

BDO HOLDING B.V. | EINDHOVEN, THE NETHERLANDS, 28 MAY 2019



ANNUAL ACCOUNTS 2018



ADDING CERTAINTY


BDO

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The original financial statements were drafted in Dutch. This document is an English translation of the original.
In the case of any discrepancies between the English and Dutch text, the latter will prevail.



Adding certainty

The world is changing every day, the pace of the changes is accelerating and the changes are affecting everyone. BDO took the time to reflect on the developments at play in 2018, taking stock of their expected impact on our organisation. What course do we, as an organisation, need to take to stay relevant in the Dutch economy and to Dutch society?

'Adding certainty to information to aid economic decision-making' is – and will continue to be – the core narrative that underlies all our services. Auditors and advisers not only foster the financial prosperity of individual organisations, but they also contribute to the effectiveness of the economic system. Based on their expertise, knowledge and experience, they can make a valuable contribution and give substance to their role in society, their role in the debate on financial and economic issues, and their role in improving rules and legislation and the related implementation aspects, by persistently adding certainty in an uncertain world.

Clients want to be able to hold their own in a rapidly changing world with a changeable labour market. To help them achieve this, it is key that we add certainty. Clients expect BDO to make business or governance risks manageable for them. No matter whether these risks involve financial statements, public finances or due diligence, BDO is expected to add certainty.

This is where our license to operate lies, both now and in the future: eliminating as much uncertainty as we can based on our expertise. In a world where fake news is spread every day, society's need for certainty is growing. And we have the capacity to add it. As the need for information and certainty changes, we will listen to stakeholders and adapt or broaden our services accordingly with a view to adding certainty on relevant information to stakeholders who require it. That is what society needs. BDO's auditors and business advisers will serve as beacons of certainty, now and in the future.

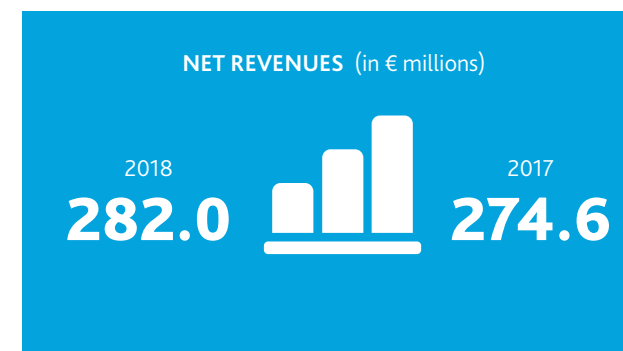
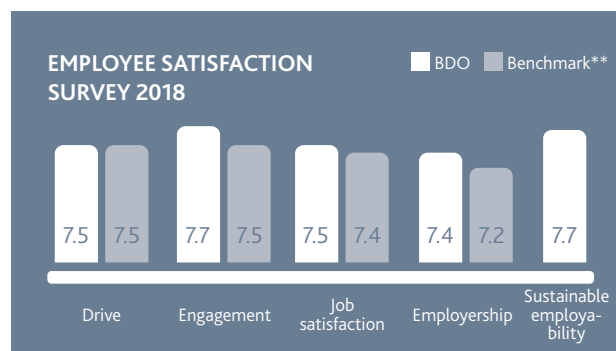
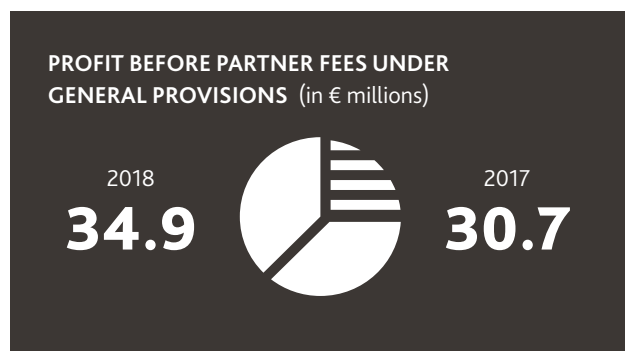
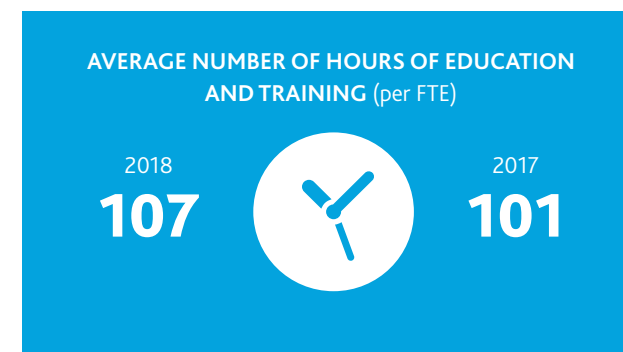
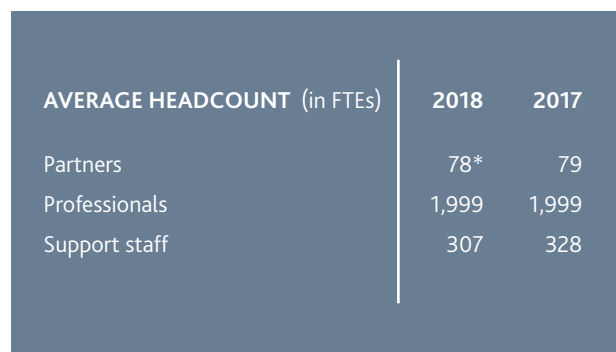
Eindhoven, the Netherlands, 28 May 2019

BDO Management Board

- ▶ A.D. (Dick) den Braber, chairman
- ▶ N. (Natasja) Baroch-Ammerlaan
- ▶ H.P.W.M. (Erik) Peeters

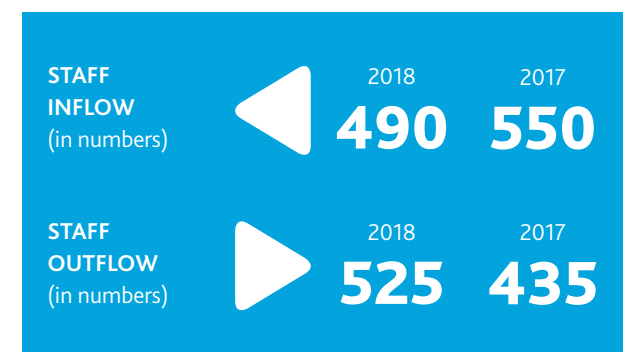


Key figures 2018



NET REVENUES BY DISCIPLINE (%)

	2018	2017
Audit & Assurance	37	37
Accountancy & Business Advisory	28	29
Tax consultancy	25	25
Advisory	10	9



* 75 holders of depositary receipts and 3 profit-sharing partners.

** Benchmark is financial services.

*** No client satisfaction survey performed in 2018; the survey is held every two years.

Key figures

	2018	2017	2016	2015	2014
Revenue (in € millions)					
Audit & Assurance	103.7	100.8	90.7	75.0	70.4
Accountancy & Business Advisory	78.1	78.5	72.8	77.0	81.6
Tax consultancy	71.1	69.5	64.2	62.2	61.8
Advisory	29.1	25.8	21.7	17.7	15.3
Total revenue¹	282.0	274.6	249.4	231.9	229.1
Increase/decrease in revenue (as a %)	2.7	10.1	7.5	1.2	(0.3)
Average revenue per FTE (in € thousands)	118	114	113	117	118
Profit (in € millions)					
Profit before partner fees under General Provisions applicable for BDO partners	34.9	30.7	26.1	31.2	32.0
Funding (as a % of total assets)					
Loans from partners (including depositary receipts)	35.3	34.5	33.9	38.4	36.1
Borrowings from credit institutions (long-term)	14.6	14.5	15.3	16.7	14.6
Headcount (in numbers at year-end)					
Audit & Assurance	863	866	774	677	565
Accountancy & Business Advisory	649	705	714	628	598
Tax consultancy	450	441	415	394	347
Advisory	213	180	174	142	121
Support staff ²	332	350	350	312	431
Total headcount	2,507	2,542	2,427	2,153	2,062
Increase/decrease in headcount (as a %)	(1.4)	4.7	12.7	4.4	(1.5)
Average headcount (in FTEs)	2,384	2,406	2,207	1,986	1,938
Average number of partners (in FTEs) ³	78	79	79	78	81

¹ Revenue by Lines of Service was redistributed in 2017. Only the comparative figures for 2016 have been restated accordingly. Revenue for previous years was not redistributed.

² In 2015, some support staff were transferred to the Lines of Service (professionals). The prior-year key figures in this table have not been restated or reallocated to reflect this. As a result of the sale of the shares of Global IT & Services B.V. on 1 January 2018, its 36 employees have not been included in the key figures since 2018.

³ This concerns 75 holders of depositary receipts and 3 profit-sharing partners.

Key figures

	2018	2017	2016	2015	2014
Diversity and composition of workforce (in numbers at year-end)					
Female	1,108	1,120	1,059	960	905
Male	1,399	1,422	1,368	1,193	1,157
Total headcount	2,507	2,542	2,427	2,153	2,062
Part-time employees (in numbers at year-end)	711	721	690	643	667
Average age (in years)	35.2	35.3	35.4	35.7	36.2
Employees with open-ended employment contracts (in numbers at year-end)	2,144	2,160	1,985	1,837	1,809
Education and training (in hours)					
Partners	4,279	4,392	5,139	4,718	4,405
Professionals	245,771	233,824	213,510	178,491	154,917
Support staff ¹	4,345	4,935	4,823	5,013	5,145
Total hours	254,395	243,151	223,472	188,222	164,467
Cost of education and training (in € thousands)					
Monetary value of hours	26,748	25,279	23,155	19,357	17,466
Out-of-pocket expenses	6,464	6,512	6,486	5,296	4,188

¹ In 2015, some support staff were transferred to the Lines of Service (professionals). The prior-year key figures in this table have not been restated or reallocated to reflect this. As a result of the sale of the shares of Global IT & Services B.V. on 1 January 2018, its 36 employees have not been included in the key figures since 2018.

Highlights 2018



January

In January, Rotterdam-based colleagues designed a three-day curriculum for IMC Weekend School, which offers courses especially for pupils from socially and economically underprivileged areas. The BDO course is meant to introduce pupils to the accounting profession and professionalism on the work floor. This is how BDO contributes to broadening pupils' horizons, helping them to make deliberate decisions about their career and future.

February

Trade barriers are disappearing and technological developments are taking place in rapid succession. These are some of the reasons why companies, including family businesses, are seeing cross-border opportunities. In collaboration with Rabobank, BDO published a study on the globalisation of family businesses. The study provides helpful pointers on how to prepare for and be thoughtful about conducting cross-border operations.

March

BDO Legal published *Arbeidswijzer*, an annual legal reference work covering changes in labour law and social security regulations for business owners, managing directors and HR officers. This is how BDO helps businesses take measures to

comply with ever-changing legislation on a continuous basis.

May

The new General Data Protection Regulation (GDPR) took effect. BDO not only made the required adjustments to comply with the privacy rules itself, but also assisted other organisations in implementing and embedding the Regulation with a multidisciplinary privacy team.

June

During the Family Business Circles, which BDO organised in collaboration with De Ondernemer, CEOs of leading domestically and internationally operating family businesses were educated about how best to prepare for growth. Delegates took the opportunity to refresh their knowledge and to network with CEOs of other family businesses.

The Tour of Eindhoven, a bicycle tour for charity, was held again. BDO Eindhoven acted as the main sponsor and was thoroughly represented at this sports event: about 10% of the total number of 555 participants were BDO staff or BDO clients. The day was a resounding success.

The BDO Fund teamed up again with *Stichting Opkikker*, a foundation organising pampering days for

chronically ill children, to organise an unforgettable day for 55 families with a sick child. BDO volunteers supported the families during the day by taking on the role of buddy or helped organise the day's activities.

September

On *Prinsjesdag* ('Budget Day'), which was on 18 September 2018, the Dutch Cabinet presented the Tax Plan for 2019. BDO Tax consultancy summarised the key changes and shared a clear explanation of what the changes might mean for a business or organisation.

BDO launched a new corporate media campaign that revolves around offering new perspectives. By combining personal services with a professional approach and an international network, BDO aims to offer businesses new insights and solutions at relevant times, in relevant places and on relevant themes. After all, being successful in business means having to reinvent yourself and being open-minded about opportunities.

October

This year, too, BDO published the Hospitals Benchmark, which examines the financial performance of general hospitals in the Netherlands. At first glance, Dutch hospitals seem to be

doing well financially, but the reality is that a care infarction is looming. BDO aims to use the benchmark to paint an overall picture of the financial situation of hospitals and increase their resilience at the same time.

A wonderful milestone: BDO was named 'Network of the Year 2018' by the *International Accounting Bulletin*. This award is presented every year to the multi-firm organisation that has displayed the most profitable growth strategies over the past 12 months and has excelled at strategic and operational level. The winner is recognised as a renowned brand that consistently delivers high-quality professional services. BDO also won the award in 2015.

November

As of this month, BDO has had its own Technology Center, which is located in the BDO office in Utrecht. The impact of digitisation is visible everywhere and, although technological developments offer many opportunities, they also come with risks. The BDO Technology Center has been designed to familiarise business relations and employees with digitisation and technology. This is how BDO seeks to increase awareness of the advantages and disadvantages associated with technology.

December

Nearly 2,000 BDO employees shared their opinions on important themes within the firm, such as engagement and drive, by completing the employee survey. The survey showed that BDO did well when compared to the benchmark (financial services firms); the outcome of the survey was above the benchmark. More particularly, employees indicated that they felt they had adequate opportunity for further development and that they had good working relationships with their managers. This survey helps BDO to continue fostering a pleasant work environment that allows employees to deliver top quality and the best service at any time.

In the list of Management Team 1000 (MT1000), BDO achieved a top-three ranking in the accountancy, tax services and data compliance category. MT1000 is the largest survey among corporate policy-makers of the quality and popularity of professional service providers in the Netherlands. The survey is conducted by the Erasmus Centre for Business Innovation.



About BDO

Our history

BDO's history goes back a long way. Our firm's foundations were laid over 80 years ago. In 1967, Mr Camps and Mr Obers, the founders, decided to merge their firms. At that time, the organisation employed approximately 50 people in total. A number of acquisitions followed, and Camps Obers & Co grew steadily. The 1970s saw growth in the range of disciplines and the number of offices. There were also many advances in IT and developments at international level. In 1987, the organisation became part of BDO International, whose name is an acronym of the names of the founding member firms, which included the Dutch firm Dijker. In December 1999, the number of employees hit the 1,000 mark. The organisation merged with Walgemoed the following month, which increased the number of employees to 1,800. Five years later, the firm was converted into a private limited liability company (B.V.). In the years that followed, digitisation took off.

In recent years, the focus has been on consistently delivering top quality and providing service excellence to our clients (these are the two pillars of our strategy 2016-2020). In addition, we are always keen to offer new perspectives for our clients as well as our employees.





Our profile

We are a global accounting firm operating in the areas of audit and assurance, accountancy and business advisory services, tax consultancy and advisory services.

Profile

BDO is a global top-five audit and accounting firm, boasting more than 2,500 skilful and experienced employees in the Netherlands, who are based in 19 offices across the country.

BDO has a wide variety of clients, ranging from SMEs, directors/majority shareholders and high-net-worth individuals to large Dutch and international businesses and listed companies, as well as public-sector organisations. This diverse client base calls for a combination of broad knowledge and flexibility on the one hand and customised solutions – in the form of specialist expertise where necessary – on the other.

BDO is part of the global network of autonomous and independent firms that provide professional services under the BDO label. BDO is an informal, accessible and transparent organisation with a pragmatic, no-nonsense mentality. There is room for a human approach, and we are aware of our responsibilities.

We concentrate on enabling employees to develop into advisers who devote all their talents to providing their clients with the

Our ambition

To provide service excellence and consistent top quality.

highest quality services and building excellent client relationships. BDO owes its existence to the long-term relationships we have developed with our clients.

With 19 locations, we are not only physically close to our clients, we are highly accessible to them too. Clients are assigned a single point of contact at partner level and a fixed team of staff. BDO supports businesses by providing them with excellent advice at a time and place that suits them.

BDO is aware of the impact its services have on society. The scope of our services goes beyond our obligation to the client. Having an external auditor perform an audit of financial reporting, particularly with respect to risks that could threaten the continuity of the business, is in the direct interests of institutional investors, private shareholders, employees, authorities and other stakeholders.

Ambition

BDO's ambition is to always act as a trusted adviser and an independent external auditor to clients and society at large. BDO wants to stand out by always delivering top quality and service excellence, and by providing professional

Our core values

Personal, passionate, pragmatic, professional.

growth and development opportunities to our partners and associates. Delivering top quality goes beyond the quality of our services. In our day-to-day conduct of practice, we also focus on the social, economic and environmental quality of our local communities.

Core values

The BDO Code of Ethics describes our principles and translates them into core values that can be captured in the following four adjectives: personal, passionate, professional and pragmatic.

The Code of Ethics serves as our frame of reference for our employees and as a tool for explaining our principles to our clients and society. Every one of our people give their own interpretation to the Code. The common denominator continues to be the BDO approach: personal, passionate, professional and pragmatic. By following the BDO approach, we are able to give direction to our ambition to act as a trusted adviser and an independent external auditor.

Unique proposition

Committed, innovative, level-headed, approachable and accessible.

► Personal

We feel a strong personal connection with our firm, our clients and the world around us. We take personal ownership of our actions. We create trust by being genuinely involved.

► Passionate

We are passionate about our profession, our relationships and our firm. We are inherently motivated to be the best that we can be and help others to do the same. This gives us the energy and the drive to offer service excellence and top-quality workmanship.

► Professional

We are professionals and we stand for top quality. All our people act with integrity, and they are professional and objective in their respective fields. We exercise due care and we are discreet, always mindful of the needs of people and the situation.

► Pragmatic

We take a pragmatic approach. We offer practical solutions that are tailored to the situation. We communicate clearly and directly, and reduce complex matters to their essence.



Our clients

We believe in strong relationships with clients and in personal, tailor-made solutions. Our clients operate in a wide range of market segments, but they all have a service ask. We offer them solutions so that they can focus on doing business.

Our services are primarily geared towards adding certainty for our clients. Every client is assigned a single point of contact from the start. Irrespective of the area to which the client's questions are related, the single point of contact at BDO handles every question with a team of specialist professionals drawn from our organisation. Thanks to our national and international network, we have the necessary know-how to come up with good solutions for the problems that businesses face.

Our services are characterised by our no-nonsense mentality. We get straight to the heart of the issue and are clear and frank in our approach to matters. We know our clients, the ins and outs of their organisations, and the personal considerations that come into play. During the reporting period, we saw that this is appreciated by our clients and that they remain loyal to BDO. We, for our part, are highly appreciative of their loyalty.

