KPMG

People driven progress

Integrated Report 2017-2018

Including the KPMG Accountants N.V. Transparency Report

People-driven progress

We believe progress is only real progress if it has a positive effect on people and society. New technologies will drive progress and will impact our everyday life considerably. Only people can ensure that change will also create sustainable progress. That is what we mean by '**people-driven progress**'.

Progress is also something personal, as the interpretation will differ per individual. In the summer of 2018 we launched our brand campaign 'People-driven progress'. Part of this was to involve our employees by asking them to participate in the photo contest 'The human side of you'. Many colleagues submitted their photos symbolising their moments of personal progress, happiness, relaxation or fun. In this report we have included a selection of photos from this contest.

We thank the following employees for their permission to use their photographs in this Integrated Report: Willem Bonekamp (manager Corporate Communication), Ali Alam (manager IT Assurance & Advisory), Josine Janus (senior manager Operating Strategy), Annie Taselaar (trainee HR Recruitment), Anne-Marie van Eek (manager Operations and Board Projects), Edwin Sturrus (manager Cyber Security) and Mariuxa Uliana (supervisor International Business).

For us, these personal pictures truly illustrate the human side of people-driven progress.

On the cover: 'the human side of' Willem Bonekamp.

People-driven progress







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KPMG at a glance

All numbers and amounts in this section are as of the end of our financial year 2018, 30 September 2018.

The public trusts us

Engagement quality control **reviews on** 485 Audit **engagements**

517 in FY2016/17

232 **audit reports** for ***'OOB'* statutory** audit clients

235 in FY2016/17

1,713 **audit reports** for other **statutory** audit clients

1,721 in FY2016/17

Quality performance reviews

68% Audit engagements **satisfactory**

65% in FY2016/17

96% Advisory engagements **satisfactory**

97% in FY2016/17

Jan Hommen Scholarship (founded in 2016)

8 students were awarded a EUR 2,500 scholarship

96% of the electricity was used from **renewable sources**

EUR 746,572 **charitable contributions and donations**

EUR 775,361 in FY2016/17

KPMG

Our people are extraordinary

3,135 FTEs
3,015 in FY2016/17

36%
34% in FY2016/17

64%
66% in FY2016/17

15% partners and directors
12% in FY2016/17

85% partners and directors
88% in FY2016/17

84% of professionals remained with KPMG
87% in FY2016/17

2.1% absenteeism
2.2% in FY2016/17

70 new talents in **Emerging Leader Programme**
38 in FY2016/17

19 talents in **Young Talent Programme**
19 in FY2016/17

135 hours on training & development per employee
129 in FY2016/17

69% employee engagement index
66% in FY2016/17

82% employee pride in KPMG
79% in FY2016/17

Our clients see a difference in us

95% overall satisfied clients

92% in FY2016/17

Relation-ship	Quality of service	Added value	Passionate
98%	93%	83%	90%
95% in FY2016/17	88% in FY2016/17	80% in FY2016/17	87% in FY2016/17

Innovative	Results driven	Global mind-set	Expert
67%	82%	67%	81%
66% in FY2016/17	77% in FY2016/17	65% in FY2016/17	76% in FY2016/17

50.3 net promotor score (NPS)

43.4 in FY2016/17

35.7 NPS Audit

27.5 in FY2016/17

59.7 NPS Advisory

54.6 in FY2016/17

177 public interest entity audit clients

176 in FY2016/17

Technology accelerates success

As of October 2018, we have defined Technology as a new and fifth strategic focus area and started collecting corresponding quantitative data. Accordingly, we will report on these data and KPIs in our next Integrated Report on the financial year 2018-2019.

Operational excellence enables us

12 offices in NL
12 in FY2016/17

46,035 m² in use
49,060 m² in FY2016/17

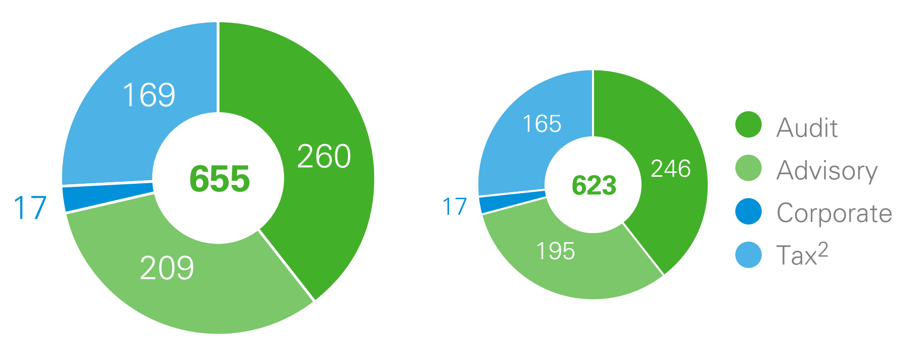
63,163 m² contracted
65,965 m² in FY2016/17

42% solvency ratio[1]
38% in FY2016/17

486 mln total revenue
457 mln in FY2016/17

KPMG revenue in the Netherlands

(in EUR million)



FY2017/18 FY2016/17

134 mln net engagement revenue from statutory legal audits
134 mln in FY2016/17

60,1 mln Audit operating result[3]
48,5 mln in FY2016/17

58,6 mln Advisory operating result[3]
58,2 mln in FY2016/17

176 engagement revenue per Audit fte
170 in FY2016/17

188 engagement revenue per Advisory fte
193 in FY2016/17

2.266 lease cars
2.197 on 1 Jan 2017

96% CO_2 <129 gm/km
90.2% on 1 Jan 2017

129 electric lease cars on 30 Sept 2018
129 on 30 Sept 2017

74 electric charging stations
68 in FY2016/17

1 Calculation of solvency ratio: (Equity plus Partner Financing) divided by (Equity plus liabilities).
2 KPMG Meijburg & Co is a separate member firm and, as such, not part of this Integrated Report.
3 FY2016/17 operational results have been restated for a change in cost allocation.

Overview and strategy

Trusted, Human, Digital

Stephanie Hottenhuis,
chair to the Board of Management

In the past year, we launched a new campaign under the banner of People-driven progress. It is our conviction that progress is only worthwhile when it benefits both people and society as a whole. Society is on a transformative journey in many respects. The fourth technological revolution is changing the way we work and live. It challenges traditional business models and, as a result, innovation is fast and ubiquitous. It also leads to new questions about technology and its impact, concerning social safety, security and ethics, the future of work, and the responsibility of leaders. We aspire to take our role in these transformations and work with our clients and stakeholders to navigate these shifts based on facts and content, empowered by technology and deep human insights. In other words, we strive to Inspire Confidence & Empower Change.

This is exactly the reason that made me join KPMG. We have a strong purpose, and one that matters. The need for trust, content and assurance in society has never been bigger, and the transformational challenge has never been more daunting. We have clearly defined our own transformational task as a company, and took the necessary steps to fund our path to become the most trusted in our field and to achieve a step change in growth. We call our strategic direction one of Trust and Growth. We invest significantly in quality and the fulfilment of our role as a provider of public trust. We are in an active, engaged dialogue with stakeholders, regulators, clients, and society about the future of our profession in the public interest. We think ahead about societal challenges, and express our views. These involve a wide array of topics: internationally competitive industry, Brexit, innovation, its monetisation, and its ethics, healthcare, the platform economy, prevention of fraud, trusted analytics, cyber security and many more. Our strategy involves an ambitious digitalisation agenda that touches every aspect of what we do and how we go to market. We invest in advanced data and analytics capabilities and work with partners and alliances to deliver from strategy to execution. We expand our capabilities with acquisitions and participations, such as recently announced AdviceRobo, a Dutch FinTech start-up developing technology that assesses credit risk in new ways. In financial terms, we closed the year with good growth in the Netherlands and globally. Both in audit and advisory we were able to grasp new opportunities, expand our portfolio and connect with our clients with new service offerings.

Our people are who we are. Our people are what makes us unique and their development and fulfilment is at the centre of our priorities. Despite a competitive labour market we have been able to maintain a relatively low staff turnover for high performers whilst further improving diversity in broadest sense and gender in particular. Including promotions as of 1 October 2018, we met our diversity target with 17% females in senior positions, 20% in the Board of Management and 33% in the Supervisory Board. Targets are good, but not enough. We will continue to not only prioritise this internally, but are also raising our voice in society to press for change in this important agenda. Diversity can be captured in numbers, but it is inclusion that makes the real difference in how people feel. We have called out inclusive collaboration as one of our key cultural attributes, and we know this will need everyone embracing it with conviction.

And in closing, back to trust. In all this, our license to operate is based on public trust. Our quality, our culture, attitudes and behaviours will continue to be our focus in the coming time, in the Netherlands and globally, both in our audit practice as well as in our advisory services. In the year ahead, we want to be focused on the value we deliver to clients and society. We want our clients at all times to feel that we work with a strong purpose in mind. That we act as a formidable force for the good in their transformational leap into the future. And we want society to see that we are the ones trusted to address the challenges that affect and progress our society. Because our vision is a people-driven progress. ”

The year 2018

The world and our business environment are evolving continuously. This creates significant opportunities, as well as challenges, to be successful. Major changes driven by technology impact everything we do. Business models change, client interactions are more customised and our business models are challenged in Audit and Advisory.

At KPMG we are convinced that technology only brings value if people are able to guide it. This brings us to people-driven progress, which we kicked off recently in a national campaign.

We have an important role in the digital revolution. Technological developments have impact on our day to day life. In both the Audit and Advisory domain, we as persons, contribute to the human side of this revolution. Advisors deliver high-tech solutions to companies. And of course, auditors have a role as trusted professionals in society.

Our core purpose is to contribute to both the trust and growth agendas. We want to contribute to a trusted society by inspiring confidence and empowering change. That applies to both Audit and Advisory services. Within Audit there is a need for a broader Assurance agenda also covering the non-financials. We have launched new Assurance services around Algorithms and Integrated Reporting. Audits of financial statements remain extremely relevant for smooth functioning financial markets and information for decision-making, with a strong focus on quality. With Advisory services we create and protect value for clients and society by relevant consulting services in the area of Deals, Risk & Regulatory, Technology, Strategy & Operations and Finance & Business Services.

Our people

Key themes: continuous learning and diversity
People are and will remain the foundation of everything we do. We are fully committed to our people across all functions. Our investments are related to state-of-the-art training and personalised career tracks. Our goal is to innovate our talent and create our workforce of the future. Diversity and inclusiveness are key to this objective. We are consistently working on balancing gender diversity, through both the development of our own female talent as well as the recruitment of senior female hires. We are proud to see that our efforts are paying off: we succeeded in hiring more women for key positions. However, diversity is more than just the male-female ratio. We actively seek to blend different cultures and backgrounds through several network initiatives, such as our international community. Also our ecosystem of a flexible workforce expanded not only with top specialists in the Netherlands but also with our Global Services Centre in India.

We found that there was a highly competitive market to recruit and retain top talent. We introduced new digital recruiting engines and professionalised our on-boarding programme. Every starter at KPMG gets a three-day introduction programme, fostering the KPMG culture. We are aware of the technology surge in business and the ever-increasing need for and pace of digitisation. We continued to recruit new hires with a strong technology background. They join the growing group of fellow technology specialists in building and maintaining our leading role in Data & Analytics (D&A) and Cyber Security, as well as in digitising our Audit, Assurance and Advisory services. We have started specialised Technology training with institutes like the University of Amsterdam, Free University and the JADS Institute in Den Bosch. In addition to hiring specialists, we are collaborating with start-ups and other partners to develop solutions.

In November 2017, we announced that Albert Röell, chairman of the Board of Management of KPMG N.V., decided to step down from his position. The Board of Management fully supported the Supervisory Board in finding a new chairman from outside the organisation. During the interim period, Rob Fijneman, member of the Board of Management and Head of Advisory, assumed the tasks and responsibilities of chairman. We thank Rob for the excellent way in which he led the firm during this interim period. As of 15 August 2018, our new chair Stephanie Hottenhuis was appointed.

Our business

Key themes: sector focus and KPMG strengths

We are known for our deep expertise. In 2018 we have re-evaluated the industry sectors in which our impact is significant. We are already recognised as experts in a number of sectors such as Financial Services, Private Equity, Energy, Natural Resources & Chemicals and Retail. In addition, we are investing in growing our footprint across Agri, High Tech and Infrastructure. We have a strong knowledge base in these sectors in our international KPMG network, and we will open up more of that know-how to our clients. This sector strategy is KPMG wide and underlines the One KPMG approach. As our ambition is to serve our clients for the long term, types of services we provide to clients may change over time.

We are the leader in a number of selected propositions. Over the last year we identified areas of investment where we believe we have the opportunity to create long-term value for our clients. In areas such as Cyber Security, Risk & Regulatory and, of course, Assurance, we are seen as thought leaders. Partnerships and alliances are becoming more important in delivering end-to-end solutions to our clients. True collaboration with our partners creates growth by complementing KPMG's core service offering with niche capabilities. This results in various unique service offerings.

We play a strong and influential role in the Dutch M&A market and are recognised as market leaders in D&A, Cyber Security and Transaction Services. Our Advisory services are becoming increasingly data-driven and we expect this trend to continue and accelerate. We have made this subject a high priority across the entire breadth of our business.

We contributed our D&A capabilities to a European KPMG collaboration called 'The Lighthouse'. This KPMG institute provides for the most advanced know-how on D&A. By combining forces with our European KPMG member firms, we have expanded our capabilities and improved our service levels as well as our speed of innovation.

Strategy

Key themes: Outlook strategy programme and strategic priorities
We operate in a dynamic business environment where change is constant and universal. Flexibility is the new normal in coping with and responding to change. It is impacting society, our clients and ourselves, as organisational boundaries appear to be less relevant in the network and ecosystem era. Clients join forces and partnerships are established in response to circumstances as they arise and client and stakeholder agendas can be volatile.

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

During 2018 we worked on updating our strategy in our Outlook 2025 programme. The strategy update was fully driven and executed by our own people based on our collective expertise. This way we created our strategy. The Outlook 2025 strategy brings focus and accelerates and combines our efforts. We identified four areas that will drive our future:

1. **Digitise the firm** – using technology to create differentiating ways of doing business

2. **Frontrunner in client experience** – boost and optimise the client experience

3. **Leader in selected propositions** – optimisation of our propositions in line with market requirements

4. **Workforce of the future** – innovate all steps of the employee journey

People-driven progress drives value creation

The concept of Integrated Reporting revolves around the notion of reporting on how organisations use the various capitals at their disposal for value creation. The IIRC framework for Integrated Reporting identifies six core capitals: human, intellectual, manufactured, social, financial and natural capital. Figure 1 provides an overview of how we use the aforementioned capitals to address material stakeholder expectations and the value we thus create through our unique propositions. Manufactured capital is excluded from our value chain as our work is intangible in nature: we do not produce physical products. At its core, our three most significant capitals 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. Here 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. Financial or monetary capital is necessary to attract and retain the other capitals. 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 by 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 in our communities. Whether applied globally or locally, to the world's biggest challenges or a market's smallest issues we help enable informed decision making. That requires an understanding of facts and opinions embedded in the interactions between people, processes and systems. Hence, our strong belief in multidisciplinary teams of Audit and Advisory, where we foster independent views, input and dialogue, because 'we' transcends 'me'. Because we are about people-driven progress.

Our value creation cycle provides an overview of how stakeholder expectations and purpose come together to drive our activities and strategy.

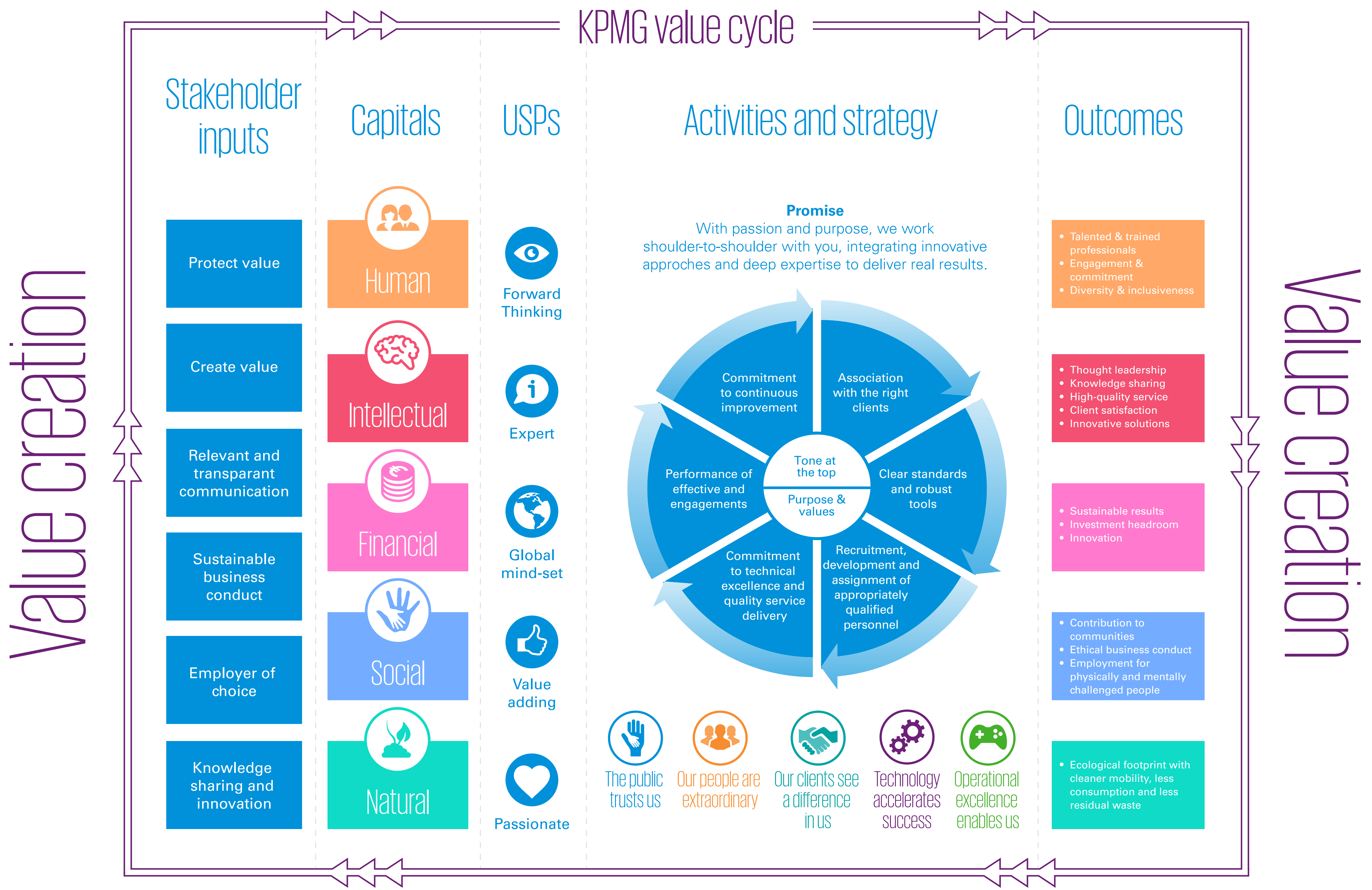


Figure 1. Value creation

KPMG

Performance and developments

- The public trusts us
- Our people are extraordinary
- Our clients see a difference in us
- Technology accelerates success
- Operational excellence enables us

The public trusts us

Introduction

Inspire Confidence & Empower Change is the purpose of every KPMG employee worldwide. We can only deliver on this purpose if clients and society trust us and we are trustworthy. After all, an important part of our work is aimed at creating trust in societal and economic trade by delivering our audit and advisory products and services. That is why building trust has our relentless focus.

In this chapter we share our approach to building public trust. In our view it all starts with ensuring the quality of our work. Both in Audit and in Advisory. A next step in our approach to building public trust is being open and transparent about expectations and challenges. This requires an open dialogue with our stakeholders. In addition, this is also about communicating who we are and what we believe in via branding & thought leadership. A final step in our approach to public trust is working with society in creating shared value.

The quality of our work

We want society in general, our clients and sector stakeholders in particular to recognise KPMG as the most trusted and trustworthy professional services firm. By combining the latest technologies with a solid foundation of integrity, know-how, expertise and independent thinking, we realise true progress.

We are set to meet the highest standards of quality for our profession and across all of our services. This includes:

– consistent execution in line with the requirements and intent of professional standards, across all lines of our business;

– guidance by a strong system of quality controls and governance;

– in an environment of the utmost level of objectivity, ethics and integrity (and for audit: independence).

Egbert Eeftink, Member of Board of Management and Head of Assurance

Looking back at the past year, which achievements are you most proud of?
We have made good progress with our improvement and change programme aimed at a sustainable high audit quality. I am proud of our 'dual approach': on the one hand we continue with improving our processes, making them more consistent through standardisation, training, digitisation and better time and project management; on the other hand by strengthening important culture elements like professionalism, taking pride in our work in the public interest and improving our learning behaviour across the organisation. For example, to spark internal dialogue, stimulate learning behaviour and provide more clarity around mistakes and errors we introduced three error categories: human or inadvertent mistakes, risky behaviour and reckless behaviour. With each category having a different meaning and consequences.

Which changes will you have realised in three years' time?
The value of our audit comes from trust and relevance. In three years' time I want to be able to look at audit quality indicators that are all green or positive. We operate from a mindset that 'quality is the way we work around here'; this is much wider than compliance with standards, but also underlines that without compliance we do not deliver quality. On our journey to achieving these audit quality goals, we need to have 'ambidexterity' and be equally good in both parts: robust and consistent processes executed in accordance with external and internal standards, delivered by purpose-driven professionals in an environment that stimulates excellence and the right (learning) behaviours.

I also want to see and feel that we have increased our relevance and value in the audit and assurance domain. By realising next steps in the digitisation of our smart audit platform and the large scale deployment of our growing ecosystem of data & analytics; by growing our assurance services in respect of emerging (digital and non-financial) information areas; and by having more impact on clients and society by sharing our insights on all of the above.

What does people-driven progress mean for you in your daily work?
Quality systems and technology are extremely important in our journey to be the Clear Choice. But we cannot achieve that without the right people, the right mindset or true collaboration. In a world that is developing ever faster, computers, vast amounts of data and artificial intelligence can help us enormously in seeing and analysing complex patterns. To me, people-driven progress is ultimately about people giving meaning to those patterns to other people. This is also true for the daily work we do as auditors and assurance providers, where we focus on systems, processes, data, technology and reporting. But in the end it comes down to conveying the meaning of our work in a way that is relevant to stakeholders. Regardless of complex information models and technology, we need to keep in mind that our ultimate stakeholders are always people. For me this is people-driven progress at its core. After all, the future is human. ”

Internal inspections (Quality Performance Reviews or QPR)

QPR is performed under the supervision of the 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. These baselines and ratings differ between Audit and Advisory. Audit engagements reviewed are rated Satisfactory, Performance Improvement Necessary or Unsatisfactory depending on the nature and severity of findings. Advisory engagements reviewed receive two ratings – one for set up and one for execution. Ratings are Green, Yellow or Red. Green and Yellow ratings are awarded when engagements are substantially compliant with KPMG standards. The QPR process is overseen by a non-local lead reviewer. A centrally led international Quality Performance Review team carries out a number of the annual QPR reviews at various KPMG member firms, especially for audits of listed and related entities.

During the year under review, 59 Audit partners (FY 2016/17: 52) and 55 Advisory partners/directors (FY 2016/17: 72) were subject to internal quality performance reviews.

Audit
In Audit 68% of the engagements received a Satisfactory rating (FY 2016/17: 65%). Although our target of 75% Satisfactory scores was not yet achieved, we have made significant progress on decreasing the number of less than satisfactory scores. We launched a quality coaching effort on auditing of revenue (one of the most common areas with QPR findings) to help engagement teams real-time rather than after the fact. We saw a decrease in revenue related findings indicating that team coaching appears to be a driver for audit quality. We will test this hypothesis next year by expanding this type of quality coaching to other areas with QPR findings.

In general, employees are satisfied with daily training on the job with 87% positive scores in the annual Global People Survey.

QPR findings have been communicated to Audit professionals during KPMG's annual professional update sessions as well as through virtual classrooms. We subsequently performed root cause analyses on QPR findings per engagement to ensure we addressed likely organisational issues too.

QPR Audit

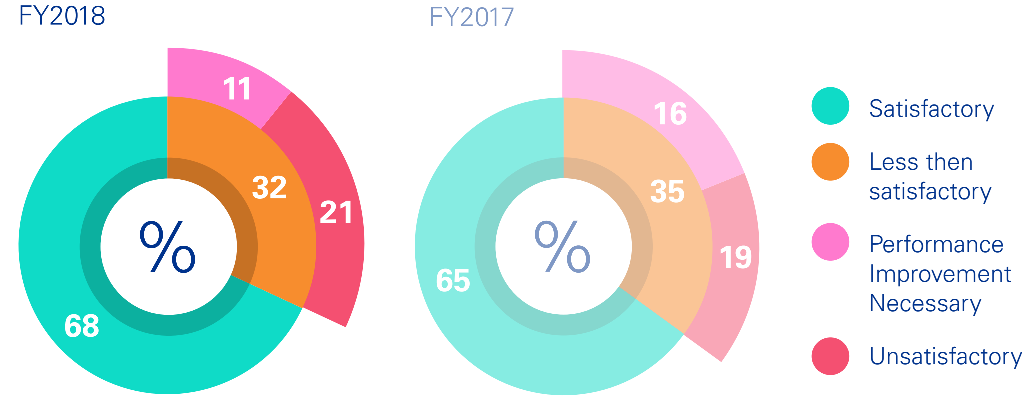
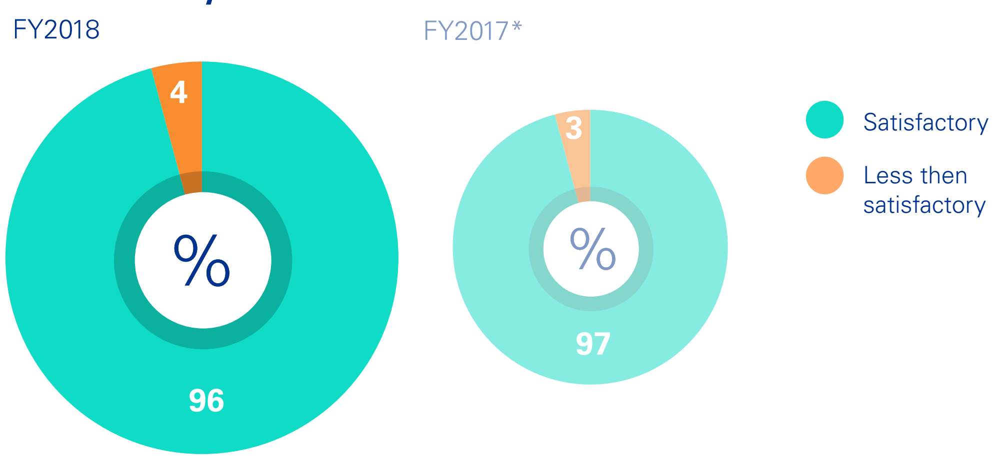


Figure 2. QPR scores Audit partners/directors

Advisory

As said, Advisory follows a slightly different (global) grading system. The results for Advisory engagements are as follows.

QPR Advisory



* Adjusted for comparison purposes

Figure 3. QPR scores Advisory partners/directors

Engagement ratings for Advisory engagements show similar results compared to last year. In set-up, findings show that further improvements can be made in the scoping of engagements and a more concise inclusion of appropriate disclaimers and risk mitigating actions. In execution, engagement teams can further improve on documenting their final deliverables.

External inspections

AFM and PCAOB

The AFM has not carried out inspections during the year under review. The PCAOB inspected three audit engagements and our system of quality controls. As we are awaiting their final conclusions, we have nothing yet to report. We have remediated all inspection findings as they surfaced during the process.

Other

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

Files investigated by other regulators (e.g. The ministry of Education, Culture and Science (OCW), *Auditdienst Rijk* and others) were found compliant.

Compliance with our quality management system

Personal independence

Professionals who acted in non-compliance with our independence procedures have been reprimanded or sanctioned in accordance with our disciplinary policy for independence.

Cases of non-compliance mostly relate to inaccurate or untimely updates of our tracking system for personal investments (KICS).

We identified 0.5% (FY 2016/17: 0.6%) of all employees to be non-compliant with independence procedures. All non-compliances were subsequently followed up and resolved. Where and if necessary sanctions were issued by the Ethics & Independence Officer.

Compliance with internal procedures

We distinguish between discipline related and quality related non-compliance. We see an overall increase in the total number of quality related instances of non-compliance as compared to last year. We recorded 91 quality related instances during the reporting year (FY 2016/17: 67). These breaches mainly related to quality performance review ratings. We recorded 418 discipline related breaches during the reporting year (FY 2016/17: 606). The significant improvement since previous year is mainly caused by a minor change in the monitoring process of the firm, sufficiently reminding professionals on timely completion of mandatory e-learnings and annual affidavits.

We have received five notifications in total (FY 2016/17: two) through our whistleblowing hotline. Two related to other KPMG entities and have been forwarded to those entities for further follow-up. Of the remaining three notifications the follow-up of two is still in progress and for one we identified no issues. See table 1 on the next page.

KPMG audit quality indicator	Reference NBA AQI	Target	FY 2017/2018	FY 2016/2017
GPS and Pulse survey results related to coaching and audit quality	AQI 6.a	>70%	87%	73%
Culture Survey	AQI 6.b	>70%	82%	78%
Investments in development of new audit technologies and tools	AQI 3		1%	1%
Partner involvement (OOB)	AQI 1.a	>10%	9% *	7%
Partner involvement (non-OOB)	AQI 1.b	>6%	6%	6%
Hours spent by IT and other specialists (OOB)	AQI 11.a	>15%	20%	21%
Hours spent by IT and other specialists (non-OOB)	AQI 11.b	>5%	5%	6%
Chargeable hours	AQI 2	60%-65%	62%	64%
Retention of audit professionals	AQI 5	>86%	86%	88%
Training hours per audit professional	AQI 4	>160	212	204
Technical resources support	AQI 7	>5%	5.1%	5.5%
Percentage of technical consultations	AQI 8	>8%	12%	15%
Percentage of EQCRs	AQI 9	>20%	25%	26%
Number of hours spent on EQCR (as % of total hours on EQCR)	AQI 10	1.2%-2%	1% **	1%
Number of restatements	AQI 14	<1%***	1.0%)	0.9%
Results from external inspections	AQI 12.a	>75%	n/a	17%
Results from internal inspections	AQI 12.b	>75%	68% ****	66%
Independence violations	AQI 13	<0.5%	0.5%	0.6%

* We also refer to section Our people are extraordinary, page 49-50.
** We also refer to section Appropriate involvement of the EQCR or second partner, page 133.
*** In FY 2017/18, this AQI target was changed into <1%. In prior years, we reported the number of restatements (FY 2017/18: 36; FY 2016/17: 32).
**** Internal inspections involved 62 engagement files of 59 partners. We also refer to section The public trusts us, page 25-26.

Table 1: KPMG's audit quality indicators (AQIs)

Culture of quality
A company's culture is an important contributor to its quality performance. We measure progress on culture and change using a subset of questions from our global people survey (GPS). The last GPS was held in November 2018 and is measured once a year. Results of the 2018 GPS are not yet available for publication. The Employee Engagement Index in the 2017 GPS amounts to 69 which is an increase of 3% compared to 2016. This is above the benchmarks of KPMG International and on-par in the Netherlands. Mains strengths in the 2017 GPS were seeing KPMG making the changes necessary to achieve our vision to become the clear choice, a great place to build a career and being yourself at work and being accepted. Areas for improvement relate to our positive impact on society by contributing through volunteering and pro bono work, and making sure we value diversity even more.

