Софийска вода

Sofiyska Voda AD

Annual Management Report and Consolidated Financial Statements

For the year ended 31 December 2023

With independent Auditor's Report thereon

Contents

SOFIYSKA VODA AD AND WATER INDUSTRY SUPPORT AND EDUCATION EOOD (THE GROUP)

CONSOLIDATED ANNUAL ACTIVITY REPORT FOR THE YEAR ENDING 31 DECEMBER 2023

Financial review:

The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS), adopted by the European Union (EU).

In 2023, the revenue from main charges of Sofiyska Voda AD (the Parent Company) and its subsidiary - Water Industry Support and Education (the Group) amounted to 194.9 M BGN, which is higher by 0.62% than the revenue from main charges in the same period of the previous year –193.7 M BGN. The main reason is an increase in water consumption. The Group's total revenue for 2023 amounted to 243.2 M BGN (234.4 M BGN in the same period of 2022). The revenue from construction in 2023 amounted to 46.3 M BGN (38.8 M BGN in 2022). The breakdown of revenues by types of services is presented in Note 4 of the financial statements.

In 2023, the cogeneration installation in Kubratovo WWTP, commissioned at the end of 2009, met predominantly the plant's demands for power supply.

The Group's operating costs in 2023 amounted to 186.1 M BGN (2022 – BGN 211.4 M). This amount includes 46.3 M BGN for construction costs, which resulted from the application of IFRIC 12.

The depreciation and amortization costs in 2023 amounted to 29.1 M BGN. The value is lower than the one reported for 2022 (76.7 M BGN), which is mainly due to the signing of the Fourth Amendment Agreement to the Concession Agreement, as a result of which the service life of the "Concession Right" asset was extended until the end of the concession on 6th February 2034.

In 2023, the Group generated net financial income as a result of the three deposit agreements concluded throughout the year, as follows:

- On 15 May 2023, Sofiyska Voda signed two deposit agreements:
    - Deposit A for 30 M BGN with maturity on 15 May 2024 and interest rate of 3.02%;
    - Deposit B for 20 M BGN with maturity on 29 September 2023 and interest rate of 2.85%. On 30 September 2023, the Company extended the deposit by another year until 30 September 2024 and interest rate of 3.50%;
- On 30 September 2023, the Company concluded the third deposit agreement:
    - Deposit C for 10 M BGN with maturity on 29 March 2024 and interest rate of 3.45%.

As a result of the factors listed above, the profit after taxes for 2023 is 52.1 M BGN compared to 20.1 M BGN in the same period of 2022.

The management of the financial risk and the exposure of Sofiyska Voda in terms of the price, credit and liquidity risks and the cash flow risk are presented in details in Note 22 Financial instruments to the separate financial statements.

The Group is a going concern and will continue to operate in the foreseeable future. The circumstance that despite the complicated international and national environment the Group's activity will not be substantially affected is in favor of the expectations for a positive perspective for the Group's activity.

The Group's revenue for the next 12 months is expected to increase to BGN 228,322 thousand or by BGN 31,387 thousand more compared to 2023 (16% higher revenue) for the financial year 2024.

The Group also anticipates a significant increase in the costs, which will reach up to 170,118 thousand BGN, or 30,287 thousand BGN higher costs compared to 2023 (22% higher costs).

The expected net profit of the Group for 2024 is 52,375 thousand BGN, or 256 thousand BGN more compared to 2023 (0.5% increase vs. the result in 2023).

The Group intends to implement investments according to its investment program in 2024 of an approximate amount of 54,396 thousand BGN, or 2,771 thousand more vs. the amount invested in 2023 (5.37% higher investments).

Signed significant contracts:

Contract No.	Subject	Contractor	Start Date	End Date	Value, VAT excluded	Option value and renewal
9509	Printing and delivery of vouchers - ОП1	SODEXO PASS BULGARIA EOOD	17.01./2023	17.01.2026	3,427,200.00	571200
9512	Delivery of active electric energy high, medium and low voltage and inclusion into the balancing group of the sites of Sofiyska Voda AD	ELECTROHOLD TRADE EAD	01.02.2023	31.07.2024	5,250,000.00	1750000
9547	Cashless purchase of fuels from a chain of gas stations	BENT OIL AD	21.02.2023	20.02.2025	2,716,000.00	
9554	Design, supply of equipment and construction-installation works of a pumping station for drinking water in connection with the introduction of an emergency mode of operation of the Pancharevo WTP after an accident of the Iskar water pipeline	MONTAGI CO EOOD	28.02.2023	27.02.2024	2,869,975.00	
9568	Removal of discarded assets of Sofia Municipality that are not involved in the provision of water and sewerage services in the Concession Area	DZZD RAZRUSHAVANE	09.03.2023	08.03.2024	3,998,586.68	
9595	Delivery of GRP fiberglass ф600 pipes for pressure sewerage and egg-shaped pipes for non-pressure sewerage	EUROCOM 2000 LTD.	27.04.2023	26.04.2024	1,800,000.00	900000+360000
9619	Expansion of the air supply system in the aeration tanks of WWTP Kubratovo	MONTAGI CO EOOD	19.05.2023	19.05.2027	1,499,900.00	
9700	Reconstruction of the damaged section of the "Iskar" water pipeline in the area of the "Porkolitsa" river; Sofia Municipality - Pancharevo District	PROMENERGOMONTAZH JSC	28.07.2023	27.07.2024	3,027,540.00	

9728	Delivery of pipes and fittings made of ductile cast iron for drinking water	EUROCOM 2000 LTD.	11.09.2023	10.09.2024	3,100,000.00	1550000+620000
9786	Provision of full service support of a cogeneration plant in Kubratovo WWTP	FILTER OOD	16.11.2023	15.11.2027	4,000,000.00	500000+800000

Signed related party transactions:

A new contract for out-of-warranty subscription maintenance of air-conditioning systems and units in operation was concluded on 18.05.2023 with Veolia Solutions Bulgaria EAD.

A new contract for the installation and sealing of individual water meters and remotely-read systems was concluded on 03.07.2022 with Vodosnabdyavane i Kanalizatsia EAD.

All transactions entered into with related parties are disclosed in note 26 to the consolidated financial statements.

Contracts concluded in the year as per art. 240b of the Commerce Act

As per art. 240 "b" of the Commerce Act, the Board members are obliged to inform in writing the Board of Directors, respectively the Management Board, when they or their related parties conclude contracts with the Group outside the scope of its normal activity, or which substantially deviate from the market conditions.

In 2023, the Board members did not conclude contracts with the Group under art.240 "b" of the Commerce Act.

Information about events and indicators of nature unusual for the issuer, which have a substantial impact on its activity, the revenues generated and costs incurred by it; assessment of their impact on the results in the current year:

There are no such events and indicators of nature unusual for the Group with substantial impact on its activity.

Information about off-balance sheet transactions – nature and business objective, specifying the financial impact of the transactions on the activity if the risk and benefits of these transactions are material for the issuer and if the disclosure of this information is significant for the financial position of the issuer:

As at the date of preparation of this report, the Group maintains the following bank guarantees:

- Performance guarantee of Sofiyska Voda AD under the Concession Agreement with number 16708/12.21/Oper/NG, issued by BNP Paribas S.A. – Sofia Branch, in the amount of $750,000 and validity until 15 December 2025;

- Performance guarantee of Sofiyska Voda AD under Contract No.РД-568-68/10.08.2011 with the Municipality of Sofia for repair of defects and damages that have occurred at municipal property sites where Sofiyska Voda AD carries out construction works, with No.MD2135510000, issued by United Bulgarian Bank AD, in the amount of 606,000 BGN and validity until 31 December 2024.

Information about shareholdings of the issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estates), as well as investments in equity securities beyond its business group and the sources/ways of funding:

Sofiyska Voda holds 100% of the share capital of Water Industry Support and Education EOOD (2015: 100%). The capital of Water Industry Support and Education EOOD is 5,000 BGN, divided into 500 shares (BGN 10 per share).

Information about the loan agreements signed by the issuer, respectively the person under §1e of the additional provisions of the Law on Public Offering of Securities, by its subsidiary or parent company in their capacity as borrowers, with a specification of the terms under those, including the deadlines for repayment, as well as information about the provided guarantees and commitments:

Information for the ultimate parent company is published on the following website, where the consolidated financial statements of Veolia Environnement, France, are:

https://www.veolia.com/en/veolia-group/finance/financial-information/financial-publications

Information about the loan agreements signed by the issuer, respectively the person under § 1e of the additional provisions of the Law on Public Offering of Securities, by its subsidiary or parent company in their capacity as lenders, including provision of guarantees of any kind, also to related parties, with a specification of the terms under those, including the deadlines for repayment and the objective for which they have been granted:

As at 31 December 2023, Sofiyska Voda AD and its subsidiary had no concluded loan agreements as a lender or borrower with companies from the Group of Veolia Environnement, France.

Information for the ultimate parent company is published on the following website where the consolidated financial statements of Veolia Environnement, France, are:
https://www.veolia.com/en/veolia-group/finance/financial-information/financial-publications

Analysis of the relation between the achieved financial results reflected in the financial statements for the financial year and the forecasts for these results published earlier:

Sofiyska Voda AD has no published forecasts for the expected financial results during the year.

Analysis and assessment of the policy on financial resource management by specifying the capacity to service the liabilities, the possible threats and measures which the issuer, respectively the person under § 1e of the additional provisions of the Law on Public Offering of Securities, has applied or intends to apply in view of their elimination:

The financial statements were prepared on the basis of the assumption that the Group is a going concern and it will continue its activity in the foreseeable future.

Assessment of the capacity to implement the investment intentions, specifying the amount of the available resources and reflecting the possible changes in the funding structure for this activity:

The investment intentions of the Company are described in detail in the paragraph below for the Investments over the period January-December 2023. The implementation of the investment program provided for in the established plan is financed with company's own funds, i.e. from the company revenue generated through the prices determined for the provision of WSS services, as well as with borrowed funds.

Information about changes that occurred during the reporting period in the main governance principles of the issuer and its business group:

No changes in the main governance principles of the Parent Company and its business group have occurred.

Information about "greenness"

Since the beginning of 2022, the Group has had a requirement to disclose greenness data: % of revenue, capital expenditure, operational costs, imposed by the European Union. In 2023, according to the assessment made and the criteria set, the distribution of the revenues, costs and investments of the Group is as follows:

- Criteria 1-5.1. Construction, extension and operation of water collection, treatment and supply systems:

	Thousand BGN
Revenues	167 057
Costs	126 183
Investments	37 116

The technical indicators are:

- Energy used for drinking water abstraction and treatment is 0.043 kWh/m^3;

- Total losses are less than the long-term KPI set by the Energy and Water Regulatory Commission of 49%, and constitute 39.37 %;

- Criteria 1-5.3. Construction, extension and operation of wastewater collection and treatment:

	Thousand BGN
Revenues	76 134
Costs	59 905
Investments	14 509

The technical indicators are:
- Net energy consumption is less than 20 kWh/p.e. and is 1.85 kWh/p.e.

Information about the main characteristics of the internal control system and risk management system applied by the issuer, respectively the person under §1e of the additional provisions of the Law on Public Offering of Securities, in the process of preparing the financial statements.

The Group of Sofiyska Voda AD has developed its internal control system based on the best world practices and the COSO model (COSO - Committee of Sponsoring Organizations of the Treadway Commission). The five components of internal control according to the model are:

i. Control Environment;
ii. Risk Assessment (Enterprise Risk Assessment Process);
iii. Information and Communication (Information system, including the business processes related to it, referring to financial reporting and communications);
iv. Control Activities; and
v. Monitoring (Continuous controls monitoring).

These components are also stated in the International Standard on Auditing 315 (revised 2019), Appendix 3 – Components of the entity's system of internal control).

The control environment sets the tone of the entity by influencing the control consciousness of people within the organization. It is the foundation for all internal control components, providing discipline and structure. The factors of the control environment comprise: integrity, ethical values and competence of company employees; management's philosophy and operating style; the way management grants powers and responsibilities, and organizes and develops its employees; as well as attention and guidelines, given by the Board of Directors.

Control Environment

The main policies and procedures ensuring the control environment, which are reviewed and updated regularly, are:

- Ethical guidelines and code of conduct of Veolia Group – include the Code of Conduct (last updated in September 2023) and the Anti-Corruption Code of Conduct (last updated in November 2023), as well as the Charter on the use of the right for submission of signals on ethical issues in Veolia;
- Internal Regulations of Sofiyska Voda AD;
- Procedure "Submission, investigation and reporting of fraud and corruption alerts" of Sofiyska Voda with a new version from February 2023, including the previous procedure for disclosure of irregularities;
- In November 2023, a dedicated instruction was developed to the above procedure on protection of persons reporting or publicly disclosing information on breaches in compliance with the Whistle-blowers Protection Act;
- Procedure "Conflict of Interest Prevention. Gifts, Hospitality and Donations", a new version from April 2023;

- Anti-Corruption phone line (+359 2 8122 521, published on SV official website: www.sofiyskavoda.bg);
- Digital platform Whispli, which facilitates the discussion with the person submitting the alert for violation, administered by the Ethics Committee of Veolia Group based in Paris;
- Procedure "Due Diligence", which regulates the rules and procedure for exercising additional targeted control aiming at corruption risk management and prevention in certain deals, projects, activities, business partners or employees of the Group, updated in June 2023;
- Accounting Policy;
- Accounting Closing Procedure from November 2022;
- Instruction on receiving, accounting and paying invoices from suppliers with a new version from December 2023;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets with a new version from June 2023;
- A new instruction on stocktaking of material stocks, effective from December 2023;
- Procedure on the administrative service of employees, supplementing and replacing the previous procedure "Conclusion, amendment and termination of the employment contract", with a new version from April 2023;

Risk Assessment

Sofiyska Voda like every entity faces a variety of risks from external and internal sources that should be assessed. A precondition to risk assessment is the setting of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks threatening the achievement of the objectives, which forms a basis for determining how the risks should be managed. Since economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the specific risks associated with the changes.

The risk management process in Sofiyska Voda is regulated by the Risk Management Strategy and supported by the Risk Management Procedure, which describes the methodological approach for identification, measuring, controlling and subsequent monitoring of those circumstances, events and actions that may have an impact on the achievement of the business objectives of the Company. The procedure is reviewed and updated regularly in order to ensure that the Group applies a unified approach in risk assessment and risk management in all fields of its activity.

Information and Communication

All employees are given a clear message from the top management that control responsibilities should be taken seriously and responsibly. The employees have to understand their own role in the internal control system, as well as how individual activities relate to the work of others. They need to understand the meaning of communicating significant information upstream. Effective communication is in place with third interested parties such as customers, suppliers, regulators and shareholders.

Sofiyska Voda's Communications Department ensures the focus on internal as well as external exchange of information with the stakeholders. In addition, the Company's Regulation and Concession Compliance Unit is in charge of the information exchanged with the Municipality of Sofia, the EWRC and other institutions. The relations with customers are managed by the teams of the Commercial Directorate.

The intranet and the official website of the Company are also a two-way channel for exchanging information – inside and outside the company, respectively.

Control activities

The control activities are in line with the policies of Sofiyska Voda and result from the procedures of the Company. They ensure that necessary actions are taken to address the risks related to the achievement of the entity's objectives. Control activities are implemented throughout the organization, at all levels and in all units. They include a range of activities, such as approvals, authorization, verification, coordination, review of the operating performance, security of assets, and segregation of duties.

All effective policies, procedures and instructions on the specific work processes are published on Sofiyska Voda's intranet, which is accessible to all employees.

Monitoring

Monitoring – the internal control systems need to be monitored – a process that assesses the quality of the system's performance over time. This is done through ongoing monitoring activities, separate evaluations or a combination of both. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, as well as other actions taken by employees when performing their duties. The scope and frequency of the individual evaluations depend on the risk assessment and efficiency of the procedures for ongoing monitoring.

The management is primarily responsible for the internal control system and the chief executive officer is assumed to be the "owner" of the system. The management is accountable to the Board of Directors, which provides corporate governance, guidance and supervision.

The Audit Committee of Sofiyska Voda was created and operates (including by fulfilling its monitoring obligations regarding financial reporting) under the Independent Financial Audit Act.

The internal auditors play an important role in evaluating the effectiveness of the control systems and contribute to the ongoing effectiveness. Because of its organizational position and powers in the Company, the Internal Audit team often plays a significant monitoring role.

The weaknesses of internal control, identified during internal audits, inspections and monitoring, are reported to the managers, and the most serious matters are referred to the senior management and the Board of Directors.

External parties also carry out monitoring over the activity of Sofiyska Voda, and these are the regulatory bodies (Energy and Water Regulatory Commission), the Grantor (Municipality of Sofia), state institutions (tax authorities, ministries, etc.), and external auditors.

Information about pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer in the amount of at least 10% of its equity; if the total value of the liabilities or receivables of the issuer under all initiated proceedings exceeds 10% of its equity, information shall be provided for each individual procedure.

There were no such proceedings during the reviewed period.

General Meeting:

On 11 September 2023, the Annual General Meeting of Shareholders of Sofiyska Voda AD was conducted. During the General Meeting, the following decisions were taken:

1. The consolidated report on the activity of Sofiyska Voda AD for 2022 and the consolidated annual financial statements of the Group for 2022 were approved;
2. The report on the activity of Sofiyska Voda AD for 2022 and the consolidated annual financial statements of the Group for 2022 were approved;
3. The report on the activity of the Audit Committee of Sofiyska Voda for 2022 was approved;
4. The mandate of Sofiyska Voda's Audit Committee was extended by 2 (two) more years;
5. The General Meeting decided for the profit of Sofiyska Voda AD for 2022, in the amount of 19,923,312.23 BGN (after 1% allocation to handback account as per the Concession Agreement), to be distributed between the shareholders of the Group in the form of dividends, as the amount of the dividend per share is 2.2425 BGN;
6. The Board members were released from liability to the Company for their activity in 2022, as follows: Mr. Francois Debergh, Ms. Mariana Iteva, Mr. Frederic Faroche, Mr. Vasil Trenev, Mr. Vladimir Stratiev, Mr. Biser Damyanovski and Mr. Georgi Bankov.

Within the statutory time limits, the Group disclosed its separate and consolidated financial statements and reports on the activity, as well as the proposal of the management body for distributing the profit and the decision of the General Meeting of Shareholders on the way of distributing the profit on its account in the Trade Register at the Registry Agency.

Board of Directors:

In 2023, there was no change in the Board of Directors of the Parent Company.

The Board of Directors of Sofiyska Voda comprised 7 members until November 2023:

Mr. Francois Michel Debergh, Mr. Frederic Laurent Faroche; Mrs. Mariana Georgieva Iteva, Mr. Vasil Borisov Trenev, Mr. Georgi Ivanov Bankov, Mr. Vladimir Georgiev Stratiev (deceased in November 2023) and Mr. Biser Nikolaev Damyanovski.

In 2023, the Group was managed and represented individually by Mr. Vasil Borisov Trenev and Mr. Francois Michel Debergh.

The remunerations of the members of the Board of Directors for 2023 were 583,000 BGN (2022: 529,000 BGN), of which the amount unpaid as at the reporting date was 43,000 BGN (31.12.2022: unpaid 40,000 BGN). The income of the Board members in the period is as follows: Member 1: 29,000 BGN, Member 2: 63,000 BGN, Member 3: 379,000 BGN, Member 4: 29,000 BGN, Member 5: 25,000 BGN, Member 6: 29,000 BGN and Member 7: 29,000 BGN.

The Board members do not hold, have not acquired or transferred shares and bonds of the Group during the year.

The Board Members have no rights to acquire shares in the Group.

In 2023, the Board Members participated in the management of other companies or participated as partners with unlimited liability, or held more than 25% of the capital in another entity, as follows:

1. Mariana Georgieva Iteva – participated in the management of: Veolia Voda Bulgaria EOOD, UIC: 201404389; managed and held more than 25% of the capital of MI CONSULT INTERNATIONAL EOOD, UIC: 200981719;
2. Biser Nikolaev Damyanovski – participated in the management and held more than 25% of the capital of INTERTRADE CONSULT EOOD, UIC: 201824172;
3. Vasil Borisov Trenev held more than 25% of the capital of BNKY Ltd., UIC 131467679;
4. Francois Michel Debergh participated in the management of Veolia Solutions Bulgaria EAD, UIC: 130547859, Veolia Services Bulgaria EAD, UIC: 121371700, Veolia Energy Varna, UIC 103195446;
5. 5. Georgi Ivanov Bankov – participated in the management and held more than 25% of the capital of GV Public Partners EOOD, UIC 206041187;
6. Frederic Laurent Faroche – participated in the management of: APA Nova Bucuresti SA; Veolia Energia Polska SA; Veolia Energia Łódź SA; Veolia Energia Warszawa SA; Veolia Energia Poznań SA; Veolia term SA; Veolia Nowa Energia Sp. z o.o; Veolia Holding Polska Sp. z o.o.; Cleveren Holding Sp. z o.o.; Veolia Energy Contracting Poland Sp. z o.o.

The Board members did not conclude contracts under art.240b of the Commerce Act during the year.

Acquired and transferred shares:

In 2023, the Parent Company did not acquire or transfer own shares.

Number and nominal value of the own shares held and the proportion of the capital, which they represent:

As at 31 December 2023, the share capital included 8,884,435 ordinary registered shares (2022: 8,884,435), each having a par value of 1 BGN.

As at 31 December 2023, the shareholders in the Parent Company's capital are:

- Veolia Central&Eastern Europe – 6,850,000 ordinary registered shares (77.1%);
- Vodosnabdyavane i Kanalizatsia AD - 2,034,435 ordinary registered shares (22.9%).

Research and development

Sofiyska Voda AD does not carry out research and development activity.

Presence of branches of the enterprise:

The Group has no branches.

Business Plan:

In 2023, the Parent Company still did not have an approved Business Plan 2022-2026 due to the fact that the extension of the Concession Agreement was signed by the Mayor of the Municipality of Sofia in August 2023. The commitments envisaged in the Agreement were reflected also in Business Plan 2022-2026, which was approved by the Sofia Municipal Council on 14 September 2023 and afterwards on 07 November 2023 the Business Plan was filed for approval at the EWRC.

The prices of the WSS services for 2023 remained unchanged, the same as those effective in 2021 and 2022, because Business Plan 2022-2026 had not been reviewed and had not been approved by the EWRC, accordingly.

During the reporting period (2023), the Group reported good results as regards the main aspects of the activity, as the efforts were directed towards maintaining its operational efficiency and optimizing the business processes. In November 2023, the EWRC published a "Comparative Analysis of the WSS Sector in the Republic of Bulgaria for 2022". The analysis confirmed the leading position of Sofiyska Voda AD in the WSS sector of the country.

In 2023, the EWRC did not conduct the traditional annual audit of the Parent Company because Sofiyska Voda AD has no approved Business Plan for the current regulatory period yet.

Concession Agreement

On 24th November 2022, the Sofia Municipal Council took a decision to extend the term of the Concession Agreement until 2034 through the Fourth Amendment Agreement (FAA) to the Concession Agreement.

The FAA was signed by the Municipality of Sofia on 28.08.2023. The extension of the Concession Agreement entered into force on that date. The FAA was also the base for finalizing the Parent Company's Business Plan 2022-2026 and its subsequent approval by the Sofia Municipal Council. The 9-month delay of the conclusion of the FAA due to reasons beyond the control of the Group also led to the delayed submission of Business Plan 2022-2026 to the EWRC for consideration.

Events following the reporting date:

There are no events that have occurred after the reporting period, which require corrections or disclosure in the annual financial statements.

Information about services provided by the independent auditor:

The expenses on the remuneration of the appointed independent auditor amounted to 185.3 thousand BGN, of which 118 thousand BGN for the statutory independent financial audit.

For the audited period and as at the date of this report, KPMG Audit OOD (former trade name KPMG Bulgaria OOD) provided, or is in the process of providing to the Group, the following services:

- Limited review of the interim financial information for consolidation purposes of the Group, prepared as at and for the period ending 30 June 2023, in compliance with the accounting instructions of Veolia Group;

For the audited period and as at the date of this report, Deloitte Audit OOD provided, or is in the process of providing to the Group, the following services:

- Statutory financial audit required by law of the Parent Company's separate and consolidated financial statements, prepared for the year ending 31 December 2023 in compliance with the IFRS adopted by the EU;
- Audit of financial information for consolidation purposes of the Group, prepared as at and for the year ending 31 December 2023, in compliance with the accounting instructions of Veolia Group;
- Reporting for the purposes of the Energy and Water Regulatory Commission (EWRC) in connection with art. 34 (5) of the Ordinance on the Regulation of the Prices of Water Supply and Sewerage Services (ORPWSSS) and art. 15 and art. 16 of the Water Supply and Sewerage Services Regulation Act (WSSSRA), and preparation of a report under art. 34 (5) of ORPWSSS for compliance with the rules for accounting under the Unified Regulatory Reporting System (URRS), according to the published by the EWRC instructions, rules, principles, deadlines, and other documents and reports in the respective required regulatory format, as well as expressing an opinion on other issues, which may be demanded by the EWRC in connection with the URRS and art. 15 and art. 16 of the WSSSRA.

Customer Service:

Throughout the entire 2023, we continued to work towards optimization of the resources and fulfilment of the commitments taken in the Customer Charter in order to offer quality servicing in the shortest possible period. The achieved average response time for requests, applications, complaints etc. was up to 10 calendar days.

Based on prepared monthly analyses of customers' complaints, measures are taken constantly at different levels of the Company, aimed at improving the internal processes and enhancing the quality of the provided services.

Individual meetings with customers are initiated for permanent closure of customer cases where the problems are considered and individual approach is applied to find a solution acceptable for both sides. Where necessary, on-site visits are organized in order to find the most appropriate solution for both parties, consistent with the technical capacity and requirements.

The metric introduced by the Company for evaluating the overall "customer experience" in the process of making inquiries, requests, complaints etc. showed very good results. The overall satisfaction rate kept its level from 2022 of 90%.

Evaluation of efforts, or "How difficult it is to work with Sofiyska Voda" – the survey is carried out through phone interviews using a sample of 1,000 customers per quarter.

The "Customer experience" survey aims at showing how our customers perceive us through all interactions they have with the Group, its products and services. This is yet another way for us to get feedback from the customers through surveys, complaints and inquiries, which help the Company establish and manage the processes.

In 2023 again, the Group continued the campaigns for awarding its loyal customers by organizing monthly raffles with discounts to the invoices.

Customer Relations

In 2023, the total number of contacts with customers maintained its volume, as the difference with 2022 is 1.6%. The main reason for the growth is the 17% increase in the letters of operational nature from customers and institutions.

There is a slight drop in the number of contacts at the Call Center mainly in the first half of 2023 – 3.7% compared to 2022 and the calls directed to IVR for 2023 are fewer by 7.2% compared to 2022.

The missed calls for the calendar year were 8.7% vs. 7.1% in 2022. The level of the service "talks with a reply received in less than 30 seconds" was 74.4% and the main reason is the decreased number of the team members due to the unoccupied vacancies, regarding which a recruitment process is underway. Over the period, the registered average time of the customers' waiting in the queue was 8 seconds.

Customer Service Centers

In 2023, the number of visits to the Customer Service Centers (CSCs) maintained the same level as in 2022, as the difference is - 0.9%.

The main reasons due to which our customers visited the Customer Service Centers in 2023 were to receive information, make inquiries regarding customer accounts and request technical services.

