

Skateistan gGmbH, Berlin

Report on the audit of the
annual financial statements as of 31 December 2016

Translation of the German language report

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LIST OF ABBREVIATIONS

AG	Aktiengesellschaft (i.e.: stock corporation)
AO	Abgabenordnung (i.e.: German Fiscal Code)
EStDV	Einkommensteuer-Durchführungsverordnung (i.e.: German Income Tax Ordinance)
GmbH	Gesellschaft mit beschränkter Haftung (i.e.: German limited liability company)
HGB	Handelsgesetzbuch (i.e.: German Commercial Code)
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf [Institute of Public Auditors in Germany]
Skateistan	Skateistan gGmbH, Berlin

A. AUDIT ENGAGEMENT

By engagement letter dated 3 February 2017, the Management Board of

Skateistan gGmbH,

Berlin

(hereinafter also referred to as the “Company” or “Skateistan”),

engaged us to audit the Company’s Annual Financial Statements for fiscal year 2016. In performing this engagement, we audited

the Annual Financial Statements as of 31 December 2016 (Exhibits 1 to 3) and

the accounting records

in accordance with Sec. 317 et seq. HGB (German Commercial Code) and the generally accepted auditing standards.

This Audit Report is addressed to Skateistan gGmbH, Berlin.

The accounting, the accounting-related internal control system, and the preparation of the Annual Financial Statements are the responsibility of the Company’s Management Board. It is our responsibility to assess this documentation and data in the course of our audit performed in accordance with professional standards.

In the following, we report on the nature and scope of the audit as well as its results. For the audit opinion delivered by us, reference is made to Section D “REPRODUCTION OF THE AUDIT OPINION”.

We confirm in accordance with Sec. 321 (4a) HGB that our audit was performed in compliance with the applicable provisions on professional independence.

This Audit Report was prepared by us in accordance with the Generally Accepted Standards for the Issuance of Audit Reports for Financial Statements as recommended by the Institut der Wirtschaftsprüfer (IDW) (i.e. Institute of Public Auditors in Germany).

The General Terms of Engagement of “Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften” (i.e. German Auditors and Auditing Firms) dated 1 January 2017 (Exhibit 4) are applicable to this engagement and also govern our relations with third parties in the context of this engagement. Where persons other than the Client wish to rely on the findings made in this Report, since they have taken not of this Report in whole or in part with or without our consent, they shall accept the provisions of the General Terms of Engagement attached to this Report also with respect to all claims against us that may arise for them from the knowledge of such findings.

B. SUBJECT, NATURE AND SCOPE OF THE EXAMINATION

The subject of our audit was the accounting records and the Annual Financial Statements of the Company

We conducted our audit of the Annual Financial Statements in accordance with sections 317 et seq. HGB with due regard to the generally accepted standards for the audit of financial statements promulgated by the IDW.

The starting point was the previous year's financial statements as of 31 December 2015 audited by us.

Based on a risk-oriented audit approach, we firstly developed an audit strategy. According to the inherent risks assessed by us and the control environment, we created a risk profile for the annual financial statements. Moreover, we examined and assessed the system of internal controls as deemed necessary and in particular insofar as the system is designed to ensure a proper accounting, but without carrying out a detailed system analysis. In auditing the accounting-related internal control system, we analyzed the business processes to ascertain the extent to which the principal risks of ensuring a proper accounting were reduced by the design of the operational procedures and the control and monitoring measures. Taking into account the risk profile and the results of the audit of the accounting-related internal control system, we reviewed particular cases, as deemed necessary, with respect to the inventory evidences, the disclosure and the valuation in the Annual Financial Statements.

Our audit procedures primarily included checks on a test basis.

The critical audit areas identified in our audit strategy resulted in the following key areas of the audit:

- Valuation of the deposits at credit institutions;
- Valuation and disclosure of the other provisions;
- Valuation and disclosure of the other liabilities;
- Development and use of the donated funds.

The audit of the Annual Financial Statements was completed on 22 March 2017.

The Management Board provided to us all explanations and supporting documentation requested.

