

Transparency report for year 2018

HLB Bulgaria OOD

25 April 2019



According to the requirements of art.62 of the Independent Financial Audit Act

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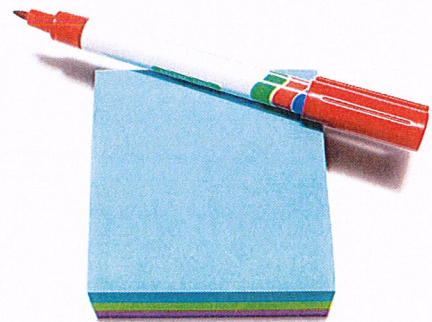
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1. Legal Status and Ownership

HLB Bulgaria OOD (the Company) is registered under the Commercial Law of the Republic of Bulgaria. It was registered on 25.03.1999 with the Commercial Register at the Registry Agency under company file No 4023/1999 as BX AUDIT OOD. As of June 13, 2008, the Company has been renamed to HLB Bulgaria OOD.

The following persons are the owners of the capital of the Company:

- Veronica Borisova Revalska - Manager – Statutory auditor, owning 500 shares (or 50% of total capital);
- Svetlana Tsvetanova Pavlova – Statutory auditor, holding 20 shares (or 2% of total capital));
- Mario Volodiev Zaharinov, holding 240 shares (or 24% of total capital);
- Lubomir Volodiev Zaharinov, holding 240 shares (or 24% of the total capital)).

Certified Public Accountants, Statutory Auditors working for the Audit Company for the period are:

- Vaska Todorova Gelina with diploma No 667 of ICPA;
- Milena Velcheva Hristova with diploma No 707 of ICPA;
- Stoyan Dimitrov Stoyanov with diploma No 043 of ICPA;
- Veronica Borisova Revalska with diploma No 815 of ICPA;
- Svetlana Tsvetanova Pavlova with diploma No 633 of ICPA.

HLB Bulgaria OOD is an Audit Company, registered under No. 017 in the register of the Institute of Certified Public Accountants in Bulgaria (ICPA). The main activity of the Company is to carry out independent financial audit of financial statements and consultations.

2. Network, where the Audit Company is a member

HLB International is a network of independent international consulting and accounting firms established in 1969. Its members are situated in 153 countries, which collectively have 27,000 employees in 745 offices.

At the beginning of 2008, after an analysis and evaluation the quality of the services provided, the Audit Company was accepted as a member of HLB International and on April 11, 2008, BX AUDIT OOD signed a contract with HLB International.

Under the terms and conditions of the contract:

- The company is required to perform its activities in accordance with the internationally recognized procedures and criteria for quality control adopted by HLBI.
- HLBI shall be obliged not to appoint other representatives on the territory of the country without the consent of HLB Bulgaria OOD.
- The Company is committed to make every effort to fulfil the engagements forwarded to the Company by another HLBI Member, and may on its own discretion refuse to fulfil such an engagement if it deems it unacceptable.
- The company must implement all HLBI procedures established to enhance the quality of audit services.
- The company is subject to reviews by HLBI concerning the quality of the audit services offered.



3. Management structure

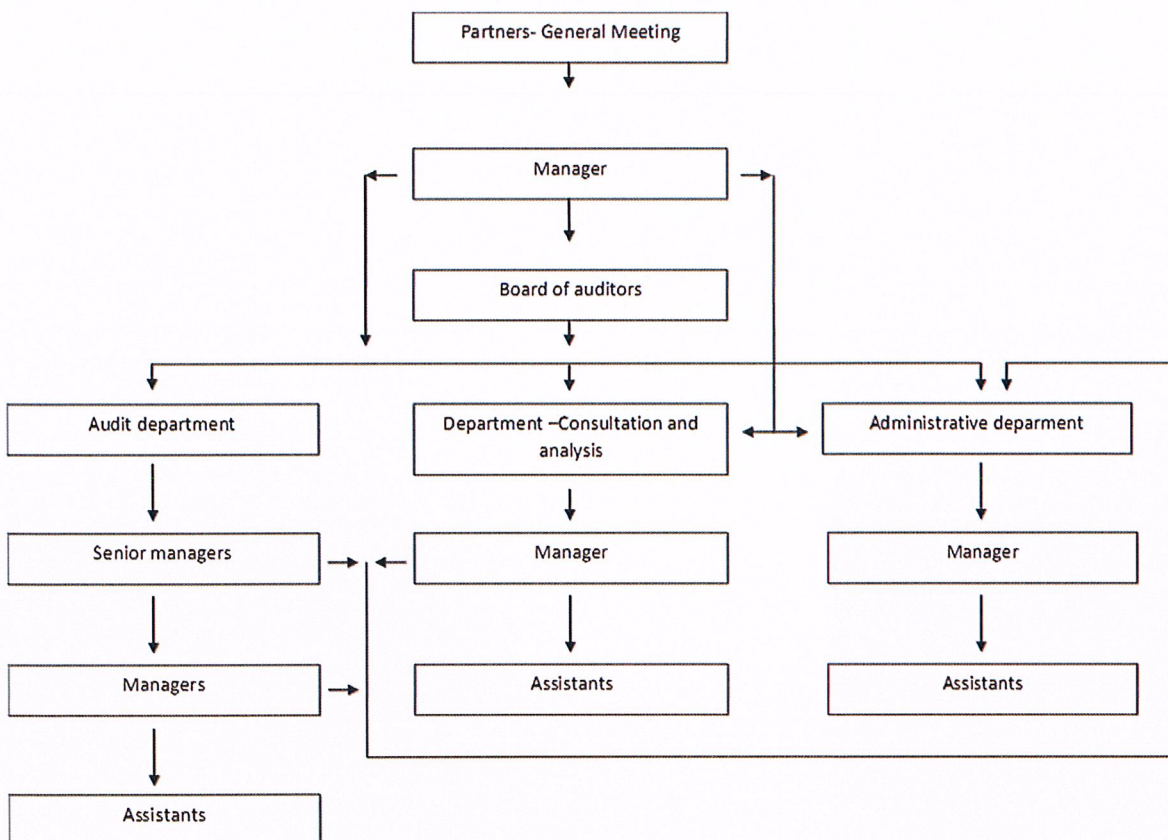
Persons representing the Company:

