



# Transparency Report 2018



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## Introduction

Public auditors and audit firms that conduct audits of financial statements of a public interest entity are required to publish an annual **transparency report** on their web-site no later than four months following the end of the calendar year according to Article 13 of the regulation (EU) No 537/2014.

Although FALK group did not meet these requirements in 2017 we prepare a corresponding voluntary transparency report, to inform about our company, especially our quality control system, legal form and ownership structure as well as important financial information.

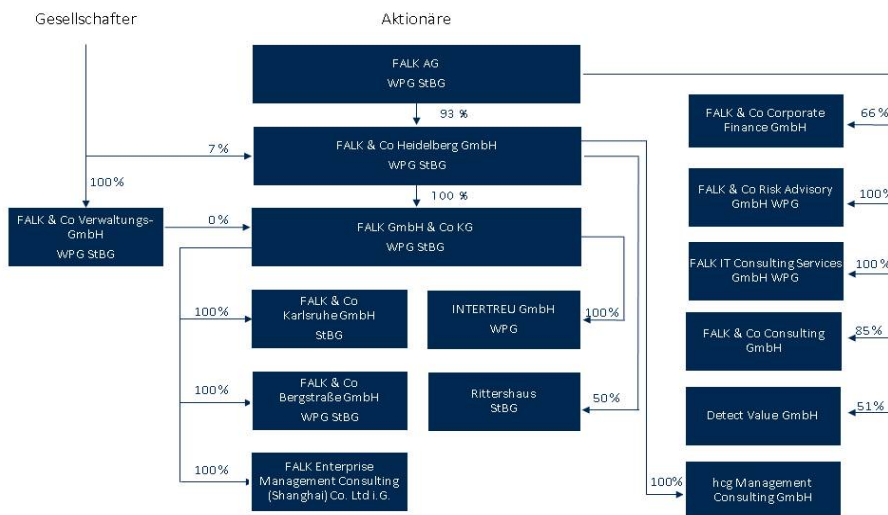
## Legal form and ownership structure

Our company was established more than 80 years ago as an independent auditing and tax advisory practice. After the death of the founder Dr. Falk in 1960, the public auditors working for the company at that time founded FALK & Co GmbH as an audit and tax advisory firm. FALK & Co Heidelberg GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft has its registered office in Heidelberg, Germany. Shareholders of FALK & Co Heidelberg GmbH are FALK & Co Revisions- und Treuhand- Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (hereinafter referred to as „FALK AG“) with an interest of approximately 93 %, as well as 18 individual persons. The stocks of FALK AG are currently held by a total of 32 individual persons (including the share-holders of FALK & Co Heidelberg GmbH), all of whom work for FALK GmbH & Co KG (hereinafter referred to as “FALK”) as public auditors, tax advisors, CPAs and attorneys, respectively. None of the shareholders holds a majority share. There are rather two groups of stockholders with different share rates, but within one group all hold the same amount of shares (shareholders, stockholders).

FALK & Co Heidelberg GmbH is sole limited partner of FALK; FALK & Co Verwaltungs-GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft is sole unlimited partner of that company. The shares of the unlimited partner are held by 19 individual persons with the same share rates.

FALK has its corporate seat in Heidelberg and has branch offices at 8 German locations. More detailed information is provided in the annex. FALK is registered with the commercial register of the local court in Mannheim under No. HR A 702086 and with the professional register of the Chamber of Public Accountants under No. 150992300. The unlimited partner FALK & Co Verwaltungs-GmbH is also located in Heidelberg (see above) and is registered under No. HR B 705586 in the Commercial Register of the local court Mannheim and under No. 151078800 in the professional register.

The overall picture of the FALK Group is as follows:



The following individuals, all of whom are employed by FALK, are direct or indirect shareholders of FALK Group companies (G = shareholders FALK & Co Verwaltungs-GmbH, A = stockholders FALK AG)

- WP StB Wolfgang Adler (G, A)
- WP StB Steffen Ahrens (G, A)
- StB Dr. Ralf Aringsmann (A)
- WP StB RA Dr. Steffen Bangert (G, A)
- WP StB Jutta Becker-Gramlich (A)
- WP StB Thorsten Bischoff (A)
- StB Michael Brenner (A)
- WP StB Jürgen Brinkmann (A)
- WP StB Marcus Dietz (A)
- WP StB Prof. Dr. Reiner-Peter Doll (G, A)
- WP StB Dr. Alexander Düll (G, A)
- StB Dr. Martin Eberhard (G, A)
- StB Gerd Fuhrmann (G, A)
- WP StB Raik Gleitsmann (A)
- WP StB Klaus Heiningner (G)
- WP StB Timo Hermann (A)
- WP StB Stephan Hilbig (G, A)

