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Transparency Report 2010

KPMG Switzerland

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KPMG Switzerland has supported the Children's University of Zurich since 2005.

KPMG Switzerland
Transparency Report 2010

Hubert Achermann
CEO
KPMG Switzerland

This is the second year that we have voluntarily produced a Transparency Report for KPMG Switzerland. We continue to do this as we believe that it is vitally important that the external world understands the measures that we take to ensure that 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 for our statutory audit business as investors and the wider capital market need to be able to have confidence in our work. It is for this reason that our strategy continues to be underpinned by a commitment to quality.

During the course of this year, there has been much debate on the role that audit firms played in the financial crisis. In particular this has questioned why financial reporting did not forewarn investors of the impending crisis. Most recently the EU has issued a paper on the role of auditors which has questioned whether or not additional measures, such as tightening auditor independence standards, introducing mandatory audit firm rotation or joint audits are necessary.

We understand why this debate is taking place and are greatly supportive of any measures that help improve the quality and usefulness of financial statements. We continue to believe that the quality of financial statement audits was not the main issue in the financial crisis.

However, we recognise that change is required as the financial reporting of banks clearly did not provide sufficient warnings to investors and other stakeholders of the potential impending balance sheet valuation issues. Whilst we believe that financial statements can never forecast unanticipated macroeconomic dislocations, nonetheless some reform of corporate reporting is required to make financial statements more transparent in these sorts of areas – especially around risks and prospective issues. Once the extent of this reform has been decided, then the issue of what external assurance or audit is required can be addressed.

We hope that you find this report useful in helping to explain how we ensure the quality of our work and would be happy to discuss any questions you may have.

Hubert Achermann

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Appendices

Section 1
Who we are

1.1 Our business

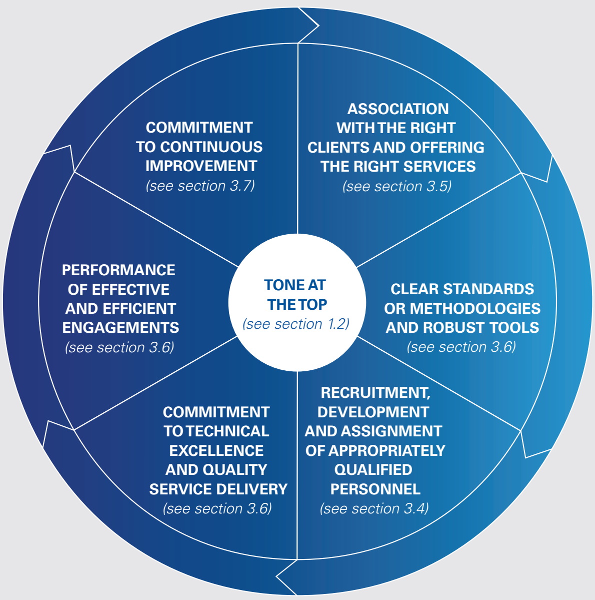
KPMG Holding AG, Zurich, is part of KPMG Europe LLP, a cross-border professional services group that delivers audit, tax and advisory services to help national and international clients negotiate risks and thrive in the varied environments in which they do business. KPMG Holding AG together with its wholly owned subsidiaries is referred to throughout this report as "KPMG Switzerland" or the "Swiss Firm".

KPMG Europe LLP was created in October 2007 through the merger of our German and UK firms. With effect from 1 October 2008, KPMG Switzerland was the third firm to join the merger.

Since that time KPMG firms operating in many other territories have additionally joined. KPMG Europe LLP itself together with those operating firms that had joined as at 30 September 2010 is referred to throughout this report as the "Group".

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 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
- 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 Swiss Firm and the Group by creating a sense of shared identity. Our final, and key, 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 in our working practices at KPMG Switzerland. 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).

Section 1
Who we are continued

Our Code of Conduct defines the standards of ethical conduct that we require from our Firm 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 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 Switzerland or its 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.

