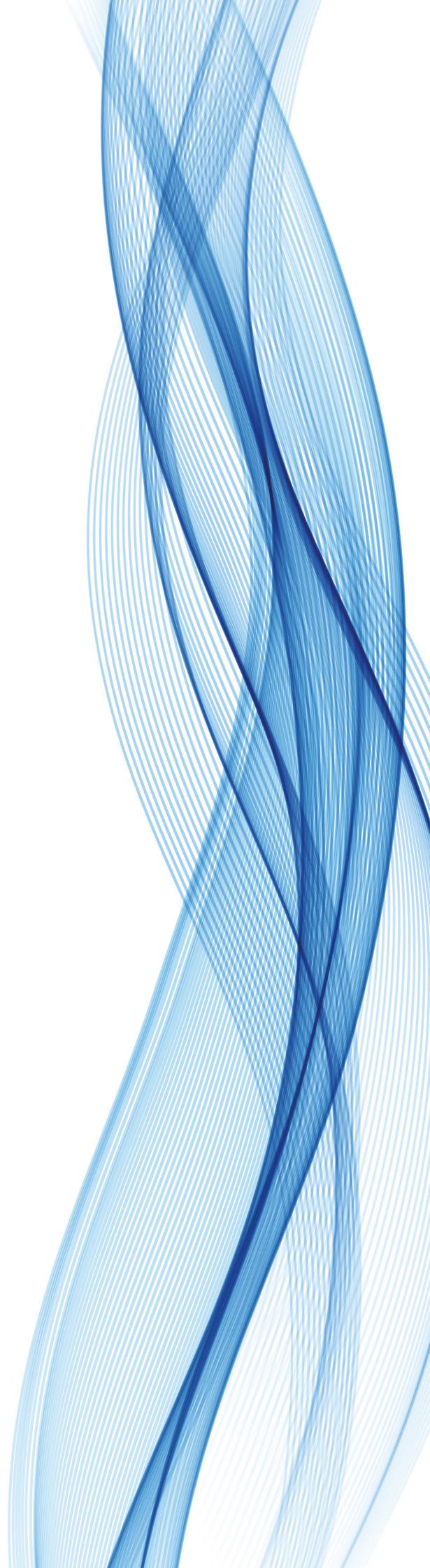




Transparency Report 2015

KPMG Bulgaria OOD



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We are delighted to welcome you to the Transparency Report of KPMG Bulgaria OOD for the year ended 31 December 2015.

KPMG plays an important role in the Bulgarian economy in many ways and, as a responsible business, we aim to be transparent and open about how we work and how we respond to the dynamic business environment and increasing public expectations.

We bring in multidisciplinary capabilities, knowing how to balance the strength and consistency of our global network with the passion of local relationships and delivery. A high commitment to quality and ethics, based on KPMG's set of values and culture of integrity, is our foundation.

In the Transparency Report, we take the opportunity to share with you the steps we make to uphold our professional obligations and responsibilities as auditors, and to explain how we seek to ensure the highest quality in our services. You will learn about our governance and structure, our system of quality control and how we rigorously maintain and continuously improve our audit processes and procedures.

A written report can never replace the insight that comes with discussion. We would therefore encourage anyone who wishes to discuss matters set out in this report to get in touch with us.

A handwritten signature in blue ink, appearing to read 'G. Mantarkova', written in a cursive style.

Gergana Mantarkova
Managing Partner

Who we are

KPMG Bulgaria OOD (“KPMG Bulgaria”, “the Firm”, or “the Company”) is a professional services firm that delivers Audit, Tax and Advisory services.

KPMG Bulgaria is a specialized audit entity and a member of the Institute of Certified Public Accountants in Bulgaria, registered in the Certified Auditors Register under No 045.

The Company operates in Bulgaria through its offices in Sofia, Varna and Burgas.

Further details of our service offerings can be found on our website at the following link: www.kpmg.com/bg.

The strategy of KPMG Bulgaria is set by its partners and is based on four priorities: being market-focused, issues-led, driven by operational excellence and having a high performance culture.

Through these priorities, our overall ambition is to be the clear choice. This includes being the number one multidisciplinary professional services firm in Bulgaria and being a quality service provider to all of our clients, placing quality at the heart of our agenda. As an organization we have a strong belief that by being the best firm to do business with we will win more work and attract, develop and retain the best people.

Our structure and governance

Legal structure

KPMG Bulgaria is a limited liability company incorporated in 1992 under the Commercial Code of the Republic of Bulgaria. It is governed by the Bulgarian law. The Firm has been registered with the Commercial Register at the Registry Agency of the Republic of Bulgaria under Unified Identification Code 040595851, with a registered office and business address: Sofia 1404, 45/A Bulgaria Boulevard.

