



cutting through complexity

2011 Transparency Report

KPMG Audit S.à r.l.
(now merged in
KPMG Luxembourg S.à r.l.)

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The best firm
for our clients,
our people and
our communities

KPMG Luxembourg S.à r.l. 2011 Transparency Report



Karin Riehl
Managing Partner



Thomas Feld
Head of Audit

Welcome to the KPMG Luxembourg Transparency Report for the year ended 30 September 2011, prepared in accordance with the requirements of Article 73 of the Luxembourg Law of 18 December 2009 on the audit profession.

We believe that our clients and wider stakeholders deserve a clear articulation of the steps that we take as a firm to uphold our professional obligations and responsibilities and to understand how we ensure delivery of the highest quality in all of our services. The foundation of our firm is our audit practice. Although we provide a wider range of services we are very conscious of our roots. As such we are determined that the core values of integrity, professionalism and quality are embedded in all our services. We also appreciate the need to demonstrate such commitment to our many stakeholders. In addition, our Code of Conduct, which sets out the values and standards of behaviour that we expect from all partners and employees, is underscored by the principle of integrity.

This, our second Transparency Report, sets out the structure and governance of KPMG Europe LLP (our parent entity) and of KPMG in Luxembourg, as well as the quality control procedures and standards of integrity that we adopt across the full range of our business, not just statutory audits. In recent years our audit services have been delivered from KPMG Audit S.à r.l.. On 1 October 2011 this entity merged with our other operating companies in Luxembourg to form KPMG Luxembourg S.à r.l..

Quality ultimately is at the core of everything we do at KPMG. It is important to us in all of our services – as it underpins our very reputation. We trust that you find our report a useful insight into how we strive to enhance that quality and a valuable step in particular towards raising the confidence of users and purchasers of audit services.

Luxembourg, 30 December 2011

Karin Riehl
Managing Partner

Thomas Feld
Head of Audit

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Who we are

1.1 Our business

KPMG Luxembourg S.à r.l. is part of KPMG Europe LLP, a cross-border professional services organisation that delivers audit, tax, and advisory services to help its national and international clients negotiate risks and thrive in the varied environments in which they do business. We employ approximately 950 people and operate out of one office in Luxembourg. Further details of our service offerings can be found on our website at the following link: www.kpmg.lu.

KPMG Europe LLP was created in October 2007, initially through the merger of our German and UK firms. Since that time the KPMG firms operating in many other territories have joined. KPMG Europe LLP itself together with those operating firms that had joined as at 30 September 2011 are referred to throughout this report as the 'group'. Our group currently consists of firms that operate in UK, Germany, Switzerland, Spain, Belgium, The Netherlands, Luxembourg, the CIS¹, Turkey, Norway and the Gulf States of Saudi Arabia, Jordan² and Kuwait. Together these firms employ over 32,800 people operating across 18 countries and from 143 different offices.

1.2 Our strategy

The strategy for our group is set by the KPMG Europe LLP Board and has remained consistent for some time. It has determined that our overall ambition remains to be the number one multi-disciplinary professional services firm in Europe and to be a quality service provider to all of our clients - placing quality at the heart of our agenda.

The KPMG Europe LLP Board has determined that a commitment to quality is one of the most important priorities in our strategy. We recognise that if we do not get the quality of our service and deliverables right then each and every one of the other objectives in our business plan may be jeopardised. As such, we put significant focus on ensuring that we deliver the quality of service that our clients expect, continually reinforcing the importance of quality across our firm.

Further details of how our group is performing, together with analysis of the key risks that we face in our group and how we seek to mitigate those risks is provided in the 2011 KPMG Europe LLP Annual Report which is available at the following link: www.kpmg.eu/annualreport.

¹ Commonwealth of Independent States includes Russia, Ukraine, Armenia, Georgia, Kazakhstan, Kyrgyzstan and Azerbaijan

² KPMG Jordan joined KPMG Europe LLP on 8 December 2011

Our structure and governance

2.1 Legal structure

National structure

KPMG Luxembourg S.à r.l., KPMG Europe LLP as well as all of the other operating firms in our group are all affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Section 6.

KPMG Luxembourg S.à r.l. is incorporated as a Luxembourg private limited liability company. It is controlled by KPMG Europe LLP which holds the capital and all the voting rights in KPMG Luxembourg S.à r.l..

A list of the key entities which operated in Luxembourg during the year to 30 September 2011, together with details of their legal structure, regulatory status, nature of their business and area of operation is set out in Appendix 1. KPMG Audit S.à r.l. operated as a registered audit firm in Luxembourg ('Cabinet de révision agréé'). On 1 October 2011 the entities listed in Appendix 1 merged to form KPMG Luxembourg S.à r.l..

KPMG Europe LLP structure

KPMG Europe LLP itself is incorporated as a UK limited liability partnership under the Limited Liability Partnerships Act 2000. It is the holding entity for a number of KPMG firms in Europe. During the year to 30 September 2011 interests were acquired in the KPMG entities operating in Norway on 31 March 2011, Kuwait on 30 June 2011 and Saudi Arabia on 21 September 2011.

An interest was acquired in KPMG Jordan on 8 December 2011.

KPMG Europe LLP is wholly owned by its members (partners) all of whom work in KPMG firms in specific countries³. For regulatory or other reasons KPMG Europe LLP is not the legal owner of all of the operating companies in certain jurisdictions.

2.2 Name and ownership

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

National ownership

During the year to 30 September 2011 there was an average of 31 partners in KPMG Luxembourg (2010: 28 partners).

KPMG Europe LLP ownership

Although KPMG Europe LLP is a registered audit firm in the UK, it does not provide services to clients; all client work is performed by the various operating firms that are part of the group.

All members of KPMG Europe LLP as at 30 September 2011 are either full or affiliate members of the Institute of Chartered Accountants of England and Wales (ICAEW) or are full members of one of the other three British or Irish Institutes. During the year ended 30 September 2011 there was an average of 1,425 members of KPMG Europe LLP (2010: 1,362 members).

2.3 Governance structure

National governance

The key governance bodies for KPMG Luxembourg are the Executive Committee and the Supervisory Board.

The Executive Committee consisted of five members during the year, comprising a number of key national and functional leaders. The role of the Executive Committee is to implement the strategy of the firm within Luxembourg and also to deal with key Luxembourg operational issues. The Executive Committee meets regularly – in the year to 30 September 2011 it met 38 times.

The Supervisory Board consists of five members who are representative of the firm's partners. The role of the Supervisory Board is to provide oversight of the management of the firm by the Executive Committee, to provide support by acting as a sounding board for the Executive Committee, and to review the local partner remuneration process and the financial statements of the local firm at the year end. In the year to 30 September 2011 the Supervisory Board met six times, two meetings of which were joint meetings with the Executive Committee.

Details of those charged with governance for KPMG Luxembourg are set out in Appendix 2.

Group governance

As a major international organisation, our group applies high standards of corporate governance. The governance structure for our parent entity, KPMG Europe LLP, therefore mirrors to a large extent that followed by our major clients.

³ In the case of the Netherlands, each partner's interest in KPMG Europe LLP is owned through a personal holding company wholly owned by the partners.