The Swiss Firm has established a whistle-blowing hotline to ensure that anyone who has concerns about how others are behaving (either internally at KPMG or externally) 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. Matters reported to the hotline are investigated under the supervision of our external ombudsman, Prof. Dr. Franz Hasenböhler. Our people can raise matters anonymously and without the fear of retaliation.

A bi-annual report is prepared by one of the KPMG Europe LLP ombudsmen for the Quality & Risk Committee and going forward to the Group's new 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 KPMG Europe LLP Board has determined that a commitment to quality is one of the most important priorities in our strategy. We recognise that if we do not get the quality of our service and deliverables right then each and every one of the other objectives in our business plan may be jeopardised. 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 members) to look at how we continually reinforce the importance of quality across our Group. As for KPMG Switzerland, quality as well as compliance with laws and regulations are regularly addressed and discussed during meetings of our Executive Committee and meetings of the Swiss partners.

Information on how the Group and the Swiss Firm are performing can be found in the 2010 Annual Reports of KPMG Europe LLP and KPMG Switzerland.

Our governance structure and leadership responsibilities for quality

Our governance structure is set out in detail in section 2.1 and those within leadership who have a responsibility for quality are described in section 3.2.

Section 2
Our structure and governance

2.1 Structure and governance of KPMG Switzerland

Legal structure and ownership

KPMG Holding AG is affiliated with KPMG International Cooperative ("KPMG International"), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it are set out in section 7.

KPMG Holding AG is a wholly owned subsidiary of KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which itself is a wholly owned subsidiary of KPMG Europe LLP. KPMG Holding AG is domiciled in Zurich/Switzerland and the parent company of the following, directly or indirectly wholly owned subsidiaries:

- KPMG AG, Zurich[1];
- KPMG (Liechtenstein) AG, Vaduz[2];
- KPMG Klynveld Peat Marwick Goerdeler SA, Zurich[3];
- Ostschweizerische Treuhand-Gesellschaft[3], St. Gallen; and;
- Fides Revision AG, Zurich[4]

During the year ended 30 September 2010 there was an average of 140 partners in KPMG Switzerland (133 during the year ended 30 September 2009).

National governance

The main governing body of KPMG Switzerland is the Executive Committee, which also acts as the legal Executive Board of Directors of KPMG AG, our key operating firm. The Executive Committee is responsible for managing the Swiss Firm within the framework of the strategy defined by KPMG Europe LLP. The ultimate responsibility for decisions regarding the quality of our audits and our audit opinions lies with the leadership of Audit Switzerland.

As at 30 September 2010, the Executive Committee comprised the Senior Partner (CEO) and eight additional officers, being the Chief Operating Officer (COO), Chief Financial Officer (CFO), the National Quality & Risk Management Partner (NQRMP) and the Heads of Audit, Audit Financial Services, Tax, Advisory and Markets. The Senior Partner is appointed by the ELLP Board after consultation with the Swiss partnership through the Swiss Partners' Committee. Other members of the Executive Committee are appointed by the Senior Partner. The term of each member of the Executive Team is three years, and all are eligible for reappointment. The Executive Committee employs an Audit Committee consisting of the COO and Head of Audit Financial Services, as well as a Remuneration Committee consisting of the Senior Partner, two members of the Partners' Committee and the Head of Human Resources.

As at 30 September 2010, two members of the Executive Committee (including the Senior Partner) were also non-executive members of the ELLP Board. The Senior Partner was head of the ELLP Board's Remuneration Committee (see section 2.2).

KPMG Switzerland employs a Partners' Committee, which acts as a sounding board to the Executive Committee, monitors the partner nomination process and provides observations and recommendations in respect of the integration of the Swiss Firm within ELLP. Two members of the Partners' Committee are also members of the Swiss Remuneration Committee that reviews the allocation of profit to the Swiss partners.

Full details of those charged with governance for KPMG Switzerland, including their biographies and their term of office are set out in Appendix 1.

Communication with the members

The Senior Partner of KPMG Switzerland communicates regularly with the Swiss partners and staff. During the year ended 30 September 2010, two meetings were held with the Swiss partners.

