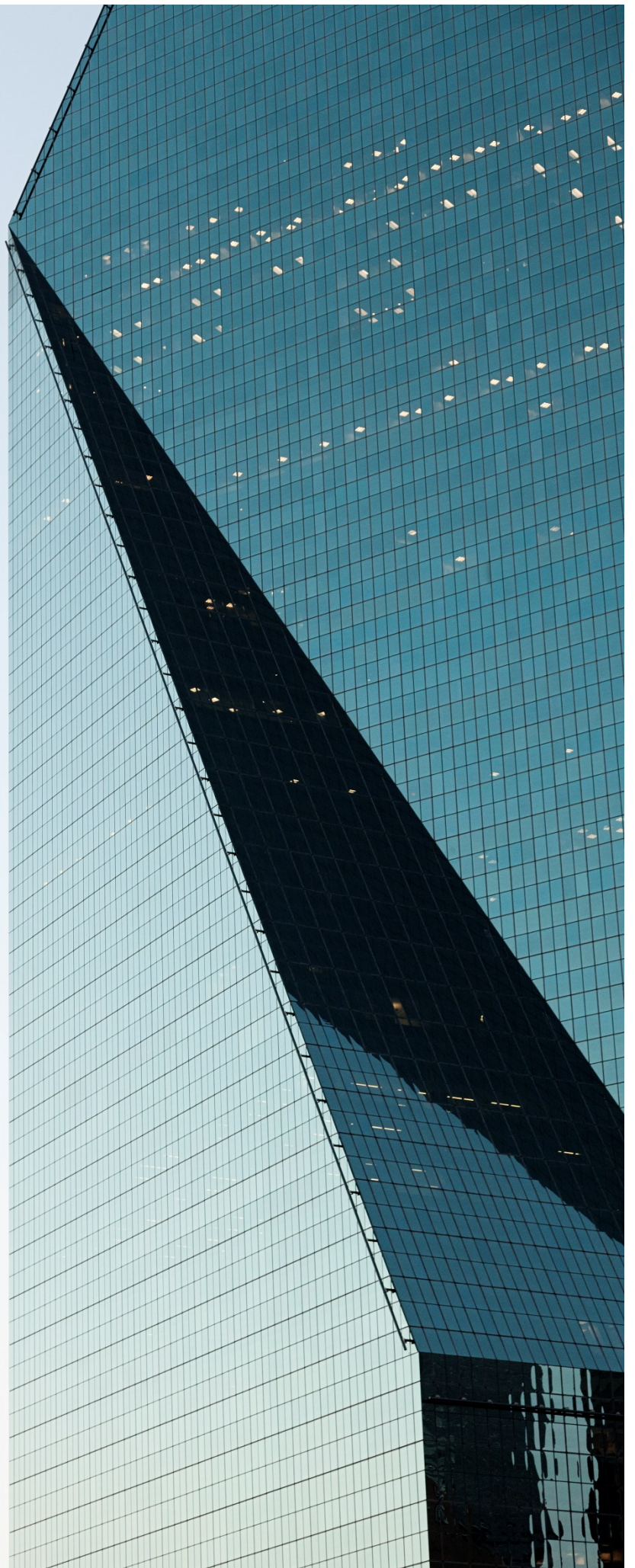


2016 Transparency Report

Samjong KPMG



Contents

- 1 WHO WE ARE..... 4**
 - 1.1 OUR BUSINESS.....4
 - 1.2 OUR STRATEGY.....4

- 2 OUR STRUCTURE AND GOVERNANCE..... 4**
 - 2.1 LEGAL STRUCTURE.....4
 - 2.2 NAME AND OWNERSHIP4
 - 2.3 GOVERNANCE STRUCTURE.....4

- 3 SYSTEM OF QUALITY CONTROL..... 5**
 - 3.1 TONE AT THE TOP.....6
 - 3.2 ASSOCIATION WITH THE RIGHT CLIENTS7
 - 3.3 CLEAR STANDARDS AND ROBUST TOOLS.....8
 - 3.4 RECRUITMENT, DEVELOPMENT AND ASSIGNMENT OF APPROPRIATELY QUALIFIED PROFESSIONALS11
 - 3.5 COMMITMENT TO TECHNICAL EXCELLENCE AND QUALITY SERVICE DELIVERY13
 - 3.6 PERFORMANCE OF EFFECTIVE AND EFFICIENT AUDIT14
 - 3.7 COMMITMENT TO CONTINUOUS IMPROVEMENT17

- 4 FINANCIAL INFORMATION..... 18**

- 5 PARTNER REMUNERATION 19**

- 6 NETWORK ARRANGEMENTS..... 19**
 - 6.1 LEGAL STRUCTURE.....19
 - 6.2 RESPONSIBILITIES AND OBLIGATIONS OF MEMBER FIRMS.....20
 - 6.3 PROFESSIONAL INDEMNITY INSURANCE.....20
 - 6.4 GOVERNANCE STRUCTURE.....20
 - 6.5 AREA QUALITY & RISK MANAGEMENT LEADERS21

