Софийска вода

Sofiyska Voda AD

Consolidated Financial Statements

For the year ended 31 December 2014

With independent auditors' report

Contents

Consolidated statement of financial position

In thousands of BGN	*Note*	31 December 2014	31 December 2013
Assets			
Property, plant and equipment	*13*	17,372	18,592
Intangible assets	*14*	272,510	263,088
Deferred tax assets	*20*	5,845	5,955
Non-current receivables	*16*	357	133
Non-current assets		296,084	287,768
Inventories	*15*	1,701	1,696
Trade and other receivables	*16*	31,744	32,690
Income tax receivables		584	817
Cash and cash equivalents	*17,24*	12,606	11,107
Current assets		46,635	46,310
Total Assets		342,719	334,078

Consolidated statement of financial position (continued)

In thousands of BGN	*Note*	31 December 2014	31 December 2013
Equity			
Share capital	*18*	8,884	8,884
Reserves	*18*	10,774	10,774
Retained earnings		138,480	122,168
Total equity		158,138	141,826
Liabilities			
Interest bearing loans and borrowings	*19,24*	44,598	89,005
Finance lease liabilities	*19,24*	1,573	2,456
Employee benefits	*26*	791	737
Financing for non-current assets	*28*	2,149	2,236
Non-current liabilities to Municipality of Sofia	*21,28*	8,247	7,895
Non-current liabilities		57,358	102,329
Interest bearing loans and borrowings	*19,24*	79,934	44,087
Finance lease liabilities	*19,24*	923	1,171
Tax liabilities	*23*	682	478
Payables to related parties	*24,29*	6,101	4,543
Trade and other payables	*21*	33,062	37,615
Provisions	*22*	5,951	1,480
Employee benefits	*26*	570	549
Current liabilities		127,223	89,923
Total liabilities		184,581	192,252
Total equity and liabilities		342,719	334,078

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

Bruno Daniel Paul Roche
Executive Director

Anelia Ilieva
Finance Director

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

Margarita Goleva
Director

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

Krassimir Hadjidinev
Registered Auditor

Consolidated statement of profit or loss and other comprehensive income

For the year ending 31 December

In thousands of BGN	*Note*	31 December 2014	31 December 2013
Revenue	*4*	121,891	125,436
Other income	*5*	1,850	1,356
Revenue from construction	*6*	30,888	44,672
		154,629	171,464
Expenses for materials	*7*	(9,002)	(10,701)
Expenses for hired services	*8*	(26,234)	(26,002)
Depreciation and amortization	*13,14*	(27,672)	(24,051)
Personnel expenses	*9*	(16,917)	(15,627)
Social security contributions and other social expenses	*9*	(4,321)	(3,946)
Other operating expenses	*10*	(14,520)	(9,726)
Expenses for construction	*6*	(30,888)	(44,672)
Results from operating activities		25,075	36,739
Finance income	*11*	58	69
Finance costs	*11*	(6,825)	(10,655)
Net finance costs		(6,767)	(10,586)
Profit before income tax		18,308	26,153
Income tax expense	*12*	(1,919)	(2,635)
Profit for the year		16,389	23,518

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

For the year ended 31 December

In thousands of BGN	*Note*	2014	2013
Other comprehensive income			
Items that are or may be reclassified to profit or loss::			
Cash flow hedges – reclassified to profit or loss	12	-	4,768
Related tax	12,20	-	(477)
		-	4,291
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability	26	(77)	(82)
Related tax		-	-
		(77)	(82)
Other comprehensive income for the year, net of tax		(77)	4,209
Total comprehensive income for the year		16,312	27,727

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Finance Director

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Director

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

Krassimir Hadjidinev
Registered Auditor

Consolidated statement of changes in equity

In thousands of BGN	*Note*	Share capital	Hedging reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2013		8,884	(4,291)	7,974	101,532	114,099
Total comprehensive income for the period						
Profit for the year		-	-	-	23,518	23,518
Other comprehensive income, net of taxes		-	4,291	-	(82)	4,209
Total comprehensive income for the period		-	4,291	-	23,436	27,727
Transactions with owners of the Group, recognized directly in equity						
Transfer between reserves based on shareholders' decision		-	-	2,800	(2,800)	-
Total transactions with owners of the Group		-	-	2,800	(2,800)	-
Balance at 31 December 2013	*18*	8,884	-	10,774	122,168	141,826

Consolidated statement of changes of equity (continued)

In thousands of BGN	*Note*	Share capital	Hedging reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2014		8,884	-	10,774	122,168	141,826
Total comprehensive income for the period						
Profit		-	-	-	16,389	16,389
Other comprehensive income net of taxes		-	-	-	(77)	(77)
Total comprehensive income for the period		-	-	-	16,312	16,312
Transactions with owners of the Group, recognized directly in equity						
Transfer between reserves based on shareholders' decision		-	-	-	-	-
Total transactions with owners of the Group				-	-	-
Balance at 31 December 2014	*18*	8,884	-	10,774	138,480	158,138

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

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Registered Auditor

Consolidated statement of cash flows

For the year ended 31 December

In thousands of BGN	*Note*	31 December 2014	31 December 2013
Cash flow from operating activities			
Net profit for the year		16,389	23,518
Adjustments for:			
Depreciation expenses on property plant and equipment	*13*	3,414	3,253
Amortisation of intangible assets	*14*	24,259	20,798
Net finance costs	*11*	6,767	10,586
Impairment losses on trade receivables	*10*	6,958	8,703
Write-downs of inventories to net realisable value	*10*	261	(133)
Expenses for scrapping of materials	*10*	26	40
Expenses for scrapping of non-current assets	*10*	38	30
Income tax expense	*12*	1,921	2,635
		60,033	69,430
Changes in:			
- employee benefits		(26)	81
- other provisions		4,471	(1,039)
- inventories		(292)	317
- trade and other receivables		(6,219)	(5,351)
- trade and other payables		(1,151)	(8,418)
- deferred income, including financing		(87)	935
Cash generated from operating activities		56,729	55,955
Income tax paid		(2,556)	(3,347)
Reimbursed income tax		977	-
Net cash from operating activities		55,150	52,608
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,185)	(2,327)
Acquisition of intangible assets		(35,505)	(33,419)
Net cash from in investing activities		(37,690)	(35,746)

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN	*Note*	31 December 2014	31 December 2013
Cash flow from financing activities			
Repayment of loans and borrowings		(9,062)	(9,281)
Payment of finance lease liabilities		(1,179)	(1,289)
Interest paid		(5,699)	(10,598)
Other financial payments		(21)	(21)
Net cash from financing activities		(15,961)	(21,189)
Net increase/(decrease) in cash and cash equivalents		1,499	(4,327)
Cash and cash equivalents at 1 January		11,107	15,434
Cash and cash equivalents at 31 December	*17,24*	12,606	11,107

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

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Notes to the consolidated financial statements

1. Reporting entity

Sofiyska Voda AD (the Group) is 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 , Mladost 4, 1 Business Park Sofia Str, building 2A. The Company is 77.10% owned by Veolia Voda (Sofia) BV and 22.90% owned by Vodosnabdiavane and Kanalizatsia EAD.

The consolidated financial statements of the Group for the year ended 31 December 2014 comprise the financial statements of the Company and the Company's 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 and wastewater services in the Municipality of Sofia, including managing and maintenance of the public assets which represent part of the watermain and wastewater-treatment system in Sofia as well as design, construction, financing and managing of new assets.

On 23 December 1999, Sofiyska Voda AD signed a Concession Contract through which the Municipality of Sofia 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 preparation

(a) Statement of compliance

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

The Consolidated financial statements for the year ended 31 December 2014 were approved by the Board of Directors on 01 April 2015.

(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:

- defined benefit liability, recognised at present value.

(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 stated.

(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.

During the year, the Group generated a net profit after tax of BGN 16,389 thousand (2013: BGN 23,518 thousand). As at 31 December 2014, its current liabilities exceed its current assets by BGN 80,588 thousand due to the fact the intercompany loan (subdebt) contract expires in 2015 and is presented as short term, and also because of the liabilities to related parties in the amount of BGN 6,101 thousand. The management of the Group is in process of negotiating a new long term loan with company from Veolia Group.
The management acknowledge that is not aware of any significant uncertainties related to events or circumstances that could threaten the ability of the Group to continue as a going concern. The management has a reasonable expectation to believe that the available capital resources and sources of financing (cash flows from operating activities and loan contracts) will be adequate to meet its obligations in the course of 2015.

2. Basis of preparation (continued)

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and 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 recognised prospectively.

(i) Judgments

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

- Note 6- Revenue from and expenses for construction;
- Note 14 – Intangible assets;
- Note 30- Concession contract;

(ii) Assumptions and estimation uncertainties

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

- Note 14 – Non-current intangible assets – section Amortization of the intangible asset "Concession right";
- Note 16 – Trade and other receivables – section Estimation of the recoverable amount of trade receivables from clients;
- Note 26 – Measurement of defined benefit obligations and personnel liabilities;
- Note 21 – Trade and other payables – section Estimation of the liability to Municipality of Sofia as per Settlement Agreement;
- Note 22 – Provisions;
- Note 27 – Contingencies;

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 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 categorised 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).

2. Basis of preparation (continued)

(e) Use of estimates and judgments (continued)

Fair values (continued)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised 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;

(f) Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36);
- IFRIC 21 *Levies;*
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities;*
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011) and IAS 28 *Investments in Associates and Joint Ventures* (2011);

(i) Amendments to IAS 36

As a result of the amendments to IAS 36, the Group has expanded its disclosures of recoverable amounts.

(ii) IFRIC 21 Levies

This change in accounting policy does not have a material impact on the Group financial statements.

(iii) Amendments to IAS 32

The amendments to IAS 32 do not have any impact on the financial statements since the entity does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements

(iv) New consolidation suite of standards

The Group has applied IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of interests in Other entities*, IAS 27 *Separate Financial Statements* (2011) and IAS 28 *Investments in Associates and Joint Ventures* (2011) with an effective date of 1 January 2014.

The application of these new/amended standards does not have a material impact on these consolidated financial statements as it did not result in a change in accounting policy.

3. Significant accounting polices

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

Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified or re-presented, either as a result of the change in the accounting policy regarding the presentation of items of OCI.

(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.

3. Significant accounting polices (continued)

(b) Foreign currency

Foreign Currency Transactions

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 retranslated to 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 retranslated to 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 not retranslated.

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

- equitiy instruments available for sale (except for impairment, when the foreign currency differences recognized in other comprehensive income are reclassified to profit or loss); or
- cash flow hedges that meet the criteria for such, to the extent that the hedge is effective.
- From 1 January1999 the exchange rate of the Bulgarian lev (BGN) has been fixed against the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

(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 separate 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 is 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 realise the asset and settle the liability simultaneously.

3. Significant accounting polices (continued)

(c) 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 amortised 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 amortised cost using the effective interest method.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. 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 measured at cost less accumulated depreciation and accumulated impairment losses (see note 3 (i)). The cost of self-constructed assets includes the following:

- cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has the 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;
- capitalised 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 separate 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 within other income in profit or loss.

(ii) Subsequent measurement

After recognition as an asset, an item of property, plant and equipment is measured at its cost less accumulated amortization and accumulated impairment losses.

3. Significant accounting polices (continued)

(d) Property, plant and equipment (continued)

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.

(iii) 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 agreement"

As stated in Note 3, Sofiyska Voda AD is a party in a concession contract with the Municipality of Sofia, 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.

Taking into account the concession contract with the Municipality of Sofia, the requirements of IFRIC 12 have been applied, and consequently an intangible asset "concession right" has been recognized in the financial statements of the Group, based on Sofiyska Voda's right of realising revenue from the water supply, sewerage and waste water treatment services it provides to the customers on the territory of the concession.

(i) Intangible asset "concession right"

The intangible asset "concession right" is recognized at acquisition cost less accumulated amortization and impairment losses (see accounting policy 3 (i)). The intangible asset "concession right" arises in relation to the Concession Agreement, 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. This is a complex right of use in its essence and by exercising it the separate components of an intangible asset (Concession right) have emerged. These components differ in type and function which is the reason for calculating their amortization depending on the useful life of each.

The Concendent (Municipality of Sofia) 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 Municipality of Sofia 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 Municipality of Sofia 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".

3. Significant accounting polices (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.

(iv) Amortization

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.
The estimated useful lives are as follows:

Components of the intangible asset "concession right":

• Plant and equipment	5-25 years
• Water network improvements	25 years (or till the end of the Concession contract)
• Improvements of other public assets	10 years

Other intangible assets:

• capitalised development costs	6.67 years
• other intangibles	6.67 years
• software	10 years

Amortisation 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.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

(h) Assets under construction

The cost of the assets under construction includes all expenses directly related to specific projects and the relevant portion of fixed and variable production costs, resulting from the contractual obligations of the Group.

3. Significant accounting polices (continued)

(i) Impairment

(i) Non-derivative financial assets

A financial asset that is not recognized at fair value in profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. 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, or indications that a debtor or issuer will enter bankruptcy.

Financial assets measured at amortised cost

The Group considers evidence of impairment for receivables both for specific asset and on collective level. All individually significant receivables and held to maturity investment securities are assessed for specific impairment. All individually significant receivables 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 is accounted in a corrective account decreasing the receivables. Whenever a subsequent event reduces the impairment loss, the decrease in impairment loss is reversed through profit or loss.

3. Significant accounting polices (continued)

(i) 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.

(j) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The 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.

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

3. Significant accounting polices (continued)

(j) Employee benefits

(iii) Short-term personnel benefits

Short-term personnel benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the personnel and the obligation can be estimated reliably. The Group recognizes as a liability the undiscounted amount of the expenses for annual paid leave that is expected to be paid to personnel for the services provided during and prior to the reporting period.

(k) 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 recognised as finance cost.

Legal liabilities provision

Legal liabilities provisions are included in the Group's consolidated financial statements as a result of existing legal liabilities on court actions concerning past events. Evaluation 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.

(l) 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 reference to surveys of 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 State Energy and Water Regulatory Commission (SEWRC). Within the period of the approved Business Plan 2009-2013 the Group files in and justifies price change applications, which are revised and approved by SEWRC in their Decisions.

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

3. Significant accounting polices (continued)

(l) Revenue (continued)

(ii) Construction contracts revenues

The negotiated revenue includes the initially negotiated amount plus all the changes in the negotiated works, counter claims, bonuses, to the extent they are expected to bring revenue that can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The management estimates the result of the execution of each construction contract. When the results of the contract cannot be defined reliably then the revenue is recognized up to the amount of the expenses on the contract that is expected to be reimbursed. Any expected loss is immediately recognized in profit and loss.

Construction contracts incur revenues related to the investments in public assets – improvement and construction of new components of the water supply and sewerage system against the right to recognise revenues from rendering services at the prices approved by the State Energy and Water Regulatory Commission (SEWRC). In this respect the Group recognizes an intangible asset "concession right" against crediting revenue from construction contracts upon termination of the works.

(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 from funds invested, profit from transactions in foreign currencies and profit from hedging instruments, 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, changes in the fair value of financial assets, accounted for at fair value in profit or loss, devaluation of the financial assets and loss form hedging instruments, recognized in profit or loss. 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.

3. Significant accounting polices (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised 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 recognised 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 recognised 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 or 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 recognised 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 utilised. 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 realised.

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. The Group considers that the accruals for tax liabilities are adequate to all open fiscal years based on an evaluation of a number of factors, including the interpretation of tax laws and previous experience.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.