WP StB Gerlinde Klein (A)  
WP StB Gerhard Meyer (G, A)  
WP StB Kathrin Mindnich (A)  
WP Gerhard Müller (G, A)  
WP StB Michael Pleßke (G, A)  
WP StB Thomas Rohling (G, A)  
WP StB Philip Roth (G, A)  
WP StB Markus Schmidtke (G, A)  
WP StB Gerhard Schumacher (A)  
WP StB Dr. Stefan Tichy (G, A)  
WP StB RA Stefan Träumer (G, A)  
StB Dr. Michael Vituschek (A)  
WP StB Bastian Wenk (A)  
WP StB Klaus Wiechers (A)  
WP StB Dr. Alexander Wünsche (G, A)  
WP StB Dr. Martin Ziegler (G, A)

The companies of FALK group registered as Wirtschaftsprüfungsgesellschaften form a network in terms of Art. 2 No. 7 EU Audit Directive. These are in particular:

- FALK AG WPG StBG
- FALK & Co Heidelberg GmbH WPG StBG
- FALK GmbH & Co KG WPG StBG
- FALK & Co Verwaltungs-GmbH WPG StBG
- FALK & Co Bergstraße GmbH WPG StBG
- FALK & Co Risk Advisory GmbH WPG
- FALK IT Consulting Services GmbH WPG
- INTERTREU GmbH WPG

The legal structure of the network can be taken from the presented shareholding diagram. Material decisions comprising the entire network are made within the framework of FALK or the responsible bodies, respectively.

### Membership in an international organization: Praxity

FALK is member of Praxity, AISBL (hereinafter referred to as "Praxity"), a global alliance of independent audit and tax advisory firms. The Praxity global organization does not satisfy the network criteria of the code of ethics of the IFAC (International Federation of Accountants) or the network criteria of § 319 b (1) sentence 3 HGB, which transposes the respective provisions of the EU Audit Directive into law. Therefore, Praxity is not a network within the meaning of the requirements of Art. 2 No. 7 EU Audit Directive.

Through our membership with Praxity, we are able to offer our clients specific expertise of renowned audit and advisory firms in all major countries of the world.

Newly founded in 2007, employing 51.000 partners and staff worldwide and generating total sales of approx. USD 5.20 bn, Praxity is the largest global alliance of independent audit and tax advisory firms. Within all global Organizations of audit and tax advisory firms (networks and alliances), Praxity is ranked on 7th position.

Praxity is organized in the legal form of an AISBL (Association International sans but lucratif), a Belgian non-profit company and is domiciled in Brussels, the administrative centre is located in London. As a member of the Praxity alliance we are legally and economically independent from other members of the alliance. Engagements are exclusively conducted in our own responsibility and in no case by another audit or tax advisory firm that uses or is authorized to use the name "Praxity". Within the framework of our professional activities and our own responsibility and detached from other Praxity members we ensure that we are legally and economically independent from other Praxity members. Praxity as an alliance does not carry out own business audit engagements, tax advisory, business consulting or other professional services. The execution of engagements is provided exclusively by its members. The alliance is neither a joint venture nor a partnership company or a professional network of the member companies.

## Internal quality control system

### Set-up of the internal quality control system

A high level of quality corresponds to our philosophy for the execution of our services. Our internal quality control system is the key element to guarantee the high quality level aimed for. The internal quality control system considers all requirements arising from national statutory provisions and professional regulations. It is based in particular on the Public Auditors' Code (WPO), the statute regulating the profession of public auditors and the quality standard of the IDW "Requirements for quality assurance in auditors practice" (IDW QS 1). Due to our registration with the US Public Company Accounting Oversight Board (PCAOB) in New York, we must also observe the specific US provisions for audit engagements subject to American Supervision.

The standards regarding FALK's quality control system and the regulations and measures to be observed by the respective shareholders or employees with respect to practice organization, processing of the engagement, and quality control review are compiled in the so-called FALK Manual. The executive board and the respective persons responsible for an engagement ensure that all employees are informed of the importance of professional duties and the provisions of the quality control system. New employees are obligated to comply with the provisions of the FALK Manual.

In addition to the provisions in the FALK Manual, our two staff departments, "Audit and Assurance Principles Department" and "Tax Department", represent important elements of our quality control system. These departments have the necessary resources and expertise to handle even highly complex cases adequately.

