



2019

Transparency Report

Committed to driving audit quality

KPMG in Croatia

kpmg.hr

Our structure and governance	System of quality control	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	Commitment to continuous improvement	Financial information	Partner remuneration	Statement by the Board of KPMG in Croatia	Appendices
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Our structure and governance

Legal and ownership structure

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

KPMG in Croatia is in the majority ownership of KPMG CEE Holdings, Cyprus (“KPMG CEE Holdings”) and local partners. Complete details regarding the ownership of KPMG in Croatia are available on the public registry of companies in Croatia.

In Croatia, KPMG Holdings CEE also has a 100% owned subsidiary, KPMG savjetovanje d.o.o. za poslovno savjetovanje.

Responsibilities and obligations of member firms

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International’s policies, procedures and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values.

KPMG International’s activities are funded by a levy paid to it by member firms. The basis for calculating such amounts 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, procedures and regulations set by KPMG International or any of its other obligations owed to KPMG International.

Network arrangement

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

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

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

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available in Appendix 2.

Governance structure

We apply high standards of corporate governance. In compliance with the Croatian Audit Law (National Gazette 146/05, 139/08, 144/12, 78/15 and 127/17), KPMG Croatia’s registered management consists of predominantly Croatian certified auditors. Complete details of KPMG Croatia’s registered management are available on the public registry of companies in Croatia. Various partners at KPMG in Croatia have been charged with different governance functions. The ultimate responsibility of the team of partners headed by Goran Horvat and including eight partners: Paul Suchar, Joško Džida, Tony Ilijanić, Daniel Radić, Domagoj Hrkać, Igor Gošek, Katarina Kecko and Daniel Lenardić, is to uphold the values, standards and processes of KPMG in Croatia.

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System of quality control

Overview

Tone at the top, leadership, and a clear set of values and conduct are essential to set the framework for quality. However, these must be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

KPMG International has quality control policies that apply to all member firms. These are included in KPMG’s Global Quality & Risk Management Manual (Global Q&RM Manual) which applies to all KPMG partners and employees. KPMG in Croatia is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

KPMG in Croatia is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by the local regulator as well as applicable legal and regulatory requirements.

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

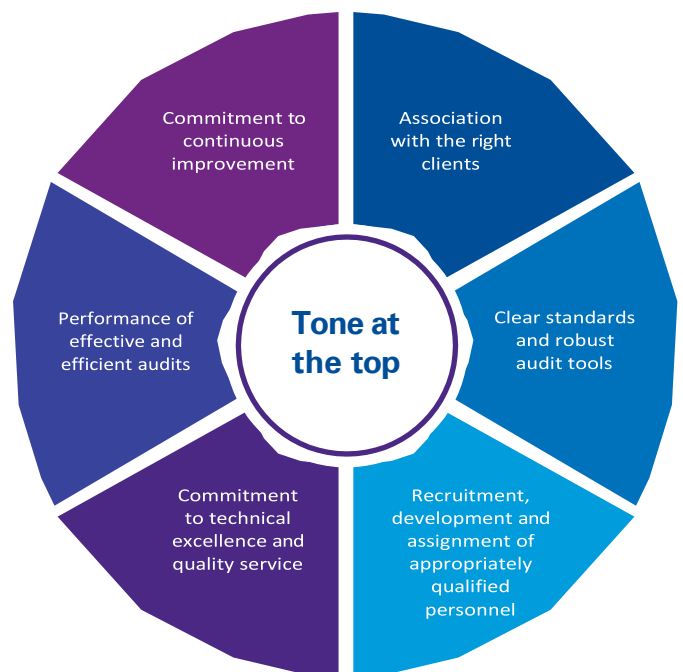
This system of quality control applies to all KPMG partners and employees wherever they are based. While this Transparency Report summarizes KPMG’s approach to audit quality, it may also be useful for stakeholders interested in member firms’ Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

Audit quality framework

At KPMG audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors’ report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver quality audit, KPMG International developed the Audit Quality Framework. KPMG’s audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

Tone at the top sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate all KPMG firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



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Tone at the top

KPMG global leadership, working with regional and member firm leadership, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders and investors rely.

