Софийска вода

Sofiyska Voda AD

Consolidated Financial Statements

For the year ended 31 December 2013

With independent auditors' report

CONSOLIDATED ANNUAL REPORT

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

2013

FINANCIAL REVIEW

In 2013, there was again stable financial environment in the 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 36.7 million, which is less than the level of BGN 42.8 million in 2012.
In 2013, The Group's revenue from main charges amounts to BGN 125 million, which is 1.30% below the revenue from main charges in the previous year – BGN 127 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's total revenue for 2013 was BGN 171.5 million. The revenue from construction in 2013 was BGN 44.7 million (BGN 35.9 million in 2012).

The cogeneration station, commissioned at Kubratovo WWTP at the end of 2009, ensured as a priority the fulfillment the plant's power supply needs in 2013.

The Group's operating costs in 2013 amounted to BGN 135 million (2012 – BGN 124 million). This amount includes BGN 44.7 million construction costs, which result from the application of IFRIC 12 and these costs offset the construction revenue above.

In 2013, the other operating costs specified in detail in Note 10 of the consolidated financial statements increased as a result of the impairment of bad debt by BGN 2.5 million.

The 2013, depreciation and amortization costs were BGN 24 million. The value is higher than the one reported in 2012 (BGN 23 million), which is mainly due to the higher number of commissioned assets.

The interest charges in the year are in line with the ones budgeted by The Group as a result of the contracts concluded in 2008 for fixing the six-month Euribor under the two main loan agreements.
The financial revenue for 2013 is BGN 77 thousand lower than the one reported in 2012, 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 2013 was BGN 23.5 million and is slightly lower than in 2012.

FINANCIAL INSTRUMENTS

The Group's policy regarding financial risk, as well as its exposure to the price, credit and liquidity risk are described in detail in the notes to the consolidated financial statement for 2013.

The Group uses derivative financial instruments in order to hedge its interest rate risk exposure.

By the SWAP contracts dated 12.11.2008 The Group executed two interest rate hedges:
With ING Bank a contract was signed to fix the six-month Euribor under the Senior Loan with EBRD of 3.694% for a 5-year period until 05.10.2013.

With Citibank a contract was signed to fix the six-month Euribor under the Subordinate Loan of 3.650% for a 5-year period until 05.11.2013.

In order to report the two contracts in the consolidated financial statements, hedge accounting is applied.

SUBSEQUENT EVENTS

All significant events after the Balance Sheet date and their effects on The Group's activity are listed in Note 31 to the consolidated financial statements for 2013.

CUSTOMER SERVICE

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

Customer relations

The 24/7 Call Centre of Sofiyska Voda JSC has 16 lines, on which operators receive about 1,254 calls on average per day. In 2013, the incoming calls were 4.68% less than the ones in 2012 and 98.09% (449 029) incoming calls were answered.
In 2013, the missed calls reached the level of 1.91% as compared to 2012 when they were 1.96% of the total incoming calls.
The percentage of customers serviced by operators in 2013 was 77.78% of the incoming calls, which is 1.83% higher than in 2012.

Customer Service Centers

There are eight Customer Service Centers (CSC) of Sofiyska Voda JSC located in various parts of the capital city. In 2013, a total of 184 806 customers visited the CSC, which is a 6.3% increase in the number of visits as compared to 2012. 144 988 visits were made for payment of water bills, which is a decrease by 36.73 % as compared to 2012. The number of cash payments in the CSCs continues to decrease due to the increased number of payment methods and locations.
In 2013, the filed requests for change in customer accounts were 36 786, which is a decrease by 32.72 % as compared to 2012. Despite the increased complexity of the customer cases, there is a trend of decrease in the number of the filed complaints, which shows that the quality of the service is improving.

Internet services

In 2013, there were 1,873,695 visits to Sofiyska voda's webpage. 89,161 water meter self-readings were submitted (data from the Communications Dept.) by the customers, which is an increase by 26.20 % as compared to 2012.
The enquiries through the website were 7,625, and 7,124 of them required an answer. All answers were sent within 24 hours from receipt of the enquiry.
In 2013, the number of customers who cancelled their paper invoices was 365, and 10 252 customers requested to receive an e-invoice.

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's revenue and for the good service in general. In 2013, 20 448 revenue meters were made metrologically valid, which is the highest performance since the beginning of the Concession:

	2013	2012	2013 vs. 2012 in %
Installed	20 448	16 361	25%
Tested	6 736	6 375	6%

The volumes measured by the replaced water meters (difference before and after the installation) was 110 321 m3 more than the ones measured prior to their replacement.

Water Meter Reading

In 2013, 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, Sofiyska voda's webpage and the Call Center in order to provide access for inspection of the water meters.
Mobile electronic devices were installed for entering the water meter readings upon the visits to customers according to 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.

Results of the activity in 2013 as compared to 2012

Year	Big customers	urban	suburban	blocks	total
2012	96.03%	83.68%	70.75%	91.97%	83.55%
2013	96.96%	85.88%	70.48%	94.93%	85.61%

Billing

In the reporting period, 6 705 791 invoices were issued, which is 1.2% more than in 2012. The invoices issued after actual meter readings were 2 386 673.

Debts collection

The Group endeavors to increase the collection rate by offering to its customers various methods of paying their bills and also deferred payment agreements for the accumulated debt. The cases in which legal actions are taken have increased a lot and The Group continues to use the services of two specialized debt collection companies. In 2013, The Group implemented Qlickview, Business Intelligence software which provides real-time information about debtors and various analyses of the trends of the KPIs related to the debt. Also, with the same tool risk segmentation of the customers was introduced, which allows the entity to apply the most efficient collection methods according to the risk group of the customers: phone calls for customers with low risk, door-to-door visits and letters to debtors with medium risk, letters, visits, court actions for customers with high risk, court actions and disconnection – where technically and legally possible – for customers with very high risk. Software was also developed for campaign management, allowing stricter breakdown of customers for different campaigns and assessment of the results. In 2013, in a very difficult social and political context resulting in more refusals or delays of bill payments by customers, Sofiyska Voda JSC increased the efforts of its debt collection teams: the number of calls to debtors was 26 425 higher than the number of calls in 2012 (10% increase) and 1,349 more visits were made by the door-to-door visit teams (4% increase). The amount of cash collected on an annual basis by the door-to-door visit teams increased by 26% as compared to 2012. As a result, in 2013 the achieved collection rate (revenue vs. billed volumes) was 95.49%.

Non-regulated business

Sofiyska Voda JSC continues to develop its activity of providing additional services to its customers. In 2013, the total number of installed individual water meters was 17 070, and the tested water meters – 3 574. The revenue from non-regulated water meter services (individual water meter testing and installation) was BGN 898,346, which is 25.5% less than in 2012. The revenue from the service of individual meter sealing was BGN 173 970. In the same period, seals worth BGN 56 960 were provided to contractors.

The general trend of decrease in the number of the installed, tested and sealed individual water meters is a direct consequence of the legislative amendment in 2012, as per which the metrological validity of individual water meters changed from 5 (five) to 10 (ten) years. Through proactive campaigns of The Group, the decrease in the workload was overcome at the end of 2013.

The total revenue from advertising activity amounted to BGN 34 672, which is 48% less than in the previous year.

OPERATIONS AND MAINTENANCE

Water Resource Management

The constant monitoring of water volumes supplied to the Concession Area is the basis for the water management implemented by Sofiyska Voda JSC.

The water volumes supplied in 2013 were as follows:

Total water volume abstracted from all potable water sources – **187 968 084 m^3**

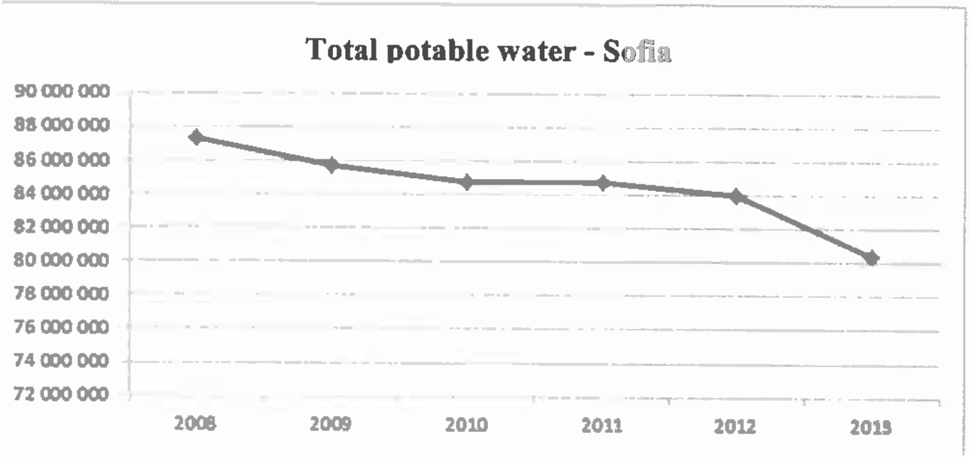
Including to the Municipality of Samokov - **7 245 382 m^3**
to the Municipality of Sofia - **179 347 291 m^3**
industrial water - **8 980 421 m^3**

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 2013 decreased by **15 468 944 m^3** compared to 2012. The water volumes supplied to the Concession Area in 2013 decreased compared to 2012 by **17 138 601 m^3**.

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. Bulgaria's GDP, which has not increased for the third consecutive year, as well as the 11.6 % unemployment registered in April 2013 show the difficult economic situation in Bulgaria. 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 – 2013:



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.
In 2012, there was a decrease by 3.8 %, or by 3.290 million m3, compared to 2008. In 2013, the decrease in the billed volumes was considerably higher compared to the previous year, by a total of -4% compared to 2012 (3.55 million m3 less) and -8% as compared to 2008 (6.84 million m3 less).

