

FINANCIAL INFORMATION

at 31 December 2006

of

**TRANSPARENCY INTERNATIONAL e.V.**  
**BERLIN**

(with Independent Auditor's Report thereon)

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## TRANSPARENCY INTERNATIONAL e.V., BERLIN

## BALANCE SHEET at 31 DECEMBER 2006

ASSETS	2006		2005		Note
	Euro '000		Euro '000		
<b><u>Current Assets</u></b>					
<b>Cash and Bank</b>					
Cash on Hand	8	6			4
Bank Balances	3,940	3,145	3,151		4
<b>Receivables</b>					
Advances to National Chapters and others	1,168	1,545			4
Donors commitments	314	180			4
Travel, rent deposit and other	25	71	1,796		
<b>Subtotal Current Assets</b>	<b>5,455</b>	<b>4,947</b>			
<b><u>Fixed Assets</u></b>					
Intangible assets	10	18			6
Office equipment	79	94	112		6
	<b>5,544</b>	<b>5,059</b>			
<b>LIABILITIES AND FUNDS</b>					
<b>Liabilities</b>					
Donors	1,687	1,765			4
Other liabilities	1,374	1,715			4
Accounts payable	407	203			
Other accruals	191	320	4,003		8
<b>Funds</b>	<b>1,885</b>	<b>1,056</b>			7
	<b>5,544</b>	<b>5,059</b>			

**TRANSPARENCY INTERNATIONAL e.V., BERLIN**  
**STATEMENT OF INCOME AND EXPENDITURE**  
**For the year ended 31 December 2006**

	2006	2005	Note
	Euro '000		
Donor contributions	8,375	6,853	4
Other operating income	142	193	9
<b>Total Revenues</b>	<b>8,517</b>	<b>7,046</b>	
Personnel expenses	-2,946	-2,891	8
Depreciation of fixed assets	-80	-229	6
Other operating expenses	-4,714	-3,176	10
<b>Operating Result</b>	<b>777</b>	<b>750</b>	
Interest income	53	22	
Release of reserves	13		
<b>Net Surplus before contribution to designated funds</b>	<b>843</b>	<b>772</b>	
Reserve for TI Network support		-150	
Reserve for Investment	-250		
Special fund	-250	-250	
<b>Net Surplus after contribution to designated funds</b>	<b>343</b>	<b>372</b>	

**TRANSPARENCY INTERNATIONAL e.V., BERLIN**  
**ADDITIONAL FINANCIAL INFORMATION AT 31 DECEMBER 2006**

1. General, Legal and Tax Affairs

Transparency International e.V. – in the following referred to as TI-S - is a not-for-profit association registered in Berlin, Germany. Transparency International is the leading global non-governmental organisation devoted to combating corruption. It brings civil society, business and government together in a powerful global coalition, in order to create change towards a world free of corruption. TI-S comprises the movement's secretariat which supports over 90 National Chapters and leads the implementation of the organisation's international agenda.<sup>1</sup>

In compliance with its Charter, TI-S serves solely charitable purposes and is officially recognised by the Berlin tax authorities as exempt from corporate and trade tax liabilities. The latest triennial exemption is valid until 31 December 2007.

The following individuals served on the Board of Directors during 2006:

Huguette Labelle (Canada) – Chair  
Akere T. Muna (Cameroon) – Vice Chair  
Sion Assidon (Morocco)  
Jermyn Brooks (UK) (until November 2006)  
Boris Divjak (Bosnia and Herzegovina)  
Geo-Sung Kim (South Korea)  
Chong San Lee (Malaysia)  
Valeria Merino-Dirani (Ecuador)  
Devendra Raj Panday (Nepal) (since November 2006)  
Laura Puertas Meyer (Peru)  
Frank Vogl (USA)  
Gerard Zovighian (Lebanon)  
Nancy Zucker Boswell (USA)

Members of the Board of Directors are elected by the Annual Membership Meeting (AMM) of TI-S, which membership consists of accredited National Chapters and Individual Members. Travel expenses, per diems, Euro 50 sitting allowance for AMM and Board meetings and out-of-pocket expenses are reimbursed, but no remuneration or other fees are paid to the Board members by TI-S.

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<sup>1</sup> The current Charter and further details on TI governance can be found at [http://www.transparency.org/about\\_us/organisation/charter](http://www.transparency.org/about_us/organisation/charter)

TI-S is guided by its Charter, the Umbrella Statement of vision, values and guiding principles, a Code of Conduct and the TI Conflict of Interest Policy.<sup>2</sup>

## 2. Accounting Principles

The Balance Sheet and the Statement of Income and Expenditure have been drawn up in accordance with §§ 238 – 263 German Commercial Law (HGB). For TI-S the Net Surplus of the year would not be materially different based on International Financial Reporting Standards (IFRS).