3. Significant accounting polices (continued)

(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 2014, 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:

- Annual improvements to IFRSs 2010-2012 and 2011-2013 Cycles. The improvements introduce eleven amendments to nine 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 Entity;

- Amendments to IAS 19 – Defined benefit plans: Employee contributions. The entity does not expect the Amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

IASB/IFRIC documents not yet endorsed by EC:

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

- *IFRS 9 Financial instruments (issued 24 July 2014);*
- *IFRS 14 Regulatory Deferral Accounts (issued 30 January 2014);*
- *IFRS 15 Revenue from contracts with customers (issued 28 May 2014);*
- *Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014);*
- *Amendments to IAS 1 Disclosure initiative (issued 18 December 2014);*
- *Annual improvements to IFRSs 2012-2014 Cycle (issued 25 September 2014)*
- *Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associated or jointly controlled investee (issued 11 September 2014);*
- *Amendments to IAS 27 – Equity method in separate financial statements (issued 12 August 2014);*
- *Amendments to IAS 16 and IAS 41 – Bearer plants (issued 30 June 2014);*
- *Amendments to IAS 16 and IAS 38 – Clarification for acceptable methods of depreciation and amortization (issued 12 May 2014);*
- *Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations (issued 6 May 2014)*

4. Revenue

In thousands of BGN	**Note**	**2014**	**2013**
Income from water supply		81,613	83,695
Income from sewerage		15,072	15,357
Income from waste water treatment		20,487	20,963
Interest income from overdue receivables		3,780	4,375
Income from service sales		2,281	2,415
Revenue invoiced to customers, which is to be transferred to meet the obligations regarding the financial memorandum ISPA		(1,294)	(1,322)
Revenue invoiced to customers, which offsets the consideration for the new W&S infrastructure financed by the Municipality of Sofia's budget	*27(b)*	(48)	(47)
		121,891	125,436

According to an agreement dated 22/06/2007 between Sofiyska Voda AD and Sofia Municipality, 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 the price of the offered service of water supply, sewerage and treatment of waste waters all the necessary annual funds for repayment of the Financial Memorandum loan that was received from the European Investment Bank, amounting to 15% of the project value, where the total expected amount of the obligation is EUR 8,775 thousand. The end beneficiary of the loan from the European Investment Bank is the Municipality of Sofia.

The State Energy and Water Regulatory Commission, in its Decisions for tariff approval, has approved as per an indicative repayment schedule, the inclusion in the tariff of a certain amount for servicing and repayment of the EIB financing. In 2014 the portion of the billed revenue that may be attributed to the funds provided for servicing and repayment of the EIB loan, based on the price component in the tariff, amounts to BGN 1,294 thousand (2013: 1,322 thousand).

In the Agreement stated above, dated 22-06-2007, it is provided that upon the receipt of the relevant notices the collected from the clients of the Group as a result of the approved by the SEWRC price component funds will be transferred to the Ministry of Environment and Waters (MoEW) at a special bank account opened for the loan.

As per received attachments to MoEW letters dated 7 Nov 2011 and 30 Jan 2012, it is known that respectively on 30th October 2011 and 13th January 2012 two tranches of the agreed amount of the EIB loan have been disbursed, at the total value of EUR 7,086 thousand. This is the final amount as the term of availability of funds has expired. As per the received copies of the relevant repayment schedules of both tranches, starting in the beginning of 2012, repayments on interest and principal are due to EIB on each 10th March and 10th September until the year of 2030 including. After having received a notice from the Municipality of Sofia in 2014, the Group has transferred two installments amounting to BGN 1,156 thousand for services related to the utilized loan from EIB to a bank account indicated by the Municipality of Sofia.

5. Other income

In thousands of BGN	2014	2013
Income from penalties	-	24
Penalties of contractors	107	96
Penalties for industrial discharges of water with excessive concentration of pollutants	778	565
Sale of inventories to subcontractors for construction works	229	241
Green energy income	149	86
Income from rent	7	6
Income from financing	167	160
Other	413	178
	1,850	1,356

6. Revenue from and expenses for construction

In thousands of BGN		2014			2013		
Projects	Note	Revenue	Expenses	Profits	Revenue	Expenses	Profits
Water supply		12,899	12,899	-	17,116	17,116	-
Potable water treatment		900	900	-	3,642	3,642	-
Sewerage		9,028	9,028	-	15,735	15,735	-
Waste water treatment		2,486	2,486	-	1,782	1,782	-
House connections and meters		5,575	5,575	-	6,397	6,397	-
Total	*14*	30,888	30,888	-	44,672	44,672	-

7. Expenses for materials

In thousands of BGN	2014	2013
Electricity, water, heating	1,281	2,397
Fuels and lubricants	1,444	1,593
Water for technological needs	1,631	1,672
Chemicals	2,448	3,005
Plumbing materials	552	603
Other	1,646	1,431
	9,002	10,701

8. Expenses for hired services

In thousands of BGN	2014	2013
Annual water supply and sewatage tax	4,174	4,579
Repairs and maintenance of property, plant and equipment	4,423	4,833
Insurance	1,475	1,456
Rent	1,053	1,111
Security	5,325	5,204
Other services	9,784	8,819
	26,234	26,002

Other expenses for hired services include:

In thousands of BGN	2014	2013
Water – meters reading	1,683	1,592
Courier services	412	371
Printing services	491	544
Technical services	1,496	1,496
Consultancy	378	662
Asphalt covering	338	428
SEWRC fee	404	422
Sterilization	25	42
Communication	189	170
Annual software licenses	729	715
Collection	395	494
Hired transportation	121	222
Water carriers	180	208
Software maintenance and internet	277	219
Training	151	172
Announcements and communications	175	240
Local taxes and fees	87	70
Cleaning of offices and water tanks	56	62
Fees	31	25
Geodesic studies	1,495	-
Other	671	665
	9,784	8,819

9. Personnel expenses

In thousands of BGN	*Note*	2014	2013
Wages and salaries		16,707	15,435
Compulsory social security contribution		2,481	2,299
Social expenses		50	84
Expenses for additional pension contribution		407	367
Retirement compensation	*26*	210	192
Voucher expenses		1,383	1,196
		21,238	19,573

The salary expenses include an accrual for unused annual paid leave amounting to BGN 335 thousand (2013:275 thousand).

The compulsory social security contribution include an accrual for social and health security on unused annual paid leave for the amount of BGN 60 thousand (2013: 50 thousand).

The average number of personnel is 1,171 employees (2013: 1,161 employees).

10. Other operating expenses

In thousands of BGN	*Note*	2014	2013
Impairment of receivables	*24*	6,958	8,703
Write down of inventories to net realizable value	*15*	261	(133)
One-off taxes		139	120
Commission for collection of trade receivables		1,077	1,086
Fines		5,261	(770)
Scrapping of materials		26	40
Scrapping of non-current assets		38	30
Others		760	650
		14,520	9,726

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

In thousands of BGN	2014	2013
Interest income	18	39
Effect from guarantee discounts	40	30
Financial income	58	69
Interest expenses for Loan "A" based on effective interest rate method calculations	(1,392)	(1,674)
Interest expenses for Loan "B" based on effective interest rate method calculations	(4,710)	(4,835)
Interest expenses for Loan "C" based on effective interest rate method calculations	-	(3)
Finance charges on finance leases	(121)	(121)
Interest expenses on employee benefits	(26)	(44)
Effect from guarantee discounts	(102)	(43)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(352)	(57)
Other finance costs	(35)	(38)
Loss from foreign currency exchange differences	(87)	(12)
Interest expenses on SWAP transactions	-	(3,828)
Finance costs	(6,825)	(10,655)
Finance costs (net)	(6,767)	(10,586)

The financial income and expenses listed above include the following interest income and expenses that are not recognised at fair value in profit and loss:

	2014	2013
Total interest income on financial assets	58	69
Total interest expense on financial liabilities	(6,223)	(10,461)

12. Tax expenses

In thousands of BGN	*Note*	2014	2013
Current tax expense			
Income tax expense for current year		(1,809)	(3,531)
Deferred tax expense			
Origination and reversal of temporary differences	*20*	(110)	896
Total income tax expense		(1,919)	(2,635)

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.

Income tax recognized in other comprehensive income

In thousands of BGN	2014			2013		
	Before tax	Tax income	Net of tax	Before tax	Tax income	Net of tax
Cash flow hedges	-	-	-	(4,768)	477	(4,291)
	-	-	-	(4,768)	477	(4,291)

Reconciliation of effective tax rate

In thousands of BGN		2014		2013
Profit for the year		16,389		23,518
Total tax expenses		1,919		2,635
Profit before tax		18,308		26,153
Income tax using the Group's domestic tax rate	10%	(1,831)	10%	(2,615)
Non-deductible expenses	0.42%	(76)	0.05%	(15)
Effects of written off deferred tax	0.06%	(12)	0.03%	(5)
Net current income tax (expense)/income	10.48%	(1,919)	10.08%	(2,635)

13. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 January 2013	738	23,099	9,996	1,065	381	35,279
Additions	-	-	-	-	5,832	5,832
Disposals	-	(351)	(941)	-	-	(1,292)
Transfers	-	1,994	3,896	11	(5,901)	-
Balance at 31 December 2013	738	24,742	12,951	1,076	312	39,819
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
Depreciation						
Depreciation as at 1 January 2013	(126)	(11,060)	(7,081)	(882)	-	(19,149)
Depreciation charge for the year	(21)	(2,362)	(804)	(66)	-	(3,253)
Depreciation on disposals	-	323	852	-	-	1,175
Balance as at 31 December 2013	(147)	(13,099)	(7,033)	(948)	-	(21,227)
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 as at 31 December 2014	(155)	(15,168)	(7,849)	(1,001)	-	(24,173)
Carrying amounts						
At 1 January 2013	612	12,039	2,915	183	381	16,130
At 31 December 2013	591	11,643	5,918	128	312	18,592
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

13. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, acquired in 2014 amount to BGN 1,983 thousand (2013: 5,863 thousand) and are listed below:

In thousands of BGN	**2014**	**2013**
CHP generator	749	215
Transportation vehicles and mechanization	187	2,619
Laboratory equipment	346	178
Computer equipment	146	599
Other equipment	555	2,252
	1,983	5,863

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 non-current assets under these contracts have been pledged (motor vehicles and construction machinery), having a total acquisition value of BGN 2,022 thousand, allocated by type of assets in the Central Pledge Registry.

14. Intangible assets

In thousands of BGN	Development costs	Software	Concession right	Assets under construction – Concession right	Assets under construction – other	Total
Cost						
Balance as at 1 January 2013	21,041	15,420	307,776	17,874	357	362,468
Acquisitions	-	-	-	44,672	230	44,902
Disposals	-	-	(10)	-	-	(10)
Transfers	-	307	45,600	(45,600)	(307)	-
Balance as at 31 December 2013	21,041	15,727	353,366	16,946	280	407,360
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
Amortization						
Balance as at 1 January 2013	(20,514)	(13,496)	(89,465)	-	-	(123,475)
Amortization for the year	(178)	(428)	(20,191)	-	-	(20,797)
Balance as at 31 December 2013	(20,692)	(13,924)	(109,656)	-	-	(144,272)
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)
Carrying amounts						
At 1 January 2013	527	1,924	218,311	17,874	357	238,993
At 31 December 2013	349	1,803	243,710	16,946	280	263,088
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

14. Intangible assets (continued)

Acquired assets

The major acquisitions of intangible assets in 2014 relate to the increase of the value of the Concession right and amount to BGN 33,669 thousand (2013: 45,601 thousand). The main components are listed below:

In thousands of BGN	**2014**	**2013**
Water supply network and house connections	12,749	21,484
Water Waste Treatment Plant Koubratovo	2,706	1,792
Sewerage and house connections	11,039	11,224
Hydrants	2,568	2,917
Water meters	2,288	2,451
Leasehold improvements	2,316	4,790
Pumping Stations	3	943
	33,669	45,601

Assets under construction

The major intangible assets under construction which relate to concession right amount to BGN 14,165 thousand (2013: 16,946 thousand). The most significant of them and listed below:

In thousands of BGN	**2014**	**2013**
Second stage of strengthening of Beli Iskar Dam	1,086	1,029
Waste Water Treatment Plant	393	613
Waste Water and Sewage Treatment Plant	-	3
Construction of water main system, water-main net model and DMA zones for reduction of unaccounted for water	5,026	4,357
Chlorinating stations	1	282
Construction of sewerage mains and sewerage model	6,013	8,024
Potable Water Treatment Plants	798	1,671
Impounding Structures	414	380
Rehabilitation of reservoirs, pumping stations, sanitary protection zones	423	430
Proactive replacement of stop valves, fire hydrants, water connections	11	157
	14,165	16,946

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

In thousands of BGN	**2014**	**2013**
Spare parts and consumables	3,146	2,880
Write-down to net realizable value	(1,445)	(1,184)
	1,701	1,696

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.

15. Inventories (continued)

Inventory write-down

In thousands of BGN	**2014**	**2013**
Balance at 1 January	(1,184)	(1,317)
Accumulated write-down of inventories	(261)	-
Reversed write-down of wasted inventories	-	-
Reversed write-down of used inventories	-	133
Amounts written-off	-	-
Balance at 31 December	(1,445)	(1,184)

16. Trade and other receivables

In thousands of BGN	**Note**	**2014**	**2013**
Trade and other receivables		69,228	70,547
Impairment losses on trade receivables		(39,881)	(40,264)
Court receivables		22,838	15,164
Impairment losses on court receivables		(21,696)	(14,406)
Total trade receivables	*24*	30,489	31,041
Other receivables		3	138
Prepayments for current assets		1,609	1,644
		1,612	1,782
Total trade and other receivables		32,101	32,823
Non-current		357	133
Current		31,744	32,690

In 2014 receivables amounting to BGN 51 thousand have been written off (2013: 1,991 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*.

Prepayments for current assets include:

In thousands of BGN	**2014**	**2013**
Insurance	1,057	1,093
Licenses	97	169
Subscriptions	148	112
Consulting services	241	60
Other	66	210
	1,609	1,644

17. Cash and cash equivalents

In thousands of BGN	Note	2014	2013
Cash on hand		58	73
Local currency		38	56
Foreign currency		20	17
Cash at banks	24	12,548	11,034
Local currency		12,311	10,797
Foreign currency		237	237
Cash and cash equivalents in the statement of cash flows	24	12,606	11,107

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

In thousands of shares	Ordinary shares 2014	2013
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 2014 the Group's share capital includes 8,884,435 ordinary shares (2013: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2014 are:

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

The ultimate majority shareholder (Parent) of the Company is Veolia, Environman, 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 until the amount of 1/10 or more of the registered Group capital is reached.

19. Interest-bearing 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.

In thousands of BGN	2014	2013
Non-current liabilities		
Loans at nominal value	45,329	89,951
Amortization	(731)	(946)
Loans at amortized cost	44,598	89,005
Finance lease liabilities	1,573	2,456
	46,171	91,461
Current liabilities		
Loans at nominal value	80,181	44,622
Amortization	(247)	(535)
Loans at amortized cost	79,934	44,087
Finance lease liabilities	923	1,171
	80,857	45,258

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 Loan Agreement the calculation of the annual debt service coverage ratio is calculated by the bank by the means of a model based on the actual and estimated values as at the date of preparation. As per the internal calculations based on the actual cash flow for 2014 result in an actual ADSCR of 1.77:1. The Group has the obligation of submitting the verified annual consolidated 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

				31 December 2014		31 December 2013	
In thousands of BGN	Currency	Nominal interest rate	Year of Maturity	Face Value	Carrying Amount	Face Value	Carrying Amount
Loan „A"	EUR	1.35 % plus 6 month EURIBOR*	2020	54,393	53,303	63,456	62,064
Loan „B"	EUR	5.95% plus 6 month EURIBOR	2015	71,117	71,229	71,117	71,028
Finance lease liabilities				2,496	2,496	3,627	3,627
				128,006	127,028	138,200	136,719

19. Interest-bearing 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:

In thousands of BGN	Future minimum lease payments **2014**	Interest **2014**	Present value of minimum lease payments **2014**	Future minimum lease payments **2013**	Interest **2013**	Present value of minimum lease payments **2013**
Less than 1 year	1,001	78	923	1,292	121	1,171
Between 1 and 2 years	1,611	52	1,559	1,950	118	1,832
2 to 5 years	14	-	14	632	8	624
	2,626	130	2,496	3,874	247	3,627

20. Deferred tax assets and liabilities

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

In thousands of BGN	**Assets 2014**	**Liabilities 2014**	**Net 2014**	**Assets 2013**	**Liabilities 2013**	**Net 2013**
Property, plant and equipment	-	(944)	(944)	-	(594)	(594)
Inventories	144	-	144	117	-	117
Trade receivables	5,233	-	5,233	5,467	-	5,467
Provisions	941	-	941	489	-	489
Accrual for unused paid leave and bonus	257	-	257	261	-	261
Payables as per defined benefit plan	121	-	121	123	-	123
Financing from EBRD	26	-	26	25	-	25
Trade payables	67	-	67	67	-	67
Deferred tax assets/ (liabilities)	6,789	(944)	5,845	6,549	(594)	5,955

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 2014 is calculated by using the tax rate applicable to the Group which is the effective income tax rate for 2015 - 10%.