Our people

We believe that our people are our key asset, and as such the quality of our employees determines the standard of our services, our development and our growth. Our motto is to concentrate on what you do best. All of our people are unique, as are our clients.

Our professionals focus heavily on aspects relating to culture, attitudes and behaviours. The human factor is inherent in all that we do for our clients. We know how to influence culture, attitudes and behaviours because we recognise how important these aspects are.

Our auditors and advisers are committed to forging open and trusted relationships with clients. Our people are continuously looking to make connections. Just having knowledge of the client's business is no longer enough. We proactively try to connect with other organisations within and outside the sector, so that we always have the most up-to-date and valuable input to share with the client.

Personal talent development is important to us. By enabling our people to concentrate on what they do best and allowing them to grow, take on challenges and build a career, we can ensure that

the talents of our people are put to the best possible use when providing services to our clients. Knowledge and expertise are the common thread in the services we provide. Today's need for thinking and acting on our feet comes naturally to us. As we are a network firm, we have a local presence and we can provide businesses with the best possible support in dealing with change. Our strength lies in the impact we make. We are happy to provide input on strategy, and our pragmatic approach to implementation sets us apart.

Our services

We offer professional services in four areas:

Audit & Assurance

Businesses and society must be able to rely on figures. Rules must have been applied correctly and statutory obligations must have been fulfilled; a business wants to communicate this clearly to its shareholders, investors, suppliers and clients. BDO Audit & Assurance is able to offer such assurance. In addition to audit and attest services, this Line of Service (LoS) also offers added value thanks to the natural advisory role it fulfils. It provides advisory services that are clear and transparent, and are geared to the client's specific organisation and sector. If a company has foreign operations, our international network is available to conduct an efficient, seamless audit of the group as a whole.

Accountancy & Business Advisory

BDO's accountants and business advisers offer assistance to businesses in managing their financial accounts and provide certainty that the figures are accurate and up-to-date. At the same time, they interpret those figures, thereby providing new insights and creating opportunities for the client. Smart online solutions are used for accounting processes and a personal adviser is assigned to offer new perspectives. Our accountants compile financial statements and management information, and keep their clients' financial and payroll records using high-quality online and offline applications. The personalised 'My BDO' environment allows for data exchange and offers businesses easy access to reports, tax returns, and general and sector-specific news items. The platform also supports reporting using XBRL/SBR.

The designated personal business adviser acts as a sounding board, coach and critical sparring partner, and takes a proactive approach to offering input on matters ranging from financial return to business succession, HR services, tax planning, estate planning to continuous process improvement.



Tax consultancy

Our Tax consultancy Line of Service takes a practical and proactive approach to serving the tax interests of businesses. Tax laws and rules are constantly changing, and tax issues are becoming more and more complex. Moreover, the increase in public attention means that tax planning is, to an increasing extent, becoming a matter of reputation. For businesses, getting a grip on their tax position and planning is more important than ever. BDO steers them through the maze of ever-changing tax rules. Our services go much further than merely arranging practical tax matters. Our approach is characterised by our broad scope, in which our tax specialists offer proactive input on strategic opportunities in the area of taxation for your business or organisation.

BDO's tax consultancy team consists of general advisers and specialists.

Our generalist advisers offer tax and legal solutions from the broad perspective of business economics or private-law requirements. Rather than ready-made products, we provide practical, efficient solutions that are tailored to the client, in consultation with the client's auditors and other partners where appropriate.

Given the complexity of the law, we also have several specialists on offer who focus on one particular domain, including:

- ▶ VAT services
- ▶ payroll tax and social security
- ▶ corporate tax services
- ▶ global outsourcing
- ▶ International Tax Services
- ▶ real estate valuation services
- ▶ private clients
- ▶ innovation, grants & incentives
- ▶ tax risk management
- ▶ transfer pricing

Advisory

BDO has a team of specialists for key organisational issues. They provide advice and arrange interventions that serve to leverage the business's earnings and performance. Our consultants take a personal, committed approach and offer tailor-made solutions. They have knowledge of the local market and specific industries, and expertise is also contributed by the global BDO network.

This Line of Service covers a wide range of services, including advice on issues such as cybersecurity, which is essential in view of the latest advances in new technology, artificial intelligence and the internet of things.

Despite their different professional backgrounds, our advisers all follow the same basic principle of focusing on the return for the client. People from different Lines of Service work together at local and regional level to offer our clients an all-in service. In addition to management from the Lines of Service, the organisation is also centrally managed along the lines of three market domains, concentrating on SMEs & Family Businesses, Corporate Clients and Public Sector.

Our organisation

Corporate structure

BDO Holding B.V. heads a group of related private limited liability companies ("the BDO Group") that – together – form a professional services provider. The BDO Group is structured along four Lines of Service: Audit & Assurance, Accountancy & Business Advisory, Tax consultancy and Advisory.

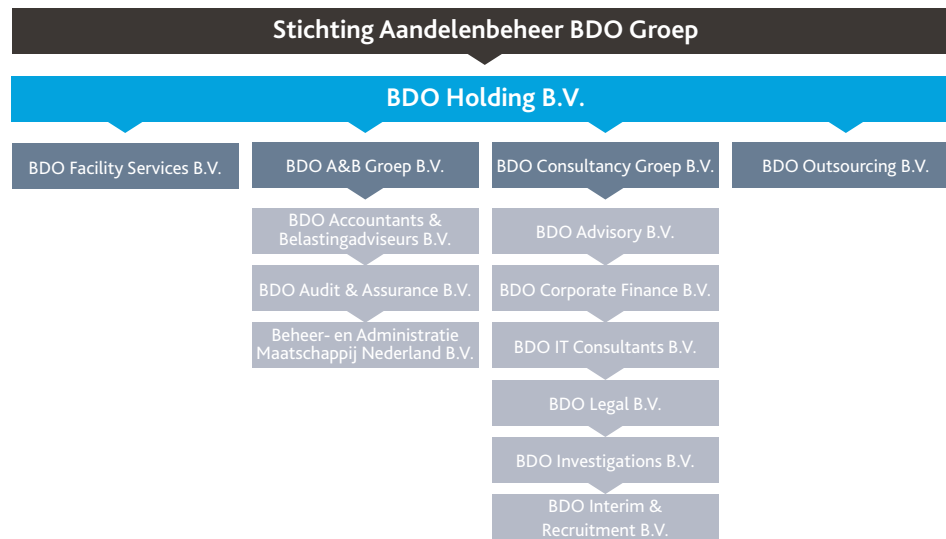
BDO Audit & Assurance B.V. is responsible for providing audit and assurance services and has a statutory audit licence as referred to in the Dutch Accounting Firms Oversight Act, which allows it to audit Public Interest Entities, among other enterprises.

BDO Accountants & Belastingadviseurs B.V. offers both accountancy and business advisory services and tax consultancy because they are often provided or purchased as an all-in package.

Advisory services are spread over the different companies that come under the sub-holding company BDO Consultancy Group B.V.

Some activities have been transferred to a separate company due to the specific risks or statutory requirements that are associated with them.

The legal structure of the BDO organisation in 2018 is shown in the following chart (only companies with active operations are included) on the next page.



The shares in Global IT & Services B.V. (formerly BDO Global IT Management & Support B.V.) were transferred to Brussels Worldwide Services BVBA early in 2018. As a result, this company is no longer a member of the group. Global IT & Services B.V. provides information technology services to the international network. Given that these services have increased dramatically in recent years and BDO International is largely responsible for managing them, it was decided to transfer the shares to Brussels Worldwide Services BVBA, which is responsible for coordinating the shared services within the BDO network.

Stichting Aandelenbeheer BDO Groep

Stichting Aandelenbeheer BDO Groep has three bodies, i.e.: the Management Board, the Supervisory Board and the Meeting of Holders of Depositary Receipts. The members of the Management Board and the Supervisory Board are appointed by, and report to, the Meeting of Holders of Depositary Receipts. The members of the Management Board of Stichting Aandelenbeheer BDO Groep and the Management Board of BDO Holding B.V. are the same.

Meeting of Holders of Depositary Receipts

Through their professional practice companies, the partners who are affiliated with BDO are holders of depositary receipts for shares that are issued by Stichting Aandelenbeheer BDO Groep. These partners work for specific BDO group companies under a management agreement. As at 31 December 2018, BDO had 75 holders of depositary receipts.

Management Board

There is an uninterrupted governance line within the BDO Group, due to the fact that the managing boards of all group companies are made up of their sole shareholder, as a result of which, from a top-down perspective, the Management Board of the BDO organisation always consists of the members of the Management Board of Stichting Aandelenbeheer BDO Groep, albeit acting in different capacities.

On 31 December 2018, the Board of Stichting Aandelenbeheer BDO Groep and the Management Board of BDO Holding B.V. consisted of the following persons:

- ▶ A.D. (Dick) den Braber, chairman;
- ▶ H.P.W.M. (Erik) Peeters.

A new member was appointed on 16 May 2019, i.e.:

- ▶ N. (Natasja) Baroch-Ammerlaan.

Supervisory Board

Besides its general supervisory duties, the Supervisory Board has a number of specific duties relating to BDO Audit & Assurance B.V.

On 31 December 2018, the Supervisory Board consisted of the following persons:

- ▶ A.P.H. (Ton) Rutgrink, chairman;
- ▶ B.J.M. (Bernadette) Langius, vice-chair;
- ▶ Th.A.J. (Dorine) Burmanje;
- ▶ D.J. (Dennis) Raithel;
- ▶ P.A.M. (Paul) Thijssen.

For the Report of the Supervisory Board, see page 16 of these Annual Accounts.

Market segments

BDO's services focus on three market segments, i.e.: SMEs & Family Businesses, Corporate Clients and Public Sector. Each market segment has a market leader who is responsible for managing their respective segment.



On 31 December 2018, the market leaders were:

- ▶ J.P. (Joost) Vat, market leader of the market segment SMEs & Family Businesses;
- ▶ J.H. (John) Hijmans, market leader of the market segment Corporate Clients;
- ▶ R.W. (Roland) van Hecke, market leader of the market segment Public Sector.

Lines of Service

The BDO organisation consists of various operating companies that encompass four Lines of Service: Audit & Assurance, Accountancy & Business Advisory, Tax consultancy and Advisory.

Each of the companies encompassing a Line of Service has a practice director (Head of LoS), who is responsible for the day-to-day management of the activities that come under that Line of Service. In pursuing the day-to-day policies of the Line of Service, each practice director is supported by a management team, which consists of the practice director and two other equity partners in the relevant Line of Service.

On 31 December 2018, the Heads of LoS were:

- ▶ J.H. (Hans) Renckens, Head of Audit for the Audit & Assurance LoS;
- ▶ E. (Eddy) Staas, Head of Tax for the Tax consultancy LoS;
- ▶ J.F.G.G. (Jeannot) Evers, Head of Accountancy for the Accountancy & Business Advisory LoS;
- ▶ J.W.M. (Hans) van Gils, Head of Advisory for the Advisory LoS.

Executive Committee

The Executive Committee is a consultative body whose aim is to align and/or coordinate general policies to be pursued within the practice. The market leaders were added to this body on 1 January 2019. As a result, the general policy governing the market approach now also forms part of the alignment/coordination efforts.

List of offices

An overview of BDO's offices in the Netherlands, which provides information on all offices, is available on our website (www.bdo.nl).

Works Council

The Works Council represents the employee body as a whole; it does not look after the interests of individual employees. Where schemes prove to be problematic for groups of employees, the Works Council takes it upon itself to investigate matters and raise them with the Management Board. Improvements are sought jointly.

The Works Council communicates information within the organisation concerning its activities, discussion topics and initiatives. It is up to the employer to inform employees of developments within the organisation.

The Works Council negotiates and, in doing so, has a keen eye for the overall picture and the continuity of the organisation. As a result, some aspects may have an adverse effect on individuals or small groups of employees while they represent an improvement for most employees. BDO's Works Council is not a trade union.

At year-end 2018, BDO's Works Council had 14 members from various profit centres and Lines of Service. The Works Council aims for a balanced composition in which every profit centre of BDO is represented. In 2018, the male/female ratio within the Works Council was 9 to 5. In order to be able to operate efficiently and effectively, the Works Council has established a number of committees. This allows it to act decisively and adopt a broad scope; individual members do not need to study every matter in great detail. The committees, which are specialised, seek out opportunities and threats. They also prepare initiatives for, and supply information to, the Works Council as a whole.

The Works Council met seven times in 2018. Six consultative meetings were held with a representative of the Management Board and the HR Director, two of which took the form of a strategic meeting that was attended by two members of the Supervisory Board as well. The Works Council also met separately with the Supervisory Board on two occasions in 2018. Moreover, various talks were held with the members of the Management Board on an informal basis.

In the past reporting period, various issues were addressed, including an improvement to the pension scheme for employees who joined the firm in 2008 or later, sustainable employability and the market approach. In response to signals from employees, the Works Council also talked about such issues as organisational and other changes within BDO, such as the combination of local offices.

Report of the Supervisory Board

2018 was the second full year in which BDO had a Supervisory Board. Our role is to supervise the Management Board and BDO's general management. This supervision extends to the audit and advisory practices, and the synergies and challenges that come with the coexistence of these practices within BDO. As a result, our duties and responsibilities cover firm-wide aspects. We supervise the policies pursued by the Management Board, particularly when it comes to achieving the firm's objectives, the strategy and the risks associated with the business activities, the internal risk management and control systems, and financial reporting.

In addition to exercising supervision, the Supervisory Board also has an advisory role. In this role, we act as a sparring partner to the Management Board when considering the development and implementation of policy in key areas and major projects or investments. Experience, expertise and competencies gained by members of the Supervisory Board in other sectors help to offer the Management Board a broader perspective and new insights. The roles and responsibilities of the Supervisory Board have been laid down in BDO's articles of association and in the Rules of Procedure for the Supervisory Board, with due observance of the amendments that have been made to the Dutch Audit Firms (Supervision) Act (*Wet toezicht accountantsorganisaties* - 'Wta').

In performing our duties, we make allowance for the interests of BDO and we safeguard the interests of BDO's stakeholders. One of our primary responsibilities is to protect the public interest by ensuring the independence, quality and integrity of BDO. We are confident that a focus on the public interest will lead to the creation and protection of these values for all of BDO's stakeholders.

The key tool in protecting the public interest is the monitoring of the strategy, quality, corporate culture, conduct and the independence of the organisation. We challenge, and offer constructive feedback to, the Management Board in these and other areas.

In order to fulfil our broad public role, the Supervisory Board is made up of external members who have gained a wide range of experience and knowledge in their past and current positions.

This report describes how the Management Board of BDO and the general situation at BDO were supervised in the reporting period.

Developments in 2018

The accountancy field continued to be very much in the public eye in 2018. The Dutch Audit Firms (Additional Measures) Act (*Wet aanvullende maatregelen accountantsorganisaties* - 'Wama') came into force on 1 July 2018 and the report of the Accountancy Monitoring Committee was published, while, at the end of the year, the Dutch Minister of Finance instituted the Accountancy Sector Supervision Committee. These are developments that have or will have a major impact on the sector and on individual firms.

The entry into force of the Act in particular was the subject of an in-depth debate within BDO. The Supervisory Board appreciates the way in which this discussion was conducted and how it has led to clear positions.

The Accountancy Monitoring Committee's report shows that views are evolving. It takes a critical look at the report 'In the Public Interest', which was published earlier by the Netherlands Institute of Chartered Accountants (NBA), seemingly taking the effectiveness of the various measures described in that report as a central theme.

The mission of the Accountancy Sector Supervision Committee suggests that it is mainly the structure and business models of audit firms that should be revisited against the background of further improvements in the quality of audit firms. The Committee is expected to have completed its work by the end of 2019.

New ideas, suggestions and/or measures pertaining to the quality of audit firms will undoubtedly come to the surface in 2019. The Supervisory Board sees it as its duty to examine how BDO responds to current and expected developments, starting from the premise that it is primarily BDO itself - obviously making allowance for existing and/or new legislation and regulations - that is and will continue to be responsible for achieving the quality objectives that have been set within the firm and that external parties expect us to attain. The use of resources is key in this context and the expected effectiveness and measurability of the results should be central themes. It is up to BDO to create the customised solutions that are best suited to it.

The Supervisory Board will supervise the choices that are made and the expeditiousness with which BDO is implementing them. The Supervisory Board will also continuously challenge and encourage BDO to stay on course.

Supervisory Board: left to right Ton Rutgrink (chairman), Paul Thijssen, Dorine Burmanje, Bernadette Langius (vice-chair) and Dennis Raithel



Supervision in 2018

We held six regular meetings and several informal talks and conference calls with the Management Board in 2018. In addition, meetings were held with the Heads of LoS, the Works Council and various support staff officers, and there were meetings with partners during partner sessions. These meetings provide the Supervisory Board with important input and help it to perform its role within BDO as well as possible.

The following key themes were central to our supervision in the past reporting period:

1. Strategy and long-term value creation

We advise the Management Board on the firm's long-term vision and strategy and monitor the transposition of strategy into concrete policy. In the past year, the Management Board implemented and oversaw a strategic process that entailed looking at the future market in which BDO will operate, the role and contribution that the market demands, and the role that BDO can and wants to play. Through our regular meetings with the Management Board, we are closely involved in this strategy development process and we also attended the meetings that were held with stakeholders on this subject. A strategy session with the Management Board that was held in June 2018 served to discuss developments that affect the strategy and long-term value creation. We provide input to the Management Board and advise it on the form and substance of the process based on the expertise and experience of our individual members. A key aspect of this strategy is the pursuit of quality. BDO has put this at the heart of its mission: 'consistently delivering top-quality services'. In 2018, particular focus was placed on the quality delivered by the Audit & Assurance Line of Service.

2. Quality and social relevance

As the Supervisory Board, we encourage and monitor quality improvements in the organisation. During the reporting period, one aspect we focused on was challenging and advising the Management Board on policies and measures concerning quality within the Audit & Assurance Line of Service. We placed emphasis on intensifying measures that will be highly effective in the short term, such as partner involvement in engagements and the limiting the size of the external auditors' portfolios. We also see quality as a key criterion in the appointment and remuneration process of partners.

Another important quality aspect is the proper implementation of the measures described by the Netherlands Institute of Chartered Accountants (NBA) in its report 'In the Public Interest'. The Netherlands Authority for the Financial Markets (AFM) monitors the implementation of the change process through its dashboard 2016, which was published in June 2017. The AFM has centred its review around the themes 'in control', 'conduct and culture' and 'internal supervision'. With regard

to the latter, the AFM focuses on how the Supervisory Board puts its responsibilities into practice. With regard to internal supervision, the AFM acknowledges the Supervisory Board's efforts to safeguard quality and protect the public interest. A higher quality of service will not only bolster the position of BDO as an audit firm, but it will also strengthen society as a whole because it adds certainty to financial services.