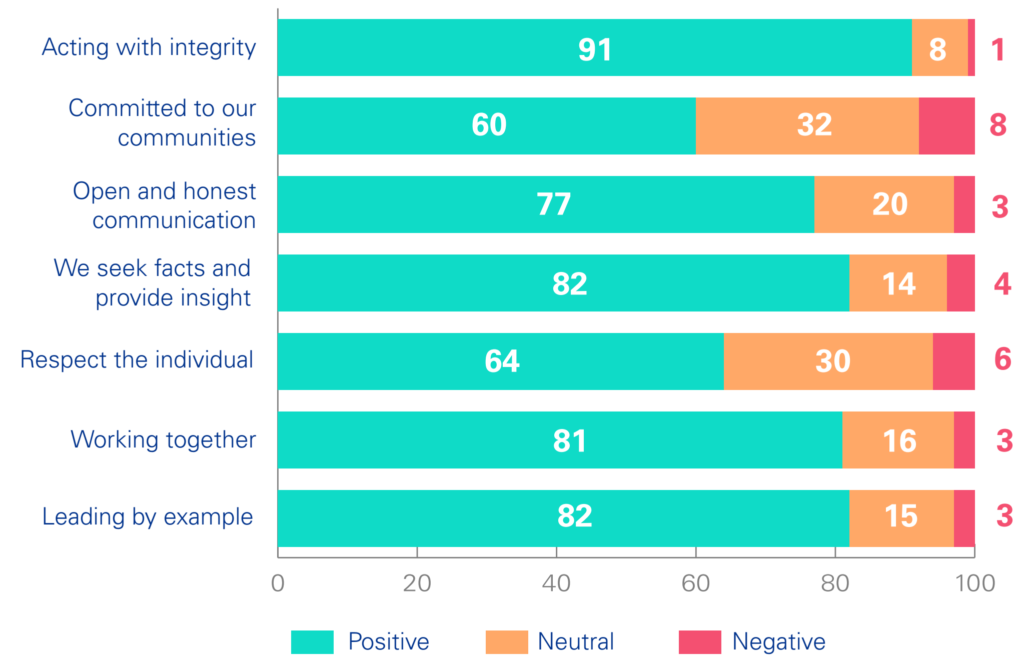


Figure 4. Scores on cultural change

In addition to GPS, we introduced a specific culture survey for Audit and Audit support specialists. The first survey was conducted in December 2016, which is considered the baseline for annual culture surveys thereafter. The target for FY 2017/18 was to have at least 70% of partners, professionals and support staff having a positive view on the Quality Culture within KPMG. The actual score for FY 2017/18 was 77%.

The KPMG Story serves as our universal framework. It describes our purpose, values, vision, strategy and promise. We believe in the power of our purpose and our values as the moral and practical compass in our day to day behaviour. In leading by example, as individuals but also as a firm. In working together and respecting the individual. In seeking the facts and providing insight. In open and honest communication with our stakeholders and within our organisation. We are dedicated to improve the communities in which we work and live. And above all, we act with integrity. All partners, professionals and support staff individually sign the KPMG Pledge as a symbol of their commitment to our values. Qualified auditors also take the professional oath as mandated by the Royal Netherlands Institute of Chartered Accountants *(Nederlandse Beroepsorganisatie van Accountants*, hereinafter referred to as NBA). Each new joining professional will also be asked to do so.

This is KPMG and this is our story

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

This is why we're here

Inspire Confidence. Empower Change.

This is our Purpose.

This is what we believe in

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

These are our Values.

This is what we want to be

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

This is our Vision.

This is how we'll get there

We will:
- Drive a relentless focus on quality and excellent service
- Take a long-term, sustainable view
- Act as a multi-disciplinary firm, collaborating seamlessly
- Invest together in our chosen global growth priorities
- Continuously improve quality, consistency and efficiency
- Maintain a passionate focus on our clients
- Deploy globally our highly talented people
- Bring insights and innovative ideas
- Build public trust

This is our Strategy.

This is how we want the world to see us

With passion and purpose, we work shoulder-to-shoulder with you, integrating innovative approaches and deep expertise to deliver real results.

This is our Promise.

Stakeholder dialogue

Being open and transparent about expectations and challenges and responsive to the needs of stakeholders is an important part of building public trust. Also, we realise that as a large Dutch firm we have a responsibility to contribute to the trust in the economy as a whole. That is why we interact continuously with our stakeholders via a well-organised process. Last year, we opened up to the public debate by proactively engaging our stakeholders in good and bad times, which they received positively. In the table below different stakeholder clusters are included as well as the way we interact with them and the topics that are addressed.

Stakeholder group	How we engage	Topics
Clients, including those charged with governance	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 Board Programme.	– Bring fresh ideas to clients helping them grow, improve, and realise opportunities – Provide data-based assessments, technology-driven tools and human insights – Conduct high-quality audits – Develop solutions for managing risks – Engage with clients on review surveys
Employees and partners of KPMG	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. Our new campaign 'People-driven progress' will be translated for internal purposes, as a next step in our efforts to foster a culture of Trust & Growth.	– Provide excellent training, competitive compensation and benefits and the opportunity to do their job well – Build the workforce of the future – Instil pride within our employees – Offer personal and professional development
Society, government and politics	We engage with our societal stakeholders, among which NGOs, experts in the industry, opinion leaders, public institutions and media to invest in a debate about our sector and improve transparency about our work. Most activities are run through our proactive public affairs programme.	– Be open to ideas, feedback and debates relevant to our business and society at large – Ensure that stakeholders receive relevant information – Future of audit, assurance and advisory
Regulators	We are under supervision of the AFM and PCAOB regarding statutory audit engagements and subject to governmental inspection agencies for specific types of audit and assurance engagements. We have periodic dialogue with our Dutch regulator AFM.	– Conduct high-quality audits – Conduct independent audits – Our system of quality controls – Progress of improvement and change agenda
Users of financial statements, including professional bodies representing those users and media	We are present at annual meetings of shareholders in which we present our role as auditors and findings we may have regarding the audit, including (long-form) auditor's reporting. For owner managed businesses our communication is of course directly with owners.	– Identify risks impacting continuity – Provide insights based on data – Timely reporting of relevant information to support investment decisions
Professional bodies and academia	We participate in working groups of professional bodies (such as NBA, NOREA, and IIA) contributing to the development of high-quality standards and services. We employ professors (full, associate and assistant) and through their academic affiliations teach future generations of professionals. We contribute to fundamental research to advance our understanding in the auditing, tax and advisory domains.	– Work together with third parties and professional bodies – Contribute to society – Develop and innovate our profession

Table 2. Stakeholder management and expectations

Branding & thought leadership

Another way we can bolster trust in KPMG and its services is to step up our public communications and make clear what KPMG does, and whenever we can make sure this is clear in any public debate. One way we can do this is by making our expertise accessible by publishing reports and by organising events.

In the past financial year, we published 60 thought leadership documents and organised numerous events to share our expertise. One example of this was our contribution to the debate on fraud detection in auditing. We have actively contributed to the discussion of how to tackle this issue, both within the sector organisation NBA and in the media.

But we have also teamed up with the Dutch government to conduct research on the subject of Brexit and the potential impact on the Dutch economy. We followed this up with numerous meetings, media interviews and publications, all of which will help prepare Dutch society for the impact of Brexit. 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.

Figure 5. Media performance 2018

Our own research over the past financial year revealed that KPMG and its activities are relatively unknown for the general public. KPMG consequently launched a new brand campaign to communicate our values and improve visibility of our activities. Our clients value our broad perspective and our personal approach to the issues they face. And that is exactly what we emphasise in this campaign. The campaign, with the brand claim 'People-driven progress', stresses that progress can only be deemed true progress if it benefits both people and society as a whole.

The campaign marks the launch of a renewed effort to position KPMG in the Netherlands. The current brand campaign is the starting point for a series of campaigns at proposition level and campaigns targeting the employment market.

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

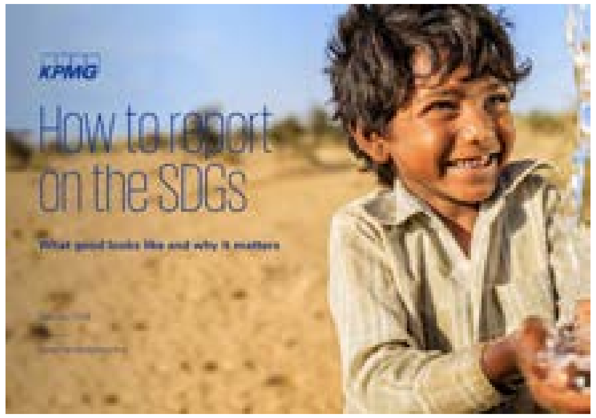
For more than a century, this is how we have worked with clients and stakeholders in their search for trust or growth. We combine the latest technologies with what we have developed over those many years: a solid foundation of integrity, know-how, expertise and independent thinking. We believe technology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

That is our view of progress. Progress that matters.
That is KPMG.

Creating shared value

In our approach of public trust creating shared value with society takes a prominent place. Together with other member firms of the KPMG network, the Dutch firm, in one way or another, contributes to all 17 of the UN global Sustainable Development Goals (SDG) through our client work. The goals in the graph below are of particular interest for the Dutch firm. SDG are incorporated into our strategic actions and provide a global context for our value creation cycle as well as the identification of potentially material reportable topics for this integrated report.

We want to embed corporate responsibility (CR) in all our business processes, therefore we are publishing an annual Integrated Report since the financial year 2012-2013. In this chapter we emphasise the commitment of KPMG to foster communities and the environment. Our overall societal impact – financial and non-financial – is described in our value creation model and the materiality assessment, which is an integrated part of our report.



As part of our continued commitment to contribute to the 17 UN global SDG, KPMG has published new research on the way companies establish sustainability objectives based on the SDG and on the basis of which the contribution to the SDG can be measured.

Research by KPMG among the G250, the 250 largest companies in the world, shows that over 40% of companies currently establish a relationship between their own sustainability objectives and those of the United Nations. However, less than 10% of these companies have defined concrete and measurable objectives for their own companies based on the SDG.

This KPMG study aims to help by proposing quality criteria for SDG reporting which readers can use as a guide for their own organisation's reporting. Also, by analysing how the world's largest companies measure up against these criteria, this study will help readers to benchmark their own reporting against this global leadership group.

We have a CR strategy in place to address our commitment to our communities and our ambitions in terms of the reduction of our ecological footprint and the integration of CR into our business processes. Next to this, we participate in the Transparency Benchmark, a bi-annual research on the content and quality of corporate social responsivity reports of Dutch companies. The Transparency Benchmark is an initiative of the Ministry of Economic Affairs. KPMG is one of the companies whose Integrated Report is benchmarked as part of the research group. Last year we increased our effort to be more transparent on several non-financial topics and our value for society, resulting in a slightly higher position (70 coming from 83 in 2016).

Our CR programmes, particularly, focus on Quality Education (SDG goal 4) and Climate Action (SDG goal 13). Our commitment to improving society and the communities in which we live and work, has always been core to our values at KPMG. That is why our global approach to citizenship prioritises Quality Education and Lifelong Learning. We believe that lifelong learning and education for all can help break the cycle of poverty and inspire the next generation of leaders driving economic growth and prosperity in our generation and for generations to come. We also understand that there are many other contributing factors. That is why KPMG is committed to Global Climate Response, as well as wider responsible business programmes such as the SDG Industry Matrix, our support for the UN's Guiding Principles on Business and Human Rights and the inspiring programmes our Dutch firm delivers to empower change in our communities. Below we summarise a number of initiatives that we have taken as part of our commitment.

Quality education

4 QUALITY EDUCATION

- KPMG Jan Hommen Scholarship
- KPMG SoProfessioneel
- Cyber Safe Day

At KPMG, our focus on lifelong learning goes beyond the classroom. We work with the wider community to offer innovative coaching and mentoring programmes and participate in global partnerships that help build skills, learning and progression across a lifetime. By embracing the role we all play as educators, we are making an important contribution towards the achievement of UN Sustainable Development Goal 4, to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, helping to unlock a prosperous and inclusive future. Our commitment to learning is a key enabler for all 17 UN Sustainable Development Goals.

KPMG Jan Hommen Scholarship
Since 2016 the KPMG Jan Hommen Scholarship is one of our main community projects demonstrating our commitment to education and lifelong learning. The KPMG Jan Hommen Scholarship is created and executed in cooperation with Stichting StreetPro – which aims to coach youngsters to become socially independent – to financially support MBO students throughout their four years of education. The programme focuses on MBO students who are struggling to make ends meet, but also to help them to (re)discover what their talents are, build their self-confidence and help them to realise their dreams and ambitions. In 2018 another eight students were awarded a scholarship of EUR 2,500 per annum for periods varying from one to a maximum of four years. As well as professional coaching from StreetPro, these students will also be mentored by a KPMG professional.

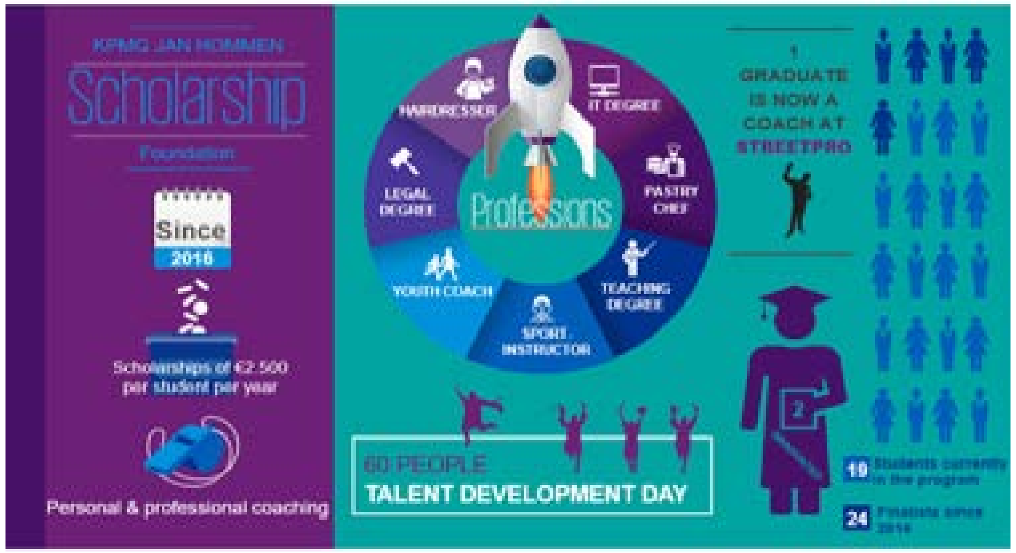


Figure 6. Results of the KPMG Jan Hommen Scholarship since the start in 2016.

KPMG SoProfessioneel
KPMG believes everyone should have a perspective on work and income. That is why we have been running the KPMG SoProfessioneel programme since 2015. This programme is specifically aimed at improving the personal and professional skills of single parents which have to combine many responsibilities and have often taken a step back from their personal development to prioritise the care for the children. The project consists of twelve training courses that participants can join free of charge. In addition to the training sessions, participants who want to do so can be coached by a KPMG professional to bring the content of the training sessions into practice when applying for a job and expanding their network. Since 2015, more than 30 women have graduated from the training programme. KPMG SoProfessioneel is created and executed in cooperation with *De Hippe Heks, Emancipatiecentrum Vrouw & Vaart* and *FNV Vrouw.*

Cyber Safe Day
In this day and age, we know that cyber security awareness is more critical now than ever before for all, but it is particularly so for youth who are most vulnerable. As KPMG has set the ambition to become the Digital Firm, our Community projects are evolving around digital education. In October 2017, KPMG the Netherlands participated in the first KPMG International Global Cyber Safe Day. The world-wide community initiative is aimed at educating students of various age groups, as well as the adults in their lives about the importance of cyber security.

On Cyber Safe Day our Cyber Security professionals gave short lectures and demonstrations in schools about social media, online identity protection, cyber bullying, online gaming, and cyber threats that can affect schoolchildren and teenagers in their everyday life.

Approximately 400 students in the Netherlands were reached through Cyber Safe Day in its inaugural year on 27 October 2017. In 2018, in addition to Cyber Safe Day, we are aiming to develop a toolkit based on the Cyber Safe Day materials that can be used by teachers themselves all year long. In this way we are hoping to expand the programme to more schools and educate more students.

Partnerships for progress
KPMG actively participates in volunteer initiatives and projects with a focus on training and employment (social integration and social return on investment). For example, in various projects we work together with, among others, Stichting Echo, JINC, Refugee Talent Hub, Stichting Agora Network and Enactus.

Pro-bono engagements
KPMG's most significant impact on society is created in the daily practice of the work that we carry out for our clients. With our engagements we aim to help our clients reach their goals while always making sure we create progress in a sustainable way. KPMG also regularly carries out pro bono assignments, thereby deploying our knowledge, skills, network and resources for the benefit of society.

To underline our commitment to our communities the Board of Management of KPMG the Netherlands has decided that as of the financial year 2018/2019 all business units have a number of hours available for pro-bono engagements. By creating more opportunities for our professionals to do pro-bono work KPMG increases its contribution to improving and strengthening the world around us.

Below, we describe one of the pro bono engagements we performed.

Circular economy at the Stichting Vierdaagsefeesten Nijmegen
A multidisciplinary team consisting of colleagues from KPMG Sustainability and KPMG Audit are part of a think tank for improving the circularity of the disposables of the *Vierdaagse-feesten in Nijmegen*. KPMG has done field research and brought several relevant parties together for a brainstorming session 'circular economy'. The dialogue focused around strengthening of the circular economy during the festivities in Nijmegen. A simple and obvious example are the plastic cups during the 7-day event. The ambition is to create a cup for a cup. KPMG is leading the discussion on how we can ensure that the waste cycle – plastic cup, waste collector, waste processor, producer, new plastic product – becomes a closed system. At the same time, a system is created in which all interests of all parties involved in this chain are represented.

Climate action

13 CLIMATE ACTION

- Global climate response
- Future proof mobility
- LED-lightning
- ISO 14001:2015
- EcoVadis

UN Global Compact

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

Global Climate Response (GCR)

We believe that material climate change risks will significantly impact the welfare and well-being of people within the societies in which we operate. We view material climate change opportunities as those that will offer significant opportunities to improve our business operations, reduce operating costs and/or offer new services to KPMG member firm clients. KPMG's Global Climate Response has evolved to help ensure that across the network, KPMG member firms are working to reduce the environmental impact of their operations, adopt resource-efficient practices and technology, and meet the expectations of clients and the communities in which they operate. The GCR is aligned with the Sustainable Development Goals.

The GCR is focusing on three pillars:

1. To measure, reduce and report on KPMG's global emissions across the KPMG network;

2. To support environmental projects within our wider commitment to our communities, and advance sustainability;

3. To work with our partners, employees, suppliers and clients to help them reduce their climate change impacts.

KPMG's GCR aims to further reduce environmental impact across the global network by an emission reduction target of 10% net per FTE between 2016-2020. The next phase also includes a global renewable energy target of 60% of purchased electricity to come from renewable sources by 2020.

Looking at our emissions, also at a global level, our biggest challenges remain in the areas of air and car travel. As a client service business, travel is frequently required to meet clients' needs. Contrary to the previous seven years, in 2017 we observed an increase in our total CO2-emissions of 6.5%, caused by a rise in air and car travel.

Actions taken in this area include our mobility policy, enhanced video conferencing usage, promotion of rail over air travel (where possible, in particular for short trips to London and Paris), expanding e-learning options to drive economically efficient and safer, and adjusting class of travel policies for flights. Furthermore, an average of 96% of the electricity purchased by KPMG in the Netherlands is now procured from renewable energy sources, meeting the target of 60% as set in the GCR.

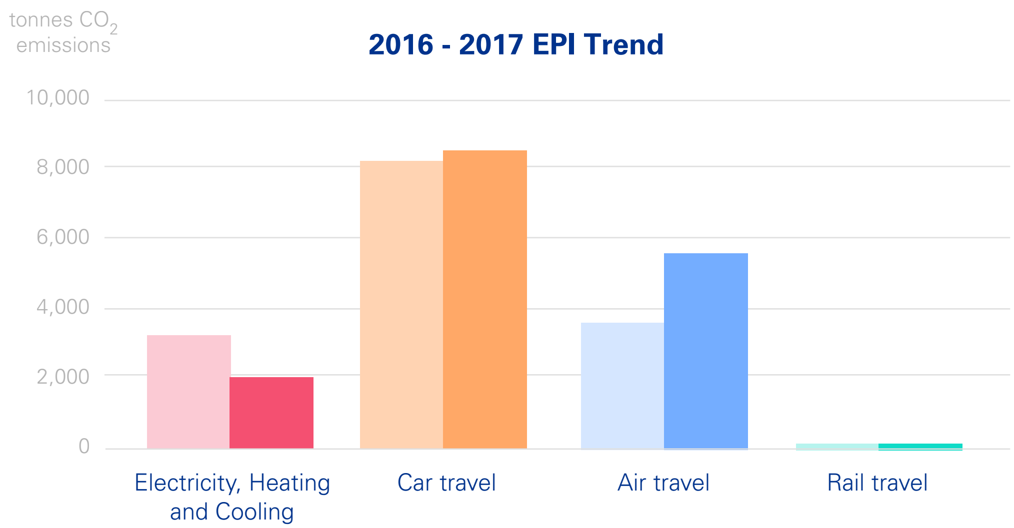


Figure 7. Environmental Performance Index trend 2016-2017

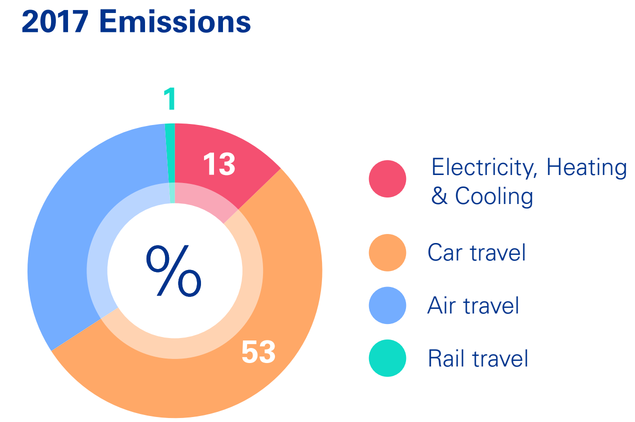


Figure 8. 2017 Emissions for Electricity, Heating & Cooling, Car travel, Air travel and Rail travel

With the Paris Agreement goals in mind, the Global Climate Response targets broader goals and action on climate change. KPMG member firms are committed to reducing their impact on the environment, addressing local environmental challenges and working with clients to advance environmental sustainability. Actions include:

- Achieving ambitious emissions reduction targets;
- Developing new approaches to account for natural and social capital;
- Supporting collaborative projects with partners such as the UN Global Compact and the World Business Council for Sustainable Development (WBCSD);
- Serving as leading providers of climate change and sustainability services for our clients.

Future proof mobility

In 2018 KPMG the Netherlands has introduced the first phase of a new, future-proof, mobility scheme for all employees. The focus of the new mobility policy is to create a 'greener' lease fleet as well as responding effectively to the needs of all KPMG employees without compromising on the quality of the mobility scheme. Electric cars are better for the environment, and they are a concrete step in our plans to reduce our CO_2 emissions by 10%.

In addition, we have launched a car sharing pilot at our Amstelveen office starting from 1 March 2018. As part of the pilot shared cars (also one electric vehicle) are available in Amstelveen.

Participants in the pilot can reserve the cars via an app for a period of one to three days. The aim of the pilot is to give people the chance to try out the concept of a shared car. Based on the experiences gained during the pilot, KPMG will consider to introduce car sharing on a larger scale and at other offices in 2019.

LED lighting

In order to reduce KPMG's energy consumption, LED lighting has been installed in the parking garage at the KPMG Amstelveen and the KPMG Eindhoven offices this year. With the switch to LED lighting, KPMG's electricity use will be reduced further and the lamps in the parking garage will last longer. Sensors will ensure that the lighting is only turned on when movement is detected, reducing the energy consumption even further.

ISO 14001:2015 certificate

KPMG the Netherlands is ISO 14001:2015 certified for its environmental management system. KPMG was one of the first of the Big Four in the Netherlands to gain the 14001 certificate, in 2013. Every year the environmental management system is audited by an external auditor. KPMG successfully renewed and updated the certificate in 2017 and 2018.

EcoVadis

EcoVadis operates as a platform that allows companies to assess the environmental and social performance of their global suppliers. KPMG recorded the support we provide to 41 of our clients in the EcoVadis online assessment tool, in order to evaluate our performance in the areas of reducing business risks and driving performance and innovation in our supply chain. This resulted in a continuation of the Silver CSR rating for our Corporate Responsibility programme in 2018.

The way forward

We continue to relentlessly build public trust. We focus on trust, because the role we aspire to play in society requires us to be a trustworthy organisation. Trust is at the core of our DNA and purpose. Every day we focus on accomplishing our work with consistently high-quality standards and integrity. Trust is also about being connected with our stakeholders, engaging in dialogue and gaining insights by which we constantly learn and improve. Stepping up on quality means that we continue to relentlessly improve quality, in Audit as well as Advisory. In Audit, we continue developing a more open learning and feedback culture where professionals can discuss failures and near-failures in a more 'blame-free' environment. This includes sharing of both positives (success) and negatives (failures) as moments where we learn. In Advisory we seek to align solutions and methodologies to maximise our ability to collaborate and offer multi-disciplinary solutions to clients. Technology will be as important for Audit as it is for Advisory to drive consistency, increase efficiency and leverage our knowledge for effectiveness and relevance to society and clients.

We also will invest in developing and maintaining an ongoing and active calendar for stakeholder dialogue. Open communication is not only necessary inside-out but also outside-in. We want to communicate a consistent vision on quality and the steps we take to improve and change. We want to share knowledge and more importantly gain knowledge to learn from outside perspectives that can help us hone and improve the relevance of our services.

Finally, we want to expand our thought leadership and leading position in the strategic domains of Audit, Digital Transformation, Cyber Security and Business Assurance against the background of people-driven progress. We see three major trends: workforce of the future with the shift in labour types as automation rises, the digital divide where some have all the data and other do not, and the ethics of technology. Being supported by data and artificial intelligence is one thing, but making sure decisions are not only logical but also ethical is quite another.

Our people are extraordinary

	Audit	Advisory	Corporate	Total
FY2017/18				
Partners	74	59	6	**139**
Professionals*	1,287	1,146	-	**2,433**
Support staff	104	57	402	**563**
Total	**1,465**	**1,262**	**408**	**3,135**
FY2016/17				
Partners	75	57	5	**137**
Professionals*	1,238	1,092	-	**2,330**
Support staff	103	59	386	**548**
Total	**1,416**	**1,208**	**391**	**3,015**

** Salary partners and directors are included in professionals. As of 30 September 2018: 201 salary partners and directors (170 in FY 2016/17).*

Table 3. FTEs per function (average)

Inside-out people-driven progress

Our people are key to building the next generation business. It is essential that we keep working on the attractiveness of KPMG as a firm to work for and to ensure that our talents enjoy working for KPMG and our clients. This requires top clients and challenging engagements, but also the eagerness of our talents to make KPMG successful.

KPMG is a large development hub for professionals of all kinds. We employ over 3,100 people, hiring over 600 new talents per year – and even more if you also take interns and traineeships into account. Thousands of seasoned professionals in industries across the country have received their initial training and business experience at KPMG. Thousands are further developing themselves within KPMG every year.

We work towards an inclusive and diverse organisation. In recent years, we have made further progress with the level of participation of women in the higher levels of management of our firm – but much more must be done. This remains a high priority on our management agenda. Our focus on inclusion goes beyond gender, cultural diversity and inclusion of people with a challenge on the medical or personal front. It is about creating an environment of inclusiveness. More personal stories, more amazement and as such more fun for everyone provides a breeding ground for innovation and collaboration.

Talent development

We are a talent factory attracting top students and experienced horizontal hires and developing them to masters of their trade through our service delivery and into future leaders or as ambassadors of KPMG should they decide to seek outside opportunities. Our on-boarding programme reflects this mind-set.

We have opportunities for those who want to make an impact. From financial statements audits to non-financial and sustainability assurance, cyber security to data & analytics, we are a full range professional services service. We are true incubators in supplying experienced professionals to the market place.

Despite a competitive labour market we have been able to maintain a relatively low staff turnover for high performers. Overall staff turnover increased from 13% to 16%. Of course, talents are not created overnight. Professionals are never left on their own. KPMG values continuous education and development for both starters and seasoned professionals. We provide the best individual learning experience by mixing national and international, and internal and external trainings. This includes development education at top universities. A Learning & Development Council with representatives from HR and business functions monitors quality and effectiveness of training and education. The Council also leads innovations in learning and development as newer generations of professionals have different learning needs and abilities, including a mix of offline and online instruments.

Learning is not confined to the classroom – rich learning experiences are available at the moment of need through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist professionals on the job.

We support a coaching culture as part of enabling personnel to achieve their full potential, where every team member is responsible for building the capacity of the team, coaching, sharing experiences and creating an environment where everyone can be their true self. An environment where people feel safe to fail, and where failure is detected at an early stage. This stimulates continuous learning, creative thinking through standard processes and rewards innovative behaviour. Learning also enables people to proactively look for growth opportunities and co-create with clients and other parties.

Training on the job (TOJ) ensures professionals perform the proper activities. This means that professionals have sufficient knowledge, understanding and can demonstrate proper expertise in practice. The goal of TOJ is to facilitate and structure the training of professionals during the performance of the activities and thus further improve the knowledge and skills of those professionals.

Workforce of the future

Human capital is a key factor for all organisations, and this is especially true for a professional services firm like KPMG. Human Capital ensures we can create value for our clients, and the development of our employees results in growth for our organisation. People choose KPMG as an employer because of its strong focus on employee development. We invest heavily in employee development, which benefits the services we deliver, our people, and society at large through a better educated workforce.

To achieve our strategy we have to continuously innovate all steps of the employee journey. This growth in skills and capabilities is driven by investments in training, feedback and learning on the job. Particularly we want our employees to be digitally and tech savvy so we have the skills to utilise technology, combined with data science to creatively apply in-depth specialised knowledge to improve audit quality and create client value.

In addition, we want to build personalised career tracks to resonate with the wants and needs of different generations of professionals with seasoned professionals working together with millennials and the soon to come iGen. Particularly, iGen is generally very comfortable with technology and interaction. Furthermore, developing IP assets and technology also requires different types of professionals working side by side with Audit and Advisory professionals.

Simone Broos, Manager Recruitment

Looking back at the past year, which achievements are you most proud of?
The recruitment team has grown last year and we hired a lot of new talent for KPMG. For all business units and at every level. I am proud of this team effort.

KPMG knows how to attract talent and offer a career full of development and growth opportunities. We continue to innovate as recruitment team and have implemented new tools to improve the candidate experience and reduce the time to hire.

Which changes will you have realised in three years' time?
Our goal is to be frontrunner on recruitment. We will continue to improve our recruitment solutions by innovating and digitising, and still have particular focus on the human factor. The world around us is changing, and we have an important role as a recruitment team to identify trends in the labour market and translate this into opportunities. By selecting the right talent, we contribute to the growth of KPMG.

What does people-driven progress mean for you in your daily work?
For me this means that I can continue to grow and develop as a professional. I am constantly challenged by my environment to ensure we remain frontrunner in recruitment and that we have the right focus in attracting and selecting the right talent for KPMG. This also brings personal growth as I learn new skills in projects and trainings.

Global mobility remains an important pillar in employee development as international experience is key in dealing with international clients as well as developing broader personal perspectives and a better global mind set. In FY 2017/18 66 professionals (FY 2016/17: 22) were on secondment to other KPMG member firms and 128 professionals from other member firms (FY 2016/17: 89) were working in the Netherlands.

