

Transparency Report 2016

„HLB Bulgaria“ Ltd.

28 April 2017



Under the provisions of art.23 of the Law on Independent Financial Audit

Inspired Around the World

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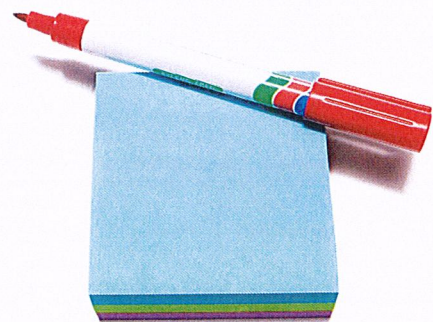
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1. Legal Status and Ownership

“HLB Bulgaria” Ltd. (“Company”) is registered under the Trade Law of Republic of Bulgaria. The company was established on 25 March 1999, under company file № 4023/1999, of the Sofia City Court as “BIEX Audit” Ltd. On 13 June 2008 the Company was renamed to “HLB Bulgaria” Ltd.

Shareholders of the Company are:

- Milena Velcheva Hristova – General Manager, Certified Public Accountant, owning 500 shares (or 50% of the equity);
- Vaska Todorova Gelina - General Manager, Certified Public Accountant, owning 20 shares (or 2% of the equity);
- Mario Volodiev Zaharinov, owning 240 shares (or 24% of the equity);
- Lyubomir Volodiev Zaharinov, owning 240 shares (or 24% of the equity).

The following Certified Public Accountants – Registered Auditors worked in the Company for the period:

- Vaska Todorova Gelina, Diploma № 667 from ICPA;
- Milena Velcheva Hristova, Diploma № 707 from ICPA;
- Ivan Valeriev Petkov, Diploma № 676 from ICPA
- Veronika Borisova Revalska, Diploma № 815 from ICPA

The Company is an audit firm, registered at the Institute of Certified Public Accountants (ICPA) under № 017. The main activity of the company is independent financial audit and consulting.

2. Network, where HLB is a member

„HLB International” (“HLBI”) is international network of independent audit companies and business consultants, created in 1969. The network members are situated in more than 100 countries with 14,000 personnel in 480 offices.

At the beginning of 2008, after an analysis and evaluation of the quality of services, the specialized audit company was accepted as a member of the HLBI and on 11.04.2008, "BIEX Audit" Ltd signed a contract with HLBI.

Under the terms of the contract:

- The Company is required to perform its activity in accordance with internationally recognized procedures and criteria for quality control adopted by HLBI.
- HLBI undertakes not to appoint other representatives in the country without the consent of "HLB Bulgaria" Ltd.
- The Company is committed to make every effort to fulfill the engagements that were forwarded by another member of HLBI. Based on its discretion the Company may refuse to execute such engagements if they are considered to be unacceptable.
- The Company must implement all HLBI procedures, designed to improve the quality of audit services.
- The Company is subject to quality control reviews on the performed audit services. The reviews are done by a member firms defined by HLBI