According to the letter of representation delivered by the Management Board, the assets and liabilities are completely included in the balance sheet. According to the letter of representation, there were no contingent liabilities requiring disclosure and no other financial obligations as at the balance sheet date.

C. FINDINGS AND EXPLANATIONS ON THE ACCOUNTING

I. Compliance of Accounting

1. Accounting Records and Further Documents Inspected

The accounting operations of the Company are performed by means of IT and the software package from Xero Limited. Accounts receivable and accounts payable are recorded in sub-ledgers; the balances are automatically transferred to the general ledger. The asset accounting is also performed using the software from Xero Limited. The transfer of the data to the financial accounting is handled manually.

The security of the data processed for accounting purposes is ensured.

The books of the Company are properly kept. The records are complete. According to our findings, the accounting and the further documents inspected comply with the statutory provisions including the principles of proper accounting.

2. Annual Financial Statements

The Company meets the size criteria of a small corporation. The Annual Financial Statements were prepared in compliance with the principles of proper accounting as required by sections 242 to 256a and 264 to 288 HGB. They comply with the statutory provisions and the supplementary regulations of the Company's articles of association.

Based on the previous year's balance sheet, these present Annual Financial Statements have been properly developed from the figures of the accounting and the further documents inspected. There is sufficient evidence for the asset and liability items.

The accounting and valuation standards applied comply with the provisions of the German Commercial Law. The principles of consistency as required by sections 246 (3) s. 1, 252 (1) no. 6 and 265 (1) s. 1 HGB have been applied. Details on the valuation presented in the Notes and in Section C.II. "Overall Picture Conveyed by the Annual Financial Statements".

The details provided in the Notes are complete and accurate.

3. Summary

The accounting, the further documents inspected and the Annual Financial Statements comply with the statutory provisions and the supplementary regulations of the Company's articles of association.

II. Overall Picture Conveyed by the Annual Financial Statements

1. Significant Valuation Principles and Accounting Policies

For the accounting and valuation principles applied by the Company reference is made to the details provided by the Company in the Notes.

We have not identified any arrangements that, despite compliance with the accounting standards under commercial law, in particular with the principle of substance over form, do not reflect the economic content of the underlying transaction.

2. Summarized Assessment

Based on our audit, which was performed in accordance with professional standards, we are of the opinion that the Annual Financial Statements as a whole give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

III. Analysis of the Presentation of the Net Assets, Financial Position and Results of Operations

1. Analysis of the Presentation of the Results of Operations

The income statement of two last fiscal years, which have been condensed according to operational criteria, show the following earning situation:

	2016		2015		+/-	
	kEUR	%	kEUR	%	kEUR	%
Donations	430		162		268	>100
<u>Gross performance</u>	<u>430</u>	<u>100</u>	<u>162</u>	<u>100</u>	<u>268</u>	<u>>100</u>
Direct project costs	-453	-105	-247	-152	123	50
Personnel costs	-241	-56	-129	-80	-112	-87
Depreciation	-1	0	-1	-1	0	0
Other operating costs	-85	-20	-63	-39	-22	-35
<u>Operating expenses</u>	<u>-780</u>	<u>-181</u>	<u>-440</u>	<u>-272</u>	<u>-340</u>	<u>-77</u>
Other operating income	350	81	278	172	72	-26
<u>Overall result for the year</u>	<u>0</u>		<u>0</u>		<u>0</u>	

The Company is a non-profit corporation generating its revenue through donations. The amount of donations increased in the year under review by kEUR 268 to kEUR 430. The increase over the previous year mainly results from gaining new subsidies and donations. The development of the donation proceeds in the year under review is as follows:

	2016 kEUR	2015 kEUR
Received donations in the fiscal year	363	139
+ Consumption of accrued donations from the prior year	228	79
- Not used donations of the fiscal year	-161	-56
Donations	<u>430</u>	<u>162</u>

The direct project costs include project costs of Skateistan gGmbH. For the Afghanistan project, kEUR 240 were applied in the year under review to promote the education of young Afghans. The amount of kEUR 108 applied for the South Africa project facilitated the completion of the “School” construction project in South Africa which began in 2015. The Cambodia project was funded with kEUR 105 in the year under review. The objective is to secure a location for the construction of a school in Sihanoukville in order to expand the local programs in the long term.