The ownership structure of the Company, its management bodies and any other circumstances which are subject to entry pursuant to the law have been duly registered and are publicly available in the Commercial Register with the Registry Agency.

Currently, the ownership structure of KPMG Bulgaria is as follows:

- KPMG CEE Holdings Limited, Cyprus, holds a 76% ownership interest
- The following individuals hold a 3% ownership interest each:
 - Arkadiusz Mierzejewski
 - Gergana Mantarkova
 - Gilbert McCaul
 - Kalin Hadjidimov
 - Krassimir Hadjidinev
 - Margarita Goleva
 - Steven Nutley
 - Tzvetelinka Koleva

KPMG Bulgaria has incorporated a subsidiary in Bulgaria – KPMG Advisory EOOD, that provides management consulting services to clients. The latter is registered with the Commercial Register at the Registry Agency under Unified Identification Code 121489246. In 2015 KPMG Bulgaria invested jointly with KPMG Germany in the newly established company KPMG IT Service OOD, providing IT outsourcing services.

KPMG Bulgaria is affiliated with KPMG International Cooperative (“KPMG International”), a Swiss cooperative which is a legal entity formed under Swiss law. KPMG International provides no client services. Further details about KPMG International and its business, including our relationship with it, are available in the [supplement to the 2015 KPMG International Transparency Report](#).

Name and ownership

KPMG is the registered trademark of KPMG International and it is the name with which the KPMG member firms, including KPMG Bulgaria, are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are separate legal entities which are managed in accordance with the laws and professional rules of the respective country. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm’s obligations or liabilities.

Governance

We apply high standards of governance.

The key governance and management body of KPMG Bulgaria is the General Meeting of the partners.

The partners are responsible for determining policy, developing the business plan within the overall strategy of KPMG International, together with its subsequent implementation.

As a Managing Partner, Gergana Mantarkova manages and represents the Company individually. The following individuals represent the Company jointly with Gergana Mantarkova:

- Antoaneta Boycheva
- Dobrina Kaloyanova
- Ivan Andonov
- Maria Peneva
- Tzvetelinka Koleva

System of quality control

A robust and consistent system of quality control is an essential requirement in performing high quality services.

Accordingly, KPMG international has policies of quality control that apply to all member firms. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

These policies are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to firms that perform statutory audits and other assurance and related services engagements.

KPMG Bulgaria implements KPMG International policies and procedures and adopts additional systems of quality controls for its audit practice that are designed to address the rules and standards issued by the Institute of Certified Public Accountants in Bulgaria, and other relevant regulators as well as applicable legal and other requirements. Integrating key policies and procedures, this system also facilitates compliance with relevant rules and regulations of the Bulgarian Commission for Public Oversight of Statutory Auditors and the Bulgarian Financial Supervision Commission.

The Management System of KPMG Bulgaria is certified for compliance with the ISO 9001:2008 management system standard. Amongst other matters, the scope of certification includes professional services for audits and reviews of historical financial information, assurance engagements, related services and other.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

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

While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on explaining what we do to enable the delivery of quality audits. In this section we therefore focus on our system of audit quality control.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means,

above all, being independent, and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Our Framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Audit Quality Framework

The Audit Quality Framework identifies seven drivers of audit quality.

1. Tone at the top
2. Association with the right clients
3. Clear standards and robust audit tools
4. Recruitment, development and assignment of appropriately qualified professionals
5. Commitment to technical excellence and quality service delivery
6. Performance of effective and efficient audits
7. Commitment to continuous improvement



Tone at the top sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate across our entire network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers of our quality control system is described in more detail in the following sections of this report.

Tone at the Top – the foundation of audit quality

Tone at the top is a term used to describe an organization’s general ethical climate, as established by its leadership. KPMG and its leadership use “tone at the top” to indicate its commitment to quality, ethics and integrity.

KPMG’s focus on quality

KPMG’s tone at the top provides a clear focus on quality through:

- 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
- Standards set by leadership
- Governance structure and clear lines of responsibility for quality – skilled and experienced people in the right positions to influence the quality agenda.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG core value – above all, we act with integrity.

This commitment underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our values or professional responsibilities.

Our Code of Conduct incorporates our core values and addresses the commitments that we make as well as the responsibilities of our personnel at all levels across the firm.

A KPMG International [hotline](#) is available for KPMG personnel, clients, and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, those who work for KPMG International, or the senior leadership of a KPMG member firm.

While we stress that all professionals are responsible for quality and risk management the following individuals have leadership responsibilities with respect to the internal quality control system.