20. Deferred tax assets and liabilities (continued)

Changes in temporary differences during the year

In thousands of BGN	Balance as at 1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2014
Property, plant and equipment	(915)	321	-	(594)	(350)	-	(944)
Inventories	131	(14)	-	117	27	-	144
Trade receivables	4,796	671	-	5,467	(234)	-	5,233
Provisions	606	(117)	-	489	452	-	941
Accrual for unused annual paid leave	241	20	-	261	(4)	-	257
Non-current employee benefit compensation	108	15	-	123	(2)	-	121
Hedging instruments	477	-	(477)	-	-	-	-
Financing from EBRD	25	-	-	25	1	-	26
Trade payables	67	-	-	67	-	-	67
Deferred tax assets/ (liabilities)	5,536	896	(477)	5,955	(110)	-	5,845

21. Trade and other payables

In thousands of BGN	*Note*	2014	2013
Trade payables		10,954	18,546
Guarantees		1,967	1,916
Payables to employees		3,765	3,540
Insurance		1,130	1,147
Polution		3,108	3,107
ISPA		3,735	3,597
Total trade payables	*24*	24,659	31,853
Social security payables		562	510
Trade payables as per Contract with Municipality of Sofia		8,247	7,943
Payables for water usage tax		4,174	4,579
Other payables and accruals		3,667	625
		16,650	13,657
Total trade and other payables		41,309	45,510
Non-current		8,247	7,895
Current		33,062	37,615

22. Provisions

In thousands of BGN	2014	2013
Provision for court liabilities	5,951	1,480
	5,951	1,480

Provision for court liabilities

The provision is based on professional estimates made by the lawyers of the Group on the expected cash outflow in view of the most probable court cases outcomes and based on the related historical data.

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 separate group are the provisions in relation to the imposing of administrative sanctions, mostly due to findings for possible abuse of a dominant position. The significant increase in the closing balance during 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 initated 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 revenue from the previous financial year 2013, 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:

In thousands of BGN	Balance at 1 January 2014	Provisions accrued during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2014
Provision for court liabilities	1,480	5,283	(115)	(697)	-	5,951
	1,480	5,283	(115)	(697)	-	5,951

23. Tax liabilities

In thousands of BGN	**2014**	**2013**
Other tax liabilities	278	249
VAT payables	404	229
	682	478

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 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 (continued)

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

In thousands of BGN	**Note**	**Carrying amount 2014**	**Carrying amount 2013**
Trade and other receivables	*16*	30,489	31,041
Cash and cash equivalents	*17*	12,606	11,107
		43,095	42,148

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 nonpayment 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 2014 the active clients of the Group are 611,835 (2013 – 592,909). 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, 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:

In thousands of BGN	**Cost 31 December 2014**	**Impair-ment 2014**	**Carrying amount 31 December 2014**	**Cost 31 December 2013**	**Impair-ment 2013**	**Carrying amount 31 December 2013**
State budget organizations	1,432	(194)	1,238	1,294	(120)	1,174
Commercial customers	10,059	(5,230)	4,829	9,853	(5,038)	4,815
Domestic population	79,330	(56,153)	23,177	73,164	(49,512)	23,652
Other customers	1,245	-	1,245	1,400	-	1,400
	92,066	(61,577)	30,489	85,711	(54,670)	31,041

24. Financial instruments (continued)

Exposure to credit risk (continued)

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

In thousands of BGN	2014 Cost	2014 Impairment	2013 Cost	2013 Impairment
Not past due	18,488	(82)	18,951	(114)
Past due 30 days	3,400	(260)	3,187	(278)
Past due from 31-120 days	6,246	(1,030)	6,586	(1,073)
Past due from 121-210 days	5,423	(2,192)	5,449	(2,223)
Past due from 211-270 days	2,836	(2,420)	3,217	(2,735)
Past due from 271-360 days	4,175	(4,095)	4,260	(4,185)
Past due more than 1 year	51,498	(51,498)	44,061	(44,062)
	92,066	(61,577)	85,711	(54,670)

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:

In thousands of BGN	Note	2014	2013
Balance in the beginning of the period		(54,670)	(47,958)
Accruals during the period	10	(7,014)	(8,876)
Reintegrated impairment	10	56	173
Written-off		51	1,991
Balance in the end of the period		(61,577)	(54,670)

The quality of the trade and other receivables is assessed based on credit policy prepared by the Risk Management Committee and applied in the Group. The Group's management monitors the customers' credit risk by grouping trade and other receivables by characteristics as in 2014 it continues carrying 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 introduces also impairment of undue trade receivables for certain groups of customers.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations relating to financial liabilities, ment to be settled with 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's 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 (continnued)

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 2014 the Group does not maintain overdrafts.

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

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
Non-derivative financial liabilities						
Loan „A" (1.35% + 6 month EURIBOR)	53,303	(57,252)	(9,889)	(9,753)	(28,409)	(9,201)
Loan „B" (5.95% + 6 month EURIBOR)	71,229	(74,381)	(74,381)	-	-	-
Liabilities to related parties – non-consolodated	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)

The gross amounts in the preceding table are the contractual undiscounted cash flows on 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 past 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. Future cash flows on derivative instruments may differ from the amounts in the table above since the interest rates vary. In addition to 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 2013

In thousands of BGN	**Carrying Amount**	**Contracted cash flows**	**Up to 1 year**	**Between 1 - 2 years**	**Between 2 – 5 years**	**More than 5 years**
Non-derivative financial liabilities						
Loan „A" (1.75% + 6 month EURIBOR)	62,064	(67,662)	(10,124)	(9,975)	(28,996)	(18,567)
Loan „B" (5.95% + 6 month EURIBOR)	71,028	(76,701)	(39,469)	(37,232)	-	-
Payables to related parties	4,543	(4,543)	(4,543)	-	-	-
Finance lease payables	3,627	(3,891)	(1,331)	(965)	(1,595)	-
Trade and other payables	31,853	(31,853)	(31,853)	-	-	-
	173,115	(184,650)	(87,320)	(48,172)	(30,591)	(18,567)

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 manage and 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 (CHF). 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 all transactions made in currency other than the local are made in EUR and therefore the Group's exposure to currency risk is minimal.

- ***Exposure to currency risk***

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

	31 December 2014				31 December 2013		
In thousands of	EUR	GBP	USD	CZK	EUR	GBP	USD
Trade payables	(2,097)	(1)	(326)	(37)	(2,066)	(503)	(326)
Interest-bearing loans and borrowings	(63,673)	-	-		(68,049)	-	-
Gross Balance Exposure	(65,770)	(1)	(326)	(37)	(70,115)	(503)	(326)

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2014	**2013**	**2014**	**2013**
USD 1	1.4744	1.4736	1.6084	1.4190
GBP 1	2.4272	2.3032	2.5001	2.3384

24. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

- ***Sensitivity analysis***

A change of the interest rates by 100 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 2013 is made on the same basis.

Effects in thousands of BGN	**Statement of comprehensive income**	**Statement of comprehensive income**
	31 декември 2014	**31 декември 2013**
USD	(52)	(46)
GBP	-	(118)

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 interest bearing financial instruments is:

In thousands of BGN	**2014**	**2013**
Fixed rate instruments		
Financial assets	12,548	11,034
Financial liabilities	-	-
	12,548	11,034
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(127,028)	(136,719)
	(127,028)	(136,719)

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. The Group was a party to financial instruments contracts (Interest swaps) as hedge instruments according to the fair value hedging model in 2013.

A change of the interest rates by 100 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 2013 is made on the same basis.

In thousands of BGN	**Profit or loss**		**Equity**	
	100 basis points increase	**100 basis points decrease**	**100 basis points increase**	**100 basis points decrease**
31 December 2014				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(1,270)	1,270	-	-
Cash flow sensitivity (net)	(1,270)	1,270	-	-
31 December 2013				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(1,367)	1,367	-	-
Cash flow sensitivity (net)	(1,367)	1,367	-	-

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.

The purpose of the Board of Directors is to maintain a balance between the higher return which may result from higher indebtedness levels and the benefits and security of a strong capital position.

There were no changes in the Group's approach to capital management during the year. The Group was not the subject to equity requirements enforced by external authorities.

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

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.

31 December 2014		Carrying amount								Fair value			
In thousands of BGN	*Note*	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	*16*	-	-	-	-	30,489	-	-	30,489	-	-	-	-
Cash and cash equivalents	*17*	-	-	-	-	12,606	-	-	12,606	-	-	-	-
		-	-	-	-	43,095	-	-	43,095				
Financial liabilities, not measured at fair value													
Loans from related parties – Loan "B"	*19*	-	-	-	-	-	-	(71,229)	(71,229)	-	-	(72,613)	(72,613)
Loan „A"	*19*	-	-	-	-	-	-	(53,303)	(53,303)	-	-	(51,700)	(51,700)
Trade and other payables	*21*	-	-	-	-	-	-	(24,659)	(24,659)	-	-	-	-
Payables to related parties	*29*	-	-	-	-	-	-	(6,101)	(6,101)	-	-	-	-
Payables on financial lease	*19*	-	-	-	-	-	-	(2,496)	(2,496)	-	-	(2,496)	(2,496)
		-	-	-	-	-	-	(157,788)	(157,788)				

24. Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2013		Carrying amount								Fair value			
In thousands of BGN	*Note*	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	*16*	-	-	-	-	31,041	-	-	31,041	-	-	-	-
Cash and cash equivalents	*17*	-	-	-	-	11,107	-	-	11,107	-	-	-	-
		-	-	-	-	42,148	-	-	42,148				
Financial liabilities, not measured at fair value													
Loans from related parties – Loan "B"	*19*	-	-	-	-	-	-	(71,028)	(71,028)	-	-	(72,950)	(72,950)
Loan „A"	*19*	-	-	-	-	-	-	(62,064)	(62,064)	-	-	(58,662)	(58,662)
Trade and other payables	*21*	-	-	-	-	-	-	(31,853)	(31,853)	-	-	-	-
Payables to related parties	*29*	-	-	-	-	-	-	(4,543)	(4,543)	-	-	-	-
Payables on financial lease	*19*	-	-	-	-	-	-	(3,627)	(3,627)	-	-	(3,627)	(3,627)
		-	-	-	-	-	-	(173,115)	(173,115)				

24. Financial instruments (continued)

Measurement of fair value

(i) Valuation technique and significant unobservable inputs

Below are the valuation technique 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, management has used a 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 loans of similar size and maturity granted in Bulgaria, according to interest rate statistics of the Central Bank for 2014.

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

25. Operating leases

Leases as lessee

Non-cancellable rental payments under operating leases are payable as follows:

In thousands of BGN	**2014**	**2013**
Less than 1 year	330	943
Between 1 and 5 years	166	379
More than 5 years	-	-
	496	1,322

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.

In thousands of BGN	*Note*	2014	2013
Present value of the liability on 1 January		1,285	1,077
Interest expense	*11*	26	44
Current labour cost	9	210	192
Actuarial loss		77	81
Paid compensations to retired employees		(237)	(108)
Present value of the liability on 31 December		1,361	1,286

Liability recognized in the Statement of financial position as at 31 December, including:	1,361	1,286
Short – term liabilities for retirement compensation	*570*	*549*
Long – term liabilities for retirement compensation	*791*	*737*

Expenses recognized in the income statement

In thousands of BGN	2014	2013
Current labor cost	210	192
Interest expense	26	44

Actuarial assumptions

	2014	2013
Discount rate at 31 December	2%	3,64%
Salary increase (annual for 10 years)	2%	2,10%
Employee turnover	9,3%	10%

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% 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. Defined benefit plan liabilities (continued)

Actuarial assumptions (continued)

In thousands of BGN	**25 basis points increase of salaries growth**	**25 basis points decrease of salaries growth**
Effect on the liability for retirement compensation	9	(9)

In thousands of BGN	**25 basis points increase of interest growth**	**25 basis points decrease of interest growth**
Effect on the liability for retirement compensation	9	(9)

In thousands of BGN	**1000 basis points increase of employee turnover**	**1000 basis points decrease of employee turnover**
Effect on the liability for retirement compensation	(32)	32

In thousands of BGN	**3000 basis points increase of mortality rate**	**3000 basis points decrease of mortality rate**
Effect on the liability for retirement compensation	(13)	13

27. Contingencies

(a) Bank guarantees and promissory notes

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 2015.

Bank guarantee GI11.231.0090 for good performance, amounting to BGN 400,000 issued by Citibank N.A. – Sofia Branch in relation to Contract No. РД-568-68/10.08.2011 with the Municipality of Sofia for repairment of municipal property, where Sofiyska Voda AD performs construction, with validity until 31 December 2015.

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 9,983 and validity until 31 January 2016.

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 992 and validity until 31 January 2016.

(b) Infrastructure

In accordance with a contract dated 08 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 will finance 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 Minicipality 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." According to Art. 2 of the Annex the consideration amounts for 2014 are the following:

In thousands of BGN	**2014**
Water Supply	36
Sewerage	5
Waste Water Treatment	7
Total:	48

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 a liability to Municipality of Sofia has been presented.

28. Obligations for acquisition of property, plant and equipment

As per the Concession Agreement with Sofia Municipality on 23 December 1999, the Group must implement a minimum capital investment during the first 15 years, as of the date of this contract – amounting to not less than 153 million USD, based on the investment plan for the Concession period. Non-fulfillment of 75% (in value) of the capital investments, based on the investment plan for a period of two consecutive years may result in termination of the Concession Agreement by the Grantor.

This article from the contract has been amended with a Second additional annex to the Concession Agreement, signed on 19 January 2009. According to this additional annex to the Concession Agreement, a precondition for termination is a 75% non-fulfillment of the projected and approved investments by the State Energy and Water Regulatory Commission, in two consecutive years, during the same regulatory period and provided that the prices to allow for those investments have been approved by the Regulator.

Complying with Art. 14, para 3 and 4 of the transitional and final provisions of the Water Act, as amended and supplemented in the State Gazette, issue 103 from 29.11.2013, on 4 March 2014 Sofiyska Voda AD submitted an extended Business Plan 2009-2015 and an application for approval of prices for 2014, which were subsequently revised and on 31 July 2014 the Group submitted a revised Business Plan 2009-2015 following the written instructions of the Energy and Water Regulatory Commission for its amendment. The investments planned for the period 2014-2015 for regulatory purposes exceed BGN 87,6 million and will be entirely financed with own resources.

As at the reporting date the Energy and Water Regulatory Commission has not approved by decision the extended Business Plan for 2014 and 2015 filed by the Group.