The table below shows the annual billed volumes and the difference in % on an annual basis in the period 2008 – 2013:

Customers	2008	2009	2010	2011	2012	2013
Households	63 868 250	63 609 977	63 930 108	64 098 164	63 641 478	61 888 908
		-0,4%	0,5%	0,3%	-0,7%	-2,8%
Budget customers	6 376 970	5 724 733	5 514 981	5 458 491	5 318 554	4 819 529
		-10%	-4%	-1%	-3%	-9%
Commercial customers	17 033 746	16 368 459	15 272 826	15 235 106	15 028 607	13 724 296
		-4%	-7%	-0.2%	-1%	-9%

In 2013, there was a higher decrease in the billed volumes as compared to previous years: total drop by -4% as compared to 2012, whereas the total drop in 2012 as compared to 2011 was -1%.

Impact of the weather conditions
In this respect, it should be taken into account that 2012 was an unusual year of the reviewed period due to the weather conditions. They also changed in 2013 – milder winter and summer temperatures below the ones registered in 2010 and 2011.

The table below shows the average monthly temperatures for the period 2011 – 2013:

Year	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec
2011	-2.0	0.3	5.6	10.1	15.5	19.8	22.7	22.3	20.4	10.3	3.1	0.7
2012	-2.6	-4.3	6.5	12.2	15.3	21.8	25.1	23.2	19.5	14.2	8.2	-1.0
2013	0.5	3.3	5.8	12.1	18.1	19.2	20.7	23.0	17.0	12.7	7.7	0.2

The table above shows that in 2012 the winter temperatures were lower than the ones registered in 2011, and the average spring and summer temperatures - higher than the ones in 2011. These circumstances led to higher water consumption, which to a certain extent compensated for the effect of the general trend of drop in the consumption and led to only -1% drop as compared to 2011. Since in 2013 the winter was milder, and in the spring and summer the temperatures were generally lower, this led to a much higher drop in the consumption – by -4% as compared to 2012, and the difference between 2012 and 2011 was -1%. The same trend is also observed in terms of the lowest registered temperatures in the cold months of the period 2011-2013 and the highest temperatures in the warm season in the same period:

The lowest winter temperatures:

Year	Jan	Feb	Nov	Dec
2011	-6.6	-4.5	-4.2	-3.9
2012	-7.0	-9.2	3.6	-4.8
2013	-3.3	-0.5	3.1	-5.3

The highest summer temperatures:

Year	Jun	Jul	Aug
2011	26.7	29.9	30.2
2012	29.5	33.2	32.0
2013	25.9	27.9	30.9

Consumption of domestic customers – analysis of the current trends

In 2012, the consumption of domestic customers was 76% of the total billed volumes. In 2013, there was no considerable change in the percentages because the consumption of these customers reached 77%, and the one of the commercial customers was 17% of the billed volumes.
In the period 2008 – 2012, there was not a significant decrease in the billed volumes of domestic customers (-0.4%) compared to the decrease reported in 2013 versus 2012: -2.75%.
Although the annual decrease by -2.75% in 2013 was much lower than the decrease reported for the other two categories of customers, this category represented 77% of the total consumption and the effect on the decrease in the billed volumes was considerable. Out of the total decrease by 3 555 906 m3 for 2012, 1 752 570 m3 was the decrease with domestic customers (49%).
The table below contains detailed information about the monthly consumption of the households:

Customers	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Households 2010	5 451	5 511	5 227	5 163	5 848	5 315	5 384	5 264	5 127	5 319	5 251	5 069	63 929
Households 2011	5 481	5 481	5 289	5 229	5 390	5 410	5 389	5 378	5 162	5 442	5 221	5 226	64 098
Households 2012	5 362	5 430	5 268	5 161	5 308	5 373	5 363	5 401	5 347	5 318	5 333	4 976	63 641
Households 2013	5 237	5 393	4 978	5 041	5 282	5 277	5 167	5 035	5 121	5 154	5 167	5 037	61 889
Decrease 2013/2012	-2.33%	-0.68%	-5.50%	-2.33%	-0.49%	-1.79%	-3.65%	-6.78%	-4.23%	-3.08%	-3.11%	1.23%	-2.75%

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 and by -3% in 2013 as compared to 2012. 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 2013, 36% of the customers with measured consumption consumed between 0-5 m3/month, 46% - between 5-15 m3/month and 11% - between15-25 m3/month.

In 2013, due to the decreased consumption of domestic customers, The Group carried out two surveys of the opinions of customers with low water consumption. The first survey covered 1,529 customers with average consumption between 0 and 5 m3/month, and the second one – 1,543 customers with consumption between 5 and 15 m3/month. The results of the surveys confirmed the consumption levels and we obtained information about the main types of tap water consumption.

Unaccounted-for water reduction

Reduction of unaccounted-for water (UFW) remains one of the main priorities of Sofiyska Voda JSC as it contributes to the preservation of water resources.
In 2013, there was a reduction of Total Losses in WS Sofia by **13.4 million m^3** as compared to 2012. The reduction of the percentage of losses was from **53.94%** to **51.60%.** In the reporting period, a decrease by **3.55 million m^3** was registered in the billed potable water volumes. The decrease in the registered volumes for technological needs (part of the legal consumption) was by **98.847 m^3**, which is much lower as compared to previous years.
In 2013, The Group managed to improve the results of 2012 and has a very good success rate 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. In the last two years, there was a drop in the billed volumes, which 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.

- **Constant 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 Sofiyska Voda JSC. All subsequent activities for improving the metering areas are accounted as improvements to the asset.

In 2013, the program for constant 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 **201** 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 835 boundary stop valves. The total number of metering devices installed in the network is **552**, connected to the Telemetry System and/or SCADA (monitoring, management, control and collection of data). In 2013, a total of 6 tests were made with interrupting the water supply for solving specific cases. 4 new DMA were created, and for 32 zoneschanges were made in order to achieve improvements. 17 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 at the end of 2013 40% of the foreseen DMZ hydraulic models were reported.

- **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.

For 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 2013, 175 PMA were created and function through PRV, and this is about 80% of the territories where pressure management is possible. 16 new PMA were established in 2013 alone. 26 new PRV were installed – for the new areas, existing ones were replaced in order to achieve more efficient work and 3 strategic emergency connections among the water supply systems were constructed in order to ensure flawless water transfer.

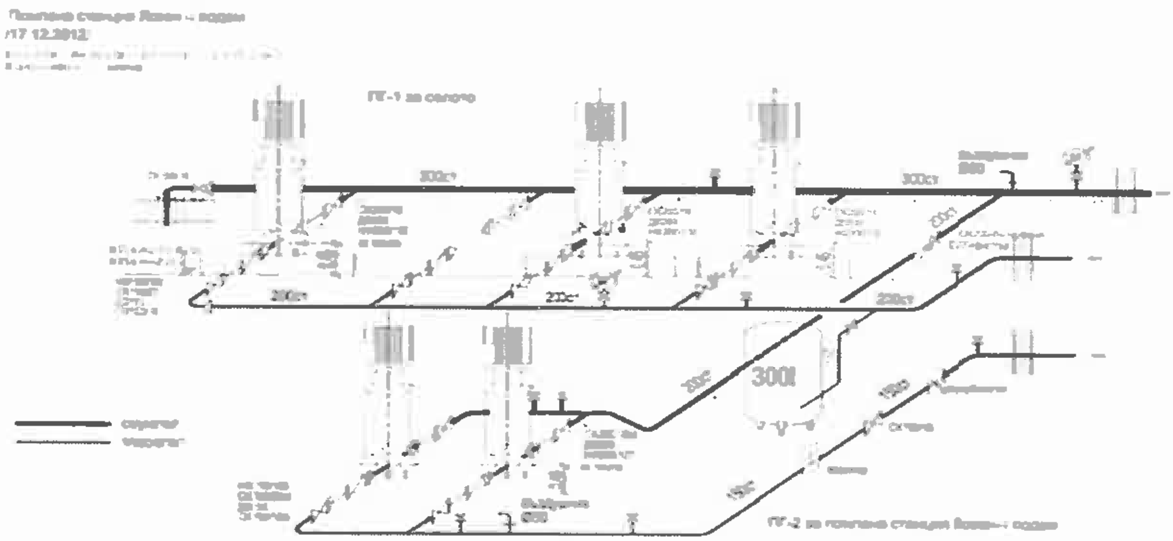
- **Leak localization**

Leaks are localized by the field teams of Sofiyska Voda JSC, which survey the network with special equipment. For this purpose, they use correlators, microphones, tracing equipment, metal detectors, etc. 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 2013, the leak localization activities continued and 5477 reactive activities were performed (including hidden leaks detection, tracing the water mains, service connections, stop valves, etc.). In 2013, under the proactive leak detection program, 50 DMA were surveyed and 270 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.

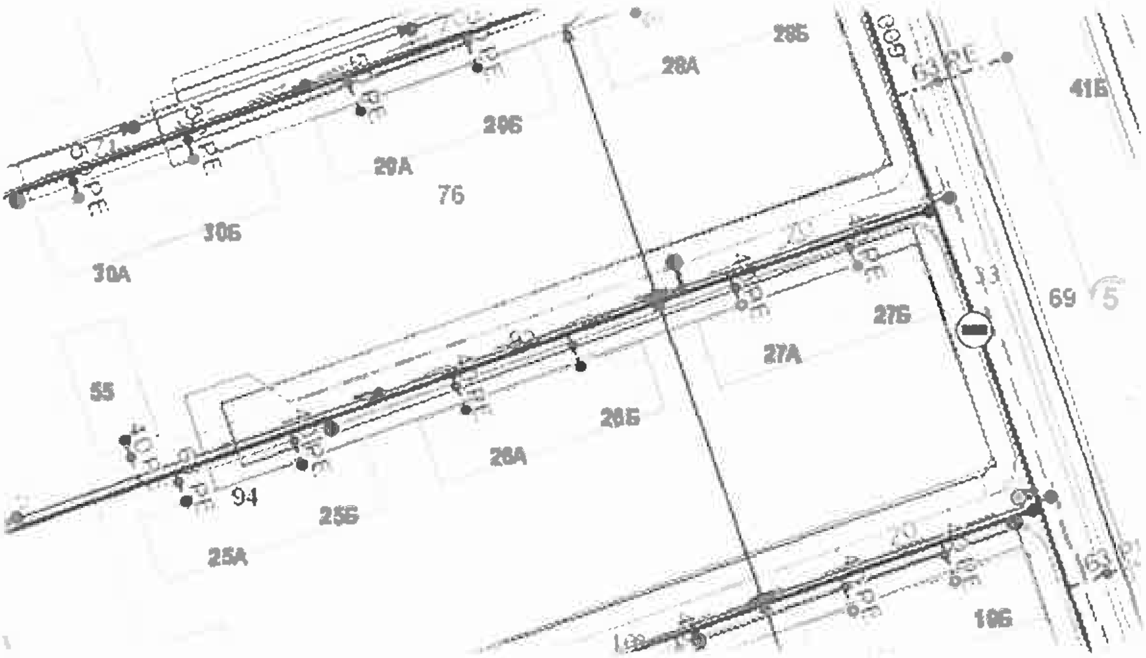


- **Reconstruction of reservoirs, pumping stations, other sites**

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.



