

Софийска вода



**Sofiyska Voda AD**

**Annual management report and Consolidated financial statements**

**For the year ended 31 December 2015**

**With independent Auditors' Report thereon**

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**Annual management report**

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**Independent auditors' report**

## CONSOLIDATED ANNUAL REPORT

### SOFIYSKA VODA AD AND WATER INDUSTRY SUPPORT AND EDUCATION LTD.

2015

#### FINANCIAL REVIEW

2015 was another challenging year, in which a stable financial environment in the Group was again ensured as a result of the strict financial discipline under the conditions of continuing economic crisis and stagnation. The profit from the operating activities for the year was BGN 31.3 M, which is higher than the level of BGN 25 M in 2014.

In 2015, the Group's revenue from main charges amounts to BGN 125 M, which is 2.45% higher than the revenue from main charges in the previous year – BGN 122 M. The main reason is the update of the number of active customer accounts, the increased consumption in the warm months as compared to 2014 and an increase in the consumption of industrial customers (non-potable water) as well as of the water supply systems Beli Iskar and Bozhurishte. The Group's total revenue for 2015 was BGN 157.5 M (BGN 154.6 M in 2014). The revenue from construction in 2015 was BGN 30.8 M (BGN 30.9 M in 2014).

The cogeneration installation, commissioned at Kubratovo WWTP at the end of 2009, ensured as a priority the fulfillment the plant's power supply needs in 2015.

The Group's operating costs in 2015 amounted to BGN 126 M (2014 – BGN 130 M). This amount includes BGN 30.8 M construction costs, which result from the application of IFRIC 12 and these costs offset the construction revenue above.

The 2015, depreciation and amortization costs were BGN 28.9 M. The value is higher than the one reported in 2014 (BGN 27.7 M), which is mainly due to the higher number of commissioned assets and the depreciation of the asset Concession Right until the end of the concession, whose period shortens each year.

The interest charges in the year are in line with the ones budgeted by the Group.

The net financial costs for 2015 is BGN 424 k lower than the ones reported in 2014, which is mainly due to the effect of the lower interest rates under the long-term financial obligations of the Group.

As result of the above factors, the profit after tax for 2015 was BGN 22.4 M as compared to BGN 16.3 M in 2014.

## **FINANCIAL INSTRUMENTS**

The Group's policy regarding financial risk, as well as its exposure in terms of the price, credit and liquidity risk are described in detail in the notes to the separate financial statement for 2015.

## **EVENTS FOLLOWING THE BALANCE SHEET DATE**

All significant events after the Balance Sheet date and their effects on the Group's activity are listed in Note 31 to the separate financial statements for 2015.

## **CUSTOMER SERVICE**

The application of best practices and new technological solutions in SV impacts customer satisfaction with the entire activity of the Group. In March 2015, SV started using the new customer information system SAP IS-U after a one-year implementation project. The new system replaced 6 previous systems (HiAffinity, HiPro, Cash, Customer Service, Complex Services, Correct) and several Access databases used in various processes. All customer-related processes (management of customer accounts, management of devices, water meter reading, billing, payments, debt collection and management of customer contacts) are currently integrated in a single platform, ensuring a high level of automation, traceability of the processes, as well as integrated monitoring of customer contacts, irrespective of the communication channel.

### **Customer relations**

The 24/7 Call Center of SV has an average of 16 lines, at which the operators received 1,388 calls per day in 2015. The total number of incoming calls was 506,501, which is 11% more than in 2014. The high values were registered in the period March - August, after the implementation of the new customer information system. The trend in the last months (September - December) shows a decrease by -9% as compared to the same period of 2014. The high values registered in the period March - August had an impact on the percentage of missed called in the year, which is 7.64%.

### **Customer Service Centers**

In 2015, SV retained its network of 8 Customer Service Centers, which are located in various parts of the city. The total number of visits registered in 2015 was 183,976 (without visits for payment), which is 2% lower than in the previous year. The number of payments received in the Customer Service Centers also decreased by 11% (122,399 in 2015 and 138,229 in 2014) due to the different payment options.

### **Internet Services**

In 2015 were registered 2,048,284 visits to the Group's webpage. 81,450 water meter self-readings were submitted by our customers, which is a decrease by 23% as compared to 2014.

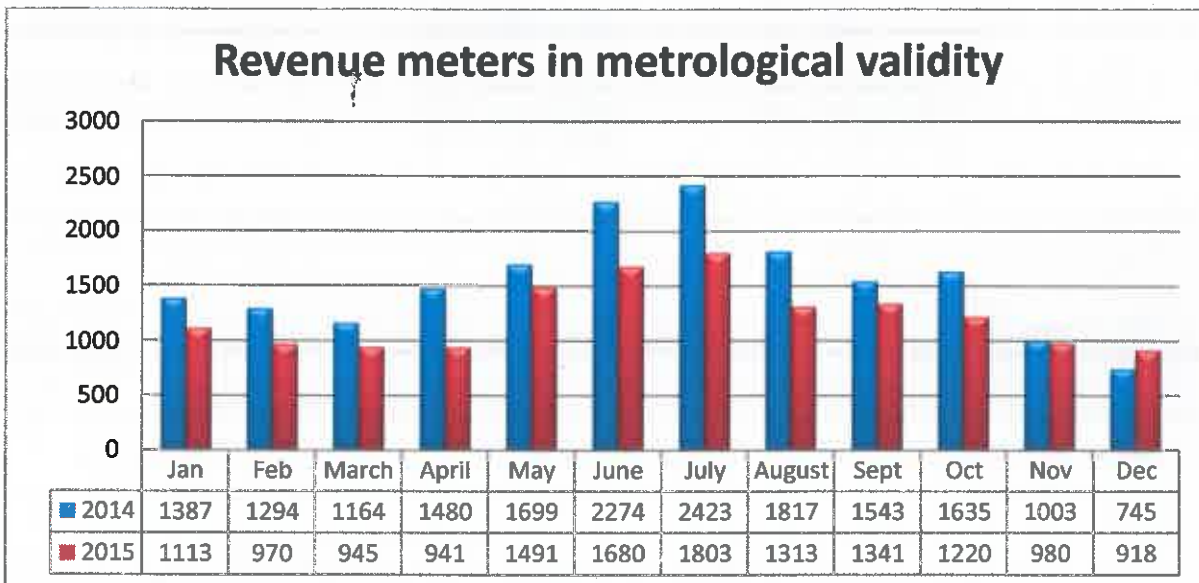
The enquiries through the website were 12,759 nos. and 11,729 of them required an answer. All answers were sent within 24 hours from receipt of the enquiry.

In 2015, 2,856 customers used the opportunity to cancel their paper invoices, and from them 48,600 requested an electronic invoice.

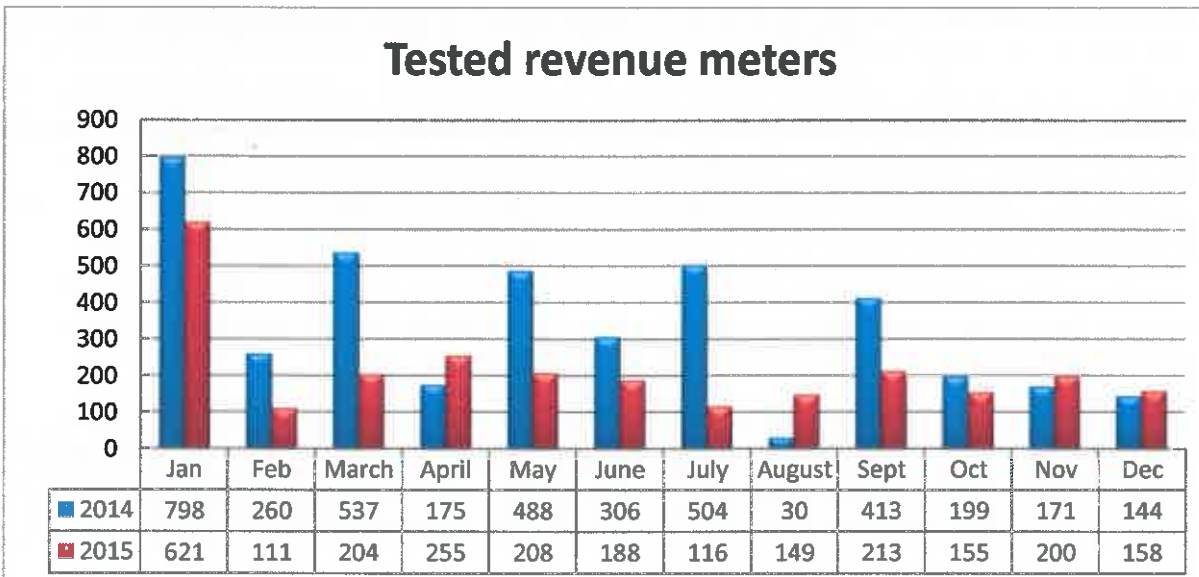
## Water meter services, billing, debt collection

### Replacement of water meters

The provision of accurate measuring of the water supplied to the customers is of key importance both for revenue assurance for the Group and for good customer service as a whole. 14,715 revenue meters were set in metrological validity in 2015.

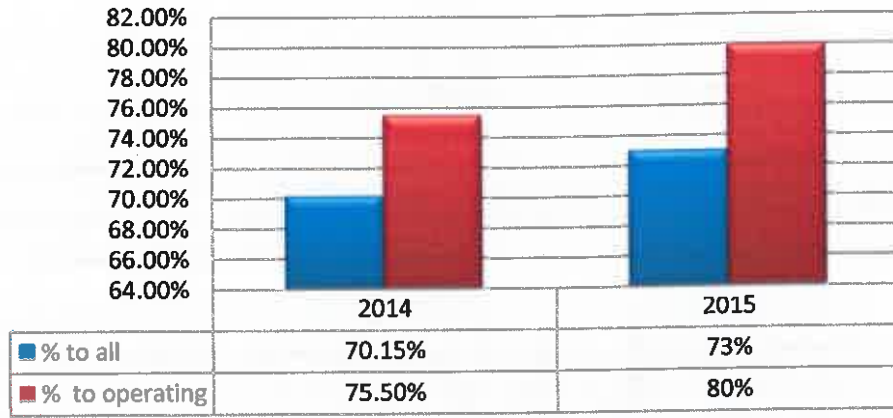


Over the entire 2015 the tendency for replacement of meters with bigger diameter (flange connection) has kept in view of the expiring period of their metrological validity.



In 2015 the tendency has continued for direct replacement of water meters with smaller diameter which saves expenses for their inspection and second visit at a given address.

## Revenue meters in metrological validity



From a total number of 14,715 revenue meters which were set in metrological validity in 2015, inspected (with result *compliant with approved type* and returned to the network revenue meters were 1,490 nos., and the number of new installed meters was 13,225).

The difference in the number of water meters, which were set in metrological validity, as opposed to previous years, is due mainly to the fact that the number of the maintained meters was over 80,000 that is – available complete information for location, for customers, for water meter node and is set in metrological validity according to schedule.

In regard to the difference between the already maintained by the Group and the total number of available water meters which are used for commercial payments, there is almost no information available for address, customer, shaft, fittings, and water meter.

Up to 2014 in the network was available a sufficient number of water meters maintained by the Group in previous years with expired metrological validity and the efficiency of the teams allowed for setting a number of water meters which is sufficient for covering the envisaged indicators.

As of 2015 the already old addresses were deleted and provided that each year 8 000-9 000 water meters were with expired metrological validity (between 2005-2011 on average were set into metrological validity) on a large scale to the team were sent orders for visiting addresses where the water meters up to that moment were not maintained by the Group or were missing. The result is barely 10% success rate due to the above mentioned factors which affects also the end number of water meters set into metrological validity.

In order for the issue to be resolved, a separate process is organized for visiting all addresses where the water meters are not maintained by the Group up to now, description of the state of the property, access, shaft, fitting, water meter node and submitting of clear and corrected information to the teams for installation and in such a way increasing their efficiency and respectively improving the indicators for this activity.

The water volumes measured by the replaced meters (difference before and after the installation of the device) are shown in the table below.

	2014		2015	
	m <sup>3</sup>	%	m <sup>3</sup>	%
m <sup>3</sup> after replacement	121,540	9.20%	129,311	6.10%
m <sup>3</sup> common needs	60,651	9.44%	78,215	8.12%

The effect of measured m<sup>3</sup>, as common needs is generated from installed water meters in condominiums, whose consumption up to 2015 has not been covered by a revenue meter.

### **Meter Reading**

The model of reading the water meters, used in previous years, was applied in 2015 as well – the individual meters and revenue meters in the residential blocks of flats were read once a quarter, and the revenue meters of commercial and administrative customers – every month. The customers are provided information about the period of the visit of the meter readers through the notices stuck on a visible place in the condominium, the Customers Service Centers, the website of the Group and the Call Center, in order to ensure access for meter reading.

Mobile electronic devices were introduced for entering the data for the water meters during the visit to the customers under a schedule defined in advance. There is a software application in place for automatic entering the data in the billing system. A few types of controls were set:

- When the reading schedule is entered;
- When the data are entered (controls for the differences in the consumption);
- When data are entered in the billing system.

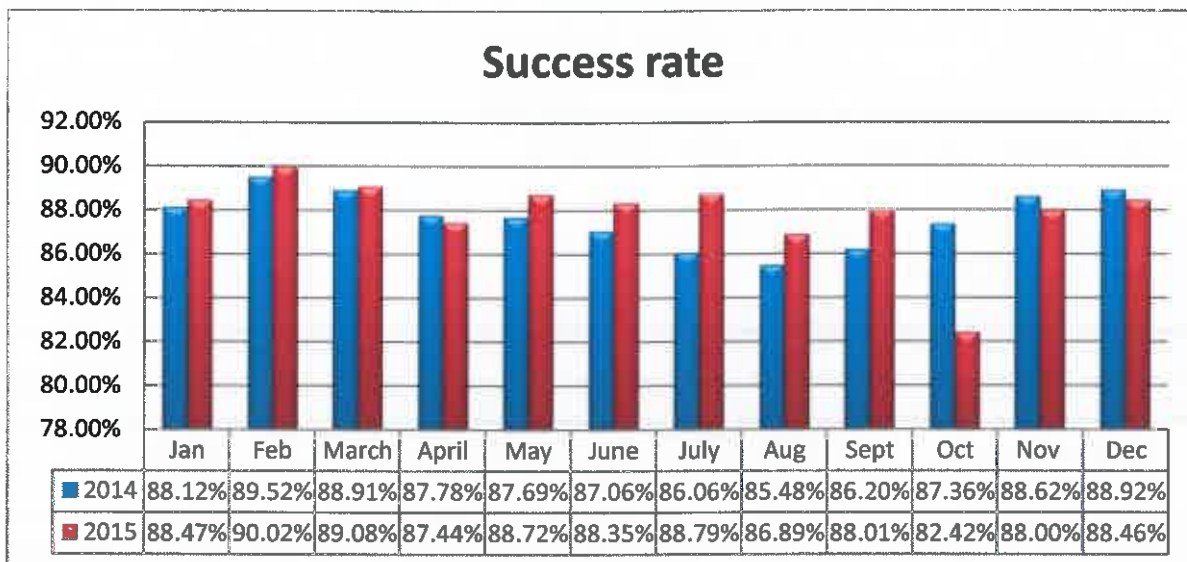
Following the implementation of SAP, the whole activity, including generating of a schedule, work distribution, registering data on field, validation of results and control on the activity, has been concentrated and integrated in one unit – Technical Support of Customers Dept.

At the end of the year, the meter readers with the subcontractors were equipped, and in 2016 it is expected the whole activity to be automated, to eliminate the hard copies and the manual entering of the data for the water meters, customers and properties.

The expected benefits are:

- To eliminate the manual entering of data on paper carnet sheet;
- To eliminate the manual distribution of the work tasks to the meter readers;
- To eliminate the manual entering of data for properties, customers and water meters in the system;
- To decrease the period between meter reading and billing – it is two weeks now;
- Possible GPRS communication;
- GPS tracing;
- To decrease the human error factor;

The total success rate for meter reading for 2015 was 87.89% or by 0.30% higher as compared to 2014 (87.63):



#### Success rate for meter reading by types of customers

% success rate	2014	2015	2015 VS 2014
<b>Blocks of flats</b>	96.92%	93.72%	-3.41%
<b>Key accounts</b>	95.38%	93.89%	-1.59%
<b>Urban area</b>	87.60%	88.02%	0.48%
<b>Out of urban area</b>	81.66%	79.12%	-3.21%
<b>Total success rate</b>	<b>87.63%</b>	<b>87.89%</b>	<b>0.30%</b>

#### Billing

In the reporting period, 7,218,929 invoices were issued, which is by 5.54% more than in 2014. The number of invoices issued after actual meter readings was 2,059,539.

In 2015 the Group registered more than 1% increase in the billed volume of potable water as compared to the previous year. The total amount of the billed regulated services is 145,514,932 BGN, which is again 1% increase as compared to 2014.

#### Debt Collection

In 2015 the Group continued its efforts to maintain a high debt collection rate, as the customers were offered different ways of paying their debts, as well as deferred payment agreements convenient for debtors with temporary financial difficulties. The debt collection rate was seriously affected in 2015 by the atypical variations in the billing process after the implementation of the new system: in March the billing was postponed for one week due to the final migration and more than half of the customers were billed during the last week, which resulted in decrease in the cash flow in the month; also, the customers who were not billed in March, received two invoices in April for different consumption periods, which resulted in unusually high billed volumes in that month versus the decreased option for payment in the month. As a result, the collection rate dropped by -13.98% in March and by -20.93% in April as compared to the same months of the previous year. The internal teams made greater efforts in order to compensate these differences till the end of the year. The sums collected as a result of the work of the teams for phone negotiations were 17.8% higher as compared to 2014 while the sums collected as a result of the at-door visits increased by



3.4%. This resulted in higher debt collection rates in the next months (in three months they exceeded 100%), which lead to considerable compensation of the significant drop in March – April, and the collection rate was brought closer to the level of the previous year: 94.47%.

### Non-regulated business

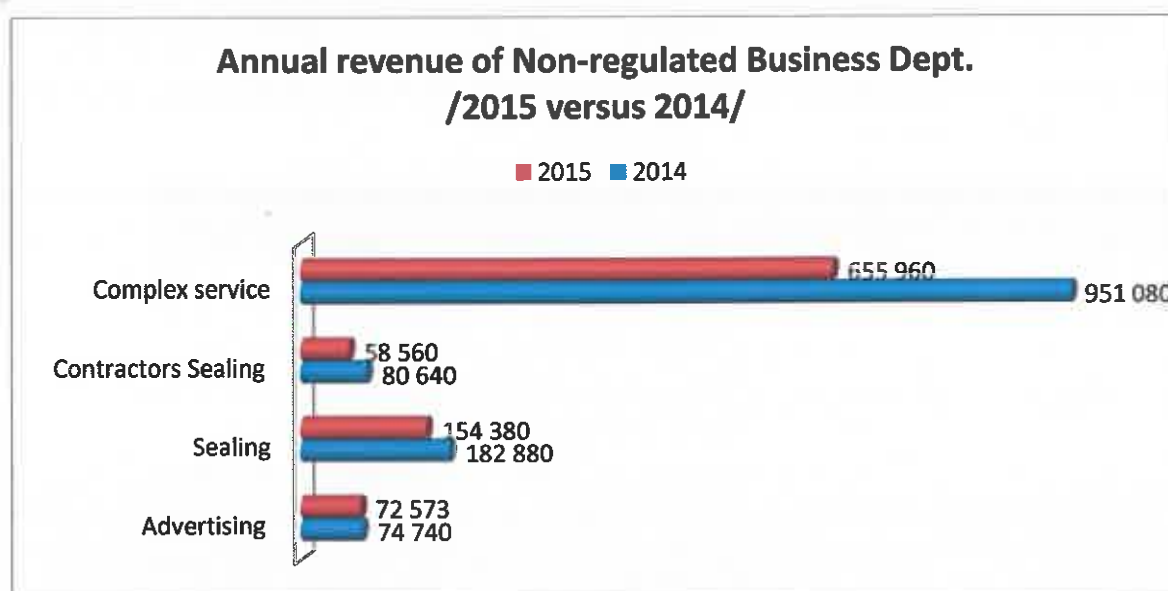
SV continues to develop its activity of providing additional services to its customers.

In 2015, the total number of installed individual water meters was 13,067 nos., and the tested water meters – 652 nos. The revenue from non-regulated water meter services (individual water meter testing and installation) was BGN 655,960.

The revenue from the individual meters sealing service was BGN 154,380. In 2015, seals were provided to contractors at the amount of BGN 58,560.

Number of executed services	2014	2015
Number of installed water meters	18,593	13,067
Number of tested water meters	2,985	652
Number of sealed water meters	29,920	24,036
Resale of seals to contractors	25,200	18,300

The total revenue from advertising activity amounts to 72,573 BGN (as compared to 74,740 BGN in 2014).



The decrease in revenue from additional services has resulted from the changes in the volume on the market of water meter services namely a drop in 2015 by 24% compared to 2014.

## OPERATIONS AND MAINTENANCE

### Water Resource Management

The continuous monitoring of water volumes supplied to the Concession Area is the basis for the water management implemented by SV.

The water volumes supplied in 2015 were as follows

Total water volume abstracted from all potable water sources – 167,029,084 m<sup>3</sup>

Including:        *to the Municipality of Samokov* - 7,283,527 m<sup>3</sup>  
                      *to the Municipality of Sofia* - 158,395,233 m<sup>3</sup>

The abstracted volume of industrial water is 7,361,729 m<sup>3</sup>.

The data from the monitoring showed that the Group has achieved an actual decrease in the water volumes used for water supply to the Concession Area.

The raw water abstracted from all water sources in 2015 compared to 2014 decreased by 3,991,112 m<sup>3</sup>. The water volumes supplied to the Concession Area in 2015 decreased as compared to the ones in 2014 by 4,076,195 m<sup>3</sup>.