3. Culture and conduct

An accountancy firm cannot deliver quality if it does not have a sound corporate culture. The BDO Horizon programme, which was launched in 2016, was stepped up in 2018. This programme is designed to bring about, in the broadest sense, an improvement in mentality, attitude, culture and factors aimed at improving quality. It introduced a learning and improvement process that BDO aims to further develop and embed in the organisation. This calls for an ongoing investment in a learning culture, aimed at the continuous development of a quality-oriented climate. A deeper focus on conduct and learning capacity was initiated in 2018.

We encourage this development and will monitor the effectiveness of the measures taken. In 2018, there were many discussions with the Management Board about these activities and we encouraged the Management Board to place even more focus on evaluating the effectiveness of the measures and, where necessary, make adjustments or provide an extra impulse. Moreover, we are convinced of the positive impact of employee diversity (not only in terms of gender, but also in terms of background, expertise and experience) on the corporate culture, which is why we are determined to continue encouraging and supporting measures to promote diversity.

The outcome of the culture survey for 2017 were discussed in 2018 as well. This survey shows a positive development from 2015 on the surveyed themes. Throughout the organisation, respondents were found to be highly committed to delivering quality. In a broad sense, respondents felt that there is more scope for personal development and they noticed that BDO is actively investing in personal development initiatives. There is room for improvement when it comes to the learning and development climate, especially with regard to 'openly discussing, analysing and learning from mistakes'. That is why we are pleased to see that it is the firm's learning capacity that has been designated as the area of focus in the new phase of BDO Horizon.

The outcome of this second culture review and the experiences from BDO Horizon show that steps are being taken: the BDO culture is moving in the right direction.

4. Transformation

Given developments within society and changes in rules and legislation, the challenge that BDO faces within all its Lines of Service is guaranteeing its continued existence in the long-term. In this context, it is crucial that the Management Board make the right choices at the right times. We see it as our duty to help the Management Board focus on bringing about this transformation. We do so by providing advice and exercising supervision, and this often leads to specific recommendations to refrain from certain actions, to step matters up or to shift focus. In this process, we always keep in mind that the interests of the BDO organisation as a whole are involved. This is how we avoid getting lost in the details or interests of a specific person, situation or case.

In the context of this transformation, we have informed the Management Board of our opinion regarding staffing in the most senior ranks of the organisation, as this is an area of vulnerability owing to the number and scale of the changes that BDO needs to make. With a view to the more distant future, too, it is important that talent and leadership development take place at the right time in order to secure the right people for positions at management level, and that potential external candidates are also considered. In 2018, under the guidance of an external agency, a recruitment process was initiated to recruit an additional Management Board member; the succession of the Head of Audit was also considered in this process. Together with the Management Board, we conducted interviews with a number of candidates, which led to the selection of a preferred candidate at the end of 2018. Following the positive outcome of the suitability screening by the Netherlands Authority for the Financial Markets (AFM), Mrs N. (Natasja) Baroch-Ammerlaan was appointed to the Management Board on 16 May 2019.

In addition to looking at the composition of the Management Board, we also considered the staffing and time commitment of the management team of the Audit & Assurance Line of Service in 2018. It is important to us that the members of the management team have enough time to spend on the day-to-day management of the Audit & Assurance practice. In 2018, we decided that the hours the members of the management team get to spend on the practice should not exceed 40% of their total working hours. The Head of Audit has been fully freed up for his role as policy-maker for the Audit & Assurance Line of Service.

Other issues that were tabled in the meetings with the Management Board in the reporting period were:

- ▶ Status of internal and external quality controls;
- ▶ Status of key projects within the scope of the Management Board's Annual Plan for 2018;
- ▶ Financial performance (actual and budgeted);
- ▶ Management information and non-financial KPIs;
- ▶ QRM quarterly reports (updates on independence, claims, risk management, regulations, etc.);
- ▶ Assessment of strategic risks;
- ▶ Claims and risks;
- ▶ Root cause analysis of Audit & Assurance practice;
- ▶ Policy changes regarding file reviews;
- ▶ Approval of proposed appointment of audit partners;
- ▶ Exit monitoring of partners and staff in key positions;
- ▶ Monitoring of compliance with key policies and processes;
- ▶ Remuneration policy for partners and staff;
- ▶ Assessment and remuneration of assurance partners;
- ▶ Termination of management agreements with equity partners;
- ▶ Status of internal audit pilot;
- ▶ Review and approval of integrated annual report, including financial statements and transparency report;
- ▶ Amendments to Dutch Audit Firms (Supervision) Act ('Wta');
- ▶ Assessment of Compliance Officer and annual report of Quality & Risk Management.

Other activities

The Supervisory Board has two standing committees: the Audit Committee and the Remuneration & Appointment Committee. These committees have an advisory role within the Supervisory Board and have been instituted by, and are made up of, members of the Supervisory Board. No separate committee has been appointed for monitoring the public interest; we see this as a mission for the entire Supervisory Board.

The Audit Committee focuses on finance and accountability, internal and external audits, and risks. This Committee reviews the budget and the integrated annual accounts, including the financial statements. The Audit Committee meets regularly with the persons responsible for the internal audit, risk management and finance, and holds annual meetings with the external

auditor to discuss the audit plan, the audit approach, the board report and the management letter. This Committee met twice in 2018. The attendance rate for both members was 100%.

The Remuneration & Appointment Committee makes proposals for the remuneration of BDO policy-makers. It supervises the appointment process and the nomination of new members of the Management Board for the Supervisory Board. This Committee also supervises the effectiveness of the performance management system and the appointment process of new partners in the Audit & Assurance practice. This Committee met twice in 2018. The attendance rate for both members was 100%.

During the reporting period, the Supervisory Board also kept in contact with the AFM, the Accountancy Monitoring Committee and the supervisory boards of the Next Five PIE audit firms.

In 2015, the AFM performed a standard review of BDO, examining the quality of three statutory audits. The AFM finalised its report of findings on one of the selected audit files (for the reporting period 2014) in 2018 (we received the report of findings on the other two audit files earlier).

With regard to the audit file in question, the AFM concluded that the quality of the statutory audit was 'unsatisfactory'. It also noted that the external auditor and the second partner in charge acted in violation of the fundamental principles of professionalism, integrity and professional competence and due care (Section 2 of the Dutch Regulation on Rules of Ethical and Professional Conduct for Accountants). In addition, the AFM argued that BDO did not ensure that the external auditor signed the independent external auditor's report on the financial statements after the audit procedures had been performed and formalised (Section 11(4) of the Dutch Audit Firms (Supervision) Decree).

In response to the AFM's preliminary findings, BDO provided a detailed explanation of the individual measures and organisational measures that were taken following the AFM's file review on multiple occasions in 2017. Based on BDO's response, the AFM saw fit to perform a review of the sound and controlled operational policies and processes (as described in Section 21 of the Dutch Audit Firms (Supervision) Act) in place at BDO in the period between July 2015 and May 2017. The review focused on the role of the relevant policy-makers in the conclusions and findings following the AFM's review of the audit file in question and in informing the AFM on these. As part of the review, the AFM demanded to see minutes of Management Board meetings and emails of current and former policy-makers and the Compliance Officer. This concerned the

period between May 2015 and October 2016. The AFM completed its review in 2019. Upon completion of the review, the AFM said that it saw no reason to impose formal enforcement measures and to issue a warning.

Performance assessment and remuneration of Supervisory Board and Management Board

Each year, we evaluate both our collective performance and that of the individual members. In 2018, we performed a self-assessment of our performance in 2017. The assessment of our performance in 2018 will be carried out with professional external assistance in 2019. In this context, we will look at the profile, the effectiveness, the available time and the composition of the Supervisory Board in the light of the relevant areas of expertise. The AFM's feedback will also be taken into account in the self-assessment.

We receive a fee, which has been set by the Meeting of Participants. For details on our remuneration, we refer to the financial statements.

We also conducted performance assessment interviews with the members of the Management Board. The basis for these interviews was the Annual Plan of the Management Board and the strategic objectives specified in it.

Based on the Dutch Audit Firms (Additional Measures) Act ('*Wama*'), which came into force on 1 July 2018, and the related Audit Firms (Additional Measures) Decree, we submitted a proposal in 2018 for a remuneration policy for the day-to-day policy-makers of the audit firm and/or the hierarchically highest-ranking body (revised Section 34e(2) of the Dutch Audit Firms (Supervision) Decree). This remuneration policy was approved by the Meeting of Participants. On this basis, we will determine, early in 2019, the remuneration of the day-to-day policy-makers of the audit firm and/or the hierarchically highest-ranking body, including the members of the Management Board.

Independence

Our duties and powers, as described in the Rules of Procedure, determine the position of the members of the Supervisory Board under the applicable independence rules. The members must be independent both effectively and in appearance. The BDO Compliance Officer monitors the personal and financial independence of the members of the Supervisory Board.

All members of the Supervisory Board qualify as independent in accordance with the aforementioned rules and regulations. In accordance with Article 11 of the Rules of Procedure, we have not taken any decisions that involved a conflict of interests.

Training

We have established that, in addition to the in-house knowledge sessions we attended in 2018, for instance relating to the Dutch Audit Firms (Supervision) Act, there is a need among our members for acquiring more in-depth knowledge of measures aimed at protecting the public interest and promoting technology & innovation. This will be further fleshed out in 2019. In 2019, focus will also be placed on preparing for the suitability screening of supervisory board members, which is expected to take place in the second half of 2019.

Financial statements

The annual accounts and the financial statements 2018 were prepared by the Management Board. The financial statements have been audited by Deloitte, our independent external auditor. Their auditor's report has been included in these Annual Accounts. The audit findings were discussed with the Audit Committee in the presence of the Management Board.

Transparency Report

BDO's policy-makers have discussed the Transparency Report 2018 with us. In our opinion, the report and its tone are in line with our impression of the past year and accurately reflect the relevant issues and developments that were presented to us in the past year and that we have monitored.

Summary

We are pleased that the four themes described above have the Management Board's full attention, that progress has been made and that the Management Board is prepared to implement drastic changes and improvements. Within BDO, we see broad growth in awareness of the firm's role and responsibility in society. Much time and energy has been devoted to creating a quality-oriented culture and a clear quality policy.

Outlook

Looking ahead to 2019, the primary focus will once again be on quality and the corporate culture. The actual effect of the measures that have been taken and the efforts put forth to create a quality-oriented culture will be carefully evaluated. Importantly, the efficacy of the choices made and measures taken will be assessed, so that the prioritising and balancing of measures can be managed dynamically. This is crucial if BDO is to become even more of a learning organisation. The partner model, the diversity of the partner group and the managing directors of the future and the related talent development will also continue to be important themes. 2018 was a good year for BDO, both financially and in terms of achieving strategic objectives. We realise that the sector in general and BDO in particular will face many challenges going forward. We see it as our mission to support, advise, challenge and monitor the Management Board in its efforts to meet and overcome these challenges.

Eindhoven, the Netherlands, 28 May 2019

Supervisory Board

- ▶ A.P.H. (Ton) Rutgrink, chairman
- ▶ B.J.M. (Bernadette) Langius, vice-chair
- ▶ Th.A.J. (Dorine) Burmanje
- ▶ D.J. (Dennis) Raithel
- ▶ P.A.M. (Paul) Thijssen

Report of the Management Board



In our Annual Accounts 2017, we addressed the transformation, i.e. the phase in which our firm currently finds itself. In 2018, we focused on what is essential to bringing about this transformation. The envisaged transformation must stem from our mindset and culture, the way in which leadership is demonstrated, and the design of our processes and services. We need to transform to be able to add certainty now and in the future.

Responding to a changing reality and issues that are characterised by unpredictability and uncontrollability calls for a clear vision of how we should shape the transformation going forward. In the past year, we looked at what course we, as an organisation, need to take to stay relevant in the Dutch economy and to Dutch society. We cannot change the winds and the current, but we do have control over our course and the position of our sails. There is no such thing as *the* future. What the world will look like depends on many factors that have not yet been decided upon. Things could go in any one direction. All we know is what developments are expected to have a major impact in the next few years. One thing is clear: ongoing digitisation will be a key factor and it will affect our clients, our people and our added value.

We believe that we are on course. That said, in the light of the aforementioned developments, we need to lock in that course more vigorously and, in some areas, accelerate it.

Although the profession and the professional association are exposed to rapid and occasionally disruptive developments, we do not feel that these will adversely affect the essence of the profession. 'Adding certainty to information to aid economic decision-making' is – and will continue to be – the core narrative that underlies all our services. Auditors and advisers not only foster the financial prosperity of individual organisations, but they also contribute to the effectiveness of the economic system. That is why we are confident that, using our expertise, knowledge and experience, we can continue to play a valuable role in society by 'adding certainty' going forward.

Fulfilling this role calls for choices as to how we want to provide our services and who we want them to provide. Our goal is to:

- ▶ guarantee quality and independence;
- ▶ protect our own set of norms and values, and revisit them where necessary;
- ▶ shape our organisation such that it has the capacity to respond quickly to new developments;
- ▶ employ people who are always willing to embrace change;
- ▶ have our partners show shared leadership;
- ▶ have our employees fulfil their role in society.

As a firm, we want to be open to innovation that truly result in improvements by developing innovative products and services and changing processes now, by bringing in people who know how to use these products and services properly and whose work meets the quality requirements we have set, by attracting clients who are interested in purchasing these products and services and who meet our criteria for return, quality risk and appeal. We have a clear limit for the size and complexity of the clients we want to provide our services to. We cannot achieve the quality level we aspire to if we do not have the required experience, knowledge and staffing.

Times have changed; we need to take a different approach with different people. Rather than thinking from the perspective of the individual, we should focus on the interests of the firm as a whole and making our organisation future-proof. As an organisation, we aim to be as adaptive as possible and create a culture in which change is embraced and viewed as an opportunity, and not as a cause of fear or discouragement.

In the past year, a number of important steps were taken in terms of how and whom we want to provide our services. This is essential in bringing about the envisaged transformation and allowing us to continue to add certainty going forward.

BDO Management Board: left to right Dick den Braber (chairman), Jacqueline Jong (secretary to the Board), Natasja Baroch-Ammerlaan and Erik Peeters





Top quality: our raison d'être

We believe that aiming for, and achieving, top quality constitutes BDO's licence to operate.

The level of trust that society and our clients have in our services is essential to BDO's success as an organisation. For BDO, quality is a decisive factor in the service provision to existing clients and in bringing in new clients. In addition, BDO sees it as an important goal to improve the quality of the profession and to restore the reputation of the profession in general. The reputation of the BDO brand is inextricably linked to the trust and role of the professionals we employ. BDO seeks to be a firm of professionals who act as trusted partners to those around them and who intrinsically want to do 'the right thing' for clients, society and stakeholders.

The extent to which we can achieve this depends on the people we manage to hire, their level of education and their passion and drive to do the right thing every single day and whose mission is to add certainty, for clients, for society *and* for the survival of the profession and the continuity of the firm. An organisation cannot deliver quality if it does not have a sound corporate culture. Culture and conduct affect how the quality policy is enforced and the effectiveness of quality systems.

With a view to promoting a quality-oriented culture, we launched the BDO Horizon programme in 2016 to initiate *and* maintain a sustainable culture drive. The programme focuses on creating a climate in which top quality is vigorously promoted. BDO repeated the corporate culture review at the end of 2017. The outcome of this second culture review and the experiences with BDO Horizon showed that we have made progress: the BDO culture is moving in the right direction. The culture review confirms the feeling that improvements based on concrete actions in our staff's day-to-day practice actually work. Throughout the organisation, respondents were found to be highly committed to delivering top quality. Respondents felt that there is more scope for personal development and they noticed that BDO is actively investing in personal development initiatives. There is room for improvement when it comes to the learning and development climate, especially with regard to 'openly discussing, analysing and learning from mistakes'. To further strengthen and develop the quality-oriented climate, the BDO Horizon programme was intensified in 2018, taking the step from improving more process-based and instrumental aspects to increasing the firm's learning capacity by focusing on learning behaviour.

In addition, a number of important steps were taken in 2018 with regard to stepping up the quality policy and the use of quality-enhancing instruments. These instruments pertain, for instance, to appoint more emphatically quality aspects as a key tool in the performance assessment and remuneration cycle, the use of root cause analyses, the use of targeted e-learning, changes to file review policy and optimisation of the client and engagement acceptance procedure. The change

is notable: attention is being paid to quality and conduct, and the corporate culture is more open. Importantly, we not only think that ourselves, but that others confirm this too. In 2018, the AFM carried out a number of sub-reviews as part of its standard supervision; these reviews pertained to the change process, quality guarantees and file reviews. The AFM examined whether the policy was satisfactory, whether staff complied with it in practice and whether the policy was evaluated and amended where required. In its initial oral feedback session, the AFM indicated that its first overall impression was positive. In the second quarter of 2019, the AFM will complete its ongoing supervision of 2018 with a written report that will be issued to the individual Next Five audit firms. The findings relating to the Next Five will be published at the end of the third quarter of 2019. As far as the change process is concerned, the AFM has said that BDO has actively implemented the change programme. They see that we, as the Management Board, have visibly started to focus on the quality climate. There is room for further intensification in a number of respects. The AFM advises us, for example, to look for a model that – more so than the current one – links up the conduct-based aspects described in BDO Horizon to the processes and procedures that are followed in practice.

In 2018, the AFM also completed its review of the status of the change agenda and the quality guarantees within BDO with a third file review and a large-scale survey among A&A colleagues. It qualified two of the three files as satisfactory. The Netherlands Institute of Chartered Accountants (NBA) also conducted peer reviews of optional audit files of the Lines of Service Accountancy & Business Advisory and Audit & Assurance. Of the 36 Accountancy & Business Advisory files that were reviewed, 32 were satisfactory. All 24 Audit & Assurance files qualified as satisfactory. Of the 60 files that were reviewed, 56 were qualified as satisfactory. This outcome confirms our impression that the changes that have been initiated are effectively producing visible results and that we are on the right track.

Finally, the last file review as part of the standard review initiated by the AFM in 2015 was completed in 2018; this review entailed an examination of the quality of three statutory audit files. The AFM finalised its report of findings on one of the selected audit files (for the reporting period 2014) in 2018 (we received the report of findings on the other two audit files earlier).

