

FINANCIAL INFORMATION

at 31 December 2007

of

TRANSPARENCY INTERNATIONAL e.V.

BERLIN

(with Independent Auditor's Report)

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TRANSPARENCY INTERNATIONAL e.V., BERLIN

BALANCE SHEET at 31 DECEMBER 2007

ASSETS	2007		2006		Note
	Euro '000		Euro '000		
<u>Current Assets</u>					
Cash and Bank					
Cash on Hand	8	8			4
Bank Balances	5,436	3,940	3,948		4
Receivables					7
Advances to National Chapters and others	686	1,168			
Donor commitments	156	314			
Travel advances and deposits	92	25	1,507		
Current Assets			6,378	5,455	
<u>Fixed Assets</u>					
Intangible assets	5	10			6
Office equipment	100	79	89		6
			6,483	5,544	
LIABILITIES AND FUNDS					
<u>Liabilities</u>					
Donors' funding	2,514	1,687			4
Other liabilities	904	1,374			
Accounts payable	393	407			4
Other accruals	186	191	3,997	3,659	
Funds			2,486	1,885	
			6,483	5,544	

TRANSPARENCY INTERNATIONAL e.V., BERLIN
STATEMENT OF INCOME AND EXPENDITURE

For the year ended 31 December 2007

	2007	2006	Note
	Euro '000		
Donor contributions	9,264	8,375	4
Other operating income	174	142	9
Total Revenues	9,438	8,517	
Personnel expenses	-3,631	-2,946	8
Depreciation of fixed assets	-83	-80	6
Other operating expenses	-5,264	-4,714	10
Operating Result	460	777	
Interest income	141	53	
Release of reserves		13	
Net Surplus before contribution to designated funds	601	843	
Reserve for TI Network support	-13		
Reserve for investment		-250	
Special fund	-275	-250	
Net Surplus after contribution to designated funds	313	343	

TRANSPARENCY INTERNATIONAL e.V., BERLIN
ADDITIONAL FINANCIAL INFORMATION AT 31 DECEMBER 2007

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.¹

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 current triennial exemption is valid until 31 December 2010.

The following individuals served on the Board of Directors during 2007:

Huguette Labelle (Canada) – Chair
Akere T. Muna (Cameroon) – Vice Chair
Sion Assidon (Morocco)
John Devitt (Ireland) (since October 2007)
Boris Divjak (Bosnia and Herzegovina)
Geo-Sung Kim (South Korea)
Chong San Lee (Malaysia)
Valeria Merino-Dirani (Ecuador) (till October 2007)
Devendra Raj Panday (Nepal)
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.

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.²

¹ The current Charter and further details on TI governance can be found at http://www.transparency.org/about_us/organisation/charte

² See http://www.transparency.org/about_us/organisation

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

TI-S management pursues a risk management strategy covering the following areas:

Governance and management risks

- Establishing of TI's strategic plan TI-2010
- Setting an annual work plan for each TI-S department
- Operational reports to the Board of Directors on implementation twice a year
- Formulation of high priority objectives and key performance indicators

Operational risks

- Training budget and policy, with HR responsibility for collecting and coordinating training needs
- Regular consultations of HR with a labour lawyer
- Appointment of an ethics officer at TI-S
- Active involvement of TI Board Ethics Committee in complaints' resolution

Financial risks

- Creation and monitoring of financial budgets and cash flows
- Timely and accurate project and financial reporting
- Strong authorization and approval procedures

Environmental and external risks

- Risk assessment conducted during the Annual Membership Meeting 2007

Compliance risks

- Appointment of a data protection officer
- TI-S as founding member of the Accountability charter and IANGO charter
- Adoption of the no-drugs policy of USAID

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. These influence directly the further tasks and policies required to be fulfilled by TI-S.

From 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.

Based on consistent planning and performance over the last few years TI-S was able to build up other free reserves in the amount of Euro 1,311,353 at 31 December 2007 which would cover 53 days related to expenditure in 2007.

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 reported 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 reported for by the recipients (at 31 December 2007: Euro 669,251 (2006: Euro 1,158,650)) are transferred to Other Liabilities. To the extent that funding commitments have been received and are due at the balance sheet date, these are recorded as receivables from donors - Donor commitments.