Internet Services

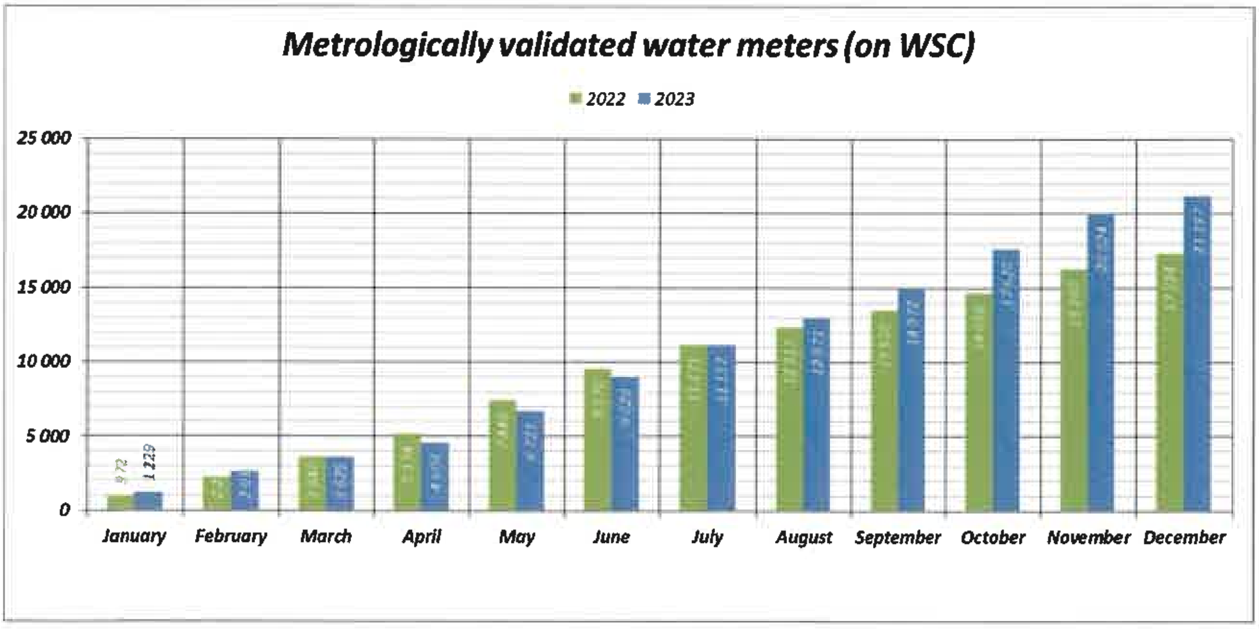
The new customers registered on the website for 2023 were 18,801, by +1.2% more compared to 2022. Over the entire calendar year, 759,389 self-readings were submitted by customers, as in 2022, their number was 676,190. 38,273 readings were submitted through remotely-read water meters.

The enquiries received online over the period January - December 2023 were 17,258 and 15,768 required a response. All answers were sent within 24 hours of receipt of the enquiry.

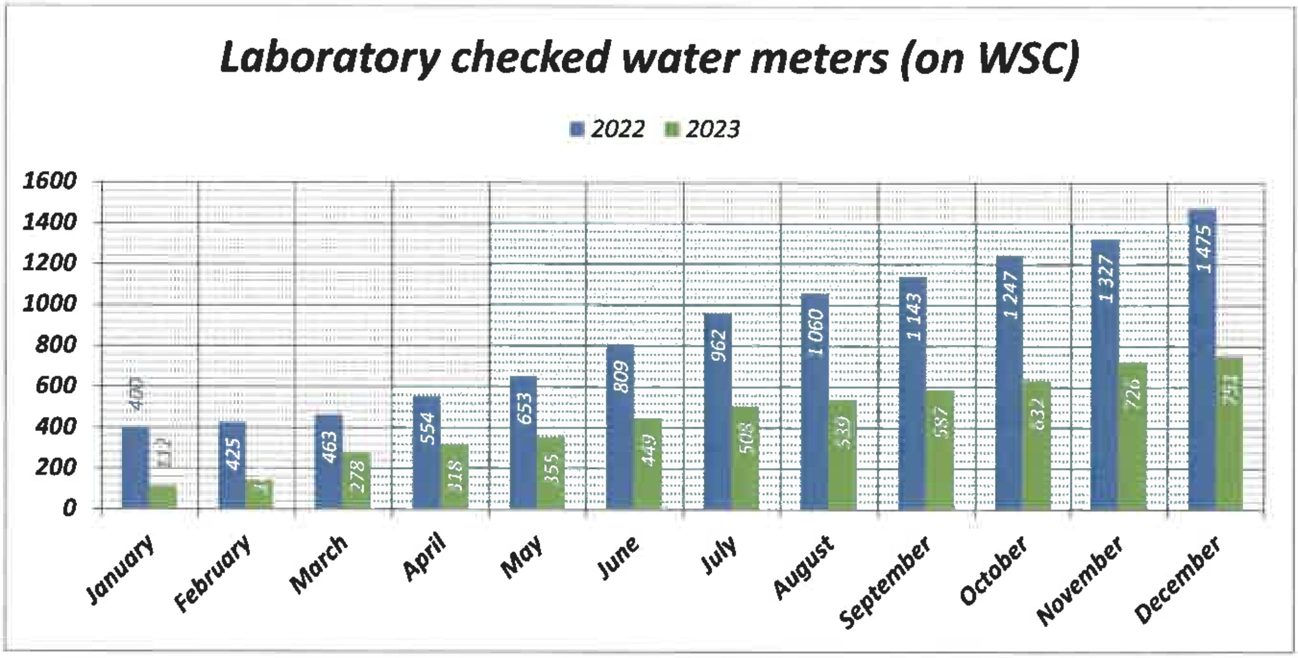
Over the period January – December 2023, another 25,107 customers registered to receive an e-invoice, and their total number at the end of the year reached 252,603.

Water Meter Services, Billing and Debt Collection

Replacement of water meters on water service connections



The water meters that were validated metrologically in 2023 were 21,197, or 22.36% more than in 2022. The increase is due both to the Group's focus on the replacement of water meters with small diameters with expired or expiring metrology and to the weather conditions, which allowed the work of the teams to continue in full capacity till the end of the year. The total number of the water meters on WSC, validated metrologically, was 91.63% compared to 92.25% in 2022 and the target level of 90.88% set in the Business Plan of the Company for 2023 was exceeded by 0.75%.

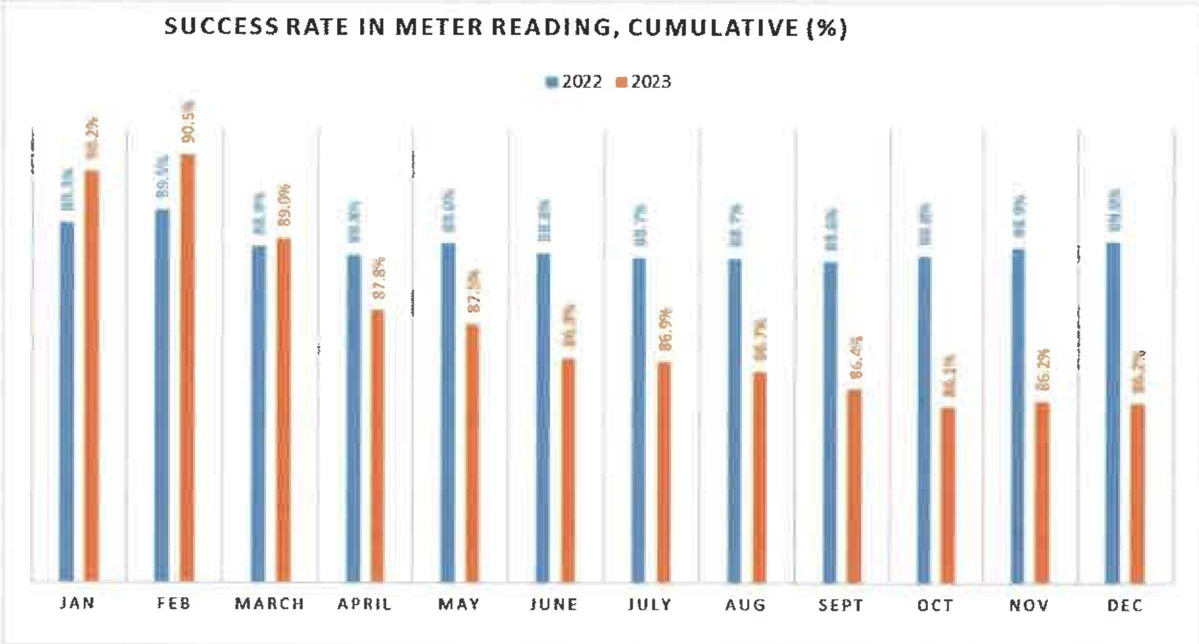


In 2023, the water meters checked in authorized laboratories for water meters were 751, which is a nearly 50% decrease compared to the levels in 2022. The downward trend in the number of the tested water meters is due to the efforts of the Group to metrologically validate water meters with small diameters in 2023, whose testing and re-installation is not particularly profitable.

Water Meter Reading

In 2023, the total number of water meters, including the individual meters measuring the water consumption in condominiums, read by Sofiyska Voda AD, was 1,517,376, higher by + 1.6% than in 2022.

The meter reading activity is assigned to a contractor whose employees read most of the water meters (mainly those of the population), and the smaller part of the activity is performed by Group employees, who read the water meters of big and industrial customers in line with the monthly reading schedule. The overall reading efficiency decreased in 2023 and it is presented graphically per months on the following chart:



A decrease is recorded for the success rate in the meter reading activity for 2023, which is 86.2% compared to 89.0% in 2022. The main reason for the decrease is organizational relating to the hiring of employees due to the high staff turnover on part of the contractor of the Group.

Billing

Increase in the billed volume of potable water was registered in 2023 by +1.9% in comparison with 2022 (77.46 M m^3 in 2023 and 76.04 M m^3 in 2022). Decrease is registered in the supplied non-potable water compared to the previous year by -8% or -425 thousand m^3. Decrease is registered also in the billed volumes to another WSS operator by -17.7% or -1.529 M m^3.

In 2023, there was no new tariff determined for the water supply, sewerage and wastewater treatment services. The total amount of the billed volumes in 2023 was 226.27 M BGN, VAT inclusive, which is by 2.78 M BGN more (+1.2%) compared to 2022.

Collection of receivables

In 2023, the Group continued realizing successfully the strategy for increasing the collection of outstanding receivables from its customers. As a result, the total collected amount as at the end of the year was 222.07 M BGN in comparison with 222.03 M BGN in 2022, or the registered increase was 0.02% on an annual basis. The annual collection rate for 2023 was 98.14% compared to 99.34% in 2022. The main problems in the collection of receivables were directly related to the internal political crisis, the tense international situation and the unstable economic situation, which are prerequisites for risk of delayed payment of utility bills. The low priority of payment of the bills for WSS services and the delay or lack of payments from the budget and institutional customers also had a negative impact.

The total amount collected as a result of the activities of the internal debt collection teams was 22.06 M BGN in comparison with 23.56 M BGN in 2022, or a registered annual drop of -6.4% mainly due to the vacancies in both teams and the long recruitment process.

In its constant attempt to improve the quality of the provided services and customer satisfaction and to expand the offered payment channels, at the beginning of February 2023, the Group launched a project for online payment with payment operators that will allow registering the payment in real time and at the same time updating the information for the customers' debts. The Company also continued applying the policy aimed at the customers with temporary financial difficulties by offering them flexible and individually structured deferred payment agreements.

BUSINESS DEVELOPMENT

In the period January - December 2023, the revenue resulting from the activity of the Business Development Directorate amounted to 2,216,789 BGN.

Public and industrial customers

The main activity of the new Business Development Directorate covers the overall process on deployment and development of services and markets.

Over the period January – December 2023, contracts were concluded at a value of 244,873 BGN under projects for industrial and public customers, as well as for laboratory services.

Complex services and non-regulated business

Sofiyska Voda AD continued developing activities related to the provision of additional services for the customers – installation, testing and sealing of individual meters, as well as small plumbing services.

Over the period January - December 2023, the revenue from the service Installing and Testing of Individual Water Meters amounted to 1,557,471 BGN, and in the same period of 2022, the revenue was 1,502,566 BGN.

Over the period January - December 2023, the revenue from the service Water Meter Sealing amounted to 184,827 BGN, and in the same period of 2022, the revenue was 191,955 BGN. The realized revenue from contractors in 2023 amounted to 229,618 BGN, and in the same period of 2022, it amounted to 167,200 BGN.

Over the period January - December 2023, 1,791 remotely read water meters were installed at both entire buildings and condominiums, new and old buildings, as well as for individual customers in a total amount of 619,444 BGN. Over the same period of 2022, 1,383 remotely-read water meters were installed in a total amount of 414,656 BGN, i.e. the revenue in 2023 is 49% higher.

OPERATIONS AND MAINTENANCE

Water resource management

The continuous monitoring of the water volumes supplied to the Concession Area is at the base of the water management carried out by Sofiyska Voda AD.

The total water abstracted from all water sources in the period January – December 2023 was 135,810,874 m^3. The data obtained from the monitoring throughout the year shows that the water volumes used for water supply register a slight increase in comparison with 2022. The increase was mainly due to the hot and dry summer, as well as the dry autumn season, which increased water consumption.

The raw water abstracted from all water sources in the period January - December 2023 compared to the same period of 2022 increased by 1,789,303 m^3.

Consumption trends

In 2023, the Group's total billed volumes decreased by -0.59% compared to 2022, or by 533,000 m^3 less.

Regarding the potable water, the registered increase was +1.87% or 1.421 M m^3 more compared to 2022. The table below presents the differences by customer type and water type (potable, non-potable and supplied raw water):

Water	2022	2023	Annual variation (m^3)	Annual variation (%)
	m^3	m^3		
Households	58 884 472	59 192 373	307 901	0.52%
Budget Customers	3 579 687	3 602 167	22 480	0.63%
Commercial Customers	13 577 902	14 668 329	1 090 427	8.03%
Non-potable water	5 309 681	4 884 934	-424 747	-8.00%
Raw Water (WS Beli Iskar and WS Bozhurishte)	8 619 968	7 091 319	-1 528 649	-17.73%
Total potable water WS Sofia	**76 042 061**	**77 462 869**	**1 420 806**	**1.87%**
Total billed water for all water supply systems	**89 971 710**	**89 439 122**	**-532 586**	**-0.59%**

The greatest increase is observed for the commercial customers, respectively by 8.03% (+1.090 M m^3) on an annual basis, mainly due to the increased production and the increase in the attendance of the commercial sites.

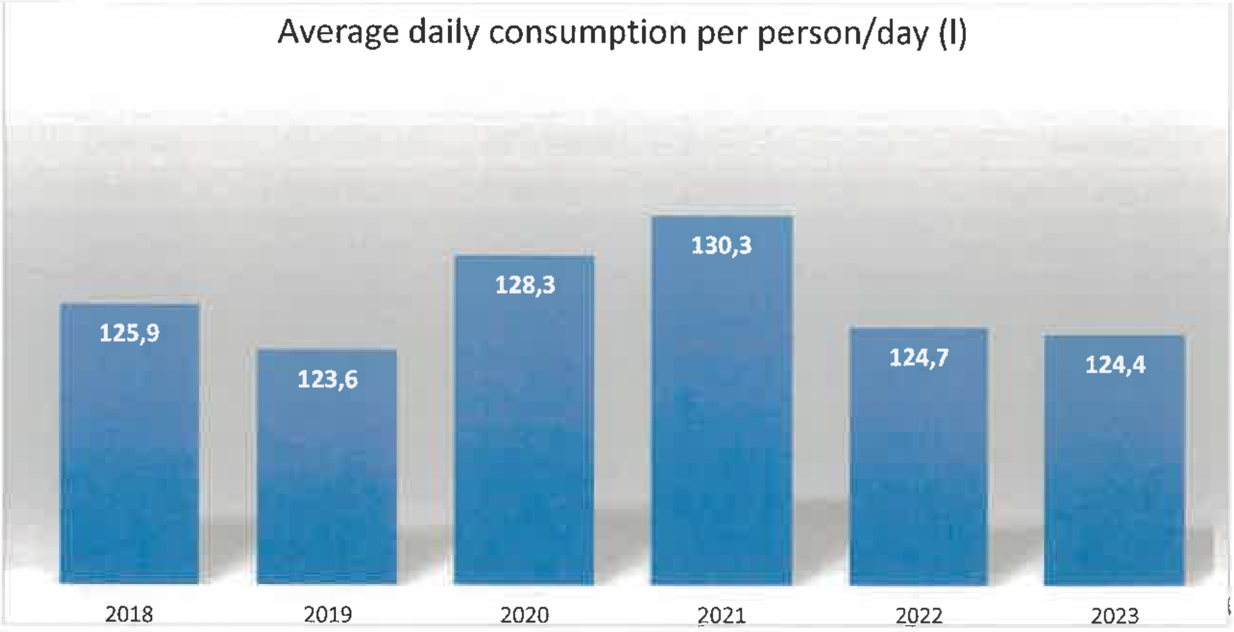
A reduction was registered for raw water, which is due to the decreased billed volumes for Samokov (-1.520 M m^3), and for WS Bozhurishte (-9 thousand m^3) vs. 2022. The volumes of raw water supplied from the two water systems (WS Beli Iskar and WS Bozhurishte) to the only customer of the Group – the state-owned Vodosnabdyavane i Kanalizatsia EOOD, depend on the available reserves of its own bored wells. At the end of 2022, Vodosnabdyavane i Kanalizatsia EOOD – Samokov repaired one of its own water sources for the town and uses water from it.

In 2023, the volumes of non-potable water registered a decrease compared to 2022 by -8.00% (-425 thousand m^3), as the main customer is Toplofikatsia Sofia EAD.

Consumption of households – analysis of the current trends

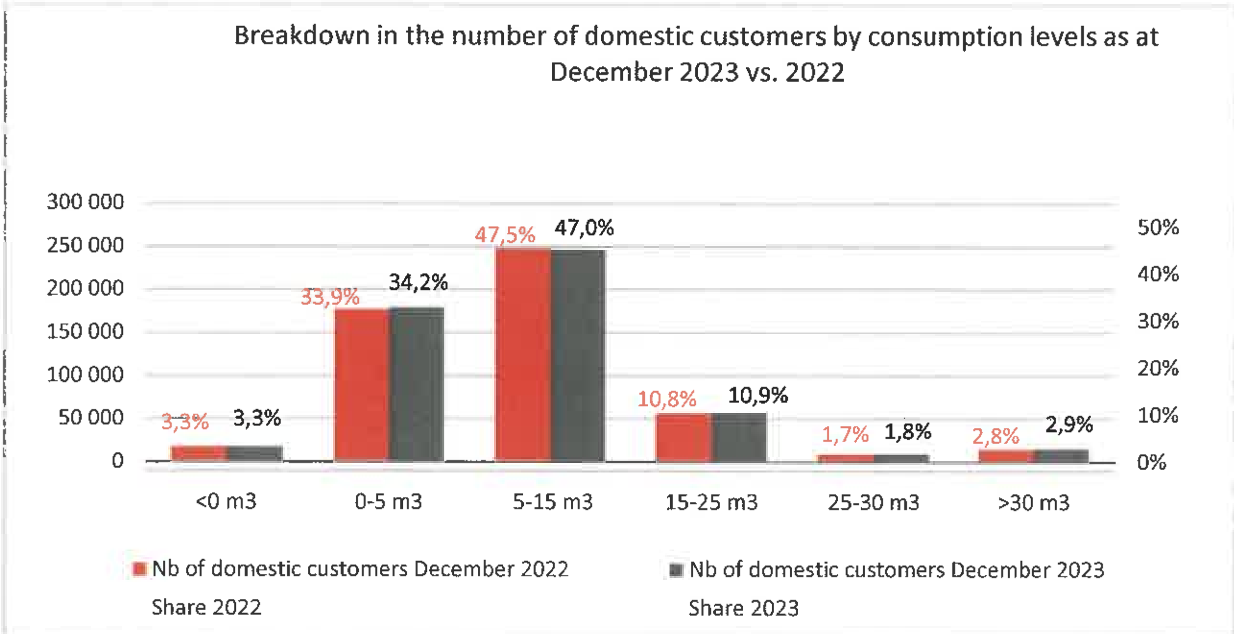
In 2023, the billed volumes of potable water for the households had the highest share - 76% in the total billed consumption as compared to 2022 (77%). The total billed volumes for the households were by +308 thousand m^3 more compared to 2022.

The chart below represents the trend in the billed consumption per inhabitant in Sofia for a 24-hour period. The peaks in 2020 and 2021 are due to the COVID-19 pandemic, when the people were forced to stay, work and study remotely from their homes.



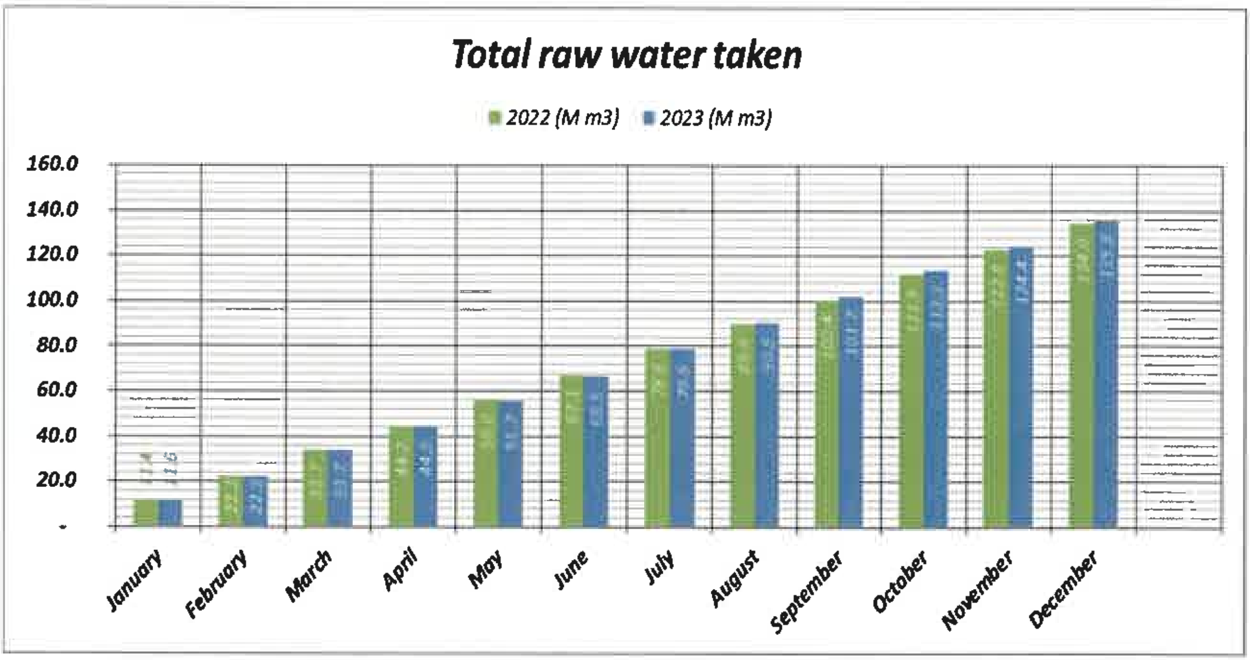
The average daily consumption is calculated as a ratio between the billed annual volumes for households and the number of the population of Sofia city (forecast for 2023 of the National Statistical Institute), divided by 365 days.

This trend is also related to the dynamics of the customer groups with higher water consumption towards those with lower water consumption. On a monthly basis, the Group monitors the number of household customers, whose water consumption is measured according to the following monthly consumption: 0-5 m^3, 5-15 m^3, 15-25 m^3, 25-30 m^3, exceeding 30 m^3/month In 2023, the highest was the share of customers with an average monthly consumption of 5-15 m^3 (47.0%) and of those with 0-5 m^3 (34.2%):

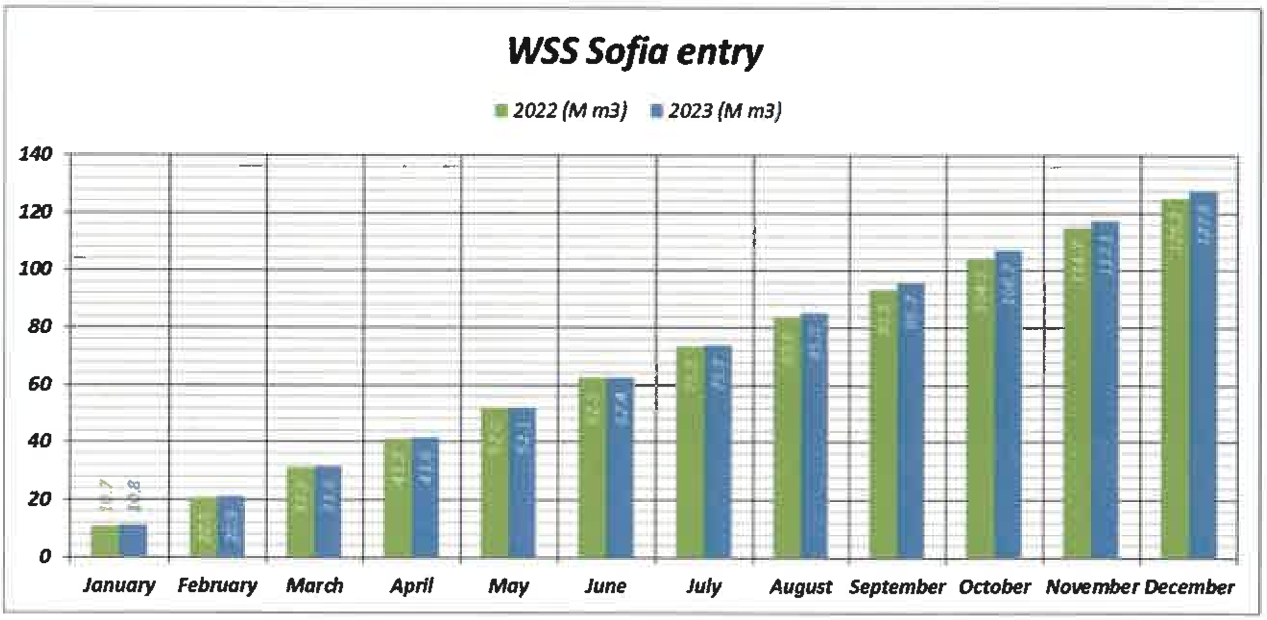


Reduction of unaccounted-for water

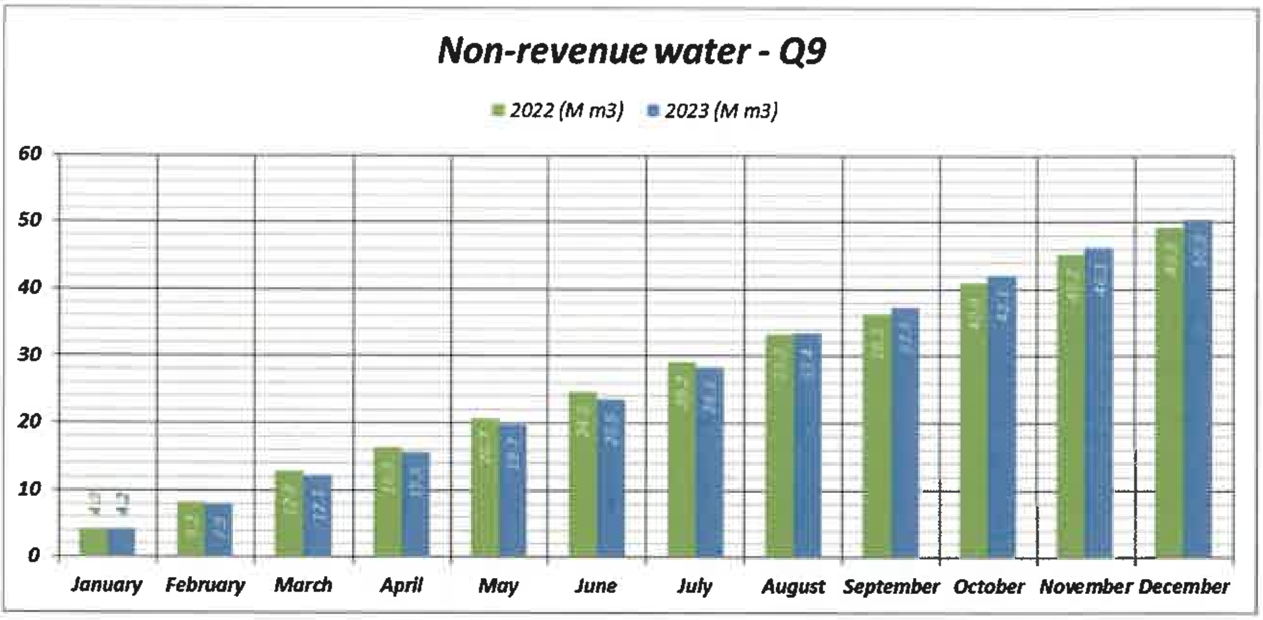
Over the period January – December 2023, the following results were achieved:



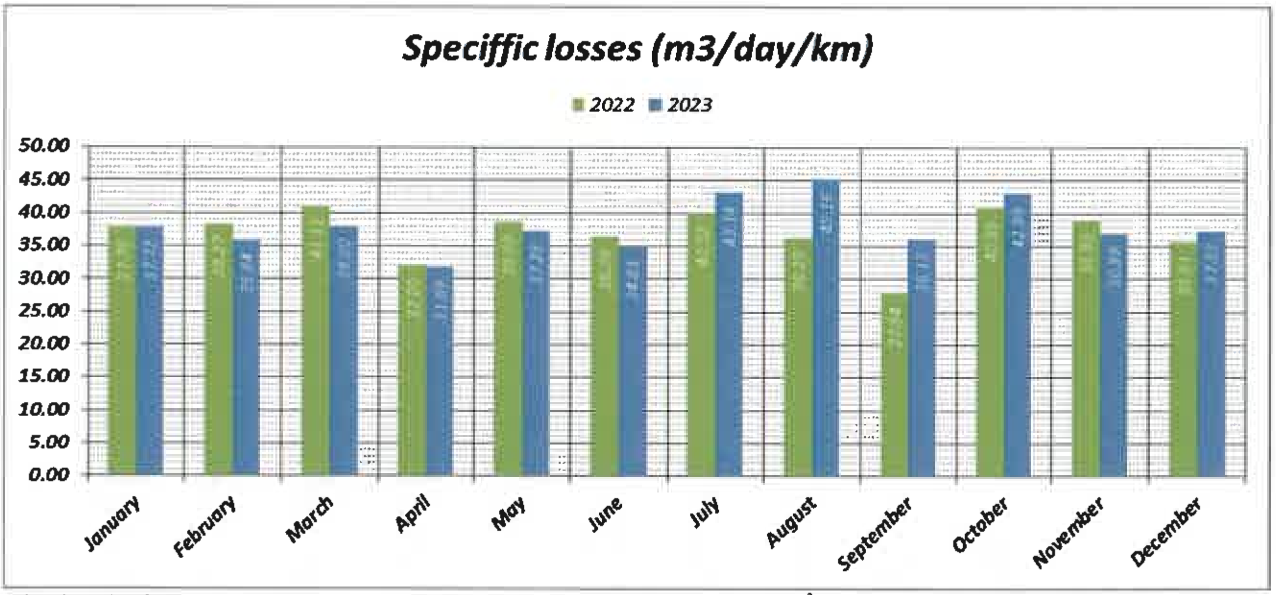
The total abstracted water volumes increased by 1.79 million m³, or an increase of 1.34%.



