

ANNUAL ACTIVITY REPORT

SOFIYSKA VODA AD

31 DECEMBER 2019

Financial review:

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

In 2019 the company's revenue from main charges amounted to BGN 174.3 M, which was by 9.82% higher than the revenue from main charges in the same period of the previous year – BGN 158.7 M. The main reason is the increase in the price as of 1 January 2019 by 9.63%. The Company's total revenue for 2019 amounted to BGN 206.2 M (BGN 191.2 M in the same period of 2018). The revenue from construction in 2019 amounted to BGN 30.6 M (BGN 31.5 M in 2018). The breakdown of revenues by types of services is presented in Note 4 of the financial statements.

The cogeneration installation in Kubratovo WWTP, commissioned at the end of 2009, addressed the plant's demands in 2019 for power supply predominantly.

The Company's operating costs in 2019 amounted to BGN 163.8 M (2018 – BGN 154.8 M). This amount includes BGN 30.6 M for construction costs, which resulted from the application of IFRIC 12 and these costs offset the construction revenue mentioned above.

The depreciation and amortization costs in 2019 amounted to BGN 50 M. The value is higher than the one reported for 2018 (BGN 42.6 M), which is mainly due to the higher number of commissioned assets and the depreciation of the "Concession Right" asset until the end of the concession, whose period shortens every year.

The interest charges during the year were in line with the budgeted by the Company.

The net financial costs for 2019 were by BGN 1.396 K less than the ones reported for the same period of 2018, which is due to the effect of the lower interest rates under the long-term financial liabilities of the Company, as result of their renegotiation.

As a result of the above factors, the profit after tax for 2019 amounted to BGN 36.5 M as compared to BGN 30.07 M for the same period of 2018.

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 detail in Note 22 Financial instruments to the separate financial statements.

Signed significant contracts:

Contract No.	Subject of the contract	Contractor	Start Date	End Date	Value, VAT excluded
8426	24-hour, daytime and overnight security officers, intrusion detection systems and patrol cars	AS Scorpio Ltd.	31.10.2019	31.10.2024	16,800,000.00
8284	Emergency maintenance and civil works for around 30% of the water network on the territory of the Municipality of Sofia	Galchev Engineering EOOD	10.06.2019	10.10.2021	12,000,000.00
8146	Financing the purchase of motor vehicles and equipment through finance lease	UBB Interlease EAD	09.01.2019	09.01.2023	10,543,000.00
8147	Financing the purchase of motor vehicles and equipment through finance lease	Raiffeisen Leasing Bulgaria EOOD	22.01.2019	22.01.2023	10,543,000.00
8177	Implementation of investment projects for the sewer network, including reconstruction of parts of the water network – South Zone	Gelak Ltd.	31.01.2019	31.01.2022	10,500,000.00
8178	Implementation of investment projects for the sewer network, including reconstruction of parts of the water network – North Zone	Galchev Engineering EOOD	31.01.2019	31.01.2022	10,500,000.00
8156	Implementation of investment projects for the water network on the territory of the Municipality of Sofia – Zone 1	Vodoprovodi Sofia 2018 DZZD – Gelak Ltd., SADE company, and Garantstroy Complect AD	21.01.2019	21.01.2022	6,000,000.00
8157	Implementation of investment projects for the water network on the territory of the Municipality of Sofia – Zone 3	Raicommerce Construction EAD	21.01.2019	21.01.2022	6,000,000.00
8182	Implementation of investment projects for the water network on the territory of the Municipality of Sofia – Zone 2	Galchev Engineering EOOD	05.02.2019	05.02.2022	6,000,000.00
8201	Printing and delivery of vouchers for social benefits	Tombou Bulgaria OOD	22.08.2019	21.08.2022	3,727,080.00
8433	Sludge transportation	DLV EOOD	31.10.2019	31.10.2021	2,842,000.00
8192	Printing and delivery of food vouchers	Sodexo Pass Bulgaria EOOD	08.03.2019	07.03.2022	2,570,400.00
8227	Non-cash purchase of fuels from one chain of petrol stations	Petrol AD	03.04.2019	02.04.2021	2,500,000.00
8427	Implementation and warranty support of an information system for planning, management and optimization of the resources of Sofiyska Voda (ERP)	Stemo Ltd.	29.10.2019	29.10.2021	2,495,626.00
8392	Water meter reading on the territory of the Municipality of Sofia	Techem Services EOOD	20.09.2019	20.09.2020	2,091,116.00
8193	Supply of reagents (flocculants-polyelectrolytes)	Continvest Ltd.	22.02.2019	23.04.2020	2,060,000.00
8300	Supply of multi-layer PEHD pipes for open laying without sand embedding	HTI Bulgaria EOOD	25.06.2019	25.06.2020	1,700,000.00
8151	Supply of flange stop valves	Consortium NMG vodni sistemi – NMG International and Pro Arm EOOD	18.01.2019	18.03.2021	1,600,000.00
8322	Supply and maintenance of a special sewer cleaning vehicle with continuous water recycling system	Euromarket Construction AD	15.07.2019	15.07.2024	1,068,000.00

Signed related party transactions:

On 1 November 2018 two contracts were signed with ViK EAD for rent of real estates: single-family 3-floor residential building with an attic and 1- floor building with garages and warehouse premises in the Sanitary Restricted Area (SRA) of Beli Iskar dam and a terrain in the SRA of *Seminariyata* Reservoir, Municipality of Sofia – Lozenets Region.

Signed contracts during the year under art.240b of the Commercial Act

Under art.240b of the Commercial Act the members of boards shall be obliged to inform in writing the board of directors, respectively the managing board, when they or their related persons conclude contracts with the company beyond its usual activity or substantially depart from the market requirements.

The Board Members did not sign any contracts under art.240b of the Commercial Act during the year.

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 issuer 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 substantial for the financial position of the issuer:

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

- Performance guarantee of Sofiyska Voda AD under the Concession Agreement with number PEBPRT593268, issued by HSBC France, to the amount of \$750,000 and validity until 15 December 2020;
- Performance guarantee of Sofiyska Voda AD under Contract No.ПД-568-68/10.08.2011 with the Municipality of Sofia for repair of defects and damages that have occurred in municipal property sites where Sofiyska Voda AD carries out construction works, with No.799 L/11.12.2017, issued by Expressbank AD, to the amount of 400,000 BGN and validity until 31 December 2020.

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 in the amount of 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, as the terms under them are specified, including the deadlines for repayment, as well as information about the provided guarantees and commitments

As at 31 December 2019 Sofiyska Voda AD has concluded a loan agreement with Expressbank and UBB AD. The nominal interest rate as per contract is 1.35% plus 3-month EURIBOR. According to the repayment schedule, the loan should be fully repaid in 2022.

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

<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 borrowers, including provision of guarantees of any kind, including to related parties, as the terms under them are specified, including the deadlines for repayment and the objective for which they have been granted:

As at 31 December 2019 Sofiyska Voda AD has no concluded loan agreements as a lender or borrower with companies from the Group.

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

<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 Company 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 2017 – 2021 Business Plan of the Company. The implementation of the investment program provided for in the Business 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 issuer and its business group have occurred.

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.

Sofiyska Voda AD has developed its internal control system based on the best accounting 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 (Process of Enterprise Risk Assessment);
- 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 (Ongoing monitoring of the controls).

These components are also stated in the International Standard on Auditing (ISA) 315, Appendix 2 – Internal Control Components.

The control environment sets the tone of an entity, by influencing the control consciousness of people within an 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.

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

- Ethics Guide of Veolia Group (adopted by SV in 2014, last updated in December 2018);
- Internal Regulations of Sofiyska Voda AD;
- Disclosure Policy of Sofiyska Voda;
- User Charter for the Ethics Alert Process within Veolia;
- Policy on Gifts (the so-called "Hospitality")
- Conflicts of Interest Policy
- Anti-Fraud Policy, which is supported by:
 - Fraud Investigation Procedure;
 - Anti-Corruption telephone line (+359 2 8122 521, published on SV official website www.sofiyskavoda.bg);
- Accounting Policy;
- Procedure on closure of the accounts;
- Instruction on receiving, accounting and paying invoices from suppliers;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets;
- Procedure on Human Resources Management;
- Procedure on Employee Performance Management.

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 a Risk Management Policy and supported by Risk Management Procedure, which describes the methodological approach for the identification, measuring, controlling and subsequent monitoring of these 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 company applies a unified approach in risk assessment and risk management in all fields of its activity.

All employees are given a clear message from 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 with third interested parties such as customers, suppliers, regulators and shareholders is in place.

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 Department is in charge of the information exchanged with the Municipality of Sofia, EWRC and other institutions. The relations with the 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 exchange of information both inside and outside the company.

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 as approvals, authorization, verification, approval, 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 – the internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. 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 separate evaluations depend on the risk assessment and the efficiency of ongoing monitoring procedures.

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

The audit committee of Sofiyska Voda is created and operates (including by implementing its obligations for monitoring regarding financial reporting) under the Independent Financial Audit Act.

Internal auditors play an important role in evaluating the effectiveness of the control systems, and contribute to 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 at 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 is provided for each individual procedure:

Legal case 4041/2017 of Administrative Court Sofia City was initiated in 2017. The case was started under an appeal of a prosecutor from the Supreme Administrative Prosecutor's Office and a group of citizens against EWRC Decision No. БП-ІІ-1/29.03.2017, whereby the business plan of the company was approved as well as the prices of WSS services for regulatory period 2017 – 2021. The Administrative Court of Sofia City issued a ruling on the case, whereby it did not uphold the appeal. The Supreme Administrative Prosecutor's Office filed a cassation appeal, under which Case No. 5891/2019 was initiated with the Supreme Administrative Court, scheduled for consideration on 13 July 2020.

General Assembly:

On 4 June 2019 the Annual General Assembly of the shareholders of Sofiyska Voda AD was conducted. During the general assembly the following decisions were taken:

1. The consolidated report on the activity of Sofiyska Voda AD for 2018 and the consolidated annual financial statements of the Company for 2018 were approved;
2. The report on the activity of Sofiyska Voda AD for 2018 and the separate annual financial statements of the Company for 2018 were approved;
3. The report on the activity of the Audit Committee of Sofiyska Voda for 2018 was approved;
4. The General Meeting of Shareholders extended the term of office of the Audit Committee of Sofiyska Voda AD by 2 (two) years.
5. The General Meeting of Shareholders resolved not to distribute the profit of Sofiyska Voda AD for 2018.
6. The General Meeting of Shareholders released from responsibility the members of the Board of Directors of Sofiyska Voda AD for their activity in 2018.

Within the statutory deadline the Company disclosed the separate and consolidated financial statements and reports on the activity under its file in the Trade Register with the Registry Agency.

On 6 December 2019 an extraordinary General Meeting of Shareholders of Sofiyska Voda AD was held. The following decision was made at it:

KPMG Audit OOD, UIC 040595851, registered under No.45 in the Institute of the Chartered Accountants, was appointed as the auditor to verify and certify the separate and consolidated statements of Sofiyska Voda for the financial year 2019.

Board of Directors:

In 2019 there was no change in the Board members of the Company.

The Board of Directors of Sofiyska Voda consists of 7 members:

Mr. Francois Michel Debergh, Mr. Frederic Laurent Faroche; Mrs. Mariana Georgieva Iteva, Mr. Vasil Borisov Trenev, Mrs. Milena Staykova Tsenova, Mr. Vladimir Georgiev Stratiev, and Mr. Biser Nikolaev Damyanovski.

In 2019 the company 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 2019 were 284,000 BGN (2018: 722,000 BGN), from which the unpaid amount as at the reporting data was 25,000 BGN (31.12.2018: unpaid 25,000 BGN). The income of the Board members in the period are as follows: Mr. Vladimir Stratiev, Mr. Biser Damyanovski and Mrs. Milena Tsenova – 24,000 BGN each; Mrs. Mariana Iteva – 29,000 BGN, and Mr. Vasil Borisov Trenev – 183,000 BGN.

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

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

In 2019 the Board Members participated in the management of other companies, registered in the Trade Register with the Registry Agency or entities, or commercial proxies, managers or board members of companies, registered in the Trade Register with the Registry Agency, 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 of and held more than 25% of the capital of INTERTRADE CONSULT EOOD, UIC: 201824172;
3. Vasil Borisov Trenev managed and held more than 25% of the capital of GAZPROM BULGARIA EOOD UIC 131467679;
4. François Michel Debergh participated in the management of Veolia Energy Bulgaria EAD, UIC: 121371700, VEOLIA ENERGY SOLUTIONS BULGARIA, UIC: 130547859, Veolia Services Bulgaria, UIC 121371700.

The Board Members did not sign any contracts under art.240b of the Commercial Act during the year.

Acquired and transferred shares:

In 2019 the Company had not acquired or transferred own shares.

Research and development

Sofiyska Voda AD does not carry out research and development.

Business Plan:

In 2019 the annual commitments of the company set in the Business Plan 2017-2021 were fulfilled. Detailed information in relation to the implementation of the main lines of the Business Plan, such as: size of the realized investments in 2019, quality of potable water, commercial and operational issues etc., is presented in the other parts of the present report.

With its Decision dated 28.12.2018, EWRC approved the new price of the WSS services for 2019, effective as of 01.01.2019. The increase in the price of the WSS services for 2019 compared to the effective prices of the WSS service for 2018 is 9.63%.

During the reporting period (2019) the company reported good results as regards the main aspect of the activity, as the efforts were directed towards maintaining its operational efficiency and achieving the key efficiency performance indicators for 2019, whose failure to meet could lead to a reduction of the price of the WSS services for 2021. At the end of December 2019, EWRC published a “Comparative Analysis of the WSS Sector in the Republic of Bulgaria for 2018”. The analysis confirms the leading position of Sofiyska Voda AD in the WSS sector in the country.

Over the period 14.10.2019 – 18.10.2019 the EWRC conducted the traditional annual audit of the company. The focus of the audit was on the quality of the provided reporting data for 2018, as well as the implementation of the recommendations of the EWRC for the introduction of databases and registers. The Statement of Findings under the audit, prepared by the EWRC, was handed over at the end of December. Full compliance with the recommendations of the EWRC and the legal requirements was ascertained in the report in connection with the establishment of databases and registers. The information provided by the company was assessed with the highest possible score – 1.

The company ended 2019 complying with all 5 key efficiency performance indicators. The achievement of the levels set for 2019 means that there is no risk of reduction of the price of the WSS services for 2021 already determined by EWRC.

Events following the reporting date:

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Bulgarian government declared a state of emergency on 13 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Bulgarian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the ‘lock-down’ of certain industries, pending further developments. In particular, airlines and railways suspended international transport of people, schools, universities, restaurants, cinemas, theaters and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. Some businesses in Bulgaria have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Bulgaria with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Bulgaria and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Company operates in water supply sector that has not been significantly affected by the outbreak of COVID

19 and over the last 3 months the Company realized relatively stable sales and its operations including supplies were uninterrupted. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak

and its expected impact on the Company and economic environment, in which the Company operates, including the measures already taken by the Government.

On March 2020 the Bulgarian government announced a State aid program to counter the negative effects of the outbreak of COVID -19 on the economy. The Company assessed that the state aid program has indirect effect on the Company by improving the financial stability of its clients.

In order to safeguard uninterrupted operating activities and the Company's liquidity position, management has implemented a number of measures, which notably include implementation of work from home program on a rotational basis for a significant group of administrative employees as well as employees in sales and procurement departments.

In respect of the supply chain the management does not foresee significant problems. The main areas which might be potentially affected relate to delivery of chemicals used in the water supply services if the suppliers experience any difficulties caused by COVID 19 and the suppliers for constructions service, which are engaged by the Company for fulfilment of the Company's investment program if such type of work is stopped by the official measures of the government and or the Municipality of Sofia. At the time of approval of these financial statements for publishing the management assesses the risk as remote. Additionally the management considers that if the official measures of the government hinder the Company to fulfil its annual investments obligation, the Company could request from the Regulator to extend the period for completion of the investments planned in the business plan of the Company.

In respect of sales the management consider that there is not risk for significant decrease in sales but it observes that the sales to individuals increase and the sales to legal entities decrease with slight decrease in the total sales as at the end for May 2020. Additionally the management considers direct effect of the situation with COVID 19 would be increase in delay in payments by customers. The management estimated that the potential decrease in the annual collectiton rate might be in the range of 6% to 8%. But the management considers that this effect will not deteriorate the ability of the Company to meet its normal business obligations including scheduled instalments of bank loans.

Information about services provided by the independent auditor:

The expenses on the remuneration of the appointed independent auditor amounted to 120 thousand BGN, of which 60 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 Company, the following services:

- **Statutory financial audit required by law of the Company's financial statements, prepared for the year ending 31 December 2019 in compliance with the IFRS adopted by EU;**
- Audit of financial information for consolidation purposes of the Company, prepared as at and for the year ending 31 December 2019, in compliance with the accounting instructions of Veolia Group;
- Limited review of the interim financial information for consolidation purposes of the Company, prepared as at and for the period ending on 30 June 2019, 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 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 System for Regulatory Reporting (SSRR), pursuant to the published by 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 EWRC in connection with USRR and art. 15 and art. 16 of the WSSSRA.

Customer Service:

Over the past year the company implemented additional innovations for its customers' convenience, such as an option to connect with us through the social networks (Facebook, Skype open line calls only, and grajdanite.bg).

Throughout the entire 2019 we continued to work in the direction of resource optimization, in order to offer quality service within the shortest possible time. The objective the company had set itself for the year in the customer service area and which it implemented successfully, is to additionally optimize the average response time for registered written correspondence to 8 calendar days, a term considerably shorter than the stipulated in art. 58 (2) of the General Terms and Conditions (14 calendar days). The average response time to online inquiries was also reduced to 8 hours. To increase customer satisfaction, Sofiyska Voda AD expanded its portfolio of offered services, namely:

- management of the water consumption through the use of “smart water meters”;
- online change of the account holder.

In the middle of 2019 Sofiyska Voda AD adopted the Customer Charter and became the first WSS operator in Bulgaria to have specific commitments for improvement of the quality of the services, exceeding the requirements set in the statutes. The document is an overview of the company values, as well as its assuming of specific responsibilities to the customers.

In the last quarter of the year the company introduced two new measures for evaluating the overall “customer experience” in the process of making inquiries, demands, complaints etc.

- Evaluation of the efforts, or “How difficult is it to work with Sofiyska Voda AD”;
- Evaluation of loyalty, or “How likely is it for you to recommend Sofiyska Voda AD”.

“Customer experience” aims at showing how our customers perceive through all interactions they have with the company 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.

Interactions with customers

The overall number of contacts with customers in 2019 increased and it was 8.4% higher compared to 2018, as the increased number of calls at the Call Center contributes to it the most– 543,447 received calls, which were 11.3% more in comparison with the previous year. Despite the increased number of calls, the key performance indicators are within the set target levels. The percentage of the missed calls was 2%; the service level (phone calls with received answers in less than 30 seconds) was 91%, the average time, which the customers were waiting in the queue, was 5 seconds.

The number of the complaints from all communication channels decreased by 3%.

Customer Service Centers

In 2019 the total number of visits (excluding for payments) at the customer service centers (CSC) was 131,055 which was by 2.6% less compared to the previous year. The number of the payments at the CSCs decreased by 17.5% in view of the existing network of various payment channels, incl. the upward trend for digital and non-cash payments.

Internet Services

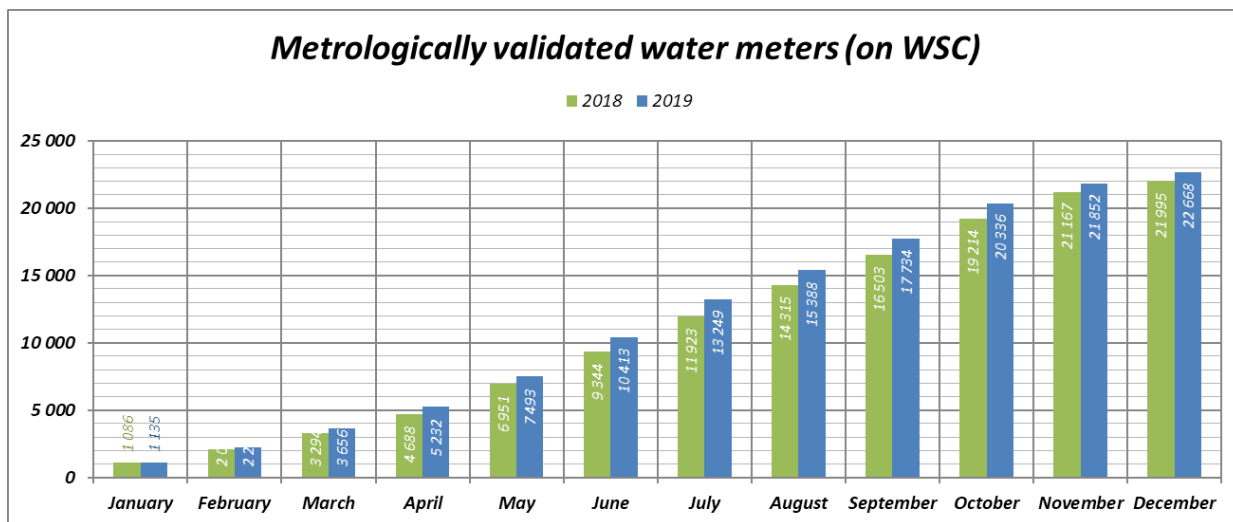
2,131,989 visits to the web site were registered in the period January – December 2019 and 146,291 self-readings by customers were submitted in 2019 compared to 125,198 in 2018.

The enquiries received through the website in 2019 were 9,575 and 8,792 required a response, which was 26.25% more compared to the previous year. All answers were sent within 24 hours from the receipt of the enquiry.