With regard to the audit file in question, the AFM concluded that the quality of the statutory audit was 'unsatisfactory'. It also noted that the external auditor and the second partner in charge acted in violation of the fundamental principles of professionalism, integrity and professional competence and due care (Section 2 of the Dutch Regulation on Rules of Ethical and Professional Conduct for Accountants). In addition, the AFM argued that BDO did not ensure that the external auditor signed



the independent external auditor's report on the financial statements after the audit procedures had been performed and formalised (Section 11(4) of the Dutch Audit Firms (Supervision) Decree). In response to the AFM's preliminary findings, BDO provided a detailed explanation of the individual measures and organisational measures that were taken following the AFM's file review on multiple occasions in 2017. Based on BDO's response, the AFM saw fit to perform a review of the sound and controlled operational policies and processes (as described in Section 21 of the Dutch Audit Firms (Supervision) Act) in place at BDO in the period between July 2015 and May 2017.

The review focused on the role of the relevant policy-makers in the conclusions and findings following the AFM's review of the audit file in question and in informing the AFM on these. As part of the review, the AFM demanded to see minutes of Management Board meetings and emails of current and former policy-makers and the Compliance Officer. This concerned the period between May 2015 and October 2016. The AFM completed its review in 2019. Upon completion of the review, the AFM said that it saw no reason to impose formal enforcement measures and to issue a warning.

People: our strength

We make the difference in the market with the quality and enthusiasm of our people. That is why we focus on themes that promote our people's development and happiness, and that ensure that our people are fit for the future. Our HR processes and course curriculum must tie in seamlessly with these themes. We aim to be an organisation in which people are challenged and encouraged to be the best that they can be so that they can constantly deliver top quality for clients and stakeholders. Responding to a changing reality and issues of an unpredictable and uncontrollable nature calls for a new way of organising. Other matters have become important: learning, adapting, innovating, and dealing with the pace of change, dynamics, plurality and insecurity, in other words managing the complexity of the modern world.

This requires certain qualities of the people we need and affects our hiring policy. Hiring talented people is challenging in a tight labour market. The shortage in the market is felt in all our Lines of Service, but it is particularly marked in the accountancy field. Although demand is increasing, the number of students enrolling in accountancy courses has fallen for years now. Expectations are, therefore, that the accountancy business will not be able to grow that much more for lack of labour capacity. The Dutch Tax and Customs Administration's large-scale recruitment drive is currently also putting pressure on the market for tax specialists.

Today's large number of vacancies is standing in the way of our growth potential and the number of engagements we can take on. To overcome this challenge, we are looking at other options, also within our international network. Further developments in the field of digitisation and robotisation will also contribute to the solution, as they can absorb some of the demand for people. In the autumn of 2018, we embarked on the BDO Audit Intelligence Robot, an open innovation project that will increase the intelligence in our platform so that audits can become highly automated. But we will still continue to have a great need for new staff. The services we provide not just involve juggling numbers; they are more complex. In fact, they are too complex to be taken over by artificial intelligence. There may be developments within a company that a robot will overlook. In addition, auditors and advisers will always deal with actual people; it is impossible for them to be audited by robots alone. Our auditors and advisers will still be very much needed in the future. In the past year, as part of our strategic staff planning, we looked at the current staff complement and at what we believe the firm needs in terms of staffing now and in the future, both where quantity and quality are concerned. Vacancies will be assessed in the context of the outcome of this analysis. Recruitment and retention of top talent are the absolute priorities of our Human Resources department. Despite the tight labour market, we still manage to recruit many people, whether they are young or experienced. Our own network certainly helps in this respect, as does our appeal as an employer, thanks to our inspiring culture and values, our diverse and prestigious client base, room for development, a wide range of areas of expertise and knowledge exchange, a pleasant, innovative and informal work environment, and an excellent pay and benefits package.

In 2018, we started to develop a vision for the further flexibilisation of our pay and benefits, looking at mobility, flexiwork, vitality and health, and room for social involvement and sense of purpose. It is important that our pay and benefits package keep pace with developments in society.

What we also tried to do in 2018 is to create the right conditions to remain an employer of choice and to ensure that people are happy to join and stay with our firm. In this process, attention was paid to the onboarding programme so that new hires quickly become familiar with BDO and feel at home with us. In our Advisory Line of Service, we introduced the 'Welcome Aboard' programme, which consists of a number of modules aimed at getting to know the organisation and the full range of advisory services, and mentoring and coaching.



Coaching and talent development were specific areas of focus in the reporting period. The policy is aimed at allowing employees to flourish, looking at what capabilities are essential to future success and developing them by investing and giving talented people the opportunity to develop. The BDO Academy and Summer School offer excellent training opportunities and our development tools and talent development programme encourage further growth and development. We offer employees as much control as possible over their own careers via the online options of the 'BDO That's Me' programme; we added even more options in the past year. We are increasingly choosing to explicitly involve young employees in policy decisions and to use this important group as a sounding board to give direction to our vision, for instance through the involvement of Young BDO, Accountancy & Business Advisory's Autumn Event and the Tax Lab.

We also want our firm to represent a cross-section of society. We strive for diversity to strengthen our competitive edge, to remain attractive to potential hires and our clients, and to fulfil our social responsibility. We believe that diversity fosters quality and innovation, which we need to continue to develop to be sustainable as a firm. A diversity programme was launched in 2018, with a primary focus on improving our male/female ratio.

In addition to the diversity programme, we also initiated a leadership programme in 2018. Today's reality calls for new forms of leadership that are more in keeping with the world's complex dynamics. The leaders of the future will need to have a different mindset and different competencies in order to be able to deal effectively with the conditions that exist in the new era. These include breaking established patterns, thinking outside the box, being open to change and, most importantly, constantly listening to clients and the market. Our partners must be the ambassadors of our strategy and encourage the envisaged changes. This is brought about by our leadership programme. This programme is also intended for our high potentials, so that the leaders of the future are included as well.

Dutch Equitable Distribution of Seats (Management and Supervision) Act

Under the Dutch Equitable Distribution of Seats (Management and Supervision) Act, there must be a balanced distribution of men and women among the members of the Management Board and the Supervisory Board. Two of the five members of BDO's Supervisory Board are women. A new member has recently (i.e. in May 2019) been appointed to the Management Board, so that one of the three members is a woman. We also focus explicitly on appointing female equity partners. In 2018, two women were appointed equity partner. More women are also being promoted to the position of salary partner. As a result, we now have more female partners who could potentially be promoted to equity partner.

Markets: our focus

Our market-oriented approach allows us to use our resources, quality and commercial efforts as effectively as possible. In recent years, we have increasingly focused on a number of specific market segments, i.e.:

- ▶ SMEs & Family Businesses;
- ▶ Public Sector;
- ▶ Corporate Clients.

We have dedicated professionals for each segment; these specialists know all the ins and outs of their respective market segment. BDO intends to continue to set itself apart as an audit firm that is large enough to be able to deliver top quality consistently to clients in the SMEs & Family Businesses, Corporate Clients and Public Sector markets. Within the SMEs & Family Businesses segment, we aim to continue to be part of the networks in the regions where we operate, with units in which employees and clients alike feel comfortable and which visibly retain a human dimension. We are finding that the fact that our firm is of sufficient, yet manageable scale strongly appeals to the labour market and to our clients.

BDO has traditionally held a strong position in the SMEs & Family Businesses segment. We have operated in this market segment for more than 80 years and want to maintain a leading position in it. Above all, BDO is an accounting and advisory firm for SMEs and family businesses. In our market approach to the SMEs & Family Businesses segment, we focus on smart online solutions for accounting processes, a dedicated personal adviser who knows all about the client's business and a team of specialists who can answer specific questions.

Together with Erasmus University Rotterdam, we also promote academic research into relevant themes within family businesses every year. This allows us to find out exactly what issues are at play and how we can resolve and prevent them. We aim to hold on to our lead in that segment. That is why, together with other partners in the market, we are constantly looking at how to add value to our services. In collaboration with Rabobank, BDO published a study on the globalisation of family businesses in February 2018. The study contains helpful pointers on how to prepare for and be smart about conducting cross-border operations. During the Family Business Circles, which BDO organised in collaboration with De Ondernemer, CEOs of leading multinational family businesses were educated about how best to prepare for growth. Delegates took the opportunity to refresh their knowledge and to network with CEOs of other family businesses.

The fifth family business book 'Grensverleggend' (New horizons) was published in 2018. Research has shown that family businesses have at least as many cross-border operations as other types of



businesses and the stories in the fifth family business book show that family businesses are achieving a lot of international success.

We also have the ambition of gaining a growing reputation in the Public Sector and Corporate Clients segments. Growth was achieved in both segments in 2018. We have now built a rather impressive reputation in the Public Sector segment and our reputation in the Corporate Clients segment is growing. We managed to win inspiring new business.

In these two market segments too, we are trying to add value in a broader sense, in addition to the specific services we provide to our clients. In October 2018, the Healthcare sector group published the annual Hospitals Benchmark and - for the first time - a special on university medical centres. In response to questions from and interviews with executives and stakeholders, it was decided to make use of the momentum and make concrete suggestions for improvement. In January 2019, we organised a round-table session for healthcare managers and executives, board members, finance & control managers and business controllers of hospitals, university medical centres and health insurance companies. They met to discuss how hospitals can take the lead in the transformation towards a new, sustainable healthcare landscape, and how to arrive at a new business model for the integrated healthcare chain. The parties concluded the session by jointly defining concrete change proposals for the sector in a manifesto for a sustainable future of the Dutch healthcare sector. The manifesto, which was published on 4 March 2019, describes ten concrete steps that can and *should* be taken quickly by the entire sector, from healthcare organisations to health insurers and, of course, the government, being the key facilitator.

In its capacity as the independent external auditor of 92 housing associations, BDO was the market leader in this sector for the third time in a row. This was an excellent result, which we managed to achieve by building on our expertise in this sector for years and years.

The volume of our services to local authorities is also increasing rapidly. BDO now counts more than 60 municipalities, three water boards, one province and many joint arrangements among its audit clients. The provision of advisory services is growing as well. One of the issues we provide advice on is the introduction of the Public Servants (Standardisation of Legal Status) Act, which will take effect on 1 January 2020. This Act will have a major impact on how the national government operates; it is designed to convert the legal status of a group of public servants to being governed by civil employment law. And that calls for external legal expertise. BDO is one of the parties that has been asked to assist the national government in this process.

In the Corporate Clients market segment, much focus was placed, and advice provided, on the newly introduced General Data Protection Regulation (GDPR). This new Regulation, which – in the Netherlands – has superseded the Dutch Personal Data Protection Act, has improved the privacy rights of EU residents. The Regulation brings with it a number of important responsibilities for organisations. Our cybersecurity team (Advisory LoS) assisted organisations with the implementation and embedding of the GDPR. In addition, the amended rules governing R&D activities and innovation initiatives prompted us to showcase our knowledge and expertise in these areas. Also, our Financial Services group actively focused on the changing rules and legislation regarding PSD2 for payment service providers. Financial Services, which comes under the Corporate Clients segment, is an area where we see great growth potential.

Clients in the Corporate Clients segment increasingly value the quality of the client-adviser relationship as a unique aspect of BDO's services as well as greater continuity in staffing levels. The international network also plays a key role. BDO operates in 162 countries and each member firm has an International Liaison Partner who helps to make the right contacts in the countries where BDO has a presence.

This year again, we saw client appreciation reflected in an excellent top-three ranking in the accountancy, tax consultancy and data compliance category in the MT1000 list. MT1000 is the largest survey among policy-makers of the quality and popularity of professional service providers in the Netherlands. The survey is conducted by the Erasmus Centre for Business Innovation.

Services: our drive

Practising our profession is our great drive; it is about the trade we have learned and in which we want to continue to develop. It is here that we can make a difference and feel that we can contribute to the success of our clients. Our ambition is to offer exceptional client service, always.

This aim has not changed from before. It is the world that is changing and, along with it, the way we work. This does prove to be a challenge for our professionals. Our services are changing; the nature of the changes has never been so fundamental and the pace of change has never been faster. Just like us, our clients are also entering the new digital era. The customer journey is about to change. There is a great need for advisory services in this area, not just when it comes to opportunities, but also as far as threats are concerned. Our cybersecurity services are designed to help our clients cope with the changes. All our Lines of Service are riding the wave of the digital developments, the emergence of a new generation of clients, ever-changing tax legislation and regulations, more complex tax issues and regulatory requirements.



Legislation and regulations are constantly changing, which is increasingly calling for specialisation. The number of specialists at BDO is growing as a result. That said, clients still expect to be designated a single point of contact. He or she will increasingly have to have a broad understanding of the different fields to know when a specialist needs to be called in. Teamwork is of the essence and requires a lot in the way of communication.

In March 2018, BDO Legal published *Arbeidswijzer*, an annual legal reference work covering changes in labour law and social security regulations for business owners, managing directors and HR officers. This is how BDO helps businesses take measures to comply with ever-changing rules on a continuous basis. The new General Data Protection Regulation (GDPR) took effect in May 2018. BDO put together a multidisciplinary privacy team to assist other organisations in implementing and embedding the GDPR. On *Prinsjesdag* ('Budget Day'), which was on 18 September 2018, the Dutch Cabinet presented the Tax Plan for 2019. The Line of Service Tax consultancy summarised the key changes and shared a clear explanation of what the changes might mean for a business or organisation. These are just a few examples of how, in the past year, BDO has helped clients deal with complex and rapidly changing legislation.

Insights are changing and advisory services that were appropriate in the past may no longer comply with the current rules. The governance of the entire organisation, not only the audit division, must be structured such that the public interest is protected. With respect to audits, we aim to be a reliable pillar of society by providing the highest standards of quality. But we also contribute to the success of Dutch business in our role as an adviser, with ethical considerations ensuring that we look beyond the interests of individual clients or those of BDO. Our corporate culture and processes must be structured accordingly. The rules of ethical and professional conduct of the other Lines of Service cannot conflict with those governing our auditors. With this in mind, we looked at streamlining the client and engagement acceptance process in 2018. In addition, a number of tax opinions were submitted to an Ethics Committee in 2018 for the first time. Not only did the Line of Service Audit & Assurance introduce a more robust quality policy, but the other Lines of Service also worked on their respective LoS-specific quality policies. Training, professional practice sessions and e-learning are used to enhance our people's awareness of our role in society and the importance of quality. Above all, we are working on creating a BDO-wide quality-oriented culture.

The quality improvements are affecting the business model of the Line of Service Audit & Assurance in particular. Owing to quality considerations, audit engagements are taking considerably more time to complete, portfolios are being scaled down and client acceptance procedures have been tightened. This has an impact on the workload. In addition, the regulator is strictly monitoring

compliance with rules and legislation, meaning that several changes are having to be made, particularly in our documenting and accountability procedures. This combination calls for more manpower, while we are not recruiting more new auditors. This means that auditors sometimes have to be recruited outside the Netherlands in order to solve capacity problems and that the use of technology is becoming increasingly important in the audit practice as well. In 2018, steps were taken in terms of the quality culture, the implementation of the change process and the use of adequate quality assurances; this has resulted in drastic changes in how the profession is being practised. Auditors who are starting out in the profession today find themselves in a completely different world than their experienced colleagues who took their first steps in the accounting profession years ago.

But the other Lines of Service are also feeling the pinch of the more stringent client selection criteria, having to reject engagements when they are lacking in capacity.

It is not just the broader public function, but technological developments too that have a significant impact on our services. All our Lines of Service increasingly use technological solutions to provide services to our clients. Simple, routine procedures are being automated to an increasing extent. As a result, certain procedures that used to be part of our services are no longer being performed. That said, automation also comes with new advisory opportunities. Technology provides tools and data sources to showcase expertise. Today, investors, financial analysts, employees, customers, vendors, regulators and legislators are demanding more and more information from companies. They need this information to allow them to respond adequately to rapid and major changes, and to economic issues. It is essential that the data that is being exchanged is accurate. Many of the data and devices form an integral part of organisations; only if these organisations' internal control systems meet the relevant requirements can pronouncements be made about their accuracy. Our auditors and advisers can express an opinion on their accuracy and add certainty: tailor-made *and* in plain language. In the future, we expect all our services to have a larger advisory component, where this is permitted by law.

The auditors and advisers of the future need to invest in design skills to better understand and apply the technology and they must have knowledge of the digital infrastructure. Some universities are increasingly embedding these skills in their accounting courses. But there is still room for improvement here. We believe that, with the help of the Technology University that will be set up by the Advisory LoS in 2019, we will have something to contribute to this.

The Line of Service Audit & Assurance is looking at how to strengthen its service provision by using technology. This Line of Service is currently developing IT initiatives in the field of blockchain,





chatbot and robotic process automation, such as the BDO Audit Intelligence Robot open innovation project, which will increase the intelligence in our platform so that audits can largely be automated.

In our Accountancy & Business Advisory LoS, basic processes are being standardised more and more; it is now frequently using data analysis as a basis for more in-depth advisory services. A dynamic work programme has been introduced; this programme became operational early in 2019. The tools that were in use up to that point were taken out of commission in order to promote uniformity.

Advisory services are being provided by regional advisory teams, which have been put together from the Accountancy & Business Advisory, Tax consultancy and Advisory LoSs. The linchpin of a regional advisory team is the Trusted Adviser, who has the capacity to engage with an organisation's leadership on every possible aspect (from strategy to finance, to HR and IT), to maintain the relationship and to focus on client satisfaction and client return (skills in the area of relationship management and winning new business). The Trusted Adviser also provides advisory opinions on matters relating to business economics.

The Advisory LoS is now also focusing explicitly on this multidisciplinary collaboration within regional teams. Teamwork along the lines of the markets has improved. The market-oriented approach is most pervasive in this Line of Service.

Advisory has also taken a significant step towards embedding technology in its service offering. Knowledge is being developed via the Summer School and workshops, and Advisory will launch its own Technology University in 2019. The Technology & Managed Services team was expanded in 2018 by adding staff with a specific technological background and by introducing new propositions/ services with a technology component. This has led to a number of new engagements. In view of the importance of digital transformation, this theme will be central to the market approach of both SMEs & Family Businesses and Corporate Clients in 2019. Throughout the year, we will share content about the digital transformation, which we will follow up with publications and events, the premise being that digital transformation can only be successful if organisations adopt an integrated approach. We have also developed a digital transformation model: the BDO 360-degree perspective on digital transformation. In addition to IT aspects, the model looks at an organisation's customers, employees, finances and portfolio.

The Line of Service Tax consultancy is also seeing changes in its service provision. Back office activities are being automated and expectations are that straightforward advisory services will slowly but surely be taken over by robot applications based on artificial intelligence. The importance of high-level advisory services is only set to increase, although the nature of some services will

change. Clients will increasingly require support in implementing advisory opinions in their processes and systems. Tax Technology will progressively become more important. It has already been suggested that tax technology, which involves greater use of information and communication technology, with a focus on data analysis and artificial intelligence, in tax services, should be taught in university. Since 2017, Tax consultancy has had a partner whose entire focus is on the use of technology and innovation in the tax practice. In view of the importance of access to knowledge for the purposes of providing tax services, a new document management system was introduced in 2018. Successful steps have also been taken in the areas of outsourcing, tax accounting and customised pre-audit and scans. In 2018, the VAT scan continued to be promoted to clients.