### Consumption trends

In 2015 the billed volumes of the Group increased by 1.69% as compared to 2014 or 1.514 M m<sup>3</sup>.

The table below presents the differences by types of customers and types of water (potable, non-potable, supplied raw water):

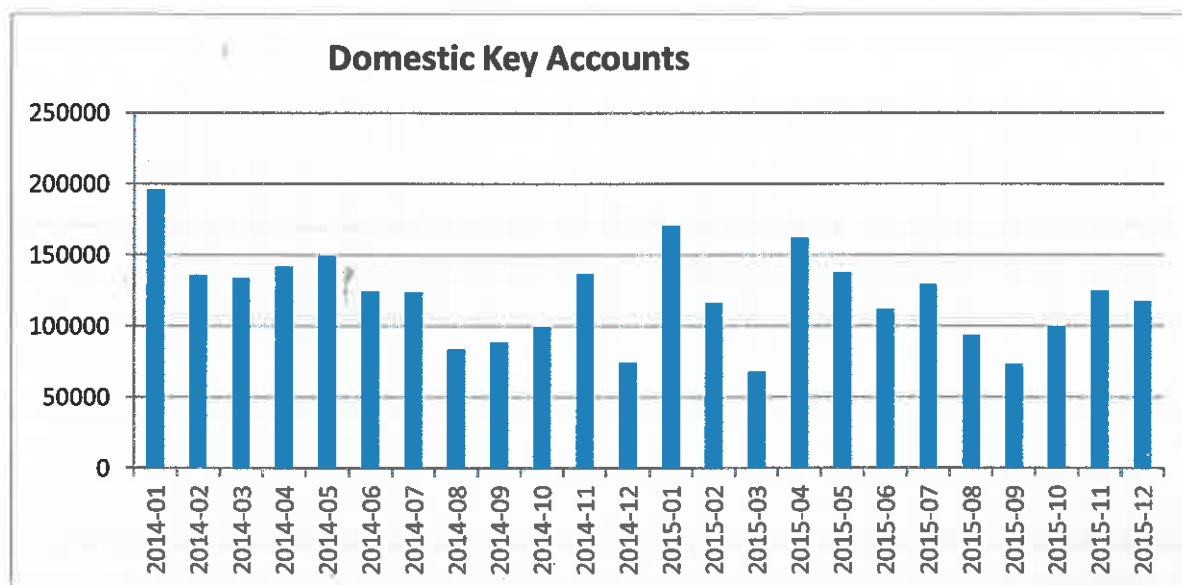
Water	2014	2015	Difference	Difference (%)
Domestic customers	61,024,351	61,086,283	61,932	0.10%
Budget Customers	4,579,325	4,511,538	-67,787	-1.48%
Commercial Customers	12,976,180	13,836,300	860,120	6.63%
<i>Non-potable water</i>	4,359,280	4,449,349	90,069	2.07%
<i>Raw water (Samokov and Bozhurishte)</i>	6,858,040	7,427,742	569,702	8.31%
<b>Total potable water</b>	<b>78,579,856</b>	<b>79,434,122</b>	<b>854,266</b>	<b>1.09%</b>
<b>Total water</b>	<b>89,797,176</b>	<b>91,311,213</b>	<b>1,514,037</b>	<b>1.69%</b>

The considerable percentage of increase in the raw water is due to the fact that in September 2015 a new customer was connected – the villages of Gorni Okol and Dolni Okol.

The 6.63 % growth in the billed consumption of commercial customers is due to the increase in the production of these customers.

The tables below show the monthly consumption by type of Key Accounts for the period 2014 – 2015.

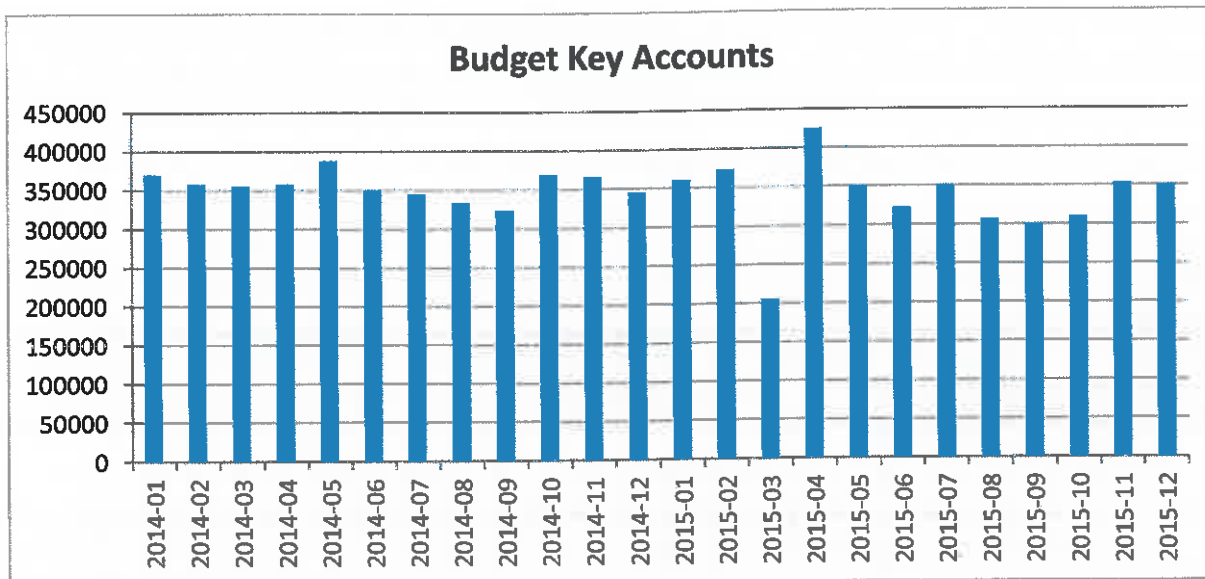
For the period January – December 2015 the billed volumes is 84,003 m<sup>3</sup> less for Domestic Key Accounts compared to 2014. The monthly levels are specified in the following chart:



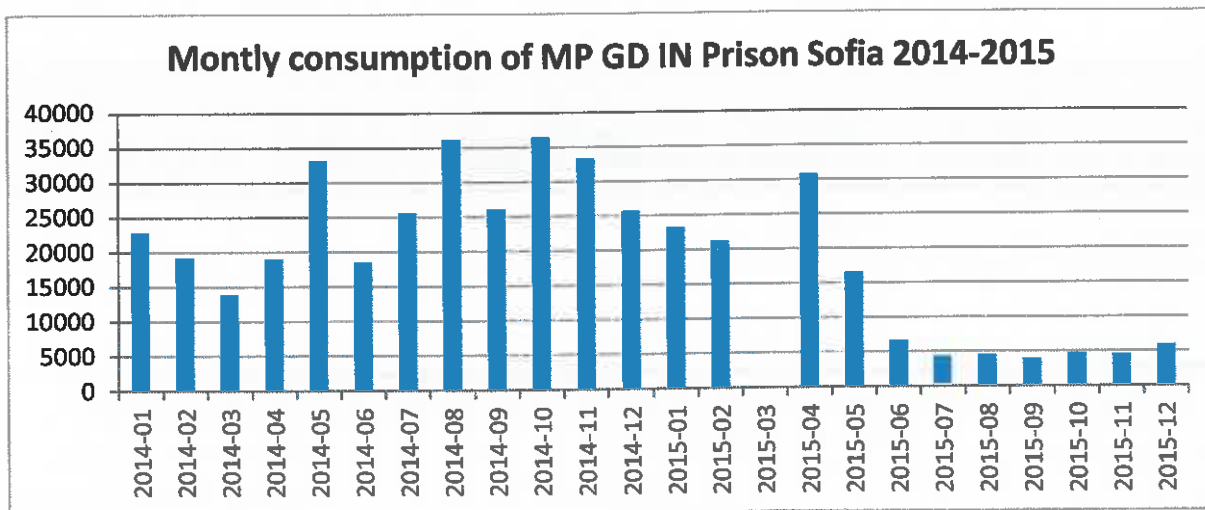
The table below shows 7 customers which form 87% from the quoted decrease. The main reason is that they had repairs in 2015.

Customer number	Customer	Reason for decreased consumption	MoS region	2014, m <sup>3</sup>	2015, m <sup>3</sup>	Annual variation (m <sup>3</sup> )	Annual variation (%)
1001001907	NSA block15	under construction	Studentski	46,319	22,818	-23,501	-50.7%
1001001930	Block 42 ent.A	in 2014 they had leaks	Studentski	39,448	25,115	-14,333	-36.3%
1001001900	Block 4	repaired leaks from water tanks	Studentski	34,222	24,992	-9,230	-27.0%
1001001915	Block 25	Does not work, sealed VS	Studentski	23,756	15,696	-8,060	-33.9%
1001003341	Block 40 ent.B	was under repair	Studentski	14,832	8,497	-6,335	-42.7%
1004053475	MI Hospice N 1	under repair	Mladost	12,054	5,978	-6,076	-50.4%
1001001905	Block 13	repaired leaks from water tanks	Studentski	40,291	34,540	-5,751	-14.3%
<b>Total</b>				<b>210,922</b>	<b>137,636</b>	<b>-73,286</b>	<b>-34.7%</b>

For the whole 2015 the billed volume of Budget Key Accounts has decreased by 254,922m<sup>3</sup> or by 6% as compared to 2014. The detailed information of the monthly levels is presented in the following chart:

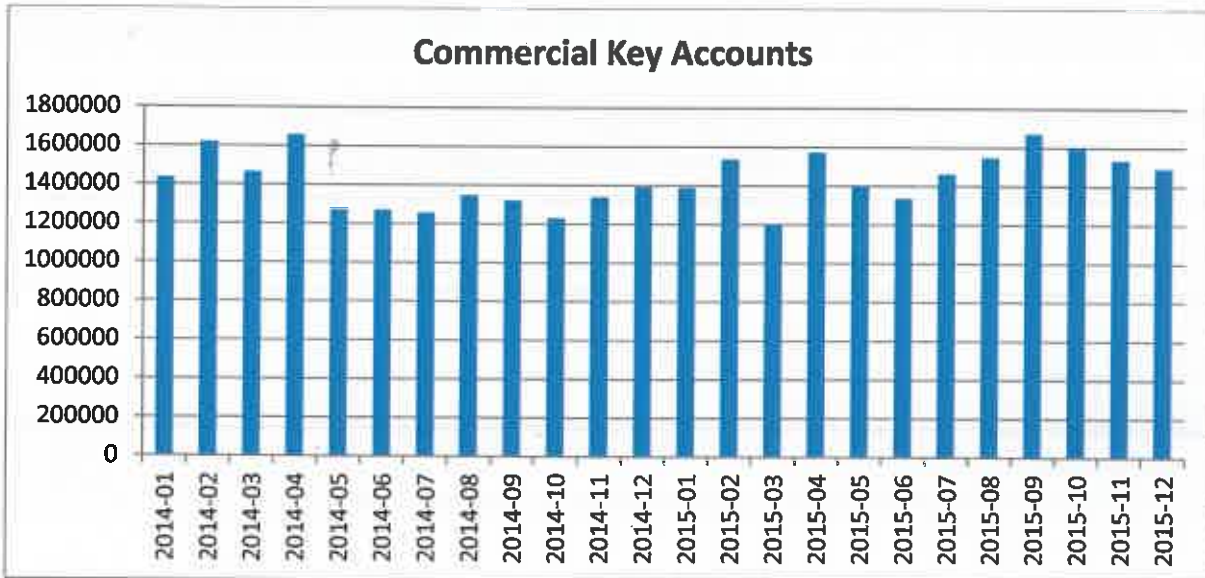


72% of the total less billed volume of this type of customers is formed only from one customer – MP GD IN Prison Sofia (183,197 m<sup>3</sup> less in 2015). The main reason for this is the whole reconstruction and replacement of the water network in the yard of this customer, which lead to repair of internal losses.



Customer	Name	Reason for decrease	MoS region	2014, m3	2015, m3	Annual variation (m3)	Annual variation (%)
1001044093	MP GD IN Prison Sofia	whole reconstruction and replacement of the water network in the yard	Serdica	309,121	125,924	-183,197	-59.26%
1005082259	State Psychiatric hospital for treatment of drug addiction and alcoholism - Sofia	replacement of the water network and repaired leaks	Ovcha kupel	95,492	19,310	-76,182	-79.78%
<b>TOTAL</b>				<b>404,613</b>	<b>145,234</b>	<b>-259,379</b>	<b>-64.11%</b>

For the period January – December 2015 with 1,134,056 m<sup>3</sup> more is the billed volume of the commercial key accounts compared to 2014. The evolution of the monthly billed levels of these customers is presented in the scheme below:



465,723 m<sup>3</sup> more are the billed to customer Water supply and sewerage EOOD, as in September 2015 is included new customer in villages Gorni Okol and Dolni Okol.

Client	Name	Reason decrease	for Municipality	2014 . m <sup>3</sup>	2015 . m <sup>3</sup>	Annual variation (m <sup>3</sup> )	Annual variation (%)
1001045274	Water supply and sewerage EOOD	included customer increased consumption	new and total Nadezhda	6,719,918	7,281,875	561,957	8.4%
1001001889	Toplofikatsia Sofia EAD	increased production	Krasno selo	2,285,094	2,449,376	164,282	7.2%
1005315669	Asos Prperty Management Srevices EOOD	Increased consumption from tenants	Mladost	46,762	121,080	74,318	158.9%
1001044939	MJ Pack EOD	increased production and power	Serdika	17,539	78,053	60,514	345.0%
1005001236	VG AD	replace water mains routes	Lozentes	83,348	135,692	52,344	62.8%
1001003018	Sopharma AD	increased production	Studentski	12,925	50,241	37,316	288.7%
1005001929	New Boyana Film AD	consumes water from reservoir which is periodically filled	Vitosha	28,318	55,773	27,455	97.0%
1005000636	Druzha Staklarski Zavodi AD	increased production. Consumed more potable water, instead of industrial	Serdica	122,876	147,852	24,976	20.3%

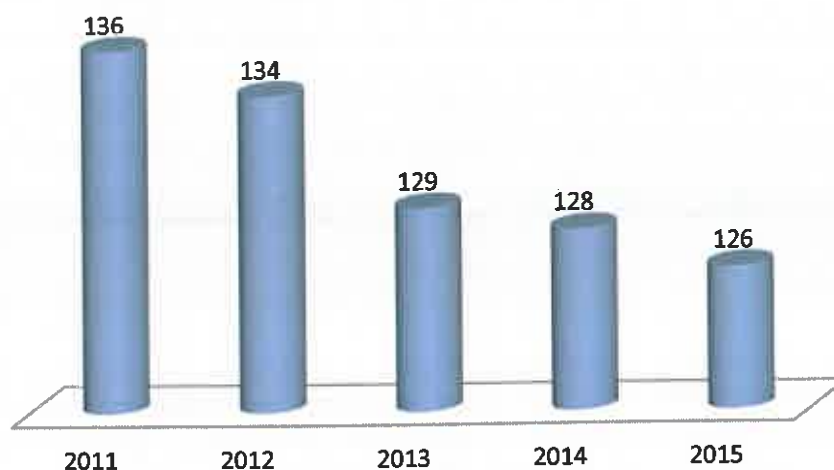
1005085272	Aspazia - 92 OOD	normal consumption	Vrabnitsa	29,769	54,405	24,636	82.8%
1005124081	Sofia Sout Ring Mall EAD	new working mall	Triaditsa	24,225	44,535	20,310	83.8%
1005000747	Aroma AD	increased production	Nadezhda	53,525	73,373	19,848	37.1%
<b>Total</b>				<b>9,424,299</b>	<b>10,492,255</b>	<b>1,067,956</b>	<b>11.3%</b>

### Consumption of domestic customers – analysis of the current trends

In 2014 the consumption of the domestic customers was 77% of the total billed volumes. In 2015 there was no considerable change in the % because the consumption of the domestic customers reached 77%, and the one of the commercial customers was 17% of the billed volumes.

The trend of decrease in the consumption of the domestic customers can be seen in the daily consumption per person on the chart below:

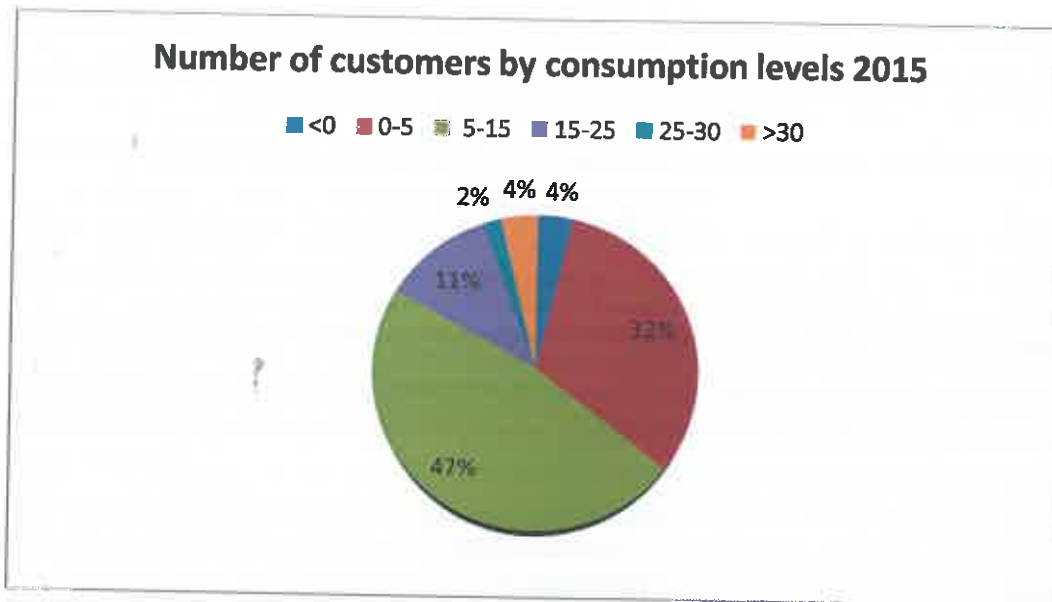
**Average daily consumption (l/day/capita)**



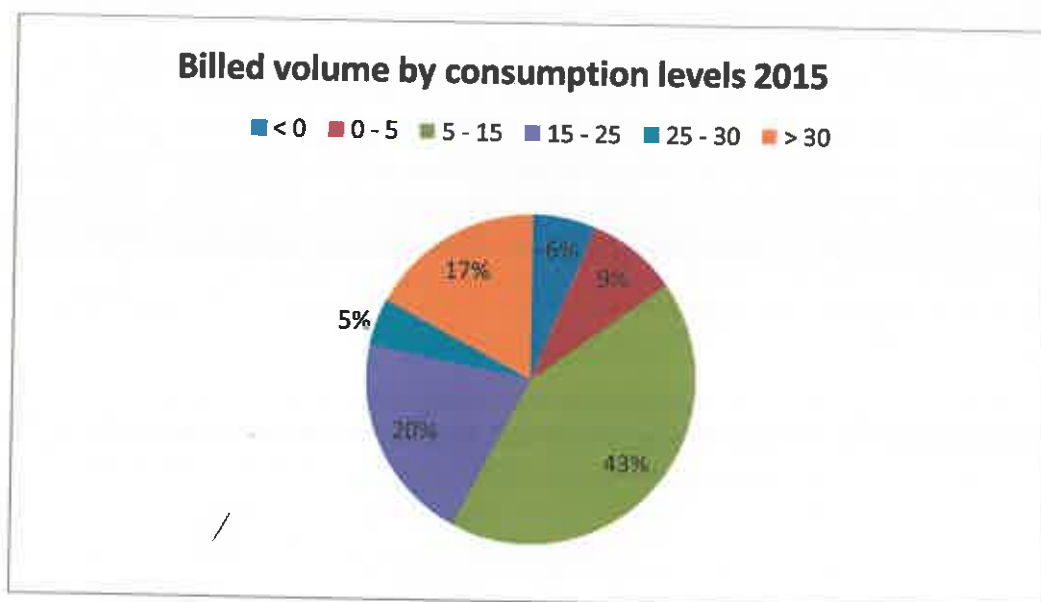
The average daily consumption is calculated as a ratio between the billed annual volume for these customers, the number of the population in Sofia city (forecast for 2015 of the National Statistical Institute) and 365 days.

This trend is related also to the dynamics of the customers from groups with higher water consumption to such with lower water consumption. On a monthly basis the Group monitors the number of the domestic customers, whose water consumption is measured by the following monthly consumption: 0-5 m<sup>3</sup>, 5-15 m<sup>3</sup>, 15-25 m<sup>3</sup>, 25-30 m<sup>3</sup>, exceeding 30 m<sup>3</sup>/month.

In 2015, 32% of the customers with measured consumption consumed between 0-5 m<sup>3</sup>/month, 47% - between 5-15 m<sup>3</sup>/month and 11% - between 15-25 m<sup>3</sup>/month.



The breakdown of the billed volumes by consumption levels is presented on the following chart:



#### Reducing unaccounted-for water

Reducing unaccounted-for water (UFW) is a key priority for SV. It not only contributes to preserving water resources and reducing the failures and leaks but it also leads to higher quality of the provided service and fewer water supply interruptions due to removal of failures.

In 2015 there was a decrease in the **Total Losses (Q6)** in Water Supply System Sofia by **5.71 m<sup>3</sup>** as compared to 2014. As a percentage, the total losses reduced from **48.15%** to **45.81%**, which is the lowest level of Total Losses (Q6) achieved so far.

The **Unaccounted for Water (Q9)** decreased respectively by **5.03 m<sup>3</sup>** or as a percentage - decrease from **51.62%** to **49.80%**, and this indicator is for the first time below the limit of 50%.

In the reviewed period, the billed volumes of potable water increased by **0.85 m<sup>3</sup>**.