- 7 STATEMENTS BY THE BOARD OF KPMG KOREA ON THE EFFECTIVENESS OF QUALITY CONTROLS AND INDEPENDENCE 22**

- A. APPENDICES..... 24**
 - A.1 KEY LEGAL ENTITIES AND AREAS OF OPERATION24
 - A.2 DETAILS OF THOSE CHARGED WITH GOVERNANCE AT KPMG KOREA.....25
 - A.3 PUBLIC INTEREST ENTITIES26
 - A.4 KPMG’S GLOBAL VALUES30

Message from our CEO

Welcome to our 2016 Transparency Report, which sets out the structure and governance of KPMG Samjong Accounting Corp. (“KPMG Korea”) as well as the quality control procedures and standards of integrity that we adopt across the range of our services.

We are mixing our core values and vision. In addition, the pillars of our “Vision” to become “The Clear Choice” are “Our people are extraordinary”, “Our Clients see a difference in us” and “The public trusts us”.

We have always prided ourselves on providing quality professional services in an ethical manner in our market. Our Firm’s success and reputation are based on our unwavering commitment to audit quality and tone at the top. We remain committed to working closely with regulators, audit committees, investors and businesses to enhance quality.



Therefore, we are delighted to publish the Transparency Report 2016, which clearly outlines our commitment to audit quality and the steps we take to achieve it. We trust you will find this report a useful insight into how we strive to enhance the quality of our work.

Kim, Kyo Tae

Chief Executive Officer

30 November 2016



1 WHO WE ARE

1.1 OUR BUSINESS

KPMG in the Republic of Korea (“Korea”) is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of offices in Seoul as a main office and Naju as a local office with 2,426 as of 31 March 2016.

Our audit services in Korea are delivered through KPMG Samjong Accounting Corp (“KPMG Korea”). Full details of the services offered by KPMG Korea can be found on our website: <http://www.kpmg.com/kr/en/>.

1.2 OUR STRATEGY

Our firm has set a vision to become the best firm that our professionals are proud of, a firm that clients trust and a firm that is socially respected.

To achieve this vision the firm-wide strategic priorities are to:

Continue to invest in our people and be seen as the employer of choice and also fulfil our social responsibilities.

Maintain and enhance the quality of the services we provide with deepened and extended knowledge and experience of our industry and through multi-disciplinary management and high ethical professional standards.

Achieve sustainable growth in our business and pioneer new business areas to develop new services.

We recognize that our commitment to audit quality is the most important element of our strategy and without this the other strategic priorities will not be achieved.

2 OUR STRUCTURE AND GOVERNANCE

2.1 LEGAL STRUCTURE

KPMG Korea is affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are available in the supplement to the KPMG International Transparency Report.

KPMG Korea is a partnership formed under the Korean “Certified Public Accountant Act” in Korea. As of 31 March 2016, there are 121 partners in KPMG Korea.

A list of key entities, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in [Appendix A.1](#).

2.2 NAME AND OWNERSHIP

KPMG is the registered trademark of KPMG International and is the name by which the member firms 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 generally locally owned and managed. 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.

Samjong KPMG LLC, the holding company of KPMG Korea, consists of more than one separate legal entity. Each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

2.3 GOVERNANCE STRUCTURE

The details of the key governance and management bodies of Samjong KPMG LLC are provided below:

The Board of Directors

The Board of Directors consists of 12 members, including the CEO and Country Risk Management Partner. The constitution of the Board is as determined by the Shareholders’ Meeting. The Board meets from time to time to undertake certain statutory duties for KPMG Korea.

The Shareholders' Council

The Shareholders' Council consists of 7 members, elected by the Shareholders' Meeting. The Council meets from time to time to undertake certain statutory duties for shareholders.

The Executive Team

The Executive Team is responsible for recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm (including the operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment and retention).

The Risk Management Committee

The principal role of the Risk Management Committee is to provide oversight of quality & risk management matters across the firm. As part of its role it oversees that a culture of quality and integrity is maintained within the firm and, where required, it will act as a sounding board to the Country Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programs and the adequacy of proposed remedial actions.

The Committee is held from time to time to identify and discuss firm-wide risk management issues, if any.



3 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 and procedures are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on 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 Korea implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by Financial Supervisory Services and other relevant regulators as well as applicable legal and other requirements.

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 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 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.

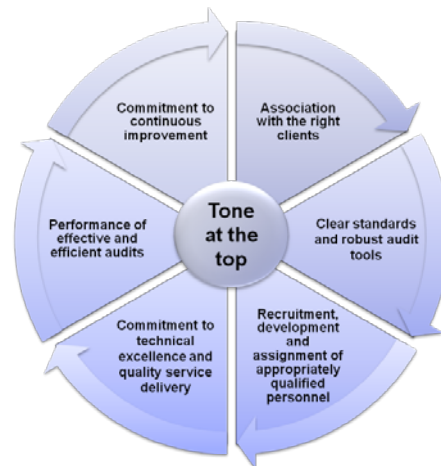
To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Our Framework introduces a common language that is used by all KPMG member firms to describe what we believe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

Our 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 personnel
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 is described in more detail in the following sections of this report.



