KPMG

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2010 Transparency Report

KPMG CIS

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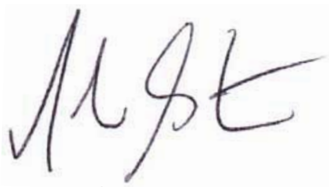
2010 Transparency Report

Andrew Cranston
Senior Partner
Russia and the CIS

Welcome to the 2010 KPMG CIS Transparency Report. This is the second year that we have voluntarily produced such a report for KPMG in the CIS. We are continuing to do this as we believe it is vitally important that the external world understands the measures we take to ensure we deliver the highest quality of service to all of our clients. Quality is important in all of our services (as it underpins our very reputation). It is however arguably most important in our audit business as investors and the wider capital markets need to be able to rely upon our audit opinions. It is for this reason that our strategy continues to be underpinned by a commitment to quality, as it does for the KPMG Europe LLP group of which we are a part.

This report sets out the structure of KPMG in the CIS and its operating firms and summarises the quality control processes and standards of integrity that all of our firms adopt across the range of our businesses, not just audit. I hope that you find our report useful in helping to explain how we ensure the quality of our work.



Andrew Cranston

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Section 1
Who we are

1.1 Our business

KPMG Europe LLP was created in October 2007 through the merger of our German and UK firms. Since that time we have been joined by KPMG firms operating in many other territories. KPMG Europe LLP itself together with those operating firms that had joined as at 30 September 2010 are referred to throughout this report as the 'group'.

The group, of which KPMG CIS is part, is a cross-border professional services group that delivers audit, tax and advisory services to help national and international clients negotiate risks and thrive in the varied environments in which they do business.

The following diagram depicts how the key elements in our system of quality control fit together.

Key elements in our system of quality control

At the very centre of our system of quality control is the tone at the top of our organisation (which promotes quality and strong and unequivocal ethical values at all times). All of the other key aspects of our system of quality control then operate within a virtuous circle, with each element of the model reinforcing the others. Each of these key elements of our quality control system is described in more detail throughout the report.

1.2 Tone at the top

The critical components for an effective tone at the top that provides a clear focus on quality include:

- 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; and
- governance structure and leadership responsibility for quality: skilled and experienced people in the right positions to influence the quality agenda.

Culture, values and code of conduct

KPMG is committed to doing the right thing in the right way for our people, our clients and the capital markets we serve.

We have clearly stated values and a code of conduct against which an expected level of performance and behaviour is understood.

Our values also help shape the culture of our group by creating a sense of shared identity. Our final value is that '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 at KPMG. 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 promotion to partner).

Our code of conduct defines the standards of ethical conduct that we require from our firms and our people. The code sets out KPMG's ethical principles, and helps partners and employees to understand and uphold those principles. The code emphasises that each partner and employee is personally responsible for following the

Section 1
Who we are continued

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).

We understand that trustworthiness is a critical characteristic that stakeholders expect and rely upon. It is this commitment that underlies 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.

Our firm has established a whistle blowing hotline to ensure that anyone that has concerns about how other are behaving (either internally or at a client) can raise the issue – even when it is difficult. The whistle-blowing hotline allows people to report their concerns (via telephone, secure internet or surface mail) to a third party organisation. Matters reported to the hotline are investigated under the supervision of our external ombudsman Richard Pratt. Our people can raise maters anonymously and without the fear of retaliation.

Report is made by one of the KPMG Europe LLP ombudsmen to the Quality & Risk Committee and going forward to our group's Public Interest Committee on the operation of all of the hotlines across our group. This report covers both the matters reported to the hotlines, how the investigations were conducted, the findings from the investigations and the implications for our policies and procedures.

Our strategy

The strategy for our group is set by the KPMG Europe LLP Board. It has determined that our overall ambition remains to be the number one multi-disciplinary professional services firm in Europe.

The 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. Each of the priorities in our strategy is underpinned by an enabling programme – including a dedicated project (which is being sponsored by two of our Board partners) to look at how we continually reinforce the importance of quality across our group.

Further details of how our group is performing can be found in the 2010 KPMG Europe LLP Annual Report .

Our governance structure and leadership responsibilities for quality

Our governance structure is set out in detail in section 2 and those within leadership who have a responsibility for quality are described in section 3.2.

Our strategic priorities

Section 2
Our structure and governance

2.1 CIS structure and governance

Legal structure and ownership

KPMG CIS comprises a number of legal entities in those jurisdictions of the CIS in which KPMG has an office. These entities are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it are set out in section 7.

A list of the key entities in the CIS, together with details of their legal structure, regulatory status, and nature of their business and area of operation is set out in Appendix 1.

Except where otherwise noted in Appendix I, all entities comprising KPMG in the CIS are wholly owned subsidiaries of KPMG Europe LLP. Where an entity is not wholly owned by KPMG Europe LLP it is as a result of national regulatory requirements and in such cases certain of the shares are owned by individual partners.

During the year to 30 September 2010 there was an average of 83 partners in KPMG CIS.

National governance

The main governing body in the CIS is the CIS Executive. This comprises the CIS Senior Partner, the CIS Heads of Audit, Tax, Advisory, Markets, People, Infrastructure and Finance, Quality and Risk and the Senior Partners of the Ukraine and Kazakhstan firms.

The CIS Executive is responsible for determining strategy in the CIS, ensuring business plans of units are aligned to this strategy and provides oversight of performance. It deals with matters of CIS wide importance and provides oversight of Partner matters such as remuneration and Partner admission. The CIS Executive meets on a monthly basis.

Day to day management and oversight of operations is provided through business unit heads and country Senior Partners.

Full details of those charged with governance for KPMG CIS, including their biographies and the number of meetings that they attended in the year and their term of office are set out in Appendix 2.

Communication with the members

Communication with the Partners is through country, function and service line Partner meetings held at regular intervals, CIS Partner conferences held at least twice per year, leadership emails and the Partner website in the firm's intranet.

2.2 Group structure and governance

Legal structure and ownership

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 2010, KPMG Europe LLP's key firms operated in the UK, Germany, Switzerland, Spain, Belgium, the Netherlands, Luxembourg, the CIS and Turkey. It is wholly owned by its members (partners) all of whom work in KPMG firms in specific countries[1]. For regulatory or other reasons KPMG Europe LLP is not the legal owner of all of its operating firms in certain jurisdictions.