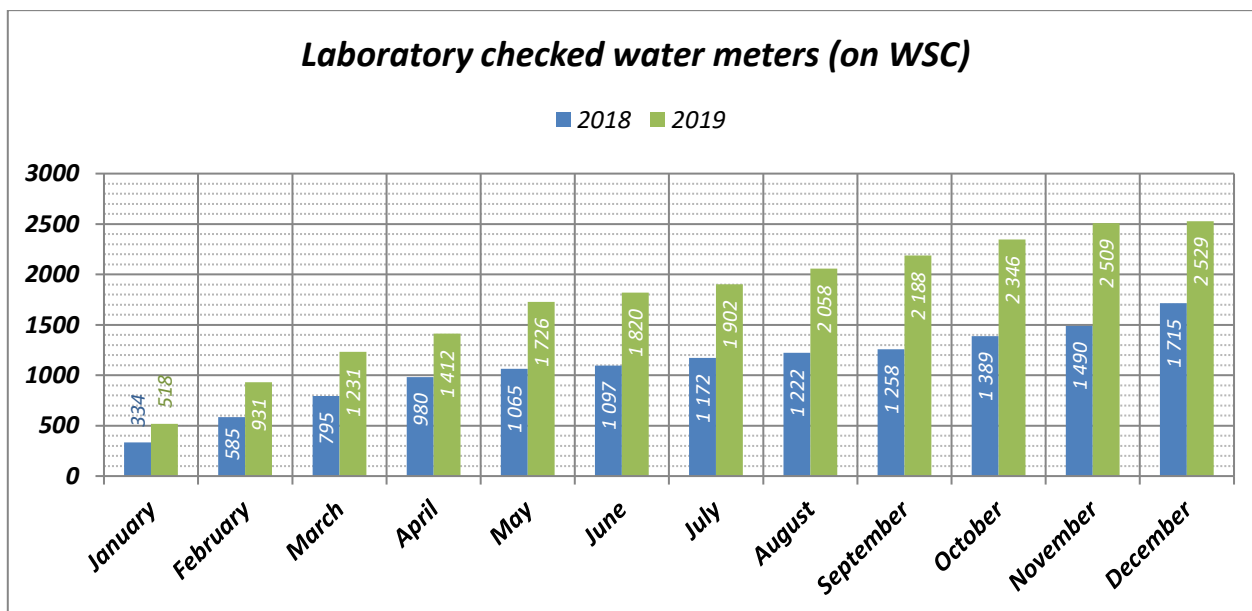
Over the period January - December 2019, a total of 15,466 customers gave up receiving paper invoices. The official change of the account holders, to whom a paper invoice is sent by default as per the Personal Data Protection Law, are included in this number. As at the end of December 2019, 130,686 customers in total received e-invoices.

Water meter services, billing and debt collection

Replacing water meters on water service connections

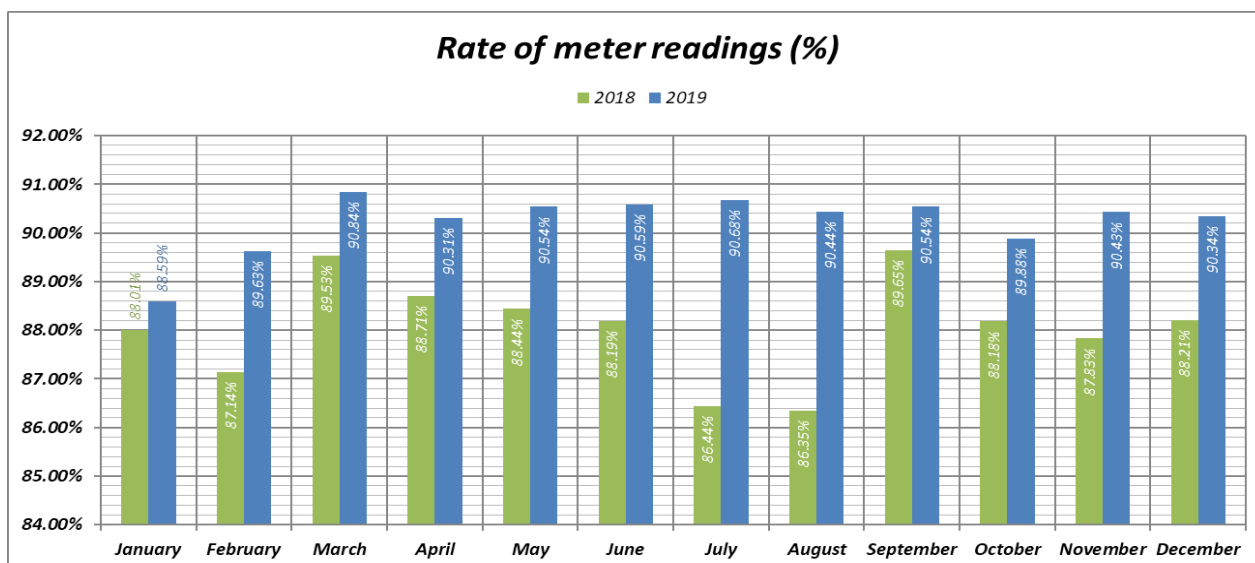


In 2019 the water meters on water service connections, set in metrological validity, were 22,668, which is by 3% more. In total the water meters on WSC, set in metrological validity, were 89.49% as compared to 85.26% in 2018.



In 2019 the water meters checked in authorized laboratories for water meters were 2,529, which is by 47% more as compared to 2018. The increase is due partially to the pilot project of the company for testing of water meters on a sample basis.

Water Meter Reading



The total success rate in the meter reading activity for 2019 was 90.23% as compared to 88.07% in 2018.

Billing

A decrease in the billed potable water volumes by -2.2% was registered on an annual basis in 2019 compared to 2018 (78.07 M m³ in 2019 and 79.85 M m³ in 2018), which is due to the decrease in the consumption of all groups of customers (more details in the *Consumption Trends* part below).

With decision of EWRC dated 1 January 2019 a new tariff for potable water supply and treatment, and sewerage and wastewater treatment was approved. As a result, the total combined tariff of the regulated water and sewerage services was increased by 9.6% and the total amount of the billed volumes in 2019 amounted to 203.03 M BGN, VAT included, which was 14.04 M BGN more (+7.4%) compared to 2018.

Debt Collection

The company successfully continued realizing the strategy for increasing the collection of outstanding receivables from its customers in 2019. As a result, the total collected amount as at the end of the year was BGN 194.14 M in comparison with BGN 180.69 M in 2018, or registered increase of 7.4% on a yearly basis. The annual collection coefficient for 2019 was 95.62% compared to 95.61% in 2018, as the main problems in the collection of receivables were the delay or lack of payment from the budget and institutional customers.

A considerable increase was registered also in the results and the activity of the internal teams for debt collection in the reporting period, as the total amount collected was 22.03 M BGN in comparison with 21.06 M BGN in 2018, or a registered annual growth of 1.8%.

In its constant attempt for improvement of the quality of the provided services and customer satisfaction, the company continued offering different payment channels where customers may pay their debts for the consumed WSS services. 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.

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 2019 the revenues from the services “Individual water meter installation and testing” amounted to BGN 1,193 thousand, as for 2018 the revenues were BGN 931 thousand, or an increase of over BGN 260 thousand.

In April, 2019 a new service was launched “Installation of water meters with remote reading”, both for entire buildings/condominiums, modern and old buildings, as well as for individual customers.

OPERATIONS AND MAINTENANCE

Water Source 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 2019 was 153,601,737 m³.

The data, obtained from the monitoring during the year, show that the water volumes used for water supply increased compared to 2018. The increase was mainly due to the weather conditions in 2019 (hot summer and a 6-month period without rain) which supposed increased consumption of the customers of the company.

The raw water abstracted from all water sources in the period January - December 2019 compared to the same period of 2018 increased by 2,364,396 m³.

Consumption trends

In 2019, the total billed volumes of the company decreased by -0.23% compared to 2018, or 213 thousand m³ less. For the potable water, the decrease was by -2.23% or -1,778 thousand m³ less compared to 2018.

The table below presents the differences by customer type and water type (potable, non-potable and supplied raw water):

Water	2018, m ³	2019, m ³	Annual variation (m ³)	Annual variation (%)
Households	61,016,076	59,949,720	-1,066,356	-1.75%
Budget Customers	4,577,859	4,245,103	-332,756	-7.27%
Commercial Customers	14,253,676	13,874,884	-378,792	-2.66%
<i>Non-potable water</i>	4,775,753	5,343,358	567,605	11.89%
<i>Raw Water (WS Beli Iskar and WS Bozhurishte)</i>	8,623,534	9,621,069	997,535	11.57%
Total potable water WS Sofia	79,847,611	78,069,707	-1,777,904	-2.23%
Total billed water for all water supply systems	93,246,898	93,034,134	-212,764	-0.23%

The highest decrease of -7.3% (- 333,000 m³) on an annual base is visible for the budget customers due to reconstruction and repaired leaks on the internal water supply networks.

For commercial customers the reduction in 2019 is mainly due to the drop in the production and volumes of the supplied services, whereas for households the reduced quantities of potable water are mainly due to the one-off effect in January 2018 of the longer period of the billed quantities as a result of the optimization of the process, respectively, the shortening of the periods between the reading and the billing from 14 to 7 days.

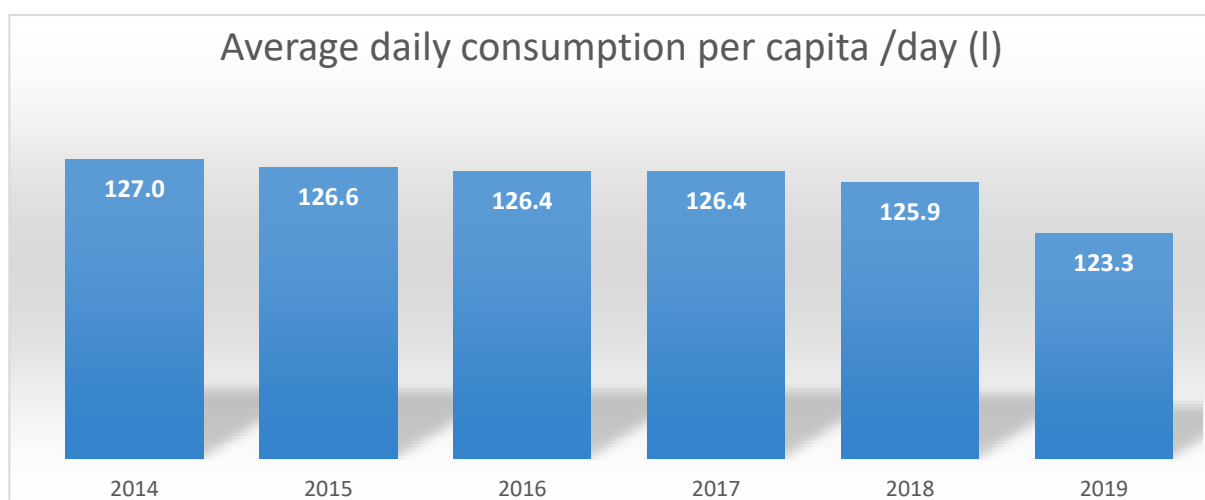
An increase has been registered for raw water, which is due to the increased billed volumes for Samokov (+906 thousand m³), and for WS Bozhurishte (+91 thousand m³) vs. 2018. The volumes of raw water supplied from the two water systems (WS Beli Iskar and WS Bozhurishte) to the only customer of the company – the state-owned Vodospabdyavane i Kanalizatsia EOOD, depend on the available reserves of its own drilling wells.

In 2019 the quantities of industrial water increased by +11.9 % (568 thousand m³), as the main customer is Toplofikatsia Sofia EAD.

Consumption of household customers – analysis of the current trends

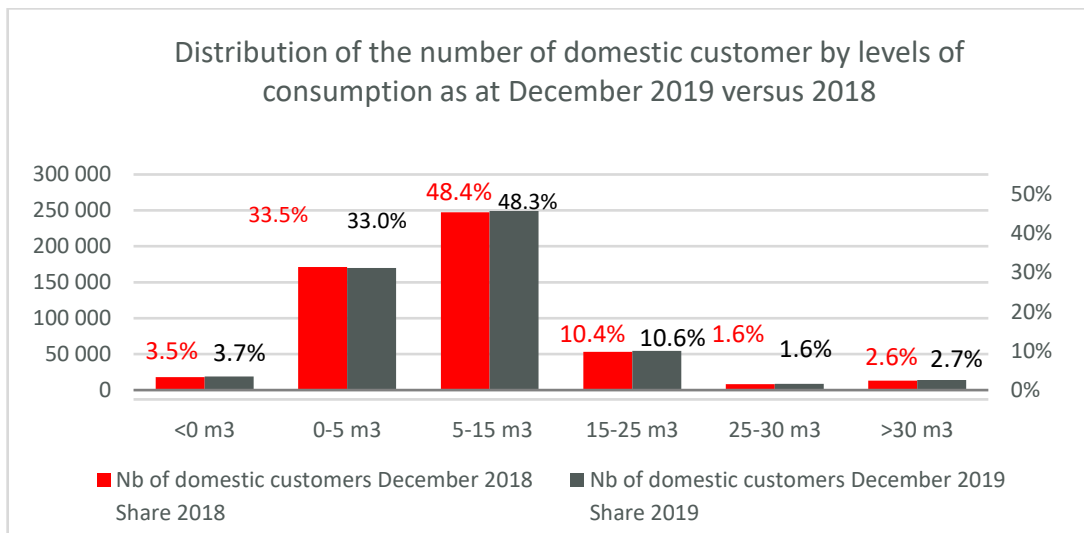
In 2019, the billed volumes of potable water for the households had the highest share of 77% in the total billed consumption as compared to 2018 (76%). The total billed volumes for households were by 1.07 million m³ less compared to 2018, which was mainly due to shortening of the period between reading and billing (above), as well as to the constantly enhancing awareness and culture regarding water consumption and conservation of the resources by the population through the use of more water saving household appliances.

The chart below represents the trend in the billed consumption for a 24-hour period per capita in Sofia with a distinct decreasing trend for the last five years:



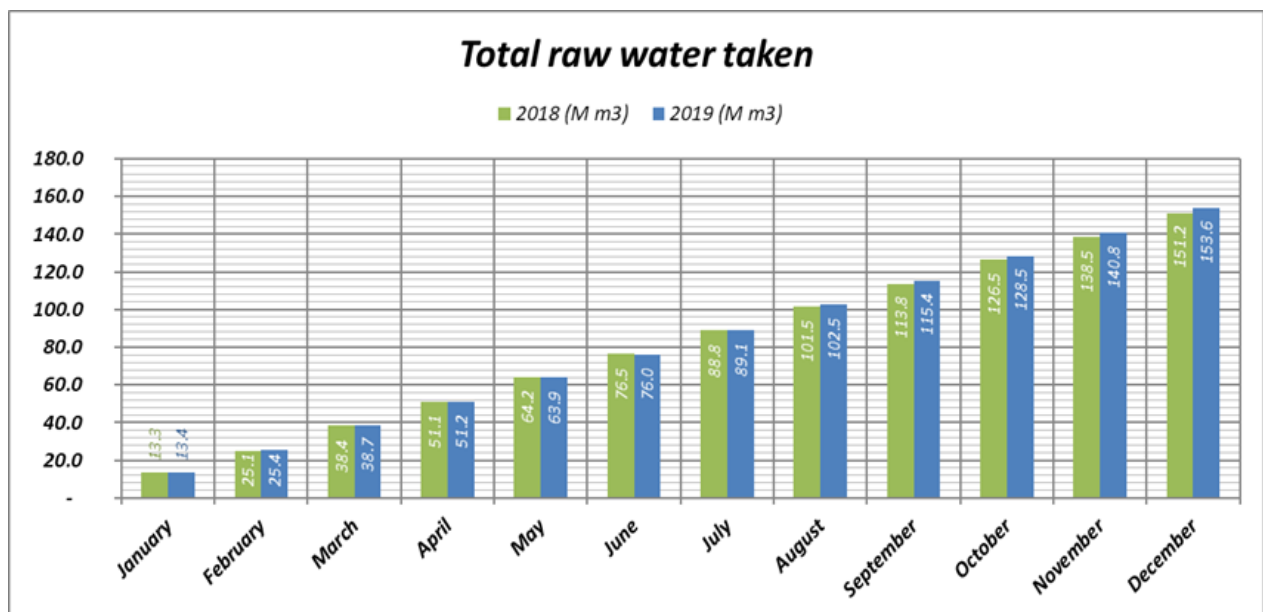
The average daily consumption is calculated as a ratio between the billed annual volumes for households and the number of the population of Sofia city (forecast for 2019 of the National Statistical Institute), divided by 365 days.

This trend is also related to the dynamics of the customer groups with higher water consumption versus those with lower water consumption. On a monthly basis, the company monitors the number of domestic customers, whose water consumption is measured according to the following monthly consumption: 0-5 m³, 5-15 m³, 15-25 m³, 25-30 m³, exceeding 30 m³/month. In 2019, highest was the share of the customers with average monthly consumption 5-15 m³ (48.3%) and those with 0-5 m³ (33.0%). The downward consumption trend for the households is presented also on the chart below where it is evident that a higher number of customers shift “to the left”, from higher to lower average monthly consumption, which is in support of the enhanced culture of water consumption and water saving respectively:

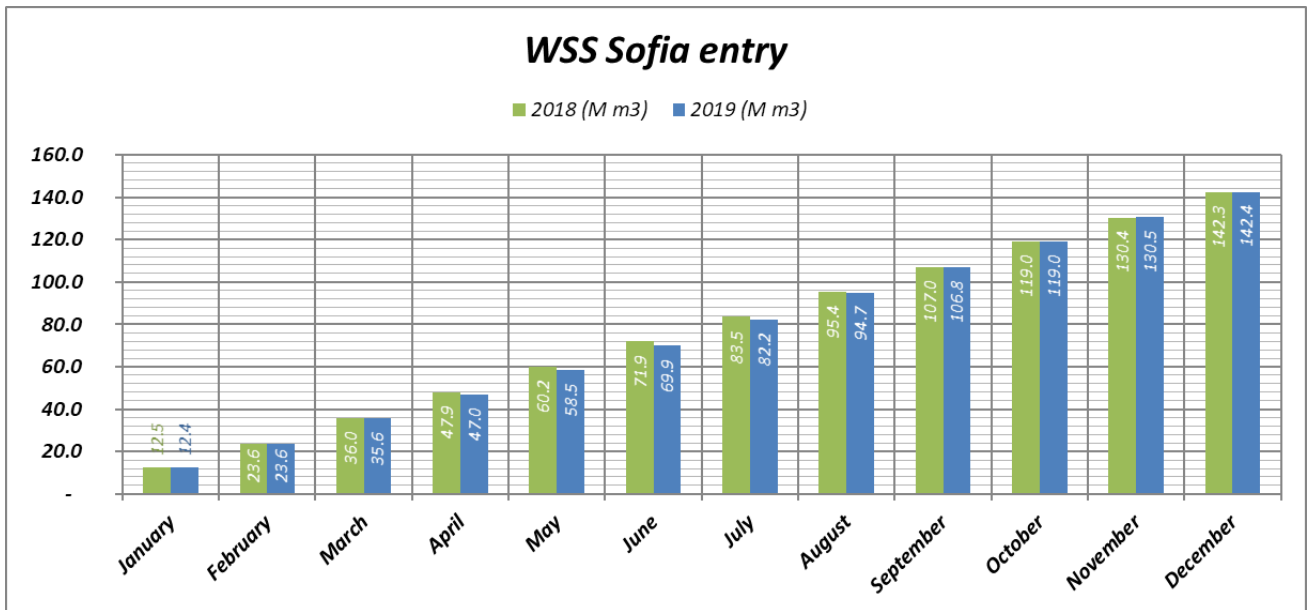


Reduction of unaccounted-for water

Over the period January – December 2019 the following results were achieved:

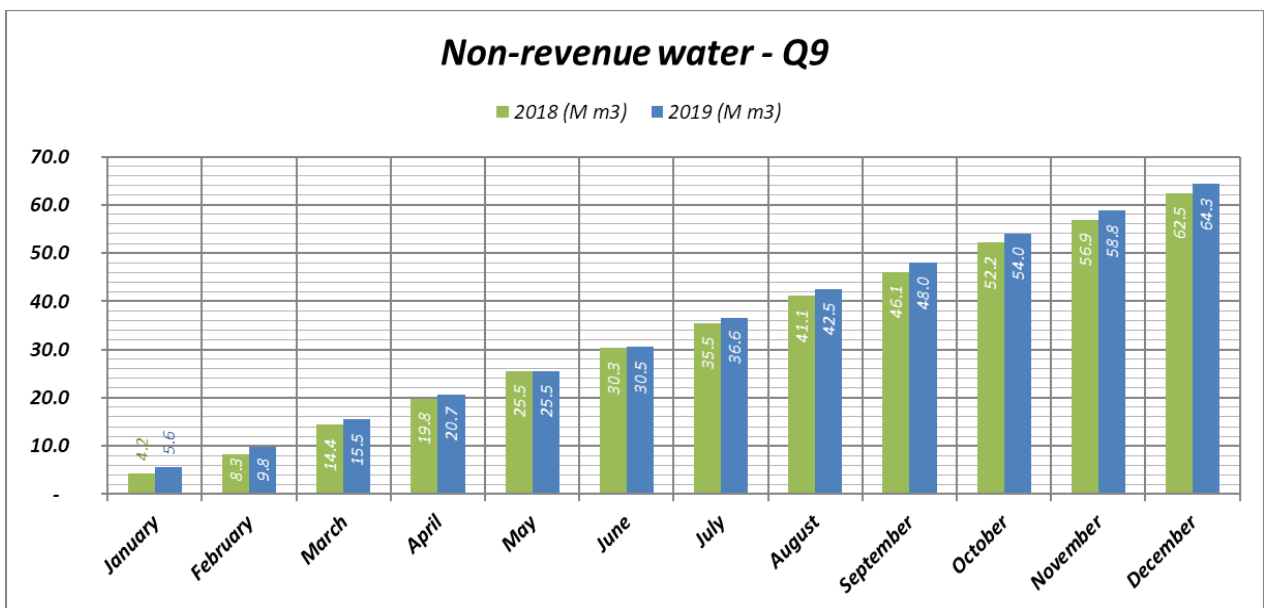


The total abstracted water volume increased by 2.36 million m³, or an 1.6% increase.