In addition, our integration in significant technical and leadership committees of the IDW (Institute of Public Auditors in Germany) supports the high level of quality of our audit performance taking into account current developments in jurisdiction, legislation, literature and standard setting processes.

The "Tax Department's" areas of responsibility concern, among others, complex tax structuring and international tax law issues; the "Audit and Assurance Principles Department" has technical expertise in international accounting issues (IFRS, US-GAAP) as well as German and International Standards on Auditing (ISA) and develops generally binding specifications and support resources for the execution of audit assignments. The "Audit and Assurance Principles Department" refines and further develops the provisions of the quality control system centrally and is monitored by the management team (Section Governance Structure). The department's duties do not only comprise the consultation of professional employees on accounting and auditing issues, but also conducting regular professional training on our company's quality control system.

## Description of the internal quality control system

The following discussion relates to FALK's quality control system for audit engagements; appropriate quality control policies and processes are also in place for consulting services, in particular, tax advisory services.

The FALK Manual contains responsibilities and provisions in particular on the following subdivisions of the quality control system with respect to audit assignments:

### Practice organization

- General professional duties
- Independence, impartiality, and avoiding concerns of bias
- Clients' acceptance, continuation
- and premature termination of engagements
- Personnel development
- Overall planning of all engagements
- Handling of complaints and reproaches

### Handling of the engagement

- Execution of the engagement
- Engagement-related quality control
- Clarification of technical issues and
- consultation
- Resolving differences of opinion
- and complaints

### Quality control review

- Quality control review with regard to the execution of individual engagements
- Quality control review with regard to the practice organization



## Policies of the quality control system

### Practice organization

The standards for observing **independence**, impartiality, and avoiding concerns of bias form an essential component of the provisions regarding the practice organization. At both the level of the company as well as the respective employees extensive directives and control measures are implemented to comply with German and international independence requirements.

Ensuring independence during the execution of audits and other engagements is one of the core professional duties of auditors. The auditor must conduct his work independently and free of circumstances that could substantiate concerns of bias. Both independence in fact and independence in appearance are material prerequisites for the recognition and acceptance of the individual auditor's work and of the profession as a whole. We place great importance on compliance with the decisive independence standards that are based on German and international directives.

The statutory and professional rules on independence are presented in extensive detail in the FALK Manual along with practical instructions on borderline cases for several grounds of exclusion under §§ 319, 319 a HGB and EU regulation 537/2014. An independence officer is appointed for independence issues. He is responsible in cases of doubt in connection with the acceptance or continuance of engagements. The independence officer is also responsible for monitoring compliance with the rules on independence.

These rules provide for the so-called individual responsible for the engagement to file an annual declaration of independence, which is to be submitted using the most recent client list of the entire FALK Group. Financial and equity interests and personal relationships must be disclosed in this declaration of independence.

In addition, a continually updated watch list is maintained for public interest entities, which must be followed as an exclusionary list in terms of a possible private asset portfolio. In addition to the individuals responsible for the engagement, all employees in the Tax Department and the Audit and Assurance Principles Department must also file a corresponding annual declaration of independence as they normally come into contact with many different engagements in the course a business year. There is an obligation to inform the management team continually about changes pertaining to independence. All our professional staff declares once a year that they are familiar with our independence procedures.

Prior to audit engagements and other engagements for which the professional seal will be used, an engagement related statement of independence must be submitted by all professional employees involved in the engagement. This declaration inquires each professional employee involved in the engagement about equity, financial, and personal relationships. In case of potential conflicts, the independence officer must be consulted. The use of special work aids for the monitoring of the legal regulations on internal rotation (§ 319a (1) sentence 4 HGB, Art. 8 EU regulation 537/2014) is mandatory for audits of public interest companies within the meaning of § 319 a (1) sentence 1 German Commercial Code.

All newly hired professional employees are fully informed of the relevant rules on independence upon commencement of their employment. They must submit a personal statement of independence, in which they confirm acknowledgement of the decisive rules on independence in writing. This applies likewise to freelancers occasionally engaged by the company. The engagement-related statements of independence are analyzed by the respective individual responsible for the engagement; those made by the individuals responsible for the engagement and new hires are analyzed by the independence officer and, if necessary, measures are initiated. Compliance with the rules on independence is monitored in connection with the regular quality control review.

All quotes are registered in a separate data room in our intranet "FALK Portal" in the so called "Akquiseliste" by the responsible partner, at the latest when the engagement letter is sent. This serves as a basis of information for all shareholders on which reasons for a refusal, conflicts of interests or bias can be reviewed and avoided before accepting an engagement.