2.2 Structure and governance of KPMG Europe LLP

Legal structure and ownership

KPMG Europe LLP 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 ended 30 September 2010, KPMG Europe LLP's member firms operated in the UK, Germany, Switzerland, Spain, Belgium, the Netherlands, Luxembourg, the CIS[5], and Turkey. Interests were acquired in the KPMG entities operating in Turkey on 1 October 2009, in Luxembourg on 6 November 2009, the Netherlands on 28 October 2009 and in the CIS on 4 February 2010. KPMG Europe LLP is wholly owned by its members (partners) all of whom work in KPMG firms in specific countries[6]. For regulatory or other reasons KPMG Europe LLP is not the legal owner of all of the 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.

A list of the key entities that are currently part of our Group, together with details of their legal structure, regulatory status, nature of their business and area of operation, is set out in the KPMG Europe LLP Transparency Report 2010.

1 Regulatory status: Swiss Licensed Audit Firm under State Oversight

2 Regulatory status: Liechtenstein Registered Audit Firm.

3 Regulatory status: Swiss Licensed Audit Expert.

4 Dormant entity.

5 Commonwealth of Independent States includes Russia, Ukraine, Armenia, Georgia, Kazakhstan and Kyrgyzstan.

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

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). Further details about the UK Audit Firm Governance Code can be accessed at the following link http://www.frc.org.uk/about/auditfirm.cfm.

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 [1], Markets, Finance & 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 30 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 percent) of the Board hold this qualification.

The Board met nine times in the year ended 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. Full details of those holding positions on each of these bodies, including their biographies and the number of board meetings and sub-committee meetings that they attended in the year and how long they have served are set out 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).

1 From 1 October 2010, the Head of Advisory board position was split into three new positions being: Head of Performance & Technology (P&T), Head of Transactions & Restructuring (T&R) and Head of Risk & Compliance (R&C).

Section 2
Our structure and governance continued

The Executive Committee includes one of the Joint Chairmen and those Board members responsible for Audit, Tax, Advisory[1], Markets, Human Resources and Finance & 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 ended 30 September 2010.

The Quality & Risk Committee
The Quality & Risk Committee (formally 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 quality and compliance 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 and who are appointed to the committee by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Quality & Risk Committee met six times in the year ended 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 and who are appointed to the Committee by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Audit Committee met four times in the year ended 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 Chairmen as appropriate. The Nominations Committee met four times in the year ended 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.

1 In April 2010, the Head of Advisory retired from the Executive. From 1 October 2010, the Heads of P&T, R&C and T&R were appointed to the Executive.

Section 2
Our structure and governance continued

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 leads, country operating team members and the lead partners for the top accounts, for whom it has a responsibility to monitor pay.

The Remuneration Committee consists of 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.

The Public Interest Committee – effective from 1 October 2010
As required by the UK Code on Corporate Governance, with effect from 1 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 new Public Interest Committee consists of three external non-executives who have been 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 Public Interest Committee can be found on the Group's website at the following link www.kpmg.eu/governance.

Communication with the members
The Joint Chairmen and Chief Operating Officer communicate regularly with the senior partners of the Group's 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.

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

Section 3
Our system of quality control

3.1 Overview

KPMG Europe LLP has policies of quality control that apply to all operating firms. These 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 (ISQC 1), 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.

The Swiss Firm has implemented KPMG International's policies and procedures. Our policies and procedures and systems of quality control are also designed to meet the rules and standards issued by the Swiss Federal Audit Oversight Authority (FAOA), the Swiss Financial Market Supervisory Authority (FINMA) and other regulators such as the US Public Company Accounting Oversight Board (US PCAOB), the regulators of the EU/EEC member states and the Japanese Financial Services Agency (JFSA).

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 for all of our services 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 broadly in the same manner 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 key purpose of producing 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 responsibilities for quality

Senior partner

In accordance with the principles in ISQC1, our senior partner, Hubert Achermann, has assumed ultimate responsibility for KPMG Switzerland's system of quality control. Details of some of the measures that the Swiss Executive Board of Directors has taken to ensure that a culture of quality prevails within KPMG Switzerland are set out in section 1.2.