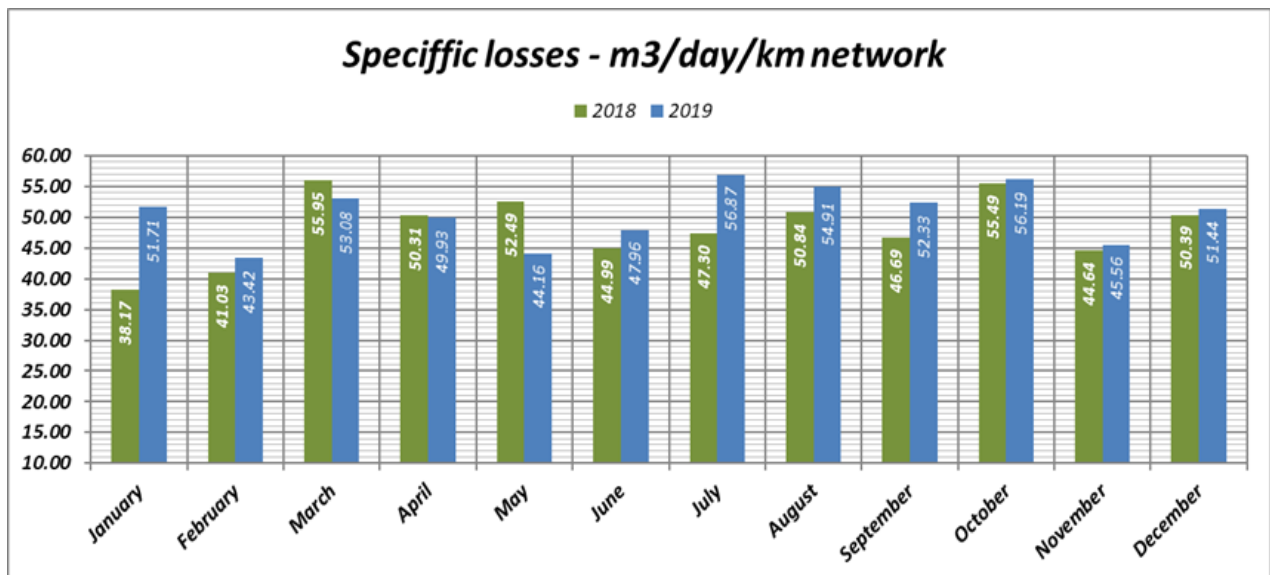


Over the period January – December 2019 the quantities supplied at WS Sofia inlet are practically equal despite the record dry 2019 year, especially during the period July – December;

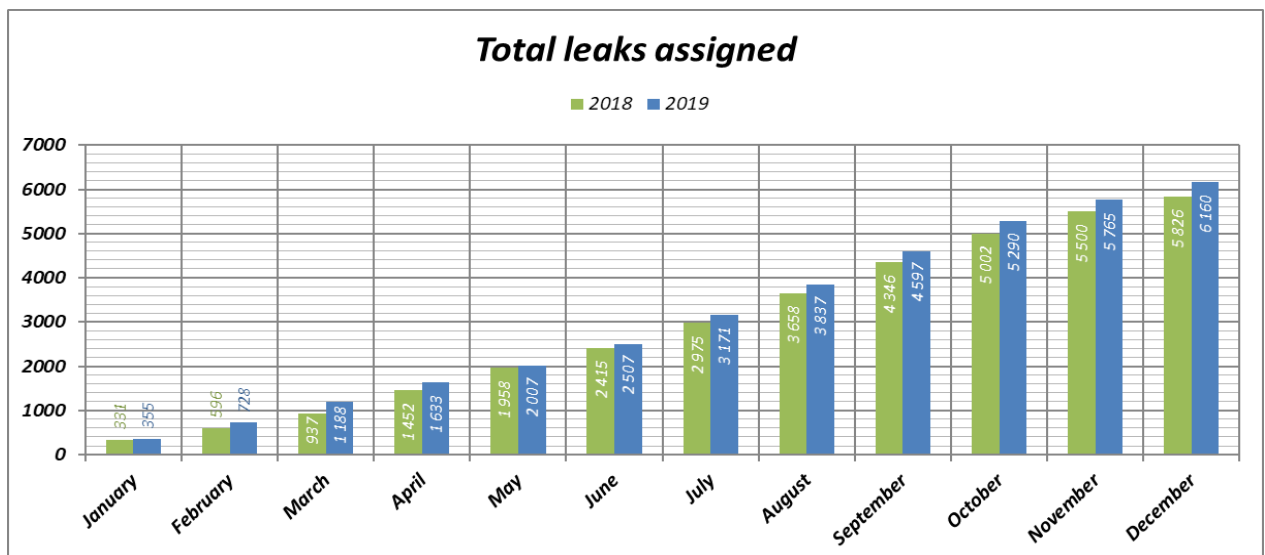
Over the same period the quantities billed are marked by a 1.78 million m³ reduction, or a 2.2% reduction, which conditions also the levels of the unaccounted-for-water volumes.



The above factors impact also the indicator Non-revenue water (Q9), which is marked by a 1,859,128 m³ increase compared to 2018.



The level of the specific losses is marked by a slight increase, 2.44 m³/day/km of network on the average, or a 5.58% increase.



In 2019 a 5.7% upward trend in the total number of leaks on the water supply network was observed (street mains, water service connections, fixtures, water meter nodes etc.), or growth by 334 cases.

Quality of supplied water

Sofiyska Voda AD certifies through the results of the periodic and control monitoring performed that the applied measures for controlling the risks to the human health on the entire water supply network are efficient. Microbiological, physico-chemical and radiological indicators of indicative significance are monitored for large and small water supply areas separately.

In order to comply with the current requirements of *Ordinance 9 on the Quality of Water for Potable Domestic Purposes dated 16.01.2018*, in 2018 Sofiyska Voda AD:

- Coordinated with the Regional Health Inspectorate-Sofia the prepared risk assessment for the safety and quality of the potable water supplied by Sofiyska Voda AD, made according to the instructions of BDS EN 15975-2 “Safety of Potable Water Supply. Risk and Crisis Management Instructions. Part 2: Risk Management”;

- Developed, coordinated with the Regional Health Inspectorate-Sofia and implemented a “Potable Water Monitoring Program, Sofiyska Voda AD” in accordance with the latest requirements of *Ordinance 9*.

According to the requirements of the *Ordinance on the Regulation of the Quality of Water Supply and Sewerage Services* dated 18.01.2016, the fulfillment of the monitoring program is tracked according to the number of water supply areas. 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 over the period January - December 2019 was as follows:

- KPI2a – compliance rate for large water supply areas - **99.87 %**, which exceeds the statutory requirements of 99% for the long-term levels of the KPIs;
- KPI2b - compliance rate for small water supply areas - **98.11 %**, which exceeds the statutory requirements of 98.06% for the long-term levels of the KPIs;

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

For 2019, samples from the points included in all 6 water supply zones were monitored, exceeding the frequency required under *Ordinance 9*.

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of Sofiyska Voda implements the company’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 analyzing the microbiological, hydro biological, physical and chemical and radiological parameters.

The activities performed by the 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 of the accreditation; the control over the processes ensuring impartiality, metrological traceability 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.

Over the period January – December, 2019, in the Potable Water Sector of the LTC a total of 8,729 samples were received, to which 161,470 analyses were conducted, and in the Wastewater Sector, respectively, 10,252 samples and 88,688 analyses. For comparison, in 2018 in the Potable Water Sector of the LTC a total of 8,812 samples were received, to which 158,070 analyses were made, and in the Wastewater Sector, respectively, 10,692 samples and 92,719 analyses.

The analyses conducted by LTC in 2019 were 1% less, and the samples taken – 3% less vs. 2018. Those insignificant changes are mainly due to operational and technological reasons (reduced water volumes, internal requests etc.).

Sofiyska Voda AD met the number of samples and analyses set in proportion to the supplied water volumes and with respect to the operating facilities on the monitoring sites.

In 2019, 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 the service level agreements with internal customers. There were no claims made against the laboratory services on behalf of the customers.

LTC was provided the opportunity to participate in international programs for proficiency testing. In 2019, LTC participated in 15 rounds for 173 tests, from which 167 were successful and 6 unsuccessful – 96.5% success rate of LTC. With respect to the unsuccessful results the relevant corrective actions were taken. 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 find the areas that need improvement in order to obtain more accurate control on the processes and demonstrate competence before the customers, the accreditation authorities and other regulatory units.

On 15.08.2019 LTC received a certificate for accreditation under the new version of the BDS EN ISO/IEC 17025:2018 standard. The validity of the certificate is until 12.03.2022. With the introduction of this new version, LTC developed new procedures, part of its management system, related to the avoidance of bias in its laboratory activities, for assessment of the risks and opportunities related to the laboratory activities and for reporting the declaration of conformance of the testing results with a standard or specification.

From 01.06.2019 LTC implemented a new version of the software for laboratory management WinLIMS 9 with new modules for better traceability and faster processing of the information, linking of tools to WinLIMS, chemicals' management, complete audit of the input and modification of data.

Each sample received in the LTC is given a unique identification number and then registered in the information system for laboratory management with controlled levels of access to the information. This ensures anonymity, confidentiality and reliability for the results of the samples, analyzed upon requests of the internal and external customers.

Water Network Management

The focus of the Company in 2019, like in 2018, was on several main aspects:

- Improving 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;
- Upgrade of the Pegasus software system for management of processes for tracking and processing the received signals, which includes a new module for management of the work of the teams from Electrical and Mechanical Maintenance;
- The total number of the customers who requested the SMS notification service for planned water supply interruptions was 36,701, and in the period January - December 2019 a total of 72,568 messages were sent;
- Over the period January - December 2019, the ratio of the number of unplanned water supply interruptions with duration below 4 hours to the total number of the unplanned water supply interruptions in percentage terms was 80% on average.

Sewerage

In 2019, the implementation of the program for proactive maintenance of the sewerage network continued, as a result of which more than 99 km of the network within the Concession Area were proactively cleaned. The worse performance is due to the long downtime for repair of the water recycling sewer cleaning machines.

Over the period January - December 2019 the surveyed sewer network was 142 km, 130 of which with cameras of the company. 41 km of the surveyed network are big man-accessible sewers with Ø exceeding 1,500 mm and 29 km of them were coded with Cerberus program, ready for direct import in the sewer hydraulic model.

The result of the proactive activities, in total from the regular maintenance and video survey, is a permanent trend of reduction of the emergency activities, which reduces considerably the inconveniences for our customers and guarantees better quality of the service. The lower rainfalls and rain intensity in 2019 as compared to 2018 also had an impact.

	Broken sewers	Clogged sewer service connections	Clogged street sewers	Length of the network	Indicator- failures on the sewer network (EWRC)
2015	66	1,643	1,146	1,669	171.06
2016	76	1,463	907	1,721	142.13
2017	80	1,455	785	1,727	134.34
2018	77	1,278	811	1,732	125.06
2019	80	926	547	1,748	88.84

In 2019 the “Digital Water City” project was launched under the European Horizon 2020 program with a duration of 4 years, which includes two lines: proactive cleaning of 10 km of sewers with a provided nozzle, equipped with a camera and an option for taking photographs during the actual cleaning, and the installation of 50 temperature sensors for monitoring the condition of the rainwater facilities by overflowing/ not overflowing status. The benefits expected from the project are enhancing the efficiency in the proactive network cleaning and obtaining more data in real time for the behavior of the rainwater facilities.

Wastewater treatment

Over the period January – December 2019, Kubratovo Wastewater Treatment Plant (WWTP) treated a total of 118.1 million m³ of wastewater from the sewer network of Municipality of Sofia.

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

Quality of the treated wastewater

According to the permit for wastewater discharge, the following main indicators are analyzed - biological oxygen demand (BOD₅), 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 WWTP.

In 2019 the statutory number of samples was taken for the above quality indicators of the treated wastewater.

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

Sludge stabilization and utilization

The sludge generated through wastewater treatment is stabilized in four anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a “sludge cake” with dry matter content of around 17.2%.

Over the period more than 18,781 tons of absolute dry matter sludge from the treatment processes were stabilized and mechanically dewatered, and 22,652 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 on waste generated at Kubratovo WWTP, including the dewatered sludge, is exercised in accordance with the requirements of the Waste Management Act. Sofiyska Voda draws up and submits the required reports to the Ministry of Environment and Water.

INVESTMENTS JANUARY – DECEMBER 2019

In accordance with the approved Business Plan 2017-2021, the investments program of Sofiyska Voda AD is at a total amount of BGN 48.8 M and the structure of the planned investments is the following:

Investments for 2019 according to the approved Business Plan 2017-2021	Investments as per BP 2019 (BGN)
Investments in regulated services	38,684,459
Investments in non-regulated business	1,303,613
Additional investments	760,000
Total investments:	40 748 072

The total implemented investments were to the amount of BGN 47.1 M. From them BGN 43.8 M was for regulated services, which is 113% of the plan. In 2019 the company compensated fully the unfulfilled investment commitments since the start of the regulatory period (2017 and 2018). The investments implemented outside the regulated ones are at a considerably higher value than the planned ones as in 2018 the company started implementing also additional investments amounting to BGN 1.5 M per year, envisaged in the Third Amendment Agreement to the Concession Agreement signed on 23 March 2018.

QUALITY MANAGEMENT

In June Sofiyska Voda was successfully audited by an independent certification body (TUV NORD CERT). The audit confirmed the successful transition of the Occupational Health and Safety System to and its compliance with the new standard BDS ISO 45001:2018, the up-to-date condition of the Environmental Management System in line with BDS EN ISO 14001:2015, and with the audit the certification of the Quality Management System under BDS ISO 9001:2015 was also renewed. The audit did not detect any non-conformities for the three management systems.

The process for the implementation of the requirements under the standard BDS ISO 37001:2016 “Anti-bribery Management System” started in 2019 and the intentions of the company are to embark on the certification under this standard in the first half of 2020.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Sofiyska Voda has a certified Environmental Management System (EMS) in compliance with the requirements of the international standard ISO 14001 dated 2015. In 2019 the maintenance of the system continued by improving the EMS documentation and conducting internal regular inspections in line with the approved annual schedule. In connection with the integrated Policy on Quality, Environment and Health and Safety in accordance with the requirements of ISO, new procedures and instructions based on the process approach were updated and created

In 2019 Sofiyska Voda got a registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS) for Bistritsa Potable Water Treatment Plant (Bistritsa PWTP). In July 2019 Sofiyska Voda passed successfully an audit for the expansion of the EMAS scope, and added all treatment plants and the water network to Bistritsa PWTP thus covering the entire process of potable water supply to the customers.

Environmental incidents

In 2019 the reported cases were as follows: 4 sudden pollution discharge events at the inlet of Kubratovo WWTP, 1 emergency discharge of untreated wastewater in a water body as a result of a disrupted operational process, 10 cases of emergency opening of flood gates due to intensive rainfalls at the inlet of Kubratovo WWTP and 1 case of emergency opening of a flood gate for the Process Water in Pancharevo treatment plant due to reaching the maximum losses of the pressure of the quick sand filters. The relevant measures for overcoming those incidents were taken in a timely manner and they did not have considerable environmental impact.

Program for the fulfillment of the environmental protection objectives

The environmental protection objectives of the Company are related to introducing best practices for energy efficiency in the operation and maintenance of the water and sewer network, decreasing the water losses on the network, ensuring increasingly efficient and quality treatment of wastewater by reducing at the same time the use of chemicals and reagents, and transferring waste into raw material for the production of energy. The implementation of the objectives for 2019 was satisfactory and led to improved environmental impact.

Trainings and initiatives

There were 7 trainings held in 2019 in accordance with the annual Environmental System training program. Various external and internal environmental protection initiatives were also carried out – participation in “Live Water” program broadcast on Darik Radio on the topic “How does Sofiyska Voda Take Care of Biodiversity”; delivery of the plastic bottle caps collected by Sofiyska Voda’s employees for the “Bottle Caps for the Future” campaign; preparation of the rose bushes at Bistritsa PWTP for the winter; 3 visits to the municipal waste processing enterprise; participation in the public discussion of the project “Program to Supplement the Air Quality Management Program on the Territory of MoS 2015-2020”; participation in the round table “Corporate Social Responsibility with Focus on the Human Resources and Social protection” in the University of National and World Economy; marking the Water Day together with “Nestle Bulgaria”, etc., including the participation of the company by tradition in the “European Week for Waste Reduction 2019”.

Waste Management

The Company strictly complies with the Bulgarian waste management legislation. In 2019 the following was handed over for disposal, recovery or recycling:

- 14 tons of hazardous waste,
- 37,531 tons of non-hazardous waste, which include excavated earth masses and exclude sludge from Sofia WWTP to be utilized on agricultural areas;
- 22,636 tons (dry matter) - sludge from the Sofia WWTP to be utilized on agricultural areas.

Green energy production

20,368 MWh of green energy were produced in the Sofia WWTP over the period January – December 2019. The production is based on a CHP installation for utilization of biogas released in the process of sludge treatment in the plant. In 2019 the green energy produced in the treatment plant covered more than 98% of the electricity demands of the treatment plant.

HEALTH AND SAFETY AT WORK

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

Occupational Health and Safety Management System (OHSMS)

In 2019 the Occupational Health and Safety Management System of Sofiyska Voda was certified in accordance with the requirements of ISO 45001.

The applicable legal requirements were complied with and exceeded. The annual program for monitoring and audits on occupational health and safety was implemented. The health and safety risks are assessed and managed systemically.

Trainings and exchange of information

In 2019 there were 12,009 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 731. The number of participations in occupational health and safety trainings was 2,681 (there were employees, who took part in more than 1 training).

In 2019 the methodology for assessment of the health and safety risk was updated. The process of risk assessment by workplaces, activities and positions is continuous. The “Safer Together” project for increasing the H&S awareness and commitment of the managers, improving communication, risk management, and H&S monitoring and control continued. In September 2019 a corporate H&S week was conducted, focused on the culture of safety and the tools for systematic improvement of the occupational health and safety performance.

The potential contractors are assessed based on competence and occupational health and safety performance. The contractors are inspected in terms of occupational health and safety. H&S information and good practices are exchanged.

Accidents, incidents and near-misses

In 2019, there were 3 occupational accidents (as per art.55 para.1– during work), 4 incidents (without loss of work capacity), 26 near-misses (adverse events, without personal injury), and 219 registered auto insurance claims. All accidents, incidents and near-misses are reported and analyzed immediately.

HUMAN RESOURCES 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 business development and high performance. The achievement and maintenance of balance between the interests of the employer and the workforce are based on compliance with the legislation, maintenance of high budget discipline and social partnership with the trade unions.

Human resources management is evolving through applying a set of policies and procedures planned in advance, so that the entire management team is involved in the process.

Remuneration and benefits

As of 1 January 2019 the salaries of the employees were increased by 2.81 %, which is the annual inflation for 2018 as per the data of the National Statistical Institute.

In March 2019 the annual bonuses of the employees for the previous year were paid in line with the approved bonus scheme of the Company, taking into account the fulfillment of the company’s business objectives agreed in the previous year.

As of 1 April the salaries of the employees were increased on average by 3.297%.

For a second 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 EUR 3,500, and the invested sum is doubled by Veolia Environnement. The second plan offers the purchase of shares with a 20% discount from the market price.

After consultations held with the two trade unions represented in the company, a new Collective Labor Agreement was signed on 7 August 2019 with a validity period of 2 years.

As of 1 May 2019 the contract for health insurance of the employees with the health insurance company “UNIQA Health” AD was extended for 1 year. As a benefit, the health insurance aims at supplementing the compulsory health insurance and providing equal and easy access for all employees to a wide range of health services, distributed in three main packages with the relevant annual coverage limit:

- Prevention and outpatient medical care – up to BGN 2,000.
- Inpatient and post-hospital health care – up to BGN 3,000.
- Medications – up to BGN 200.

Training, motivation and development

Trainings

903 employees participated in trainings in 2019 – there were a total of 3,411 participations and 65,944 hours realized.

12,009 hours and 2,680 participations of the above mentioned were in H&S trainings.

146 employees participated in language courses for 3 levels (in English and French) under a project financed under the OP “Human Resources Development”. The duration of the courses equaled a total of 43,800 hours.

Implementation of the remote training platform ILIAS

In 2019 Sofiyska Voda AD acquired its own online training platform ILIAS, accessible for all employees. Big part of the mandatory H&S trainings and examinations, as well as trainings for professional skill enhancement, will be held through it.

Job rotation

Two employees from the Internal Audit Dept. and Emergency Contract Management participated in the internal job rotation program with the aim to develop skills and improve the processes.

Talent program

Two assessment and development centers were carried out within the program for the assessment and development of participants at management positions or identified as successors for a key positions.

Some of the participants in the Talent program were included in the “Efficiency” project, and they were asked to generate ideas which would lead to reduction in the operating expenses of the company. The ideas were presented before the Executive Committee and the green light was given for further implementation of those with the highest potential and expected effect in the long term.

Management development

A 360-degree appraisal of the company’s middle-level managers was conducted in 2019. In accordance with the feedback, 30 managers were included in a program for upgrade of leadership skills, the so-called Managers Academy.

Team Development

In March 2019 Sofiyska Voda participated in the Career Days in the National Palace of Culture, organized by Job Tiger.

The forum was held on the 12th and 13th of March and allowed young specialists to get acquainted with the job opportunities within the Group of Veolia. More than 170 Bulgarian and international companies offering vacant internship and job positions in various business sectors participated in it.

The event was held for the 18th consecutive year in 8 cities in Bulgaria. The 2019 forum in Sofia was visited by more than 5,500 students and young specialists.

In the summer of 2019 the traditional internship program of the company was conducted for the 18th time. The program's duration is 3 months (from July to September). 10 students and young specialists participated in the program in 2019. Following a 2-day induction training, the interns started working in real working environment. The young people gained practical experience in the following departments: Sewer Modelling, Control Room, Electrical and Mechanical Maintenance, LTC, Water Quality Projects, Data Analysis and Processing. In addition to their daily duties in the departments, the students had the opportunity to participate in the generation of new ideas and applying of innovative solutions. Topics for career orientation and personal development were included in the program.

So far 1 of them continued his career in the company, in Reactive Field Activity Dept.

A young specialist joined the company as an intern in the period 1 – 30 October 2019 in Kubratovo WWTP under the "Pioneers into Practice" program of the European Organization Climate KIC. The organization was founded by the European Institute of Innovation and Technology and aims to enable young scientists to meet with the business. The objective of the project was to allow the young specialists from Latvia to exchange know-how and best practices related to the innovations and development of low carbon emissions and more effective use of the resources.

After a conducted competition, two students were chosen to represent Bulgaria during the 8th edition of the Veolia Summer School.

Each year the program gathers between 25 and 40 students from all over the world, who discuss environmental protection services together with Veolia's experts, meet company employees, visit sites, discuss cases from the business environment and participate in group discussions and visits of cultural sites.