The detailed information and control measures presented above ensure that all decisive rules on independence are observed during all audits and other engagements conducted by FALK and the other companies within the FALK Group.

The professional principle of **due diligence** is another integral part of our quality control system. The comprehensive professional rules on the execution of audits stipulate the provision of technical work aids which are permanently updated (see section Handling of the Engagement). The employees are continuously trained with regard to legal regulations and professional rules as well as in the use of the technical work aids (see section Professional Training and Continuing Education). All employees of FALK - both in professional and technical areas - are fully informed at the beginning of their employment about all decisive provisions regarding the professional **obligation to maintain confidentiality**. Each employee confirms in writing his or her acknowledgement of the confidentiality rule and commits to fully observe this rule both in the course of professional practice as well as outside of professional practice and after termination of employment. This applies likewise to freelancers occasionally

engaged by the company. The obligation to confidentiality has to be observed not only towards third parties, but also towards employees not engaged with the respective assignment. The principle of **self-responsibility** relies on the high share of professionals as well as other employees with year-long experience. The final evaluation of specialist issues by the auditor responsible for the engagement is one of the core elements of our company culture (cf. section Clarification of Technical Issues and Consultations). The provisions regarding **professional and ethical conduct** complete the general professional duties.

Prior to the acceptance a new engagement or new types of assignments for existing engagements, extensive information must be obtained and a risk analysis of the new engagement must be made. The provisions regarding **engagement acceptance and continuation** are an integral component of our risk management system. Adherence is monitored by the central risk officer, who is also responsible for the decision on accepting an engagement in questionable cases. If the respective analysis shows that the acceptance of the engagement is tied to an unreasonably high risk, to a lack of insurance coverage or in cases of certain types of engagements, the engagements will not be accepted or continued.

The partner who will be potentially responsible for the engagement is also responsible for procuring Information and conducting the risk assessment. The risk assessment for audit engagements and other definite engagements is made on the basis of a standardized checklist that inquires about potential risks in the following areas: "Client's situation", "Special aspects of the engagement" and "Requirements at FALK". The partner potentially responsible for the engagement provides his own recommendation and forwards this to the risk officer. If there is an increased risk due to the type of engagement, the risk officer in turn must obtain the approval of the Audit and Assurance Principles Department or the Tax Department. In special cases involving higher risk, the decision must be made by the management team. Depending on the results of the risk assessment, special actions, such as integration of experts or quality control measures during the engagement, are established already during the engagement acceptance process. Regarding follow-up engagements, the responsible person for the engagement has to determine if the risk assessment with regard to "Client's Situation", "Particularities of the engagement" and "Requirements of FALK" has changed compared to the prior year. In the event of a different assessment compared to the prior year, a new risk assessment is required. According to additional regulations, an engagement may be terminated with prior consultation of the Management Team (section Governance Structure) for a timely analysis of consequences of a termination on a case-specific basis for FALK and the clients.

With respect to the **personnel development**, processes to determine requirements and assess candidates as well as the ongoing assessment and development of professional employees have been implemented. Requirements are determined in regular shareholders' meetings. The directives for personnel recruitment derived from these meetings are carried out by the management team (section Governance Structure). The group of shareholders is responsible for both professional and technical personnel. The assessment of potential professional employees during the job interview is documented by using a standardized questionnaire.

Prior to the end of the probationary period, an assessment meeting is held with each professional employee using a standardized assessment questionnaire in order to provide the employee with feedback on the assessment of his or her work during the probationary period and possible approaches for the targeted further development.

The responsible partner, for whom a professional employee predominantly works, will hold an assessment meeting with that employee at regular intervals. The employee's performance characteristics are discussed jointly at this assessment meeting. As a result, an assessment questionnaire is filled out and signed by the participants. There are various models of the assessment questionnaires depending on the employee's qualifications. During the assessment meeting, opportunities for development, the employee's ideas and targets for the following year are discussed.

The assessment meetings described above include both professional and personal criteria of the candidates or employees. Accordingly, the employee's development in connection with compensation as well as duties and area of responsibility also depends on professional and personal characteristics. Within this process professional duties including the regulations of the FALK Manual are of high importance.

The **professional training and continuing education** of all employees is a fundamental basis in order to steadily provide services at the highest level of quality. The continuously increasing momentum of change to the standards we must adhere to in accounting, professional law, as well as tax law and corporate law require that professional training and continuing education are of high importance. As a medium-sized professional company, we place great value on our employees having extensive training and experience in accounting, auditing, and tax law. This makes us an attractive employer for those university graduates wishing to work in demanding fields without having to specialize in certain areas too early.