## 3. Risk Management

The TI-S management has a risk management strategy which comprises:

- Creation and recreation of a strategic plan which sets out key aims, objectives and policies.
- A comprehensive system of policies and guidelines e.g. the above mentioned Code of Conduct and the TI Conflict of Interest Policy but also Human Resources and financial guidelines.
- Creation and monitoring of financial plans, budgets and cash flows.
- Timely and accurate project and financial reporting.
- Strong authorization and approval procedures.
- Use of job plans and personal objectives.

The TI-S management reports to the Board of Directors and to the Board appointed Committees e.g. the Audit, the Finance and the Ethics Committee which recommend drafts for Board decisions. Those influence directly the further tasks and policies required to be fulfilled by TI-S.

Due to the well performed consequent work within the last few years TI-S could build up disposable reserves (free reserves without special one) in the amount of Euro 985,373 at 31 December 2006 which would cover 47 days of expenditure related to the budget of 2007.

From the TI-S management's point of view there are no known fraud relevant issues. In terms of the risk of fraud, the controls in place indicate a low opportunity and high detection possibility.

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<sup>2</sup> See [http://www.transparency.org/about\\_us/organisation](http://www.transparency.org/about_us/organisation)

#### 4. Donor Funding

Donor funds are recognised as income either in the year for which the grant is made (unrestricted funding) or in line with the progress of specifically funded projects.

Disbursements by TI-S of donor funds to National Chapters and others are initially recorded as receivables from National Chapters or as advances to projects. They are recorded as income (Donor Contribution) only once they have been accounted for by the recipients of the funds. Funds received from donors which have not yet been utilised for projects are deferred as liabilities to donors, whereas funds disbursed but not yet accounted for by the recipients (at 31 December 2006: Euro 1,374,000 (2005: Euro 1,715,000 )) are transferred to Other Liabilities. To the extent that funding commitments have been received and that are due at the balance sheet date, these are recorded as receivables from donors - Donor commitments.

Donor	2006 Euro			2005 Euro
	Total Disbursements	Changes in accrued disbursements	Recorded as Income	
<b>Governmental Agencies</b>				
Ministry for Economic Cooperation and Development (BMZ), Germany	883,022	45,304	928,326	373,628
European Commission	486,285	414,242	900,527	591,174
Ministry for Foreign Affairs of Finland	400,903	472,559	873,462	476,396
Ministry of Foreign Affairs, The Netherlands	750,000		750,000	750,000
Department for International Development, United Kingdom (DfID) PPA	367,918		367,918	
Department for International Development, United Kingdom (DfID)	313,598	-3,400	310,198	571,101
Royal Danish Ministry of Foreign Affairs (DANIDA)	583,407	-61,433	521,973	362,357
Canadian International Development Agency (CIDA)	482,815	32,379	515,195	540,719
Australian Agency for International Development (AusAID)	386,062	-49,567	336,496	232,994
Norwegian Agency for International Development (NORAD)	311,473		311,473	315,897
Swiss Agency for Development and Cooperation (SDC)	247,336		247,336	269,074
Swedish International Development Cooperation Agency (SIDA)	244,139	-1,000	243,139	331,424
Government of Guatemala	236,349		236,349	105,281
Irish Aid	107,485	15,615	123,100	134,626
Federal Foreign Office, Germany	418,613	-308,196	110,417	190,607
Foreign & Commonwealth Office, UK (FCO)	216,410	-106,537	109,873	271,917
Ministry for Foreign Affairs, Norway	7,213	23,513	30,726	7,783
Hungarian National Development Office	18,704	-998	17,707	0
K-Pact Council, South Korea	6,125		6,125	0
French Ministry of Foreign Affairs	36,689	-32,490	4,199	0
U.S. Agency for International Development (USAID)		7,410	7,410	116,842
The Ministry of Foreign Affairs and Trade, New Zealand (NZAID)				7,566
	<b>6,504,546</b>	<b>447,401</b>	<b>6,951,947</b>	<b>5,649,386</b>
<b>Foundations</b>				
OSI Development Foundation, Switzerland	260,787	-100,390	160,397	120,678
AVINA Group, Switzerland	86,387	31,255	117,642	111,523
Starr Foundation, USA	65,122	-9,573	55,549	29,489
Carter Center, USA	25,211		25,211	0
Hunter White, USA	21,890		21,890	0
Fondation Pro Victimis, Switzerland				6,000
The Ford Foundation, USA				80,773
Tinker Foundation, Inc., USA				10,128
	<b>459,397</b>	<b>-78,708</b>	<b>380,689</b>	<b>368,591</b>
<b>Other development Organisations</b>				
United Nations Development Programme (UNDP)	130,098	-683	129,415	46,194
Christian Michelsen Institute (CMI), Norway	105,676	195	105,871	124,039
Middle East Partnership Initiative (MEPI)	78,999		78,999	0
United Nations Foundation	21,207		21,207	29,116
Inter-American Development Bank (IADB)	34,066		34,066	0
Stockholm International Water Institute, Sweden	10,435		10,435	9,036
European Investment Bank (EIB)	9,492		9,492	30,000
The World Bank (IBRD)	8,469		8,469	1,178
European Bank for Reconstruction and Development (EBRD)	3,250		3,250	7,833
Center for International Private Enterprise (CIPE), USA	1,295		1,295	8,060
German Corporation for Technical Cooperation (GTZ), Germany	1,011		1,011	23,587
Basel Institute on Governance, Switzerland				2,462
Deutsche Investitions- und Entwicklungsgesellschaft mbH, Germany (DEG)				5,000
Gesamtverband Kommunikationsagenturen, Germany (GWA)				5,000
IHK Frankfurt, Germany				3,000
Partners of the Americas, USA				7,803
Ti Germany				6,500
Tsinghua University, China				14,500
	<b>403,998</b>	<b>-488</b>	<b>403,510</b>	<b>323,308</b>