Donor	2007 Euro			2006 Euro
	Total Disbursements	Changes in accrued disbursements	Recorded as income	
Governmental Agencies				
Department for International Development, United Kingdom (DfID) PPA	1,492,425	10,800	1,503,225	367,918
Ministry for Economic Cooperation and Development (BMZ), Germany	902,434	-137,247	765,187	928,326
Ministry of Foreign Affairs, The Netherlands	750,000		750,000	750,000
Royal Danish Ministry of Foreign Affairs (DANIDA)	496,294	194,369	690,663	521,973
Canadian International Development Agency (CIDA)	456,472	6,084	462,556	515,195
Ministry for Foreign Affairs of Finland	438,474	9,285	447,760	873,461
Irish Aid	375,000	4,247	379,247	123,100
Department for International Development, United Kingdom (DfID)	370,536		370,536	310,198
Australian Agency for International Development (AusAID)	347,876	72,959	420,835	336,496
Norwegian Agency for International Development (NORAD)	308,144		308,144	311,473
Swiss Agency for Development and Cooperation (SDC)	198,646		198,646	247,336
Federal Foreign Office, Germany	193,570	308,196	501,766	110,417
French Ministry of Foreign Affairs	146,003	32,490	178,493	4,199
Government of Guatemala	132,180		132,180	236,349
Swedish International Development Cooperation Agency (SIDA)	129,829	-36,299	93,530	243,139
Foreign & Commonwealth Office, UK (FCO)	109,348	108,176	217,525	109,873
European Commission	89,433	76,082	165,515	900,527
Azerbaijan Government	46,613		46,613	0
Agencia Espanola de Cooperation Internacional (AECI)	39,861	-10,388	29,473	0
U.S. Agency for International Development (USAID)	29,123	2,289	31,412	7,410
Legatum Global Development (formerly Sovereign Global Development Ltd.)	26,291		26,291	26,820
K-Pact Council, South Korea	8,479		8,479	6,125
Comunidad de Madrid	8,280		8,280	0
Corporacion Andina de Fomento (CAF)	1,439	-1,401	38	0
Seoul Metropolitan Government	696		696	0
Hungarian National Development Office		998	998	17,707
Ministry for Foreign Affairs, Norway				30,726
	7,097,448	640,640	7,738,088	6,978,767
Foundations				
Hewlett Foundation	420,573	-250,666	169,908	0
OSI Development Foundation, Switzerland	205,974	90,793	296,767	160,397
AVINA Group, Switzerland	41,573	2,375	43,947	117,642
Starr Foundation, USA	21,476	9,573	31,049	55,549
Carter Center, USA	7,606		7,606	25,211
The Lee & Gund Foundation	7,180		7,180	0
Hunter White, USA	1,113		1,113	21,890
	705,494	-147,924	557,569	380,689
Balance	7,802,942	492,716	8,295,658	7,359,456

Donor	2007 Euro		2006 Euro	
	Total Disbur- sements	Changes in accrued disbur- sements	Recorded as income	
BFWD	7,802,942	492,716	8,295,658	7,359,456
<u>Other development Organizations</u>				
Stockholm International Water Institute (SIWI), Sweden	258,881	-5,239	253,642	10,435
Christian Michelsen Institute (CMI), Norway	110,010		110,010	105,871
European Investment Bank (EIB)	107,508	-1,664	105,844	9,492
Center for International Private Enterprise (CIPE), USA	72,484	-477	72,007	1,295
The World Bank (IBRD)	33,695		33,695	8,469
Inter-American Development Bank (IADB)	25,324		25,324	34,066
German Corporation for Technical Cooperation (GTZ), Germany	22,352		22,352	1,011
WEF	14,153		14,153	0
United Nations Development Programme (UNDP)	13,894	664	14,558	129,415
IFES	8,823		8,823	0
Nordiska Afrika Institut, Uppsala	8,500		8,500	0
Future Forest	5,277		5,277	0
Save the Children Fund	2,930		2,930	0
Middle East Partnership Initiative	2,587		2,587	78,999
European Bank for Reconstruction and Development (EBRD)				3,250
United Nations Foundation				21,207
	686,417	-6,716	679,700	403,510
<u>Corporate Donors / Contributions to Project Outlays</u>				
Norsk Hydro	50,000		50,000	53,250
Shell International BV/Ltd.	47,729		47,729	48,950
Anglo American Services (UK) Ltd, London	40,000		40,000	74,158
Procter & Gamble CEEMEA	40,000		40,000	40,000
Nexen Inc.	29,700		29,700	32,065
UBS AG	20,000		20,000	40,000
KPMG	6,500		6,500	6,750
FLUIR	3,300		3,300	0
SAP AG				90,550
Deutsche Bank AG				50,000
Balance Corporate Donors / Contributions to Project Outlays	237,229	0	237,229	435,723
Balance	8,489,358	486,000	8,975,358	7,762,967