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 relief each other from pretended payment of interest on amounts claimed, as Sofiyska voda accepted the obligation for investments in the period 2009-2023 in addition to already existing 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 basically fulfilled, as the minimal unfulfilled amount of approximately BGN 48 thousand has already been invested until the end of February 2014. The obligation for the following five-year period 2014-2018 amounts to BGN 5 mil. The investments for 2014 and 2015 are not included in Business Plan 2009-2015 and the fulfillment of the obligation is planned for the three years 2016-2018.

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 are accounted as financing, which is recognized proportionately to the depreciation expense of the constructed assets.

29. Related parties

The Group has a related party relationship with its parent group – "Veolia Voda (Sofia) B.V.", which holds 77.10% of the Company's shares, as well as with the other companies in the Group. The ultimate parent company is Veolia Voda S.A.

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 (2013: 100%).

The following transactions have taken place during 2014.

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

29. Related parties (continued)

The following transactions have taken place during 2013.

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2013** **Receivables**	**Payables**
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided	-	71,028 Liability for loan received at amortized cost
		Accrued interest 4,835	-	
		Other	-	44 Other trade payables
Veolia Voda S.A.	Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK				3,003
Vodosnabdyavane i Kanalizatsia EAD	22.90% of the shares of Sofiyska Voda AD	Rent 9	-	-
		Total:	-	75,571

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:

In thousands of BGN	**2014**	**2013**
Remuneration of the Board of Directors and Executive director	103	194
Bonuses and provision for unused paid leave	-	12
Outstanding balance as at 31 December	6	16

30. Concession contract

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.

There is no contractual payment for the 25-year period of the concession.

As per Annex 5 to the 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 State Energy and Water Regulatory Commission (SEWRC). More precisely, what is under regulation are the prices of the services and their quality, assessed by the so-called "key-point indicators" (KPI). In order to reach the level of services, 5-year business plans are prepared (after the 3-year one for the period 2006-2008), and they bind the price of the services, the investment program and the KPIs by issued by SEWRC Ordinances and Instructions.

In relation to that the process of renegotiation of the Concession Contract aiming to harmonize it with the new legislation has tarted. The negotiations ended in January 2009 and in compliance with the amendments in the Concession Contract, the levels of investments are set in the business plans, which are preliminarily coordinated with the Municipality of Sofia.

Business plan 2006-2008 was approved in 2007. In the end of October 2008 Business plan 2009-2013 was approved, which envisages achieving of the compulsory levels of services for the period and an investment program of BGN 240 million. 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 SEWRC and accompanied by a proposal to Municipality of Sofia (MoS) would be legal grounds for the initiation of a concession termination procedure by MoS.

For the period since the beginning of the Concession until the end of 2014 the amount of investments made is BGN 495,267 thousand. For 2014 the implementation of the business plan is amounting to BGN 35,930 thousand (2013: 50,773 thousand), of which BGN 30,888 thousand (2013: BGN 44,672 thousand) represent investments in improvements on old public assets or acquiring new ones, which leads to recognizing revenue from construction (see Note 7).

Among 54 and 48 months before the expected expiration date of the Concession Contract Sofiyska Voda AD and the Municipality of Sofia are due to commit 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^{th} Contractual year until the end of the period Sofiyska Voda AD is due to transfer 1% of its annual distributable profit to a special account. The amount accumulated in that account is transferred to the Municipality of Sofia on the date of the expiration of the Concession Contract in return for a "certificate of transfer back" in form additionally agreed between the parties. The accumulated in the special account amount covers completely Sofiyska Voda AD's liabilities.

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, an intangible asset called concession right has been recognized, and as at 31 December 2014 its book value amounts to BGN 253,547 thousand (2013: BGN 243,710 thousand).

31. Subsequent events

- The Group has initiated negotiations on rescheduling of Loan "B" (5.95% plus 6 month EURIBOR) payable on 05.10.2015
- On 10.06.2015 the Supreme Court of Appeal will conduct a hearing on the penalty imposed by the Commission for Protection of Competition for initiated administrative procedure K3K-1534/2013 for inspection of the assertion for abuse of dominance in relation to accrual of interest for delayed payments on bills for estimated consumption. An economic examination was assigned at the Group's request.
- The Business plan of the Group for the extended regulatory period (2014-2015) and the application for the water and sewerage services price approval for 2014 have not been approved as at the reporting date.

CONSOLIDATED ANNUAL REPORT

SOFIYSKA VODA JSC AND WATER INDUSTRY SUPPORT AND EDUCATION LTD. (THE GROUP)

2014

FINANCIAL REVIEW

In 2014, there was again stable financial environment in Group as a result of the strict financial discipline under the conditions of continuing economic crisis and stagnation. All sectors of the Bulgarian economy were affected by it directly or indirectly. The profit from the operating activities for the year was BGN 25.0 million, which is less than the level of BGN 36.7 million in 2013.

In 2014, the Group'srevenue from main charges amounts to BGN 122 million, which is 2% below the revenue from main charges in the previous year – BGN 125 million. The main reason for this is the world trend, observed in Bulgaria as well, of decrease in the customers' use of the service provided by the Group. The Group'stotal revenue for 2014 was BGN 154.6 million. The revenue from construction in 2014 was BGN 30.9 million (BGN 44.7 million in 2013).

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 2014.

The Group's operating costs in 2014 amounted to BGN 129.5 million (2013 – BGN 134.7 million). This amount includes BGN 30.9 million construction costs, which result from the application of IFRIC 12 and these costs offset the construction revenue above.

In 2014, the other operating costs specified in detail in Note 10 of the consolidated financial statements increased as a result of the allocated legal provision for the Commission for Protection of Competition at the amount of BGN 4.8 million.

The 2014, depreciation and amortization costs were BGN 27.7 million. The value is higher than the one reported in 2013 (BGN 24 million), 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 financial revenue for 2014 is BGN 11 thousand lower than the one reported in 2013, which is mainly due to the effect of the lower interests received in the bank accounts of the Group.

As result of the above factors, the profit after tax for 2014 was BGN 16.4 million and is slightly lower than in 2013.

FINANCIAL INSTRUMENTS

The Group'spolicy 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 2014.

EVENTS FOLLOWING THE BALANCE SHEET DATE

All significant events after the Balance Sheet date and their effects on the Group'sactivity are listed in Note 31 to the consolidated financial statements for 2014.

CUSTOMER SERVICE

The application of best practices and new technological solutions in SV impacts customer satisfaction with the entire activity of the Group.

Customer relations

The 24/7 Call Centre of SV has an average of 16 lines, on which operators receive about 1 250 calls per day. In 2014, the incoming calls were 0.35% less than the ones in 2013 and 97.79% (446 098) incoming calls were answered.
In 2014, the missed calls reached the level of 2.21% as compared to 2013 when they were 1.91% of the total incoming calls.
The percentage of customers serviced by operators in 2014 was 79.15% of the incoming calls, which is 1.37% higher than in 2013.

Customer Service Centers

There are 8 Customer Service Centers (CSC) of SV located in various parts of the capital city. In 2014, a total of 187 532 customers visited the CSC, which is 1.48% higher than the number of visits in 2013. 138 229 visits were made for payment of water bills, which is a decrease by 4.66% as compared to 2013. The number of cash payments in the CSCs continues to decrease due to the increased number of payment methods and locations. Meanwhile, the number of agreements for deferred payment of debts concluded in the CSC is 3 662, which is 11.31% higher than the number in 2013.
In 2014, the filed requests for change of customer accounts were 32 439, which is a decrease by 11.82% as compared to 2013. Despite the complexity of the customer cases, there is a trend of decrease in the number of filed complaints, which was 2 633 in the reporting period, which is a decrease by 25.89% as compared to 2013 (3 553). The number of filed complaints is an indicator of the quality of customer service, which has improved.

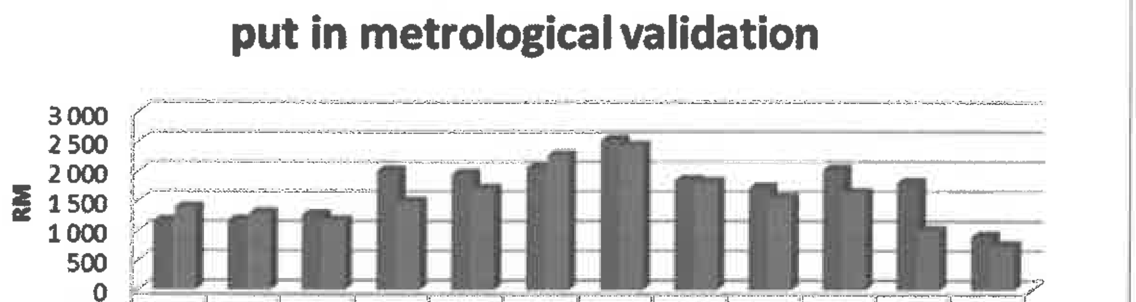
Internet services

In 2014, there were 1 844 754 visits to the Group'swebpage. 105 471 water meter self-readings were submitted (data from the Communications Dept.) by our customers, which is an increase by 18.29% as compared to 2013.
The enquiries through the website were 7 281, and 6 746 of them required an answer. All answers were sent within 24 hours from receipt of the enquiry.
In 2014, 443 customers cancelled their paper invoices. At the end of 2014, a total of 42 892 customers receive electronic invoices.

Water meter services, billing and debt collection

Water meter replacement

The accurate measurement of the water supplied to customers is of key importance both for ensuring the Group'srevenue and for the good service in general. In 2014, 18 464 revenue meters were made metrologically valid.



	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec
2013	1 156	1 167	1 264	2 009	1 948	2 057	2 523	1 852	1 720	2 024	1 809	904
2014	1 387	1 294	1 164	1 480	1 699	2 274	2 423	1 817	1 543	1 635	1 003	745

Chart 2 – water meters put in metrological validation in 2014 vs 2013

Throughout 2014, the trend for replacement of the meters with larger diameter (flange connection) continued in view of the expiry of their metrological validity.

Diameter	2013	2014	2014 vs 2013
15	503	612	22%
20	14 149	12 510	-12%
25	1 467	1 200	-18%
30	908	622	-32%
40	1 395	1 368	-2%
50	1 732	1 540	-12%
65	58	158	172%
80	122	238	95%
100	66	175	162%
125	8	3	-63%
≥150	25	38	52%
Total	**20 433**	**18 464**	**-10%**

Table 2 – water meters by diameter

In 2014, 610 flange water meters were made metrologically valid, which is 190% higher than in 2013 (279 flange water meters). This determines the difference in the final number of water meters since the installation of water meters with flanged connection is much more resource-intensive and time-consuming than the installation of water meters with threaded connection.

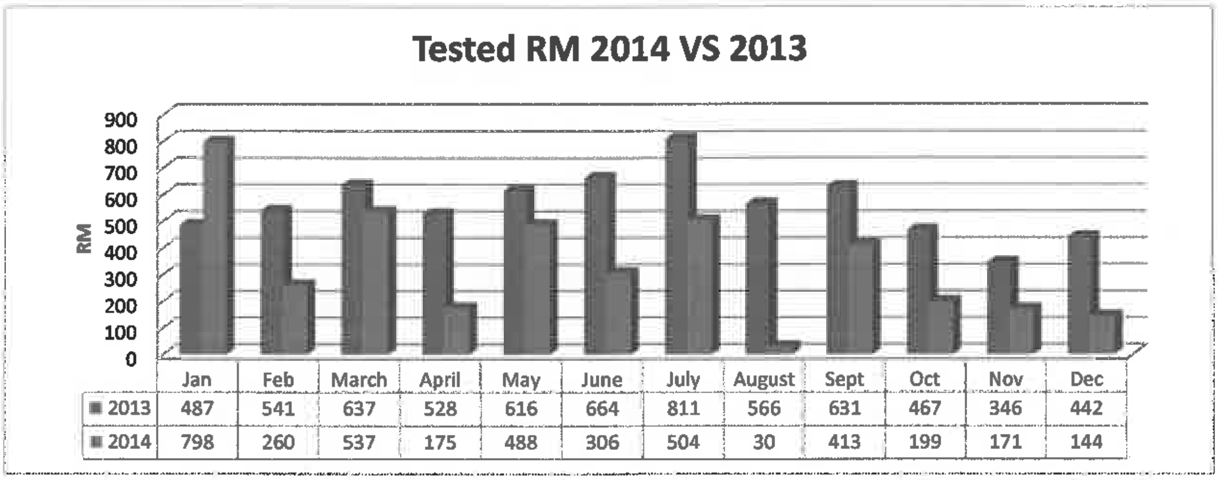


Chart 3 – tested water meters 2014 vs 2013

The number of water meters tested in September and October 2014 is lower than in the same months of 2013 due to the decrease in the number of replaced water meters of smaller diameters.

In 2014, the trend for direct replacement of water meters of smaller diameter continued, which saved costs for testing them and repeated visits to certain addresses.

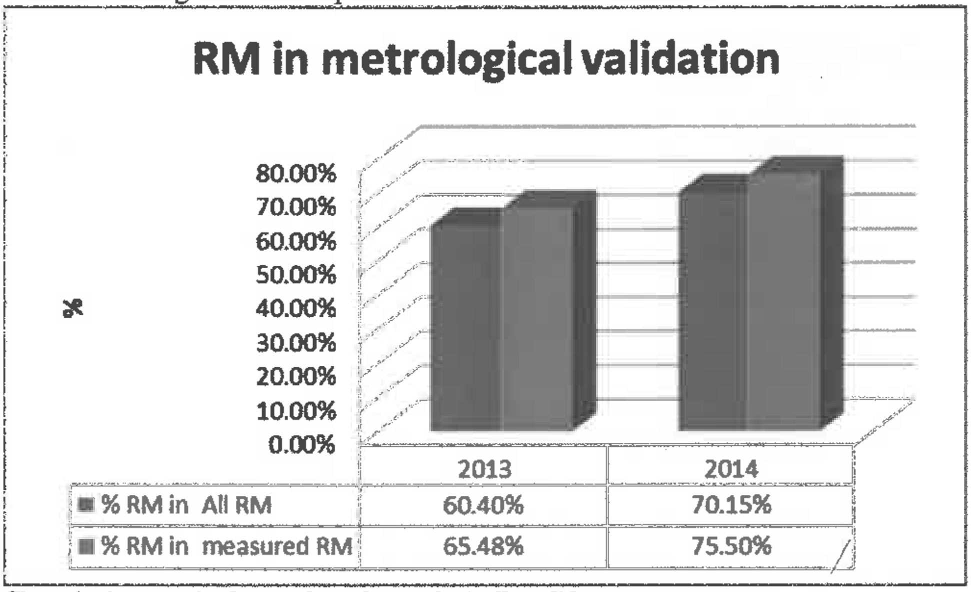


Chart 4 – increase in the number of metrologically valid revenue meters

	2013		2014	
	m3	%	m3	%
m3 after replacement	110 321	9.15%	121 540	9.20%
m3 common needs	10 618	8%	60 651	9.44%

Table 3 – effect of replacement/installation of water meters

The effect of measured m^3 as common needs is generated by installed water meters at condominium buildings whose consumption until 2014 was not covered by revenue meters.