National Head of Quality & Risk

Operational responsibility for the system of quality control and risk management in KPMG Switzerland has been delegated to the National Head of Quality & Risk, Philipp Hallauer.

He is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the Group. He has a seat on the Executive Board of KPMG AG.

Function Heads

The four heads of the client service functions (Audit, Audit Financial Services, Tax and Advisory) 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. The Swiss Firm maintains 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.

Section 3
Our system of quality control continued

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.

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 where necessary only partners and managers with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary. The Swiss Firm requires that all client service professionals maintain accreditation with the Swiss Institute of Certified Accountants and Tax Consultants or their respective professional body and satisfy the Continuing Professional Development requirements of such bodies. Our policies and procedures are designed to ensure that any individuals that require a license to undertake their work are appropriately licensed.

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 additional 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 Risk Management Partner performs an annual review of the portfolio of all 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, etc.) to be assigned to a specific engagement is specifically considered as part of the engagement acceptance/continuance process (see section 3.5 below).

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).

Section 3
Our system of quality control continued

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 membership of 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. It involves 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 National Quality & Risk Management 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 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 consider formally 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 audit 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 leaders are 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 our audit professionals in 2010.

Section 3
Our system of quality control continued

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 key audit judgements 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 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 (for example, 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 the 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 IFRS and ISA.

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 and or the Department of Professional Practice. In all such matters, KPMG Switzerland's Executive Board of Directors in consultation with the Heads of Audit and Audit Financial Services retains the ultimate authority for resolving differences of opinion.

Section 3
Our system of quality control continued

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 the Heads of Audit and Audit Financial Services in consultation with the Audit/Audit Financial Services and/or National Quality & Risk Management 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. In addition to the overall quality control review, an IFRS or US GAAP review is performed either by the engagement quality control reviewer or a separate IFRS or US GAAP reviewing partner on financial statements of listed and other entities of significant public interest prepared in accordance with IFRS or US GAAP.

The review must be completed and all significant questions that they raise must be 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. In addition, a number of the Group's regulators have made comments on the need to further enhance what we do in this area. 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 engagement quality control review);
- Guidance issued to national audit leadership on improving the engagement quality control review 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 engagement quality control review 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.

(i) 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 and/or compliance with Swiss law of the financial statements.

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 client's own reporting deadlines. It is the responsibility of the engagement leader to ensure that even where the client's reporting deadlines are aggressive, the audit team has performed sufficient audit procedures before a formal audit report is issued.

(ii) 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.

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 as well as 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, we operate KPMG's Audit Committee Institute (ACI) to help audit committee members enhance their awareness, commitment and ability to implement effective audit committee processes.

The Institute provides audit committee members with guidance on matters of interest to audit committees as well as the opportunity to network with their peers during an annual programme of technical updates and awareness seminars.

Section 3
Our system of quality control continued

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 statutory 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). The programme has three distinct but related components:

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 Swiss Firm's QPR program covered the following engagements:

	No. of engagements reviewed	No. of engagement leaders covered in reviews
Audit	40	30
Tax	86	32
Advisory	20	18

   The majority of the engagements reviewed in this program were concluded to have been performed to a satisfactory standard. Overall the 2010 results were very similar to those arising in the 2009 QPR programme. 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 emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

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 Programme).

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

External monitoring by audit regulators

Our firm is subject to review by the Swiss Federal Audit Oversight Authority (FAOA), who coordinates its activities with the Swiss Financial Market Supervisory Authority (FINMA). We believe that the existence of external regulation has positively impacted overall audit quality and as such believe that the external regulators play an increasingly important role in this regard. As with our internal monitoring programmes our regulator identifies areas where they recommend further improvement in our controls. The FAOA conducted their most recent inspection between 6 September and 15 October 2010 and their respective draft report is dated 25 November 2010.

