(What we do)

We help clients to manage their risks and achieve their opportunities by providing relevant advisory and assurance services to clarify:

— What to achieve (ambitions);
— Where to play (business model);
— How to win (operating model);
— Transparent views on results and progress made (reporting model).

Channels
(Ways to communicate)

We communicate through our audit and assurance reports, management letters, and advisory reports to clients, stakeholders and users of (non-)financial information. We voice our expertise in articles, research reports, magazines, podcasts, vlogs, blogs and on stage.

Purpose
(Value propositions)

We believe in people-driven progress that is achieved by inspiring confidence and empowering change.

We are passionate, forward-thinking experts with a global mindset to be value adding.

We are about high performance, fast innovation and inclusive collaboration.

We apply high standards in everything we do, provide a unique service experience for our clients and the best development experience for our people, with 100% digitally enabled solutions to achieve long-term growth.

We lead by example, respect the individual, work together, communicate openly and honestly, seek the facts and provide insight, and work to improve communities. Above all we act with integrity.

Relationships
(Type of relationships)

We are in the business of trust. Our relationships are based on mutual trust as we are sounding boards and confidants to leaders and organisations.

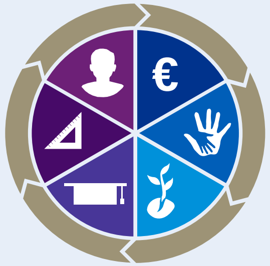
Resources
(Skills and capabilities)

Our people are the defining factor of what the power of KPMG really is. Their skills, capabilities and expertise define the quality of our services. In support of our professionals we use technology and solid methodologies to drive effective and efficient engagements to give us the edge in overcoming a client's challenges as well as delivering quality in the public interest.

Customers
(For whom do we work?)

We mainly work for our clients' management, those charged with governance, users of company information, client stakeholders as well as our own, and ultimately we work in the public interest in both audit and advisory engagements.

Flow of capital
(Main types of capital and outcomes in delivering our value propositions)



Financial
— Sustainable results
— Investment headroom
— Innovation

Social
— Contribution to communities
— Ethical business conduct
— Employment for talented people

Natural
— Ecological footprint with cleaner mobility, less consumption and less residual waste

Intellectual
— Thought leadership
— Knowledge-sharing
— Service quality
— Client satisfaction
— Innovative solutions

Manufactured
— Digital assets
— Technology enabled solutions

Human
— Talented & trained professionals
— Engagement & commitment
— Diversity & inclusion

Comparability of information

In a very limited number of cases, minor adjustments were made to indicators for comparability purposes. These have been earmarked in footnotes. Adjustments generally result from improved availability of information or refinements to definitions.

The external assurance of BDO Audit & Assurance B.V. provides limited assurance on a selected key indicator, namely: CO_2 emissions. Reasonable assurance is provided on: client satisfaction, net promotor scores, number of EQCR reviews, number of audit reports, QPR scores, donations, employee engagement rating, employee pride in KPMG, number of talents in the Emerging Leader Programme and number of talents in the Young Talent Programme.

General information

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) is the member firm for the Netherlands. Tax services are delivered by KPMG Meijburg & Co, which has a separate member firm agreement with KPMG International.

KPMG N.V. delivers cross-border assurance and advisory services to help national and international clients to negotiate risks and thrive in the varied environments in which they do business. KPMG N.V.'s operational market is the Netherlands as per its member agreement of KPMG International. Our registered head office is at Laan van Langerhuize 1-11, 1186 DS Amstelveen, the Netherlands and we operate 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 Company's financial year for this report runs from 1 October 2018 to 30 September 2019. This report is produced through an annual reporting cycle.

Strategic pillars and KPIs

Performance target	Key indicator	FY19	FY18
High standards in everything we do			
Dependable consistently high levels of quality	Internal quality inspections (QPR)	Audit 75% Advisory 97%	Audit 68% Advisory 96%
	Partner involvement in OOB Partner involvement in non-OOB	10% 7%	9% 6%
Robust risk management & independence	Independence compliance violations (#)	23	13
	General compliance (quality violations) (#)	57	86
	Engagement quality control reviews (# engagements)	437	485
We demonstrate social responsibility	Volunteering hours	3,192	1,979
	Cash donations & contributions	€737,400	€746,572
	CO2 emissions in tonnes CO2 emissions compensated (renewable energy and VER) in tonnes	CY18: 17,047 CY18: 17,047	CY17: 15,970 CY17: 15,970
Strong external perception of our reputation	Media coverage (positive total reach)	€1,301m	€919m
Audit reports for statutory audit clients	OOB (#) Other (#)	220 1,450	232 1,713
Unique service experience			
Top brands want to work with us	Market share	25%	24%
Leading multidisciplinary solutions to address our clients' issues	Multidisciplinary offerings	76%	79%
Clients are promoting KPMG, its clients and its solutions	Net promoter score	Audit: 24 Advisory: 64	Audit: 26 Advisory: 60
	Client satisfaction scores	Audit: 91% Advisory: 98%	Audit: 86% Advisory: 99.5%