Our structure and governance continued

The KPMG Europe LLP Board

The main governing body is a unitary Board of which the KPMG Luxembourg managing partner is a member. It can exercise all the powers of KPMG Europe LLP except for a small number of matters principally affecting the structure and composition of the group, which require a vote of the members and except in the case of contradiction with local legal restrictions.

The KPMG Europe LLP Board is responsible for ensuring that the group is run in the interests of the members as a whole and in a manner which is in keeping with the standing and reputation of the group. The Board's responsibilities include setting the strategy, overseeing its implementation by the Executive Committee and considering the group's overall financial performance and solvency.

During the year, the Board comprised the two Joint Chairmen, ten additional officers being the Chief Operating Officer, and the Heads of the Audit, Tax, Management Consulting⁴, Transactions & Restructuring, Risk Consulting⁵, Markets, Finance & Infrastructure, Human Resources and Quality & Risk and a number of KPMG partners (including the country managing partners) who held non-executive roles for the group. As at 30 September 2011, there were a total of 27 partners on the Board.

The Joint Chairmen are responsible for leading the group, one of them chairing the Board and the other the Executive Committee. Whilst they are both

formally appointed by the Board their appointment must be ratified by an ordinary resolution of the members. They have both served four years of their initial five-year term of office (which is renewable for an additional three years). Either Joint Chairman can be removed from office at any time by an extraordinary resolution of the members.

The ten additional officer roles are appointed by the Board after considering the recommendations of the Joint Chairmen and the Nominations Committee. They are elected for a term of three years, renewable for such a period as the Board sees fit. The KPMG partners who hold a non-executive role on the Board are recommended for appointment by the Nominations Committee in consultation with the Joint Chairmen. Their appointment is subject to ratification by an ordinary resolution of the members: they are elected for a term of three years and can serve for two terms (or in the case where the non-executive members are managing partners of one of our operating firms, they may be appointed for the period that they hold that office).

The UK Audit Regulations require a majority of the Board to have attained an appropriate accounting professional qualification from one of the EU member states. At present 19 members (accounting for approximately 70 percent) of the Board hold this qualification.

The Board met seven times in the year to 30 September 2011 including a full day meeting in March 2011

(to which our external non-executives were also invited) to consider the group's strategic plan.

In addition, there are six main bodies that deal with key aspects of governance within the group that report into the Board. These are:

- The Executive Committee;
- The Quality & Risk Committee;
- The Public Interest Committee;
- The Audit Committee;
- The Nominations Committee; and
- The Remuneration Committee.

Details about the role, responsibilities and composition of each of these key bodies are set out below. Full details of those holding positions on each of these bodies, including their biographies and the number of board meetings and sub-committee meetings that they attended in the year and how long they served are set out in the 2011 KPMG Europe LLP Transparency Report.

The KPMG Europe LLP Executive Committee

The Executive Committee is responsible for recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the group (including the operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment and retention, and general remuneration).

⁴ Management Consulting was formally known as Performance & Technology

⁵ Risk Consulting was formally known as Risk & Compliance

Our structure and governance continued

The Executive Committee includes one of the Joint Chairmen and those Board members responsible for Audit, Tax, Management Consulting, Risk Consulting, Transactions & Restructuring, Markets, Human Resources and Finance & Infrastructure, and the Chief Operating Officer. The other Joint Chairman, the Head of Quality & Risk and all of the national managing partners receive all Executive Committee papers and have the right to attend meetings.

The Executive aims to meet at least monthly and it met twelve times either face-to-face or via video link/conference call during the year to 30 September 2011.

The Quality & Risk Committee

The principal role of the Quality & Risk Committee is to provide oversight of quality and risk management matters across the group. As part of its role it helps to ensure that a culture of quality and integrity is maintained within the group and, where required, it will act as a sounding board to the Head of Quality & Risk on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programmes and the adequacy of proposed remedial actions.

During the year ended 30 September 2011, the Quality & Risk Committee consisted of three KPMG partners who held a non-executive role on the Board and who are appointed to the Committee by (and for a term

determined by) the Joint Chairmen with the approval of the Board. The Quality & Risk Committee met seven times in the year to 30 September 2011. This included holding a meeting with the chairman of the Audit Committee to discuss the process for identifying the key risks (both professional and enterprise) currently facing the group.

The Public Interest Committee

As required by the UK Code on Audit Firm Governance, with effect from 1 October 2010, KPMG Europe LLP formed a new Public Interest Committee. The committee is responsible for overseeing the public interest aspects of decision making of our group including the management of risks. Acting in the public interest in this context involves having regard to legitimate interests of clients, governments, financial institutions, employees, investors and the wider business and financial community and others relying on the objectivity and the integrity of the accounting profession to support the propriety and orderly functioning of commerce. The Public Interest Committee is also responsible for engaging in a dialogue with external stakeholders.

In view of the commonality of interests, the Public Interest Committee normally meets jointly with the Quality & Risk Committee – albeit that the two committees form their own conclusions on the matters discussed. In addition, the Public Interest Committee holds private deliberations as necessary.

The Public Interest Committee currently comprises three external non-executives - Sir Steve Robson, Dr Alfred Tacke and Tom de Swaan – all of whom were appointed from outside of our group.

The full terms of reference for the Public Interest Committee together with brief biographies of the current members can be found at the following link: www.kpmg.eu/governance.

The Audit Committee

The Audit Committee is responsible for reviewing the annual financial statements of the legal group, considering accounting issues arising in respect of the legal group's affairs, receiving and considering reports from the internal and external auditors as well as reviewing the effectiveness of the operational and financial controls within the group.

The Audit Committee comprised at least three KPMG partners who hold a non-executive role on the Board and who are appointed to the Committee by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Audit Committee met four times in the year to 30 September 2011.

A report on the activities of the Audit Committee in the year is included in the 2011 KPMG Europe LLP Annual Report: www.kpmg.eu/annualreport.

Our structure and governance continued

The Nominations Committee

The Nominations Committee is responsible for overseeing the process of identifying suitable candidates within the group for appointment to the Board and other key appointments. This includes interviewing potential candidates and making recommendations to the Board and Joint Chairmen as appropriate. The Nominations Committee met four times in the year to 30 September 2011. The members of the Nominations Committee are appointed by the Board for a term of up to three years (which can be renewed for a further term not exceeding three years). As at 30 September 2011 there were five members on the Committee, being one non-executive Board member and four non-Board members.

The Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the Joint Chairmen and officers and making recommendations on policies for partners' remuneration within KPMG Europe LLP. It is also responsible for approving the process for determining partner remuneration used by the Executive Committee and hearing appeals from partners regarding their remuneration. Remuneration of partners in local countries remains the responsibility of local management.

As part of its activities, the Remuneration Committee receives and considers a report from the Head of Quality & Risk on (i) the approach to ensuring that quality issues are appropriately considered in partner counselling and (ii) whether or not there are any quality concerns about specific partners.

In addition, it receives detailed quality and risk metrics for the KPMG Europe LLP Board members, Executive Committee members, KPMG Europe LLP sector leads, country operating team members and the lead partners for the top accounts, for whom it has a responsibility to monitor pay.

The Remuneration Committee comprises nine KPMG Partners who are all national managing partners who hold a non-executive role on the Board and who are appointed to the Committee by the Joint Chairmen with the Board's approval following consultation with the Nominations Committee.