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 2010 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 2010 there was an average of 1,362 members of KPMG Europe LLP.

From 1 October 2010, the partners based in the KPMG firms in Norway and Saudi Arabia are in the process of becoming, members of KPMG Europe LLP.

Further details of the key entities within our group are provided in the 2010 KPMG Europe LLP Transparency Report.

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

Section 2
Our structure and governance continued

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.

We are totally committed to ensuring that we stay at the forefront of good governance. In that respect, as previously noted KPMG Europe LLP has adopted the new UK Audit Firm Governance Code at group level (which has included the establishment of a Public Interest Committee comprised of three external non-executives).

The Board
The main governing body is a unitary Board. 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.

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, eight additional officers (being the Chief Operating Officer, and the Heads of Audit, Tax, Advisory[2], Markets, Finance and Infrastructure, Human Resources and Quality & Risk (formally known as the Head of Risk & Compliance) and a number of KPMG partners who held non-executive roles for the group. As at 30th September 2010, there were a total of 26 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 three 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 eight additional officer roles (10 from 1 October 2010) 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 senior 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 15 members (accounting for approximately 58%) of the Board hold this qualification.

The Board met nine times in the year to 30 September 2010 including a full day meeting in March 2010 to consider the group's strategic plan.

Underneath the Board are five main bodies that deal with key aspects of governance within the group. These are:

- the Executive Committee
- the Quality & Risk Committee
- the Audit Committee
- the Nominations Committee; and
- the Remuneration Committee.

In addition, as recommended by the ICAEW Audit Firm Governance Code with effect from 1 October 2010, a new Public Interest Committee was formed.

Details about the role and responsibilities and composition of each of these key bodies are set out below. Further detail of those holding positions on each of these bodies is provided in the 2010 KPMG Europe LLP Transparency Report.

The 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).

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

The Executive aims to meet at least monthly and it met 14 times either face-to-face or via video link/conference call during the year to 30 September 2010.

2 From 1st October 2010, the Head of Advisory board position was split into three new positions being: Head of Performance & Technology, Head of Transactions and Restructuring and Head of Risk & Compliance.

Section 2
Our structure and governance continued

The Quality & Risk Committee
The Quality & Risk Committee (formerly the Risk & Compliance Committee) was formed to further enhance the governance over quality matters, professional risk management, ethics and independence and compliance within KPMG Europe LLP. The decision to rename the Committee (which was taken by the Board during the year) was made to better describe the role that the Committee fulfils for the Board in providing oversight in particular around quality matters across the Group.

The principal role of this Committee is to ensure a culture of quality and integrity is maintained within the group and, where required, to 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 2010, the Quality & Risk Committee consisted of four KPMG partners who held a non-executive role on the Board, who are appointed by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Quality & Risk Committee met six times in the year to 30 September 2010. This included holding a meeting with the Chairman of the Audit Committee to discuss the process for identifying all key risks (both professional and enterprise) currently facing the Group.

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, who are appointed by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Audit Committee met three times in the year to 30 September 2010.

The Nominations Committee
The Nominations Committee is responsible for consulting with the members to help identify suitable candidates within the group for appointment to the Board and other key appointments and making recommendations to the Board and Joint Chairman as appropriate. The Nominations Committee met 4 times in the year to 30 September 2010. The members of the Nominations Committee are appointed by the Board, for a non renewable term of three years. As at 30 September 2010 there were five members on the committee, being the two non-executive board members and three 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. 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.

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 compliance metrics for the KPMG Europe LLP Board members, Executive Committee members, KPMG Europe LLP sector heads, country operating team members and the lead partners for the top accounts, for whom it has a direct responsibility to monitor pay.

The Remuneration Committee comprises eight 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 Board's approval following consultation with the Nominations Committee. The Remuneration Committee met five times in the year ended 30 September 2010 and has held three meetings to discuss 2010 partner pay.

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

Section 2
Our structure and governance continued

The Public Interest Committee – effective from 1 October 2010
As required by the UK Code on Corporate Governance, with effect from 1st October 2010, KPMG Europe LLP has 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 reputational risks. Acting in the public interest in this context involves having regard to the 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 will also be responsible for engaging in a dialogue with external stakeholders.

In view of the commonality of interests, it is envisioned that the Public Interest Committee will normally meet jointly with the Board's Quality & Risk Committee - albeit that the two Committees would form their own conclusions on the matters discussed and may adjourn for private deliberations as necessary.

The Public Interest Committee comprises three external non-executives appointed from outside of our Group. Sir Steve Robson, Dr Alfred Tacke and Tom de Swaan have been appointed as the first members of this Committee.

Further details of the background of the external non-executives can be found in the 2010 KPMG Europe LLP Transparency Report.

The Group has considered the UK Corporate Governance Code and the Ethical Standards for Auditors in drawing up criteria for appointment of the members of the Public Interest Committee. These criteria recognise the need for the non-executives to maintain appropriate independence from the Group and its partners and have due regard to the impact of any financial and business relationships held by the non-executives on the Group's independence of its audit clients. The Group does not consider that the non-executives are part of the chain of command for the purposes of auditor independence requirements. Prior to appointment all non-executives confirm that they will at all times comply with the overriding principles of ethical and professional conduct as set out in the Group's Ethics and Independence Manual. They are required to declare to the Joint Chairmen any directorships and other employments they hold and to notify any substantial changes in advance of acceptance of any such change. They are also required to disclose to the Head of Ethics and Independence any matters which might constitute a potential conflict of interest as soon as they become aware of them.

The terms of reference for the for the Public Interest Committee can be found on the ELLP website at the following link www.kpmg.eu/governance.

Communication with the members across the group
The Joint Chairmen and Chief Operating Officer communicate regularly with the senior 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. During July 2010 there was a one day partner conference in Frankfurt where over 1,000 partners from across KPMG Europe LLP came together to discuss a range of topics including the group's strategy and business plan.