Strategic pillars and KPIs (continued)

Performance target	Key indicator	FY19	FY18
Best development experience			
Our partners lead by example	Support from employee surveys	60%	61%
Consistently high levels of engagement and performance	Support from employee surveys	72%	63%
	Training investment	€15.6m	€13.9m
	Training & development per employee	120 hours	135 hours
	New talents in Emerging Leader Programme	110	70
	Talents in Young Talent programme	18	19
	Performance management[a]		
	Engagement Index (new)	81	n/a
	Employee Engagement Index (old)	67	69
	Retention (%) of employees who remained at KPMG)	84%	84%
	Employee pride in KPMG	84%	82%
	Absenteeism (average during the year)	2.4%	2.2%
Diversity in our workforce[b]	Female employees	39%	38%
	Female Partners/Directors	18.5%	17.6%
	Female Board of Management members	25%	25%
	Female Supervisory Board members	33%	33%
	Female Group Leadership Team members	50%	n/a
	Female hires	41%	37%

Note: (a) In FY19, the KPMG Global People Survey introduced a new way of measuring Engagement. For comparison purposes, the previous index was measured as well.
(b) Measured at 30 September, based on headcount, number of employees excluding contractors, interns and KPMG International.

Strategic pillars and KPIs (continued)

Performance target	Key indicator	FY19	FY18
100% digitally enabled solutions			
We are in the process of determining KPIs and measuring instruments in this strategic focus area. As soon as these are robust, we will make them transparent in our integrated report.			
Long-term above-average growth			
Continuously renews and improves itself to pass on a stronger and better organisation to the next generation	Total revenue & other income Assurance (audit and business assurance) revenue Advisory revenue Corporate income	€530m €295m €214m €21m	€486m €275m €192m €20m
	Profit before income tax	€64m	€62m
	Solvency[(a)]	40.3%	41.0%

Note: (a) Calculation of solvency: (equity plus partner financing) divided by (equity plus liabilities).

Public interest entity (or OOB) audit clients

The following list represents 157 public interest clients as at 30 September 2019 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’).

- ABN AMRO Levensverzekering N.V.
- ABN AMRO Schadeverzekering N.V.
- Accell Group N.V.
- Algemene Friese Onderlinge Schadeverzekeringsmaatschappij
- AMG Advanced Metallurgical Group N.V.
- AnderZorg N.V.
- Ansvar Verzekeringsmaatschappij N.V.
- ASM International N.V.
- ASML Holding N.V.
- ASR Nederland N.V.
- AT Securities B.V.
- ATF Netherlands B.V.
- Atlanteo Capital B.V.
- Bank Mendes Gans N.V.
- Bank ten Cate & Cie N.V.
- BBVA Global Markets B.V.
- Boiro Finance B.V.
- Bumper 6 (NL) Finance B.V.
- Bumper 9 (NL) Finance 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 III B.V.
- Centrale Ziektekostenverzekering NZV N.V.
- Cetin Finance B.V.
- Chapei 2007 B.V.
- Chapel 2003-1 B.V.
- CID Finance B.V.
- Colonnade Securities B.V.
- Compass Group Finance Netherlands B.V.
- Coöperatie Univé Noord-Holland U.A.
- Corbion N.V.
- Core Laboratories N.V.
- Daimler International Finance B.V.
- DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V.
- Delta Lloyd Levensverzekering N.V.
- Delta Lloyd Schadeverzekering N.V.
- Douro Finance B.V.
- Dryden 32 Euro CLO 2014 B.V.
- Dryden 35 Euro CLO 2014 B.V.
- Dryden 39 Euro CLO 2015 B.V.
- Dryden 44 Euro CLO 2015 B.V.
- Dryden 48 Euro CLO 2016 B.V.
- Dryden 51 Euro CLO 2017 B.V.
- Dryden 52 Euro CLO 2017 B.V.
- Dryden XXVII-R Euro CLO 2017 B.V.
- Duchess VI CLO B.V.
- Duchess VII CLO B.V.
- EBN Finance Company B.V.
- EQUATE Petrochemical B.V.
- Eurocommercial Properties N.V.
- EXMAR Netherlands B.V.
- ForFarmers N.V.
- Fyber N.V.
- GarantiBank International N.V.
- Gemalto Holding B.V.
- Goudse Levensverzekeringen N.V.
- Goudse Schadeverzekeringen N.V.
- Green Lion I B.V.
- Home Credit Group B.V.
- Hydratec Industries N.V.
- Iberdrola International B.V.
- ING Bank N.V.
- ING Groenbank N.V.
- ING Groep N.V.
- Intertrust N.V.

