



Transparency report

December 2009

KPMG CROATIA D.O.O.



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1. Legal and ownership structure

KPMG Croatia d.o.o. za reviziju ("KPMG Croatia") is a Croatian limited liability company with its seat in Zagreb at Ivana Lucica 2A. KPMG Croatia is a member firm of the KPMG network of independent member firms affiliated with KPMG International ("KPMG International"), a Swiss cooperative.

Details regarding the ownership of KPMG Croatia are available in the public registry of the Croatian Chamber of Auditors.

KPMG Croatia has two wholly owned subsidiaries (details available at the Croatian Chamber of Auditors' web site):

- **KPMG B-H d.o.o.** za reviziju, a Bosnian limited liability company with its seat in Sarajevo, Bosnia and Herzegovina; and
- **KPMG Obuka d.o.o.** a Croatian limited liability company.

2. Network arrangement

KPMG Croatia is a member firm of KPMG International. KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

KPMG International's structure is designed to support consistency of service, quality and adherence to agreed values wherever in the world member firms operate. One of the main purposes of KPMG International is to facilitate the provision by the member firms of high quality Audit, Tax and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

3. Governance structure

In compliance with the Croatian Audit Law (National Gazette 146/05 and 139/08), KPMG Croatia's registered management consists of predominantly Croatian qualified auditors. Complete details of KPMG Croatia's registered management is available on the public registry of companies in Croatia.

Various partners at KPMG Croatia have been charged with different governance functions. The ultimate responsibility of the team of partners headed by Ismet Kamal and including five other partners: Josko Dzida, Goran Horvat, Tony Ilijanic, Paul Suchar and Daniel Radic, is to uphold the values, standards and processes of KPMG in Croatia.

4. Internal quality control system

Our firm has adopted the policies of quality control issued by KPMG International. These are designed to encompass the standards issued by the International Federation of Accountants (IFAC) including International Standard of Quality Control (ISQC1).

Whilst many of its provisions are strictly only relevant to be applied to our audit practice, we have adopted its principles across all of our businesses. In this regard, unless otherwise stated, the disclosures made in this report relate equally to our non-audit advisory practices. In addition to the standards required by ISQC1, we maintain systems of quality controls that are designed to meet the rules and standards issued by the Croatian Chamber of Auditors.

Risk management, and quality control are the responsibilities of every partner and employee of KPMG Croatia. This responsibility includes the need to understand and adhere to the firm's policies and associated procedures in carrying out their day-to-day activities.

Our policies reflect individual quality control elements to help the firm's partners and employees act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

The firm's system of quality controls encompasses the following key elements:

- Leadership responsibility for quality;
- High ethical standards;
- Strong personnel management;
- Rigorous procedures for acceptance and continuance of clients and engagements;
- Processes that deliver effective engagement performance; and
- Monitoring activities.

Leadership responsibility for quality

In accordance with the principles in ISQC1, the Management Board has assumed ultimate responsibility for the firm's system of quality control. A key aspect of the firm's culture is a commitment to quality. The Management Board and our Senior Partner help create a culture of quality within the firm through a number of mechanisms. We communicate our strategy widely and it is available to all of our people on our intranet. The quality message is also reinforced in communications from leadership including the Senior Partner.

Risk Management Partner

Operational responsibility for the system of quality control and risk management of the firm has been delegated to the Risk Management Partner, Ismet Kamal. He is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. He is supported in his role by a team of risk professionals.

Ethical standards

KPMG Croatia is committed to achieving a high standard of ethical behaviour in everything that we do. KPMG's overarching value is that 'Above all, we act with Integrity'. KPMG's values are communicated to all of its people through the member firms and also embedded into performance appraisal processes.

We maintain compliance with legal, ethical, and professional requirements through a number of mechanisms, including adopting clear policies and procedures and promulgating a Code of Conduct.

Each member firm is required to have a Code of Conduct adopting, or based upon, the KPMG International Global Code of Conduct (Code), which defines the standards of ethical conduct that KPMG International requires from member firms and their personnel. The Code sets out KPMG's ethical principles and helps partners and employees to understand and uphold those principles. The Code emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. Member firm codes address in more detail standards to ensure compliance with local laws, policies, and professional standards, as well as resources available for consultation and assistance.

KPMG in Croatia follows specific policies that require KPMG people to:

- Comply with all applicable laws, regulations, and KPMG policies
- Report any illegal acts however committed
- Report breaches of risk management policies by KPMG firms or people
- Not offer, promise, make, solicit, or accept bribes (whether directly or through an intermediary)

Acceptance and continuance of clients and engagements

KPMG Croatia recognizes that rigorous client acceptance and continuance policies are vitally important to the ability of member firms to provide high-quality professional services. KPMG Croatia has established policies and procedures to support us in deciding whether to accept or continue a client relationship and whether to perform specific services for a particular client.