In 2015, the Group retained the trend of improving the indicators as compared to the previous year; despite some unfavorable factors, the Group managed to improve the functioning and condition of the water supply network and the quality of service in general.

The key objective of the Group management is to reduce the real water losses. It is to be noted that the decrease in the total losses has no impact on the billed water volumes but it is related only to reduction of the water volume at the inlet of the water supply system, i.e. the abstracted water. For the first time there is an increasing trend in the billed volumes, which contributes to a decrease in the unaccounted-for water to less than the limit of 50%.

- **Continuous monitoring of the supplied water volumes**

Network zoning (DMA program)

Network zoning is an important tool which ensures effective management of the water supply network and detailed understanding of the processes in it. Considering the large water supply network, without zoning it is practically impossible to understand the processes in the network and the reasons for the occurring problems.

The objective of this project is effective continuous monitoring of the water supply system. The installation of measurement devices does not provide the needed information in terms of quality and reliability. It is important to zone the territory in order to know what in fact is behind the measuring devices – the flowed water volumes, precise boundaries of the territory to which water is supplied, what part of the network the measured pressure refers to. In this context, the DMA program changes the network and establishes zones of a certain size (number of water service connections, length of the network) and fixed boundaries. This allows analyzing the data from the measurements based on the DMA – existing situation (prioritization of proactive activities – network replacement, seeking hidden leaks, survey of consumption, pressure management, etc.), and quick response to deviations in the normal work.

Optimizing these areas is an expensive and slow process requiring large-scale reconstruction as the easy from a technical point of view and relatively cheap activities have already been performed. The subsequent activities for improving and optimizing the metering areas are accounted as improvements to the asset.

In 2015, the program for continuous monitoring of DMZ/DMA continued. As at the end of 2015 these zones were 29 nos. – 28 mainly with end customers and ones zone, covering the strategic consumption of the entire territory – impounding structures and trunk water mains, treatment plants, strategic reservoirs etc.

DMZ are split into smaller district metering areas (DMA) – a total of 206 DMA with customers, 19 smaller areas (sub-DMA) which are metered, 86 DMA with the strategic water mains and 50 DMA with reservoirs. All zones – DMA and the pressure management areas – are established with 908 boundary stop valves. The total number of metering devices installed in the network is 541, connected to the Telemetry System and/or SCADA (monitoring, management, control and collection of data).

The following activities were performed in 2015 under the program:

- 642 boundary valves were checked;
- 4 new metering devices were installed;
- 262 metering devices were repaired or replaced;
- 1 new DMA was created;
- The boundaries of 70 zones were optimized;



- 13 tests were made in order to confirm the boundaries and localize the connections;
- 508 extraordinary measurements were made for the needs of the hydraulic model of the water network;
- 609 extraordinary measurements were made in relation to signals – complaints, surveys, etc.

- **Hydraulic model of the water supply network**

Building a hydraulic model of the water network is very important for the planning of specific actions to improve the water network, respectively, reducing the potable water losses. Through simulations in the model various future activities in a safe software environment can be tested and the result and impact of these activities can be assessed. In this way the actual implementation on field can be checked in advance and executed in the most efficient way with minimum complications for the network and customers.

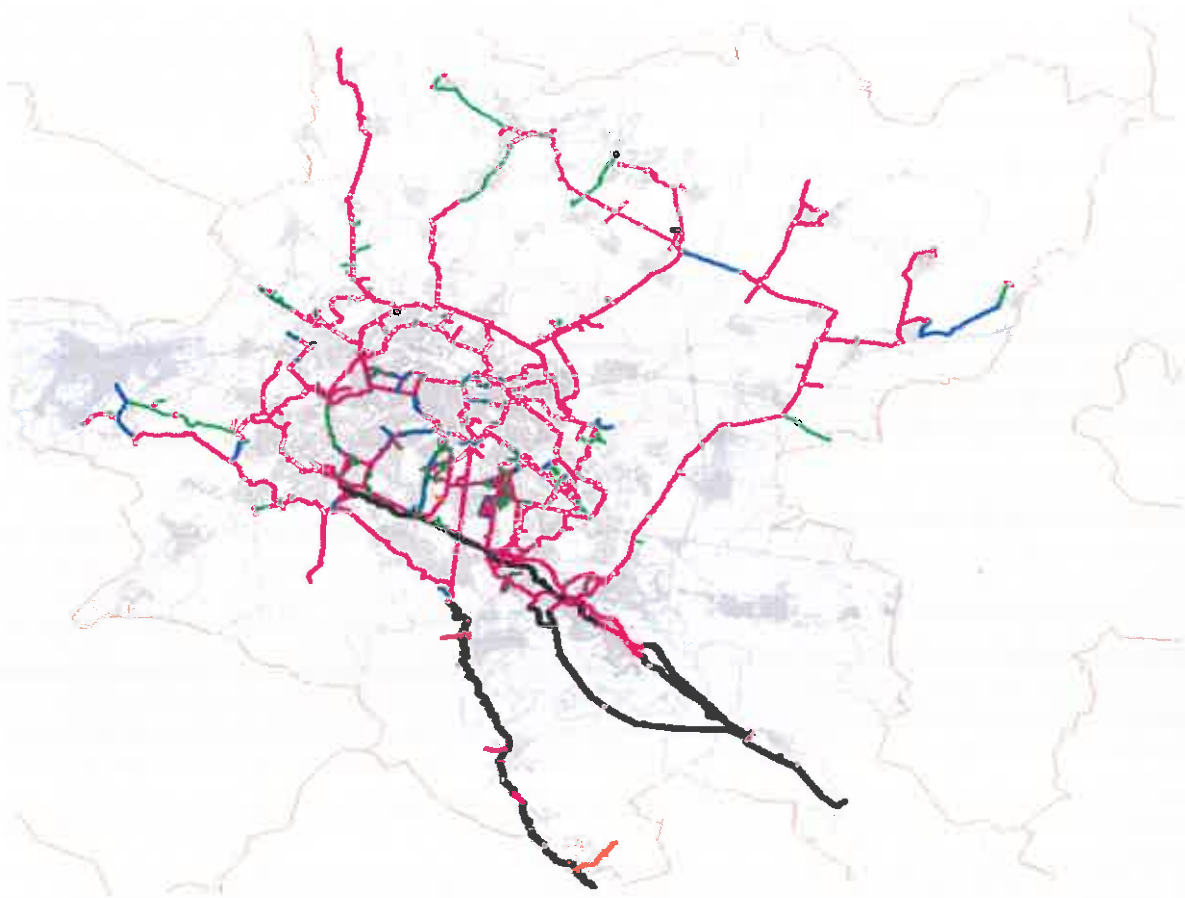
Through the hydraulic model a big number of network analyses can be made - the model can give a good idea of the quantitative and qualitative distribution of water volumes in the system; to give a good idea of the categories of water volumes (domestic, industrial, physical and commercial losses) in the separate water supply areas; to give a good idea of the pressure and its variation in the network; to present the advantages and disadvantages of the different water supply schemes, the change in the velocities and the direction of water, as well as to serve as a tool for engineering and technical-economic analyses

The project for the creation of a hydraulic model of the network was renewed at the end of 2011. The creation of hydraulic models by DMZ was foreseen (29 nos.) + a model of the impounding structures. The work under the project continues as 67% of the envisaged DMZ hydraulic models were reported at the end of 2015.

At this stage of the project, the main benefits and applications of the conducted campaigns for hydraulic modelling of the zones and the process of creating the models are as follows:

- Validation of geographic, technical and operational information – synchronizing measurement systems and hydraulic data;
- Enriching the GIS database with hydraulic and operational data – ensuring missing information about network, fittings and equipment;
- Creating files and drawings of all the large pumping stations – on-site survey activities and digitalization of the collected information;
- Creating plan drawings and axonometric drawings of all the main reservoirs in the network – on-site survey activities and digitalization of the collected information.

In 2015 was completed the **computer operational hydraulic model**, covering the impounding structures and trunk water mains and facilities of the water supply system operated and maintained by SV.

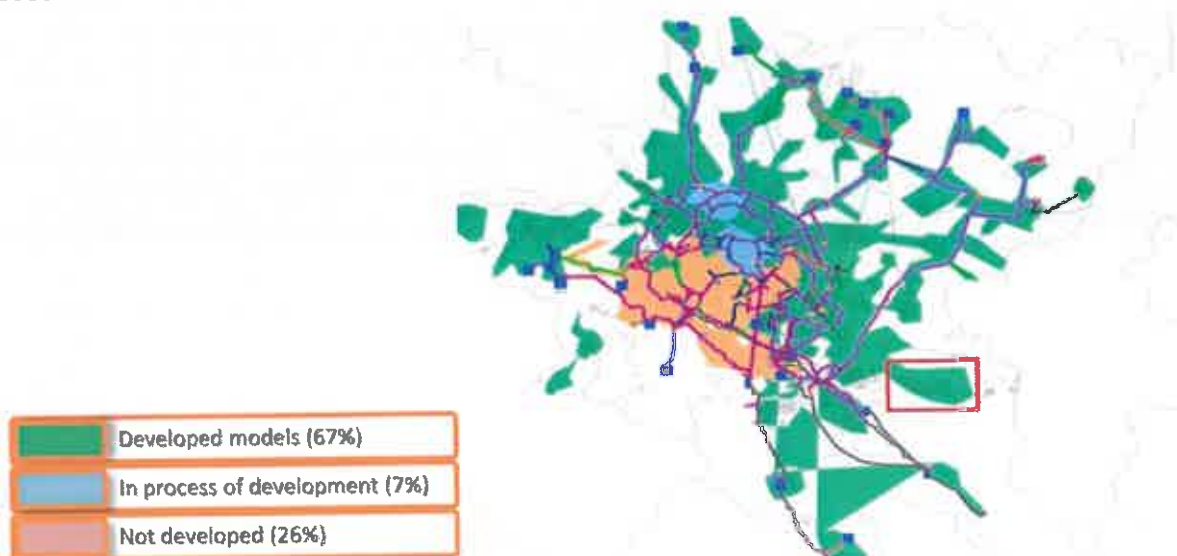


**Fig.1: Scope of the operational model**

In 2016 procedures are to be prepared for its update and successful implementation in the operational work of Water Network Management and Operation such as:

- Optimization of the operational parameters;
- Analysis of the criticality;
- Simulation of emergency events and impact;
- Comparative analyses and reports;
- Water quality;

Under the project for developing **detailed models of DMZs**, 67% were reported at the end of 2015.



**Fig.2: Operational status of DMZ models**

The remaining DMZ models which are to be developed are envisaged to be implemented by the end of 2016, with which the activities of developing the detailed hydraulic model of the water supply network will end.

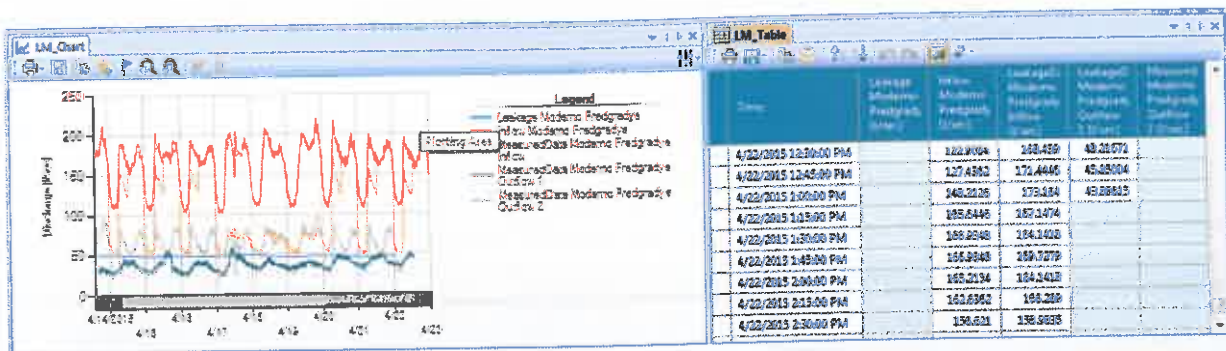
Due to the necessary automation of the process of preparing balances of water volumes and uniting the servers with hydraulic data in a single database, in 2015 was tested the specialized software platform Leakage Monitor, developed and provided by the Group DHI.



Leakage Monitor is a system that facilitates decision-making and automated assessment of leaks with a focus on the economic aspects of their reduction. It is used for automatic data collection and assessment of indicators. The data from the monitoring of the installed flow meters and pressure sensors are automatically collected in a database where they are stored, analyzed, checked and assessed. Connection is maintained with the database from the historic monitoring and connection to other sources with measured data. Data from the customer information system or data on billed water are also necessary. The results are compared with the assessment of the night inflow in the given area. Certain indicators (economic, technical) area applied for assessing the work of each area.

During the 3-month test period, 5 pilot DMAs were implemented:

- ✓ DMA 102 (Mramor);
- ✓ DMA 201 (Moderno Predgradie);
- ✓ DMA 323 (Krasna Polyana);
- ✓ DMA 413 (Gorna Banya);
- ✓ DMA 482 (Vladaya);



The main difficulties in the implementation process concerned the creation of connections with the servers for storing data from the water measurement points in the DMAs. Due to the specifics of the software products and the databases, the connections were not created directly but as follows:

- Telemetry – daily exports through Excel files;
- SCADA – daily exports through Clear SCADA, stored as requests in the database SCADA link.acddb;
- GPRS server - daily exports through CSV files;

- **Pressure management**

This project has two strategic objectives – reduction of physical losses (water leaks in case of failures, as well as the number of failures) and gradual achievement of the levels of the working pressures set in the legislation, as according to the Master Plan of Sofia the network was designed and constructed for considerably higher pressure. Pressure management is the most effective tool for decreasing the failures in the network and the water leaks. In line with the best engineering practices, when creating the hydraulic models, the potable water losses in the water supply systems are determined and analyzed as a function of the pressure. The velocity of every leak is determined based on the pressure in the network and the size of the opening.

The water supply network of Sofia was designed and built at working pressure 8 Bar (80 m water column), but there are a number of areas in which the pressure exceeds 10 or more atmospheres. The high pressure leads to frequent failures and high flow rate of the water leaking through the openings. Under the effective regulations, the pressure in the network should not exceed 6 Bar.

The planning of pressure management activities, data are used from the DMA program and also data from the GIS database. The Pressure Management Areas (PMA) are planned in advance, and then a number of field surveys, tests and analyses are made. The critical point of an area is determined and, based on the tests, the boundaries of the future PMA are determined as well as the possibilities of reducing the pressure. A PMA is established with one or several inlets, where shafts with nodes are constructed and then PRV are installed.

In the process of PMA planning, a number of reconstructions of the water supply network are required - existing pipes with insufficient diameters or low flow capacity should be reconstructed so as to ensure a sufficient flow of water at lower pressure. On the other hand, a change in the scheme of water supply is often required, which requires construction of new water supply branches. PMA are established with boundary stop valves.

The pressure management program works in territories with static pressure below 6 Bar, which is about 35% of the network. Until 2015 included, a total of 202 areas for pressure

management through PRVs were created and functioning, which is about 90% of the territories in which there are prerequisites and pressure management is possible.

In 2015, the following activities have been performed under this project:

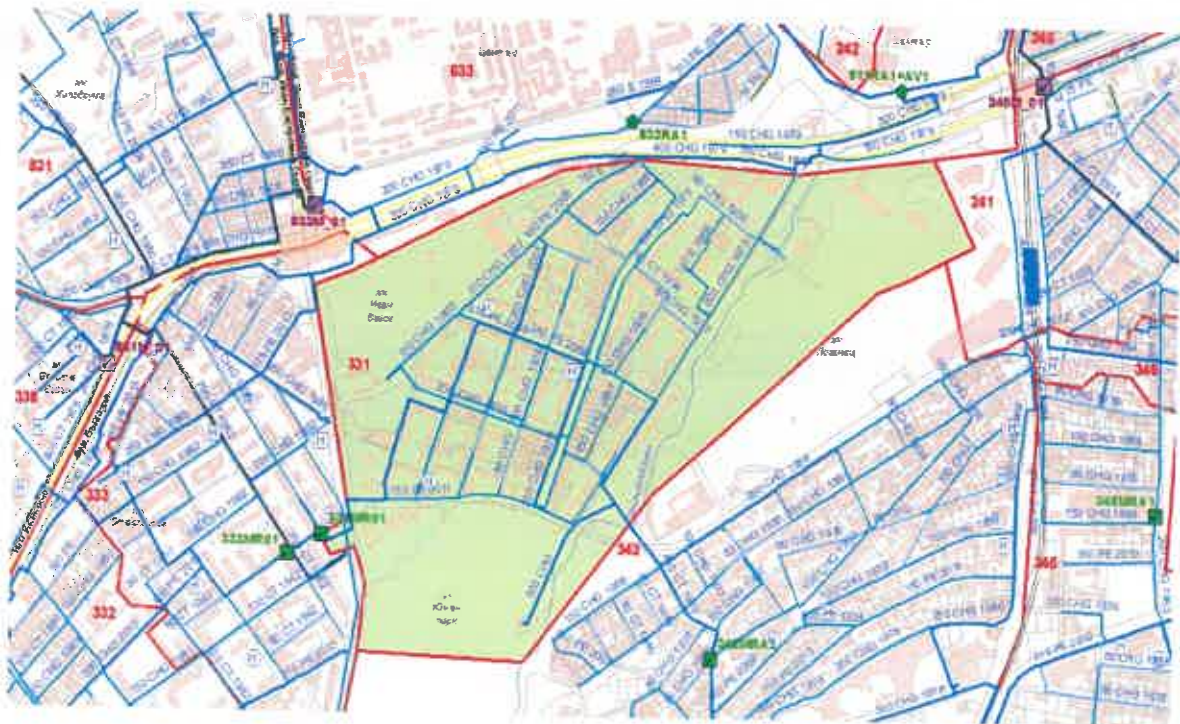
- 5 new pressure management areas were created;
- 8 new PRVs were commissioned;
- 4 PRVs were replaced with better ones, and one of them was upgraded with a new type of valve ensuring dynamic pressure management;

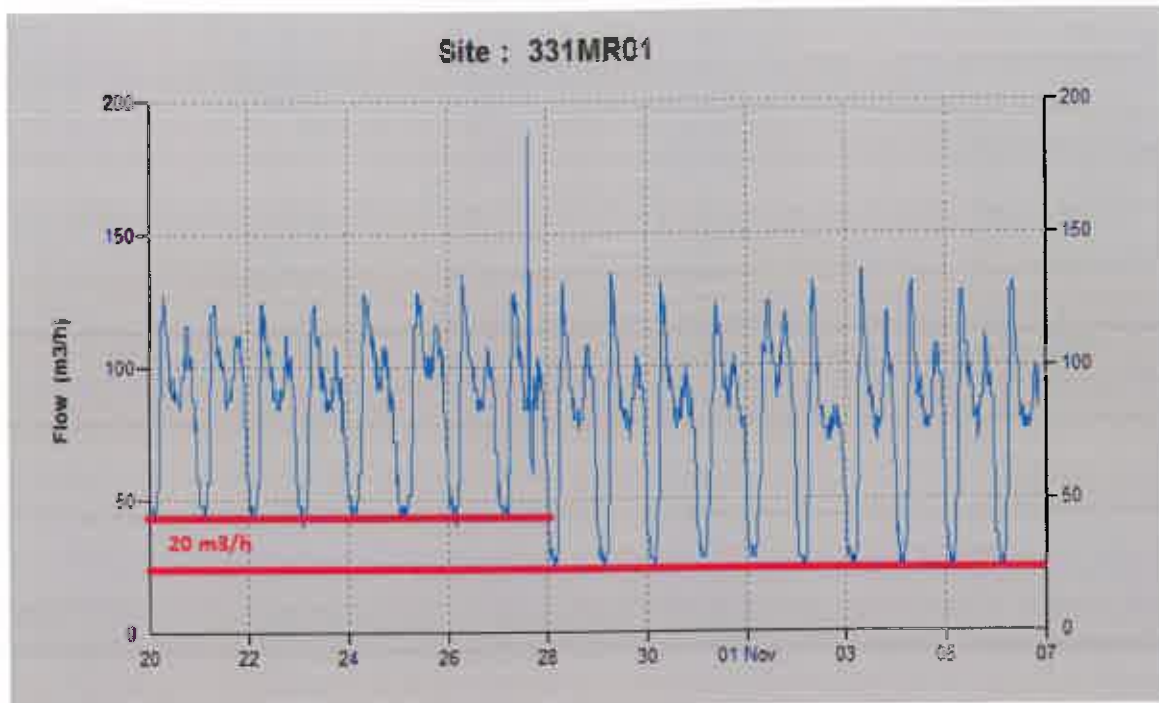
In 2015 started several project for improving the monitoring, respectively proactive pressure management by real-time monitoring of the functioning of PRVs at SCADA. Apart from reducing the leaks and failures, the functioning of PRVs has a direct impact on the levels of services – faulty PRVs impact the final pressure at customers' sites. This requires very strict monitoring of these devices not only by the units directly responsible for the PMA program but also by all the units related to the network operation – regional inspectors, control room, water management and balance, etc.

Due to exhaustion of the areas of possible pressure management, in 2015 the focus was shifted and currently the goal is not only to cover new territories but also to increase the efficiency of the project in already covered areas by means of dynamic pressure management.

In the past year, such a system was tested in DMA 331 - Ivan Vazov r.q.