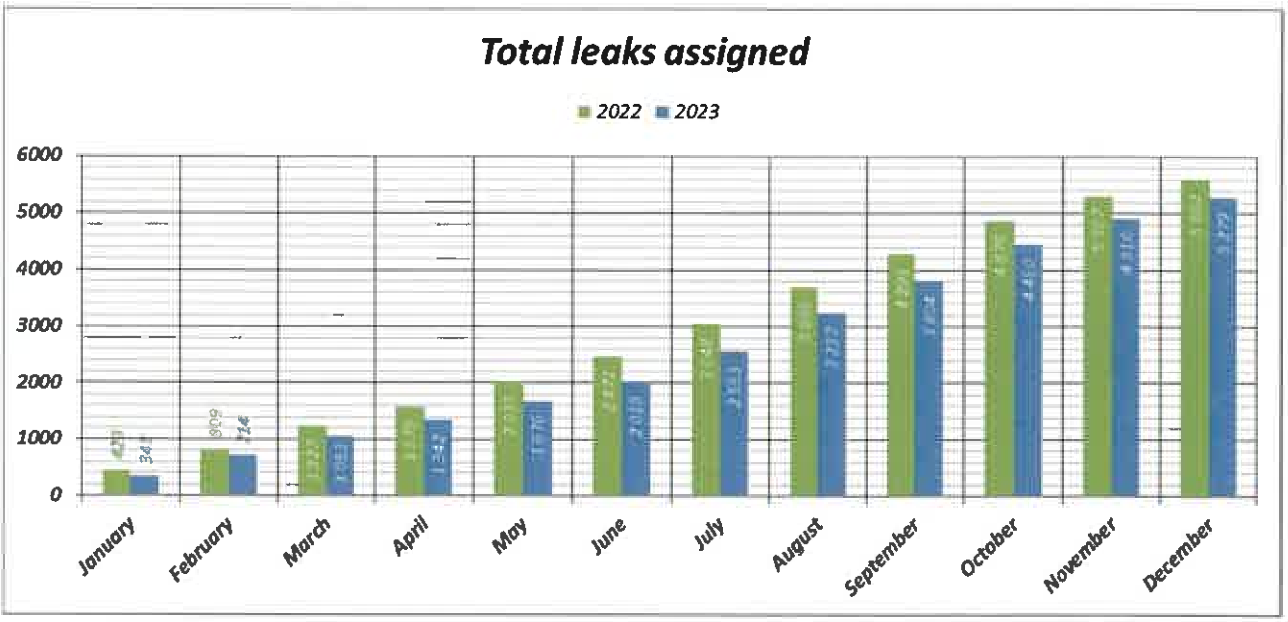
The increase in the water volumes supplied at the entry of WS Sofia is by more than 2.5 million m³ or an increase by 2.03% in comparison with 2022.



Non-revenue water (Q9) increased by over 1.1 million m^3, or an increase by 2.28% in comparison with 2022.



The level of the specific losses is marked by an increase of 1.11 m^3/day/km of network on average, or an increase by 3.29%.



In *2023, the total number of the assigned jobs for fixing leaks on the water network (street water mains, water service connections, fittings, water meter nodes, etc.) decreased by 5.77% or by 323 leaks compared to 2022.*

Quality of the Supplied Water

Sofiyska Voda AD certifies through the results of the periodic and control monitoring performed that the measures put in place to control the risks to human health on the entire water supply network are efficient. Microbiological, physico-chemical, organoleptic and radiological indicators are monitored for the large and small water supply zones separately.

According to the requirements of the *Ordinance on the Regulation of the Quality of Water Supply and Sewerage Services* dated 18.01.2016, the fulfilment of the monitoring program is tracked according to the number of the water supply zones. The potable water quality is determined through the rate of compliance with the requirements. The compliance of the potable water supplied to the end customers in the period January - December 2023 was as follows:

- ✓ KPI 2a – compliance rate for large water supply zones - 99.98%, which exceeds the statutory requirements of 99.16% for the long-term levels of the KPIs;
- ✓ KPI 2b - compliance rate for small water supply zones - 98.81%, which exceeds the statutory requirements of 98.10% for the long-term levels of the KPIs;

Over the period January-December, no deviations were established posing health risks to the population.

In 2023, samples from the points included in all 6 water supply zones were monitored, which exceeds the frequency required under Ordinance 9.

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of Sofiyska Voda implements the Group's plans for monitoring surface and potable water, groundwater, wastewater and sludge in terms of taking samples from water and sludge from the WWTP and analysing the microbiological, hydrobiological, physico-chemical, organoleptic and radiological parameters.

The activities performed by LTC in the reporting period were related mainly to the implementation of the plans for monitoring potable water, surface water and groundwater, as well as wastewater and sludge from WWTP; the maintenance and expansion of the accreditation; the control over the processes ensuring impartiality, metrological traceability and validity of the results from the analysis and transparency of the performed activities; the ensuring of confidentiality regarding the analytical results for the samples from the customers of LTC and marketing of the laboratory services.

In the period January – December 2023, in the LTC, a total of 16,849 samples were received, to which 202,502 analyses were performed (881 of them were given to an external accredited laboratory). For comparison, in 2022, a total of 18,717 samples were received, to which 260,000 analyses were made, which shows 16% decrease in the number of analyses and 10% decrease in the number of the samples in 2023 compared to 2022. These changes are mainly due to operational and technological reasons (reduced water volumes, respectively fewer samples from the water network required, fewer taken samples and performed analyses under contracts with external customers and for internal technological monitoring).

Sofiyska Voda AD met the number of samples and analyses set in proportion to the supplied water volumes and with respect to the operated facilities at the monitored sites.

In 2023, the LTC continued the successful fulfilment of its contracts for the provision of laboratory services to external customers, under which revenues were realized, as well as of the service level agreements with internal customers. There were no claims made against the laboratory services by the customers.

LTC was provided the opportunity to participate in international programs for proficiency testing. In 2023, LTC participated in proficiency tests for 164 analyses, from which the satisfactory results were 160 and the unsatisfactory – 4. The success rate of LTC from all participations in 2023 is 97.6%. The relevant corrective actions were taken in respect of the unsuccessful results. The participations in these programs ensure an independent assessment of the performance of the laboratory and provide an opportunity to compare its efficiency with other equivalent laboratories, often globally. These participations provide feedback for the quality of the measurements and allow the laboratory to identify areas for improvement in order to obtain a more accurate control on the processes and demonstrate competence before the customers, the accreditation authorities and other regulatory units.

In the period 26-28 April 2023, the activity of LTC was observed and assessed on site by Executive Agency "Bulgarian Accreditation Service" (BAS), combined with an assessment for extending the accreditation under BDS EN ISO/IEC 17025:2018 with new methods. The extension is connected with the methods removed from the accreditation during the previous assessment (total hardness, odour, temperature, etc). 1 significant non-conformity was ascertained linked to one of the characteristics included in the extension application. After the relevant corrective actions, in September, the LTC obtained accreditation certificate No. 50 ЛИ/28.09.2023 with validity until 16.08.2026.

On 19th and 20th October, the LTC conducted an internal audit with 2 external technical assessors (a chemist and a biologist). There are no ascertained non-conformities as a result of the audit.

In 2023, the LTC digitalized its activities to a great extent by introducing new functionalities of the WinLIMS software for laboratory management, as follows:

1) BRIDGE, through which the laboratory results from most of the instrumentation lab equipment are transferred directly from their software into WinLIMS;

2) Info Server for automatic sending of e-mails with reports for control of the processes (entering results, changes of the entered data, non-compliance upon registration).

Water Network Management

The focus of the Group in 2023, as in 2022, was on several main aspects:

- Improving the operational customer service, mainly by reducing the response time in case of disruptions in the normal functioning of the water network and improving the information, which the Company provides to its customers regarding the occurred or future operational events through an Information Center where the zones affected by the emergency and planned water supply interruptions are visualized, and through the SMS notification service for the upcoming planned and emergency water supply interruptions;
- Gradual equipping of the field teams with mobile devices (tablets) that grant access to the information resources of the Group. Additional upgrade of the Pegasus software system for management of processes for tracking and processing of the received signals, with the inclusion of new modules for management of the work of the Unauthorized Consumption – Reactive and Proactive Activity teams, as well as the Leak Detection Unit;
- The total number of customers who requested the SMS notification service for planned water supply interruptions was 43,880, and in the period January - December 2023, a total of 45,375 messages were sent;
- Over the period January - December 2023, the ratio of the number of unplanned water supply interruptions with a duration below 4 hours to the total number of the unplanned water supply interruptions was 80.59% on average.

Sewerage

The program for proactive maintenance of the sewerage network continued in 2023, and as a result of it, during that period, more than 99 km of the network within the concession area were cleaned proactively, which is less by 8 km compared to 2022. The result achieved is commensurate with the preceding year despite the continuous draining activities that were needed to prevent flooding of sites until repairs were carried out and normal drainage was restored.

In the period January-December 2023, the sewer network surveyed and recorded with all cameras of the Group was 65 km, which is 5 km less in comparison with 2022. Of that, 21 km were surveyed with a robotized camera and coded. The drop is due to the further decreased number of employees in the team conducting CCTV sewer surveys, due to unfilled vacancies until the middle of the year.

In addition, 21 km of sewers over Ф1500 were inspected on foot compared to 17 km in 2022.

In 2023, the positive trend of the last years was maintained – towards reduction in the number of emergency signals for reasons – sewer clogging, clogging of sewer service connections or structural damage of sewers. The Group strives through proper planning of the proactive works on the sewer network to continue reducing the inconvenience to our customers.

Wastewater treatment

In the period **January – December 2023**, Sofia Wastewater Treatment Plant (WWTP) treated **115.3 million m^3** of wastewater from the sewer network of the Municipality of Sofia.

The Wastewater Unit of the Laboratory Testing Complex at the WWTP in Kubratovo performs continuous monitoring of the quality indicators of treated wastewater and sludge generated in the treatment process.

Quality of the treated wastewater

According to the wastewater discharge permit, the following main indicators are analysed – biological oxygen demand (BOD_5), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all other indicators specified in the discharge permit for treated wastewater at the outlet of the WWTP.

In 2023, the fixed statutory number of samples was taken for the above quality indicators of the treated wastewater.

The values of the quality indicators of the samples were below the levels determined in the wastewater discharge permit.

Over the year, there was a trend towards a slight increase in the inflowing volume of wastewater, with increase in the level of concentration of carbon pollution vs. the previous three years, as well as an increase in the level of the nitrogen and phosphorus loads.

Sludge Stabilization and Utilization

The sludge generated through wastewater treatment is stabilized in five anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a "sludge cake" with dry matter content of around 19.24%.

Over the period, 19,368 tons of absolute dry matter sludge from the treatment processes were stabilized and mechanically dewatered, and 14,422 tons of absolute dry matter were utilized in agriculture.

The generated and utilized volumes of sludge were reported in tons of absolute dry matter.

The control over the waste generated at Kubratovo WWTP, including the dewatered sludge, is exercised in accordance with the requirements of the Waste Management Act, and the volumes of waste and sludge are entered in the public register - National Waste Information System to Executive Environment Agency. Sofiyska Voda monitors and submits the required reports to the Ministry of Environment and Water.

INVESTMENTS JANUARY – DECEMBER 2023

In 2023, Sofiyska Voda worked on the implementation of the investment program totalling 57.06 M BGN. The planned investments have the following structure:

Service	Business Plan 2023	Implemented investments 2023	% delivered investments v/s the Business Plan for 2023
Water supply	40 394 323	34 342 164	**85%**
Sewerage	8 544 854	10 233 164	**120%**
Wastewater treatment	3 614 428	4 119 007	**114%**
TOTAL INVESTMENTS IN REGULATED SERVICES:	**52 553 605**	**48 694 335**	**92.7%**
INVESTMENTS IN NON-REGULATED BUSINESS	17 810	1 111 005	**6238.2%**
Considerations	381 057	50 056	**13%**
Additional Investments under the Third Amendment Agreement	1 009 649	997 869	**99%**
Additional Investments under the Settlement Agreement	3 097 853	1 716 098	**55%**
TOTAL ADDITIONAL INVESTMENTS:	4 488 559	2 764 023	**62%**
TOTAL INVESTMENTS:	**57 059 974**	**52 569 363**	**92.1%**

The realized total investments were in the amount of 52.57 M BGN. 48.69 M BGN of them were in regulated services. The realization of the total planned annual investments is 92.1%.

In 2023, the main identified challenges were as follows: lack of capacity of the subcontractors – construction companies to cope with the larger number of civil works, delay of some administrative services from MoS, long processes of contractor selection, increasing inflation. Nevertheless, with a systematic focus on the implementation of the investment program, the timely measures and the additional efforts, a big portion of the Company's capital investment program was successfully implemented.

QUALITY MANAGEMENT

In June, Sofiyska Voda AD passed successfully an external audit of the Integrated Management System (IMS) that confirmed the certification of the Quality Management System under BDS ISO 9001:2015, the Environmental Management System under BDS EN ISO 14001:2015, the Occupational Health and Safety Management System under BDS ISO 45001:2018, the Anti-bribery Management System under BDS ISO 37001:2016 as well as the registration under Regulation 1221/2009 of the Community Eco-Management and Audit Scheme – EMAS.

In the process of the conducted control audit of all systems in Sofiyska Voda, no critical non-conformities were ascertained. All findings were taken into account for improving the Systems and the results of the IMS.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Sofiyska Voda has a certified Environmental Management System (EMS) in compliance with the requirements of the international standard ISO 14001:2015. In 2023, it continued maintaining the system through the management of the environmental aspects.

In 2023, Sofiyska Voda renewed its registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS), whose scope includes all treatment plants and the water network.

Environmental incidents

In 2023, the reported cases were as follows: 1 sudden pollution discharge event at the inlet of Kubratovo WWTP, 1 case of emergency discharge of untreated wastewater in a water body as a result of a disrupted operational process in Voynegovtsi local WWTP, 1 case of emergency opening of a floodgate at the inlet of Kubratovo WWTP due to intensive rainfalls. The relevant measures to address those incidents were taken in a timely manner and they did not have a considerable environmental impact.

Program for the fulfilment of the environmental protection objectives

The environmental protection objectives of the Group are related to introducing best practices for energy efficiency in the operation and maintenance of the water and sewer networks, reducing water losses on the network, ensuring increasingly efficient and quality treatment of the wastewater by reducing at the same time the use of chemicals and reagents, and turning waste into raw material for the production of energy. In 2023, the implementation of the planned activities related to the preservation of biodiversity at the sites of the Group continued, the respective audits were conducted and adequate practices were introduced. The implementation of the objectives for 2023 was satisfactory and led to improved environmental impact.

Training and initiatives

In 2023, representatives of Sofiyska Voda AD took part in the preparation of the waste management program of the Municipality of Sofia for the period 2021-2028;

In 2023, a number of environmental protection initiatives took place, as some of the most significant are:

- Marking the European Week for Waste Reduction;
- Collecting and delivering of 260 kg of caps and cans in the "Caps for Future" campaign;
- Organizing and conducting training seminars on the topic "Biodiversity on the territory of the sites operated by Veolia".

Waste Management

The Group strictly complies with the Bulgarian waste management legislation. In 2023, the following has been delivered for disposal, utilization or recycling:

- 13,183 tons of hazardous waste;
- 32,217 tons of non-hazardous waste, which include dug out soil, but do not include sludge from SWWTP for utilization on agricultural lands; 0.122 t of end-of-life clothes have been delivered for recycling;
- 14,422 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

Green energy production

The green energy generated in the period January – December 2023 at the Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 23,817 MWh, which is 5.82% higher compared to the same period in 2022. The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2023, the green energy produced in the treatment plant covered more than 111.19% of the electricity needs of the treatment plant.

HEALTH AND SAFETY AT WORK

Health and safety at work is a fundamental value for Sofiyska Voda AD.

The Occupational Health and Safety Management System of Sofiyska Voda AD certified under BDS ISO 45001:2018 is functioning and continues to be maintained and audited.

The applicable legal requirements are complied with and exceeded. The health and safety risks are assessed and managed systemically. 10 high-risk activities are identified, regarding which corporate safety standards are implemented.

Trainings and exchange of information

In 2023, there were 15,951 training hours in occupational health and safety. The number of the employees, who took part in at least one occupational health and safety training during the year, was 1,135. The number of participations in occupational health and safety trainings was 6,150 (there are employees, who took part in more than 1 training).

In September 2023, the corporate H&S week was conducted, focused on the identification and management of HIPO Incidents

A corporate software for occupational health and safety management has been applied (Acciline +). In 2023, 692 new events were registered in the application (good practices, safety visits, field data, unsafe events, unsafe conditions, unsafe behaviour and material damage).

The contractors are monitored and audited systematically for compliance with the applicable H&S requirements. Meetings are held for exchange of information and good practices related to H&S.

Accidents, incidents and near-misses

There were 8 occupational accidents in 2023 as per art. 55, par. 1 of the Social Security Code (at work), one of them with a fatal outcome. No incidents were registered throughout the year (injuries without loss of working capacity). In 2023, as part of the measures to increase the safety, the attention of the employees was drawn to the identification, reporting and management of near misses – unsafe behaviour, unsafe conditions, unsafe events and material damage. 313 near misses were registered during the year, among them 81 claims filed for Company cars.

HUMAN RESOURCE MANAGEMENT

In its policy and practice, Sofiyska Voda AD develops and applies modern forms of human resource management with the understanding that these factors are crucial for the business development and high performance. Achieving and maintaining balance between the interests of the employer and the workforce are based on compliance with the legislation, adherence to high budgetary discipline and social partnership with the trade union organizations.
Human resource management is evolving through the application of a set of policies and procedures planned in advance, so that the entire management team is involved in this process.

Remuneration and benefits

As of 1 January 2023, the salaries of all employees were increased by 15.3%, which is the official average annual inflation for 2022 as per the data announced by the National Statistical Institute.

In March 2023, the annual bonuses of the employees for the previous year were paid in line with the approved bonus scheme of the Group, taking into account the fulfilment of the Company's business objectives agreed in the previous year.

As of 1 April, the salaries of the employees were increased by 1.98 % on average.

For a sixth consecutive year the employees had the opportunity to take part in two shareholding plans provided by Veolia Environnement, called SEQUOIA, and each employee had the opportunity to participate with up to 25% of his/her gross annual remuneration. One of the plans offers the purchase of shares for up to 5% of the employee's gross annual remuneration as the sum in the amount of EUR 300 is doubled by Veolia Environnement. The second plan offers the purchase of shares with a 15% discount from the market price.

Training, motivation and development

Trainings

In 2023, 1,164 employees were involved in trainings, and there were 11,065 participations.

The training hours were 28,720, of which nearly 14,574 hours – in the form of online training.

There were 4,915 participations and 12,769 training hours in trainings for enhancing the professional competences.

The Group strictly complies with the requirements for gaining certificates of competence or updating the knowledge in health and safety at work, necessary for carrying out high-risk activities. There were 6,150 participations and 15,951 training hours in mandatory H&S trainings held in 2023.

Sofiyska Voda AD is a registered partner in the employers' information system, enrolling students in a dual vocational training system. In 2023, 7 students from the high school of mechanical and electrical engineering "N. Y. Vaptsarov" started training for electric and machine fitter jobs in a real working environment. Both professions have been identified as key for Sofiyska Voda AD, and the shortage of relevant qualified staff on the labor market is increasingly ostensible. The training is conducted under curricula developed jointly by the Group and the school for both professions, and the students will be provided the opportunity to acquire practical experience in activities specific to the Group, related to the operation of Bistritsa potable water treatment plant.

In 2023, the creation was initiated of a competency model at the Group, as in the first phase, the leadership competency model was created. The model is to be further expanded for experts and specialists.

Summer Internship Program

In 2023, 14 young talents from different majors joined the summer internship program "Challenge the Future". During the internship, they had the opportunity to become acquainted with the structure and the activity of the Group, visit its strategic sites, as well as participate in different activities and practice-oriented trainings. Three of them continued their career with the Group.

Joint training programme with Sofia High School of Construction, Architecture and Geodesy "Hristo Botev"

The joint project between Sofiyska Voda AD and the Sofia High School of Construction, Architecture and Geodesy continued in 2023, as well. The four-day practical training for the students in grade 10, Water Construction specialty, started with a visit of the future WSS specialists to the head office of the Group, where they learnt more about the activity, mission, vision and values of the Group, the analysis and location of the WSS networks, the potable water and wastewater treatment processes, etc.

During the following days, colleagues, professionals in the WSS sphere, were guests – lecturers at the high school and provided information to the students about the activities for operating the water network and sewerage system, as well as the monitoring and maintenance of the Group's strategic sites.

In addition, the students from the vocational high school were given the opportunity to visit Lozenets reservoir, and there they learnt about the history and the way one of the oldest water facilities in the capital functions.

Educational cooperation with Professional School of Ecology and Biotechnology "Prof. Dr. Asen Zlatarov".

In January 2022, a framework agreement was signed with the Professional School of Ecology and Biotechnology "Prof. Dr. Asen Zlatarov". 15 students from Ecology and Environmental Protection Specialty visited the potable and wastewater treatment plants and learned more about the technological processes with a main focus on environmental aspects.

In April 2023, students from Romania, Italy, Turkey, Portugal and Lithuania trained under Erasmus Programme in the same high school visited the strategic sites of the Company.

Management's responsibility

In compliance with the legal requirements, the Management draws up an annual Activity Report and Financial Statements for each financial year, presenting a true and fair view of the financial position of the Group for the calendar year, considering the financial performance and the cash flows in conformity with the applicable accounting framework. For the preparation of the financial statements, the Group applies the rules of the International Financial Reporting Standards (IFRS), applicable both in the European Union and the Bulgarian accounting legislation.

The Management's responsibility includes: development, deployment and maintaining of an internal control system, ensuring the preparation and fair presentation of the financial statements that are free from material misstatements, deviations and non-conformities whether due to fraud or error; selecting and applying appropriate accounting policies; preparing accounting estimates, reasonable in the specific circumstances.

The management confirms that it has acted in accordance with its responsibilities and that the financial statements have been prepared in full compliance with the International Financial Reporting Standards applicable in the European Union.

The management also confirms that in the preparation of this Activity Report, it has provided a true and fair presentation of the development and financial performance of the Group for the past period, as well as its position and the major risks it has faced. The management has approved the issuing of the Activity Report and the Financial Statements for 2023.

Sofia, 29 March 2024

Aneliya Ilieva
/Finance Director/

Vasil Trenev
/Executive Director/

NON-FINANCIAL STATEMENT TO THE ANNUAL REPORT 2023

SOFIYSKA VODA AD AND WATER INDUSTRY SUPPORT AND EDUCATION EOOD (THE GROUP)

1. BUSINESS MODEL OF THE GROUP

On 23 December 1999, Sofiyska Voda AD (the Parent Company) signed a Concession Agreement with the Municipality of Sofia (Grantor), through which the Concessionaire (Sofiyska Voda AD) was granted the specific right for use of public assets and the exclusive right to provide services within the Municipality of Sofia for a period of 25 years. Following the conclusion of the Fourth Amendment Agreement to the Concession Agreement on 28 August 2023, the term was extended for a further period of 8.3 years pursuant to the provisions of the applicable legislation. The services include the provision of water supply and sewerage services.

Taking into account the Concession Agreement with the Municipality of Sofia, the requirements of IFRIC 12 have been applied, in compliance with which an intangible asset – "concession right" – has been recognized in the financial statements of the Group. As the Concession Agreement includes a requirement for the Group to deliver construction services to the grantor in order to enhance the infrastructure, the Group delivers construction services in consideration for an enhancement to its right to collect higher tariffs from users of the network and records revenue as it performs the services for water supply, sewerage and waste water treatment to the customers on the territory of the concession. Accordingly, during the construction phase, the cumulative right of the Group to receive consideration for the construction services is a contract asset, which is presented within the intangible asset – concession right.

2. ENVIRONMENTAL MATTERS

2.1. ENVIRONMENTAL PROTECTION IN 2023

The city of Sofia is growing. So are the needs of the city, in which we live and work. Natural resources are getting increasingly scarce. Sofiyska Voda AD is the biggest WSS operator in Bulgaria and it is the company, which the management of the essential for our city resource – the WATER, has been entrusted to. The transition from resource consumption to resource renewal is the key to the economic growth model. The circular economy contributes to that. Sofiyska Voda AD develops and implements solutions focused on the improvement of access to clean potable water and its return to nature with excellent quality, guided by the circular economy principle.

We are loyal to our mission: RESOURCING THE WORLD.

Sofiyska Voda AD has a certified environmental management system (EMS) corresponding to the requirements of the international standard ISO 14001:2015. The maintenance of the system continued in 2023 by updating environmental aspects and conducting internal regular checks in line with the approved annual schedule.

In 2023, Sofiyska Voda AD renewed its registration by the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS) with the scope covering all treatment plants and the water network.