At KPMG in Croatia we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG in Croatia leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

KPMG Global Code of Conduct

KPMG's commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG's diverse and inclusive culture and our commitment to the right personal and professional conduct emphasizing that, above all, KPMG people act with integrity. The KPMG values are communicated clearly to all people and are embedded into member firms' people processes — induction, performance development and reward.

Building on the KPMG values is the KPMG Global Code of Conduct. Member firms, including KPMG in Croatia are required to adopt, as a minimum standard, the Global Code of Conduct.

Leadership responsibilities for quality and risk management

KPMG in Croatia demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders, and society. Our leadership plays a critical role in setting the right tone and leading by example - demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

The following individuals have leadership responsibilities for quality and risk management.

In accordance with the principles in ISQC 1, the Management board and partners have assumed ultimate responsibility for our system of quality control.

Operational responsibility for the system of quality control, risk management and compliance in KPMG in Croatia has been delegated to the Head of Quality and Risk who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for firm. The Head of Quality and Risk is supported by a team of partners and professionals in each of the functions.

Ethics and Independence Partner (EIP)

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG in Croatia and reports on ethics and independence issues to the RMP, Senior Partner or member firm leadership.

The Audit, Tax and Advisory functions - Function Heads

The three heads of the Audit, Tax and Advisory client service functions are accountable to the Senior Partner for the quality of service delivered in their respective functions. They determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures make it clear that at the engagement level risk management and quality control is ultimately the responsibility of all professionals in the firm.

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Association with the right clients

Acceptance and continuance of clients and engagements

Rigorous global client acceptance and continuance policies are vital to being able to provide high-quality professional services.

KPMG's client and engagement acceptance and continuance systems and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

KPMG firms must evaluate whether to accept or continue a client relationship or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

Client and engagement acceptance process

Client evaluation

KPMG in Croatia undertakes an evaluation of every prospective client. This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and regulatory requirements.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of partners and employees assigned to staff the engagement.

The evaluation is made in consultation with other senior KPMG in Croatia partners and includes review by quality and risk management leadership as required.

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

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

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 required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

Continuance process

KPMG in Croatia undertakes an annual re-evaluation of all audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an EQCR or the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to periodic re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

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Withdrawal process

Where KPMG in Croatia obtains information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

Client portfolio management

KPMG in Croatia leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

We review each audit partner's client portfolio at least annually in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

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Clear standards and robust audit tools

All KPMG in Croatia professionals are expected to adhere to KPMG International and KPMG in Croatia policies and procedures including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG in Croatia policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical, and quality control standards, and other relevant laws and regulations.

Our approach to audit

KPMG has been investing significantly in evolving the network's Global Organization's audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation, and visualization. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- **timely partner and manager involvement** throughout the engagement
- **access to the right knowledge** including involvement of specialists, training and experience requirements and relevant industry expertise
- **critical assessment of all audit evidence obtained during the audit**, exercising appropriate professional judgment
- **ongoing mentoring, supervision and review** of the engagement team
- **managing and documenting the audit.**

Consistent audit methodology and tools

The KPMG audit methodology, developed by the KPMG Global Solutions Group (KGSG), is based on the requirements of the International Standards on Auditing (ISAs), as well as the auditing standards of PCAOB and AICPA. The KPMG audit methodology is set out in KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit.

The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance and tools are made regularly to be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include risk identification, assessment and response, accounting estimates, group audits and audit sampling.

KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The KPMG audit workflow is enabled through eAudit's, an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to KPMG's audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudit), with the deployment of KPMG Clara workflow which was piloted in 2018, planned for initial deployment globally in 2019, and full deployment beginning in 2020.