The Remuneration Committee met three times in the year ended 30 September 2011 and has held three meetings (two of which occurred after the year end) to discuss 2011 partner pay.

Further information regarding partner remuneration is set out in Section 5.

Communication with the members

The Joint Chairmen and Chief Operating Officer communicate regularly with the managing partners of our operating firms as well as from time to time directly with all of the members of KPMG Europe LLP on any matters of importance for the whole group. Every two years we hold a one day partners' conference which brings together our partners from across the group. The last such conference was in July 2010 in Frankfurt and was attended by over 1,000 of our partners (including many from the Luxembourg firm).

The country managing partners have primary responsibility for communication with the partners in the relevant country – they use a variety of media for this purpose including regular meetings of members in the various geographies, functions and service lines, e-mails and facilitated web-ex sessions.

System of quality control

KPMG International has policies of quality control that apply to all member firms. These policies are based on professional standards issued by the International Ethics Standards Board for Accountants (IESBA), including International Standard on Quality Control 1 (ISQC1), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

Our firm implements KPMG International policies and procedures and adopts additional systems of quality controls that are designed to meet the rules and standards issued by the Commission de Surveillance du Secteur Financier (CSSF) and other relevant regulators as well as local legal and other requirements.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to member firm policies and associated procedures in carrying out their day-to-day activities.

While many KPMG quality control processes are cross-functional, implemented by quality and risk management and apply equally to tax and advisory work, the focus of this section is on explaining what we do to achieve the highest quality in the audits supporting opinions issued by our firm. In this section we therefore focus on our system of audit quality control.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent, compliant with relevant legal and professional requirements, and offering insight and impartial advice to our clients.

In order to deliver an appropriate and independent opinion, we have our global audit methodology (see Section 3.3.1 for further information on our methodology). We also have our Audit Quality Framework which we use to describe, focus on and enhance audit quality for the benefit of all our stakeholders. In particular it highlights what we believe drives audit quality and how we address each of these elements.

The Audit Quality Framework identifies seven drivers of audit quality:

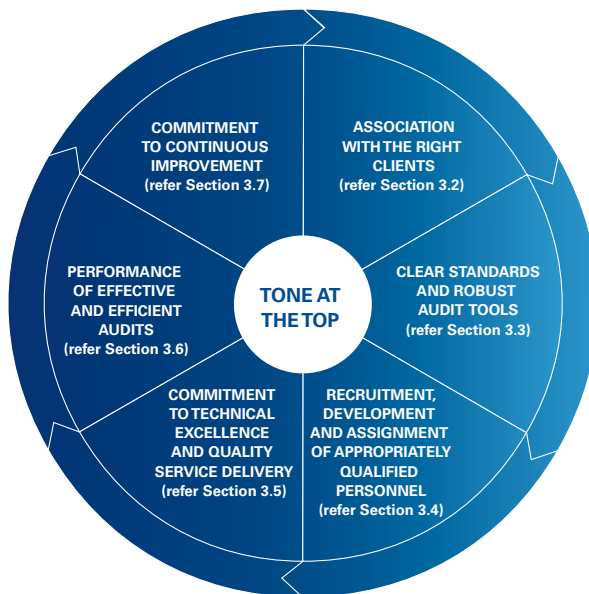
- Tone at the Top;
- Association with the right clients;
- Clear standards and robust audit tools;
- Recruitment, development and assignment of appropriately qualified personnel;
- Commitment to technical excellence and quality service delivery;
- Performance of effective and efficient audits; and
- Commitment to continuous improvement.

Tone at the Top sits at the core of the framework and helps ensure that the right behaviours permeate across our entire network.

All of the other key aspects of our system of quality control then operate within a virtuous circle, with each driver of the model reinforcing the others. Each of these key drivers of our quality control system is described in more detail in the following sections of this report.

System of quality control continued

Audit Quality Framework



3.1 Tone at the Top

Tone at the Top sits at the core of the Audit Quality Framework and ensures the right behaviours permeate our entire network and maximizes our outcomes through a focused and consistent voice.

Our leadership clearly demonstrates and communicates its commitment to quality, ethics and integrity.

KPMG's Tone at the Top provides a clear focus on quality through:

- Culture, values, and code of conduct - clearly stated and demonstrated in the way we work;
- Focused and well-articulated strategy - incorporating quality at all levels;
- Standard set by leadership; and

- Governance structure and clear lines of responsibility for quality - skilled and experienced people in the right positions to influence the quality agenda.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value: Above all, we act with Integrity. For us integrity means constantly striving to uphold the highest professional standards in our work, providing sound good-quality advice to our clients and rigorously maintaining our independence. Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices. For example, they are reflected in the performance appraisal process that our people follow and adherence to these

Values is also reviewed when our people are considered for more senior promotions, including to partner. Our core Values are set out in Appendix 4.

Our Code of Conduct, which incorporates our core Values, defines the standards of ethical conduct that we require from our firms and our people. The Code of Conduct sets out KPMG's ethical principles, and helps partners and employees to understand and uphold those principles. The Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. It has provisions that require KPMG people to:

- Comply with all applicable laws, regulations and KPMG policies;
- Report any illegal acts, whether committed by KPMG personnel, clients or other third parties;
- Report breaches of risk management policies by KPMG firms or people;
- Uphold the highest levels of client confidentiality; and
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

System of quality control continued

The commitments in our Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities.

3.1.1 Leadership responsibilities for quality and risk management

While we stress that all professionals are responsible for quality and risk management the following individuals have leadership responsibilities for this.

Managing Partner

In accordance with the principles in ISQC1, our Managing Partner, Karin Riehl, has assumed ultimate responsibility for KPMG Luxembourg's system of quality control. The Executive Committee has taken measures to ensure that a culture of quality prevails within KPMG Luxembourg.

Head of Audit

The Head of Audit is accountable to the Managing Partner for the quality of service delivered in the Audit function. Between them, they therefore determine the operation of the risk management, quality assurance and monitoring procedures for the Audit function within group policy.

These procedures all make it clear though that at engagement level risk management and quality control is ultimately the responsibility of each and every partner and employee.

Risk Management Partner

Operational responsibility for the system of risk management in KPMG in Luxembourg rests with the Risk Management Partner. He is responsible for setting overall professional risk management policies and monitoring compliance in accordance with group policy. The Risk Management Partner has a seat on the Supervisory Board of KPMG Luxembourg and is supported in Luxembourg by a full time Director and Functional Risk Management Partners and by the KPMG Europe LLP Quality & Risk team.

Quality Performance Liaison Partner

The Quality Performance Liaison Partner (QPLP) is a senior audit partner responsible for the performance of the Quality Performance Review Program in the Audit practice. The nature of the programme is described in Section 3.7. The QPLP reports the results of the programme to the Risk Management Partner, the Head of Audit and the Managing Partner of KPMG in Luxembourg and also to the KPMG Europe LLP Head of Quality & Risk. The QPLP has a seat on the Supervisory Board of KPMG Luxembourg.

3.2 Association with the right clients

3.2.1 Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality professional services and to protect KPMG's reputation and support its brand.

3.2.2 Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management as a prospective client. The Risk Management Department as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner is involved in approving the evaluation.