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 operating firms have provided to them. The feedback that we receive from this programme is formally considered by our firm and individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the 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 available on our firm's website: www.kpmg.ch/complaints

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 the Independence Directives issued by the Swiss Institute of Certified Accountants and Tax Consultants and any guidance issued by the FAOA. 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 Switzerland 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 a variety of methods such as e-mail practice alerts and/or are 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 and directors, are reflected in individual quality and risk metrics compiled annually.

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 our partners and managers to monitor compliance with this and other requirements. In 2010, 33 partners and managers of KPMG Switzerland were subject to such 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 accordance with KPMG International's rules, 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 firm in delivering consistent quality service to our 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. Accordingly, our 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 the Swiss 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 a range of topics, including business alliances and joint working arrangements, procurement relationships, and marketing and public affairs activities. Consultation with our Ethics and Independence partner 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

5.1 Partner compensation

The Partners of KPMG Switzerland are employed by KPMG AG and part of their remuneration comprises a base salary and associated benefits (including employer contributions to the Swiss Firm's pension fund, see below) as for other employees. In addition, they are entitled to share in bonus and profit pools of their respective function and the Swiss Firm, which are established when the profits of the year (before bonuses) have been determined. In Switzerland and Liechtenstein, partners are members of a pension fund operated for all employees; both employer (the Swiss Firm) and employee (partners and staff) are required to contribute to this scheme.

Each partner's remuneration is paid almost exclusively from the relevant operating subsidiary. Equity partners also hold a share in KPMG Europe LLP. Whilst there is the capacity to allocate profit 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 payments from KPMG Europe LLP for the year ended 30 September 2010; these payments were taken into account when determining the overall remuneration paid to them.

The final allocation of bonuses and hence overall remuneration is determined by the Executive Committee after assessing the Swiss Firm's overall financial performance and each function's and each respective partner's contribution to that performance for the year. There is transparency among partners over the total compensation – in bands – allocated to them. The Swiss Remuneration Committee, consisting of the Senior Partner, two members of the Partners' Committee and the head of Human Resources, reviews the proposed partner bonus and profit allocations and total compensation, making recommendations to the Executive Committee for additional consideration.

At the level of KPMG Europe LLP, the Board's Remuneration Committee performs an additional review of partner compensation, making recommendations on policies for partners' remuneration and approving the process applied by the Executive Committee. The Committee determines the remuneration for the Group's Joint Chairmen, Executive Committee and Head of Quality & Risk. The Committee also reviews the remuneration of a selection of partners across the Group on an individual basis, specifically considering their quality and risk compliance metrics.

KPMG Europe'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 Group. Audit partners are explicitly not rewarded for non-audit services sold to their audit clients.

5.2 Drawings

During the year, partners receive monthly drawings of part of their compensation. The timing of the payment of additional bonuses and profit shares is dependent on the Swiss Firm's working capital requirements.

Section 6
Financial information

KPMG Switzerland achieved the following revenues for the year ended 30 September 2010:

Gross revenues by service line[1]				
	Share of sales in %	Change in %	**2010** in million CHF	**2009** in million CHF
AUDIT	54	–2.5	234	240
TAX (including Legal)	27	6.9	116	108
ADVISORY	19	–6.5	85	91
TOTAL	**100**	**–0.9**	**435**	**439**

Net revenues by service line[2]				
	Share of sales in %	Change in %	**2010** in million CHF	**2009** in million CHF
AUDIT	56	–4.2	206	215
TAX (including Legal)	27	13.6	100	88
ADVISORY	17	–7.6	64	69
TOTAL	**100**	**–0.7**	**370**	**372**

Partners & staff			
	Change in %	**2010** in FTE	**2009** in FTE
Total in FTE, as of 30 September 2010	**–3.6**	**1518**	**1574**

1 Gross revenues include out-of-pocket expenses and services of subcontractors and other KPMG member firms billed by KPMG Switzerland.

2 Net revenues refer to services rendered by KPMG Switzerland.

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 Cooperative ("KPMG International"), a legal entity which is formed under Swiss law. The KPMG network consists of approximately 138,000 professionals working in 150 countries. For the year ended 30 September 2009 the member firms comprising the network generated aggregate revenues of $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 to compete effectively. 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 in section 3.7. The results of these programmes are reported to various governance and management bodies within KPMG International which can, at its discretion, take a number of actions against the firm concerned – including ultimately removal from the KPMG network of 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. The cover provides territorial coverage on a worldwide basis and is principally written 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 such as KPMG Switzerland) 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 & 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 practice 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.