A considerable part of our employees' training is done through "on-the-job training", i.e. guidance and monitoring by experienced professional colleagues directly during the execution of engagements. This professional training is supplemented by a variety of internal and external training measures in accounting and auditing as well as tax law.

We offer our young professionals an internal three stage training course in both of the above areas, including soft skills. In accounting and auditing, this training presents audit execution and discusses the fundamentals of group accounting and international accounting. In addition, all new professionals participate in the training program on audit execution offered by the Institute of Public Auditors in Germany within their first two years of employment. Basic courses and update training on using our audit software and our further IT programs are also conducted for professional employees.

Furthermore, regular internal discussions and further professional trainings focusing on accounting and auditing, tax and business law are held for all employees. An all day further professional training on current changes in accounting, auditing, and professional law is held at least once a year for all professional employees.

In addition, we annually have a so called "auditors' round table", a two day event aimed at discussions and further training for all public auditors, and other experienced staff (audit managers). Within the framework of the auditors' round table practical experience from the past audit season is shared and incentives and suggestions for improvements are given; this also concerns changes in or amendments to FALK regulations on the organization and processing of engagements as well as critical areas and current issues in auditing and accounting against the backdrop of increasing the level of obligation and identifying internal regulations on the level of the audit managers in order to guarantee a higher permeation of quality assurance regulations for the daily performance.

Finally, it must be noted that all employees are encouraged to participate in our client seminars on tax law and accounting and are allowed to participate in external seminars by the Institute of Public Auditors in Germany (IDW), the German Chamber of Public Accountants, the Chamber of Tax Advisors and other seminar organizers.

Generally applicable education plans are prepared for assistants as well as professionals. They represent guidelines for specific planning and execution of personalized continuing education measures. We follow the standards in the Professional by-laws for German public auditors/inaugurated accountants with respect to all authorized tax, accounting, or legal professionals to maintain our high level of quality. These standards therefore do not just apply to employees who are qualified as public auditors. All authorized tax, accounting or legal professionals must therefore provide evidence of 40 hours of continuing education annually.

Our employees have access to comprehensive and up-to-date **expert information** that are required to exercise their Profession, in particular, conducting audit engagements. In addition to the respective "personal basic equipment", our employees have access to the central professional library in Heidelberg, libraries at the respective branches, as well as to various databases and via Internet.

The spectrum of the expert information available comprises both German and international accounting and auditing. This comprises all necessary texts of statutes, standards, and professional pronouncements of the Institute of Public Auditors in Germany, the German Accounting Standards Committee ("DRSC"), international standard setters, as well as the pertinent comments and professional journals.

The central starting point for special Information inquiries is the Audit and Assurance Principles Department, giving additional Information on current developments by special circular letters.

An appropriate **overall planning of all audit and consulting engagements**, which is based on the planning of the individual engagements, creates the prerequisite that the accepted and expected engagements can be properly executed and completed - on time, in a professional manner, and in compliance with Professional standards. Engagement planning is initially carried out at the level of the engagement partner, who prepares a detailed engagement plan, tailored to the client and the employees involved, for their respective scope of activity and the engagements handled by them. The individual plans are directly entered into a special IT-planning-tool and permanently updated. Recognizable overlaps or vacant working time of individual employees during this process are balanced out by coordination between the respective individual responsible for the engagement and the central coordinating office.

### **Handling of complaints and reproaches**

Complaints (irrespective of their nature) referring to the work of FALK which are addressed to employees or the management of FALK are to be brought immediately to the knowledge of the respective partner responsible for the client. The central risk officer is to be informed about complaints directed to the technical work of FALK that are not of minor importance.

The employees may address any complaint to the managing director responsible for them or directly to responsible members of the Audit and Assurance Principles Department. Furthermore, the management team may directly be informed in an anonymous way about existing doubts about the procedures and decisions of superiors without any concern over personal disadvantages.

The FALK Manual contains the regulations to be observed with respect to complaints and reproaches including the eventual consultation of the central risk officer and the Management Team, respectively.

## Handling of the engagement

The **execution of the engagement** for audits is made in compliance with all German Auditing Standards (IDW PS) and, if necessary, international standards (ISA, US-GAAS). All provisions regarding the execution of the engagement specific to our practice are set forth in the FALK Manual, and in addition, in our "FALK Audit Guidelines". The auditing software, used and further developed in our company, is the primary basis for the execution of audit engagements. This methodology provides an extensive and systematized documentation structure for the execution of engagements in all significant audit areas (audit organization, audit planning, audit execution, and audit monitoring). We have issued clear instructions for the use of the audit software in our Audit Guidelines, which are applicable throughout the firm. These guidelines contain - graduated on the basis of our risk assessment and the scope of the respective audit engagement - minimum requirements for the execution of the engagement, instruction of the audit team, monitoring of the audit team and the final review of the completed work.