	FY2017/18	FY2016/17
Audit	212	204
Advisory	90	85
Business Support	17	16
Total	**135**	**129**

Table 4. Average training hours [AQI 4] per function per FY (internal and external training)

Future leaders

Top talented professionals are selected for the Emerging Leader Programme (EML) or Young Talent Programme (YTP). The EML Programme provides opportunities for talents to develop their business acumen as they work on actual challenges for clients or KPMG itself. Presentations to senior Board members and leadership partners from other member firms are part of the EML curriculum to also develop even better stage presence and impact. YTP participants enjoy cross functional traineeships to broaden their horizon beyond strictly Audit or Advisory. We believe future leaders should be able to see both sides of the professional story thus better services clients and making a lasting impact for society.

During FY 2017/18 70 professionals participated as EML (FY 2016/17: 38) and 19 professionals took part in the YTP traineeships (FY 2016/17: 19). Of these professionals, 16 and 10 were female professionals for EML and YTP respectively (FY 2016/17: 22 and 6 respectively).

We redesigned our entire learning & development curriculum, providing professionals at all levels with a career development path for leadership, business, technical and personal skills. This includes a number of new partner trainings, such as lead partner conversations to keep our lead partners abreast of the latest developments and further increase their relevance in the boardroom.

Adil Ibn Lkassem, Assistant manager Assurance

Looking back at the past year, which achievements are you most proud of?
There are a lot of things to be proud of, like the way we strive for continuous improvement and high quality professional services. Improvement and progress are absolutely needed in a quickly evolving and digitising world. The increasing mindset within our organisation to stay committed to the development plan of each individual is what makes me the most proud. People-driven progress ensures we stay successful in achieving long-term goals.

Which changes will you have realised in three years' time?
To me, digitisation and increasing society's expectation of the independent auditor are the two main challenges in our profession. These challenges provide new opportunities as well, such as integrated reporting, artificial intelligence, and cyber. Technology and a technology-savvy mindset are key. As KPMG we anticipated this with the strategic programme 'Outlook'. I expect that we stay abreast of future developments and maintain our high audit quality service level to clients and community. This is also a perfect opportunity to bridge the expectation gap in coming years.

What does people-driven progress mean for you in your daily work?
For me this is where the capabilities of people are maximised by aligning personal goals and needs with the (technical) strategy of the organisation. Human interaction and debate in order to get good ideas and true innovation are essential ingredients to add value to all our stakeholders.

Work-life balance

Workload reduction

Parts of our business have highly volatile working hours with usually tight deadlines. And we have a rather young workforce, in the bloom of both their careers and their personal life. Balancing both can be a challenge as results from our internal People Survey show. Absence at 2.1% is below our benchmark of 2.5%, but sickness statistics show particularly younger generations have trouble in maintaining health and balance. Work-life balance and, more broadly speaking, vitality is a key topic in our strategy.

Utilisation decreased from 57.1% to 54.9% reflecting our efforts to help manage and reduce workload. Our recruitment targets for the upcoming years will be higher than usual ensuring we continue to have sufficient professionals to do the work as well as prepare ourselves for growth.

Workload for audit professionals decreased during the past three years. After the period of Mandatory Firm Rotation and the efforts to implement audit quality initiatives, in this financial year, we saw 6.5% of overtime in Audit, compared to 7.5% in FY 2016/17. Over the past years, we have implemented nearly all of the sector improvement measures included in the report 'In the public interest' as well as implementing other improvement points following the results of our internal and external inspections.

After the initial pilot phase we implemented KPMG Vitality in full, an awareness programme designed to assist professionals in taking care of their body, diet, sleep and time management enabling peak performance.

Partner involvement

We monitor partner involvement throughout the year. The actual involvement of partners and directors on OOB engagements is 9% (FY 2016/17: 7%) of all engagement hours which is close to of our internal target of 10%. For non-OOB engagements the involvement is 6% (FY 2016/17: 6%) which is almost in accordance with our internal target of >6%. IT and other specialist hours amount to 20% of total hours (FY 2016/17: 21%) and 5% (FY 2016/17: 6%) for OOB engagements and non-OOB engagements respectively.

In addition to increased recruitment we have also 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).

Numbers of hours on audit engagements	FY2017/18		FY2016/17	
Legal audits				
(Equity) partner, director	125,552	7%	126,033	7%
(Senior) managers	319,171	17%	322,244	17%
Other	1,395,042	76%	1,409,414	76%
Total	**1,839,765**	**100%**	**1,857,691**	**100%**
Non-legal audits				
(Equity) partner, director	12,988	6%	11,686	6%
(Senior) managers	41,757	21%	39,857	19%
Other	147,117	73%	159,650	75%
Total	**201,862**	**100%**	**211,193**	**100%**
PIE/OOB audit clients				
(Equity) partner, director	31,381	9%	29,076	7%
(Senior) managers	76,406	22%	78,701	20%
Other	240,349	69%	287,046	73%
Total	**348,137**	**100%**	**394,823**	**100%**
Non-PIE/OOB audit clients				
(Equity) partner, director	94,126	6%	96,957	6%
(Senior) managers	355,318	22%	243,543	16%
Other	1,153,920	72%	1,183,614	78%
Total	**1,603,364**	**100%**	**1,524,114**	**100%**

Table 5. Team involvement in hours and percentage of hours

Numbers of hours (specialists)	FY2017/18		FY2016/17	
Legal audits	148,327	8%	152,638	8%
Non-legal audits	25,737	13%	30,241	17%
PIE/OOB audit clients	68,498	20%	65,744	19%
Non-PIE/OOB audit clients	79,404	5%	86,894	6%

Table 6. Team involvement in hours and percentage of hours (specialists)

Building balance

The goal of the New Parent Programme is to combine parenthood with an ambitious career at KPMG. Participants are strengthening their personal efficiency by developing insight in the skills that help to create a healthy balance between career and taking care of your children and family.

Within Audit we piloted the Harvard concept of Predictable Time Off (PTO), an initiative to break away from 'always on' mental programming that professionals might have. PTO means that professionals have designated time slots during a week to spend on areas of life other than work. In daily stand-up meetings team members share their non-work-related activities and collectively agree on who can attend to these activities at which point in time. Leadership support proved key in making the pilot a success. We are now increasing the initiative to other locations.

An inclusive culture of collaboration for service quality

Diversity is vital

At present we have many different nationalities working for KPMG in the Netherlands. To us an inclusive culture embraces diversity of skillsets, profiles, cultural background and personality, where people have a strong sense of belonging, trusting each other's competencies. Diversity and inclusiveness is vital to achieve our purpose. It starts with Diversity Awareness within leadership teams to overcome unconscious bias and create Inclusive Leaders.

We have taken bold steps in the year under review to increase performance on our diversity targets. We raised females in senior positions from 14.3% to 17.3% overall (both including promotions as of 1 October). Board of Management diversity amounts to 20% at year-end and 33.3% for the Supervisory Board. Overall we do not yet meet the requirement of 30% as set by the Dutch Charter Talent to the Top.

During the year we came together during the month of Ramadan to share a KPMG Iftar dinner, and moved several other initiatives into the limelight. Within our network of women we keep the discussion going on how to become more inclusive. We reinitiated our learning opportunities at organisations such as Workplace Pride, and raised the Rainbow Flag during Amsterdam Pride Week to show that we support the LGBTQ community inside and outside our company walls. Another example is our International Day, where during lunchtime our colleagues presented more about their home countries by means of food, traditions, etc..

To further underpin inclusivity we recruited and hired IT specialists with Autism spectrum disorder within IT Advisory and Cyber security domains. Meet & Greets with potential hires with a working disability were organised as well as launching a Coaching Programme to support lasting acceptance of employees with a disability.

Engagement and proud of KPMG

When we come together we create extraordinary solutions for clients and stakeholders at large. Employee engagement is measured through the Employee Engagement Index (EEI) is high, mainly as a result of clear communication on purpose, vision and values as well as reinforcing leading by example by partners and directors.

Encouraging employee mobility

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

The way forward

To accelerate our ambition we need to have a trust & growth culture of:

- fast innovation;
- high performance;
- inclusive collaboration.

Our main focus for next year therefore is building the workforce of the future. We want to get the right person, at the right place, in the right time, at the right cost, and with the right skills level. We believe this adds the most value to clients, to KPMG and to society. This may mean that we have to change our ways and explore what a start-up mentality could bring or truly multidisciplinary teams where 'traditional' audit and advisory professionals work together with data analysts and scientists or software architects.

Creating the workforce of the future also means recognising the power of inclusion and diversity. We value broad experienced inclusion while in the shorter term specifically focusing on increasing (gender) diversity.

Similarly, we will be hiring for growth and capability whilst retaining top performers and building a more tech-oriented workforce.

Our clients see a difference in us

Introduction

Economic growth

Unprecedented change across the globe brings both disruption and opportunity. KPMG continues to evolve to help our clients survive and thrive in these uncertain times. The KPMG 2018 Global CEO Outlook found that CEOs are optimistic about the future and see technology-driven change as a significant opportunity to disrupt their sector.

That optimism is tempered by caution and realism, with a clear recognition that, in order to grow their businesses, companies need to respond to an ever-expanding spectrum of complex challenges and 'growing pains'. While the CEOs that were surveyed still predict that their businesses will grow in the coming year, forecasts are lower than last year and a majority say they need to hit growth targets before they start hiring new people.

Technology continues to command considerable attention - as an enabler, a disruptor and, with the threat of cyber-attacks, a very significant risk. Data privacy is also understandably high on the agenda of our clients. We are seeing a large number of mergers and acquisitions in the Netherlands, especially in the sectors Private Equity, Transport, Telecom, Media & Technology and Industrial Markets.

Trust, technology and people

Trust is a defining factor in an organisation's success or failure – underpinning reputation, customer satisfaction, loyalty and shareholder value. With the widespread adoption of data analysis in general and more specifically of artificial intelligence throughout business, machines and algorithms have become a significant part of the trust equation.

That poses serious questions for all organisations. In the technological rush to gain a competitive advantage through artificial intelligence, companies might be prepared to take on higher levels of risk even though the data and algorithms they depend on are becoming more and more complex. To be truly transformative we must have confidence in how data functions. That's why a comprehensive assurance model for artificial intelligence is becoming so relevant.

We believe that technology should always benefit human beings and our society. Because the human factor is vital if we want to achieve tangible results. This is people-driven progress and we are integrating this into our way of serving clients.

"Esther van Zeggeren, director Brand, Reputation & Marketing management

Looking back at the past year, which achievements are you most proud of?
KPMG wants to improve its connection with stakeholders such as clients, employees, public, etcetera. I am proud of the programme we have built focusing on the promise KPMG wants to make to the market. This KPMG promise 'people-driven progress' was the basis for a corporate messaging for internal and external communities. We want all our stakeholders to know that all developments in for example the field of technology are only valuable if the human side is being recognised and taken into account.

Which changes will you have realised in three years' time?
My ambition is that external organisations and society are seeing what KPMG employees are delivering on a daily base. That their perception is based on the added value KPMG employees are realising. That we are serious in taking the human side of all our work is in scope.

Whether it is related to audit or advisory work, all KPMG experts have focus on contributing to the missions of those entities, focus on their progress.

My ambition is to realise a most realistic view of KPMG and contribute to a solid reputation. To make it possible for all relevant stakeholders to get our stories about why we are there, who we are, what we can do. Stories about digital transformation, cyber security, business assurance and audit. Stories about our people, new and experienced. Stories about our vision and daily work. Stories which are inspiring people and make them think and act."

What does people-driven progress mean for you in your daily work?
For me people-driven progress means a promise to all stakeholders about why we are here, what we do and how we do our work. I believe that by keeping that in mind, we are able to connect more to all stakeholders. My work, in the field of further reinforcing a sustainable brand and improving the awareness of our organisation, should lead to more satisfied customers, more engaged employees and, last but not least, that society in general and stakeholders in particular recognise the true intentions and efforts of KPMG in building public trust. ”

"We want all our stakeholders to know that all developments in for example the field of technology are only valuable if the human side is being recognised and taken into account."

Helping our clients

KPMG 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. An essential building block is a structured approach towards clients. This supports our people in building strong relationships and developing deep client and sector insights. It puts the client at the centre of everything we do and enables us to stay relevant to them. This approach also demonstrates our long-term investment in clients, no matter whether we provide audit and advisory services. We call this our 'client for life' principle. To ensure our relevance as well as client satisfaction, we continuously gather feedback in a combination of face-to-face interviews and online surveys. Over the past year, client satisfaction with both our audit and advisory services has continued to increase, as has our Net Promoter Score, an important indicator of satisfaction and brand loyalty.

Sectors

Both in Audit and in Advisory, we have deep sector knowledge that makes the difference in our delivery on (and winning of) client work. This is further facilitated by the strong global sector expertise of the KPMG firm. Our sector focus allows KPMG to provide an informed perspective on these issues our clients face. It also enables us to draw from local and global data resources to benchmark client organisations to address their challenges, increase efficiency and support their growth.

We have strong presence in sectors such as Banking, Insurance, Asset Management, Private Equity, Consumer Markets, Energy & Natural Resources, Transportation & Logistics, Government and Health. We have concrete plans to further invest in a selected number of other sectors.

Advisory

In our ambition to grow the businesses of our clients as well as our own, we have achieved a top-line growth rate of 7%. We see many disruptive changes in Advisory services and our clients and therefore ongoing evaluation of the performance of our solutions and products has become better practice. New propositions and services are consciously validated with our clients before developing them.

Carlijn Buis, Partner Partnerships & Alliances and member of Leadership team Advisory

Looking back at the past year, which achievements are you most proud of?
As a new hire, I have only been working with KPMG for the last six months. Although it has been less than a year, there is plenty to be proud of. First of all, the people within KPMG with their deep knowledge and expertise makes me proud to be part of this organisation.

As of 1 March 2018, I have been tasked to set up a new organisation called Partnership & Alliances. Within KPMG Netherlands, we have a long history of working with alliance partners. It is the objective of our team to better organise, structure and optimise the relationships with our existing alliances, and to develop and onboard new alliances. As part of Outlook, we were also tasked to find new ways to help KPMG transform in the marketplace with the support of our alliances. We developed a plan to accomplish this, and it is truly great to see how our plan has been embraced throughout the organisation and the progress we have made in such a short period of time.

Which changes will you have realised in three years' time?
We will be much more interlocked with our alliances in helping our clients transform. Together with a selected set of alliance partners we have already made significant progress in the last six months. We strive for a common understanding on how we can best help our clients together and approach the market place as one team. As a result, we will be even more involved with the end-to end transformation at our clients as we not only perform advisory work but actually help to implement our proposed changes with the help of our alliance partners.

"We strive for a common understanding on how we can best help our clients together and approach the market place as one team."

These last six months have given me the confidence that the 'alliance road' is the right path for KPMG, backed by the support of the international KPMG alliances network.

It is very promising to see the doors that our alliance partners can open for us and how much our clients embrace KPMG to be involved in their transformations beyond the initial consultancy. In the next three years, our unit will become a cornerstone and one of the larger growth engines of our organisation.

What does people-driven progress mean for you in your daily work?
At KPMG, it are our people that drive progress and innovation at our clients. We accomplish this by ensuring close collaboration with our clients and alliance partners to put technology to work. "

Audit

Audit is vital to trust in financial information. It is the combination of expertise, objectivity and independence that auditors bring through their work, which gives society and the business community confidence in the numbers. To provide value beyond those numbers, KPMG was at the forefront of introducing Integrated Reporting and expanded audit reports to give even broader insights into areas such as risk management structures and internal controls.

Our clients are looking for more value from the audit. One enabler of this is our new smart audit platform, KPMG Clara. The platform brings all of our powerful data & analytic capabilities into one interface to bring greater and more relevant insights. It allows us to interact with our clients online, on a real-time basis.

The value we bring as auditor goes beyond the insights and efficiencies from technology. We bring value for example in supporting clients ain their communications with stakeholders and helping resolve complex accounting issues in a timely and practical manner.

Case study Johan Cruijff ArenA

The Johan Cruijff ArenA, home of the famous Ajax Football Club, needed a special team to bring their unique vision to life. The goal? Create the world's first 'smart' stadium of the future – featuring a digital ecosystem to deliver the ultimate in fan experience, safety, sustainability and overall efficiency. KPMG's team of innovation experts produced a winning proposal for this ambitious initiative and, with spectacular results to date, the KPMG team and the Johan Cruijff ArenA are set to meet the 2020 deadline.

A new digital platform lets fans and concert audiences connect to the 54,000-seat stadium via smartphone for directions from home right to their seats, including updates along the way regarding traffic jams and parking availability. The data-driven ecosystem also lets the Johan Cruijff ArenA team record and analyse players' movement and performance, not to mention monitoring the entire stadium – from the field's grass health, to security systems to beer consumption during events.

The way forward

Cementing our client-centric approach, we are making strategic investments across all of our services to ensure we are equipped to help clients with their greatest challenges. As part of creating a unique and consistent client experience, we are tailoring our propositions to specific client and sector circumstances. And we are enhancing our account management approach to deepen our understanding of our clients and their issues to inform and bolster our client delivery. Overall, our ambition to deliver outstanding service to clients, fuels our client strategy and will continue to do so in financial year 2019.

Looking ahead, digitisation, new technologies and the expectations of our stakeholders are having a major impact on the business models of our clients and our own business model. Audits will become even more focused on the application of data analysis and IT. In addition, we are seeing a steady increase in the demand for assurance related to IT, data, algorithms and cyber security, as well as assurance over non-financial information (such as sustainability assurance).

The developments in audit are accelerating, driven by digitisation, innovations and the increasing importance of non-financial information. One of KPMG's top priorities is to continue serving our clients with a leading portfolio of audit and assurance services. To make sure we respond to these developments as effectively as possible, we have combined our existing assurance unit with our audit practice – together called 'Assurance' – as of 1 October of this year.

Relentless client centricity

The KPMG Story is what we want to be known for in our markets. We are intentional and deliberate about the delivery of our promise at all touch points on the client's journey with us. We strive for a distinctive client experience, every time, everywhere.

This can only be achieved if it is hardwired in our processes, systems and behaviours. The KPMG Way is a global framework for business development that helps our people to create a common, consistent and client-centric approach to every client across every country. By using the KPMG Way's methodologies, tools and resources our people can better engage with our clients in understanding their issues and help them achieve their business objectives.

The feedback that we receive through our Client Satisfaction Programme is reviewed firm wide as well as by individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions suggested in the client feedback are immediately followed up by the engagement partner to ensure that concerns about quality or service are dealt with on a timely basis. Our Client Satisfaction Programme consists of three types of reviews: online reviews at engagement level, personal interviews at C-level with our top national and regional clients, and personal interviews after proposals with a minimum fee of EUR 250,000. Selection of interviews is made by KPMG senior management. Guideline is that partners initiate online reviews at every client engagement that they perform. Our leadership teams monitor the progress and outcome of all online and personal reviews.

In FY 2017/18 the key outcome was that 95% (FY 2016/17: 92%) of our clients were satisfied with the overall quality of our work performed. The actions we have implemented as a result of last year's client satisfaction research have been successful. We have been able to substantially improve our scores on all aspects of satisfaction and our clients are increasingly recognising us in our brand attributes. We can therefore surmise that there is a high likelihood that we are being considered or recommended for follow-up programmes and activities. The voice of the client helps us focusing on our efforts daily.

Our net promoter score (NPS) was 50.3 in FY 2017/18 for the firm as a whole (FY 2016/17: 43.4), with scores of 35.7 for Audit (FY 2016/17: 27.5) and 59.7 for Advisory (FY 2016/17: 54.6).

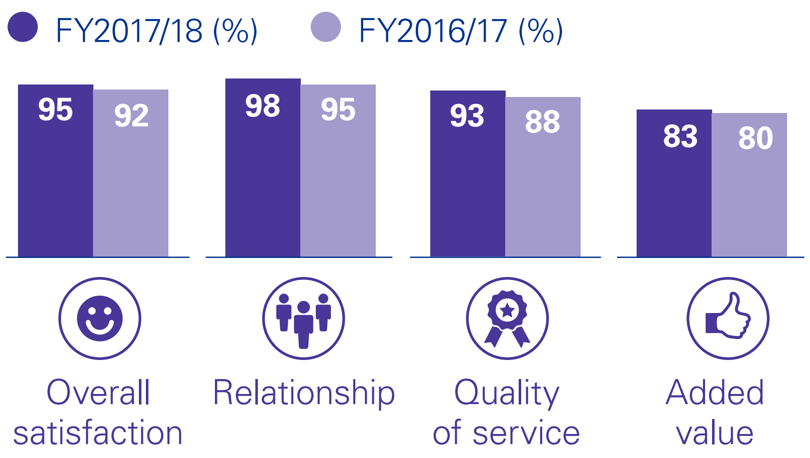


Figure 9. Client satisfaction scores

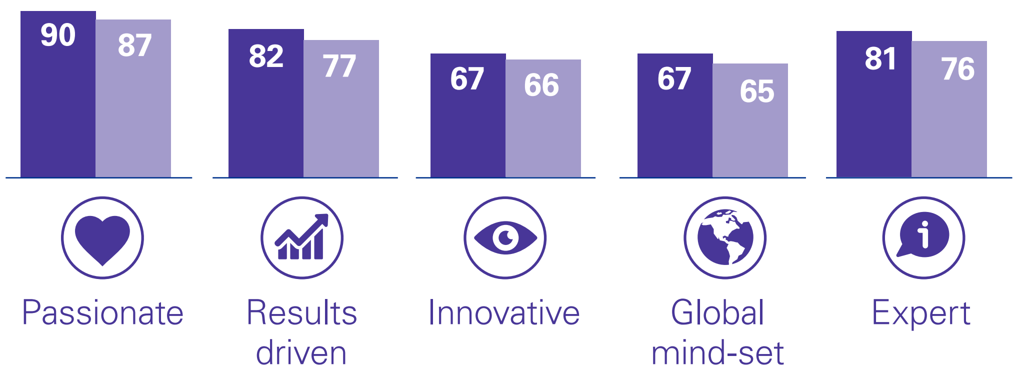


Figure 10. Brand attributes scores

Audit versus Advisory fees

The table on the next page provides the breakdown of the revenue of the firm for FY 2017/18 segmented by service type. All amounts are based on our taxonomy of services and are per legal client entity. Statutory legal audits are those where there is a legal obligation to have the financial statements audited by an independent auditor. These come in two forms: audits for PIE/OOB clients and for non-PIE/OOB clients. We used the Dutch OOB definition as per NBA practice guideline 1138 to arrive at the segregation of revenue as per the tables on the next page. Other audit reports and assurance (-related) reports include other financial statement audits, attestation reports, sustainability assurance, ISAE 3402 certification, IT audits etc. Advisory engagements consist of all engagements that have no elements of certification or audit. Other income mainly relates to recharges for housing and IT to KPMG International and KPMG Meijburg.

Our clients expect us to deliver Advisory services to assist them in resolving their issues and challenges. However we observe strict compliance with independence standards: we do not offer all services to all clients. In accordance with IFAC thresholds, not one audit client accounted for more than 15% of the total fees received by the firm in FY 2017/18.

FY2017/18 EUR million	Statutory legal audits		Other statutory audits		Other auditor reports and assurance (related) reports		Total Assurance services		Advisory services		Other services		Total	
Statutory legal audits – OOB clients	37.7	60%	4.3	7%	20.6	33%	**62.5**	**100%**	-	0%	-	0%	**62,5**	**100%**
Statutory legal audits – other clients	96.5	78%	14.0	11%	5.9	5%	**116.3**	**94%**	7.8	6%	-	0%	**124,1**	**100%**
Statutory audits – other clients	-	0%	53.4	81%	4.5	7%	**57.9**	**87%**	8.3	13%	-	0%	**66,3**	**100%**
Other auditor reports and assurance (related) reports – other clients	-	0%	-	0%	10.2	20%	**10.2**	**20%**	40.7	80%	-	0%	**50,9**	**100%**
Other clients	-	0%	-	0%	-	0%	**-**	**0%**	163.2	90%	19.1	10%	**182,3**	**100%**
Total	**134.1**	**28%**	**71.6**	**15%**	**41.2**	**8%**	**247**	**51%**	**220.1**	**45%**	**19.1**	**4%**	**486.1**	**100%**

Table 7. Segmentation of revenue per type of service in EUR million (FY2017/18).

FY2016/17 EUR million	Statutory legal audits		Other statutory audits		Other auditor reports and assurance (related) reports		Total Assurance services		Advisory services		Other services		Total	
Statutory legal audits – OOB clients	45.0	76%	4.0	7%	10.1	17%	**59.1**	**100%**	-	0%	-	0%	**59.1**	**100%**
Statutory legal audits – other clients	89.2	76%	13.5	11%	5.7	5%	**108.3**	**92%**	9.4	8%	-	0%	**117.7**	**100%**
Statutory audits – other clients	-	0%	52.0	78%	5.3	8%	**57.4**	**86%**	9.6	14%	-	0%	**66.9**	**100%**
Other auditor reports and assurance (related) reports – other clients	-	0%	-	0%	9.0	19%	**9.0**	**19%**	38.7	81%	-	0%	**47.7**	**100%**
Other clients	-	0%	-	0%	-	0%	**-**	**0%**	148.2	89%	17.8	11%	**166.0**	**100%**
Total	**134.2**	**29%**	**69.5**	**15%**	**30.1**	**7%**	**233.8**	**51%**	**205.9**	**45%**	**17.8**	**4%**	**457.5**	**100%**

Table 8. Segmentation of revenue per type of service in EUR million (FY2016/17).

Technology accelerates success

Technology has an increasing impact on society, business and our customers. In a challenging and fast changing world we want to play a meaningful role by serving our clients. Therefore, we respond to the ever increasing need for and pace of digitisation. In line with our vision 'people-driven progress' our people advise our customers with the help of technology. The majority of our current consultants and new joiners have a background in technology.

Our own business model is increasingly being imbued with technology. A few years ago KPMG NL started with so-called 'digital consulting services'. This is where we combine the traditional KPMG services with software, artificial intelligence, Blockchain and Robotics. They are proving their potential and are increasingly integrated in our organisations and in our lives. This requires not only new ways of working but also smarter, better and innovative solutions. It is our customers and society's future. This year we have taken considerable steps again. Below, we will highlight a few examples.

Audit developments

In the risk assessment phase of the audit we increasingly apply process mining to see to what extent business and reporting processes are in place and how they operate in the clients' systems. This enhances our understanding and helps us design a risk based strategy for the audit.

In addition, we deploy cognitive technology tools to support analysing large and complex data in an automated way. By using the Optical Character Reading tool, we utilise advanced techniques and algorithms to capture relevant data from e.g. contractual arrangements and matches it intelligently with transactions recorded in accounting and reporting systems.

We explored how we can use algorithm assurance to help clients detect possible cyber threats and fraud risks. We continuously make more use of transactional analytics to analyse populations of transactional data, driving a more robust audit process, delivering efficiency and letting us share more detailed insights on the client's business.

More and more, we use predictive technology to assess certain key judgments made by the client's management. Our KPMG asset impairment tool, for instance, allows us to challenge clients' assumptions in regards to cash flows forecasts in real-time by comparing those to historical data, benchmarks and creating sensitivity scenarios developed on the basis of external economic, real-life transaction and peer group data.

In addition, we are expanding the use of artificial intelligence in audits. For example, AI performs intelligent risk assessments of third parties and automates financial statement disclosure checklists. The audit team no longer has to perform manual reconciliations of documents. Instead, they can focus on analysing outliers in case of mismatches and challenging judgements.

Our investment in AdviceRobo

AdviceRobo offers services and solutions in machine learning, advanced analytics and behavioural economics in the field of risk management via their CreditRobo platform. There are some 4.5 billion people worldwide who have insufficient or no access to loans, because they have little or no credit history. The software of AdviceRobo enables lenders to target these underserved customers and streamline their credit processes, everything, of course, in compliance with privacy and GDPR legislation.

Why this alliance with KPMG?

The AdviceRobo solutions allow AdviceRobo to benefit from KPMG's network and expertise in the fields of risk management, regulation, data and analytics. The alliance allows KPMG to expand and develop propositions in the entire credit cycle to future proof our client's existing risk management.

Karina Kuperus,
Head of Digital & Innovation

Looking back at the past year, which achievements are you most proud of?
There is a lot to be proud of at KPMG. I am particularly proud that KPMG's strategy totally embraces digital. In a few years' time we want to offer 100% digitally enabled solutions to our clients. Not because it is 'cool to be digital', but because we see that our clients ask us to provide our advice for a reasonable price and in combination with technology, data & analytics and smart tools. We have put this at the heart of our strategy.

I am also very proud of the fact that we acquired some inspiring new technology solutions and partnerships. A great example is our investment in the partnership with AdviceRobo. And I am very proud of many of my colleagues who built astonishing digital solutions like the Digital Risk Platform which automates entire risk management processes for large corporate clients. This solution we actually built together, in co-creation, with one of our top accounts.

Which changes will you have realised in three years' time?
KPMG has always been famous for audit, risk management, financial management and deal advisory. Currently, we are also very successful in technology, strategy, HR and change management. In three years' time I would like KPMG to have a full service portfolio in all of these fields of expertise of both 'man based' consulting and 'technology based' consulting. We will provide clients a perfect combination of tools, techniques and human consulting. We will be able to do this because we have executed our data strategy properly.

" In a world of technology, people are more important than ever. I call this 'High Tech, High Touch'."

We already started with data lakes analysing publicly available market data to help our clients better understand their markets. With this knowledge we are also able to develop new solutions for our clients.

In order to reach all these goals we are currently broadening our team, adding new capabilities like UX/UI, software architects, software developers and design and creative capabilities. Of course, we do this in close co-operation with other KPMG member firms.

What does people-driven progress mean for you in your daily work?
In a world of technology, people are more important than ever. I call this 'High Tech, High Touch'. Even when our clients have a subscription for one of our digital solutions like Indica (with an algorithm to detect fraud risks), they still want the expertise and human touch of the consultant. Technology and people working jointly together for our clients, that is my ultimate goal. "

Sofy expand their global footprint by onboarding multinational clients in various countries

Sofy is a suite of modular analytics solutions that help clients run their business better. This year we achieved over 100% growth for this business unit, that started as an innovation experiment. We expanded our suite in the context of sector benchmarking, business process monitoring, governance risk & compliance, Tax (VAT, transfer pricing, customs), procurement and data quality management.

Our solutions are built on a purpose built low-code, cloud based platform that enables KPMG professionals to digitise their consulting service offerings and embed their knowledge into scalable software services. Clients value the intelligence embedded in our products, the integrated analytics features, the built-in workflow functionalities and the rapid implementation methodology. Using our products they have the opportunity to address business challenges faster and more effectively.

This year we have delivered a training programme to 10 member firms to accelerate the global deployment. With over 250 trained consultants we continued to expand our global footprint by onboarding multinational clients in various countries.

Digital Risk Platform (DRP)

Following a landmark deal with an important client to digitise their information risk management processes in 2017, we have used 2018 to further expand our digital risk transformation capabilities with a goal to capture market share among enterprise clients globally. Investments have included doubling our internal team size, upgrading the architecture of our DRP Azure SaaS solution, and leveraging our alliance with Microsoft to jointly build, operate and sell the DRP solution into the enterprise market.

Innovation Factory

A modern world agri-food vision

In June 2018 we led an Australian delegation of agri-food leaders on a 7-day Tech and Innovation Tour in the Netherlands. The tour demonstrated how the Netherlands has developed the disruptive technologies and ecosystems that have driven it to be the second largest global agri-food exporter in the world. From LED laboratories and light recipes for plants to milking robots, greenhouses heated by excess data centre server heat and reusing carbon dioxide captured from the natural gas heaters, there was a considerable amount to show from the innovative nation the Netherlands.

Key during the tour was that collaboration can unlock innovation across a range of sectors: there is an apparent default mind-set of partnering to do things faster and with greater scale and impact. We will continue our journey to add technology and innovation as export product of the Netherlands together with our KPMG colleagues and customers - hence collaborative innovation will become legendary.