The personnel expenses include the salaries for the 5 permanent employees and 3 Part Time employees. The increase mainly results from the hiring of new employees for finance, development and communication.

The other operating expenses mainly include advertising costs (kEUR 24), travel costs (kEUR 18), rent (kEUR 14), costs for the preparation and audit of the annual financial statements (kEUR 10), telephone costs (kEUR 5), office supplies (kEUR 3), as well as expenses from currency translation (kEUR 3).

The other operating income includes income from on-charged costs (kEUR 350), whereof the amount of kEUR 269 was on-charged to Skateistan Afghanistan, the amount of kEUR 64 was on-charged to Skateistan South Africa, and the amount of kEUR 17 was on-charged to Skateistan Cambodia.

2. Analysis of the Presentation of the Net Assets and Financial Position

In the following overview, the balance sheet has been arranged according to operational criteria.

Asset and capital structure

<u>Assets</u>	31.12.2016		31.12.2015		+/-
	kEUR	%	kEUR	%	kEUR
Tangible assets	2	1	3	1	-1
Financial assets	4	1	7	2	-3
<u>Long-term assets</u>	<u>6</u>	<u>2</u>	<u>10</u>	<u>3</u>	<u>-4</u>
Other assets	30	7	1	0	29
Liquid assets	371	90	270	97	-641
Prepaid expenses	1	0	0	0	1
<u>Short-term assets</u>	<u>402</u>	<u>97</u>	<u>271</u>	<u>97</u>	<u>131</u>
	<u>408</u>	<u>100</u>	<u>281</u>	<u>100</u>	<u>127</u>
<u>Capital</u>	31.12.2016		31.12.2015		+/-
	kEUR	%	kEUR	%	kEUR
Share capital	25	6	25	9	0
Profit carried forward	11	3	11	4	0
Not used donations	15	4	82	29	-67
<u>Equity capital</u>	<u>51</u>	<u>13</u>	<u>118</u>	<u>42</u>	<u>-67</u>
Other accruals	9	2	4	1	5
Short-term liabilities to banks	1	0	3	1	-2
Trade payables	0	0	6	2	-6
Other liabilities	347	85	150	54	197
<u>Short-term liabilities</u>	<u>357</u>	<u>87</u>	<u>163</u>	<u>58</u>	<u>194</u>
	<u>408</u>	<u>100</u>	<u>281</u>	<u>100</u>	<u>127</u>

The tangible assets include the plant and office equipment of the company consisting of four laptops.

The financial assets include deposits paid in connection with leases of indefinite duration (kEUR 3) as well as shares in Skateistan International UG (haftungsbeschränkt) (kEUR 1).

The other assets mainly include receivables from Skateistan South Africa (kEUR 30).

The liquid assets include cash at the Commerzbank AG (kEUR 371).

The other accruals mainly include costs for the preparation and audit of the annual financial statements (kEUR 7) and for outstanding invoices (kEUR 1).

The short-term liabilities to banks include credit card settlements of Commerzbank AG.

The trade payables include outstanding accounts from legal and other advisory services.

The other liabilities include amounts held on behalf of Afghanistan Skateboarding Training Organisation (kEUR 302), to Skateistan Cambodia (kEUR 42) and to liabilities from wage tax (kEUR 3).