2.2. ENERGY EFFICIENCY IN 2023

The WSS system of the city of Sofia is designed and constructed in such a way as to use for the most part the force of gravity to move the water. The water sources are in the mountains, and the pumping stations along the water and sewer systems are a few. Nevertheless, the water supply and treatment are processes that need energy to be carried out. Sofiyska Voda AD has implemented and uses systems for permanent energy consumption monitoring at the big potable and wastewater treatment plants.

The green energy generated in the period January – December 2023 at the Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 23,817 MWh, which is 5.82% higher compared to the same period in 2022. The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2023, the green energy produced in the treatment plant covered more than 111.19% the electricity needs of the treatment plant.

2.3. AIR EMISSIONS IN 2023

Direct emissions

The Group generates direct emissions in the air through the use of transport vehicles and also by using energy sources for heating some of its sites. In 2023, the direct emissions retained the 2022 level of 1.66 thousand tons of carbon dioxide (CO_2), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. With regard to the control of these direct emissions, Sofiyska Voda uses a GPS system to monitor the routes, speed, acceleration and idle time of the company vehicles. Also, where possible, the remoteness of the potential suppliers is assessed in the selection of services and goods.

Indirect emissions

The indirect emissions result from the use of energy – electric and heat. In 2023, the data shows that the indirect emissions of the Group amounted to 3.26 thousand tons of carbon dioxide (CO_2), compared to 2.62 in the previous year, which is 24.71% higher. The increase is due to the failure on the strategic "Iskar" water pipeline at the end of 2022, which required the extraordinary putting the Buxton pumping station in operation (the biggest in Sofia), and it was in operation throughout the entire year 2023.

The greenhouse gas emissions saved in 2023 were 1.36 thousand tons of carbon dioxide equivalent (CO_2), as that was mainly due to the production and use of renewable energy.

2.4. WATER RESOURCES IN 2023

Losses reduction

The constant monitoring of the water volumes supplied to the concession area forms the basis of the water management carried out by Sofiyska Voda AD.

The total water abstracted from all water sources in the period January – December 2023 was 135,810,874 m^3.

The data obtained from the monitoring throughout the year shows that the water volumes used for water supply slightly increased in comparison with 2022. The increase was mainly due to the hot and dry summer, as well as to the dry autumn season, which increased water consumption.

The raw water abstracted from all water sources in the period January - December 2023 compared to the same period of 2022 increased by 1,789,303 m^3.

Water losses reduction is a priority in the investment program of Sofiyska Voda AD. The realized total investments were BGN 52.57 M. Of those, BGN 48.69 M was in regulated services. The implementation of the planned total annual investments is 92.1%. The rising inflation and the difficulties in the delivery of some building materials had a restrictive effect on the implementation of the planned investments.

Potable water quality

Every year Sofiyska Voda AD manages to comply with the statutory standards for potable water quality. Nevertheless, we do not stop setting ourselves even higher challenges in order to achieve even better performance. In 2023, the monitored samples were from the points included in all 6 water supply zones, as the frequency required as per *Ordinance 9 on the quality of water intended for drinking and household purposes dated 16.01.2018* was exceeded.

Sewerage and wastewater treatment

The program for proactive maintenance of the sewerage network continued in 2023, and as a result of it more than 99 km of the network within the concession area were cleaned proactively, which is by 8 km less compared to 2022. The result achieved is commensurate with the preceding year despite the required continuous draining activities to prevent flooding of sites until repairs are carried out and normal drainage is restored.

Quality of the treated wastewater

The Laboratory Testing Complex (LTC), “Wastewater Sector” at Kubratovo SWWTP, carries out continuous monitoring of the quality indicators for the treated wastewater and the sludge generated in the treatment process.

Pursuant to the wastewater discharge permit, the analyzed main indicators are biological oxygen demand (BOD_5), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all remaining indicators defined in the discharge permit for the treated wastewater at SWWTP outlet. In 2023, Iskar River was spared the following quantities of pollutants from the wastewater:

- 17,570 t BOD_5
- 38,481 t COD
- 2,961 t of nitrogen
- 441 t of phosphorous.

In 2023, the determined statutory number of samples was taken for the mentioned above quality indicators for the treated wastewater.

The values of the qualitative indicators of the samples are below the levels fixed in the wastewater discharge permit.

2.5. SOILS

The so-called “sludge” is separated in the wastewater treatment process, which is a mixture of organic and inorganic matter and water. After passing through a process of stabilization and dewatering, sludge could be used in agriculture for fertilizing crops, which are not designated for human consumption. The quality of the sludge separated in the wastewater treatment process is tested in conformity with the Ordinance on the terms and conditions for utilization of sludge from wastewater treatment through its use in agriculture.

14,422 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2023 over agricultural areas instead of being deposited in landfills or incinerated, thus nature was spared the artificial fertilizers used in the production.

2.6. WASTE

Sofiyska Voda provides to its employees the possibility to dispose of their rubbish separately, aiming at its recycling or proper disposal in conformity with the waste management legislation of the Republic of Bulgaria. In addition to the separated collection of waste from packages, spent batteries, toners and electric and electronic equipment are also collected at the Group's sites and handed over.

Metal waste, glass, waste oils, tires, used disposable clothing, and other types of waste are collected at the different sites. Sofiyska Voda has participated in the "Caps for Future" campaign since 2018. There are cardboard boxes at all sites of the organization and the employees actively participate in the collection of caps. Thus, the commitment is linked not only to the idea of the Group but also to plastic waste reduction and recycling and to the reduction of environmental pollution.

In 2023, a number of environmental protection initiatives took place, as some of the most significant are:

- Marking the European Week for Waste Reduction;
- Collecting and delivering of 260 kg of caps and cans in the "Caps for Future" campaign;
- Organizing and conducting training seminars on the topic "Biodiversity on the territory of the sites operated by Veolia".

The Group strictly complies with the Bulgarian waste management legislation. In 2023, the following has been delivered for disposal, utilization or recycling:

- 13,183 tons of hazardous waste;
- 32,217 tons of nonhazardous waste, which include dug out soil and 0.122 t of end-of-life clothes, delivered for recycling but do not include sludge from SWWTP for utilization on agricultural areas;
- 14,422 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

2.7. BIODIVERSITY

Preservation of biodiversity and ensuring favorable conditions for the ecosystems are priorities for the Group of Veolia and one of the commitments for sustainable development.

In 2021, three of the sites of Sofiyska Voda AD were identified as *sensitive* according to the criteria set by the Veolia Group. These are: Bistritsa PWTP; Pancharevo PWTP, and Mala tsarkva PWTP. In 2022, SWWTP Kubratovo was added, as it was identified as a non-sensitive site for biodiversity survey.

In fact, the project was started in 2019 together with the biologists from the scientific research sector at SU "Sv. Kliment Ohridski", and it was divided into two phases:

- phase I /2019/ – a biodiversity survey at Bistritsa PWTP and Pancharevo PWTP;

- phase II /2020/ – a biodiversity survey at Kubratovo WWTP and Mala tsarkva PWTP.

In 2021, 2022, and 2023, the conduct of the so-called biodiversity audits" continued, and the results from them were reported to the Veolia Group.

In 2023, 3 seminars were organized and conducted on the "Biodiversity on the territory of the plants of Sofiyska Voda AD.

During the summer of 2023, audits – monitoring of the three sensitive sites and of Kubratovo WWTP, added as a non-sensitive site, were conducted together with representatives of SV and the biologists from Sofia University "St. Kliment Ohridski" following the methodology defined by the Veolia Group. In 2023, all planned activities for biodiversity protection were carried out, and Sofiyska Voda AD reported 100% implementation of the planned activities for the sensitive sites and 92.3% – for Kubratovo WWTP.

2.8. HAZARDOUS CHEMICAL SUBSTANCES AND MIXTURES

Various chemical substances and mixtures, hazardous to the environment, are used in the processes of potable and wastewater treatment. The most substantial of them in terms of quantity are chlorine gas and bleach for potable water disinfection and ferric chloride for the removal of phosphorous from the wastewater. The failure to remove the nitrogen and phosphorous leads to anthropogenic pollution (eutrophication) of the rivers. The Group sets an objective on an annual basis to decrease the load for the environment resulting from the use of these products. Also, drills are held on an annual basis with hazardous chemical substances and mixtures, and means for limiting the spills are ensured. Emergency signaling systems are in place. Short safety leaflets were disseminated at the places of work and storage of hazardous chemical substances and mixtures, which contribute to their proper storage, use and treatment of the waste from them; compatibility assessment was made for the storage of hazardous chemical substances and mixtures, and personal protective equipment was ensured.

2.9. OTHER ALTERNATIVES

Throughout the entire 2023, we continued working on resource optimization and fulfilment of the commitments assumed in the Customer Charter in order to provide quality service in the shortest possible period of time. Seeking to constantly enhance the quality of the provided services and the customer satisfaction, and to expand the payment channels, at the beginning of February 2023, the Parent Company launched a project for implementing online payments with payment operators, which would allow reflecting the payment made in real time and timely update of the data for customers' debts. In addition, we continued applying the policy focused on customers in temporary financial difficulties, offering them flexible and individually structured deferred payment agreements.

The metric introduced by the Parent Company to assess the overall "customer experience" in the process of asking questions, making requests, complaints, etc. showed very good results. The overall satisfaction score maintained the 90% level of 2022.

Evaluation of efforts, or "How difficult it is to work with Sofiyska Voda" – the survey is carried out through phone interviews in a sample of 1,000 customers per quarter.
"Customer Experience" seeks to show how our customers perceive us through all their interactions with the Group, its products and services. This is another way to get feedback from customers through surveys, complaints and inquiries that help the company define and manage the processes.

In 2023, the Parent Company continued again its campaigns for awarding loyal customers through monthly raffles with discounts on invoices.

3. *SOCIAL AND STAFF MATTERS*

As at 31.12.2023, the employees of Sofiyska Voda were 1,054, as 106 of them – at managerial positions (44 men and 62 women); at supervisor and technical staff positions – 230 (145 men and 85 women); office employees – 336 (65 men and 271 women), and workers – 381 (351 men and 30 women).

Two trade union organizations are represented in the Group – PODKREPA trade union and VODOSNABDIAVANE trade union to the Confederation of the Independent Trade Unions in Bulgaria, with which Sofiyska Voda AD has a signed collective labor agreement.

Training, motivation and development

Trainings

Sofiyska Voda AD has a policy for development of employee competencies, which is to maintain a high professional standard and increase their motivation.
Various approaches and forms are employed in the development of professional competences, such as in-person and online trainings and seminars conducted by external suppliers or internal trainers with specific expert skills. Also, the practice has been introduced for temporary job rotation, which provides the opportunity for development of practical knowledge and skills and broader understanding of the activities and processes in the company.

The training and development programs are focused on:
- development of professional skills, acquisition and maintaining of professional skills;
- occupational health and safety;
- increase of the personal potential and development of social and leadership skills;
- digital, legal and statutory competencies.

In 2023, 1,164 employees were involved in trainings, and there were 11,065 participations. The training hours were 28,720, from which nearly 14,574 hours – in the form of an online training.

There were 4,915 participations and 12,769 training hours in trainings for enhancing the professional competences.

The Group strictly complies with the requirements for gaining certificates of competence and updating the knowledge in health and safety at work, necessary for carrying out high-risk activities. There were 6,150 participations and 15,951 training hours in mandatory H&S trainings held in 2023.

Sofiyska Voda AD is a registered partner in the employers' information system, enrolling students in a dual vocational training system. In 2023, 7 students from the high school of mechanical and electrical engineering "N. Y. Vaptsarov" started training for electric and machine fitter jobs in real working environment. Both professions have been identified as key for Sofiyska Voda AD, and the shortage of relevant qualified staff on the labor market is increasingly visible. The training is conducted under curricula developed jointly by the Group and the school for both professions, and the students will be provided the opportunity to acquire practical experience in activities specific for the Group, related to the operation of Bistritsa potable water treatment plant.

In 2023, the creation of a competency model in the Group started, as the leadership competency model was created in the first phase. The model is to be expanded for experts and specialists.

4. HEALTH AND SAFETY AT WORK

There were 8 occupational accidents in 2023 as per art. 55, par. 1 of the Social Security Code (at work), one of them with a fatal outcome. No incidents were registered throughout the year (injuries without loss of working capacity). In 2023, as part of the measures to increase the safety, the attention of the employees was drawn to the identification, reporting and management of near misses – unsafe behavior, unsafe conditions, unsafe events and material damage. 313 near misses were registered during the year, among them 81 claims filed for company cars.

5. PREVENTION OF CORRUPTION AND BRIBERY

The main policies and procedures related to the way in which the Group resolves the matters and cases of bribery and corruption are:

- Manuals and guidelines for ethical conduct of Veolia Group – including the Code of Ethics (last updated in September, 2023) and the Anti-Corruption Code of Conduct (last updated in November, 2023), as well as the Charter on the use of the right for submission of ethics alerts in Veolia;
- Internal Regulations of Sofiyska Voda AD;
- Procedure "Submission, investigation and reporting of fraud and corruption alerts" of Sofiyska Voda with a new version from February 2023, including the previous procedure for disclosure of irregularities;
- A dedicated instruction was also developed to the above procedure in November 2023 on the protection of persons submitting alerts or disclosing information about violations in public in compliance with the Law on the protection of persons reporting or publicly disclosing information on violations;
- Procedure "Conflict of Interest Prevention. Gifts, Hospitality, and Donations", a new version from April 2023;
- Anti-Corruption telephone line (+359 2 8122 521, published on SV's official website: www.sofiyskavoda.bg;
- Digital platform Whispli, which facilitates the discussion with the person submitting the alert for violation, administered by the Ethic Committee of Veolia Group, based in Paris;

- Procedure "Due Diligence", which is to regulate the rules and procedure for exercising additional targeted control aiming at corruption risk management and prevention in certain deals, projects, activities, business partners or employees of the Group, updated in June 2023;
- Accounting Policy;
- Procedure on closure of accounts from November 2022;
- Instruction on receiving, accounting and paying invoices from suppliers with a new version from December 2023;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets with a new version from June 2023;
- New instruction on stocktaking of inventories, in effect from December 2023;
- Procedure on the employees' administrative service, supplementing and replacing the previous procedure "Conclusion, amendment and termination of the employment contract", with a new version from April 2023.

In April 2020, the Group was certified under BDS EN ISO 37001:2016 and there has been an implemented and effective Anti-bribery management system in place. The audit of the System of Sofiyska Voda was successfully completed in June 2023, and its certification was confirmed.

The processes of internal control and the resources intended for corruption and bribery prevention are regulated with the above policies and procedures. The Management Systems and Certifications Dept., if necessary, with the assistance of the Internal Audit Dept. and Security Team, has the main role in checking the alerts and complaints, containing information for irregularities/ fraud/ corruption, as they receive them, check with the support of the Legal Dept. and report the results from these checks to the Executive Director and the HR and Administration Director for taking follow-up actions in line with the legislation and the Internal Regulations of the Group.

The mechanisms used by the Group for submission of signals for breaches, corruption, and the relevant instructions to the employees, are as follows:

➢ To contact and speak with the respective director or contact directly:
- Executive Director
- Risk management and Process Optimization Director
- Compliance Officer
- HR and Administration Director

➢ To leave a message on Sofiyska Voda's Anti-Corruption telephone line: 02 8122 521 (ext. 521), Management Systems and Certifications Dept.;
➢ To submit a signal on paper in the boxes placed in front of the Human Resources Department in the Headquarters on Tsar Boris III Blvd., fl. 3, including anonymous, if you wish so;
➢ To submit an anonymous signal via the dedicated Whispli form;
➢ To submit a signal to Sofiyska Voda's Ethic Committee on: bg.sfw.ethics.all.groups@veolia.com.

If there are reasonable doubts concerning the possible future actions to be undertaken in relation to your signal, you may contact directly the Ethics Committee of Veolia on the following email address: Ethique.ve@veolia.com.

The risk management process in SV is regulated in the Risk Management Strategy developed in 2022 and tailored with a Risk Management Procedure, describing the methodological approach for identification, measurement, control and subsequent monitoring of those circumstances, events and actions, which could influence the achievement of the Group's business objectives. The approach adopted for risk assessment and management is used also for the assessment of the risk related to corruption. For that purpose, in 2020 the instruction "Assessment of Corruption Risk Occurrence" was implemented as part of the Risk management procedure. It was updated in May 2021 and later in November 2022. The applicable criteria refer to assessment of the impact of the risk in financial terms, as well as in areas of goodwill, regulatory etc. impact; assessment of the likelihood of the risk occurrence, as well as assessment of the efficiency of the current control, introduced to address the respective risk. In that assessment, inherent characteristics of the assessed activity are considered that could have a greater weight, such as direct contact with customers or suppliers, potential conflict of interest due to relatedness between persons (for instance relatives, business partnership etc.), etc. The set of internal rules /documents/ for identification, assessment, and response to the risks (risk management), including bribery risks, is part of the Integrated Management System of the Group. It includes the implemented and functioning management systems as per BDS EN ISO: 9001 (Quality Management System), 14001 (Environmental Management System), 45001 (Occupational Health and Safety Management System), and ISO 37001 (Anti-bribery Management System). (

The internal auditors play an important role in the assessment of the efficiency of the control systems and contribute to the current efficiency. Due to their organizational position and powers in the Group, the Internal Audit Team often has a significant role with regard to the identification of the risks related to fraud. The weaknesses of the internal control and possibilities for the commitment of frauds identified in internal audits, checks and observations, are reported to the managers, as the most serious issues are communicated to the senior management and the Board of Directors.

During the reviewed period, there were no proven cases of corruption of employees or subcontractors of Sofiyska Voda AD.

Sofia, 29 March 2024

Anelia Ilieva
/Finance Director/

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Vasil Trenev
/Executive Director/

Consolidated statement of financial position

As of 31 December

In thousands of BGN	*Note*	**31 December 2023**	**31 December 2022**
Assets			
Property, plant and equipment	*12*	19,425	19,592
Intangible assets	*13*	237,302	212,949
Deferred tax assets	*19*	10,387	11,006
Trade and other receivables	*15*	2,505	2,310
Total non-current assets		269,619	245,857
Inventories	*14*	5,259	5,774
Trade and other receivables	*15*	32,803	31,405
Contract assets	*4*	12,984	12,876
Related party receivables	*26,15*	74	132
Income tax receivables		38	812
Short-term deposits	*16,22*	61,068	-
Cash and cash equivalents	*16,22*	47,224	97,602
Total current assets		159,450	148,601
Total assets		429,069	394,458
Equity			
Share capital	*17*	8,884	8,884
Reserves	*17*	10,774	10,774
Retained earnings		327,718	295,576
Total equity		347,376	315,234

Consolidated statement of financial position (continued)

In thousands of BGN	*Note*	31 December 2023	31 December 2022
Liabilities			
Lease liabilities	*27,22*	1,218	338
Employee benefits	*23*	2,348	1,924
Trade and other payables	*20,26*	3,837	3,702
Total non-current liabilities		7,403	5,964
Lease liabilities	*27,22*	544	1,333
Contract liabilities	*4*	10,329	9,532
Payables to related parties	*22,26*	3,651	3,517
Trade and other payables	*20*	53,349	54,162
Provisions	*21*	5,363	3,983
Employee benefits	*23*	1,054	733
Current liabilities		74,290	73,256
Total liabilities		81,693	79,220
Total equity and liabilities		429,069	394,458

The notes from 1 to 28 are an integral part of these consolidated financial statements.

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Vasil Trenev
Executive Director

Anelia Ilieva
Finance Director

Sylvia Peneva
Registered Auditor,
responsible for the audit
Date: 29.03.2024

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of BGN	*Note*	**2023**	**2022 (restated)**
Revenue from main activities	*4*	194,946	193,731
Construction revenue	*4*	46,257	38,762
Other income	*5*	1,989	1,907
		243,192	234,400
Expenses for materials	*6*	(23,554)	(18,848)
Expenses for hired services	*7*	(71,396)	(64,607)
Depreciation and amortization	*12,13*	(29,146)	(76,727)
Employee benefit expenses	*8*	(40,420)	(33,221)
Social security contributions and other social expenses	*8*	(8,693)	(7,863)
Impairment loss on trade receivables and contract assets	*22*	(5,878)	(5,553)
Other operating expenses	*9*	(7,005)	(4,587)
Operating profit		57,100	22,994
Finance income	*10*	1,098	39
Finance costs	*10*	(214)	(752)
Net finance costs		884	(713)
Profit before taxes		57,984	22,281
Income tax expenses	*11*	(5,868)	(2,161)
Profit for the period		52,116	20,120

Consolidated statement of profit or loss and other comprehensive income (continued)

For the year ended 31 December

In thousands of BGN	*Note*	2023	2022
Other comprehensive income			
Items that will not be reclassified in profit or loss:			
Remeasurement of defined benefit liability	*23*	(51)	259
		(51)	259
Other comprehensive income for the period, net of tax		(51)	259
Total comprehensive income for the period		52,065	20,379

The notes from 1 to 28 are an integral part of these consolidated financial statements.

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Vasil Trenev
Executive Director

Anelia Ilieva
Finance Director

Sylvia Peneva
Registered Auditor,
responsible for the audit
Date: 29.03.2024

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Consolidated statement of changes in equity

In thousands of BGN

	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2022		8,884	10,774	314,240	333,898
Total comprehensive income for the period					
Profit for the period		-	-	20,120	20,120
Other comprehensive income, net of taxes		-	-	259	259
Total comprehensive income for the period		-	-	20,379	20,379
Transactions with shareholders					
Installments to shareholders					
Dividends	*17*	-	-	(39,043)	(39,043)
Total installments to shareholders		-	-	(39,043)	(39,043)
Balance at 31 December 2022	*17*	8,884	10,774	295,576	315,234
Balance at 1 January 2023		8,884	10,774	295,576	315,234
Total comprehensive income for the period					
Profit for the period		-	-	52,116	52,116
Other comprehensive income, net of taxes		-	-	(51)	(51)
Total comprehensive income for the period		-	-	52,065	52,065
Transactions with shareholders					
Installments to shareholders					
Dividends	*17*	-	-	(19,923)	(19,923)
Total installments to shareholders		-	-	(19,923)	(19,923)
Balance at 31 December 2023	*17*	8,884	10,774	327,718	347,376

The notes from 1 to 28 are an integral part of these consolidated financial statements.

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Vasil Trenev
Executive Director

Anelia Ilieva
Finance Director

Sylvia Peneva
Registered Auditor, responsible for the audit
Date: 29.03.2024

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Consolidated statement of cash flows

For the year ended 31 December

In thousands of BGN	*Note*	**2023**	**2022**
Cash flow from operating activity			
Net profit for the period		52,116	20,120
Adjustments for:			
Depreciation of property, plant and equipment	*12*	6,199	6,211
Amortisation of intangible assets	*13*	22,947	70,516
Impairment loss on trade receivables and contract assets	*22*	5,878	5,553
Write-down of inventories to net realizable value/ (realization)	*9*	413	241
Scrapping materials	*9*	18	21
Expenses for scrapping fixed assets	*9*	22	8
Net finance (income)/costs	*10*	(884)	713
Gain on sale of property, plant and equipment		(18)	(2)
Tax expense	*11*	5,868	2,161
		92,559	105,542
Changes in:			
- employee benefits		573	388
- provisions		1,380	412
- inventories		83	(1,882)
- trade and other receivables		(6,610)	(5,376)
- trade and other payables		(1,088)	(10,045)
- contract assets	*4*	(108)	(722)
- contract liabilities	*4*	797	1,623
Cash flow from operating activity		87,586	89,940
Income tax paid		(5,280)	(3,620)
Net cash flow from operating activity		82,306	86,320
Cash flows from investing activity			
Income from sale of property, plant and equipment		18	2
Acquisition of property, plant and equipment		(4,326)	(6,394)
Acquisition of intangible assets		(46,735)	(19,722)
Transfer in deposits		(60,000)	-
Net cash flow used in investing activity		(111,043)	(26,114)

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN	*Note*	2023	2022
Cash flow from financing activity			
Payment of lease liabilities	27	(1,682)	(1,882)
Dividends paid	17	(19,923)	(39,043)
Interest paid	18	(36)	(2)
Net cash flow used in financing activity		(21,641)	(40,927)
Net change in cash and cash equivalents		(50,378)	19,279
Cash and cash equivalents at 1 January		97,602	78,323
Cash and cash equivalents at 31 December	*16,22*	47,224	97,602

The notes from 1 to 28 are an integral part of these consolidated financial statements.

Vasil Trenev
Executive Director

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Anelia Ilieva
Finance Director

Sylvia Peneva
Registered Auditor,
responsible for the audit
Date: 29.03.2024

ОДИТОРСКО ДРУЖЕСТВО
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Notes to the Consolidated financial statements

1. Reporting entity

Sofiyska Voda AD (the Parent company) is a company registered in Sofia City Court on 28 December 1999 under company case N 16172/1999 / No54111, p.557, registration. 1, page 20 and registered as per the Public Register Act in the Trade Register to the Registry Agency under uniform identification code 130175000.

The address of the registered office of Group is Bulgaria, Sofia, 159 Tsar Boris III street, Business Centre Tsar Boris, floors 2 and 3. The Group is 77.1% owned by Veolia Central and Eastern Europe and 22.9% owned by Vodosnabdiavane and Kanalizatsia EAD. In regard to the contract for cross-border merger of Veolia Voda (Sofia) B.V. and Veolia Central & Eastern Europe S.A., the transfer of the shares held by Veolia Voda (Sofia) B.V. to Veolia Central & Eastern Europe S.A. was entered in the Parent company Book of Shareholders on 04.02.2022.

The parent company's line of business is primarily in the provision of water supply, sewerage and wastewater treatment services in the Municipality of Sofia, including management and maintenance of the public assets, which represent part of the water supply and wastewater treatment system in Sofia, as well as design, construction, financing and managing of new assets.

On 23 December 1999, Sofiyska Voda AD signed a Concession Contract through which the Municipality of Sofia (Grantor) granted to the Concessionaire (Sofiyska Voda AD) a specific right for use of the public assets and exclusive right to provide services within the Concession Area for a period of 25 years. After signing the Fourth Amendment Agreement to the Concession Agreement on 28 August 2023, the term was extended by another 8.3 years in accordance with the provisions of the applicable legislation. The services include the provision of water supply, sewerage and wastewater treatment services.

As of 31 December 2023 and 31 December 2022 the consolidated financial statements of Sofiyska Voda AD's Group comprise the Parent company and its subsidiary Water Industry Support & Education EOOD (together referred to as the „Group").

2. Basis of preparation

(a) Basis of accounting

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

These are Group's consolidated financial statements prepared by law by Sofiyska Voda AD as a parent company where the investments in subsidiaries are presented at acquisition cost less impairment. All financial statements are published on the official website of Sofiyska Voda AD, section Reports.

The consolidated financial statements as of and for the year ended 31 December 2023 were approved for issuance by the Board of Directors on 29 March 2024.

(b) Basis of measurement

The consolidated financial statements have been prepared on historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements have been prepared in Bulgarian leva (BGN), which is the Group's functional currency. All financial information presented in BGN has been rounded to the nearest thousand unless otherwise indicated.

(d) Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. The positive outlook for the Group's operations is supported by the fact that despite the unprecedented international and local situation in 2023 after the start of the war in Ukraine, the Group's business activities were not substantially affected:

- in 2023 with the war between Ukraine and Russia, the management of the Group prolonged the additional measures for control over the operating costs within a recovery plan under specific operational projects and at the same time enhanced the ongoing control over cashflow management;
- regarding the investment program of the Group, the investments in regulated services on an annual basis in nominal terms exceeded by +9.5% those set for 2022;

2. Basis of preparation (continued)

(e) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, incomes and expenses. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(i) Judgements

Information about critical judgments made in applying the accounting policies that have the most significant effect on the amounts recognized in financial statements is contained in the following notes:

- Note 3 (d) (i) – Accounting for intangible assets in accordance with IFRIC 12 Interpretations: Concession Service Arrangements
- Note 3 (d) (iii) – Intangible assets, subsequent costs

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is included in the following notes:

— Notes 12 and 13 – Property, plant and equipment and Intangible Assets – main assumptions used in determining the recoverable amount of the cash-generating unit,;

— Note 15 – Trade and other receivables – in the part for impairment of the recoverable amount of the trade receivables from customers;

— Note 19 – Deferred tax assets – regarding recoverability of deferred tax assets;

— Note 21 and Note 24 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources;

— Note 23 – Employee benefit – measuring the payables under the defined benefit plans and employee benefits

Fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

The financial department regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or similar services is used to measure fair values, then the financial department assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Executive Director.