Our risk-oriented audit approach is based on an analysis of the company's corporate structure and its economic and legal environment in order to analyse the client's annual financial statements with regard to risks from irregularities and legal violations (fraud and error). Based on the risk analysis we develop the audit strategy and - supported by our audit software - an individual audit program. This audit program, which is binding for the whole audit team, is controlled by the auditor responsible for the engagement.

Due to the high qualification of our staff and the high proportion of professionals in our company we ensure the intensive support of the audit engagements by the responsible auditors; any questions brought up by the audit team or the client can be answered promptly.

Furthermore, the high degree of involvement of the responsible auditor during the execution of the audit ensures the permanent control of the audit performance and the evaluation/review, respectively, of the audit team's findings by the responsible auditor.

There are also numerous additional resources available to support the audit teams, such as sample audit reports, consistently updated by the Audit and Assurance Principles Department. Furthermore, we have introduced regulations safeguarding the confidentiality of work documents (among others, by access limitations in the auditing software), on the formal requirements for the documentation of engagements as well as on the storage of the work documents.

An **engagement-related quality control** is conducted for each audit engagement in the form of a substantial report review by a public auditor who is not directly involved during the execution of the engagement or preparation of the report. In addition a second partner review is conducted in all cases of audits within the meaning of § 319 a (1) sentence 1 HGB (public interest entities), as well as for other audits entailing higher risk. The review comprises the engagement from the beginning, i.e. the concurring partner monitors the entire audit process from acceptance of the engagement up through the preparation of the report. In addition to audits of public interest entities, a second partner review is also conducted if the audited companies are material components of public interest groups, if there is a precise risk to the going-concern assumption, and generally if a change in shareholders is pending. In addition, the management team (section Governance Structure) may subject individual engagements to quality control measures. The use of special work aids for documentation with regard to quality control of the engagement is mandatory. It is furthermore regulated how the undersigning auditors have to handle the results of the quality control of an engagement.

Processes and contact persons are prescribed for **clarifications of technical issues and consultations** to be made in connection with audit engagements. At first solutions for technical issues are generally developed independently within the engagement team. If there is insufficient certainty regarding significant questions in the audit team, the Audit and Assurance Principles Department will be consulted. This department will propose solutions to the individual responsible for the engagement, if necessary in consultation with additional experts from within FALK.

In significant cases of doubt a consultation is mandatory. A significant case of doubt exists, inter alia, if its clarification is materially significant to the auditors' opinion, if it is somewhat questionable from an auditing/accounting perspective, or if a departure from case law, prevailing opinion expressed in commentaries, or professional opinion is considered possible. The Audit and Assurance Principles Department is also responsible for the consultation process. If there is an issue concerning independence, the consultation is made directly with the independence officer. In the exceptional case when insufficient clarification is expected within a reasonable period from the consultation within FALK, an external consultation will be held. In such cases, the involvement of the professional experts at the Institute of Public Auditors in Germany will be considered in particular.

It is important that the final decision rests with the partner responsible for the engagement, who has the sole responsibility to evaluate the results of the Audit and Assurance Principles Departments or other experts' findings.



There are also provisions regarding the **solution of differences of opinion or complaints, which** provide for escalation stages, among other things, and which require involvement of the management team in certain cases (see section Governance Structure).

### Quality control review

The function of **quality control review** is to evaluate the appropriateness and effectiveness of the internal quality control system and of the uniform application of the relevant provisions. In addition, it acts as an internal consulting unit and a supplemental place for professional exchanges between the auditors responsible for the execution of each engagement and the quality control review officers. Our quality control review provisions are based on QS 1.

In addition to quality control review with regard to the handling of individual audit engagements as well as other selected engagements, a quality control review is also conducted regularly on significant elements of the general practice organization in order to monitor compliance with the corresponding directives.

The quality control review team is comprised solely of audit partners who are also often recruited for external quality control engagements. One FALK shareholder is responsible for the coordination and execution of the quality control review. The quality control review comprises the subsidiaries of FALK as well. The selection of random tests aims to include the relevant range of tasks by FALK as well as all public auditors responsible for engagements within a three-year period. Risk aspects such as initial audit, listed companies, general risk classification when accepting the engagement are considered in particular within the selection. We focus our quality control reviews on audits of statutory financial and consolidated financial statements. The quality control review is documented based on checklists developed by the Institute of Public Auditors in Germany (IDW PS 9.140) for conducting quality controls.