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

Section 8
Statement by the Executive Board of Directors on effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality management for KPMG Holding AG, Zurich, outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by the Swiss Firm comply with the applicable laws and regulations.

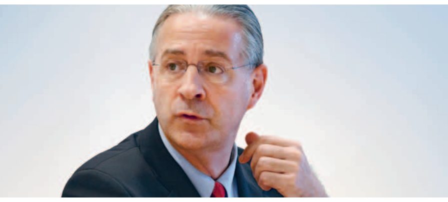
The Executive Board of Directors has considered:

- The design, implementation and effectiveness 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 Review Programmes as described in section 3.7 and our various local compliance monitoring programmes); and
- Findings from regulatory inspections and the associated action plans.

Taking all of this evidence together, the Executive Board of Directors confirms with a reasonable level of assurance that the systems of quality control within the Swiss Firm have operated effectively in the year ended 30 September 2010.

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

Appendix 1
Those responsible for governance at KPMG Switzerland[1]



Hubert Achermann (1951, CH)
Chief Executive Officer,
is an attorney-at-law with a PhD in law, has been the CEO of KPMG Switzerland since 1 October 2004. He has worked for KPMG since 1982 and from 1994 to 2004 he was a member of the Executive Committee with responsibility for Tax and Legal. Hubert Achermann is a non-executive member of KPMG Europe LLP's Board and chairs its Remuneration Committee. He is also a member of the Board of KPMG International, and, in December 2008, became the Lead Director with responsibility for the strategic committee on Board Process and Evaluation of the Board.

Roger Neininger (1960, CH)
Head of Audit,
is a Swiss Certified Accountant and has been with KPMG since 1984. His responsibilities include auditing and advising prominent national and international companies. He has headed the Audit function since June 2009 and is the Deputy CEO and a member of the Executive Board.

Dieter Becker, (1965, D)
Head of Advisory,
has been a Partner at KPMG since 2002 and a Member of KPMG Switzerland's Executive Board since 2010. Apart from this function he is also KPMG's Global Head of Automotive, having acquired extensive experience in the automotive and industrial industry during more than 18 years.

Philipp Hallauer (1964, CH)
Head of National Quality & Risk Management,
is a graduate in business administration (lic. oec.) of the University of St. Gallen and a Swiss Certified Accountant. He has worked for KPMG since 1990. He was the Chairman of the Board of KPMG Switzerland from 1 April 2005 until 30 September 2008, when the firm merged with KPMG Europe LLP. Philipp Hallauer became a member of the Executive Board in 2010. He is also a member of KPMG Europe LLP's Nomination Committee.

Lukas Marty (1967, CH)
Chief Financial Officer,
is a graduate in business administration (lic. oec.) of the University of St. Gallen and a Swiss Certified Accountant. He has been with KPMG since 1993. He is a partner in International Accounting & Reporting and responsible for auditing and advising listed clients. He was appointed CFO in 2008 and became a member of the Executive Board in 2010.

Daniel Senn (1957, CH)
Head of Audit Financial Services,
is a Swiss Certified Accountant and has been a member of KPMG's Executive Board since June 2007. His professional career began in banking. Since joining KPMG in 1997, he has managed engagements for major national and international banks and clients in the funds sector. In addition, he has supervised numerous special projects mandated by the Swiss Financial Market Supervisory Authority (FINMA).

Jörg Walker (1962, CH)
Head of Tax,
is a graduate in law from St. Gallen (lic. iur.) and a certified tax expert. He spent four years teaching at the Institute of Public Finance and Fiscal Law (IFF) at the University of St. Gallen and joined KPMG in 1994. Jörg Walker has been a member of the Executive Board since October 2004.