Each prospective engagement is also evaluated. The prospective engagement partner evaluates a prospective engagement in consultation with other senior personnel and risk management leadership as required. A range of factors is considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel, our global conflicts and independence checking system) as well as a range of factors specific to the type of engagement, including for audit services, the competence of the client's financial management team.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional procedures including a review of any non-audit services provided to the client and of other relevant relationships.

System of quality control continued

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented and resolved in consultation with other parties.

Our firm will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or there are other risk issues that cannot be appropriately mitigated.

Section 3.3.2 provides more information on our independence and conflict checking policies.

3.2.3 Continuance process

An annual re-evaluation of all audit clients is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly our firm will decline to act for any client where we are unable to deliver to our expected level of quality or if we consider that it would not be appropriate to continue to be associated with the client. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this would include the assignment of professionals or the need to involve additional specialists on the audit).

3.3 Clear standards and robust audit tools

All of our professionals are required to adhere to the clear policies and procedures (including independence policies) that we set and we provide a range of tools to support them in meeting these expectations.

The policies and procedures we set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

3.3.1 Audit methodology and tools

We dedicate significant resources to keeping our standards and tools complete and up to date. Our global audit methodology, developed by KPMG International's Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in the KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs where KPMG believes these enhance the quality of our audits. We may also add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

Our audit methodology is supported by eAudit, KPMG's electronic audit tool, which provides auditors worldwide with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits. eAudit has been deployed to all audit professionals in our firm.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing efficiency and delivering value to our audit clients. The key activities within the eAudit workflow are:

Engagement setup

- Engagement acceptance and scoping; and
- Team selection and timetable.

Risk assessment

- Understand the entity and identify and assess risks;
- Plan for involvement of specialists and others including experts, internal audit, service organisations and other auditors;
- Evaluate design and implementation of selected controls;
- Risk assessment and planning discussion; and
- Determine audit strategy and planned audit approach.

Testing

- Test operating effectiveness of selected controls; and
- Plan and perform substantive procedures.

Completion

- Update risk assessment;
- Perform completion procedures, including overall review of financial statements;

System of quality control continued

- Perform overall evaluation, including evaluation of significant findings and issues;
- Communicate with those charged with governance (e.g., the audit committee); and
- Form the audit opinion.

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages use of specialists when appropriate and also requires use of certain specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provides us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management manual that is applicable to all KPMG member firms, functions and personnel. The provisions of ISQC1 are addressed through KAM and through our implementation of the Global Quality & Risk Management manual.

3.3.2 Independence, integrity, ethics and objectivity

3.3.2.1 Overview

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics and incorporate, as appropriate, SEC, US PCAOB and other applicable regulatory standards. These policies are supplemented by other processes to ensure compliance with the standards issued by the CSSF. These policies and processes cover areas such as firm independence, personal independence, post-employment relationships, partner rotation, and approval of audit and non-audit services.

Our firm has a designated Ethics and Independence Partner. In addition, there is a core team of specialists led by the Head of Ethics and Independence for KPMG Europe LLP to help ensure that robust and consistent independence policies and procedures are applied across our firm and group and that these are updated and communicated as required. If applicable, amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts and included in regular quality and risk communications.

To help ensure ethical conduct, including integrity and independence, our firm, and its personnel must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors, and significant owners.

In the event of failure to comply with relevant independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of partners and managers, are reflected in their individual quality and risk metrics (see Section 3.4).

3.3.2.2 Personal independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial interests that are restricted for independence purposes. In common with other member firms of KPMG International, we use a web-based independence tracking system to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and client-facing managers are required to use this system prior to entering into an investment 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. Our firm monitors compliance with this requirement through performing regular audits of a sample of partners and managers.

System of quality control continued

In 2011 eleven of our partners and directors were subject to these audits.

Any professional providing services to an audit client is also required to notify the Ethics and Independence Partner if they intend to enter into employment negotiations with an audit client.

3.3.2.3 Independence training and confirmations

Our firm provides all relevant personnel (including all partners and client service professionals) with annual independence training appropriate to their grade and function and provides all new personnel with relevant training when they join.

All personnel are required to sign an independence confirmation upon commencement of employment. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period. This confirmation is used to evidence the individual's compliance with and understanding of our firm's independence policies.

3.3.2.4 Audit partner rotation

Audit partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws and regulations and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client. KPMG International rotation policies are consistent with the IESBA Code of Ethics and require our firm to comply with any stricter applicable rotation requirements.

Our firm monitors the rotation of partners, which also assists us to develop transition plans that help us to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

3.3.2.5 Non-audit services

Our firm has policies regarding the scope of services that can be provided to audit clients which are consistent with IESBA principles and CSSF independence requirements. Additionally, KPMG policies 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.

KPMG International's proprietary system, Sentinel, facilitates compliance with these policies. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in the system. Every engagement entered into by any KPMG member firm in our network is required to be included in the system prior to starting work. The system then enables lead audit engagement partners for restricted entities to review and approve, or deny, any proposed service wherever in the world the service is proposed to be provided and wherever the member firm is based.

3.3.2.6 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion.

In particular, these policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received by a particular member firm for two consecutive years, a senior partner from another operating firm would be appointed as the engagement quality control reviewer. Also, this would be disclosed to those charged with governance at the audit client.

No audit client accounted for more than 10% of the total fees received by our firm over the last two years.

3.3.2.7 Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and CSSF independence requirements. Compliance with these policies and procedures is reviewed periodically.

3.3.2.8 Conflicts of interest

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

An escalation procedure exists in the case of dispute between member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

System of quality control continued

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

3.3.2.9 Anti-bribery and corruption

Our firm provides anti-bribery and corruption training to all client-facing partners and employees as well as certain other member firm personnel. Training covering compliance with laws, regulations and professional standards is required to be completed by client-facing professionals at a minimum of once every two years, with new hires completing such training within three months of joining our firm. In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to participate in anti-bribery training.

3.4 Recruitment, development and assignment of appropriately qualified personnel

We are totally committed to equipping our people with the skills and tools they need to cut through the complexity of today's world – complexity that sees our people increasingly working across borders, collaborating on a global basis and taking on challenging and innovative projects.

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the client. This requires recruitment, development, promotion and retention of our professionals and robust capacity and resource management processes.

3.4.1 Recruitment

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

Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding programme, which includes training in areas such as ethics and independence, risk management principles and our people management procedures. This also includes ensuring that any issues of independence or conflicts of interest are addressed before the individual's employment or partnership commences.

3.4.2 Personal development

It is important that all professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see Section 3.5.1).

We are in the process of implementing a simple partner development framework that links particular training programmes to various partner levels and roles. All partners are encouraged to make use of these development opportunities, and also to contribute to the development of other partners and staff through coaching, mentoring, and teaching on our core programmes.

In relation to audit we provide opportunities for professionals to develop the skills, behaviours and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, stretch assignments, global mobility opportunities and the like.

3.4.3 Performance evaluation and compensation

For some time now, the 'glue' that binds all of our people processes and policies together for our employees has been our Global Skills and Behaviours. Our firm uses these to shape our performance management process, to underpin the learning and development offering and also the promotion processes.