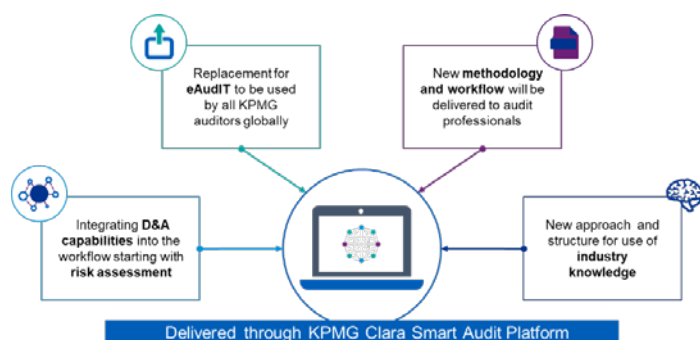
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KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

KPMG Clara

The global launch of KPMG Clara created a smart audit platform that brings together KPMG's audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.



KPMG Clara workflow

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG member firm audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence aligned to the standards with a clear display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced data and analytics (D&A) capabilities. The workflow and methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and drive improvements in audit quality.

KPMG Clara workflow incorporates monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The predecessor audit workflow tool, eAudit, is expected to be decommissioned in the 2021 fiscal year.

Audit data & analytics (D&A)

KPMG's audit, powered by D&A is designed to:

- **enhance audit quality**; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- **be secure**; by restricting access to data both in transit and within KPMG's IT environments; and
- **be transparent**; by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

Independence, integrity, ethics and objectivity

Overview

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual, which applies to all KPMG member firms. Automated tools, which must be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the local regulator. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures are in place at KPMG member firms, and that tools are available to help the firms and their personnel to comply with these requirements.

KPMG in Croatia has a designated Ethics and Independence Partner who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG in Croatia. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements. The EIP fulfills this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials,
- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications with member firms. Member firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs.

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KPMG in Croatia partners and employees are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals must be free from prohibited financial interests in, and prohibited financial relationships with KPMG member firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and, where required, significant owners. All KPMG partners – irrespective of their member firm and function – are generally prohibited from owning securities of any audit client of any member firm.

KPMG member firms use a web-based independence tracking system to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All partners and all manager grade and above client-facing employees 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 publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals. The Global Independence Group provides guidance and suggested procedures relating to the audit and inspection by KPMG member firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

Employment relationships

Any KPMG in Croatia professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

Former members of the audit team or former partners of KPMG in Croatia are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG in Croatia, including payments which are not fixed and predetermined and/or would be material to KPMG in Croatia and ceased participating in KPMG in Croatia business and professional activities.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

We communicate and monitor requirements in relation to employment and partnership of KPMG in Croatia professionals by audit clients.

Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and, where required, significant owners.

In common with other KPMG member firms, KPMG in Croatia uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in pension, and employee benefit plans.

Additionally, KPMG in Croatia is required to record in KICS all borrowing and capital financing relationships, as well as custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG in Croatia confirms compliance with independence requirements as part of the Risk Compliance Program.

Business relationships/suppliers

KPMG in Croatia has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the SEC.

Independence clearance process

KPMG in Croatia follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process', must be completed prior to accepting an audit engagement for these entities.

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Independence training and confirmations

KPMG in Croatia partners and client service professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG in Croatia and on an annual basis thereafter.

New partners and employees who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG in Croatia or (b) before providing any services to or becoming a member of the chain of command for, any audit client (by definition, 'audit client' includes its related entities or affiliates).

We also provide all partners and employees with biannual training on:

- the Global Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards; and
- reporting suspected or actual non-compliance with laws, regulations, professional standards, KPMG and KPMG's policies.

New partners and employees are required to complete this training within three months of joining KPMG in Croatia.

All KPMG partners and employees are required to sign, upon joining KPMG in Croatia – and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations, related to the scope of services that can be provided to audit clients.

KPMG in Croatia is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG in Croatia. KPMG's EIP is involved in the review of potential independence issues.

In addition to identifying potential conflicts of interest, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements, including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential threats and safeguards is also required to be included in the Sentinel™ submission. Lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their related entities or affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats.