Section 3
Our system of quality control

3.1 Overview

Our policies are designed as a minimum standard and encompass the standards issued by the International Federation of Accountants (IFAC), including International Standard on Quality Control 1 (ISQC1), relevant to firms that perform statutory audits and assurance engagements. These policies and associated procedures are designed to assist our firms in complying with relevant expert standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

Our policies and procedures and systems of quality control are also designed to meet the rules and standards issued by the various country regulators in the CIS countries in which KPMG has a presence and other regulators such as the US Public Company Accounting Oversight Board (US PCAOB), the regulators of the EU/EEC member states.

At engagement level, risk management and quality control are ultimately the responsibility of each and every partner and employee. This responsibility requires them to understand our policies and associated procedures in carrying out their day-to-day activities. These policies reflect individual quality control elements to help our partners and employees act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations and professional standards.

The system of quality controls applicable across our firm encompasses the following key elements:

1. leadership responsibilities for quality
2. high ethical standards
3. strong people management
4. rigorous procedures for acceptance and continuance of clients and engagements
5. processes which deliver effective engagement performance; and
6. monitoring activities.

The above six elements of our system of quality control generally operate generically across all of our services with the exception of the processes that deliver engagement performance - which will vary depending upon the specific service being delivered. As the requirement to produce a transparency report relates to statutory audit services, the descriptions provided in section 3.6 are restricted to processes which deliver an effective statutory audit.

3.2 Leadership responsibilites for quality

Senior partner

In accordance with the principles in ISQC1, our senior partner, Andrew Cranston, has assumed ultimate responsibility for KPMG CIS system of quality control. Details of some of the measures that the CIS Executive has taken to ensure that a culture of quality prevails within KPMG in CIS are set out in section 1.2.

Head of Quality & Risk

Operational responsibility for the system of quality control and risk management in KPMG CIS has been delegated to the CIS Head of Quality & Risk. He is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the group. The CIS Head of Quality & Risk is a member of the CIS Executive, the body charged with governance in the CIS. The Head of Quality & Risk is supported by a team of partners at country level. The latter have been given operational responsibility for these matters at national level.

Function Heads

The heads of the client service functions (Audit, Tax and Advisory (which now formally comprises our Transactions & Restructuring, Performance & Technology and Risk & Compliance businesses)) are accountable to the Senior Partner for the quality of service delivered in their respective functions. Between them, they therefore determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Head of Quality & Risk. 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.

3.3 High ethical standards

As already stated, KPMG's key Value is that 'above all we act with integrity'. In keeping with this value, we are committed to achieving a high standard of ethical behaviour in everything that we do. Our firms maintain compliance with legal, ethical and professional requirements through a number of mechanisms, including adopting clear policies and procedures in this area and promulgating a code of conduct (see section 1.2). We also fully comply with all relevant ethics and independence policies – further details of which are set out in section 4.

3.4 Strong people management

One of the key drivers of quality is ensuring that our firm has the right engagement leaders and staff members assigned to an engagement. Our people management system encompasses the following core areas:

- recruiting and hiring
- development and training
- accreditation and licensing
- engagement assignment
- supervision
- performance evaluation and compensation; and
- partner admissions and promotions.

Recruiting and hiring

All candidates for professional positions submit application forms, are interviewed, and certain information in their application (such as their professional qualifications) is verified through independent sources. Upon joining the firm, personnel are also required to complete training programmes on a number of areas including ethics and independence in addition to any job-related modules.

Section 3
Our system of quality control continued

Development and training
Our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

With regard to continuous learning, we provide opportunities to help our professionals meet their continuing professional development requirements as well as their own personal development goals. Technical training is provided in combination with skills training where appropriate.

In the Audit function the technical training is mandatory and is delivered through annual courses, eLearning and briefings that reinforce the need for quality throughout our audits. An online system helps professionals monitor compliance with their ongoing professional development requirements and with KPMG's accreditation requirements (see below). The contents of the courses are regularly reviewed and updated to reflect the ongoing technical competency needs of the professionals and the feedback received from course participants. In addition to structured training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

Accreditation and licensing
Our firm has accreditation requirements for many of our services (including for International Financial Reporting Standards, US audit and accounting work, Transactions Services and Corporate Finance services) which ensure that only partners and managers with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary. Our firm requires that all client service professionals maintain accreditation with the relevant national professional bodies in their jurisdiction and satisfy the Continuing Professional Development requirements of this body.

Engagement assignment
People are assigned to engagements based on a number of factors including their skill set, relevant professional and industry experience, and the nature of the assignment or engagement. The function heads are responsible for the process for allocating particular engagement leaders to clients. Engagement leaders are responsible for ensuring that their engagement team has appropriate resources and skills.

As an addition control in Audit (where the services are of more of a recurring nature than across much of the rest of our group), our Head of Audit together with the Audit Quality & Risk Partner performs an annual review of the portfolio of all of our audit engagement leaders. The purpose of this 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.

The need for any specialists (eg tax, treasury, pensions, forensic) to be assigned to a specific engagement is specifically considered as part of the engagement acceptance /continuance process (see section 3.5).

Performance evaluation and compensation
All partners and staff undergo annual goal-setting and performance evaluations conducted by performance managers/ partners who are familiar with the individual's performance. Each individual is evaluated on his or her attainment of agreed-upon goals, demonstration of skills/behaviours, and adherence to our values.

Skills/behaviours evaluated include quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning, and relationship building and their ability to sell services (although audit partners are not permitted to have goals relating to, or be rewarded for, selling non-audit services to their audit clients).

All engagement leaders are issued with standardised quality and risk metrics which are fed into their annual counselling process. These metrics include a number of parameters, including the results of external regulatory reviews; timely completion of training; and the outcome of internal monitoring programmes. The result of their annual performance evaluation directly affects the compensation of our partners and staff and in some cases their continued association with KPMG.

Partner admissions and promotions
Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. The procedure includes a business case and a personal case for the individual candidate. All recommendations for partner admission to KPMG CIS and KPMG Europe LLP need to be approved by the KPMG Europe LLP Board.

3.5 Rigorous procedures for acceptance and continuance of clients and engagements
Rigorous client acceptance and continuance policies are vitally important to our ability to provide high-quality professional services. With every potential new client, the partner responsible for the relationship conducts an evaluation of the client's principals, business and other service-related matters. This evaluation includes completion of a standard questionnaire that assesses the risk profile. These evaluations include an assessment of a number of external factors that have the potential to impact on the quality of our audits such as the adequacy of the internal governance processes at the client, the robustness of their own financial systems and controls and the reputation of the client and the integrity of its owners. Where issues are noted, then these should be appropriately considered as part of the audit planning process. For higher risk clients and engagements, approval is required from our Quality & Risk Partner.