Quality of the supplied water

The reports for 2013 issued by Sofia Regional Health Inspectorate (SRHI), which carries out independent monitoring of water quality, show that the potable water in Sofia is in line with the requirements of the Bulgarian legislation harmonized with the European Directive on Drinking Water. During the period, 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 2013, there was no water supply regime in the Concession Area.

With implementation of the monitoring program for potable water quality in 2013 the percentage compliance of the samples taken from the points of the water supply system is 99.89% by physical and chemical indicators and 99.84 % by microbiological indicators. 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 2013 a large number of activities were performed, including mechanical treatment and disinfection of the facilities along the way of water at Bistritsa PWTP and Pancharevo PWTP, preventive program for mechanical cleaning and maintenance of the service reservoirs, 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 an inspection 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.

We carried out projects for renewing the technological equipment and optimizing the treatment process at Bistritsa PWTP in order to make them more efficient.

The detected 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;

- The water standing in sections of the water distribution network as a result of low consumption;

In the period 01.01.2013-31.12.2013, we implemented the 2013 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. LTC has accreditation for testing potable water, including for taking water samples (certificate issued by the BAS based on the requirements of BDS EN ISO/IEC 17025:2006, registration № 50 – ЛИ/09.02.2010, valid until 28.02.2014).

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of Sofiyska Voda JSC implements The Group's plans for monitoring surface and potable water, wastewater and sludge in terms of taking samples from water and sludge and analyzing the microbiological, physical and chemical, and hydrobiological parameters. Over the reporting period, the LTC was extremely successful in 32 rounds of international programs for tests for compliance with microbiological, physical and chemical parameters, which 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 2013 were mainly related to the fulfillment of plans for monitoring of potable, surface and groundwater as well as wastewater and sludge, maintenance of accreditation, application for re-accreditation with expanding the scope of accreditation by including groundwater matrix, adding 30 methods of testing and one for taking samples from groundwater, optimization of methods of analysis of organic pollutants in potable water with GC/MS/MS and optimization of methods for testing some metals with ICP – OES, development and optimization of methodologies for internal calibration of technical equipment, monitoring of processes ensuring traceability and transparency of the activities performed and ensuring confidentiality of the analytical results regarding the samples of internal and external customers of the LTC, development and optimization of the implemented system for quality management based on the BDS EN ISO 17025, dissemination of information about the laboratory's services by means of leaflets, publications and participation in various events.

In October 2013, LTC had a successful assessment for re-accreditation with expansion of the scope by Executive Agency 'Bulgarian Accreditation Service'. In the conclusion of the assessment report, it is proposed for the LTC of Sofiyska Voda JSC to receive accreditation for a period of 4 years. The procedure is to be completed by 28.02.2014.

In 2013, the Potable Water Unit of LTC tested a total of 8 371 nos. samples for a total of 147 028 nos. parameters, and the Wastewater Unit - respectively 9 180 nos. samples for a total of 90 300 nos. parameters.

In 2013, we carried out an 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 2013, LTC serviced 7 contracts for providing laboratory services to external customers. In the stated period, LTC received 148 requests for laboratory services by external customers.

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.

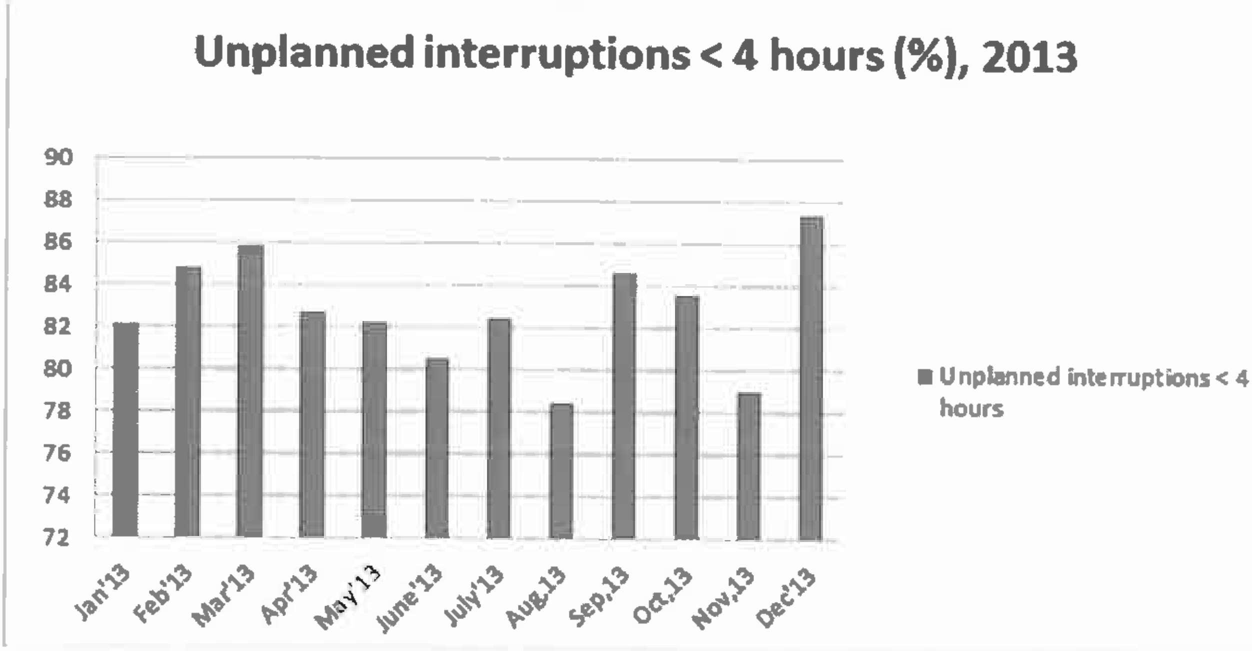
Water Supply
Water Network Management

The focus of The Group in 2013 was on several important aspects:

- Improving operational customer service, mainly by reducing the response time in case of disturbances 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;
- 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 main parameters and periods for implementation of activities in terms of maintenance of the water supply network;
- Increased control and accelerating the reinstatement works after civil works;
- Increasing the quantity of planned water supply interruptions for network reconstructions, which allows for preliminary information and reduction of the inconvenience for 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 - 5017 distribution network failures in 2013 as compared to 5201 failures in 2012, which is about 3.5 % decrease on an annual basis.
The failures of water service connections (WSC) in 2013 were 2432 nos., which is more than 16% decrease as compared to 2012 when there were 2889 failures of WSC.

During the year, 392 planned water supply interruptions were implemented, which is 45.72 % more as compared to the implemented planned reconstructions in 2012. The duration of unplanned water supply interruptions decreased considerably, and in over 82 % of the cases (as compared to 76% in 2012), the reconstruction works were carried out within 4 hours.



The better control on the reinstatement activity resulted in an average of 161 nos. non-reinstated road covers at the end of each month, which means that this indicator has increased by more than 42% as compared to 2012, when the non-reinstated road covers as at the end of each month were an average of 279 nos.

Emergency water supply interruptions in 2013

- 5 017 nos. failures of the water distribution network;
- 3 944 nos. water supply interruptions;
- 642 045 affected households;

Planned water supply interruptions in 2013

- 392 nos. planned interruptions;
- 384 535 affected households;

Sewerage

The sewerage network within the Municipality of Sofia includes 1 565 km public assets and more than 500 km 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 2009-2013, Sofiyska Voda JSC follows the priorities of the Municipality of Sofia for construction of sewerage facilities. The projects for expansion and rehabilitation of the sewerage network are among the priorities under the Investment Program of The Group. In 2013, 4 700 m of new sewerage network was constructed and 3 504 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.

Activities of operation and maintenance of the sewerage

Activity	Measure	Performance 2011	Performance 2012	Performance 2013
Cleaning of street sewers	meter	155 743	163 536	221 056
Cleaning of gullies	number	1 647	9 350	7 497
Cleaning of manholes	number	2 376	2 067	3 297
Installation of grids (covers)	number	950	557	521
Unclogged service connections	number	1 776	1 863	1 708
Unclogged service connections	meter	38 653	45 150	38 272
Transported sludge	m3	1 823	2 918	2 155

In 2013, we continued the implementation of the updated program for proactive maintenance of the sewerage network and proactively cleaned more than 141 km of the network of the Concession Area. The number of cleaned manholes increased by 1/3 as compared to the levels achieved in 2011 and 2012. This activity resulted in fewer signals for problems with sewerage service connections.
In 2013, we performed inspection and CCTV survey of 130 km of the sewerage network and, based on this, prioritized proactive activities, incl. cleaning, replacement of problematic routes and removal of infiltration.
Two new vacuum trucks with water recycling for preventive maintenance were delivered, which increases the efficiency of work and results in lower volume of transported sludge. We continue to successfully cooperate with regional municipalities on the street gullies.