Prospective Client Evaluation Process

Prior to accepting a client, we perform an evaluation of the prospective client. This involves an assessment of its background, including its management and ownership, its business, and other matters, as appropriate, to identify risks and determine whether or not to accept the client. There is a specific focus on the integrity of the prospective client. Prospective client evaluations require approval of the evaluating partner and a risk management partner.

Client Continuance Process

A client continuance evaluation is undertaken every 12 months or earlier if certain factors are present to identify changing risks and to determine whether to continue to provide professional services to the client.

Audit engagement evaluation

Prior to accepting any audit engagement, an evaluation is conducted and documented by the prospective engagement leader, in consultation with other senior personnel as required. As part of the overall acceptance process, a range of factors is considered including the competence of the client's financial management team. Depending on the overall client risk assessment made, additional safeguards may be introduced into the audit to help mitigate any identified risk factors.

Engagement performance

Fundamental to the delivery of professional services by KPMG Croatia are the quality controls that are embedded throughout our standard engagement processes. These quality controls include policies and guidance to help ensure that the work performed by engagement personnel meets applicable professional standards, legal and regulatory requirements, and internal standards on quality.

Audit Methodology

The KPMG Audit Manual has been developed to comply with the requirements of International Standards of Auditing. Audit engagement teams in KPMG in Croatia follow the KPMG Audit Methodology.

There is a suite of technology tools to support the KPMG Audit Methodology. These tools promote consistent implementation of the audit process globally, and drive audit quality. Leveraging technology to further improve the audit experience for clients and audit professionals is a key component of KPMG International's Audit IT strategy.

Supervision, review, and support for the engagement team

Lead partners will advise key audit team members as to the objectives of their work, their responsibilities, and the responsibilities of the partners involved in the engagement. Discussions informing the team of the nature of the entity's business, risks, and possible issues and the detailed audit approach will also take place. This is communicated through planning meetings and a risk assessment and planning discussion with the team.

Supervision includes tracking the progress of the engagement, assessing whether the team members have the time to carry out their work; understand their instructions; and are performing their work in accordance with the audit plan. A key part of supervision is timely review of the work performed so that significant matters are identified and addressed, through consideration by more senior team members or consultation outside the team if necessary, and appropriate conclusions are reached.

The KPMG Audit Methodology is structured to require appropriate leadership from the engagement leader from the planning stage (e.g., through leading the planning meetings and reviewing planning and other documentation) through review to the completion of the audit.

Consultation and differences of opinion

Internal consultation with others is encouraged and in certain circumstances required. Technical support for each engagement team comes from a network that includes the Department of Professional Practice (DPP), KPMG's

International Financial Reporting Group and International Standards on Auditing Group, as well as the professional practice partners.

The firm has established protocols for consultation regarding, and documentation of, significant accounting and auditing matters, including procedures to resolve differences of opinion on engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by the DPP.

Engagement quality control review

An engagement quality control reviewer is required to be appointed for the audits of all listed entities and of other entities of significant public interest as well as engagements identified as higher risk. Reviewers are senior and experienced personnel who are independent of the engagement teams, having no engagement responsibilities other than those relating to an objective review of the financial statements and selected audit documentation.

Before the member firm issues its audit report, these individuals review selected audit documentation and client communications, the appropriateness of the financial statements and related disclosures, and the key conclusions of the audit engagement team with respect to the audit. Completion of an engagement quality control review is completed when the engagement quality control reviewer is satisfied that all significant questions raised are satisfactorily resolved.

Audit reports

The audit opinion is the key deliverable from audit work. The format and content of the audit opinion is largely dictated by auditing standards and local legislation. All audit opinions are arrived at by experienced engagement leaders, after involvement in, and review of, the work performed by the audit team.

Client confidentiality, information security, and data privacy

The importance of maintaining standards on client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, which all professionals are required to complete.

Each member firm is required to have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IFAC rules as well as other applicable regulatory bodies' standards and regulations.

KPMG member firms have clear policies on information security that cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG personnel.

Monitoring

KPMG Croatia follows KPMG International's integrated monitoring program to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and certain KPMG policies and procedures. The results and lessons from the programs are communicated within each member firm, and the overall results and lessons from the programs are considered at regional and global levels.

KPMG International has established The Quality Performance (QP) Program which assesses quality at the engagement level at each member firm in the Audit, Tax, and Advisory functions. KPMG in Croatia is a subject to this review. The reviews are tailored to the relevant function, performed at a member firm level generally using a nonlocal lead reviewer, and are monitored regionally with benchmarking across the regions to promote consistency. Remedial actions are developed at an engagement and at a member firm level.