(e) Use of estimates and judgments

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy, whose input is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 22 – Financial instruments

3. Material accounting policy information

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

Since 1 January1999 the exchange rate of the Bulgarian lev (BGN) has been fixed against the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

(b) Financial Instruments

(i) Recognition and initial measurement

Trade receivables are recognized initially when they are originated. All other financial assets and liabilities are recognized initially when the Group becomes party under the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets
On initial recognition the financial asset is classified as measured at: fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) or at amortized cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial asset is measured at FVOCI if it meets at the same time the following two conditions and is not designated under the FVTPL:
- is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets, which are not classified as measured at amortized cost or at FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. Upon initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Material accounting policy information (continued)

(b) Financial Instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Business model assessment

The Group assesses the purposes of the business model, under which a certain financial asset is held at a portfolio level because this best reflects the way in which the business is managed and information is provided to the management. The information, which is taken into account, includes:

- the stated policies and purposes of the portfolio and the efficiency of these policies in practice.
- how the performance of the portfolio is evaluated and reported to the management of the Group;
- the risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- how the business managers are compensated – for example, whether the compensation is based on the fair value of the assets managed or on the collected contractual cash flows; and
- frequency, volume and timing of the sales of the financial assets in previous periods, the reasons for such sales and the expectations for future sales.

The transfer of financial assets to third parties in transactions, which do not qualify for derecognition, are not considered for sales for this purpose, in conformity with the continued recognition of the assets by the Group.

The financial assets, held for trading or are managed, and whose performance is evaluated on a fair value basis, are measured at FVTPL.

Financial assets – Assessment whether the contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, the "principal" is defined as fair value of the financial asset at initial recognition. The "interest" is defined as consideration for the time value of money and for the credit risk related to the outstanding principal in a certain period of time and for other main risks and credit costs (for example, liquidity risk and administrative expenses), as well as a profit margin.
In assessing whether the contractual cash flows are solely the payments of principal and interests, The Group considers the contractual provisions of the instrument. This includes an assessment whether the financial asset contains a contractual term, which could change the timing or the amount of the contractual cash flows, so that it fails to meet that condition. In that assessment the Group takes into account:

- contingent events, which could change the amount or time of the cash flows;
- conditions, which could adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension feature; and
- terms that limit the claims of the Group to the cash flows from certain assets (for example, characteristics without the right of recourse).

A prepayment feature corresponds to the criteria for payment only of the principal and interests if the prepayment is the outstanding amount of the principal and the interest on the outstanding principal, which may include reasonable additional compensation for early termination of the contract. In addition, a financial asset obtained with discount or premium, up to its contractual nominal amount, an option which allows or requires prepayment in the amount which in essence is the nominal amount, plus accumulated (but unpaid) contractual interest (which may include also reasonable additional compensation for early termination), is considered for corresponding to this criterion if the fair value of the prepayment is insignificant at initial recognition.

3. Material accounting policy information (continued)

(b) Financial Instruments (continued)

Financial assets – Assessment whether the contractual cash flows are solely payments of principal and interest (continued)

Financial assets - Subsequent measurement of financial assets

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, except for derivatives designated as hedging instruments for which hedge accounting is applied. The Group currently does not hold financial assets measured at FVTPL.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. The Group has significant trade and other receivables measured at amortized cost.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Group currently does not hold debt investments measured at FVOCI.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with initial maturity of three months or less from the acquisition date, which are associated with insignificant risk of changes in fair value and are used by the Group to manage short-term commitments.

Financial Liabilities – classification, subsequent measurement and gains and losses

The financial liabilities are classified at amortized cost or at FVTPL. The financial liability is classified at FVTPL if it is classified as held for sale, as derivative or designated as such at initial recognition. The financial liabilities under the FVTPL are measured at fair value, and the net profits and losses, including the costs for interest are recognized in the profit or loss. The other financial liabilities are measured subsequently at amortized cost, applying the effective interest method. The costs for interest and exchange rate gains and losses are recognized in profit or loss. Any profit or loss from derecognition are also recognized in the profit and loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when the rights to receive contractual cash flows from a transaction are transferred, where substantially all risks and rewards of ownership of the financial asset are transferred or where The Group does not transfer and keep substantially all risks and rewards of ownership, nor it keeps control on the financial asset.

Financial liabilities

The Group derecognises a financial asset when the contractual obligations have been fulfilled, annulled or expired. The Group also derecognises a financial asset when its conditions have changed and the cash flows from the modified liability are materially different, and in this case a new financial liability is recognized under the fair value, based on the changed conditions.

When a financial liability is derecognized, the difference between the carrying amount and the paid remuneration (including all transferred non-cash assets or commitments) is recognized in the profit or loss.

3. Material accounting policy information (continued)

(b) Financial Instruments (continued)

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, The Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Share capital

Ordinary share

Ordinary shares are classified as equity. The costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. The equity of the Group is presented at historical cost as at the date of registration.

(vi) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) for:
- financial assets measured at amortised cost; and
- contract assets.

An impairment loss on trade receivables and contract assets is always measured at an amount equal to the lifetime of the financial instrument under the simplified model. For other financial assets, the ECL is estimated based on the ECL for the next 12 months, unless a significant increase in credit risk has occurred, in which case impairment losses are measured at an amount equal to the ECL for the lifetime of the financial instrument.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in measuring ECL, the Group considers reasonable and supportable information that is appropriate and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and justified credit evaluation and including forecast information. The Group assumes that the credit risk on a given financial asset has increased significantly if it is overdue for more than 30 days.
The Group considers a financial asset to be in default when:

- it is unlikely that the borrower will repay his credit obligations to the Groupin full without requiring the Group to take actions such as the realization of a guarantee (if any); or
- the financial asset is overdue by more than 365 days for households, commercial and budget customers.

Lifetime ECLs are those ECLs that result from all possible events of default during the expected life of the financial instrument. The 12-month ECL is that part of the ECL that results from the events of default that are likely to occur within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period that is taken into account when determining ECL is the maximum contractual period during which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses. Credit losses are accounted for at the present value of all cash shortfalls (that is, the difference between the cash flows owed by a company in accordance with the contract and the cash flows the Group expects to receive).

ECLs are discounted with the effective interest rate of the financial asset.

For trade receivables and assets under contracts, the Group applies a simplified approach by using a provisional matrix. The provisional matrix is updated on an annual basis. For specific customer groups, .i.e. other trade receivables and receivables from customers with deferred payment arrangements, Consolidated analysis is performed and the expected future cash flows are determined on individual basis.

Since the Group charges interest in the amount of Basic interest rate +10% for overdue receivables, when determining the amount of impairment for each of the categories, the management analyzed the actually collected interest for overdue and accordingly adjusted the accrued impairment for each of the categories.

3. Material accounting policy information (continued)

(b) Financial Instruments (continued)

Measurement of ECLs (continued)

Management believes that the unemployment rate for individual customers is the indicator that provides an indication of trends in debt collection, however, management believes that the unemployment rate affects collection rates when this indicator changes by more than 3% or below minus 3% according to official data of the National Statistical Institute (NSI).

Taking into account the unemployment rate in 2023, the forecast levels for this indicator for 2024 are not expected to change by more than 3% from 2023. Other factors that management believes have an impact on collection levels are inflation and demographic changes.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets reported at amortized cost and contract assets are credit-impaired. A financial asset is credit-impaired when one or more events have occurred that have a certain impact on the expected future cash flows from the financial asset. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulties of the borrower or the issuer;
- breach of contract such as non-performance or overdue by more than 365 days based on actual customer behavior based on the nature of the services provided by the Group;
- the restructuring of a receivable from the Group under conditions that the Group would not otherwise consider
- the borrower is likely to enter bankruptcy/insolvency for individuals or other financial reorganization.

Presentation of impairment loss for ECL in the statement of financial position

Impairment losses of financial assets measured at amortized cost are deducted from the gross book value of the assets.

Write-off

The gross book value of a financial asset is derecognized when the Group has no reasonable expectations of recovering a financial asset in its entirety or part of it, or when specific receivables are disputed by customers and the proceedings on them are terminated (nullified) by the court.

The Group has a policy of writing off the gross carrying amount when the financial asset is more than three years past due based on the historical experience of recoveries of similar assets. For corporate customers, the Group makes an individual assessment regarding the timing and amount of the derecognition based on whether there is a reasonable expectation of recovery. The Group does not expect a significant recovery of the amount written off. However, financial assets that have been derecognized may still be subject to enforcement action to comply with the Group's recovery procedures. The recovery pattern is influenced by the specific economic situation in which the Group operates, the specifics of the water supply and sewerage sector and the respective payment behavior of customers.

(c) Property, plant and equipment

(i) Measurement at recognition and subsequent measurement

Property, plant and equipment are initially measured at cost which includes purchase price, including import duties and non-reimbursable taxes on purchase, as well as all other expenses directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- cost for materials and direct labour;
- costs directly attributable to bringing the assets to a working condition for their intended use;

3. Material accounting policy information (continued)

(c) Property, plant and equipment (continued)

- when the Group has an obligation to dismantle the asset or restore the site, estimate of the costs for dismantling and restoring the site, on which it is located;
- capitalized interest costs.

Purchased software, that is essential for the functioning of the purchased equipment, is capitalized as part of the equipment.

When parts of an item of property, plant and equipment have different useful life, they are accounted for as Consolidated items.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognized net in other revenue in profit or loss.

Subsequent measurement

After recognition as an asset, an item of property, plant and equipment is measured at its cost less the accumulated depreciation and accumulated impairment losses (see Material accounting policy information 3(h)).

(ii) Subsequent costs

Any subsequent expenditures are being capitalized only if it is probable that the future economic benefits from these costs will flow to the Group. The costs of the day-to-day servicing of property, plant and equipment are recognized as loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this reflects the expected pattern of consumption of the future economic benefits of the asset. Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.
The estimated useful life of property, plant and equipment for the current and previous period are as follows.

Assets class	**2023**	**2022**
Buildings	25 years	25 years
Plant and equipment	5-25 years	5-25 years
Vehicles – automobiles	5-10 years	5-10 years
Vehicles – trucks	10-12.5 years	10-12.5 years
Improvements of leased assets	10 years	10 years

Depreciation methods, useful life and residual values are reviewed at each financial year-end and adjusted if appropriate (refer to Note 12).

d) Intangible assets

IFRIC 12 Concession service arrangements

As stated in Note 1 Sofiyska Voda is party under the Concession Agreement with the Municipality of Sofia (Grantor), under which a specific right emerges for The parent company to use public assets as well as an exclusive right to render water supply and sewerage services within the concession area – the territory of the Municipality of Sofia.

Taking into account the concession contract with the Municipality of Sofia, the requirements of IFRIC 12 have been applied, and consequently an intangible asset "concession right" has been recognized in the financial statements of The parent company. As the concession agreement includes a requirement for The parent company to deliver construction services to the grantor in order to enhance the infrastructure, The parent company delivers construction services in consideration for an enhancement to its right to collect higher tariffs from users of the network and records revenue as it performs the services for water supply, sewerage and wastewater treatment to the customers on the territory of the concession.

3. Material accounting policy information (continued)

d) Intangible assets (continued)

Respectively, during the construction phase, The parent company's accumulating right to receive consideration for the construction services constitutes a contract asset, which is presented within intangible assets - concession right.

Intangible assets- Concession right

The intangible asset "concession right" is recognized at acquisition cost, (including invoiced hired services by subcontractors, representing the fair value which independent third parties would require for these services, material and employee cost) less accumulated amortization and impairment losses (see material accounting policy information 3 (i)). The intangible asset "concession right" arises in relation to the Concession Agreement, under which Sofiyska Voda is granted special right of use of public assets in order to deliver water supply, sewerage and wastewater treatment services to the customers within the concession area.

The Grantor has the ownership rights on all the existing public assets for the concession period, but the Concessionaire has exclusive and specific right to use the existing public assets. The ownership rights of any new assets are transferred to the Grantor at the time of their acquisition by the Concessionaire or at the beginning of their operation. The Group does not have the right to receive any payments from the Grantor related to the acquisition, construction, installation or creation of any new public assets. The amounts invested by the Group for which it has the right to charge higher tariffs from users of the network are classified as intangible assets "Concession right"".

Other intangible assets

Other intangible assets, acquired by the Group, that have limited useful life, are stated at acquisition cost less accumulated amortization and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditures are capitalized only whenever it is probable that they lead to future economic benefits from the specific asset they are related to. All other expenditures are expensed as incurred.

(iv) Amortization

Amortization is charged to the profit or loss on a straight-line basis in profit or loss over the estimated useful life of the intangible assets, apart from the "Concession right" asset, which is depreciated for the remaining term of the concession until 2034, determined from the date of acquisition of any additional concession right.

Other intangible assets:

capitalized development costs	6.67 years
other intangible assets	6.67 years
software	10 years

Amortization methods, useful life and residual values are reviewed at each reporting date.

(e) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, The parent company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to consolidate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of- use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

3. Material accounting policy information (continued)

(e) Leases (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, The parent company's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;

— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

— amounts expected to be payable under a residual value guarantee; and

— the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The parent company presents right-of-use assets that do not meet the definition of investment property and lease liabilities as part of the respective class of the Group's assets.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(f) Basis for consolidation

Investments in subsidiaries

The consolidated financial statements include the financial statements of the Company and its controlled company (subsidiary) as of December 31 of each year. A subsidiary is an entity controlled by the Group.

The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3. Material accounting policy information (continued)

(f) Basis for consolidation (continued)

Therefore, an investor must possess all of the following elements to be deemed to control an investee.

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee; and ability to exert power over the investee to affect the amount of the investor's return.

In the consolidated financial statements, the financial information of the subsidiary is consolidated using the full consolidation method, line by line. The Parent Company's investment is eliminated against its equity interest in the Subsidiary at the date of acquisition. All intragroup assets and liabilities, equity, income, expenses and cash flows related to transactions between members of the Group are eliminated upon consolidation, except for gains or losses from currency revaluations on a monetary position of the Parent company when denominated in a foreign currency of at least one of the parties. There are no non-controlling interests in the subsidiary.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses, required to carry out the sale.

(h) Impairment of non-financial assets

The book values of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated in such a way as to reduce the book values of the assets in the CGU on a *pro rata* basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan, under which an entity pays fixed contributions into a consolidated entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Group's obligation for contributions to the defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. The contributions on a defined contribution plan, that are payable more than 12 months after the end of the period of service rendering by employees, are discounted to their present value.

(ii) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

3. Material accounting policy information (continued)

(i) Employee benefits (continued)

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art. 222, § 3 of the Labour Code. According to the regulations of the Collective Labour agreement, when a labour contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounted to two gross monthly salaries. If the employee's length of service in the Group equals to or is greater than 10 years, as at retirement date, then the compensation amounts to seven gross monthly salaries. As at the reporting date the management estimates the amount of such expenses based on a report prepared by a qualified actuary using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the financial statements in Note 23.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and are recognised in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

(iii) Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The Group grants share-based payment awards to its employees, while it has no obligation to settle the transaction, because this an obligation of its Parent Group, to which the shares belong to. Respectively, the transactions are classified as equity-settled share-based payment transactions.

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(j) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Legal provision

Legal provisions are included in the Group's financial statements as a result of existing legal liabilities on court actions concerning past events. Estimation of the provision is carried out by the legal advisors of the Group based on all the facts and circumstances related to the expected cash outflows resulting from a hypothetical court decision in other party's favour.

(k) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 4.

(l) Government grants

The Group recognizes government grants to assets initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized.

3. Material accounting policy information (continued)

(m) Finance income and finance costs

Finance income comprises interest income and profit from transactions in foreign currencies, recognized in profit or loss. Interest income is recognized as it is accrued using the effective interest method.

Finance expenses comprise interest expense on borrowings, expenses resulting from increase in liabilities due to being one period closer to the date for realizing the provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset meeting the requirements are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

Income tax expense for the year comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss ;
- differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The Group has adopted for the first time in the current year, the amendments to IAS 12 that introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The adoption of the amendments did not lead to changes in recognized deferred tax assets and liabilities.

The IASB amended the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The Group is in the scope of Pillar Two model rules and in process of the assessment of the related changes implemented in the Bulgarian Corporate Tax Law and their effects.

The amendments to IAS 12 introduced a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. The Group has adopted the amendment for first time in the current year.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3. Material accounting policy information (continued)

(n) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(o) Initial application of new amendments to the existing standards effective for the current reporting period

The following new standard and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

• **IFRS 17 Insurance Contracts** including amendments to IFRS 17 adopted by the EU in June 2020 and December 2021 (effective for annual periods beginning on or after January 1, 2023);
• **Amendments to IAS 1 Presentation of Financial Statements:** Disclosure of Accounting policies adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023);
• **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023);
• **Amendments to IAS 12 Income Taxes -** Deferred Tax related to Assets and Liabilities arising from a Single Transaction adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after January 1, 2023).
• **Amendments to IAS 12 International Tax Reform — Pillar Two Model Rules** (IASB effective date: 1 January 2023*);
** exception specified in amendments to IAS 12 (that an entity does not recognise and does not disclose information about deferred tax assets and liabilities related to the OECD pillar two income taxes) is applicable immediately upon issuance of the amendments and retrospectively in accordance with IAS 8. The remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023.*

The adoption of the new standard and amendments to the existing standards has not led to any material changes in the Group's financial statements see also disclosure (p) Income tax. In relation to Amendment of IAS 1 Presentation of financial statements - the Group has reviewed the accounting policies disclosed in the consolidated financial statements and has retained only the material ones.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following revised IFRS Accounting Standard has not been applied that has been issued by IASB and adopted by EU but are not yet effective:
• **Amendments to IFRS 16 Leases** - Lease Liability in a Sale and Leaseback issued by IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024);

3. Material accounting policy information (continued)

(o) Initial application of new amendments to the existing standards effective for the current reporting period (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **Amendments to IAS 1 Presentation of Financial Statements**: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (effective for annual periods beginning on or after January 1, 2024);
- **Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements** (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IAS 21: The Effects of Changes in Foreign Exchange Rates -** Lack of Exchangeability (IASB effective date: 1 January 2025);
- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred by IASB indefinitely but earlier application permitted). Endorsement process postponed indefinitely until the research project on the equity method has been concluded.

The anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of The Э in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39 Financial Instruments - Recognition and Measurement would not significantly impact the financial statements, if applied as at the balance sheet date.

(p) Restatement of comparative information

The Group presents comparative information in these consolidated financial statements for one previous year. Where necessary, comparative information is restated (and reclassified) to achieve comparability against changes in presentation in the current year.

During the current period, The Group has revised the measurement of revenues from construction services and associated costs, in accordance with the requirements of IFRIC 12 Interpretations: Concession Service Arrangements.

In previous reporting periods, revenue recognized is limited to the fair value of the consideration received, defined as the amount expected to be realized as incremental revenue as a result of the consolidated construction service provided, based on an estimation model. Accordingly, if the costs of the additions or improvements exceed the fair value of the consideration received, the additional invested amounts are recognized as an increase of the intangible asset - "Concession right". Given the practice of application of IFRIC 12, in the current period the Group recognizes revenues from construction services at their fair value as determined based on actual costs, including those charged by independent third-party suppliers, incurred by the Group for the performance of construction and upgrade services. Revenues are recognized against assets under contracts with customers under concession rights presented within the intangible asset – concession rights. Respectively the recognized construction services revenue corresponds to the accumulated in the period increase in the amount of the intangible – concession right. The Group has retrospectively restated the amount of revenue from construction services and associated costs, as a correction of an error, to meet the application practices and requirements of IFRIC 12 Interpretations: Concession Service Arrangements, the cumulative effect on profit and loss before and after taxes for previous periods is BGN 0, as the Group applies a margin of 0% according to the requirements of the concession arrangement. As a result of the restatement, there was no change in the presentation and valuation of the intangible asset - concession right in The Group's Consolidated statement of financial position.

3. Material accounting policy information (continued)

(p) Restatement of comparative information (continued)

In addition, the Group has revised the presentation, in note 4 to the consolidated financial statements, of finance income related to water supply and sewerage services, by including consolidated sub-totals/totals within the revenue from main activities related to finance income and revenue from contracts with customers, considering that the former are within the scope of "IFRS 9: Financial Instruments" and the latter within the scope of "IFRS 15: Revenue from contracts with customers". The change in presentation did not result in changes in the measurement of the recognized revenue from the main activities.

The restatement and reclassification have the following effect on the consolidated statement of profit or loss and other comprehensive income as at and for the year ended 31 December 2022:

Consolidated statement of profit or loss and other comprehensive income		
BGN'000	**2022, before restatement**	**2022, restated**
A.3. Revenue from construction services		
Water supply infrastructure	9,528	21,929
Potable water treatment infrastructure	291	670
Sewage infrastructure	2,563	5,900
Waste water treatment infrastructure	655	1,507
Water service connections and water meters	3,804	8,756
	16,841	**38,762**
A1. Revenue from contracts with customers – main activities	**193,731**	**190,406**
A2. Financial income from main activities	**-**	**3,325**
Total revenue from main activities (A.1. and A.2)	**193,731**	**193,731**
Total revenue from contracts with customers (A.1. and A.3)	**210,572**	**229,168**
Expenses for materials (Note 6): Sub-contractors	2,159	5,052
Total expenses for materials	**15,432**	**18,848**
Hired services expenses (Note 7): Construction services provided by subcontractors	12,643	29,100
Total expenses for hired services	**48,146**	**64,603**
Employee benefits expenses (Note 8):		
Wages and salaries	30,171	32,289
Compulsory social security and pension contribution	4,809	5,298
Total employee benefits expenses	**28,477**	**41,084**
Operating profit	**22,994**	**22,994**
Profit before taxes	**22,281**	**22,281**
Profit for the period	**20,120**	**20,120**

4. Revenue

A. Categories of revenues and breakdown of the revenues

The Group generates revenues mainly from the sale of services related to the supply, sewerage and treatment of water and construction services related to the concession agreement of the Group. The other sources of revenues have been listed in Note 5.

In thousands of BGN	Note	2023	2022 (restated)
A.1. Revenues from contracts with customers – main activities			
Revenues related to water supply and sewerage			
Revenue from water supply		123,182	122,443
Revenue from sewerage		36,950	36,808
Revenue from wastewater treatment		25,953	25,749
Revenue deduction, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget		(299)	(238)
Penalties for industrial discharges of water with excessive concentration of pollutants		1,015	504
		186,801	185,266
Revenues from non-regulated services			
Revenues from sale of services		3,817	3,628
Revenues from the sale of green energy			
Revenues from green energy		742	1,512
Total revenues from sales of services and green energy		**191,360**	**190,406**
A.2. Finance income related to WSS services			
Finance Income related to water supply and sewerage			
Interest income from overdue receivables		3,586	3,325
Total revenues from sales of services (A.1. and A.2.)		**194,946**	**193,731**
A.3.Revenues from construction services			
Water supply infrastructure		24,044	21,929
Potable water treatment infrastructure		913	670
Sewerage infrastructure		9,191	5,900
Wastewater treatment infrastructure		3,201	1,507
Water service connections and water meters		8,908	8,756
		46,257	**38,762**
Total revenues from contracts with customers (A.1. and A.3.)		**237,617**	**229,168**
Total finance income from main activities (A.2.)		**3,586**	**3,325**

4. Revenue (continued)

According to an agreement dated 22 June 2007 between Sofiyska Voda AD and Sofia Municipality (MoS), and in relation to Financial Memorandum ISPA 2000 BG 16 P PE 001, signed between the European Commission and the Republic of Bulgaria, the Group is obliged to include in its price for water supply, sewerage and treatment of waste waters an adjustment, allowing it to accumulate the necessary annual funds for repayment of the Financial Memorandum loan that was received by the Municipality of Sofia from the European Investment Bank (EIB).

With a letter of the Ministry of Environment and Water dated 29.03.2016 the Municipality of Sofia and Sofiyska Voda AD were notified about changes to the repayment schedule related to the recovery (at the end of 2015) on the account of EIB of unspent amount under the loan.

The payment started from the beginning of 2012 and will last until year 2030. Interest and principal are due to EIB on each 10th March and 10th September.

The Energy and Water Regulatory Commission, on basis of an indicative repayment schedule, approved a tariff adjustment, though the inclusion in the tariff of a certain amount for servicing and repayment of the EIB financing.

The Agreement stated above, specifies that upon the receipt of the relevant notices, the collected amounts from the clients of the Group as a result of the approved by the EWRC price component, should be transferred to the Ministry of Environment and Water (MoEW) in a specially opened to service the loan bank account.

Having received notices from the Municipality of Sofia in 2023, the Group transferred two instalments for a total amount of BGN 758 thousand (2022: BGN 778 thousand) to the bank account indicated by the Municipality of Sofia, to service the loan from EIB. These instalments decrease the amount of ISPA payables (refer to Note 20).

The portion of billed revenue in 2023, set aside for servicing and repayment of the EIB loan, based on the price component included into the WSS services tariff, amounts to BGN 872 thousand (2022: BGN 859 thousand), presented above as a reduction of the Group's yearly revenue for each water supply and sewerage type of services listed above and with the same amounts ISPA payable has been increased in 2023 and 2022 (refer to Note 20). The net presentation within revenues from water supply, sewerage and wastewater treatment is based on the assessment that the Group acts as an agent under the agreement and collects the amounts on behalf of MoS.

B. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers

	31 December 2023	**1 January 2023**
Receivables, which are included in 'trade and other receivables', net of impairment	31,646	32,172
Contract assets– unbilled receivables	12,984	12,876
Contract liabilities	(10,329)	(9,532)
Total	34,301	35,516

Contract assets – unbilled receivables

Contract assets refer to the rights of the Group to receive remuneration for provided WSS services pursuant to the Concession Agreement (water supply, sewerage and wastewater treatment), not billed to the reporting date, but which are billed or will be billed after the end of the reporting period, but concern consumption within the reporting period.

Contract assets are transferred into receivables when the rights over them become unconditional. That usually happens when the Group issues an invoice to the customer. Unbilled revenues are re-estimated at the end of each reporting period, opening balance is reversed with the net impact reflected in revenues from water supply, sewerage and wastewater treatment. Net impact to the revenue recognized in the period is an increase at the amount of BGN 108 thousand.

4. Revenue (continued)

Contract liabilities

Contract liabilities are mainly related to advance payment received (surplus payment) for WSS services or as a result of adjustments of the balances of customer receivables leading to negative net amounts of their open positions in the Group's billing system.

As at 31 December 2023 the Group has contract liabilities at the amount of BGN 10,329 thousand (2022: BGN 9,532 thousand).

The amount of BGN 4,126 thousand recognized as contract liabilities at the beginning of the period was recognized as income during the period ending on 31 December 2023 (2022: BGN 3,539 thousand).

No information is provided on the remaining performance obligations as at 31 December 2023, which initially had an expected duration of one year or less, as permitted under IFRS 15.

C. Performance obligations and policies for revenue recognition

a) Revenue related to the provision of WSS services
Nature and timing of satisfaction of performance obligations, including significant payment terms
Revenues from WSS services (water supply, sewerage and wastewater treatment) are generated by the Group pursuant to the Concession Agreement and the effective legislation.

Revenues from WSS services are recognized on the basis of the quantities of water measured through the readings of water meters.

Key accounts (large customers) are measured and billed monthly on the basis of actual consumption.