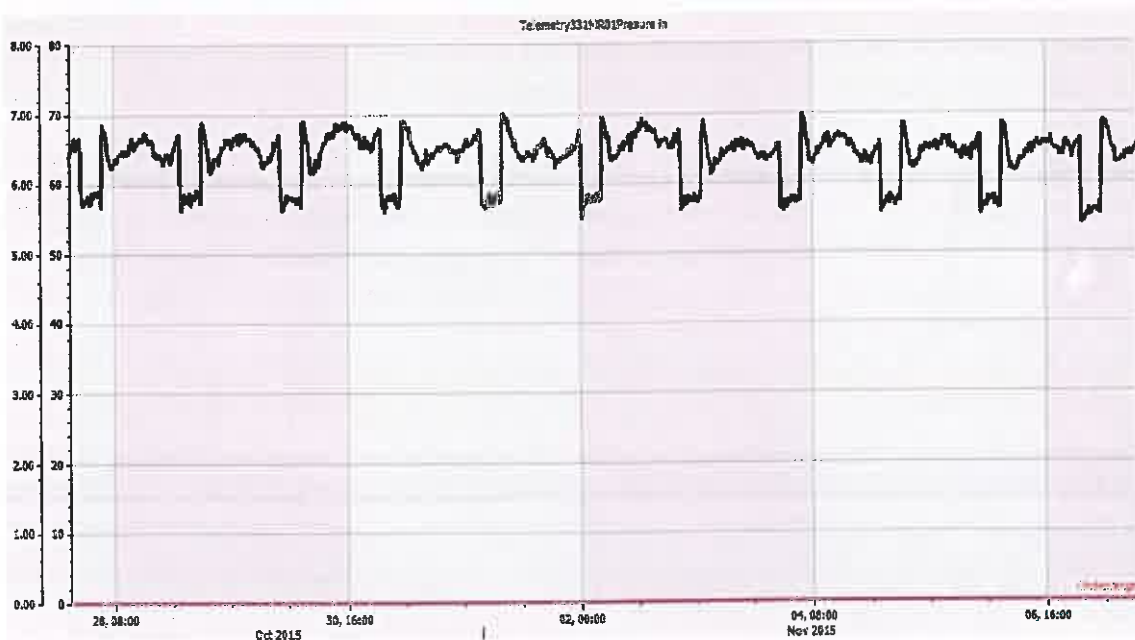
In this area, over the past years the Group faced an unsolvable case due to the presence of an 18-floor block of flats whose residents refused a hydrophore to be installed. For this reason, the specific area was selected as a test one, and the method of two-stage pressure management was selected – additional reduction at night when the consumption is low.





The achieved decrease in the minimum nightline (MNL) is about 20 m<sup>3</sup>/hour, and the additional decrease in the pressure is performed between 00.00 h and 5.00 h, which does not impact the service provided to the customers.

Principle of operation of the two-stage pressure management:



- **Leak localization**

In addition to the pressure reduction and water pipe rehabilitation, the finding of the so-called 'hidden' leaks is the third key tool for the losses reduction.

The leak localization is done by SV's field teams, as they survey the network with special leak detection equipment. For this purpose they use correlators, microphones, tracing equipment, metal detectors, etc.

The hidden leaks are detected mainly through an acoustic method - the so-called sound on the network is searched, a survey is done of the shafts along the sewerage network for strong flow at dry weather, etc. The found hidden leaks are assigned for repair and removal.

In 2015 the recent technologies in the sphere of hidden leak detection were tested in view of implementing them in SV in the future.

A method was tested for hidden leak detection through helium – an inert and harmless gas, which does not occur in a free state in nature.

The advantages of the method are a lot, as the most important are that it is fully applicable and the only one with proven efficiency when leaks are detected on polyethylene water mains. Slow leaks are also detected, as for them the acoustic methods do not provide explicit results.

In addition, the method is very suitable for lawns and areas without any pavement because the acoustic method gives unsatisfactory results in such areas.



An area of 0.5 km was surveyed in DMA 155 (Botunets), and 2 leaks were detected, including a very slow leak from an emergency clamp:



As a result of the tests made, 5 leaks were localized, and for them it was not possible to apply any acoustic methods or those methods had not given any results.

In conclusion, the method is especially useful for water mains with a big diameter, in sections with no contact points – stop valves, hydrants, air valves, connections, etc. and also water mains with routes crossing areas with no pavement. The success rate for the method is above 80%.

The system of correlating loggers was also tested - ZoneScan 820.



It is a professional system, easy to be used for detecting leaks on the water networks. It has small and smart devices – loggers, which are installed on the distribution network for data



collection, and a device for communication, control and transfer of data to a computer or laptop. There is a reliable radio connection among the components of the system for ensuring good communication.

The system has the following main functions:

- automatic monitoring and sound analysis;
- calculation of the likelihood of leak occurrence;
- repeated hearing of the recorded sound from correlation;
- remote hearing of a leak sound.

At the test survey made for a section of the network in DMA 433 (Dragalevtsi), on entirely polyethylene water mains, no data for leaks were found:

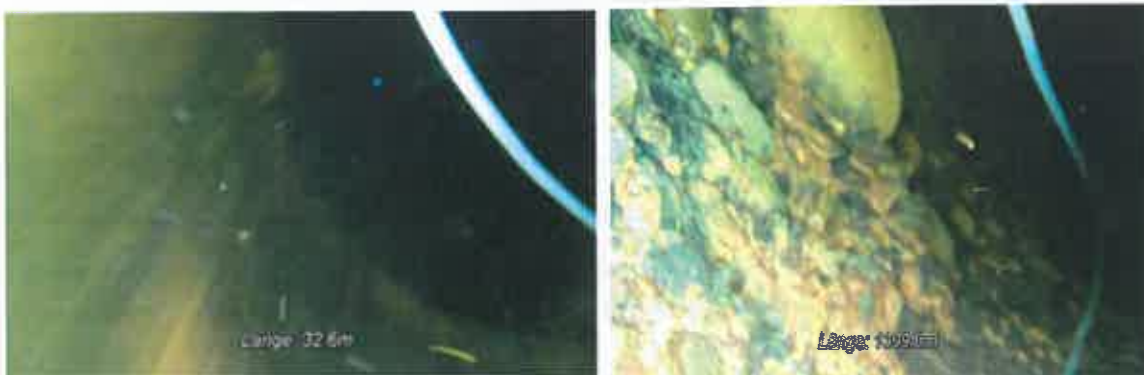
Logger no.	Read	Leak value	Position	Bat.	Vars.	Measurem. from	Measurem. to
429976	10/14/15	2		3.57 V	5.5	10/14/15	10/14/15
429979	10/14/15	17		3.53 V	5.5	10/14/15	10/14/15
429980	10/14/15	49		3.61 V	5.5	10/14/15	10/14/15
429981	10/14/15	4		3.55 V	5.5	10/14/15	10/14/15
429982	10/14/15	0		3.57 V	5.5	10/14/15	10/14/15
429983	10/14/15	0		3.65 V	5.5	10/14/15	10/14/15
429984	10/14/15	0		3.62 V	5.5	10/14/15	10/14/15
429985	10/14/15	24		3.69 V	5.5	10/14/15	10/14/15
429986	10/14/15	4		3.50 V	5.5	10/14/15	10/14/15
429987	10/14/15	13		3.63 V	5.5	10/14/15	10/14/15
429988	10/14/15	10		3.69 V	5.5	10/14/15	10/14/15
429989	10/14/15	0		3.49 V	5.5	10/14/15	10/14/15
429990	10/14/15	68		3.65 V	5.5	10/14/15	10/14/15
429991	10/14/15	13		3.56 V	5.5	10/14/15	10/14/15
429992	10/14/15	5		3.65 V	5.5	10/14/15	10/14/15
429993	10/14/15	13		3.69 V	5.5	10/14/15	10/14/15
429994	10/14/15	1		3.56 V	5.5	10/14/15	10/14/15
429995	10/14/15	12		3.66 V	5.5	10/14/15	10/14/15
429998	10/14/15	67		3.68 V	5.5	10/14/15	10/14/15

Equipment for visualized inspection of water mains was tested (Pipe inspector). Through it the CCTV inspections of pressure pipelines are made and hidden leaks are localized through an acoustic method.

A water main was surveyed, with a diameter of 300 mm and a length of about 1.5 km in DMA 433 (Dragalevtsi).



7 leaks were found in the mentioned route, as well as some debris inside the pipe.

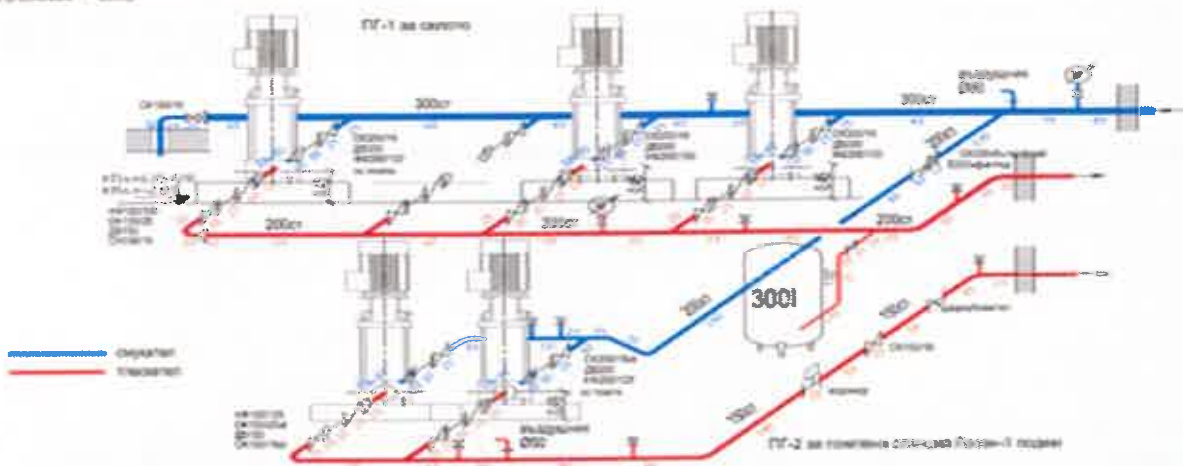


In 2015 continued the activities on leakage detection. 5,111 reactive works were executed (including leakage detection; tracing of water mains, service connections, stop valves etc.) In 2015 under program for proactive leakage detection 60 DMA zones were surveyed and 455 leakages were detected.

- **Survey of pumping stations and hydrophore installations**

Analysis of the work regimes of the facilities, analysis of the territories/sites to which water is supplied, performing the required activities of reconstruction and optimization, reduction of the electricity consumption by optimization or replacement of the pumping units, introduction of telemetry, etc.

Схема водоснабжения района-1 (по плану)  
 (17.12.2012)  
 Инженер В.И.Сидоров  
 Инженер Г.И.Сидоров



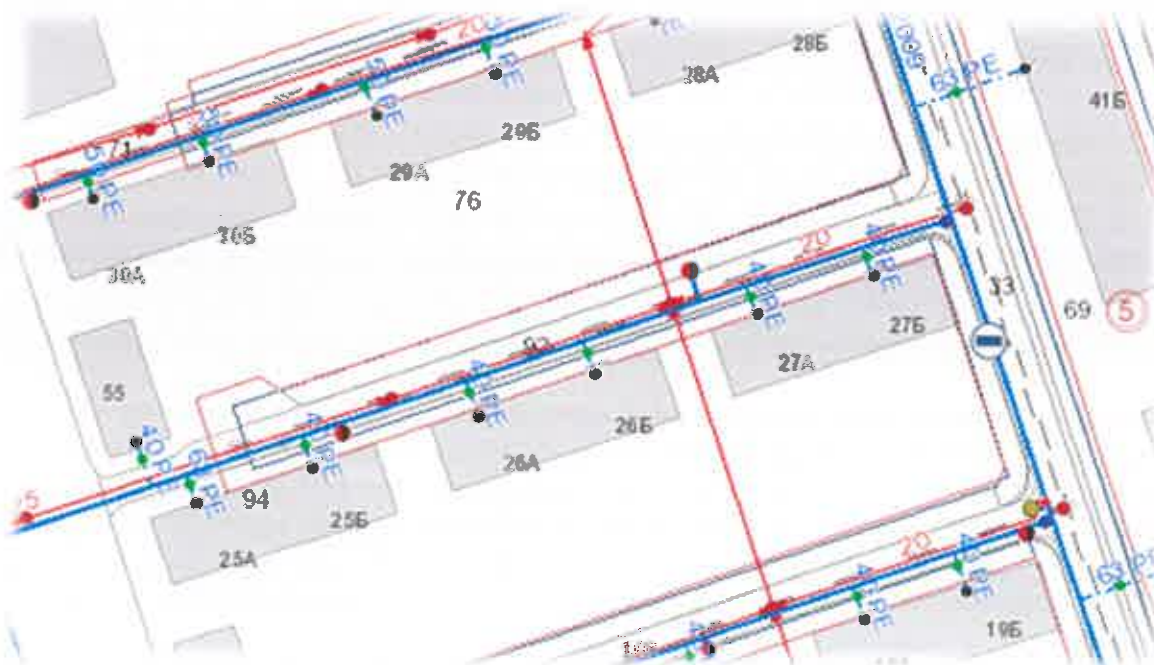
- **Reconstruction of reservoirs, pumping stations, other sites**

The strategic sites of the water supply network are of critical importance for provision of high-quality service and normal functioning of the water supply network of the capital city and the adjacent territories. Therefore, their condition and efficiency are continuously monitored and proactive measures are taken in order to limit the risks of interruption of the work or of non-optimal work of the facility.



- **GIS maintenance and development**

The geographic information system of the Group is of vital importance both for execution of the activities of maintenance of the network and the repair of failures and in terms of design and construction of new water mains, new connections between the existing ones or analysis of the possible alternative schemes of water supply. Therefore, the Group aims at continuous improvement and optimization of the data in the system both in terms of coverage of the system and in terms of data verification, registration of on-site changes and work with the software.



In 2015, GIS served as a basis for another customer-oriented project – the Information Center published information about the water quality monitoring points and the related reports prepared by the Laboratory Testing Center of SV. For 2015, the Information Center had 341,734 unique page views. The Group continued the project for SMS notification to customers who had subscribed to receive notifications about water supply interruptions, implemented in 2014 with the help of GIS. Currently their number is 9,984.

As at the end of September 2015 GIS presented to the Municipality of Sofia the annual Asset Register and Assessment of the Condition of the Assets.

A new 2-year contract was concluded with GIS Sofia EOOD for delivery of digital ground cadaster, address databases, regulation plans, etc.

GIS actively participated in the update of the data in the database on customers and revenue meters based on the implemented SAP system.

### **Quality of the supplied water**

In 2015, like in the previous years, restrictions on potable water consumption have not been imposed both in terms of water from the central water supply system and water from the local water sources used by the Group. In 2015, there was no water supply regime in the Concession Area.

With implementation of the monitoring program for potable water quality in 2015 the percentage compliance of the samples taken from the points of the water supply system is 99.51% by physical and chemical indicators and 99.82% by microbiological indicators, thus the trends from 2014 have continued. The reported levels of compliance of potable water quality fully meet the requirements of the Ordinance on the long-term levels of the KPIs for WSS services (98% for physical and chemical indicators and 99% compliance for microbiological indicators).

The samples analysed in 2015 for radiological indicators did not show any deviation, i.e. 100% compliance was achieved for them.

In order to comply with the quality indicators for treated potable water, in 2015 the planned number of activities was performed, including:

- Internal hydroinsulation was made on the two open impounding structures of the inlet facility in Bistritsa PWTP. In such a way the inlet facility is completely internally hydro insulated and its watertightness has been increased. Meanwhile, the hydro insulation protects the reinforced concrete construction from the erosive activity of the external atmospheric factors and the energy of the inflowing water.
- Constructed and installed are 128 watertight flood gates of the inflow openings of the filters in Bistritsa PWTP. Through them stable insulation of each one of the 32 filters is achieved without breaking the general process of filtration and without water losses.
- In order to achieve more efficient and flexible human resource management, the facilities and processes in the treatment plants for potable waters, a project has been implemented for remote monitoring of the technological processes in the local heating plants of PWTP Pancharevo and PWTP Bistritsa from the central dispatcher points. In such a way, human resource was released for additional proactive works on the maintenance of facilities and the areas in the treatment plants for potable waters.
- The annual preventive program was performed for mechanical cleaning and maintenance of the servicing reservoirs.

- The drainage system of filters with worsened distribution of washing water and air was inspected and the found flaws were eliminated.
- Quartz sand of suitable size was added in all the filters at Bistritsa PWTP in line with their design height.
- The annual mechanical treatment and disinfection was performed of the facilities along the way of water at Bistritsa PWTP, Pancharevo PWTP, Passarel PWTP and Mala Tsarkva PWTP
- The Group continued to perform the activities related to automation and modernization of potable water disinfection stations and online monitoring of KPIs at the reservoirs within the Concession Area.

We observe procedures for actions in case of finding non-compliances of the quality characteristics of potable water, including tracking, proving and documenting the reasons for non-compliances. For each signal from a customer regarding doubts about the potable water quality, we perform a check and, if necessary, take actions in order to supply fresh water to the distribution network and the actions continue until we reach complete customer satisfaction with the quality of service.

The found momentary non-compliances of potable water quality result from:

- Worsened condition of the water supply installation in the buildings at some monitoring points in the water supply network (the legal requirement is to take samples 'from the valve at the customer');
- Negative impact of the water supply interruptions on the quality indicators after restoring the water supply (e.g. turbidity, iron). This effect is also due to the age of some water mains and the natural processes of corrosion (Kremikovtsi region);
- The water standing in sections of the water distribution network as a result of low consumption;
- Lack of technical possibility for local treatment of potable water in cases of water abstraction from local water sources (Vladaya village, Marchaevo village).

In the period 01.01.2015-31.12.2015, we implemented the annual program agreed by Sofia Regional Health Inspectorate (SRHI), for monitoring the quality of potable water supplied to customers in a scope and volume in line with the legal requirements. The monitoring program was implemented by the accredited Laboratory Testing Complex (LTC) of SV. LTC has accreditation for testing potable water, including for taking water samples.

### **Laboratory Testing Complex**

The Laboratory Testing Complex (LTC) of SV implements the Group's plans for monitoring surface and potable water, wastewater and sludge in terms of taking samples from water and sludge and analyzing the microbiological, physical and chemical, and hydrobiological parameters. Over the reporting period, the LTC was extremely successful in 18 rounds of international programs for tests for compliance with microbiological, physical and chemical parameters, which covered 138 analyses, out of which 125 had a satisfactory result - 91% proven compliance. The result of the performed compliance tests is an independent confirmation of the accuracy and reliability of the test methods used by the LTC and the high qualification and competence of the employees.

The activities implemented by the LTC in 2015 were mainly related to the fulfillment of plans for monitoring of potable, surface and groundwater as well as wastewater and sludge, maintenance of accreditation, monitoring of processes ensuring traceability and transparency of the activities performed, ensuring confidentiality of the analytical results regarding the samples of the customers of the LTC and marketing of the laboratory's services.

In 2015 Laboratory Testing Complex (LTC) works on optimization of the existing and the development of new methods for analysis of:

- organic pollutants (pesticides, polyaromatic hydrocarbons, phenols and others)
- trace concentrations of metals with instrumental apparatus
- physico-chemical indicators
- microbiological indicators

in waters for potable and domestic purposes (potable, underground, surface, table, spring and mineral water), wastewaters and sludges from WWTP).

As a result of this process in September 2015 LTC initiated a procedure for expanding the scope of the accreditation and the stated methods and matrices are about 80% of the existing scope. The expansion includes both new methods and new matrices – table, spring and mineral water and sludge from WWTP.

16% of the documents were reviewed and edited, of the Management System of the Laboratory Testing Complex based on BDS EN ISO 17025. In compliance with the principles of the Group regarding the environmental protection, the Laboratory Testing Complex processed and implemented 12% of the forms on paper and the lists from the management system into electronic ones.

In 2015 in sector Potable Waters of LTC a total of 8,056 samples were received and 146,737 analyses were conducted on them, and in sector Wastewater respectively 9,381 samples for a total of 90,455 analyses.

In January 2015 an on-the-spot assessment was conducted for the first planned supervision after re-accreditation from the Executive Agency 'Bulgarian Accreditation Service' for compliance of the Management System and the activities of LTC with the standard BDS EN ISO 17025. The team of evaluators did not find out discrepancies.

In July 2015 an internal audit was conducted on the Quality Management System in LTC in a team of a leading auditor and two technical evaluators certified according to BDS EN ISO 19011 and BDS EN ISO 17025 and competent in the area of physico-chemical instrumental methods for analysis and the microbiological methods for analysis of water. As a consequence of the audit 4 discrepancies and 4 notes were raised. Corrective measures were taken. The discrepancies were removed and assessment for efficiency of the implementation of the corrective measures was conducted.

In 2015 LTC serviced 9 contracts for providing laboratory services to external customers and 7 agreements for levels of services with internal customers. In the stated period in LTC 2,288 protocols from testing were assigned. There are no claims made against the lab services on behalf of the customers for 2015. For securing the activity of LTC, 35 contracts were signed for provision of products and services such as delivery of chemicals, glassware and lab equipment; post-warranty servicing of lab devices; trainings, etc.