3.1 TONE AT THE TOP

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
- standard set by our 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. Our core values are further described in [Appendix A.4](#).

A KPMG International [hotline](#) and KPMG Korea's local Samjong KPMG hotline are 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.

3.1.1 Leadership responsibilities for quality and risk management

While we stress that all professionals are responsible for quality and risk management, the following entities and individuals have leadership responsibilities.

Chief Executive Officer (CEO)

In accordance with the principles in ISQC 1, our CEO Kyo Tae Kim has assumed ultimate responsibility for KPMG Korea's system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG Korea are set out in section 3 – System of quality control.

Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Korea has been delegated to the Country Risk Management Partner, Byung Il Shin, who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for firm. He has a direct reporting line to the CEO. The fact that the role is in seniority of the reporting lines, underlines the importance that the group places on risk and quality issues. The Country Risk Management Partner is supported by a team of partners and professionals in each of the functions.

The Audit, Tax and Advisory (Consulting Service, Business Consulting Service and Deal Advisory) functions – Function

The five heads of the client service functions (Audit, Tax, Consulting Service, Business Consulting Service and Deal Advisory) and the functional Risk Management Partners (FRMPs) are accountable to the CEO for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific

functions within the framework set by the Head of Department of Professional Practice (DPP). These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

Department of Professional Practice (DPP)

The DPP function is responsible for providing support to the firm's professionals in meeting their professional responsibilities in the areas of accounting, reporting, auditing and assurance standards, and advisory services. It is comprised of a team of directors and experienced managers with the technical expertise necessary to support client teams on the interpretation and application of auditing, accounting and regulatory requirements.

3.2 ASSOCIATION WITH THE RIGHT CLIENTS

3.2.1 Acceptance and continuance of clients and engagements

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.

3.2.2 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 significant beneficial owners. A key focus is on the integrity of management at a prospective client and the evaluation considers breaches of law and regulation, anti-bribery and corruption and human rights among the factors to consider. A second partner, as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or their delegate 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 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 quality and 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.

3.2.3 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 may include the assignment of additional professionals or the need to involve additional specialists on the audit).

3.2.4 Client portfolio management

Our leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

3.3 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 KPMG policies and procedures (including independence policies), and are provided with a range of tools to support them in meeting these expectations. The policies and procedures set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

3.3.1 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 the 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 ISAs, 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. Our audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG 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

- 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;
- understand the entity;
- 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.

3.3.2 Independence, Integrity, Ethics and Objectivity

3.3.2.1 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). These policies are supplemented by other processes to support compliance with the standards issued by the Korean Institute of Certified Public Accountants (KICPA), the Korean “Certified Public Accountant Act” and the “Act on External Audit of Stock Companies”.

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 Korea has a designated Ethics and Independence Partner (EIP) supported by a core team of specialists to help support the implementation of 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 program. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail 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.

3.3.2.2 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. Due to the improper conduct of some junior accountants in regards to stock investing which occurred in Korea in 2015, our firm has bolstered the KPMG International policy by extending its users from partners and

client facing managers to include all professionals. All professionals 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 professional compliance with this requirement as part of our program of independence compliance audits of a sample of professionals. During 2015, KPMG Korea performed a substantial number of compliance audits in response to the previously mentioned improper conduct of junior accountants in regards to stock investing. Subsequently, we extended the IESBA Code of Ethics restrictions on ownership of audit client securities to all employees, excluding administrative staff level, in accordance with the adoption of KICPA's guidelines which are released to all accounting firms in Korea.

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

3.3.2.3 Firm financial independence

KPMG Korea maintains a record of its investments (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.

3.3.2.4 Business relationships/suppliers

We have 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.

3.3.2.5 Independence training and confirmations

We provide all relevant personnel with annual independence training appropriate to their grade and function, and provides 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.

3.3.2.6 Audit partner rotation

Partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client. KPMG International rotation policies are consistent with the IESBA Code of Ethics and require our firm to comply with the requirements of the "Act on External Audit of Stock Companies" which is stricter than the IESBA Code. We monitor the rotation of audit engagement leaders and have transition plans to enable thus to allocate partners with the necessary competence and capability to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

3.3.2.7 Non-audit services

We have policies as to the scope of services that can be provided to audit clients which are consistent with both IESBA principles and the Korean "Certified Public Accountant Act". KPMG International 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 a KPMG member firm 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.

3.3.2.8 Independence Clearance Process

Prior to accepting a financial statement audit engagement for a public interest entity, the Independence Clearance Process (ICP) is conducted by the prospective Lead Audit Engagement Partner ("LAEP"). The process assists in identifying and evaluating any threats to independence prior to accepting

an audit, in accordance with professional standards, which includes the approval of the local EIP or RMP (and GIG if applicable) regarding the procedures performed and the conclusions reached.