Fee dependency

KPMG International's policies recognize 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 member firm expressing the audit opinion. These policies require KPMG member firms to consult with their Area Q&RM Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. In the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

- this would be disclosed to those charged with governance at the audit client; and
- a senior partner from another KPMG member firm would be appointed as the Engagement Quality Control (EQC) reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG in Croatia over the last two years.

Resolving conflicts of interest

Conflicts of interest can arise in situations where KPMG in Croatia partners and employees have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the Risk Management Partner or the Ethics and Independence Partner is required in these situations.

KPMG International policies are also in place to prohibit KPMG partners and staff from accepting gifts and hospitality from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to be have been offered with the intent to improperly influence the behavior of the audit team member or the member firm. KPMG partners and staff are also precluded from offering inducements, including gifts and entertainment, which are made or perceived to be made with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived to have an impact on a member firm and/or its partners and employees in their ability to be objective or otherwise act without bias.

All KPMG member firms must use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG in Croatia has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

Our structure and governance	System of quality control	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	Commitment to continuous improvement	Financial information	Partner remuneration	Statement by the Board of KPMG in Croatia	Appendices
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Independence breaches

All KPMG in Croatia personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

All breaches of independence rules must be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG in Croatia has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations.

Matters arising are factored into our promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

Compliance with laws, regulations, and anti-bribery and corruption

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG in Croatia. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

Partner and firm rotation

Partner rotation

KPMG International partner rotation policies are consistent with or exceed the requirements of the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

KPMG in Croatia partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a 'time-out' period during which time these partners may not:

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client

KPMG in Croatia monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

Firm rotation

KPMG in Croatia is required to act as an auditor for public interest entities for a maximum period seven years and not to act as auditor for such clients for four years thereafter (referred to as the 'cooling off period'). KPMG in Croatia has processes in place to track and manage audit firm rotation.

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Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that all KPMG professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires the right recruitment, development, reward, promotion, retention and assignment of professionals.

Recruitment

KPMG in Croatia is committed to building an extraordinary people experience for all KPMG partners and employees and prospective partners and employees.

Our recruitment strategy is focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools. KPMG in Croatia also recruits significant numbers at an experienced hire level.

All candidates 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. These leverage fair and job-related criteria to ensure that candidates possess the appropriate characteristics to perform competently, are suitable and best placed for their roles.

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG in Croatia does not accept any confidential information belonging to the candidate's former firm/employer.

Personal development

KPMG in Croatia has launched a new approach to performance development built around the *Everyone a Leader* performance principles, *Open Performance Development*, which includes:

- Global role profiles;
- a goal library; and
- Standardized review forms.

Open Performance Development is linked to the KPMG values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behavior we're looking for and rewarding those who role model these behaviors, will enhance our ability to achieve quality and we have articulated this through our performance principles of seeking growth, inspiring trust and delivering impact.

At the same time, we are driving a shift in our performance-driven culture, supported by and enacted through leading technology that allow us to embed audit quality to the assessment of performance and the decisions around reward as well as drive consistency across the Global Organization.

KPMG in Croatia monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners, directors and managers. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

Reward and Promotion

KPMG in Croatia's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

Reward

KPMG has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our partners and employees know what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through meetings where relative performance across a peer group is discussed and used to inform reward decisions.

Reward decisions are based on consideration of both individual and organizational (member firm) performance.

The results of performance evaluations directly affect the promotion and remuneration of partners and employees and, in some cases, their continued association with KPMG.

The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

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Promotion

The results of performance evaluations directly affect the promotion and remuneration of partners and employees and, in some cases, their continued association with KPMG.

Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

Assignment of professionals

KPMG in Croatia has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process.

Key considerations include partner experience, and capacity, based on an annual partner portfolio review, to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving specialists or from our own or other KPMG member firms or external experts.

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

- 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 requirements
- appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment,
- an understanding of KPMG Croatia's quality control policies and procedures; and
- QPR results and results of regulatory inspections.

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Commitment to technical excellence and quality service delivery

All KPMG in Croatia professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice departments (DPP), either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG in Croatia, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

At the same time audit policies require all KPMG audit professionals to have the appropriate knowledge and experience for their assigned engagements.