Managing Partner

In accordance with the principles in ISQC1, our Managing Partner has assumed ultimate responsibility for KPMG Bulgaria's system of quality control.

Quality and Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Bulgaria has been delegated to the Quality and Risk Management Partner who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. She has a direct reporting line to the Managing Partner. The seniority of the reporting lines underlines the importance that the firm places on risk and quality issues. The Quality and Risk Management Partner is supported by a central quality and risk management team and by a team of partners and professionals in each of the functions.

The Audit, Tax and Advisory functions – Function Heads

The heads of the client service functions (Audit, Tax and Advisory) are accountable to the Managing Partner for the quality of service delivered in their respective

functions. They determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Quality and Risk Management Partner. These procedures all make it clear that engagement level risk management and quality control are ultimately the responsibility of all professionals.

Association with the right clients

Rigorous client and engagement acceptance and continuance policies and processes are vital to our ability to provide high-quality professional services and to protect KPMG's reputation and support its brand.

Accordingly, KPMG International has established policies and procedures which all member firms have implemented in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management at a prospective client and the evaluation considers factors such as breaches of law and regulation, anti-bribery and corruption and human rights among others. A second partner, as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to be "high risk" a risk management partner is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors is considered as part of this evaluation including

potential independence and conflict of interest issues (using Sentinel™ our global conflicts and independence checking system) as well as a range of factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by quality and risk management leadership as required.

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

Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

Depending on the overall risk assessment of the prospective client or engagement additional safeguards may be introduced to help mitigate the identified risks.

We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or there are other risk issues that cannot be appropriately mitigated.

The [Non-Audit services](#) and [Conflicts of interests](#) sections provide more information on our independence and conflict checking policies.

Continuance process

An annual re-evaluation of all audit clients and audit engagements is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client where we are unable to deliver to our expected level of quality, or if we consider that it would not be appropriate to continue to be associated with the client. More commonly, we use the re-evaluation to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this would include the assignment of professionals or the need to involve additional specialists on the audit).

Client portfolio management

Engagement partners and key auditors who have the appropriate competence, capabilities, time and authority to perform the role are appointed for each engagement.

Where relevant, the policies and procedures described in this report applicable to audit engagement partners equally apply to key auditors as defined in the Independent Financial Audit Act.

Clear standards and robust audit tools

Professional practice, risk management and quality control are the responsibilities of every KPMG professional. Our professionals are expected to adhere to the clear policies and procedures (including independence policies) we set and we provide a range of tools to support them in meeting these expectations. The policies and procedures we set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in KPMG International's

KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISA and which KPMG believes enhance the quality of our audits. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements, if required.

Our audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides auditors worldwide with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders. The key activities within the eAudit workflow are:

Engagement setup

- Perform engagement acceptance and scoping
- Determine team selection and timetable

Risk assessment

- Understand the entity
- Identify and assess risks
- Plan for involvement of KPMG specialists and external experts, internal audit, service organizations and other auditors as required
- Evaluate design and implementation of relevant controls
- Conduct risk assessment and planning discussion
- Determine audit strategy and planned audit approach

Testing

- Test operating effectiveness of selected controls
- Plan and perform substantive procedures

Completion

- Update risk assessment
- Perform completion procedures, including overall review of financial statements
- Perform overall evaluation, including evaluation of significant findings and issues
- Communicate with those charged with governance (e.g., the audit committee) and
- Form the audit opinion

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional skepticism in all aspects of planning and performing an audit. The methodology encourages use of specialists when appropriate, and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provides us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory, and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual (GQ&RMM) that is applicable to all KPMG member firms, functions and personnel.

Independence, integrity, ethics and objectivity

Overview

Member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics together with those of other applicable regulatory

bodies (which may include those of a foreign jurisdiction where those requirements apply extraterritorially).

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm, and its personnel, must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors, and significant owners.

KPMG Bulgaria has a designated Ethics and Independence Partner (EIP) appropriately supported by specialists to help ensure that we implement robust and consistent independence policies and procedures. Ethics and independence policies are set out on our intranet, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by email alerts and included in regular quality and risk communications.

These policies and processes cover areas such as personal independence, firm financial independence, business relationships, post-employment relationships, partner rotation, and approval of audit and non-audit services.

Independence checks on prospective audit engagements

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

A "KPMG Independence Checkpoint" tool was introduced in October 2015 to automate and standardize all the workflows that comprise the independence clearance process. This is in anticipation of the increasing number of audit tenders member firms will

be participating in and the number of independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits in certain parts of the world.