3.3.2.9 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 percent 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 (EQC) reviewer.

Also, this would be disclosed to those charged with governance at the audit client. No audit client accounted for more than 10 percent of the total fees received by our firm over the last two years.

3.3.2.10 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.

3.3.2.11 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.

As a result of the firm's internal compliance audit in 2015, breaches of independence regulations have been identified and those professionals involved in the breaches were disciplined under the stricter independence disciplinary policy of the firm. These breaches were also communicated to the regulators in addition to the relevant audit committees. The nature of the breaches and the disciplinary actions taken have been shared with all personnel within the firm to promote awareness to avoid additional breach of independence.

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

Compliance with laws, regulation and standards is a key aspect for all KPMG personnel. In particular, KPMG has zero tolerance of bribery and corruption.

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 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](#).

3.4 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.

3.4.1 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 and qualification/reference checks.

Upon joining KPMG Korea, new personnel are required to participate in a comprehensive onboarding 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 before the individual can commence as a partner or employee with the firm.

3.4.2 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 3.5.1).

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, and country rotational and global mobility opportunities.

3.4.3 Evaluation, compensation and promotion

All professionals, including partners, undergo annual goal-setting and performance reviews. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the KPMG global behaviors, 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.

KPMG is committed to the career development of its people. To support this, the Global People, Performance, and Culture group has designed a new behavioral capability framework which is being adopted in member firms around the world. This framework, combined with development initiatives in areas such as coaching and mentoring, will support our people in enhancing their skills, maximizing their performance, and reaching their full potential.

Compensation and promotion

Our firm has 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.

3.4.4 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. 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 to help achieve quality of hire in our partner admissions. The procedure includes a business case and a personal case for the individual candidate. All recommendations for admission to membership of KPMG Korea need to be approved by the Board of Directors.

3.4.5 Assignment of personnel

Our firm has 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. Heads of departments are responsible for the process for allocating particular engagement partners to clients. 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,

including time, 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 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 KPMG's quality control policies and procedures.

3.5 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.

3.5.1 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, where applicable, 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, as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job, and is delivered on a timely basis.

3.5.2 Accreditation and licensing

All KPMG professionals are required to 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, and the Standards of the Public Company Accounting Oversight Board for SEC engagements performed outside the US. 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 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.

3.5.3 Access to specialist networks

Our engagement teams have access to a network of local KPMG specialists. 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.

3.5.4 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 to audit engagement professionals through professional practice resources that include a DPP or equivalent.

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.

3.5.5 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.

3.6 PERFORMANCE OF EFFECTIVE AND EFFICIENT AUDITS

3.6.1 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 EQC reviewer;
- reporting;
- insightful, open, and honest two-way communication with those charged with governance;
- focus on effectiveness of group audits;
- client confidentiality, information security, and data privacy.

3.6.1.1 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.

3.6.1.2 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.

3.6.1.3 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.

3.6.1.4 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.

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.

3.6.1.5 Appropriate involvement of the EQC

reviewer

Engagement Quality Control (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 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. 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 we 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.

3.6.1.6 Reporting

Auditing standards 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 partners 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.

3.6.1.7 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, our 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 program of technical updates and awareness seminars.

Globally the ACI has thousands of members across both the private and public sectors.

3.6.1.8 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. We provide lead audit engagement partners with information on component auditors within the KPMG network to help them evaluate their competence and capabilities including, where appropriate, the results of relevant inspection results.

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

3.6.2 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 requirements as well as the Act on External Audit of Stock Companies.

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.

3.7 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.

3.7.1 Monitoring

3.7.1.1 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 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 International policies and procedures
- the effectiveness of training and other professional development activities
- 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 (QPR) Program and the Risk Compliance Program (RCP).

Additionally all member firms are covered by cross-functional Global Compliance Reviews (GCRs). 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 our efforts to monitor engagement quality, and one of our primary means of ensuring that member firms are collectively and consistently meeting 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. 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.

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.

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 client group is audited by a member firm where significant quality issues have been identified during the Audit QPR.

Risk Compliance Program (RCP)

The RCP is a member firm's annual self-assessment program. The objectives of the RCP are to monitor, assess, and document member firm-wide compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The program is overseen and monitored regionally as well as globally.

Global Compliance Review (GCR) program

GCRs are performed by reviewers independent of the member firm, who report to Global Quality & Risk Management and are led by the Global Compliance Group. GCRs are carried out on member firms once in a three-year cycle. These reviews focus on significant governance, risk management, independence, and finance processes (including an assessment of the robustness of the firm's RCP). In the event that a GCR identifies issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

All three programs require action plans to address identified issues, with time lines, 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 the identified issues with the objective of continuous improvement.

3.7.1.2 External monitoring

In Korea, the Financial Supervisory Service ("FSS") has been carrying out independent inspections for a number of years. They completed their work on the 2014 inspection of the

firm in December 2014. FSS had delivered their final inspection report in June 2015.