Lifetime learning strategy

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, at a local level. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job.

Mentoring and on the job training

Learning is not confined to the classroom — rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

Licensing and mandatory requirements for IFRS and US GAAP engagements

Licensing

All KPMG in Croatia professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. KPMG in Croatia policies and procedures are designed to facilitate compliance with license requirements. We are 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.

Mandatory requirements — IFRS and US GAAP engagements

In addition, KPMG has specific requirements for partners, managers and EQC reviewers working on IFRS engagements, in countries where IFRS is not the predominant financial reporting framework. Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that, at a minimum, all partners, managers, engagement in-charges and EQC reviewers have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

Access to specialist networks

KPMG in Croatia engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms. Specialists who are members of an audit team and have overall responsibility for specialists involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

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

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Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG in Croatia promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Technical auditing and accounting support is available to all member firms and their professionals through the KGSG and ISG as well as the US capital Markets for SEC foreign registrants.

KPMG Global Solutions Group (KGSG)

The KGSG's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The KGSG develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the KGSG Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

International Standards Group (ISG)

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

Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

Developing business understanding and industry knowledge

A key part of 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 development of relevant industry information, which is made available to audit professionals through the KPMG audit workflow. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available that provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in the KPMG audit workflow.

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Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG in Croatia partners and employees are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

Ongoing mentoring, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, KPMG in Croatia promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

- Engagement partner participation in planning discussions;
- Tracking the progress of the audit engagement;
- 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;
- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; and
- identifying matters for consultation with more experienced team members during the engagement.

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

Timely engagement quality control (EQC) reviewers

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

The EQC is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagement that require an EQC reviewer under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered completed.

KPMG in Croatia is continually seeking to strengthen and improve the role that the EQC review plays in audits, as this is a fundamental part of the system of audit quality control.

Reporting

Auditing standards and the Audit Law largely dictate the format and content of the auditor's report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph, as well as key audit matters to be communicated.

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

Two-way communication with those charged with governance, often identified as the audit committee, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG in Croatia we stress the importance of keeping those charged with governance informed of issues arising throughout the audit, and the need to listen and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

IFRS Institute

KPMG's Global IFRS Institute provides information and resources to help the KPMG in Croatia Board and Audit Committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.

Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Global KPMG Code of Conduct, training, and the annual affidavit/confirmation process, that all KPMG 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 requirements as well as other applicable laws, standards and regulations.

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

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Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the overall system of quality control.

The quality monitoring and compliance programs are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG in Croatia compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

Internal monitoring and compliance programs

KPMG in Croatia monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures; and
- KPMG Croatia compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program which is conducted at least every three years.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

Audit Quality Performance Reviews (QPRs)

The QPR Program assesses engagement level performance and identifies opportunities to improve engagement quality.

Risk-based approach

Each engagement leader is reviewed at least once in a three-year cycle. A risk-based approach is used to select engagements.

KPMG in Croatia conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG in Croatia level and are monitored regionally and globally.

Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

Evaluations from Audit QPR

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

Reporting

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement partner of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

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Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all KPMG member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- document, assess and monitor the extent of compliance of KPMG in Croatia system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for KPMG in Croatia to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action taken.

Global Compliance Review (GCR) program

Each member firm is subject to a GCR at least once in a 3 year cycle.

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

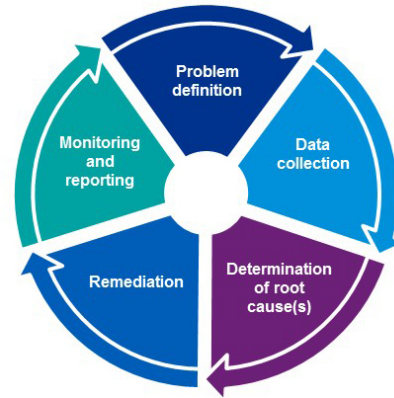
- a member firm’s commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a member firm’s compliance with key KPMGI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

KPMG in Croatia develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG) and, where necessary, to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

Root Cause Analysis (RCA)

KPMG in Croatia performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of all KPMG member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG in Croatia’s Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. Our Risk Management Partner monitors their implementation.