The individual findings of the quality control review are primarily discussed with the persons responsible for the engagement. The overall findings are communicated to the management team in an annual report. The professional employees are informed annually of the results and any improvement measures that may be derived from them during internal training. Regular communication and the integration of instructions for improvement into the quality control system form a material basis to ensure a high level of quality in our firm in the long term during execution of audit assignments.

If there are multiply recurring deficiencies regarding the same responsible person, the management team decides on penalties, especially financial charges. Penalties are particularly intended when there are two significant matters in three years relating to the same responsible person.

## **Management statement on the enforcement of the quality control system pursuant to Art. 13 (2) letter d) EU regulation 537/2014**

"We hereby declare that the quality control system introduced and applied by FALK meets the statutory requirements and that the provisions arising from this system were adhered to in the calendar year just ended. We have satisfied ourselves as to this in an appropriate manner. Where individual matters were identified, we have taken necessary measures to enforce compliance."

## **Management Statement on the protection of Independence pursuant to Art. 13 (2) letter g) EU regulation 537/2014**

"We hereby declare that all requirements regarding independence policies – as described in chapter Practice organization – were reviewed in the previous calendar year."

## **Management statement on professional training pursuant to Art. 13 (2) letter h) EU regulation 537/2014**

"We hereby declare that our certified public accountants are committed to professional training courses - as described in chapter professional training and continuing education - and that the obligation is being monitored."

## **Participation in quality control pursuant to § 57a WPO (Public Auditors' Code)**

Pursuant to § 57a (1) Public Auditors' Code (WPO), public auditors and audit firms that conduct statutorily prescribed audits are obligated to undergo periodic quality control audits. As FALK conducts statutory audits for public interest entities (§ 319 a (1) sentence 1 HGB), it had to have these audits conducted principally every three years (§ 57 a (6) sentence 8 Public Auditors' Code (WPO a.F.)). FALK was most recently subjected to an external quality control audit by the end of 2014. The external quality control auditor summarized the subject, type and scope of his audit in a quality control report and concluded that the quality control system implemented at FALK is consistent with the statutory requirements and professional by-laws. The German Chamber of Public Accountants subsequently confirmed FALK's participation in the quality control audit by certification dated December 10, 2014. The next external quality control shall be performed by December 17, 2020 pursuant to the German Chamber of Public Accountants.

### **Registration as public accountant in accordance with § 38 No. 2 letter f WPO**

The German Chamber of Public Accountants confirmed the registration of FALK as public accountant on June 17, 2016 in accordance with § 38 no. 2 letter f WPO. FALK is, thus, entitled to perform statutory audits and is subject to regular quality controls pursuant to § 57a (1) WPO.

### **Basis for remuneration of partners and senior executives**

All board members of the unlimited partner FALK & Co Verwaltungs-GmbH are also shareholders of FALK GmbH & Co KG and/or stockholders of FALK AG. All remaining senior executives of FALK also belong to the stockholders of FALK AG. There is a standardized compensation system for this group of persons as well as for all stockholders of FALK. The compensation for these individuals consists of a fixed compensation component, which is paid out in the form of 13 monthly salaries, and a variable compensation component, which is determined on the basis of a bonus point system.

The amount of the fixed compensation for board members and senior executives, as well as all others, basically follows the criteria of professional qualification, personality and experience / years of service. The amount of the fixed compensation is reviewed at least once a year.

All stockholders participate in the variable compensation established as a point system. Each of these employees is assigned a specified number of bonus points in advance for a given fiscal year. The decisive criteria for determining the number are generally the criteria that are also significant for the calculation of the fixed remuneration. The score is determined with a defined formula depending on the annual result of FALK before bonuses and income taxes.

In addition, there is a small amount designated as special bonus, which is paid to individual employees after approval of all shareholders.

The compensation system described is determined by the fundamental idea of all shareholders and other important employees being a mutually supportive group. This creates the highest possible independence of the bonus recipients. Any loss of an engagement only has a minor relative impact on the individual responsible for the engagement, and, for the remaining portion, is borne jointly and severally by all other recipients. This reduces any possible dependency on individual engagements to a minimum.

The proportion of the varying remuneration with regard to the total remuneration fluctuates depending on the respective income situation of the company; the average is about 20 %.