Water Meter Reading

In 2014, the water meter reading model from previous years was used – reading individual water meters and revenue water meters in blocks of flats on a quarterly basis, and the revenue water meters of the commercial and administrative customers – on a monthly basis. The customers receive

information about the period of the meter readers' visits from notices put in a visible place in the condominiums, the customer service centers, the Group'swebpage and the Call Center in order to provide access for inspection of the water meters.
Mobile electronic devices were commissioned for entering the water meter readings upon the visits to customers under schedules prepared in advance. There is a software application for automatic entering of the registered data in the billing system. Several types of controls were introduced:

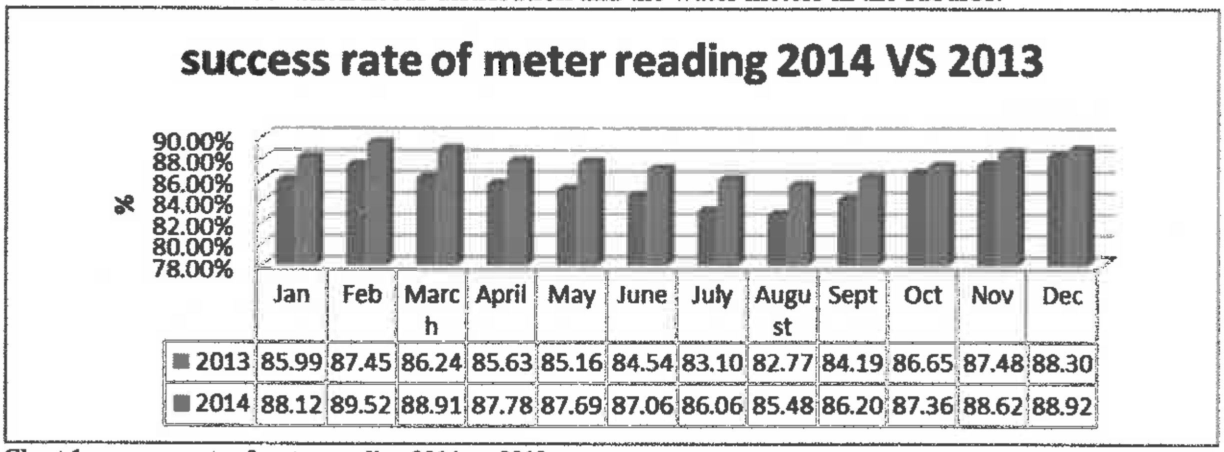
- upon entering the reading schedule;
- upon entering the information (controls for the differences in consumption);
- upon entering the information in the billing system.

Currently, the devices measure mainly the consumption of big customers and key accounts of the Group; the next step is to equip all meter readers with the devices and to make the meter reading process fully automated.

Optimization of the way of informing customers about upcoming actual reading:

- For big customers and key accounts, a daily reading schedule was prepared for the entire 2014;
- For the remaining customers, there is information about the period of the actual readings for the entire 2014, and the precise date and time of the upcoming reading are available a week before the reading;
- in 2014, the invoices of all customers contain information about the next reading period.

The total success rate of meter reading in 2014 was 87.63% or 2.02% higher than in 2013 (85.61%).
In 2014, the increase in the reading success rate resulted from the increased success rate of reading the revenue meters with common needs distribution and the water meters in the suburbs.



	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec
2013	85.99	87.45	86.24	85.63	85.16	84.54	83.10	82.77	84.19	86.65	87.48	88.30
2014	88.12	89.52	88.91	87.78	87.69	87.06	86.06	85.48	86.20	87.36	88.62	88.92

Chart 1 – success rate of meter reading 2014 vs. 2013

success rate (%)	2013	2014	2014 vs 2013
Blocks of flats	94.93%	96.92%	2.05%
Key accounts	96.96%	95.38%	-1.66%
Urban part	85.88%	87.60%	1.96%
Suburban part	70.48%	81.66%	13.69%
Total	**85.61%**	**87.63%**	**2.31%**

Table 1 – success rate of water meter reading by types of customers

The number of addresses submitted by the meter readers with code 35 (incomplete/inaccurate address) in 2014 was 3 283, which is 53% lower than in 2013 (6 188 addresses with code 35).

Billing
In the reporting period, 6 841 760 invoices were issued, which is 2% more than in 2013. The number of invoices issued after actual meter readings was 2 435 899.

Debt collection

The Group keeps endeavoring to increase the rate of collection of outstanding debt by offering to its customers various methods of paying their bills and also flexible agreements for deferred payment of the outstanding debt of customers with temporary liquidity problems. The cases of enforcement actions for debt collection increased several times in the reporting period and the Group continues to use the services of two specialized debt collection companies. Due to the business intelligence software Qlickview implemented in 2013, it became possible to carry out more precise analyses and group the debtors by various criteria such as category of customers, amount of debt, risk factor, age of debt, etc., which allows applying and alternating various approaches, campaigns and channels of debt collection. In 2014, in a difficult social, political and economic environment resulting in a higher number of refused or delayed payment of customer bills, SV increased the efforts of its internal debt collection teams, which also led to an increase in the performance indicators: the number of calls to debtors for phone negotiations was by 14 980 (+5.3%) higher than in 2013 and the number of visits by mobile teams for negotiations was higher by 11 329 (+32.5). The amount of cash collected on an annual basis by mobile teams for negotiations increased by 24% as compared to 2013 as a result also of the mobile POS terminal devices for receiving cashless payments implemented in 2014. The number of sent reminder letters and extrajudicial calls to debtors of SV also considerably increased – by 60 365 more letters (+35%) as compared to 2013, and the number of concluded deferred payment agreements respectively increased by 10% or 382 more signed agreements in 2014.
As a result, the total collection rate (revenue vs. billed volumes) increased and reached 95.55% in 2014.

Non-regulated business

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

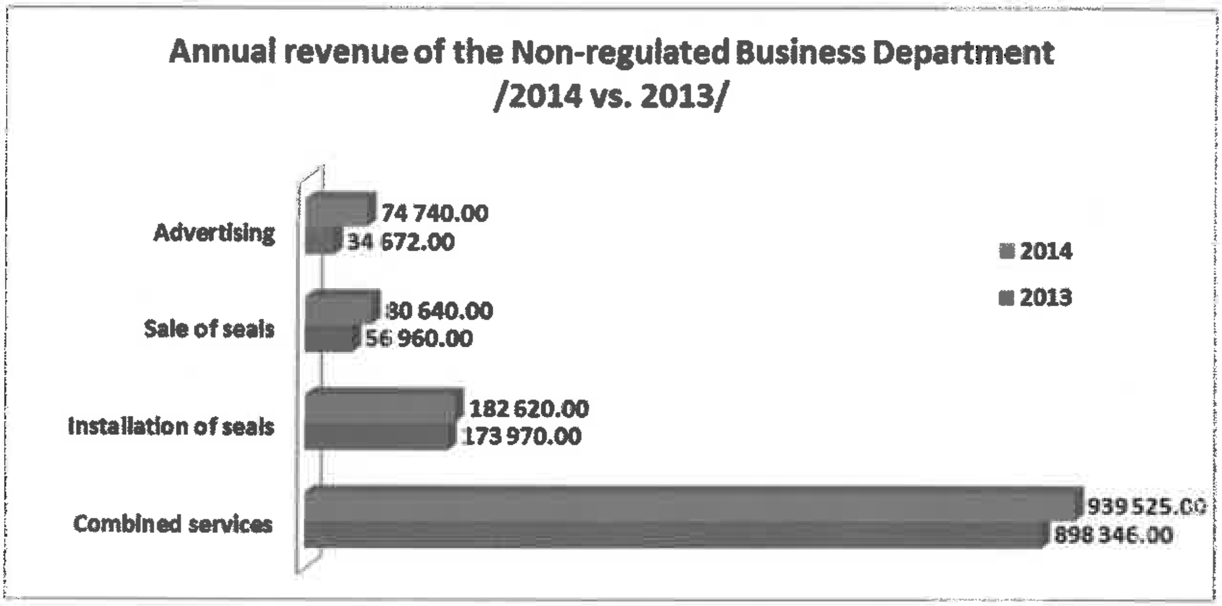
In 2014, the total number of installed individual water meters was 18 593, and the tested water meters – 2 985. The revenue from non-regulated water meter services (individual water meter testing and installation) was BGN 939 525, which was about 5% increase as compared to the previous year.

In 2014 we started offering *Small plumbing services* within the Municipality of Sofia. 602 services were provided and the revenue from them was BGN 11 650.

The revenue from the individual meters sealing service was BGN 182 620, which is 3% higher than in the 2013. In 2014, seals were provided to contractors at the amount of BGN 80 640, which is 41% higher than in 2013.

	2013	2014	2014 vs. 2013 (%)
Number of installed water meters	17 017	18 593	10 %
Number of tested water meters	3 574	2 985	-17 %
Number of sealed water meters	28 995	29 920	3 %
Resale of seals to contractors	17 800	25 200	40 %

The total revenue from advertising activity amounted to BGN 74 740 (as compared to 34 672 in 2013), which is a double increase in the revenue in this category as compared to the same period of 2013.



Due to the proactive campaigns carried out by the Group, the revenue from additional services increased as compared to 2013.

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 2014 were as follows:

Total water volume abstracted from all potable water sources – **171 020 196 m³**

Including: *to the Municipality of Samokov - 6 779 714 m³*
to the Municipality of Sofia - 162 471 428 m³

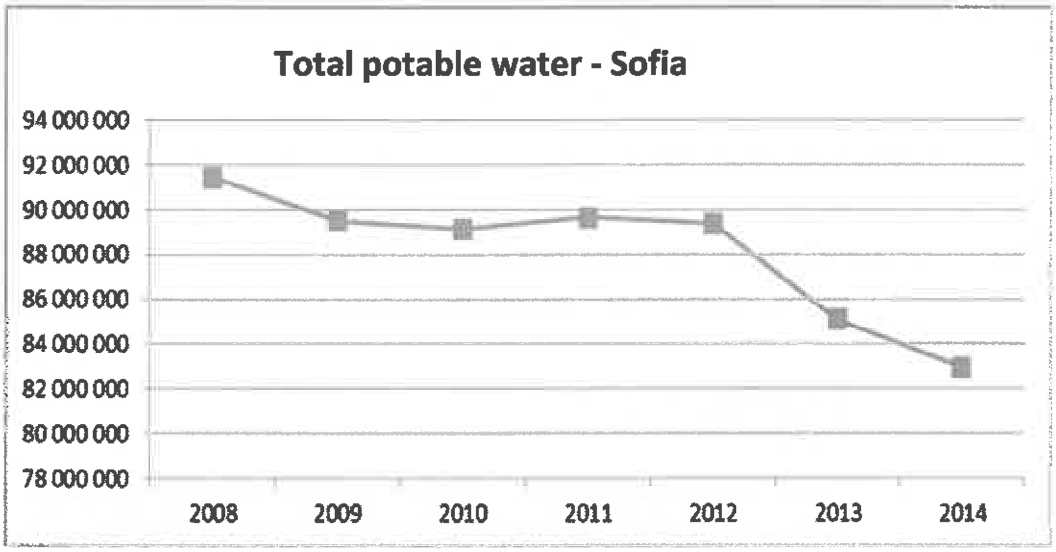
The abstracted volume of industrial water was **7 754 631 m³.**

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 2014 decreased by **16 947 888 m³** as compared to 2013. The water volumes supplied to the Concession Area in 2014 decreased as compared to the ones in 2013 by **16 875 863 m³.**

Consumption trends

The Bulgarian economy has experienced a very hard 5-year period of economic crisis. Each sector of the economy has been directly or indirectly affected. Despite Bulgaria's financial discipline over the last years, its economic condition has become worse. These factors have a strong impact on the use of services provided by the Group to all categories of customers – domestic, budget and commercial customers. The chart below shows the consumed and billed water in the period 2008 – 2014:



The general economic trend impacts the water consumption of all categories of customers. In order to decrease their costs, domestic customers changed their habits through saving water, using appliances with lower water consumption and repairing their internal pipes. The drop in the production and the decreased activity of the commercial customers also led to lower water consumption. Both commercial and budget customers started managing their assets better, including the WSS installations, by repairing and replacing them in order to avoid leaks and waste of water and to lower their bills. More and more companies are buying appliances with lower electricity consumption, thus achieve savings through decrease in the technological losses.

The table below shows the annual billed volumes and the difference in % on an annual basis in the period 2008 – 2014:

Customers	2008	2009	2010	2011	2012	2013	2014
Households	63 868 250	63 609 977	63 930 108	64 098 164	63 641 478	61 888 908	61 024 351
		-0,4%	0,5%	0,3%	-0,7%	-2,8%	-1.4%
Budget customers	6 376 970	5 724 733	5 514 981	5 458 491	5 318 554	4 819 529	4 579 325
		-10%	-4%	-1%	-3%	-9%	-5%
Commercial customers	17 033 746	16 368 459	15 272 826	15 235 106	15 028 607	13 724 296	12 976 180
		-4%	-7%	-0.20%	-1%	-9%	-5%

In 2014, there was a decrease in the billed volumes as compared to 2013 as follows: by 1.4% for households, and by 5% for budget customers and commercial customers.

Consumption of domestic customers – analysis of the current trends

In 2013, the consumption of domestic customers was 77% of the total billed volumes. In 2014, there was no considerable change in the percentages because the consumption of these customers reached 78%, and the one of the commercial customers was 17% of the billed volumes.
Although the annual decrease by -1.4% in 2014 was much lower than the decrease reported for the other two categories of customers, this category represented 78% of the total consumption and the effect on the decrease in the billed volumes was considerable. Out of the total decrease by 1 852 878 m3 in 2014, 864 557 m3 was the decrease for domestic customers (47%).
The table and chart below contain detailed information about the monthly consumption of domestic customers:

Customers	Jan	Feb	Mar	Apr	May	Jun	July	August	Sept	Oct	Nov	Dec	TOTAL
Households 2012	5 361 979	5 430 229	5 268 465	5 161 265	5 307 868	5 373 451	5 363 452	5 400 925	5 346 819	5 318 038	5 332 817	4 976 170	63 641 478
Households 2013	5 237 338	5 392 693	4 977 730	5 041 133	5 282 242	5 276 527	5 167 191	5 034 739	5 120 882	5 154 161	5 167 387	5 036 885	61 888 908
Households 2014	5 222 667	5 399 807	4 980 045	5 126 743	5 274 926	5 122 797	5 110 484	4 924 304	4 930 194	4 933 755	5 019 812	4 978 816	61 024 351
Decrease 2014/2013	-0.28%	0.13%	0.05%	1.70%	-0.14%	-2.91%	-1.10%	-2.19%	-3.72%	-4.28%	-2.86%	-1.15%	-1.40%

The trend of decrease in the consumption of domestic customers is related to the trend in the daily consumption per capita.
The average daily consumption decreased by -2% in 2012 as compared to 2011, by -3% in 2013 as compared to 2012 and by 1.15% in 2014. This trend is also related to the dynamics of customers in the groups with higher consumption to the ones with lower consumption. The Group monitors on a monthly basis the number of domestic customers whose consumption is measured by the following monthly volumes: 0-5 m3, 5-15 m3, 15-25 m3, 25-30 m3, above 30 m3/month.
In 2014, 39% of the customers with measured consumption used between 0-5 m3/month, 45% - between 5-15 m3/month and 10% - between 15-25 m3/month.

Reduction of unaccounted-for water

Reduction of unaccounted-for water (UFW) continues to be one of the main priorities of SV as it contributes to the preservation of water resources.
In 2014, there was a reduction of Total Losses in WS Sofia by **14.3 million m^3** as compared to 2013. The reduction of the percentage of losses was from **51.60%** to **48.08%**, which is the largest percentage of difference achieved so far although the reported volumes for technological needs (part of the legal consumption) decreased by **0.55 million m^3**. In the reporting period, billed potable water volumes decreased by **1.85 million m^3**.
In 2014, the Group managed to improve the results of 2013 and has the best success so far in terms of UFW reduction and the relevant activities. The main goal of Sofiyska Voda's management is to reduce the actual water losses. It should be noted that the reduction of total losses does not impact the billed water volumes but only concerns the decrease in the water volume at the inlet of the water system, i.e. the abstracted water. There continues to be a decreasing trend in the billed volumes, which is due to the specifics of the formula for calculation of Q9 non-revenue water (unaccounted-for water, including supplied non-billed water, commercial water losses and actual water losses), neutralizes the effect of the decreased water volumes at the inlet of the system.

- **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 because the easy and relatively cheap activities have already been performed and the results of them are not in line with the standards of SV. All subsequent activities for improving the metering areas are accounted as improvements to the asset.