- Veronica Revalska – General Manager;
- Julia Kafalieva - Procurator.

Persons entrusted with the management of the Company's activities:

- Veronica Revalska – General Manager

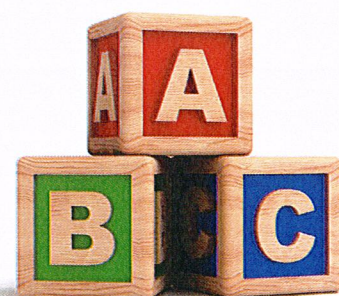
3.1 Organisational Structure



3.2 Basis of formation of partners' remuneration

The partners, who are the owners of the capital of the Company and who are directly involved in the activity, have employment relations with the Audit Company. The remuneration they receive is formed on the basis of a monthly remuneration under an employment contract and additional remuneration depending on the results achieved. They also receive a dividend on profits after a decision on distribution has been made.

Shareholders equity owners of the capital of the Company who do not participate directly in the Company's activity receive a dividend from the profit after the decision on distribution has been made.



4. System of Internal quality control

The Company's Rules on Auditing Professional Practice are binding on all partners and employees of the Company, irrespective of their status and position. The rules for the auditing professional practice of the Company include provisions and rules for internal quality control of the Auditing Company. Designated audit team members for the auditing engagements are required to perform ongoing monitoring procedures for the quality of engagement performance which should comply with the individual audit engagement and correspond to the internal rules.

Quality control procedures of the audit services on individual engagements are performed by an auditor different from the person responsible for the engagement. The Board of Statutory Auditors of the Company addresses all issues related to the quality control of audit services and annually tests a sample of engagements on the compliance with the Company's general policy and quality control procedures. It discusses and resolves issues arising in the course of the audit work related to quality control.

Under the structure of the Company, the Board of Auditors is responsible for the establishment, operation and evaluation of the performance of internal quality control system. The Board of Auditors found no violations of the quality control rules for audit services in year 2018.

The quality control system's rules, procedures and policies are laid down in detail in the Manual on quality control of audit services, and they are in line with the requirements of ISQC1 and IAS. The purpose of the internal rules is to ensure the functioning of the quality control system, so that to provide a reasonable degree of assurance that the audit firm complies with professional standards and applicable legal requirements.

The management of HLB BULGARIA OOD considers that the quality control system established in the Company is functioning effectively.

4.1 Last quality review performed by the Commission for Public Oversight of Statutory Auditors

With the Order No 04-017-47-80/20.12.2016 of the Chairman of the Commission for Public Oversight of Statutory Auditors review is assigned on the audit practice quality of the Audit Company HLB Bulgaria OOD for the period from 1 July 2015 to 30 June 2016. The inspection of the Company's audit practice completed with a Report dated 03.02.2017, with the opinion that the activity of the Audit Company for the period under review is in compliance with all material aspects of the requirements for the quality of audit services provided in applying the procedures set out in the professional standards.

4.2 Independence policies

The Company adheres to a policy of independence that complies with International Audit Standards and the Independent Financial Audit Act, and the policy of HLB Bulgaria OOD. Independence policy is mandatory for compliance by all partners and employees of the company.

All partners and employees of the company are required to meet with the rules and the policy of independence applied by the Company. Each partner and employee annually declares circumstances to confirm the compliance with the principles of independence and any circumstances related to compliance with this policy. Upon any change of circumstances, each partner and employee is obliged to immediately declare such change to the management of the company. The management of the Company annually checks the declared circumstances.

4.3 Rotation of auditors, responsible for the audit

We comply with the requirements of the Code of The International Standards Board for Accountants (IESBA) and the Independent Financial Audit Act where rotation is required.

The rotation of responsible auditors, together with the applicable independence requirements, improved internal quality control systems for audit services contribute to enhancing independence, objectivity, which aims in improving the quality of the audit services offered by the Company.