Three core propositions to support blockchain solutions

Regarding blockchain KPMG has developed three core propositions to support clients in developing new blockchain inspired solutions. With our blockchain innovation lab proposition we educated clients (such as an authority on taxes and social contributions) to increase their understanding of the potential of blockchain technology and the impact of the emergence of cryptocurrencies. We provided blockchain ideation workshops for clients like a large Dutch bank and a group of Belgian insurance companies and developed future vision for a large Dutch ministry. With our blockchain consortium support proposition we assisted two Dutch insurance companies to validate their blockchain use case, business plan and target operating model. We also developed the KPMG Blockchain Technology Risk Assessment solution to identify blockchain specific security risks. After validation of the model and execution at a number of the largest blockchain projects globally, the model was launched as a KPMG Global solution in September 2018.

Robotics

In Robotics and Process Excellence we were able to enlarge our overall service portfolio with a larger number of listed companies and public sector organisations during the past year. The team has been supporting clients in projects ranging from demos/proofs of concept and vendor selections, up to enterprise-wide implementation of robotic solutions and Go-live support. Looking forward, we envision further integration of our solutions with advanced artificial intelligence and automated case management capabilities.

Next to that, we aim to increase our robotics as a service capabilities in selected industries.

KPMG intelligent backbone

KPMG developed an intelligent backbone, a digital development environment to fast track new business initiatives in a secure, compliant and efficient way, in which data is stored centrally.

We are working more and more intensively on all these developments, in addition to hiring specialists, we are also co-creating solutions with start-ups and other partners such as Microsoft and curated tech hubs.

The way forward

In the year ahead we will focus on further strengthening digital and data capabilities that will prepare our firm to be successful as a platform enterprise. Some examples are:

- **Grow KPMG's digital development engine**
  In the upcoming year we will further grow our digital development engine, by combining capabilities of different development teams within KPMG and aligning best practices.

- **Digitise our portfolio**
  We will develop and deploy digital solutions for clients to make their offering more scalable, accessible and easy to implement. We combine 100 years of experience and the newest technology to create digital solutions that help clients to solve problems, work more efficiently and gain real-time insights to make better decisions. Furthermore, we will develop technology that facilitates the work of our auditors and consultants.

- **Develop our Data Strategy**
  We will further invest in our capability to create insights based on data, by setting up a dedicated team and working together with KPMG international.

- **Grow Partnerships & Alliances**
  We will focus on our global alliances to help clients with digital transformation.

Operational excellence enables us

Introduction

The financial figures for the firm are presented in the financial statements section of this report from page 138 onwards. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS) and with Section 2:362(9) of the Dutch Civil Code.

Results for the year

Revenue increased in FY 2017/18 by EUR 28.6 million by 6.2% to EUR 486 million. In our Audit segment revenue increased by 5.9%, following the finalisation of first year audits resulting from the mandatory firm rotation. Our Advisory segment revenue increased by7.0% in FY 2017/18. Other income declined due to full realisation of the Grant from KPMG International in the course of FY 2016/17.

Employee expenses increased by 4.7%, as a result of an increase of professional staff FTEs of 4.4%, due to an increase in FTEs within both Audit and Advisory. FTEs within Business Support also increased mainly as a result of expansion of our recruitment team. The average number of equity partners increased by 2 FTEs to 139 FTEs.

Profit before income tax increased by 8% to EUR 62.3 million in FY 2017/18 which was primarily driven by an improvement of our realised rates in our audit engagements, growth in Advisory was partly offset by additional investments in quality and innovation. Going forward, we will continue with significant investments in the improvement of our quality and innovation.

Only a limited part of income tax expense is accounted for in the profit or loss account of KPMG because of an agreement with the tax authorities for corporate income tax purposes, under which the total net income before tax is subject to corporate income tax at the level of Coöperatie KPMG U.A., KPMG N.V. and the practice companies of the individual equity partners. The income tax expense takes into account temporary differences for which a deferred tax asset or liability has been accounted for as well as previous year's adjustments.

Contractual fees payable to Coöperatie KPMG U.A. amounted to EUR 60.9 million, an increase of EUR 4.2 million (7.5%) compared to the previous year.

Investment programme

In FY 2017/18, we launched an investment programme to accelerate the execution of our 2025 strategy (called 'Outlook'). These investment relate to four underlying strategic initiatives digitise our firm, leader in selected propositions, frontrunner in client experience and people and governance. The majority of these investments will be expensed (operational expenses) and partly these investments will be capitalised (intangible assets).

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

Capital expenditure in intangible assets in FY 2017/18 amounted EUR 5.8 million and mainly related to development of assets and purchased software. Capital expenditure in property, plant and equipment remained limited (EUR 2.8 million) and were mainly related to replacement investments.

During FY 2017/18 we further accelerated 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 EUR 160,000 per partner to the Group's equity (30 September 2017: up to EUR 140,000 per partner), and additional financing by partners as a result of the mandatory and voluntary loan programmes. Total funding by the Cooperation as at 30 September 2018 amounted to EUR 91.4 million (30 September 2017: EUR 73.8 million), an increase as a result of an increased financing per partner.

In addition, KPMG N.V. has a credit facility with the bank in FY 2015/16 for an amount of EUR 50 million; an additional EUR 20 million can be used as a guarantee facility. As per June 2017 the credit facility was contractually lowered to EUR 40 million and during financial year 2017/2018 the guarantee facility was contractually lowered to EUR 10 million. Although the amount of funding decreased slightly compared to previous year, the solvency ratio (taking into account equity and partner financing) improved to 42.2% (30 September 2017: 38.1%). Long-term Partner funding at 30 September 2018 amounted to EUR 45.4 million (30 September 2017: EUR 48.5 million). The long-term funding as per 30 September 2017 also includes deferred payments as required by the NBA. In December 2017 these deferred payments were transferred to an independent foundation.

The Board of Management considers the capital position of the Group as healthy; it can withstand volatility and incidents within operations. Our capital position will be strengthened further in the coming few years by increased partner funding as to support our long-term strategy.

Business Support

Throughout FY 2017/18, we have worked hard on the further professionalisation of our Business Support departments with a focus on further improving the quality, service and cost effectiveness. Priority has been given to the further integration of business services; bringing shared services together, implementing one Business Support 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 FY 2018/19 we will continue to work on the implementation of one integrated Business Support.

Footprint

KPMG's Global Climate Response aims to further reduce environmental impact across the global network by a emission reduction target of 10% net per full-time equivalent (FTE) between 2016-2020. The next phase also includes a global renewable energy target of 60% of purchased electricity to come from renewable sources by 2020.

Looking at our emissions, also at a global level, our biggest challenges remain in the areas of air and car travel. As a client service business, travel is frequently required to meet client needs. Contrary to the previous seven years, in 2017 we observed an increase in our total CO2-emissions of 6.5%, caused by a rise in air- and car travel. Actions taken in this area include a new mobility policy, with a strong focus on promoting electric driving and exploring possibilities like car-sharing over possession; promotion of rail over air travel (where possible, in particular for short trips to London and Paris), adjusting class of travel policies for flights, enhanced video conferencing usage, expanding e-learning options to drive economically efficient and safer. Furthermore, an average of 96% of the electricity purchased by KPMG in 2017 was procured from renewable energy sources, meeting the target of 60% as set in the GCR.

We successfully continue to reduce our energy (32.8%) and water usage (31.2%) in the offices we rent in 2017 compared to 2016. Our waste management shows that we decreased our waste (31.3%) for a consecutive year, and that 94% of our waste is recycled. In addition, the amount of paper we procured in 2017 was 17.6% less than in 2016.

Category	CY 2017	CY 2016
Gas	0.1838	0.1837
Electricity	0.3489	0.4680
Petrol	2.2900	2.2917
Diesel	2.6502	2.6546
Other	1.5058	1.5023
Rail	0.0464	0.0280
Air flights (average)	0.2731	0.2718

Table 9. Conversion factors KPMG International

Environmental data	CY 2017	CY 2016
Natural gas consumption (in 1,000 kWh)	0,970	1,315
Electricity consumption (in 1,000 kWh)	5,667	6,304
Renewable electricity consumption	96%	96%
Paper usage (in kg)	46,141	55,974
Total waste (in kg)	231,992	322,982
Recycled waste (in kg)	209,403	296,925
Water usage (in 1,000 litres)	8,052	11,698
Air travel (in 1,000 km)	21,050	18,459*
Car travel (in 1,000 litres)	3,428	3,292
Rail travel (in 1,000 km)	2,323	2,040

Our energy consumption (gas and electricity) and water usage is partly based on data that is extrapolated.
* Restated for comparison purposes. Air travel correction: due to the transition from travel agency, our initial reported air travel data over 2016 required updating.

Table 10A. Environmental data

CO_2 emissions (in tonnes)	CY 2017	CY 2016
Electricity, heating & cooling	2,155	3,192
Car travel	8,479	8,209
Air travel (average)	5,229	3,538
Rail travel	108	57
Gross CO_2 emission	15,970	14,996**
Emission reductions (renewable energy and VER)	-15,970	-14,996**

** Restated for comparison purposes. Due to the correction in air travel, we consequently adjusted our total CO_2 emissions over 2016 and compensated additional VERs to remain carbon neutral.

Table 10B. Environmental data

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

Early in 2015, KPMG adopted a communication tool that displays our environmental ambitions and results in the form of understandable and transparent data on narrowcasting screens and intranet at our offices. In addition, energy saving tips are shared, recycling and videoconferencing are promoted, as is the use of bicycles to visit local clients. This project, initiated by KPMG

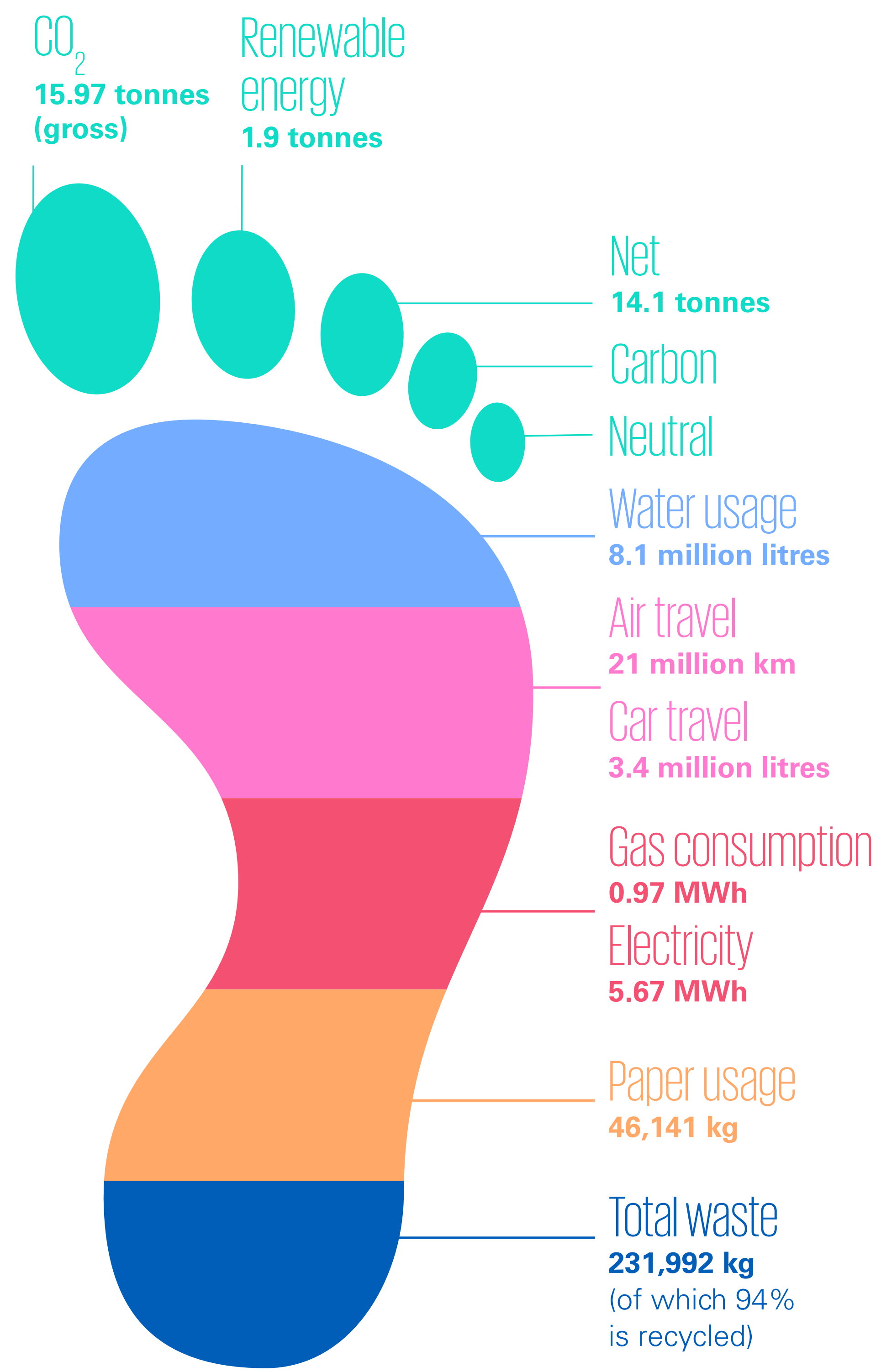


Figure 11. Carbon footprint

Facilities and in line with the ISO 14001:2015 guidelines, creates awareness amongst our employees about our environmental goals and what they can do to contribute to realising our ambitions in this area.

External codes of conduct

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

Governance and compliance

Report of the Supervisory Board

Year overview: a year of transition

The first year in KPMG's second century was the third year in the life of the independent Supervisory Board. In our role we supported the Board of Management in a year - that turned out to be - a year of transition. Significant strategic changes have been initiated, a more confident outward looking attitude returned to the company.

KPMG's future resides in a world in which it becomes harder to find solid anchor points that gives confidence to private individuals, as well as the business community and the society at large. KPMG is in a perfect position to provide that confidence.

KPMG stands for trust and the focus on quality remains uncompromisingly high. KPMG remains fully committed to continuously strengthen its policies and actions aimed at improving quality. This has a material impact on the professional, the process of audit and advisory work in each engagement, as well as the sector as a whole.

Looking back, the Supervisory Board is pleased with the progress KPMG has made with its transitional strategic focus on digitally enabled solutions and sustainable growth, the quality programme, its people and inclusion & diversity.

In 2018 the Supervisory Board was extensively involved in its role to discuss, supervise, challenge and debate the formation of a future oriented and long-term value creating strategy for KPMG. We held an extensive brainstorm and several meetings with the Board of Management on the long-term strategy, focus areas, organisational structure and brand positioning. This happened in an open atmosphere of mutual respect and trust.

People are the key asset and high priority for KPMG. KPMG operates in a business sector in which engaging and binding young talents to the company is vital. We are therefore pleased to see a continued rise in people engagement and a strong rise in the number of applications. KPMG welcomed more than 400 young, eager talents. The combination of the diverse composition of these young talents with more experienced talents is powerful and essential for the success of KPMG's future.

KPMG achieved its gender diversity target through active attention to both internal and external talent. However, this does not alter the fact that KPMG will continue to pursue its policy with unwavering rigor and resolution. The Supervisory Board attaches great importance to a culture of inclusion and diversity in a broad sense.

In this financial year there were some developments within the Board of Management. Rob Fijneman took over as interim chairman of the Board of Management after the departure of Albert Röell, and fulfilled an outstandingly role, together with the team, in keeping KPMG on track. The Supervisory Board led the search and selection of a new chair and we are very pleased that Stephanie Hottenhuis took the chair of KPMG's Board of Management as from 15 August 2018. She has extensive experience in professional services with a strong focus on customer orientation and public interest. Her vision and her engagement will undoubtedly strengthen KPMG's position as a company. Stephanie Hottenhuis' appointment is also a clear sign of KPMG's ability to attract female talent and commitment to foster a diverse culture.

Rob Fijneman was reappointed for a second term of four years as he is considered a great attribution to the Board of Management due to his competent and involved leadership. He has contributed significantly to the direction of KPMG.

Bert Ferwerda was also reappointed for a second term of four years. Besides his excellent skills and competences as a leader, he has restructured the HR function and strategy over the last years successfully. His focus on HR remains an important enabler of the success of KPMG.

All members of the Board of Management were tested on suitability *('geschiktheid')* by the AFM in accordance with the per 1 July 2018 revised Audit Firms (Supervision) Act and Decree and the new Policy Regulation suitability Audit Firms (Supervision) Act (**'Beleidsregel geschiktheid Wta'**). We are pleased that all members were found suitable.

The Supervisory Board has been operating in its current composition for more than a year. This financial year, the Supervisory Board members completed its evaluation with the support of an external expert assessor, experienced in the accountancy sector.

Looking forward, the Supervisory Board believes that the company's future evolves around the impact of new technologies on its clients and on its organisation. KPMG is progressing its transition to enable that future. The transition entails a more technological focus on KPMG's business and its people, as well as in-depth knowledge of rapidly changing business and requires a good relationship with its key players.

Digital transformation is driven by more than technology. KPMG believes that progress is only progress when it adds value for human and society. The focus on such sustainable progress is captured in KPMG's newly launched brand campaign People-driven progress.

The Supervisory Board would like to express its gratitude for the efforts of all KPMG employees, the partners and the members of the Board of Management.

The following sections will give you a detailed and comprehensive overview of the tasks and responsibilities of the Supervisory Board and its committees, the composition of the committees, the education programme and its meetings and activities in the financial year 2017/2018.

Supervisory Board, also Public Interest Committee

Tasks and responsibilities

The Supervisory Board is chaired by Bernard Wientjes. The Supervisory Board, as of May 2015, fully consists of external members and operates independently, which is also reflected by its mandate in accordance with the applicable legal regime for a large Dutch corporate *('structuurvennootschap')*. The members of the Supervisory Board are listed in the paragraph 'Composition – Overview of members of the Supervisory Board and its committees' below.

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 (per 1 July 2018 revised) Audit Firms (Supervision) Act and Decree, and with the Code for Audit Firms and the NBA measures following from the report *'In het publiek belang. Maatregelen ter verbetering van de kwaliteit en onafhankelijkheid van de accountantscontrole'* (hereafter referred to as Public Interest Report). The Supervisory Board endorses the general principles of the (revised) Dutch Corporate Governance Code and is committed to adhering to said principles insofar reasonably suitable for a (non-listed) organisation 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 public interest are key.

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

In the execution of its tasks, the Supervisory Board primarily focusses 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 public interest will lead to creating and protecting (long-term) value for all of KPMG's stakeholders.

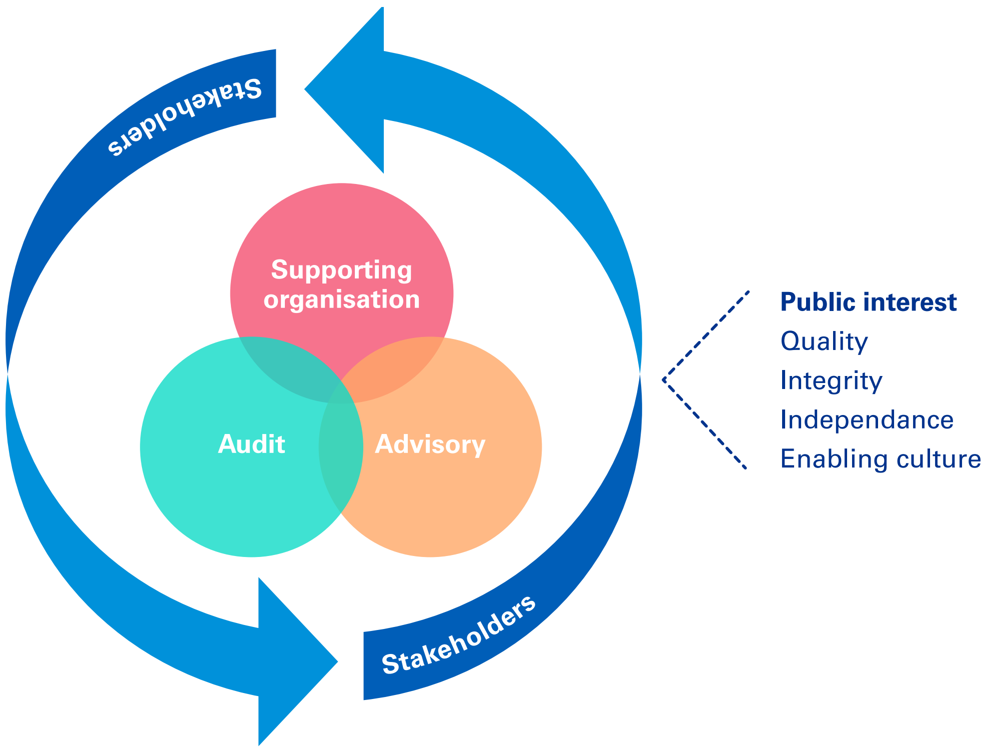


Figure 12: Supervisory Board tasks and responsibilities

Public Interest Committee

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

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

The Public Interest Committee is a committee of the Supervisory Board. As it is one of the primary responsibilities of the Supervisory Board to safeguard the public interest, the role and purpose of the Public Interest Committee have been fully incorporated in the tasks and responsibilities of the Supervisory Board in accordance with the Public Interest Report. All members of the Supervisory Board are also members of the Public Interest Committee and the Supervisory Board also acts and operates as the Public Interest Committee.

As the Public Interest Committee, the Supervisory Board 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 recent years, nearly all principles from the Code for Audit Firms have been legislated, following which the Code will be abrogated. Upon abrogation of the Code the Public Interest Committee will be annulled. The tasks and responsibilities the Supervisory Board already has in relation to the Public Interest Committee remain unchanged.

Key instruments

Key instrument for the Supervisory Board to safeguard the public interest and the interests of other KPMG's stakeholders, is to monitor the organisation's (long-term) strategy, quality, culture and independence.

The Supervisory Board 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 have been on the agenda of the Supervisory Board and its committees during the financial year, are listed below in the paragraphs '2017/2018 meetings'.

As to the aforementioned key instruments, the Supervisory Board focusses 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 on business growth, new business models and services and market image.

- **Quality.** The Supervisory Board exerts its responsibilities to enhance the quality of KPMG. It challenges and advises the Board of Management on quality steering policies and measures and on shaping an enabling culture. Also in performing its responsibilities towards partner appointment and remuneration, the Supervisory Board finds quality a crucial factor. Another important focus of the Supervisory Board is to ensure the correct implementation of the NBA measures as indicated in the Public Interest Report. It also focuses on the acceleration of the change process regarding quality improvement. In that perspective it also focuses on the continues improvement of the quality of the accountancy sector as a whole, now and in the future. It strives to contribute to relevant political and regulatory discussions on initiatives to optimise the sector, such as the discussions on (alternative) organisational structure.

- **Culture.** Sustainable growth and long-term value creation flourish in a culture in which people are encouraged to participate in a professional and constructive manner and show strong engagement and leadership. A variety of activities are undertaken to further enhance the culture of KPMG. The Supervisory Board has regular discussions with the Board of Management on these activities and continuously encourages the Board of Management on improving the effectiveness of these activities. The Supervisory Board also considers showing exemplary behaviour and challenging the Board of

Management, partners and staff members on behaviour as an important element for enhancing the culture of the organisation. Furthermore, the Supervisory Board propagates and stimulates 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 on gender, but also (e.g.) on background, expertise and experience) on the organisation's culture and is adamant in continuing to initiate and support diversity improving measures. As a confirmation of its continuing strive for diversity and inclusion across the organisation, KPMG signed the Declaration of Amsterdam of Workplace Pride on 11 October 2018, International Coming Out Day. This year significant progress was made in the top of the organisation with the appointment of five female equity partners. The Supervisory Board will stay focused on diversity within the organisation and will continue to advocate such.

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

Stakeholders

(Members of) the Supervisory Board regularly meets 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 chairman of the Supervisory Board in particular, keep in regular contact with KPMG International, as the Dutch firm plays an important role in the international KPMG network.

The Supervisory Board closely follows developments of the audit profession by taking part in the Big Four regular consultations with the NBA, AFM and the Monitoring Committee Accountancy. The input from these sessions is used to advise the Board of Management on quality policies and programmes emphasising the public interest, long-term value creation and culture.

2017/2018 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 annual plan, as well as by *ad hoc* topics. The annual plan is based on the Supervisory Board's tasks and responsibilities, regulatory and social developments and specific focus areas relevant for the organisation in this 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 measures following inspection reports from the regulators, PCAOB and AFM, the possible impact of and response to the reports of the Monitoring Committee Accountancy and the *Stuurgroep Publiek Belang*. Different 'Deep Dives' were regularly on the agenda to focus on important subjects as Advisory, Audit and diversity. During the financial year in each meeting specific attention was given to advising, reviewing and mobilisation of the long-term strategy (Outlook). It concentrated on the execution of the strategy with a critical and constructive attitude towards defined actions and progress made. The Supervisory Board in particular focused on a strong digital vision and game changers creating a competitive advantage and social value. In February 2018, the Supervisory Board and the Board of Management held an extensive brainstorm session on the long-term strategy, governance, organisational structures and brand positioning.

The Supervisory Board and the Public Interest Committee held six meetings and various conference calls during the financial year. The Supervisory Board and the Public Interest Committee started the meetings with a closed session.

Almost all Supervisory Board members attended the six Supervisory Board and Public Interest Committee meetings this financial year. René Steenvoorden missed two of the meetings and therefore has an attendance rate of 67%. The other five 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 such 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 and the members of the board of the Cooperative 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
- Monitoring and discuss strategy and vision for the future, with focus on digital and long-term value creation
- Resignation of the (former) Chairman of Board of Management
- Selection and appointment of (new) Chairman of Board of Management
- Reappointment of members of the Board of Management
- Approval selection and termination process of partners
- Monitoring compliance with partner selection, appointment, performance evaluation and remuneration policies
- Monitoring compliance with senior management selection and appointment policy and employee remuneration policy
- Remuneration Board of Management
- Evaluation Board of Management and its members
- (Self)evaluation Supervisory Board, its members and its committees
- Induction programme Harry van Dorenmalen and René Steenvoorden
- Deep dives Culture, Diversity and Inclusion
- Updates on new brand campaign (People-driven progress)
- Review External Audit Plan
- Public Trust
  - Monitoring and contribute to public discussion
  - Monitoring and advise on audit quality policies, programmes and results
  - Relationship stakeholders, including AFM
- Approval Internal Audit & Compliance Office year plan and monitoring Internal Audit function
- Monitoring results Quality Performance Reviews
- Monitoring (legacy) claims and incident handling and related policies
- Review and signing of the Annual Report 2016/2017 of KPMG N.V.
- Review and approval Budget FY18

Audit & Risk Committee

Tasks and responsibilities

The Audit & Risk Committee 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 'Composition - Overview of members of the Supervisory Board and its committees'.

The responsibilities of the Audit & Risk Committee are stipulated in the *'Reglement van de Audit & Risk Commissie van de Raad van Commissarissen'*, as published on the KPMG website. Its primary responsibilities concern monitoring compliance with internal risk management systems, relevant laws and regulations and monitoring financing of operations and financial reporting. The committee monitors the tax policies 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.

In accordance with the revised Dutch Corporate Governance Code, that prescribes a stronger positioning of the internal audit function, a separate internal audit function was implemented as of 1 October 2017. The implementation resulted in a new, independent and objective Internal Audit & Compliance Office, that 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/chair to the Board of Management as well as the Audit & Risk Committee.

2017-2018 meetings

The Audit & Risk Committee held seven meetings in the financial year. Chairman Gosse Boon attended all meetings and has an attendance rate of 100%. Jolande Sap missed one of the meetings and therefore has an attendance rate of 86%. René Steenvoorden missed two of the meetings and therefore has an attendance rate of 71%.

The COO and the CFO attended all meetings on behalf of the Board of Management. The Head of Internal Audit & Compliance Officer also attended the meetings, and the Country Quality & Risk Management Partner attended some of the meetings. The external auditor attended six meetings partly.

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

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

- Update and review budget FY 2017/2018
- Update Business Plan FY 2019
- Review Integrated Report and Annual Accounts FY 2016/2017, including Auditor's Report
- Review Internal Audit and Compliance Office year plan
- Review Audit IT agenda
- Update IT infrastructure
- Review annual accounts 2016/2017
- Review business performance and utilisation percentages
- Update ERM
- Review Internal Audit reports
- Update M&A process
- Update External Auditor
- Review tax policies
- Review insurance programme
- Follow up management letter
- GDPR implementation and follow-up
- Review progress Board of Management priorities and KPIs

Remuneration & Appointment Committee

Tasks and responsibilities

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

The responsibilities of the Remuneration & Appointment Committee of the Supervisory Board are stipulated 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 thereof and submitting proposals on remuneration and (re)appointments. The committee also reviews the performance of the members of the Board of Management and the Supervisory Board. As 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.

2017-2018 meetings

The Remuneration & Appointment Committee held six meetings in the financial year. All members attended the six meetings, and sets the attendance rate at 100%. The CHRO attended all meetings on behalf of the Board of Management and the (interim) CEO attended all meetings but one.

In addition to the six formal meetings, the committee held several sessions on the performance evaluation of the Board of Management members, and the resignation and appointment of the CEO/chair to the Board of Management.

One of the recurring items on the agenda of the Remuneration & Appointment Committee is the 'People Agenda' as part of which the committee monitors and challenges (the development and status of) succession planning, reviews the equity partner selection and termination process and focusses on the development and success of diversity initiatives and programmes. This year we have invested in redesigning the People Agenda in order to achieve a strategic company-wide approach and a more clear focus. Improvement of HR processes in order to enlarge efficiency and impact thereof in the business were regularly discussed.

Mostly quality, but also behaviour, culture and leadership were key elements in monitoring application of the remuneration policy of the equity partners in this financial year.

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

- Review performance Board of Management members
- Resignation and (re)appointment of members of Board of Management
- Remuneration Board of Management members
- Assessment and composition Supervisory Board and its Committees
- Review and prepare process suitability testing of Board of Management and of Supervisory Board
- Advise Supervisory Board on followed process selection
  and appointment and exit equity partners
- Review performance rating 2018 and plotting 2019 equity partners
- Review evaluation and remuneration (process) equity partners
- Review causes equity partners exits
- Evaluation Remuneration policy salary partners and employees 2015
- Diversity & Inclusion
- Review selection, appointments, remuneration and exits employees
- Monitor succession planning and talent retention
- Redesign People Agenda

Reference is also made to this year's remuneration report for a further elaboration of abovementioned remuneration topics.

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 will be tested on suitability *('geschiktheid')* by the AFM in accordance with the per 1 July 2018 revised Audit Firms (Supervision) Act and Decree and the new Policy Regulation suitability Audit Firms (Supervision) Act *('Beleidsregel geschikt-heid Wta')*.

The current composition of the Supervisory Board fully complies 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. The Supervisory Board consists of the following members:

	Date of appointment	End date first term	Audit & Risk Committee	Remuneration and Appointment Committee	Public Interest Committee
Bernard Wientjes, Chairman	01-05-2015	30-04-2019	-	-	Chairman
Laetitia Griffith, Vice Chairman	01-05-2015	30-04-2019	-	Chairman	Vice Chairman
Jolande Sap	19-08-2015	18-08-2019	Member	-	Member
Gosse Boon	01-08-2016	31-07-2020	Chairman	-	Member
Harry van Dorenmalen	01-09-2017	31-08-2021	-	Member	Member
René Steenvoorden	01-09-2017	31-08-2021	Member	-	Member

Table 11. Composition of the Supervisory Board

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 (culture) diversity in (amongst others) age, gender, education, work experience, complementarity and inclusivity in order to best perform its supervisory and advisory duties and overseeing the general course of affairs of KPMG N.V. and its businesses on behalf of all its stakeholders. The policy is followed for all (re)appointments in 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 is 33.33% female and 66.67% male. These ratios are compliant with the 30% ratio from 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 on any material changes 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 Chairman of any potential conflict of interest.