In 2014, the program for continuous monitoring of DMZ/DMA continued. The water network was split into 28 zones for management of the consumption (DMZ) and one zone of impounding structures. DMZ are split into smaller district metering areas (DMA) – a total of **205** DMA with customers, 19 smaller areas (sub-DMA) which are metered, 85 DMA with the strategic water mains and 50 DMA with reservoirs. All zones – DMA and the pressure management areas – are established with 862 boundary stop valves. The total number of metering devices installed in the network is **542,** connected to the Telemetry System and/or SCADA (monitoring, management, control and collection of data). In 2014, a total of 8 tests were made with interrupting the water supply for solving specific cases. 3 new DMA were created, and for 29 DMA changes were made in order to achieve improvements. 13 new metering devices were installed for new zones and optimization of the existing ones.

- **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 different 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 and 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 through signing a contract with a contractor. The creation of hydraulic models by DMZ was foreseen (29 nos.) + a model of the impounding structures. The work under the project continues as 57% of the envisaged DMZ hydraulic models were reported at the end of 2014.
At this type 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.

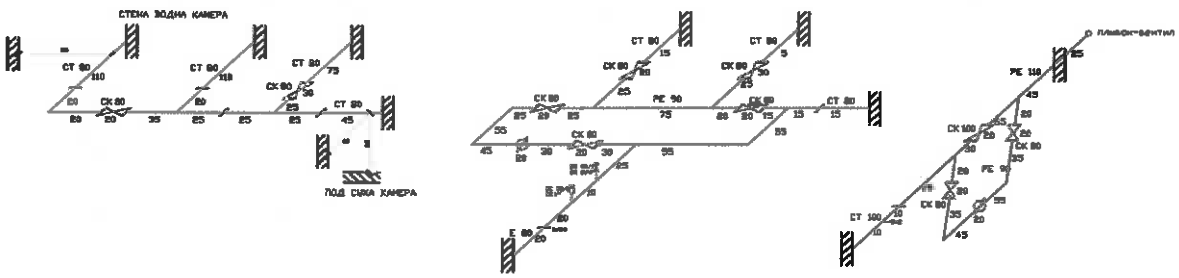
- **Survey and digitalization of data on reservoirs**

In view of the collection of information for preparing the hydraulic models, an initiative was conducted for surveying and on-site measurement of all the pipe fittings in the dry chambers of the reservoirs. The terrain elevations of the reservoirs, of pumping stations and some pressure reducing shafts were also geodetically surveyed.

Considering the collected information and the data from the project for survey of the geometry of the wet chambers, the reservoirs were drawn in plan with their exact location by coordinates as well as axonometric drawings of each of the three systems.

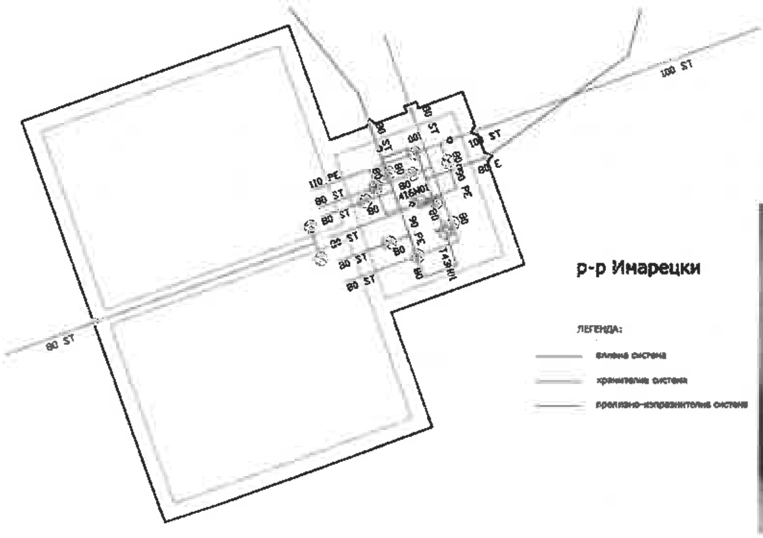
AXONOMETRIC DRAWING OF THE PIPE SYSTEM

АКСОНОМЕТРИЯ ТРЪБНА СИСТЕМА



Thus all the data on location, parameters of the dry and wet chambers, location of inflow, feeding, overflow and outflow systems together with the available devices and fittings are included in a common drawing corresponding to the actual sizes and GIS coordinates.

Imaretski reservoir



- **Pressure management**

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 under the statutory documents, as under the urban development 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. By the end of 2014, 187 PMA were created and function through PRV, and this is about 85% of the territories where pressure management is possible. 16 new PMA were established in 2014 alone. **19** new PRV were installed – for the new areas, existing ones were replaced in order to achieve more efficient work.

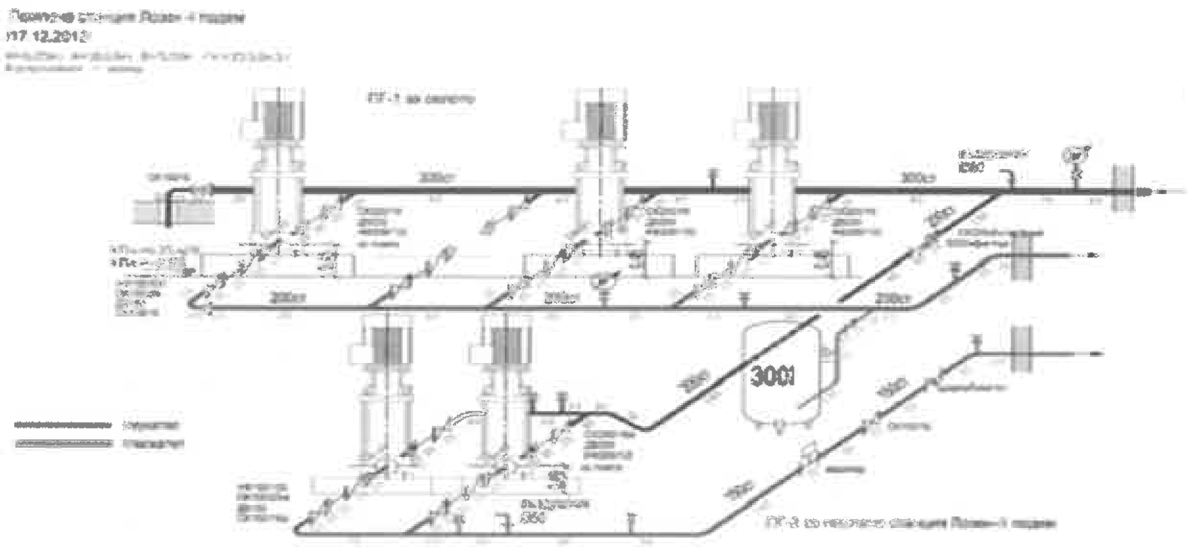
- **Leak localization**

Leaks are localized by the field teams of SV, which survey the network with special equipment. For this purpose, they use correlators, microphones, tracing equipment, metal detectors, etc. Since 2012 the teams have used correlating loggers, the newest products for hidden leak detection, and in 2014 additional sets were purchased for the teams. Hidden leaks are detecting through listening (for the so-called noise in the network), survey of the shafts along the sewerage network for strong flow rate at dry weather, etc. The detected hidden leaks are assigned for repair and removal.

In 2014, the leak localization activities continued and 4828 reactive activities were performed (including hidden leaks detection, tracing the water mains, service connections, stop valves, etc.). In 2014, under the proactive leak detection program, 51 DMA were surveyed and 405 hidden leaks were localized.

- **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.

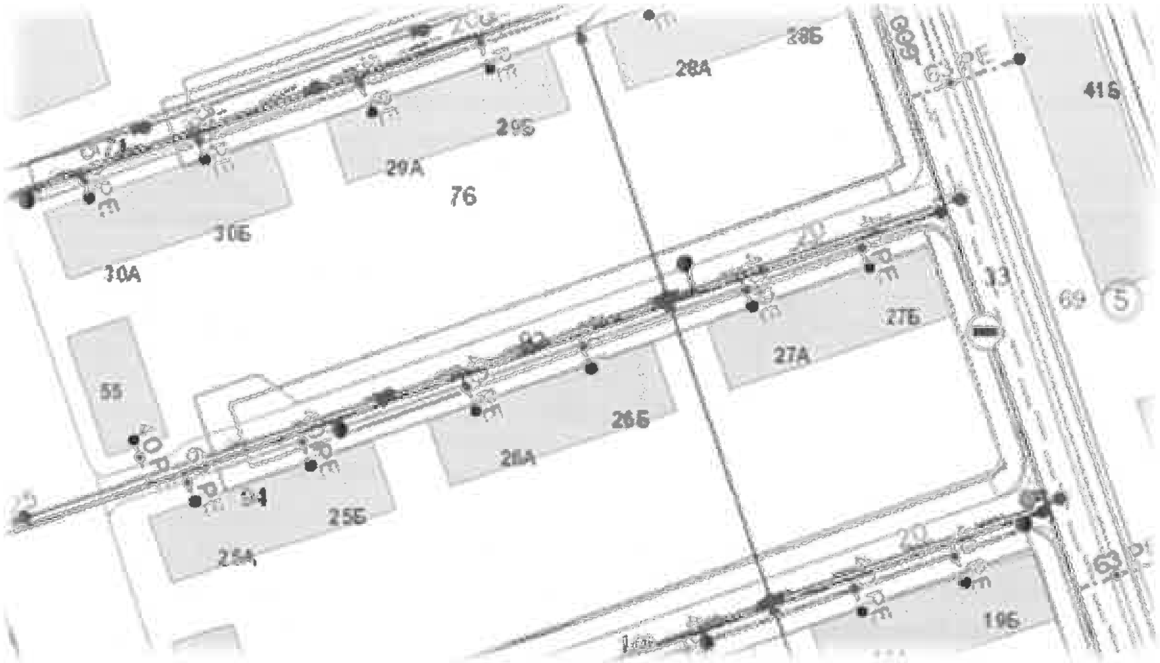


- **Reconstruction of reservoirs, pumping stations, other sites**

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.



At the start of 2014, GIS provided to the Ministry of Regional Development and Public Works a full list of assets as per the requirements of the last amendments to the Water Act. In view of this, changes were made in the structure of physical assets introduced in the Group. The changed structure was used for the first time in 2014 for preparing an Asset Register and Assessment of the Condition of the Assets – annual reports to the Municipality of Sofia, which in 2014 were drawn up early upon request of the Municipality of Sofia

GIS was used as a basis for two customer-oriented projects – the Information Center accessible through the website of Sofiyska Voda and allowing the customers to check for current and planned water supply interruptions and emergency repairs and to submit signals for operational problems. In the period February (when it was started) – December 2014, the website had 153 635 unique pageviews. The second project implemented together with GIS in 2014 is the new service of SMS notification to customers who have subscribed for receiving messages about water supply disruptions. Currently, their number is 3 722 people.

Two times in the year, the database on revenue meters was completely synchronized with the information about them in GIS, which has considerably improved the quality of analyses concerning customers and consumption in GIS.

Quality of the supplied water

In 2014, 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 2014, there was no water supply regime in the Concession Area.

With implementation of the monitoring program for potable water quality in 2014 the percentage compliance of the samples taken from the points of the water supply system is 99.35% by physical and chemical indicators and 99.80% by microbiological indicators, thus the trends from 2013 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).

In order to comply with the quality indicators for treated potable water, in 2014 the planned number of activities was performed, including:

- ✓ Project for control over the technological processes at Pancharevo PWTP – SCADA system was built, allowing continuous monitoring and better control over processes;
- ✓ 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 Pancharevo PWTP in line with their design height.
- ✓ Optimization of the work of the installations for supplying polyaluminium chloride hydroxide sulfate at Bistritsa PWTP and Pancharevo PWTP, which led to better quality of the filtered water and the average annual value of the indicator *turbidity* is below 0.5 FNU.
- ✓ The annual mechanical treatment and disinfection was performed of the facilities along the way of water at Bistritsa PWTP and Pancharevo 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 01.01.2014-31.12.2014, 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 Sofiyska Voda JSC. 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'splans 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 24 rounds of international programs for tests for compliance with microbiological, physical and chemical parameters, which covered 194 analyses, out of which 182 had a satisfactory result - 94% 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 2014 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 March 2014, LTC received a certificate and Order for accreditation for the next 4-year period 06.03.2014 - 06.03.2018. Apart from the renewed accreditation, LTC obtained an extension of the scope, which already includes the groundwater matrix as well as another 31 methods.

In 2014, LTC worked on optimization of existing methods and development of new methods for analysis of organic pollutants and trace concentrations of metals in potable water with instrumental equipment. The methods have been validated and prepared for application for extending the scope of accreditation. Five new biological methods have been developed and implemented for characterization of the activity of the biological stage of Kubratovo WWTP.

Review and accreditation were performed for 38% of the documents of the System for management of LTC, based on BDS EN ISO 17025. All the procedures for calibration and testing were reviewed and optimized. The optimizations were performed as per the requirements of international documents issued by organizations which deal with the quality of analytical measurements and maintaining international traceability of chemical measurements and supporting best practices.

In 2014, the Potable Water Unit of LTC received a total of 7 770 samples, of which a total of 145 392 tests were performed, and the Wastewater Unit - respectively 9 169 nos. samples for a total of 93 480 tests.

Since 01.09.2014 a structural reorganization has been performed at the LTC as new positions have been transformed and an additional staff position has been established. The new functional structure results in clearer and more precise allocation of tasks and responsibilities to the laboratory specialists in line with the type and specifics of the work at LTC.

In September 2014, we carried out internal audit of the Quality Management System at LTC together with auditors certified under BDS EN ISO 19011 and BDS EN ISO 17025. No non-compliances were found in terms of quality or the LTC's activities.

In October 2014, LTC successfully passed an assessment by the controlling authority Sofia Regional Health Inspectorate concerning the compliance of the characteristics of the applied methods for sampling potable water with Ordinance No. 9.

In 2014, LTC serviced 9 contracts for providing laboratory services to external customers and 7 agreements for service levels with internal customers. In the stated period, LTC received and processed 210 requests for laboratory services from external customers and 120 – from internal customers. A total of 2 670 testing protocols were issued. The customers have not complained about the laboratory services in 2014.

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 Supply
Water Network Management

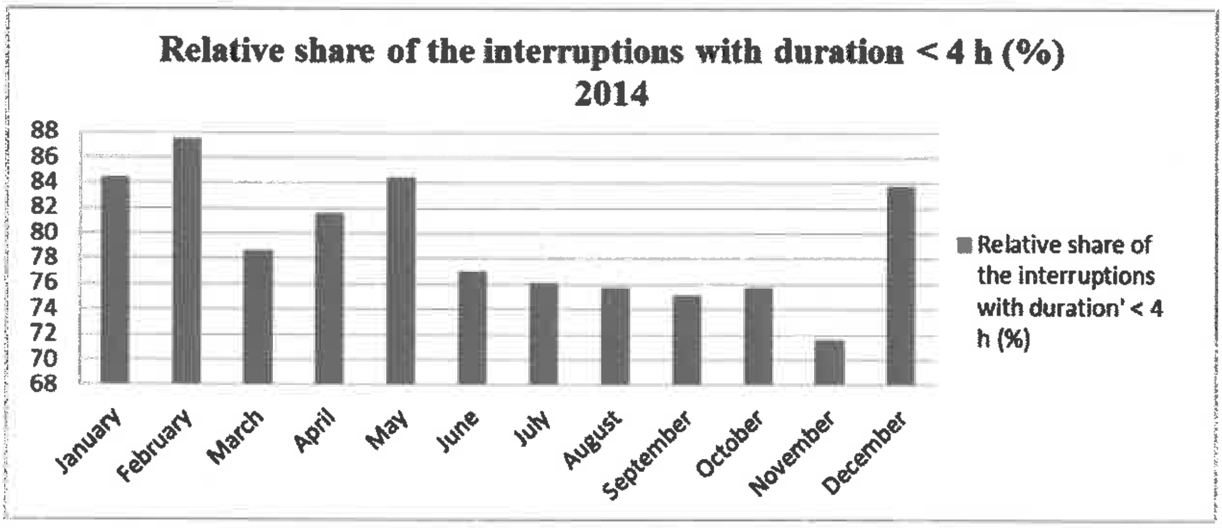
The focus of the Group in 2014, as in 2013, was on several main aspects:

- 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.