Personal independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes. In common with other member firms of KPMG International, we use a web-based independence tracking system to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and client facing managers are required to use this system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies them if their investments subsequently become restricted. We monitor partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

Any professional providing services to an audit client is also required to notify the Ethics and Independence Partner if he or she intends to enter into employment negotiations with that audit client.

Firm financial independence

KPMG Bulgaria maintains a record of its investments, if any (made for example through pension and retirement plans and treasury activities) in the web-

based independence tracking system. This record is monitored through our compliance process.

Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable independence requirements. Compliance with these policies and procedures is reviewed periodically.

Independence training and confirmations

We provide all relevant personnel with annual independence training appropriate to their grade and function and all new personnel with relevant training when they join. All personnel are required to sign an independence confirmation upon joining the firm. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period. This confirmation is used to evidence the individual's compliance with and understanding of our independence policies.

Audit partner rotation

Partners and key auditors are subject to periodic rotation of their responsibilities for certain audit clients under applicable laws and regulations and independence rules. These limit the number of years that partners and key auditors in specific roles may provide audit services to such an audit client. KPMG International rotation policies are consistent with the IESBA Code of Ethics requirements and require our firm to comply with any stricter applicable rotation requirements. We monitor the rotation of audit engagement partners and key auditors (and any other key roles where there is a rotation requirement) and have transition plans to enable us to allocate professionals with the necessary competence and capability to deliver a consistent quality of service to

clients. The rotation monitoring is subject to compliance testing.

Non-audit services

We have policies as to the scope of services that can be provided to audit clients which are consistent with IESBA principles, the Bulgarian Independent Financial Audit Act and other restrictive independence rules applicable to the respective client. Additionally, KPMG policies require the lead audit engagement partner to evaluate 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. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in the system. Every engagement entered into by any KPMG member firm in our network is required to be included in the system prior to starting work. The system enables lead audit engagement partners for entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

In accordance with applicable auditor independence rules, none of our audit partners are compensated on their success in selling non-audit services to their audit clients.

Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion. In particular, KPMG International's policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received

by a particular member firm for two consecutive years, a senior partner from another operating firm would be appointed as the engagement quality control reviewer. Also, this would be disclosed to those charged with governance at the audit client.

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

Conflicts of interest

Conflicts of interest may prevent our firm from accepting or continuing an engagement. The Sentinel™ system is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

Breaches of independence policy

In the event of failure to comply with the firm's independence policies, whether identified in the 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 engagement leaders and managers, are reflected in their individual quality and risk metrics. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating

incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

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

Compliance with laws, regulation and standards is a key aspect for all KPMG personnel.

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

Accordingly, training covering compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards, and the KPMG Code of Conduct is required to be completed by client-facing professionals at a minimum of once every two years, with new hires completing such training within three months of joining the firm. In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to participate in anti-bribery training.

Further information on KPMG International anti-bribery and corruption can be found on the [anti-bribery and corruption site](#).

Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the entity subject to audit. This requires a focus on recruitment, development, promotion and retention of our personnel, and

the development of robust capacity and resource management processes. We monitor quality incidents for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

We strive to be an employer of choice by creating an environment where our people can fulfill their potential, generating pride and motivation.

We focus on performance development, coaching and mentoring, reward and recognition, flexible benefits, visible leadership, and open and honest employee communications.

We aspire to create a culture of learning, collaboration and inclusivity, all underpinned by a shared set of values and a common purpose.

Recruitment

All candidates for professional positions submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

Upon joining KPMG Bulgaria, new personnel are required to participate in a comprehensive on-boarding program, which includes training in areas such as ethics and independence. This also includes ensuring that any issues of independence or conflicts of interest are addressed at the time the individual can commence as a partner or employee with the firm.

Across our member firms we are regularly recognized as an established and reputable employer. This is a reflection on our presence in both the early career and experienced hire candidate markets.

Personal development

It is important that all professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section [Professional training](#)).

In relation to audit we provide opportunities for professionals to develop the skills, behaviors and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, stretch assignments, country rotational and global mobility opportunities.

Evaluation, compensation and promotion

All professionals, including partners, undergo annual goal-setting and performance evaluations. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the KPMG global behaviors (one of which is "Delivers Quality"), technical capabilities and market knowledge. These evaluations are conducted by performance managers and partners who are in a position to assess their performance and propose a performance rating. Performance ratings are awarded following a robust calibration process to effectively address rating inconsistencies and ensure fairness in the rating process. This is achieved through our global performance development process, which is supported by a web-based application.

Compensation and promotion

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process, which for partners includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them and what they can expect to receive in return.

Going beyond performance reviews and compensation, the KPMG global behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to our people what is required for success individually and collectively.