3. Management Structure

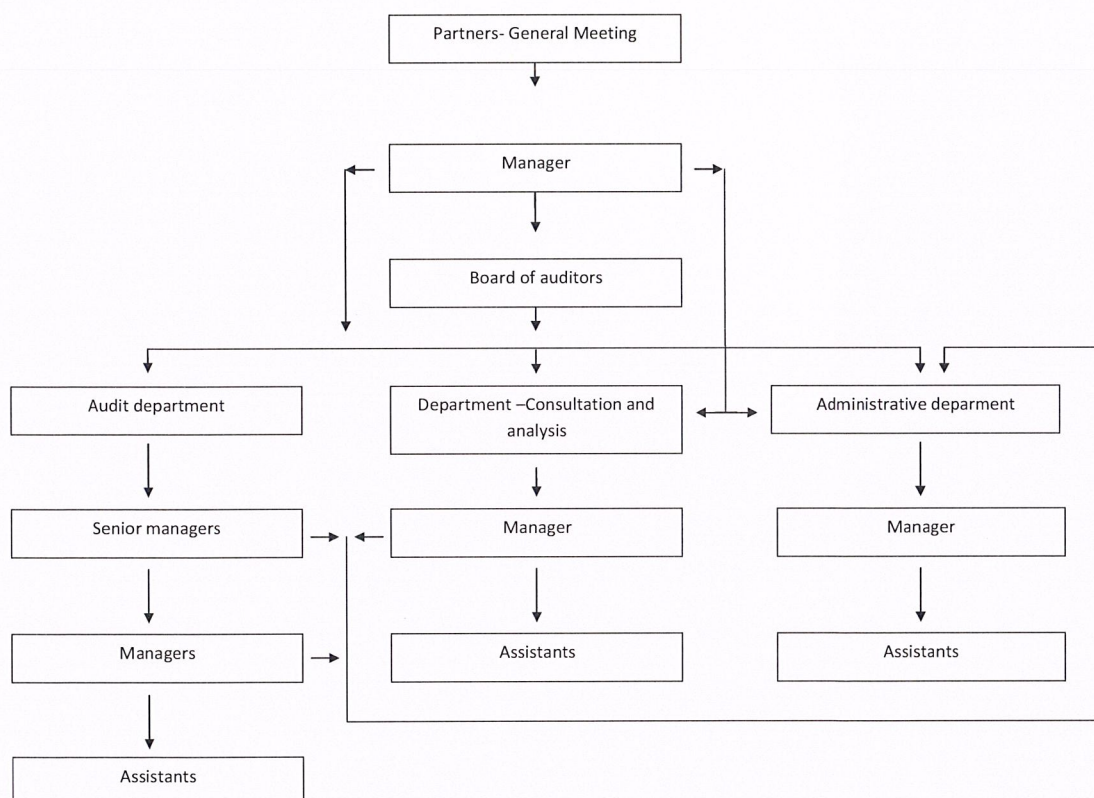
Representatives of the Company:

- Milena Hristova – General Manager;
- Vaska Gelina - General Manager;
- Julia Kafalieva – “Procurator”.

Managers of the Company:

- Milena Hristova – General Manager;
- Vaska Gelina – General Manager.

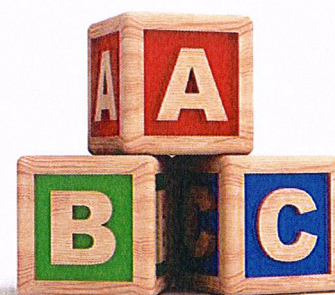
3.1 Organizational Structure



3.2 Basis of formation of partner’s remuneration

The partners, who are owners of the share capital of the company and who are directly involved in its activity, are employed by the audit company. The received remunerations are formed under an employment contract and additional fees depending on their results. A dividend is received after decision for profit distribution.

Shareholders equity owners of the Company who are not directly involved in the company’s activity receive dividends after a decision for profit distribution.



4. System of Internal quality control

Company's rules for professional audit practice are binding on all partners and employees of the company, regardless of their status and position. Company's rules for professional audit practice include provisions and rules for internal quality control. People responsible for the audit engagement teams are obliged to implement procedures for ongoing monitoring of the quality of the engagement, which should be tailored to the individual audit engagement and respond to internal rules.

Quality control procedures of the audit services on different engagements are performed by an auditor, different from the responsible one. Board of certified Auditors of the Company considers all matters relevant to the quality control of the audit services and once a year is testing a sample of the engagements to see whether it is in compliance with company's policy and quality control procedures. Discuss and provides solutions for issues occurred in the course of their audit work related to quality control.

Under the structure of the Company, the Board of certified Auditors is responsible for the construction, operation and evaluation of the effectiveness of internal quality control. The Board of certified Auditors has not found violations of quality control audit services in 2016.

4.1 Last quality review by the Commission for Public Oversight of certified auditors

The Chairman of the Commission for Public Oversight of certified auditors has issued an Order № 04-017-47-80/20.12.2016 for a quality review of the auditing practice of audit firm HLB Bulgaria Ltd. For the period 01 July 2015 until 30 June 2016. The review has finished with a report dated 03.02.2017 stating that the activity of the Company in the monitored period is in compliance with all material aspects of the requirements for the quality of audit services in the application of the procedures determined in the professional standards.