External feedback and dialogue

Regulators

KPMG in Croatia is subject to inspection by the local regulator. During September 2015 the local regulator conducted an on-site supervisory inspection and quality review of the firm.

None of the external inspections have identified any issues that have a material impact on the conduct of our statutory audit business.

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

Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services delivered. We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients’ needs.

Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are in our general terms of business.

Financial information

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.9 billion* during the year ending 30th September 2019.

The aggregated EU/EEA statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2019.

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

The statutory financial statements of KPMG Croatia d.o.o. za reviziju for the financial year ended 30 September 2019 have not yet been finalized and issued. Thus the revenue figures presented should be considered as preliminary and may be subject to change.

Revenues for the year ended 30 September 2019 (in HRK thousand)	
1. Statutory audit and other audit related services provided to PIE entities	14.747
2. Statutory audit and other audit related services provided to other entities	24.862
3. Non-audit services performed for clients for whom statutory audit is undertaken (1 and 2 above)	2.430
4. Revenue from non-audit services for all clients other than those in 3 above	92.930
5. Total revenue	134.969

* The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

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Partner remuneration

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

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Statement by the Board of KPMG in Croatia on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG in Croatia outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG in Croatia has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in this report and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this together, the Board of KPMG in Croatia confirms with a reasonable level of assurance that the systems of quality controls in our firm have operated effectively in the year to 30 September 2019.

Further, the Board of KPMG Croatia confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2019.

In Zagreb, 31 January 2020


 Goran Horvat
 Senior Partner


 Domagoj Hrkać
 Partner

Our structure and governance	System of quality control	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	Commitment to continuous improvement	Financial information	Partner remuneration	Statement by the Board of KPMG in Croatia	Appendices
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Appendix 1

Public interest entity audit clients

BKS - leasing Croatia d.o.o.	PBZ CROATIA OSIGURANJE d.d. za upravljanje obveznim mirovinskim fondovima
BKS Bank AG, glavna podružnica Rijeka	PBZ Card d.o.o.
CGS Capital d.o.o.	PBZ Invest d.o.o.
Croatia Airlines d.d.	PBZ Leasing d.o.o.
Dalekovod d.d.	PBZ stambena štedionica d.d.
ERGO osiguranje d.d.	Podravka d.d.
ERGO životno osiguranje d.d.	Privredna banka Zagreb d.d.
FTB TURIZAM d.d.	Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.
HETA Asset Resolution Hrvatska d.o.o.	Raiffeisen Factoring d.o.o.
Hrvatska banka za obnovu i razvitak	Raiffeisen Invest d.o.o.
HRVATSKI DUHANI d.d.	Raiffeisen Leasing d.o.o.
Hrvatsko kreditno osiguranje d.d.	Raiffeisen mirovinsko osiguravajuće društvo d.d.
HRVATSKO MIROVINSKO INVESTICIJSKO DRUŠTVO d.o.o. za upravljanje alternativnim investicijskim fondovima	Raiffeisen stambena štedionica d.d.
J&T banka d.d.	Raiffeisenbank Austria d.d.
Jadroplov d.d.	Veneto banka d.d.
Liburnia Riviera Hoteli d.d.	Wiener osiguranje Vienna Insurance Group d.d.
Luka Ploče d.d.	Wüstenrot stambena štedionica d.d.
Luka Rijeka d.d.	Wüstenrot životno osiguranje d.d.
Mercedes-Benz Leasing Hrvatska d.o.o.	Zagrebačka burza d.d.
Merkur osiguranje d.d.	