Education programme

Supervisory Board members are welcomed with an extensive induction and education programme in order to prepare themselves for their tasks and responsibilities as a Supervisory Board (and committee) member in the context of the structure of KPMG, related governance and stakeholders. This way they become (further) acquainted with the organisation, leadership, senior management and will develop a deeper understanding of the businesses of KPMG and the international network. The programme is supported by an extensive information pack.

The Supervisory Board members were educated on KPMG's corporate social responsibility and innovation programmes. Also a meeting with a prominent audit client was attended to provide Supervisory Board members insight into a particular audit.

In addition, the Supervisory Board members are offered an ongoing training curriculum, consisting of the following components: RAAD trainings, Internal KPMG courses and e-learnings (e.g. on independence, data privacy and information protection).

Specific courses are also offered relating to the suitability testing of supervisors of the audit firm. The Supervisory Board members were trained on client acceptance, quality framework and findings, accountancy laws and regulations, ISA, COS and eAudit, as well as on Ethics and Independence. Members of the Supervisory Board have also attended varying relevant meetings, such as the congress of the Institute of Internal Auditors *(Instituut van Internal Auditors)* and dialogue meetings from the European Platform for Leadership.

Evaluation Supervisory Board and Board of Management

The Supervisory Boards 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.

In accordance with good governance every three years the evaluation shall be performed by an external advisor, which took place this financial year. The evaluation was carried out by an external expert assessor with experience in the accounting sector. The process consisted of three steps:

– interviews by the external advisor with all members of the Supervisory Board and all members of the Board of Management and the Corporate Secretary of the Supervisory Board;

– joint session of the Supervisory Board members, facilitated by the external advisor;

– findings and recommendations by the external advisor. The Supervisory Board is pleased with the open culture and trust within the Board.

For the next financial year the Supervisory Board will focus on enhancing effectiveness of communication.

With regard to the performance of the Board of Management and its members, the Supervisory Board has concluded its yearly evaluation in October 2018. In collaboration with the CEO/chair to the Board of Management, who will not yet be evaluated since she has been in function for only 1.5 months this financial year, the Supervisory Board has 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 2017/2018 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 of KPMG for their continuous efforts and dedication to the organisation, and looks forward to a successful year to come.

Amstelveen, 10 December 2018

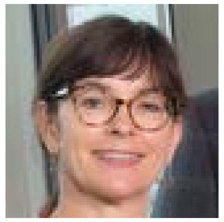
Bernard Wientjes
Laetitia Griffith
Jolande Sap
Gosse Boon
Harry van Dorenmalen
René Steenvoorden

Supervisory Board

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

Bernard Wientjes (1943)
Bernard is chairman 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 and a member of the board at Villeroy & Boch. Bernard is, amongst other things, emeritus professor at Utrecht University and chairman of the *Rijksmuseumfonds* and member of the advisory counsil of the social security banking institution *Sociale Verzekeringsbank*. Bernard was appointed as of 1 May 2015 for a period of four years.

Laetitia Griffith (1965)
Laetitia is vice chairman of the Supervisory Board. She is Counsellor in the Council of State effective 2012. Prior to that she was, inter alia, a member of the Dutch parliament, a member of the executive board of the municipality of Amsterdam and worked at the Department of Justice. Laetitia is chairman of the association *Vereniging Nederlandse Veiligheidsbranche* and of the supervisory board of Holding Nationale Goede Doelen Loterij, board member of VNO-NCW and member of the supervisory board of TenneT. Laetitia was appointed as of 1 May 2015 for a period of four years.



Jolande Sap (1963)
Besides her membership of the Supervisory Board of KPMG N.V., Jolande is chairman of the Dutch Federation for Health,of the supervisory board of Fairfood and of the supervisory board of mental health care institution Arkin. She is also member of the supervisory board of KPN and non-executive director of Renewi plc. Jolande was a member of the Dutch parliament (2008-2012) and political leader of GroenLinks (2010-2012). She is still closely involved with social topics linked to sustainability, health care, food supply and the clothing industry. Jolande was appointed as of 19 August 2015 for a period of four years.

Gosse Boon (1959)
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 IDH (Sustainable Trade Initiative) and Lay Judge (expert member) of the Enterprise Chamber, which is part of the Amsterdam Court of Appeal. Gosse was, amongst others, CFO and member of the Executive Board of Nutreco (until mid 2015) and Van Gansewinkel Group (until 2009). Gosse was appointed as of 1 August 2016 for a period of four years.

Harry van Dorenmalen (1955)
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 at the Almere Economic Board. Harry had a career of 35 years at IBM during which period he fulfilled 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 stimulate diversity in the corporate world. Harry was appointed as of 1 September 2017 for a period of four years.

René Steenvoorden (1967)
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 a founding member of the national Cyber Security Council. René is currently a member of the ECP *Adviesraad* and guest lecturer at Nyenrode Business School. René was appointed as of 1 September 2017 for a period of four years.

Remuneration Report

The Remuneration & Appointment Committee is a committee of the Supervisory Board and advises the Supervisory Board on remuneration, selection and appointment policies and monitoring compliance thereof and submits proposals on remuneration and (re)appointments for the Supervisory Board and Board of Management members. Remuneration policies are focused on quality, measurable performance, and long-term impact on the four strategic vision areas: People, Clients, Public Trust/Quality and Operational Excellence. Underperformance in the area of quality cannot be compensated by high performance in one of the other vision areas.

All employees undergo annual goal-setting and performance reviews where each is evaluated on achieving predetermined agreed-upon goals, demonstrating KPMG global behaviours for their level, and adhering to KPMG's values and attributes. These evaluations are conducted by performance managers and partners who are in a position to assess the professionals' performance.

The performance grades influence next to potential the total amount of remuneration that professionals are paid. 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.

Public Trust/Quality	**Clients**	**People**	**Operational Excellence**
Compliance Letter availability	Client Satisfaction ratings	360-feedback from professionals	Financial performance
CPE Compliance	Client feedback (qualitative)	Personal development	
Non-compliance with internal policies and procedures	Portfolio development	Leading by example	
Regulatory findings and ratings		Upward appraisals	
QPR ratings			
Quality Improvement Activities, including:	Acting as Professional Practice Partner, Acting in a Quality related role, Acting as EQCR , Acting as trainer at technical training updates, Acting as QP Reviewer		

Table 12. Performance metrics

Engagement leaders within our firm are issued standardised quality and risk metrics feeding into their annual counselling process (see table 12 on the previous page). 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.

Both Audit and Advisory partners are subject to a KPMG claw-back policy, under which the firm is able to recover any damages for demonstrably culpable conduct from individual partners' profit shares. A deferred profit-sharing scheme is applicable for Audit partners. KPMG retains 16.67% annually of 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, pensions, insurances and for entrepreneurial risk. Average profit per equity partner for FY 2017/18 was EUR 438,000 (FY 2016/17: EUR 431,000).

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

Grading is a 5-part scale: 1 for Outstanding Performance, 2 for Highly Effective Performance, 3 for Effective Performance, 4 for Inconsistent Performance, and 5 for Unsatisfactory Performance. Partners receiving 5 or 4 scores are closely monitored by Audit or Advisory leadership and where appropriate an individual improvement plan is implemented.

Rating	FY2017/18	FY2016/17
1	-	2
2	48	33
3	89	90
4	6	13
5	5	2

Table 13. Performance management scores for equity partners (head count)

Performance management and salary scales for non-equity partners is done by Audit and Advisory leadership. Variable pay is based on actual performance.

The table below lists the distribution of partners relative to their performance appraisal. The percentage for on-target remuneration is 56% for FY 2017/18 (FY 2016/17: 58%). Above target and below target performance is 43% and 1% for FY 2017/18 respectively (FY 2016/17: 31% and 13%).

Performance rating		FY2017/18	FY2016/17
Below target	75%-90%	-	1
	90%-95%	2	7
	95%-100%	-	9
On-target	100%	83	75
Above target	100%-105%	29	20
	105%-110%	23	22
	110%-125%	11	2
Total		**148**	**140**

Table 14. Allocation in numbers of equity partner remuneration (head count)

Board of Management remuneration

Members of the Board of Management receive a fixed salary. Equity partners residing 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 take part in KPMG's collective pension scheme.

Upon 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 to the Board of Management first and 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, upon advice from the Remuneration & Appointment Committee, is responsible to balance 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. Performance criteria will be revisited in FY 2018/19 and amended where and if necessary.

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

Supervisory Board remuneration

Supervisory Board members receive a fixed remuneration being EUR 60,000 for the chairman of the Supervisory Board and EUR 45,000 for other Supervisory Board members, including the vice-chairman. Remuneration is generally expected to cover all cost.

Human
- Employee and partner engagement
- Diversity targets

Intellectual
- Working for top brands
- Net Promotor Scores
- Client Satisfaction Scores
- Internal and external inspection results

Financial
- Net revenue per function
- Solidity of financial results

Social
- Ranking among professional service firms
- Social responsibility

Figure 13. Board Performance Indicators

Governance

Legal structure and ownership

KPMG N.V. is the holding company of companies operating in Audit and Advisory business segments. Coöperatie KPMG U.A. ('the Cooperative') holds the shares in KPMG N.V. Individual equity partners are members of the Cooperative through their professional companies. 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).

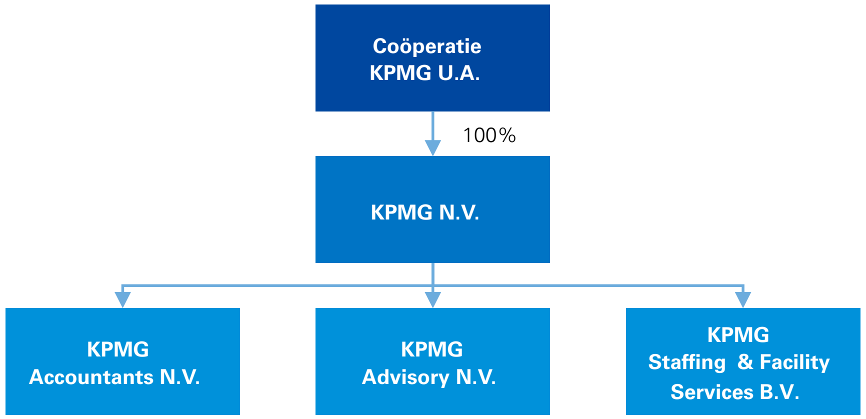


Figure 14. Simplified legal structure of KPMG N.V.

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 from our website as are relevant additional positions individual members may hold. Supervisory Board members are co-policymakers in the context of the Wta.

All members of the Supervisory Board also serve as members of the Public Interest Committee as referred to in the NBA Audit Firm Code. For a more detailed description of the Supervisory Board, its committees and their activities, please be referred to the report from the Supervisory Board and its committees.

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

Board of Management

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. Rob Fijneman and Bert Ferwerda were recently appointed for a second term of four years. With the appointment of Stephanie Hottenhuis as chair to the Board of Management as of 15 August 2018 the current Board consists of one female and four male members. We therefore do not yet meet the target of 30%, but did improve gender diversity in the Board. We keep striving for a more balanced composition bearing in mind knowledge and experience necessary for Board 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 policy makers *('beleids-bepalers')* in the context of the Wta.

Stephanie Hottenhuis (1965)
Stephanie Hottenhuis is chair to the Board of Management as of 15 August 2018. She has over 20 years' experience in leading professional services firms. Prior to 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, she led consecutively the 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 the Remunerations and Nominations Committee, and later as member of the Audit Committee. She holds Masters degrees in Business and in Arts from the Radboud University in Nijmegen.

Rob Fijneman (1964)
As of 1 December 2017 until 14 August 2018, Rob Fijneman was interim chairman of the Board of Management. During that interim period he also carried out his current position as Head of Advisory. Rob Fijneman joined KPMG in 1986 and became partner in 1997. From 1999 to 2009 he held various management positions within IT Advisory and Risk Consulting. His main area of focus is corporate clients, both as lead partner and IT sparring partner. He holds a post master's degree in Accountancy and a PhD in IT auditing. Since 2004 Rob Fijneman is a professor of IT auditing at Tilburg University and TIAS School for Business and Society.

Egbert Eeftink (1962)
Egbert Eeftink is Head of Assurance and chairman 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 Head of the Department of Professional Practice and is professor of Financial Reporting at VU University in Amsterdam. Egbert Eeftink is also a special counsel at the Enterprise Chamber of the Amsterdam Court of Appeal.

Bert Ferwerda (1960)
Bert Ferwerda is Chief Human Resources Officer effective 1 November 2014. Bert Ferwerda is a seasoned Human Resources professional with extensive experience gained in senior executive positions at ABN AMRO, IBM and Rabobank, where he served as Global Head of HR. Prior to his responsibilities in HR, he worked in several sales and sales management and business unit management positions at IBM. Bert Ferwerda holds a master's degree in Business Management.

Rob Kreukniet (1962)
Rob Kreukniet is Chief Operating Officer. He joined KPMG in 1988 and became partner in 1996. He worked as partner in the Brazil practice of KPMG from 1995 until 1999. Since 2000, Rob Kreukniet has been the external auditor for various publicly listed entities operating in a range of sectors, including the agriculture industry, consumer goods and engineering. He is a former member of the Audit Board in which he had the responsibility for the corporate clients portfolio.

We refer the next page for a complete overview of all management and leadership teams.

KPMG

Our leadership teams

From 1 October 2017 until 30 September 2018

Board of Management	
Chair as of 15 August 2018	Stephanie Hottenhuis
Ad-interim chairman 18 Nov '17 – 14 August '18	*Rob Fijneman*
Chairman 1 Oct – 17 Nov 2017	*Albert Röell*
Chief Operating Officer	Rob Kreukniet
Chief Human Resources Officer	Bert Ferwerda
Head of Audit	Egbert Eeftink
Head of Advisory	Rob Fijneman

Corporate	
Chief Financial Officer	Patrick de Graaf
Corporate Secretary Board of Management	Veroni Feenstra-Vonk
General Counsel & Corporate Secretary Supervisory Board	Jacqueline Müller
Country Quality & Risk Management Partner	Johan Faber
Head of Internal Audit & Compliance Office	Marc Thunnissen

Management Team Audit	
Head of Audit	Egbert Eeftink
COO & CFO	Lex Gardien
Financial Services & Audit innovation	Niels Paping
Audit region North & Human Resources	Kees Bakker
National Practice	Mariska van de Luur
Audit Quality	Aad Terlouw

Management Team Advisory	
Head of Advisory	Rob Fijneman
CFO	Patrick de Graaf
COO	Alline van Os
Head of Markets	Edwin Herrie
Head of Innovation	Karina Kuperus
Head of Solutions	Peter Paul Brouwers

Members Management Team Audit are co-policymakers

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

Organisational structure

In all, the Board of Management distinguishes two main business functions: Audit and Advisory, which both are supported by Business Support. Audit and Advisory are organised around markets or solutions. The main units of Audit were Corporate Clients, Financial Services and National Practice. The Advisory service portfolio was organised along six ‘suites’ and four ‘horizontals’ mirroring relevant client issues. The six suites are Strategy & Operations, Deals, Finance & Business Support, Risk & Regulatory, Technology and Assurance. The four horizontals are Smart Tech Solutions, Data & Analytics, Partnerships & alliances and People & Change.

The Office of the Board consists of the Chief Financial Officer, Corporate Secretary Board of Management, General Counsel & Corporate Secretary Supervisory Board and Country Quality & Risk Management Partner.

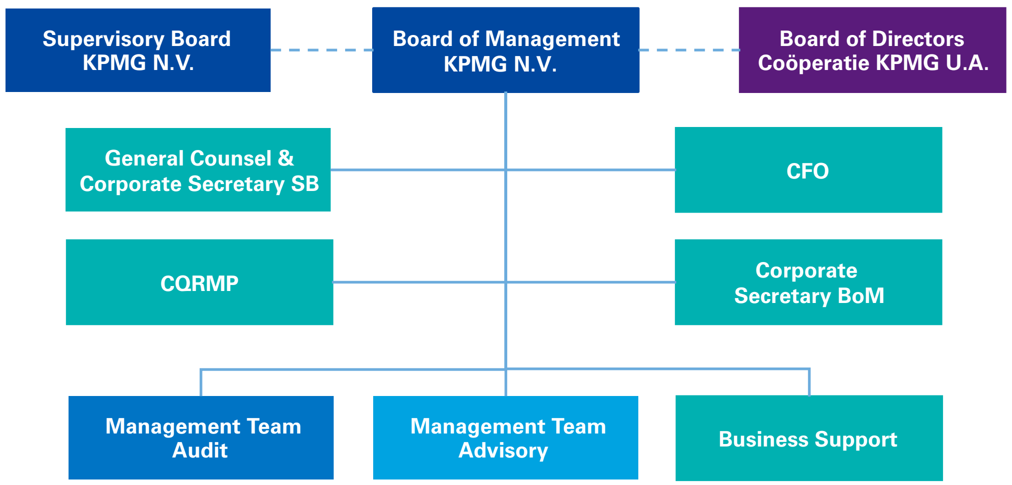


Figure 15. Operational structure of KPMG N.V.

Business Support provides services to both Audit and Advisory, as well as to other staff functions.

Per October 2018 operational management has been amended. The Board of Management has distinguished six enabling functions that support achieving the new strategic ambition.

Network

KPMG International is an entity which is legally separate from KPMG N.V.. KPMG International and the member firms are not a global partnership, joint venture or partnership with each other. No member firm has any authority to oblige or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to oblige or bind any member firm. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

Responsibilities and obligations of member firms
Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm 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.

Risk management

Executing our strategy and implementing actions to achieve our objectives also bear risks. Risks are a part of everyday life and in that respect we are no different. KPMG implemented an Enterprise Risk Management Framework to identify and mitigate strategic risks. Identification, evaluation, management and monitoring of the most significant risks are a Board responsibility. Mitigating actions are taken where possible in order to reduce these risks to acceptable levels. The approach to risk management, principal risks and uncertainties facing our firm are set out below. The quality of our internal controls is periodically assessed to ensure that our mitigating measures remain effective.

Classification of risk impact	Non-financial			Financial
	Quality	**Markets**	**People**	**EUR**
Catastrophic	Extensive negative media coverage & enduring disruption of client or industry confidence	Total loss of confidence, breakdown in relationships, leading to loss of majority of clients	Loss of reputation as a good employer, unable to retain or hire effectively	Going concern
Major	Extended negative national or industry wide coverage & some disruption to client confidence	Loss of confidence leading to loss of major clients	Dissatisfied employees, significant loss of key talent	7-12 mln
Moderate	Negative local coverage & short-term disruption to local client confidence	Loss of confidence leading to loss of some local clients	Dissatisfied employees, some loss of key talent	1-7 mln
Minor	Negative coverage barely noticeable	Isolated cases of dissatisfied clients	Small numbers of dissatisfied employees	< 1 mln

Table 15. Determining risk impact

Risk philosophy

Our brand value is based on our credibility, quality and commerce. Erosion of our brand may adversely affect our position in the market and the trust the general public places upon our services. We face a number of significant risks and inherent complexities in our business, together with a highly regulated and commercially competitive environment. Risk Management is designed and implemented to ensure the security of our business and the delivery and impact of our services. We engage in the delivery of professional services only if these services can be provided in

Classification of likelihood of occurrence	%
Probable	> 60%
Possible	30%-60%
Unlikely	10%-30%
Remote	< 10%

Table 16. Determining risk likelihood

such a way that it contributes to our central mission. We only engage in activities with which we are able to make an impact for our clients and for our professionals without compromising the quality and ethical standards we hold ourselves to. We train and develop our professionals to be leaders of tomorrow to ensure that they not only mitigate risks, but likewise act on potential opportunities for KPMG. We ensure that our activities are sustainable and serve and support society as a whole.

Risk assessment

The table on the previous page provide insight into how we approach the firm's risk assessment in terms of likelihood and impact, both of which are the same as last year.

Top strategic risks and related controls

Table 17 details the top strategic risks, providing context to the risk identified and the related internal controls to mitigate the risk.

Description	Potential impact	Measures
PUBLIC TRUST Failure to ensure that our behaviour including (audit) service delivery acknowledges public trust and public interest.	– Reputational damage in marketplace from press publicity resulting in loss of major clients or inability to attract new talent into our firm – Regulatory sanctions – License 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 deal with 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 marketplace from press publicity – Regulatory sanctions	– We nominated specific individuals responsible for interaction with regulatory authorities and a clear framework for understanding local regulatory matters – Majority of our Board are 'Qualified Individuals' with appropriate (audit) experience and background – Relevant leadership have visibility of local regulatory findings
AUDIT FAILURE Major or multiple audit failures (as a consequence of signing an incorrect audit opinion and/or poor quality auditing) resulting in litigation and/or regulatory action.	– The loss of a number of audit clients due to reputational damage – The inability to attract new talent – Regulatory fines and/or temporary or permanent loss of audit licence – Litigation and claims	Audit quality controls include: – Board monitoring called 'Steering on Quality' – Continuous Quality Improvement Programmes based on Root Cause Analysis – 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

Table 17. Strategic risks and responses

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 products and services 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 regulation impacting on our business model from either the European Commission, national legislation, international or national regulators or from clients themselves in anticipation of regulatory changes.	– Audit only firms undermining the multidisciplinary partnership concept – Caps for 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

Table 17. Strategic risks and responses

Description	Potential impact	Measures
IT PENETRATION, DATA SECURITY AND PRIVACY FAILURE, TECHNOLOGICAL DEPENDANCIES, AND BUSINESS CONTINUITY Failure to prevent and protect (client) confidential 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 Inability to quickly and effectively match key skills to growth areas due to organisational barriers; skills shortages; slowness in identifying/recruiting appropriate skills; or a lack of staff mobility and/or flexibility.	– Failure to quickly and fully exploit growth opportunities resulting in loss of revenue – Failure to match resource 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 mind set – Quality implications of having the wrong people deliver 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)
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 Values & Code of Conduct	– 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

Table 17. Strategic risks and responses

Description	Potential impact	Measures
FOCUSED EXECUTION Inability to execute our strategy against our business planning to ensure the future success of our firm	– Loss of reputation in marketplace as an 'employer of choice' – 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 & 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 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 and 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 marketplace as an 'employer of choice' – Less adherence to our Values & Code of Conduct – 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

Table 17. Strategic risks and responses

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 review.

Credit risk

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

The exposure to credit risks is monitored continuously, and the creditworthiness of all clients is checked for transactions exceeding a certain amount. KPMG N.V. does not require protection in respect of non-current financial assets. Credit risk exposure is mitigated by the large number and diversity of clients and therefore by diversifying risk.

Liquidity risk

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

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

Market risk

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

Further disclosures regarding the abovementioned risks is included in the financial statements section of this report.

Financial instruments

KPMG uses financial instruments in the normal course of its business, including share capital, receivables from and liabilities to (former) equity partners and in mitigating financial risks. Further information is included in the financial statements section of this report.

Effectiveness on mitigating risk actions

We monitor effectiveness of mitigating actions as part of on-going monitoring of internal controls through risk compliance audits and quality performance reviews. The Board evaluates its system of quality controls on a yearly basis.

Opportunities of improvement are reported through processes meant to proactively identify emerging risks and to improve quality and provide insights. We refer to our in control statement for further details.

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 on which the auditing profession is most under scrutiny by the general public. In this appendix 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 agenda, the cultural change programme as a key element from the 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.

In control statement

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

The Board of Management has considered:

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

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

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

Amstelveen, 10 December 2018

Stephanie Hottenhuis
Egbert Eeftink
Bert Ferwerda
Rob Fijneman
Rob Kreukniet

System of Quality Controls

Overall system of quality control

A robust and consistent system of quality control 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 services 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 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 system of quality control 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 Transparency Report requirements 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.

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.

The Quality Framework identifies seven drivers of audit quality:

1. tone from the top;
2. association with the right clients;
3. clear standards and robust audit tools;
4. recruitment, development and assignment of appropriately qualified personnel;
5. commitment to technical excellence and quality service delivery;
6. performance of effective and efficient audits; and
7. commitment to continuous improvement.

'Tone from the top' sits at the core of the Quality Framework's seven drivers of quality and helps 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.

Tone from 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.

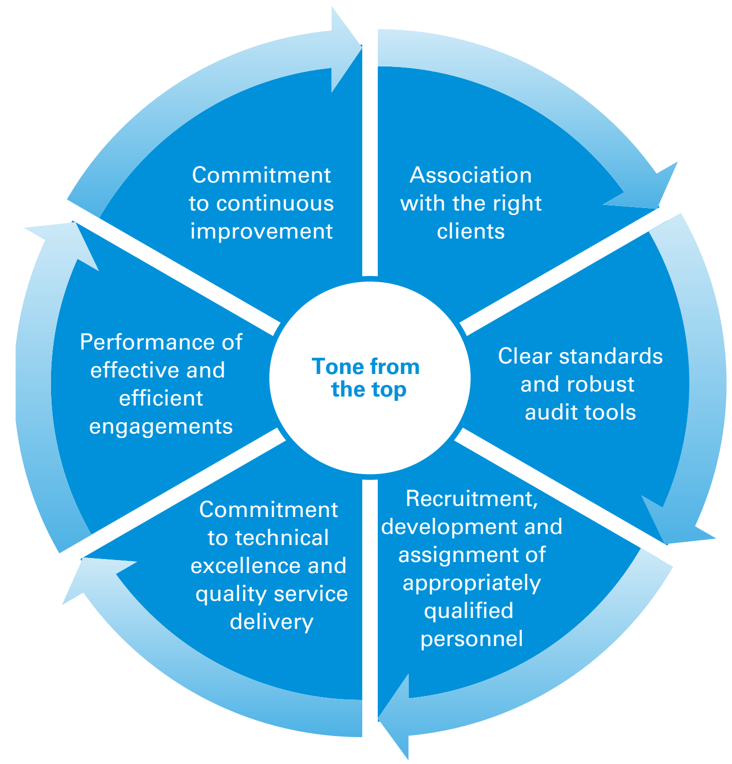


Figure 16. Our system of quality controls

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 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.

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 advisers.

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.

Code of Conduct

KPMG Code of Conduct incorporates our Values and defines the standards 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 leadership and leadership teams demonstrate 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 audit quality is his or her responsibility. However, KPMG leadership plays a critical role in setting the right tone and leading by example.

The Board is responsible for quality and for the system of quality control. The Head of Audit 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 control. 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 from 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 knowledge and skills required of partners and employees to fulfil their professional responsibilities;

- working with the 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 member firm senior leadership and consults with Area Quality and Risk Management Leaders. However, we stress that risk management and quality matters are not solely the responsibility of leadership or specialist groups but 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 analysis and makes recommendations to leadership on (policy) changes related to audit quality issues.

Association with the right clients

Rigorous client and engagement acceptance and continuance policies and processes help 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 an indication that there may be a change in their risk profile. Recurring or long running non-audit engagements are also subject to annual re-evaluation.

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 law and regulation, 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 made in consultation with other senior personnel and includes review by quality and risk management leadership 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.

	FY 2017/18	Target	FY 2016/17
Percentage of new audit clients/engagements not accepted	7%	1-5%	3%
Percentage of discontinued (legal) audit engagements during the audit process	0.1%	0.2-0.5%	0.1%
Number of incidents reported to regulators	1	<3	2

Table 18. CEAC acceptance rates

The main reason for not accepting clients is an unbalance in risks and rewards, especially as audit appointments were proposed after the client's financial year-end. The main reasons for the terminations can be found in bankruptcy of clients and clients that are not able and/or willing to provide KPMG with sufficient underlying quality information that is required to finalise the audit (in most cases earlier years).

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 development of new audit technologies and tools amount to 1.4% of revenue (FY 2016/17: 0.6%).

The Advisory Service Directory is developed and updated, in response to specific needs articulated by Advisory leadership. Importantly, development is both a field-driven and collaborative process. It brings together representatives of member firms with KPMG's Global Services Centre to produce globally available resources that address client needs. The toolkits library contains methods, tools and knowledge resources that have been developed to support Advisory professionals as they deliver services and build client relationships in today's challenging business environment. The Advisory Services Directory features the most current information regarding approved global offerings that are available, or are currently under development, to help address our client's business needs. Methodologies and tools are available for multiple service lines and engagement types.

Ethics and independence

KPMG has detailed independence policies and procedures, incorporating the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

KPMG provides all relevant personnel (including all partners and client service professionals) 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 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.

As part of our regular process, 175 professionals across the firm were subject to personal independence audits (FY 2016/17: 103).

Partner and firm rotation

Partner rotation
KPMG's rotation policies are consistent with the IESBA Code of Ethics and *de verordening inzake de onafhankelijkheid van accountants bij assurance opdrachten* (ViO). Partners are subject to 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 (5 years for listed clients and 7 years for non-listed clients), 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 develop transition plans to enable allocation of 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 publicly traded and certain other 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 and 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 IESBA Code of Ethics and ViO. Examples of these relationships include business alliances, use of third-party service providers to assist in the performance of client engagements, and procurement 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 an identified potential conflict 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 an 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 Quality and Risk Management Group (QRMG).

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 Quality'.

Recruitment
All candidates applying for professional positions are required to submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding programme, which includes training in areas such as ethics and independence, quality and risk management principles and our people management procedures.

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 for professionals are provided 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, experiences 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 setting 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. 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 stimulate 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. At this moment, about 70 new partners and partner candidates are investing in themselves by working on their AQCP.

KPMG monitors quality and compliance incidents and maintains quality metrics for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration. Quality is the main driver for assignment, evaluation, promotion and remuneration of our professionals. 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. Quality incidents may be (partly) compensated within the same performance area of quality (e.g. by audit quality support), but cannot be compensated by high performance in other areas (e.g. sales, people or operational performance). 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 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 skill sets, 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 in the AFM registers at their website.

The Head of Audit 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. In particular documentation relating to significant matters arising during the engagement and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day-liaison with the client and team.

We monitor senior staff involvement throughout the year. The actual involvement of senior staff ((senior) manager and partner) on OOB engagements is 9% for partners and 22% of (senior) managers (FY 2016/17: 7% and 22% respectively) of all engagement hours which for partners is lower than the target of 10% and for (senior)managers is higher than the target of 20%.

For non-OOB engagement the involvement is 6% for partners and 22% of (senior)managers (FY 2016/17: 6% and 13% respectively) of all engagement hours which for partners is close to the target of >6% and for (senior)managers is higher than the target of 13%.

KPMG monitors the relation between 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 the experienced staff. The deviation at the end of FY 2017/18 is only -0.6% (FY 2016/17: -10%) against a target of maximum -2.5%. This means the balance of experienced employees on audit teams is better than 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 base reduced from 7.5 % in FY 2016/17 to 6.5% in FY 2017/18.

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 identify 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.

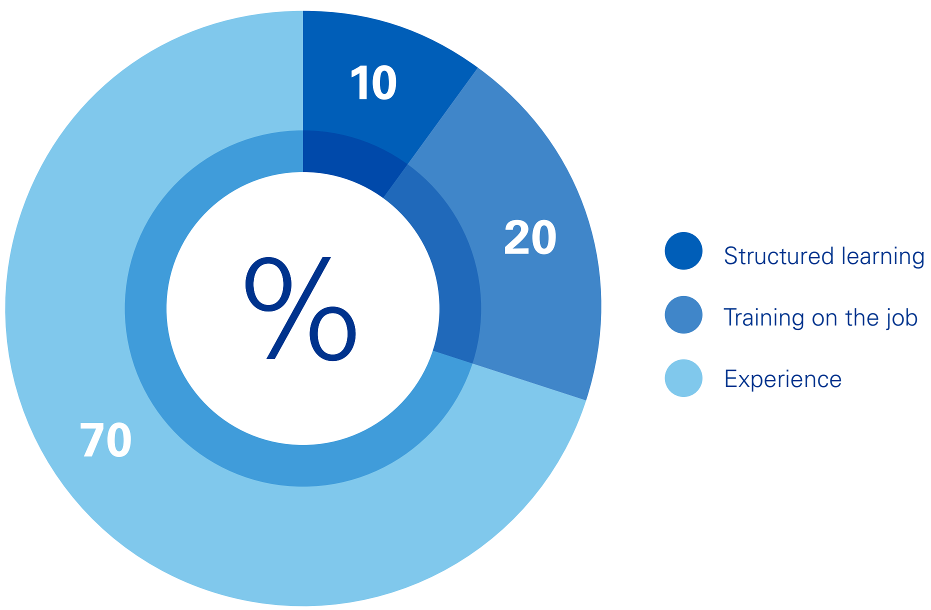


Figure 17. The 70:20:10 learning model

Professional practice support

Technical support is available including access to 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 consists of Departments of Professional Practice (DPP), Compliance Office (CO) and the Quality and Risk Management Group (QRMG). With 5% of the total audit FTEs, the technical resource support remains on target (5%).