- Jubii Europe N.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.
- Jubilee CLO 2016-XVII B.V.
- Jubilee CLO 2017-XIX B.V.
- Jubilee CLO 2017-XVIII B.V.
- Kiadis Pharma N.V.
- Koninklijke DSM N.V.
- LeasePlan Corporation N.V.
- Lifetri Verzekeringen 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.
- Madison Park Euro Funding V 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"
- Nationale-Nederlanden Bank N.V.
- Nationale-Nederlanden Levensverzekering Maatschappij N.V.
- Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
- Neways Electronics International N.V.
- NN Equity Investment Fund N.V.
- NN Euro Rente Fonds N.V.
- NN Europa Duurzaam Aandelen Fonds 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.
- NN Wereldwijd Mix Fonds N.V.
- OCI N.V.
- OHRA Ziektekostenverzekeringen N.V.
- OHRA Zorgverzekeringen N.V.
- Onderlinge Levensverzekering Maatschappij 's Gravenhage U.A.
- Onderlinge Verzekering Maatschappij Donatus U.A.
- Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep
- Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Aanvullende Verzekering Zorgverzekeraar u.a.
- Onderlinge Waarborgmaatschappij SAZAS U.A.
- Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg MediRisk B.A.
- Orange Lion 2013-10 RMBS B.V.
- Orange Lion 2013-8 RMBS B.V.
- Orange Lion 2013-9 RMBS B.V.
- Orange Lion 2015-11 RMBS B.V.
- Orange Lion XII RMBS B.V.
- Orange Lion XIII RMBS B.V.
- Orange Lion XIV RMBS B.V.
- Orange Lion XV RMBS B.V.
- Orange Lion XVI RMBS B.V.
- Pangaea ABS 2007-1 B.V.
- PPF Financial Holdings B.V.
- Qiagen N.V.
- Redexis Gas Finance B.V.
- Robeco Afrika Fonds N.V.
- Robeco Customized US Large Cap Equities N.V.
- Robeco Global Stars Equities Fund N.V.
- Robeco Hollands Bezit N.V.
- Robeco Umbrella Fund I N.V.
- Robeco US Conservative High Dividend Equities N.V.

- Robein Leven N.V.
- Rockall CLO B.V.
- Rolinco N.V.
- Rothschild & Co Continuation Finance B.V. (was Rothschilds Continuation Finance B.V.)
- Royal Schiphol Group N.V.
- SME Lion II B.V.
- SPP Infrastructure Financing B.V.
- Syngenta Finance N.V.
- ThinkCapital ETF's N.V.
- Tulip Oil Netherlands Offshore B.V.
- TVM Verzekeringen N.V.
- Unilever Insurances N.V.
- Unilever N.V.
- Univé Noord-Holland Brandverzekeraar N.V.
- Univé Oost Brandverzekeraar N.V.
- Veherex Schade N.V.
- VVAA Levensverzekeringen N.V.
- VVAA Schadeverzekeringen N.V.
- Wereldhave N.V.
- Yarden Uitvaartverzekeringen N.V.

Global Reporting Index (GRI)

Standard	Disclosure	Page	Reference
General disclosures			
102-1	Name of the organisation	Front cover, 54	
102-2	Activities, brands, products, and services		https://home.kpmg/nl/nl/home/services.html
102-3	Location of headquarters	54	
102-4	Location of operations		https://home.kpmg/nl/nl/home/over-ons/offices.html
102-5	Ownership and legal form	54	
102-6	Markets served	57	
102-7	Scale of the organisation	141-143	
102-8	Information on employees and other workers	142	
102-9	Supply chain	137	
102-10	Significant changes to the organisation and its supply chain	139	
102-11	Precautionary principle or approach	58	
102-12	External initiatives	23	
102-13	Membership of associations	36	Main (professional) memberships: NBA, NOREA, IIA, VRC
Strategy			
102-14	Statement from senior decision-maker	8-10	
102-15	Key impacts, risks, and opportunities	12, 58-62, 138	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	65	
102-17	Mechanisms for advice and concerns about ethics	19, 60, 66	
Governance			
102-18	Governance structure	54-57	
102-19	Delegating authority	54-56	
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102-23	Chair of the highest governance body	48	
102-24	Nominating and selecting the highest governance body	54	