## Governance structure

FALK considers itself to be an organization of equal Partners, in which all significant decisions are made by the professionals with shareholdings in the company. In accordance with the provisions of the German Limited Liability Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, "GmbHG") and in compliance with professional standards (§ 28 (1) and (2) Public Auditors' Code), 16 individuals are appointed from among the shareholders of FALK & Co as managing directors having sole power of representation.

The following individuals are currently managing directors of the unlimited partner FALK & Co Verwaltungs-GmbH:

Wolfgang Adler, Wirtschaftsprüfer, Steuerberater, Wiesloch

Klaus Heininger, Wirtschaftsprüfer, Steuerberater, Erzhausen

Gerhard Meyer, Wirtschaftsprüfer, Steuerberater, Weinheim

Dr. Alexander Düll, Wirtschaftsprüfer, Steuerberater, Weinheim

Stefan Träumer, Rechtsanwalt, Wirtschaftsprüfer, Steuerberater, Nußloch

Dr. Martin Ziegler, Wirtschaftsprüfer, Steuerberater, Ketsch

Gerd Fuhrmann, Steuerberater, Wiesloch

Thomas Rohling, Wirtschaftsprüfer, Steuerberater, Osnabrück

Prof. Dr. Reiner-Peter Doll, Wirtschaftsprüfer, Steuerberater, Holzkirchen

Dr. Martin Eberhard, Steuerberater, Waldsee

Markus Schmidtke, Wirtschaftsprüfer, Steuerberater, Bad Homburg

Philip Roth, Wirtschaftsprüfer, Steuerberater, Mannheim

Stephan Hilbig, Wirtschaftsprüfer, Steuerberater, Heidelberg

Gerhard Müller, Wirtschaftsprüfer, Certified Public Accountant, Maxdorf

Michael Pleßke, Wirtschaftsprüfer, Steuerberater, Heidelberg

Dr. Stefan Tichy, Wirtschaftsprüfer, Steuerberater, Mannheim

To increase the efficiency of the management, essential tasks of the day-to-day management are delegated to a Management Team. The management's tasks are divided into four areas of responsibility:

- Area I: IT/Organization
- Area II: Marketing/Corporate Identity
- Area III: Human Resources
- Area IV: Finance/Controlling

The members of the Management Team are elected for a term of three years by the shareholders meeting. Consecutive election is permitted, a further re-election only in exceptional cases.

The Management Team may delegate individual tasks to working groups or appoint persons responsible for individual subject areas.

## Financial information

Based on the criteria under § 285 sentence 1 no. 17 German Commercial Code FALK's sales break down as follows:

	2017 EUR '000
Audit of Financial Statements	6,943
Other assurance services	2,683
Tax advisory services	8,903
Other services	12,741
<b>Total audit and advisory services:</b>	<b>31,270</b>
Further revenues from other services	1,475
<b>Total 2017</b>	<b>32,745</b>

The sales from audit and consulting services of FALK are broken down according to the criteria of Art. 13 EU Regulation 537/2014 as follows:

The sales from audit and consulting services of FALK are broken down according to the criteria of Art. 13 EU Regulation 537/2014 as follows:		2017 T-EUR
revenues from the statutory audit of annual and consolidated financial statements of other entities		6.943
revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm		4.683
revenues from non-audit services to other entities		19.644
<b>Total</b>		<b>31.270</b>

For the FALK & Co Group, the corresponding breakdown of consolidated annual sales is as follows:

		2017 EUR '000
Audit of Financial Statements		6,943
Other assurance services		2,971
Tax advisory services		9,849
Other services		15,571
Total audit and advisory services:		35,334
Further revenues from other services		886
<b>Total</b>		<b>36,220</b>

## Closing declaration

This transparency report takes into account all of the disclosures required pursuant to Art. 13 of the EU regulation 537/2014 as well as pursuant to § 15 of the professional by-laws for German Public Auditors as amended as of the date this transparency report was prepared.

Heidelberg, March 30, 2018

FALK GmbH & Co KG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Wolfgang Adler  
Klaus Heiningger  
Gerhard Meyer  
Dr. Alexander Düll  
Stefan Träumer  
Dr. Martin Ziegler  
Gerd Fuhrmann  
Thomas Rohling  
Prof. Dr. Reiner-Peter Doll  
Dr. Martin Eberhard  
Markus Schmidtke  
Philip Roth  
Stephan Hilbig  
Gerhard Müller  
Michael Pleßke  
Dr. Stefan Tichy

Annex to the Transparency Report 2018  
of  
FALK GmbH & Co KG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

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