The composition of the technical resources by function:
- Partner 16.2 FTE
- (Senior) Manager 24.7 FTE
- Other 33.7 FTE

Technical support is available for work on SEC foreign registrants through the International Standards Group (ISG) as well as the US Capital Markets Group, based in New York or Accounting and Reporting Group based in London. The Dutch partner in charge of the NL US desk is a fully accredited SEC Reviewing Partner, 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 of interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis. ISG also facilitates information sharing between the DPP network, and to ensure 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 DPP. Technical accounting and auditing support is available to member firms through the GSC and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

The number of technical consultations is well above target. The total number of consultations for FY 2017/18 is 602 (FY 2016/17: 784).

An overview of technical consultations is presented below. The total number of consultations is lower than last year, which is mainly caused by an incidentally high number of consultations regarding the topics 'going concern' and 'audit reports' last year.

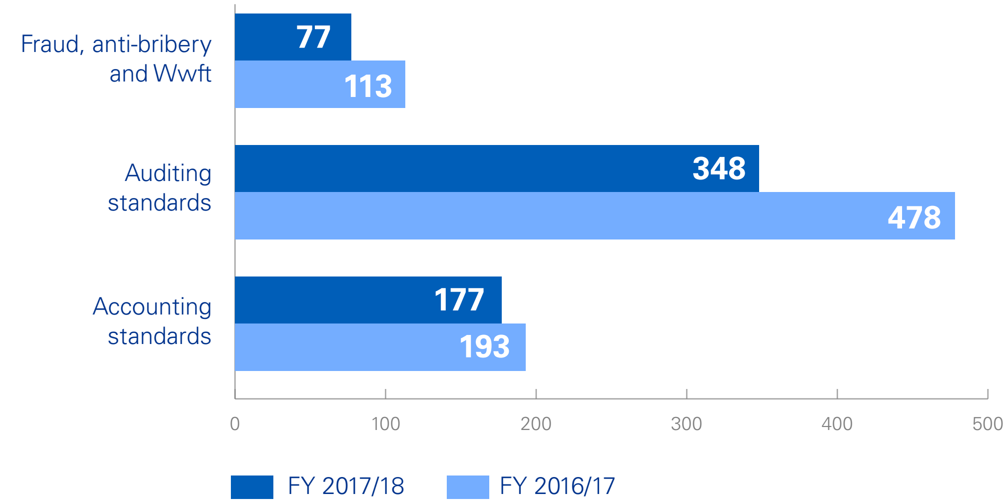


Figure 18. Consultations

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 is 20% (FY 2016/17: 21%) of all engagement hours which is higher than the target of 15%. For non-OOB engagement the involvement is 5% (FY 2016/17: 6%) which is on target (5%).

KPMG

Accreditation and licensing

All KPMG professionals are required to comply with applicable professional license rules and satisfy the CPD requirements in the jurisdiction where they practice. Policies and procedures are designed to ensure that those individuals that require a license 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.

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 obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of 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 focus from regulators. The KPMG Quality Framework 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 mind-set — the need to apply professional scepticism.

Figure 19. KPMG's professional judgment 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:

- considering alternatives;
- critically assessing evidence by challenging management's assumptions and following up contradictory or inconsistent information;
- 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 build 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 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 (EQC reviewers) and second partners (in Advisory) are independent of the engagement team and have appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team.

An EQC reviewer 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 country head of audit. A second partner is required for all engagements that are graded high risk or where specific accreditation is applicable.

Although the engagement partner is ultimately responsible, the EQC reviewer 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 review EQCRs were performed on 25% of legal audit engagements, which is slightly lower than 26% in FY 2016/17. EQCR partners have spent 1% (FY 2016/17: 0.9%) of total engagement hours compared to a target bandwidth of 1.2-2%.

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 to assess quality related findings, to monitor the enhanced root cause analysis process and subsequent track mitigating actions. The Council works closely together with the Quality Partner and 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 Management Team Audit, the Country Quality & Risk Management Partner, Board of Management and 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 commit to continually improve 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 analysis and develop, implement and report remedial action plans both in respect of 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) 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 those of any external inspection programmes and take appropriate action.

Our monitoring programmes evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation 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.

Two KPMG International developed and administered inspection programmes are conducted annually across the Audit and Advisory functions: QPR and RCP. Additionally all member firms are covered at least every three years by the cross functional GCR programme. 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 independent from the member firm.

Compliance with our system of quality controls
Compliance Office perform specific procedures on compliance related topics, which are out of scope of the operational audits. In addition, the Compliance Office monitors internal compliance with the system of quality controls through its issue tracker. The Compliance Officer reports findings on a quarterly basis to the policy makers for further follow up.

Risk Compliance Programme (RCP)
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 control with Global Quality & 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 3-year cycle. The GCR provides independent oversight of a member firm's assessment of its system of quality control, 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 of 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:

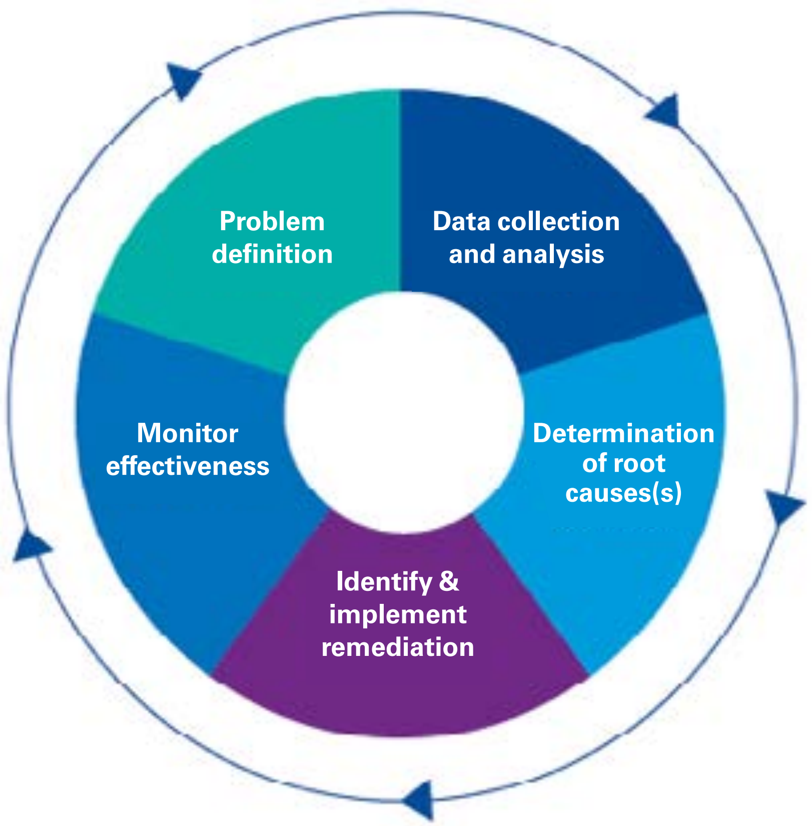


Figure 20. The RCA 5 Step Principles

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 Audit is responsible for the development and implementation of action plans including identification of solution owners. The AQIC monitors their implementation.

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, ensure 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).

Compliance with our quality management system
We distinguish between discipline related and quality related non-compliance. We see an overall increase in the total number of quality related instances of non-compliance as compared to last year. We recorded 91 quality related instances during the reporting year (FY 2016/17: 67). These breaches mainly related to quality performance review ratings. We recorded 418 discipline related breaches during the reporting year (FY 2016/17: 606). The significant improvement since previous year is mainly caused by a minor change in the monitoring process of the firm, sufficiently reminding professionals on timely completion of mandatory e-learnings and annual affidavits.

We have received five notifications in total (FY 2016/17: two) through our whistleblowing hotline. Two related to other KPMG entities and have been forwarded to those entities for further follow-up. Of the remaining three notifications the follow-up of two is still in progress and for one we identified no issues.

Financial statements

Contents

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 September 2018

	Note	2017/2018	2016/2017
(in thousands of euros)			
Revenue	4	486,093	457,507
Other income	5	-	4,402
Total operating income		**486,093**	**461,909**
Costs of outsourced work and other external charges		47,154	41,040
Employee benefits expenses	6	242,721	231,907
Depreciation and amortisation	12, 13	6,640	7,572
Other expenses	7	122,115	120,058
Total expenses		**418,630**	**400,577**
Operating result		**67,463**	**61,332**
Share in result of non-consolidated associated companies	14	-1,743	-351
Finance income	8	14	418
Finance expenses	9	-3,468	-3,726
Profit before income tax		**62,266**	**57,673**

	Note	2017/2018	2016/2017
(in thousands of euros)			
Income tax expense	10	1,440	1,416
Fees payable to Coöperatie KPMG U.A.	11	60,873	56,639
(Loss)/Profit for the year		**-47**	**-382**
Other comprehensive income after taxes		-	-
Total comprehensive income for the year		**-47**	**-382**
Profit attributable to:			
Owners of the Company		17	289
Non-controlling interest		-64	-671
		-47	**-382**

The notes on pages 145 to 195 inclusive are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 September 2018, before appropriation of results

	Note	30 September 2018	30 September 2017*)
(in thousands of euros)			
Assets			
Non-current assets			
Intangible assets and goodwill	12	18,185	14,427
Property, plant and equipment	13	10,598	12,366
Investments in equity accounted investees	14	4,593	3,549
Other financial assets	15	1,097	-
Deferred tax assets	10	4,105	4,735
		38,578	35,077
Current assets			
Receivables	16	127,926	117,644
Income taxes	10	1	1
Cash and cash equivalents	17	36,256	24,466
		164,183	142,111
Total assets		**202,761**	**177,188**

*) The presentation of the 2016/2017 numbers has been adjusted for comparison purposes.

The notes on pages 145 to 195 inclusive are an integral part of these consolidated financial statements.

	Note	30 September 2018	30 September 2017*)
Equity and liabilities			
Group equity	18		
Share capital		5,500	5,500
Share premium		13,500	11,020
Reserves		14,312	14,023
Profit for the year		17	289
(in thousands of euros)			
Total equity attributable to equity holders of the Company		33,329	30,832
Non-controlling interest		-7,977	-7,913
Total Group equity		**25,352**	**22,919**
Non-current liabilities			
Loans and borrowings	19	20,027	25,588
Employee benefits	20	2,675	2,657
Provisions	21	6,080	6,913
Deferred tax liabilities	10	148	30
		28,930	35,188
Current liabilities			
Loans and borrowings	19	46,022	25,322
Trade and other payables	22	73,628	63,754
Income taxes	10	-	228
Employee benefits	20	23,483	23,292
Provisions	21	5,346	6,485
		148,479	119,081
Total liabilities		**177,409**	**154,269**
Total Group equity and liabilities		**202,761**	**177,188**

Consolidated statement of cash flows

For the year ended 30 September 2018

	Note	2017/2018	2016/2017
(in thousands of euros)			
(Loss)/Profit for the year		-47	-382
Adjustments for:			
Income tax expense	10	1,440	1,416
Depreciation and amortisation	12,13	6,640	7,572
Finance income	8	-14	-418
Finance expenses		3,468	3,726
Share of profit of equity accounted investees		1,743	351
Gain on sale of joint ventures and associates		-	-645
Cash flows before movements in working capital and provisions		13,230	11,620
Change in unbilled services and advance billings	16	3,723	-4,962
Change in receivables	16	-8,157	-1,350
Change in trade and other payables	22	3,994	-68
Change in provisions	21	-1,972	-11,279
Change in employee benefits	20	209	-3,512
Cash flows (used in)/from operating activities		11,027	-9,551
Interest and bank charges paid	9	-591	-872
Interest received		14	418
Income tax paid	10	-886	-512
Net cash from operating activities		**9,563**	**-10,517**

	Note	2017/2018	2016/2017
(in thousands of euros)			
Acquisition of property, plant and equipment	13	-2,842	-3,746
Proceeds from sale of property, plant and equipment	13	-	897
Investment in back office software and other intangibles	12	-5,788	-1,952
Divestment of business		-	325
Other investments	14,15	-3,886	-2,600
Net cash used in investing activities		**-12,516**	**-7,076**
Addition to share premium by partners		3,120	2,780
Net (repayment)/proceeds of loans and borrowings from partners	19	15,560	10,052
Net (repayment)/proceeds of loans and borrowings from former partners	19	-420	-7,400
Interest paid to partners and former partners	9	-2,877	-2,663
Dividends paid to Coöperatie KPMG U.A.		-640	-1,720
Repayment of loans and borrowings	19	0	-522
Net cash from financing activities		**14,743**	**527**
Net change in cash and cash equivalents	17	11,790	-17,066
Cash and cash equivalents at 1 October	17	24,466	41,532
Cash and cash equivalents at 30 September		**36,256**	**24,466**

The notes on pages 145 to 195 inclusive are an integral part of these consolidated financial statements.

KPMG

Consolidated statement of changes in equity

(in thousands of euros)	Share capital	Share premium	Reserves	Profit for the year	Total equity attributable to equity holders	Non-controlling interest	Total equity
Balance at 1 October 2016	**5,500**	**9,960**	**10,775**	**3,248**	**29,483**	**-6,922**	**22,561**
2015/2016 Result appropriation	-	-	3,248	-3,248	-	-	-
Total comprehensive income for the year							
Profit for 2016/2017	-	-	-	289	289	-671	-382
Other comprehensive income for the year	-	-	-	-	-	-	-
Transactions with owners of the Company, recognised directly in equity							
Contributions and distributions							
Dividend paid	-	-1,720	-	-	-1,720	-	-1,720
Additions by partners	-	2,780	-	-	2,780	-	2,780
Changes in ownership interests							
Divestment of subsidiary with non-controlling interest	-	-	-	-	-	-320	-320
Balance at 30 September 2017	**5,500**	**11,020**	**14,023**	**289**	**30,832**	**-7,913**	**22,919**

	Share capital	Share premium	Reserves	Profit for the year	Total equity attributable to equity holders	Non-controlling interest	Total equity
(in thousands of euros)							
Balance at 1 October 2017	**5,500**	**11,020**	**14,023**	**289**	**30,832**	**-7,913**	**22,919**
2016/2017 Result appropriation	-	-	289	-289	-	-	-
Total comprehensive income for the year							
Profit for 2017/2018	-	-	-	17	17	-64	-47
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**	**14,312**	**17**	**33,329**	**-7,977**	**25,352**

The notes on pages 145 to 195 inclusive are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General

1.1 Reporting entity

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

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

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

1.2 Reporting period

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

The financial statements for 2017/2018 were approved for issue by the Board of Management on 10 December 2018.

2. Basis of preparation

2.1 Statement of compliance

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

2.2 Functional currency

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

2.3 Use of estimates and judgements

The preparation of financial statements in conformity with EU IFRS requires the Board of Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported values of assets and liabilities, income and expenses. The estimates and associated assumptions are based on past experience and various other factors considered reasonable in the circumstances.

The results form the basis for the 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 such revision only affects that period, or the period in which the revision is made and future periods, if the revision has implications for both the period under review and future periods.

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

- Note 12 - Intangible assets;
- Note 16 - Measurement of unbilled services and trade receivables;
- Note 21 - Provision for claims/legal proceedings;
- Note 23 - Financial instruments.

Measurement of fair values

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

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

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

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in note 23 Financial instruments.

2.4 Going concern

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

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

The Group has adopted the following amendments to a standard with a date of initial application of 1 October 2017 unless otherwise stated:

- Amendments to IAS 7 Disclosure initiative;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual improvements 2014-2016 to IFRSs.

The application of these amendments has not had any effect on profit or equity.

3. Significant accounting policies

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

3.1 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements:

- **IFRS 9 Financial instruments.**
  IFRS 9 Financial Instruments 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 and is effective for annual periods beginning on or after 1 January 2018.

  Classification – Financial assets
  FRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. 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 standard eliminates the existing

IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for Trade and other receivables.

Impairment – Financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, as well as to amounts receivable under finance lease contracts in scope of IAS 17 and IFRS 16 (as from 1 October 2019) and unbilled services. Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. However, lifetime ECL measurement always applies for trade receivables without a significant financing component; this so-called simplified approach is also applied to finance lease receivables and unbilled services.

The Group has estimated that application of IFRS 9's impairment requirements at 1 October 2018 results in a non-material reversal of impairment losses.

Classification – Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 October 2018.

Hedge Accounting
The Group does not apply hedge accounting.

Disclosures
Extensive new disclosures will be required, in particular about credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Transition
The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 October 2018 and are not considered to be material.

- **IFRS 15 Revenue from Contracts with Customers**
IFRS 15 Revenue from Contracts with Customers will become effective from the financial year starting 1 October 2018. This new accounting standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Generally, the Group's contracts consists of a single or multiple performance obligations to deliver assurance or advisory services. The main component of these contracts is labour.

In some cases the Group's contracts contain software licenses, and other services derived from licenses.

The new standard provides application guidance for the recognition of revenue attributable to a distinct license of intellectual property (IP). If the license is distinct from the other goods or services promised in a contract, then the Group assesses its nature to determine whether the revenue recognition should be at a point in time or over time. When the customer has a right to use the intellectual property as it exists at the time the license is granted then the revenue recognition should be at a point in time, whereas when the customer has a right to access the intellectual property as it exists throughout the license period then the revenue recognition should be over time. However, if the promise to grant a license is not distinct from other promised good or service in the contract, the licence and other promised good or service are accounted for as a single performance obligation.

Group's software related contracts may include non-refundable upfront fees for setup activities that do not transfer a service to the customer by themselves, but that are necessary for the use of the software license to be provided to the customer. Revenue of these upfront fees are currently recognised at a point in time once the software is delivered.

However, under IFRS 15, when the software license is not distinct from the services provided throughout the contract with the customer, non-refundable upfront fees correspond to an advance payment for future services, and revenue should be recognised over time during the period that these services are provided. The Group is currently preparing an impact analysis which is not expected to be material.

The majority of the Group's performance obligations qualify for recognition of revenue over time. For those contracts with a contingent variable transaction price (i.e. success fees) revenue is deferred until it becomes highly probable and that a significant reversal in the amount of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group plans to adopt IFRS 15 using the full retrospective method. Under this approach, the Group adjusts its financial statements for all contracts, including those completed at the beginning of the earliest period presented. As a result, the Group will apply the requirements of IFRS 15 to the comparative period presented. It is expected that the financial impact will not be material.

- **IFRS 16 Leases**

  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 initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 October 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its property and car leases.

  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 interest expense on lease liabilities.

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

  The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the financial covenants in connection with the credit facility described in note 23.3.

- **Determining whether an arrangement contains a lease**
  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 plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply 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 either apply the standard using a:
  - retrospective approach; or
  - modified retrospective approach with optional practical expedients.

  The lessee applies the election consistently to all of its leases. The Group plans to apply IFRS 16 initially on 1 October 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 October 2019, with no restatement of comparative information.

  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 is assessing the potential impact of using these practical expedients.

  The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

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. Consideration is measured at the fair value of 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 24.

3.2.3 Non-controlling interest

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

3.2.4 Loss of control of subsidiaries

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

3.2.5 Transactions eliminated on consolidation

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

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

3.2.6 Investments in equity accounted investees (associates)

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

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

Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's' investment includes goodwill identified at acquisition, net of accumulated impairment losses. The consolidated financial statements include the Group's' share of the income and expenses and other comprehensive income of equity accounted investees, after adjustment to align the accounting policies with those of the Group, from the date significance influence commences until the date that significance influence ceases.

When the Group's' share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term loans, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

3.3 Foreign currency

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

3.4 Hedge accounting

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

3.5 Financial instruments

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

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

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

Loans and receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's' cash management 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.

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

3.7 Intangible assets and goodwill

3.7.1 Goodwill

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 licenses 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 development and to use or sell the asset. Otherwise, the costs of software development are recognised in profit or loss as incurred. Subsequent to initial recognition, software is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on research activities is recognised in profit or loss as incurred.

Each category is amortised over its estimated useful life for the current years, except for licenses with an indefinite useful life, as follows:

- Customer relationships 5 years;
- Order books 3 months;
- Software 5-8 years;
- Software under construction is not amortised until ready for use or sale.

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

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

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

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

3.9.3 Available-for-sale financial assets

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

3.10 Employee benefits

3.10.1 Pension schemes

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

3.10.2 Long-term employee benefits

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

These employee benefits relate primarily to supplementary 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

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

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

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

3.13 Other income

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

3.14 Operating lease payments

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

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

3.15 Finance expenses

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

3.16 Finance income

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

3.17 Fees payable to Coöperatie KPMG U.A.

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

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

3.18 Income taxes

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

Deferred tax

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

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

For the financial year 2017/2018 the tax rate applied was 25% (2016/2017: 25%).

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

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

3.19 Principles for presentation of the consolidated cash flow statement

The cash flow statement is prepared according to the indirect method.

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

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

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

Corporate income taxes, 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 business segments:
- Audit
- Advisory

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

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

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

KPMG

Segmentation 2017/2018

	Audit	Advisory	Corporate	Intersegment eliminations	Total
Revenue and profit					
Revenue	260,160	208,688	17,245	-	486,093
Revenue from intersegment transactions	-	1,838	-	-1,838	-
	260,160	210,526	17,245	-1,838	486,093
Other income	-	-	-	-	-
Total operating income	**260,160**	**210,526**	**17,245**	**-1,838**	**486,093**
Operating result	60,105	58,603	-51,245	-	67,463
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	**60,105**	**56,860**	**-54,699**	**-**	**62,266**
Profit before tax / revenue (%)	23.1	27.2			12.8
Taxation					-1,440
Fees payable to Coöperatie KPMG U.A					-60,873
Loss for the year					**-47**
FTEs					
Partners	74	59	6	-	139
Other professionals	1,287	1,146	-	-	2,433
Support staff	104	57	402	-	563
Total FTEs	**1,465**	**1,262**	**408**	**-**	**3,135**

	Audit	Advisory	Corporate	Intersegment eliminations	Total
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
Unbilled services and trade receivables	51,732	58,160	1,187	-	111,079
Other current assets	-	513	52,591	-	53,104
Total assets					**202,761**
Liabilities by segment					
Prepayments	26,106	4,470	-	-	30,576
Other liabilities	10,611	552	135,670	-	146,833
Total liabilities					**177,409**

Segmentation 2016/2017 *)

	Audit	Advisory	Corporate	Intersegment eliminations	Total
Revenue and profit					
Revenue	245,655	195,094	16,758	-	457,507
Revenue from intersegment transactions	-	7,011	-	-7,011	-
	245,655	202,105	16,758	-7,011	457,507
Other income	-	-	4,402	-	4,402
Total operating income	**245,655**	**202,105**	**21,160**	**-7,011**	**461,909**
Operating result	48,491	58,248	-45,407	-	61,332
Finance income	-	-	418	-	418
Finance expenses	-	-191	-3,535	-	-3,726
Share in result of non-consolidated associated companies	-	-351	-	-	-351
Profit before income tax	**48,491**	**57,706**	**-48,524**	**-**	**57,673**
Profit before tax/ revenue (%)	19.7	29.6			12.6
Taxation					-1,416
Fees payable to Coöperatie KPMG U.A.					-56,639
Loss for the year					**-382**
FTEs					
Partners	75	57	5	-	137
Other professionals	1,238	1,092	-	-	2,330
Support staff	103	59	386	-	548
Total FTEs	**1,416**	**1,208**	**391**	**-**	**3,015**

	Audit	Advisory	Corporate	Intersegment eliminations	Total
Intangible assets and goodwill					
Capital expenditure	-	1,952	-	-	1,952
Disposals	-	-898	-	-	-898
Amortisation	-	630	1,397	-	2,027
Property, plant and equipment					
Capital expenditure	-	-	3,746	-	3,746
Depreciation	-	-	5,545	-	5,545
Assets by segment					
Non-current assets	-	8,477	23,051	-	31,528
Investments in equity accounted investees	-	3,549	-	-	3,549
Unbilled services and trade receivables	49,004	51,156	2,747	-	102,907
Other current assets	-	602	38,602	-	39,204
Total assets					**177,188**
Liabilities by segment					
Prepayments	20,066	4,663	-	-	24,729
Other liabilities	11,856	488	117,196	-	129,540
Total liabilities					**154,269**

*) Adjusted for comparison purposes

5. Other income

	2017/2018	2016/2017
Grant KPMG International and comparable items of income	-	4,402
	-	**4,402**

The Group is party to a grant agreement of USD 33.9 million with KPMG International, based on mutually agreed terms, to accelerate the realisation of its business plan. Under the agreement, grants can be made available over the period up to 30 September 2018. After the last grants were received during financial year 2016/2017, the facility was terminated.

6. Employee benefits expenses

	2017/2018	2016/2017
Salaries	197,934	190,224
Social security costs	26,426	24,334
Pension costs	14,721	14,049
Long-term employee benefits	236	-113
Severance expenses	3,404	3,413
	242,721	**231,907**

The average salary per FTE increased by 0.1% (previous year: decrease 0.4%). Total employee expenses increased by 4.7% (previous year: increase 6.8%).

Number of staff and partners

	2017/2018	2016/2017
(Average FTEs)		
Number of staff:		
Professional staff	2,433	2,330
Support staff	486	475
Support staff for KPMG International	77	73
	2,996	**2,878**
Partners	139	137
	3,135	**3,015**

7. Other expenses

	2017/2018	2016/2017
Other employee expenses	35,403	29,095
Travelling, car leases and representation expenses	28,231	27,120
Housing expenses	21,781	21,708
Office and IT expenses	9,492	11,028
Other expenses	27,208	31,107
	122,115	**120,058**

Other employee expenses increased as a result of higher costs of hiring third parties and study expenses. Office and IT expenses decreased resulting from lower IT costs. Other expenses decreased due to lower cost for professional indemnity. Total litigation expenses (including related legal expenses and movements in provisions) included in other expenses amount to a gain of EUR 0.5m (2016/2017: EUR 5.9m expenses).

An amount of EUR 3.7 million is recognised in the other expenses related to research and development costs (2016/2017: EUR 2.7 million).

8. Finance income

	2017/2018	2016/2017
Interest income on deposits	-	29
Foreign exchange results	-	342
Unwinding of discount on provisions	-	25
Interest income from loan to equity accounted investees	2	-
Other finance income	12	22
	14	**418**

9. Finance expenses

	2017/2018	2016/2017
Interest expense due to Coöperatie KPMG U.A.	2,877	2,663
Foreign exchange results	87	-
Unwinding of discount on provisions	30	-
Changes in fair value of derivatives	-	191
Interest and bank charges	474	872
	3,468	**3,726**

10. Income taxes

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

Tax on the profit share of KPMG N.V. is calculated using the average tax rate applicable to the year. For 2017/2018, the average tax rate was 24.9% (2016/2017: 24.9%).

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

	2017/2018	2016/2017
Profit before tax	62,266	57,673
Expenses related to early retired partners	-1,310	-1,623
Tax-exempt income	-611	-1,279
Non-deductible expenses	2,811	2,757
Temporary differences	-3,202	-2,731
Taxable profit	**59,954**	**54,797**
Of which taxable by:		
Subsidiaries not part of the fiscal unity	-292	-2,293
KPMG N.V.	3,021	2,889
Coöperatie KPMG U.A.	887	813
Practice companies of the individual equity partners	56,338	53,388

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10.1 Amounts recognised in profit or loss

	2017/2018	2016/2017
Current tax expense		
Current year	745	712
Adjustments for prior years	-32	42
	713	754
Deferred tax expense		
Recognised deductible temporary differences	727	662
Tax expense on continuing operations	**1,440**	**1,416**

10.2 Movement in deferred tax balances

	Net balance at 1 October*)	Recognised in profit or loss (see 10.1)	Net balance at 30 September	Deferred tax asset	Deferred tax liability*)
2016/2017					
Intangible assets	-51	21	-30	-	-30
Property, plant and equipment	5,272	-659	4,613	4,613	-
Jubilee benefits	146	-24	122	122	-
Deferred tax balance	**5,367**	**-662**	**4,705**	**4,735**	**-30**
2017/2018					
Intangible assets	-30	-118	-148	-	-148
Property, plant and 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

*) The presentation of the 2016/2017 numbers has been adjusted for comparison purposes.

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

10.3 Current tax balances

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

11. Fee payable to Coöperatie KPMG U.A.

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

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

In addition to their management fee, the practice companies of the partners also received expense allowances amounting to a total of EUR 92 (2016/2017: EUR 111), car allowances amounting to EUR 2,387 (2016/2017: EUR 2,247) and interest on financing totalling EUR 2.9 million (2016/2017: EUR 2.7 million). These costs are shown in the statement of profit or loss and other comprehensive income under other expenses and finance costs, respectively.

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12. Intangible assets and goodwill

	Goodwill	Customer relationships and similar items	Software	Internally developed software	Licences	Total
Balance at 1 October 2016						
Cost	6,395	10,030	11,174	946	-	28,545
Accumulated amortisation and impairment	-	8,227	4,827	92	-	13,146
Carrying amount	**6,395**	**1,803**	**6,347**	**854**	**-**	**15,399**
Movements during 2016/2017						
Additions	-	-	-	1,408	-	1,408
Acquisitions/disposals	-	-595	-	-302	544	-353
Amortisation	-	-498	-1,397	-132	-	-2,027
Disposals cost	-	-7,514	-	-103	-	-7,617
Disposals accumulated amortisation	-	7,514	-	103	-	7,617
Balance at 30 September 2017	**6,395**	**710**	**4,950**	**1,828**	**544**	**14,427**
Cost	6,395	1,921	11,174	1,949	544	21,983
Accumulated amortisation and impairment	-	1,211	6,224	121	-	7,556
Balance at 30 September 2017	**6,395**	**710**	**4,950**	**1,828**	**544**	**14,427**

	Goodwill	Customer relationships and similar items	Software	Internally developed software	Licences	Total
Movements during 2017/2018						
Additions	-	-	2,712	3,076	-	5,788
Reclassifications	-	-	-	168	-	168
Amortisation	-	-282	-1,397	-503	-16	-2,198
Disposals cost	-	-	-	-	-	-
Disposals accumulated amortisation	-	-	-	-	-	-
Balance at 30 September 2018	**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 September 2018	**6,395**	**428**	**6,265**	**4,569**	**528**	**18,185**

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

The remaining periods of amortisation at 30 September 2018 are:

- Customer relationship and similar items 1 year (30 September 2017: 1-2 years);
- Software 2-8 years (30 September 2017: 3-5 years).

Software

Software mainly relates to back office systems.

Internally developed software

Internally developed software fully relates to innovation software. During 2017/2018 an amount of EUR 3,076 was capitalised (2016/2017: EUR 1,408).

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). In financial year 2016/2017, these CGU's were all part of the KPMG Advisory business segment. As per 1 October 2017, KPMG Advisory reorganised its operating structure. The reorganisation caused all departments of KPMG Advisory to be restructured into suites, including the CGUs mentioned below. After reorganisation, goodwill is monitored at Advisory level.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	30 September 2018	30 September 2017
KPMG Advisory	6,395	
KPMG MC Sourcing		3,233
KPMG MC Health		1,201
KPMG MC FM		1,327
Other individually not significant		634
Total	**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 their value in use. Determination of the value in use is performed by using estimated future cash flows, based on the business plan 2018-2019 approved by the Board and further financial projections for the financial years through 2020-2021. Cash flows after this period are extrapolated by using a growth rate to calculate the terminal value.