Financial position

The changes in cash and cash equivalents and the related movements of funds are shown by means of the following cash flow statement:

	<u>kEUR</u>	<u>2016 kEUR</u>	<u>2015 kEUR</u>
Result for the year before extraordinary items	0		0
+ Depreciation on tangible assets	1		0
+ Increase in accruals	5		1
- Increase in receivables from the Group's investment and investment portfolio	-29		0
-/+ Decrease /increase in trade payables and other liabilities not attributable to the investing or financing activities			
= <u>Cash flow from operating activities</u>	<u>123</u>	<u>100</u>	<u>-100</u>
+ Proceeds from disposals of financial assets	3		0
- Payments for investments in tangible fixed assets / intangible assets	0		-1
= <u>Cash flow from investing activities</u>		<u>3</u>	<u>-1</u>
= <u>Cash flow from financing activities</u>		<u>0</u>	<u>0</u>
<u>Change in cash and cash equivalents</u>		<u>103</u>	<u>-100</u>
+ Cash and cash equivalents at the beginning of the fiscal year		<u>270</u>	<u>366</u>
= <u>Cash and cash equivalents at the end of the fiscal year</u>		<u>373</u>	<u>366</u>
<u>Composition of cash and cash equivalents at the end of the financial year</u>			
+ Liquid assets		371	270
- Bank liabilities due at any time		-2	-4
		<u>369</u>	<u>266</u>

D. REPRODUCTION OF THE AUDIT OPINION

Based on the result of our audit of the Annual Financial Statements of Skateistan gGmbH, Berlin, as of 31 December 2016 attached as Exhibits 1 to 3, we issued the following unqualified audit opinion:

“To Skateistan gGmbH:

We have audited the Annual Financial Statements – consisting of Balance Sheet, Income Statement and Notes – together with the accounting records of Skateistan gGmbH for the fiscal year from 1 January 2016 to 31 December 2016. The accounting operations and the preparation of the annual financial statements in accordance with German commercial law and the supplementary regulations of the Company’s articles of association are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Annual Financial Statements, including the accounting operations, based on our audit.

We have performed our audit as required by Sec. 317 HGB in accordance with the generally accepted German standards for the proper audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the disclosure of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and regulatory environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidences supporting the disclosures in the books and the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the accounting principles applied and of significant estimates made by the legal representatives, as well as the evaluation of the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Annual Financial Statements comply with German legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.”

E. FINAL REMARK

The above report is delivered by us in compliance with the legal provisions and the Generally Accepted Standards for the Issuance of Audit Reports for Financial Statements (IDW PS 450).

For the unqualified audit opinion dated 22 March 2017 and issued by us, reference is made to Section D "REPRODUCTION OF THE AUDIT OPINION".

Audit Tax & Consulting Services GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft



Bernhard von Wersébe
Auditor



Tina Baer
Auditor

Berlin, 31 March 2017

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The publication or disclosure of the Annual Financial Statements in a form differing from this certified version shall require a subsequent statement on our part, if our audit opinion is quoted or reference is made to our audit; in particular, we refer to section 328 HGB in this respect.

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SKATEISTAN GGMBH, BERLIN

BALANCE SHEET AS OF 31 DECEMBER 2016

ASSETS

	<u>31.12.2016</u> EUR	<u>31.12.2015</u> EUR
<u>FIXED ASSETS</u>		
Tangible assets		
Other assets, plant and office equipment	<u>2,036.25</u>	<u>3,023.25</u>
Financial assets		
Shares in affiliated companies	1,000.00	1,000.00
Other loans	<u>2,580.00</u>	<u>5,730.00</u>
	<u>3,580.00</u>	<u>6,730.00</u>
	<u>5,616.25</u>	<u>9,753.25</u>
<u>CURRENT ASSETS</u>		
Receivables and other assets		
Trade receivables	37.00	222.22
Other assets	<u>30,290.84</u>	<u>1,497.72</u>
	<u>30,327.84</u>	<u>1,719.94</u>
Cash assets and cash at banks	<u>371,036.81</u>	<u>269,621.99</u>
	<u>401,364.65</u>	<u>271,341.93</u>
<u>PREPAID EXPENSES</u>	<u>692.21</u>	<u>472.38</u>
	<u>407,673.11</u>	<u>281,567.56</u>