The summer school took place from June 30 to July 8 in the Veolia campus, near Paris.

Management's responsibility

In compliance with legal requirements, the management draws up an annual activity report, non-financial information and financial statement for each financial year, presenting a true and fair view of the financial position of the company for the calendar year, taking into account the financial performance and the cash flows in conformity with the applicable accounting framework. For the preparation of the financial statements the company applies the rules of the International Financial Reporting Standards (IFRS), applicable both in the European Union and in the Bulgarian accounting legislation.

The management's responsibility includes: development, deployment and maintenance 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 true and fair presentation of the development and financial performance of the company for the past period, as well as its position and major risks it faced. The management has approved the issuing of the activity report and the financial statements for 2019.

Sofia, 29 June 2020

Aneliya Ilieva
/Finance Director/

Vasil Trenev
/Executive Director/



NON-FINANCIAL INFORMATION TO THE ANNUAL ACTIVITY REPORT 2019

SOFIYSKA VODA AD

1. ENVIRONMENTAL MATTERS

1.1. ENVIRONMENTAL PROTECTION IN 2019

The city of Sofia is growing. The needs of the city, in which we live and work, as well. Natural resources are becoming ever more 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 the access to clean potable water and its return to nature with excellent quality, led 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 2019 through the improvement of the EMS documentation and conducting of internal regular checks in line with the approved annual schedule. In regard to the integrated Quality, Environment and Health and Safety Policy, procedures and instructions, based on the process approach, were updated and new ones were created in conformity with the ISO requirements.

In 2019 Sofiyska Voda obtained a registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS) for Bistritsa Potable Water Treatment Plant (Bistritsa PWTP). In July 2019 Sofiyska Voda passed successfully an audit for the expansion of the EMAS scope, and added all treatment plants and the water network to Bistritsa PWTP, thus covering the entire process of potable water supply to the customers.

1.2. ENERGY EFFICIENCY IN 2019

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, which need energy in the order to be realized. Sofiyska Voda AD has implemented and uses systems for permanent energy consumption monitoring at the big potable and wastewater treatment plants.

The generated green energy in the period January – December 2019 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 20,368 MWh (the generated energy was 8.5% MW less versus the previous year which is due to the decreased production of biogas in the digesters). In 2019 the green energy produced in the treatment plant covered 97.69% the electricity needs of the treatment plant.

1.3.EMISSIONS INTO AIR IN 2019

Direct emissions

The company generates direct emissions in the air through the use of the transport vehicles and also the use of energy sources for heating at some of its sites. In 2019 the direct emissions amounted to 2.01 thousand tons of carbon dioxide (CO₂), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. There was a decrease by 3.76% versus 2018. 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 2019 the data show that the indirect emissions of the company amounted to 4.06 thousand tons of carbon dioxide (CO₂).

The global reduction in emissions of greenhouse gases in 2019 was 14.06 thousand tons of carbon dioxide equivalent (CO₂), as that was mainly due to the production and use of renewable energy. (CO₂).

1.4.WATER RESOURCES IN 2019

Losses reduction

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

The total water abstracted from all water sources in the period January – December 2019 was 153,601,737 m³.

The data obtained from the monitoring during the year show that the water volumes used for water supply increased in comparison with 2018. The increase was mainly due to the weather conditions in 2019 (hot summer and a 6-month period without rain), which supposed increased consumption by the customers of the company.

The raw water abstracted from all water sources in the period January - December 2019 compared to the same period of 2018 increased by 2,364,396 m³.

Water losses reduction is a priority in the investment program of Sofiyska Voda AD. The total implemented investments were to the amount of BGN 47.1 M. From them BGN 43.8 M was for regulated services, which is 113% of the plan. In 2019 the company compensated fully the unfulfilled investment commitments since the start of the regulatory period (2017 and 2018). The investments implemented outside the regulated ones are at a considerably higher value than the planned ones as in 2018 the company started implementing also additional investments amounting to BGN 1.5 M per year, envisaged in the Third Amendment Agreement to the Concession Agreement signed on 23 March 2018.

Potable water quality

Every year Sofiyska Voda AD manages to comply with the statutory standards for potable water quality. Nevertheless, we do not stop to set ourselves even higher challenges in order to achieve even better performance. In this respect, in 2019 Sofiyska Voda implemented a project for new technological solution for the operation of the facilities in the Filter House of Bistritsa PWTP.

Sewerage and wastewater treatment

2.74 km of new sewers were constructed in 2019. In the period January – December 2019, a total of 118.1 million m³ of wastewater from the sewer network of the Municipality of Sofia was treated at WWTP.

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 (BOD₅), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all remaining indicators defined in the discharge permit for the treated water at SWWTP outlet.

In 2019 Iskar River was spared the following quantities of pollutants from the wastewater:

- 16,051 t BOD₅
- 36,600 t COD
- 2,684 t of nitrogen
- 385 t of phosphorous.

In 2019 the determined statutory number of samples was taken for the mentioned above quality indicators for the treated wastewater. The values of the quality indicators of the samples were below the levels determined in the wastewater discharge permit.

1.5. SOILS

In the wastewater water treatment process the so called “sludge” is separated, 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, as a substitute for chemical fertilizers and as a soil improver. The quality of the sludge separated in the wastewater treatment process is tested in consistence with the Ordinance on the terms and conditions for utilization of sludge from wastewater treatment through its use in agriculture. In strict compliance with the requirements of the legislation the sludge is transported to the relevant agricultural lands.

22,652 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2019 over agricultural areas instead of being deposited in landfills or incinerated, as in this way nature was spared the artificial fertilizers used in the production. In 2019 a research project on the “Opportunities for utilization of sludge obtained in wastewater treatment and effect for sustainable agriculture” was launched, which is implemented by experts from the Institute for Agricultural Economics – Sofia in partnership with experts from “N. Pushkarov” Institute for Soil Science and Agro-ecology. The duration of the project is 18 months and it is expected to be completed at the end of 2020.

This research will allow studying the impact of sludge on the different types of soil and crops, which, in turn, will lead to proven track-records that will benefit all WSS operators in the country.

1.6. WASTE

Sofiyska Voda provides to its employees the possibility to throw their rubbish separately, aiming at its recycling or proper disposal. Apart from the separated collection of waste from packages, spent batteries, toners and electric and electronic equipment are also collected in the company offices and handed in.

Metal waste, glass, used oils, tires, used disposable clothing, and other forms of waste are collected at the different sites. Sofiyska Voda joined the “Caps for Future” campaign. There are boxes at all company sites and the employees actively participate in the collection of bottle caps. Thus the commitment is linked not only to the idea of the campaign but also to plastic waste reduction and recycling and the reduction of environmental pollution. In 2019 the company participated in two campaigns for delivery of the collected plastic caps, their total amount being 285 kg, for the purchase of incubators for premature babies.

A bazaar dedicated to “one man’s garbage is another man’s treasure” was organized within the European Week for Waste Reduction, which showed another opportunity for preventing waste generation.

In the autumn of 2019 the company organized three group visits to the sites of the Sofia waste treatment plant in the village of Yana and village of Gorni Bogrov. The visits and the exchange of experience turned out to be extremely interesting and useful and contributed to raising employees’ environmental awareness.

The Company strictly complies with the Bulgarian waste management legislation.

In 2019 the following has been delivered for disposal, utilization or recycling:

- 13.74 tons of hazardous waste;
- 37,500 tons of nonhazardous waste, which include dug out soil and do not include sludge from SWWTP for utilization on agricultural areas;
- 22,652 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

1.7. BIODIVERSITY

Biodiversity is a priority area for the company in view of the proximity of some sites to natural parks and protected habitats.

Over the period March – June 2019, the project “Preparation of a Report on the Condition of the Biodiversity (Assessment, Analysis and Recommendations) for Bistritsa PWTP and Pancharevo PWTP” was implemented. The Faculty of Biology of Sofia University “St. Kliment Ohridski” was selected as the contractor under the project. A survey was carried out of the flora and fauna of both sites through daily walks of the territory with maximum coverage, video recording of the species and habitats using equipment, the employment of camera traps for the purpose of 24-hour surveillance of the sites during the study. An assessment of the condition was made in the prepared reports and concrete measures were presented for the preservation of the existing biodiversity, as well as recommendations and measures with guidelines for future development and improvement. The measures for preserving the biodiversity include the placing of bird houses and feeders, insect hotels and information panels both for the employees, as well as for visitors for raising the awareness with respect to the inhabitants.

On April 22, 2019, in celebration of Earth Day, the company planted 20 trees on its sites as a token of appreciation for all customers who gave up on the receipt of paper invoices.

In November, 2019, after carried out civil works that necessitated the removal of vegetation in Ovcha Kupel r.q. a compensatory planting of 6 trees was performed.

1.8. HAZARDOUS SUBSTANCES AND MATERIALS

Various chemical substances and materials, 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 trichloride 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 company sets an objective on an annual basis to decrease the load of these substances for the environment. Also, drills are held on an annual basis with hazardous substances and materials, and means for limiting the spills and emergency alert systems are ensured. Brief information sheets are provided at the places for work and storage of hazardous substances, which contribute for their proper use and treatment as waste.

1.9. OTHER ALTERNATIVES

The number of inhabitants and companies in Sofia that gave up receiving paper invoices from Sofiyska Voda last year (2019) increased by 23%. In December 2019 the Company “celebrated” its 130 000th customer who chose to support the green idea and gave up receiving a paper invoice for water consumption.

2. SOCIAL AND STAFF MATTERS

As at 31.12.2019 the employees of Sofiyska Voda were 1,172, of which 116 at managerial positions (52 men and 64 women); at supervisor and technical supervisor positions – a total of 250 (172 men and 78 women); office employees – 365 (51 men and 314 women), and workers – 441 (402 men and 39 women).

Two trade union organizations are represented in the company – CONFEDERATION OF LABOUR “PODKREPA” and “VODOSNABDIAVANE” TRADE UNION to the Confederation of the Independent Trade Unions in Bulgaria, with which Sofiyska Voda AD has concluded a collective labor agreement

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 on-site and remote training and seminars conducted by external suppliers or internal coaches with specific expert skills. Also, the practice has been introduced for temporary job rotation, which allows the opportunity for development of practical knowledge and skills and a broader understanding of the activities and processes within the company.

The training and development programs are focused on:

- development of professional skills, acquisition and maintaining of professional qualification;
- occupational health and safety;
- increase of the personal potential and development of social and leadership skills;
- digital competence;
- legal and statutory competencies.

, 146 employees participated in 3-level language courses in 2019 (in English and French) under a project financed under the OP “Human Resources Development”.

There were a total of 731 participations and 53,935 trainings hours in professional trainings held in 2019.

The company strictly complies with the requirements for gaining certificates of competence and updating the knowledge in health and safety at work, necessary for carrying out specific activities. There were 2,716 participations and 12,301 training hours in mandatory H&S trainings held in 2019. **903** company employees participated in various trainings in 2019. The average number of training hours per employee was 56.5 hours.

Talent Program

Two assessment and development centers were carried out within the program for the assessment and development of participants at management positions or identified as successors for a key positions.

Some of the participants in the Talent program were included in the “Efficiency” project, and they were asked to generate ideas which would lead to reduction in the operating expenses of the company. The ideas were presented before the Executive Management and the green light was given for further implementation of those with the highest potential and expected effect in the long term.

Management Development

A 360-degree appraisal of the company’s middle-level managers was conducted in 2019. In accordance with the feedback, 30 managers were included in a program for upgrade of leadership skills, the so-called Managers Academy.

3. HEALTH AND SAFETY AT WORK

There were three occupational accidents in 2019 (as per art. 55, par. 1), 4 incidents (without loss of working capacity), 26 near-misses (undesired events without personal injury) and 219 registered damages to company vehicles. All accidents, incidents and near-misses are reported and analyzed immediately.

4. PREVENTION OF CORRUPTION AND BRIBERY

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

- Ethics Guide of Veolia Group (adopted by SV in 2014, last updated in December 2018);
- Internal Regulations of Sofiyska Voda AD;
- Disclosure Policy of Sofiyska Voda;
- User Charter for the Ethics Alert Process within Veolia;
- Policy on Gifts (the so-called “Hospitality”)
- Conflicts of Interest Policy
- Anti-Fraud Policy, which is supported by:
 - Fraud Investigation Procedure;
 - Anti-Corruption telephone line (+359 2 8122 521, published on SV official website www.sofiyskavoda.bg);
- Accounting Policy;
- Procedure on closure of the accounts;
- Instruction on receiving, accounting and paying invoices from suppliers;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets;
- Procedure on Human Resources Management;
- Procedure on Employee Performance Management.

The processes of internal control and the resources intended for corruption and bribery prevention are regulated with the above policies and procedures. The Internal Audit Dept. and Security Dept. have 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 company.

The mechanisms used by the company for submission of signals for breaches, corruption, etc., are as follows:

- Submission of a verbal or written signal to the respective director or if it is believed that it would be inappropriate, there is an option for direct contact with the Executive Director, the Internal Audit, Quality Control and Risk Management Director or HR and Administration Director“.
- Anti-Corruption telephone line (+359 2 8122 521, published on the official website of SV: www.sofiyskavoda.bg)
- If there are reasonable doubts that the signal may be adequately resolved at a local level – there is an option to forward it to the Ethics Committee of the Group of Veolia based in Paris.

The risk management process in SV has been regulated in the Risk Management Policy 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 company’s business objectives. The adopted approach for assessment and management of risks is used also for assessment of the risk related to corruption.

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 occurring, as well as assessment of the efficiency of the current control, introduced for dealing with the respective risk. In that evaluation 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 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 company, the Internal Audit Team often have a significant role with regard to 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. In 2019 there was 1 case of misuse found (unauthorized demand of money from a customer) and in that respect a disciplinary sanction was imposed – the employee was dismissed.



Sofiyska Voda AD

Annual Management Report and Separate Financial Statements

For the year ended 31 December 2019

With independent Auditors' Report thereon

Contents

Annual Management Report

Separate Financial Statements

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Independent Auditors' Report

Separate statement of financial position


<i>In thousands of BGN</i>	<i>Note</i>	31 December 2019	31 December 2018 Restated*	1 January 2018 Restated*
Assets				
Property, plant and equipment	<i>12</i>	20,423	20,171	18,771
Intangible assets	<i>13</i>	281,217	283,515	284,324
Investment in subsidiaries		5	5	5
Deferred tax assets	<i>19</i>	8,907	7,950	7,339
Trade and other receivables	<i>15</i>	1,264	1,025	237
Total non-current assets		311,816	312,666	310,676
Inventories	<i>14</i>	2,344	2,189	1,991
Trade and other receivables	<i>15</i>	28,201	25,403	35,757
Contract assets	<i>4</i>	10,527	9,936	-
Related party receivables	<i>26,15</i>	85	25	11
Cash and cash equivalents	<i>16,22</i>	48,910	35,039	25,662
Total current assets		90,067	72,592	63,421
Total assets		401,883	385,258	374,097
Equity				
Share capital	<i>17</i>	8,884	8,884	8,884
Reserves	<i>17</i>	10,774	10,774	10,774
Retained earnings		274,399	238,101	208,025
Total equity		294,057	257,759	227,683

Separate statement of financial position (continued)

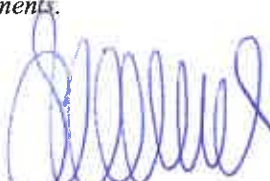
<i>In thousands of BGN</i>	<i>Note</i>	31 December 2019	31 December 2018 Restated*	1 January 2018 Restated*
Liabilities				
Loans and borrowings	18,22	22,364	48,306	18,032
Lease liabilities	27,22	769	1,529	1,505
Employee benefits	23	1,567	1,400	1,350
Trade and other payables	20,26	6,436	7,431	7,790
Total non-current liabilities		31,136	58,666	28,677
Loans and borrowings	18,22	22,215	24,553	80,519
Lease liabilities	27,22	1,324	1,093	783
Contract liabilities	4	5,516	4,751	-
Income tax liabilities		450	180	605
Payables to related parties	22,26	3,653	3,818	3,352
Trade and other payables	20	40,213	32,004	28,920
Provisions	21	2,573	1,835	3,154
Employee benefits	23	746	599	404
Current liabilities		76,690	68,833	117,737
Total liabilities		107,826	127,499	146,414
Total equity and liabilities		401,883	385,258	374,097

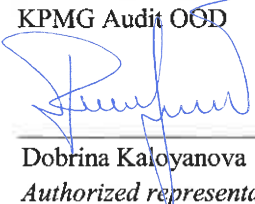
* See Note 29

The notes on pages 11 to 80 are an integral part of these separate financial statements.




Vasil Trenev
Executive Director



Anelia Ilieva
Finance Director
In accordance with an Independent Auditors' Report:
KPMG Audit OOD


Dobrina Kaloyanova
Authorized representative



Ivan Andonov
Registered auditor,
responsible for the audit

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018 Restated*
Revenue	4	174,322	158,731
Construction revenue		30,568	31,530
Other income	5	1,350	939
		206,240	191,200
Expenses for materials	6	(12,592)	(11,997)
Expenses for hired services	7	(50,528)	(50,112)
Depreciation and amortization	12,13	(50,036)	(42,644)
Employee benefit expenses	8	(27,081)	(25,833)
Social security contributions and other social expenses	8	(7,762)	(7,415)
Impairment loss on trade receivables and contract assets	22	(8,691)	(8,516)
Other operating expenses	9	(7,129)	(8,249)
Operating profit		42,421	36,434
Finance income	10	10	38
Finance costs	10	(1,318)	(2,742)
Net finance costs		(1,308)	(2,704)
Profit before taxes		41,113	33,730
Income tax expenses	11	(4,638)	(3,665)
Profit for the period		36,475	30,065


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

For the year ended 31 December


<i>In thousands of BGN</i>	<i>Note</i>	2019	2018 Restated*
Other comprehensive income			
<i>Items that will not be reclassified in profit or loss:</i>			
Remeasurement of defined benefit liability	23	(121)	11
		(121)	11
Other comprehensive income for the period, net of tax		(121)	11
Total comprehensive income for the period		36,354	30,076

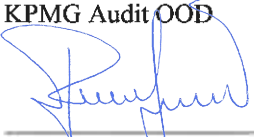
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The notes on pages 11 to 80 are an integral part of these separate financial statements




Vasil Irnev
Executive Director



Anelia Ilieva
Finance Director
In accordance with an Independent Auditors' Report:
KPMG Audit OOD


Dobrina Kaloyanova
Authorized representative



Ivan Andonov
Registered auditor,
responsible for the audit


Separate statement of changes in equity

In thousands of BGN

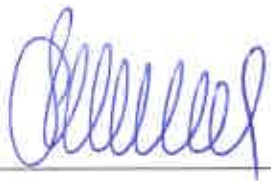
	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2018, as previously reported		8,884	10,774	214,653	234,311
Impact of correction of errors	29	-	-	(6,628)	(6,628)
Restated balance at 1 January 2018		8,884	10,774	208,025	227,683
Total comprehensive income for the period					
Profit for the period		-	-	30,065	30,065
Other comprehensive income, net of taxes		-	-	11	11
Total comprehensive income for the period		-	-	30,076	30,076
Restated balance at 31 December 2018	17	8,884	10,774	238,101	257,759
Adjustment for initial implementation of IFRS 16				(56)	(56)
Adjusted balance at 1 January 2019		8,884	10,774	238,045	257,703
Total comprehensive income for the period					
Profit for the period		-	-	36,475	36,475
Other comprehensive income, net of taxes		-	-	(121)	(121)
Total comprehensive income for the period		-	-	36,354	36,354
Balance at 31 December 2019	17	8,884	10,774	274,399	294,057

* See Note 29

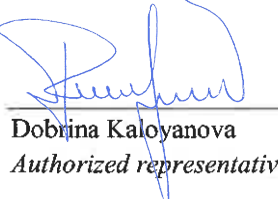
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Vasil Trenev
Executive Director

Anelia Ilieva
Finance Director

In accordance with an Independent Auditors' Report:
KPMG Audit OOD


Dobrina Kaloyanova
Authorized representative

Ivan Andonov
Registered auditor,
responsible for the audit

Separate statement of cash flows

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018 Restated*
Cash flow from operating activity			
Net profit for the period		36,475	30,065
Adjustments for:			
Depreciation of property, plant and equipment	<i>12</i>	6,182	4,365
Amortisation of intangible assets	<i>13</i>	43,854	38,279
Impairment loss on trade receivables and contract assets	<i>22</i>	8,691	8,516
Write-down of inventories to net realizable value/ (realization)	<i>9</i>	388	(92)
Scrapping materials	<i>9</i>	(2)	19
Expenses for scrapping fixed assets	<i>9</i>	5	21
Net finance costs	<i>10</i>	1,308	2,704
Gain on sale of property, plant and equipment		4	(3)
Tax expense	<i>11</i>	4,638	3,665
		<u>101,543</u>	<u>87,539</u>
Changes in:			
- employee benefits		174	220
- provisions		737	(1,319)
- inventories		(537)	(124)
- trade and other receivables		(11,838)	(10,872)
- trade and other payables		2,859	3,141
- contract assets	<i>4</i>	(591)	2,001
- contract liabilities	<i>4</i>	765	575
Cash flow from operating activity		<u>93,112</u>	<u>81,161</u>
Income tax paid		<u>(5,325)</u>	<u>(4,701)</u>
Net cash flow from operating activity		<u>87,787</u>	<u>76,460</u>
Cash flows from investing activity			
Proceeds from sale of property, plant and equipment		-	200
Acquisition of property, plant and equipment		(5,600)	(7,183)
Acquisition of intangible assets		(36,412)	(30,861)
Net cash flow used in investing activity		<u>(42,012)</u>	<u>(37,844)</u>

Separate statement of cash flows (continued)

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018 Restated*
Cash flow from financing activity			
Loans received		-	98,320
Loans paid	18	(28,607)	(123,184)
Payment of lease liabilities (2018: payment of finance lease liabilities)	27	(2,411)	(1,017)
Interest paid	18	(847)	(2,436)
Other finance cost		(39)	(922)
Net cash flow used in financing activity		(31,904)	(29,239)
Net increase in cash and cash equivalents		13,871	9,377
Cash and cash equivalents at 1 January		35,039	25,662
Cash and cash equivalents at 31 December	<i>16,22</i>	48,910	35,039

* See Note 29


The notes on pages 11 to 80 are an integral part of these separate financial statements.