For the rest of the clients, as a general rule, actual measurement of clients' devices is performed once every three months. During the other two months, client's consumption is calculated and billed on the basis of the average daily consumption from the last actual consumption. When the actual quarterly reading is made, the difference between already invoiced in the previous 2 months and actual reading on the third month is automatically calculated and invoiced in the third month. If it happens that the quantity of actual quarterly reading is lower than the sum of the previous two invoiced quantities, the consumption is adjusted up to the level of the actual reading by issuing of a credit note.

The interest income for overdue receivables is calculated as per the regulations on the legal interest rate (Bulgarian base rate + 10%).

Invoices are issued monthly with a payment term of 30 days after the date of the invoice issuance.

Revenue recognition

Revenue is recognized over time when the services are provided. The stage of completion for determining the amount of the revenue, which is to be recognized, is measured on the basis of the analysis of the work performed. The work performed is estimated based on the measurement of the quantities of water supplied as at the date of measurement when physical measurement is performed or based on the calculated consumption of water if the measurement of the quantities supplied is based on the average consumption in previous periods.

The Group has identified one performance obligation in compliance with the requirements of the IFRS 15 in the arrangements with its customers, which include three Consolidated components – water supply, sewerage and wastewater treatment. The three components cannot be consolidated as consolidated obligations as per the IFRS 15 due to their characteristics.

b) Revenue from construction contracts

Nature and timing of satisfaction of performance obligations, including significant payment terms
Construction contracts bring revenue related to the investments in public assets made by the Group in accordance with the Concession agreement. In line with the requirements of the Concession agreement, public assets built by the Group are owned by the Grantor. They include improvement of existing assets and construction of new components of the water supply and sewerage system.

The Group recognizes an intangible asset – concession right. In accordance with the Concession agreement, the Group doesn't receive cash consideration from the Grantor for the investments made, but the right to invoice and charge the customers for the service at the prices approved by EWRC.

4. Revenue (continued)

The Group measures the promise for non-cash consideration at fair value indirectly by reference to the price of the services for which it was granted the respective concession right. The construction revenues are recognized over time, during which the construction services are delivered. The stage of completion for determining the revenue recognized is measured on the basis of analysis of the reported expenses. The Groupusually engages sub-contractors for construction works and respectively the stage of completion is determined based on the expenses incurred as at the reporting date by the sub-contractors compared to the total expenses expected to be incurred for the respective assets.
The Group has identified a performance obligation in accordance with the requirements of IFRS 15 under the Concession Agreement.

c) Provision of other non-regulated services

Essence and time parameters of satisfaction of the performance obligations, including significant payment conditions
Based on approved commercial pricelists The Group provides services such as: technical, engineering, additional sewer services, treatment of specific pollutant loads, laboratory services, small plumbing services, including the installation of individual water meters etc.

Revenue recognition under IFRS 15
For most of them the customer takes the control over the services at a certain point of time when the service is completed and accepted by the client and revenue is recognized in full at that time.

***d)* Sale of electricity from cogeneration**

Nature and timing of satisfaction of performance obligations, including significant payment terms
In accordance with the prices for the relevant period, approved by the EWRC, for the relevant type of electricity production, The Group sells to the National Electricity Company (NEC) the green energy that it generates from the natural gas captured during wastewater treatment.

Revenue recognition

Revenue is recognized at the point of sale, at which the control is transferred to the customer.
The invoices to NEC are issued on a monthly basis.

5. Other income

In thousands of BGN	**2023**	**2022**
Penalties due from contractors	(215)	554
Gain on sale of inventories to subcontractors for construction works	297	130
Gain on sale of Property, plant and equipment	17	2
Income from rent	57	15
Income from sale of carbon emissions	1,331	847
Other	502	359
	1 989	1,907

The gain on sale of non-current assets is realized in connection with the sale of vehicles as follows:

	2023	**2022**
Revenue from sale of vehicles	39	3
NBV of sold vehicles	(22)	(1)
	17	**2**

Below is presented the revenue from sales of materials to subcontractors and the associated cost of these sales:

	2023	**2022**
Revenue from sales of materials	2,318	2,422
Cost of sales of materials	(2,021)	(2,292)
	297	**130**

The sales of carbon emissions are directly recognized to revenue at the point of sale based on the nature of the emissions – voluntary reduction emissions resulting from the electricity co-generation. There are no verified by independent bodies emissions as of 31.12.2023 on stock.

6. Expenses for materials

In thousands of BGN	2023	2022 (restated)
Electricity, water, heating	2,200	1,989
Sub-contractors	8,049	5,052
Fuels and lubricants	1,489	1,586
Water for technological needs	1,423	1,432
Chemicals	7,601	6,249
Plumbing materials	825	682
Other	1,967	1,858
	23,554	18,848

7. Expenses for hired services

In thousands of BGN	2023	2022 (restated)
Construction services provided by sub-contractors	32,962	29,100
Repairs and maintenance of concession infrastructure	7,134	8,050
Insurance	1,200	1,384
Commission for collection of trade receivables	1,744	1,701
Rent	9	8
Security	12,314	11,171
Other expenses for hired services	16,034	13,193
	71,396	64,607

Other expenses for hired services include:

In thousands of BGN	2023	2022
Water meter reading	1,944	1,888
Transportation of sludge	771	460
Courier services	423	427
Printing services	563	528
Technical services	1,497	1,500
Consultancy	742	710
Asphalt covering	536	644
EWRC fee	382	384
Disinfection	182	120
Communication	276	262
Annual software licenses	1,753	1,432
Hired transportation	251	169
Water tankers	359	341
Software maintenance and internet	1,640	1,647
Training	248	232
Announcements and communications	223	231
Local taxes and fees	119	152
Cleaning of offices and water tanks	135	134
Fees	65	76
Building demolition costs	1,539	-
Other	2,385	1,856
	16,034	13,193

The accrued charges on remunerations for the appointed auditor for 2022 BGN 206 thousand and 2023 amount to BGN 189 thousand including the statutory independent financial audit of BGN 122 thousand.

8. Employee benefit expenses

In thousands of BGN	*Note*	2023	2022 (restated)
Wages and salaries		38,576	32,289
Compulsory social security and pension contribution		5,995	5,298
Social expenses		485	108
Expenses for additional pension contribution		753	673
Current and past service costs in relation to employee benefits	23	1,004	576
Voucher expenses		1,896	1,892
Share-based payments		404	248
		49,113	41,084

The salary expenses include an accrual for unused annual paid leave amounting to BGN 1,729 thousand (2022: BGN 1,425 thousand).

The compulsory social security and pension contribution includes an accrual for social and health security on unused annual paid leave for the amount of BGN 336 thousand (2022: BGN 227 thousand).

The average number of the Group's personnel is 1,055 employees (2022: 1,059 employees).

Description of share-based payments transaction

Rights over the increase in the price of shares (equity-settled share-based payment transactions)

In 2018, 2019, 2020, 2021, 20222 and 2023 Group employees were granted the opportunity to get included into plans giving rights over the increase in the price of the shares of the Parent company Veolia Environnement (France). Description below is applicable for 2018, 2019, 2020, 2021, 2022 and 2023 plans.

The Group's employees have been granted the opportunities to get included into two plans – *Secure Offer* and *Classic Offer*. When participating in the *Secure Offer* employees invest a certain amount, which is doubled at the expense of Veolia Environnement. The agreed upon term of the plan is 5 years. Following the 5 years, the employees get the nominal value they invested and the amount, which Veolia Environnement invested on their behalf. In addition, if the prices of the shares of Veolia Environnement (France) increase, the employees also obtain the value of the increase in the share prices. If the share prices of Veolia Environnement decrease, the employees get as a minimum the amount of their investment and the invested on their behalf amounts by Veolia Environnement.

When participating in the *Classic Offer* employees invest in shares of Veolia Environnement at their expense. The period of the plan is 5 years. The employees from the Group, who participate in this offer, use a discount of 20% on the reference price of Veolia Environnement share. The rights over the price increase of the shares expire at the end of the fifth year after their granting. The sum to be paid is determined on the basis of the increase of the price of a share of the Group between the date of granting and the date of maturity.

The Group Veolia Environnement (France) recharges to the Group the costs that Veolia Group incurs in connection with the two programs, provided to The parent company employees. Respectively, these are accounted as an expense by the Group.

The participation in the two program is not bound to terms of service as at the date of inclusion in the program or work experience afterwards. The employees should not be in probation period as at the date of its participation.

The two programs are classified by the Group as equity-settled share-based payments transactions.

As at 31 December 2023 the total invested amount by the employees under the two programs amounts to BGN 2,597 thousand (BGN 411 thousand for 2018 program, BGN 326 thousand for 2019 program, BGN 330 thousand for 2020 program, BGN 442 thousand for 2021 program, BGN 427 thousand for 2022 program and BGN 661 thousand for 2023 program) and the sum invested by Veolia Environnement under the "Secured Offer" amounts to 1,448 thousand BGN, which is invoiced by Veolia Environnement to the Group (BGN 280 thousand invoiced and expensed in 2018, BGN 187 thousand invoiced and expensed in 2019, BGN 203 thousand invoiced and expensed in 2020, BGN 236 thousand invoiced and expensed in 2021, BGN 248 thousand invoiced and expensed in 2022 and BGN 294 thousand invoiced and expensed in 2023).

9. Other operating expenses

In thousands of BGN	*Note*	2023	2022
Inventory write-down / (reversal) to net realizable value	*14*	413	241
One-off taxes		99	114
Provisions for fines and penalties, net		1,179	18
Scrapping of materials		18	21
Scrapping of non-current assets		22	8
Annual regulatory fee - water and sewerage		2,636	2,618
Expenses for provision "Handback Account"	*21,25*	201	394
Other		2,437	1,173
		7,005	4,587

10. Finance income and finance costs, recognized in profit and loss

In thousands of BGN	2023	2022
Interest income	12	3
Effect from guarantee discounts	18	20
Interest income from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia (unwinding of the discount)	-	15
Income from interest of deposits	1,068	
Revenue from foreign currency transaction, net	-	1
Financial income	1,098	39
Interest expenses for financial lease contracts	(36)	(2)
Interest expenses on employee benefits	(121)	(95)
Effect from guarantee discounts	(7)	(10)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(4)	-
Other finance costs	(38)	(638)
Loss from foreign currency exchange differences, net	(8)	(7)
Finance costs	(214)	(752)
Finance income/(costs) net	884	(713)

11. Tax expenses

In thousands of BGN	*Note*	2023	2022
Current tax expense			
Income tax for current year		(5,250)	(2 816)
Deferred tax expense			
Origination and reversal of temporary differences	*19*	(618)	655
Total tax expense		(5,868)	(2,161)

11. Tax expenses

The relevant tax period of the Group may be subject to examination by the tax authorities until the expiration of five years from the end of the year in which the declaration is or should have been filed, and also additional tax liabilities or penalties may be imposed accordingly to the interpretation of the tax legislation. The management of the Group is not aware of any circumstances that may bring additional significant liabilities in this area.

A tax audit of the Group with respect to the Corporate Income Tax covers the period up to 31 December 2012 and tax audit on The Group with respect to Value Added Tax covers the period up to 31 August 2013. The two of them are over.

Reconciliation of effective tax rate		**2023**		**2022**
In thousands of BGN				
Profit for the year		52,116		20,120
Total tax expenses		5,868		2,161
Profit before tax		57,984		22,281
Income tax based on the Group's domestic tax rate	9,05%	(5,250)	10%	(2,229)
Unrecognized expenses for tax purposes	1.07%	(618)	0.20%	(19)
Correction of deferred tax assets from prior periods		-	0. 39%	87
Other		-		-
Net current income tax expense	10.12%	(5.868)	11.16%	(2,161)

12. Property, plant and equipment

In thousands of BGN	**Land and buildings**	**Plant and equipment**	**Vehicles**	**Leasehold improve-ments**	**Assets under construc-tion**	**Total**
Cost						
Balance at 1 January 2022	6 ,260	40,352	21,657	2,831	-	71,100
Additions	158	-	-	-	6,394	6,552
Disposals	-	(938)	-	-	-	(938)
Transfers	-	5,043	1,163	188	(6 394)	-
Balance at 31 December 2022	6,418	44,457	22,820	3,019	-	76,714
Balance at 1 January 2023	6,418	44,457	22,820	3,019	-	76,714
Additions	1,732	-	-	-	4,326	6,058
Disposals	-	(1,115)	(145)	-	-	(1,260)
Transfers		2,593	1,706	27	(4,326)	-
Balance at 31 December 2023	8,150	45,935	24,381	3,046	-	81,512
Depreciation						
Depreciation as at 1 January 2022	(3,201)	(32,628)	(14,526)	(1,513)	-	(51,868)
Depreciation charge for the year	(1,429)	(2,947)	(1,654)	(181)	-	(6,211)
Depreciation on disposals	27	929	1	-	-	957
Balance at 31 December 2022	(4,603)	(34,646)	(16,179)	(1,694)	-	(57,122)
Balance at 1 January 2023	(4,603)	(34,646)	(16,179)	(1,694)	-	(57,122)
Depreciation charge for the year	(1,609)	(2,931)	(1,463)	(196)	-	(6,199)
Depreciation on disposals	-	1,090	144	-	-	1,234
Balance at 31 December 2023	(6,212)	(36,487)	(17,498)	(1,890)	-	(62,087)
Carrying amounts						
At 1 January 2022	3,059	7,724	7,131	1,318	-	19,232
At 31 December 2022	1,815	9,811	6,641	1,325	-	19,592
At 1 January 2023	1,815	9,811	6,641	1,325	-	19,592
At 31 December 2023	1,938	9,448	6,883	1,156	-	19,425

12. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2023, amount to BGN 4,299 thousand (2022: BGN 6,207 thousand) and are listed below:

In thousands of BGN	**2023**	**2022**
Co-generator	1,058	683
Vehicles and mechanization	1,732	1,673
Laboratory equipment	439	360
Computer equipment	116	2,733
CCTV	6	-
Gardening equipment	105	-
Welding systems, grinders	-	43
Personal protective equipment	45	26
Devices for geodetic measurements and leak detection	244	-
Other equipment	554	689
	4,299	6,207

Assets pledged as collateral
The Group has no pledged current and future non-current tangible assets.

Assets pledged as collateral under finance lease contracts
As of the date of these consolidated financial statements, The Group is not a party to active contracts for the financing of the purchase of means of transport, from which an obligation for collateral arises.

13. Intangible assets

In thousands of BGN	**Development costs**	**Software**	**Concession right**	**Assets under construction – concession right -other**	**Total**
Cost					
Balance at 1 January 2022	21,041	24,860	652,742	1	698,644
Additions	-	-	38,762	711	39,473
Transfers		711	-	(711)	-
Balance at 31 December 2022	21,041	25,571	691,504	1	738,117
Balance at 1 January 2023	21,041	25,571	691,504	1	738,117
Additions	-	-	46,257	1,043	47,300
Transfers	-	1,043	-	(1,043)	-
Balance at 31 December 2023	21,041	26,614	737,761	1	785,417
Depreciation					
Balance at 1 January 2022	(21,038)	(19,162)	(414,452)	-	(454,652)
Depreciation for the year		(983)	(69,533)	-	(70,516)
Balance at 31 December 2022	(21,038)	(20,145)	(483,985)	-	(525,168)
Balance at 1 January 2023	(21,038)	(20,145)	(483,985)	-	(525,168)
Depreciation for the year	(1)	(998)	(21,948)	-	(22,947)
Balance at 31 December 2023	(21,039)	(21,143)	(505,933)	-	(548,115)
Carrying amounts					
At 1 January 2022	3	5 698	238,290	1	243,992
At 31 December 2022	3	5,426	207,519	1	212,949
At 1 January 2023	3	5,426	207,519	1	212,949
At 31 December 2023	2	5,471	231,828	1	237,302

13. Intangible assets (continued)

Determination of recoverable amount

The Third Amendment Agreement to the Concession Agreement with the Municipality of Sofia was signed in March 2018. One of the main changes introduced with the signed amendment agreement was that the agreed 17% rate of return on equity used as one of the components in determination of the selling prices of the services the Group provides to clients should no longer be protected by the price restriction mechanism pursuant to the Concession Agreement. In case of approval by the Regulator of a lower rate of return, no price restriction will be present within the meaning of art. 22.7 of the Concession Agreement. Respectively, for the purposes of formation of the prices of WSS services provided by the Group, as of 2022 the rate of return of equity, which is to be used as a component in determination of the selling prices will be applied as determined by EWRC without reference to the conditions agreed in the Concession Agreement. The return on equity is an indicator that is used in determining the weighted-average cost of capital, which measure is applied by the Regulator in determining the prices of the WSS services provided by the Group. The indicator weighted-average cost of capital is applied to the regulatory value of the assets constructed by the Group (public and owned assets) and has a considerable weight in determining the values of the prices of the WSS services provided by the Group (for more information about the rate of return of equity and its effect on determination of the selling prices see below).

On November 24, 2022, the Metropolitan Municipal Council decided to extend the term of the Concession Agreement until 2034, by means of the Fourth Amendment Agreement (FAA) to the concession contract. The Municipality of Sofia sent the Fourth Amendment Agreement to the Concession Agreement for an opinion from EWRC in relation to the powers of the Regulator under the Water Supply and Sewerage Services Regulation Act. On 09.01.2023, EWRC published its opinion on the proposed Fourth Amendment Agreement. All legal requirements related to the signing of the FAA were met and the FAA was signed on August 28, 2023 (see note 25 "Commitments for the acquisition of property, machinery, plant and equipment".
Given the change in circumstances during the year, the Management has carried out:
- change in the useful life of asset Concession right;
- an analysis to determine the recoverable amount of fixed tangible and intangible assets, taking into account the effects of FAA on assumptions.

The management has performed an analysis to determine the recoverable amount of the Group's fixed tangible and intangible assets as of December 31, 2023, in accordance with the requirements of IAS 36 "Impairment of Assets". The intangible assets of the Group, the largest part of which is the "Concession Right", as well as the tangible assets owned by the Group, are treated as a single cash-generating unit (CGU) for the purposes of the impairment test. The recoverable amount of this CGU is based on fair value less costs to sell, estimated by discounted cash flows. The recoverable amount of this CGU is based on fair value less costs to sell, estimated by discounted cash flows. The fair value estimate is categorized as Level 3 based on the inputs used in the valuation technique.

The impairment test prepared by Management includes after tax cash flows for a period of 8.3 years after October 2025 (extended term of Concession Agreement up to the beginning of February 2034). A subsequent period of 3 more years after 2033 has been assumed for the collection of outstanding receivables and settlement of payables. Based on the analysis performed, the management considers that in addition to the extension of the concession contract another important assumption is the indicator "Sales prices of services related to supply, removal and purification of water". In turn, sales prices are most significantly influenced by the rate of return on equity used by EWRC in determining the service prices applicable to the Group. In the above-mentioned Fourth Amendment Agreement, a change in the rate of return is provided for in order to fix it for the extension of the Concession Agreement. When preparing the impairment test as of the date of these financial statements, the return agreed in the FAA was used.

At the end of 2023, based on the impairment test prepared by the management, the management concluded that the estimated recoverable amount is higher than the carrying amount of CGU and no impairment recognition is necessary as of December 31, 2023.

The underlying assumptions used in determining the fair value less costs to sell are as follows:

— Revenues from sales based on the volumes and sales prices are determined as follows:
  - o Volumes – according to the most recent long-term forecast of the Group of the billed consumption for the years 2023-2034;

13. Intangible assets (continued)

- Service prices – for the forthcoming regulatory period 2024-2026 through pricing in accordance with the recent published price models in conformity with the effective legislation and the conservative adjustments in the regulatory recognized costs in the pricing models for the years 2027-2034; For 2024, the Parent Company has envisaged prices of the services after of the beginning of the year, because the Parent Company's Business Plan for 2022-2026 has not been approved by the EWRC yet.
- The prices of the services are calculated while taking into account the Group's operating costs and the return on the regulatory base of assets, which participate in the provision of the WSS services to the customers. The return determined for the regulatory asset base is calculated by using the regulatory formula for the weighted average cost of capital, in which elements are the return on equity and debt capital.
- The rate of return on equity has the most significant effect in determining the return, based on the regulatory bases of the assets. For 2023 in the forecast is used rate of return, which reflects the actual capital structure for the Group for the next regulatory period without needs to raised capital and other circumstances specific for the Group.
- Investments in assets – annual investments in the model are based on latest updates in the forecast in accordance with long-term target levels and planned activities for a regulatory period 2022 – 2026 and reflects the latest discussed with Sofia Municipality. The assumed annual investment (total for regulated and unregulated activity) for period 2024-2033 average annual are in size of BGN 52,528 thousand, for 2034 are foreseen BGN 4,810 thousand.

- In determining the revenues and operating costs (except for depreciation), inflation adjustment has been also applied in the respective years, based on the expectations for the rates of inflation.
- Discount inflation rate after tax – 8.6%.

The management believes that if the assumptions for the extension of the Concession Agreement and for the change in the rate of return for regulatory purposes based on the values set in the additional agreement for the extension of the Concession Agreement are met, a reasonable change in all other assumptions used in the model would not result in an impairment in the value of the fixed assets of the Group as at 31 December 2023.

Determining the useful life of Concession right asset

As at 31 December 2023, the useful life of the Concession right asset is determined based on the Concession Agreement and the appendices thereto effective as at that date. The signing of the Fourth Amendment Agreement to the Concession Agreement on 28 August 2023, preceded by the decision to extend the term of the Concession Agreement up to 2034 taken by Sofia Municipal Council leads to a change in the assumption for the useful life of the asset Concession Right, which was respectively extended to February 2034. The change represents a change in an accounting estimate as a result of events that occurred during the year, and accordingly its effects are accounted for in the current and future reporting periods that it affects in accordance with IAS 8 "Accounting Policy, Changes in Accounting Estimates and Errors." The revised depreciation rates are applied from 01 January 2023.

14. Inventories

In thousands of BGN	**2023**	**2022**
Spare parts and consumables	5,259	5,774
	5,259	5,774

As at 31 December 2023 the cumulative inventory write-down to net realizable value amounts to BGN 2,817 thousand (2022: BGN 2,404 thousand).

15. Trade and other receivables

In thousands of BGN	Note	2023	2022
Trade and other receivables		57,822	61,401
Impairment losses on trade receivables		(26,176)	(29,229)
Total trade receivables	*22*	31,646	32,172
Other receivables and prepayments		3,736	1,675
		3,736	1,675
Total trade and other receivables		35,382	33,847
Non-current		2,505	2,310
Current (related and third parties)		32,877	31,537

In 2023 impairment losses on trade receivables amounting to BGN 2,775 thousand have been written off (2022: BGN 2,180 thousand).

As non-current trade and other receivables are classified deferred trade receivables and cash blocked in a bank account to cover for the hand-back liability according to the Concession Agreement.

The Group's exposure to interest rate risks and the sensitivity analysis of all financial assets and liabilities are reported in Note 22 – *Financial Instruments*

Other receivables and prepayments:

In thousands of BGN	2023	2022
Insurance	704	680
Licenses	537	489
Subscriptions	171	173
Advances for electrical energy	88	-
Advances for demolition	492	-
Advances for non-current assets	1,578	289
Advances for services	90	-
Other	76	44
	3,736	1,675

16. Deposits, cash and cash equivalents

On May 15, 2023, Sofiyska Voda AD concluded two contracts for deposits:
• Deposit A in the amount of BGN 30 million with a term until 15 May 2024. at an interest rate of 3.02%
• Deposit B in the amount of BGN 20 million with a term until 29 September 2023 at an interest rate of 2.85%. On 30 September 2023, Sofiyska Voda AD extended the deposit by one year until 30 September 2024. at an interest rate of 3.50%.
On 30 September 2023 Sofiyska Voda AD signed a third deposit contract:
Deposit C in the amount of BGN 10 million with a term until 29 March 2024 at an interest rate of 3.45%

16. Deposits, cash and cash equivalents (continued)

In thousands of BGN	Note	2023	2022
Deposits	22	61,068	-
Local currency		61,068	-
Foreign currency		-	-
Short-term deposits in the statement of cash flows		61,068	-
Cash on hand		8	9
Local currency		4	4
Foreign currency		4	5
Cash at banks	22	47,216	97,593
Local currency		46,838	96,652
Foreign currency		378	941
Cash and cash equivalents in the statement of cash flows	22	47,224	97,602

Cash and cash equivalents as well as deposits held by the Group in foreign currencies are denominated in Euro. Cash and cash equivalents are also subject to impairment requirements of IFRS 9, but the impairment loss is immaterial.

17. Capital and reserves

In thousands of shares	Ordinary shares 2023	2022
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	8,884	8,884

As at 31 December 2023 The parent company's share capital includes 8,884,435 ordinary shares (2022: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Parent Company as at 31 December 2023 are:

- Veolia Central and Eastern Europe – 6,850,000 ordinary shares (77.1%);
- Vodosnabdyavane I Kanalizatsia AD - 2,034,435 ordinary shares (22.9%).

The ultimate parent of The parent company is Veolia Environnement S.A., France.

The holders of ordinary shares possess dividend rights and voting rights at the Parent Company's General Shareholders Meeting of one vote for each share in their possession. All shares rank equally with regard to the Group's residual assets.

Dividends

By Decision of the Parent Company's General Meeting of Shareholders dated 11 September 2023, the Group's profit for 2022, in the amount of BGN 19,923 thousand, is distributed in the form of dividends, as the size of the dividend for 1 share is BGN 2.2425. The dividends were fully paid in 2023.

Legal reserves

Legal reserves are formed based on the requirement of the Bulgarian Commercial Law for transfer of 1/10 of the net profit to Reserves at least until the amount of 1/10 or more of the registered Parent company capital is reached.

18. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 22, *Financial instruments*.

In thousands of BGN	**2023**	**2022**
Non-current liabilities		
Lease liabilities	1,218	338
	1,218	338
Current liabilities		
Lease liabilities	544	1,333
	544	1,333
Total loans and borrowings	1,762	1,671

Reconciliation of the liabilities from financial activities

In thousands of BGN	**Leases**	**Others**	**Total**
Changes in cash flows from financial activities			
Balance at 1 January 2023	1,671	-	1,671
Paid dividends	-	(19,923)	(19,923)
Payments on lease liabilities	(1,682)	-	(1,682)
Total changes in cash flows from financial activities	(11)	(19,923)	(19,934)
Changes related to the liability			
New lease	1,773	-	1,773
Accrued interests	36	-	36
Accrued dividends	-	19,923	19,923
Paid interests	(36)	-	(36)
Total changes related to the liability	1.773	19,923	21,696
Balance at 31 December 2023	1,762	-	1,762

In thousands of BGN	**Loans and borrowings**	**Leases**	**Others**	**Total**
Changes in cash flows from financial activities				
Balance at 1 January 2022	-	3,193	-	3,193
Paid dividends	-	-	(39,043)	(39,043)
Repayment of loans	-	-	-	-
Lease liability payments	-	(1,882)	-	(1,882)
Total changes in cash flows from financial activities	-	1,311	(39,043)	(37,732)
Changes related to liability				
New leases	-	360	-	360
Accrued interests	-	2	-	2
Accrued dividends	-	-	39,043	39,043
Paid interest	-	(2)	-	(2)
Total changes related to liability	-	360	39,043	39,403
Balance at 31 December 2022	-	1,671	-	1,671

19. Deferred tax assets and liabilities

The deferred tax assets and liabilities are attributable to the following:

In thousands of BGN	Assets 2023	Liabilities 2023	Net 2023	Assets 2022	Liabilities 2022	Net 2022
Property, plant and equipment	-	(520)	(520)	864	-	864
Inventories	282	-	282	240	-	240
Trade receivables	8,625	-	8,625	8,536	-	8,536
Provisions	998	-	998	591	-	591
Accrual for unused paid leave and bonuses	675	-	675	514	-	514
Payables as per defined benefit plan	302	-	302	232	-	232
Financing	25	-	25	29	-	29
Deferred tax assets/	10,907	(520)	10,387	11,006	-	11,006

In determining the current and deferred taxes the Group has adopted as an accounting basis the one stated in material accounting policies (Note 3). The deferred tax for 2023 is calculated by using the tax rate applicable to the Group, which is the legally set for now income tax rate for 2023 – 10%.