Standard	Disclosure	Page	Reference
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102-27	Collective knowledge of highest governance body	48, 51	
102-28	Evaluating the highest governance body's performance	49	
102-29	Identifying and managing economic, environmental, and social impacts	40	
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102-31	Review of economic, environmental, and social topics	12	
102-32	Highest governance body's role in sustainability reporting	38-51	
102-33	Communicating critical concerns	38-51	
102-34	Nature and total number of critical concerns		Not disclosed
102-35	Remuneration policies	52, 53	
102-36	Process for determining remuneration	52, 53	
102-37	Stakeholders' involvement in remuneration	52, 53	
102-38	Annual total compensation ratio		The ratio between junior trainee and non-equity partner is approximately 7:1
102-39	Percentage increase in annual total compensation ratio		Not disclosed
Stakeholder engagement			
102-40	List of stakeholder groups	20	
102-41	Collective bargaining agreements		Not applicable
102-42	Identifying and selecting stakeholders	20	
102-43	Approach to stakeholder engagement	20	
102-44	Key topics and concerns raised	12	
Reporting			
102-45	Entities included in the consolidated financial statements	119	
102-46	Defining report content and topic boundaries	12, 133, 135	
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102-49	Changes in reporting	136	Included in disclosures where necessary

Standard	Disclosure	Page	Reference
Reporting (continued)			
102-50	Reporting period		Financial year
102-51	Date of most recent report		This report
102-52	Reporting cycle		Annual
102-53	Contact point for questions regarding the report		info@kpmg.nl
102-54	Claims of reporting in accordance with the GRI standards	136	
102-55	GRI content index	147-150	
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Material topics			
Strategic link to topics	**GRI aspect disclosure**	**Page**	**Reference**
Public Trust			
Disclosure on Management Approach	103-1 Explanation of the material topic and its boundary	14-23; 64-79	
	103-2 The management approach and its components	14-23; 64-79	
	103-3 Evaluation of the management approach	14-23; 64-79	
Quality	419-1 Non-compliance with laws and regulations in the social and economic area	19	
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Leading the public debate		15	
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Compliance & claims	413-2 Operations with significant actual and potential negative impacts on local communities	142	
Regulatory change		8-9	
Reputable content	Media coverage	8, 141	
Cultural change and improvement		8, 17	
Data security & GDPR	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	60	
Integrity, ethics & independence	205-1 Operations assessed for risks related to corruption		100%
	205-2 Communication and training about anti-corruption policies and procedures	68	
	205-3 Confirmed incidents of corruption and actions taken	19, 67	
	Audit & advisory fees	34	

Material topics (continued)			
Strategic link to topics	**GRI aspect disclosure**	**Page**	**Reference**
People			
DMA	103-1 Explanation of the material topic and its boundary	24-29; 64-79	
	103-2 The management approach and its components	24-29; 64-79	
	103-3 Evaluation of the management approach	24-29; 64-79	
Diversity & inclusion	405-1 Diversity of governance bodies and employees	48, 56, 26, 142	
	401-1 New employee hires and employee turnover	27, 142	
Employee satisfaction, vitality & well-being	Absenteeism	142	
	Employee engagement	25	
Employment & remuneration	405-2 Ratio of basic salary and remuneration of women to men		Basic ratio is 0.97. Bonus pay is equal except for very specific pockets in our service units.
Talent development & training	404-1 Average hours of training per year per employee	28	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	28,29,142	
Clients & Technology			
Disclosure on Management Approach	103-1 Explanation of the material topic and its boundary	30-34; 64-79	
	103-2 The management approach and its components	30-34; 64-79	
	103-3 Evaluation of the management approach	30-34; 64-79	
Client satisfaction		31	
	Net Promotor Score	141	
Relevant services (Trust & Growth)	Multi-disciplinary service offerings	141	
(Technological) innovation		30	
Partnerships & alliances		33	
Financial Strenght			
Disclosure on Management Approach	103-1 Explanation of the material topic and its boundary	35,36; 64-79	
	103-2 The management approach and its components	35,36; 64-79	
	103-3 Evaluation of the management approach	35,36; 64-79	
Ecological footprint	302-1 Energy consumption within the organisation	22	
	302-4 Reduction of energy consumption	22	
	303-5 Water consumption	22	
	305-x GHG emissions	22	
	305-5 Reduction of GHG emissions	22	
Supply chain/procurement	102-10 Significant changes to the organisation and its supply chain	134	
Sustainable profit	201-1 Direct economic value generated and distributed	35, 140	
	201-3 Defined benefit plan obligations and other retirement plans	98, 105, 113	