We re-evaluate our association with all clients (including audit clients) at least annually and whenever a client undergoes significant change in their business, financial position or ownership

Section 3
Our system of quality control continued

structure. This is conducted by the partner responsible for the client with formal approvals from Quality & Risk for higher risk clients. This re-evaluation serves two purposes. Firstly we will decline to act for any client where we are unable to deliver to our expected level of quality or if we would not wish to be associated with the client. Secondly we use the re-evaluation to formally 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 need to involve additional specialists on the engagement where appropriate).

3.6 Processes which deliver effective engagement performance

Fundamental to our professional services are the quality controls which are embedded throughout our standard engagement processes. These quality controls include policies and guidance to help ensure that the work performed by engagement personnel meets applicable regulatory requirements, professional standards and internal standards on quality. However, the engagement leader is ultimately responsible for quality on their engagements.

In the following sections we provide more detail specifically as regards statutory audit services.

Audit methodology

Our audit methodology, developed by KPMG International's Global Services Centre, is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in our KPMG Audit Manual (KAM). This is adapted to take account of additional requirements that go beyond the ISAs where KPMG believes these enhance the quality of our audits. Each country will also adapt KAM to take account of local legislation and standards. Such methodology serves as the foundation of the financial statement audit. In 2010 KAM has been completely re-written to incorporate the requirements of the clarified ISAs (which KPMG International is adopting for December 2010 year end audits).

Leveraging technology to further improve the audit experience for our clients and our people is a key component of KPMG International's global audit IT strategy. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit electronic functionality. The tool promotes robust documentation, consistent implementation of the audit process and drives audit quality. eAudIT is being progressively deployed to all audit professionals in 2010.

eAudIT enables KPMG to deliver a highly technically enabled audit and can be customised to suit all audit engagements, from major international groups to small or medium enterprises. It is an activity-based workflow and electronic audit file that integrates our methodology, auditing standards and industry knowledge with the tools needed to manage the whole audit process. Information, including industry knowledge and the requirements of the auditing standards provided at the right time in the audit reduces the risk of human error and helps our teams deliver valued insights. Leading technical and industry thinkers in KPMG member firms worldwide regularly update eAudIT to reflect industry best practice.

The following key activities are included in eAudIT:

Planning and risk assessment

- perform risk assessment procedures to identify risks
- understand and evaluate the overall control environment; and
- determine planned audit approach.

Testing

- test operating effectiveness of selected controls
- assess risk of misstatement at significant account level
- plan and perform substantive procedures; and
- consider if audit evidence is sufficient and appropriate.

Completion

- perform completion procedures
- perform overall evaluation
- form an audit opinion; and
- report to management and the Board/ Audit Committee.

The KPMG International Audit Methodology addresses both manual and automated controls and requires use of information technology professionals and other specialists in the core audit engagement team when appropriate. The methodology also includes procedures aimed at detecting and responding to the risk of material misstatement resulting from fraud. Communications relating to the engagement team's exercise of professional scepticism with respect to potential fraud risk factors have recently been reinforced and enhanced.

The audit process is structured to require significant involvement and leadership from the audit engagement partner. They are responsible for ensuring that the engagement is appropriately planned; that all significant risks are identified; and that appropriate judgements and conclusions have been reached. This will involve leading the planning meetings; reviewing key audit documentation, especially audit work papers that cover significant risks and key audit judgements; and being responsible for the final audit report.

Supervision, review, and support for the engagement team

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

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Our system of quality control continued

time to carry out their work, understands the work that they are being asked to perform and are performing their work correctly in accordance with the audit plan. A key part of supervision is timely review of the work performed so that significant matters are identified and addressed, through consideration by more senior team members or consultation outside the team if necessary, and appropriate conclusions are reached.

KAM is structured to require appropriate leadership from the audit engagement partners from the planning stage (eg through leading the planning meetings and reviewing planning and other documentation) through review to the completion of the audit.

Consultation and differences of opinion
Internal consultation with others is encouraged and in certain circumstances is required to address difficult or contentious matters. The role of Department of Professional Practice (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 guidance on emerging local technical and professional issues and disseminates international guidance on IFRSs and ISAs.

In addition, technical support is available to our operating firms from KPMG's International Financial Reporting Group and International Standards on Auditing Group, as well as for work on SEC foreign registrants, from specialist SEC Appendix K reviewing partners.

Our firm has established protocols for consultation regarding documentation of significant accounting and auditing matters, including procedures to resolve differences of opinion on audit 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, Head of Quality & Risk or ultimately the senior partner (or appropriately qualified delegate).

Engagement quality control review
An engagement quality control reviewer (EQCR) is required to be appointed for the audits of all listed entities and of other entities of significant public interest as well as engagements identified as high risk. Reviewers are senior and experienced partners who are independent of the engagement teams, having no responsibility for the engagement other than those relating to an objective review of the financial statements and selected audit documentation. These partners are appointed by either the national function heads or the Audit Quality & Risk Partner. Their role is to review selected audit documentation and client communications, the appropriateness of the financial statements and related disclosures, and the key conclusions of the audit engagement team with respect to the audit. Their review must be completed and all significant questions raised resolved satisfactorily before the audit opinion can be issued.

We are continually seeking to improve the role that the EQCR plays on our audits – as we see it as a fundamental part of our system of audit quality control. We have therefore taken a number of actions over the last year to reinforce this; including:

- on-line training for managers and above on the role of the EQCR (including what activities a partner should be doing to perform a good EQCR)
- guidance issued to national audit leadership on improving the EQCR process – including the allocation of EQCR portfolios to individual partners and the importance of their EQCR activities featuring in the performance evaluation process
- a briefing on the role that everyone has to play in ensuring that an effective EQCR process takes place; and
- the development of an EQCR checklist.

Reporting to clients
Reporting to audit clients is the key deliverable that underpins the quality of our operating firms' audit work. There are two main elements to this: (i) the formal audit report and (ii) communications with those charged with governance.

(a) Formal audit report
The format and content of the audit report is dictated largely by auditing standards and local legislation and will include a statement on the truth and fairness of the financial statements or comparable statement.