Two cross-functional programs, the Risk Compliance Program (RCP) and the Global Compliance Review program (GCR), monitor compliance with KPMG International's policies at a member firm level.

The RCP is KPMG Croatia's annual self-assessment program of its compliance with applicable policies and procedures. It is monitored regionally.

GCRs are performed by reviewers external to KPMG in Croatia led by the Global Compliance Group and are carried out over a three-year cycle. These reviews assess compliance by a member firm with key KPMG International policies and procedures. In the event that a GCR review identifies significant issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

All three programs require an action plan to be developed by the member firm, and these action plans are followed up to assess action against the plan.

5. External quality assurance review

KPMG Croatia's audit practice is subject to inspection by the Croatian Chamber of Auditors. No inspections have taken place since the formation of the Croatian Chamber of Auditors until 31 December 2009.

6. Ethics and independence

KPMG in Croatia has established processes to communicate independence policies and procedures to our personnel. We require adherence to applicable independence rules and ethical standards, which met the standards promulgated by the CCA, IFAC, the PCAOB, SEC, and all other applicable regulatory bodies. These policies and procedures, which cover areas such as personal independence, post employment relationship, partner rotation, and approval of audit and non-audit services, are monitored to keep abreast of current developments. Some of these policies are further summarised in this section.

Independence and conflicts of interest

To help ensure ethical conduct, including integrity and independence, the firm, its partners, and the people assigned to each engagement must be free from prohibited financial interests in, and prohibited relationships with the firm's audit clients, their management, directors, and significant owners.

The firm and its professionals are required to comply with all applicable independence requirements and ethical standards which meet or exceed those set out in the IFAC Code of Ethics and those required by other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extra-territorially). The firm has a disciplinary policy that applies to individuals who breach independence rules.

The firm has a designated Ethics and Independence Partner who is responsible for the robust and consistent application of independence policies, processes and tools across the firm. These policies and procedures cover areas such as personal independence, post employment relationships, partner rotation, and approval of audit and non-audit services.

Personal independence

Professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial interests which are prohibited. Member firms use a web-based independence tracking system to assist partners and managers providing professional services in their compliance with personal independence investment policies. This system contains an inventory of publicly available

investment products. Partners and managers providing professional services are required to use this system prior to entering into a financial transaction to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies them if their investments subsequently become restricted. The firm monitors compliance with this requirement through performing regular audits of a sample of partners and managers.

In addition, in accordance with KPMG International policy, all partners are prohibited from owning securities in an audit client of any member firm worldwide.

Training and confirmations

The firm requires partners and client service professionals to take independence training and affirm their independence annually. This confirmation is signed upon commencement of employment at the firm, every year thereafter, and at key promotions. It is also used to evidence the individual's compliance with and understanding of the firm's independence policies.

Non-audit services

Many non-audit services provided by audit firms equip the auditor to perform the audit more effectively and the skills developed within a multi-disciplinary practice are an important part of auditing complex global businesses. The firm's policies and procedures strictly monitor the scope of services that can be provided to audit clients so that they are consistent with Audit Law and IFAC principles. These require the consideration by the lead audit engagement partner of the threats arising from the provision of non-audit services and the safeguards available to address those threats, thus preventing the provision of non-permitted services to audit clients.

KPMG International's proprietary system, Sentinel, facilitates compliance with these policies. Every engagement entered into by the firm is required to be included in the system prior to starting work. The system enables lead audit

engagement partners to review and approve, or deny, any proposed service for restricted, publicly traded and certain other audit clients and their affiliates wherever in the world the proposed service is to be provided and wherever the member firm is based.

Conflicts of interest

Conflicts of interest may prevent the firm from accepting an engagement. Sentinel is also used to identify and manage potential conflicts of interest within the firm and across the KPMG network of firms. Any potential conflict issues identified are resolved in consultation with other parties, and the resolution of all matters is documented.

If the engagement is accepted it may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise and to ensure that the confidentiality of all clients' affairs is maintained. Such procedures might, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers. If a potential conflict cannot be resolved the engagement is declined.

Partner rotation

The firm's policies are written to comply with IFAC Code of Ethics for Professional Accountants, the U.S. Sarbanes Oxley Act of 2002 and other regulatory requirements. We monitor the rotation of partners who provide services to audit clients. This monitoring system also aids in the development of timely transition plans that help the member firm deliver consistent quality service to its clients. The process of monitoring and tracking service time and partner rotation is subject to compliance testing as part of our quality performance review processes.

7. Human resource management – continuing education

Our policies require our professionals to maintain their technical competence and to comply with professional requirements as well as with applicable regulatory requests.