Vasil Trenev
Executive Director




Anelia Ilieva
Finance Director

In accordance with an Independent Auditors' Report:
KPMG Audit OOD


Dobrina Kaloyanova
Authorized representative

Ivan Andonov
Registered auditor,
responsible for the audit

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1. Reporting entity

Sofiyska Voda AD (the 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 Public Register to the Registry Agency under uniform identification code 130175000.

The address of the registered office of the Company is Bulgaria, Sofia, Mladost 4 r.q, 1 Business Park Sofia Str, building 2A. The Company is 77.1% owned by Veolia Voda (Sofia) BV and 22.9% owned by Vodospabdiavane and Kanalizatsia EAD.

The 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. The services include the provision of water supply, sewerage and wastewater treatment services.

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 the Company's separate 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. Sofiyska Voda AD also prepares consolidated financial statements

This is the first set of the Company's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 3.

The separate financial statements as of and for the year ended 31 December 2019 were approved for issuance by the Board of Directors on 29 June 2020.

(b) Basis of measurement

The separate financial statements have been prepared on historical cost basis except for the following positions in the statement of financial position:

- the defined benefit liability is recognized at the present value of the defined benefit obligation (note 3(j));
- liability under additional Settlement agreement with Municipality of Sofia is recognized at the present value of the expected future cash outflows (note 21).

(c) Functional and presentation currency

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

(d) Going concern

These separate financial statements have been prepared on the assumption that the Company will continue to operate as a going concern in the foreseeable future.

2. Basis of preparation (continued)

(e) Use of estimates and judgments

In preparing these separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Company'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: Service Concession 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 adjustments 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, including especially the option for extension of the concession contract and the return on equity applied to the regulated assets for calculating the prices of regulated services in the period after 2021;
- Note 15 – Trade and other payables – in the part for impairment of the recoverable amount of the trade receivables from customers;
- Note 27 – identifying lease contracts in the scope of IFRS 16; lease term: whether the Company is reasonably certain to exercise extension options;
- Note 19 – Deferred tax assets – regarding recoverability of deferred tax assets;
- Note 21 and Note 25 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 24 – Employee benefit – measuring the payables under the defined benefit plans and employee benefits

Fair values

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

The Company 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 Company's Executive Director.

When measuring the fair value of an asset or liability, the Company 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).

2. Basis of preparation (continued)

(f) Use of estimates and judgments (continued)

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 Company 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. Significant accounting policies

3.1. Changes in accounting policies

The Company initially applied IFRS 16 *Leases* from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Company applied for all lease contracts the option of the modified retrospective approach as per IFRS 16.C8 (b)(i), under which the right-of-use assets at 1 January 2019 are recognized at their carrying amounts as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. As a result, there is an impact on retained earnings on the date of the initial application of the standard which is equal to the difference between lease liability and carrying amount of right-of-use asset as at 1 January 2019. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3 (e).

B. As a lessee

As a lessee, the Company leases assets including property (office facilities), hosting of IT equipment, vehicles, and other equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

3. Significant accounting policies (continued)

3.1. Change in the significant accounting policies (continued)

i. Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019 (see Note 3(D)(i)). Right-of-use assets are measured at amounts as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The Company applied this approach to all leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases of low value assets;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application and which have no purchase option;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

ii. Leases classified as finance leases under IAS 17

The Company leases a number of items of vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

C. As a lessor

The Company has not stepped into contracts as a lessor. The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company is not party to sublease contracts.

D. Impact on financial statements

i. Impact on transition*

On transition to IFRS 16, the Company recognised additional right-of-use assets (in addition to the right-of use assets transferred from plant and equipment) amounting to BGN 1,821 thousand as disclosed in Note 13), and additional lease liabilities, with effect on retained earnings at 1 January 2019. The impact on transition is summarised below.

<i>In thousands of BGN</i>	<i>Note</i>	1 January 2019
Property, plant and equipment (right-of-use assets – buildings)	27	1,495
Property, plant and equipment (right-of-use assets – equipment)	27	326
Total property, plant and equipment		1,821
Deferred tax asset		-
Lease liabilities		1,877
Retained earnings		56

* For the impact of IFRS 16 on profit or loss for the period, see Note 27. For the details of accounting policies under IFRS 16 and IAS 17, see Note 3.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 0.263%.

3. Significant accounting policies (continued)
3.1. Change in the significant accounting policies (continued)

D. Impact on financial statements (continued)

i. Impact on transition (continued)

<i>In thousands of BGN</i>	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's separate financial statements	1,821
Discounted using the incremental borrowing rate at 1 January 2019	1,822
Finance lease liabilities recognised as at 31 December 2018	2,622
Extension options reasonably certain to be exercised	<u>55</u>
Lease liabilities recognised at 1 January 2019	<u><u>4,499</u></u>

The Company has applied consistently the significant accounting policies, presented below for all periods, presented in this financial statement unless otherwise specified.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company 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.

From 1 January 1999 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 company 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, FVOCI – debt investment, FVOCI – equity investment; or at FVTPL.

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.

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

(ii) Classification and subsequent measurement (continued)

A financial asset is measured at amortised 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 FVICO 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 Company 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.

Financial assets – Business model assessment

The Company makes an assessment of 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 Company;
- 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 Company.

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

3. Significant accounting policies (continued)
(b) Financial Instruments (continued)
(ii) Classification and subsequent measurement (continued)

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 Company 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 Company 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 features; and
- terms that limit the claims of the Company 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.

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.
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.
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.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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 Company to manage short-term commitments.

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

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 Company 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 Company does not transfer and keep substantially all risks and rewards of ownership, nor it keeps control on the financial asset.

Financial liabilities

The Company derecognises a financial asset when the contractual obligations have been fulfilled, annulled or expired. The Company 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.

(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 Company 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 Company is presented at historical cost as at the date of registration.

(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 labor;
- costs directly attributable to bringing the assets to a working condition for their intended use;
- when the company 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.

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

When parts of an item of property, plant and equipment have different useful life, they are accounted for as separate 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 Significant accounting policy 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 Company. 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 Company 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	2018	2019
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).

3. Significant accounting policies (continued)

(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 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 Company. As the concession agreement includes a requirement for the Company to deliver construction services to the grantor in order to enhance the infrastructure, the 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 waste water treatment to the customers on the territory of the concession.

(i) Intangible asset “concession right”

The intangible asset “concession right” is recognized at acquisition cost less accumulated amortization and impairment losses (see accounting policy 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 Company 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 Company for which it has the right to charge higher tariffs from users of the network are classified as intangible assets “Concession right”.

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

(ii) Other intangible assets

Other intangible assets, that do not relate to the concession infrastructure, acquired by the Company, 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 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 2025, 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

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company 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 Company 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 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 Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company 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.

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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

3. Significant accounting policies (continued)

(e) Leases (continued)

As a lessee (continued)

The Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 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 Company's assets.

Short-term leases and leases of low-value assets

The Company 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 Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

3. Significant accounting policies (continued)

e) Leases (continued)

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

3. Significant accounting policies (continued)

(f) Investments

Investments in subsidiaries

Subsidiaries are the entities controlled by the Company.

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.

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 .

Investments are accounted for in the separate financial statements under the cost method. On initial recognition the investment is recognized at cost, including the amounts paid and the attributable expenses: fees, commissions, royalties, non-refundable taxes, etc.

(h) 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.

(i) Impairment

(i) Non-derivative financial assets

Financial instruments and contract assets

The company recognizes loss allowances for the expected credit losses (ECL) for;

- financial assets measured at amortized cost, and
- contract assets

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs of the financial instrument. For other financial assets, ECLs are measured base on a 12-month ECLs, unless there has been a significant increase in credit risk, in which case ECLs are measured based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The company assumes that the credit risk for a given financial asset has increased considerably if the delay is more than 30 days.

The company considers a financial asset to be in default when :

- is unlikely the borrower to pay the loan commitments to the Company to the full amount without requiring actions on behalf of the Company such as use of guarantee (if any) or
- the financial asset is more than 90 days past due for residential, commercial and budget clients.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 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 considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3. Significant accounting policies (continued)

(i) Impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

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

Regarding trade receivables and contract assets the Company applies a simplified approach by using provision matrix. The provision matrix is updated on an annual basis.

As for overdue receivables the Company charges interest in the size of the base rate +10%, in determining the amount of the impairment for each of the categories the management has analyzed actually collected interest for overdue payments and has respectively adjusted the impairment for each of the categories.

The management of the Company considers that the unemployment rate for the individual customers is the indicator, which gives information about the trends in debt collection; nevertheless, the management considers that the unemployment rate has an impact on debt collection in changes of that indicator by over 3%, based on the official information of the Bulgarian National Statistical Institute (NSI).

The unemployment rate in 2019 and the expected rates for that indicator for 2020 are not envisaged to change by more than 3%.

Other factors, which the management considers to have an impact on the debt collection rates, are inflation and demographic changes.

Credit-impaired financial assets

At each reporting data the Company measures whether the financial assets accounted for at amortized cost and assets under contracts are with credit impairment. The financial asset is credit-impaired when one or more events that have occurred and have a significant impact on the estimated future cash flows of the financial asset. Evidence that the financial asset is credit-impaired includes the following observable data:

- considerable financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past-due event above 180 days for residential clients and above 90 days for commercial and budget clients.
- restructuring a Company's trade receivable under conditions which the Company would not otherwise review
- it becoming probable that the borrower will enter bankruptcy/ becomes insolvent for individuals or other financial reorganisation;

Presenting impairment loss for the expected credit losses in the statement of financial position

Impairment loss of the financial assets, measured at depreciated value are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is derecognized, when the Company does not have reasonable expectations for recovery of a financial asset in its entirety or part of it or when specific receivables are appealed by individual customers and the proceedings regarding them is terminated (invalidated) by the court.

For individual customers, the Company has a policy for derecognition of the gross carrying amount, when the financial asset is overdue by 3 years on the basis of the historical experience related to the recovery of similar assets. For corporate customers, the Company makes individual measurement regarding the time and the size of the derecognition on the basis of whether there is reasonable expectation for recovery. The company does not expect considerable recovery of the sum that is derecognized. The financial assets, which however are derecognized, can still be a subject of an action for enforcement in order to comply with the procedures of the Company for recovery of the amounts due.

3. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) *Non-financial assets*

The book values of the Company'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.

(j) 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 separate 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 Company'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 Company'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.

The Company has obligation to pay certain amounts to each employee who retires with the Company 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 Company is obliged to pay him compensations amounted to two gross monthly salaries. If the employee's length of service in the Company 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.

3. *Significant accounting policies (continued)*

(j) **Employee benefits (continued)**

(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 Company 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 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.

The fair value of the amount payable to employees in respect of share appreciation rights (SARs), which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the fair value of the liability are recognized as employee benefit expenses in profit or loss.

(k) **Provisions**

A provision is recognized if, as a result of a past event, the Company 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 Company'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 Company based on all the facts and circumstances related to the expected cash outflows resulting from a hypothetical court decision in other party's favor.

(l) **Revenue**

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

(m) **Government grants**

The Company recognizes government grants initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company 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 Company for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized.

3. Significant accounting policies (continued)

(o) 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.

(p) 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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. 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.

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.

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 Company 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 Company 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.

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these separate financial statements. The Company plans to adopt these pronouncements when they become effective.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC

(a) Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments are effective for annual periods beginning on or after 1 January 2020 and are required to be applied prospectively. Early application is permitted. They clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Company does not expect the Amendments to have a material impact on its separate financial statements when initially applied.

(b) Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

The amendments are effective for annual periods beginning on or after 1 January 2020 and are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to:

- ‘Highly probable’ requirement.
- Risk components
- Prospective assessments
- Retrospective effectiveness test (for IAS 39)
- Recycling of the cash flow hedging reserve.

The Company does not expect the amendments to have a material impact on its separate financial statements when initially applied.

(c) Amendments to References to the Conceptual Framework in IFRS Standards

The amendments are effective for annual periods beginning on or after 1 January 2020.

(d) Amendments to IFRS 3 Business Combinations

The amendments are effective for annual periods beginning on or after 1 January 2020.

Standards and interpretations not yet endorsed by the EC

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the EC, and therefore are not taken into account in preparing these separate financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

(a) IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 and early application is permitted. The Company expects that the standard, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company because the Company does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(b) Other amendments

The following amendments and improvements to standards are not expected to have a material impact on the separate financial statements of the Company.

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted

(c) Other amendments (continued)

- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements.
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions.

4. Revenue

A. Categories of revenues and breakdown of the revenues under contracts with customers

The Company 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 Company. The other sources of revenues have been listed in Note 5.

<i>In thousands of BGN</i>	Note	2019	2018 Restated*
Revenues from contracts with customers			
<i>Revenues related to water supply and sewerage</i>			
Revenue from water supply		112,559	103,321
Revenue from sewerage		31,236	27,271
Revenue from wastewater treatment		23,441	22,109
Interest income from overdue receivables		3,359	2,478
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget		(178)	(116)
Penalties for industrial discharges of water with excessive concentration of pollutants		615	507
		<u>171,032</u>	<u>155,570</u>
Revenues from non-regulated services			
Revenues from sale of services		<u>3,011</u>	<u>2,675</u>
Revenues from the sale of green energy			
Revenues from green energy		<u>279</u>	<u>486</u>
Total revenues from sales of services and green energy		<u>174,322</u>	<u>158,731</u>
<i>Revenues from construction services</i>			
Water supply		10,604	11,662
Potable water treatment		1,477	2,100
Sewerage		8,558	10,561
Wastewater treatment		4,647	1,745
Water service connections and water meters		5,282	5,462
		<u>30,568</u>	<u>31,530</u>
Total revenues from contracts with customers		<u>204,890</u>	<u>190,261</u>

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 Company 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). The end beneficiary of the loan from the European Investment Bank was the Municipality of Sofia.

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 principle 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 Company 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 2019, the Company transferred two instalments for a total amount of BGN 839 thousand to the bank account indicated by the Municipality of Sofia, to service the loan from EIB. These installments decrease the amount of ISPA payables (refer to Note 20).

The portion of billed revenue in 2019, set aside for servicing and repayment of the EIB loan, based on the price component included into the WSS services tariff, amounts to BGN 882 thousand (2018: BGN 909 thousand), presented above as a reduction of the Company'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 2019 and 2018 (refer to Note 20)

B. Contract balances

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

	31 December 2019	1 January 2019
Receivables, which are included in 'trade and other receivables'	27,811	25,178
Contract assets– unbilled receivables	10,527	9,936
Contract liabilities	(5,516)	(4,751)
Total	<u>32,822</u>	<u>30,363</u>

Contract assets – unbilled receivables

Contract assets refer to the rights of the Company 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 Company issues an invoice to the customer.

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 Company's billing system.

As at 31 December 2019 the Company has contract liabilities at the amount of BGN 5,516 thousand (2018: BGN 4,751 thousand).

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 Company 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 company has identified one performance obligation in compliance with the requirements of the IFRS 15 in the arrangements with its customers, which include three separate components – water supply, sewerage and wastewater treatment. The three components cannot be separated as separate 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 Company in accordance with the Concession agreement. In line with the requirements of the Concession agreement, public assets built by the Company are owned by the Grantor. They include improvement of existing assets and construction of new components of the water supply and sewerage system.

The Company recognizes an intangible asset – concession right. In accordance with the Concession agreement, the Company 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)

In this respect, the Company recognizes an intangible asset “Concession right” against revenue from construction contracts. The 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 Company usually 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 revenue recognized is limited to fair value of the consideration received (i.e. the amount expected to be realized as incremental revenue as a result of the separate construction service provided). If the costs of the additions or improvements exceed the fair value of the consideration received, the additional amounts invested are recognized as an increase of the intangible asset – Concession right, since these investments are necessary for the Company to be able to continue to charge users in the future under the terms of the contract.

The company has identified one performance obligation in line with the requirements of the 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 Company 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 company sells to the National Electricity Company (NEC) the green energy that it generates from the natural gas captured during wastewater treatment.

Revenue recognition

The control on the services is transferred over time.
The invoices to NEC are issued on a monthly basis.

5. Other incomes

In thousands of BGN

	2019	2018 Restated*
Penalties to contractors	326	199
Gain on sale of inventories to subcontractors for construction works	188	263
Gain on sale of Property, plant and equipment	21	3
Income from financing	363	58
Gain on sale of carbon emissions	126	58
Other	326	358
	<u>1,350</u>	<u>939</u>

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

	2019	2018
Revenue from sale of vehicles	22	200
NBV of sold vehicles	<u>(1)</u>	<u>(197)</u>
	<u>21</u>	<u>3</u>

6. Expenses for materials

In thousands of BGN

	2019	2018 Restated*
Electricity, water, heating	1,562	1,330
Sub-contractors	2,382	2,755
Fuels and lubricants	1,225	1,249
Water for technological needs	1,489	1,473
Chemicals	3,784	2,874
Plumbing materials	702	666
Other	1,448	1,630
	<u>12,592</u>	<u>11,997</u>

7. Expenses for hired services

<i>In thousands of BGN</i>	2019	2018 Restated*
Construction services provided by sub-contractors	23,311	23,881
Repairs and maintenance of concession infrastructure	5,420	4,380
Insurance	1,272	1,331
Commission for collection of trade receivables	1,499	1,382
Rent	128	1,143
Security	8,530	7,285
Other expenses for hired services	10,368	10,710
	<u>50,528</u>	<u>50,112</u>

Other expenses for hired services include:

<i>In thousands of BGN</i>	2019	2018
Water meter reading	1,768	1,716
Transportation of sludge	493	782
Courier services	360	356
Printing services	573	572
Technical services	1,496	1,496
Consultancy	541	538
Asphalt covering	488	401
EWRC fee	401	405
Disinfection	25	28
Communication	386	400
Annual software licenses	897	823
Collection of receivables	73	68
Hired transportation	140	120
Water tankers	208	204
Software maintenance and internet	553	592
Training	368	200
Announcements and communications	339	353
Local taxes and fees	115	102
Cleaning of offices and water tanks	144	93
Fees	38	39
Other	962	1,422
	<u>10,368</u>	<u>10,710</u>

The accrued charges on remunerations for the appointed auditor amount to BGN 120 thousand including the statutory independent financial audit of BGN 60 thousand.

8. Employee benefit expenses

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018 Restated*
Wages and salaries		26,653	25,254
Compulsory social security and pension contribution		5,545	5,267
Social expenses		67	78
Expenses for additional pension contribution		554	513
Current and past service costs in relation to employee benefits	23	174	221
Voucher expenses		1,663	1,635
Share-based payments		187	280
		<u>34,843</u>	<u>33,248</u>

The salary expenses include an accrual for unused annual paid leave amounting to BGN 803 thousand (2018: BGN 840 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 155 thousand (2018: BGN 162 thousand).

The average number of the Company's personnel is 1,176 employees (2018: 1,178 employees).

Description of share-based payments transaction

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

From September 2018 and September, 2019, Company employees were granted the opportunity to get included into plans giving rights over the increase in the price of the shares of the mother company Veolia Environnement (France). Description below is applicable for 2018 and 2019 plans.

The Company 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 company, 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 company between the date of granting and the date of maturity.

The mother company Veolia Environnement (France) bills to the Company the costs that Veolia Group incurs in connection with the two programs, provided to the company employees.

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 Company as equity-settled share-based payments transactions.

As at 31 December 2019 the total invested amount (incl. from the previous year) by the employees under the two programs amounts to BGN 737 thousand (BGN 411 thousand for 2018 program and BGN 326 thousand for 2019 program) and the sum invested by Veolia Environnement under the "Secured Offer" amounts to 467 thousand BGN, which is invoiced by Veolia Environnement to the Company (BGN 280 thousand invoiced and expensed in 2018 and BGN 187 thousand invoiced and expensed in 2019).

9. Other operating expenses

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018
Inventory write-down / (reversal) to net realizable value	14	388	(92)
One-off taxes		217	192
Provisions for fines and penalties, net		752	826
Scrapping of materials		10	11
Scrapping of non-current assets		34	21
Annual fee - water and sewerage		3,194	3,764
Expenses for provision "Handback Account"	21,25	1,089	-
Other		1,445	3,527
		<u>7,129</u>	<u>8,249</u>

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

<i>In thousands of BGN</i>	2019	2018
Interest income	7	31
Effect from guarantee discounts	2	7
Revenue from foreign currency transaction, net	1	-
Financial income	<u>10</u>	<u>38</u>
Interest expenses for Loan "A"	-	(424)
Interest expenses for Loan "B"	-	(849)
Interest expenses for Loan "C"	(1,174)	(1,211)
Interest expenses for financial lease contracts	(39)	(48)
Interest expenses on employee benefits	(18)	(35)
Effect from guarantee discounts	(5)	(5)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(4)	(15)
Other finance costs	(58)	(84)
Loss from foreign currency exchange differences, net	(20)	(71)
Finance costs	<u>(1,318)</u>	<u>(2,742)</u>
Finance costs (net)	<u>(1,308)</u>	<u>(2,704)</u>

11. Tax expenses

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018 Restated*
Current tax expense			
Income tax for current year		(5,170)	(4,146)
Income tax for previous periods		(425)	(130)
Deferred tax expense			
Origination and reversal of temporary differences	19	<u>957</u>	<u>611</u>
Total tax expense		<u>(4,638)</u>	<u>(3,665)</u>

The relevant tax period of the Company 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 company is not aware of any circumstances that may bring additional significant liabilities in this area.