KPMG Korea is also registered with the US PCAOB, Japanese Financial Services Authority, POB and CSSF. The US PCAOB performed a joint inspection of the firm with the FSS in December 2014. The public report on the inspection was released in December 2015 and both it and our response are available on the PCAOB website(<http://www.pcaob.org/>).

We have considered each of the findings and recommendations and have implemented actions to address deficiencies and strengthen policies and procedures as appropriate.

After the firm identified breaches of independence regulations as a result of the firm's internal compliance audit in 2015, and reported the results to the regulator the FSS has subsequently conducted two inspections to verify the validity of self-review performed by the firm in November 2015 and February 2016. The results of these inspections by the FSS identified no additional breaches other than the breaches identified from self-review by the firm.

The FSS has imposed sanctions on the firm in respect of non-compliance of independence regulations by firm personnel for breaching the Act on External Audit of Stock Companies. Sanctions were imposed on the firm, the most serious of which were restrictions on audit engagements.

KPMG Korea has implemented a number of remedial actions in response to such sanctions, including reinforcing its Ethics and Independence team resources, expanding its compliance training and strengthening its independence and disciplinary policy

3.7.2 Client feedback

In addition to internal and external monitoring of quality, we operate a formal program where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we 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.

3.7.3 Monitoring of complaints

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

3.7.4 Interaction with regulators

At an international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level. Our firm also has regular communication with FSS at a local level.

3.7.5 Other assessments of audit quality

KPMG Korea also has an in-flight review process to ensure audit quality.

DPP selects a sample of audit engagements each year and conducts in-flight reviews in three phases. Each phase has pre-defined points for review, which also includes comments received during the relevant year's QPR, and is notified to all audit engagement teams prior to the commencement of the review. Phase 1 includes review points related to audit planning matters and is conducted prior to interim audit season.

Phase 2 review includes those relevant for risk assessment and controls testing and is conducted after audit engagement teams have completed their interim audits but prior to the commencement of year end audits. Phase 3 (Final RMP Review) review includes review of the client's financial statements and review of pre-defined review points as well as certain significant areas in the relevant audit documentation and is conducted before the audit report is to be issued. These selected audit engagements are graded based on the contents of the reviews and the relevant audit engagements teams are to clear these comments before they can issue the audit report. The final grades of the in-flight review are reflected in the relevant engagement partner's quality performance evaluation program (QPEP) for each year.

4 FINANCIAL INFORMATION

Fee revenue earned by the firm for services for the years ended March 31, 2016, 2015 and 2014 are summarized in the table below.

(In millions of Korean won)

	2016	2015	2014
Audit	117,441	112,756	105,737
TAX	46,150	41,410	44,963
Advisory	136,856	121,754	116,257
Total	300,447	275,920	266,957

5 PARTNER REMUNERATION

Partners' profit share

Partners are remunerated out of the distributable profits of the firm (such profits being determined by the board of directors and are personally responsible for funding pensions and most other benefits. The final allocation of profits to partners is made after assessing each partner's contribution for the year.

There are two elements to partner remuneration:

- base component – a proportion of the firm's budgeted profits are allocated to members as base component; this is effectively member salary. The amount of base component reflects the role and seniority of each partner, and
- profit related performance component –

rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of the firm and the firm as a whole. Our policies for this variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.

Drawings

During the year, partners working within Korea received monthly drawings, and from time to time, additional profit distributions. All such drawings and profit distributions to partners represent payments on account of current year profits and are reclaimable from partners until profits have been allocated. Any over-distribution of profits during the year is also recoverable from partners.

6 NETWORK ARRANGEMENTS

6.1 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.

6.2 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.

6.3 PROFESSIONAL INDEMNITY INSURANCE

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

6.4 GOVERNANCE STRUCTURE

The key governance and management bodies of

KPMG International are the Global Council, the Global Board, and the Global Management Team.

Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the global chairman's appointment of the global deputy chairman and members of the Global Management Team.

The Global Board includes the global chairman, the global deputy chairman, the chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms. It is led by the global chairman who is supported by the Executive Committee, consisting of the global chairman, the global deputy chairman, the chairman of each of the regions and currently four other senior partners of member firms.

One of the other Global Board members is elected as the lead director by these Global Board members who are not also members of the Executive Committee of the Global Board ("nonexecutive" members). A key role of the lead director is to act as liaison between the global chairman and the "nonexecutive" Global Board members. The list of Global Board members, as at 1 October 2015 is available in the International Annual Review.

The Global Board is supported in its oversight and governance responsibilities by several other committees, including a Governance Committee, an Operations Committee, and Investments Committee a Quality and Risk Management Committee, and a Professional Indemnity Insurance Committee. The lead director

nominates the chairs and members of certain Global Board committees for approval by the Global Board.

Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the global deputy chairman, and includes the global chairman, the global chief operations officer, global function and infrastructure heads and the general counsel. The list of Global Management Team members, as at 1 October 2015, is available in the International Annual Review.

The Global Steering Groups are responsible for supporting and driving the execution of the strategy and business plan in their respective areas and act under oversight of the Global Management Team. The role of the Global Quality & Risk Management Steering Group is outlined in more detail in the KPMG International Transparency Report.