As far as compliance activities are concerned, we are working on automating the preparation of tax returns where possible, followed by a review, an analysis and advisory services based on the automated output.

Innovation: a matter of survival

BDO is entering a new phase of its existence, both in terms of our organisational structure and in terms of our service offering. As mentioned when discussing our services, a fair number of steps have been taken to respond to this new phase, but we will have to remain adaptive and opt for continuous innovation. This new phase calls for an agile organisation with a focus on innovation and the right use of technology within our services. We want to be capable of offering our clients advisory opinions and assist them in areas that tend to be unfamiliar to them, but we also aim to support them with new client-oriented technology. Technological innovation ensures that, even in an increasingly technology-driven world, we have a future and can continue as a firm. We aim to become a truly data-driven organisation. The goal is to use technology to scale up in all Lines of Service and to develop new business models that make our services more versatile and future-proof, to become an organisation that uses state-of-the-art applications for the benefit of clients, much like people use their smartphones. We want to be an organisation whose staff primarily base their reasoning on the value of the data they use rather than on the processes they are used to following. Now that the processing of information is becoming easier all the time, the value of our propositions lies less and less in standardised processes. Rather, our value lies in generating information that matters in the right context. This calls for a different way of thinking and acting on the part of our people. It means that we need to embrace new possibilities, i.e. innovations, quickly and be flexible about them. It means that our way of working is never 'finished' but is evolving all the time. It means that we have to learn about the value of data, whether we apply it now or later. It requires a different mindset.



To keep up with technological developments, BDO will continue to develop into an agile organisation. We closely monitor innovations in our market and respond to them rapidly and with purpose, so as to serve clients ever more effectively in a way that meets their expectations and requirements. We aim to create an open innovation process characterised by multidisciplinary external collaboration and partnering.

As of November 2018, BDO has had its own Technology Center, located in the BDO office in Utrecht. This is where we demonstrate innovative solutions and showcase them. In this manner, BDO seeks to increase awareness of the opportunities and threats associated with technology. Here, clients, business relations and employees can experience what new technological developments there are and how they affect our service provision; we also show the security risks associated with new technology.

In 2018, we reached an important milestone in our IT Master Plan 2016-2020. We completed the technology platform for the future, which is now ready for the BDO-wide accessibility of data for analytics and for embracing new developments such as robotisation, artificial intelligence, chatbots, etc. This is a secure and solid foundation for the future. BDO is ready for robotisation. The robotic process automation foundation is available for use; it forms the basis for automating repetitive actions in our service provision and can be used by our corporate support departments as well. The BDO Audit Intelligence Robot, which we mentioned earlier, is an open innovation project that will increase the intelligence in our platform so that audits can become highly automated. These are two promising projects for the future. Better tools and techniques are becoming available all the time to analyse large volumes of diverse data. Using data analytics, analyses can be performed of this data, for instance to identify cost saving opportunities. These developments also make it possible to generate smart algorithms that predict the future with a small margin of error. One example is predictive analytics, which is already being used for fraud detection. Such innovative analysis techniques offer tremendous opportunities for supporting organisations in their drive for agility and continuous performance improvement. We have already achieved some great results using data analytics.

We also look forward in 2019 to the completion of a number of prestigious projects: BDO BASE (a new ERP system), APT Next Gen (an audit process tool) and the further roll-out of the document management system. 2019 will also be the year of the adoption of IT resources, client-facing BDO ICT and new innovations.

Internal organisation: our backbone

In the same way as the world around us changes constantly and we have to keep refining our ambition in the area of quality, our internal organisation also has to undergo constant modification. It is the backbone of how we manage and support our business.

The governance model that was introduced in 2017 was adjusted in 2018. The overarching Management Board of the holding company remained in existence in 2018 of two persons: Dick den Braber (chairman) and Erik Peeters (COO/CFO). The body consisting of the managing directors of the holding company and the leaders of the Audit & Assurance, Tax consultancy, Advisory and Accountancy & Business Advisory LoSs, which was referred to as the Management Board last year, was rechristened 'Executive Committee'. Given that this body focused exclusively on streamlining the coordination between the different LoSs, the name 'Management Board' was confusing. The name 'Management Board' is now back to being reserved for the management of the holding company. With effect from 1 January 2019, the leaders of the three market segments have also been added to the Executive Committee.

It was decided in 2017 that in future all offices in the network would have to satisfy certain minimum qualitative and quantitative requirements. The Audit & Assurance, Tax consultancy and Accountancy & Business Advisory Lines of Service will need to be represented in sufficiently large numbers at the least. A standard has also been set for the number of partners and for revenue. The aim of delivering top quality also serves as the guiding principle in this regard. The Management Board believes that proper national coverage and the setting of minimum requirements for the size of the offices will help improve quality. In this context, the Arnhem and Nijmegen offices decided to join forces in Arnhem in 2018; the offices in Alkmaar and Wognum merged their operations in Alkmaar. That said, appointments can still be scheduled locally. In Nijmegen, separate facilities are available for this purpose.

In order to realise our strategy of 'top quality and service excellence', our support services need to be agile and streamlined. In 2018, the 'Fit for the Future' project was launched to give our support services a boost. The project is designed to improve support processes, encourage teamwork between the corporate support departments and fee earners, and streamline the vision of the more distant future with a BDO-wide programme structure. This project will be rolled out in 2019.



An international network: our broader perspective

The international network broadens our perspective and that of our clients; there is increasing demand for support services that are offered internationally. But the network also strengthens our own position. The globalisation of business calls for investments in quality, IT, audit and other methods, tools and specialist disciplines. The network allows us to provide better support of large investments and helps to share knowledge and experiences. Substantial investments are being made in information technology, not just in forward-looking software and resources (artificial intelligence, blockchain and robotic process automation (RPA)), but also in data analysis services and technology advice. BDO joins forces with leading players in the sector as much as possible: our long-standing global collaboration with Microsoft offers benefits and is supported at local level through partnerships with such parties as Workday and Intuit.

BDO's audit process tool (APT) continues to promote the consistency and quality of the audit process. The transformation to APT Next Gen took place in 2018. The globally standardised system offers clients a unique experience always, supported by leading technology and an intuitive audit methodology. In addition, the global BDO Portal is at the heart of the client experience: a flexible and secure platform that can be tailored locally and that streamlines the exchange of information between BDO and its clients.

These joint efforts are bearing fruit. The global BDO network continued to grow in 2018 as well. BDO's global revenue for the reporting period ended 30 September 2018 was US\$ 8.99 billion (i.e. € 7.56 billion), a year-on-year increase of 10.7% in US dollars and 8.3% at constant exchange rates (source: BDO Global website, BDO News > 2018 > BDO announces financial results 2018: global revenues reach US\$ 9 billion). This strengthened the global network's position as the leading provider of advisory services to SMEs. The accelerated growth of our global organisation stems from a clear strategic goal: we aim to be the market leader in the segments in which we operate, supported by the acquisition of relevant business-critical activities, such as cybersecurity.

With offices in 162 countries, BDO achieved consistent growth in all regions in 2018. The region with the highest revenue growth was Europe, Middle East & Africa (up 17%), followed by the Americas (up 7.8%) and Asia Pacific (up 6.6%).

The culture that characterises BDO, i.e. helping employees, clients and society achieve success, was reflected in a further 8.4% increase in our headcount, partly thanks to lateral hires, to 80,087 in 2018. Our people operate from 1,591 locations around the world, enabling them to locally support their clients in their growth process, wherever they want to gain a presence.

In 2018, BDO was named Network of the Year for the second time in three years by the *International Accounting Bulletin* (IAB), an accomplishment that makes our network proud. But we have no interest in resting on our laurels: the world is changing at breakneck speed and we have to keep hiring the best people to allow us to continue to provide service excellence to our clients.

Acquisitions

There were no acquisitions in 2018.

Risks

An organisation-wide risk assessment was performed in 2018. Given that risk management is a management tool that allows line managers - including the managing directors - to act ahead of uncertain events and their potential consequences, line management and the heads of the corporate support departments were also involved in the risk assessment. This broad involvement not only increases the quality of the risk assessment, but also enhances risk awareness and support for any decisions and actions that may have to be taken.

The objective of the organisation-wide risk assessment is to identify the principal risks that might affect the achievement of the objectives defined in the strategy 2016-2020 and to evaluate the effectiveness of the risk management procedures. The risk assessment covers both internal and external risks. The principal risks were fleshed out in a risk inventory, which describes the probability of their occurrence, root causes and consequences, and the relevant controls. It has been established that additional measures are required to mitigate the principal risks. In order to determine whether the correct actions have been defined, a risk owner will be appointed at group level for the principal risks. The risk owner and other stakeholders are expected to identify the root causes of each risk so as to determine whether the correct actions have been defined. Performance/ actions will be made measurable and monitored by means of KPIs. This will become part of the standard planning and control cycle.

The table below lists our principal risks and the measures we have taken to mitigate them:

Risk	Potential impact	Mitigating measures
<ul style="list-style-type: none"> ▶ Inadequate innovation or failure to respond to technological developments and opportunities promptly. 	<ul style="list-style-type: none"> ▶ Deterioration of competitive edge; risk of falling behind with no chance of catching up. ▶ Fall in appeal as employer of choice. 	<ul style="list-style-type: none"> ▶ Innovation platform and involvement in international development of new audit tool. ▶ Standardisation and harmonisation of processes by creating efficient infrastructure (BDO Base), central client desk and Delivery Centre. ▶ Governance model with greater focus on developing markets. ▶ Business Transformation Managers. ▶ Innovations in product and services portfolio. ▶ BDO Technology Center. ▶ Governance and periodic reporting structure. ▶ Client satisfaction surveys. ▶ Participation in Foundation for Audit Research.
<ul style="list-style-type: none"> ▶ Lack of capacity for change. 	<ul style="list-style-type: none"> ▶ Inadequate understanding of developments in, and the expectations of, society. ▶ Inadequate innovation and diversity. ▶ Deterioration of competitive edge. 	<ul style="list-style-type: none"> ▶ Quality programme BDO Horizon aimed at strengthening quality climate and learning organisation. ▶ Involvement of Supervisory Board. ▶ Diversity programme. ▶ Leadership programme. ▶ Business Transformation Managers. ▶ Vision of contemporary interpretation of partner model.
<ul style="list-style-type: none"> ▶ Incapacity to recruit, retain and appreciate talented individuals. 	<ul style="list-style-type: none"> ▶ Threat to delivering high-quality services. ▶ Pressure on vitality of organisation. ▶ Loss of revenue. 	<ul style="list-style-type: none"> ▶ Strategic staff planning. ▶ BDO Academy: extensive training programme aimed at professional expertise and skills. ▶ Talent management, recruitment and coaching with focus on inclusiveness, diversity and vitality. ▶ Leadership programme.

Risk	Potential impact	Mitigating measures
<ul style="list-style-type: none"> ► Quality incident due to demonstrable negligence. 	<ul style="list-style-type: none"> ► Notices of liability leading to financial losses. ► Loss of reputation. ► Loss of public trust. ► Loss of clients. ► Fine imposed by regulator. ► Loss of licence to operate. ► Difficulty hiring new talented employees. 	<ul style="list-style-type: none"> ► BDO Horizon quality programme aimed at strengthening quality climate and learning organisation. ► System of quality management and assurance. ► Professional support by Department of Professional Practice. ► Preventative and repressive working paper reviews conducted by Practice Review Unit. ► Quality Support Team. ► Performance of root cause analyses and preparation of improvement plans. ► Stringent client and engagement acceptance procedure. ► Training programme, including mandatory courses. ► Quality at the forefront of the performance appraisal process. ► Quality-oriented supervision by Supervisory Board.
<ul style="list-style-type: none"> ► Onerous contracts and internal projects. 	<ul style="list-style-type: none"> ► Deterioration of profitability leading to inadequate resources for investments in people and technology, possibly resulting in loss of quality. 	<ul style="list-style-type: none"> ► Stringent client and engagement acceptance procedure giving consideration to risk, return and work enjoyment. ► Implementation of BDO Base.
<ul style="list-style-type: none"> ► Loss of confidential or privacy-sensitive information (including cybersecurity). 	<ul style="list-style-type: none"> ► Threat to service continuity. ► Loss of reputation. ► Loss of clients. ► Financial loss due to imposition of fines and/or being held liable. 	<ul style="list-style-type: none"> ► Information security and data protection policy. ► Information Security & Privacy Management System. ► Corporate Information Security & Privacy Officer. ► Privacy Impact Assessments. ► External security assessments. ► Regular training on information security for partners and staff. ► Disaster recovery plan and business continuity plan.
<ul style="list-style-type: none"> ► Changing legislation and regulations with a major impact on organisation structure and business model, such as legally enforced segregation of audit and advisory services. 	<ul style="list-style-type: none"> ► Costs associated with changing legal structure. ► Loss of knowledge and specific expertise that are important for delivering high-quality services. ► Further limitation of full-service offering, meaning that client requirements cannot be met. 	<ul style="list-style-type: none"> ► Participation in Netherlands Institute of Chartered Accountants' Public Interest Steering Group. ► Internal dialogue and scenario planning.



Financial performance

We can look back on a financially successful reporting period. Revenue was up 2.7%, rising from € 275 million to € 282 million. The Lines of Service Audit & Assurance and Advisory showed particularly handsome revenue growth. Advisory's ambition for the coming years is to continue to grow by providing services in the fields of technology, cybersecurity and public sector consulting.

In the Accountancy & Business Advisory LoS, revenue was stable compared to the previous reporting period, while the Tax consultancy LoS posted a slight increase in revenue.

Owing to the sale of Global IT & Services B.V. on 1 January 2018, other operating income was considerably lower than in previous years, but operating expenses were lower as well. The sale of the shares did not have an impact on profit overall.

Profit for the year was up € 4.2 million, increasing from € 30.7 million to € 34.9 million, thanks to more balanced staffing and better pricing. As a result, net added value (revenue less personnel expenses) rose by 1.1% from the previous reporting period. Profit was boosted thanks to a one-off gain as a result of the release of the provision for the review of the quality of statutory audits, which was formed earlier, and the progress made on the change process within BDO. Given that the AFM did not impose any formal enforcement measures after finalising its review in 2019, no further outflow of funds is expected in this context.

Depreciation charges fell, thanks in part to the fact that some of the hardware that was capitalised earlier was fully depreciated in the reporting period and replacement investments were not made until the last quarter. Amortisation charges dropped as well due to the partial sale of intangible fixed assets and impairment of goodwill in the previous reporting period.

Thanks to tight credit management and a heterogeneous client portfolio, BDO does not incur any significant concentrations of credit risk on trade receivables. The currency risk is highly limited since all revenue is billed in euros. Virtually all purchases are made in euros as well. For more details on the financial policy, see the section on financial instruments in the financial statements.

In 2018, investments totalling € 7.2 million were made in office premises and hardware. In order to optimise our services and thereby provide even more added value to our clients, we combined a number of BDO offices in 2018. In this context, existing locations were expanded and renovated to offer our people flexible workspaces in a modern environment. We also launched the BDO

Technology Center in 2018. Here, we take our clients, prospects and staff on a journey to show them the opportunities presented by technology and the threats associated with it.

BDO's digital transformation is also reflected in 'The Modern Workspace', which consists of a number of tools that allow employees to stay connected to the BDO work environment anywhere and anytime. In this context, all laptops were replaced by new models in 2018 and investments were made in a new, more comprehensive Wi-Fi network.

The planned implementation of a new ERP system will be rolled out in stages from the first quarter of 2019. We have decided to optimise the system and make it more suitable for the BDO organisation in collaboration with the vendor first before we will proceed to roll it out completely.

BDO is financed by paid-up capital and subordinated loans from equity partners. In addition, loans and overdraft facilities have been granted by banks. BDO has a robust capital position; it amply meets the bank covenants.

Our strong cash position has also allowed us to pay vendors well before the agreed payment deadline.

Goodwill entitlements at Stichting GESdE

In 2005, BDO abolished its goodwill model for partners newly entering the firm, which led to the freezing and gradual phasing out of goodwill entitlements held by Stichting GESdE (a foundation specifically set up for this purpose) as a consequence of equity partners exiting the firm. Possibilities for accelerating the process of phasing out these goodwill entitlements were looked at in 2016. This led to an agreement being reached in 2017, under which goodwill entitlements will be repaid to the equity partners in four years' time. As a result, the remaining term of the residual payment to GESdE was reduced to ten years. The financing structure has been adjusted in line with this, following consultation with the credit institutions.

From a reporting perspective, Stichting GESdE is not consolidated as it does not form part of the practice of BDO Holding B.V. and its related companies. The foundation is not united with BDO in a single organisation as referred to in Section 24b, Book 2 of the Netherlands Civil Code.



Responsibility towards society

BDO occupies a central position in society and is greatly aware of its responsibility towards society. We fulfil this responsibility by following sustainable business practices and focusing on the needs of people both within and outside our organisation. In concrete terms, we want our people to flourish, we embrace initiatives to operate as environmentally friendly as possible and we offer the highest quality in our services. By weighing ethical aspects in this role, too, we intend to demonstrate that its social relevance goes much further than merely the interests of the individual client or BDO.

BDO Fund

We specifically encourage individual BDO employees to contribute to society in addition to practising their profession. We have been doing so for a fair number of years through the BDO Fund, which was set up to support social projects and initiatives at both national and international level. Most of these projects and initiatives enjoy the active involvement of BDO staff, for instance in the role of participants or board members. This support can be either financial or in kind. This is how BDO aims to bring structure to the CSR efforts throughout the organisation and actively contribute to making the world a better place. In 2018, several employee requests were granted; the totals financial contribution came to € 57,973. In addition, an amount of € 36,623 was spent on the *BDO Super Opkikkerdag*, when over 100 of our staff members helped organise an unforgettable day for families with a chronically ill child.

Many activities are also being organised at regional level. In January 2018, Rotterdam-based colleagues designed a three-day curriculum for IMC Weekend School, which offers courses especially for pupils from socially and economically underprivileged areas. The BDO course is meant to introduce pupils to the accounting profession and professionalism on the work floor. This is how BDO contributes to broadening pupils' horizons, helping them to make informed decisions about their career and future. The Tour of Eindhoven, a bicycle tour for charity, was held again in June 2018. BDO Eindhoven acted as the main sponsor and was thoroughly represented at this sports event: about 10% of the total number of 555 participants were BDO staff or BDO clients.