Wastewater treatment

In 2013, Kubratovo Wastewater Treatment Plant (WWTP) treated a total of 135.8 million m^3 of wastewater from the sewerage network of the Municipality of Sofia. The treated volume of wastewater was about 78% of the average daily design capacity of the plant (480 000 m^3/day).
During the reporting period, Sofiyska Voda JSC optimized the control on work processes and strictly followed all legislative requirements to wastewater treatment in line with the requirements of the Surface Water Discharge Permit issued by the Danube Region Basin Directorate. The Wastewater Unit of the Laboratory Testing Complex at Kubratovo WWTP conducts continuous monitoring of the quality indicators of treated wastewater and sludge generated in the treatment process.

Quality of treated wastewater

On a daily basis, tests are carried out of 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.
In 2013, the statutory number of samples were taken and 365 tests of the quality of treated wastewater were performed. Limit values of the quality indicators as per the requirements of the Discharge Permit:

BOD_5	25 mg O_2/l
COD	125 mg O_2/l
SS	35 mg/l
Total N	10 mg/l
Total P	1 mg/l

The average monthly values of the samples are below the recommended levels of the emissions for quality of discharged water as the annual compliance level achieved is 98.08%.

Stabilization and utilization of sludge

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 solids content of about 25%.
In 2013, Sofiyska Voda JSC continued to provide the stabilized sludge for improvement of the soil characteristics of agricultural land. The Group has all permits required for sludge utilization on agricultural land.

Sludge from Kubratovo WWTP	2011	2012	2013
Produced	101 513 t	135 990 t	156 424 t
Used in agriculture	70 243 t	84 962 t	66 720 t

The control on waste produced in WWTP Kubratovo, including the dewatered sludge, is carried out in accordance with the requirements of the Waste Management Act. Sofiyska Voda JSC inspects and submits the reports required to the Ministry of Environment and Water.

Electrical and mechanical maintenance

In 2013, Sofiyska Voda JSC successfully implemented the annual plan for preventive maintenance of The Group's facilities, as a result of which the ratio between time of emergency works and the total works in the year remained within 10%.

The power supply to Beli Iskar Dam is ensured with a new diesel generator, which will increase the security level upon monitoring of the parameters of the dam wall.

Measures were implemented for improving the energy efficiency – the old energy inefficient lighting fixtures at PWTP Bistritsa were replaced, and a decrease of 70% in the electricity consumption was achieved. The lighting at Beli Iskar dam and the reservoirs of Kolezha, Iztok and Dragalevtsi was replaced with energy efficient lighting.

Overhauls were performed of the facilities in pumping stations Kremikovtsi, Seslavtsi, Lozen 1, and Yana. New control panels were installed at the pumping stations Lokorsko and Novi Iskar.

80 new sites were connected to the system for remote control and operation of The Group's facilities. The energy management system at WWTP Kubratovo was extended, and all technological sites were included. Devices for measuring the thermal energy flows at the treatment plants were also included in the system.

INVESTMENTS 2013
The investments actually made in 2013 amount to BGN 50.7 million. Breakdown of the capital expenses in 2013 by categories:
Water supply – 16.77 million BGN
Potable water treatment – 4.28 million BGN
Sewerage – 15.9 million BGN
Wastewater treatment – 2.23 million BGN
Service connections, water meters – 6.4 million BGN
Customer service – 5.16 million BGN

Key projects implemented in 2013:

- Reconstruction of a street water main in Kumata St. – in the section from Sevastokrator Kaloyan St to the shaft for the PRV (section point 111) and construction of a new water main in Kumata St. in the section from section point 114 to Boyanska St (section point 168), Boyana R.Q., Boyana villa area, Kinotsentar villa area III (total length of 1,450 m)
- Reconstruction of water mains in Chumerna St in the section from Ekzarh Yosif St to St. Kiril and Metodiy St; 11 August St, in the section from Ekzarh Yosif St. to Kiril and Metodiy St; Dunav St, in the section from Ekzarh Yosif St. to Tsar Simeon St.; Tsar Simeon St., in the section from G. Rakovski Blvd. To Vassil Levski Blvd. (total length of 1,245 m)
- Emergency reconstruction under the relining method of the existing water main ф800 with water main ф630, supplying reservoir Konyavitsa – in Fakulteta R.Q. (420 m).
- Reconstruction of a street water main in Lyuben Karavelov St. – in the section from 6-ti Septemvri St. to General Gurko St., center (718 m)
- Reconstruction of a street water main in Hristo Smirnenski Blvd. – from Evlogi Georgiev Blvd. to Krivolak St. (Journalist square) (630 m)
- Architactural and urban development design of the pedestrian zone in **Vitosha Blvd.** – from Solunska St. to Alabin St. – 525 m
- Construction and reconstruction of street sewerage and water branches in Boris Rumenov St., Krastova Vada R.Q. – 900 m
- Water and sewerage network in Nadezhda 4 between Lomsko Shosse Blvd., Hristo Silyanov St., Ekzarh Stefan St and Beli Dunav St. - I and II stage.
- Rehabilitation of the roof of the filter plant at PWTP Bistritsa (5,000 sq.m.)
- Construction of sewer and replacement of an existing water main in Minzuhar St., Selishteto St, Pavel Krasov St. – in the section from Samokovsko Shosse St. to Selishteto St., Tsvetna Gradina St - in the section from Iskar St. to Vidnishteto St., Vidnishteto St. - in the section from Iskar St. to Selishteto St., with connection to the existing main branch IV – Gorublyane R.Q., Mladost region – 1,100 m
- Construction of the main branch IV in the section from Petar Diplarov St. to Samokovsko Shosse St. – Sub-site: main sewer branch IV and reconstruction of a water main in Iskar St., in the section from Petar Diplarov St. to Deyan Popov St., Gorublyane R.Q.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

As a Company providing water supply and sewerage services on the territory of the Municipality of Sofia, the activity of Sofiyska Voda JSC 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.

The key tasks of The Group are preventative and long-term protection of natural resources, energy saving, reduction of hazardous emissions as well as optimization of the use of raw materials and fuels. The implementation of a result-orientated environmental protection policy has a number of benefits: cleaner water, protection of the surface and groundwater and reduction of potable water losses, better public health, safe and responsible waste management, less impact on green areas, water basins, air quality protection, and preservation of the cultural and historical heritage.

The investments in new technologies made in 2013 aimed at environmental protection improved the economic efficiency and increased The Group's productivity, meanwhile saving resources and energy.
The regulation and management of water and of water supply network activities result in water losses reduction and hence in saving this valuable natural resource.
The Group's priorities are introduction of best practices in the sewerage network operation and maintenance, construction of new sewers and ensuring of increasingly efficient and high-quality wastewater treatment.

More efficient waste management results in saving natural resources. The implementation of new technology in water treatment means lower operating costs in the long term. Raising the awareness of Sofia residents regarding efficient water use is a crucial aspect of The Group's work towards applying the sustainable development principles.

In order to achieve its environmental protection objectives, Sofiyska Voda JSC carried out control audits at all key sites of The Group and the relevant analyses were made. The identified important aspects and environmental impacts were updated. Actions plans for all important aspects were developed.

Sanitary Restricted Areas (SRA) around the water sources

In compliance with the statutory requirements, in 2013 Sofiyska Voda JSC continued to work on establishment and construction SRA around the water sources.

SRA - Iskar Dam

The obligations under Order No РД-577/08.09.2008 of the MoEW for this SRA are fulfilled, but the proceedings for appealing against the procedure for the fence of ring I has not been finalized yet.

SRA – Kokalyane weir

Over the reviewed period an order was issued for determining this SRA and the measures specified in it are being implemented.

SRA – Beli Iskar Dam

In the reviewed period, all obligations specified in the order for determining the SRA were fulfilled and at the beginning of 2014 this SRA is to be approved.

SRA – river catchments

In the reviewed period, the fences were restored of the first rings of the SRA for four river catchments – Vladayska I, Vladayska III, Kamenno Zdanie and Vitoshka Bistritsa, located on the territory of Vistosha Nature Park.

BDS EN ISO 14001:2005 – Environmental management systems

At the end of 2008, Sofiyska Voda JSC was certified under ISO 14001:2004 (BDS – 2005), an international standard for environmental management system (EMS). In 2013, the maintenance of the system continued by improving the EMS documentation and performing internal audits. The system ensures performance of activities aimed at minimizing the risk of pollution, efficient use of resources and increase in the efficiency of The Group's work. In November 2013, an internal control audit of the implementation of the system was successfully carried out. The audit found one non-compliance and 3 recommendations for improvement were made.
In several areas, The Group made EMS improvements which it had committed to make after the audit performed by Veolia Environnement at the end of 2012.

Waste management
In view of the new Waste Management Act of 2013, the Waste Activity Permit of The Group was updated. The Permit covers all the identified waste which may be generated as a result of the activities performed by Sofiyska Voda JSC. It states the available sites for temporary storage, transportation and provision of waste to licensed companies for further utilization as per the legislation in this area. Sofiyska Voda JSC continued to work in 2013 on the establishment of the introduced system for separate collection of packaging waste. Containers were ensured for all sites of The Group depending

on the type of waste. 28 nos. record books for production and/or hazardous waste generated through the activity of Sofiyska Voda JSC were provided as per the new Waste Management Act.
Sofiyska Voda JSC was included in the register of the Executive Environment Agency as a waste broker. The Group received the right to accept expired drinks, fats and other organic waste at the site of Kubratovo WWTP for processing in digesters and production of biogas. The Group organized the E-recycle Campaign, during which all employees had the opportunity to throw away any useless electronic equipment from their offices or homes for free. After the campaign, the waste was transported and provided for recycling.
Campaign for cleaning the area around Pancharevo Lake: for the second year in a row, volunteers from Sofiyska Voda took care of the lane and green area from Passarel HPP to the platforms. Together with the municipal service of Pancharevo region, the employees of Sofiyska Voda planted several trees in the beautiful suburban area. We also provided a new bench on which we put the writing 'Let's preserve nature together'. In view of the campaign for planting a tree per one thousand cancellations of paper invoices, we planted twenty-three fruit trees and bushes at the 72nd Kindergarten in Darvenitsa r.q. The children participated in an outdoor lesson and observed with interest how trees were being planted.