- Optimizing the on-site activity of the employees and the processes ensuring customer service by introducing new procedures and revising existing ones and by introducing target levels of the basic parameters and periods for implementation of activities in terms of maintenance of the water supply network.
- 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.

The taken measures resulted in reduction of the number of failures in the water supply network - 4099 distribution network failures in 2014 as compared to 5017 failures in 2013, which is about 18.3% decrease on an annual basis.
The failures on water service connections (WSC) in 2014 were 2011 nos., which means more than 17.4% decrease as compared to 2013 when there were 2 432 failures registered on the WSCs.

During the year, 1182 planned water supply interruptions were implemented, which is 300% more as compared to the implemented planned reconstructions in 2013. The relative share of the unplanned water supply interruptions with duration of less than 4 hours in 2014 was 79% of all emergency interruptions.



The better control on the reinstatement activity resulted in an average of around 96 non-reinstated road surfaces at the end of each month, which means that this indicator has been improved by more than 40% as compared to 2013 when the non-reinstated road surfaces as at the end of each month were 161 on average.

Emergency water supply interruptions in 2014

- 4099 failures of the water distribution network;
- 3015 water supply interruptions;
- 436 567 affected households;

Planned water supply interruptions in 2014

- 1182 planned interruptions;

- 502 332 affected households;

- Sewerage system

The sewerage network within the Municipality of Sofia includes 1,565 km of public assets and more than 500 km of assets of unclear status (as per the Spatial Development Act of 2003). Sewerage network has not been constructed in most of the suburban areas and in part of the compact city. With the implementation of Business Plan 2009-2015, Sofiyska Voda follows the priorities of the Municipality 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. In 2014, 2 722 m of new sewerage network was constructed and 961 m of existing conduits were reconstructed. 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	Performance 2012	Performance 2013	Performance 2014
Cleaning of street sewers	meter	163 536	221 056	**211 292**
Cleaning of gullies	number	9 350	7 497	**6897**
Cleaning of manholes	number	2 067	3 297	**3 540**
Installation of sewer shaft covers	number	557	521	**433**
Unclogged service connections	number	1 863	1 708	**1 826**
Unclogged service connections	meter	45 150	38 272	**40 151**
Transported sludge	m3	2 918	2 155	**2 094**

In 2014, we continued the implementation of the program for proactive maintenance of the sewerage network and proactively cleaned more than 123 km of the network within the Concession Area.
142 horizontal connections with the street gullies were replaced as part of the sewerage network maintenance, which is around 3 times higher as compared to the activity in 2013.

Data about the performed CCTV survey of sewers in 2014 are provided in the table below:

CCTV survey 2014	
Facility	length, m
Horizontal connections of street gullies with the sewerage network	145
Sewer service connections	2 067
Street sewers	27 070
Total	29 282

Wastewater treatment

In 2014, Kubratovo Wastewater Treatment Plant (WWTP) treated a total of 130.9 million m3 of wastewater from the sewerage network of the MoS. The treated volume of wastewater was about 75% of the average daily design capacity of the plant (480 000 ^{m3}/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 the treated wastewater

The indicators Biological Oxygen Demand (BOD_5), 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 2014 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_5	25 mg O_2/l
COD	125 mg O_2/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 are below the recommended levels of the emissions for quality of discharged water as the annual compliance level achieved was 99.45%; in terms of the Total Nitrogen indicator a slight increase was observed in the levels of the treated wastewater resulting mainly from the low organic load at the inlet of the WWTP.

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 2014 Sofiyska Voda continued to provide stabilized sludge for soil improvement on agricultural land. The Group has all permits required for sludge utilization on agricultural land.

Sludge from WWTP Kubratovo	2011	2012	2013	2014
Produced sludge	101 513 t	**135 990 t**	156 424 t	**130 472 t**
Sludge used in agriculture	70 243 t	84 962 t	66 720 t	**58 921 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. Sofiyska Voda draws up and submits the reports required to the Ministry of Environment.

Electrical and mechanical maintenance

In 2014, Sofiyska Voda successfully implemented the annual plan for planned and preventive maintenance of the Group'sfacilities, as a result of which the ratio of the time of emergency works and the total works in 2014 remained within 10% thus keeping the trend of 2013.

Measures were implemented for improving the energy efficiency – the security and area ligting was rehabilitated at PWTP Pancharevo, the reservoirs Moderno Predgradie, Lozishte, Lozenets and Boyana, and a decrease of above 60% in the electricity consumption was achieved.

Major overhaul was performed of the facilities in pumping stations Katina, Podgumer, Lokorsko and the sewer pumping station Novi Iskar. New operation panels were installed for flocculant dozing in the wastewater treatment plant.

22 new sites were connected to the system for remote control and operation of the Group'sfacilities. The energy management system at WWTP Kubratovo was extended since 15 further measuring points were included. Fire detection and alarm system was installed in all workshops of the wastewater treatment plant.

Automated operation of the mechanical screens in the WWTP was provided through the SCADA at the plant and also monitoring and operation of the inlet and outlet gates. There are 6 new points in place for online monitoring of the biological treatment process.

INVESTMENTS 2014

The investments actually made in 2014 amounted to 35.9 M BGN. Breakdown of the capital expenses in 2014 by categories is given below:

Water supply – 12.96 M BGN
Potable water treatment – 1.2 M BGN
Sewerage – 9.05 M BGN
Wastewater treatment – 3.54 M BGN
Service connections, water meters – 5.57 M BGN
Customer service – 3.61 M BGN

Key projects implemented in 2014:

- Construction of main sewer branch I in Simeonovsko Shose Blvd. – from Bor St to Krayrechna St No. 91, 86, 67, 60, 53, 51 and 50 and reconstruction of water main branches in Simeonovsko Shose Blvd., in the section from Simeonovska St to Krayrechna St in Simeonovo residential quarter, Vitosha region
- Reconstruction of sewer branches: Ist stage, in Zhetvarka St, from Samokov St to Elemag St, Izgrev;
- Construction of WSS network in the area surrounded by Lomsko Shose Blvd., Hristo Silyanov St, Ekzarh Stefan St and Beli Dunal St, Nadezhda 4 residential quarter – stages VI, VII, VIII, IX, X and XII.
  - ✓ stage VI – WSS network in Bratya Shkorpil St
  - ✓ stage VII – water network in a street without a name, with section points 312b-312a-312c-312d-311.
  - ✓ stage VIII – WSS network in section of the street without a name Kotis St, Lyulin St and Byal Lyulyak St
  - ✓ stage IX – WSS network in Marko Lerinski St, from Byal Lyulyak St to Beli Dunav St
  - ✓ stage X – WSS network in Lyulin St, from Byal Lyulyak St to Bratya Shkorpil St
  - ✓ stage XII– WSS network in a street without a name, with section points OT 311-113d-113-302-113b.
- Reconstruction of a street water main in the left side of the road in G. M. Dimitrov Blvd. – in the section of the existing water main 350 mm, in the area of the center line on the boulevard at section point 34, Studentski Kompleks residential quarter
- Reconstruction of two sludge thickeners for surplus activated sludge at the WWTP Kubratovo
- 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 Sofiyska Voda is closely related to environmental protection. Sustainable development principles are fundamental for each aspect of the Group's operation. Achieving balance between economic growth, environmental protection and improvement and social development is an integral part of Sofiyska Voda's business strategy.

BDS EN ISO 14001:2005 – Environmental Management System (EMS)

Sofiyska Voda JSC was certified under ISO 14001:2004 (BDS – 2005), an international standard for environmental management system, at the end of 2008. In 2014 the maintenance of the system continued by improving the EMS documentation and conducting internal audits in line with the schedule approved for 2014.

A combined internal EMS and H&S audit was conducted at the end of 2014. The report on the audit was submitted to the senior management. A total of 34 non-compliances were found and 49 recommendations were made. All cases of non-compliances and recommendations were considered and the relevant actions were included in the program of corrective and preventive actions.

At the end of November 2014 the Group successfully renewed the certificate of the system for another 3-year period. The audit was finalized with one case of non-compliance found and 5 recommendations for improvements. An action plan for removing the non-compliance was prepared.

In 2014, there were a total of 4 EM incidents, as 2 of them were committed by Group'scontractors. The relevant procedural measures to cope with these issues were taken duly.

Program for achieving the environmental protection goals

The implementation of best practices for the sewerage network operation and maintenance, the construction of new sewers and the provision of more and more efficient and high-quality treatment of wastewater are priorities of the Group. For the purpose of environmental protection, investments were made in 2014 in new products and technologies that have increased the economic efficiency while saving resources and energy.

Preventive works were performed in 2014 on about 150 km of the sewerage network. A robot for CCTV survey of the sewerage network was purchased. More than 10 000 meters of water pipes and more than 4 000 meters of sewers were constructed and reconstructed. 8 new laboratory methods with ion chromatography for daily monitoring were accredited.
In order to provide online monitoring of the supplied water volumes, one more remotely operated stop valve was installed at the Malo Buchino pressure reducing shaft, 2 flow meters were installed at the inlet of Bistritsa PWTP and 1 stop valve with remote operation through SCADA was installed at Boyana Reservoir. SCADA Pancharevo PWTP was also put in place.

The unaccounted-for water volumes and the total water losses in the water supply network were reduced. Inspections were made of the overflow facilities on a quarterly basis as well as preventive cleaning of the outgoing pipes in order to avoid overflow at dry weather. Some floodgates were replaced. The following river catchments were cleaned: Levi Iskar, Beli Iskar and Cherni Iskar. Major reconstructions were made of reservoirs: Lozenets, Plana, Seslavtsi and Dobroslavtsi as well as repair of Cherni Iskar and the Rila Main.

A solar panel was installed at Balsha reservoir. Construction of a cable network middle voltage and a fire alarm installation at the WWTP were commenced. An overhaul was made of filter presses and 2 sludge thickeners for surplus activated sludge in the WWTP.

A Gold Standard project was registered for carbon emissions reduction in the WWTP. The necessary maintenance of the CHP in the WWTP was performed in order to meet 90% of the energy needs of the WWTP with energy from renewable sources.

An analysis was made and measures were taken for mitigation of the effect of Microtrix bacterium on the technological processes in the WWTP. A strategy and an action plan were prepared for sustainable sludge management.

5 environmental protection trainings were held with regard to the Group'sactivities. Food Waste Reduction project was prepared and implemented in the Group. Trees were planted in a kindergarten in Sofia; *Quench the Heat* campaign was carried out, as well as cleaning of socially important areas in the capital. A few events were organized as well to raise the awareness of Group employees in terms of environmental protection issues.

Waste management

The more effective waste management resulted in natural resources savings. In 2014, the following amounts were delivered to companies for waste recovery:

Type of waste	Amount of waste (t)
Waste from screens and grids	65.18
Waste printing toner	0.1097
Motor oils and lubricants	5.562
Paper and cardboard packaging	4.065
Contaminated equipment	0.179
Car tyres	3.18
Lab chemicals and preparations	0.808
Lead-acid battery	1.47
Alkaline batteries	0.03635
Mixtures of metals	29.435
Dredge spoil	44444.25
Sludge from treated wastewater	58921.982
Sludge from other types of treatment	520.3
Fluorescent lighting tubes and other mercury ones	0.1081

Sanitary Restricted Areas (SRAs) around the water sources

In 2014 Sofiyska Voda continued to work on the establishment of the SRAs around the water sources In compliance with the statutory requirements.

SRA Iskar Dam

After a long procedure on obtaining a permit for construction of a fence to secure the sanitary-restricted area of Iskar Dam (fixed by an order of the MoEW in 2008), on 19.12.2014 the constructed fence of the SRA of Iskar dam was approved. Marking of the water boundary of belt II of the SRA is about to take place. Afterwards a request will be submitted to the Director of Danube River Basin Directorate for the final approval of the SRA of the Iskar Dam.

SRA Kokalyane weir

A procedure was held for changing the cadastral map in order to include Kokalyane reservoir (weir). Schemes for the property of the water body and schemes for belt I of the SRA for Kokalyane weir were received. Act No.08623/11.08.2014 was issued for public state ownership of the property corresponding to belt I of SRA of Kokalyane weir.

SRA Beli Iskar Dam

A Committee was appointed for approval of the SRA. The latter was approved with a protocol signed by the members of the Committee, and subsequently approved by the Director of *Danube River Basin Directorate*. This is the first finalized approval procedure for a sanitary-restricted area of water sources for potable water supply in the Municipality of Sofia.

SRA river catchments

Water sources on the territory of Vitosha Natural Park:

A Committee was appointed for the approval of the SRA for river catchment Vitoshka Bistritsa and on 25.06.2014 a meeting was held. The SRA of the river catchment Vitoshka Bistritsa was approved with a protocol signed by the members of the Committee. The protocol, approved by the Director of Danube River Basin Directorate, was received.

Procedures on the SRA of the water sources on the territory of Rila Mountain

Applications were prepared and filed at the Danube River Basin Directorate with enclosed updated designs for commenced procedures for establishment of the SRA for 7 water sources, as follows:

Beli Iskar River Catchment
Levi Iskar – Emergency River Catchment
Cherni Iskar River Catchment
Preka Reka of Cherni Iskar River Catchment
Levi Iskar River Catchment
Preka Reka of Beli Iskar River Catchment
Derkovo Dere River Catchment

Green energy production

18 986 MWh of green energy was produced in 2014 in SWWTP. The production is based on the CHP installation for recovery of the biogas emitted in the process of sludge treatment in the plant. In 2014 the volume of the consumed electric power was reduced by 10.7% as compared to 2013. The increased production of green energy and the reduced consumption in 2014 resulted in meeting 98.4% of the electric power needs of the treatment plant.

HEALTH AND SAFETY AT WORK

H&S Policy

A key factor for our performance is the maintenance and continuous improvement of the Occupational Health and Safety Management System (OHSMS) in order to ensure as much as possible the health and safety not only of our employees but also of other people who might be affected by our actions.

The commitments under the Policy determine the following key areas of our H&S activity which we consider particularly important in this process:

- Management of the health and safety risks for the employees and members of the society;
- Reporting and investigating all incidents. Risk prevention in order to achieve zero level of accidents;
- Work in partnership with employees, contactors, etc. in order to ensure health and safety;
- Training aimed at achieving high levels of H&S competence;
- Auditing and measuring the H&S compliance;
- Setting annual H&S goals and program for better performance of the Group.

H&S risk management for employees and members of the society

Re-assessment of the operational risks per units was made during the year. The operational teams were also involved in it. After the final analysis, a program was drawn up with organizational and technical measures for removal and mitigation of the risks found.

Risk Assessment was made for new and reconstructed sites as follows:

- Control Centre - Bistritsa
- Chlorination warehouse at HPP Pasarel
- Closed cooling system – Air blowers at the WWTP
- New belt thickener – WWTP
- PS Iliyantsi
- Heat pipeline from the Control Centre to the process water plant at Bistritsa PWTP.

Risk assessment was also made for pregnant employees. A total of 10 risk assessments were made during the year.