4.2 Independence policies

The Company complies with independence policy, which is consistent with the International Auditing Standards, the Law on Independent Financial Audit and "HLB Bulgaria" Ltd policy. Independence policy is mandatory for compliance by all partners and employees.

All Partners and all employees are required to meet with the rules and independence policy applied by the company. Partners and employees declare and confirm on an annual basis the principles of independence and all circumstances related to this policy. Upon any change of circumstances each partner and employee must immediately declare this change to the management of the company. The Company annually examines the circumstances declared.

4.3 Rotation of auditors, responsible for audits

We do follow the requirements of the Code of The International Ethics Standards Board for Accountants and the Law for independent financial audit, for the cases when a rotation is required.

The rotation of the engagement partners, together with the applicable independence requirements, the improved internal control systems for the quality of audit services facilitate the enhancement of independence and objectivity, with an ultimate goal for improving the quality of the provided audit services by the company.

The global independence policy of HLBI for audits of entities of public interest requires the engagement auditor and the engagement quality control review auditor to be rotated in 5 /five/ years. Apart from that, this responsible auditor is not allowed to participate in the audit engagement for a two year period, counting from the date of rotation.

For all other assurance engagements, rotation is made in 7 years, with two years term for non-accepting the same engagement after the rotation date. Rotation terms can be shorter, if the Council of auditors decides so.

For all other assurance engagements, if the same engagement partner has been leading the audit for more than 7 years, then the firm must accept that this situation creates an independence threat, with respect to close relations. The engagement partner must document this threat and it is mitigated to an acceptable level before the initiation of audit, by rotating the engagement partner for the engagement or by a requirement for quality control review on the engagement, where applicable.

5. Audit clients of HLB Bulgaria – entities of public interest

HLB Bulgaria is engaged to carry out legal audits for financial year ended as at 31.12.2016 of the following companies, involved in activities of “public interest”:

| | |
|--------------------------------|--|
| „Trace Group Hold” AD | „Vipom” AD |
| „SolarPro Holding”AD | “Yuteks Holding” AD |
| „Agro Finance“ ADSITS | „Bulgarian Stock Exchange - Sofia“ AD |
| „Bulgarian Energy Holding“ EAD | „Natsionalna Elektricheska Kompania” EAD |
| “NPP Kozloduy” EAD | “Bulgargaz” EAD |
| “TPP Maritsa Iztok 2” EAD | “Mini Maritsa Iztok” EAD |
| ZD „Bul Ins“ AD | „Vodosnabivane i Kanalizatsia“ EOOD, Plovdiv |

6. Staff participation in training organized by ICPA and other organizations

In 2016 the employees of the Company were involved in the following trainings:

- Conclusion stage of audit and preparation of modified audit reports – auditor’s responsibility according to ISA and basic audit procedures;
- Audit theory and practice in ISA for specialized areas (related parties, legal compliance, going concern) in the stages of planning, performing and completion of audit;
- Forth National meeting of experts on the application of VAT and Corporate tax laws – 2016 (Expert forum for complex issues and options for various solutions);
- Extended auditors’ reports;
- Law for managers.

7. Revenue from services provided

The Company revenue from services provided in 2016 amounted to BGN 3,143 thousand (€ 1,607 thousand), formed by the following types of service:

- **Revenue from services related to independent audit amounted to: BGN 1,472 thousand (€ 753 thousand) including:**
 - ✓ Revenues from compulsory audit of annual financial statements – separate and consolidated, of entities of public interest and entities, part of a group, whose mother company is an entity of public interest – BGN 881 thousand (€ 450 thousand)
 - ✓ Revenues from compulsory audit of annual financial statements – separate and consolidated, of other entities BGN 591 thousand (€ 302 thousand)
- **Revenues from services, other than audit, provided to other clients: BGN 1,654 thousand (€ 846 thousand)**
- **Revenues from allowed services, other than audit, provided to the audited entities – BGN 17 thousand (€ 9 thousand)**

Milena Hristova:

/General Manager/

Vaska Gelina:

/General Manager/

„HLB Bulgaria” Ltd.

Sofia, 28 April 2017