A tax audit of the Company with respect to the Corporate Income Tax covers the period up to 31 December 2012 and tax audit on the Company 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		2019		2018 Restated*
<i>In thousands of BGN</i>				
Profit for the year		36,475		30,065
Total tax expenses		<u>4,638</u>		<u>3,665</u>
Profit before tax		<u>41,113</u>		<u>33,730</u>
Income tax based on the Company's domestic tax rate	10%	(4,111)	10%	(3,373)
Non-deductible expenses	0.25%	(102)	0.48%	(162)
Income tax for previous periods	1.03%	(425)	0.39%	(130)
Net current income tax expense	11.28%	<u>(4,638)</u>	10.87%	<u>(3,665)</u>

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 2018	710	33,965	14,851	1,481	-	51,007
Additions	-	-	-	-	5,986	5,986
Disposals	-	(655)	(783)	-	-	(1,438)
Transfers	-	3,098	2,416	472	(5,986)	-
Balance at 31 December 2018	710	36,408	16,484	1,953	-	55,555
Recognition of right-of-use assets on initial application of IFRS 16	4,092	821	-	-	-	4,913
Adjusted balance at 1 January 2019	4,802	37,229	16,484	1,953	-	60,468
Additions	-	-	-	-	4,667	4,667
Disposals	(664)	(313)	(405)	-	-	(1,382)
Transfers	-	1,258	3,281	128	(4,667)	-
Balance at 31 December 2019	4,138	38,174	19,360	2,081	-	63,753
Depreciation						
Depreciation as at 1 January 2018	(217)	(21,486)	(9,438)	(1,095)	-	(32,236)
Depreciation charge for the year	(20)	(2,782)	(1,484)	(79)	-	(4,365)
Depreciation on disposals	-	444	773	-	-	1,217
Balance at 31 December 2018	(237)	(23,824)	(10,149)	(1,174)	-	(35,384)
Recognition of right-of-use assets on initial application of IFRS 16	(2,597)	(495)	-	-	-	(3,092)
Adjusted balance at 1 January 2019	(2,834)	(24,319)	(10,149)	(1,174)	-	(38,476)
Depreciation charge for the year	(1,097)	(3,358)	(1,633)	(94)	-	(6,182)
Depreciation on disposals	633	291	404	-	-	1,328
Balance at 31 December 2019	(3,298)	(27,386)	(11,378)	(1,268)	-	(43,330)
Carrying amounts						
At 1 January 2018	493	12,479	5,413	386	-	18,771
At 31 December 2018	473	12,584	6,335	779	-	20,171
At 1 January 2019	1,968	12,910	6,335	779	-	21,992
At 31 December 2019	840	10,788	7,982	813	-	20,423

12. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2019, amount to BGN 4,594 thousand (2018: BGN 5,514 thousand) and are listed below:

<i>In thousands of BGN</i>	2019	2018
Cogenerator	53	1,502
Vehicles and mechanization	2,700	2,438
Laboratory equipment	640	402
Computer equipment	335	516
CCTV	146	62
Professional set Arc Fla	-	5
Telescopic camera	-	18
Underground communication system	-	80
Diesel aggregate and pumps	-	19
Gardening equipment	12	36
Prefabricated building Batalova Vodenitsa	-	48
Welding systems, grinders	29	23
Devices for geodetic measurements and leak detection	150	36
Other equipment	529	329
	4,594	5,514

Assets pledged as collateral

Under the secured bank Loan “C” granted by a consortium between Societe Generale Expressbank AD (Expressbank) and United Bulgarian Bank AD (UBB), the Company pledged all of its current and future non-current tangible assets with values over BGN 10 thousand.

Assets pledged as collateral under finance lease contracts

ROU assets recognized for vehicles under leasing contracts serve as collateral on the leasing contracts. The carrying amount as at 31 December 2019 of such assets, for which the lease liabilities are not fully paid, total 2,399 thousand BGN.

Leased vehicles (classified as finance lease under IAS 17)

At 31 December 2018, the net carrying amount of vehicles held under finance lease was BGN 3,065 thousand. As at the date of initial application of IFRS 16 the Company has reclassified these assets in right-of-use assets (see Note 27).

During 2019 the Company performed a review of the useful lives of equipment and machinery, production equipment and fixtures and fittings and as a result, the expected useful life of these assets has been decreased. The effect of these changes in depreciation costs is as follows:

<i>In thousands of BGN</i>	2019	2020	2021	2022	2023	After 2023
(Increase) decrease in depreciation expenses	(357)	(295)	(197)	(99)	(22)	266

13. Intangible assets

In thousands of BGN

	Development costs	Software	Concession right	Assets under construction – other	Total
Cost					
Balance at 31 December 2017 previously reported	21,041	20,496	509,531	30	551,098
Effect from accounting error (note 29)	-	-	(4,800)	-	(4,800)
Restated balance at 1 January 2018	21,041	20,496	504,731	30	546,298
Additions	-	-	36,770	700	37,470
Disposals	-	-	-	-	-
Transfers	-	700	-	(700)	-
Restated balance at 31 December 2018	21,041	21,196	541,501	30	583,768
Restated balance at 1 January 2019	21,041	21,196	541,501	30	583,768
Additions	-	-	40,522	1,033	41,555
Disposals	-	-	-	-	-
Transfers	-	429	-	(429)	-
Balance at 31 December 2019	21,041	21,625	582,023	634	625,323
Depreciation					
Balance at 31 December 2017 previously reported	(21,037)	(15,970)	(218,681)	-	(255,688)
Effect from accounting error (note 29)	-	-	(6,286)	-	(6,286)
Restated balance at 1 January 2018	(21,037)	(15,970)	(224,967)	-	(261,974)
Depreciation for the year	-	(698)	(37,581)	-	(38,279)
Restated balance at 31 December 2018	(21,037)	(16,668)	(262,548)	-	(300,253)
Balance at 1 January 2019	(21,037)	(16,668)	(262,548)	-	(300,253)
Depreciation for the year	-	(761)	(43,093)	-	(43,854)
Disposals	-	-	1	-	1
Balance at 31 December 2019	(21,037)	(17,429)	(305,640)	-	(344,106)
Carrying amounts					
At 1 January 2018	4	4,526	279,764	30	284,324
At 31 December 2018	4	4,528	278,953	30	283,515
At 1 January 2019	4	4,528	278,953	30	283,515
At 31 December 2019	4	4,196	276,383	634	281,217

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 Company 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 Company, 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 Company. The indicator weighted-average cost of capital is applied to the regulatory value of the assets constructed by the Company (owned assets and those which are subject to transfer to the Municipality of Sofia) and has a considerable weight in determining the values of the prices of the WSS services provided by the Company (for more information about the rate of return of equity and its effect on determination of the selling prices see below).

As a result of the above-mentioned additional agreement to the Concession Agreement in combination with the approaching end of the term of the concession contract, the Company has made an analysis for indications for impairment of fixed tangible and intangible assets as at 31 December 2019 pursuant to the requirements of IAS 36 *Impairment of Assets*. The intangible assets of the Company, the greatest part of which is the “Concession right”, as well as the tangible assets owned by the Company are considered as one 'cash-generating unit' (CGU) for the purposes of the impairment test. The recoverable amount of the CGU is determined based on fair value less cost to disposal, calculated based on discounted cash flows. The measurement of fair value is categorized as such by level 3 on the basis of the input data used in the valuation technique.

Key assumption in the impairment test prepared by the management is the extension of the concession contract within the limits allowed by the law.

The impairment test prepared by Management includes after tax cash flows for a period of 17 years after the reporting date: including 8.3 years extension after October 2025 under the assumption of an extension of the Concession Agreement after October, 2025 until 2033. A subsequent period of 3 more years after 2033 r. has been assumed for the collection of outstanding receivables and settlement of payables. The management considers the extension of the concession contract with one third of the original concession contract term highly probable. The management assessment for the probability of extension is based on the analysis of the applicable legislation, based on the performance of the Company under the active concession contract and the undertaken preliminary steps in initiating the process of negotiation with the Grantor .

Based on the analysis made, the Management considers that in addition to the assumption for extension of the Concession contract another significant assumption in determination of the recoverable amount of the CGU is the indicator “Sales prices of the services related to water supply and sewerage”. In turn the sale prices are impacted mostly by the return on equity, used by the EWRC when determining the prices of the services, applicable for the Company.

As at the end of 2019, based on the impairment test prepared by the Management, it was concluded that the determined recoverable amount is higher than the carrying amount of the CGU and that no impairment should be recorded as at 31 December 2019.

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

- Revenue from sales, based on quantities and selling prices determined as follows:
 - Quantities - based on the most recent projections for billed volumes in long-term plan of the Company for the years after 2020-2033;.
 - Selling prices – based on the preliminary approved selling prices, as included in the business plan for the period 2017-2021 and selling prices for the period 2022-2025 estimated by the management based on

13. Intangible assets (continued)

the sales price formula included in the applicable piece of legislation approved by the EWCR and inflationary adjustments for the years 2026 until 2033;

- The selling prices are determined based on the operational expenses of the Company and the return on the regulated assets base involved in providing the water, sewerage and wastewater services to clients . The return on the regulatory basis of the assets is calculated based on the regulatory formula for weighted-average cost of capital, including rates of return on equity and on borrowings.
- The rate of return on equity has the most significant effect in determination of the rate of return applied to the regulated value of the assets. For the years 2020 and 2021 the Company used 17% for the rate of return on equity, as determined in the concession contract and approved by the EWRC. For the periods after 2021 the Company used a rate of return of equity at the value of 9.94%, which was the rate of return on equity estimated by the Regulator in the process of preparation of the business plan for the period 2017-2021.
- Investment in assets – the annual investments in the model are based on the current level of investments as approved by the Regulator in the currently applicable business plan of the Company. The annual investments for the period 2020-2033 are in average BGN 43,226 thousands.

— The revenue and the operational expenses (excluding amortization and depreciation expenses) are inflated with the expected rate of inflation

— Discount interest rate after taxation - 6.4%.

The management assessed that if the assumption for extension is achieved no reasonable change in all other assumptions used in the model will result in impairment loss as at 31.12.2019. The management considers that there are significant uncertainties related to the future, mostly regarding the extension option of the concession contract. In case the extension of the concession contract is not obtained this would result in significant impairment of the Company long-term assets as at 31 December 2019 at the amount of approximately BGN 21 million.

The management expects that the investments made by Sofiyska voda AD in the period 2000 - 2025 (original term of the concession contract) will be included in the regulatory base of the assets in 2025 if an extension to the concession contract is then agreed and they will be used as a pricing element by the Regulator when determining the selling prices.

14. Inventories

<i>In thousands of BGN</i>	2019	2018
Spare parts and consumables	2,344	2,189
	<u>2,344</u>	<u>2,189</u>

As at 31 December 2019 the cumulative inventory write-down to net realizable value amounts to BGN 1,599 thousand (2018: BGN 1,215 thousand).

15. Trade and other receivables

<i>In thousands of BGN</i>	Note	2019	2018
Trade and other receivables		65,414	59,982
Impairment losses on trade receivables		<u>(37,604)</u>	<u>(34,804)</u>
Total trade receivables	22	<u>27,810</u>	<u>25,178</u>
Other receivables and prepayments		<u>1,740</u>	<u>1,275</u>
		<u>1,740</u>	<u>1,275</u>
Total trade and other receivables		<u>29,550</u>	<u>26,453</u>
<i>Non-current</i>		1,264	1,025
<i>Current</i>		28,286	25,428

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

15. Trade and other receivables (continued)

In 2019 impairment losses on trade receivables amounting to BGN 1,758 thousand have been written off (2018: BGN 1,928 thousand).

Accounts receivable pledged as collateral:

Under the secured bank Loan “C” from the consortium between Expressbank and UBB, the Company has pledged all of its revenues from sales in the future on any account in local currency, trade receivables of general type, against any party, and insurance receivables related to any receivable under an account.

The Company’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:

<i>In thousands of BGN</i>	2019	2018
Insurance	855	840
Licenses	271	65
Subscriptions	126	42
Advances for non-current assets	338	29
Other	150	299
	<u>1,740</u>	<u>1,275</u>

16. Cash and cash equivalents

<i>In thousands of BGN</i>	Note	2019	2018
Cash on hand		46	84
Local currency		37	69
Foreign currency		9	15
Cash at banks	22	48,864	34,955
Local currency		48,383	34,941
Foreign currency		481	14
Cash and cash equivalents in the statement of cash flows	22	<u>48,910</u>	<u>35,039</u>

Cash at banks pledged as collateral:

Under the secured bank Loan “C” from the consortium between Expressbank and UBB, received from the bank, the Company has pledged the available cash in all of its bank accounts.

The Company’s exposure to Interest rate risks and the sensitivity analysis of all financial assets and liabilities are stated in Note 22 Financial Instruments.

17. Capital and reserves

<i>In thousands of shares</i>	Ordinary shares	
	2019	2018
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	<u>8,884</u>	<u>8,884</u>

17. Capital and reserves (continued)

As at 31 December 2019 the Company's share capital includes 8,884,435 ordinary shares (2018: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Company as at 31 December 2019 are:

- Veolia Voda (Sofia) BV – 6,850,000 ordinary shares (77.1%);
- Vodospabdyavane I Kanalizatsia AD - 2,034,435 ordinary shares (22.9%).

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

With a pledged endorsement dated 14 May 2018 in favor of the bank which provided secured bank loan "C", with consortium Expressbank and UBB AD, 6,850,000 ordinary shares have been pledged and this fact is inscribed in the shareholders' book based on a contract for pledge of shares.

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

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 Company capital is reached.

18. Loans and borrowings

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

<i>In thousands of BGN</i>	2019	2018
Non-current liabilities		
Loans at nominal value	22,458	48,592
Amortization	(94)	(286)
Loans at amortized cost	<u>22,364</u>	<u>48,306</u>
Lease liabilities (2018: finance lease)	769	1,529
	<u>23,133</u>	<u>49,835</u>
Current liabilities		
Loans at nominal value	22,391	24,864
Amortization	(176)	(311)
Loans at amortized cost	<u>22,215</u>	<u>24,553</u>
Lease liabilities (2018: finance lease)	1,324	1,093
	<u>23,539</u>	<u>25,646</u>
Total loans and borrowings	<u>46,672</u>	<u>75,481</u>

In accordance with the loan agreement "C" with consortium Expressbank and UBB AD the Company has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of at least 1.5:1 to the end of 2019 and 1.2:1 to the end of the loan agreement - 2022. Also the ratio between the balance value of its equity (as the sum of its registered capital, non-distribute earnings and Reserve fund) and the balance value of its assets shall be greater than 0.5 (zero point five). The calculation of the ADSCR and the ratio between the balance value of the equity and the balance value of its assets shall be made every six months. For the period ended 30-th of June, the ratios will be calculated based on direct method cash flow sent by the Borrower for the preceding 12 months. For the period ending on 31st of December, the ratios will be calculated based on the data from the audited financial statements of the Borrower for the preceding 12 months. In accordance with the loan agreement the calculation of the annual debt service coverage ratio is calculated by the bank by the means of a model based on the actual and estimated values as at the date of preparation. As per the internal calculations based on the actual cash flow for 2019 the actual ADSCR is 2.60:1. The second ratio (between the book value of the equity and the book value of the assets) is 0.83.

Terms and debt repayment schedule

<i>In thousands of BGN</i>	Curren cy	Nominal rate	Year of Maturity	31 December 2019		31 December 2018	
				Face Value	Carrying Amount	Face Value	Carrying Amount
Loan "C" from the consortium Expressbank and UBB AD	EUR	1.35% plus 3 month EURIBOR	2022	44,849	44,579	73,456	72,859
Finance lease liabilities	BGN			-	-	2,622	2,622
				<u>44,849</u>	<u>44,579</u>	<u>76,078</u>	<u>75,481</u>

18. Loans and borrowings (continued)

On March 19, 2018, Sofiyska Voda AD signed a Loan Facility Agreement with the consortium between Societe Generale Expressbank AD and United Bulgarian Bank AD for a loan facility of two tranches for a total amount of 50,270 thousand EUR for the purpose of refinancing the loans of the Company from Veolia Voda (Sofia) B.V. and European Bank of Reconstruction and Development (EBRD). The loan facility was provided under the following conditions:

- Deadline for granting the loan facility: April 24, 2018.
- Maturity of principals under Tranche 1: 11 equal installments, the first one being due 25 April 2018, followed by 10 equal quarterly installments as of 25 June 2018, as the last one being due 25 September 2020.
- Maturity of principals under Tranche 2: 19 equal installments, the first one being due 25 April 2018, followed by 18 equal quarterly installments as of 25 June 2018, as the last one being due 25 June 2022.
- Interest payment deadlines: on each principal maturity date.
- Nominal interest rate: 3M EURIBOR plus 135 bps

The loan facility is subject to a number of collaterals, including registered pledge over aggregate of existing and future assets owned by the Company, registered pledge over the receivables for the positive balance on all bank accounts in Bulgaria; pledge of all shares from the capital of the Company owned by Veolia Voda Sofia B.V.

Finance lease liabilities

Finance lease liabilities as at 31 December 2018, before application of IFRS 16, were payable as follows:

<i>In thousands of BGN</i>	Future minimum lease payments	Interest	Present value of minimum lease payments
	2018	2018	2018
Less than 1 year	1,131	37	1,094
Between 1 and 2 years	1,346	25	1,321
2 to 5 years	209	2	207
	2,686	64	2,622

Reconciliation of the liabilities from financial activities

Loans and borrowings

<i>In thousands of BGN</i>	2019	2018
Balance at 1 January (at amortized cost)	72,859	98,551
Received	-	98,320
Repaid	(28,607)	(123,184)
Accrued interest	1,174	2,530
Paid interest	(847)	(2,436)
Other expenses related to loans	-	(922)
Balance at 31 December (at amortized cost)	44,579	72,859

19. Deferred tax assets and liabilities

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

<i>In thousands of BGN</i>	Assets 2019	Liabilities 2019	Net 2019	Assets 2018	Liabilities 2018	Net 2018
Property, plant and equipment	123	-	123	-	(115)	(115)
Inventories	160	-	160	122	-	122
Trade receivables	7,720	-	7,720	7,109	-	7,109
Provisions	294	-	294	221	-	221
Accrual for unused paid leave and bonuses	416	-	416	366	-	366
Payables as per defined benefit plan	184	-	184	165	-	165
Financing	10	-	10	15	-	15
Trade payables	-	-	-	67	-	67
Deferred tax assets/ (liabilities)	<u>8,907</u>	<u>-</u>	<u>8,907</u>	<u>8,065</u>	<u>(115)</u>	<u>7,950</u>

In determining the current and deferred taxes the Company has adopted as an accounting basis the one stated in significant accounting policies (Note 3). The deferred tax for 2019 is calculated by using the tax rate applicable to the Company, which is the legally set for now income tax rate for 2019 – 10%.

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19. Deferred tax assets and liabilities (continued)

Changes in temporary differences during the year:

<i>In thousands of BGN</i>	Balance as at 1 January 2018	Recognized in profit or loss	Balance as at 31 December 2018	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2019
Property, plant and equipment	(305)	190	(115)	238	-	123
Inventories	131	(9)	122	38	-	160
Trade receivables	6,580	529	7,109	611	-	7,720
Provisions	353	(131)	222	72	-	294
Accrual for unused annual paid leave and bonuses	354	11	365	51	-	416
Liabilities under a defined benefit plan	140	25	165	19	-	184
Financing	19	(4)	15	(5)	-	10
Trade payables	67	-	67	(67)	-	-
Deferred tax assets/ (liabilities)	7,339	611	7,950	957	-	8,907

20. Trade and other payables

<i>In thousands of BGN</i>	<i>Note</i>	2019	2018
Trade payables		21,949	14,051
Retentions payable to subcontractors		2,824	3,086
Payables to employees		5,530	4,866
Insurance		790	748
ISPA payable		4,282	4,239
<i>Incl. long term part of ISPA</i>		3,463	3,400
<i>Incl. short term part of ISPA</i>		819	839
Total trade payables		<u>35,375</u>	<u>26,990</u>
Social security payables		951	902
Payable as per Settlement Agreement between the Municipality of Sofia and SV		4,399	5,302
<i>Incl. long term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda</i>		2,973	4,031
<i>Incl. short term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda</i>		1,426	1,271
Payables for water usage tax		3,194	3,771
VAT payable		1,263	817
Other taxes payable		416	385
Other payables and accruals		1,051	1,268
		<u>11,274</u>	<u>12,445</u>
Total trade and other payables		<u>46,649</u>	<u>39,435</u>
<i>Incl. Non-current</i>		6,436	7,431
<i>Incl. Current</i>		40,213	32,004

On 16 January 2009, the 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 2019-2023 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 are to be fulfilled in the period 2016-2023. The investments in the years 2016, 2017, 2018 and 2019 are - BGN 1.16 million, BGN 1.06 million, BGN 2.14 million and BGN 0.9 million respectively. The final BGN 4.4 million will be invested over the period 2020-2023. As the above amounts from the Settlement Agreement are outside the investments set in the Company's business plans and are on the account of Sofiyska voda, 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

<i>In thousands of BGN</i>	2019	2018
Provision for court liabilities	380	731
Provision for interest	1,104	1,104
Provision "Handback Account" (note 25)	1,089	-
	<u>2,573</u>	<u>1,835</u>

Provision for court liabilities

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

Provisions are made for legal claims of contractual nature – indemnification of claimed damage due to emergencies related to assets operated by the Company, 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 separate 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 Company 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 Company 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 Company 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 Company the management considers that the Company is not exposed to 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.

21. Provisions (continued)

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

<i>In thousands of BGN</i>	Balance at 1 January 2019	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2019
Provision for court liabilities	731	165	(17)	(499)	-	380
Provision for interests	1,104	-	-	-	-	1,104
Provision "Handback Account"		1,089				1,089
	<u>1,835</u>	<u>1,254</u>	<u>(17)</u>	<u>(499)</u>	<u>-</u>	<u>2,573</u>

22. Financial instruments

Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

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

Risk Management Framework

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, through its training and management standards and procedures, aims to develop a constructive control environment in which all employees understand their roles and obligations.

The Risk Management Committee of the Company 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 Company 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from the Company's receivables from customers and investments in financial instruments.