Learning and development

Our firm provides training to our audit and assurance professionals based on learning solutions delivered by KPMG International's Global Audit Training group. These include web-based and face-to-face courses focusing on the provision of high quality, technically up-to-date training materials for the ongoing development of audit field professionals. Policies require our professionals to maintain their technical competence and to comply with applicable regulatory and professional requirements. These materials cover the core audit methodology accounting, specialist and skills-based courses and help to support consistent quality. Technical training is provided in combination with skills training where appropriate. The contents of the courses are regularly reviewed and updated to reflect the ongoing technical competency needs of the professionals, including the level and role of the individual, and the feedback received from course participants

Performance management

All professionals, including partners, undergo annual goal setting and performance evaluations conducted by performance managers and partners who are in a position to assess their performance. This is achieved through our global performance management process, Dialogue which is supported by a web-based application. It provides a framework for guiding and assessing performance and developing people, as well as the tools to carry out this process efficiently and effectively. It also enables the firm to cascade organizational strategic objectives through to team and individual goals to guide performance on the job. Quality is one of the key goals cascaded to our people with the requirement that they monitor and uphold the highest quality of service and products to clients.

Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the KPMG skills and behaviours for their level, and adherence to the KPMG values. Skills and behaviours evaluated include delivering quality service, professionalism, technical knowledge, accountability, business focus, problem solving, building relationships, developing people, feedback and learning, drive and resilience, and making an impact. The annual evaluation and rating of on-the-job performance is completed using a nine-box tool which looks at two key dimensions of performance; achievement of performance results on one axis and demonstration of values, skills and behaviours with a key focus on behaving with integrity and responsibly towards our people, clients and communities on the other. Both dimensions are essential to success within KPMG.

Compensation and promotions

Our firm has implemented compensation policies that are clear, simple and linked to the performance evaluation process so that partners and employees know what is expected of them and what they can expect to receive in return. The result of their annual performance evaluation directly affects their compensation, promotion, and in some cases their continued association with the firm.

Accreditations and licensing

Our policies require our professionals to achieve and maintain technical competence and to comply with applicable regulatory and professional accreditation and development requirements, including those of the Croatian Chamber of Auditors. The firm provides opportunities to help our professionals meet their continuing professional development requirements (at a minimum professionals must comply with the IFAC and the Croatian Chamber of Auditors requirements) as well as their own personal development goals. Our people are encouraged to study for a relevant professional qualification.

KPMG Croatia with auditing license is authorized by the Croatian Chamber of Auditors as Registered Auditors and is licensed to carry out audit work. The firm requires that client service professionals maintain accreditation with their professional bodies and satisfy the Continuing Professional Education requirements of such bodies. The firm observes the requirements of the Croatian Chamber of Auditors for statutory audit reports to be signed by individuals who are Registered Auditors.

8. Financial report

KPMG Croatia d.o.o. za reviziju prepares financial information as at and for the year ended 30 September in accordance with Croatian Financial Reporting Standards and selected financial data is available.


The statutory financial statements of KPMG Croatia d.o.o. za reviziju for the financial year 30 September 2009 have not yet been finalized and issued. Thus the revenue figures presented should be considered as preliminary and may be subject to change.

Revenue (HRK 'million)		
Statutory audit		22.8
Other revenues		46.6
Total		69.4

9. Partner remuneration

Remuneration is determined by objectives set for each partner on a number of matters relevant to their role. These include quality of work, excellence in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partner remuneration setting takes no account of the level of non-audit services provided to the partner's audit clients.

On behalf of KPMG Croatia d.o.o

A handwritten signature in blue ink, consisting of a large, stylized loop at the top and a series of smaller, connected loops below it.

Ismet Kamal
Senior Partner

Appendix

Adriatica Capital d.o.o.
Alternative Invest d.o.o.
BKS Bank d.d.
CAIB Invest d.o.o.
ERICSSON NIKOLA TESLA d.d.
Hrvatska osiguravajuća kuća d.d.
HPB-Stambena štedionica d.d.
Hrvatska Poštanska banka d.d.
Inker, industrija porculana i keramike d.d.
Istraturist Umag d.d.
Jadroplov d.d.
Magma d.d.
Medika d.d.
Merkur osiguranje d.d.
Model Pakiranja d.d.
Raiffeisen Invest d.o.o.
Siemens d.d.
Triglav osiguranje d.d.
Velebit Osiguranje d.d.
Velebit Životno Osiguranje d.d.
Victoria Osiguranje d.d.
Victoria Životno Osiguranje d.d.
Zagrebačka banka d.d.
Zagrebačka pivovara d.d.
ZB Invest d.o.o.

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