All audit reports are arrived at by experienced audit engagement partners, after involvement in, and reviewing, the work performed by the audit team. All audit reports on the financial statements of listed and other public interest entities are required to be agreed with an engagement quality control review partner. The importance of ensuring that any uncertainties are clarified before signing the audit report is emphasised in training.

We note that one of the factors that can impact on the quality of our audit reports is the clients own reporting deadlines. It is the responsibility of the engagement leader to ensure that even where the clients' reporting deadlines are aggressive, that the audit team has performed sufficient audit procedures before a formal audit report is issued.

(b) Communications with those charged with governance
Formal communications to those charged with governance of all major clients is another key aspect of reporting. We stress, in our guidance, the importance of keeping them informed at all the crucial stages of the audit of the issues arising, and provide templates for communications at planning, interim and final stages of the audit.

Section 3
Our system of quality control continued

Whilst the content of these reports is largely driven by the requirements of auditing and ethical standards, they also act as the key mechanism for our partners to provide those charged with governance with their view of the financial statements, the key audit judgements and the company's control environment and independence matters.

In recognition of the demanding and important role that audit committees play for the capital markets and also the challenges that they face in meeting their responsibilities, the KPMG Audit Committee Institute (ACI) was created in 2008 to help audit committee members enhance their awareness, commitment and ability to implement effective audit committee processes. The Institute provides 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.

3.7 Monitoring activities

Internal monitoring

We meet the ISQC1's monitoring requirements through the implementation of an internal inspection programme, the Quality Performance and Compliance Programme, which involves a review of a sample of engagements (from all services) as well as a review of our firm-wide risk management and independence practices. This programme is designed to help us assess compliance with ISAs (for audit work), our internal risk management and compliance policies and procedures (including adherence to independence standards) and to provide reasonable assurance that our system of quality control is relevant, adequate, operating effectively and complied with in practice. This programme is designed by KPMG International and participation in it is a condition of ongoing membership of the KPMG network (see section 7 for further details).

1. **Quality Performance Reviews (QPRs)** are annual reviews of individual engagements conducted by teams led by senior professionals with relevant industry and technical knowledge from locations other than the office under review, including experienced partners within the global network of member firms outside of KPMG Europe LLP. Each engagement leader is selected for review at least once every three years. Engagements subject to QPR are graded as satisfactory, needing improvement or unsatisfactory. All engagement leaders receiving a 'needing improvement' rating are subject to a review in the following year and all engagement leaders receiving an unsatisfactory rating will be subject to a review of another of their engagements in the current year. The rankings from the annual QPR exercise are included in the annual quality & risk metrics issued for all engagement leaders (as described in Section 3.4). In 2010 our QPR program covered the following engagements:

	Number of engagements reviewed	Number of engagement leaders covered in reviews
Audit	33	33
Tax	46	33
Advisory	16	12

   Nearly all of the engagements reviewed in this program were concluded to have been performed to a satisfactory standard. Like most companies with quality review programmes we identify areas for continuous improvement from our quality review programmes. We disseminate our findings in the QPR programme to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasized in subsequent inspection programmes to gauge the extent of continuous improvemen.

2. **Risk Compliance Programme** is an annual program which is a formal self review by our firm of the design, implementation and effectiveness of our core risk management and independence processes and procedures. It comprises a self assessment of these three elements as well as detailed testing and the creation of a formal action plan. At the end of the assessment an overall green, amber or red rating is awarded.
3. **Global Compliance Review Programmes** are undertaken at all KPMG member firms once every three years. This is an in-depth review by a team of totally independent professionals on certain risk management, independence and finance processes (including an assessment of the robustness of the firm's Risk Compliance Program).

The results of all of these reviews are presented to the CIS Executive and ultimately to the KPMG Europe LLP Board's Quality & Risk Committee. For all three reviews, detailed actions plans are required to be put in place to address all significant issues arising.

External monitoring

Our firm is subject to review by the audit regulators of the various jurisdictions in the CIS in which KPMG has an office and provides statutory audit services.

The regulatory bodies and the year of their last review is below

Country	Regulatory Body	Year of last review
Armenia	Ministry of Finance	2008
Georgia	n/a	n/a
Kazakhstan	Chamber of Auditors	2009
Kyrgyzstan	n/a	n/a
Russia	Audit Chamber	2010
Ukraine	Audit Chamber of Ukraine	n/a

As with our internal monitoring programmes our regulator identifies areas where they recommend further improvement to our controls. However, no issues have been raised by our regulator that we believe has a material impact on our statutory audit business.

Section 3
Our system of quality control continued

Client feedback
In addition to internal and external monitoring of quality, we operate a formal programme where we actively solicit feedback from clients on the quality of specific services that our firms have provided to them. The feedback that we receive from this programme is formally considered by our firms 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 designated engagement leader to ensure that any concerns on quality are dealt with on a timely basis.

Monitoring of complaints
We have robust procedures in place for handling complaints received from clients relating to the quality of our work. These procedures are generally either detailed on our operating firms' websites or are included in their general terms of business.

Section 4
Independence practices and procedures

4.1 Overview

To ensure independence, our partners and the people assigned to each engagement must be free from prohibited financial interests in and prohibited relationships with our audit clients, their management, directors, and significant owners, as must the contracting firm and the network of firms.

We have adopted the KPMG Global Independence Policies which are derived from the IFAC 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 any standards issued by the relevant national regulators. These policies and processes cover areas such as firm independence (covering for example treasury and procurement functions), personal independence, post-employment relationships, partner rotation, and approval of audit and non-audit services.

Our firm has a designated Ethics and Independence partner supported by a core team of specialists to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are communicated through the issue of a KPMG Europe LLP Ethics and Independence manual and an annual training programme. If applicable, amendments to the ethics and independence policies in the course of the year are communicated through the use of e-mail practice alerts and incorporated in regular risk and quality communications. An online version of the manual is also maintained on an up to date basis.

In the event of failure to comply with the firm's 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, are reflected in individual quality and risk metrics (described earlier) which are compiled annually for each engagement leader.