All professionals undergo annual goal-setting and performance evaluations. Each professional is evaluated on attainment of agreed-upon goals, demonstration of the KPMG skills and behaviours for their level, and adherence to the KPMG Values and attributes. This is achieved through our global performance management process, which is supported by a web-based application. These evaluations are conducted by performance managers and partners who are in a position to assess their performance. In preparation for their counselling all of our people are required to seek evidence of their performance during the year. As part of the year end counselling process they are awarded a grading based on how well they have performed in meeting their objectives.

System of quality control continued

This grade directly influences the total amount of remuneration that they are paid. The results of the annual counselling are also considered when promotion decisions are being made.

Similarly, each year, partners are also required to agree objectives for the coming year which are specific to their individual role. They do this using a scorecard which records both their objectives and their performance against those objectives at year end, including objectives relating to quality (which is of course important for all of our services but absolutely critical for statutory audit). As for staff, as part of the year end counselling process our partners are awarded a grading based on how well they have performed in meeting their individual objectives. They are required to provide objective evidence to demonstrate this, which includes their individual quality and risk metrics which are described in further detail below. The result of the annual performance evaluation directly affects the compensation of our partners and in some cases their continued association with KPMG.

All engagement leaders within KPMG Europe LLP are issued with standardised quality and risk metrics which are fed into their annual counselling process. The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training, and the outcome of internal monitoring programmes. As part of these metrics, an overall red, amber or green grading is awarded.

Compensation and promotion

Our firm has compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return. Our compensation policies do not permit audit partners to be compensated for the sale of non-audit services to their audit clients.

A common senior grading model and career path framework has been implemented for all partners across our group. This outlines the various roles a partner may undertake throughout their career, the level of seniority associated with the roles and the potential career routes a partner may take to achieve the roles / level of seniority. Expectations of each role are described through a role profile.

Partner admissions

Our process for admission to the partnership is rigorous and thorough, involving appropriate members of our group's leadership. For the year ended 30 September 2011 a common approach for assessing and admitting new partners covered Germany, the Netherlands, Spain, Switzerland, the UK, Luxembourg, Belgium, Norway, and CIS; neither Gulf Holdings nor Turkey promoted any individuals internally to partner this year. This procedure includes a business case and a personal case for the individual candidate. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality and being an employer of choice. Anyone who is being considered for promotion to partner

within KPMG Europe LLP is evaluated against criteria which include evidence of the way that an individual has managed quality and risk as well as their overall adherence to our Values (at the heart of which is the overriding value of integrity). Similarly, attitude to quality and risk is explored for any external partner hires that are considered.

All recommendations for admission to membership of KPMG Europe LLP need to be approved by the Board. Across the business, in 2011 KPMG Europe LLP promoted 101 new partners from within ELLP firms and recruited 93 new partners from the external market.

3.4.4 Assignment

Our firm has procedures in place to assign both the engagement partners and professionals to a specific engagement by evaluating his or her skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the process of allocating particular engagement partners to clients.

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies and capabilities to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving KPMG's local and global specialists.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner's considerations may include the following:

System of quality control continued

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- an understanding of professional standards and legal and regulatory standards requirements;
- appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing;
- knowledge of relevant industries in which the client operates;
- ability to apply professional judgement; and
- an understanding of quality control policies and procedures.

As an additional control in Audit (where the services are of more of a recurring nature than across much of the rest of our business), our Head of Audit together with the Risk Management Partner performs an annual review of the portfolio of all of our audit engagement leaders. The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether or not, taken as a whole, the specific engagement leader has the appropriate time and the right support to enable them to perform a high quality audit for each client in their portfolio.

3.5 Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need, including access to networks of specialists and professional practice departments ('DPP'), either to provide resources to the engagement team or for consultation.

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

3.5.1 Technical training

In addition to personal development discussed at 3.4.2 our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Our technical training curriculum covers all grades of staff with a core training programme for junior staff and periodic and annual update training for qualified and experienced staff and partners.

Audit learning and development steering groups at the global, regional and local levels identify annual technical training priorities for development of new courses, content for periodic and annual update training and amendments to the core programme. Delivery of training is through a blend of classroom, e-learning and Virtual Classroom. Audit Learning and Development teams work with subject experts and leaders from GSC, KPMG's International Standards Group (ISG) and DPP to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis. The 'ELLP Update for Auditors' is e-learning training which is made available, on a quarterly basis, to our firm for completion by our Audit managers and partners.

Audit training is mandatory and completion is monitored at country level. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements (see Section 3.5.2).

Non-attendance at mandatory training is captured as one of the measures on the quality and risk metrics.

In addition to structured technical training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

3.5.2 Accreditation and licensing

All KPMG professionals comply with applicable professional licence rules in the jurisdiction where they practice.

Our firm is responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have accreditation requirements for many of our services (including for US audit and accounting work, International Financial Reporting Standards, Transactions Services and Corporate Finance services) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

System of quality control continued

Our firm requires that all Audit professionals are also required to maintain accreditation with their professional bodies and satisfy the Continuing Professional Development requirements of such bodies (at a minimum, professionals comply with IESBA and legal requirements).

Our policies and procedures are designed to ensure that those individuals that require a licence to undertake their work are appropriately licensed.

3.5.3 Access to specialist networks

Our engagement teams have access to a network of local and global specialists in KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g. Information Technology, Tax, Treasury, Pensions, Forensic) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

3.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

Our firm provides appropriate consultation support through professional practice resources that include a Department of Professional Practice, which is made up of senior professionals with extensive experience of audit and reporting.

Across our firm, the role of DPP is crucial in terms of the support that it provides to the Audit Function. It provides technical guidance to

client service professionals on specific engagement-related matters, develops and disseminates specific topic-related guidance on emerging local technical and professional issues and disseminates international guidance on IFRSs and ISAs.

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of 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 technical specialists. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP, the Risk Management Partner (or appropriate qualified delegates) or ultimately the national Managing Partner.

Technical support available to our firm also includes the International Standards Group as well as (for work on SEC foreign registrants) the U.S. Capital Markets Group based in New York or KPMG Europe LLP's US Accounting and Reporting Group based in London.

The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis.

The ISG has a network of contacts and holds regular calls both in relation to auditing and IFRS to update our professional practice representatives.

3.5.5 Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the provision of relevant industry information to audit professionals.

A key element of this industry information is the provision of industry knowledge within eAudit.

This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition industry overviews are available which provide general and business information in respect of particular industries as well as a summary of the industry knowledge provided in eAudit.

Our firm provides specialist input into the development of global industry knowledge, and deploys it via the use of eAudit.

3.6 Performance of effective and efficient audits

We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality enhance the quality of the engagement team's performance during the conduct of every audit.

System of quality control continued

We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. These behaviours are discussed below.

3.6.1 KPMG audit process

As set out in Section 3.3 above, our audit workflow is enabled in eAudIT. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are:

- Timely partner and manager involvement;
- Critical assessment of audit evidence;
- Exercise of professional judgement and professional scepticism;
- Ongoing mentoring and on-the-job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

3.6.1.1 Timely partner and manager involvement

To identify and respond to the significant audit risks for each year's audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The engagement partner is a key participant in the planning meetings, reviews key audit documentation –

especially documentation relating to significant risks and key audit judgements – and is responsible for the final audit opinion.