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in its Transparency Report, which is available at [KPMG International Transparency Report](#)

6.5 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.

7. STATEMENTS BY THE BOARD OF KPMG KOREA 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 Korea 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 Board of KPMG Korea has 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 and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Subject to the disclosures made in this report with respect to breaches of certain independence regulations and insider trading laws by KPMG Korea personnel, taking all of this evidence together, the Board of KPMG Korea confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 March 2016.

Further, the Board of KPMG Korea confirms that an internal review of independence compliance within our firm has been conducted in the year to 31 March 2016.

30 November 2016



Kim, Kyo Tae
Chief Executive Officer

A. Appendices

A.1 KEY LEGAL ENTITIES AND AREAS OF OPERATION

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
Samjong KPMG LLC	Holding Company	Limited Liability Company as defined in the Commercial Law in the Republic of Korea	Holding company	Korea
KPMG Samjong Accounting Corp.	-	Limited Liability Company as defined in the Certified Public Accountant Act in the Republic of Korea	Audit, tax and Deal advisory services	Korea
Samjong KPMG Economic Research Institute	Associated entity	Corporation as defined in the Commercial Law in the Republic of Korea	Research on domestic/international	Korea
Samjong KPMG AAS Inc.	Associated entity	Corporation as defined in the Commercial Law in the Republic of Korea	Accounting Administration Services	Korea
Samjong KPMG Actuaries Inc.	Associated entity	Corporation as defined in the Commercial Law in the Republic of Korea	Financing and actuarial consulting services	Korea
Sejong Customs Corp.	-	Limited Liability Company as defined in the Commercial Law in the Republic of Korea	Customs services	Korea
KPMG Audit LLC	-	Limited Liability Company as defined in the Commercial Law in Mongolia	Audit and financial advisory services	Mongolia

A.2 DETAILS OF THOSE CHARGED WITH GOVERNANCE AT KPMG KOREA



Kim, Kyo Tae
Chief Executive Officer



Suh, Won Jeong
Head of Audit



Shin, Kyung Sup
Head of Deal Advisory



Jung, Dae Gil
Head of Consulting



Choi, Jeong Wook
Head of Tax



Bae, Hong Gi
Head of BCS



Shin, Byung Il
Country Risk Management Partner

A.3 PUBLIC INTEREST ENTITIES

The list of public interest entity audit clients for which KPMG Korea has signed an audit opinion in the year ended 31 March 2015 is given below. A public interest entity is an issuer whose transferable securities are admitted to trading on a regulated market or a financial institution which adopted IFRS.

Korea Electric Power Corporation	Dongbu Steel Co., Ltd.
SAMSUNG FIRE & MARINE INSURANCE CO.,LTD	CJ E&M Corporation
POSCO	JB Financial Group Co., Ltd
MIRAE ASSET DAEWOO CO.,LTD. KDB Daewoo Securities Co., Ltd.	NHN Entertainment
Kia Motors Corporation	Hyundai Home Shopping Network Corp.
Hyundai Heavy Industries Co., Ltd.	Hyundai Green Food Co., Ltd.
HYUNDAI STEEL COMPANY	BGF Retail Co., Ltd.
SK Hynix Inc.	Han Kook Capital Co., Ltd.
Shinhan Financial Group	Hansol Paper Co., Ltd
MIRAE ASSET Life Insurance CO., Ltd.	GS Home Shopping Inc.
Lotte Shopping Co., Ltd	CJ CGV Co., Ltd.
SK Telecom Co., Ltd	Kumho Industrial Co., Ltd.
KOREAN AIR LINES CO.,LTD	Woori Investment Bank Co.,Ltd
HYUNDAI MOBIS CO.,LTD	Eugene Corporation
LG Display Co., Ltd.	Dong Won Industries Co., Ltd.
Samsung SDI Co., Ltd.	Dong-A S.T. Co.,Ltd
Heungkuk Fire & Marine Insurance	STX Corp.
KCC Corporation	DAESUNG INDUSTRIAL CO., LTD
KT&G Corporation	Seoul Semiconductor Co., Ltd.
Asiana Airlines, Inc.	S&TMOTIV
Aju Capital Co., Ltd.	S&T Dynamics Co., LTD.
KOREA ZINC INC	KEPCO Engineering & Construction Company , Inc
EUGENE INVESTMENT & SECURITIES CO., LTD	KCC ENGINEERING & CONSTRUCTION CO.,LTD.
Hyundai Mipo Dockyard Co., Ltd	DAEWOONG PHARMA
Doosan Engineering & Construction	Dongwon F&B Co., Ltd.
HANWHA TECHWIN CO.,LTD	WOONGJIN CO., LTD.
Korea Investment Holdings Co., Ltd	Dongwon Systems Corporation
GS Retail Co.,Ltd	Huchems Fine Chemical Corporation
Kolon Industries Inc.	GwangjuShinsegae Co., Ltd.
DGB FINANCIAL GROUP CO.,LTD	Grand Korea Leisure Corp.
LOTTE Himart Co.,Ltd	Dongah Tire & Rubber Co., Ltd
SKC Co., Ltd.	KOREA ELECTRIC TERMINAL CO.,LTD
Taekwang Industrial Co., Ltd	Dong-A Socio Holdings Co., Ltd.
	locknlock Co., Ltd