Key assumptions in the cash flow projections are:

- Total revenue growth and result development: based on historical performance and expected future market developments, business plan 2017-2018 and further financial projections for the financial years through 2020-2021;

- Discount rate of 10.0% (2016/2017: 10.2% to 15.1%) for all CGU's to calculate the present value of the estimated future cash flows; pre-tax discount rates have been applied. The pre-tax discount rates are determined on the basis of the individual post-tax weighted average cost of capital calculated for each CGU;

- An indefinite growth rate of 0% (2016/2017: 0%) was used for all CGU's.

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

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

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

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13. Property, plant and equipment

	Fixtures, fittings and alterations	Computers and communications equipment	Office furniture and equipment	Total
Balance at 1 October 2016				
Cost	11,519	10,243	20,704	42,466
Accumulated depreciation and impairments	6,874	5,532	15,895	28,301
Carrying amount	**4,645**	**4,711**	**4,809**	**14,165**
Movements during 2016/2017				
Additions	1,296	1,908	542	3,746
Depreciation	-1,003	-2,250	-2,292	-5,545
Disposals	-	-	-	-
Disposals cost	-2,504	-1,351	-3,028	-6,883
Disposals accumulated depreciation	2,504	1,351	3,028	6,883
Balance at 30 September 2017	**4,938**	**4,369**	**3,059**	**12,366**
Cost	10,311	10,800	18,218	39,329
Accumulated depreciation and impairments	5,373	6,431	15,159	26,963
Balance at 30 September 2017	**4,938**	**4,369**	**3,059**	**12,366**

	Fixtures, fittings and alterations	Computers and communications equipment	Office furniture and equipment	Total
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 September 2018	**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 September 2018	**4,413**	**3,545**	**2,640**	**10,598**

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.

14. Investments in equity accounted investees

	30 September 2018	30 September 2017
Associates	**4,593**	3,549

During the financial year, the Group acquired a 49.91 % interest in AdviceGames Holding B.V. ('Investee') through their interest in AdviceGames Topholding B.V. The Investee is a limited liability company located in the Netherlands that operates its sole subsidiary AdviceGames The Netherlands B.V. ('AdviceGames').

AdviceGames' product brand AdviceRobo offers services and solutions in machine learning, advanced analytics and behavioural economics in the field of risk management. The main asset of the Investee is the machine learning platform CreditRobo which can collect and connect financial and non-financial customer data in order to build behavioural risk profiles. The Investee has a relative small client base and has not yet been profitable since its foundation. Going forward, the goal of the partnership between the Investee and KPMG is to develop distinct propositions with combined KPMG and AdviceRobo services to address a broad range of clients in the lending cycle. These jointly developed propositions will enable KPMG to help its clients across the world to strengthen and future-proof their existing risk management. AdviceRobo will gain an important competitive advantage in bringing their main service offering to the market (through stand-alone and jointly developed propositions) by leveraging on the KPMG brand, global network and KPMG firms pushing revenues.

Furthermore, the Group holds a 15% interest in KPMG Investments Malta Ltd (30 September 2017: 15%). The other 85% of the shares are held by other KPMG member firms (30 September 2017: 85%). The activities of KPMG investments Malta Ltd mainly exist of the delivery of computer software and professional services.

The Group's' share in the profit or loss from continuing operations, post-tax profit or loss from discontinued operations, other comprehensive income and total comprehensive income of associates in 2017/2018 amounts to a loss of EUR 1,743 (2016/2017: a loss of EUR 351).

15. Other financial assets

	30 September 2018	30 September 2017
Loans to equity accounted investees	1,097	-
	1,097	-

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in note 23.

16. Receivables

	30 September 2018	30 September 2017
Unbilled services	29,915	27,791
Trade receivables	81,098	75,038
Due from equity accounted investees	65	78
Other receivables	5,224	3,353
Prepayments	11,624	11,384
	127,926	**117,644**

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

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

16.1 Unbilled services

	30 September 2018	30 September 2017
Unbilled services	29,915	27,791
Advance billings	30,576	24,729
Balance of unbilled services and advance billings	**-661**	**3,062**

Advance billings are included in trade and other payables, please refer to note 22. Unbilled services are subject to a first pledge in favour of Coöperatie KPMG U.A. as security for loans advanced.

16.2 Trade receivables

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

Trade receivables are shown net of impairment losses amounting to EUR 2,152 (2016/2017: EUR 2,352). In the statement of profit or loss and other comprehensive income a loss of EUR 330 (2016/2017: loss of EUR 428) has been recognised under other expenses.

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

17. 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.

18. Group equity

18.1 Share capital
The Company has an authorised capital of EUR 20 million (2016/2017: EUR 20 million), which is divided into 800 shares of EUR 25 each (2016/2017: 800 shares of EUR 25 each).

The issued share capital consists of 220 (2016/2017: 220) shares at a nominal value of EUR 25 each (2016/2017: EUR 25 each), representing a total nominal value of EUR 5.5 million (2016/2017: EUR 5.5 million). All of the shares are fully paid up.

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

18.2 Other reserves
The other reserves contains the profits of previous years.

18.3 Non-controlling interests
Non-controlling interests as at 30 September 2018 amounts to EUR -7,977 (2016/2017: EUR -7,913) and relates to the minority interest of 30% in KPMG-gebouw Amstelveen II B.V. and the minority interest of 20% in Innovation Factory B.V.

18.4 Appropriation of profit
The Group's profit totals EUR 17 and the Company proposes to add the profit to the reserves.

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19. Loans and borrowings

	30 September 2018	30 September 2017
Non-current loans and borrowings		
Loans Coöperatie KPMG U.A. (partners)	19,030	23,800
Loans Coöperatie KPMG U.A. (former partners)	997	1,788
Total non-current loans and borrowings	**20,027**	25,588
Current loans and borrowings		
Loans from Coöperatie KPMG U.A. (partners)	41,089	20,759
Loans from Coöperatie KPMG U.A. (former partners)	4,933	4,563
Total current loans and borrowings	**46,022**	**25,322**
	66,049	**50,910**

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

The interest charged on current accounts, included in loans is 1.0% (2016/2017: 1.1%). Partners participate in a mandatory loan programme totalling EUR 8.6 million as per 30 September 2018 (30 September 2017: EUR 3.3 million), bearing an interest of 8.0% (2016/2017: 8.0%). Partners also have the opportunity to subscribe on deposits with a duration varying between one and five years. The total amount subscribed as per 30 September 2018 was EUR 27.6 million with an interest rate of 3.25 to 8% depending on the duration of the loan (2016/2017 EUR 25.7 million with an interest rate of 4.25 to 8.0%).

Movements in financing by partners:

	2017/2018	2016/2017
Balance at 1 October	**44,559**	**34,507**
Fees to partners under management agreements	60,873	56,639
Interest due to Coöperatie KPMG U.A. relating to partners	2,742	2,542
Other movements (net withdrawal)	-48,055	-49,129
Balance at 30 September	**60,119**	**44,559**

Other movements refer mainly to amounts withdrawn by partners.

19.2 Loans from Coöperatie KPMG U.A. relating to former partners

Non-current loans from Coöperatie KPMG U.A. relating to former partners comprise of early retirement liabilities to former partners and have an average term of 1.8 years (2016/2017: 2.3 years); these liabilities are not interest bearing. The average interest on current loans from former partners is 0.7% (2016/2017: 0.5%).

20. Employee benefits

	30 September 2018			30 September 2017		
	< 1 year	> 1 year	Total	< 1 year	> 1 year	Total
Long-term employee benefit obligations	239	2,675	2,914	312	2,657	2,969
Short-term employee benefit obligations	23,244	-	23,244	22,980	-	22,980
	23,483	**2,675**	**26,158**	**23,292**	**2,657**	**25,949**

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 and holiday allowances.

Movements in long-term employee benefits:

	2017/2018	2016/2017
Balance at 1 October	**2,969**	4,806
Utilised	-295	-1,767
Release/addition	210	-38
Unwinding of discount	30	-32
Balance at 30 September	**2,914**	**2,969**
Short-term employee benefit obligations	23,244	22,980
	26,158	**25,949**

21. Provisions

Movements in provisions in 2017/2018:

	Claims and legal proceedings	Vacant properties	Total
Balance at 1 October	**11,824**	**1,574**	**13,398**
Utilised	-649	-633	-1,282
Released	-850	-	-850
Exchange rate differences	160	-	160
Balance at 30 September	**10,485**	**941**	**11,426**

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 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 provision mainly decreased as a result of utilisation and releases during the reporting period. 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 provisions are expected to be utilised are as follows:

	30 September 2018			30 September 2017		
	< 1 year	> 1 year	Total	< 1 year	> 1 year	Total
Claims and legal proceedings	4,593	5,892	10,485	5,842	5,982	11,824
Provision for vacant properties	753	188	941	643	931	1,574
	5,346	**6,080**	**11,426**	**6,485**	**6,913**	**13,398**

22. Trade and other payables

	30 September 2018	30 September 2017
Advance billings/payments	30,576	24,729
Trade payables	3,448	4,243
Tax and social insurance contributions	25,623	22,915
Other current liabilities	3,185	1,254
Accruals	10,796	10,613
	73,628	**63,754**

Please refer to note 16.1 for detail on advance billings/payments.

The Group's' liquidity risk relating to trade and other payables is disclosed in note 23.3.

Trade payables decreased mainly due to lower payables resulting from timing differences. Accruals have been made primarily to cover housing expenses, charges for third-party services still to be paid and insurance premiums. The increase in advance billings is in line with the increase in trade receivables and is mainly due to tighter declaration schemes in the invoice process of Audit.

23. Financial instruments and associated risks

23.1 General

23.1.1 Background and policies

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

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

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

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

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

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

23.1.2 Specific financial instruments

Based on an agreement between KPMG Advisory N.V. and IF Holding B.V., IF Holding B.V. has granted a call option to KPMG to acquire, according to agreed conditions, the remaining 20% of the shares of Innovation Factory B.V. from IF Holding B.V.

Based on an agreement between KPMG Advisory N.V. and KPMG Holdings limited, KPMG Holdings limited has granted a call option to KPMG Advisory N.V. to, according to agreed conditions, acquire 15% of the shares in KPMG Investments Malta limited (KIML). The option can only be exercised in the event of a completed sale of greater than 50% of the issued share capital in Crimsonwing plc, a subsidiary of KIML, or all of substantially all of the business or assets to a non-KPMG member firm between 1 April 2017 and 31 March 2019, at a price per share paid at the day of acquisition of KIML.

23.1.3 Concentrations of risks

The operational activities of the Group relate to a diversity of clients and suppliers mainly in the Netherlands. As a result the concentration of risks for the operations of the Group is limited, except for the geographic risk. Funding of operations is arranged by a diversity of partners through Coöperatie KPMG U.A. and an additional bank's credit facility. The Group has current accounts of over EUR 15 million at the same bank (2016/2017: over EUR 6 million) 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).

23.2 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 risk.

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

23.2.2 Exposure to credit risk

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

	2017/2018	2016/2017
Unbilled services	29,915	27,791
Trade receivables	83,250	77,390
Due from equity accounted investees	1,162	78
Other receivables	5,224	3,353
Cash and cash equivalents	36,256	24,466
	155,807	**133,078**

23.2.3 Provision for doubtful debts

Debtor ageing analysis:

	30 September 2018		30 September 2017	
	Gross	Provision	Gross	Provision
Not yet due: age 0-15 days	38,626	-	37,179	-
Overdue: age 16-180 days	41,671	295	35,784	174
Overdue: age 181-365 days	1,669	575	2,003	769
Overdue: age over 365 days	1,349	1,282	2,502	1,409
	83,315	**2,152**	**77,468**	**2,352**

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

Movement in the provision for doubtful debts:

	2017/2018	2016/2017
Balance at 1 October	**2,352**	2,605
Added	1,273	1,460
Written off	-470	-499
Released	-1,003	-1,214
Balance at 30 September	**2,152**	**2,352**

23.3 Liquidity risk

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

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

The Group has a loan facility of EUR 40 million (2016/2017: EUR 40 million) and a guarantee facility of EUR 10 million (2016/2017: EUR 20 million), of which no draw down was made (2016/2017: EUR 2.5 million) in the form of guarantees. A first right of pledge has been granted to the bank on trade receivables as security. The loan facility is available until 30 June 2019. Interest payable is based on the average 1-month EURIBOR rate plus a margin of 1.95%.

The Group has to comply to certain covenants in connection with the credit facility made available by the bank. These covenants relate to the maintenance of a certain solvency ratio, EBITDA, asset coverage, sales coverage and operational result. During 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 2018					
Loans and borrowings	66,049	78,108	48,777	24,144	5,187
Trade and other payables	73,629	73,629	73,629	-	-
Employee benefits	24,785	24,785	23,442	266	1,077
	164,463	**176,522**	**145,848**	**24,410**	**6,264**
30 September 2017					
Loans and borrowings	50,910	59,929	27,940	28,085	3,904
Trade and other payables	63,754	63,754	63,754	-	-
Employee benefits	23,308	23,308	21,945	327	1,036
	137,972	**146,991**	**113,639**	**28,412**	**4,940**

23.4 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.

23.4.1 Interest rate risk

Interest rate risk mainly relates to interest-bearing financial liabilities as a result of the funding positions by (former) partners. Financial assets of the Group consist primarily of investments in non-current assets, trade receivables and cash and cash equivalents. Trade and other receivables do not bear interest.

It is estimated that as at 30 September 2018, a general rise in interest rates by one percentage point would have a negative effect of EUR 0.1 million on the Group's profit before tax (30 September 2017: no effect) and no effect on equity (30 September 2017: 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):

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

	Effective interest rate	<1 year	>1 year < 2 year	>2 year < 3 year	>3 year < 4 year	>4 year < 5 year	Longer than 5 years	Total carrying amount
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
Current account Coöperatie KPMG U.A. 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**
2016/2017								
Cash and cash equivalents	-0.1%	24,466	-	-	-	-	-	24,466
Coöperatie KPMG U.A.	0.0%	12,823	611	611	611	611	9,528	24,795
Current account Coöperatie KPMG U.A. relating to partners	1.1%	-32,049	-	-	-	-	-	-32,049
Loans from partners	7.2%	-1,533	-5,347	-1,530	-13,290	-5,014	-10,591	-37,305
Loans from former partners	0.5%	-4,563	-443	-253	-60	-105	-927	-6,351
		-856	**-5,179**	**-1,172**	**-12,739**	**-4,508**	**-1,990**	**-26,444**

23.4.2 Currency risk

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

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 2017/2018 (2016/2017: no effect) and no effect on equity (30 September 2017: no effect).

23.5 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 2017/2018 to other levels of fair value measurement input.

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

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Loans and receivables		Other financial liabilities	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
2017/2018								
Other financial assets	-	-	-	-	1,097	1,097	-	-
Receivables	-	-	-	-	116,302	116,302	-	-
Cash and cash equivalents	-	-	-	-	36,256	36,256	-	-
Total financial assets	**-**	**-**	**-**	**-**	**153,655**	**153,655**	**-**	**-**
Loans and borrowings	-	-	-	-	-	-	66,049	66,049
Trade and other payables	-	-	-	-	-	-	48,005	48,005
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**114,054**	**114,054**
2016/2017								
Other financial assets	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	106,260	106,260	-	-
Cash and cash equivalents	-	-	-	-	24,466	24,466	-	-
Total financial assets	**-**	**-**	**-**	**-**	**130,726**	**130,726**	**-**	**-**
Loans and borrowings	-	-	-	-	-	-	50,910	50,910
Trade and other payables	-	-	-	-	-	-	40,839	40,839
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**91,749**	**91,749**

23.5.1 Derivatives

The fair value of the call option over 15% of the shares in KPMG Investments Malta Ltd. takes into account the likelihood that the conditions under which the option can be exercised will occur. As the likelihood is remote as per 30 September 2018, the fair value of the option is nil.

Movements in the fair value can be specified as follows:

	2017/2018	2016/2017
Balance at 1 October	-	191
Changes in fair value recognised in financial expenses	-	-191
Balance at 30 September	-	-

23.5.2 Cash and cash equivalents

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

23.5.3 Interest-bearing loans and borrowings

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

23.5.4 Trade and other receivables/ trade and other payables

For receivables and payables with a maturity of less than one year, face value is considered to be a reflection of fair value

23.6 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 EUR 160 per partner to the Group's equity (30 September 2017: up to EUR 140 per partner), and partly in the form of loans.

Average financing per partner (excluding other reserves) amounted to EUR 565 as at 30 September 2018, compared with EUR 436 as at 30 September 2017. Total financing by partners as at 30 September 2018 amounted to 39.0% of total assets (30 September 2017: 34.5%).

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. As from financial year 2015/2016, the Group started improving its capital structure, amongst others by an increase in long-term partner financing through its shareholder.

24. 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
KPMG-gebouw Amstelveen II B.V. (70%)	Amstelveen
Innovation Factory B.V. (80%)	Amsterdam

During the reporting period, the company's share in Innovation Factory B.V. increased by 13.3% to 80% and KPMG Management Services B.V. was dissolved.

There have been no other changes in shareholdings.

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

25.1 Leases

The Group has long-term property leases, operating leases for cars, personal computers, photocopiers and printers, and commitments under long-term sponsorship agreements totalling EUR 189,178 (2016/2017: EUR 212,154).

Non-cancellable operational leases:

	30 September 2018				30 September 2017			
	Property leases	Operating leases (cars)	Other contracts	Total	Property leases	Operating leases (cars)	Other contracts	Total
Within 1 year	16,086	13,381	3,656	33,123	16,097	13,033	9,509	38,639
Between 1-5 years	52,018	16,945	1,237	70,200	55,988	18,175	3,107	77,270
After 5 years	85,855	-	-	85,855	96,245	-	-	96,245
	153,959	**30,326**	**4,893**	**189,178**	**168,330**	**31,208**	**12,616**	**212,154**

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

	30 September 2018	30 September 2017
Within 1 year	3,095	3,152
Between 1 and 5 years	10,041	9,966
After 5 years	13,759	15,462
	26,895	**28,580**

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

	2017/2018	2016/2017*)
Properties	16,392	16,846
Cars	17,515	17,052
Other contracts	9,509	10,235

*) Adjusted for comparison purposes

25.2 Tax Group

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

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

25.3 Guarantees
The Group has a guarantee facility of EUR 10 million (2016/2017: EUR 20 million), of which no draw down was made (2016/2017: EUR 2.5 million) in the form of guarantees.

The Group has issued a letter of comfort relating to a facility of USD 600 million (2016/2017: USD 600 million) for KPMG International. In this letter of comfort the Company confirms that it is a member of KPMG International and that it will pay its contribution in accordance with the Articles of Association of KPMG International and the 'Membership Agreement'. The letter of comfort has a duration of 5 years as from November 2016.

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

25.5 Joint and severe 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.

26. Collaboration agreements and related parties

26.1 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.

26.2 Related parties

26.2.1 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 2017/2018 can be specified as follows:

	2017/2018	2016/2017
Management fees	-60,873	-56,639
Interest paid to KPMG U.A.	-2,877	-2,663
Dividends paid	-640	-1,720
Other amounts received	-	-

At 30 September 2018 the following positions relate to Coöperatie KPMG U.A.:

	2017/2018	2016/2017
Loans received from Coöperatie KPMG U.A.	66,049	50,910

26.2.2 Key management

Board of management
As per 30 September 2018, of the board of management 3 members (2016/2017: 3 members) indirectly hold 2% (2016/2017: 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 benefit plan and can be specified as follows:

2017/2018	S. Hottenhuis	A.A. Röell	E. Eeftink	B. Ferwerda	R.G.A. Fijneman	R.P. Kreukniet	Total
FTE	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*)	-	1,286	-	-	-	-	1,286
Total	**103**	**1,416**	**695**	**468**	**695**	**670**	**4,047**

2016/2017	A.A. Röell	E. Eeftink	B. Ferwerda	R.G.A. Fijneman	R.P. Kreukniet	Total
FTE	1.0	1.0	1.0	1.0	1.0	5.0
Management fees	-	600	-	600	600	1,800
Short-term incentives	-	45	-	45	45	135
Short-term employee benefits	642	-	395	-	-	1,037
Post-employment benefits	26	-	26	-	-	52
Interest on loans	-	38	-	38	14	90
Other short-term benefits	15	15	17	19	22	88
Total	**683**	**698**	**438**	**702**	**681**	**3,202**

*) After his step down as CEO, Albert Röell was appointed as Advisor to the Supervisory Board with continuation of his labour agreement. As per 1 November 2018 his labour agreement ended.

Supervisory board
Supervisory board members received a remuneration of EUR 285 (2016/2017 EUR 214) and can be specified as follows:

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

2016/2017	B.E.M. Wientjes	G. Boon	H.J. van Dorenmalen	L.J. Griffith	J.C.M. Sap	J.M. Slagter	R.A. Steenvoorden	Total
FTE	1.0	1.0	0.08	1.0	1.0	0.25	0.08	4.41
Short-term benefits	60	45	4	45	45	11	4	214

26.2.3 Equity accounted investees
The following amounts relate to equity accounted investees:

	2017/2018	2016/2017
Trade receivables	65	78
Other financial assets	1,097	-

Other financial assets relates to loans to equity accounted investees which were granted in financial year 2017/2018.
A loan of EUR 200 is due after 5 years and a convertible loan of EUR 897 is due after 2 years. Both loans bear an interest of 6% per annum.

Company statement of financial position

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

	Note	30 September 2018	30 September 2017
(in thousands of euros)			
Assets			
Non-current assets			
Investments in subsidiaries	2	7,671	7,671
Deferred tax assets		4,105	4,735
		11,776	12,406
Current assets			
Amounts due from group companies		90,131	81,488
Cash and cash equivalents	3	34,910	23,239
		125,041	104,727
Total assets		**136,817**	**117,133**

The notes on pages 197 to 206 inclusive form an integral part of these company financial statements.

	Note	30 September 2018	30 September 2017
(in thousands of euros)			
Equity and liabilities			
Shareholders' equity	4		
Share capital		5,500	5,500
Share premium		13,500	11,020
Other statutory reserves		3,574	1,000
Other reserves		2,822	5,396
Profit for the year		-	-
Shareholders' equity		**25,396**	**22,916**
Non-current liabilities			
Loans and borrowings	5	20,027	25,588
Current liabilities			
Loans and borrowings	5	46,022	25,322
Amounts owed to group companies		-	-
Tax and social insurance contributions		18,038	16,028
Provisions for subsidiaries	6	26,425	26,370
Trade and other payables		909	909
		91,394	68,629
Total liabilities		**111,421**	**94,217**
Shareholders' equity and liabilities		**136,817**	**117,133**

Company statement of profit or loss and other comprehensive income

For the year ended 30 September 2018

	2017/2018	2016/2017
(in thousands of euros)		
Share in results from participating interests, after tax	12,308	11,492
Other results after tax	48,565	45,147
Contractual fees payable to Coöperatie KPMG U.A.	-60,873	-56,639
Net result after tax	**-**	-

The notes on pages 197 to 206 inclusive form an integral part of these company financial statements.

Notes to the company financial statements

All amounts are in thousands of euros unless otherwise stated.

1. Basis of preparation

1.1 General

The company financial statements were prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code and they form part of the financial statements of KPMG N.V. Since the figures of KPMG N.V. are included in the consolidated financial statements that form part of these financial statements, the Company's statement of profit or loss and other comprehensive income has been presented in abridged form in accordance with Section 402, Part 9, Book 2 of the Netherlands Civil Code.

For the valuation of assets and liabilities and in determining the result in its company financial statements, KPMG N.V. has availed itself of the option provided for in article 362 par. 8, Book 2 of the Dutch Civil Code. This states that the policies regarding the valuation of assets and liabilities and determination of the result of the company financial statements correspond with those applied for the consolidated financial statements, which are prepared in conformity with IFRS as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The relevant accounting policies set out in notes 2 and 3 to the consolidated financial statements, have been applied consistently to all periods accounted for in these company financial statements.

1.2 Accounting policies

Participating interests in group companies
Participating interests in group companies are accounted for in the company financial statements according to the equity method. Refer to the basis of consolidation accounting policy in the consolidated financial statements.

Results of participating interests
The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realised.

The terms governing profits of group companies are laid down by contract between KPMG N.V. and its operating companies, which specifies that 97.5% of their revenue – less any amount payable by the relevant companies to KPMG Staffing & Facility Services B.V. for services provided by KPMG Staffing & Facility Services B.V. to the companies concerned, and less expenses that they are required to bear themselves – must be paid to KPMG N.V. for the provision of services by partners and finance.

2. Non-current financial assets

A summary of the main subsidiaries is provided in note 24 of the notes to the consolidated financial statements. A full list of subsidiaries, joint ventures and associates is filed with the Chamber of Commerce in Amsterdam, the Netherlands.

Movements in these investments during the 2017/2018 financial year:

	2017/2018	2016/2017
Balance at 1 October	**7,671**	**7,671**
Share in results	12,308	11,492
Dividends received	-12,325	-11,781
Provision for subsidiaries	17	289
Balance at 30 September	**7,671**	**7,671**

Please refer to note 6 on disclosure relating to the provision for subsidiaries.

3. Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and bank balances and are freely available. The interest rate applicable to business savings accounts was 0.0% (2016/2017: 0.0%).

4. Shareholders' equity

Movements in equity can be specified as follows:

	Share capital	Share premium	Other statutory reserves	Other reserves	Profit for the year	Total equity attributable to equity holders
Balance at 1 October 2016	**5,500**	**9,960**	**147**	**4,788**	**1,461**	**21,856**
2015/2016 Result appropriation	-	-	-	1,461	-1,461	-
Addition to other statutory reserves	-	-	853	-853	-	-
Total comprehensive income for the year						
Profit for 2016/2017	-	-	-	-	-	-
Other comprehensive income for the year	-	-	-	-	-	-
Transaction with owners of the Company,recognised directly in equity						
Dividend paid	-	-1,720	-	-	-	-1,720
Additions	-	2,780	-	-	-	2,780
Balance at 30 September 2017	**5,500**	**11,020**	**1,000**	**5,396**	-	**22,916**

	Share capital	Share premium	Other statutory reserves	Other reserves	Profit for the year	Total equity attributable to equity holders
Balance at 1 October 2017	**5,500**	**11,020**	**1,000**	**5,396**	**-**	**22,916**
2016/2017 Result appropriation	-	-	-	-	-	-
Addition to other statutory reserves	-	-	2,574	-2,574	-	-
Total comprehensive income for the year						
Profit for 2017/2018	-	-	-	-	-	-
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 September 2018	**5,500**	**13,500**	**3,574**	**2,822**	**-**	**25,396**

Other details of equity are disclosed in note 18 to the consolidated financial statements and the consolidated statement of changes in equity.

4.1 Share capital

The Company has an authorised capital of EUR 20 million (2016/2017: EUR 20 million), which is divided into 800 shares of EUR 25 each (2016/2017: 800 shares of EUR 25 each). The issued share capital consists of 220 (2016/2017: 220) shares at a nominal value of EUR 25 each (2016/2017: EUR 25 each), representing a total nominal value of EUR 5.5 million (2016/2017: EUR 5.5 million). All of the shares are fully paid up.

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

4.2 Other statutory reserves

Other statutory reserves relates to legal reserves under Dutch law, reflecting retained profits from equity accounted investees as far as the Group is not able to manage the distribution thereof independently, as well as legal reserves with respect to capitalised development costs.

4.3 Other reserves

The other reserves contains the profits of previous years.

4.4 Reconciliation between consolidated group equity attributable to shareholders and statutory shareholders' equity

Consolidated group equity attributable to shareholders and statutory shareholders' equity can be reconciled as follows:

	2017/2018	2016/2017
Consolidated group equity attributable to shareholders at 30 September	33,329	30,832
Provision for subsidiaries	-7,933	-7,916
Statutory shareholders' equity	**25,396**	**22,916**

4.5 Reconciliation between consolidated result attributable to shareholders an statutory result

Consolidated result attributable to shareholders and statutory shareholders result can be reconciled as follows:

	2017/2018	2016/2017
Consolidated result attributable to shareholders at 30 September	17	289
Provision for subsidiaries	-17	-289
Statutory result	**-**	**-**

4.6 Appropriation of profit

As the Company's profit totals EUR nil, no proposal for profit appropriation will be made.

5. Loans and borrowings

	30 September 2018	30 September 2017
Partners:		
- non-current loans Coöperatie KPMG U.A.	19,030	23,800
- current loans Coöperatie KPMG U.A.	41,089	20,759
	60,119	**44,559**
Former partners:		
- non-current loans Coöperatie KPMG U.A.	997	1,788
- current loans Coöperatie KPMG U.A.	4,933	4,563
	5,930	**6,351**
Total loans and borrowings	**66,049**	**50,910**

Movements in financing by partners can be specified as follows:

	2017/2018	2016/2017
Balance at 1 October	**44,559**	**34,507**
Fees paid to partners under management agreements, through Coöperatie KPMG U.A.	60,873	56,639
Interest due to partners	2,742	2,542
Other movements (net withdrawal)	-48,055	-49,129
Balance at 30 September	**60,119**	**44,559**

Other movements refer mainly to amounts withdrawn by partners.

5.1 Loans and borrowings relating to partners

The interest charged on current accounts, included in current loans is 1.0% (2016/2017: 1.1%). Partners participate in a mandatory loan programme totalling EUR 8.6 million as per 30 September 2018 (30 September 2017: EUR 3.3 million), bearing an interest of 8.0% (2016/2017: 8.0%). Partners also have the opportunity to subscribe on deposits with a duration varying between one and five years. The total amount subscribed as per 30 September 2018 was EUR 27.6 million with an interest rate of 3.25 to 8% depending on the duration of the loan (2016/2017 EUR 25.7 million with an interest of 4.25 to 8.0%).

5.2 Loans and borrowings relating to former partners

Non-current loans from former partners comprise of early retirement liabilities to former partners and have an average term of 1.8 years (2016/2017: 2.3 years); these liabilities are not interest bearing. The average interest on current loans from former partners is 0.7% (2016/2017: 0.5%).

6. Provision for subsidiaries

The Company has provided for the negative equity of KPMG-gebouw Amstelveen II B.V.

Movement in provision:

	2017/2018	2016/2017
Balance at 1 October	**26,370**	**25,406**
Added	55	964
Balance at 30 September	**26,425**	**26,370**

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

	30 September 2018			30 September 2017		
	< 1 year	> 1 year	Total	< 1 year	> 1 year	Total
Provision for subsidiaries	**26,425**	**-**	**26,425**	**26,370**	**-**	**26,370**

7. Financial instruments

With respect to general information on financial instruments and associated risks, reference is made to note 23 of the consolidated financial statements.

7.1 Exposure to credit risk

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

	2017/2018	2016/2017
Amounts due from group companies	90,131	81,488
Cash and cash equivalents	34,910	23,239
	125,041	**104,727**

7.2 Liquidity risk

Summary of financial liabilities:

	Carrying amount	Contractual cash flows	Due within 1 year	Due between 1 and 5 years	Due after 5 years
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**
30 September 2017					
Loans and borrowings	50,910	59,929	27,940	28,085	3,904
Total	**50,910**	**59,929**	**27,940**	**28,085**	**3,904**

Other details on financial instruments are provided in note 23 to the consolidated financial statements.

8. Related parties

The Company's related parties comprise subsidiaries and KPMG Coöperatie U.A..

8.1 Parent company

Please refer to note 26.2.1 of the consolidated financial statement for information related party information with respect to Coöperatie KPMG U.A..