Cooperation with Bart de Graaff Foundation

Some of the budget is spent on a partnership with a specific organisation. In 2016, a partnership agreement was signed with Bart de Graaff Foundation for a period of two years. In 2018, the partnership was renewed for one year. In the context of this partnership, we provided coaching to five people between 15 and 35 years of age who have a debilitating disability. Five teams of BDO employees were formed whose members devoted themselves to coaching and supporting these courageous young people. They have a single goal: to set up their own business. They put every effort into achieving this goal. They do not allow their lives to be determined by the disability that they have. We help them realise their dream by providing coaches and contributing to their start-up capital.

CSR is also about sustainability. That is why we pay attention to many environmental aspects in our day-to-day work and when making investment decisions. We are taking steps to reduce our environmental impact, for instance in terms of energy, mobility and paper consumption. When refurbishing buildings, we replace lamps with energy-efficient LED lighting (including movement sensors), we use follow-me printing (where the job is not printed until the user initiates it at a printer) and we encourage digital working. Finally, in 2018, BDO introduced the Electric Drive programme to encourage colleagues to lease electric cars. This programme offers staff who choose an electric lease car a number of advantages, such as an increase in the mobility budget.

Summary and outlook

2018 was a challenging but successful year for BDO in many respects. We are happy with our performance. We are proud of all our people and the efforts they have put forth to make this year a success and the flexibility they have shown to cope with the changes we needed to make. We are well aware that all these developments demand a lot from our people. They offer opportunities but also pose threats; change always goes hand in hand with uncertainty.

We spoke with many colleagues on different occasions in 2018. We attended inspiring sessions as part of BDO Horizon, the leadership and diversity programme, summer courses and workshops, or we talked during the *Opkikkerdag* or just happened to run into each other at the office. Our take-away from all these encounters is that our people are showing a great deal of commitment and enthusiasm, as well as openness and the willingness to change to accommodate developments



in society and in the business. We aim to be a learning organisation and this is reflected in the steps we took in the past year. Our current corporate culture and teamwork already reflect much of the change we have undergone in the past year and before that under the impulse of the quality drive that we stand for. The AFM, our external regulator, has also seen this. The change is visible and the process of change will continue in the coming year as well.

We are in transition towards becoming a dynamic organisation that offers scope for new ideas and that continuously caters to the developments happening around us. In doing so, we consistently seek to deliver top quality, add certainty for our clients, remain relevant and offer added value, be an appealing and inspiring employer, and achieve sustainable growth.

Revenue development in 2019 will be based on controlled growth with specific growth targets for our SMEs & Family Businesses, Public Sector and Corporate Clients market segments. We will continue to invest in new technologies and services so as to offer our clients service excellence. Overall, we foresee hardly any growth in 2019. That said, there will be revenue shifts in our selected market segments. We expect to achieve our revenue for 2019 with by and large the same headcount. All scheduled investments in quality, people development and innovations in the framework of Research & Development will be funded using cash flows from operating activities. Our excellent financial position allows us to do that. We comfortably comply with the covenants stipulated in our loan agreements.

In 2019, BDO will also keep investing in the quality and development of its people in view of the changing demands on their skills. Quality and leadership programmes are scheduled to be introduced in 2019, as well as diversity and vitality projects.

Given the tight labour market, hiring talented employees remains a challenge. That said, we are confident that, as an organisation, we have enough to offer to make joining BDO an exciting prospect for new hires.

Within BDO, there are many colleagues who are avid cyclists and there are parallels to be drawn between cyclists riding as a team and us as an organisation. Our team is enthusiastic and driven:

we look at what is ahead on the road and keep our eye on the target. We are making progress, we enjoy being part of a team and we show each other and others what we are capable of. It feels effortless sometimes, especially when we have a tailwind. But the direction of the wind can turn in an instant; when we encounter a headwind, the going gets tough and we need to show stamina. We motivate each other, give each other a little push, offer advice or let someone ride in our slipstream for a while. We need to stay alert; the number of road users is growing, traffic rules are being tightened and it does not take much to be given a ticket. In our effort to keep up, we should not look down too much, preventing us from seeing what is going on around us; we need to keep an eye on the road and never forget what our target is. Our bicycle has to have all the latest technology. And above all, we should remember to enjoy what we are good at, where we can offer added value and what motivates us: now and in the future.

Eindhoven, the Netherlands, 28 May 2019

BDO Management Board

- ▶ A.D. (Dick) den Braber, chairman
- ▶ N. (Natasja) Baroch-Ammerlaan
- ▶ H.P.W.M. (Erik) Peeters

A woman with short blonde hair, wearing a long-sleeved sweater with horizontal stripes in green, white, and black, and a black leather skirt, is walking towards the camera. She is holding a black laptop under her left arm. The background is a modern office with glass walls and a red office chair. A large, faint binary code (0s and 1s) is visible on the glass wall behind her. The overall lighting is dim and blue-toned.

FINANCIAL STATEMENTS 2018

BDO HOLDING B.V.



Consolidated balance sheet as at 31 December 2018 (before profit appropriation)

(amounts in € 1,000)

			31 December 2018		31 December 2017
ASSETS					
Fixed assets					
Intangible fixed assets	1	1,406		1,729	
Tangible fixed assets	2	16,484		13,063	
Financial fixed assets	3	31,321		25,510	
			49,211		40,302
Current assets					
Receivables	4	29,740		37,658	
Revenue not yet invoiced	5	10,026		10,493	
Pension assets		758		788	
Other receivables, prepayments and accrued income	6	6,302		6,354	
Cash and cash equivalents		6,366		7,773	
			53,192		63,066
Total assets			102,403		103,368
EQUITY AND LIABILITIES					
Group equity	7		9,000		9,000
Provisions	8		5,319		7,609
Long-term liabilities					
Loans from and debts to partners	9	22,500		21,600	
Borrowings from credit institutions	10	15,000		15,000	
			37,500		36,600
Current liabilities					
Trade payables		4,606		5,848	
Current accounts with partners	9	6,198		6,762	
Taxes and social security contributions		18,563		17,417	
Other current liabilities, accruals and deferred income	11	21,217		20,132	
			50,584		50,159
Total equity and liabilities			102,403		103,368

Consolidated income statement for 2018 (1 January to 31 December)



(amounts in € 1,000)

			2018		2017
Net revenues	12	282,043		274,641	
Other operating income	13	291		7,994	
Total operating income			282,334		282,635
Cost of subcontracted work and other external charges		12,797		14,526	
Salaries and wages	14	130,839		127,258	
Social security contributions	15	32,406		30,966	
Amortisation intangible fixed assets	1	958		1,184	
Depreciation tangible fixed assets	2	3,086		3,876	
Impairment losses	1	-		350	
Other operating expenses	16	65,001		71,459	
Total operating expenses			245,087		249,619
Operating profit			37,247		33,016
Finance income and expense	17		(1,573)		(1,497)
Result before tax			35,674		31,519
Income tax	18		(784)		(783)
Partner fees under General Provisions	19		(34,890)		(30,736)
Result after tax			-		-

Consolidated cash flow statement for 2018 (1 January to 31 December)



(amounts in € 1,000)

			2018		2017
Operating profit/(loss)			37,247		33,016
Adjustments for:					
- Amortisation, depreciation and impairment	1-2	4,044		5,410	
- Loss recognised on disposals	1-2	25		398	
- Changes in provisions	8	(2,276)		1,824	
			1,793		7,632
Changes in working capital:					
- Movements in receivables	4-6	6,094		(2,671)	
- Movements in current liabilities	11	3,355		1,653	
			9,449		(1,018)
Net cash generated from operations			48,489		39,630
Interest received	17	438		478	
Interest paid	17	(2,006)		(1,982)	
Income tax	18	(782)		(783)	
			(2,350)		(2,287)
Cash flow from/(used in) operating activities			46,139		37,343
Investments in intangible fixed assets	1	(658)		-	
Investments in tangible fixed assets	2	(6,965)		(4,431)	
Investments in financial fixed assets	3	(6,862)		(1,173)	
Disposal of intangible fixed assets	1	393		-	
Disposal of tangible fixed assets	2	50		29	
Disposal of financial fixed assets	3	1,051		1,447	
Cash flow from/(used in) investing activities			(12,991)		(4,128)
Partner fees under General Provisions	9-19	(35,454)		(27,944)	
Withdrawal/redemption of long-term liabilities	9	900		(300)	
Cash flow from/(used in) financing activities			(34,554)		(28,244)
Increase/(decrease) in cash			(1,406)		4,971
Cash and cash equivalents at 1 January			7,773		2,802
Cash and cash equivalents of associate sold			(1)		-
Cash and cash equivalents at 31 December			6,366		7,773

Notes to the consolidated financial statements



Activities

The activities of BDO Holding B.V. and its related group companies, are comprised of conducting statutory and voluntary audits, review and compilation engagements, and providing tax and other advisory services, including human resource, legal, business control, corporate finance, cybersecurity and IT services. The activities are performed by and for account of the group companies of BDO Holding B.V. BDO Holding B.V. does not provide any financial services itself; it acts as the holding company.

Early in 2018, the shares in Global IT & Services B.V. (formerly BDO Global IT Management & Support B.V.) were transferred to Brussels Worldwide Services BVBA at nominal value. As a result of the share transfer, this company has no longer been a member of the group since 2018.

BDO Holding B.V. has its registered office at Dr. Holtropaan 23, 5652 XR Eindhoven, the Netherlands, and is entered in the Trade Register under number 17129358.

International network

BDO Holding B.V. is a member firm of BDO International, a global network of accounting and consulting firms. Each member firm is a legally independent entity operating under the 'BDO' brand or a related designation. BDO Holding B.V. cannot, on the mere ground that it is a member firm of BDO International, be held liable for the actions and obligations of other member firms. The fee that is paid to BDO International is included in other operating expenses.

Group structure

BDO Beheer B.V. administers the shares in BDO Holding B.V. for Stichting Aandelenbeheer BDO Groep. Stichting Aandelenbeheer BDO Groep issues depositary receipts for shares to the partners' professional practice companies that have concluded management agreements with BDO Holding B.V. These management agreements stipulate that the company offers the services of the owner-professional practitioner to the group companies to be designated by BDO Holding B.V. The professional practitioners are hereinafter referred to as partners.

Stichting GESdE

Until 1 January 2005, the legal predecessor of BDO Holding B.V. used a system of goodwill set-off upon a partner's entry to, and exit from, the firm. This system has been abolished. Within this scope, Stichting GESdE was established, the object of which is to acquire, manage and settle existing goodwill claims for the benefit of the partners entitled to goodwill.

In this regard, BDO Holding B.V. owes a fee to Stichting GESdE for the financing of the goodwill claims. The future fee that is payable on existing and paid goodwill claims, discounted at 2%, is estimated at € 56 million. Stichting GESdE is not consolidated, since it is controlled by the partners entitled to goodwill rather than by BDO Holding B.V.

Stichting Aandelenbeheer BDO Groep

Stichting Aandelenbeheer BDO Groep exercises the voting, claiming and other rights attaching to the shares in the capital of BDO Holding B.V. It does so in its own name, but for the benefit of the partners.

The object of Stichting Aandelenbeheer is to secure continuity of management and policy at BDO Holding B.V. and to protect the interests of all stakeholders in BDO Holding B.V. and its related enterprises. Stichting Aandelenbeheer BDO Groep does not engage in any other (economic) activities and is not a subsidiary or group company of BDO Holding B.V., as a result of which it is not consolidated.

Accounting policies



General

Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements for consolidated financial statements included in Part 9 of Book 2 of the Netherlands Civil Code. Unless indicated otherwise, assets and liabilities are stated at the amounts at which they were acquired or incurred. Borrowings and payables are initially measured at fair value and subsequently at amortised cost. All amounts disclosed in the financial statements are denominated in thousands of euros unless stated otherwise.

Use of estimates

The preparation of the financial statements in conformity with the generally accepted financial reporting requirements requires management to make estimates and assumptions that affect the items reported in the financial statements. Actual earnings may differ from these estimates. The estimates and underlying assumptions are tested on an ongoing basis. A revised estimate is recognised in the period in which the estimate is revised and in future periods impacted by the revision.

The principal estimates and judgments mainly concern provisions. These include estimates and assumptions used in determining provisions for revenue to be invoiced and bad debts. The estimates used to determine the provisions for employee benefits mainly involve interest rates, as well as occupational disability and retention rates.

For the purposes of determining the provision for professional liability, any claims and disputes are assessed based on fact and legal advice is sought where needed.

In addition, in determining the carrying amounts of intangible fixed assets and tangible fixed assets, use is made of estimates of amortisation and depreciation periods, which are based on the expected technical and useful lives of the assets in question and any residual value.

Change in estimates

The method for estimating the retention rate for the purposes of determining the provision for jubilee benefits has changed with effect from 1 January 2018. Empirical data on BDO's staff turnover were used to calculate the average retention rate for each age category; in the past, the retention rate was calculated for each term-of-service category. As a result of this change in estimates, the profit for 2018 is € 309,000 higher than it would have been based on the method used in the previous reporting period.

Foreign currencies

Income and expenses denominated in foreign currencies are translated at the rates of exchange at the transaction date. Receivables and payables are translated at the rates of exchange at the reporting date. Any resulting gains and losses are taken to the income statement and recognised within finance income and expense.

Basis of consolidation

The consolidated financial statements include the financial information of BDO Holding B.V. and its related group companies in which it holds a direct or indirect majority interest, or otherwise controls the financial and operating policies. In accordance with Section 414, Part 9 of Book 2 of the Netherlands Civil Code, we have listed all consolidated legal entities on page 59 of these Annual Accounts.

The group companies are fully consolidated and intercompany balances and transactions are eliminated, using the accounting policies described below.

The financial results of newly acquired and sold companies are consolidated from the date that effective control is transferred until the date that such effective control is lost, respectively. Given that the financial information of BDO Holding B.V. is disclosed in the consolidated financial statements, the company-only consolidated income statement in accordance with Section 402, Part 9 of Book 2 of the Netherlands Civil Code is presented in an abbreviated form.

Going concern

These financial statements have been prepared based on the company's ability to continue as a going concern.

Cash flow statement

The consolidated cash flow statement has been prepared using the indirect method. Cash and cash equivalents disclosed in the cash flow statement are comprised of bank overdrafts. Movements in borrowings from credit institutions are recognised within current liabilities. Interest paid and received, and income tax are recognised within cash flows from operating activities. The profit share is recognised in the cash flow statement within cash flows from financing activities.

Accounting policies for the balance sheet

General

Assets are recognised in the statement of financial position when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Liabilities are recognised when it is probably that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.



Financial instruments

Financial instruments are comprised of other financial interests, receivables, cash and cash equivalents, subordinated loans, trade payables and debts to affiliated parties. The accounting policies for these items are specified on an item-by-item basis below. No use is made of derivative financial instruments.

Intangible fixed assets

This item comprises the costs of unique developed software used by BDO Holding B.V. and its group companies, as well as goodwill paid for activities acquired from third parties. The capitalised costs are recognised at cost net of accumulated amortisation and impairment.

Amortisation of software is calculated using the straight-line method based on an asset's estimated useful life from the moment it is put into use. Capitalised costs include costs charged by third parties for the development of the software. At the acquisition date, goodwill is measured at the difference between the acquisition price and the fair value of the identifiable assets and liabilities. Goodwill is amortised on a straightline basis using estimated useful life and making allowance for impairment losses where applicable. The expected useful life is assessed annually and adjusted where required.

Tangible fixed assets

Tangible fixed assets are stated at cost net of accumulated depreciation. Depreciation is calculated using the straight-line method based on estimated useful life and expected residual value. In the year of purchase, assets are depreciated from the moment they are put into use. Assets under construction are not depreciated. Maintenance costs are capitalised only if they extend an asset's useful life.

Financial fixed assets

Financial fixed assets include participating interests, receivables to participating interests, provided loans and other long-term receivables. Participating interests in which BDO Holding B.V. has the power to exercise significant control over financial and operating policies are stated at net asset value. Participating interests in which no significant control can be exercised on financial and operating policies are stated at the lower of acquisition price or fair value. Loans receivable are stated at face value net of a provision for bad debts where necessary.

Impairment of fixed assets

Each year, it is evaluated whether there are any indications of an intangible fixed asset, a tangible fixed asset or a financial fixed asset being subject to impairment. An asset is considered to be impaired if its carrying amount exceeds its recoverable amount. Any impaired asset is written down to its recoverable amount, with the loss being expensed through the income statement in the form of other mutations in the value of intangible, tangible and/or financial fixed assets.

Revenues not yet invoiced

This item comprises services provided to clients that have yet to be billed. They are measured at expected realisable value, net of progress billings. Profit is recognised based on the percentage-of-completion method. Where necessary, a provision is formed for expected losses.

Receivables

Current assets include receivables that, by their very nature, fall due within one year. Receivables are recognised initially at the fair value of the consideration, making allowance for potential uncollectibility at the reporting date.

Cash and cash equivalents

Unless indicated otherwise, cash and cash equivalents are at the company's free disposal.

Equity

Financial instruments qualifying as equity instruments based on economic reality are presented as a component of equity. Payments to holders of these instruments are deducted from equity, net of any related income tax benefits.

Provisions

Provisions are formed for obligations, losses and risks present on the reporting date, the extent of which is uncertain but can be reliably estimated. Provisions are measured at present value unless stated otherwise.

Employee benefits

The provision for jubilee benefits was calculated based on an actuarial interest rate of 1,7% (2017: 2%), making allowance for retention rate, period of service and age. The retention rates have been estimated on the basis of historical data. Staff who have completed 12.5, 25 and 40 years of continuous employment receive a long-service bonus. In addition, with effect from 2018, they have been entitled to a fixed bonus for every five years they remain in service (this does not apply to their 25 and 40-year anniversaries with the firm).

A provision has been formed for expected non-productivity of employees who suffer from chronic illnesses at the reporting date. This provision is designed to cover the associated costs for up to two years after the first notice of sick leave and is measured at present value.

Similar to year-end 2017, there were no obligations for which a pension provision was recognised at year-end 2018.



Other provisions

The provision for professional liability was formed for estimated obligations by virtue of claims expected or lodged but not yet settled, at year end. The provision for professional liability for each insured claim is measured at the estimate of the obligations to be settled with third parties, including any external legal fees. If the expected payment from an insurance company cannot be estimated and has, as such, not been recognised as a separate asset, the provision for the claim in question is capped at the uninsurable risk. The provision for professional liability for claims is measured at the estimate of the obligations to be settled with third parties, including any external legal fees.

The provision for unoccupied buildings was formed for buildings that are fully or partially unoccupied and for reinstatement at the end of the lease that are for BDO's account. The provision has been determined based on rentals attributable to unoccupied buildings during the likely period of vacancy, net of any income from subletting. The provision for reinstatement is recognised at present value.