4.2 Personal independence

Professionals are responsible for making appropriate enquiries to ensure that they do not have any personal financial interests which are prohibited. In common with other member firms of KPMG International we use a web-based independence tracking system to assist professionals in their compliance with our investment policies. This system contains an inventory of publicly listed entities and the securities they have issued. All partners and all managers providing professional services are required to use this system prior to entering into a financial transaction to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies professionals if their investments subsequently become restricted. Our firm undertakes audits of a sample of their partners and managers to monitor compliance with this and other requirements. In 2010 47 partners and managers were subject to these audits.

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

In addition, any professional providing services to an audit client is required to notify their operating firm's Ethics and Independence partner if they intend to enter into employment negotiations with an audit client.

4.3 Training and confirmations

All partners and client service professionals are required to take periodic independence training.

A confirmation affirming their independence is signed by all partners and client service professionals upon commencement of employment at the firm and every year thereafter. In addition, the confirmation is used to evidence the individual's compliance with and understanding of the firm's independence policies.

4.4 Audit partner rotation

All audit partners are subject to rotation requirements that limit the number of years that they may provide audit services to a listed company or other public interest entity. Our system of monitoring audit partners' length of service also aids in the development of timely transition plans that help our firms in delivering consistent quality service to their clients. The rotation monitoring system is subject to compliance testing in the Quality Performance and Compliance Programme.

Section 4
Independence practices and procedures continued

4.5 Non-audit services

We have policies and procedures to restrict the scope of services that can be provided to audit clients. These require the consideration by the audit engagement partner of whether the proposed services are permitted under the relevant regulatory regime and, if applicable, 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, enabling audit engagement partners to review and approve, or deny, any proposed service for certain audit clients and their affiliates by any KPMG International member firm based on independence or client requirements, thus preventing the provision of non-permitted services to audit clients and ensuring that permitted services are properly pre-approved by the clients' audit committee where required.

In accordance with KPMG International's rules, no audit partner is evaluated or compensated for his or her success in selling non-audit services to his or her audit client.

4.6 Managing potential conflicts of interest

Conflicts of interest may preclude our firm from accepting a client or an engagement. Sentinel is also used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. Any potential conflict issues identified are resolved through consultation, and the resolution of all matters is documented. Any potential conflict matters that raise important points of principle for our group are referred to our Head of Quality & Risk for resolution; in cases of difficulty a panel of partners may be convened to resolve the matter.

4.7 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, KPMG International's policies require that in the event that the audit client were a public interest entity and the total fees from the audit client and its related entities represented more than 10% of the total fees received by a firm for two consecutive years:

- this would be disclosed to those charged with governance at the audit client; and
- a senior partner from another operating firm would be appointed as the engagement quality control reviewer.

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

4.8 Business relationships/ suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with applicable independence requirements. Detailed guidance is maintained covering, inter alia, business alliances and joint working arrangements, procurement relationships, and marketing and public affairs activities. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an audit client or its management which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

Section 5
Partner remuneration

CIS partners are employed by corporate entities and part of their remuneration comprises a base salary 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.

Partners currently make their own provision for retirement and are personally responsible for funding most benefits

Each partner's remuneration is currently paid almost exclusively from the CIS profits. Whilst there is the capacity to pay profit shares from KPMG Europe LLP it is not intended that this entity should generate significant profits. As a consequence, only KPMG Europe LLP Board members were allocated small profit shares from KPMG Europe LLP for the year to 30 September 2010; these profit shares were taken into account when determining the overall remuneration paid to them.

The final allocation of all variable elements of partners' remuneration and hence overall remuneration is determined by the Executive Committee, in conjunction with local country operating teams, after assessing each partner's contribution for the year in line with the process followed for all KPMG personnel. KPMG Europe LLP's policies for the variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partners are explicitly not rewarded for non-audit services sold to their audit clients.

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

Section 6
Financial information

6.1 Importance of statutory audit work to our overall results

The EU 8th Directive requires disclosure of financial information that shows the importance of statutory audit work to the overall audit firms' results. A summary of revenues for 2010 and 2009 by category of service is shown below.

	Year ended 30th September 2010 Millions Roubles	Year ended 30th September 2009 Millions Roubles
Audit – statutory audit services	1,953	1,364
Audit – non statutory audits and other services	4,039	4,318
Total Audit	5,992	5,682
Tax and Advisory	3,065	3,143
Total revenues	**9,057**	**8,825**

Section 7
Network arrangements

7.1 Legal structure

The independent member firms of the KPMG network (including KPMG Europe LLP's operating firms) are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. The KPMG network consists of approximately 140,000 professionals working in 146 countries. For the year ended 30th September 2009 the member firms comprising the network generated aggregate revenues of US$20.11bn.

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.

This 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 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.

7.2 Responsibilities and obligations of member firms

KPMG is the registered trademark of KPMG International and is the name by which 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. Under agreements with KPMG International, member firms 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 our global code of conduct, partners and professionals working within member firms are required to act with integrity at all times. Compliance with the key quality standards (including key aspects of methodologies, tools and management of risk) are specifically assessed as part of the International Review Programmes described on page 19. The results of these programmes are reported to various governance and management boards within KPMG International which can, at its discretion, take a number of actions against the firm concerned – including ultimately removal from the KPMG network – for any firm who 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.

7.3 Professional Indemnity Insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. Policies are written with local insurers in each CIS country. The cover provides territorial coverage on a worldwide basis and is ultimately reinsured through a captive that is available to all KPMG member firms.

Section 7
Network arrangements continued

7.4 Governance structure

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

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 54 member firms (including certain KPMG Europe LLP firms) which are 'members' of KPMG International as a matter of Swiss law.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the 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 members of the Global Executive Team.

The 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 and Risk Committee; a Professional Indemnity Insurance Committee; and a Board Process and Evaluation Committee.

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, global function heads, regional leaders and a number of senior partners of member firms.

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. Members of KPMG CIS who were members of the Global Board and Global Executive Team as at 30 September 2010 are shown in Appendix 2.

Further details about KPMG International, including the governance arrangements, can be found in its latest Transparency Report.

Section 8
Statement by CIS Executive on effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality management for KPMG CIS outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm complies with the relevant laws and regulations.

The CIS Executive has considered:

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

Taking all of this evidence together, the CIS Executive confirms with a reasonable level of assurance that the systems of quality control within our firm has operated effectively in the year to 30 September 2010.

Further, the CIS Executive confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2010.