Program for achieving the environmental protection goals
An internal audit of the environmental management system was performed and an audit report was prepared and submitted to the senior management.
A fume cupboard for storing reagents was purchased and commissioned at the Potable Water Unit of LTC.
10 nos. dumpers were replaced with dumpers under Euro 5 standard which have smaller carbon footprint. 51 vehicles were replaced. The new ones have much more efficient fuel consumption. All the new vehicles comply with the Euro 5 emission standard.
In order to ensure online control over the supplied water volumes, in 2013 The Group connected to SCADA 2 nos. flow meters at Konyovitsa reservoir and, in order to correctly adjust the water flow, it connected 2 nos. stop valves with remote control – at Konyovitsa reservoir and at Yana reservoir.
As at the end of 2013, feasibility studies were prepared for the complete modernization and reconstruction of Pancharevo PWTP at the amount of BGN 55 000. In 2014, based on the feasibility studies, a detailed design amounting to about BGN 120 000 will be assigned and developed in order to optimize the used reagents.
Achieved compliance of the potable water indicators: microbiological indicators – 99.84%, physical and chemical indicators – 99.89%.
The Group started working on an action plan for recycling, disposal and utilization of the sludge from Bistritsa Process Water Plant, presenting the various options and stating which one is most suitable.
The water catchments of Levi Iskar and Beli Iskar were cleaned. Kamenno Zdanie water catchment was overhauled. A two-kilometer section of Rila Main was reconstructed and rehabilitated. Lozenets reservoir was reconstructed.

The Group organized several events in order to raise its employees' awareness of correct waste management, which is an important aspect of The Group's work on implementing the sustainable development principles. One of the events was organized during the European Week for Waste Reduction. The colleagues received a lot of advice about how to reduce the waste from their homes and offices. Training materials were uploaded at the intranet to facilitate our colleagues in handling the quantities of waste in their everyday lives. At the end of the year, 25 nos. old vehicles and 40 written-off office chairs were submitted for re-use.
On the World Day for the Protection of Animals, there was a screening about the birds and other rare inhabitants of the potable water and wastewater treatment plants in Sofia. The biodiversity of the birds was presented on the ground floor of the building of Sofiyska Voda JSC in Business Park Sofia. The selection of rare species and the interesting information about their lives had been prepared by an intern at the Environmental Protection Department. After the presentation, two information boards were put at the plants of Bistritsa and Kubratovo.
The Municipality of Sofia and Sofiyska Voda JSC launched a joint project aimed at informing children about the properties of water, ways of saving potable water and healthy way of life. The initiative was carried out at several schools during the year. In parallel, Sofiyska Voda JSC started

testing and issuing certificates from its accredited laboratory to schools and kindergartens regarding the quality of tap water after testing in the individual buildings.

For the third time in a row, Water Park was organized in order to show Sofia citizens for one day the way of potable water from the high slopes of the Rila Mountain to our city and back to nature. An improvised photo exhibition was presented to demonstrate The Group's activity even better to our visitors.

For the third time in a row, the Quench the Heat campaign was organized. The initiative aims to promote the drinking of potable water. On each day of the campaign, Sofiyska Voda's mobile laboratory demonstrated to passers-by the quality of the provided water through field tests. At building 2A in BPS, an attractive three-dimensional art installation was put in order for Sofiyska Voda to show how much water is contained in one cubic meter and how much plastic packaging waste would be generated if tap water was replaced with mineral water.

Production of green energy

In 2013, the wastewater treatment plant produced 13 600 MWh of green energy. The production is based on a cogeneration technology for utilization of biogas generated in the process of treatment of sludge from the plant. In 2013, the electricity consumption decreased by 5 % as compared to 2012. 95% of the biogas produced in 2013 was utilized due to technological problems related to foaming at the biological stage of the treatment plant. The electricity production in 2013 decreased as compared to 2012. After implemented technological solutions, this decrease is expected to be overcome in the future.

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 may 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 to the employees and members of the society;
- Reporting and investigating all incidents. Risk prevention aimed at 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

During the year, The Group made an initial risk assessment for new and reconstructed sites:

- Zhelyava pumping station. The new monorail hoist crane was commissioned;
- The risk of confined spaces at the new PWTP Passarel was assessed;
- Plana pumping station.

The Group is currently assessing the risk at the pumping stations of Iliyantsi and Kremikovtsi. The risk to pregnant employees was assessed regularly. A total of 20 risk assessments were performed in the year.

Health and Safety Goals 2013
The annual Health and Safety Goals set were achieved

№	Common H&S goals for the period 2012 - 2015	Specific objectives of Sofiyska Voda JSC 2013	Fulfill ment
1	*2*	*3*	*4*
1	**100 % trained H&S managers**	**Increasing the H&S competence of the managers** 1. Conducting H&S training of 12 managers who for objective reasons did not attend the training in 2012	100%
		2. Conducting quarterly H&S training of newly-appointed managers	
2	**100 % of the employees who had initial training**	**Increasing the H&S competence of the employees** 1. Conducting training on H&S in the workplace for newly-employed workers as per procedure П-H&S 4.4.2-1	100%
3	**6 H&S visits to sites by the Directors**	**H&S – highest priority** 1. Preparing and approving a schedule and checklist for visits to sites by the Directors	100%
		2. Conducting 6 visits - audit by the Directors	
		3. Monthly H&S audit on sites by the managers	
4	**100 % determination of the reasons for reported occupational accidents**	**Avoiding repetition of accidents** 1. Finding the reasons for all the reported accidents and taking corrective measures	100%
		2. Preparing a Safety Alert for each accident and distributing it to managers	
		3. Eliminating the risk of repetition of accidents upon manual carrying gas bottles to LTC Bistritsa by using the staircase	
5	**100 % analysis of all "Near miss" reports**	**Prevention of the risk of accidents** 1. Analysis of all reports on "Near miss" incidents and control on the implementation of corrective measures	100%
		2. Taking corrective measures in order to avoid repetition of the risk	
6	**10% annual decrease of the occupational accident frequency ratio: from 2013 to 2015**	**Decrease in the number of occupational accidents as compared to 2012** Decrease in the occupational accident frequency ratio from 4.57 to 0.55	K= 0.035

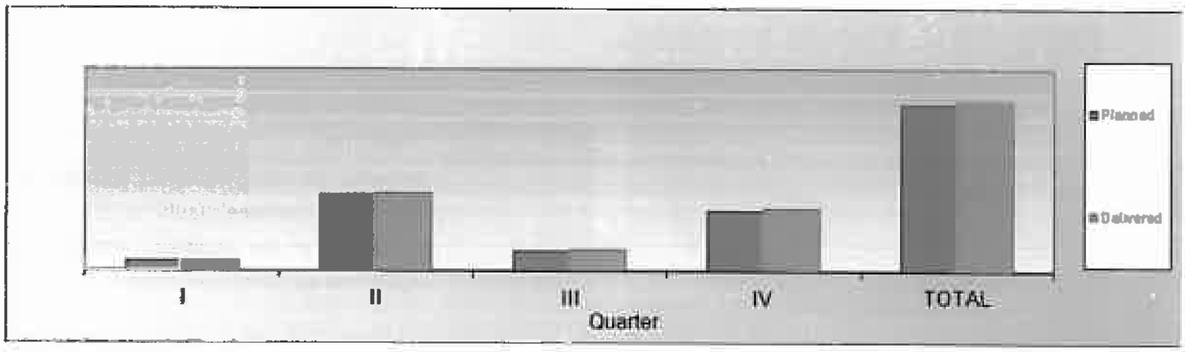
Work in partnership with employees, contractors, etc. to ensure health and safety
During the year, there were 4 meetings of the Committee on Working Conditions.
Main topics of discussion:

- Assessment of risk and condition 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 clothes;
- Update of the lists of additional leaves of persons who work under specific work conditions;
- Other issues regarding working conditions and health and safety.

Together with the Committee on Working Conditions, the directors perform regular H&S visits to the sites. During the visits we hold meetings with the employees regarding safety problems.

Training aimed at high H&S competence levels
High competence levels are a key factor for achieving the main goal of achieving zero accident level. During the year, 172 people had H&S initial briefings. The H&S trainings were held as per an approved annual program. The implementation is presented in the charts below.

	Trained people by quarters I	II	III	IV	Total 2013
planned	72	606	161	475	**1314**
delivered	73	610	171	490	**1344**



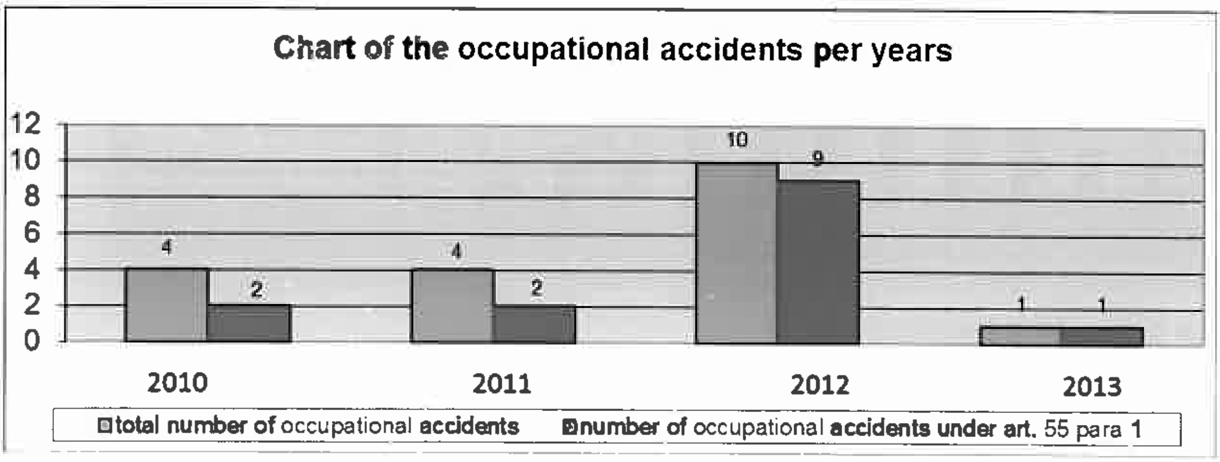
Audit and measurement of the health and safety implementation

On 28 and 29 November, an external control audit of OHSMS and EMS was performed. The audit covered the following departments: Pancharevo PWTP, Water Network Management Dept. and Water Management and Balance Dept., departments in the Business Park. The audit was successfully completed with the auditors' conclusion that the validity of our certificates would be prolonged for 1 more year. An audit report was presented and signed at the final meeting. The report does not find any non-compliance with the requirements of the standard OHSAS 18001:2007; two recommendations were made which we will take into account in order to improve our performance.