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

## Water Network Management

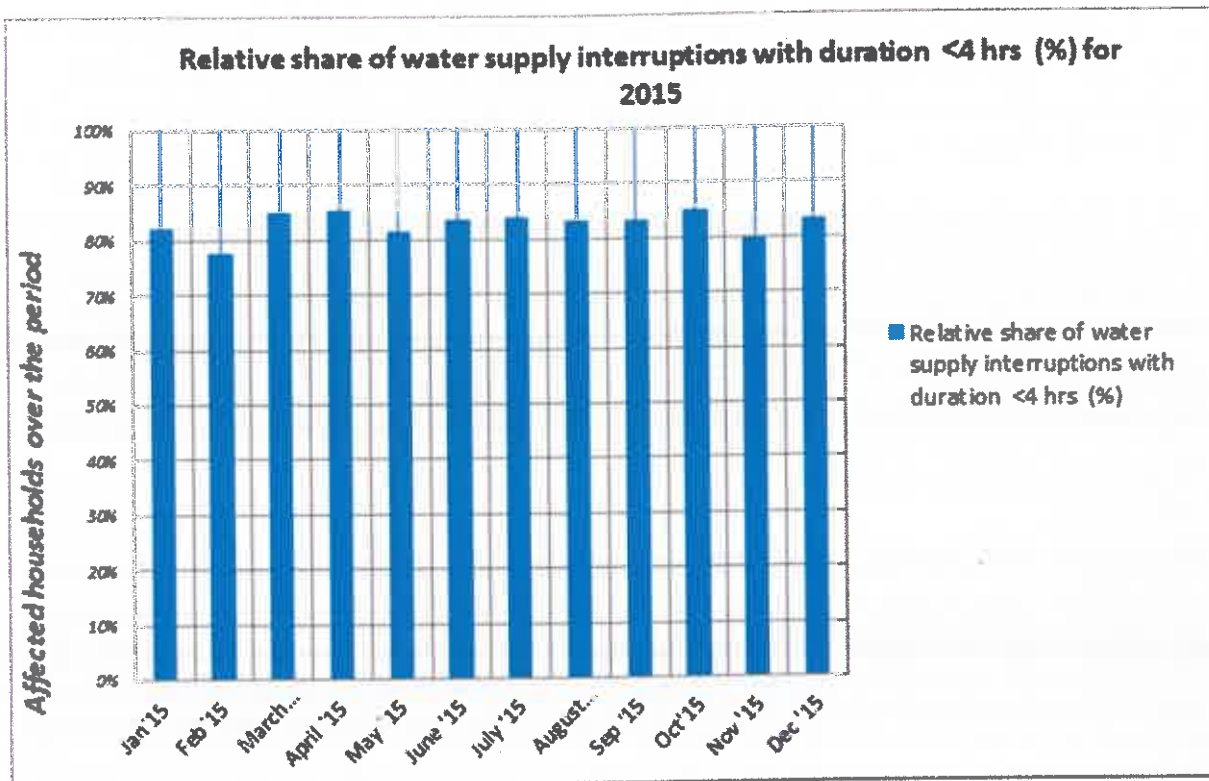
The focus of the Group in 2015, like in 2014, was on several main aspects:

- Improving operational customer service, mainly by reducing the response time in case of disruptions in the normal functioning of the water supply network and improving the information which the Group provides to its customers regarding the occurred or future operational events through the Information Centre, in which the zones affected by the emergency and planned water supply interruptions are visualized, and through the SMS-notification service for the upcoming planned water supply interruptions.
- Enhanced control and speeding up the reinstatement works after the completion of the civil works.
- Increasing the number of planned water supply interruptions for network reconstructions, which allows for preliminary information and reduction of the inconvenience for the customers.
- Improving the interaction among the departments involved in the operational activity and optimizing the information flows within the Group concerning current or planned operational events.

As result of the taken measures the number of failures of the water supply network from the previous year is kept – 4,129 failures of the distribution network in 2015 as compared to 4,099 failures in 2014.

The failures of water service connections (WSC) in 2015 were 1,890 nos., which is a reduction by 6% as compared to 2014 when 2,011 failures on WSC were registered.

During the year, 1,513 planned water supply interruptions were implemented, which is by 22% more as compared to the implemented planned reconstructions in 2014. The relative share of the emergency water supply interruptions with duration of less than 4 hours in 2015 was 83.3% of all emergency interruptions. Regarding this indicator the Group once again demonstrates its intent to limit the inconveniences for the customers, related to the extended interruption of the service.



The better control on the reinstatement activity resulted in reduction in the number of the non-reinstated road surfaces at the end of 2015 to 84 nos., which is improvement of this indicator as compared to 2014 when the non-reinstated road surfaces at the end of the year were 109 nos.

#### Emergency water supply interruptions in 2015

- 4,129 nos. failures of the water distribution network;
- 3,945 nos. water supply interruptions;
- 634,568 affected households;

#### Planned water supply interruptions in 2015

- 1,513 nos. planned interruptions;
- 391,033 affected households;

#### Sewerage

As at the end of 2015 the sewerage network on the territory of the Municipality of Sofia includes 1,680 km of public assets and more than 500 km of assets of unclear status (as per the Spatial Development Act dated 2003).

With the implementation of Business Plan 2009-2016, SV follows the priorities of the Municipality of Sofia for construction of sewerage facilities. The projects for expansion and rehabilitation of the sewerage network are among the priorities under the Investment Program of the Group.

The operation and maintenance of the sewerage network is carried out through proactive methods - CCTV diagnostics of sites, survey of routes and preventive cleaning, as well as reactive activities – cleaning, reconstruction and rehabilitation of conduits.



## Operation and maintenance activities performed on the sewerage network

Activity	Measure	2013		2014		2015	
		Reactive	Proactive	Reactive	Proactive	Reactive	Proactive
Cleaning sewers	m	12,582	118,463	88,119	123,693	64,944	154,087
Cleaning SSC	m	38,272	-	40,151	-	37,119	-
<b>Total activities</b>	<b>m</b>	<b>50,854</b>	<b>118,463</b>	<b>128,270</b>	<b>123,693</b>	<b>102,063</b>	<b>154,087</b>

In 2015, we continued the implementation of the program for proactive maintenance of the sewerage network and proactively cleaned more than 154 km of the network within the Concession Area.

105 horizontal connections with the street gullies were replaced as part of the sewerage network maintenance, which helps the prevention of floods.

Data about the performed CCTV survey of sewers in 2015 are provided in the table below:

CCTV survey	2014	2015
Facilities	length, m	length, m
Connections of storm gullies to the sewerage network	145	58
Sewer service connections	2,067	1,488
Street sewers	27,070	36,588 m
<b>Total</b>	<b>29,282</b>	<b>38,132 m</b>

## Wastewater treatment

In 2015, Kubratovo Wastewater Treatment Plant (WWTP) treated a total of 138.8 M m<sup>3</sup> of wastewater from the sewerage network of the MoS. The treated volume of wastewater was about 79% of the average daily design capacity of the plant (480,000 m<sup>3</sup>/day).

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

## Quality of treated wastewater

The indicators Biological Oxygen Demand (BOD<sub>5</sub>), Chemical Oxygen Demand (COD) and Suspended Solids (SS), total nitrogen and total phosphorus of the treated wastewater at the outlet of WWTP are analyzed on a daily basis.

The statutory number of samples was taken in 2015 and 365 analyses were made for each of the quality indicators of the treated wastewater listed below. The limit values of the quality indicators as per the requirements of the Discharge Permit are:

BOD <sub>5</sub>	25 mg O <sub>2</sub> /l
COD	125 mg O <sub>2</sub> /l
HB	35 mg/l
Total N	10 mg/l
Total P	1 mg/l

The average monthly values of the quality indicators of the samples were below the recommended levels of the emissions for quality of discharged water and the annual compliance level achieved was 100%. Investments are implemented which will improve the control on wastewater treatment processes and will allow optimization of the costs.

### 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 about 25%.

In 2015, SV continued to provide stabilized sludge for soil improvement on agricultural land and the favorable weather conditions allowed the utilization larger volume as compared to the previous years. The Group has all permits required for sludge utilization on agricultural land.

Sludge from WWTP Kubratovo	2011	2012	2013	2014	2015
Produced sludge	101,513 t	135,990 t	156,424 t	130,472 t	130,694 t
Sludge used in agriculture	70,243 t	84,962 t	66,720 t	58,921 t	95,994 t

The control on waste produced in WWTP Kubratovo, including the dewatered sludge, is exercised in accordance with the requirements of the Waste Management Act. SV draws up and submits the reports required to the Ministry of Environment and Water.

### Electrical and mechanical maintenance

In 2015, SV successfully implemented the annual plan for planned and preventive maintenance of the Group's facilities, as a result of which the ratio of the time of emergency works and the total works in 2015 remained within 10% thus keeping also the trend of 2014.

- More than 1,600 m of new optical routes were constructed in WWTP, connecting the units of steam boiler station, inlet and outlet of WWTP to SCADA.
- 23 new sites were connected to SCADA system of water supply sites.
- A CCTV system was installed at substation 110/6 kW at WWTP.
- The old servers of SCADA WWTP were replaced with new redundant ones of higher capacity, ensuring secure operation of the control system;
- A system of CCTV and access control was installed at Bakston reservoir.
- An access control system for the wall of Beli Iskar Dam was installed;
- A new version of the Energy Monitoring System ION v.8 was installed.
- A new redundant server was installed for the energy monitoring system;
- All the heating substations at WWTP were installed and uploaded in the energy management system.
- SCADA was extended for management of the water supply network with a license for connecting 25000 new points.
- Frequency control at the pumping units at PS Seslavtsi and PS Dobroslavtsi was installed.

- 5 new hydrophores with frequency regulators were installed.
- Two new sampling devices were installed at the inlet and outlet of WWTP with control based on fluid flow rate.

## **INVESTMENTS 2015**

The investments actually made in 2015 amounted to 34.40 M BGN. Breakdown of the capital expenditure in 2015 by categories is given below:

Water supply – 14.96 M BGN  
 Potable water treatment – 1.38 M BGN  
 Sewerage – 6.48 M BGN  
 Wastewater treatment – 2.56 M BGN  
 Service connections, water meters – 5.88 M BGN  
 Customer service – 3.14 M BGN

### **Key projects implemented in 2015:**

- Construction of a new obligatory tank for process water at PWTP Pancharevo;
- Reconstruction of a strategic water main with a diameter of 600 mm at N. Vaptsarov Blvd.
- Reconstruction of a water main for water supply for industrial purposes
- Construction of a trunk sewer branch II in Moderno Predgardie R.Q., Vrabnitsa region
- Construction of sewerage and reconstruction of water mains in the village of Voynyagovtsi
- Construction of a new wastewater treatment plant in the village of Voynyagovtsi

## **ENVIRONMENT AND SUSTAINABLE DEVELOPMENT**

As an operator of the water supply and sewerage system on the territory of the Municipality of Sofia, the activity of SV is closely related to environmental protection. Achieving balance between economic growth, environmental protection and improvement and social development is an integral part of SV's business strategy.

### **Environmental Management System (EMS)**

SV has a certified Environmental Management System in compliance with the requirements of the international standard ISO 14001:2004 dated 2008. In 2015 the maintenance of the system continued by improving the EMS documentation and conducting internal regular inspections in line with the approved annual schedule.

In September 2015 a combined internal EMS and H&S audit was conducted. The report on the audit was submitted to the senior management. 10 audit teams were formed which in the course of 3 days made audits on a sample basis in all units in the Group. A common report on the audit and a program with corrective and preventative activities were prepared, which were presented to the senior management.

At the end of November 2015 the Group's EMS was successfully audited by a third independent party - TÜV NORD. The audit was finalized with 4 recommendations for improvements and 2 best practices ascertaining the effective functioning of the EMS.

## **Environmental incidents**

In 2015, 7 cases of sudden pollution at the inlet of Kubratovo WWTP were registered as well as one incident at Mala Tsarkva PWTP. The respective procedural measures were taken in due time in order to eliminate the incidents.

In order to protect the biological stage at Kubratovo WWTP, a survey was performed and a report was prepared on the topic of *Identifying the risks in case of sudden pollution at the WWTP*. The report states specific preventive measures aimed at protecting the sewerage network and Kubratovo WWTP from additional loads of pollutants.

## **Program for achieving the environmental protection goals**

The environmental protection goals of the Group are related to introducing best practices of energy efficiency upon operation and maintenance of the water supply and sewerage network, decrease in the water losses from the network, ensuring more and more efficient and high-quality treatment of wastewater and using waste as raw materials for production of energy.

In relation to the set environmental protection goals, in 2015 investments were made in new assets and technologies which increased the economic efficiency while saving resources and energy.

## **Training and initiatives**

In line with the annual environmental training program, 6 modules related to the Group activity were carried out. Throughout the year, over 10 different internal and external environmental protection initiatives were carried out.

The Group participated in the European Week for Waste Reduction 2015 and won the prize in the Business Category from the Ministry of Environment and Water and the Bulgarian Association of Municipal Environmental Experts.

## **Waste management**

The Group strictly complies with the Bulgarian waste management legislation. In 2015, the following was submitted for disposal, recovery or recycling:

- 8 tons of hazardous waste
- 53 006 tons of non-hazardous waste
- 23 998 tons of sludge from Kubratovo WWTP for utilization on agricultural land

## **Green energy production**

19,942 MWh of green energy was produced in Kubratovo WWTP in 2015. The production is based on a CHP installation for utilization of the biogas generated in the process of sludge treatment in the plant. The increased production of green energy and the decreased consumption in 2015 resulted in meeting 107.4% of the energy needs of the treatment plant.

## **HEALTH AND SAFETY AT WORK**

Health and safety at work is a fundamental value and priority for SV. The stable H&S performance of the Group in 2015 was recognized and it received the Prometheus award by the Confederation of the Independent Trade Unions in Bulgaria for its contribution to the humanization of the working environment, health and safety at work.

### **Occupational Health and Safety Management System (OHSAS)**

SV has a certified occupational H&S management system in line with the requirements of the OHSAS 18001 from 2008. The maintenance and development of the system continued in 2015 as well. The applicable legal requirements are observed and built on. The annual schedule for H&S audits was met, including the audits with the members of the Working Conditions Committee and the senior management. An internal combined audit was conducted in September 2015 under the OHSAS and EMS. A total of 24 non-compliances were found, insignificant for the overall effective functioning of the systems. Corrective and preventive actions were approved and performed. The annual H&S objectives for 2015 were achieved. The external audit of the system, conducted in November 2015 by Tüv Nord, found that the occupational H&S management system was 'effective and maintained very well'. No inconsistencies were found.

### **H&S risk assessment and management**

The risks are managed and evaluated consistently. The risk assessment in 2014 was supplemented with the evaluation of the stress at work in 2015. The risks at new and reconstructed sites are assessed, work is under way in line with the risk management program. The registers of the employees who drive company cars and perform activities on the road surface were updated.

### **Trainings and exchange of information**

The annual schedule for H&S trainings for 2015 was met. The hours for trainings were 7,158 for the year. 735 employees took part in at least one H&S training.

Four information H&S campaigns were implemented, including good H&S practices established in 2014, through the information leaflet 'Stop for a moment and look!', the corporate Veolia's H&S week, the campaign 'Healthy workplaces: Manage the stress!', a campaign for alcohol and smoking-related risks (together with the Sofia Regional Health Inspectorate).

The potential subcontractors are evaluated for their H&S competence and performance. The subcontractors are inspected for observing the H&S requirements. H&S information and best practices are exchanged.

### **Prophylactic examinations**

The regular medical check-up was done for all employees in the autumn of 2015 in line with the working conditions and the factors related to the working environment. The percentage of the employees who had medical examination/were subject to medical examination was above 93%.

### **Preparedness for exceptional circumstances**

The emergency plans and fire-fighting plans are reviewed, updated and drilled on an annual basis.

### **High-risk equipment (HRE)**

In compliance with the annual schedule, 471 technical inspections of HRE were performed in 2015.

### **Accidents, incidents and near-miss incidents**

In 2015 there were no accidents, there were 5 incidents (injuries without loss of work capacity) and 9 near-miss incidents (adverse events, without personal injury), including 4 road incidents, which threatened a driver/passengers or third parties. All incidents and near miss incidents are reported and analyzed immediately in order preventive actions to be taken.

## **HUMAN RESOURCES MANAGEMENT**

In its policy and practice SV develops and applies modern forms of human resource management with the awareness that these factors are of vital importance for business development and achievement of high results. The achievement and maintenance of a balance between the interests of the employer and the workforce are based on compliance with the legislation, maintaining high budget discipline and social partnership with the trade unions.

Human resources management is developed by applying a complex of policies and procedures planned in advance so that the entire management team can be involved in the process.

### **Remuneration and benefits**

In April 2015 the annual bonuses were paid to the employees for the previous year in line with the approved bonus scheme of the Group, taking into account the fulfillment of the Group's business objectives agreed in the previous year.

### **Training and development**

During the year there were regular initial briefings for new employees of the Group for the purpose of their quick and easy adaptation to the new environment and getting acquainted with the values, culture and structure of SV. The Group successfully implemented its annual Training Plan for capacity and H&S at work.

The internship program of SV was carried out for the fourteenth year in succession. 28 students carried out their internship at the Group in 2015. After the internship was completed, 10 of the interns continued to work in the Group to develop professionally.

In line with the policy for awarding individual and team achievements of SV's employees, in 2015 more than 40 employees were awarded the *Golden Star* and *Team of the Quarter*. Another 6 employees were awarded for innovativeness under the IDEO program.

More than 25 employees were promoted to higher positions during the year.

In line with the social program, in 2015 a grant agreement for supporting people with disabilities was concluded with the Ministry of Labor and Social Policy. The project is aimed at facilitating the adaptation of permanently disabled employees in the working environment.

The funds under the project were used for buying specialized equipment for the work places of 17 permanently disabled employees.

## **RESEARCH AND DEVELOPMENT**

SV does not carry out research and development.

## **BOARD OF DIRECTORS**

In 2015 there were no personnel changes in the Board of Directors of SV and as at 31.12.2015 the Board of Directors had the following members: Mr. Bruno Daniel Paul Roche, Mr. Gyorgy Palko, Mr. Ferenc Szucs, Ms. Mariana Georgieva Itewa, Mr. Vladimir Georgiev Stratiev, Mr. Stefan Nikolov Peltekov and Mr. Tsvetan Dobrev Gergov. Until 07.12.2015 the Group was represented separately by the Executive Directors Mr. Bruno Daniel Paul Roche and Mr. Gyorgy Palko. As per a decision of the Board of Directors dated 07.12.2015, the power of representation and management of SV was withheld from the executive member of the Board of Directors Mr. Bruno Daniel Paul Roche. This decision was registered in the Commercial Register of the Registry Agency on 14.12.2015.

In 2015, the Board Members received 72 k BGN (103 k BGN in 2014) as stated in Note 29 of the Separate Financial Statements for 2015.

None of the above members of the Board of Directors has had any shares or share options in SV at any time.

## **RELATED PARTIES**

The Group is a related party to its parent company Veolia Voda (Sofia) B.V., which owns 77.10% of SV's shares, as well as to the other companies of the economic group. The Group is a related party to Water Industry Support and Education Ltd. as it owns 100% of its capital. The amount of the transactions and the amount of receivables and payables to related parties are stated in note 30 of the Consolidated Financial Statements of the Group for 2015.

The Group does not have registered branches.

## **BUSINESS PLAN**

### **Business Plan 2014-2015**

On 06.08.2015 the EWRC (Energy and Water Regulatory Commission) approved the Business Plan of the Group for the extended regulatory period 2009-2015. No decision was made by the end of 2015 on the price application submitted by the Group together with its Business Plan.

### **Business Plan 2016**

With the amendments to the Water Act, enforced on July 31, 2015, the regulatory period 2009-2015 was extended by one year, therefore the WSS operators have to develop their business plans for 2016 within three months after the promulgation of the amendments.

In view of the extremely tight deadlines for the development of the business plan, SV sent letters to the EBRD and the Municipality of Sofia, in which the Group's impossibility of

complying with the contractual obligations for preliminary submission of the draft business plan to them was clarified.

On 02.11.2015 SV submitted the draft Business Plan 2016 to the EWRC. The document was also submitted to the Municipality of Sofia and the EWRC. The price application for 2016, which envisages 19.73% increase in the combined price for domestic customers, was submitted with the business plan as well.

On 22.12.2015 the Decision No.БП-76 on the submitted Business Plan for the development of the business activity of SV in 2016 was published and with it 2 obligatory instructions were given to SV to revise the draft Business Plan 2016:

- to revise the investment programme in order to guarantee the amount of the investments for the period 2014-2016;
- to provide full information about the performed emergency repairs on the sewerage network.

SV submitted the revised Business Plan 2016 on 08.01.2016 together with the price application for 2016 one week before the set deadline.

Anelia Ilieva  
/Financial Director/

Arnaud Philippe François Valleteau de Moulliac  
/Executive Director/





## Consolidated statement of financial position

<i>In thousands of BGN</i>	<i>Note</i>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Assets</b>			
Property, plant and equipment	13	16,274	17,372
Intangible assets	14	279,016	272,510
Deferred tax assets	20	6,186	5,845
Other receivables and prepayments	16	983	357
<b>Non-current assets</b>		<u>302,459</u>	<u>296,084</u>
Inventories	15	1,346	1,701
Trade and other receivables	16	32,908	31,744
Income tax receivables		-	584
Cash and cash equivalents	17,24	17,002	12,606
<b>Current assets</b>		<u>51,256</u>	<u>46,635</u>
<b>Total assets</b>		<u>353,715</u>	<u>342,719</u>
<b>Equity</b>			
Share capital	18	8,884	8,884
Reserves	18	10,774	10,774
Retained earnings		160,814	138,480
<b>Total equity</b>		<u>180,472</u>	<u>158,138</u>

## Consolidated statement of financial position (continued)

<i>In thousands of BGN</i>	<i>Note</i>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Liabilities</b>			
Loans and borrowings	19,24	35,793	44,598
Finance lease liabilities	19,24	1,469	1,573
Employee benefits	26	906	791
Deferred income	29	1,816	2,149
Trade and other payables	21,28	10,469	8,247
<b>Non-current liabilities</b>		<b>50,453</b>	<b>57,358</b>
Loans and borrowings	19,24	80,077	79,934
Finance lease liabilities	19,24	1,178	923
Deferred income	28	200	-
Income tax liabilities	23	649	-
Payables to related parties	24,30	4,665	6,101
Trade and other payables	21	29,579	33,744
Provisions	22	5,973	5,951
Employee benefits	26	469	570
<b>Current liabilities</b>		<b>122,790</b>	<b>127,223</b>
<b>Total liabilities</b>		<b>173,243</b>	<b>184,581</b>
<b>Total equity and liabilities</b>		<b>353,715</b>	<b>342,719</b>

The notes on pages 11 to 58 are an integral part of these consolidated financial statements.