<b>Corporate Donors / Contributions to Project Outlays</b>				
SAP AG	55,550	35,000	90,550	74,033
Anglo American Group Foundation	74,158		74,158	0
Norsk Hydro	53,250		53,250	7,833
Deutsche Bank AG	50,000		50,000	50,000
Ernst & Young	50,000		50,000	0
Shell International BV/Ltd.	48,950		48,950	42,233
Procter & Gamble CEEMEA	40,000		40,000	0
UBS AG	40,000		40,000	40,000
Nexen Inc.	32,065		32,065	32,637
Legatum Global Development (formerly Sovereign Global Development)	26,820		26,820	101,129
BP International	18,500		18,500	4,083
Pfizer Inc.	12,800		12,800	19,752
Credit Suisse	10,000		10,000	0
HSBC Holdings plc	7,000		7,000	0
PricewaterhouseCoopers	7,000		7,000	6,000
KPMG	6,750		6,750	6,000
Rio Tinto London Ltd.	5,600		5,600	10,483
XL Capital Ltd.	4,026		4,026	0
SGS AG	3,250		3,250	7,833
International Federation of Inspection Agencies	3,000		3,000	1,750
Trace International	2,000		2,000	2,230
Deutsches Institut für interne Revision	1,500		1,500	0
F&C Asset Management PLC	1,400		1,400	1,600
Sika Services AG	1,400		1,400	3,350
Consolidated Contractors	1,024		1,024	2,124
Gemeinnützige Genossenschaft zum Aufbau der Freien Waldorfschule e.G.	1,000		1,000	0
ABB Ltd.	830		830	2,400
Fluor Corporation	830		830	1,299
Haicrow Group Ltd.	830		830	1,299
Hilti Corporation	830		830	2,400
Hochtief AG	830		830	2,400
Skanska	830		830	2,400
SNC Lavalin	830		830	2,400
Amanco		2,614	2,614	28,566
Merck, USA		486	486	7,654
Bombardier Inc.				4,083
Calvert Asset Management				3,814
General Electric Corporation				12,499
ISIS				1,750
Lahmeyer International				2,000
Motorola Inc.				4,083
	<b>562,853</b>	<b>38,100</b>	<b>600,952</b>	<b>492,121</b>
<b>Individual Donors</b>				
William F. Biggs	18,888		18,888	9,589
Per Skalen	2,800		2,800	0
Bettina von Bogen	2,750		2,750	0
Hartmut Fischer	2,000		2,000	4,000
George Gund III	1,631		1,631	0
Gary Geoghegan	1,561		1,561	0
Arnesto Goncalves Segredo	1,500		1,500	1,500
Other (less than Euro 1,000 each)	6,854		6,854	7,057
Anonymous contribution (more than Euro 1,000 each)				7,054
	<b>37,984</b>	<b>0</b>	<b>37,984</b>	<b>29,200</b>
<b>Totals</b>	<b>7,968,778</b>	<b>406,305</b>	<b>8,375,083</b>	<b>6,852,606</b>

TI-S received the first two payments of the five years PPA Grant, issued by the Department for International Development, United Kingdom (included in the Donor overview) in the total amount of Euro 741,699 (GBP 500,000), in 2006.