Appendix 1
Key legal entities

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Armenia cjsc (Armenia)*	Armenian Limited Liability Company	Audit Regulated	Audit, Tax & Advisory Services	Armenia
KPMG CIS Limited (Georgia)	Guernsey Limited Liability Company	None	Audit & Advisory Services	Georgia
KPMG Tax & Advisory LLC (Kazakhstan)	Kazakh Limited Liability Company	Valuation Regulated	Tax & Advisory Services	Kazakhstan
KPMG Audit LLC (Kazakhstan)	Kazakh Limited Liability Company	Audit Regulated	Audit Services	Kazakhstan
KPMG Bishkek OOO (Kyrgyzstan)	Kyrgyz Limited Liability Company	Audit Regulated	Audit Services	Kyrgyzstan
KPMG Limited RO (Russia)	Guernsey Limited Liability Company	None	Advisory & Tax Services	Russia
ZAO KPMG*	Russian Closed Joint Stock Company	Audit & Valuation Regulated	Audit, Audit Related, Valuation, Tax and Advisory Services	Russia
KPMG Ukraine Limited	Ukrainian Limited Liability Company	Ukrainian Valuation Regulated	Tax, Advisory & Valuation Services	Ukraine
KPMG Audit (Ukraine)*	Ukrainian Private Joint Stock Company	Audit Regulated	Audit Services	Ukraine

* Not wholly owned

Appendix 2
Details of those charged with governance at KPMG CIS

Andrew Cranston
Senior Partner
Senior Partner of KPMG CIS. Andrew is also a member of the ELLP Board, the ELLP Remuneration Committee and the Board of KPMG International. He has been a partner with KPMG for 13 years and Senior Partner in KPMG CIS for 2 years.

Oleg Goshchansky
Head of Audit
CIS Head of Audit. Oleg is a member of the CIS Executive. He has been a partner with KPMG for 8 years and Head of Audit in the CIS for 2 years.

Tony Thompson
Head of Advisory
CIS Head of Advisory services. Tony is a member of the CIS Executive and Deputy Senior Partner. He has been a partner with KPMG for 20 years and CIS Head of Advisory services for 6 years.

Graham Povey
Head of Tax
CIS Head of Tax. Graham is a member of the CIS Executive. He joined KPMG as a partner in November 2009 as the Head of tax in Russia and CIS.

Juha Purovesi
Head of Finance
CIS Head of Finance and Infrastructure. Juha is a member of the CIS Executive. He has been a partner with KPMG and CIS Head of Finance and Infrastructure for 8 years.

Margot Clarenbeek
Head of People
CIS Head of People. Margot is a member of the CIS Executive. She has been a partner within KPMG for 7 years and CIS Head of People for 4 years.

Marc Van der Plas
Head of Markets
CIS Head of Markets. Marc is a member of the CIS Executive. He has been a partner within KPMG for 8 years and the CIS Head of Markets for 2 years.

Jim McKinven
Head of Quality and Risk
CIS Head of Quality and Risk Management. Jim is a member of the CIS Executive. He has been a partner within KPMG for 13 years and the CIS Head of Quality and Risk Management for 5 years.

Floris Schuring
Senior Partner Ukraine
Senior Partner in Ukraine. Floris is a member of the CIS Executive. He has been a partner within KPMG for 10 years and the Senior Partner in Ukraine for 1 year.

Alun Bowen
Senior Partner Kazakhstan
Senior Partner in Kazakhstan and Central Asia. Alun is a member of the CIS Executive. He has been a partner within KPMG for 22 years and the Senior Partner in Kazakhstan and Central Asia for 3 years.

Appendix 2

Details of KPMG Europe LLP Board members and others charged with governance for the group continued

Number of meetings attended during the year ended 30 September 2010

Member	CIS Executive		ELLP Board		ELLP Remuneration Committee		KPMG International Board	
	No. meetings available	No. attended	No. meetings available	No. attended	No. meetings available	No. attended	No. meetings available	No. attended
Andrew Cranston	11	11	9	9	3	1	4	4
Oleg Goshchansky	11	10						
Tony Thompson	11	9						
Graham Povey	11	10						
Juha Purovesi	11	10						
Margot Clarenbeek	11	10						
Marc Van der Plas	11	10						
Jim McKinven	11	10						
Floris Schuring	11	10						
Alun Bowen	11	10						

Appendix 3
Listed Entities audited by KPMG CIS

The entities listed on a recognised stock exchange for which KPMG in the CIS has signed an audit opinion in the year ended 30 September 2010 is given below. Entities which could be regarded as public interest entities but are not listed on a recognised stock exchange are not included.