Glossary of terms

€000/€m	Euro thousand/million
AFM	Autoriteit Financiële Markten (Netherlands Authority for the Financial Markets)
AQCP	Audit quality curriculum for partners
AQI	Audit quality indicator
AQIC	Audit Quality Improvement Council
ARC	Audit & Risk Committee
B.V.	Besloten vennootschap (private company)
C(S)R	Corporate (Social) Responsibility
CEAC	Client and engagement acceptance and continuance
CEAOB	Committee of European Auditing Oversight Bodies
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating unit
CHRO	Chief Human Resources Officer
CO	Compliance Office(r)
COO	Chief Operating Officer
COS	Nadere voorschriften controle- en overige standaarden (International Standards on Assurance)
CPD	Continuous professional development
CQRMP	Country Quality & Risk Management Partner
CTA	Commissie Toekomst Accountancysector (Committee on the Future of the Audit Sector)
CY	Calendar year
D&A	Data and Analytics
DMA	Disclosure on Management Approach
DPP	Department of Professional Practice
DRP	Digital risk platform
ECL	Expected credit loss
EEI	Employee Engagement Index
EI	Engagement Index
EQC(R)	Engagement quality control (review)
EU	Europe(an)
EUR	Euro
EURIBOR	Euro interbank offer rate
FTE	Full-time equivalent
FVOCI	Fair value through other comprehensive oncome
FVTPL	Fair value through profit or loss
FY	KPMG's financial year which runs from 1 October to 30 September
GCR	Global compliance review, or: Global Climate Response
GDPR	General Data Protection Regulation
gm	Gram
GPS	Global People Survey
GRI	Global Reporting Initiative
HoF	Head of Finance
HR	Human Resources
IACO	Internal Audit & Compliance Office
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ISA(E)	International Standards on Assurance (Engagements)
ISG	International Standards Group
ISO	International Organisation for Standardisation
KAM	KPMG Audit Manual
kg	Kilo
KICS	KPMG Investment Compliance System
KJHS	KPMG Jan Hommen Scholarship
km	Kilometre
KPMG/the Group	KPMG N.V. and its subsidiaries
KPMG International	KPMG International Cooperative
kWh	Kilowatt-hours
M&A	Mergers & acquisitions
MBO	Middelbaar Beroepsonderwijs (vocational education)
m	Million
N.V.	Naamloze vennootschap (public limited company)
NBA	Koninklijke Nederlandse Beroepsorganisatie van Accountants (Royal Netherlands Institute of Chartered Accountants)
NITSO	National IT Security Officer
NL	The Netherlands
NPS	Net Promotor Score

Glossary of terms

OCW	Onderwijs, Cultuur en Wetenschap' (Dutch ministry of Education, Culture and Science)
OOB	Organisaties van Openbaar Belang (or: Public Interest Entity (PIE))
PCAOB	Public Company Accounting Oversight Board
PIE	Public Interest Entities (or: 'Organisaties van Openbaar Belang' (OOB))
pp	Percentage point
PTO	Predictability, teaming & open communication
QP	Quality performance
QPR	Quality performance review (internal inspection of engagements to assess compliance with professional standards, including quality)
QRMG(P)	Quality & Risk Management Group (Partner)
RCA	Root cause analysis
RCP	Risk compliance programme (internal inspection on compliance with the firm's risk management and independence procedures)
SaaS	Software as a service
SDG	UN Global Sustainable Development goals
SEC	Securities and Exchange Commission
TCFD	UN Task Force on Climate-Related Financial Disclosures
The Company /firm	KPMG N.V.
The Cooperative	Coöperatie KPMG U.A.
The Group/ KPMG	KPMG N.V. and its subsidiaries
U.A.	Uitgesloten aansprakelijkheid (exclusion of any liability)
UN	United Nations
UNGC	United Nations Global Compact
VAT	Value added tax
VEB	Vereniging voor Effectenbezitters (Dutch Association of Shareholders)
VER	Verified Emission Reduction(s)
ViO	Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten
VNO-NCW	Largest employers' organisation in the Netherlands
vs	versus
WBCSD	World Business Council for Sustainable Development
Wta	Wet toezicht accountantsorganisaties (Dutch Audit Firms Supervision Act)
Wwft	Wet ter voorkoming van witwassen en financieren van terrorisme (Anti-Money Laundering and Counter-Terrorist Financing Act)
YTP	Young Talent Programme

KPMG

KPMG on social media

KPMG app