HLBI's global independence policy for audits of public-interest entities requires that the auditor for the engagement and the auditor for the engagement quality review to be rotated (rotation) at 5 / five / years. In addition, this responsible auditor is not allowed to participate in the audit engagement for two years from the date on rotating basis.

For all other engagements of assurance pronouncements, the rotation is 7 years with a two-year period of no-accepting such engagements from the date of rotation. The terms of rotation may also be shorter by decision of the Board of Auditors.

For all other engagements of assurance pronouncements, if the same partner on the engagement has conducted the audit for more than 7 years, the company must accept that this situation poses a threat to independence concerning the close relationships. The partner on the engagement should document this threat and how it has been reduced to an acceptable level before the audit begins, by rotating the partner on the engagement or requiring a review on quality assurance of engagement, where applicable.

5. Audit customers of HLB Bulgaria – public-interest entities

HLB Bulgaria OOD is required to carry out statutory audits for the financial year ending 31 December 2018 of the following entities operating in the public interest:

1. AGRO FINANCE REID
2. TPP MARITSA EAST 2 EAD
3. NPP KOZLODUY EAD
4. BULGARGAS EAD
5. BULGARIAN ENERGY HOLDING EAD
6. NATSIONALNA ELEKTRICHESKA KOMPANIA EAD
7. DOVERIE UNITED HOLDING AD
8. INSURANCE COMPANY MEDICO 21 JSC
9. UNITED HEALTH INSURANCE FUND DOVERIE SA
10. EUROHOLD BULGARIA SA
11. EUROLEASE AUTO AD
12. EUROLEASE GROUP EAD
13. STARCOM HOLDING AD
14. ALLIANZ BANK BULGARIA AD
15. INSURANCE COMPANY ENERGY AD
16. INSURANCE COMPANY ALLIANZ BULGARIA AD
17. INSURANCE COMPANY ALLIANZ BULGARIA LIFE AD
18. PENSION INSURANCE COMPANY ALLIANZ BULGARIA AD
19. UTEX HOLDING AD
20. BULGARIAN STOCK EXCHANGE AD
21. INDEPENDENT BULGARIAN ENERGY EXCHANGE EAD
22. VIPOM VIDIN AD
23. INSURANCE COMPANY BULINS AD
24. BULSTRAD LIFE VIENNA INSURANCE GROUP EAD
25. INSURANCE COMPANY BULSTRAD VIENNA INSURANCE GROUP EAD
26. INSURANCE COMPANY NOVAINS EAD
27. GROUPAMA INSURANCE EAD
28. GROUPAMA LIFE INSURANCE EAD
29. BDZ CARGO EOOD
30. MOTOBUL EAD

6. Staff participation in trainings organised by ICPA and other organisations

In 2018, the Audit Company staff participated in the following trainings:

- Protection of personal data - new regulations and practical cases;
- IFRS 17 Insurance agreements;
- IFRS 16 Leasing and IFRS 15 Revenue from contracts with customers;
- IFRS 16 Leasing and IFRS 9 Financial instruments;

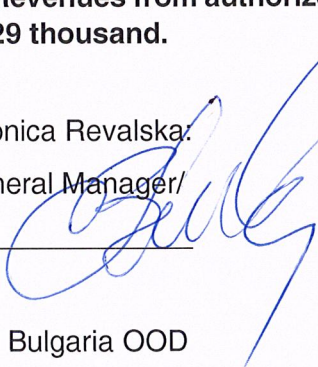
- Protection of personal data Audit communication - manipulation and counteraction;
- Amendments in the Corporate Income Tax Act for 2018 and 2019 Annual Tax Closure of 2018; Practical Highlights of the Corporate Income Tax Act and Accounting legislation;
- IFRS review. New (IFRS 9, 15 and 16) and amended standards. Impact of new and amended standards on the audit;
- Risk assessment tools in the organization;
- Practical training on consolidation;
- Annual (December) tax credit adjustments. Current highlights in VAT taxation in 2018. Expected amendments in the VAT Act in 2018;
- Practical considerations for the audit of small and medium-sized enterprises related to the identification and assessment of risks from material incorrect reporting and the definition of an appropriate audit strategy in response to the assessed risks (IAS 315 and IAS 330).

7. Revenue from services provided

In 2018, the Company revenue from services provided amounted to BGN 2,640 thousand, formed by the following types of services:

- **Income from statutory audit of annual financial statements: BGN 1,926 thousand incl.**
 - ✓ Revenues from statutory audit of annual financial statements - individual and consolidated, of public-interest entities and entities which are part of a group and the parent company is a public-interest entity in Bulgaria - BGN 1,156 thousand.
 - ✓ Revenues from statutory audit of annual financial statements - individual and consolidated, of other entities - BGN 770 thousand.
- **Revenues from services other than audit provided to other clients: BGN 685 thousand.**
- **Revenues from authorized services other than audit provided to the audited entities - BGN 29 thousand.**

Veronica Revalska:
/General Manager/



HLB Bulgaria OOD
Sofia, 25 April 2019