GOLFZONYUWONHOLDINGS Co., Ltd.	EAGON INDUSTRIAL LTD
Harim Co., Ltd.	Chabiotech Co., Ltd.
Atlasbx Co., Ltd.	TBH GLOBAL CO.,LTD
Crown Confectionary Co., Ltd.	Sangsin Brake Co., Ltd.
Daehan Synthetic Fiber Co., Ltd.	HANMI Semiconductor CO., LTD.
Kwangdong Pharmaceutical Co., Ltd.	VISANG EDUCATION INC
Tailim Packaging Co., Ltd	Sambo Motors Co., Ltd.
HUSTEEL Co., Ltd.	WHANIN Pharm Co., Ltd.
Nexolon Company Limited.	Cammsys Corp
WOONGJINTHINKBIG	Harim Holdings Co., Ltd.
PaperCorea Inc.	megastudyEdu co., ltd
WEMADEENTERTAINMENT	UJU Electronics Co., Ltd.
Silicon Works Co. Ltd.	SAMICKTHK
JEIL PHARMACEUTICAL CO.,LTD	MIWON SPECIALTY CHEMICAL
SHINWONCORPORATION	Top Engineering Co., Ltd.
Hansol Technics Co., Ltd.	Yonwoo Co., Ltd.
Sunjin Co., Ltd.	NONGWOO BIO CO., LTD.
Interpark Corporation	SKC solmics Co., Ltd.
S&T Holdings Co. Ltd.	Bubang Co., Ltd.
HYUNDAI HCN CO., Ltd	Eagon Window & Door System Co., Ltd
RedcapTour Co., Ltd.	Kooksoondang Co., Ltd.
SIMPAC INC.	KOREA REFRACTORIES Co., Ltd.
HS INDUSTRIES CO.,LTD	SAMBO Industrial Co., Ltd.
S.M. ENTERTAINMENT Co., Ltd.	MK Trend Co., Ltd.
KEC Corporation	KEC HOLDINGS CO.,LTD
DAEWOONG CO.,LTD	Kyungbo Pharm Co. Kr.
K.C. Tech Co., Ltd.	DaeWon Pharm Co.,Ltd
Kumho Electric Co., Ltd.	Yungjin Pharm. Co., Ltd.
Ecoplastic Corp.	AHN-GOOK PHARMACEUTICAL Co., Ltd.
WOONGJINENERGY	CTC Bio Co.,Ltd.
SEYON CO., LTD.	POSCO M-TECH CO.,LTD.
YTN	ILJI TECHNOLOGY Co., Ltd.
Kolon Fashion Material, Inc.	KUKDONG OIL & CHEMICALS CO.,LTD
Yoosung Enterprise Co., Ltd.	GOLFZON. CO.,LTD.
Saehwa IMC Co., Ltd	SEHACORP
Oyang Corporation	Dong Yang Steel Pipe Co., LTD.
Webzen Inc.	In the F
Dongbu Inc.	Miwon Commercial Co., Ltd.
Eusu Holdings Co., Ltd.	NICE Total Cash Management Co., Ltd
DongKook Pharmaceutical Co., Ltd	Hwacheon Machinery Co., Ltd.

TAIHANFIBEROPTICS	JC HYUN SYSTEMS, INC.
SK Communications Co., Ltd.	BORYUNG MEDIENCE Co., Ltd.
Sebo Manufacturing Engineering Corp.	Yangjisa
Choheung Corporation	PATI Games Corporation
NAMUGA CO. Ltd.	Innowireless Co., Ltd.
STARFLEX CO.,LTD.	Hwashin Tech Co., Ltd.
HYUNGJI ELITE INC.	ESTsoft Corp.
Autech Corporation	Joymax Co., Ltd.
Korea Electronic Power Industrial Development Co., Ltd	WINPAC INC
HANWHA FINE CHEMICAL CO., LTD.	GENIC CO., LTD.
KB Autosys Co.,Ltd	Cell Biotech Co., Ltd
AVATEC.CO.,LTD.	Infraware
CAS	Naturalendo Tech Co., Ltd.
Pixelplus. Co., Ltd.	HWA SUNG Co., Ltd.
Bookook Steel Co.,Ltd	IRIVER Limited
Kolen Co., LTD.	Infobank Corporation
Chung Kwang General Construction	CS CORPORATION
Hansol PNS Co., Ltd.	AMINOLOGICS CO.,LTD.
Soosan heavy industries co.,LTD	Daedong Steel Co., Ltd.
#N/A	DIOTEK CO., Ltd
YOUNYI INFORMATION & COMUNICATION	HISEM CO., LTD
DAESUNG ELTEC CO., LTD	Wooriro Co., Ltd.
THERAGEN ETEX CO.,LTD.	RSUPPORT Co., Ltd.
GIIIR Corporation	Wonik Corporation
Paratech Company Limited	Sonokong Co., Ltd.
DAIYANG METAL CO.,LTD	Nuintek Co., Ltd.
Cuchen Co., Ltd.	Cheryong Industrial Co., Ltd.
S&S TECH CORPORATION	ITEK Semiconductor, Inc.
YuYu Inc.	CIS Co., Ltd
DONGAELTEK Co., Ltd	Yujin Robot Co., Ltd.
Soulbrain ENG Co.,Ltd.	MEDIANA Co.,Ltd
CHA Diostech Co., Ltd.	Igloo Security Co., Ltd
LOT VACUUM Co., Ltd.	BORNEO INTERNATIONAL FURNITURE CO.,LTD
DongYang P&F Co.,Ltd.	PROSTEMICS CO.LTD
HANSHIN MACHINERY CO., LTD.	NRK,CO.,LTD
HLB Inc.	Daishin Information & Communications
WONLIM CORPORATION	A-MOTION
CHASYS Co.,Ltd	ASIA SEED Co.,Ltd.
SM Culture & Contents Co., Ltd.	#N/A
INSUNG INFORMATION CO., LTD.	NICE D&B CO., LTD.