Arnaud Philippe Francois Valleteau De Moulliac  
Executive Director

Anelia Ilieva  
Finance Director

In accordance with an Independent Auditors' Report:

Ivan Andonov  
Authorised Representative  
KPMG Bulgaria OOD

Tzveteljinka Koleva  
Registered Auditor



**Consolidated statement of profit or loss and other comprehensive income**

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
Revenue	4	125,006	121,891
Other income	5	1,739	1,850
Construction revenue	6	30,797	30,888
		<u>157,542</u>	<u>154,629</u>
Expenses for materials	7	(8,743)	(9,002)
Expenses for hired services	8	(25,009)	(26,234)
Depreciation and amortization	13,14	(28,913)	(27,672)
Employee benefit expenses	9	(17,131)	(16,917)
Social security contributions and other social expenses	9	(4,459)	(4,321)
Expenses for impairment of trade receivables	16, 24	(8,180)	(6,958)
Other expenses	10	(2,991)	(7,562)
Construction expenses	6	(30,797)	(30,888)
<b>Operating profit</b>		<u>31,319</u>	<u>25,075</u>
Finance income	11	56	58
Finance costs	11	(6,399)	(6,825)
<b>Net finance costs</b>		<u>(6,343)</u>	<u>(6,767)</u>
<b>Profit before income tax</b>		24,976	18,308
Income tax expense	12	(2,580)	(1,919)
<b>Profit for the year</b>		<u>22,396</u>	<u>16,389</u>

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

For the year ended 31 December

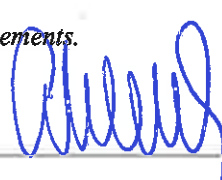
In thousands of BGN

	Note	2015	2014
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	26	(62)	(77)
		(62)	(77)
<b>Other comprehensive income for the year, net of tax</b>		(62)	(77)
<b>Total comprehensive income for the year</b>		22,334	16,312

The notes on pages 11 to 58 are an integral part of these consolidated financial statements.

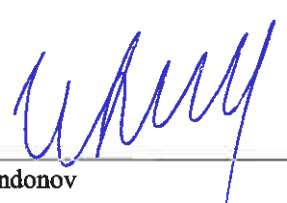


Arnaud Philippe Francois Valleteau De Moulliac  
Executive Director



Anelia Ilieva  
Finance Director

In accordance with an Independent Auditors' Report:



Ivan Andonov  
Authorised Representative  
KPMG Bulgaria OOD



Tzvetelinka Koleva  
Registered Auditor



## Consolidated statement of changes in equity

In thousands of BGN

	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2014		8,884	10,774	122,168	141,826
<b>Total comprehensive income for the period</b>					
Profit		-	-	16,389	16,389
Other comprehensive income, net of taxes		-	-	(77)	(77)
<b>Total comprehensive income for the period</b>		-	-	16,312	16,312
<b>Balance at 31 December 2014</b>	18	8,884	10,774	138,480	158,138
Balance at 1 January 2015		8,884	10,774	138,480	158,138
<b>Total comprehensive income for the period</b>					
Profit		-	-	22,396	22,396
Other comprehensive income, net of taxes		-	-	(62)	(62)
<b>Total comprehensive income for the period</b>		-	-	22,334	22,334
<b>Balance at 31 December 2015</b>	18	8,884	10,774	160,814	180,472

The notes on pages 11 to 58 are an integral part of these consolidated financial statements.

\_\_\_\_\_  
 Arnaud Philippe Francois Valleteau De Moulliac  
 Executive Director

\_\_\_\_\_  
 Anelia Ilieva  
 Finance Director

In accordance with an Independent Auditors' Report:

\_\_\_\_\_  
 Ivan Andonov  
 Authorised Representative  
 KPMG Bulgaria OOD

\_\_\_\_\_  
 Tzvetelinka Koleva  
 Registered Auditor



**Consolidated statement of cash flows**

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Cash flow from operating activities</b>			
Profit for the year		22,396	16,389
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	13	3,434	3,414
Amortisation of intangible assets	14	25,479	24,259
Impairment losses on trade receivables	16, 24	8,180	6,958
Write-downs of inventory to net realisable value	10	(37)	261
Expenses for scrapping of materials	10	2	26
Expenses for scrapping of non-current assets	10	30	38
Net finance costs	11	6,343	6,767
Gain on sale of property, plant and equipment		(15)	-
Tax expense	12	2,580	1,921
		<u>68,392</u>	<u>60,033</u>
<b>Changes in:</b>			
- employee benefits		(79)	(26)
- other provisions		22	4,471
- inventories		390	(292)
- trade and other receivables		(9,375)	(6,219)
- trade and other payables		(5,860)	(1,151)
- deferred income, including financing		(133)	(87)
		<u>53,357</u>	<u>56,729</u>
<b>Cash generated from operating activities</b>			
Income tax paid		(1,840)	(2,556)
Reimbursed income tax		-	977
<b>Net cash from operating activities</b>		<u>51,517</u>	<u>55,150</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		16	-
Acquisition of property, plant and equipment		(2,622)	(2,185)
Acquisition of intangible assets		(29,133)	(35,505)
<b>Net cash used in investing activities</b>		<u>(31,739)</u>	<u>(37,690)</u>

## Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN


	Note	2015	2014
<b>Cash flow from financing activities</b>			
Repayment of borrowings		(9,063)	(9,062)
Payment of finance lease liabilities		(1,108)	(1,179)
Interest paid		(5,190)	(5,699)
Other financial payments		(21)	(21)
<b>Net cash used in financing activities</b>		<b>(15,382)</b>	<b>(15,961)</b>
<b>Net increase in cash and cash equivalents</b>		<b>4,396</b>	<b>1,499</b>
Cash and cash equivalents at 1 January		12,606	11,107
<b>Cash and cash equivalents at 31 December</b>	17,24	<b>17,002</b>	<b>12,606</b>

The notes on pages 11 to 58 are an integral part of these consolidated financial statements.


  
Arnaud Philippe Francois Valleteau De Moulliac  
Executive Director


  
Anelia Ilieva  
Finance Director

In accordance with an Independent Auditors' Report:


  
Ivan Andonov  
Authorised Representative  
KPMG Bulgaria OOD


  
Tzvetelinka Koleva  
Registered Auditor


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## Notes to the consolidated financial statements

**1. Reporting entity**

Sofiyska Voda AD is a company registered in Sofia City Court on 28 December 1999 under company case № 16172/1999 / №54111, 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, bl. Mladost 4, 1 Business Park Sofia Str, building 2A. The Company is 77.1% owned by Veolia Voda (Sofia) BV and 22.9% owned by Vodossnabdiavane and Kanalizatsia EAD.

The consolidated financial statements of the Group for the year ended 31 December 2015 comprise the financial statements of Sofiyska Voda AD and its subsidiary Water Industry Support and Education EOOD (together referred to as the "Group" and individually as "Group entities").

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

On 23 December 1999 the Group signed a Concession Contract through which the Municipality of Sofia granted to the Concessionaire (Sofiyska Voda AD) a specific right for use of the public assets and exclusive right to provide the Services within the Concession Area for a period of 25 years. The Services include the provision of water, sewerage and wastewater treatment services.

**2. Basis of accounting****(a) Statement of compliance**

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

These are the Group's consolidated financial statements prepared in accordance to the Accountancy Act by Sofiyska Voda AD as a parent company in the Group.

The consolidated financial statements as of and for the year ended 31 December 2015 were approved for issuance by the Board of Directors on 11 April 2016.

**(b) Basis of measurement**

The consolidated 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.
- liability under additional Settlement agreement with Municipality of Sofia is recognized at the present value of the expected future cash outflows

**(c) Functional and presentation currency**

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

**(d) Going concern**

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

As at 31 December 2015, its current liabilities exceed its current assets by BGN 71,534 thousand due to the fact that the inter Group loan (subordinated loan) contract expires at the end of October 2016 and is presented as short term.

## Notes to the consolidated financial statements

**2. Basis of accounting (continued)****(d) Going concern (continued)**

The management of the Group is in process of negotiation of further extension of the subordinated loan with the related company from Veolia Group and expects a positive outcome. The main entity from the Group of Sofiyska voda has the support from the Veolia Group, evidenced with a letter of support issued by Veolia CEE, the sole owner of Veolia Voda (Sofia) BV – the direct parent of the Group of Sofiyska voda, which has expressed intention not to request repayment of the liabilities of Sofiyska voda to it or its subsidiaries for the next at least 12 months from the reporting date.

Therefore the risk of not repaying the intragroup subordinated loan, if it becomes due in the following year, which would also represent an event of default for the loan A obtained from an international financial institution, is considered remote.

During the year, the Group continued to generate a net profit after tax, which reached BGN 22,396 thousand in 2015 (2014: BGN 16,389 thousand). Cash and cash equivalents increased with BGN 4,396 thousand, compared to 2014, thus amounting to BGN 17,002 thousand. During the year, the Group regularly serviced its liabilities to suppliers, excluding subordinated debt principals. There are no overdue liabilities to external parties.

Considering the above, the management has a reasonable expectation to believe that the available capital resources and sources of financing (cash flows from operating activities) will be adequate to meet all other Group's obligations in the course of 2016.

**(e) Use of estimates and judgments**

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

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

**(i) Judgments**

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

- Note 3 (e) and Note 3 (k) (ii) – Accounting for intangible assets approach under IFRIC 12, Service Concession Arrangements and related revenue from construction services
- Note 3 (e) (iii) – Intangible assets: Subsequent costs and capitalization

**(ii) Assumptions and estimation uncertainties**

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

- Note 16 – Estimation of the recoverable amount of trade receivables from clients
- Note 26 – Measurement of defined benefit obligations and personnel liabilities
- Note 21 – Estimation of the liability to Municipality of Sofia as per Settlement Agreement
- Note 22 and Note 27 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources

## Notes to the consolidated financial statements

## 2. Basis of accounting (continued)

## (e) Use of estimates and judgments (continued)

*Fair values*

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

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

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

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

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

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

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

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

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

- Note 24 – Financial instruments

**Notes to the consolidated financial statements****3. Significant accounting policies**

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**(a) Basis of consolidation****(i) Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

**(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**(iii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (b) Foreign currency

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

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

However, foreign currency differences arising from the translation of the following items are recognized in OCI:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss); or
- qualifying cash flow hedges to the extent the hedges are effective.

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.

## (c) Financial Instruments

The Group classifies non-derivative financial assets into the category loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) *Non-derivative financial assets and financial liabilities – recognition and derecognition*

The Group initially recognizes loans and receivables on the date they originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a consolidated asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (b) Financial instruments (continued)

*(ii) Non-derivative financial assets – measurement**Loans and receivables*

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

*Cash and cash equivalents*

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

*(iii) Non-derivative financial liabilities – measurement*

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

*(iv) Share capital**Ordinary shares*

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

**(d) Property, plant and equipment***(i) Recognition and measurement*

Items of 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 of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to dismantle the asset or restore the site, estimate of the costs of dismantling and restoring the site on which they are located;
- capitalized borrowing costs.

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as consolidated items (major components) of property, plant and equipment.

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

*Subsequent measurement*

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

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (d) Property, plant and equipment (continued)

## (ii) Subsequent costs

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

## (ii) Depreciation

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

The estimated useful lives of property, plant and equipment are as follows:

• buildings	25 years
• plant and equipment	5-25 years
• vehicles – automobiles	5-10 years
• vehicles – trucks	10-12,5 years
• improvements of leased assets	10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

## (e) Intangible assets

*IFRIC 12, Concession service arrangements*

As stated in Note 1, Sofiyska Voda AD (Concessionaire) is a party in a concession contract with Municipality of Sofia (Grantor), and as a result a specific right emerges for the Group – granting it the use of 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.

When accounting for 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 Group. As the concession agreement includes a requirement for the Group to deliver construction services to the grantor in order to enhance the infrastructure, the Group delivers construction services in consideration for an enhancement to its right to collect 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 (h)). The intangible asset “concession right” arises in relation to the Concession Agreement, which sets Sofiyska Voda’s right of use of public assets in order to deliver water supply, sewerage and waste water treatment services within the concession area.

The Grantor has the ownership rights on all the existing public assets for the concession period, but the Concessionaire has exclusive and specific right to use the existing public assets. The ownership rights of any new assets are transferred to the Grantor at the time of their acquisition by the Concessionaire or at the beginning of their operation. The Group does not have the right to receive any payments from Grantor related to the acquisition or construction of new public assets. The improvements in the public assets are capitalized and represented as improvements in the intangible asset “concession right”.

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)****(e) Intangible assets (continued)****(ii) Other intangible assets**

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

**(iii) Subsequent expenditure**

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

Based on assessment and expertise of internal experts of the Group, it is considered that when a pipe less than 2.5 meters long is replaced, it does not increase the life of the conduit and is accounted for as an expense immediately. In contrast, replacement of a pipe with length equal to or more than 2.5 meters extends the life of the pipeline with more than one year and is capitalized

**(iv) Amortization**

Amortization is charged to the profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, apart from the concession asset, which is depreciated for the term of the concession.

*Other intangible assets:*

- |                                 |            |
|---------------------------------|------------|
| • capitalized development costs | 6.67 years |
| • other intangibles             | 6.67 years |
| • software                      | 10 years   |

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

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Upon initial recognition the leased assets are measured at cost equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to it.

Other leases are operating leases. The leased under operating lease assets are not recognized in the Group's statement of financial position.



## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (g) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

## (h) Impairment

(i) *Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy etc.

*Financial assets measured at amortized cost*

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

The impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in profit and loss and results in decrease of the receivables. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (h) Impairment (continued)

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, (other than inventories and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable value 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 estimated 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 or CGU. 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 way as to reduce the carrying amount of the assets in the CGU (group of CGUs) on a *pro rata* basis.

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

(i) **Employee benefits**(i) *Defined contribution plan*

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

(ii) *Defined benefit plans*

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

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art. 222, § 3 of the Labour Code. According to the regulations of the Collective Labour agreement, when a labour contract of a Group's employee, who has acquired a pension right, is ended, the Group is obliged to pay him compensations amounted to two gross monthly salaries. If the employee's length of service in the Group equals to or is greater than 10 years, as at retirement date, then the compensation amounts to seven gross monthly salaries. As at the reporting date the management estimates the amount of such expenses based on a report prepared by a qualified actuary using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the financial statements in Note 26.

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.

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (i) Employee benefits (continued)

## (iii) Short-term personnel benefits

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

## (j) Provisions

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

*Legal liabilities provision*

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

## (k) Revenue

## (i) Rendering of services

Revenue from services rendered is recognized in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by analysis of the work performed.

The revenue from water supply, sewerage and waste water treatment services are realized by the Group as per the Concession Contract and the effective legislation, in particular the Law of Regulation of the water supply and sewerage services (LRWSSS) and the relevant subordinate legislation. As per Art.5 of LRWSSS, the prices of the water supply and sewerage services rendered are subject to regulation by the Energy and Water Regulatory Commission (EWRC).

Revenue from water supply, sewage and waste water treatment is recognized on basis of quantities of water measured through the water measuring devices (WMD).

Key clients (large consumers) are measured and billed monthly of actual consumptions.

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 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 (base rate + 10%).

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (k) Revenue (continued)

## (ii) Construction contracts revenues

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

Construction contracts bring revenue related to the investments in public assets – improvement and construction of new components of the water supply and sewerage system against the right to invoice and charge the customers for the service at the prices approved by EWRC. In this respect the Group recognizes an intangible asset “concession right” against crediting revenue from construction contracts upon termination of the works.

## (l) Government grants

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

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized.

## (m) Leases

Payments on operating leases are recognized in profit and loss on a straight-line basis over the term of the lease. Any additional payments made are recognized in profit and loss as an integral part of the total lease expenses over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding principal of the liability.

## (n) 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 for capitalization of interest, are recognized in profit or loss using the effective interest method.

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

## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

## (o) Income tax

Income tax expense 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.

*Current tax*

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

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

**Notes to the consolidated financial statements****(p) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2015, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early.

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

- Amendments to IAS 27: Equity method in separate financial statements. Entities will have a choice to voluntarily apply equity method in their separate financial statements. The Group does not expect the Amendments to have any impact on the financial statements as it does not consider to change its accounting policy;
- Amendments to IAS 1: Disclosure initiative. It is clarified when non-significant information need not be disclosed and when significant information may not be omitted from the financial statements. The Group does not expect the Amendments to have a significant impact on the financial statements;
- Annual improvements to IFRSs 2012-2014 Cycle. The improvements introduce some non-significant amendments to a number of standards and consequential amendments to other standards and interpretations. None of these amendments are expected to have a significant impact on the financial statements of the Group;
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation: The Group does not expect the Amendments to have any impact on the financial statements since its currently used methods of depreciation and amortization will continue to be acceptable.
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations: The Group does not expect the Amendments to have any impact on the financial statements since there have been no acquisitions of interests in joint operations.
- Amendments to IAS 16 and IAS 41: Bearer Plants: The Group does not expect the Amendments to have any impact on the financial statements since the entity does not have any bearer plants.

## Notes to the consolidated financial statements

## 4. Revenue

<i>In thousands of BGN</i>	Note	2015	2014
Income from water supply		83,643	81,613
Income from sewerage		15,299	15,072
Income from waste water treatment		20,800	20,487
Interest income from overdue receivables		4,596	3,780
Income from service sales		2,024	2,281
Revenue invoiced to customers, which is to be transferred to meet the obligations regarding the financial memorandum ISPA*		(1,300)	(1,294)
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget	27(b)	(56)	(48)
		125,006	121,891

\*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 European Commission and Republic of Bulgaria, the Group is obliged to include in its price for water supply, sewerage and treatment of waste waters an adjustment, allowing it to accumulate the necessary annual funds for repayment of the Financial Memorandum loan that was received from the European Investment Bank (EIB). The total expected amount to be serviced by Sofiyska voda was approximately EUR 8,775 thousand representing 15% of the project value. The end beneficiary of the loan from the European Investment Bank is the Municipality of Sofia.

On basis of received attachments to MoEW letters from 7 November 2011 and 30 January 2012, it became known that respectively on 3 October 2011 and 13 January 2012, EIB disbursed two tranches of the agreed loan amounting to EUR 7,086 thousand. At the end, it became the final amount, because of expiry of the period of availability of the funds and no new utilizations could be made.

The payment started from the beginning of 2012 and will last in year 2030. Interest and principle are due to EIB on each 10<sup>th</sup> March and 10<sup>th</sup> September.

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

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

Having received a notice from the Municipality of Sofia in 2015, the Group transferred two installments for a total amount of BGN 1,131 thousand to the bank account indicated by the Municipality of Sofia, to service the loan from EIB.

The portion of billed revenue in 2015, set aside for servicing and repayment of the EIB loan, based on the price component in the tariff, amounts to BGN 1,300 thousand (2014: 1,294 thousand), presented above as a reduction of the Group's yearly revenue.

## Notes to the consolidated financial statements

## 5. Other income

<i>In thousands of BGN</i>	2015	2014
Penalties of contractors	123	107
Penalties for industrial discharges of water with excessive concentration of pollutants	545	778
Gain on sale of inventories to subcontractors for construction works	192	229
Green energy income	272	149
Income from rent	8	7
Gain on sale of Property, plant and equipment	15	-
Income from financing	216	167
Other income	368	413
	<u>1,739</u>	<u>1,850</u>

The gain on sale of non-current assets is realized from the sale of a vehicle as follows:

	2015	2014
Revenue from sale of vehicles	16	-
NBV of sold vehicles	(1)	-
	<u>15</u>	<u>-</u>

## 6. Construction revenue and expenses

<i>In thousands of BGN</i>	Project	Note	2015			2014		
			Revenue	Expenses	Profits	Revenue	Expenses	Profits
	Water supply		14,710	14,710	-	12,899	12,899	-
	Potable water treatment		1,390	1,390	-	900	900	-
	Sewerage		6,373	6,373	-	9,028	9,028	-
	Waste water treatment		2,444	2,444	-	2,486	2,486	-
	House connections and meters		5,880	5,880	-	5,575	5,575	-
	Total	14	<u>30,797</u>	<u>30,797</u>	-	<u>30,888</u>	<u>30,888</u>	-

## 7. Expenses for materials

<i>In thousands of BGN</i>	2015	2014
Electricity, water, heating	1,421	1,281
Fuels and lubricants	1,242	1,441
Water for technological needs	1,343	1,631
Chemicals	2,728	2,448
Plumbing materials	472	552
Other	1,537	1,646
	<u>8,743</u>	<u>9,002</u>

## 8. Expenses for hired services

<i>In thousands of BGN</i>	2015	2014
Annual water tax	4,082	4,174
Repairs and maintenance of concession infrastructure	4,364	4,423
Insurance	1,399	1,475
Rent	1,075	1,053
Security	5,617	5,325
Other services	8,472	9,784
	<u>25,009</u>	<u>26,234</u>



## Notes to the consolidated financial statements

## 8. Expenses for hired services (continued)

Other expenses for hired services include:

<i>In thousands of BGN</i>	2015	2014
Water – meters reading	1,739	1,683
Courier services	412	412
Printing services	468	491
Technical services	1,496	1,496
Consultancy	422	378
Asphalt covering	271	338
SEWRC fee	395	404
Sterilization	24	25
Communication	141	189
Annual software licenses	780	729
Collection of receivables	303	395
Hired transportation	142	121
Water carriers	172	180
Software maintenance and internet	431	277
Training	110	151
Announcements and communications	83	175
Local taxes and fees	76	87
Cleaning of offices and water tanks	47	56
Fees	35	31
Geodesic studies	-	1,495
Other	925	671
	<u>8,472</u>	<u>9,784</u>

## 9. Employee benefit expenses

<i>In thousands of BGN</i>	<i>Note</i>	2015	2014
Wages and salaries		17,015	16,707
Compulsory social security contribution		2,552	2,481
Social expenses		98	50
Expenses for additional pension contribution		429	407
Current and past service costs in relation to employee benefits	26	116	210
Voucher expenses		1,380	1,383
		<u>21,590</u>	<u>21,238</u>

The salary expenses include an accrual for unused annual paid leave amounting to BGN 357 thousand (2014: 335 thousand).