Changes in temporary differences during the year:

In thousands of BGN	Balance as at 1 January 2022	Recognized in profit or loss	Balance as at 31 December 2022	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2023
roperty, plant and quipment	442	422	864	(1,384)	-	(520)
nventories	216	24	240	42	-	282
rade receivables	8,529	7	8,536	89	-	8,625
rovisions	442	149	591	407	-	998
ccrual for unused nnual paid leave nd bonuses	500	14	514	161	-	675
iabilities under a efined benefit plan	184	48	232	70	-	302
inancing	38	(9)	29	(4)	-	25
eferred tax assets/ liabilities)	10,351	655	11,006	(619)	-	10,387

20. Trade and other payables

In thousands of BGN	**2023**	**2022**
Trade payables	26,812	26,423
Retentions payable to subcontractors	2,828	2,785
Payables to employees	10,493	7,887
Insurance	152	607
ISPA payable	4,574	4,460
Incl. long term part of ISPA	*3,837*	*3,702*
Incl. short term part of ISPA	*737*	*758*
Total trade payables	44,859	42,162
Social security payables	1,472	1,224
Payable as per Settlement Agreement between the Municipality of Sofia and SV	2,250	3,186
Incl. short term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda	*2,250*	*3,186*
Payables for water usage tax	2,636	2,618
VAT payable	60	1,004
Other taxes payable	191	126
Other payables and accruals	5,718	7,544
	12,327	15,702
Total trade and other payables	57,186	57,864
Incl. Non-current	3,837	3,702
Incl. Current	53,349	54,162

On 16 January 2009, The parent company signed a Settlement agreement with the Municipality of Sofia (MoS). With this agreement, both sides agreed fully and finally on all existing mutual claims against each other with relation to the Concession agreement at that time. Both sides mutually relieved each other from pretended payment of interest on amounts claimed, as Sofiyska voda accepted the obligation for investments in the period 2009-2023 in addition to already existing approved by the Regulator investment obligations in the Business plan as follows: BGN 2.5 million for the period 2009-2013, according to Art.5.1.(iii) from the Settlement agreement, BGN 5 million in the period 2014-2018 according to Art 6.1.(i) from the Settlement agreement and BGN 4.7 million in the period 2020-2023 according to Art. 6.1.(ii) from the Settlement agreement.

The obligation of BGN 2.5 million over the period 2009-2013 was fulfilled at the end of February 2014. The obligations for the next two periods were to be fulfilled in the period 2016-2023. The investments in the years - 2016 - BGN 1.16 million, 2017 - BGN 1.06 million, 2018 - BGN 2.14 million, in 2019 - BGN 0.9 million, in 2020 - BGN 0.8 million, 2021 – BGN 0.1 million, 2022 – BGN 0.3 million and 2023 – BGN 0.9 million, respectively. The final BGN 2.3 million will be invested in 2024. As the above amounts from the Settlement Agreement are outside the investments set in the business plan and are on the account of the Group, they were accounted initially as expense and liability. Subsequently, the liability is decreased with the amount invested for all new assets constructed in accordance with the agreement.

21. Provisions

In thousands of BGN	**2023**	**2022**
Provision for court liabilities	1,864	668
Provision for interest	1,104	1,104
Provision "Handback Account" (note 25)	2,395	2,193
	5,363	3,983

Provision for court liabilities

The provision is calculated on the basis of estimation of the most likely outcome and historical evidence by the Group's lawyers.

Provisions are made for legal claims of contractual nature – indemnification of claimed damage due to emergencies related to assets operated by the Group, claims for refunds of amounts paid for assets construction, as well as claims for refund of asserted unduly paid bills.

Another group of legal cases for which a provision is made, are of labor legislative character and most often relate to potential payments of unemployment indemnifications to ex-employees in case the court pronounces the termination of the employment illegal, as well as a provision for potential future payments for interests.

In a Consolidated group are the provisions in relation to the imposing of administrative sanctions, mostly due to findings for possible abuse of a dominant position. The most significant amount in prior financial periods is due to provisions from this group. In accordance with order №370/19.03.2014 on the grounds of art. 74, par. 1, it.3 of the Act for Protection of Competition (APC), the Commission for Protection of Competition initiated proceedings that Sofiyska Voda used its dominant position on the market in relation to charging interest for delayed payments on estimated bills for provided services under art. 21, it.1 from APC. The sanction amounts to BGN 4,800 thousand and was calculated based on 0.5% of Sofiyska Voda 2013 revenue, applying leverage ratio 8.

The Group has undertaken measures to appeal the penalty imposed in compliance with the applicable legislation. On 11 January 2016 the Supreme Administrative Court (SAC) partially respected the appeal of SV against the decision of the Commission for Protection of Competition and reduced the imposed penalty from BGN 4,800 thousand to BGN 2,400 thousand. Both SV and CPC appealed the decision before a 5-member jury of SAC.

Court case 3161/2016 was commenced and the hearing was on 7 April 2016.

With the final decision of the Supreme Administrative Court of 25 May 2018 the Group was imposed a penalty of BGN 1,920 thousand under the above proceedings. In that reference an analysis was made by the Management and provisions were accrued for interests paid by customers of the Group for delay of estimated debts in prior periods. As of the date of this report no claims have been initiated by customers.

Based on the professional advice of the legal advisers of the Group the management considers that there is no risk for additional penalties for the period 2013 -2018, since after the final decision of the court the in May 2018 all the prescribed changes were introduced by the management.

Changes in the provisions' balances over the year is presented below:

In thousands of BGN	Balance at 1 January 2023	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2023
Provision for court liabilities	685	1,682	-	(503)	-	1,864
Provision for interests	1,104	-	-	-	-	1,104
Provision "Handback Account"	2,194	201	-	-	-	2,395
	3,983	1,883	-	(503)	-	5,363

22. Financial instruments

Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the risks listed above, The Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk Management Framework

The Board of Directors has the responsibility for the establishment and supervision of the Group's risk management. The Board has established a Risk Management Committee which is responsible for the development and supervision on the Group's policies for risk management. The Committee is obliged to report regularly its actions to the Board of Directors.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The Group, through its training and management standards and procedures, aims to develop a constructive control environment in which all employees understand their roles and obligations.

Risk Management Committee of the Group monitors how the management ensures compliance with the risk management policies and reviews the adequacy of the risk management framework related to the risks the Group faces. The Committee is being assisted by the Internal Audit department. Internal Audit undertakes both planned and unplanned inspections of the risk management controls and procedures and the results are reported directly to the management.

Credit Risk

Credit risk is the risk of financial loss to The Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from The parent company's receivables from customers and investments in financial instruments.

Exposure to Credit Risk

The carrying amount of the financial instruments represents the maximum credit exposure. The maximum credit exposure at the reporting date is:

In thousands of BGN	*Note*	**Carrying amount 2023**	**Carrying amount 2022**
Trade and other receivables	*15*	31,574	32,035
Contract assets	*4*	12,984	12,876
Receivables from related parties	*15,26*	74	132
Cash and cash equivalents (at banks)	*16*	47,116	97,593
Short-term deposits		61,068	-
		152,916	142,636

22. Financial instruments –(continued)

Trade and other receivables and contract assets

The credit risk exposure results from the individual characteristics of the individual customers. The exposure also depends on the risk of non-payment common to the utility sector. The Group provides WSS services on the territory of Sofia Municipality and as at 31 December 2023 the active customers of the Group are 725,598 (2022: 713,177). Based on the analyses of the Group, the services rendered have low price elasticity. The prices are regulated by the Energy and Water Regulation Commission (EWRC). The Group does not require guarantees from its customers in relation to the services rendered, but is currently developing and implementing a policy to increase the debt collection. In addition, The Group uses external collection agencies in order to take advantage of the expertise and best practices, as well as up-to-date software support. The Group's efforts are orientated towards demanding active contact with customers, tracing results and using a customers' contacts history database and other operational statistics.

In view of the credit risk it can be said that the Group's ability to influence directly its customers' behaviour is limited due to the legal framework and the complications at interruption of the consumption for individuals, as well as to the fact that the majority of uncollected trade receivables are owed by individual customers (households) and not institutional customers.

The carrying amount of trade receivables and contract assets by type of customers represents the credit exposure at the reporting date of the Group and it is as follows:

In thousands of BGN	**Book value 31 December 2023**	**Impairment 2023**	**Carrying amount 31 December 2023**	**Book value 31 December 2022**	**Impairment 2022**	**Carrying amount 31 December 2022**
Government/municipality-controlled entities	2,298	(505)	1,793	2,799	(1,169)	1,630
Legal entities	9,721	(1,232)	8,489	9,898	(1,999)	7,899
Domestic population	52,735	(23,619)	29,116	55,163	(25,645)	29,518
Other customers	6,024	(864)	5,160	6,242	(378)	5,864
Related parties	74	-	74	132	-	132
	70,852	(26,220)	44,632	74,234	(29,191)	45,043

Expected measurement of credit losses for the individual customers as at 1 January and 31 December 2023

The Group uses a provision matrix for measuring ECL (expected credit losses) on trade receivables.

For the purposes of the analysis the Group has grouped the customers into three categories:
- individual customers
- legal entities
- budgetary customers

For the three categories of customers the Group has performed an analysis of debt collection based on historical data.

In determining the impairment as at 31 December 2023 and 31 December 2022, based on the analyzed above historical data for the collectability for each of the categories, the Group has developed a model of the expected progress of the receivables for each of the categories under "Current" (not overdue) per age groups as per the tables below. In determining the impairment as at 31 December 2023, based on the so received data, the Group has applied discounting of the amounts for each of the categories (except the receivables over 3 years) as at the reporting date, and a discount rate has been applied based on the interest statistics of BNB for 2023 for the consumer loans in BGN for households in Bulgaria, and namely – the average annual percentage of 7.92% (7,59% in 2022), and 2.84% (2,65% in 2022) has been used for the balances of the receivables from budget and commercial customers, which is the average percentage for loans for the non-financial organisations sector.

22. Financial instruments –(continued)

For the receivables with forecast payments past due by more than 3 years (1,080 days), impairment of 100% of the amount of the receivables has been applied in accordance with their expected development.

With regard to employment, according to NSI data, unemployment reported at the end of 2023 (4.2%) is higher by 0.3% compared to the reported at the end of 2022 - 3.9% (or 0.5 compared with 3.7% for 2022 according the revised date from NSI based on the result of national population counting in 2021) and is lower by 0.3% compared to the reported unemployment rate of 4.5% at the end of 2021, for the third year in a row the Group has realised an excellent collectability of above 98% despite the complex geopolitical and economic situation.

The aging of trade receivables and short-term assets under contracts with customers of the Group and receivables from third parties as the reporting date is:

In thousands of BGN	**2023 Book Value**	**2023 Impairment**	**Defaulted**	**2023 Average impairment rate**
Not past due	24,184	(736)	No	3%
Past due 1-30 days	3,018	(513)	No	17%
Past due 31-60 days	2,298	(637)	No	28%
Past due 61-90 days	2,104	(720)	No	34%
Past due 91-180 days	4,788	(1,941)	No	41%
Past due 181-360 days	8,194	(4,824)	No	59%
Past due 361-720 days	12,733	(7,861)	Yes	62%
Past due 721-1080 days	13,533	(8,988)	Yes	66%
	70,852	(26,220)		

In thousands of BGN	**2022 Book Value**	**2022 Impairment**	**Defaulted**	**Average impairment rate**
Not past due	25,330	(908)	No	4%
Past due 1-30 days	3,078	(605)	No	20%
Past due 31-60 days	2,284	(710)	No	31%
Past due 61-90 days	2,050	(750)	No	37%
Past due 91-180 days	4,947	(2,094)	No	42%
Past due 181-360 days	8,671	(4,995)	No	58%
Past due 361-720 days	13,087	(8,433)	Yes	64%
Past due 721-1080 days	14,787	(10,696)	Yes	72%
	74,234	(29,191)		

Impairment of outstanding receivables is related to the Group's assessment of the risk of uncollectability for certain population groups based on historical information.

The impairment of Group's receivables at the reporting date of the statement of financial position, including court receivables impairment:

In thousands of BGN	**2023**	**2022**
Balance at the beginning of the period	(29,191)	(31,548)
Accrued impairment	(5,878)	(5,553)
Written-off	2,775	2,181
Written- off above 3 years (IFRS 9)	6,156	5,729
Balance at the end of the period	(26,138)	(29,191)

22. Financial instruments –(continued)

The quality of the trade and other receivables is assessed based on credit policy prepared by the Risk Management Committee and applied by the Group. The Group's management monitors the customers' credit risk by grouping trade and other receivables by defined characteristics as in 2023 it continues to carry out analysis of specific customers on the basis of precise proactive actions, working with them and the history of past communication. The Group has also introduced impairment of undue trade receivables and outstanding balances for court fees and legal remuneration related to the debt collection and litigation activities.

Liquidity risk

Liquidity risk is the risk that the Group will face difficulties to meet its obligations relating to financial liabilities, meant to be met by cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressful conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group management's efforts are focused on upholding in accordance with the regulatory framework in Bulgaria the necessary revenue using the price of services, which can ensure reaching the goals, levels of services and investments set in the current Business plan of the Group, by taking into account the cost of capital, the level of expenditure, the consumption, the annual inflation and the achieved efficiency of operating and capital expenditure and also meeting the main creditors' requirements pursuant to the loan agreement regarding the debt service coverage ratio and the equity to total assets ratio. In connection with this, Sofiyska Voda AD submits and supports annual price applications according to the terms and procedures provided for in the regulatory legislation.

The agreed maturity for the financial liabilities is given below, including the expected payments of interests as the impact of the agreed offsetting reciprocal commitments is excluded:

31 December 2023 г.

In thousands of BGN	**Carrying Amount**	**Contracted cash flows**	**Up to 1 year**	**Between 1-2 years**	**Between 2-5 years**
Non-derivative financial liabilities					
Liabilities to related parties	3,651	(3,651)	(3,651)	-	-
Lease liabilities	1,762	(1,849)	(579)	(438)	(832)
Trade payables	44,859	(44,859)	(44,859)	-	-
	50,272	(50,359)	(49,089)	(438)	(832)

The gross amounts in the preceding table are the contractual undiscounted cash flows on non-derivative financial liabilities.

The interest payments on loans with floating interest rate in the preceding table reflect the market interest rates as at the end of the period based on EURIBOR and these amounts may vary upon change in the market rate.

Except for these financial liabilities, it is not expected that cash flows included in the table may occur much earlier or be significantly different amounts.

The below table discloses the financial assets of the Group based on their agreed maturities and the net liquidity position of the Group:

31 December 2023

In thousands of BGN	**Carrying Amount**	**Contracted cash flows**	**Up to 1 year**	**Between 1-2 years**	**Between 2-5 years**
Non-derivative financial assets					
Cash and cash equivalents	47,224	47,224	47,224	-	-
Trade and other receivables*	31,574	31,574	22,157	4,872	4,545
Contract assets	12,984	12,984	12,984		
Receivables from related parties	74	74	74	-	-
Short-term deposits	61,068	62,034	62,034	-	-
Total financial assets	**152,924**	**153,890**	**144,473**	**4,872**	**4,545**
Net liquidity position	**102,652**	**103,531**	**95,384**	**4,434**	**3,713**

*Trade and other receivables include impairment allowance.

22. Financial instruments –(continued)

31 December 2022
In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	Between 1 - 2 years	Between 2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Liabilities to related parties	3,532	(3,532)	(3,532)	-	-	-
Finance lease liabilities	1,671	(1,674)	(1,335)	(258)	(81)	-
Trade and other payables	42,162	(42,162)	(42,162)	-	-	-
	47,365	(47,368)	(47,029)	(258)	(81)	-

31 December 2022
In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	Between 1-2 years	Between 2-5 years	More than 5 years
Non-derivative financial assets						
Cash and cash equivalents	97,602	97,602	97,602	-	-	-
Trade and other receivables*	32,042	32,042	23,290	4,654	4,096	-
Contract assets	12,876	12,876	12,876	-	-	-
Receivables from related parties	132	132	132	-	-	-
Total financial assets	**142,652**	**142,652**	**133,900**	**4,654**	**4,096**	-
Net liquidity position	**95,287**	**95,284**	**86,871**	**4,396**	**4,015**	-

*Trade and other receivables include impairment allowance.

Market Risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates or equity prices will affect the Group's income or the value of its investments. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group is exposed to currency risk on purchases and / or sales and / or being a party in loan contracts in currencies other than the functional currency - BGN. Since 1999 the exchange rate of the Bulgarian lev (BGN) is fixed to the euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0. Significant part of the transactions made in currency other than the local are in EUR and therefore the Group's exposure to currency risk is minimal.

- ***Exposure to currency risk***

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2023				**31 December 2022**		
In thousands of	EUR	GBP	USD	CZK	EUR	GBP	USD
Trade payables	(1,445)	1	-	23	(1,587)	1	-
Interest-bearing loans and borrowings	-	-	-		-	-	-
Total	(1,445)	1	-	23	(1,587)	1	-

22. Financial instruments –(continued)

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2023	**2022**	**2023**	**2022**
USD 1	1.814	1.861	1.769	1.834
GBP 1	2.267	2.295	2.2	2.205

Interest rate risk

- ***Profile***

As at the date of the statement of the financial position the interest rate profile of financial instruments is:

In thousands of BGN	**2023**	**2022**
Fixed rate instruments		
Financial assets	108,292	97,602
Financial liabilities	-	-
	108,292	97,602
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(1,762)	(1,671)
	(1,762)	(1,671)

- ***Analysis of the sensitivity versus the fair value of instruments with fixed interest rate***

The Group has not accrued financial assets and liabilities with fixed interest rate at fair value, accounted through profits and loss in the statement of comprehensive income.

A change of the interest rates by 25 basis points as at the date of financial statements would increase / (decrease) the equity and profit or loss with the amounts shown below. An assumption is made during the analysis that all other variables, especially the currency exchange rates are relatively constant. The analysis for 2023 is made on the same basis.

Effects in thousands of BGN	**Profit or loss**		**Equity**	
	25 basis points increase	**25 basis points decrease**	**25 basis points increase**	**25 basis points decrease**
31 December 2023				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(4)	4	-	-
Cash flow sensitivity (net)	(4)	4	-	-
31 December 2022				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(4)	4	-	-
Cash flow sensitivity (net)	(4)	4	-	-

22. Financial instruments –(continued)

Capital management

The Board of Directors' policy is to maintain a strong capital base, regarded as all elements of equity, so as to maintain customers', creditors' and market's confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and the level of dividends to ordinary shareholders. The parent company has formed statutory reserve through distribution of profit on the grounds of article 246 of the Commercial Act. This reserve is set aside until it reaches one-tenth or more of the capital. Sources of statutory reserves are at least one-tenth of the net profit, share premiums and funds, stipulated in the Articles of Association or approved by decision of the General Meeting of Shareholders. The statutory reserve may only be used to cover losses of the Parent company from the current and previous reporting periods. The entity has set the reserve accordingly.

There were no changes in the Group's approach to capital management during the year. As of the date of these financial statements the Group complies with all equity requirements enforced by external authorities.

In accordance with the Bulgarian Commercial Act, the Parent company as a joint stock company should maintain net assets exceeding the registered capital. As at the reporting date this capital adequacy rule is met.

(a) Accounting classifications and fair values

The table shows the balance sheet and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. Fair value information is not included if the carrying amount is a reasonable approximation of the fair value.

22. Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2023		**Carrying amount**			**Fair value**			
In thousands of BGN	*Note*	**Amortized costs financial assets**	**Financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets, not measured at fair value								
Trade and other receivables	*15*	31,574	-	31,574	-	-	-	-
Receivables from related party	*26*	74	-	74	-	-	-	-
Cash and cash equivalents	*16*	47,224	-	47,224	-	-	-	-
Short-term deposits		61,068	-	61,068	-	-	-	-
		139,940	-	139,940	-	-	-	-
Financial liabilities, not measured at fair value								
Trade and other payables	*20*	-	(44,859)	(44,859)	-	-	-	-
Payables to related parties	*26*	-	(3,651)	(3,651)	-	-	-	-
Payables on financial lease	*27*	-	1,762	1,762	-	-	-	-
		-	(46,748)	(46,748)				
31 December 2022								
Financial assets, not measured at fair value								
Trade and other receivables	*15*	32,042	-	32,042	-	-	-	-
Receivables from related party	*26*	132	-	132	-	-	-	-
Cash and cash equivalents	*16*	97,602	-	97,602	-	-	-	-
		129,776	-	129,776				
Financial liabilities, not measured at fair value								
Trade and other payables	*20*	-	(42,162)	(42,162)	-	-	-	-
Payables to related parties	*26*	-	(3,517)	(3,517)	-	-	-	-
Payables on financial lease	*27*	-	(1,671)	(1,671)	-	-	-	-
		-	(47,350)	(47,350)	-	-	-	-

22. Financial instruments (continued)

Measurement of fair value

Based on the predominantly short-term nature of the financial assets and liabilities of the Group, their cost is a reasonable approximation of their fair value as outlined in the table above.

23. Employee benefits

Postemployment liabilities represent the present value of defined benefits payable at retirement with respect to age and length of service.

In thousands of BGN	**2023**	**2022**
Present value of the liability on 1 January	2,657	2,433
Interest expense	121	95
Current service cost	1,004	576
Actuarial loss (profit)	51	(259)
Paid compensations to retired employees	(431)	(188)
Present value of the liability on 31 December	3,402	2,657

Liability recognized in the statement of financial position as at 31 December, including:	3,402	2,657
Short-term liabilities for retirement compensation	1,054	733
Long-term liabilities for retirement compensation	2,348	1,924

Expenses recognized in the statement of comprehensive income

In thousands of BGN	**2023**	**2022**
Current service cost	1,004	576
ast service cost	-	-
Interest expense	121	95

Actuarial assumptions

	2023	**2022**
Discount rate at 31 December	4%	3.75%
Salary increase (annual for 10 years)	13.7%	3.00%
Employee turnover	5.8%	5.75%

The actuarial assumptions for death rates are based on the National Statistics Institute's population mortality tables. For the purposes of the discounting effective annual interest rate i = 0.90 % is used. The selected discount rate is based on analysis of the offered long-term investment instruments on the Bulgarian financial market (government securities, municipality bonds, etc.).

23. Employee benefits (continued)

Actuarial assumptions

In thousands of BGN	25 basis points increase of salaries growth	25 basis points decrease of salaries growth
Effect on the liability for retirement compensation	31	(31)

In thousands of BGN	25 basis points increase of interest growth	25 basis points decrease of interest growth
Effect on the liability for retirement compensation	(37)	37

In thousands of BGN	10 basis points increase of employee turnover	10 basis points decrease of employee turnover
Effect on the liability for retirement compensation	(160)	160

In thousands of BGN	25 basis points increase of mortality rate	25 basis points decrease of mortality rate
Effect on the liability for retirement compensation	(27)	27

24. Contingencies

Bank guarantees

As at the date of the preparation of this report the Group maintains the following bank guarantees:
• Performance security for the obligations of Sofiyska Voda AD under the Concession Agreement with number 16708/12.21/Oper/NG, issued by BNP Paribas S.A. – Sofia Branch, to the amount of USD 750,000, and validity till December 15th, 2025;
• Performance security for the obligations of Sofiyska Voda AD under the Contract No.РД-568-68/10.08.2011 with the Municipality of Sofia for the repair of defects and damages that occurred in municipal areas where Sofiyska Voda AD performs construction works, with No MD2135510000, issued by "United Bulgarian Bank" AD, to the amount of BGN 606,000, and validity till December 31st, 2024;

25. Commitments for acquisition of property, plant and equipment

Concession agreement

On 23 December 1999 Sofiyska Voda AD signed a Concession Contract with the Municipality of Sofia, which is effective as of 6 October 2000, after all the preliminary conditions have been satisfied.

As per the Concession Contract the Municipality of Sofia grants and Sofiyska Voda AD receives:

- a specific right to use public assets;
- an exclusive right to render water supply, sewerage and wastewater treatment services within the concession area.

Sofiyska Voda AD has the right to invoice the customers and to collect the amounts for its benefit and at its expense. The risk of non-collected receivables is completely at its risk.

25. Commitments for acquisition of property, plant and equipment (continued)

The term of the concession contract is 25 years, however by signing the Fourth Amendment Agreement on 28 August 2023 the term was extended to February 2034.. The contract does not define any concession fees to be paid.

As per Annex 5 to the Initial Concession Agreement during the first 15 years Sofiyska Voda AD was obliged to reach the amount of USD 153 million of investments. After that period no further investments were specified in the Agreement.

After the Water Supply and Sewerage Services Regulation Act became effective in 2006, Sofiyska Voda's operations are directly regulated by the Energy and Water Regulatory Commission (EWRC, the Commission).

Key powers of the Commission in regulating the activities in the water supply and sewerage (WSS) services sector are as follows:

- Regulates the quality of WSS services;
- Carries out price regulation of the WSS services;
- Handles complaints of customers against WSS operators;
- Approves the general terms and conditions of contracts for the provision of WSS services to customers;
- Exercises control and imposes sanctions;
- Keeps a register of WSS services assignment contracts;
- Approves business plans proposed by the W&S operators;
- Carries out preliminary control, delivers an opinion on the compliance of concession and other types of WSS system managing contracts with WSSSRA and by-laws in the process of their preparing and the regulations for its implementation.

More precisely, what is under regulation are the prices of the services and their quality, assessed by the so-called "key- performance indicators" (KPI). In order to reach the level of services, 5-year business plans are prepared (after the 3-year business plan for the period 2006-2008), and they bind the price of the services, the investment program and the KPIs as per Ordinances and Instructions issued by EWRC.

In that relation, in January 2009 the renegotiations for amendments in the concession contract aiming to harmonize it with the requirements of the new regulations, were finalized. According to the amendments to the concession agreement, the levels of investments were to be set in the business plans, which had to be preliminarily coordinated with the Municipality of Sofia.

Business plan 2006-2008 was approved in 2007. At the end of October 2008 Business plan 2009-2013 was approved, which envisaged achieving of the compulsory levels of services and an investment program of BGN 240 million for the 5-year period. Failure to achieve at least 75% of the total of investments set in the Business plan for two consecutive years with approved prices of services or double failure to meet the levels of services, acknowledged by a penalty decree issued by EWRC and accompanied by a proposal to Municipality of Sofia (MoS) would be legal grounds for the initiation of a concession termination procedure by MoS.

Although the fact that the regulatory period 2009-2013 was extended twice in the following years as per decision of the Commission, initially until 2015 and subsequently until 2016, for the original regulatory period 2009-2013, the Parent company performed BGN 241.6 million of investments, which fulfilled The Parent company's obligation to perform investments for BGN 240 million for regulatory period 2009-2013.

On 29 March 2017 the Parent company received approval of Business Plan 2017-2021 and for new price increase of the WSS services valid as of 1 April 2017. On 18 January 2016 the Council of Ministers approved the ordinances on the regulation of the prices and the quality of the WSS services as result of which the business plans of the Parent company and the changes in the prices were approved at the same time starting from 2017. Due to this circumstance it could be expected that the Parent company would rely on a contracted tariff schedule for the current 5-year regulatory period until 2017-2021.

25. Commitments for acquisition of property, plant and equipment (continued)

According to the concession agreement, a special Concession Monitoring Unit (the "CMU") was established by the Grantor (MoS) for the purposes of monitoring and ensuring compliance by the Concessionaire with the provisions of this Concession Agreement. The Parent company cooperates with the CMU to facilitate the monitoring of the performance and the delivery of services, and prepares and submits to CMU various reports and accounts etc.

Between 54 and 48 months prior to the expected date of expire of the concession Sofiyska Voda and the Municipality of Sofia should make a joint audit of the public assets. Not later than 24 months prior to the date in question, the parties agree for the way of hand over of the assets and the activity.