Reporting and investigating all incidents

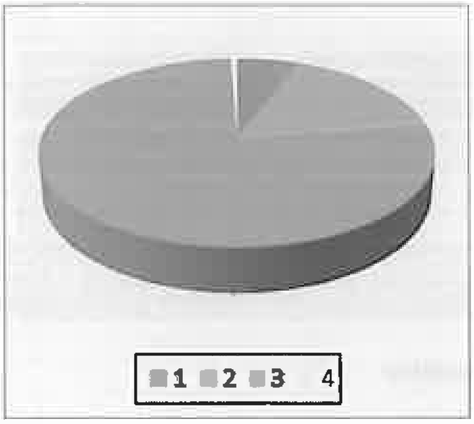
- **Lost time incidents**

One occupational accident was reported and investigated during the year
On 26.06.13, our team on night shift performed with a company car an inspection regarding a signal of a leak from a fire hydrant on a pavement, which had been received by the Control Room. The driver of the car (Water Network Emergency Activity inspector on shift) stopped the car, turned on the emergency lights, got out of the car and a taxi which was passing by hit him while he was closing the door. The taxi passed dangerously close to The Group car, damaged the rear left fender, hit the driver, broke the left side mirror of the car, and then it left the scene of the car accident. Our employee recovered for two months and came back to work.



Note: The accidents as per art.55 para 1 are the ones which occur on the workplace, not while coming to or leaving work.

During the reporting year, 158 incidents without injured employees but with damaged property were reported. 131 out of them are not our employees' fault. 10 nos. "near miss" incidents were reported. During the year, one incident was reported with a small injury of a citizen on a site of our contractor. Chart of the incidents:



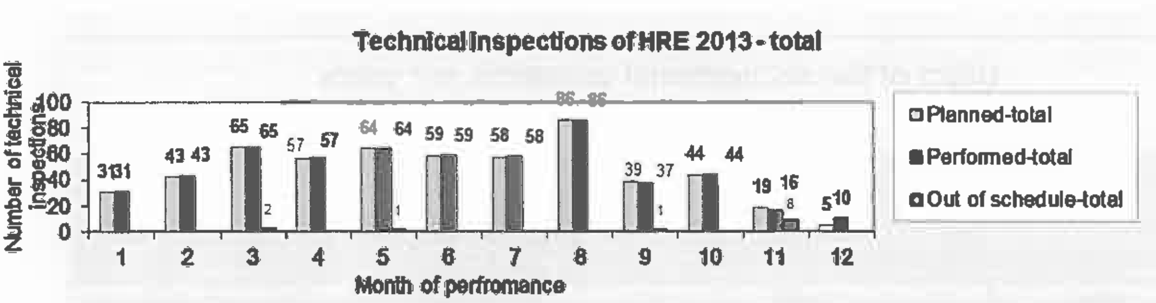
10	"Near miss"
27	property damage incident, without person injury, our employee's fault
131	property damage incident, without person injury, not our employee's fault
1	occupational accident occurred during work

Emergency planning and fire safety

The preventive approach is the main focus of our activity of emergency and fire safety. During the year, 22 emergency drills were carried out as per a drill schedule prepared and approved in advance. 10 drills were carried out for the fire extinguishing plans. We also prepared and approved the *Plan for preparing The Group for work from peaceful time to wartime* and the *Plan on work in wartime*. Meanwhile, we organized and coordinated ensuring the good technical order of the fire extinguishing equipment, equipment for work in potentially hazardous EX environment and confined spaces. We submitted to the Municipality of Sofia a *Plan of The Group for work in autumn and winter conditions* within the deadlines set by the Municipality of Sofia.

Technical surveillance of high-risk equipment /HRE/

The technical surveillance of the high-risk equipment operated by The Group is carried out on an annual basis as per a schedule approved in advance. The chart below shows the implementation of technical inspections by months. The scheduled 570 technical inspections were performed. Apart from the plan, we carried out 12 technical inspections of new equipment.



HUMAN RESOURCES MANAGEMENT

In its policy and practice, Sofiyska Voda JSC 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.

In June 2013, a new Collective Labor Agreement was signed for a term of two years.

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 2013, annual bonuses were paid to the employees for the previous year in line with the approved bonus scheme of The Group, taking into account the fulfillment of The Group's business objectives agreed in the previous year.

Training and development

During the year there were regular initial briefings for new employees of The Group for the purpose of their quick and easy adaptation to the new environment and getting acquainted with the values, culture and structure of Sofiyska Voda JSC. The Group successfully implemented its annual Training Plan. Under the Plan, all employees from the Front Office as well as the technical staff working with customers were trained in Service and Work with Customers. There were a number of trainings for capacity and health and safety at work.

The internship program of Sofiyska Voda JSC was carried out for the twelfth year in a row. In 2013, 21 students carried out their internship at The Group. After the internship was completed, six of the interns stayed in The Group in order to work and develop successfully.

In line with the policy for awarding individual and team achievements of the employees in Sofiyska Voda JSC, 8 employees received the Golden Star award and a total of four teams were awarded in 2013.

50 employees were promoted to higher positions during the year.

Together with the social partners, The Group implements a wide-scope social program which has a positive impact on the relations with employees, their motivation and retention.

RESEARCH AND DEVELOPMENT

Sofiyska Voda JSC does not carry out research and development.

BOARD OF DIRECTORS

In 2013, personal changes were made in the Board of Directors of Sofiyska Voda JSC. At an extraordinary General Assembly of Shareholders on 04.02.2013, Mr. Jean Edmond Henri Salessy and Mr. Ruslan Lyubomitov Kenarov were dismissed from membership in the Board, and Mr. Vladimir Georgiev Stratiev was selected as member of the Board of Directors from the quote of the shareholder Vodosnabdyavane i Kanalizatsia EAD. At the regular annual General Assembly of Shareholders of Sofiyska Voda JSC on 20 May 2013, Ms. Mariana Georgieva Iteva, who had been a General Commercial Proxy of Sofiyska Voda JSC until 17 May 2013, was proposed and selected as member of the Board of Directors from the quota of the shareholder Veolia Voda (Sofia) B.V.

Thus, as at 31.12.2013 the Board of Directors comprised of the following members: Mr. Etienne Marie Patrice Petit, Mr. Gyorgy Palko, Mr. Ferenc Szucs, Ms. Mariana Georgieva Iteva, Mr. Vladimir Georgiev Stratiev, Mr. Stefan Nikolov Peltekov and Mr. Tsvetan Dobrev Gergov.

In 2013, the Management of The Group received BGN 194 thousand (BGN 116 thousand in 2012) as stated in Note 29 of the Consolidated Financial Statements for 2013.

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

RELATED PARTIES

The Group is a related party to its parent company Veolia Voda (Sofia) B.V., which owns 77.10% of Sofiyska Voda JSC's shares, as well as to the other companies of the economic group. Sofiyska Voda is a related party to Water Industry Support and Education OOD 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 Separate Financial Statements of the Companies for 2013.

FORECAST FOR 2014 AND BUSINESS PLAN 2014 – 2015

As per the amendment to the Water Act promulgated in State Gazette on 29.11.2013, the current regulatory period is prolonged by two years, and WSS operators have to submit the business plans for the period 2014-2015 to the State Energy and Water Regulatory Commission (SEWRC) by 04.03.2014. In addition, as per the legislation, WSS operators may submit new price applications.

At the end of 2013, Sofiyska Voda JSC started the preparation of Business Plan 2014 – 2015, as well as the preparation of Price Application for 2014. The draft Business Plan 2014-2015 will be agreed with Municipality of Sofia, as per the requirements of the sectoral legislation and the Concession Agreement signed between Sofiyska Voda JSC and the Municipality of Sofia.

The draft Business Plan 2014-2015 and the Price Application for 2014 will be submitted to SEWRC within the statutory term.

If a new price of the WSS services for 2014 is approved by SEWRC, the price is expected to become effective as of 01.07.2014 at the earliest due to the statutory periods for reviewing the business plans and respectively the price applications of WSS companies.

The main challenge to Sofiyska Voda JSC is the delay in the increase of prices of WSS services (The Group is working with prices as of 01.07.2012), which may have a negative impact on the implementation of the envisaged investment program for the period 2014-2015. The reduction of the investment program could lead to non-compliance with the set levels of some of the KPIs for WSS services which require considerable capital resources (reduction of water losses, reduction of failures in the WSS network and impounding structures, etc.)