Euro 367,918 of the above reported disbursements are related to this Grant. The remaining already received Euro 373,781 will be spent and reported in 2007.

#### 5. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are stated in accordance with the principle of the lower of cost or market except for cash and bank balances, which are stated at current market value at 31 December 2006. Advances to National Chapters and others as well the Liabilities to Donors and other liabilities are stated at the exchange rate used when the payment was effected.

#### 6. Fixed Assets

Fixed Assets are depreciated using the straight-line method, mainly between 3 and 5 years.

**Fixed Assets analysis at 31 December 2006**

Euro '000	01.01.06		<u>Acquisition costs</u>		31.12.06		01.01.06		<u>Depreciation</u>		<u>Book values</u>	
	Additions	Disposals	Additions	Disposals	Additions	Disposals	Additions	Disposals	Additions	Disposals	01.01.06	31.12.06
Intangible Assets	59	1			60		41	9			13	10
Property, Plant and Equipment	239	57	81		215		145	71	80		94	79
	298	58	81		275		186	80	80		112	89

## 7. Funds

The Funds of the association are classified into Free Reserves, Reserve for investment and for TI Network support. Reserves are set up in accordance with German tax law. In the year 2006 funds developed as follows:

Euro '000	Balance at 01.01.06	Release of Reserves	Appropriation from Net Surplus of the year	Balance at 31.12.06
<b>Reserves</b>				
Free Reserves	906		592	1,498
<i>Thereof : Special fund</i>	250		250	500
Reserve for Investment			250	250
Reserve for TI Network support	150	13		137
<b>Funds</b>	<b>1,056</b>	<b>13</b>	<b>842</b>	<b>1,885</b>

Euro '000	Balance at 01.01.05	Release of Reserves	Appropriation from Net Surplus of the year	Balance at 31.12.05
<b>Funds</b>	<b>284</b>		<b>772</b>	<b>1,056</b>

The special fund is created for the long-term needs of TI-S.

The Reserve for investment is established for the new TI-S website, the Reserve for TI network support for the purposes of strengthening TI's National Chapter network.

## 8. Personnel

In 2006 TI-S employed an average of 60 employees (2005: 55). In addition it benefited from a number of interns who contributed to its activities throughout the year.

## 9. Other Operating Income

Other Operating Income	EUR '000	2006	2005
Reimbursement of travel expenses by third parties		76	89
Foreign exchange translation gains		26	74
Reimbursement of expenses for maternal leave		16	
Speakers' fees		9	12
Publications		1	1
Rental income			15
Other		14	2
		142	193

## 10. Other Operating Expenses

Other Operating Expenses	EUR '000	2006	2005
Projects and meetings *)		1,916	926
Consultancy and other services		1,045	679
Travel expenses		1,052	789
Publications and communications		284	309
Maintenance, rent and leasing costs		187	296
Foreign exchange translation loss		53	10
Other		177	167
		4,714	3,176

\* Many of these expenses were incurred by TI National Chapters, and the costs involved were reimbursed by TI-S

## 11. Cash-Flow Statement

<b>Cash-Flow Statement for the year ending December 31, 2006</b>		
	2006 Euro '000	2005 Euro '000
Net Surplus of the year	843	772
Depreciation of fixed assets	80	229
Release of network reserve	-13	
Decrease/Increase in liabilities	-344	689
Decrease/Increase in receivables	289	-222
Subtotal	855	1,468
Investments in fixed assets	-58	-111
Change in Cash and Bank	797	1,357
Cash and Bank at beginning of the year	3,151	1,794
Cash and Bank at end of the year	3,948	3,151

## 12. TI Endowment Fund

## Contribution from U.S. Agency for International Development

The TI Endowment Fund, set up in 2004, is excluded from the accounts of TI-S being established outside TI-S for the long-term benefit of the movement. The contribution to date is USD 2 million from USAID. These Funds are maintained in US Dollars, with a memorandum note of the equivalent in Euros. TI may use the Fund earnings but in 2004 to 2006 these have been reinvested in the Fund.