The compulsory social security contribution include an accrual for social and health security on unused annual paid leave for the amount of BGN 64 thousand (2014: 60 thousand).

The average number of Group's personnel is 1,151 employees (2014: 1,171 employees).

## Notes to the consolidated financial statements

## 10. Other operating expenses

<i>In thousands of BGN</i>	Note	2015	2014
Write down of inventories to net realizable value	15	(37)	261
One-off taxes		133	139
Commission for collection of trade receivables		1,139	1,077
Provisions for fines and penalties, net		252	5,261
Scrapping of materials		2	26
Scrapping of non-current assets		30	38
Others		1,472	760
		<u>2,991</u>	<u>7,562</u>

Impairment of receivables, which until 31 December 2014 was presented as part of other operating expenses, has been presented consolidated, from other operating expenses in the Statement of profit and loss and other comprehensive income.

## 11. Finance income and finance costs, recognized in profit and loss

<i>In thousands of BGN</i>	2015	2014
Interest income	20	18
Effect from guarantee discounts	36	40
Financial income	<u>56</u>	<u>58</u>
Interest expenses for Loan "A"	(1,119)	(1,392)
Interest expenses for Loan "B"	(4,405)	(4,710)
Finance charges on finance leases	(88)	(121)
Interest expenses on employee benefits	(31)	(26)
Effect from guarantee discounts	(38)	(102)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(594)	(352)
Other finance costs	(42)	(35)
Loss from foreign currency exchange differences	(82)	(87)
Finance costs	<u>(6,399)</u>	<u>(6,825)</u>
Finance costs (net)	<u>(6,343)</u>	<u>(6,767)</u>

The financial income and expenses listed above include interest income and expenses on assets (liabilities) that are not recognised at fair value in profit and loss:

	2015	2014
Total interest income on financial assets	56	58
Total interest expense on financial liabilities	(5,612)	(6,223)

## Notes to the consolidated financial statements

## 12. Tax expenses

<i>In thousands of BGN</i>	Note	2015	2014
<b>Current tax expense</b>			
Income tax for current year		(2,921)	(1,809)
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	20	341	(110)
Total tax expense		<u>(2,580)</u>	<u>(1,919)</u>

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

A tax audit on the Group in respect of the Corporate Income Tax covers the periods up to 31 December 2012. The last tax review on the Group with respect to Value Added Tax covers the periods up to 31 August 2013.

<b>Reconciliation of effective tax rate</b>		2015		2014
<i>In thousands of BGN</i>				
Profit for the year		22,396		16,389
Total tax expenses		<u>2,580</u>		<u>1,919</u>
Profit before tax		<u>24,976</u>		<u>18,308</u>
Income tax using the Group's domestic tax rate	10%	(2,498)	10%	(1,831)
Non-deductible expenses	0.26%	(66)	0.42%	(76)
Effects of write off of deferred tax	0.06%	(16)	0.06%	(12)
Net current income tax (expense)/income	10.33%	<u>(2,580)</u>	10.48%	<u>(1,919)</u>

## Notes to the consolidated financial statements

## 13. Property, plant and equipment

*In thousands of BGN*

	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
<b>Cost</b>						
Balance at 1 January 2014	738	24,742	12,951	1,076	312	39,819
Additions	-	-	-	-	2,233	2,233
Disposals	(28)	(281)	(198)	-	-	(507)
Transfers	-	1,797	187	23	(2,007)	-
Balance at 31 December 2014	710	26,258	12,940	1,099	538	41,545
Balance at 1 January 2015	710	26,258	12,940	1,099	538	41,545
Additions	-	-	-	-	2,622	2,622
Disposals	-	(285)	(178)	-	-	(463)
Transfers	-	1,782	1,081	74	(2,937)	-
Transfers to intangible assets	-	-	-	-	(223)	(223)
Balance at 31 December 2015	710	27,755	13,843	1,173	-	43,481
<b>Depreciation</b>						
Depreciation as at 1 January 2014	(147)	(13,099)	(7,033)	(948)	-	(21,227)
Depreciation charge for the year	(20)	(2,327)	(1,013)	(53)	-	(3,413)
Depreciation on disposals	12	258	197	-	-	467
Balance at 31 December 2014	(155)	(15,168)	(7,849)	(1,001)	-	(24,173)
Depreciation as at 1 January 2015	(155)	(15,168)	(7,849)	(1,001)	-	(24,173)
Depreciation charge for the year	(20)	(2,362)	(1,017)	(35)	-	(3,434)
Depreciation on disposals	-	228	172	-	-	400
Balance at 31 December 2015	(175)	(17,302)	(8,694)	(1,036)	-	(27,207)
<b>Carrying amounts</b>						
At 1 January 2014	591	11,643	5,918	128	312	18,592
At 31 December 2014	555	11,090	5,091	98	538	17,372
At 1 January 2015	555	11,090	5,091	98	538	17,372
At 31 December 2015	535	10,453	5,149	137	-	16,274

## Notes to the consolidated financial statements

## 13. Property, plant and equipment (continued)

**Acquisitions**

The most significant tangible assets, acquired in 2015 amount to BGN 2,863 thousand (2014: 1,983 thousand) and are listed below:

<i>In thousands of BGN</i>	<b>2015</b>	<b>2014</b>
CHP generator	48	749
Transportation vehicles and mechanization	1,363	187
Laboratory equipment	55	346
Computer equipment	677	146
Other equipment	720	555
	<u>2,863</u>	<u>1,983</u>

***Assets pledged as collateral***

The Group has pledged all its present and future non-current assets in respect of secured bank loan "A".

***Assets pledged as collateral on finance lease contracts***

In relation to the finance lease contracts, the value of pledged non-current assets (motor vehicles and construction machinery) according to the Central Pledge Registry records is BGN 2,666 thousand.

## Notes to the consolidated financial statements

## 14. Intangible assets

In thousands of BGN

	Development costs	Software	Concession right	Assets under construction – Concession right	Assets under construction – other	Total
<i>Cost</i>						
Balance as at 1 January 2014	21,041	15,727	353,366	16,946	280	407,360
Acquisitions	-	-	-	30,888	2,809	33,697
Disposals	-	-	(19)	-	-	(19)
Transfers	-	70	33,669	(33,669)	(70)	-
Balance as at 31 December 2014	21,041	15,797	387,016	14,165	3,019	441,038
Balance as at 1 January 2015	21,041	15,797	387,016	14,165	3,019	441,038
Acquisitions	-	-	-	30,797	980	31,777
Disposals	-	-	(18)	-	-	(18)
Transfers	-	3,827	32,840	(32,839)	(3,828)	-
Transfers from tangible assets	-	-	-	394	(171)	223
Balance as at 31 December 2015	21,041	19,624	419,838	12,517	-	473,020
<i>Amortization</i>						
Balance as at 1 January 2014	(20,692)	(13,924)	(109,656)	-	-	(144,272)
Amortization for the year	(160)	(283)	(23,816)	-	-	(24,259)
Amortization on disposals	-	-	3	-	-	3
Balance as at 31 December 2014	(20,852)	(14,207)	(133,469)	-	-	(168,528)
Balance as at 1 January 2015	(20,852)	(14,207)	(133,469)	-	-	(168,528)
Amortization for the year	(154)	(429)	(24,896)	-	-	(25,479)
Amortization on disposals	-	-	3	-	-	3
Balance as at 31 December 2015	(21,006)	(14,636)	(158,362)	-	-	(194,004)
<i>Carrying amounts</i>						
At 1 January 2014	349	1,803	243,710	16,946	280	263,088
At 31 December 2014	189	1,590	253,547	14,165	3,019	272,510
At 1 January 2015	189	1,590	253,547	14,165	3,019	272,510
At 31 December 2015	35	4,988	261,476	12,517	-	279,016

## Notes to the consolidated financial statements

## 14. Intangible assets (continued)

**Acquired assets**

The major acquisitions of intangible assets in 2015, which are transferred from Assets under construction, relate to the increase of the value of the Concession right and amount to BGN 32,839 thousand (2014: 33,669 thousand). The main components are listed below:

<i>In thousands of BGN</i>	<b>2015</b>	<b>2014</b>
Water supply network and house connections	16,796	12,749
Water Waste Treatment Plant Koubratovo	1,208	2,706
Sewerage and house connections	9,181	11,039
Hydrants and cranes	2,029	2,568
Water meters	2,142	2,288
Leasehold improvements	1,475	2,316
Pumping Stations	8	3
	<u>32,839</u>	<u>33,669</u>

**Assets under construction**

The major intangible assets under construction which relates to concession right amount to BGN 12,517 thousand (2014: 14,165 thousand). The most significant of them are listed below:

<i>In thousands of BGN</i>	<b>2015</b>	<b>2014</b>
Second stage of strengthening of Beli Iskar Dam	936	1,086
Waste Water Treatment Plant	1,629	393
Waste Water and Sewage Treatment Plant		-
Construction of water main system, water-main net model and DMA zones for reduction of unaccounted for water	4,819	5,026
Chlorinating stations	1	1
Construction of sewerage mains and sewerage model	3,197	6,013
Potable Water Treatment Plants	902	798
Impounding Structures	573	414
Rehabilitation of reservoirs, pumping stations, sanitary protection zones	457	423
Proactive replacement of stop valves, fire hydrants, water connections	3	11
	<u>12,517</u>	<u>14,165</u>

**Assets pledged as collateral**

The Group has pledged all its present and future non-current assets in respect of secured bank loan "A", besides for assets that are state owned.

## 15. Inventories

<i>In thousands of BGN</i>	<b>2015</b>	<b>2014</b>
Spare parts and consumables	1,346	1,701
	<u>1,346</u>	<u>1,701</u>

The balance of stock write down as at 31 December 2015 amounts to BGN 1,408 thousand (2014: BGN 1,445 thousand).

**Inventories pledged as collateral**

The Group has pledged all its present and future movables in respect of secured bank loan "A", which include raw materials and inventories.

## Notes to the consolidated financial statements

## 15. Inventories (continued)

## Inventory write-down

<i>In thousands of BGN</i>	2015	2014
Balance at 1 January	(1,445)	(1,184)
Accrual of stock write-down of inventories	-	(261)
Reversed write-down of used inventories	37	-
Balance at 31 December	(1,408)	(1,445)

## 16. Trade and other receivables

<i>In thousands of BGN</i>	Note	2015	2014
Trade and other receivables		79,474	69,228
Impairment losses on trade receivables		(47,366)	(39,881)
Court receivables		21,211	22,838
Impairment losses on court receivables		(21,211)	(21,696)
Total trade receivables	24	32,108	30,489
Other receivables and prepayments		1,827	1,612
Impairment of receivables and prepayments		(44)	-
		1,783	1,612
Total trade and other receivables		33,891	32,101
<i>Non-current</i>		983	357
<i>Current</i>		32,908	31,744

In 2015 receivables amounting to BGN 1,136 thousand have been written off (2014: BGN 51 thousand).

*Accounts receivable pledged as collateral:*

The Group has pledged all its accounts receivable, to be collected in the future in any local currency bank account, general receivables accounts from any party and insurance receivables related to any account receivable under the requirements of bank loan "A".

The Group's exposure to interest rate risk and the sensitivity analysis of all financial assets and liabilities are reported in Note 24 – *Financial Instruments*.

*Other receivables and prepayments:*

<i>In thousands of BGN</i>	2015	2014
Insurance	847	1,057
Licenses	78	97
Subscriptions	132	148
Advances for PPE	697	241
Other	29	66
	1,783	1,609



## Notes to the consolidated financial statements

## 17. Cash and cash equivalents

<i>In thousands of BGN</i>	Note	2015	2014
Cash on hand		96	58
Local currency		82	38
Foreign currency		14	20
Cash at banks	24	16,906	12,548
Local currency		16,499	12,311
Foreign currency		407	237
Cash and cash equivalents in the statement of cash flows	24	17,002	12,606

*Cash at banks pledged as collateral:*

The Group has pledged all its bank accounts under the requirements of a bank loan "A".

The Group's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 24.

## 18. Capital and reserves

<i>In thousands of shares</i>	Ordinary shares	
	2015	2014
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	8,884	8,884

As at 31 December 2015 the Group's share capital includes 8,884,435 ordinary shares (2014: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2015 are:

- Veolia Voda (Sofia) BV – 6,850,000 ordinary shares (77.1%);
- Vodostnabdyavane i kanalizatsia AD - 2,034,435 ordinary shares (22.9%).

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

With a pledged endorsement dated 19 December 2000 in favor of the bank which provided secured bank loan "A", 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 Group's General Shareholders Meeting of one vote for each share in their possession. All shares rank equally with regard to the Group's residual assets.

*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 Group capital is reached.

## Notes to the consolidated financial statements

## 19. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24, *Financial instruments*.

<i>In thousands of BGN</i>	2015	2014
<b>Non-current liabilities</b>		
Loans at nominal value	36,266	45,329
Amortization	(473)	(731)
Loans at amortized cost	35,793	44,598
Finance lease liabilities	1,469	1,573
	<u>37,262</u>	<u>46,171</u>
<b>Current liabilities</b>		
Loans at nominal value	80,181	80,181
Amortization	(104)	(247)
Loans at amortized cost	80,077	79,934
Finance lease liabilities	1,178	923
	<u>81,255</u>	<u>80,857</u>
<b>Total loans and borrowings</b>	<u>118,517</u>	<u>127,028</u>

In accordance with the loan agreement 'A' the Group has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of 1.3:1. The ADSCR should show that at any Calculation Date (ending on 31 December) the ratio of Free Cash Flow for the preceding twelve month period to the aggregate amount of principal and interest payments falling due and payable during such period should be 1.3:1.

In accordance with the Amended and Restated Loan Agreement (ARLA) 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 2015 result in an actual ADSCR of 2.21:1 at the reporting date. The Group has the obligation of submitting the verified annual financial statements within 120 calendar days of the beginning of the year to the Bank. The Bank updates the calculations of the ratio for the past year in a new version of their model.

*Terms and debt repayment schedule*

<i>In thousands of BGN</i>	Currency	Nominal interest rate	Year of Maturity	31 December 2015		31 December 2014	
				Face Value	Carrying Amount	Face Value	Carrying Amount
Loan „A”	EUR	1.35 % plus 6 month EURIBOR*	2020	45,329	44,557	54,393	53,303
Loan „B”, subordinated and unsecured, from related party	EUR	5.95% plus 6 month EURIBOR	2016	71,118	71,313	71,117	71,229
Finance lease liabilities				2,647	2,647	2,496	2,496
				<u>119,094</u>	<u>118,517</u>	<u>128,006</u>	<u>127,028</u>

## Notes to the consolidated financial statements

## 19. Loans and borrowings (continued)

\*As of April 2011 the margin on Loan A has been reduced in accordance with the EBRD loan contract from 1.75% to 1.35% due to fact the Group has achieved debt service coverage ratio of above 1.41:1 for the previous year.

*Finance lease liabilities*

The finance lease liabilities are payable as follows:

<i>In thousands of BGN</i>	Future minimum	Interest	Present value of	Future minimum	Interest	Present value of
	lease payments		minimum lease	lease payments		minimum lease
	2015	2015	payments	2014	2014	payments
			2015			2014
Less than 1 year	1,252	74	1,178	1,001	78	923
Between 1 and 2 years	920	32	887	1,611	52	1,559
2 to 5 years	601	20	582	14		14
	<u>2,773</u>	<u>126</u>	<u>2,647</u>	<u>2,626</u>	<u>130</u>	<u>2,496</u>

## 20. Deferred tax assets and liabilities

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

<i>In thousands of BGN</i>	Assets	Liabilities	Net	Assets	Liabilities	Net
	2015	2015	2015	2014	2014	2014
Property, plant and equipment	-	(926)	(926)	-	(944)	(944)
Inventories	141	-	141	144	-	144
Trade receivables	5,573	-	5,573	5,233	-	5,233
Provisions	945	-	945	941	-	941
Accrual for unused paid leave and bonus	245	-	245	257	-	257
Payables as per defined benefit plan	115	-	115	121	-	121
Financing from EBRD	26	-	26	26	-	26
Trade payables	67	-	67	67	-	67
Deferred tax assets/ (liabilities)	<u>7,112</u>	<u>(926)</u>	<u>6,186</u>	<u>6,789</u>	<u>(944)</u>	<u>5,845</u>

In determining the current and deferred taxes the Group has adopted as an accounting basis the one stated in Significant accounting policies (Note 3). The deferred tax for 2015 is calculated by using the tax rate applicable to the Group which is the effective income tax rate for 2016 – 10%.

**20. Deferred tax assets and liabilities (continued)**

Changes in temporary differences during the year:

<i>In thousands of BGN</i>	Balance as at 1 January 2014	Recognized in profit or loss	Recognized in OCI	Balance as at 31 December 2014	Recognized in profit or loss	Recognized in OCI	Balance as at 31 December 2015
Property, plant and equipment	(594)	(350)	-	(944)	18	-	(926)
Inventories	117	27	-	144	(3)	-	141
Trade receivables	5,467	(234)	-	5,233	340	-	5,573
Provisions	489	452	-	941	4	-	945
Accrual for unused annual paid leave and bonus	261	(4)	-	257	(12)	-	245
Liabilities under a defined benefit plan	123	(2)	-	121	(4)	-	115
Financing from EBRD	25	1	-	26	-	-	26
Trade payables	67	-	-	67	-	-	67
Deferred tax assets/ (liabilities)	5,955	(110)	-	5,845	341	-	6,186

21. Trade and other payables

<i>In thousands of BGN</i>	Note	2015	2014
Trade payables		11,909	10,954
Guarantees		2,273	1,967
Payables to employees		3,573	3,765
Insurance		856	1,130
Waste water treatment		3,108	3,108
ISPA payable		3,904	3,735
Total trade payables	24	<u>25,623</u>	<u>24,659</u>
Social security payables		596	562
Payable as per Contract with Municipality of Sofia		8,842	8,247
Payables for water usage tax		4,082	4,174
VAT payable		263	404
Other taxes payable		232	277
Other payables and accruals		410	3,668
		<u>14,425</u>	<u>17,332</u>
Total trade and other payables		<u>40,048</u>	<u>41,991</u>
<i>Non-current</i>		10,469	8,247
<i>Current</i>		29,579	33,744

22. Provisions

<i>In thousands of BGN</i>	2015	2014
Provision for court liabilities	<u>5,973</u>	<u>5,951</u>
	<u>5,973</u>	<u>5,951</u>

*Provision for court liabilities*

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

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

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

In a consolidated group are the provisions in relation to the imposing of administrative sanctions, mostly due to findings for possible abuse of a dominant position. The most significant amount in the closing balance in the current financial period is due to provisions from this group. In accordance with order №370/19.03.2014 on the basis of art. 74, p.3 from 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, p.1 from APC. The sanction amounts to BGN 4,800 thousand and is calculated based on 0.5% of Sofiyska Voda 2013 revenue, applying leverage ratio 8. The Group has undertaken measures to appeal the penalty imposed in compliance with the applicable legislation.

**22. Provisions (continued)**

The change in provisions throughout the year is presented below:

<i>In thousands of BGN</i>	Balance at 1 January 2015	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2015
Provision for court liabilities	5,951	191	(52)	(117)	-	5,973
	5,951	191	(52)	(117)	-	5,973

**23. Income tax liabilities**

*In thousands of BGN*

	2015	2014
Income tax	649	-
	649	-

**24. Financial instruments**

*Financial Risk Management*

*Overview*

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

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

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

*Risk Management Framework*

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

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

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

**Credit Risk**

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

24. 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>	Note	Carrying amount 2015	Carrying amount 2014
Trade and other receivables	16	32,108	30,489
Cash and cash equivalents (at banks)	17	16,906	12,606
		<u>49,014</u>	<u>43,095</u>

**Trade and other receivables**

The credit risk exposure of the Group results from the individual characteristics of the clients. The exposure also depends on the risk of non-payment common to the utilities sector. The Group is a monopolist in rendering its services on the territory of Sofia Municipality and as at 31 December 2015 the active clients of the Group are 617,245 (2014 – 611,835). Based on the analyses of the Group, the services rendered have low price elasticity. The prices are regulated by the State Energy and Water Regulation Commission. The Group does not require guarantees from its customers in relation to the services rendered, but is currently developing and implementing a policy to increase the debt collection. In 2011 the policy was revised and the internal team has been increased with 5 more employees. In addition, the Group uses external collection agencies in order to take advantage of the expertise and best practices, as well as up-to-date software support. The Group's efforts are orientated towards demanding active contact with customers, tracing results and using a customers' contacts history database and other operational statistics.

In view of the credit risk it can be said that the Group's ability to influence directly its customers' behavior is limited due to the legal framework and the complications at interruption of the consumption, 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 by type of customers represents the credit exposure at the reporting date of the Group's statement of financial position and it is as follows:

<i>In thousands of BGN</i>	Cost 31 December 2015	Impair- ment 2015	Carrying amount 31 December 2015	Cost 31 December 2014	Impair- ment 2014	Carrying amount 31 December 2014
State budget organizations	1,602	(376)	1,226	1,432	(194)	1,238
Commercial customers	10,875	(5,161)	5,714	10,059	(5,230)	4,829
Domestic population	86,974	(63,040)	23,934	79,330	(56,153)	23,177
Other customers	1,234	-	1,234	1,245	-	1,245
	<u>100,685</u>	<u>(68,577)</u>	<u>32,108</u>	<u>92,066</u>	<u>(61,577)</u>	<u>30,489</u>

24. Financial instruments (continued)

*Exposure to credit risk (continued)*

The aging of trade receivables of the Group at the reporting date was:

<i>In thousands of BGN</i>	2015	2015	2014	2014
	Cost	Impairment	Cost	Impairment
Not past due	19,846	(80)	18,488	(82)
Past due 30 days	3,072	(210)	3,400	(260)
Past due from 31-120 days	6,224	(965)	6,246	(1,030)
Past due from 121-210 days	4,562	(1,812)	5,423	(2,192)
Past due from 211-270 days	3,010	(2,485)	2,836	(2,420)
Past due from 271-360 days	3,670	(3,612)	4,175	(4,095)
Past due more than 1 year	60,301	(59,413)	51,498	(51,498)
	<u>100,685</u>	<u>(68,577)</u>	<u>92,066</u>	<u>(61,577)</u>

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

Group's receivables impairment at reporting date, including court receivables impairment is:

<i>In thousands of BGN</i>	Note	2015	2014
Balance in the beginning of the period		(61,577)	(54,670)
Accruals during the period	10	(8,136)	(7,014)
Reintegrated impairment	10	-	56
Written-off		1,136	51
Balance in the end of the period		<u>(68,577)</u>	<u>(61,577)</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 Group. The Group's management monitors the customers' credit risk by grouping trade and other receivables by characteristics as in 2015 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. As of 2011 the Group has also introduced impairment of undue trade receivables for certain groups of customers, while as of 2015 the balances of customers with deferred payment agreements, which are not violated are excluded from the calculation of the impairment.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its obligations relating to financial liabilities, meant to be met by cash or other financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group management's efforts are focused on upholding in accordance with the regulatory framework in Bulgaria the necessary revenue using the 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 of the main creditor (EBRD) regarding the service coverage ratio of the loan. In relation to that, Sofiyska Voda AD submits and justifies annual tariff applications as per the terms and procedures in the regulatory legislation.