As of the 15th Contractual year until the end of the period of the concession contract, Sofiyska Voda AD is due to transfer 1% of its annual distributable profit to a special "handback account". The financial result for the year ending on 31 December 2015 was the first annual profit from which The parent company distributed 1% to the special account in 2016. The money from the Handback Account may be used before the Expiry Date during the last Regulatory Period to pay for construction works only. Such works shall be identified in the Handback Schedule established in accordance with the concession contract, but may not be part of the last Business plan. The Handback Account shall be transferred to "Vodosnabdiyavane I Kanalizacia" EAD on the Expiry Date by the Concessionaire on receipt of a handback certificate issued by the Grantor to the Concessionaire. The accumulated in the special account amount covers completely Sofiyska Voda AD's liabilities with regards to Handback obligations.

Regarding the special right to use public assets and to render services of water supply, sewerage and wastewater treatment to the customers within the concession territory (service commitment), an intangible asset named "concession right" has been recognized. The carrying amount of the concession right as at 31 December 2023 is BGN 231,828 thousand from which 15,271 assets under client contracts (2022: BGN 207,520 thousand, from which 19,694 assets under client contracts).

For 2023 the investments amounted to BGN 51,625 thousand (2022: 45,867 thousand), of which BGN 47,656 thousand (2022: 16,841 thousand) are recognized as revenue from construction. From total amount of investment in size of BGN 46,257 thousand (2022: 38,762 thousand) represented investments in improvements and new public assets.

For the period since the beginning of the Concession until the end of 2023 the amount of investments made by the Parent company into the concession infrastructure is BGN 887,566 thousand.

Comparison between committed investments in the approved business plan for the period 2017 – 2021 and actual ones is disclosed in the table below, and for 2022 and 2023 the specified planned investments correspond to the values in the Business Plan for the regulatory period 2022-2026 last submitted to the EWRC.

Investments in regulated services	**2017 (in mln. BGN)**	**2018 (in mln. BGN)**	**2019 (in mln. BGN)**	**2020 (in mln. BGN)**	**2021 (in mln. BGN)**	**2022 (in mln. BGN)**	**2023 (in mln. BGN)**
Committed investments in accordance with approved Business plan 2017- 2021 and regarding Business plan 2022 – 2026	44.2	44.4	38.7	33.8	33.0	44.3	52.6
Actual investments	43.6	40.8	43.8	38.0	38.2	44.5	48.7

The above-mentioned investments for 2023 for regulated activity amount to BGN 48.7 million do not include investments for unregulated activity, as well as investments according to the Settlement Agreement, the Third Amendment Agreement and investments to compensate for the consideration for the built new water supply infrastructure with funds from the budget of the Municipality of Sofia.
Investments in regulated services, according to the latest forecasts for the first year of the next regulatory period (2023), amount to BGN 45.3 million.

Based on the above, the Group is in compliance with the investment requirements under the concession agreement and there is no ground for the Concessionaire to potentially require the termination of the concession referring to non-compliance due to lower investment than committed.

25. Commitments for acquisition of property, plant and equipment (continued)

Concession agreement (continued)

The Third Amendment Agreement to the Concession Agreement was signed in March 2018 with Municipality of Sofia. The main proposed substantial amendments are as follows:

Introducing a commitment for the Concessionaire for a minimum Investment Programme to be made until the end of the concession: BGN 209 million for the current regulatory period (2017-2021) and an additional BGN 165 million until the end of the concession in 2025, to the extent that the Business Plan and prices for the regulatory period 2022-2026, which will be approved by the Regulator, allow it.

- Setting additional investment commitment for the Concessionaire (on top of the Investment Programme) to provide an amount of BGN 1.5 million per annum for funding of specific WSS projects of public interest, specified by MoS.
- The contractual rate of return of 17 % shall no longer be protected by the Price Restriction mechanism, i.e. in case the Regulator approves a lower rate of return, there will not be an Event of Price Restriction as per Clause 22.7. Respectively, for the purposes of formation of Concessionaire's Prices for the WSS services provided, the rate of return determined by the Regulator shall be applied starting as of 2022;
- It is proposed all databases, including the customer database, as well as the assets registry and the geographic information system provided to the Concessionaire by the Grantor at the beginning of the concession to remain ownership of the Grantor. Also, all licenses for the use of intellectual property rights, product or equipment warranties or other rights or contracts in the name of the Concessionaire, shall be assigned or otherwise transferred to the Grantor at the end of the concession. Respectively, they shall be duly returned to MoS after expiry of the concession agreement.

At the end of September 2021, an official letter was sent, by which Sofiyska Voda AD and Veolia proposed the extension of the Concession Agreement (CA) due to the distorted economic balance of the concession. Following numerous working meetings and negotiations held between the parties, on 24 November 2022, the Sofia Municipal Council decided to extend the validity of the Concession Agreement until 2034 via the Fourth Amendment Agreement (FAA) to the CA. The Municipality of Sofia submitted the FAA to the CA for an opinion to the Energy and Water Regulatory Commission (EWRC) in connection with the powers of the Regulator under the Water Supply and Sewerage Services Regulation Act. On 09.01.2023, the EWRC published its opinion on the proposed FAA. All legal requirements related to the signing of the FAA were met, and the agreement on the extension of the CA is to be signed on 28 august 2023.

Accordingly, the main amendments to the Concession Agreement by means of the FAA are as follows:
• A set rate of return on equity of 13%;
• Additional investments on an annual basis at the amount of BGN 11 million;
• Binding the payment of dividends to the level of implementation of the investment program;
• a mechanism for transferring assets that are not currently being operated by the Concessionaire
• the possibility of training employees in key positions, specified by the Municipality of Sofia, in connection with the future operation of the System;
• relationship between the investment obligations of the Concessionaire and acceptance by the Regulator of the contractual rate of return on equity and the equity structure;
• waiver by the Concessionaire of possible future claims for partial restoration of the economic balance.

25. Commitments for acquisition of property, plant and equipment (continued)

Commitments for acquisition of property, plant and equipment (continued)

Business Plan 2022 – 2026

At the end of September 2021 Sofiyska Voda AD submitted to the Municipality of Sofia a draft Business plan 2022-2026. As at the end of 2022 the Municipality has not provided any opinion on the prepared document. In 2023, after the signing of the Fourth Amendment Agreement, The parent company submitted an updated Business Plan 2022-2026 to the Municipality of Sofia and, after receiving a positive opinion from the Municipality of Sofia, it was submitted to the EWRC on 7 November 2023.
As of the date of these financial statements, the submitted Business Plan 2022-2026 has not yet been approved by EWRC, and as a result, the prices for water and sewerage services for 2022 and 2023 have remained the same as those in effect in 2021.

Description of the process, status, and steps taken for challenging the rate of return on capital in the price formation and KPIs

Court case 6374/2021 was initiated by the Administrative Court of Sofia in regard to the appeal filed by the Parent company against the decision of the EWRC on setting the target levels of the KPIs for the quality of the water supply and sewerage (WSS) services in the regulatory period 2022-2026. The first court hearing was held on 14.09.2021. By its ruling dated 21.09.2021, the Administrative Court stated that no further action would be taken on the appeal of Sofiyska Voda AD in the part against item 2 of decision PK-1/28.05.2021, by which the Commission set estimated specific targets for the quality indicators of the WSS services. The ruling was appealed before the Supreme Administrative Court (SAC) where court case 10769/2021 was commenced. By its decision dated 08.12.2021, the Supreme Administrative Court (SAC) revoked the decision of the Administrative Court of Sofia and referred the case back for reconsideration under item 2 as well. The technical-economic expert opinion demanded by The parent company was allowed. By its decision dated 08.12.2022, the Administrative Court of Sofia revoked Decision No. PK-1/ 28.05.2021 of the EWRC, appealed by Sofiyska Voda, in its parts under items 1 and 2. The decision was subject to appeal. The EWRC appealed the decision and the administrative case 872/203 was commenced in the SAC. By its decision the SAC upheld the decision of the Administrative Court of Sofia. The decision of the SAC is final and is not subject to appeal.
Court case 6373/2021 was initiated by the Administrative Court of Sofia in regard to the appeal filed by the Parent company against the decision of the EWRC on setting the rate of return on equity and debt capital of Sofiyska Voda AD for the regulatory period 2022-2026. The first court hearing was scheduled for 23.11.2021 where the hearing of a court economic expert opinion was admitted. The prepared court economic expert opinion was presented and it had to be supplemented. By its decision dated 30.11.2022, the court revoked Decision HB-1/28.05.2021 of the EWRC in its parts under items 1, 1.1. and 1.2., and referred the case as an administrative file back to the EWRC for a new decision in compliance with the instructions in the court decision on the interpretation and application of the law. The decision is subject to appeal. The EWRC appealed the decision and the administrative case 932/2023 was commenced in the Supreme Administrative Court. By its decision the SAC upheld the decision of the Administrative Court of Sofia in the part where Decision HB-1/28.05.2021 of the Energy and Water Regulatory Commission, in the parts under items 1, 1.1. and 1.2., was revoked in respect of Sofiyska Voda AD, and annulled the decision of the Administrative Court of Sofia for the remainder. The decision of the SAC is final and is not subject to appeal. As a result of the legal proceeding carried out, the EWRC has to set a rate of return on equity in accordance with the reasons given in the court decisions, taking into account the specificities of the Concession Agreement of Sofiyska Voda, including the found disruption of the economic balance of the concession.

26. Related parties

Group has a related party relationship with its Parent group – "Veolia Central and Eastern Europe" (77.10% of the shares of Sofiyska Voda AD), as well as with the companies within Veolia Group and with its minority shareholder- Vodosnabdyavane i kanalizatsiya EAD (ViK) (22.9%). The ultimate parent company is Veolia Environnement S.A., France.

The related parties of the Group are the ultimate parent company and all companies under common control and key management personnel. As the minority shareholder ViK is solely owned by Sofia Municipality (MoS), thus being government-related entity, related parties are also companies, which are under the control of the same government.

The Group has performed analysis over the individually and collectively significant transactions with companies under the control of the Government, which are as follows:

- Construction revenue and expenses with MoS (please, see also note 4)
- Green energy income with National Electricity Company EAD – state-owned (disclosed in Note 4);
- Under a contract signed with NEC EAD, the latter has invoiced to Sofiyska Voda BGN 1,215 thousand (without VAT) for water that the Group has purchased and has run through NEK's plants in order for the water to reach the suburban area of Sofia. The expense is recognized in Expenses for materials – Electricity, water, heating. On the other hand, Sofiyska Voda has invoiced to NEC BGN 1,215 thousand (without VAT) due to the fact that NEC has generated electricity from the water running through their plants. The revenue has been recognized in Revenue from water supply.

The subsidiary consolidated by Sofiyska Voda AD is Water Industry Support and Education EOOD, where Sofiyska Voda AD owns 100% of the capital (2022: 100%). The subsidiary was not active during the period.

26. Related parties (continued)

The following transactions took place in 2023:

Related party	**Relation**	**Transactions during the year**	**Transaction as at 31 December 2023**		**Balance as at 31 December 2023**	
In thousands of BGN			**Revenue**	**Expenses**	**Receivables**	**Payables**
Veolia Voda CEE	Controls 77.1% of the equity	Technical services provided	-	1,497	-	2,993
Veolia Campus	Company under common control	Trainings	-	72	-	24
Veolia Ceska Republika	Company under common control	Trainings	-	1	-	-
Veolia Environnement SA, France	Company under common control	Discount	2	-	3	-
		Sequoia shares	-	542	-	294
		Trainings	-	1	-	1
		Google workplace	-	106	-	160
		Software for HR	-	24	-	37
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs	-	61	-	6
		Water meter testing cost	-	20	-	10
		Sales of material	17	-	10	-
		Garbage fee	-	1	-	1
Veolia Service Bulgaria EOOD		Re-invoicing of costs	3	11	4	6
Veolia Energy Varna Bulgaria EAD	Company under common control	Re-invoicing of costs	6	-	8	1
Veolia Energy Solutions Bulgaria EAD	Company under common control	Re-invoicing of costs	3	-	9	-
		Guarantees under contracts	-	-	-	4
		Purchase of air-conditioners	-	5	-	-
		Maintenance of air-conditioner	-	16	-	3

Related party	Relation	Transactions during the year	Transaction as at 31 December 2023		Balance as at 31 December 2023	
		SCADA monitoring	-	-	1	-
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Re-invoicing of costs	-	-	36	-
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the Group	Re-invoicing of costs	-	1	-	-
INSTITUT ENVIR SLUZEB		Trainings	-	1	-	-
KRUGER S/A		Licenses KRUGER	-	56	-	56
VEOLIA CHINA HOLDING LIMITED		Licenses	-	3	-	3
VEOLIA HOLDING CESKA REPUBLIKA		Trainings	-	52	2	52
		Total:	**31**	**2,469**	**74**	**3,651**

26. Related parties (continued)

The following transactions took place in 2022:

Related party	**Relation**	**Transactions during the year**	**Transaction as at 31 December 2022**		**Balance as at 31 December 2022**	
In thousands of BGN			**Revenue**	**Expenses**	**Receivables**	**Payables**
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided	-	1,500	-	2,996
Veolia Campus	Company under common control	Trainings	-	66	-	50
Veolia Environnement SA, France	Company under common control	Discount	3	-	1	-
		Sequoia shares	-	236	-	-
		Google workplace	-	129	-	118
		Cyber security	-	20	-	20
		Software for HR	-	37	-	13
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs	-	61	-	12
		Water meter testing cost	-	1	-	-
		Sales of material	1	-	5	-
		Garbage fee	-	1	-	1
Veolia Service Bulgaria EOOD		Re-invoicing of costs	1	-	1	-
Veolia Energy Varna Bulgaria EAD	Company under common control	Re-invoicing of costs	-	1	-	1
		Income from re-invoicing of cost	2	-	3	-
Veolia Energy Solutions Bulgaria EAD	Company under common control	Maintenance of air-conditioner	-	14	-	12
		Installation of cooling system	-	7	-	-

Related party	Relation	Transactions during the year	Transaction as at 31 December 2022		Balance as at 31 December 2022	
		Purchase of air-conditioners	-	14	-	17
		SCADA monitoring	3	-	1	-
		Re-invoicing of costs	13	-	13	-
		Installation and dismantling of heat and cold meters	5	-	-	-
		Work clothes	-	1	-	-
		Cost of design	-	2	-	-
		Income from design	55	-	66	-
			-	-		12
SAD S.A. - KLON BALGARIA	Company under common control SAD S.A. - KLON BALGARIA	Re-invoicing of costs	30		36	
				-		-
KCHT	KCHT	Sale of materials -	-	-	5	-
DZZ Zona 2015	owns 50% of the capital of the Group	Re-invoicing of costs	1		1	
				2		-
		Trainings	-		-	
INSTITUT ENVIR SLUZEB				6		-
		License	-		-	
VEOLIA ENERGIA POLSKA S.A.				272	-	272
KRUGER S/A		Hubgreat update	-			
		Total:	**114**	**2,370**	**132**	**3,512**

26. Related parties (continued)

Transactions with directors and officers on key management personnel:

The Group has relationship of a related party with directors and officers on key positions. The total amount of the accounted remunerations included in personnel expenses and in hired services are as follows:

The remunerations for the key managers consist of:

In thousands of BGN	**2023**	**2022**
Short-term employee benefits	583	529
Share-based payment	-	-
	583	529

In thousands of BGN		
Of which on balance sheet short-term income as at 31 December	43	40

In 2023 the Group has incurred expenses amounting to BGN 1,497 thousand for technical services (2022: BGN 1,500 thousand), which include also the remunerations for key management personnel provided. The services are rendered by Veolia Voda CEE and the expenses are disclosed as part of the transactions with this related party in the information above.

27. Leases

(a) Leases as lessee (IFRS 16)

The Group leases buildings, office space and warehouses, IT server locations, vehicles and other equipment. The leases typically run for several years, and some have an option to renew the lease with one year after the end date. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group leases IT equipment with contract terms from one year to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

See material accounting policy in Note 3.
Information about leases for which the Group is a lessee is presented below.

(i) Right-of-use assets

Right-of-use assets related to equipment and leased properties that do not meet the definition of investment property are presented below:

In thousands of BGN	**Office rent and other**	**Vehicles**	**Total**
2023			
Balance at 1 January 2023	1,573	646	2,219
Depreciation charge for the year	(1,589)	(306)	(1,895)
Depreciation of disposals with right of use		14	14
Depreciation on disposals	1,732	-	1,732
Disposals	-	(14)	(14)
Balance at 31 December	**1,716**	**340**	**2,056**

27. Leases (continued)

In thousands of BGN	**Office rent and other**	**Vehicles**	**Total**
2022			
Balance at 1 January 2022	2,797	1,069	3,866
Depreciation charge for the year	(1,409)	(424)	(1833)
Depreciation on disposals	321	-	321
Disposals	(136)	-	(136)
Balance at 31 December	**1,573**	**645**	**2,219**

(ii) Lease liabilities

In thousands of BGN	**2023**	**2022**
Maturity analysis – contractual undiscounted cash flows		
Less than one year	579	1,335
One to five years	1,270	339
More than five years	-	-
Total undiscounted lease liabilities at 31 December	**1,849**	**1,674**
Lease liabilities included in the statement of financial position at 31 December	1,762	1,671
Current	544	1,333
Non-current	1,218	338

(iii) Amounts recognised in profit or loss

In thousands of BGN

	Note	**2023**	**2022**
Leases under IFRS 16			
Interest on lease liabilities		(36)	(2)
Depreciation of right of use assets	*12*	(1,895)	(1,833)
Expenses relating to short-term leases	*7*	(9)	(8)

(iv) Amounts recognised in statement of cash flows

In thousands of BGN	**2023**	**2022**
Total cash outflow for leases	1,682	1,882

(v) Extension options

Some leases contracts contain extension options exercisable by the Group. In such cases, for contracts which expire within one year of the reporting date, the Group has assumed and extension of up to one year. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

28. Subsequent events

There are no events occurring after the date of the reporting period, which require adjustments or additional disclosures to the annual consolidated financial statements.

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This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian original shall prevail

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sofiyska Voda AD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Sofiyska Voda AD (the Parent Company) and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Unbilled revenue from water supply, sewerage and wastewater treatment services *See Notes 3 (k) and 4 to the consolidated financial statements* The Group's main revenue streams are related to the water supply, sewerage and wastewater treatment services. The Group recognized revenue of BGN 186,801 thousand from these services for the year ending December 31, 2023, of which BGN 12,984 thousand representing unbilled revenue. Revenue is generally recognized based on periodic meter readings. The amount of recognized revenue for the year includes an estimate of consumption for the period between the date of the last meter reading and the reporting date. Developing the estimate of unbilled revenue requires significant management judgement and is based on assumptions of daily consumption, mainly based on historical patterns. Due to the significance of the circumstances set out above that: (a) the process of recognition and estimation of the unbilled revenue as of the year end assumes significant judgment, inherent high degree of uncertainty related to assumptions and specific model calculations by the management; and (b) the significance of the reporting item itself for the consolidated financial statements of the Group, as noted above, we have considered this matter as a key audit matter.	*In this area, our audit procedures included, among others:* • Inquiries and obtaining of an understanding of the Group's process of unbilled revenue estimation and recognition. • Assessment of the adequacy and the consistency of application of the revenue recognition policy of the Group in terms of unbilled revenue and associated contract assets. Our audit procedures included also testing the adequacy of the adopted accounting policy for revenue recognition in accordance with the applicable standards. • Review and assessment of the adequacy and the consistency of application of the methodology used by the Group for measurement of the unbilled revenue. • Assessment of design and implementation of key controls over the unbilled revenue recognition process of the Group. Based on the procedures set out above, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the recognition and measurement of unbilled revenue: • Analysis and assessment of the adequacy of management assumptions based on: o Tracing the development of the historical information for the subsequently invoiced during the year, accrued but unbilled revenue as of prior year end, including recalculation of the expected unbilled revenues as of the end of 2023 based on this observed development and comparison to the reported by the Group; o Tracing the actual invoiced amounts in January and February 2024 to the amounts of accrued unbilled revenue as of December 31, 2023; • Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to revenue, including unbilled revenue and contract assets.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of trade receivables and contract assets *See Notes 3 (b), 4.B, 15 and 22 to the consolidated financial statements* The Group recognizes trade receivables and contract assets – unbilled receivables with a gross carrying amount of BGN 57,822 thousand and respectively BGN 12,984 thousand as at December 31, 2023 and accumulated loss allowance is at the amount of BGN 26,176 thousand, as disclosed in Note 4.B and Note 15. The Group applies the simplified approach for expected credit losses (ECL) in accordance with the requirements of IFRS 9: Financial Instruments. Within the application of the simplified approach lifetime expected credit losses on trade receivables and contract assets are estimated without prior identification of significant increases in credit risk. The determination of loss allowance for trade receivables and contract assets, within the application of this model, requires Group's Management to exercise a significant degree of judgment, with respect to measuring the expected credit losses. The key inputs and areas of judgement in the assessment of ECL are related to the estimates of relevant loss rates (recoverability), discount rates and including forward looking information (FLI) of macro-economic factors in the determination of the estimates of ECL. Due to the significance of the circumstances set out above that: (a) the process of determining the loss allowance for trade receivables and contract assets – unbilled receivables, assumes judgments, inherent high degree of uncertainty related to assumptions and specific model calculations of the losses by the management; and (b) the significance of the reporting item itself for the consolidated financial statements of the Group, as noted above, we have considered this matter as a key audit matter.	*In this area, our audit procedures included, among others:* • Inquiries and obtaining an understanding of the Group's process of determining the credit loss allowances for trade receivables and contract assets – unbilled receivables. • Inspection and review of internal policies, and procedures related to the process of determining the credit loss allowances. Inquiries with Group's modelling and credit risk management experts. • Review and assessment of the adequacy and the consistency of application of the methodology and model used by the Group to calculate allowances for credit losses under trade receivables and contract assets – unbilled receivables. • Assessment of design and implementation of key controls over the credit loss allowance estimation process. Based on the procedures set out above, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the accrued credit loss allowances on trade receivables and contract assets – unbilled receivables: - Analysis and assessment, together with the credit risk experts part of the audit team, of the adequacy of management judgments in relation to expected recoveries in the context of the specifics of customer types and the availability of internal historical and forward-looking information for the future collectability development; - Analysis and assessment of the appropriateness of the calculation for the relevant recovery rates and discount rates by examining supporting information for key assumptions used and input data; - Independent recalculation of the credit loss allowance on trade receivables and contract assets – unbilled receivables as at December 31, 2023. - Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to the loss allowances on trade receivables and contract assets.

Key audit matter	*How our audit addressed the key audit matter*
Commitments under service concession arrangement and impairment of non-current assets *See Notes 3 (d), 13 and 25 to the consolidated financial statements* As disclosed in Note 1 and Note 25, the Parent Company is a party to a concession agreement with the Municipality of Sofia ("the Grantor"), under which it has been granted the right to use public assets, such as water supply and sewerage infrastructure. The agreement also gives the Parent Company an exclusive right to render water supply and sewerage services within the concession area. The said service concession agreement and related regulatory requirements, impose on the Parent Company an obligation to implement specific investment projects through an approved business plan, as also discussed in Note 25, as well as to achieve certain key performance indicators. In case of incompliance of the Parent Company with the investment requirements under the concession agreement, the Concessionaire can potentially require the termination of the concession referring to non-compliance due to lower investment than committed. The concession agreement is subject to the reporting and accounting requirements of IFRIC 12: Service Concession Agreements, under which an intangible asset – concession right is recognized. The intangible asset – concession right represents a material part (86%) of the total non-current assets of the Group. In 2023 is concluded fourth amendment agreement to the concession contract, which has effect over the expected future cash flows of the Group. Respectively, as at December 31, 2023, the Group has tested its intangible assets, as well as property, plant and equipment for impairment, as required by the relevant financial reporting standards. The impairment test was performed by reference to the recoverable amount of the Group's sole cash generating unit ("CGU"). The determination of the recoverable amount requires making a number of complex assumptions and judgements, in particular	***In this area, our audit procedures included, among others:*** - Inquiries and obtaining an understanding of the Group's process for compliance with regulatory and concession requirements; the process for incorporation of these requirements into the model for assessment of the recoverable amount of property, plant and equipment and intangible assets; - Assessment of the adequacy and consistency of the application of the methodology for identification of impairment and its estimation. Our audit procedures included also testing the adequacy of the adopted accounting policy for reporting of the concession agreement in accordance with IFRIC 12: Service concession agreements. - Inspection and review of internal policies, and procedures related to the process of concession and associated regulatory requirements compliance. - Review and assessment of the adequacy and the consistency of application of the method applied by the Group to estimate the recoverable amount of property, plant and equipment and intangible assets, including concession right. - Assessment of design and implementation of key controls over the impairment testing process. Based on the procedures set out above, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the reporting for the commitments under the concession agreement and the determination of the recoverable amount of property, plant and equipment and intangible assets, including concession right: - Inspection and review of minutes of meetings of Parent Company's Board of Directors, specifically focused on the investment projects' progress and Parent Company's business plan; - Inquiries of the Group's legal advisors and inspection of their formal responses to our audit inquiries, with an aim to identify any contingent liabilities (e.g. penalties) as of the reporting date arising from the service concession arrangement; - Inspection of the registers of official communication with the Commission for Energy and Water Regulation, with an aim to

those relating to grouping of assets into CGUs, discount rates used and estimated future cash flows. Due to the significance of the circumstances set out above that: (a) the impairment assessment assumes a number of judgments, inherent high degree of uncertainty related to assumptions and specific model calculations; and (b) the significance of the commitments under the concession agreement and the reporting requirements for service concession agreement as a whole to the consolidated financial statements of the Group, we have considered this matter as a key audit matter.	identify additional matters, which have to be considered in the reporting of any contingent liabilities as of the reporting date, as well as in the impairment testing of property, plant and equipment and intangible assets, incl. concession right; - Analysis and assessment of the adequacy of the Group's discounted cash flow model against the requirements of the relevant financial reporting standards, market practice, concession contract terms, as well as assessment of its internal consistency; - Evaluation of the quality of the Group's forecasting by comparing historical projections with actual outcomes; - Analysis and assessment together with the valuation experts part of the audit team, of the adequacy of the management judgements in relation to: o future prices and expected sales and operating costs – by reference to the business plan, and the Group's internal documents, such as budget and forecasts; o key macroeconomic assumptions, such as discount rates and inflation rates – by reference to publicly available external sources. o Assessment of the susceptibility of the impairment model and the resulting impairment conclusion to management bias, by challenging the Group's analysis of the model's sensitivity to changes in key underlying assumptions. - Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to the concession reporting, impairment testing of property, plant and equipment, intangible assets, incl. concession right and related commitments and contingencies.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2023.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The Executive Directors ("Management") are responsible for the other information. The other information comprises the consolidated report on the activities and the consolidated non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and the Audit Committee("Those charged with governance") are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters Required to be Reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon*, with respect to the consolidated report on the activities and the consolidated non-financial declaration, we have also performed the procedures, together with the required under ISAs, in accordance with the Guidelines regarding new extended reports and communication by the auditor of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act, applicable in Bulgaria.

Opinion under Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the consolidated report on the activities for the financial year for which the consolidated financial statements have been prepared, is consistent with the consolidated financial statements.
- The consolidated report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100m, paragraph 7, p. 2 of the Public Offering of Securities Act.
- The consolidated non-financial declaration, covering the financial year for which the consolidated financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Reporting in Accordance with Art. 10 of Regulation (EU) No 537/2014 in Connection with the Requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Deloitte Audit OOD was appointed as a statutory auditor of the consolidated financial statements of the Group for the year ended December 31, 2023 by the general meeting of shareholders held on January 26, 2024 for a period of three years.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2023 represents first total consecutive statutory audit engagement for that group carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Parent Company's Audit committee on March 29, 2024, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Deloitte Audit

Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Sylvia Peneva
Statutory Manager
Registered Auditor, in charge of the audit

4, Mihail Tenev Str.
1784 Sofia, Bulgaria

March 29, 2024