The engagement manager assists the partner in these responsibilities and in the day-to-day liaison with the client and team.

Involvement and leadership from the engagement partner early in the audit process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters important to the engagement, including critical areas of judgement, significant risks and other areas the engagement partner considers important.

3.6.1.2 Critical assessment of audit evidence with emphasis on professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of conflicting or missing evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We recognise that audit evidence obtained from external sources tends to be more persuasive. The analysis of the audit evidence requires each of our team members to exercise professional judgement and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Professional scepticism involves a questioning mind and alertness to inconsistencies in evidence.

Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators.

Our Audit Quality Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

We have developed a professional judgement process that provides audit professionals with a structured approach to making judgements, which has scepticism at its heart and recognises the need to consider alternatives and to consider conflicting as well as confirming evidence.

Professional judgement training has been embedded in our core Audit Technical training programme for junior staff as well as being included in our periodic and annual update training for qualified and experienced staff and partners.

3.6.1.3 Ongoing mentoring and on the job coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of the skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Supervision during an audit involves tracking the progress of the engagement and the team, including:

System of quality control continued

- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing any significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation with more experienced team members during the engagement.

A key part of effective supervision is timely review of the work performed so that significant matters are promptly identified and addressed.

3.6.1.4 Appropriately supported and documented conclusions

Audit documentation records the performed audit procedures, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is usually not longer than 60 days from the date of the audit report.

Our firm has a formal document retention policy in accordance with the local regulation that governs the period we retain audit documentation and other client-specific records.

3.6.1.5 Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements made by the audit team. They are experienced audit professionals who are independent of the engagement team. They offer an objective review of the more critical and judgemental elements of the audit.

An EQC reviewer is required to be appointed for the audits of all listed entities and of other engagements identified as high public profile or high risk. Before our 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 significant judgements the engagement team made and the conclusions it reached with respect to the audit.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. We have taken a number

of actions over the last year to reinforce this, including:

- Issuing leading practice guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;
- Incorporating specific procedures in eAuditIT to facilitate effective reviews;
- Ensuring that the role performed by EQC reviewers is also taken into account when performing the Partner Portfolio Review (refer Section 3.4.4) process to ensure adequacy of time and appropriate skill set for the role and reallocation if needed; and
- Assessing, as part of our Quality Performance Reviews (refer Section 3.7.1), the work performed by the EQC reviewer and the adequacy of involvement including discussion with the EQC reviewer.

3.6.1.6 Clear reporting of significant findings

Auditing standards and local legislation or regulation largely dictate the format and content of the audit report that includes an opinion on the fair presentation in all material respects of the client's financial statements. Experienced auditors arrive at all audit opinions, after involvement in the audit and review of the work performed by the audit team.

We provide extensive reporting guidance and technical support to audit partners in preparing audit reports, where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

System of quality control continued

3.6.1.7 Insightful, open and honest two-way communication with those charged with governance

Two-way communications with those charged with governance at our clients are key to audit quality. Often the Audit Committee will be the body identified as those charged with governance. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at Audit Committee or Board meetings, and ongoing discussions with members of the Audit Committee. We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and any matters where we may disagree with management's view, and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with the members of the Audit Committee.

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the KPMG Audit Committee Institute ('ACI') was created in 2002 to help Audit Committee members enhance their awareness, commitment and ability to implement effective Audit Committee processes.

The Institute which currently operates in Luxembourg and in many other KPMG Europe LLP countries provides Audit Committee members with authoritative guidance on matters of interest to Audit Committees as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars. The challenges facing Audit Committees as a result of proposed EU regulation and the increased expectations placed upon them in the wake of the financial crisis make the work of the ACI more relevant than ever.

3.6.1.8 Focus on effectiveness of group audits

The conduct of group audits is one of the key aspects of our role and our KPMG Audit methodology covers this in detail. We work effectively with component auditors. The group audit engagement partner is required to evaluate the competence of component auditors, whether they are KPMG member firms or not, as part of the engagement acceptance process. Additional guidance, training and material has been issued in this area as follows:

- eAudIT includes guidance and functionality based on revised ISA 600 for group audit engagements and heightened attention is being given to key risk areas for group audits, for example emerging markets and business environments that may be subject to heightened fraud risk;

- In November 2010 we revised inter firm/office reporting guidance and policies in the International Standards Reports Manual to help component auditors communicate the results of their work to group engagement teams;
- In January 2011 we launched a Frequently Asked Questions to assist the practical application of the revised ISA 600; and
- Training for partners and managers in 2011 reinforced key principles and requirements about the responsibility of the group auditor for the work undertaken by component auditors.

3.6.2 Client confidentiality, information security and data privacy

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

We 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 IESBA rules as well as other applicable regulatory bodies' standards and regulations.

Our firm has clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG personnel.

System of quality control continued

3.7 Commitment to continuous improvement

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

3.7.1 Monitoring

3.7.1.1 Internal monitoring

KPMG International has an integrated monitoring programme that covers all member firms to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and important KPMG International policies and procedures and meets the ISQC1 monitoring requirements.

The results and lessons from the programmes are communicated within each of our firms, and the overall results and lessons from the programmes are considered at group, as well as regional and global levels.

Our monitoring procedures involve ongoing consideration of:

- The relevance and adequacy of KPMG's policies and procedures;
- The appropriateness of KPMG's guidance materials;

- The effectiveness of training and other professional development activities; and
- Compliance with applicable laws and regulations and member firms' standards, policies, and procedures.

We use two formal internal inspection programmes conducted annually across the Audit, Tax and Advisory functions: the Quality Performance Review Program (QPR); and the Risk Compliance Program (RCP).

Additionally all KPMG member firms are covered over a three-year period by cross-functional Global Compliance Reviews (GCRs) performed by reviewers in the Global Compliance Group who are external to the member firm. These programmes are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network (see Section 6 for further details on the KPMG network).

Quality Performance Reviews (QPRs)

The International QPR Program is the cornerstone of our efforts to monitor engagement quality and our primary means of ensuring that member firms are collectively and consistently meeting both KPMG International's requirements and applicable professional standards. The QPR Program assesses engagement level performance in the Audit, Tax and Advisory functions and identifies opportunities to improve engagement quality. All engagement partners are generally subject to selection for review at least once in a three-year cycle.

The reviews are tailored to the relevant function, performed at a member firm level, generally overseen by a Lead Reviewer from outside of the specific operating firm being reviewed, and are monitored regionally and globally. Remedial action plans for all significant deficiencies noted are required at an engagement and operating firm level. We disseminate our findings from the QPR Program to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

In 2011 our QPR Program covered the following:

	Number of engagements reviewed	Number of engagement leaders reviewed
Audit	15	13
Tax	12	6
Advisory	12	7

Lead Audit Engagement Partners are notified if (i) any subsidiary in their respective cross-border and/or global audit accounts was subject to review and received a less than 'Satisfactory' rating; and (ii) if a subsidiary of their global account is audited by a KPMG member firm where more pervasive quality concerns have been identified during the Audit QPR Program.

System of quality control continued

Risk Compliance Program (RCP)

The RCP is a member firm's annual self-assessment programme. The objectives of the RCP are to monitor, assess, and document firm-wide compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The programme is overseen and monitored regionally as well as globally.