Anelia Ilieva
/Financial Director/

Mariana Iteva
/Executive Director/

Софийска вода
София
АД

Contents

Consolidated statement of financial position

In thousands of BGN	*Note*	31 December 2013	31 December 2012
Assets			
Property, plant and equipment	*13*	18,592	16,130
Intangible assets	*14*	263,088	238,993
Deferred tax assets	*20*	5,955	5,536
Non-current receivables	*16*	133	197
Non-current assets		287,768	260,856
Inventories	*15*	1,696	1,938
Trade and other receivables	*16*	32,690	35,992
Income tax receivables		817	1,000
Cash and cash equivalents	*17,24*	11,107	15,434
Current assets		46,310	54,364
Total Assets		334,078	315,220

Consolidated statement of financial position (continued)

In thousands of BGN	*Note*	31 December 2013	31 December 2012
Equity			
Share capital	*18*	8,884	8,884
Reserves	*18*	10,774	3,682
Retained earnings		122,168	101,533
Total equity		141,826	114,099
Liabilities			
Interest bearing loans and borrowings	*19,24*	89,005	133,789
Finance lease liabilities	*19,24*	2,456	851
Employee benefits	*26*	737	595
Financing for non-current assets		2,236	1,301
Non-current liabilities to Municipality of Sofia	*21*	7,895	7,838
Non-current liabilities		102,329	144,374
Interest bearing loans and borrowings	*19,24*	44,087	7,815
Finance lease liabilities	*19,24*	1,171	628
Tax liabilities	*23*	478	535
Payables to related parties	*29,24*	4,543	6,061
Trade and other payables	*21*	37,615	33,012
Derivatives		-	5,695
Provisions	*22*	1,480	2,519
Employee benefits	*26*	549	482
Current liabilities		89,923	56,747
Total liabilities		192,252	201,121
Total equity and liabilities		334,078	315,220

The notes on pages 11 to 60 are an integral part of these consolidated financial statements.

Mariana Iteva
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 2013**	**31 December 2012 (restated)**
Revenue	*4*	125,436	127,005
Other income	*5*	1,356	3,337
Revenue from construction	*6*	44,672	35,889
		171,464	166,231
Expenses for materials	*7*	(10,701)	(10,440)
Expenses for hired services	*8*	(26,002)	(26,781)
Depreciation and amortization	*13,14*	(24,051)	(22,974)
Personnel expenses	*9*	(15,627)	(14,867)
Social security contributions and other social expenses	*9*	(3,946)	(3,670)
Other operating expenses	*10*	(9,726)	(8,837)
Expenses for construction	*6*	(44,672)	(35,889)
Results from operating activities		36,739	42,773
Finance income	*11*	69	146
Finance costs	*11*	(10,655)	(11,454)
Net finance costs		(10,586)	(11,308)
Profit before income tax		26,153	31,465
Income tax expense	*12*	(2,635)	(3,167)
Profit for the year		23,518	28,298

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

For the year ended 31 December

In thousands of BGN	*Note*	2013	2012 (restated)
Other comprehensive income			
Items that are or may be reclassified to profit or loss::			
Cash flow hedges – effective portion of changes in fair value		-	2,059
Cash flow hedges – reclassified to profit or loss		4,768	-
Related tax	*12,20*	(477)	(206)
		4,291	1,853
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability		(82)	(302)
Related tax		-	-
		(82)	(302)
Other comprehensive income for the year, net of tax		4,209	1,551
Total comprehensive income for the year		27,727	29,849

The notes on pages 11 to 60 are an integral part of these consolidated financial statements.

Mariana Iteva
Executive director

Anelia Ilieva
Finance Director

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

Margarita Goleva
Director

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 2012		8,884	(6,144)	5,115	76,394	84,250
Total comprehensive income for the period						
Profit – Restated		-	-	-	28,298	28,298
Other comprehensive income, net of taxes		-	1,853	-	(302)	1,551
Total comprehensive income for the period		-	1,853	-	27,996	29,849
Transactions with owners of the Group, recognized directly in equity						
Transfer between reserves based on shareholders' decision		-	-	2,858	(2,858)	-
Total transactions with owners of the Group		-	-	2,858	(2,858)	-
Balance at 31 December 2012	*18*	8,884	(4,291)	7,974	101,532	114,099

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 2013		8,884	(4,291)	7,974	101,532	114,099
Total comprehensive income for the period						
Profit		-	-	-	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

The notes on pages 11 to 60 are an integral part of these consolidated financial statements.

Mariana Iteva
Executive director

Anelia Ilieva
Finance Director

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

Margarita Goleva
Director

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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"КПМГ - България" ООД

Krassimir Hadjidinev
Registered Auditor

Consolidated statement of cash flows

For the year ended 31 December

In thousands of BGN	*Note*	31 December 2013	31 December 2012
Cash flow from operating activities			
Net profit for the year		23,518	28,298
Adjustments for:			
Depreciation expenses on property plant and equipment	*13*	3,253	3,200
Amortisation of intangible assets	*14*	20,798	19,774
Net finance costs	*11*	10,586	11,308
Impairment losses on trade receivables	*10*	8,703	6,232
Write-downs of inventories to net realisable value	*10*	(133)	75
Expenses for scrapping of materials	*10*	40	150
Expenses for scrapping of non-current assets	*10*	30	116
Income tax expense	*12*	2,635	3,167
		69,430	72,320
Changes in:			
- employee benefits	*26*	81	(80)
- other provisions	*22*	(1,039)	(3)
- inventories		317	(532)
- trade and other receivables		(5,351)	(9,700)
- trade and other payables		(8,418)	(119)
- deferred income, including financing		935	132
Cash generated from operating activities		55,955	62,018
Income tax paid		(3,347)	(4,546)
Net cash from operating activities		52,608	57,472
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,327)	(2,668)
Acquisition of intangible assets		(33,419)	(37,208)
Proceeds from sales of property, plant and equipment		-	-
Net cash used in investing activities		(35,746)	(39,876)

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN	*Note*	31 December 2013	31 December 2012
Cash flow from financing activities			
Receipts of loans and borrowings		-	4
Repayment of loans and borrowings		(9,281)	(9,498)
Payment of finance lease liabilities		(1,289)	(617)
Interest paid		(10,598)	(11,028)
Other financial payments		(21)	(57)
Net cash from financing activities		(21,189)	(21,196)
Net increase/(decrease) in cash and cash equivalents		(4,327)	(3,600)
Cash and cash equivalents at 1 January		15,434	19,034
Cash and cash equivalents at 31 December	*17*	11,107	15,434

The notes on pages 11 to 60 are an integral part of these consolidated financial statements.

Mariana Iteva
Executive diretor

Anelia Ilieva
Finance Director

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

Margarita Goleva
Director

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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Krassimir Hadjidinev
Registered Auditor

Notes to the consolidated financial statements

1. Reporting entity

Sofiyska Voda AD (the Company) is a company registered in Sofia City Court on 28 December 1999 under company case № 16172/1999 / №54111, p.557, registration. 1, page 20 and registered as per the Public Register Act in the Public Register to the Registry Agency under uniform identification code 130175000. The address of the registered office of the Company is Bulgaria, Sofia , 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 2013 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 2013 were approved by the Board of Directors on 2 April 2014.

(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:

- derivative financial instruments are measured at fair value;
- 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.

2. Basis of preparation (continued)

(d) 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 accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimate uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the Consolidated financial statements are described in the following notes:

- Note 4 - Revenues;
- Note 19 – Accounting for arrangements containing a lease;
- Note 14 – Reporting of an intangible asset "Concession right";

Information about significant areas of estimate uncertainty that are expected to have considerable effect in the following financial year is described in the following notes:

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

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 valuation team 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 valuation team 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)

(d) Use of estimates and judgments (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;

(e) 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 2013.

- *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* (see (i))
- IFRS 13 *Fair Value Measurement* (see (ii))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (see (iii))
- IAS 19 *Employee Benefits* (2012) (see (iv))

(i) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about offsetting of financial assets and financial liabilities (see note 24).

(ii) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such disclosures are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result the Group has included additional disclosures in this regard (see note 24).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iii) Presentation of items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

(iv) Defined benefit plans

As a result of IAS 19 Employee Benefits (2012), the Group has changed its accounting policy in respect of actuarial gains and losses arising from defined benefit plans from recognizing them in profit and loss to recognizing all actuarial gains and losses in other comprehensive income (OCI).

2. Basis of preparation (continued)

(f) Summary of quantitative impacts

The following tables summarise the impacts resulting from the above changes in accounting policies on the Group's financial position, comprehensive income and cash flows.

Statement of profit or loss and other comprehensive income

In thousands of BGN	**2013**	**2012**
Decrease in:		
Salaries	-	(302)
Income tax expense	-	-
Decrease/(increase) in defined benefit plan remeasurement loss recognized in OCI	(81)	(302)

3. Significant accounting polices

Except for the changes explained in Note 2, the Group has consistently applied the following accounting policies to all periods presented in these consolidated 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 Group's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate stated by the central bank at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-cash assets and liabilities denominated in foreign currencies, which are accounted for at historical cost, are translated into the functional currency at the rate of the date of the transaction. Foreign currency exchange differences are accounted for in profit and loss, except for the following, which are accounted for in other comprehensive income upon retranslation:

- Equities 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

Since 1999 the exchange rate of the Bulgarian lev (BGN) has been fixed against the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

(c) Financial Instruments

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

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

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

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

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

(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.

3. Significant accounting polices (continued)

(c) Financial instruments (continued)

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

(v) Derivative financial instruments, including hedge accounting

The Group holds financial instruments to hedge its interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect profit or loss.

Derivatives are recognized initially at fair value; the attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, financial instruments are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit and loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

3. Significant accounting polices (continued)

(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.

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.

Subsequent costs

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

(ii) Depreciation

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

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

• buildings	25 years
• plant and equipment	5-25 years
• vehicles – automobiles	5-10 years
• vehicles – trucks	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.

3. Significant accounting polices (continued)

(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 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".

(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.

3. Significant accounting polices (continued)

(e) Intangible assets (continued)

(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 at both a specific asset and 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 results in decrease of the receivables. Whenever a subsequent event reduces the impairment loss, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For 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 CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 amortisation, if no impairment loss had been recognised.

3. Significant accounting polices (continued)

(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.

(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.

3. Significant accounting polices (continued)

(k) Provisions (continued)

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%).

(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, contract revenue is 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.

3. Significant accounting polices (continued)

(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.

(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 nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

3. Significant accounting polices (continued)

(o) Income tax (continued)

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.