Partner admissions

Our process for admission to partnership is rigorous and thorough, involving current partners. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles. All recommendations for admission to partnership of KPMG Bulgaria need to be approved by the KPMG Central and Eastern Europe Board.

Assignment of personnel

We have procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of his or her skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the process. Key considerations include partner experience, accreditation, and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, the complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement). Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies and capabilities to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving specialists from our own firm or other KPMG member firms.

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

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- An understanding of professional standards and legal and regulatory standards requirements
- Appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- Knowledge of relevant industries in which the client operates
- Ability to apply professional judgment, and
- An understanding of quality control policies and procedures.

Employee engagement

We measure our people's attitudes and their overall level of engagement through the Global People Survey (GPS). This survey runs biennially and provides an overall Employee Engagement Index as well as insights about what drives engagement across different demographic groups and how we are faring on the above categories.

All member firms are required to participate and to take appropriate actions to communicate and respond to the findings.

Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need. This includes access to networks of specialists and professional practice departments (DPP) which are made up of senior professionals with extensive experience in audit, reporting and

risk management, either to provide resources to the engagement team or for consultation.

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

Professional training

In addition to personal development discussed in the section above, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Audit Learning and Development steering groups at the global, regional and local levels identify annual technical training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom methods. Audit Learning and Development teams work with subject matter experts and leaders from GSC, the International Standards Group (ISG) and DPP to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

Learning is not confined to the classroom – rich learning experiences are available at the moment of need through coaching and just in time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job. Coaching guides are available on judgmental audit topics – these are used by audit teams and are embedded within audit learning solutions. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Accreditation and licensing

All KPMG professionals comply with applicable professional license rules in the jurisdiction where they practice.

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework.

In addition, we have specific accreditation requirements for partners and managers working on IFRS engagements, US Generally Accepted Accounting Principles engagements, US Generally Accepted Auditing Standards engagements, Transactions Services, Valuations and Mergers and Acquisitions and Financing Assistance engagements. These require that the partner, manager, and Engagement Quality Control reviewer have sufficient training and experience in performing engagements that apply the relevant reporting standards.

We require that all audit professionals are also required to maintain accreditation with their professional bodies and satisfy the Continuing Professional Development requirements of such bodies. Our policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed. The firm's registered auditors who are members of the Institute of Certified Public Accountants in Bulgaria participate in annual training and comply with the requirements of Article 22 of the Independent Financial Audit Act for minimum hours of continuing education required by the Institute of Certified Public Accountants.

Access to specialist networks

Our engagement teams have access to a network of local KPMG specialists or specialists in other KPMG member firms. Engagement partners are responsible

for ensuring that their engagement teams have the appropriate resources and skills.

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

Consultation

Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

We provide appropriate consultation support through professional practice resources that include a Department of Professional Practice (DPP) or equivalent. For KPMG Bulgaria, the role of 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 related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.

Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP, Head of Quality and Risk (or appropriate nationally qualified delegates) or

ultimately the national senior partner (or appropriate nationally qualified delegates).

Technical support is available to us through the International Standards Group (ISG) as well as the US Capital Markets Group for work on SEC foreign registrants. The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis.

Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the development of relevant industry information which is made available to audit professionals within eAudit. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries as well as a summary of the industry knowledge provided in eAudit.

Performance of audits

KPMG Audit Process

As set out above, our audit workflow is enabled in eAudit. The key behaviors that our auditors apply throughout the audit process to deliver high quality audits are:

- Timely partner and manager involvement
- Critical assessment of audit evidence
- Exercise of professional judgment and professional skepticism

- Ongoing mentoring and on the job coaching, supervision and review
- Appropriately supported and documented conclusions
- If relevant, appropriate involvement of the Engagement Quality Control (EQC) reviewer
- Reporting
- Insightful, open and honest two-way communication with those charged with governance and
- Client confidentiality, information security and data privacy.

Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position, and the environment in which it operates.

The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement partner during the planning process and early in the audit process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment, and significant risks.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation – in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting

these responsibilities and in the day-to-day liaison with the client and team.

Critical assessment of audit evidence with emphasis on professional skepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgment and maintain professional skepticism to obtain sufficient appropriate audit evidence.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

We have a professional judgment process that provides audit professionals with a structured approach to making judgments. Our professional judgment process has professional skepticism at its heart. It recognizes the need to be alert to biases which may pose threats to good judgment, consider alternatives, critically assess audit evidence by challenging management's assumptions and following up contradictory or inconsistent information, and document rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

Ongoing mentoring and on the job coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the

building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit involves:

- Engagement partner participation in planning discussions
- Tracking the progress of the audit engagement
- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement
- Helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately and
- Identifying matters for consultation with more experienced team members during the engagement.