Global Compliance Reviews (GCRs)

GCRs are performed by reviewers external to the member firm led by the Global Compliance Group and are carried out over a three-year cycle. These reviews focus on significant governance, risk management and independence and finance processes (including an assessment of the robustness of the firm's Risk Compliance Program). In the event that a GCR identifies significant issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

All three programmes require action plans to address identified issues, with timelines, to be developed by the member firm, and these actions to improve performance are followed up at the regional and global level to ensure that the actions are addressing deficiencies with the objective of continuous improvement.

3.7.1.2 External monitoring

The firm's audit practice (KPMG Audit S.à r.l. up to 30 September 2011, and thereafter KPMG Luxembourg S.à r.l.) and its registered statutory auditors (réviseurs d'entreprises agréés) are subject to inspection by the CSSF. The CSSF's first inspection of the firm took place in 2011.

3.7.2 Client feedback

In addition to internal and external monitoring of quality, we operate a formal programme where we actively solicit feedback from management and those charged with governance at our clients on the quality of specific services that we have provided to them. The feedback that we receive from this programme is formally considered by our firm and individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

3.7.3 Interaction with regulators

At an international level KPMG has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level.

The four key areas of focus identified by IFIAR have been addressed in this report at:

- Professional scepticism – see Section 3.6.1.2;
- Engagement quality review – see Section 3.6.1.5; and
- Use of specialists – see Section 3.5.3.

At a European level a forum has been established (referred to informally as the 'College of Regulators') which consists of representatives from the Regulators of many members of our group. The primary goals of the College are to liaise with our group to increase mutual understanding and in doing so we aim to enhance any further alignment across KPMG Europe LLP.

- Group Audits – see Section 3.6.1.8;

Financial information

The following table shows gross revenues from KPMG Audit S.à r.l., KPMG Tax S.à r.l. and KPMG Advisory S.à r.l. in the year ended 30 September 2011.

Service	Revenue (EUR'000)	Percent
Statutory audit*	54,230	45
Other assurance services*	10,311	8
Other services		
• Tax	33,801	28
• Advisory	23,508	19
TOTAL	121,850	100

* Revenues of KPMG Audit S.à r.l.

Partner remuneration

Partners working in Luxembourg are employees of the local operating firm. Audit partners working in Luxembourg were employed by KPMG Audit S.à r.l. for the year to 30 September 2011, and thereafter employed by KPMG Luxembourg S.à r.l..

Their remuneration packages comprise a base salary and associated benefits as for other employees. They receive an additional variable element to their pay which is established once the profits for the year have been determined. Remuneration is paid out as salary and bonus in accordance with prevailing company and tax laws. The Partner Remuneration Model determines the amounts available for distribution. The overall process lies under the responsibility of the Managing Partner and the KPMG Luxembourg Executive Committee. The Supervisory Board reviews the process.

In Luxembourg, partners contribute to a common pension scheme operated for all employees meeting certain pre-defined seniority criteria for the firm (employee funded only).

The Partner Remuneration Model foresees clear rules for the variable elements including quality of work, excellence in client service, growth in revenue and profitability, leadership, responsibility and living the Values of the firm. Audit partners are explicitly not remunerated for non-audit services sold to their audit clients.

The KPMG Europe LLP Board's Remuneration Committee makes recommendations on policies for partner remuneration, approves the process used by the KPMG Europe Executive Committee, and determines the remuneration for the Joint Chairmen, Executive Committee and Head of Quality & Risk of KPMG Europe LLP. The Committee also reviews the remuneration of a selection of partners of the firm on an individual basis, specifically considering their quality indicators.

Network arrangements

6.1 Legal structure

The independent member firms of the KPMG network (including KPMG Europe LLP's operating firms) are affiliated with KPMG International Cooperative, a legal entity which is formed under Swiss law. The KPMG International network consists of approximately 145,000 professionals working in 152 countries. For the year ended 30 September 2011 the member firms comprising the network generated aggregate revenues of US\$22.7 billion.

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 its member firms.

The structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the 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 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 oblige or bind any member firm.

6.2 Responsibilities and obligations of member firms

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International. In these agreements, member firms commit themselves to a common set of KPMG Values and are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients. This includes having a structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources, service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

In accordance with the Global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times. Compliance with key quality standards (including key aspects of methodologies, tools and management of risk) are specifically assessed as part of the International Review Programmes described in section 3.7.1. The results of these programmes are reported to various governance and management bodies within KPMG International which can, at its discretion, take a number of

actions against the firm concerned – including, ultimately, removal from the KPMG International network for any firm which fails to meet the required quality standards.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts (which is currently based on revenue) is approved by the Global Board and consistently applied to the member firms.

A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

6.3 Professional indemnity insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a mutual that is available to all KPMG member firms.

6.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Executive Team.

Network arrangements continued

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the Chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 55 member firms that are 'members' of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the Chairman's appointment of the Deputy Chairman and members of the Global Executive Team.

The Global Board includes the Chairman, the Deputy Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms. One of the Board members is elected as the lead director by those Board members who are not also members of the Global Executive Team ('non-executive' members). A key role of the lead director is to act as liaison between the Chairman and the 'non-executive' Board members.

The Global Board is supported in its oversight and governance responsibilities by several committees, including a Governance Committee; an Audit, Finance, and Investments Committee; a Compensation and Nomination Committee; a Quality & Risk Management Committee; a Professional Indemnity Insurance Committee; and a Board Process and Evaluation Committee. The lead director nominates the Chairs and members of Board committees for approval by the Board.

The Global Executive Team is the principal management body of KPMG International. The Global Executive Team drives the execution of the strategy approved by the Global Board and establishes processes to monitor and enforce policy compliance. It is led by the Chairman and includes the Deputy Chairman, the Chief Operating Officer, Global Practice Heads, regional leaders, and a number of senior partners of member firms.

The Global Executive Team is supported by Global Steering Groups responsible for executing the approved strategy and business plan in their respective areas. In particular, the Global Quality & Risk Management Steering Group operates under delegated authority from the Global Executive Team.

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and

assists in implementation of KPMG International's policies and processes within the region.

Members of the Global Board and Global Executive Team are members of the various network firms. Such members perform these roles on behalf of KPMG International and in that capacity do not act for KPMG Europe LLP or any entity within our group.

Further details about KPMG International including the governance arrangements, can be found in its Transparency Report, which is available at: <http://kpmg.com/Global/en/WhoWeAre/Documents/Transparency-Report.pdf>.

6.5 Area Quality & Risk Management Leaders

KPMG International has a network of Area Quality & Risk Management Leaders (AQRMLs), reporting to the Global Vice Chair–Quality & Risk Management. The AQRMLs are members of the Global Quality & Risk Management Steering Group and each AQRML is allocated an area which covers one or more member firms (typically several). Their role is to enhance the KPMG network's ability to proactively monitor quality and risk management across member firms. Our group's Head of Quality & Risk is also the AQRML for KPMG Europe LLP.

Statement by KPMG Luxembourg Executive Committee on effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality management for KPMG Luxembourg S.à r.l. outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by KPMG Audit S.à r.l. (now part of KPMG Luxembourg S.à r.l.) comply with relevant laws and regulations.