Aeroflot - Russian Airlines OAO
Agency for Housing Mortgage Lending, The (aka: Agentstvo po Ipotechnomu Zhylishnomu Kreditovaniyu)
Airport Tolmachevo OAO
AKRIKHIN Pharmaceuticals OAO
Alliance Bank JSC
Almetyevsk Pipe Plant OAO (aka: APP, ATZ)
Alpha Cement OAO
Armenian Development Bank OJSC
Artemovsk Non-Ferrous Metal Processing Plant OJSC
ATF Bank JSC
Atomic Energy Power Corporation OAO (aka: Atomenergoprom)
AVANGARD Bank OAO
Avtokran OAO
Avtokraz
Ayil Bank OJSC
Baltika Brewery
Baltinvestbank
Bank Finance and Credit Ltd
BANK OF KHANTY-MANSIYSK OAO (aka: Khanty-Mansiyskiy Bank)
Bank Saint-Peterburg (OAO)
Bank URALSIB OAO (URAL-SIBERIAN BANK)
Bashneftegeofizika OAO (aka: BNGF OAO)
Belon OAO
Belon-Finans OOO
CB Stroycredit OAO
Central Telecommunication Company OAO (aka: CenterTelecom)
Chimpharm JSC
Chusovoy Metallurgical Works OAO (aka: Chusovskoy Metallurgichesky Zavod, CHMZ, ChMW)
Clearing House
Commercial Bank Delta
Commercial Port of Vladivostok (aka: VMTP; Port of Vladivostok)
Concern Kalina OAO
Concern Tractor Plants NV
Concern Tsesna Astyk
Corporation Tsesna JSC
CREDIT EVROPA BANK ZAO (aka: CREDIT EUROPE BANK) (fka: Finansbank)
Crimean Soda Plant OJSC (aka: Krymskyi Sodvyi Zavod)
Dalmostostroy OAO
Dalsvyaz OAO (aka: Far East Telecommunications Company)
Delta Bank JSC
Development Bank of Kazakhstan
Dnepropetrovsk Tube Works OJSC
Donbasenergo
DP Kviza Trade
Enel OGK-5 OAO (fka: Fifth Power Generation Company)
Eurasia Drilling Company Limited
Eurasian Bank JSC
Eurokommerz Holding Limited
FAR-EASTERN SHIPPING COMPANY OAO (aka: FESCO)
Furshet CJSC
GAZ OAO
Gazprombank OAO
Globalstroy-Engineering OAO (aka: GSE OAO)
GPB-Mortgage OAO
Group of Companies PIK OAO (aka: PIK Group)
Group Razgulay OAO (fka: Razguliay Group)
Holding MRSK
Home Credit and Finance Bank OOO (aka: HCF Bank; HKF Bank)
HSBC Bank Armenia CJSC
Inecobank CJSC
Inprom OAO
International Industrial Bank ZAO
InvestmentTradeBank (aka: InvesttorgBank)
Irkut Corporation OAO (fka: Irkutskskoe Aviatsionnoe Proizvodstvennoe Obedinenie)
Irkutskenergo OAO
JSC for Social Development Ukrsotsbank (aka: Ukrsotsbank)
JSC Priargunsky Industrial Mining and Chemical Union (PIMCU)
JSC The Ural Bank for Reconstruction and Development
Kazakhstan Mortgage Company JSC
Kazexportastyk Holding JSC
Kazneftekhim JSC
Kedr Commercial Bank ZAO (aka: Bank Kedr)
KIT Finance Investment bank OAO (aka: CIT Finance Investment bank) (fka: Palmira, Web-invest Bank)
Kuzbass Fuel Company OAO
Kuzbassrazrezugol Coal Company OAO
Kyivenergo JSC
LSR Group OAO
LUKOIL OAO
LUKOIL-Odessa Refinery OJSC (Odessa Oil Refinery)
Master-Bank OAO
MDM Bank OAO
Mining and Metallurgical Company NORILSK NICKEL OAO (aka: MMC NORILSK NICKEL)
MOESK (Moscow Integrated Electricity Distribution Co)
MOSCOW CREDIT BANK OAO (aka: MKB; CREDIT BANK OF MOSCOW; CBOM)
Moscow Integrated Power Company OAO (aka: MOEK)
MOSTOTREST OAO
MRSK Centre (Inter-Regional Distribution Network Co Center OAO)
MRSK Centre and Privolzhya (Inter-Regional Distribution Network Co Center and Privolhya OJSC)
MRSK Severo-Zapada OJSC
MRSK Sibiri (Inter-Regional Distribution Network Co Siberia OJSC)
MRSK Urala (Inter-Regional Distribution Network Co Urala OAO)
MRSK Volgi (Inter-Regional Distribution Network Co Volga OAO)
National Company Kazmunaigas JSC (KazMunayGaz)
Novoship OAO
OGK-2 OAO (aka: Second Wholesale Electricity Generating Company)
OGK-6
OMZ OAO

Appendix 3
Listed Entities audited by KPMG CIS continued

Pervobank OJSC (Pervyi Obiedineonnyi Bank)
Power Machines OAO (aka: Siloviye Mashiny)
Primorskugol OAO
Probusinessbank OAO
RAO Energy Systems of East OAO
Renaissance Pre IPO Fund
RISE OJSC
Ritek
Rodovid Bank OJSC
Rostelecom OAO
RTS Stock Exchange
Rusgrain Holding OAO
Russ-Invest Investment Company OAO (IC Russ-Invest)
Selyansky Commerciyny Bank Dnister
Setl Group OOO
SEVERSTAL OAO
Sevzapelectrosetstroy OAO
Shubarkol Komir JSC
Silvinit OAO
SKB Bank OAO
Slavuta Malting Plant OJSC (aka: Slavutsky Solodovy Zavod)
Slavutich Brewery
SobinBank
South Telecommunications Company OAO (aka: UTK; Southern Telecommunications Company)
Spetssetstroy OAO
SUEK-Krasnoyarsk OAO
SUEK-Kuzbass OAO
Sukhoi Civil Aircraft (GSS SCA)
Sun Interbrew Ukraine OJSC
Sun-Interbrew Ltd (registered but not listed in the Channel Islands)
Synterra OAO
Tatfondbank AIKB OAO (aka: Tatfondbank)
TGC-5 OAO (AKA: TGK-5, Territorial Generation Company No 5)
TGC-6 OAO (Territorial Generating Company No 6 OJSC)
TGK-11 OAO (aka: Territorialnaya generiruyushchaya kompaniya 11; TGC-11)
TGK-9
Tomskneft VNK OAO
Tristan Oil Ltd
Tsesnabank JSC
Ufa Engine Industrial Association (UMPO)
Ukragro NPK CJSC
Ukrtelecom
UniCredit Bank CJSC (fka: International Moscow Bank)
UniCredit Bank OJSC (fka: Energobank JSC; ATF Bank Kyrgyzstan OJSC)
UNIMILK Kompaniya OAO (aka: UNIMILK Company)
United Aircraft Corporation OAO (aka: UAC)
United Company RUSAL Plc (aka: UC RUSAL) (fka: United Company Rusal Limited)
Uralelectromed OAO
URALSIB Leasing Company
URALSIB-YUG BANK
Uralsvyazinform OAO
Urgalugol OAO
UTair Aviation OAO
VolgaTelecom OAO
Volzhskaya TGC OAO (TGK-7, Volga Territorial Generating Co)
VSMPO-AVISMA Corporation OAO
Vyksa Steel Works OAO (aka: VSW, Vyksunsky Metallurgical Zavod, VMZ)
Yenisei Territorial Generating Company (TGC-13) OAO (aka: Eniseiskaya TGK-13)
Zaporizhya Stal
Zaporozhogneupor JSC

Appendix 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 our communities 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.

Our values are at the heart of the global Code of Conduct which defines the standards of ethical conduct that are required of people in KPMG member firms worldwide.