Donor	2007 Euro		2006 Euro	
	Total Disbur- sements	Changes in accrued disbur- sements	Recorded as income	
BFWD	8,489,358	486,000	8,975,358	7,762,967
PricewaterhouseCoopers	3,000		3,000	7,000
Connective Capital / Cindy Matsuyama	1,401		1,401	0
Ernst & Young				50,000
BP International				18,500
Pfizer Inc.				12,800
Credit Suisse				10,000
HSBC Holdings plc				7,000
Rio Tinto London Ltd.				5,600
XL Capital Ltd.				4,026
SGS AG				3,250
International Federation of Inspection Agencies				3,000
Amanco				2,614
Trace International				2,000
Deutsches Institut für interne Revision				1,500
F&C Asset Management PLC				1,400
Sika Services AG				1,400
Consolidated Contractors				1,024
Gemeinnützige Genossenschaft zum Aufbau der Freien Waldorfschule e.G.				1,000
Other (less than Euro 1,000 each)				6,297
	241,629	0	241,629	574,133
<u>Individual Donors</u>				
William F. Biggs	25,557		25,557	18,888
Gary Geoghegan	2,033		2,033	1,561
Hartmut Fischer	2,000		2,000	2,000
Arnesto Goncalves Segredo	2,000		2,000	1,500
Judith Schultz	1,500		1,500	0
Giovanna Longo	1,200		1,200	0
Rolf Hellenbrand	1,200		1,200	0
A. Armitage	1,043		1,043	0
J.W. Christmas	1,000		1,000	0
Per Skalen				2,800
Bettina von Bogen				2,750
George Gund III				1,631
Other (less than Euro 1,000 each)	9,612		9,612	6,854
	47,144	0	47,144	37,984
Totals	8,778,132	486,000	9,264,132	8,375,083

TI-S received four 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 1,473,606 (GBP 1,000,000), in 2007. One quarterly payment in the amount of Euro 373,781 was carried over from 2006, Euro 1,118,644 of the above reported installments and Euro 10,800 changes in accrued disbursements comprise the amount of Euro 1,503,225 recorded as income 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 2007. 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 2007

	<u>Acquisition costs</u>		<u>Depreciation</u>		<u>Book values</u>	
	01/01/2007	31/12/2007	01/01/2007	31/12/2007	01/01/2007	31/12/2007
Intangible Assets	60	57	50	52	10	5
Property, Plant and Equipment	215	280	137	181	79	100
	275	337	187	233	89	105

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 2007 funds developed as follows:

2007

Euro '000	Balance at 01/01/2007	Appropriation from Net Surplus of the year	Balance at 31/12/2007
Free Reserves			
Special fund	500	275	775
Other free reserves	998	313	1,311
	1,498	588	2,086
Reserve for investment	250	0	250
Reserve for TI Network support	137	13	150
Funds	1,885	601	2,486

2006

Euro '000	Balance at 01/01/2006	Utilisation of Reserves	Appropriation from Net Surplus of the year	Balance at 31/12/2006
Funds	1,056	13	842	1,885

The special fund is created for the long-term needs of TI-S and is earmarked for transfer to the Endowment fund in 2008.

The Reserve for investment is established to cover the costs of the new TI-S website. The Reserve for TI network support provides funds to strengthen TI's National Chapter network.