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

Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognizes that documentation prepared on a timely basis helps to enhance the

quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalized. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the audit report but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- The nature, timing, and extent of audit procedures performed to comply with the ISAs
- Applicable legal and regulatory requirements
- The results of the procedures performed, and the audit evidence obtained
- Significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained) and
- The basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

We have a formal document retention policy in accordance with applicable laws and regulations that govern the period we retain audit documentation and other client-specific records.

Appropriate involvement of the EQC reviewer

EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgments made by the engagement team. They are experienced audit professionals who are independent of the engagement team. They provide an objective review of the more critical and judgmental elements of the audit.

An EQC reviewer is required to be appointed for the statutory audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit. Before the date of the auditor's report, these individuals review:

- Selected audit documentation and client communications
- Appropriateness of the financial statements and related disclosures and
- Significant judgments the engagement team made and the conclusions it reached with respect to the audit.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved.

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

In recent years KPMG International have taken a number of actions to reinforce this, including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- Incorporating specific procedures in eAudIT to facilitate effective reviews and
- Implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

Reporting

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

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

In response to calls from users for the auditor's report to provide more than a pass/fail opinion, the IAASB has issued new requirements on auditor reporting. Without changing the scope of an independent audit, these requirements open the door for the auditor to give users more insight into the audit and improve transparency.

By clarifying what the independent audit really is, the new auditor's report will help enhance the nature of communications with stakeholders and enable users to recognize the value of audit.

The new requirements apply for audits of financial statements for periods ending on or after 15 December 2016.

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

Two-way communication with those charged with governance is key to audit quality. Often the audit committee will be the group identified as those charged with governance. We stress the importance of keeping those charged with governance informed of issues

arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and ongoing discussions with members of the audit committee.

We deliver insights such as our assessment of the appropriateness of significant accounting practices, including accounting policies, accounting estimates, financial statement disclosures, significant deficiencies in the design and operation of financial reporting systems, controls when such deficiencies come to our attention during the course of the audit and any uncorrected misstatements. We share our industry experience to encourage discussion and debate with those charged with governance.

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, KPMG International's Audit Committee Institute (ACI) aims to help audit committee members enhance their awareness, commitment and ability to implement effective audit committee processes. The ACI operates in 35 countries across the globe and provides audit committee members with authoritative guidance on matters of interest to audit committees as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance

process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits, e.g., emerging markets and business environments that may be subject to heightened fraud risks.

Consistent approaches, methodology and tools are used across the KPMG network. The lead audit engagement partners are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities including, where appropriate, the results of relevant inspections.

The group audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

Client confidentiality, information security and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, that all of our professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA rules as well as other applicable laws and regulations.

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

Commitment to continuous improvement

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of

mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

Member firms are required to compare the results of internal monitoring programs with the results of those of external inspection programs and take appropriate action.

Monitoring

Internal monitoring

KPMG International has an integrated monitoring program that covers all member firms to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and important KPMG International policies and procedures. The results and lessons from the programs are communicated within each member firm, and the overall results and lessons from the programs are considered and appropriate action taken at regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- Compliance with KPMG's policies and procedures
- The effectiveness of training and other professional development activities and
- Compliance with applicable laws and regulation and member firms' standards, policies, and procedures.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions, the Quality

Performance Review Program and the Risk Compliance Program.

Additionally all member firms are covered by cross-functional Global Compliance Reviews. These programs are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network.

Quality Performance Reviews (QPRs)

The international QPR Program is the cornerstone of KPMG International's efforts to monitor engagement quality and one of its primary means of ensuring that member firms are collectively and consistently meeting both KPMG International's requirements and applicable professional standards. The QPR Program assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality. All engagement partners are generally subject to selection for review at least once in a three-year cycle. A risk-based approach is used to select engagements.

Engagement partners and key auditors are subject to one or more additional reviews when rated less-than-satisfactory (LTS) or when otherwise determined appropriate.

The reviews are tailored to the relevant function, performed at a member firm level, generally overseen by a senior experienced lead reviewer independent from the member firm, and are monitored regionally and globally.

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review. Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

Consistent criteria are used to determine engagement ratings and member firm audit practice evaluations. Audit engagements selected for review are rated as Satisfactory, Performance Improvement Needed or Unsatisfactory. Tax and Advisory use different ratings.

We perform a root cause analysis for pervasive issues. Remedial action plans for all significant deficiencies noted are required at an engagement and member firm level. We disseminate our findings from the QPR Program to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

It is the primary responsibility of member firms to identify and develop appropriate remediation plans for quality issues identified during QPR. Accordingly, member firms are required to accumulate audit quality deficiencies and assess their pervasiveness.