#N/A	Citigroup Global Markets Korea Securities Limited
INTEKPLUS Co., Ltd.	OK Capital Co., Ltd.
Tego Science, Inc.	Deutsche Securities Korea Co.
KOREA COMPUTER & SYSTEMS INC	Korea Investment Capital
MEK-ICS CO., LTD.	Eugene Investment & Futures
Leading Pride Korea	Daiwa Securities Korea
FutureChem Co.,Ltd	Doosan Capital Co., Ltd.
EN3 Co., Ltd.	Standard Chartered Securities Korea
Xavis Co., Ltd.	JR CR-REIT XVII
Tamul Multimedia Co., Ltd.	Leading Investment & Securities
DigiCAP Co., Ltd.	Korea Investment Management Co.
NANOBIOSYS INC.	SHINHANBNPPARIBASASSETMANAGEMENT
Bioleaders Corporation	Korea Maritime Guarantee Co., Ltd.
Dongbuka No.14 Ship Investment Company	KDB Asset Management KDB Asset Management
Dongbuka No.10 Ship Investment Company	HI Asset Magement Co., Ltd.
Dongbuka No.11Ship Investment Company	Baro Investment Securities
Dongbuka No.13 Ship Investment Company	Eastspring Asset Management Korea
Goldenbridge No.2 Special Purpose Acquisition Co., LTD.	HYUNDAI HDS CO., LTD
Dongbuka No.12 Ship Investment Company#N/A	Shinhan Aitas Co., Ltd.
Shinhan Bank	Allianz Global Investors Korea Limited
Standard Chartered Bank Korea Limited	Baring Asset Management Korea Limited
Citibank Korea Inc.	Korea Value Asset Management Co.,Ltd.
Daegu Bank	FIS. CO., Ltd
Korea Investment & Securities Co., Ltd.	DGB UPay Co., Ltd.
SHINHANLIFEINSURANCECO	MG Credit Infomation Service
HYUNDAI CAPITAL SERVICES, INC.	Eugene Asset Management
Shinhan Investment Corp.	Samsung SRA Asset Management Co., Ltd.
Shinhan Card Co., Ltd.	KDB Infrastructure Investment Asset Mgmt
Allianz Life Insurance Co. Ltd.	Shinhan Data System Co., Ltd.
KDB Life Insurance Co.,Ltd	Shinhan Credit Information Co., Ltd.
Hyundai Life Insuarance Co., Ltd	DeutscheAssetManagementCompany
SEOULGUARANTEEINSURANCECOMPANY	BOS Securities Co., Ltd.
DGB Life Insurance CO., Ltd.	TS Credit & Investment Corporation
HYUNDAI COMMERCIAL INC.	Shinhan Private Equity Inc.
HI INVESTMENT & SECURITIES CO.,LTD.	Citi Credit Service Co., Ltd.
PCA Life Insurance Co., Ltd.	Koramco Asset Management Co., Ltd.
KDB Capital Corp.	
Shinhan Capital Co., Ltd.	
MG Non-Life Insurance CO., LTD.	
DGB Capital Co., Ltd.	

A.4 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 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.

Contact us

Kim, Kyo Tae
Chief Executive Officer
T +82 2 2112 0400
E kkim1@kr.kpmg.com

Suh, Won Jeong
Head of Audit
T +82 2 2112 0630
E wsuh@kr.kpmg.com

Shin, Byung Il
Country Risk Management Partner
T +82 2 2112 0830
E bshin@kr.kpmg.com

www.kpmg.com/kr/en

© 2016 KPMG Samjong Accounting Corp., the Korean member firm of the KPMG network of independent member firm affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Korea.

KPMG Samjong Accounting Corp., logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").