8. Personnel

In 2007 TI-S employed an average of 66 employees (2006: 60) of which 8 were part time. 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	2007	2006
Reimbursement of travel expenses by third parties		107	76
Foreign exchange translation gains		20	26
Speakers' fees		17	9
Publications		8	1
Reimbursement of expenses for maternal leave		6	16
Other		16	14
		174	142

10. Other Operating Expenses

Other Operating Expenses	EUR '000	2007	2006
Projects and meetings *)		1,975	1,916
Consultancy and other services		1,208	1,045
Travel expenses		1,003	1,052
Publications and communications		339	284
Maintenance, rent and leasing costs		317	187
Foreign exchange translation loss		232	53
Other		190	177
		5,264	4,714

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

11. Cash-Flow Statement

Cash-Flow Statement for the year ending 31 December 2007		
	2007 Euro '000	2006 Euro '000
Net Surplus of the year	601	843
Depreciation of fixed assets	83	80
Release of reserves		-13
Increase / Decrease in liabilities	338	-344
Decrease in receivables	573	289
Funds generated in the year	1,595	855
Investments in fixed assets	-99	-58
Change in Cash and Bank	1,496	797
Cash and Bank at beginning of the year	3,948	3,151
Cash and Bank at end of the year	5,444	3,948

12. TI Endowment Fund

Contribution from U.S. Agency for International Development in 2004
and from Ford Foundation in 2007

The TI Endowment Fund, set up in 2004, is not included in the accounts of TI-S being established outside TI-S for the long-term benefit of the movement. The contributions to date are USD 2 million from USAID and USD 2 million from Ford foundation. The Funds from USAID in US Dollars, with the equivalent shown in Euros, must be invested in USD, the Funds from Ford foundation were invested in Euros. TI may use the Fund earnings but from 2004 to 2007 they have been reinvested in the Fund.

Transparency International Endowment Fund

Donation from U.S. Agency for International Development (Cooperative Agreement DFD-A-00-03-00109-00)

	<u>USD</u>	<u>EUR equivalent</u>
Balance of Fund 01 January 2007	2,061,248	1,562,385
Interest received in 2007	103,080	70,034
Service charges in 2007	-179	-121
Exchange rate loss in 2007	0	-161,932
Balance of Fund 31 December 2007	<u>2,164,149</u>	<u>1,470,366</u>
Represented by		
Investments, at cost	2,157,003	1,465,511
Cash at bank	7,146	4,855
	<u>2,164,149</u>	<u>1,470,366</u>
Market value of investments 31 December 2007	<u>2,253,262</u>	<u>1,530,911</u>
Redemption value	<u>2,279,000</u>	<u>1,548,398</u>

The investments comprise three US treasury notes of approx. USD 500.000,00 each, maturing respectively in August 2008, in April and November 2009, and two others of approx. USD 350.000,00 maturing in June 2010 and USD 200.000,00 maturing in August 2010. The interest income is recorded on redemption.

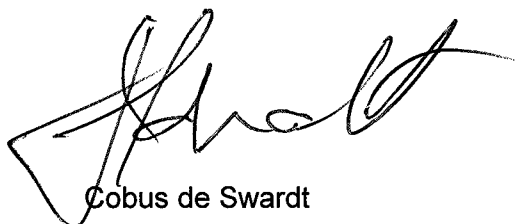
**Donation from Ford Foundation
(Grant number 1070-0705)**

	<u>USD</u>	<u>EUR</u>
Contribution received on 24 May 2007	2,000,000	
Conversion to EUR on 29 May 2007		1,473,514
Reimbursement to the fund of exchange difference for five days		14,360
Interest received in 2007		32,136
Balance of Fund 31 December 2007		<u>1,520,010</u>
Represented by		
Deposit at bank		1,501,106
Interest paid on 07 January 2008 (for period 05.12.-31.12.07)		4,543
Receivable from TI Secretariat		14,361
		<u>1,520,010</u>

Endowment Funds in total

	<u>USD</u>	<u>EUR</u>
Balance of Fund 31 December 2007		
USAID	2,164,149	1,470,366
Ford Foundation		1,520,010
		<u>2,990,376</u>

Berlin, 24 June 2008



Cobus de Swardt

Managing Director



Independent Auditor's Report

To Transparency International e.V., Berlin

We have audited the accompanying balance sheet of Transparency International e.V., Berlin, as of 31 December 2007, 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 according to §§ 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 31 December 2007, and the results of its financial performance for the year then ended according to §§ 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 and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated 1 January 2002 (Appendix). By taking note of and using the information as contained in our Auditor's 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, 5 April 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft


Graf von Hardenberg
Wirtschaftsprüfer


Krebs
Wirtschaftsprüfer

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.