Head of Audit is responsible for the development and implementation of action plans in such cases and Quality and Risk Management Partner monitors their implementation.

Network-wide QPR results and implications for further actions are reviewed by the Global Audit Quality Issues Council, on behalf of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group.

Lead audit engagement partners are notified of less than satisfactory engagement ratings on their respective

cross-border engagements. Additionally, lead audit engagement partners of parent companies / head offices are notified where a subsidiary / affiliate of their group is audited by a member firm where significant quality issues have been identified during the Audit QPR.

Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC-1.

The RCP is a member firm's globally administered annual self-assessment program.

The objectives of the RCP are to:

- Monitor, document and assess the extent of compliance of the member firm's system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services
- Provide the basis for member firms to evaluate that the member firm and its personnel comply with relevant KPMG professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified the member firm is required to undertake a root cause analysis and put in place remediation action plans.

Global Compliance Review Programs (GCRs)

Every member firm is subject to an independent GCR at least once every 3 years. The GCR provides external validation of a member firm's system of quality control, including:

- The member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support reinforce this commitment
- The completeness and robustness of the member firm's RCP, by evaluating whether there was:
 - Appropriate documentation of policies, processes and related controls in place
 - Adequate testing of the effectiveness of controls
 - Proper conclusions in relation to issues and corrective action necessary as reported in the RCP action plan.

The GCR team performing the reviews is independent of the member firm, objective and knowledgeable of Global Quality and Risk Management policies and reports to the Global Vice Chair - Quality, Risk and Regulatory.

The GCR team communicates all findings to the Senior Partner and the Risk Management Partner.

The member firm is required to develop action plans to respond to all GCR findings and agree these with the GCR team. The member firm's progress on action plans is monitored by a Global GCR Central Team.

Results are reported to the Global Quality & Risk Management Steering Group, and where necessary to appropriate global and regional leadership, to ensure timely remedial actions.

All three programs require action plans to address identified issues, with timelines, to be developed by the

member firm, and these actions to improve performance are followed up at the regional and global level to ensure that the actions address identified issues with the objective of continuous improvement.

External monitoring

As an audit firm auditing public interest entities, KPMG Bulgaria is subject to regular quality assurance review of the audit practice, carried out by the Bulgarian Commission for Public Oversight of Statutory Auditors (CPOSA) at least every three years. The last regular review of KPMG Bulgaria was performed by CPOSA in November 2013 and covered the period 1 July 2012 – 30 June 2013. The purpose of the review was to assess the design and implementation of the audit quality control system used with respect to audit engagements; the performance of the audit engagements in compliance with professional standards, regulatory and statutory requirements; compliance with the ethics requirements of the IESBA Code of Ethics for Professional Accountants; appropriate and adequate evidence in the audit work papers; appropriateness of time and human resources allocated to the reviewed audit engagements; and fees received. The report of the Commission as a result of the examination states that the activities of KPMG Bulgaria as a registered audit company for the period under review were in compliance, in all material aspects, with the audit service quality requirements and the procedures stipulated by auditing standards.

No issues that have a material impact on the conduct of our statutory audit business have been identified.

As part of the quality control and the requirements for transparency in the audit practice KPMG Bulgaria maintains a list of public interest entities audited by the company for the financial year ended 31 December 2015. The list is provided as [Appendix 1: Public interest entities to the report](#).

Client feedback

In addition to internal and external monitoring of quality, we operate a formal program where we actively solicit feedback from client management and those charged with governance on the quality of specific services that we have provided to them. The feedback that they receive from this program is formally considered centrally and by the 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 engagement partner to ensure that concerns on quality are dealt with on a timely basis.

Monitoring of complaints

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

Interaction with regulators

At an international level KPMG International has regular two way communication with the International Federation of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG) to discuss issues identified and actions taken to address such issues at a network level.

Financial information

Presented below is financial information about the overall consolidated revenue of KPMG Bulgaria OOD and its subsidiary KPMG Advisory EOOD for the years ending on 31 December 2015 and 31 December 2014.

Service	2015 Revenue BGN '000	2014 Revenue BGN '000
Independent Financial Audit	7,388	9,191
Other Audit and Related Services	558	1,038
Tax	7,961	8,364
Advisory	5,602	6,977
Total	21,509	25,570

Partner compensation

The partners' compensation system is based on common principles adopted by the Regional Board of KPMG in CEE and is designed to reflect individual partner's responsibilities and experience, their role in the management of the professional practices and the firm as a whole, as well as local market conditions. The objectives set to each partner cover both financial indicators and results such as growth in revenue and profitability as well as the quality of work and excellence in client service, leadership and living the values of the firm.