Payables and other liabilities

This item relates to liabilities that fall due in more than one year. Liabilities falling due in less than one year are classified as current. Non-current liabilities include loans from partners that have been subordinated to the bank. These loans are repaid upon termination of the respective management agreements with BDO Holding B.V.

Accounting policies for the income statement

General

Income and expenses are allocated to the year to which they relate. Gains are recognised if and when they have been realised on the

reporting date. Income is realised if it is measurable and collection is probable. Losses and risks originating from before the end of the financial year are recognised if and when they were known before the consolidated financial statements were prepared.

Net revenues

Net revenues are comprised of income from services to third parties, including the costs of work contracted out and other external expenses billed to them, and movements in services yet to be billed, exclusive of VAT. Revenue from services is recognised by reference to the extent to which these services have been performed.

When it is probable that total contract costs will exceed total contract revenues, expected losses are immediately charged against revenue in the income statement.

Operating expenses

Costs are determined on a historical basis and allocated to the reporting period to which they relate.

Other operating expenses include costs associated with operating leases. These costs are recognised through the income statement on a straight-line basis over the lease period.

Financial income and expense

Financial income and expense is recognised on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities in question. In determining the interest expense, allowance is made for recognised transaction costs for loans received.

Pensions

BDO offers a defined contribution plan. The scheme has been contracted directly from an insurance company, and pension

costs are recognised based on the defined contributions. The defined contribution is dependent on an employee's age. Pensionable earnings are based on an employee's gross salary less a state pension offset of € 14,297 (2017: € 14,060). Pensionable earnings have been capped at € 105,075 (2017: € 103,317).

The pension obligation is made up of premiums payable to the pension administrator. These premiums are recognised through the income statement. Contributions due but not yet paid are recognised as current liabilities.

BDO is under no legal or constructive obligation if the insurance company should suffer a shortfall. At year-end 2018 (and 2017), the company had no pension receivables and payables over and above the annual premiums payable to the pension insurer.

Taxation

The profit of BDO Holding B.V. is released to the partners' professional practice companies through the management agreements; these companies are liable to pay tax on this profit. The company's autonomous corporate income tax liability is limited. Tax on income that is taxable in the hands of BDO Holding B.V. is calculated at the prevailing rates.

Profit

Under the General Provisions governing the partners, profit for the year is determined by deducting the variable management fees, including the fee payable to Stichting GESdE, from result before tax. For the purposes of transparency, these fees are disclosed separately as the last item in the income statement under Section 362(4), Part 9 of Book 2 of the Netherlands Civil Code, although this is contrary to the provisions of the Dutch Financial Statements Formats Decree ("besluit modellen jaarrekening").



Notes to the consolidated balance sheet as at 31 December 2018 and the consolidated income statement for 2018 (in € thousands, unless stated otherwise)

1 INTANGIBLE FIXED ASSETS

The carrying amounts at the reporting date can be broken down as follows:

	31 December 2018		31 December 2017	
Goodwill	647		1,729	
Software	-		-	
Assets under construction and prepaid	759		-	
		1,406		1,729

Movements in intangible fixed assets were as follows in 2018:

The goodwill involves the purchase price of acquired practices. Assets under construction are comprised of expenditures on new software.

	Goodwill	Software	Assets under construction and prepaid	Total 2018	Total 2017
Balance at 1 January					
Cost	5,202	2,243	-	7,445	8,363
Accumulated amortisation and impairment	(3,473)	(2,243)	-	(5,716)	(4,938)
	1,729	-	-	1,729	3,425
Movements in the reporting period					
Investments	-	-	712	712	7
Reallocation	-	-	47	47	-
Disposals (at cost)	(415)	-	-	(415)	(925)
Disposals (accumulated amortisation)	291	-	-	291	756
Amortisation	(958)	-	-	(958)	(1,184)
Impairment	-	-	-	-	(350)
	(1,082)	-	759	(323)	(1,696)
Balance at 31 December					
Cost	4,787	2,243	759	7,789	7,445
Accumulated amortisation and impairment	(4,140)	(2,243)	-	(6,383)	(5,716)
	647	-	759	1,406	1,729

Amortisation rate	20%	20%	N/A		
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2 TANGIBLE FIXED ASSETS

The carrying amounts at the reporting date can be broken down as follows:

	31 December 2018		31 December 2017	
Leasehold improvements	7,928		7,654	
Furniture, fixtures and fittings	2,539		2,585	
Hardware	5,148		1,857	
Assets under construction and prepaid	869		967	
		16,484		13,063

Movements in tangible fixed assets were as follows in 2018:

	Leasehold improvements	Furniture, fixtures and fittings	Hardware	Assets under construction and prepaid	Total 2018	Total 2017
Balance at 1 January						
Cost	22,994	9,230	6,165	967	39,356	45,344
Accumulated depreciation	(15,340)	(6,645)	(4,308)	-	(26,293)	(31,802)
	7,654	2,585	1,857	967	13,063	13,542
Movements in the reporting period						
Sold at 1 January (at cost)*	(222)	(69)	-	-	(291)	-
Investments	1,287	504	4,538	869	7,198	3,654
Reallocation	-	-	-	(47)	(47)	-
Transferred to in use	775	134	11	(920)	-	-
Disposals (cost)	(2,025)	(972)	(3,441)	-	(6,438)	(9,642)
Disposals (accumulated depreciation)	1,981	918	3,186	-	6,085	9,385
Depreciation	(1,522)	(561)	(1,003)	-	(3,086)	(3,876)
	274	(46)	3,291	(98)	3,421	(479)
Balance at 31 December						
Cost	22,809	8,827	7,273	869	39,778	39,356
Accumulated depreciation	(14,881)	(6,288)	(2,125)	-	(23,294)	(26,293)
	7,928	2,539	5,148	869	16,484	13,063
Depreciation rate	10%-20%	10%-20%	20%-33.3%	N/A		

The carrying amounts of tangible fixed assets do not significantly differ from their fair values. Assets under construction are mainly comprised of expenditures on leasehold improvements.

3 FINANCIAL FIXED ASSETS

The carrying amounts at the reporting date can be broken down as follows:

	31 December 2018		31 December 2017	
Loan to Stichting GESdE	15,000		15,000	
Credit account with Stichting GESdE	11,799		8,068	
Loan to Stichting Aandelenbeheer BDO Groep	1,400		1,700	
Loans to partners	636		620	
Other receivables	2,486		122	
		31,321		25,510

The loan to Stichting GESdE is a subordinated 30-year interest-only loan. It was granted in 2005. Half of the loan bears a fixed interest rate of 2.7% per annum. The other half is subject to floating interest and the interest rate was 1.6% on average in 2018 (2017: 1.6%).

Stichting GESdE has a long-term credit account facility with BDO Holding B.V. The facility runs until 31 December 2034 at the latest. The credit account facility is subject to floating interest. The interest rate was 0.8% on average in 2018 (2017: 1.1%).

The loan to Stichting Aandelenbeheer BDO Groep relates to the financing of unissued depositary receipts for shares in BDO Holding B.V. This is an interest-free loan.

Of total loans to partners, € 0.2 million is expected to be repaid within one year (2017: € 0.3 million). The average interest rate on the loans to partners was 5.0% in 2018 (2017: 5.0%).

Other receivables include two loans granted to the international BDO network (year-end 2018: € 1.0 million). The loans will be repaid by year-end 2022 and year-end 2023 at the latest. The interest rate on the loans ranges between 3% and 5%. In addition, other receivables include prepaid licence and other fees (year-end 2018: € 1.5 million). Of this amount, € 0.6 million relates to 2019 and € 0.9 million to the period after 2019.

Movements in financial fixed assets were as follows in 2018:

	Loan to Stichting GESdE	Credit account with Stichting GESdE	Loan to Stichting Aandelenbeheer BDO Groep	Loans to partners	Other receivables	Total 2018	Total 2017
Balance at 1 January	15,000	8,068	1,700	620	122	25,510	25,784
Movements in the reporting period							
Loans granted and prepayments	-	3,731	200	522	2,409	6,862	1,173
Redemptions	-	-	(500)	(506)	(45)	(1,051)	(1,447)
Balance at 31 December	15,000	11,799	1,400	636	2,486	31,321	25,510



4 TRADE RECEIVABLES

	31 December 2018		31 December 2017	
Trade receivables	33,593		41,678	
Provision for bad debts	(3,853)		(4,020)	
		29,740		37,658

5 REVENUES NOT YET INVOICED

	31 December 2018		31 December 2017	
Services provided to clients	24,735		25,725	
Advance billings to clients and provisions	(14,709)		(15,232)	
		10,026		10,493

6 OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

	31 December 2018		31 December 2017	
Other receivables	39		1,308	
Prepayments and accrued income	6,263		5,046	
		6,302		6,354

Prepayments and accrued income are comprised mainly of prepaid expenses.

7 GROUP EQUITY

For details on equity, see the notes to the company-only balance sheet at 31 December 2018. A statement of comprehensive income has not been included given that the group's comprehensive income corresponds to profit for the year; the same procedure was followed in the financial statements for 2017.

8 PROVISIONS

	31 December 2018		31 December 2017	
Provision for employee benefits	3,660		3,143	
Other provisions	1,659		4,466	
		5,319		7,609

Movements in provisions were as follows in 2018:

	Provision for employee benefits	Other provisions	Total 2018	Total 2017
Balance at 1 January	3,143	4,466	7,609	5,785
Movements in the reporting period				
Withdrawn	(1,310)	(877)	(2,187)	(1,722)
Allocated	3,153	550	3,703	4,923
Released	(1,326)	(2,480)	(3,806)	(1,377)
Balance at 31 December	3,660	1,659	5,319	7,609

Employee benefits

This item comprises provisions for jubilee benefits and chronic illness.

Other provisions

This item relates to a provision for the vacancy of office buildings, including expected cost of reinstatement (€ 132,000) to be incurred at the end of the agreed lease, and a provision for professional liability. Based on the best estimate at the time of preparing the financial statements for 2017, other provisions included an allowance for the potential financial implications of a review of the quality of BDO's statutory audits, quality control and quality assurance procedures by the Netherlands Authority for the Financial Markets (AFM). This review has now been completed. Based on the outcome of this review, no outflow of resources is expected. The provision was released in 2018 as a result.

The provisions are expected to be released over time as follows:

	2018	2017
< 1 year	1,197	1,001
1-5 years	2,691	3,208
≥ 5 years	1,431	3,400
	5,319	7,609

9 LOANS FROM AND DEBTS TO PARTNERS

Loans from current and former partners can be broken down as follows:

	31 December 2018		31 December 2017	
Long-term (subordinated) loans				
- Partners	22,500		21,600	
		22,500		21,600
Current accounts				
- Partners	5,301		4,834	
- Former partners	897		1,928	
		6,198		6,762
		28,698		28,362

(Subordinated) loans from partners

A partner who enters into a management agreement with BDO Holding B.V. is required to issue a subordinated loan to the company. The loans from partners are subordinated to any of the company's current and future bank debts. The average interest rate on the subordinated loans from partners was 5.0% in 2018 (2017: 5.0%). As the terms of these subordinated loans are linked to the partners' entry into, or exit from, the firm, they are mainly of a long-term nature.

Current accounts with current and former partners

The average interest rate on the current balances was 5.0% in 2018 (2017: 5.0%).

10 BORROWINGS FROM CREDIT INSTITUTIONS

This item relates to two equal long-term loans contracted for the financing of Stichting GESdE. Loan 1 bears a fixed interest rate of 2.7% on average per annum (2017: 2.7%). Loan 2 is subject to a floating interest rate of 1.6% on average (2017: 1.6%). The remaining term to maturity of the two loans is 3.5 years after which the loans must be repaid. As security for these long-term loans as well as for the existing credit facilities, a right of first pledge has been issued to the bank on the third-party receivables of BDO Holding B.V. and its subsidiaries.

11 OTHER CURRENT LIABILITIES AND ACCRUALS AND DEFERRED INCOME

	31 December 2018		31 December 2017	
Obligations to employees	15,612		15,492	
Other debts	164		287	
Accruals and deferred income	5,441		4,353	
		21,217		20,132

Obligations to employees are made up of leave day and overtime pay-outs, holiday allowance, other benefits and redundancy costs.

Accruals and deferred income are comprised mainly of costs payable in relation to the current financial year.

FINANCIAL INSTRUMENTS

General

As part of its ordinary activities, BDO Holding B.V. makes use of a variety of financial instruments that expose the firm to credit, interest rate and liquidity risks. To manage these risks, BDO Holding B.V. has defined a policy that includes a system of limits and procedures.

Credit risk

In order to manage its credit risk, the company continually monitors and reviews its credit risk exposure. Receivables do not contain major concentrations of credit risk.

Currency risk

The company hardly incurs any currency risk since the cash flows from operating and financing activities are denominated mainly in euros.

Interest rate risk

BDO Holding B.V. incurs interest rate risk on its interest-bearing receivables and debts and on refinancing of existing loans. A risk involving future cash flows exists with respect to receivables and debts that are subject to floating interest rates. The interest rate risk is limited by the composition of the financing structure and the spread of maturities.

Liquidity risk

The liquidity position is monitored by using liquidity forecasts. The liquidity risk is highly limited given that the operations generate sufficient cash to meet the obligations. BDO has also taken out additional overdraft with the banks. BDO monitors that it complies with the provisions of the relevant loan covenants.

Fair value

The fair value of financial instruments recognised in the statement of financial position within receivables, cash and cash equivalents and current and non-current liabilities approximates their carrying amount.

COMMITMENTS AND CONTINGENCIES

Fiscal unity

Together with its wholly owned subsidiaries, BDO Holding B.V. forms a fiscal unity for income tax and VAT purposes. BDO Holding B.V. heads up the fiscal unity and is jointly and severally liable for the VAT and corporate income tax debts of the fiscal unity as a whole.



Lease and rental obligations

BDO Holding B.V. has assumed long-term obligations for the lease of buildings, as well as contracting operating leases for cars. These obligations can be broken down as follows:

	2018	2017
< 1 year	16,005	16,111
1-5 years	27,528	29,040
≥ 5 years	7,787	6,750

Other operating expenses include an amount of € 13.4 million for operating lease expenses (2017: € 12.7 million).

Guarantees

Receivables from third parties have been encumbered with a first right of pledge to the banks in the form of security for the loans and overdraft facilities issued to BDO Holding B.V. In addition, BDO Holding B.V. has issued a negative pledge as well as a pari passu statement to the banks in question. For the purposes of providing security for meeting its obligations to the partners entitled to goodwill and Stichting GESdE, BDO Holding B.V. has issued a second pledge to Stichting GESdE on all its claims against third parties. The issued bank guarantees amounted to € 78,000 at year-end 2018 (2017: € 78,000).

Posting a solvency ratio of 30% at year-end 2018, the firm met the capital adequacy requirements imposed by the bank (at least 25%).

Claims

Claims have been lodged against the legal entities belonging to the Dutch BDO firm on account of alleged failure to properly perform their work. A defence is being mounted against these claims. BDO Holding B.V. has adequate insurance cover for professional liability. Where considered necessary, a provision is formed an amount corresponding with the estimate of the obligations to be settled with third parties, including any external legal fees.

Transfer of accrued employee pension benefits

Up to and including 2011, employees who joined the company before 9 July 2008 were governed by an average-pay scheme. An average contribution was paid to Stichting Pensioenfonds BDO CampsObers Accountants & Adviseurs to finance this scheme. This average-pay scheme was converted into a defined contribution scheme on 1 January 2012. At the time of the switch to the defined contribution scheme, Stichting Pensioenfonds BDO CampsObers Accountants & Adviseurs paid up the members' entitlements, but left them behind with the reinsurer. As a result, the employer assumed the obligation to pay any difference arising from a shortfall between the commuted value and the statutory transfer value. This situation may occur upon termination of employment, when employees invoke their statutory right to transfer of accrued benefits. The scale of this obligation cannot be reasonably estimated, which is why it has not been recognised in the balance sheet as at 31 December 2018. The costs associated with transfers of accrued benefits during the reporting period have been recognised within pension costs. These costs amounted to € 113,000 in 2018 (2017: € 37,000).

Allowance Stichting GESdE

As regards the fee owed to the Stichting GESdE for the funding of goodwill payments, reference should be made to page 43.

12 NET REVENUES

Net revenues can be broken down as follows by segment:

	2018		2017	
		%		%
Audit & Assurance	103,739	37	100,823	37
Accountancy & Business Advisory	78,138	28	78,515	29
Tax consultancy	71,102	25	69,528	25
Advisory	29,064	10	25,775	9
	282,043	100	274,641	100

Virtually all revenue (96%) was generated in the Netherlands.

13 OTHER OPERATING INCOME

Other operating income includes fees received by BDO for IT services provided to the global network and fees received for BDO events.

Owing to the sale of Global IT & Services B.V. on 1 January 2018, other operating income was considerably lower than in previous years.

14 SALARIES AND WAGES

	2018	2017
Salaries	130,839	127,258

Headcount

	2018	2017
Average headcount (in FTEs)		
- Partners	78	79
- Professionals	1,999	1,999
- Support staff	307	328
	2,384	2,406

On average, two of these FTEs were employed abroad during the year (2017: 3 FTEs).



15 SOCIAL SECURITY CONTRIBUTIONS

	2018	2017
Social charges	18,559	17,729
Pension costs	13,847	13,237
	32,406	30,966

16 OTHER OPERATING EXPENSES

	2018	2017
Accommodation expenses	10,412	11,115
Other personnel expenses	14,763	15,871
General expenses	8,994	8,304
Mobility expenses	20,541	19,377
Technology and innovation expenses	7,576	9,209
Other expenses	2,715	7,583
	65,001	71,459

No R&D costs were capitalised or recognised through the income statement.

Audit fees, which relate to the audit of the financial statements, amounted to € 146,000 in 2018 (2017: € 138,000). These fees have been recognised within general expenses.

17 FINANCIAL INCOME AND EXPENSE

	2018	2017
Interest received	438	478
Interest paid	(2,011)	(1,975)
	(1,573)	(1,497)

Interest received relates to interest on (credit account) loans to Stichting GESdE and partners.

Interest paid relates to interest due on subordinated loans from partners and credit institutions.

18 INCOME TAX

The profit of BDO Holding B.V. is released to the partners' professional practice companies through management agreements. Of total result, an amount of € 3.2 million was taxable in the hands of BDO Holding B.V. The remaining result is taxable in the hands of the partners' professional practice companies.

19 PARTNER FEES

The professional practice companies operated by the partners who are affiliated with BDO Holding B.V. charge a management fee for providing the services of the professional practitioner. This fee is recognised within salaries and wages. The partners are required to put this management fee towards their pension build-up and supplementary insurance.