Appendix 2

List of KPMG audit entities located in EU & EEA

Location	Firm name
Austria	KPMG Austria GmbH Wirtschaftsprüfungs — und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs — und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Austria GmbH Wirtschaftsprüfungs — und Steuerberatungsgesellschaft (Linz)
Austria	KPMG Niederösterreich GmbH, Wirtschaftsprüfungs — und Steuerberatungsgesellschaft
Austria	Plan Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	Securitas Revisions — und Treuhandgesellschaft m.b.H.
Austria	T&A Wirtschaftsprüfungs — und Steuerberatungsgesellschaft mbH
Belgium	KPMG Bedrijfsrevisoren/KPMG Réviseurs d'Entreprises
Bulgaria	KPMG Audit OOD
CEE	KPMG CEE Holdings Limited
Croatia	KPMG Croatia d.o.o. za reviziju
Cyprus	KPMG
Cyprus	KPMG Limited
Czech Republic	KPMG Česká republika Audit, s.r.o.
Denmark	KPMG P/S
Estonia	KPMG Baltics OÜ
Finland	KPMG Oy Ab
Finland	KPMG Julkistarkastus Oy
France	KPMG Associés S.A.
France	BRAUN EXPERTISE COMPTABLE ET COMMISSARIAT AUX COMPTES — BEC
France	FUTIN Associés
France	KPMG Audit DFA S.A.S.
France	KPMG Audit Est S.A.S.
France	KPMG Audit FS I S.A.S.
France	KPMG Audit ID S.A.S.
France	KPMG Audit IS S.A.S.
France	KPMG Audit Nord S.A.S.
France	KPMG Audit Normandie S.A.S.
France	KPMG Audit Ouest S.A.S.
France	KPMG Audit Paris et Centre S.A.S.
France	KPMG Audit Rhône Alpes Auvergne S.A.S.
France	KPMG Audit Sud-Est S.A.S.
France	KPMG Audit Sud-Ouest S.A.S.
France	KPMG SA

Our structure and governance	System of quality control	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	Commitment to continuous improvement	Financial information	Partner remuneration	Statement by the Board of KPMG in Croatia	Appendices
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France	SALUSTRO REYDEL S.A.
France	KPMG Fiduciaire de France
Germany	KPMG AG Wirtschaftsprüfungsgesellschaft
Germany	ATH Allgemeine Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft
Germany	EUREVISIO GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
Germany	KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerbera- tungsgesellschaft
Germany	KPMG Prüfungs-und Beratungsgesellschaft für den Öffentlichen Sektor Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Gibraltar	KPMG Limited
Greece	KPMG Certified Auditors AE
Greece	KPMG Auditing A.E.
Hungary	KPMG Hungária Kft./KPMG Hungary Ltd.
Iceland	KPMG ehf.
Ireland	KPMG
Italy	KPMG S.p.A.
Italy	KPMG Audit S.p.A.
Latvia	KPMG Baltics AS
Liechtenstein	KPMG (Liechtenstein) AG
Lithuania	KPMG Baltics UAB
Luxembourg	KPMG Luxembourg
Malta	KPMG
Netherlands	KPMG Accountants N.V.
Norway	KPMG Holding AS
Norway	KPMG AS
Poland	KPMG Audyt Services Sp. z.o.o.
Poland	KPMG Audyt Sp. Z ograniczona, odpowiedzialnoa, cia.”
Poland	KPMG Audyt Sp. Z ograniczona, odpowiedzialnos’cia, Spółka Komandytowa
Portugal	KPMG & Associados — Sociedade de Revisores Oficiais de Contas, S.A.
Romania	KPMG Audit SRL
Slovakia	KPMG Slovensko spol. s r.o.
Slovenia	KPMG Slovenija, podjetje za revidiranje, d.o.o.
Spain	KPMG Auditores, S.L.
Sweden	KPMG AB
UK	KPMG LLP
UK	KPMG Audit Holdings Limited
UK	KPMG Audit Plc
UK	KPMG Holdings Limited
UK	KPMG Overseas Services Limited

* This is a list of KPMG audit firms as defined in Article 2 (3) of EU Directive 2006/43/EC which are located in EU/EEA countries. It has been prepared solely for the purpose of compliance by KPMG member firms with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. It is prepared by KPMG International Cooperative (“KPMG I”), a Swiss entity which provides no professional services to clients. To the best of our knowledge, the list is accurate as of 30 September 2019. However, we cannot and do not warrant its accuracy at any given time.

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