## 24. Financial instruments (continued)

### Liquidity risk (continued)

As to the cash outflow and the payments to contractors, the Group is seeking the balance between the optimization of the working capital cycle and the provision of adequate working conditions for maintaining viable partnerships.

Usually the Group ensures that it has sufficient cash on demand to meet the expected operational expenses for a 60-day period, including the servicing of financial obligations except for the potential impact of extreme circumstances which cannot be envisaged, i.e. natural disasters. As at 2015 the Group does not maintain credit lines or overdrafts.

As disclosed in Note 2 (d), as at 31 December 2015, the Company's current liabilities exceed its current assets by BGN 71,534 thousand due to the fact the intercompany loan (subordinated loan) contract expires at the end of October 2016 and is presented as short term.

The management of the Group is in process of negotiation of further extension of the subordinated loan with the related company from Veolia Group and expects a positive outcome. Sofiyska Voda AD has the support from the Veolia.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2015  
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
<b>Non-derivative financial liabilities</b>						
Loan „A”	44,557	(47,169)	(9,686)	(9,557)	(27,926)	-
Loan „B”	71,313	(74,989)	(74,989)	-	-	-
Liabilities to related parties	4,665	(4,665)	(4,665)	-	-	-
Finance lease liabilities	2,647	(2,773)	(1,252)	(920)	(601)	-
Trade and other payables	25,623	(25,623)	(25,623)	-	-	-
	148,805	(155,219)	(116,215)	(10,477)	(28,527)	-

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

As disclosed in Note 19, the Group has secured bank loan "A" with a requirement to comply with certain conditions, as upon breach of any obligation, e.g. failing to maintain debt service coverage ratio over 1.3:1 (see note 19) – the Group 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.

24. Financial instruments (continued)

Liquidity risk (continued)

31 December 2014

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
<b>Non-derivative financial liabilities</b>						
Loan „A”	53,303	(57,252)	(9,889)	(9,753)	(28,409)	(9,201)
Loan „B”	71,229	(74,381)	(74,381)	-	-	-
Payables to related parties	6,101	(6,101)	(6,101)	-	-	-
Finance lease liabilities	2,496	(2,626)	(1,001)	(1,611)	(14)	-
Trade and other payables	24,659	(24,659)	(24,659)	-	-	-
	157,788	(165,019)	(116,031)	(11,364)	(28,423)	(9,201)

Market Risk

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

Currency risk

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

• Exposure to currency risk

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

In thousands of	31 December 2015				31 December 2014			
	EUR	GBP	USD	CZK	EUR	GBP	USD	CZK
Trade payables	(2,087)	(1)	(326)	(87)	(2,097)	(1)	(326)	(37)
Interest-bearing loans and borrowings	(59,244)	-	-	-	(63,673)	-	-	-
Gross Balance Exposure	(61,331)	(1)	(326)	(87)	(65,770)	(1)	(326)	(37)

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2015	2014	2015	2014
USD 1	1.6992	1.4744	1.7900	1.6084
GBP 1	2.5751	2.4272	2.6502	2.5001
CZK 100	7.1696	7.1031	7.2360	7.0536

24. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

• 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 2014 is done on the same basis.

<i>In thousands of BGN</i>	Statement of comprehensive income	Statement of comprehensive income
	31 December 2015	31 December 2014
USD	(58)	(52)
GBP	-	-
CZK	(1)	-

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.

Interest rate risk

• Profile

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

<i>In thousands of BGN</i>	2015	2014
<b>Fixed rate instruments</b>		
Financial assets	16,906	12,548
Financial liabilities	-	-
	<u>16,906</u>	<u>12,548</u>
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	(118,517)	(127,028)
	<u>(118,517)</u>	<u>(127,028)</u>

24. Financial instruments (continued)

Market risk (continued)

*Interest rate risk (continued)*

• *Sensitivity analysis against the fair value of instruments with fixed interest rate*

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

A change of the interest rates by 25 basis points as at the date of financial statements would increase / (decrease) the equity and profit or loss with the amounts shown below. An assumption is made during the analysis that all other variables, especially the currency exchange rates are relatively constant. The analysis for 2014 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
<b>31 December 2015</b>				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(296)	296	-	-
Cash flow sensitivity (net)	(296)	296	-	-
<b>31 December 2014</b>				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(318)	318	-	-
Cash flow sensitivity (net)	(318)	318	-	-

**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 Group's approach to capital management during the year. The Group was not in a breach of any of the equity requirements enforced by external authorities.

According to the second additional amendment to the Concession contract, signed on 19 March, 2008, the actual return on shareholders' capital must be at least 17%.

In accordance with the Bulgarian Commercial Act, the main Company in the Group-Sofiyska voda, as a joint stock company should maintain net assets exceeding the registered capital. At the reporting date this capital adequacy rule is met.

**Consolidated financial statements  
for the year ended 31 December 2015**

**Sofiyska Voda AD**  
**Notes to the consolidated financial statements**

**24. 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 for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In thousands of BGN	Note	Fair value –				Carrying amount			Fair value						
		Held for sale	Defined at fair value	hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Level 1	Level 2	Level 3	Total			
<b>Financial assets, not measured at fair value</b>															
Trade and other receivables	16	-	-	-	-	32,108	-	-	-	-	-	-	32,108		
Cash and cash equivalents	17	-	-	-	-	16,906	-	-	-	-	-	-	16,906		
		-	-	-	-	49,014	-	-	-	-	-	-	49,014		
<b>Financial liabilities, not measured at fair value</b>															
Loans from related parties – Loan “B”	19	-	-	-	-	-	-	-	-	-	(71,313)	-	(71,313)		
Loan “A”	19	-	-	-	-	-	-	-	-	-	(44,557)	-	(44,557)		
Trade and other payables	21	-	-	-	-	-	-	-	-	-	(4,665)	-	(4,665)		
Payables to related parties	30	-	-	-	-	-	-	-	-	-	(25,623)	-	(25,623)		
Payables on financial lease	19	-	-	-	-	-	-	-	-	-	(2,647)	-	(2,647)		
		-	-	-	-	-	-	-	-	-	(148,805)	-	(148,805)		
														(45,187)	(45,187)

## Notes to the consolidated financial statements

## 24. Financial instruments (continued)

## Accounting classifications and fair values (continued)

31 December 2014

In thousands of BGN	Note	Carrying amount					Fair value						
		Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Level 1	Level 2	Level 3	Total	
<b>Financial assets, not measured at fair value</b>													
Trade and other receivables	16	-	-	-	-	30,489	-	-	-	-	-	-	30,489
Cash and cash equivalents	17	-	-	-	-	12,606	-	-	-	-	-	-	12,606
		-	-	-	-	43,095	-	-	-	-	-	-	43,095
<b>Financial liabilities, not measured at fair value</b>													
Loans from related parties – Loan "B"	19	-	-	-	-	-	-	-	-	-	-	(71,229)	(71,229)
Loan „A"	19	-	-	-	-	-	-	-	-	-	-	(53,303)	(53,303)
Trade and other payables	21	-	-	-	-	-	-	-	-	-	-	(24,659)	(24,659)
Payables to related parties	30	-	-	-	-	-	-	-	-	-	-	(6,101)	(6,101)
Payables on financial lease	19	-	-	-	-	-	-	-	-	-	-	(2,496)	(2,496)
		-	-	-	-	-	-	-	-	-	-	(157,788)	(157,788)
												(51,700)	(51,700)

24. 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

Other financial liabilities\*, are valued on basis of discounted cash flows. As significant unobservable inputs have been used the discount rate, adjusted by the Group, taking into account the specifics of the Group and the sector in which it operates. The amount of the reduction is 3% below the annual average rates for commercial loans of similar size and maturity granted in Bulgaria, according to interest rate statistics of the Central Bank for 2015.

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

25. Operating leases

Leases as lessee

Rental payments under operating leases are payable as follows:

<i>In thousands of BGN</i>	2015	2014
Less than 1 year	1,070	330
Between 1 and 5 years	2,969	166
More than 5 years	-	-
	<u>4,039</u>	<u>496</u>

**26. Defined benefit plan liabilities**

Post-employment 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>	<b>2015</b>	<b>2014</b>
Present value of the liability on 1 January	1,361	1,285
Interest expense	31	26
Current labour cost	238	210
Actuarial loss	(122)	-
Paid compensations to retired employees	62	77
Present value of the liability on 31 December	<u>(195)</u>	<u>(237)</u>

Liability recognized in the Statement of financial position as at 31 December, including:	1,375	1,361
Short – term liabilities for retirement compensation	469	570
Long – term liabilities for retirement compensation	906	791

**Expenses recognized in the income statement**

<i>In thousands of BGN</i>	<b>2015</b>	<b>2014</b>
Current labor cost	238	210
Interest expense	(122)	26

**Actuarial assumptions**

	<b>2015</b>	<b>2014</b>
Discount rate at 31 December	2.3%	2%
Salary increase (annual for 10 years)	1.75%	2%
Employee turnover	7.5%	9,3%

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  $i = 2.3\%$  is used. This rate is based on analysis of the offered long-term investment instruments on the Bulgarian stock market (securities, municipality bonds, etc.).



26. Employee benefits (continued)

**Actuarial assumptions**

*In thousands of BGN*

	<b>25 basis points increase of salaries growth</b>	<b>25 basis points decrease of salaries growth</b>
Effect on the liability for retirement compensation	11	(11)

*In thousands of BGN*

	<b>25 basis points increase of interest growth</b>	<b>25 basis points decrease of interest growth</b>
Effect on the liability for retirement compensation	(11)	11

*In thousands of BGN*

	<b>10 basis points increase of employee turnover</b>	<b>10 basis points decrease of employee turnover</b>
Effect on the liability for retirement compensation	(37)	37

*In thousands of BGN*

	<b>25 basis points increase of mortality rate</b>	<b>25 basis points decrease of mortality rate</b>
Effect on the liability for retirement compensation	(12)	12

27. Contingencies

(a) Bank guarantees

Currently, the Group has the following guarantees:

Bank guarantee for good performance under the concession agreement, number PARLG/PB/13-018, issued by the National Bank of Abu Dhabi, amounting to USD 750,000, with validity until 15 December 2016.

Bank guarantee GI11.231.0090 for good performance, amounting to BGN 400,000 issued by Citibank N.A. – Sofia Branch (currently Citibank Europe AD – Bulgaria Branch) - in relation to Contract No. ПД-568-68/10.08.2011 with the Municipality of Sofia for repair of municipal property, where Sofiyska Voda AD performs construction, with validity until 31 December 2016.

Performance bank guarantee GI15.027.0019, issued by Citibank Europe AD – Bulgaria Branch for the obligations of Sofiyska Voda AD in relation to a Contract № DST-081/30.12.2011 for access to the electricity grid with Electricity System Operator EAD, amounting to BGN 11,460 and validity until 31 January 2017.

Performance bank guarantee GI15.027.0020, issued by Citibank Europe AD – Bulgaria Branch for the obligations of Sofiyska Voda AD in relation to a Contract for transmission through the electricity grid with Electricity System Operator EAD, amounting to BGN 247 thousand and validity until 31 January 2017.

(b) Infrastructure

In accordance with a contract dated 8 July 2005 between the Republic of Bulgaria, presented by the Minister of the Economy and Energy (the State) on the one side and Business Park Sofia EOOD and Lindner AG, Germany (the Investor) on the other side, the State has financed the construction and rehabilitation of elements of the technical infrastructure within the boundaries of “Sofia Park” project – buildings, roads and technical infrastructure. In compliance with a decision of the Supreme Administrative Court dated 07.06.2007 and the preceding decision of the Commission on Protection of Competition from October 2005, Sofiyska Voda AD and Sofia Municipality have signed an annex to Second Additional Agreement to the Concession Contract, stated in Annex 1 to Decision No.620 of Sofia Municipal Council under Protocol No.22/09.10.2008.

Article 2 of the Annex states a procedure and a formula for the calculation of the annual amount of the consideration that will provide equivalence and reimbursement of the value of the W&S facilities in such a pattern that the granted State capitals will not be considered State aid. As per Art.2.1. of the Annex “the amount of the consideration is different in the different years and depends on the annual expenditure of the Concessionaire, realized through or in relation to commissioning of the new assets.” As per protocol by the Municipality of Sofia (MoS) and Sofiyska Voda AD dated 30 June 2015 the initial calculated amount in 2014 was increased from BGN 48 thousand to BGN 56 thousand. Consequently the total accrued amount in 2015 is split as follows:

<i>In thousands of BGN</i>	<b>Total in 2015</b>	<b>Accrual for 2015</b>	<b>Additional amount as per MoS protocol</b>	<b>2014</b>
Water Supply	42	36	6	36
Sewerage	6	4	2	5
Waste Water Treatment	8	6	2	7
<b>Total:</b>	<b>56</b>	<b>46</b>	<b>10</b>	<b>48</b>

Based on those calculations, the revenue stated in Note 4 has been respectively decreased regarding the three types of services – water supply, sewerage and waste water treatment – by the total amounts stated above and a liability to Municipality of Sofia has been presented.

## 28. Commitments

### *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 waste water 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 is obliged to reach the amount of USD 153 million of investments. After that period no further investments are specified in the Agreement.

After the Law for Regulating the Water and Sewerage Services 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 (W&S) services sector are as follows:

- Regulates the quality of W&S services;
- Carries out price regulation of the W&S services;
- Handles complaints of customers against W&S operators;
- Approves the common terms and conditions of contracts for the provision of W&S services to consumers;
- Exercises control and imposes sanctions;
- Keeps a register of W&S services assignment contracts;
- Approves proposed by the W&S operators business plans;
- Carries out preliminary control, delivers an opinion on the compliance of concession and other types of W&S system managing contracts 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 issued by EWRC Ordinances and Instructions.

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, have been finalized. According to the agreed, the levels of investments were to be set in the business plans, which had to be preliminarily coordinated with the Municipality of Sofia.

## 28. Commitments (continued)

### *Concession agreement (continued)*

Business plan 2006-2008 was approved in 2007. In 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 has been extended twice in the following years as per decision of the Commission, initially until 2015 and subsequently until 2016 (see note Commitments, below), for the original regulatory period 2009-2013, the company has performed BGN 241.6 million of investments, which fulfills the company's obligation to perform investments for BGN 240 million.

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 has obligations to cooperate with the CMU to facilitate the monitoring of the performance and the delivery of services, prepare and submit to CMU various reports and accounts etc.

Between the 54<sup>th</sup> and 48<sup>th</sup> months before the expected expiration date of the Concession Sofiyska Voda AD and the Municipality of Sofia are due to commit to a mutual verification of the public assets. No later than 24 months before that date the parties agree on the way of handing in the assets and the operations.

As of the 15<sup>th</sup> 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 will be the first annual profit from which the Company will distribute 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 Kanalizaciq" 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 waste water treatment to the consumers 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 2015 is BGN 261,476 thousand (2014: BGN 253,547 thousand).

For 2015 the investments under the extended business plan amounted to BGN 34,399 thousand (2014: 35,930 thousand), of which BGN 30,797 thousand (2014: BGN 30,888 thousand) represented investments in improvements of old public assets or acquiring new ones, which led to recognizing revenue from construction (see Note 7).

For the period since the beginning of the Concession until the end of 2015 the amount of investments made is BGN 529,666 thousand.

## 28. Commitments (continued)

### *Investment commitments*

Complying with Art. 14, para 3 and 4 of the transitional and final provisions of the Water Act, on 4 March 2014 Sofiyska Voda AD submitted an extension of the Business Plan 2009-2013 until 2015. Concurrently, an application for approval of prices for 2014 was submitted. Subsequently, following the written instructions of the Commission for amendments of the submitted business plan for the extended period, on 31 July 2014 the Company submitted a revised Business Plan 2009-2015. The investments planned for the period 2014-2015 for regulatory purposes exceed BGN 87.6 million. The 2009-2015 Business Plan was approved by the Regulator with a decision № БП - 57 dated 6 August 2015.

In compliance with the amendments of the Water Act, paragraph 60 published in the Stated Gazette issue 58/2015 on 2 November 2015 Sofiyska Voda AD submitted and extended the aforementioned Business Plan until 2016. After the revisions made in compliance with regulatory decision № БП-76/22.12.2015, the revised Business Plan 2014-2016 was submitted on 8 Jan 2016 which was consequently approved on 12 February 2016 with decision № БП - 28/12.02.2016.

The approved investments for regulatory purposes for the 2014-2016 period are as follows: BGN 68,447 thousand for 2014-2015 and BGN 57,469 thousand for 2016. The prices for regulated services, however, are still unchanged from their latest update in effect from 1 July 2012.

## 29. Deferred income

On 16 January 2009, the Group 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. Both sides mutually relieve each other from pretended payment of interest on amounts claimed, as Sofiyska voda accepted the obligation for investments in the period 2009-2025 in addition to already existing and approved 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 first obligation for BGN 2.5 million in the period 2009-2013 was fulfilled in February 2014. The second and third obligations are to be fulfilled in the period 2016-2023. The planned constructions for the following year 2016 amount to BGN 1,2 mil and for the following five-year period 2017-2021 amount to BGN 6.5 mil. The final BGN 2 mil will be fulfilled in the period 2022-2023.

As the above amounts from the Settlement Agreement are outside the investments set in the Business plan and are on the account of Sofiyska voda, they have been accounted initially as expense and liability. After which the liability is decreased with the amount invested for all assets constructed and put into use, which amount is presented as deferred income. Thereafter, deferred income is decreased proportionately to the depreciation expense of the constructed assets.

### 30. Related parties

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

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

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

- Construction revenue and expenses with MoS (disclosed in Note 6);
- Green energy income with National Electricity Company EAD-state owned (disclosed in Note 5);
- Under a contract signed with NEK EAD, the latter has invoiced to Sofiyska Voda BGN 992 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 NEK BGN 992 thousand (without VAT) due to the fact that NEK 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 (2014: 100%).

The following transactions have taken place during 2015:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2015	
			Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided - Accrued interest 4,405  Other -	-	71,313 Liability for loan received at amortized cost 44 Other trade payables
Veolia Voda CEE	Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK		-	-	3,124
Vodosnabdyavane i Kanalizatsia EAD	22.90% of the shares of Sofiyska Voda AD	Rent 10	-	1
		<b>Total:</b>	<b>-</b>	<b>75,978</b>

30. Related parties (continued)

The following transactions have taken place during 2014:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2014	
			Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided  Accrued interest 4,710	-	71,229 Liability for loan received at amortized cost
		Other	-	44 Other trade payables
Veolia Voda S.A.	Veolia Voda (Sofia) BV	Technical services provided 1,496	-	2,992
Veolia Voda UK		-	-	3,065
Vodosnabdyav ane i Kanalizatsia EAD	22.90% of the shares of Sofiyska Voda AD	Rent 12	-	-
		Total:	-	77,330

*Transactions with directors and officers on key positions*

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

<i>In thousands of BGN</i>	2015	2014
Remuneration of the Board of Directors	72	103
Bonuses and accruals for unused paid leave and social security contributions	-	-
As at 31 December	6	6

**31. Subsequent events**

On 11 January 2016 the Supreme Administrative Court issued a decision on case 8654/2014, established under a claim of Sofiyska Voda regarding Commission for Protection of Competition (CPC) case 1534/2014 for charging interests on delayed payments of invoices based on estimated consumption. In the decision penalty was decreased up to BGN 2,400 thousand. The Decision is subject to appeal before 5-members jury of Supreme Administrative Court by Sofiyska Voda as well as by CPC. Sofiyska Voda already appealed, as well as the CPC.





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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
"Sofiyska voda" AD

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of "Sofiyska voda" AD and its subsidiary "Water Industry Support and Education" EOOD ("the Group") as set out on pages 1 to 58, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

*Annual management report of the Company prepared in accordance with the requirements of §10, para 1 of the Accountancy Act in relation to article 33 of the Accountancy Act (Repealed, SG No. 95/ 08.12.2015)*

As required under article 38, para 4 of the Accountancy Act (Repealed), we read the content of the consolidated annual management report of the Group. In our opinion, the historical financial information disclosed in the consolidated annual management report of the Group, prepared by Management as required under article 33 of the Accountancy Act (Repealed), is consistent, in all material aspects, with the consolidated financial information disclosed in the audited consolidated annual financial statements of the Group as of and for the year ended 31 December 2015. Management is responsible for the preparation of the consolidated annual management report, which was approved by the Board of Directors of "Sofiyiska Voda" AD on 11 April 2016.

Ivan Andonov  
*Authorized representative*

Tzvetelinka Koleva  
*Registered auditor*

KPMG Bulgaria OOD  
Sofia, 19 April 2016