	<u>USD</u>	
Balance of Fund 01 January 2006	2,021,880	
Interest received in 2006	39,423	
Service charges in 2006	-55	
Balance of Fund 31 December 2006	<u>2,061,248</u>	
		<u>EUR equivalent</u>
Represented by		
Investments, at cost	2,061,007	1,562,202
Cash at bank	241	183
	<u>2,061,248</u>	<u>1,562,385</u>
Market value of investments at 31 December 2006	<u>2,127,159</u>	<u>1,612,344</u>
Redemption value	<u>2,276,000</u>	<u>1,725,162</u>

The investments comprise four US treasury notes of approx. USD 500,000 each, maturing respectively in May and September 2007, in August 2008 and in November 2009. The interest income is recorded on redemption.

Berlin, *et.* April 2007



Huguette Labelle

Chair of the Board of Directors

## Independent Auditors' Report

To Transparency International e.V.

We have audited the accompanying balance sheet of Transparency International e.V., Berlin, as of December 31, 2006, the related statement of income and expenditures for the year then ended and the additional financial information (financial information).

### **Management's Responsibility for the Financial Information**

Management is responsible for the preparation and fair presentation of this financial information in accordance with sec. 238-263 German Commercial Law (HGB). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on this financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

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

### **Opinion**


In our opinion, the financial information presents fairly, in all material respects, the financial position of Transparency International e.V. as of December 31, 2006, and the results of its financial performance for the year then ended in accordance with sec. 238-263 German Commercial Law (HGB).

This report was issued for information purposes to Transparency International e.V. and must not be used in any other context. This report must not, in particular, be handed out to third parties or included in sales prospectuses or similar public documents or media.

We have provided the services described above on behalf of Transparency International e.V. We have carried out our engagement on the basis of the General Engagement Terms for Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2002 (Appendix 1). By taking note of and using the information as contained in our Auditors' Report each recipient confirms to have taken note of the terms and conditions stipulated in the aforementioned General Engagement Terms (including the liability limitations specified in item No. 9 included therein) and acknowledges their validity in relation to us.

Berlin  
April 24, 2007

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

  
Graf von Hardenberg  
Wirtschaftsprüfer

  
Krebs  
Wirtschaftsprüfer

[Translator's notes are in square brackets]

# General Engagement Terms

for  
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften  
[German Public Auditors and Public Audit Firms]  
as of January 1, 2002

This is an English translation of the German text, which is the sole authoritative version

## 1. Scope

(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements.

(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.

## 2. Scope and performance of the engagement

(1) Subject of the Wirtschaftsprüfer's engagement is the performance of agreed services – not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsmäßiger Berufsausübung [Standards of Proper Professional Conduct]. The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.

(2) The application of foreign law requires – except for financial attestation engagements – an express written agreement.

(3) The engagement does not extend – to the extent it is not directed thereto – to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.

(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.

## 3. The client's duty to inform.

(1) The client must ensure that the Wirtschaftsprüfer – even without his special request – is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.

(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.

## 4. Ensuring Independence

The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.

## 5. Reporting and verbal information

If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.

## 6. Protection of the Wirtschaftsprüfer's intellectual property

The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations – especially quantity and cost computations – prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.

## 7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms.

The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.

## 8. Correction of deficiencies

(1) Where there are deficiencies, the client is entitled to subsequent fulfillment [of the contract]. The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; if the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.

(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.

(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected – and also be applicable versus third parties – by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw – also versus third parties – such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.

## 9. Liability

(1) The liability limitation of § ["Article"] 323 (2) ["paragraph 2"] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.

(2) Liability for negligence; An individual case of damages

If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the Profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind – except for damages resulting from injury to life, body or health – for an individual case of damages resulting from negligence is limited to € 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(3) Preclusive deadlines

A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim – at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence. The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.

## 10. Supplementary provisions for audit engagements

(1) A subsequent amendment or abridgement of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.

(2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.

(3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

## 11. Supplementary provisions for assistance with tax matters

(1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client – especially numerical disclosures – are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.

(2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records – especially tax assessments – material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.

(3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client
- b) examination of tax assessments in relation to the taxes mentioned in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)
- e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).

In the afore-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.

(4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.

(5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:

- a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax
- b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and
- c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

(6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisites nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

## 12. Confidentiality towards third parties and data security

(1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.

(2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.

(3) The Wirtschaftsprüfer is entitled – within the purposes stipulated by the client – to process personal data entrusted to him or allow them to be processed by third parties.

## 13. Default of acceptance and lack of cooperation on the part of the client

If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

## 14. Remuneration

(1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.

(2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

## 15. Retention and return of supporting documentation and records

(1) The Wirtschaftsprüfer retains, for seven years, the supporting documents and records in connection with the completion of the engagement – that had been provided to him and that he has prepared himself – as well as the correspondence with respect to the engagement.

(2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

## 16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.