Under the General Provisions of BDO Holding B.V., the partners' professional practice companies are entitled to the full profit of BDO Holding B.V. Profit is distributed based on the number of awarded profit points using a lockstep system.

The financial settlement of the goodwill set-off in Stichting GESdE is financed from the profit that accrues to the partners.

	2018	2017
Result for the year of BDO Holding B.V.	34,890	30,736
Fixed management fee (recognised within salaries and wages)	9,766	9,679
Profit available for distribution	44,656	40,415
Fee paid to Stichting GESdE	(12,447)	(12,447)
Partner fees	(32,209)	(27,968)
	-	-
Average number of partners (in FTEs)	78	79
Average management fee per partner (fixed and variable)	413	354

In addition to their management fee, the partners in BDO Holding B.V. receive interest on the subordinated loan and the intercompany balances. This interest, which stood at € 1.5 million in 2018, has been recognised within interest paid (2017: € 1.4 million). The expense allowances paid to partners in 2018, which are designed to cover car and miscellaneous expenses, amounted to € 2.8 million in 2018. They have been recognised within other operating expenses (2017: € 2.5 million).

List of participating interests

Unless indicated otherwise, BDO Holding B.V. wholly owns the following consolidated participating interests. All participating interests have their registered offices in the Netherlands.

BDO A&B Groep B.V.*

- | | |
|--|-----------|
| ▶ BDO Accountants & Belastingadviseurs B.V. | Eindhoven |
| ▶ BDO Audit & Assurance B.V. | Eindhoven |
| ▶ Beheer en Administratiemaatschappij Nederland B.V. | Eindhoven |
| ▶ BDO Schippers B.V. | Eindhoven |

BDO Consultancy Groep B.V.*

- | | |
|----------------------------------|-----------|
| ▶ BDO Advisory B.V. | Eindhoven |
| ▶ BDO Corporate Finance B.V. | Eindhoven |
| ▶ BDO IT Consultants B.V. | Eindhoven |
| ▶ BDO Investigations B.V. | Eindhoven |
| ▶ BDO Legal B.V. | Eindhoven |
| ▶ BDO Interim & Recruitment B.V. | Eindhoven |

BDO Outsourcing B.V.*

Eindhoven

BDO Facility Services B.V.*

- | | |
|------------------|-----------|
| ▶ Petobel I B.V. | Eindhoven |
|------------------|-----------|

** Held directly by BDO Holding B.V.*



Company-only balance sheet as at 31 December 2018 (before result appropriation)



(amounts in € 1,000)

			31 December 2018		31 December 2017
ASSETS					
Fixed assets					
Intangible fixed assets	1	1,406		1,729	
Tangible fixed assets	2	5,849		2,632	
Financial fixed assets	3	34,196		28,535	
			41,451		32,896
Current assets					
Receivables		620		27	
Receivables from group companies		27,985		39,181	
Pension assets		767		792	
Other receivables, prepayments and accrued income	4	5,253		3,563	
Cash and cash equivalents		3,483		2,078	
			38,108		45,641
Total assets			79,559		78,537
EQUITY AND LIABILITIES					
Equity					
Issued share capital	5		9,000		9,000
Provisions	6		2,928		4,828
Long-term liabilities					
Loans from partners	7	22,500		21,600	
Borrowings from credit institutions		15,000		15,000	
			37,500		36,600
Current liabilities					
Trade payables		3,210		3,200	
Payables to group companies		98		-	
Current account with partners	7	6,198		6,762	
Tax and social security contributions		14,102		13,698	
Other current liabilities, accruals and deferred income	8	6,523		4,449	
			30,131		28,109
Total equity and liabilities			79,559		78,537

Company-only income statement for 2018 (1 January to 31 December)



(amounts in € 1,000)

	2018		2017	
Share of profit/(loss) of participating interests	22,484		17,734	
Other income	13,189		13,785	
Profit/(loss) before tax		35,673		31,519
Income tax expense		(783)		(783)
Partner fees under General Provisions		(34,890)		(30,736)
Profit/(loss) for the year		-		-

Notes to the company-only financial statements

ACTIVITIES

BDO Holding B.V. heads up a group of related parties providing professional services. BDO Holding B.V. serves exclusively as a holding company of its related parties and does not itself provide any financial services. BDO Holding B.V. has its registered office at Dr. Holtropaan 23, 5652 XR, Eindhoven, the Netherlands, and is entered in the Trade Register under number 17129358.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements for company-only financial statements included in Part 9 of Book 2 of the Netherlands Civil Code.

Given that the financial information of BDO Holding B.V. is disclosed in the consolidated financial statements, the company-only income statement in accordance with Section 402, Part 9 of Book 2 of the Netherlands Civil Code is presented in an abbreviated form.

ACCOUNTING POLICIES FOR THE BALANCE SHEET

Unless stated otherwise, the accounting policies for the company-only balance sheet and the company-only income statement are the same as those for the consolidated balance sheet and income statement.

Participating interests in which BDO Holding B.V. has the power to exercise significant control over financial and operating policies are stated at net asset value. Participating interests with an

equity deficit are carried at nil. Other long-term interests that must be regarded as part of the net investment in the participating interest are also taken into account in the valuation. A provision is formed if the company is fully or partially liable for the debts of the participating interest in question, or is obliged in practice to enable the participating interest (in respect of its share) to pay its debts.

A factor taken into account in determining the size of this provision is value adjustments for uncollectibility already deducted from receivables due from the participating interest.

Participating interests in which no significant control can be exercised over the operating and financial policies are stated at the lower of acquisition price or fair value.



Notes to the company-only balance sheet as at 31 December 2018 and the company-only income statement for 2018 (in € thousands, unless stated otherwise)

1 INTANGIBLE FIXED ASSETS

The carrying amounts at the reporting date can be broken down as follows:

	31 December 2018		31 December 2017	
Goodwill	647		1,729	
Software	-		-	
Assets under construction and prepaid	759		-	
		1,406		1,729

Movements in intangible fixed assets were as follows in 2018:

	Goodwill	Software	Assets under construction and prepaid	Total 2018	Total 2017
Balance at 1 January					
Cost	5,202	2,243	-	7,445	8,363
Accumulated amortisation and impairment	(3,473)	(2,243)	-	(5,716)	(4,938)
	1,729	-	-	1,729	3,425
Movements in the reporting period					
Investments	-	-	712	712	7
Reallocation	-	-	47	47	-
Disposals (at cost)	(415)	-	-	(415)	(925)
Disposals (accumulated amortisation)	291	-	-	291	756
Amortisation	(958)	-	-	(958)	(1,184)
Impairment	-	-	-	-	(350)
	(1,082)	-	759	(323)	(1,696)
Balance at 31 December					
Cost	4,787	2,243	759	7,789	7,445
Accumulated amortisation and impairment	(4,140)	(2,243)	-	(6,383)	(5,716)
	647	-	759	1,406	1,729
Amortisation rate	20%	20%	N/A		

The goodwill involves the purchase price of acquired practices. Assets under construction are comprised of expenditures on new software.

2 TANGIBLE FIXED ASSETS

The carrying amounts at the reporting date can be broken down as follows:

	31 December 2018		31 December 2017	
Leasehold improvements	379		420	
Furniture, fixtures and fittings	236		282	
Hardware	5,148		1,857	
Assets under construction and prepaid	86		73	
		5,849		2,632

Movements in tangible fixed assets were as follows in 2018:

	Leasehold improvements	Furniture, fixtures and fittings	Hardware	Assets under construction and prepaid	Total 2018	Total 2017
Balance at 1 January						
Cost	2,278	1,347	6,165	73	9,863	15,604
Accumulated depreciation	(1,858)	(1,065)	(4,308)	-	(7,231)	(12,269)
	420	282	1,857	73	2,632	3,335
Movements in the reporting period						
Investments	29	16	4,538	86	4,669	1,042
Reallocation	-	-	-	(47)	(47)	-
Transferred to in use	15	-	11	(26)	-	-
Disposals (cost)	(2)	(97)	(3,441)	-	(3,540)	(6,783)
Disposals (accumulated depreciation)	2	97	3,186	-	3,285	6,719
Depreciation	(85)	(62)	(1,003)	-	(1,150)	(1,681)
	(41)	(46)	3,291	13	3,217	(703)
Balance at 31 December						
Cost	2,320	1,266	7,273	86	10,945	9,863
Accumulated depreciation	(1,941)	(1,030)	(2,125)	-	(5,096)	(7,231)
	379	236	5,148	86	5,849	2,632
Depreciation rate	10%-20%	10%-20%	20%-33.3%	N/A		

The carrying amounts of tangible fixed assets do not significantly differ from their fair values. Assets under construction are mainly comprised of expenditures on leasehold improvements.

3 FINANCIAL FIXED ASSETS

The carrying amounts at the reporting date can be broken down as follows:

	31 December 2018		31 December 2017	
Loan to Stichting GESdE	15,000		15,000	
Credit account with Stichting GESdE	11,799		8,068	
Loan to Stichting Aandelenbeheer BDO Groep	1,400		1,700	
Participations in group companies	2,875		3,025	
Loans to partners	636		620	
Other receivables	2,486		122	
		34,196		28,535

The loan to Stichting GESdE is a subordinated 30-year interest-only loan. It was granted in 2005. Half of the loan bears a fixed interest rate of 2.7% per annum. The other half is subject to floating interest and the interest rate was 1.6% on average in 2018 (2017: 1.6%). Stichting GESdE has a long-term credit account facility with BDO Holding B.V. The facility runs until 31 December 2034 at the latest. The credit account facility is subject to floating interest. The interest rate was 0.8% on average in 2018 (2017: 1.1%). The loan to Stichting Aandelenbeheer BDO Groep relates to the financing of unissued depositary receipts for shares in BDO Holding B.V. This is an interest-free loan.

Of total loans to partners, € 0.2 million is expected to be repaid within one year (2017: € 0.3 million). The average interest rate on the loans to partners was 5.0% in 2018 (2017: 5.0%).

Other receivables include two loans granted to the international BDO network (year-end 2018: € 1.0 million). The loans will be repaid by year-end 2022 and year-end 2023 at the latest. The interest rate on the loans ranges between 3% and 5%. In addition, other receivables include prepaid licence and other fees (year-end 2018: € 1.5 million). Of this amount, € 0.6 million relates to 2019 and € 0.9 million to the period after 2019.

Movements in financial fixed assets were as follows in 2018:

	Loan to Stichting GESdE	Credit account with Stichting GESdE	Loan to Stichting Aandelenbeheer BDO Groep	Participations in group companies	Loans to partners	Other receivables	Total 2018	Total 2017
Balance at 1 January	15,000	8,068	1,700	3,025	620	122	28,535	28,559
Movements in the reporting period								
Share of profit/(loss) in participating interests	-	-	-	22,484	-	-	22,484	17,734
Interim dividend	-	-	-	(25,126)	-	-	(25,126)	(21,593)
(Provision for) loans to group companies	-	-	-	3,891	-	-	3,891	3,241
Provision for loans to associates	-	-	-	(1,399)	-	-	(1,399)	868
Loans granted and prepayments	-	3,731	200	-	522	2,409	6,862	1,173
Redemptions	-	-	(500)	-	(506)	(45)	(1,051)	(1,447)
Balance at 31 December	15,000	11,799	1,400	2,875	636	2,486	34,196	28,535

4 OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

	31 December 2018		31 December 2017	
Other receivables	215		186	
Prepayments and accrued income	5,038		3,377	
		5,253		3,563

Prepayments and accrued income are comprised mainly of prepaid expenses.

5 EQUITY

The company's issued and paid-up share capital amounted to € 9.0 million at year-end 2018; it consisted of 8,100 Class A shares, 450 Class B shares and 450 Class C shares with a nominal value of € 1,000 per share. The Class A shares entitle their holders to the profit of BDO Holding B.V. only. The Class B and C shares entitle their holders to the proceeds of the sale of BDO Holding B.V. There were no changes in the reporting period.

6 PROVISIONS

	31 December 2018		31 December 2017	
Provision for participating interests	1,318		2,717	
Provision for employee benefits	389		344	
Other provisions	1,221		1,767	
		2,928		4,828

Movements in provisions were as follows in 2018:

	Provision for participating interests	Provision for employee benefits	Other provisions	Total 2018	Total 2017
Balance at 1 January	2,717	344	1,767	4,828	3,532
Movements in the reporting period					
Withdrawn	-	(213)	(664)	(877)	(586)
Allocated	-	369	534	903	2,473
Released	(1,399)	(111)	(416)	(1,926)	(591)
Balance at 31 December	1,318	389	1,221	2,928	4,828

Provision for participating interests

The provision for participating interests is designed to cover participating interests with equity deficits.

Provision for employee benefits

This item comprises provisions for jubilee benefits and chronic illness.

Other provisions

This item relates to a provision for the vacancy of office buildings, including expected cost of reinstatement (€ 132,000) to be incurred at the end of the agreed lease, and a provision for professional liability.

The provision for employee benefits and other provisions are expected to be released over time as follows:

	2018	2017
< 1 year	192	94
1-5 years	1,299	121
≥ 5 years	119	1,896
	1,610	2,111

7 LOANS FROM AND DEBTS TO PARTNERS

Loans from current and former partners can be broken down as follows:

	31 December 2018		31 December 2017	
Long-term (subordinated) loans				
- Partners	22,500		21,600	
		22,500		21,600
Current accounts				
- Partners	5,301		4,834	
- Former partners	897		1,928	
		6,198		6,762
		28,698		28,362

(Subordinated) loans from partners

A partner who enters into a management agreement with BDO Holding B.V. is required to issue a subordinated loan to the company. The loans from partners are subordinated to any of the company's current and future bank debts. The average interest rate on the subordinated loans from partners was 5.0% in 2018 (2017: 5.0%). As the terms of these subordinated loans are linked to the partners' entry into, or exit from, the firm, they are mainly of a long-term nature.

Current accounts with current and former partners

The average interest rate on the current balances was 5.0% in 2018 (2017: 5.0%).

8 OTHER CURRENT LIABILITIES AND ACCRUALS AND DEFERRED INCOME

	31 December 2018		31 December 2017	
Obligations to employees	2,449		1,796	
Other debts	164		239	
Accruals and deferred income	3,910		2,414	
		6,523		4,449

Obligations to employees are made up of leave day and overtime pay-outs, holiday allowance, other benefits and redundancy costs.

Accruals and deferred income are comprised mainly of costs payable in relation to the current financial year.

COMMITMENTS AND CONTINGENCIES

Fiscal unity

Together with its wholly owned subsidiaries, the company forms a fiscal unity for income tax and VAT purposes. The company heads up the fiscal unity and is jointly and severally liable for the VAT and corporate income tax debts of the fiscal unity as a whole.

Other commitments and contingencies

BDO Holding B.V. has issued a statement of joint and several liability for the debts incurred by BDO Accountants & Belastingadviseurs B.V., BDO Audit & Assurance B.V. and BDO Advisory B.V. in accordance with Section 403, Part 9 of Book 2 of the Netherlands Civil Code.

For the purposes of providing security for meeting its obligations to Stichting GESdE, BDO Holding B.V. has issued a first pledge to Stichting GESdE on its shares in group companies.

Headcount

BDO Holding B.V. had 195 employees (in FTEs) on average in 2018 (2017: 189). None of these employees worked abroad.

Remuneration of Management Board members

The Management Board members (2.0 FTEs) received the following remuneration for their management activities in 2018. The amount for 2017 also included the remuneration of former Management Board members.

	2018	2017
Remuneration of Management Board members	1,200	1,000

In addition, the Management Board members were paid an amount of € 67,000 in expense allowances in 2018 (2017: € 61,000).

Remuneration of Supervisory Board/Supervisory Committee members

BDO has a Supervisory Board, which consists of five external members. The members of the Supervisory Board received a total remuneration of € 260,000 in 2018 (2017: € 260,000).

Eindhoven, the Netherlands, 28 May 2019

The Management Board of BDO Holding B.V.

- ▶ A.D. den Braber, chairman
- ▶ N. Baroch-Ammerlaan
- ▶ H.P.W.M. Peeters

Other information

INDEPENDENT AUDITOR'S REPORT

For this purpose, reference is made to the report on pages 70 and 71.

PROVISIONS ON THE APPROPRIATION OF RESULT UNDER THE ARTICLES OF ASSOCIATION

Article 20 of the Articles of Association of BDO Holding B.V. reads as follows:

- ▶ The company shall not distribute any profit to shareholders and other beneficiaries to distributable profit unless its equity exceeds the equity that is required to be maintained by law. The company shall follow up on resolutions to distribute profit passed by the General Meeting only subject to the Management Board's consent. The Management Board shall not refuse its consent of a profit distribution unless it knows or ought to reasonably foresee that the company would be unable to pay its debts due after such distribution.
- ▶ Profit shall be at the disposal of the General Meeting.

For details on issued shares, see the notes to equity in the company-only balance sheet at 31 December 2018.

SPECIAL CONTROL RIGHTS UNDER THE ARTICLES OF ASSOCIATION

No special control rights exist under the Articles of Association of BDO Holding B.V.



Independent auditor's report



To the shareholders and the supervisory board of BDO Holding B.V.

Report on the financial statements 2018 included in the annual accounts

Our opinion

We have audited the financial statements 2018 of BDO Holding B.V., based in Eindhoven.

In our opinion the financial statements included in these annual accounts give a true and fair view of the financial position of BDO Holding B.V. as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. The consolidated and company-only balance sheet as at 31 December 2018.
2. The consolidated and company-only income account for 2018.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of BDO Holding B.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report, the annual accounts contain other information that consists of:

- ▶ Report of the Management Board.
- ▶ Other information as required by Part 9 of Book 2 of the Dutch Civil Code.
- ▶ Other information not being part of the financial statements (page 4 up to and including page 21).

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements.
- ▶ Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

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 Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting 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 fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Amsterdam, 28 May 2019

Deloitte Accountants B.V.

▶ G.P.J. Vossen



new perspectives

In the new economy we need to capitalize on market opportunities faster than ever. New rules challenge us to act more business-like. And a new generation is ready to do things differently. Better, smarter, more innovatively. To succeed as an entrepreneur we need to renew ourselves too. Be open to change. And have a broad-minded view of the possibilities that lie before us.

New perspectives. That's what BDO wants to offer you. And that's exactly what we do, with our unique combination of local market knowledge and an international network. Personal service and a professional approach. At BDO, we want to help you get a fresh angle on your business. So you can make the right decisions to increase the agility, strength and success of your organisation – whether it is a small or medium-sized enterprise, a family-owned business, a public organisation or an international corporation.

BDO is eager to look ahead with you. Together we will gain new insights and new opportunities in your market. Together we will create new perspectives.

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