The Executive Committee of KPMG Luxembourg has considered:

- The design and operation of the quality management systems as described in this report; and
- The findings from the various compliance programmes operated by our firm (including the KPMG International Compliance Programmes as described in Section 3.7).

Taking all of this evidence together, the KPMG Luxembourg Executive Committee confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2011.

Further, the KPMG Luxembourg Executive Committee confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2011.

1. Key legal entities and areas of operation

Key legal entities delivering services that were part of our firm ('KPMG Luxembourg') during the year to 30 September 2011 are noted below.

On 1 October 2011 the entities listed below were merged with a non-operational company within the Luxembourg firm, KPMG Lux S.à r.l., which was subsequently renamed KPMG Luxembourg S.à r.l..

Name of entity	Legal structure	Regulatory status	Nature of business	Area of operation
KPMG Audit S.à r.l.	Luxembourg Private Limited Liability Company	Cabinet de révision agréé Experts comptables	Audit services	Luxembourg
KPMG Advisory S.à r.l.	Luxembourg Private Limited Liability Company	Experts comptables	Advisory services	Luxembourg
KPMG Tax S.à r.l.	Luxembourg Private Limited Liability Company	Experts comptables	Tax and accounting services	Luxembourg

2. Details of those charged with governance at KPMG Luxembourg

As noted previously, the key governance bodies for the KPMG Europe LLP group are the KPMG Europe LLP Board and the KPMG Europe LLP Executive Committee.

The Executive Committee of KPMG Luxembourg exists to deal with local strategic and operational matters in Luxembourg. The Supervisory Board is a non-executive oversight body. Details of the members of both of those bodies and the roles that they have held for the Luxembourg firm are as follows:

Executive Committee

Karin Riehl* **	Managing Partner
Alain Picquet*	Deputy Managing Partner, Head of Advisory, Head of Markets
Georges Bock*	Head of Tax
Nathalie Dogniez*	Head of Investment Management Line of Business
Thomas Feld*	Head of Audit

Supervisory Board

John Li	Chairman (until 30 September 2011)
Dennis Robertson	Chairman (since 1 October 2011), Risk Management Partner (until 30 September 2011)
Philippe Meyer	Risk Management Partner (since 1 October 2011), Quality Performance Liaison Partner (Audit)
Jean-Marie Reiser	
Louis Thomas	Head of Corporates Line of Business

* Gérant of KPMG Audit S.à r.l. during the year ended 30 September 2011

** Member of the Board and Remuneration Committee of KPMG Europe LLP and the Global Council of KPMG International

3. Public interest entities

The list of public interest entity audit clients for which KPMG Audit S.à r.l. has signed an audit opinion in the year ended 30 September 2011 is given below.

3W Power S.A.	Duchess I CDO S.A.	MassMutual Europe S.A.
ABN Amro Bank (Luxembourg) S.A.	Duchess III CDO S.A.	Merck-Finanz AG, S.A.
ABN Amro Life S.A.	DZ PRIVATBANK S.A.	Nemian Life & Pensions S.A.
Advanzia Bank S.A.	EDEL Capital S.A.	Nestlé Finance International Ltd.
Aeolos S.A.	Elcoteq S.E.	Nordea Bank S.A.
Ageas Hybrid Financing S.A.	ESFIL - Espirito Santo Financière S.A.	Nordea Life & Pensions S.A.
Ageasfinlux S.A.	Espirito Santo Financial Group S.A.	Northern Blue 2009 S.A.
Allianz Life Luxembourg S.A.	Europäische Genossenschaftsbank S.A.	O'Key Group S.A.
A.M.E. Life Lux S.A.	EuroProp (EMC VI) S.A.	Oriflame Cosmetics S.A.
A.M.E. Lux S.A.	EuroProp (EMC) S.A.	Otto Finance Luxembourg A.G., S.A.
Ariadne S.A.	Fortis Luxembourg-Vie S.A.	Plato No.1 S.A.
Arisa Assurances S.A.	Gazprombank Mortgage Funding 2 S.A.	Primelux Insurance S.A.
Aspecta Assurance International Luxembourg S.A.	Geldilux-TS-2007 S.A.	Quilvest S.A.
Atlanticlux Lebensversicherung S.A.	Geldilux-TS-2008 S.A.	R+V Luxembourg Lebensversicherung S.A.
Banque BCP S.A.	Geldilux-TS-2010 S.A.	Regus Plc S.A.
Banque Degroof Luxembourg S.A.	Global Investor Solutions I S.A.	RTL Group S.A.
Banque Hapoalim (Luxembourg) S.A.	Hannover Finance (Luxembourg) S.A.	Sal. Oppenheim Jr & Cie Luxembourg S.C.A.
Banque Invik S.A.	Harvest CLO I S.A.	Silver Arrow S.A.
Banque LBLux S.A.	Harvest CLO II S.A.	SMBC Nikko Bank (Luxembourg) S.A.
Bavarian Sky S.A.	Hauck & Aufhäuser Banquiers Luxembourg S.A.	Société Nationale de Crédit et d'Investissement
BHF-BANK International S.A.	Hellenic Securitisation S.A.	Solidarity Takafol S.A.
Breeze Finance S.A.	HSBC Private Bank (Luxembourg) S.A.	Svenska Handelsbanken S.A.
CIBA Specialty Chemicals Finance Luxembourg S.A.	HSBC Securities Services (Luxembourg) S.A.	Talanx Finanz (Luxembourg) S.A.
Clearstream Banking S.A.	HSBC Trinkaus & Burkhardt (International) S.A.	The Bank of New York Mellon (Luxembourg) S.A.
CRC Breeze Finance S.A.	HSH Nordbank Private Banking S.A.	UBI Banca International S.A.
Credit Suisse (Luxembourg) S.A.	HSH Nordbank Securities S.A.	UniCredit International Bank (Luxembourg) S.A.
DB Vita S.A.	Hypo Pfandbrief Bank International S.A.	UniCredit Luxembourg Finance S.A.
Deutsche Bank Luxembourg S.A.	Interlux Assurances Maladie S.A.	UniCredit Luxembourg S.A.
DKV Globality S.A.	Invista European Real Estate Trust S.I.C.A.F.	Ursa Mortgage Finance S.A.
DKV Luxembourg S.A.	Italy1 Investment S.A.	Vorsorge Luxemburg Lebensversicherung S.A.
	La Mondiale Europartner S.A.	Windermere Private Placement I S.A.
	LBBW Luxemburg S.A.	
	Lighthouse International Company S.A.	
	Luxemburger Leben S.A.	
	M.M. Warburg & CO Luxembourg S.A.	

4. KPMG's Global Values

We lead by example.	At all levels, we act in a way that exemplifies what we expect of each other and our clients.
We work together.	We bring out the best in each other and create strong and successful working relationships.
We respect the individual.	We respect people for who they are and for their knowledge, skills and experience as individuals and team members.
We seek the facts and provide insight.	By challenging assumptions and pursuing facts, we strengthen our reputation to provide insight as trusted and objective business advisers.
We are open and honest in our communication.	We share information, insight and advice frequently and constructively and manage tough situations with courage and candour.
We are committed to our communities.	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities.
Above all, we act with integrity.	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



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