22. Financial instruments (continued)

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:

<i>In thousands of BGN</i>	<i>Note</i>	Carrying amount 2019	Carrying amount 2018
Trade and other receivables	15	27,810	25,153
Contract assets	4	10,527	9,936
Receivables from related parties	15,26	85	25
Cash and cash equivalents (at banks)	16	48,864	34,955
		<u>87,286</u>	<u>70,069</u>

Trade and other receivables and contract assets

The credit risk exposure of the Company 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 Company provides WSS services on the territory of Sofia Municipality and as at 31 December 2019 the active customers of the Company are 672,018 (2018: 659,694). Based on the analyses of the Company, the services rendered have low price elasticity. The prices are regulated by the Energy and Water Regulation Commission (EWRC). The Company 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 Company uses external collection agencies in order to take advantage of the expertise and best practices, as well as up-to-date software support. The Company'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 Company's ability to influence directly its customers' behavior 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 Company and it is as follows:

<i>In thousands of BGN</i>	Book value 31 December 2019	Impair- ment 2019	Carrying amount 31 December 2019	Book value 31 December 2018	Impair- ment 2018	Carrying amount 31 December 2018
Government/municipality controlled entities	5,080	(2,483)	2,597	1,212	(258)	954
Legal entities	8,131	(2,768)	5,363	10,146	(3,803)	6,343
Domestic population	59,658	(32,253)	27,405	56,964	(30,666)	26,298
Other customers	3,072	(100)	2,972	1,571	(77)	1,494
Related parties	85	-	85	25	-	25
	<u>76,026</u>	<u>(37,604)</u>	<u>38,422</u>	<u>69,918</u>	<u>(34,804)</u>	<u>35,114</u>

22. Financial instruments (continued)

Expected measurement of credit losses for the individual customers as at 1 January and 31 December 2019

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

For the purposes of the analysis the Company has grouped the customers into three categories:

- individual customers
- legal entities
- budgetary customers

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

In determining the impairment as at 01 January 2019 and 31 December 2019 on the basis of the analyzed above historical data about the collection rate for each of the categories, the Company has developed a model for expected evolution of the receivables for each of the categories from “Current (not overdue)” to the category “Overdue by more than 300 days”. Based on the thus obtained information the Company has applied discounting of the amounts for each of the categories (except for the category “Overdue by over 300 days”) as at the reporting date, applying a discount rate of 7.4% based on published data for interest rates for consumer credits in BGN for households in Bulgaria (2018- 8%).

For the category “Overdue by more than 300 days”, the size of the impairment has been determined based on the historical data for debt collection.

Regarding the legal entities and the budgetary customers the management considers that the debt collection rates are materially constant and are not influenced by the changes in external factors, except in considerable negative changes in the entire economic situation. A factor that is considered relevant for identifying such changes is the Bulgarian GDP. Based on the official information of the Ministry of Finance as at the reporting date such changes are not expected.

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

<i>In thousands of BGN</i>	2019	2019	
	Book	Impairment	Credit
	Value		impairment
Not past due	19,906	(902)	No
Past due 30 days	3,617	(670)	No
Past due 31-60 days	2,611	(742)	No
Past due 61-90 days	2,516	(843)	No
Past due 91-180 days	5,994	(2,268)	No
Past due 181-300 days	7,416	(3,363)	No
Past due more than 300 days	33,966	(28,816)	Yes
	<u>76,026</u>	<u>(37,604)</u>	

22. Financial instruments (continued)

In thousands of BGN

	2018	2018	
	Book	Impairment	<i>Credit</i>
	Value		<i>impairment</i>
Not past due	18,940	(1,323)	No
Past due 30 days	3,267	(873)	No
Past due 31- 60 days	2,379	(918)	No
Past due 61-90 days	2,324	(1,106)	No
Past due 91-180 days	6,010	(3,161)	No
Past due 181-300 days	6,843	(4,241)	No
Past due more than 300 days	30,155	(23,182)	Yes
	<u>69,918</u>	<u>(34,804)</u>	

Impairment of not past due receivables is related to the Company's assessment of the risk of uncollectibility for certain population groups based on historical information.

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

In thousands of BGN

	2019	2018
Balance at the beginning of the period	(34,804)	(65,802)
Accruals during the period	(8,691)	(8,516)
Written-off	1,758	1,927
Written- off for purpose of IFRS 9	4,133	37,587
Balance at the end of the period	<u>(37,604)</u>	<u>(34,804)</u>

The quality of the trade and other receivables is assessed based on credit policy prepared by the Risk Management Committee and applied by the Company. The Company's management monitors the customers' credit risk by grouping trade and other receivables by characteristics as in 2019 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 Company 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.

22. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will face difficulties to meet its obligations relating to financial liabilities, meant to be met by cash or other financial asset. The Company'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 stressed conditions, without incurring unacceptable losses or damaging the Company's reputation

The Company management's efforts are focused on upholding in accordance with the regulatory framework in Bulgaria the necessary revenue using the tariff, which will make it possible to reach the goals, levels of services and investments set in the current Business Plan, in the same time taking into account the cost of capital, the level of expenditure, the consumption, the annual inflation and the achieved efficiency of operating and capital costs and also meeting the requirements pursuant to the loan agreement for the Loan "B" facility regarding the debt service coverage ratio and the equity to total assets ratio.

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

31 December 2019 r.

In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Loan "C"	44,579	(45,605)	(22,879)	(15,202)	(7,524)	-
Liabilities to related parties	3,653	(3,653)	(3,653)	-	-	-
Lease liabilities	2,093	(2,120)	(1,343)	(777)	-	-
Trade payables	35,375	(35,375)	(35,375)	-	-	-
	<u>85,700</u>	<u>(86,753)</u>	<u>(63,250)</u>	<u>(15,979)</u>	<u>(7,524)</u>	<u>-</u>

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

As disclosed in Note 18, the Company has secured bank loan "C" with a requirement to comply with certain conditions, as upon breach of any obligation, e.g. failing to maintain debt service coverage ratio (see note 18) under 1.5:1 till the end of 2019 and 1.2:1 till the loan maturity in 2022 – the Company may fall into default and the outstanding amount of the loan may become due to the creditor. 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.

31 December 2018

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						
Loan "C"	72,859	(75,230)	(25,741)	(22,930)	(26,559)	-
Liabilities to related parties	3,818	(3,818)	(3,818)	-	-	-
Finance lease liabilities	2,622	(2,686)	(1,131)	(1,346)	(209)	-
Trade and other payables	26,990	(26,990)	(26,990)	-	-	-
	<u>106,289</u>	<u>(108,724)</u>	<u>(57,680)</u>	<u>(24,276)</u>	<u>(26,768)</u>	<u>-</u>

22. Financial instruments (continued)

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 Company'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 Company 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. Such transactions are denominated primarily in (EUR), (USD), (GBP). 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 Company's exposure to currency risk is minimal.

- **Exposure to currency risk**

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

<i>In thousands of</i>	31 December 2019				31 December 2018		
	EUR	GBP	USD	CZK	EUR	GBP	USD
Trade payables	(1,543)	(1)	(4)	(26)	(1,292)	(1)	(326)
Interest-bearing loans and borrowings	(22,793)	-	-	-	-	-	-
Total	(24,336)	(1)	(4)	(26)	(1,292)	(1)	(326)

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2019	2018	2019	2018
USD 1	1.7470	1.7348	1.7475	1.6308
GBP 1	2.2290	2.2318	2.2988	2.2044
CZK 1	0,0762	-	0,0770	-

- **Sensitivity Analysis**

A 10% increase of the exchange rate at 31 December in relation to the currencies shown below would increase (decrease) the capital and profit or losses with amounts written below. The analysis makes the assumptions that all other variables, especially the interest rates are fixed. The analysis for 2018 is done on the same basis.

<i>In thousands of BGN</i>	Statement of comprehensive income	Statement of comprehensive income
	31 December 2019	31 December 2018
USD	(1)	(32)
GBP	(1)	-
CZK	(3)	-

A 10 % decrease of BGN against the above stated currencies as at 31 December would have the same, as amounts, but opposite effect, making the same assumption that all other variables are fixed .

22. Financial instruments (continued)

Interest rate risk

• *Profile*

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

<i>In thousands of BGN</i>	2019	2018
Fixed rate instruments		
Financial assets	48,864	34,956
Financial liabilities	-	-
	<u>48,864</u>	<u>34,956</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(46,672)	(75,481)
	<u>(46,672)</u>	<u>(75,481)</u>

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

The Company 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 2018 is made on the same basis.

<i>Effects in thousands of BGN</i>	Profit or loss		Equity	
	25 basis points increase	25 basis points decrease	25 basis points increase	25 basis points decrease
31 December 2019				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(117)	117	-	-
Cash flow sensitivity (net)	<u>(117)</u>	<u>117</u>	<u>-</u>	<u>-</u>
31 December 2018				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(188)	188	-	-
Cash flow sensitivity (net)	<u>(188)</u>	<u>188</u>	<u>-</u>	<u>-</u>

Capital management

The Board of Directors' policy is to maintain a strong capital base 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.

There were no changes in the Company's approach to capital management during the year. The Company was not in a breach of any of the equity requirements enforced by external authorities.

In accordance with the Bulgarian Commercial Act, the 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.

22. Financial instruments (continued)

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information if the carrying amount is a reasonable approximation of fair value.

31 December 2019		Carrying amount							Fair value				
<i>In thousands of BGN</i>	<i>Note</i>	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	15	-	-	-	-	27,725	-	-	27,725				
Receivables from related party	26	-	-	-	-	85	-	-	85				
Cash and cash equivalents	16	-	-	-	-	48,864	-	-	48,864				
		-	-	-	-	76,674	-	-	76,674				
Financial liabilities, not measured at fair value													
Loans	18	-	-	-	-	-	-	(44,579)	(44,579)			(44,579)	(44,579)
Trade and other payables	20	-	-	-	-	-	-	(35,375)	(35,375)				
Payables to related parties	26	-	-	-	-	-	-	(3,653)	(3,653)				
Lease liabilities	27	-	-	-	-	-	-	(2,093)	(2,093)				
		-	-	-	-	-	-	(85,700)	(85,700)				

22. Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2018		Carrying amount								Fair value			
In thousands of BGN	Note	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	15	-	-	-	-	25,153	-	-	25,153				
Receivables from related party	26	-	-	-	-	25	-	-	25				
Cash and cash equivalents	16	-	-	-	-	34,955	-	-	34,955				
		-	-	-	-	60,133	-	-	60,133				
Financial liabilities, not measured at fair value													
Loans	18	-	-	-	-	-	-	(72,859)	(72,859)			(72,859)	(72,859)
Trade and other payables	20	-	-	-	-	-	-	(26,990)	(26,990)				
Payables to related parties	26	-	-	-	-	-	-	(3,818)	(3,818)				
Payables on financial lease	27	-	-	-	-	-	-	(2,622)	(2,622)				
		-	-	-	-	-	-	(106,289)	(106,289)				

22. Financial instruments (continued)

Measurement of fair value

(i) Valuation technique and significant unobservable inputs

Below are the valuation techniques used in the measuring the fair value of Level 2 and Level 3, as well as the significant unobservable inputs used.

Financial instruments not measured at fair value

2019

Loan C is granted to the Company in March 2018 at market interest rates and the underlying base rate reprice to market each six months. The management considers that no factors have occurred, which would significantly change the market interest rates as at 31 December 2019 and that is why it considers that the carrying amount of the loan is reasonable approximation of its fair value

2018

Other financial liabilities* are measured on the basis of discounted cash flows. As significant unobservable inputs is used a discount rate is used, adjusted by the management of the Company, by taking into consideration the specifics of the Company and the sector, where it operates. The size of the reduction is 3% below the average annual percents for commercial loans of similar size and maturity, granted in Bulgaria, in accordance with the interest statistics of the Central bank for 2018.

* Other financial liabilities include secured and unsecured bank loans and finance lease liabilities.

23. Employee benefits

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

<i>In thousands of BGN</i>	2019	2018
Present value of the liability on 1 January	1,999	1,754
Interest expense	18	35
Current service cost	293	420
Actuarial loss (profit)	121	(11)
Paid compensations to retired employees	(118)	(199)
Present value of the liability on 31 December	<u>2,313</u>	<u>1,999</u>

Liability recognized in the statement of financial position as at 31 December, including:	2,313	1,999
<i>Short-term liabilities for retirement compensation</i>	746	599
<i>Long-term liabilities for retirement compensation</i>	1,567	1,400

Expenses recognized in the statement of comprehensive income

<i>In thousands of BGN</i>	2019	2018
Current service cost	293	420
Past service cost	-	-
Interest expense	18	35

Actuarial assumptions

	2019	2018
Discount rate at 31 December	0.85%	1.85%
Salary increase (annual for 10 years)	2.50%	2.50%
Employee turnover	6%	6%

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 $i = 0.85\%$ 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

<i>In thousands of BGN</i>	25 basis points increase of salaries growth	25 basis points decrease of salaries growth
Effect on the liability for retirement compensation	32	(32)
<i>In thousands of BGN</i>	25 basis points increase of interest growth	25 basis points decrease of interest growth
Effect on the liability for retirement compensation	(32)	32
<i>In thousands of BGN</i>	10 basis points increase of employee turnover	10 basis points decrease of employee turnover
Effect on the liability for retirement compensation	(132)	132
<i>In thousands of BGN</i>	25 basis points increase of mortality rate	25 basis points decrease of mortality rate
Effect on the liability for retirement compensation	(20)	20

24. Contingencies

Bank guarantees

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

- Performance security for the obligations of Sofiyska Voda AD under the Concession Agreement with number PEBPRT593268, issued by HSBC France, to the amount of 750,000 USD, and validity till December 15th, 2020;
- Performance security for the obligations of Sofiyska Voda AD under the Contract No. PД-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 799 L/11.12., issued by Societe Generale Expressbank (Expressbank), to the amount of 400,000 BGN, and validity till December 31st, 2020 as per Annex No.2 dated 26.11.2019;

25. Commitments for investments

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.

The term of the concession contract is 25 years. 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 WSSRA 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 (see note *Commitments for capital investments*, below), for the original regulatory period 2009-2013, the company performed BGN 241.6 million of investments, which fulfilled the company's obligation to perform investments for BGN 240 million.

25. Commitments for investments (continued)

On 29 March 2017 the 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 company and the changes in the prices are approved at the same time starting from 2017. Due to this circumstance it might be expected that the company will rely on a contracted tariff schedule for the current 5-year regulatory period until 2021. As of 1 January 2018 the company was given the second increase of the prices of the WSS services for the new regulatory period in compliance with the approved price elements of business plan 2017-2021 and consequently as of 1 January 2019 the third price increase was approved.

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 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 expiry 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 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 2019 is BGN 276,384 thousand (2018: BGN 278,954 thousand).

For 2019 the investments amounted to BGN 47,134 thousand (2018: 45,594 thousand), of which BGN 41,435 thousand (2018: 38,908 thousand) represented investments in improvements and new public assets, of which 30,568 (2018: 31,530) are recognized as revenue from construction.

For the period since the beginning of the Concession until the end of 2019 the amount of investments made by the Company into the concession infrastructure is BGN 710,208 thousand.

Comparison between committed investments in the approved business plan for the period 2017 – 2021 and actual ones is disclosed in the table below:

Investments in regulated services	2017 (in mln. BGN)	2018 (in mln. BGN)	2019 (in mln. BGN)
Committed investments in accordance with approved Business plan 2017- 2021	44.2	44.4	38.7
Actual investments	43.6	40.8	43.8

Committed investments in accordance with the approved business plan for 2020 and 2021 are respectively BGN 33.8 million and BGN 33.0 million.

25. Commitments for investments (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;
- 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.

Business plan 2017-2021

The Supreme Administrative Prosecutor's Office has filed a lawsuit for repeal of decision N- БП-ІІ-1/29.03.2017 of EWRC for the approval of the Business Plan of the Company for the period 2017-2021. The Company was constituted as an interested party. With decision No 1895/20.03.2019 the Administrative Court of Sofia ruled against the lawsuit filed by the Supreme Administrative Prosecutor's Office for repeal of decision N- БП-ІІ-1/29.03.2017 of the Energy and Water Regulatory Commission (EWRC). On the basis of the evidence and expertise gathered and considering the arguments put forward by the parties in the proceedings, the Management considers, based on professional opinion of legal advisers involved, that the outcome of the dispute are positive in confirming the legality of decision N- БП-ІІ-1/29.03.2017.

Investment commitments

In compliance with the legislative changes in 2016 in the regulation of the WSS services and in particular the adopted ordinances and instructions on the prices and quality of the WSS services – in 2016 the Company filed a new 5-year Business plan for the period 2017-2021, which was finally approved with the Decision of the EWRC No. БП-ІІ-1/ 29.03.2017. The total investments provided for in the new regulatory period amount to BGN 209 thousand with corresponding annual changes in the service tariffs in line with the Ordinance on the prices. The first price increase was approved by EWRC in the decision on the approval of the Business Plan 2017-2021, and the second increase became effective on 1 January 2018 in line with the decision of the EWRC No. ІІ-34/ 15.12.2017.

With Decision No. ІІ-20/ 28.12.2018 the EWRC approved a third update of the prices of the WSS services provided by Sofiyska Voda in effect from 01.01.2019.

Subsequently, with Decision No. ІІ-37/ 23.12.2019 the EWRC approved a fourth update of the prices of the WSS services provided by Sofiyska Voda in effect from 01.01.2020.

In addition to the investment commitments in the approved Business Plan of the Company for 2017-2021 the Company has committed to perform investments under the Settlement agreement with the Municipality of Sofia (MoS) (dated 16 January 2009). As at 31 December 2018 and 31 December 2019 the nominal remaining amount of the additional investment commitment was BGN 5.3 million and BGN 4.4 million respectively (note 20).

26. Related parties

The Company has a related party relationship with its parent company – “Veolia Voda (Sofia) B.V.” (77.10% of the shares of Sofiyska Voda AD), as well as with the companies within Veolia Group and with its minority shareholder – Vodostabdyavane i kanalizatsiya EAD (ViK) (22.9%). The ultimate parent company is Veolia Environnement S.A., France.

The related parties of the Company 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 Company 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
- 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 Sofiyska Voda 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 in the financial statements of Sofiyska Voda AD is Water Industry Support and Education EOOD, where Sofiyska Voda AD owns 100% of the capital (2018: 100%).

26. Related parties (continued)

The following transactions took place in 2019:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2019	
			Receivables	Payables
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	2,992
Veolia Environnement Finance	Company under common control	Operational guaranty fees 20	-	11
Veolia Campus	Company under common control	Trainings 29	-	2
Veolia Czech Republic	Company under common control	Participation in event 38	-	26
Veolia Environnement SA, France	Company under common control	Discount 52	52	-
Veolia EAU-Compagnie Generale	Company under common control	Metering 5	-	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 50 Costs for lab tests and analyses 2 Sale of materials 1	- - 6	10 1 -
Veolia Energy Solutions Bulgaria EAD	Company under common control	Guarantees under contracts - Maintenance of air-conditioners 24 Physico-chemical analysis 1 Purchase of air-conditioners 11 SCADA monitoring 1 Zagorka service 1 Video recording service 5	- - 1 - - - 6	2 25 - 2 - - -
Veolia Energy Varna EAD	Company under common control	H&S Training 5	-	4

26. Related parties (continued)

The following transactions with related persons took place in 2019:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2019	
			Receivables	Payables
Veolia Service Bulgaria EAD	Company under common control	Reinvoicing costs 2 Physico-chemical analysis 3	- 3	- -
Veolia Energy Bulgaria EAD	Company under common control	Reinvoicing costs 1 Participation in event 3	- -	- -
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Reinvoicing costs 14 Guarantees under contracts - Sale of materials -	- - 3	- 11 -
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Repair works on the WSS network in Sofia 1,132 Sale of materials 5	- 5	289 -
Partnership "Kubratovo 2018" DZZD	SAD S.A. - KLON BALGARIA KCHT owns 95% of the capital of the company	Repair works on the WSS network in Sofia 2,492 Consumables 6	- 9	278 -
		Total:	<u>85</u>	<u>3,653</u>

26. Related parties (continued)

The following transactions took place in 2018:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2018	
			Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Accrued interest 849	-	-
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK	Company under common control	-	-	1,521
Veolia Campus	Company under common control	Trainings 18	-	18
Veolia Czech Republic	Company under common control	Participation in event 11	-	11
Veolia Environnement SA, France	Company under common control	Discount 2	2	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 14 Costs for lab tests and analyses 2 Reinvoicing costs 5 Sale of materials 1 Paid guarantee 2	1 - 5 1 2	5 1 - - -
Veolia Energy Solutions Bulgaria EAD	Company under common control	Consultancy income 7 Reinvoicing costs 1 Physico-chemical analysis 1 Maintenance of air-conditioners 1 Costs for heating Thermal split systems 19	9 - - - -	- - - 1 23

26. Related parties (continued)

The following transactions with related persons took place in 2018:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2018	
			Receivables	Payables
Veolia Energy Varna EAD	Company under common control	H&S Training 3	-	-
		Guarantees under contracts 3	-	-
		Service of burners 5	-	-
		Income from study, survey and localization of hidden leaks 2	-	-
Veolia Energy Bulgaria EAD	Company under common control	Reinvoicing costs -	1	-
		Purchase of air-conditioners 4	-	-
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Repair works on the WSS network in Sofia 234	-	-
		Guarantees under contracts -	2	13
		Sale of materials 20	-	-
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Repair works on the WSS network in Sofia 2,963	-	696
		Sale of materials 2	2	-
Partnership "Kubratovo 2018" DZZD	SAD S.A. - KLON BALGARIA KCHT owns 95% of the capital of the company	Repair works on the WSS network in Sofia 170	-	33
Total:			25	3,818

Transactions with directors and officers on key management personnel:

The Company 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:

<i>In thousands of BGN</i>	2019	2018
Short-term employee benefits	284	516
Share-based payment	-	206
	284	722
<i>In thousands of BGN</i>		
Of which on balance sheet short-term income as at 31 December	25	25

26. Related parties (continued)

In 2019 the Company has incurred expenses amounting to BGN 1,496 thousand for technical services (2018: BGN 1,496 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 Company 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 Company leases vehicles under a number of leases, which were classified as finance leases under IAS 17. See Note 18.

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

See accounting policy in Note 3.

Information about leases for which the Company 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:

<i>In thousands of BGN</i>	Office rent and other	Vehicles	Total
2019			
Balance at 1 January 2019	1,821	3,065	4,886
Depreciation charge for the year	(1,251)	(666)	(1,917)
Depreciation on disposals	632	-	632
Disposals	(664)	-	(664)
Balance at 31 December	538	2,399	2,937

(ii) Lease liabilities

<i>In thousands of BGN</i>	2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	1,343
One to five years	777
More than five years	-
Total undiscounted lease liabilities at 31 December	2,120
Lease liabilities included in the statement of financial position at 31 December	2,093
Current	1,324
Non-current	769

27. Leases (continued)

(iii) Amounts recognised in profit or loss

In thousands of BGN 2019

2019 – Leases under IFRS 16

Interest on lease liabilities (39)

2018 – Operating leases under IAS 17

Lease expense 1,143

(iv) Amounts recognised in statement of cash flows

In thousands of BGN **2019**

Total cash outflow for leases 2,411

(v) Extension options

Some leases contracts contain extension options exercisable by the Company. In such cases, for contracts which expire within one year of the reporting date, the Company has assumed an extension of up to one year. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company 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

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Bulgarian government declared a state of emergency on 13 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Bulgarian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the ‘lock-down’ of certain industries, pending further developments. In particular, airlines and railways suspended international transport of people, schools, universities, restaurants, cinemas, theaters and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. Some businesses in Bulgaria have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Bulgaria with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Bulgaria and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Company operates in water supply sector that has not been significantly affected by the outbreak of COVID 19 and over the last 3 months the Company realized relatively stable sales and its operations including supplies were uninterrupted. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak and its expected impact on the Company and economic environment, in which the Company operates, including the measures already taken by the Government.