EXHIBIT 1EQUITY AND LIABILITIES

	<u>31.12.2016</u> EUR	<u>31.12.2015</u> EUR
<u>EQUITY CAPITAL</u>		
Subscribed capital	25,000.00	25,000.00
Profit carried forward	<u>10,676.60</u>	<u>10,676.60</u>
	<u>35,676.61</u>	<u>35,638.27</u>
<u>NOT USED DONATIONS</u>		
	<u>14,647.78</u>	<u>82,349.16</u>
<u>ACCRUALS</u>		
Other accruals	<u>8,715.90</u>	<u>4,165.00</u>
<u>LIABILITIES</u>		
Liabilities to banks	1,253.90	3,139.44
Trade payables	480.00	6,016.43
Other liabilities	<u>346,898.92</u>	<u>150,220.74</u>
	<u>348,632.82</u>	<u>159,376.61</u>
	<u>407,673.11</u>	<u>281,567.56</u>

SKATEISTAN GMBH, BERLININCOME STATEMENT FOR THE BUSINESS YEAR 2016

	<u>2016</u> EUR	<u>2015</u> EUR
Donations	430,407.79	161,913.02
Other operating income	349,649.95	278,148.44
Direct project costs		
Costs of purchased services	-453,004.49	-247,424.19
Personnel costs		
Wages and salaries	-134,964.22	-78,809.95
Social security	-106,436.30	-50,287.13
Depreciation	-987.00	-632.00
Other operating costs	-84,665.85	-62,910.67
Other interest and similar income	0.12	2.67
<u>Result from ordinary activities</u>	<u>0.00</u>	<u>0.00</u>
<u>Net income for the year</u>	<u>0.00</u>	<u>0.00</u>

SKATEISTAN GGMBH, BERLIN
NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR FROM
1 JANUARY TO 31 DECEMBER 2016

A. GENERAL STATEMENTS

The Company is based in Berlin and has been registered in the commercial register, division B, under no. HRB 143259, of the Charlottenburg Local Court since 18 July 2012.

The Company meets the size criteria of a small corporation. The Annual Financial Statements were prepared in accordance with sections 242 to 256a and sections 264 to 288 HGB as amended by the German Accounting Law Modernization Act (BilMoG) as well as in accordance with the relevant provisions of the German Limited Liability Companies Act (GmbHG) and of the Company's articles of association.

The nature-of-expense method was applied to the income statement.

B. ACCOUNTING AND VALUATION METHODS

The tangible assets are valued at historical cost reduced by depreciation. Depreciation is applied on a straight-line basis according to the scheduled useful life.

The financial assets are valued at historical cost.

The receivables and other assets are valued at their nominal amount taking into account the lower attributable value.

The liquid assets are carried at their nominal amount.

The prepaid expenses show payments of the year under review, which represent expenses of following periods.

The other accruals are recognized at the amount to be paid as deemed appropriate according to reasonable commercial judgement.

The liabilities are valued at their amount repayable.

The receivables and liabilities in foreign currencies are valued at exchange rate on the day of the transaction. Short-term receivables and liabilities in foreign currencies are valued at the average spot exchange rate on the balance sheet date.

C. STATEMENTS ON THE BALANCE SHEET AND INCOME STATEMENT

Receivables and other assets with a remaining term of more than one year did not exist at the balance sheet date.

All accounts payable are due within one year.

The other liabilities are due within one year.

The composition of the donation proceeds in the year under review is as follows:

	2016 kEUR	2015 kEUR
Received donations in the fiscal year	363	139
+ Consumption of accrued donations from the prior year	228	79
- Not used donations of the fiscal year	-161	-56
Donations	<u>430</u>	<u>162</u>

D. OTHER STATEMENTS

Other financial obligations

The Company has to meet the following financial obligations from lease agreements:

	below 1 year	1-5 years
Lease agreements	14,283.96	22,697.96


Employees

In fiscal year 2016, the Company had an average of 8 employees.

Management and representation

In the year under review, the Company was represented solely by the managing director, Mr. Oliver Percovich, Victoria (Australia), who was released from the restrictions on multiple representations according to section 181 BGB (German Civil Code).

Berlin, 31 March 2017


Oliver Percovich
Managing Director

General Engagement Terms

for

Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms]

as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: The German term "Textform" means in written form, but without requiring a signature] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbelegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.