Partners' target compensation is set by the Managing Partner in consultation with the Chairman of KPMG CEE Board. The compensation has two elements:

- Base – This is the remuneration determined as a proportion of the firm's budgeted profits. The amount of the base component reflects the role and seniority of each partner
- Performance profit related component – This reflects the annual partner's performance against set individual objectives, that of the relevant function and his/her contribution to the development of the firm.

The amount of the performance profit related component awarded at the conclusion of the financial year depends on the partner's performance and is subject to availability of distributable profits.

Network arrangements

Legal structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

The 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 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 that 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. More information about the KPMG network can be found in the [2015 International Annual Review Report](#).

Responsibilities and obligations of member firms

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 firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), 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.

Member firms commit to a common set of KPMG values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

Governance structure

The key governance bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details on KPMG International's governance structure can be found in the [2015 KPMG International Transparency Report](#).

Area Quality & Risk Management Leaders

KPMG International has a network of Area Quality & Risk Management Leaders (ARLs), reporting to the Global Vice Chair – Quality, Risk and Regulatory. The ARLs are members of the Global Quality & Risk Management Steering Group and each ARL performs a monitoring function over a group of member firms. Their role is to enhance the KPMG network's ability to proactively monitor quality and risk management across member firms.

Statement by the Partners of KPMG Bulgaria on the effectiveness of quality controls and independence

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

Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Partners of KPMG Bulgaria have considered:

- The design and operation of the quality control systems as described in this report
- The findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in section [Internal Monitoring](#) and our local compliance monitoring programs) and
- Findings, if any, from regularly scheduled regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Partners of KPMG Bulgaria confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 December 2015.

Further, the Partners of KPMG Bulgaria confirm that an internal review of independence compliance within our firm has been conducted over the last financial year.

Sofia, 31 March 2016

The Partners of KPMG Bulgaria

Appendix 1

Public interest entities

The definition of public interest for this purpose is that given under the provisions of the IESBA Code of Ethics and the Bulgarian Independent Financial Audit Act, as follows:

Per the IESBA Code of Ethics, public interest entities are:

- (a) All listed entities; and
- (b) Any entity
 - i. Defined by regulation or legislation as a public interest entity or
 - ii. For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Per the definition in the Bulgarian Independent Financial Audit Act (effective until 31 December 2015), public interest entities are:

- (a) Listed entities and securities issuers in the country, as well as in another European Union country, and the European Economic Area
- (b) Credit institutions
- (c) Insurance companies, reinsurance companies, health insurance companies and pension insurance companies

- (d) Commercial entities which generate, transmit and sell electricity and heating energy
- (e) Commercial entities which import, transmit, distribute and transit gas
- (f) Commercial entities which provide water, sewage and telecommunication services and
- (g) Bulgarian State Railways EAD and its subsidiaries.

The list of public interest entities audited by the firm for the financial year ending 31 December 2015 is as follows:

Allianz Bank Bulgaria AD
Asarel Chista Energia EOOD
Axpo Bulgaria EAD
EVN Bulgaria Electrorazpredelenie EAD
EVN Bulgaria Electroshabdiavane EAD
EVN Bulgaria Toplofikatsia EAD
EVN – Kavarna EOOD
EVN Trading South East Europe EAD
E.V.T. – Electra Volt Trade AD
Frea Axpo OOD
GRAWE Bulgaria Jivotozastrahovane AD
Grazer Wechselseitige Versicherung AG, Zweigniederlassung fur Bulgarien, Sofia
Herti AD
Kaliakra Wind Power AD
Lukoil Energy and Gas Bulgaria EOOD
Lukoil Neftochim Bourgas AD
Naturkraft EOOD
Pension Assurance Company Doverie AD
POD Allianz Bulgaria AD
Raiffeisenbank (Bulgaria) EAD
Raiffeisen Bulgaria Active Protection Fund
Raiffeisen (Bulgaria) Global Growth Fund
Raiffeisen Conservative Fund Bulgaria
Sofiyska Voda AD
Sviloza AD
Turk Telekom International BG EOOD
Veolia Energy Bulgaria EAD
Veolia Energy Varna EAD
ZAD Allianz Bulgaria
ZAD Allianz Bulgaria Zhivot
ZAD Bulstrad-Life Vienna Insurance Group
ZAD Bulstrad Vienna Insurance Group
ZAD Energy

KPMG's Global Values

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other:

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 candor.

We are committed to our communities.

We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.

Above all, we act with integrity.

We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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