On March 2020 the Bulgarian government announced a State aid program to counter the negative effects of the outbreak of COVID -19 on the economy. The Company assessed that the state aid program has indirect effect on the Company by improving the financial stability of its clients.

In order to safeguard uninterrupted operating activities and the Company’s liquidity position, management has implement a number of measures, which notably include implementation of work from home program on a rotational basis for a significant group of administrative employees as well as employees in sales and procurement departments.

In respect of the supply chain the management does not foresee significant problems. The main areas which might be potentially affected relate to delivery of chemicals used in the water supply services if the suppliers experience any difficulties caused by COVID 19 and the suppliers for constructions service, which are engaged by the Company for fulfilment of the Company's investment program if such type of work is stopped by the official measures of the government and or the Municipality of Sofia. At the time of approval of these financial statements for publishing the management assesses the risk as remote. Additionally the management considers that if the official measures of the government hinder the Company to fulfil its annual investments obligation, the Company could request from the Regulator to extend the period for completion of the investments planned in the business plan of the Company.

In respect of sales the management consider that there is not risk for significant decrease in sales but it observes that the sales to individuals increase and the sales to legal entities decrease with slight decrease in the total sales as at the end for May 2020. Additionally the management considers direct effect of the situation with COVID 19 would be increase in delay in payments by customers. The management estimated that the potential decrease in the annual collection rate might be in the range of 6% to 8%. But the management considers that this effect will not deteriorate the ability of the Company to meet its normal business obligations including scheduled instalments of bank loans.

In summary, based on currently publicly available information, the Company's current KPI's and in view of the actions initiated by management, it is not anticipated a direct immediate and significant adverse impact of the COVID – 19 outbreak on the Company, its operations, financial position and operating results. The management cannot however preclude the possibility that an escalation in the severity of the Government measures aimed to curb the spread of the outbreak, or a consequential adverse impact of such measures on the economic environment the Company operate in will have an adverse effect on the Company, and its financial position and operating results, in the medium and longer term. The management continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

29. Correction of errors

During 2019, the following errors have been discovered by the Company and respectively corrected in its separate financial statements for 2019 in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

- A) According to the applicable legislation and information from EWRC the Company receives the right to charge higher tariffs to its clients based on the amounts invested in the respective year, regardless of whether the projects have been completed or still in progress. As a result the management has assessed that the amortization of the amounts invested and included in the value of the intangible asset 'Concession right' shall begin during the year of investment and not when the physical projects in which the amounts are invested are completed. The management estimated the effect of commencing the amortization of the amounts invested during the year of the investment. As a result the net book value of the intangible asset "Concession right" was decreased as at 01.01.2018 with BGN 7,364 thousand, as at 31.12.2018 with BGN 8,643 thousand and the amortization expenses for 2018 was increased with BGN 1,279 thousand.
- B) In 2009 the Company signed the Second Amendment to the Concession contract. As a result the Company recognized a liability amounting to BGN 12,200 thousand. The liability was recognized against expenses. In the subsequent years in order to meet its obligation the Company invested amounts as agreed in the Second Amendment. These amounts were presented as assets and for the same amounts the Company transferred part of the initially recognized liability to deferred income. Subsequently the Company amortized the amounts invested for the term of the Concession contract and the deferred income was reduced with the same corresponding amounts in order to offset the effect of the amortization expenses. Based on the additional analysis of IAS 38 Intangible assets the management decided that the recognized assets did not meet the definition of an asset and shall be derecognized together with the value of the corresponding deferred revenue. As a result the net book values of the intangible assets and deferred income were reduced with BGN 3,722 thousand and BGN 5,482 thousand as at 01.01.2018 and 31.12.2018 respectively. In addition the amortization expenses and other income for 2018 were reduced with BGN 376 thousand.

29. Correction of errors (continued)

- C) The Company applied IFRS 15 “Revenue from contracts with customers” from 01.01.2018. In 2019 the management assessed that following the requirements of the Standard the revenue from construction shall be recognized up to the value of the expected incremental revenue to be generated from the investments in respective year till the end of the Concession contract, excluding any potential options for extension of the Concession contract. As a result the management decreased the Revenue from construction and the expenses forming the cost of sales with BGN 7,378 thousand for 2018, which is based on the management assessment of the difference between the amounts spent for construction service and the fair value of the consideration expected to be realized by the end of the concession contract.
- D) Following the requirements of IAS 1 “Presentation of Financial Statements” and taking into account the applied accounting policy for presenting the expenses in the Statement of profit or loss and other comprehensive income by nature the management decided to change the presentation of the amounts presented as cost of sales of construction service in accordance with the nature of expenses. The line “cost of sale of construction service” amounting to BGN 31,530 thousand in the financial information for 2018 was removed and respectively the lines “Expenses for materials”, “Expenses for hired service”, “Employee benefits” were increase with BGN 2,755 thousand, BGN 23,881 thousand and BGN 4,894 thousand respectively.
The same presentation is applied in the Statement of profit or loss and other comprehensive income for 2019.
- E) Penalties for industrial discharges of water with excessive concentration of pollutants at the amount of BGN 507 thousand, previously reported as “Other income” are currently presented in the line "Revenue" in the comparative information for 2018.
- F) Annual tax for water and sewerage at the amount of BGN 3,764 thousand previously reported as “Hired services expense” are currently presented as “Other operating expenses” in the comparative information for 2018 in order to achieve a presentation that is more consistent with the nature of the tax.
- G) Fees paid to collectors at the amount of BGN 1,382 thousand previously reported as “Other operating expenses” are currently presented as “Hired services expenses” in the comparative information for 2018, in order to achieve a presentation that is more consistent with the nature of the services provided.
- H) As a result from the corrections as disclosed in note A, the Company has recognized additional deferred tax asset at the amount of BGN 736 thousand and BGN 864 thousand as at 1 January 2018 and 31 December 2018 respectively and income tax benefit for 2018 at the amount of BGN 128 thousand.

The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Company’s separate financial statements:

Separate statement of financial position

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2018	Corrections	31 December 2018 Restated*	1 January 2018	Corrections	1 January 2018 Restated*
Assets							
Property, plant and equipment		20,171	-	20,171	18,771	-	18,771
Intangible assets	A, B	297,640	(14,125)	283,515	295,410	(11,086)	284,324
Investment in subsidiaries		5	-	5	5	-	5
Deferred tax assets	H	7,086	864	7,950	6,602	737	7,339
Trade and other receivables		1,025	-	1,025	237	-	237
Total non-current assets		325,927	(13,261)	312,666	321,025	(10,349)	310,676
Inventories		2,189	-	2,189	1,991	-	1,991
Trade and other receivables		25,403	-	25,403	35,757	-	35,757
Contract assets		9,936	-	9,936	-	-	-
Related party receivables		25	-	25	11	-	11
Cash and cash equivalents		35,039	-	35,039	25,662	-	25,662
Total current assets		72,592	-	72,592	63,421	-	63,421
Total assets		398,519	(13,261)	385,258	384,446	(10,349)	374,097

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2018	Corrections	31 December 2018 Restated*	1 January 2018	Corrections	1 January 2018 Restated*
Equity							
Share capital		8,884	-	8,884	8,884	-	8,884
Reserves		10,774	-	10,774	10,774	-	10,774
Retained earnings	A,H	245,880	(7,779)	238,101	214,653	(6,628)	208,025
Total equity		265,538	(7,779)	257,759	234,311	(6,628)	227,683
Liabilities							
Loans and borrowings		48,306	-	48,306	18,032	-	18,032
Lease liabilities		1,529	-	1,529	1,505	-	1,505
Employee benefits		1,400	-	1,400	1,350	-	1,350
Deferred income	B	5,108	(5,108)	-	3,408	(3,408)	-
Trade and other payables		7,431	-	7,431	7,790	-	7,790
Total non-current liabilities		63,774	(5,108)	58,666	32,085	(3,408)	28,677
Loans and borrowings		24,533	-	24,553	80,519	-	80,519
Lease liabilities		1,093	-	1,093	783	-	783
Deferred income	B	374	(374)	-	313	(313)	-
Contract liabilities		4,751	-	4,751	-	-	-
Income tax liabilities		180	-	180	605	-	605
Payables to related parties		3,818	-	3,818	3,352	-	3,352
Trade and other payables		32,004	-	32,004	28,920	-	28,920
Provisions		1,835	-	1,835	3,154	-	3,154
Employee benefits		599	-	599	404	-	404
Current liabilities		69,207	(374)	68,833	118,050	(313)	117,737
Total liabilities		132,981	(5,482)	127,499	150,135	(3,721)	146,414
Total equity and liabilities		398,519	(13,261)	385,258	384,446	(10,349)	374,097

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2018	Corrections	2018 Restated*
Revenue	<i>E</i>	158,224	507	158,731
Construction revenue	<i>C</i>	38,908	(7,378)	31,530
Other income	<i>B, E</i>	1,822	(883)	939
		<hr/> 198,954	<hr/> (7,754)	<hr/> 191,200
Expenses for materials	<i>D</i>	(9,242)	(2,755)	(11,997)
Expenses for hired services	<i>D, F, G</i>	(28,613)	(21,499)	(50,112)
Depreciation and amortization	<i>A, B</i>	(41,741)	(903)	(42,644)
Employee benefit expenses	<i>D</i>	(22,655)	(3,178)	(25,833)
Social security contributions and other social expenses	<i>D</i>	(5,699)	(1,716)	(7,415)
Impairment loss on trade receivables and contract assets		(8,516)	-	(8,516)
Other operating expenses	<i>D, F, G</i>	(5,867)	(2,382)	(8,249)
Construction expenses	<i>C, D</i>	(38,908)	38,908	-
Operating profit		<hr/> 37,713	<hr/> (1,279)	<hr/> 36,434
Finance income		38	-	38
Finance costs		(2,742)	-	(2,742)
Net finance costs		<hr/> (2,704)	<hr/> -	<hr/> (2,704)
Profit before taxes		35,009	(1,279)	33,730
Income tax expenses	<i>H</i>	(3,793)	128	(3,665)
Profit for the period		<hr/> 31,216	<hr/> (1,151)	<hr/> 30,065

Separate statement of cash flows

<i>In thousands of BGN</i>	<i>Note</i>	2018	Corrections	2018 Restated*
Cash flow from operating activity				
Net profit for the period	A	31,216	(1,151)	30,065
Adjustments for:				
Depreciation of property, plant and equipment		4,365	-	4,365
Amortisation of intangible assets	A, B	37,376	903	38,279
Impairment loss on trade receivables and contract assets		8,516	-	8,516
Write-down of inventories to net realizable value/ (realization)		(92)	-	(92)
Scrapping materials		19	-	19
Expenses for scrapping fixed assets		21	-	21
Net finance costs		2,704	-	2,704
Gain on sale of property, plant and equipment		(3)	-	(3)
Tax expense	H	3,793	(128)	3,665
		<u>87,915</u>	<u>(376)</u>	<u>87,539</u>
Changes in:				
- employee benefits		220	-	220
- provisions		(1,319)	-	(1,319)
- inventories		(124)	-	(124)
- trade and other receivables		(10,872)	-	(10,872)
- trade and other payables		3,141	-	3,141
- contract assets		2,001	-	2,001
- contract liabilities		575	-	575
- deferred income	B	1,762	(1,762)	-
Cash flow from operating activity		<u>83,299</u>	<u>(2,138)</u>	<u>81,161</u>
Income tax paid		(4,701)	-	(4,701)
Net cash flow from operating activity		<u>78,598</u>	<u>(2,138)</u>	<u>76,460</u>
Cash flows from investing activity				
Proceeds from sale of property, plant and equipment		200	-	200
Acquisition of property, plant and equipment		(7,183)	-	(7,183)
Acquisition of intangible assets	B	(32,999)	2,138	(30,861)
Net cash flow used in investing activity		<u>(39,982)</u>	<u>2,138</u>	<u>(37,844)</u>
Cash flow from financing activity				
Loans received		98,320	-	98,320
Loans paid		(123,184)	-	(123,184)
Payment of lease liabilities (2018: payment of finance lease liabilities)		(1,017)	-	(1,017)
Interest paid and other finance cost		(3,358)	922	(2,436)
Other finance cost		-	(922)	(922)
Net cash flow used in financing activity		<u>(29,239)</u>	<u>-</u>	<u>(29,239)</u>
Net increase in cash and cash equivalents		<u>9,377</u>	<u>-</u>	<u>9,377</u>
Cash and cash equivalents at 1 January		<u>25,662</u>	<u>-</u>	<u>25,662</u>
Cash and cash equivalents at 31 December		<u>35,039</u>	<u>-</u>	<u>35,039</u>



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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Sofiyska Voda AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Sofiyska Voda AD ("the Company"), as set out on pages 3 to 80, which comprise the separate statement of financial position as at 31 December 2019, and the separate statements of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 '*Auditors' Responsibilities for the Audit of the Separate Financial Statements*' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue from water supply, sewerage and waste water treatment services

Revenue from water supply, sewerage and waste water treatment services for the year ended 31 December 2019: BGN 167,236 thousand (2018: BGN 152,701 thousand)

See Note 3 (I) Significant accounting policies – Revenue and Note 4 Revenue to the separate financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>The Company's core revenue streams relate to the water supply, sewerage and wastewater treatment services. The Company recognized BGN 167,236 thousand as revenue from these sources for the year ended 31 December 2019.</p> <p>Recognition and measurement of revenue is inherently complex due to the high volume of underlying transactions and the resulting necessity to maintain a complex IT system for processing customer data and billings. The system processes large volume of customer data coupled with a combination of different tariffs applicable to different consumer groups. A multistep process is followed by the Company in the measurement, processing, billing and accounting for revenue transactions with some manual input of data.</p> <p>Further, revenue is generally recognized based on periodic meter readings. The amount of revenue for the year also includes an estimate of consumption for the period between the date of the last meter reading and the reporting date. Developing the estimate of unread revenue requires significant management judgment and is based on estimates of daily consumption, mainly based on historical patterns.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none">— Updating our understanding of the revenue recognition process and policies in accordance with the applicable financial framework, by means of inquiries of the Chief Financial Officer and the Financial Controller, as well as performing a walkthrough of the process;— Evaluating the design and implementation of controls over revenue recognition and measurement, such as those over new customer accounts, changes to customer files, authorization of tariff changes and reconciliation of tariffs in the billing system to those set by the Energy and Water Regulatory Commission;— Assisted by our own IT specialists, evaluating relevant IT systems and testing the design, implementation and operating effectiveness of controls over capturing and recording of revenue transactions, authorization and input of information changes to the systems and calculation of the amounts billed to customers;



Key Audit Matter	How the matter was addressed in our audit
<p>For the above reasons, we considered this area to be associated with an elevated risk of material misstatement. It required our increased attention in the audit and as such was determined to be our key audit matter.</p>	<ul style="list-style-type: none">— Performing an independent reconciliation of the accounting revenue for the year to the billing system and, on a sample basis, of the measurement data between the billing system and primary information sourced from the personal digital assistant devices;— Challenging the Company's estimate of accrued unbilled revenues at the reporting date. The procedure included primarily assessing estimated consumption for the unread period by reference to historical metered consumption data by customer type for the preceding months of the year;— Tracing the actual invoiced amounts in January and February 2020 to the amounts of the accrued unbilled revenue as at 31 December 2019;— Investigating significant unusual relationships identified between the expected effects of the quantities and price changes during the year on the revenue amounts and actual revenue recognized;— Considering the completeness and accuracy of the Company's disclosures in the separate financial statements in respect of revenue recognition policy and revenue by service type.

Service concession arrangement: compliance

Commitments for investments in regulated services for the year ended 31 December 2019: BGN 38.7 mln. (2018: BGN 44.4 mln.)

See Note 25 Commitments for investments to the separate financial statements.

See Note 3 (c) Significant accounting policies – Property, Plant and Equipment and Note 3 (d) Intangible assets to the separate financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>As stated in Note 1 and Note 25, the Company is a party to a concession contract with the Municipality of Sofia (“the Grantor”), whereby it has been granted the right to use public assets, such as water supply and water treatment infrastructure. The contract also gives the Company an exclusive right to render water supply and sewerage services within the concession area.</p> <p>The said service concession and related regulatory arrangements, impose on the 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 related to continuous improvement and quality enhancement of the supplied services. The enhancements include, among other things, reducing water losses, and maintaining the quality of potable water and continuity of water supply. Further, the Company’s operations are regulated by the Energy and Water Regulatory Commission (“the Commission”), which establishes standards relating to the quality of water supply and sewerage services, and also regulates price tariffs. Failure to comply with the above obligations may result in reduction of the tariffs approved by the Commission in subsequent periods, withdrawal by the Commission of the Company’s license for water supply operation or, under severe circumstances, cancellation of the concession contract</p> <p>In addition, in conjunction with the investments, the Company is obliged to</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Updating our understanding of the regulatory and concession compliance process, and evaluating selected related management review controls; — Evaluating the design, implementation and operating effectiveness of the selected key controls over the transactions related to the investment and maintenance projects laid down in the Company’s business plan; — On a sample basis, tracing capital expenditure and maintenance expenditure to supporting documents and payments, in order to assess their existence and accuracy. Also, inquiring of the Engineering and Construction Activities personnel and members of the Board of Directors about any significant deviations between the approved investment plan and the current year’s actuals; — Inspect the Company’s reporting to and communication with the Grantor and the Commission, including any examination reports issued by those parties during the year in respect of the regulated activities subject of their monitoring; — Examining minutes of meetings of the Company’s Board of Directors, specifically focused on the investment projects’ progress and approval of the Company’s business plan;

Key Audit Matter	How the matter was addressed in our audit
<p>apply the requirements of the Law for public tenders, in particular as concerns purchase prices.</p> <p>Due to the fact that any failure to adhere to the relevant conditions included within the service concession arrangement and the related regulatory regime may have a pervasive effect on operations, including the financial position and financial results, assessment of the Company's compliance with these conditions and regulatory regime required our increased attention in the audit and was considered by us to be a key audit matter.</p>	<ul style="list-style-type: none"> — Inquiring of the Company's legal advisors and inspecting findings of their report, with an aim to identify any contingent liabilities (e.g. penalties) arising from service concession arrangement at the reporting date; — Evaluating the completeness and accuracy of disclosures in the separate financial statements in respect of commitments and contingencies, against the relevant requirements of the financial reporting standards

Impairment of non-current assets

Intangible assets as at 31 December 2019: BGN 281,217 thousand (as at 31 December 2018: BGN 283,515 thousand)

Property, plant and equipment (PPE) as at 31 December 2019: BGN 20,423 thousand (as at 31 December 2018: BGN 20,171 thousand)

See Notes 3 (c) Significant accounting policies - Property, plant and equipment and (d) Significant accounting policies – Intangible assets and Note 13 Intangible assets to the separate financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>As described in Note 13, in the current year, the Company identified impairment indicators in respect of its non-current assets, such as, primarily, signing of an amendment to the Concession contract, giving the Commission a right to set lower prices for the Company's services in the following years, with the resulting potentially lower cash inflows in the future.</p> <p>In the wake of the above, as at 31 December 2019, the Company tested its PPE and intangible assets for impairment, as required by the relevant financial reporting standards. The impairment test was performed by reference to the recoverable amount of the Company's sole cash generating unit („CGU”), determined to be the CGU's fair</p>	<p>Our audit procedures in the area, performed with the assistance of our own valuation specialists, included, among others:</p> <ul style="list-style-type: none"> — Evaluating, against the requirements of the relevant financial reporting standards, the Company' accounting policy for identification of impairment, and measurement and recognition of any impairment losses in respect of PPE and intangible assets; — Assessing internal controls relating to the identification of impairment indicators and to the process of impairment testing, including controls over management review of the impairment test assumptions and the validation of its outcome;

Key Audit Matter	How the matter was addressed in our audit
<p>value less cost of disposal estimated under the discounted cash flow method.</p> <p>Determination of the recoverable amount requires making a number of complex assumptions and judgments, in particular those relating to grouping of assets into CGUs, discount rates used and estimated future cash flows, with the key assumption related to the likelihood of extension of the concession contract's term.</p> <p>Due to the above, the impairment assessment required our significant judgment and increased attention in the course of our audit. As a consequence, we consider the area to be our key audit matter.</p>	<ul style="list-style-type: none"> — Assessing the Company's discounted cash flow model against the relevant financial reporting standards, market practice and for internal consistency; — Evaluating the quality of the Company's forecasting by comparing historical projections with actual outcomes; — Assessing the appropriateness of asset grouping into CGUs, based on our understanding of the Company's operations and business units; — Challenging the key assumptions applied in the Company's impairment model, including those in respect of: <ul style="list-style-type: none"> • extension of the concession term - by inspecting the applicable laws, the Board of Directors' assessment and external data in respect of the Company's service quality; • future prices and expected sales, output and operating costs - by reference to the currently effective Regulator-approved business plan, and the Company's internal documents, such as budget and forecasts; • key macroeconomic assumptions, such as discount rates and inflation rates - by reference to publicly available external sources. — Assessing susceptibility of the impairment model and the resulting impairment conclusion to management bias, by challenging the Company's analysis of the model's sensitivity to changes in key underlying assumptions; — Assessing the appropriateness and completeness of impairment-related disclosures in the financial statements.



Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate management report and the non-financial statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate management report and the non-financial statement, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the separate management report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The separate management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7(2) of the Public Offering of Securities Act.
- c) The non-financial statement referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.



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

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

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.

- KPMG Audit OOD was appointed as a statutory auditor of the separate financial statements of Sofiyska Voda AD for the year ended 31 December 2019 by the extraordinary general meeting of shareholders held on 6 December 2019, for a period of one year.
- The audit of the separate financial statements of the Company for the year ended 31 December 2019 represents twentieth total uninterrupted statutory audit engagement for that entity carried out by us.



- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained KPMG Audit OOD


Dobrina Kaloyanova
Authorised representative


Ivan Andonov
Registered auditor, responsible
for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

17 July 2020