Health and Safety objectives in 2014

The annual H&S objectives were met:

1	*2*	*3*	*4*
1	**100 % trained Senior Managers in H&S management**	**Increasing the H&S competence of the managers** 1. Preparing a presentation for the minimum H&S requirements at the workplaces 2. Conducting H&S training for the Senior Managers	100%
2	**Risk assessment and prevention**	**Reassessment of the production risk for all units** Preparing cards for the evaluation and training of evaluators Performing measurements and risk assessment, an analysis of the evaluation and preparation of a program with risk mitigation measures	100%
3	**6 visits to sites by the Directors/ Senior Managers per annum**	**H&S – one of highest priority** Preparing schedule of the visits 1. 6 visits – audits made by the Directors 2. 6 H&S audits on the sites conducted by Senior Managers	100%
4	**100 % found reasons for the reported occupational accidents**	**Avoiding repetition of accidents** 1. Finding the reasons for all the reported accidents and taking corrective measures 2. Preparing a *Safety Alert* for each accident and submitting it to the managers	100%
5	**100 % analysis of all 'Near miss' reports**	**Prevention of the risks of accidents** 1. Analysis of all reports on 'Near miss' incidents and control on the implementation of corrective measures 2. Taking corrective measures in order to avoid risk repetition	100%
6	**10% annual decrease in the frequency rate for the occupational accidents - from 2012 to 2015**	**Decrease in the frequency rate for the occupational accidents, by 10% every year as compared to the frequency rate for 2012 (Fr 2012=4.57)**	Fr =1.1

Work in partnership with employees, contractors, etc. to ensure health and safety

Over the year there were 6 meetings held of the Working Conditions Committee.
The main topics discussed were:

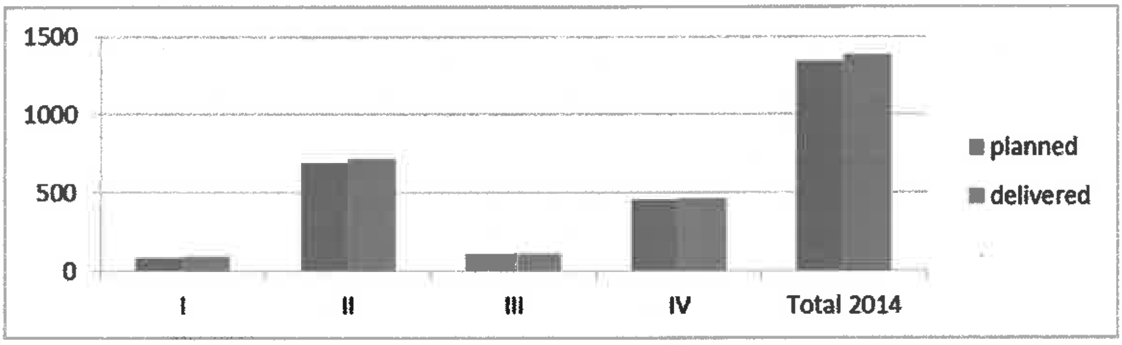
- Risk assessment and status of the occupational injuries, annual medical analyses;
- Discussion and approval of tasks fulfilled by the Labor Medicine Service;
- Update of the lists of personal protective equipment and clothing;
- Update of the lists of additional leaves of persons who work under specific work conditions;
- Other issues regarding working conditions and health and safety at work.

Together with the Committee on Working Conditions, the directors made regular H&S visits to the sites. During the visits we held meetings with the employees on H&S issues.

Training aimed at achieving high H&S competence levels

The high competence levels are a key factor for achieving the main goal of having zero accident level. During the year 165 people had H&S initial briefings. The H&S trainings were held as per an approved annual schedule. The implementation is presented on the charts below.

	Trained staff per quarters				
	I	II	III	IV	Total 2014
Planned	90	696	100	460	1346
Delivered	**96**	**716**	**108**	**463**	**1383**



H&S audits and performance

In November 2014 the planned combined H&S and EMS audit was conducted. The main objective of the audit was find the compliance of the Group'sactivities and the documentation of the management systems with the requirements of the BS OHSAS 18001:2007 and BDS EN ISO 14001:2005. 6 audit teams were involved and all Group units were audited. 34 cases of non-compliance were found during the audit but there were also best practices found. Recommendations for improvements were made. All cases of non-compliance and recommendations were considered and the relevant actions were determined, after that included in the program for corrective and preventive actions.

External audit of the H&S management System (OHSAS) under the standard BS OHSAS 18001:2007

The H&S management system was certified in 2008. In November 2014 the third OHSAS re-certification audit was conducted. It was successfully finalized and the conclusion of the auditors was extension of the validity of our certificate. There were no cases of non-compliances with the requirements of the BS OHSAS 18001:2007 stated in the report of the external auditors.

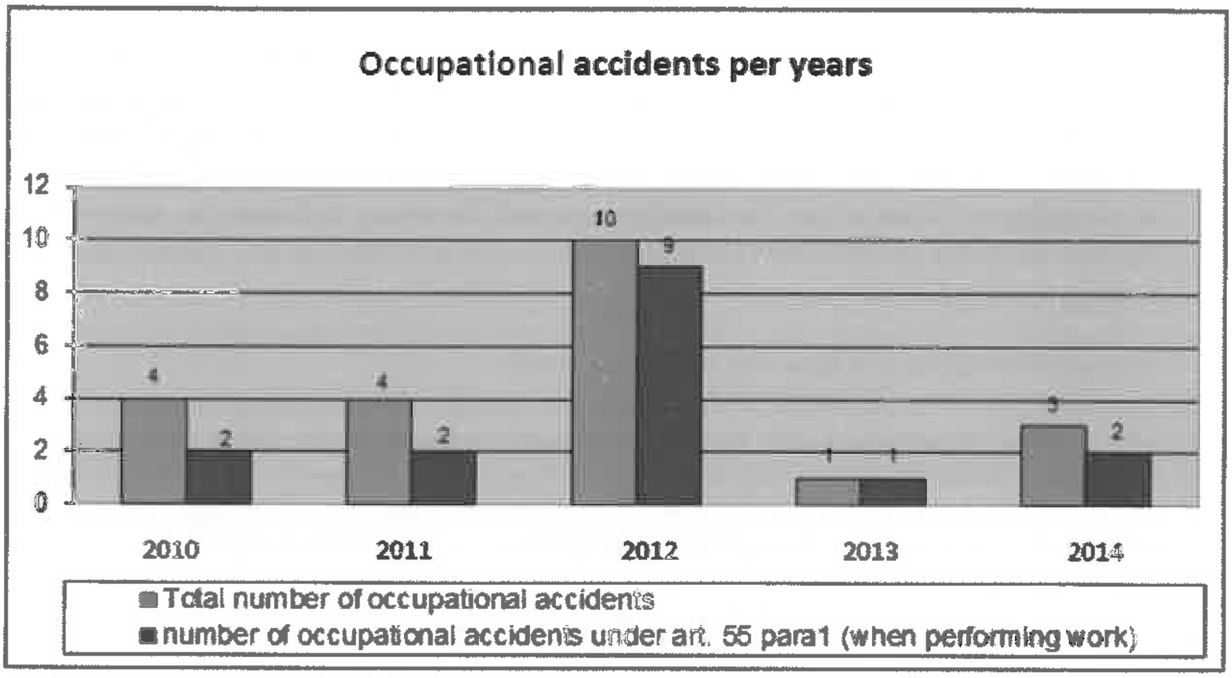
Reporting and investigating all incidents

- **Lost time incidents**

Three accidents were reported and investigated during the year. One of the accidents was on the commute to work, and two of them – at work.

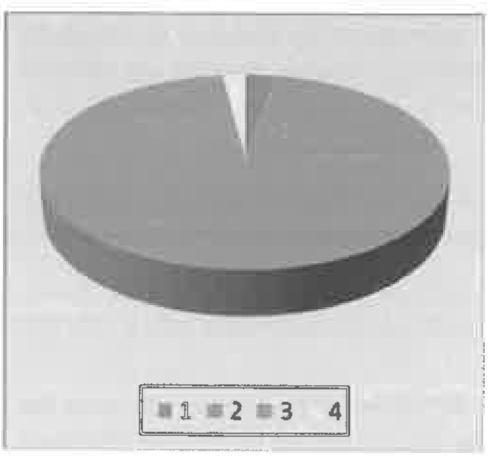
- An inspector from *Water Network Control and Management* was on the site of the repair of a water main failure, which is his duty. There were trees covered with wet snow near the place of the accident, as one of them fell suddenly down. At the time of the fall of the deciduous tree, the employee was with his back to it in proximity to the failure. The fallen tree hit him in the back, pressed him and broke his right ankle. The tree was lifted and the injured person was released and transported immediately to Pirogov Hospital.

- After completed measurement on the site, the employee lifted the cover to close the shaft. The pickaxe used for picking the cover up slipped from the shaft's cover and the latter fell down on the fingers of his left leg. A fracture of the thumb of the left leg was the result of the hit. The employee worked without protective shoes.



Note: The accidents under art.55, para. 1, were at the workplace and not on employees' commute to or from work

230 incidents were reported during the reported year without personal injury but with property damage, 179 of which were not our employees' fault. 7 'Near miss' incidents were reported as well and 5 other incidents. No incidents with third parties at our sites were reported.
The types of incidents are shown on the graph below.



7	**near miss**
51	**property damage incident, without personal injury, our employee's fault**
179	**property damage incident, without personal injury, not our employee's fault**
5	**other incidents**

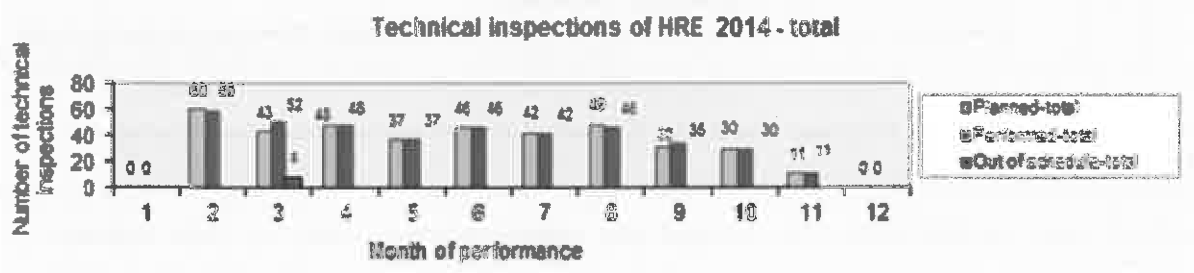
Emergency planning and fire safety
The preventive approach is the main focus of our emergency and fire safety activity. During the year, 32 emergency drills were carried out under the drill schedule prepared and approved in advance. 31 drills were carried out as per the fire extinguishing plans.

An operational reserve of fire-extinguishing devices was provided in case of chlorine failure for the employees from the new Control Center and Call Center at Bistritsa PWTP. Extraordinary trainings were held for the employees from them and the newly employed inspectors in the Chlorination Stations for using fire-extinguishers in case of a chlorine failure.

An action plan was prepared for cases of failures of SCADA, the system for remote monitoring, control and collecting of data. Good technical order of the devices for fire extinguishing, equipment for work in potentially hazardous "Ex" environment and confined spaces was timely coordinated and organized. The plan for work during autumn-winter period was prepared and submitted to Municipality of Sofia within the deadline specified by them. Schemes for temporary traffic organization before the performance of repair works on the WSS network were prepared and approved by Municipality of Sofia.

Technical surveillance of high-risk equipment /HRE/

The technical supervision of the high-risk equipment, operated by the Group, is performed on an annual basis as per the preliminary approved schedule. The performance of the technical inspections per months is shown on the graphs below. The planned 398 technical inspections were made. Eight unscheduled technical inspections of newly commissioned equipment were also made.



HUMAN RESOURCES MANAGEMENT

In its policy and practice Sofiyska Voda 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 2014 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'sbusiness 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 Sofiyska Voda. The second project under the OP Human Resources Development was successfully implemented, and 230 employees were trained within it in 2014 for key competences. The Group successfully implemented its annual Training Plan for capacity and H&S at work.
The internship program of Sofiyska Voda was carried out for the thirteenth year in succession. 27 students carried out their internship at Sofiyska voda in 2014. As from 2014, in accordance with the amendments to the Labour Code, the minimum internship period is 6 months. After the internship was completed, 11 of the interns continued to work in the Group in order to develop professionally.

In line with the policy for awarding individual and team achievements of Sofiyska Voda's employees, in 2014 more than 80 employees were awarded the Golden Star and a total of four teams were awarded the *Team of the quarter*. Another 9 employees were awarded for innovativeness under the IDEO program.

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

In compliance with the social program, a new contract was signed in 2014 for employees' health insurance, and more services and options for covering the costs incurred by employees were provided under it.

RESEARCH AND DEVELOPMENT
Sofiyska Voda does not carry out research and development.

BOARD OF DIRECTORS

Personal changes were made in Sofiyska Voda's Board of Directors in 2014. At the extraordinary General Assembly of Shareholders, held on 17.03.2014, Mr. Etienne Marie Patrice Petit's contract as a Board member was terminated, and Mr. Bruno Daniel Paul Roche was appointed a Board Member from the quote of the shareholder Veolia Voda (Sofia) B.V. At the Board meeting held on 02.04.2014, the powers of Mrs. Mariana Georgieva Iteva as Executive member were cancelled and Mr. Bruno Daniel Paul Roche was appointed as the Executive Director. The Board of Directors also decided that the newly appointed Executive Director, Mr. Bruno Daniel Paul Roche, and the other Executive Director of the Group, Mr. Gyorgy Palko, will represent Sofiyska Voda JSC separately.
Thus, as at 31.12.2014 the members of the Board of Directors were as follows: Mr. Bruno Daniel Paul Roche, Mr. Gyorgy Palko, Mr. Ferenc Szucs, Ms. Mariana Georgieva Iteva, Mr. Vladimir Georgiev Stratiev, Mr. Stefan Nikolov Peltekov and Mr. Tsvetan Dobrev Gergov.

In 2014, the Board Members received BGN 103 K (BGN 194 K in 2013) as stated in Note 29 of the Consolidated financial statements for 2014.

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

RELATED PARTIES

The Group is a related party to its parent Group Veolia Voda (Sofia) B.V., which owns 77.10% of Sofiyska Voda'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 transactions and the amount of receivables and payables to related parties are stated in note 29 of the Consolidated financial statements of the Group for 2014.

The company has no registered branches.

BUSINESS PLAN 2014 – 2015

On 04.03.2014 Sofiyska Voda submitted its draft Business plan for the extended regulatory period 2014-2015 and a price application in compliance with the adopted amendments to the Water Act, promulgated in the State Gazette on 29.11.2013. A month earlier the draft was provided to the Municipality of Sofia as well.
On 31.07.2014 the Group submitted to the SEWRC the last revised draft of the Business Plan, taking into account the instructions of the Regulator, stated in the Decision dated 03.07.2014. The updated price application was also submitted with the Business Plan.
No official statement on both documents was received on behalf of the Regulator till the end of 2014, and this makes the Group work under the conditions of unclear regulatory framework in terms of investment program, levels of KPIs for the WSS services, etc., and the lack of new price approved for the WSS services in 2014 resulted in the need of further decrease in the operating costs of the Group.
The delayed final decision of the SEWRC on the Business plan for 2014-2015 placed the Group in a difficult position also in terms of the development of the next Business Plan (2016-2020), which should start at the beginning of 2015.

Anelia Ilieva
/Financial Director/

Bruno Daniel Paul Roche
/Executive Director/

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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 2014, 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 2014, 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 report of the activities of the Group prepared in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information disclosed in the consolidated annual report of the activities of the Group, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the consolidated financial information disclosed in the audited consolidated financial statements of the Group as of and for the year ended 31 December 2014. Management is responsible for the preparation of the consolidated annual report of the activities of the Group which was approved by the Board of Directors of "Sofiyska Voda" AD on 1 April 2015.

Margarita Goleva
Director

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 2 April 2015