Stefan Zwicker (1955, CH)
Chief Operating Officer,
is a graduate in law (lic. iur.) and an attorney, has been a member of the Executive Board since 2000. He was Head of Financial Advisory Services until October 2004 when he was appointed COO. Stefan Zwicker is additionally a non-executive member of KPMG Europe LLP's Board.

1 as of 1 October 2010

Appendix 2
Listing of public interest entities

The following is a list of Swiss publicly listed entities and entities that contribute at least 20% of assets or revenues to the consolidated financial statements of Swiss publicly listed entities, which have been subject to a statutory audit by KPMG Switzerland during our financial year ended 30 September 2010:

Absolute Invest AG
Absolute Private Equity AG
agta record ag
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern
Alcon, Inc.
Allreal Generalunternehmung AG
Allreal Holding AG
Allreal Home AG
Allreal Office AG
Alpine Select AG
Axpo AG
Axpo Holding AG
Bank Julius Bär & Co. AG
Barry Callebaut AG
BELIMO Automation AG
BELIMO Holding AG
Berner Oberland-Bahnen AG
Bondpartners S.A.
Burkhalter Holding AG
Burkhalter Technics AG
BVZ Holding AG
Centralschweizerische Kraftwerke AG
Ciba Spezialitätenchemie Finanz AG
Cicor Technologies Ltd.
Conzzeta AG
Credit Suisse AG
Credit Suisse Group AG
Datacolor AG
Datacolor AG Europe
DOTTIKON ES HOLDING AG
DOTTIKON EXCLUSIVE SYNTHESIS AG
EGL AG
EMS-CHEMIE AG
EMS-CHEMIE HOLDING AG
ENAG Energiefinanzierungs AG
Energiedienst Holding AG
Flughafen Zurich AG
GAM (Schweiz) AG
GAM Holding AG
Georg Fischer AG
Georg Fischer Finanz AG
Golay-Buchel Holding S.A.
Gondelbahn Grindelwald-Männlichen AG
Gornergrat Bahn AG
Groupe Baumgartner Holding SA
Helvetia Holding AG
Helvetia Schweizerische Lebensversicherungsgesellschaft AG
Helvetia Schweizerische Versicherungsgesellschaft AG
INTERROLL HOLDING AG
Jelmoli AG
Jelmoli Immobilien AG
Julius Bär Gruppe AG
Jungfraubahn AG
Jungfraubahn Holding AG
Kardex AG
Kernkraftwerk Leibstadt AG
Kühne + Nagel International AG
Kuoni Reisen AG
Kuoni Reisen Holding AG
LO Immeubles S.A.
Lonza AG
Lonza Group AG
Lonza Sales AG
Lonza Swiss Finanz AG
Looser Holding AG
Matterhorn Gotthard Verkehrs AG
Mobimo AG
Mobimo Holding AG
Nestlé SA
Neue Aargauer Bank AG
NEW VALUE AG
New Venturetec AG
Nobel Biocare Holding AG
Norinvest Holding SA
OC Oerlikon Corporation AG, Pfäffikon
Panalpina Welttransport (Holding) AG
Partners Group AG
Partners Group Holding AG
Phoenix Mecano AG
Private Equity Holding AG
Publicitas S.A.
Publigroupe S.A.
Roche Holding AG
Roche Kapitalmarkt AG
SAF Simulation, Analysis and Forecasting AG
Schlatter Holding AG
Schlatter Industries AG
SPS Beteiligungen Alpha AG
SPS Immobilien AG
Sumara AG
Swiss Prime Site AG
Swisscom (Schweiz) AG
Swisscom AG
Swisstronics Contract Manufacturing AG
Tecan Group AG
Tecan Trading AG
Tivona 009 AG
u-blox AG
u-blox Holding AG
Valiant Bank AG
Valiant Holding AG
VAUDOISE ASSURANCES HOLDING SA
VAUDOISE GENERALE, Compagnie d'Assurances SA
VAUDOISE VIE, Compagnie d'Assurances SA
Villars Holding S.A.
Warteck Invest AG
Wengernalpbahn AG
Zehnder Group AG

Appendix 3
Our Values

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

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.