8.2 Subsidiaries

Transactions between the Company and its subsidiaries relate to contractual fees and dividends received, and recharges for insurance expenses and licence fee expenses.

The transactions can be specified as follows:

	Received contractual fees	Received dividend	Expenses charged
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**
2016/2017			
KPMG Accountants N.V.	25,633	6,181	11,540
KPMG Advisory N.V.	29,721	5,599	11,113
Total	**55,354**	**11,780**	**22,653**

In addition to the above, KPMG N.V. pays on behalf of its subsidiary KPMG Staffing & Facility Services B.V. various expenses such as employee expenses and other operating expenses. These payments total EUR 280 million in 2017/2018 (2016/2017: EUR 260 million).

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 receivable positions relate to subsidiaries of the Company:

	2017/2018	2016/2017
KPMG Accountants N.V	14,504	16,701
KPMG Advisory N.V.	59,852	50,501
KPMG Staffing & Facility Services B.V.	15,775	14,286

8.3 Key management

Please refer to note 26.2.2 of the consolidated financial statement for information related party information with respect to key management.

9. Liabilities not recognised in the company statement of financial position

9.1 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 guarantee facility of EUR 10 million (2016/2017: EUR 20 million), of which no draw down was made (2016/2017: EUR 2.5 million) in the form of guarantees.

The Company has issued a letter of comfort relating to a facility of USD 600 million (2016/2017: USD 600 million) for KPMG International. In this letter of comfort the Company confirms that it is a member of KPMG International and that it will pay its contribution in accordance with the Articles of Association of KPMG International and the 'Membership Agreement'. The letter of comfort has a duration of 5 years as from November 2016.

9.2 Tax group

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

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

10. Number of partners

On average, 139 (2016/2017: 137) FTE partners were active for the Company under management agreements.

11. Remuneration of the Board of Management

Details of the remuneration of members of the Board of Management are disclosed in note 26.2.2 to the consolidated financial statements.

12. Auditors' remuneration

The remuneration of the Company's auditors for the 2017/2018 financial year was EUR 0.3 million (2016/2017: EUR 0.2 million), of which EUR 0.2 million is related to the audit of financial statements of the Company.

Amstelveen, 10 December 2018

Board of Management:
S. Hottenhuis (chair)
E. Eeftink
B. Ferwerda
R.G.A. Fijneman
R.P. Kreukniet

Supervisory Board:
B.E.M. Wientjes (chair)
G. Boon
H.J. van Dorenmalen
L.J. Griffith
J.C.M. Sap
R.A. Steenvoorden

Other information

KPMG

Independent auditor's report

Please refer to the report of the independent auditor on the next page.

Provisions in the Company's Articles of Association governing the appropriation of profit

Article 26 of the Company's Articles of Association reads as follows:

- Distribution of profit pursuant to the provisions of this article shall be made after approval of the financial statements disclosing that such distribution is permitted.
- The profit shall be at the disposal of the General Meeting of Shareholders.
- The Company may make distributions to the shareholders and other persons entitled to distributable profits only to the extent that its capital and reserves exceed the sum of the issued capital and the reserves that must be maintained by law.
- A deficit may only be offset against the statutory reserves to the extent permitted by law.

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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 2017/2018

Our opinion

We have audited the financial statements for the year ended 30 September 2018 of KPMG N.V., based in Amstelveen. The financial statements include the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The consolidated financial statements which comprise: 1. the consolidated statement of financial position as at 30 September 2018; 2. the following consolidated statements for 2017/2018: the statements of profit and loss and other 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 enclosed consolidated financial statements give a true and fair view of the financial position of KPMG N.V. as at 30 September 2018 and of its result and its cash flows for 2017/2018 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
The company financial statements which comprise: 1. the company balance sheet as at 30 September 2018; 2. the company profit and loss account for 2017/2018; 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 2018 and of its result for 2017/2018 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 Wet toezicht accountantsorganisaties (Wta), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten

(ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 4,320,000. 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 qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of € 216,000, 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 a component 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.;
  - KPMG-gebouw Amstelveen II 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 about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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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 completeness 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 16 to the financial statements.	We reviewed the revenue recognition process to ensure the policy is in accordance with IAS 18. 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. 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 analyses 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 exposure, deducted by amounts already settled, will be recognized as a provision. This process is important for our audit, because the	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. We discussed the case overview with KPMG legal staff and

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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 21 to the financial statements.	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 had conference calls with management and external auditor of the insurance company. We also performed a retrospective test on the provision as per 30 September 2017.

B. Report on other information included in the annual report

Next to the financial statements and our opinion thereon, the annual report consists of other information, including:

- 1. KPMG at a glance
- 2. Overview and Strategy
- 3. Performance and developments
- 4. Governance and compliance
- 5. Other information

Based on the procedures as mentioned below, we are of the opinion that the other information:

- is consistent with the financial statements and contains no material deficiencies;
- includes all information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information and based on our knowledge and understanding obtained from the audit of the financial statements or otherwise, we have considered if the other information contains material deficiencies.

With these procedures, we have complied with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. These procedures do not have the same scope as our audit procedures on the financial statements.

Management is responsible for the preparation KPMG at a glance, Overview & Strategy, Performance & Developments, Governance and compliance and other information in accordance with 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 11 April 2018 as of the audit for year 2017/2018 and have operated as statutory auditor since the financial year 2016/2017.

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D. Description of responsibilities for 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 errors or fraud.

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 framework 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 assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from errors or fraud 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 judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, 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 errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing 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 determined 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Rijswijk, 10 December 2018

For and on behalf of BDO Audit & Assurance B.V.,

(Signed) N.W.A. van Nuland RA

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Independent assurance report

To: the Board of Management of KPMG N.V.

A. Report on the non financial information as defined in Appendix 7 'About this report', paragraph 'Comparability of information' in the Integrated Report 2017-2018 of KPMG N.V.

Our opinion

We have examined the below mentioned KPI's as included in the non-financial information as defined in Appendix 7 'About this report', paragraph 'Comparability of information' in the Integrated Report 2017-2018 of KPMG N.V., based in Amstelveen (hereafter: 'The non-financial information').

The non-financial information includes, among others, the following KPI's:

1) Client Satisfaction (page 10: % overall satisfied clients; page 61: Figure 9 Client Satisfaction Scores)
2) Net Promotor Score (page 10: NPS, NPS Audit & NPS Advisory; page 61: 3rd paragraph)
3) CO2 Emissions (page 74: Table 9 Conversion factors KPMG International; page 74: Table 10A Environmental data; page 75: Table 10B CO2 emissions (in tonnes); page 75: figure 11 Carbon footprint)
4) Number of EQCR reviews (page 8: # engagement quality control reviews on audit engagements)
5) Number of audit reports (page 8: # audit reports for OOB statutory audit clients & # audit reports for other statutory audit clients)
6) QPR scores (page 8: QPRS % audit engagements satisfactory & QPRS % advisory engagements satisfactory; page 25 & 26: figure 2 QPR scores Audit partners/ directors and figure 3 QPR Scores Advisory partners/directors)
7) Donations (page 8: charitable contributions and donations)
8) Percentage of employee engagement (page 9: % employee engagement; page 29: The Employee Engagement Index)
9) Percentage of employee pride in KPMG (page 9: % employee pride in KPMG)

In our opinion, the non-financial information KPI 4 till 9 in the Integrated Report 2017-2018 of KPMG N.V. is prepared, in all material respects, in accordance with the applicable criteria applied by KPMG N.V.

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the information on the non-financial information KPI 1 till 3 is not prepared, in all material respects, with the applicable criteria applied by KPMG N.V.

Basis for our opinion

We conducted our examination in accordance with Dutch law, including the Dutch Standard 3810N, "Assurance engagements relating to sustainability reports". This engagement is focused on obtaining reasonable assurance regarding KPI 4 till 9 and obtaining limited assurance regarding KPI 1 till 3. Our responsibilities on this basis are described in the "Our responsibilities for examining the non-financial information as defined in the Integrated Report 2017-2018 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. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

A. Applicable criteria

For this engagement, the following criteria apply:

- Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI Standards, option Comprehensive);

B. Our procedures and analyses of the results

Our procedures

In order to obtain sufficient and appropriate assurance information we have carried out the following procedures for all KPI's:

1. Interviewing employees at KPMG N.V. who are responsible for the information which are the base for the non-financial information;
2. Reviewing the design and implementation for the collection and processing, including aggregation of data into non-financial information;
3. Performing analytical procedures for each individual KPI;
4. Reconciling each individual KPI with the primary source of assurance information;

For the KPI's for which we have provided reasonable assurance, we have carried out the following procedures additional to the procedures 1 to 4 above:

5. Substantive procedures (on a sample basis) to determine whether the non-financial information is adequately supported.

Please note that we have not performed the audit procedures included in chapter C 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.

C. Description of responsibilities

Responsibilities of management and the evaluator
Management is responsible for the preparation of the non-financial information in accordance with the applicable criteria. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the non-financial information free from material misstatement, whether due to errors or fraud.

Our responsibilities for examining the non-financial information
Regarding the non-financial information KPI 4 till 9 our responsibility is to plan and perform our examination to obtain sufficient and appropriate assurance information for our opinion. Our examination has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud. An assurance engagement includes examining appropriate evidence on a test basis.

Regarding the non-financial information KPI 1 till 3 our responsibility is to plan and perform our examination to enable us to conclude that nothing has come to our attention that causes us to believe the non-financial information KPI 1 till 3 is materially misstated. Our examination has been performed with a limited level of assurance. The procedures performed in in this regard vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

We apply the “Nadere voorschriften kwaliteitssystemen (NVKS)” (regulations on 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 applicable legal and regulatory requirements.

Rijswijk, 10 December 2018

For and on behalf of BDO Audit & Assurance B.V.,

(signed) N.W.A. van Nuland RA

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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. Material topics relate to KPMG N.V. (Audit and Advisory) as a whole unless stated otherwise.

Materiality assessment

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. The Board of Management classifies topics into the following four categories

Category	Explanation
Integrate	Issues within this category are considered to be of such importance that inclusion is necessary in either the core strategy or Board level focus. These material issues are reported in the main sections of the Report.
Manage	Issues in this category are important for the value creation of KPMG. These issues require functional leadership attention and are reported in either the main body of the report or in the appendices depending on relations with core issues.
Monitor	Issues in this category might influence business performance, but are not considered as requiring specific Board or leadership attention. These issues are ordinarily only reported in the appendices of the Report.
Accept	This category relates to all other issues that could potentially impact business performance, but that are not considered to be directly applicable to our business or that are deemed immaterial. These issues are not reported on.

Table 19. Impact assessment response

Materiality matrix

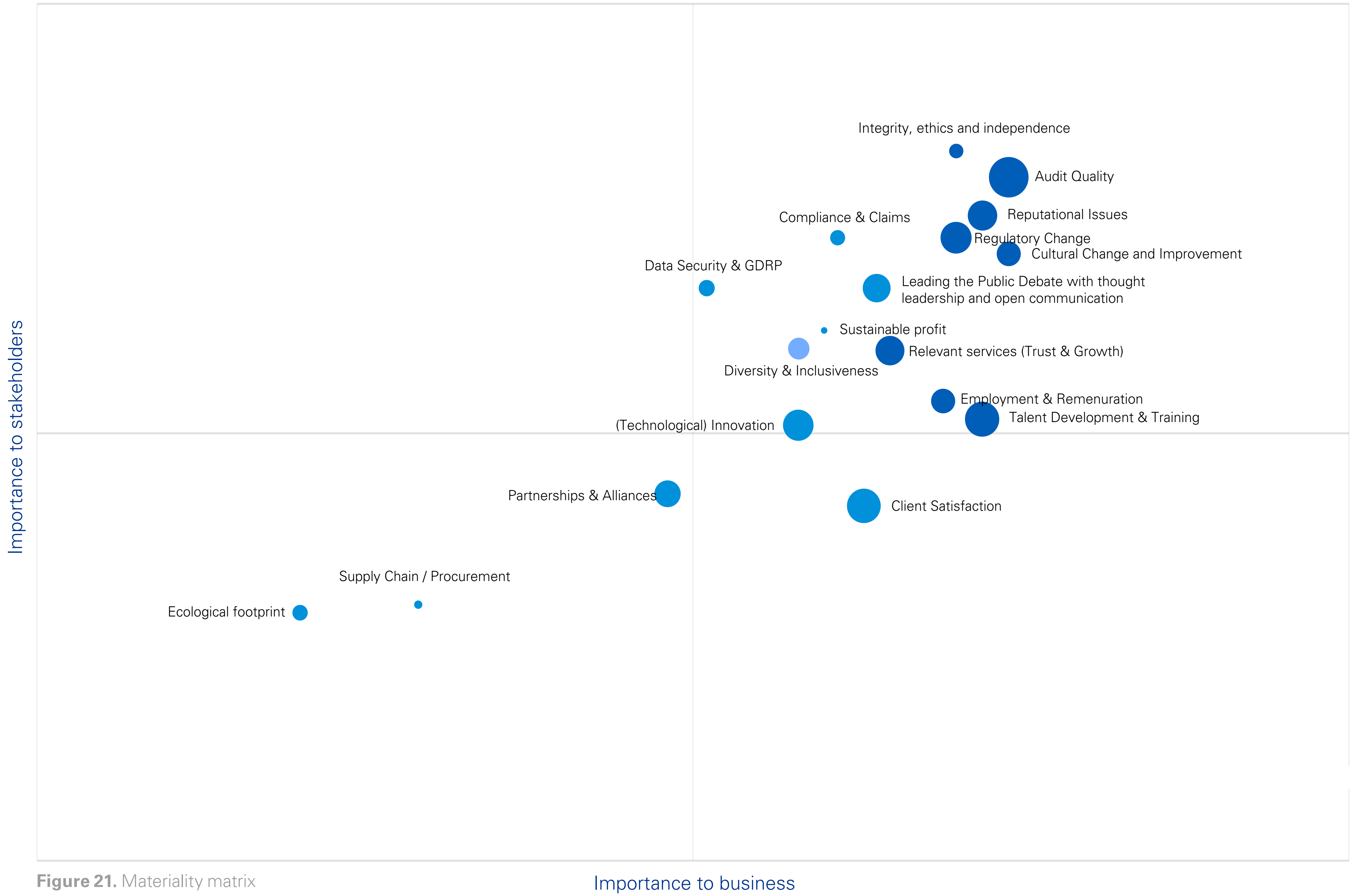

Figure 21. Materiality matrix

KPMG

Supply chain

We believe the nature of providing auditing services dictates we are (part of) our own supply chain (primary supply chain). Independence and ensuring our service delivery is not significantly dependent on particular suppliers or subcontractors is crucial. We do directly impact clients and other stakeholders due to the very essence of our services, which is to provide assurance and support change for enhanced decision making. This report only details issues and results that pertain to our firm and its group companies.

We are part of other entities' supply chains (secondary supply chain) in our capacity as end- users for products and services, such as IT, lease cars and energy. We exercise our influence to the extent possible to motivate and move suppliers to deliver products and services that are aligned with our purpose, corporate values and strategy. KPMG International is a member of UN Global Compact and through them we are committed ourselves to the 10 principles. We have implemented a Supplier Code of Conduct.

Comparability of information

In a 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.

External assurance of BDO Audit & Assurance B.V. provides limited assurance on selected key indicators, namely:; Client Satisfaction, Net Promoter Score and CO2 emissions. Reasonable assurance is provided on: number of ECQR reviews, number of audit reports, QPR scores, donations, percentage of employee engagement and percentage of employee pride in KPMG.

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) delivers cross-border Audit and Advisory services to help its national and international clients negotiate risks and thrive in the varied environments in which they do business. Tax services are delivered by KPMG Meijburg & Co, which has a separate member firm agreement with KPMG International.

KPMG has its registered office at Laan van Langerhuize 1-11, 1186 DS Amstelveen, the Netherlands and operates out of 11 satellite offices throughout the Netherlands. The firm's consolidated financial statements for the year include the financial statements of the firm and its subsidiaries and the firm's investments in associates.

The firm's financial year for this report runs from 1 October 2017 to 30 September 2018.

Strategic pillars and KPIs

The public trusts us

Performance target	Key indicators	FY2017/18	FY2016/17
Strong external perception of our reputation	Media coverage	1%	-6%
Dependable consistently high levels of quality	Internal quality inspections	Audit 68% Advisory 96%	Audit 65% Advisory 97%
	Partner involvement on legal audits	7%	7%
	Consultation with specialists	927	1,182
Robust risk management & independence	Audit fees vs advisory fees	1: 0.23	1: 0.26
	Independence compliance	13	16
	General compliance (Quality violations)	91	67
We demonstrate social responsibility	Volunteering hours	1,992 hours	2,169 hours
	Cash contribution and donations	EUR 746,572	EUR 775,361

Table 20 . Public trust key performance indicators

Our people are extraordinary

Performance target	Key indicators	FY2017/18	FY2016/17
Our partners lead by example	Employee surveys	61%	60%
Consistently high levels of engagement and performance	Employee surveys	63%	58%
	Training investment	EUR 13.9 million	EUR 11.7 million
	Performance management (employee engagement index)	69%	66%
Diversity in our workforce	Male/female ratio*	64% - 36%	66% - 34%

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

Table 21. People key performance indicators

KPMG

Our clients see a difference in us

Performance target	Key indicators	FY2017/18	FY2016/17
Top brands want to work with KPMG	Market share	24%	25%
Leading multidisciplinary solutions to address our clients' issues	Multidisciplinary offerings	79%	76%
Clients are promoting KPMG, its clients and its solutions	Net promoter score	50	43
	Client satisfaction scores	95%	92%

Table 22. Clients key performance indicators

Technology

Technology accelerates success

As of October 2018, we have defined a new and fifth strategic focus area Technology with two corresponding KPIs, being:

– Growth in license revenue;

– % of Staff conducted internal technology education.

As of financial year 2018-2019, we started collecting data for these Technology KPIs. Accordingly, we will report on these KPIs in our 2019 Integrated Report.

Operational excellence enable us

Performance target	Key indicators	FY2017/18	FY2016/17
KPMG continuously renews and improves itself to pass on a stronger and better organisation to the next generation	Solvency ratio	42.2%	38.1%
	Funding by Coöperatie KPMG U.A.	EUR 91.4 million	EUR 73.8 million
	Revenue	EUR 486 million	EUR 458 million
	Profit before income tax	EUR 62 million	EUR 58 million

Table 23. Operational excellence key performance indicators

Public interest entity audit clients

The following list represents public interest clients as at 30 September 2018 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.
Andorra Capital Agrícol Reig B.V.
Ansvar Verzekeringsmaatschappij N.V.
ASM International N.V.
ASML Holding 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.
Batenburg Techniek N.V.
BBVA Global Markets B.V.
Boiro Finance B.V.
Bumper 6 (NL) Finance B.V.
Bumper 9 (NL) Finance B.V.
Bunq B.V.
Cadogan Square CLO B.V.
Cadogan Square CLO II B.V.
Cadogan Square CLO III B.V.
Cadogan Square CLO IV B.V.
Cadogan Square CLO V B.V.
Cairn CLO II B.V.
Cairn CLO III B.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.
Compass Group International B.V.
Corbion N.V.
Core Laboratories N.V.
Daimler International Finance B.V.
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V.
DECO 14 - Pan Europe 5 B.V.
Delta Lloyd Levensverzekering N.V.
Delta Lloyd Zorgverzekering 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 46 Euro CLO 2016 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.
Eolo Investments B.V.
EQUATE Petrochemical B.V.
Eurocommercial Properties N.V.
EXMAR Netherlands B.V.
ForFarmers N.V.
Fornax (Eclipse 2006-2) B.V.
GarantiBank International N.V.
Gemalto N.V.
Goudse Levensverzekeringen N.V.
Goudse Schadeverzekeringen N.V.
Green Lion I B.V.
Groothandelsgebouwen N.V.
HIGHWAY 2015-I B.V.
Home Credit B.V.
Hypenn RMBS I B.V.
Hypenn RMBS II B.V.
Hypenn RMBS III B.V.
Hypenn RMBS IV B.V.
Hypenn RMBS V B.V.
Hypenn RMBS VI B.V.
Iberdrola International B.V.
ING Bank N.V.

ING Groenbank N.V.

ING Groep N.V.

Intertrust N.V.

Intreas N.V.

Jubii Europe N.V.

Jubilee CDO I-R B.V.

Jubilee CDO IV B.V.

Jubilee CDO V B.V.

Jubilee CDO VI B.V.

Jubilee CDO VII B.V.

Jubilee CDO VIII B.V.

Jubilee CLO 2014-XII B.V.

Jubilee CLO 2014-XIV B.V.

Jubilee CLO 2015- XV B.V.

Jubilee CLO 2015-XVI B.V.

Jubilee CLO 2016-XVII B.V.

Kiadis Pharma N.V.

Koninklijke DSM N.V.

LeasePlan Corporation 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.

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 Schade-verzekering 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 Verzekering Maatschappij Univé Hollands Noorden U.A.

Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep,

Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Aanvullende Verzekering Zorg-verzekeraar 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.

Pangaea ABS 2007-1 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.

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 Dichtbij Brandverzekeraar N.V.

Univé Oost Brandverzekeraar N.V.

Univé Regio+ Brandverzekering N.V.

Veherex Schade N.V.

VVAA Levensverzekeringen N.V.

VVAA Schadeverzekeringen N.V.

Wereldhave N.V.

Wood Street CLO 1 B.V.

Wood Street CLO II B.V.

Wood Street CLO III B.V.

Wood Street CLO IV B.V.

Wood Street CLO V B.V.

Wood Street CLO VI B.V.

Yarden Uitvaartverzekeringen N.V.

KPMG

Global Reporting Index (GRI)

General disclosures

Standard	Disclosure	Page	Reference
102-1	Name of the organisation	Front cover; 101	
102-2	Activities, brands, products, and services	219	
102-3	Location of headquarters	219	
102-4	Location of operations	https://home.kpmg.com/nl/nl/home/over-ons/offices.html	
102-5	Ownership and legal form	101	
102-6	Markets served	53-63	
102-7	Scale of the organisation	8-12	
102-8	Information on employees and other workers	9; 43	Full disclosure will be available in FY18/19
102-9	Supply chain	218	
102-10	Significant changes to the organisation and its supply chain	101	
102-11	Precautionary Principle or approach	215	
102-12	External initiatives	76	
102-13	Membership of associations	32; 34-41; 76	
	Strategy		
102-14	Statement from senior decision-maker	116	
102-15	Key impacts, risks, and opportunities	13-20; 22-76; 107-115	Audit Firm Code (AFC) 1.5

Table 24. General disclosures

Standard	Disclosure	Page	Reference
	Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	30	AFC 0.1 AFC 0.2
102-17	Mechanisms for advice and concerns about ethics	117-137	
	Governance		
102-18	Governance structure	78-96	AFC 0.3 AFC 2.1 AFC 2.2 AFC 2.3
102-19	Delegating authority	78-96	
102-20	Executive-level responsibility for economic, environmental, and social topics	78-96	
102-21	Consulting stakeholders on economic, environmental, and social topics	78-96	
102-22	Composition of the highest governance body and its committees	90	
102-23	Chair of the highest governance body	90	
102-24	Nominating and selecting the highest governance body	101	
102-25	Conflicts of interest	78-96	AFC 2.1 AFC 2.2 AFC 2.3
102-26	Role of highest governance body in setting purpose, values, and strategy	78-96	
102-27	Collective knowledge of highest governance body	78-96	
102-28	Evaluating the highest governance body's performance	78-96	AFC 1.2 AFC 2.4 AFC 3.2
102-29	Identifying and managing economic, environmental, and social impacts	76-96	AFC 2.3 AFC 2.4 AFC 2.5 AFC 3.2

Table 24. General disclosures

Standard	Disclosure	Page	Reference
102-30	Effectiveness of risk management processes	107-115	
102-31	Review of economic, environmental, and social topics	13-20; 22-76	AFC 1.1 AFC 3.1
102-32	Highest governance body's role in sustainability reporting	78-96	
102-33	Communicating critical concerns	78-96	
102-34	Nature and total number of critical concerns		Not disclosed
102-35	Remuneration policies	97-100	
102-36	Process for determining remuneration	97-100	
102-37	Stakeholders' involvement in remuneration	97-100	
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	31-32	
102-41	Collective bargaining agreements		Not applicable
102-42	Identifying and selecting stakeholders	31-32	
102-43	Approach to stakeholder engagement	31-32	
102-44	Key topics and concerns raised	215-219	
	Reporting		
102-45	Entities included in the consolidated financial statements	190	
102-46	Defining report content and topic boundaries	215-219	
102-47	List of material topics	215-219	

Table 24. General disclosures

Standard	Disclosure	Page	Reference
102-48	Restatements of information	218	
102-49	Changes in reporting	218	No material changes
102-50	Reporting period	Cover	Fiscal 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	215	
102-55	GRI content index	224	
102-56	External assurance	218	

Table 24. General disclosures

KPMG

Global Reporting Index (GRI)

Material topics

Strategic link to topics	GRI aspect disclosure	Page	Reference
The public trusts us			
DMA	103-1 Explanation of the material topic and its Boundary	22-24; 117-137	
	103-2 The management approach and its components	22-24; 117-137	
	103-3 Evaluation of the management approach	22-24; 117-137	
Audit Quality	419-1 Non-compliance with laws and regulations in the social and economic area	25-27	
	Audit Quality Indicators	28	
Community service	413-1 Operations with local community engagement, impact assessments, and development programmes	34-38	
Leading the Public Debate		13-20	
Compliance & Claims	413-2 Operations with significant actual and potential negative impacts on local communities	34-38	
Regulatory change		13-20	
Reputational issues		13-20	
Cultural change and improvement		29	
Integrity, ethics & independence	205-1 Operations assessed for risks related to corruption		100%
	205-2 Communication and training about anti-corruption policies and procedures	123	
	205-3 Confirmed incidents of corruption and actions taken	28; 137	Incident notifications to regulator: 1 (2) Reported cases of fraud: 0 (1) Wwft notifications: 44 (57) Disciplinary cases: 3 (2)
	Audit & Advisory fees	62-63	

Table 25. Material topics

Strategic link to topics	GRI aspect disclosure	Page	Reference
Our people are extraordinary			
DMA	103-1 Explanation of the material topic and its Boundary	43-52; 117-137	
	103-2 The management approach and its components	43-52; 117-137	
	103-3 Evaluation of the management approach	43-52; 117-137	
Diversity & Inclusiveness	405-1 Diversity of governance bodies and employees	90; 102	
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	47	
Leading the Public Debate	404-2 Programs for upgrading employee skills and transition assistance programs	44-47; 125-127	
Our clients see a difference in us			
DMA	103-1 Explanation of the material topic and its Boundary	53-63; 117-137	
	103-2 The management approach and its components	53-63; 117-137	
	103-3 Evaluation of the management approach	53-63; 117-137	
Client satisfaction		61	
Relevant services (Trust & Growth)		13-20; 53-56	

Table 25. Material topics

Strategic link to topics	GRI aspect disclosure	Page	Reference
Technology accelerates success			
DMA	103-1 Explanation of the material topic and its Boundary	64-70	
	103-2 The management approach and its components	64-70	
	103-3 Evaluation of the management approach	64-70	
(Technological) innovation		64-70	
Data security & GDPR	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	117-137	
Partnerships & alliances		57-58	
Operational excellence enables us			
DMA	103-1 Explanation of the material topic and its Boundary	71-76	
	103-2 The management approach and its components	71-76	
	103-3 Evaluation of the management approach	71-76	
Ecological footprint	302-1 Energy consumption within the organisation	73-75	
	302-4 Reduction of energy consumption	73-75	
	303-5 Water consumption	73-75	
	305-x GHG emissions	73-75	
	305-5 Reduction of GHG emissions	73-75	
Supply chain / procurement	102-10 Significant changes to the organisation and its supply chain	218	
Sustainable profit	201-1 Direct economic value generated and distributed	71-76; 138-206	
	201-3 Defined benefit plan obligations and other retirement plans	165-166	

Table 25. Material topics

Glossary

In the course of this report several abbreviations were introduced and used. The following table provides an overview of these abbreviations together with their full description or explanation.

Abbreviation	Explanation
AFM	*Autoriteit Financiële Markten* (Netherlands Authority for the Financial Markets)
AQCP	Audit quality curriculum for partners
AQI	Audit quality indicator
AQIC	Audit Quality Issues Council
B.V.	*Besloten vennootschap* (private company)
BW	*Burgerlijk Wetboek* (Civil Code)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHRO	Chief Human Resources Officer
CMAAS	Capital Markets Accounting Advisory Services
CO	Compliance Officer
COO	Chief Operating Officer

Abbreviation	Explanation
COP	Communication on Progress (Conference of parties; Paris climate agreement)
COS	*Nadere voorschriften controle- en overige standaarden* (International Standards on Assurance)
CQRMP	Country Quality & Risk Management Partner
CSM	Corporate Security Manager
C(S)R	Corporate (Social) Responsibility
CY	Calendar year
AQI	Audit quality indicator
D&A	Data & analytics
DEFRA	Department of Environment, Food and Rural Affairs
DNB	Dutch Central Bank
DPP	Department of Professional Practice
DRP	Digital risk platform
EED	Energy Efficiency Directive
EEI	Employee Engagement Index
ELLP	Europe Limited Liability Partnership
EMA	Europe, Middle East & Africa
EML	Emerging Leader
EQCR	Engagement quality control review
EU	Europe(an)

Abbreviation	Explanation
EUR	Euro
FAR	Foundation for Auditing Research
FTE	Full-time equivalent
FY	Financial year
GCR	Global compliance review, or: Global Climate Response
GDPR	General Data Protection Regulation
GGI	Global Green Initiative
gm	Gram
GPS	Global People Survey
GRI	Global Reporting Initiative
GSD	UN Global Sustainable Development goals
HR	Human Resources
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IDH	*Initiatief Duurzame Handel* (Sustainable Trade Initiative)
IIRC	International Integrated Reporting Council
ISA(E)	International Standards on Assurance (Engagements)

Abbreviation	Explanation
ISG	International Standards Group
ISO	International Organisation for Standardisation
JINC	*Jongeren Incorporated* (youth incorporated)
KAM	KPMG Audit Manual
kg	Kilo
KICS	KPMG Investment Compliance System
km	Kilometre
kWh	Kilowatt-hours
LED	Light emitting diode
M&A	Mergers & acquisitions
MiFID	Markets in Financial Instruments Directive
mln	million
NBA	*Koninklijke Nederlandse Beroepsorganisatie van Accountants* (Royal Netherlands Institute of Chartered Accountants)
NITSO	National IT Security Officer
NL	The Netherlands
NOREA	*Nederlandse Orde van Register EDP-Auditors* (Dutch Order of Registered EDP-Auditors)
NPS	Net Promotor Score

Abbreviation	Explanation
N.V.	*Naamloze vennootschap* (public limited company)
MBO	*Middelbaar Beroepsonderwijs* (secondary vocational education)
OCW	*Onderwijs, Cultuur en Wetenschap* (Dutch ministry of Education, Culture and Science)
OOB	*'Organisaties van Openbaar Belang'*
PBC	Prepared by clients
PCAOB	Public Company Accounting Oversight Board
PIE	Public Interest Entities (*'Organisaties van Openbaar Belang'*)
PIN	Performance improvement necessary
PTO	Predictable time off
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 as a service
SEC	Securities and Exchange Commission

Abbreviation	Explanation
SROI	Social return on investment
U.A.	*Uitgesloten aansprakelijkheid* (exclusion of any liability)
UN	United Nations
US	*United States of America*
TOJ	Training on the job
TOM	Target operating model
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
Wwft	*Wet ter voorkoming van witwassen en financieren van terrorisme* (Anti-Money Laundering and Counter-Terrorist Financing Act)
Wta	*Wet toezicht accountantsorganisaties* (Dutch Audit Firms Supervision Act)
YTP	Young Talent Programme

Contact

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kpmg.com/socialmedia

kpmg.com/app

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