(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 2013, 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:

- IFRS 10 *Consolidated Financial Statements*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 establishes a single control model for determining whether an entity in which it is invested should be consolidated. The Group does not expect the new standard to have any impact on the consolidated financial statements since the assessment of the control over the enterprises in which is invested, according to the new standard is not expected to alter previous conclusions about the Group's control over these enterprises.
- IFRS 11 *Joint Arrangements*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect IFRS 11 to have any material impact on the financial statements since the Group does not participate in joint ventures.
- IFRS 12 *Disclosures of Interests in Other Entities*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the new standard to have any material impact on the financial statements.
- IAS 27 *Separate Financial Statements* (2011), which supersedes IAS 27 (2008), shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the changes in the standard to have material impact on the financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* (2011), which supersedes IAS 28 (2008), shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the changes in the standard to have material impact on the financial statements since it has no investments in joint ventures or associates that would be affected by the changes.
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities,* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any impact on the financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

3. Significant accounting polices (continued)

(p) New standards and interpretations not yet adopted (continued)

- Amendments to IFRS 10, IFRS 12 и IAS 27 – *Investment entities*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any impact on the financial statements since the parent company does not meet the definition of an investment entity.
- Amendments to IAS 36 – *Recoverable amount disclosures for non-financial assets*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any material impact on the financial statements.
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any material impact on the financial statements.

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 November 2009)* and Additions to IFRS 9 *(issued October 2010 and 2013)* and Amendments to IFRS 9 and IFRS 7 – Required dates of entry into force and guidelines for transition (date of entry into force is not defined, will be applied retrospectively, earlier adoption is allowed).
- Amendments to IAS 19 – *Defined benefit plans: Employee contributions* (shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2014. Earlier adoption is allowed. It will be applied retrospectively).
- IFRIC 21 – *Levies* (shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2014. Earlier adoption is allowed. It will be applied retrospectively).

4. Revenue

In thousands of BGN	**Note**	**2013**	**2012**
Income from water supply		83,695	84,934
Income from sewerage		15,357	15,245
Income from waste water treatment		20,963	22,195
Interest income from overdue receivables		4,375	3,378
Income from service sales		2,415	2,493
Revenue invoiced to customers, which is to be transferred to meet the obligations regarding the financial memorandum ISPA		(1,322)	(1,195)
Revenue invoiced to customers, which offsets the consideration for the new W&S infrastructure financed by the Municipality of Sofia's budget	*27(b)*	(47)	(45)
		125,436	127,005

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 2013 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 1,322 thousand (2012: 1,195 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 2013, the Group has transferred two installments amounting to BGN 1,182 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	2013	2012
Income from penalties	24	
Income from carbon credits	-	1,435
Penalties of contractors	96	239
Penalties for industrial discharges of water with excessive concentration of pollutants	565	869
Sale of inventories to subcontractors for construction works	241	132
Green energy income	86	120
Income from rent	6	16
Income from financing	160	135
Other	178	391
	1,356	3,337

6. Revenue from and expenses for construction

In thousands of BGN		2013			2012		
Projects	Note	Revenue	Expenses	Profits	Revenue	Expenses	Profits
Water supply		17,116	17,116	-	17,641	17,641	-
Potable water treatment		3,642	3,642	-	1,797	1,797	-
Sewerage		15,735	15,735	-	9,219	9,219	-
Waste water treatment		1,782	1,782	-	1,342	1,342	-
House connections and meters		6,397	6,397	-	5,890	5,890	-
Total	*15*	44,672	44,672	-	35,889	35,889	-

7. Expenses for materials

In thousands of BGN	2013	2012
Electricity, water, heating	2,397	2,208
Fuels and lubricants	1,593	1,598
Water for technological needs	1,672	1,704
Chemicals	3,005	2,899
Plumbing materials	603	634
Other	1,431	1,397
	10,701	10,440

8. Expenses for hired services

In thousands of BGN	**2013**	**2012**
Annual water supply and sewatage tax	4,579	5,314
Repairs and maintenance of property, plant and equipment	4,833	5,564
Insurance	1,456	1,394
Rent	1,111	1,065
Security	5,204	4,583
Other services	8,819	8,861
	26,002	26,781

Other expenses for hired services include:

In thousands of BGN	**2013**	**2012**
Water – meters reading	1,592	1,692
Courier services	371	400
Printing services	544	527
Technical services	1,496	1,496
Consultancy	662	1,032
Asphalt covering	428	301
SEWRC fee	422	426
Sterilization	42	61
Communication	170	138
Annual software licenses	715	580
Collection of receivables	494	585
Hired transportation	222	320
Other	1,661	1,303
	8,819	8,861

9. Personnel expenses

In thousands of BGN	*Note*	**2013**	**2012**
Wages and salaries		15,435	14,888
Compulsory social security contribution		2,299	2,184
Social expenses		84	77
Expenses for additional pension contribution		367	342
Retirement compensation	*26*	192	222
Voucher expenses		1,196	1,126
		19,573	18,839

The salary expenses include an accrual for unused annual paid leave amounting to BGN 275 thousand (2012:225 thousand).

The compulsory social security contribution include an accrual for social and health security on unused annual paid leave for the amount of BGN 50 thousand (2012: 40 thousand).

The average number of personnel is 1,160 employees (2012: 1,127 employees).

10. Other operating expenses

In thousands of BGN	*Note*	2013	2012
Impairment of receivables	*24*	8,703	6,232
Write down of inventories to net realizable value		(133)	75
One-off taxes		120	119
Accrued provisions expenses	*22*	-	-
Commission for collection of trade receivables		1,086	1,152
Fines		(770)	145
Scrapping of materials		40	150
Scrapping of non-current assets		30	116
Others		650	848
		9,726	8,837

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

In thousands of BGN	*Note*	2013	2012
Interest income		39	91
Effect from guarantee discounts		30	55
Financial income		69	146
Interest expenses for Loan "A" based on effective interest rate method calculations		(1,674)	(1,909)
Interest expenses for Loan "B" based on effective interest rate method calculations		(4,835)	(4,867)
Interest expenses for Loan "C" based on effective interest rate method calculations		(3)	(17)
Finance charges on finance leases		(121)	(81)
Interest expenses on employee benefits	*26*	(44)	(30)
Effect from guarantee discounts		(43)	(27)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia		(57)	(723)
Other finance costs		(38)	(35)
Loss from foreign currency exchange differences		(12)	58
Interest expenses on SWAP transactions		(3,828)	(3,823)
Finance costs		(10,655)	(11,454)
Finance costs (net)		(10,586)	(11,308)

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:

	2013	2012
Total interest income on financial assets	69	146
Total interest expense on financial liabilities	(6,633)	(6,874)

12. Tax expenses

In thousands of BGN	*Note*	2013	2012
Current tax expense			
Income tax expense for current year		(3,531)	(3,484)
Deferred tax expense			
Origination and reversal of temporary differences	*20*	896	317
Total income tax expense		(2,635)	(3,167)

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

	2013			2012		
In thousands of BGN	Before tax	Tax income	Net of tax	Before tax	Tax income	Net of tax
Cash flow hedges	(4,768)	477	(4,291)	2,059	(206)	1,853
	(4,768)	477	(4,291)	2,059	(206)	1,853

Reconciliation of effective tax rate *In thousands of BGN*		2013		2012
Profit for the year		23,518		27,996
Total tax expenses		2,635		3,167
Profit before tax		26,153		31,163
Income tax using the Group's domestic tax rate	10%	(2,615)	10%	(3,116)
Non-deductible expenses	0.05%	(15)	0.09%	(27)
Effects of written off deferred tax asset on overdue receivables, for which no deduction has been used in the tax return	0.03%	(7)	0.08%	(24)
Effects of deduction of tax loss, for which no deferred tax assets has been recognized	0.00%	2		-
Net current income tax (expense)/income	10.08%	(2,635)	10.17%	(3,167)

13. Property, plant and equipment

In thousands of BGN	**Land and buildings**	**Plant and equipment**	**Vehicles**	**Leasehold improvements**	**Assets under construction**	**Tot:**
Cost						
Balance at 1 January 2012	750	20,990	9,865	1,057	30	32,692
Additions	-	-	-	-	3,440	3,440
Disposals	(12)	(429)	(412)	-	-	(853)
Transfers	-	2,538	543	8	(3,089)	-
Balance at 31 December 2012	738	23,099	9,996	1,065	381	35,279
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
Depreciation						
Depreciation as at 1 January 2012	(108)	(9,169)	(6,604)	(780)	-	(16,661)
Depreciation charge for the year	(22)	(2,189)	(887)	(102)	-	(3,200)
Depreciation on disposals	4	298	410	-	-	712
Balance as at 31 December 2012	(126)	(11,060)	(7,081)	(882)	-	(19,149)
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)
Carrying amounts						
At 1 January 2012	642	11,821	3,261	277	30	16,031
At 31 December 2012	612	12,039	2,915	183	381	16,130
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

13. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, acquired in 2013 amount to BGN 5,863 thousand (2012: 2,920 thousand) and are listed below:

In thousands of BGN	**2013**	**2012**
CHP generator	215	143
Transportation vehicles and mechanization	2,619	441
Laboratory equipment	178	171
Pump Station Zlelyava	-	365
Sewer Pump Station Gorublyane	-	430
Sewer Pump Station Benkovski	-	55
Computer equipment	599	158
GPS Spatial Imaging System	-	-
Installations for the production of sodium hypochlorite	-	-
Open Distribution Device of a substation 110/3 kW	-	-
Substation Kremikovstzi, Pancharevo	-	55
Main Switchboard – Pumping Station Yana	-	-
Other equipment	2,252	1,102
	5,863	2,920

Assets pledged as collateral

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

A specific pledge on the leased vehicles under the finance lease contracts has been set up in favor of the lessor – the subjects of the contracts (motor vehicles and construction machines) are individualized by type in the Central Pledges Registry and the total value amounts to BGN 927 thousand.

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, having a total acquisition value of BGN 927 thousand.

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 2012	21,041	14,867	265,694	24,067	123	325,792
Acquisitions	-	-	-	35,889	787	36,676
Disposals	-	-	-	-	-	-
Transfers	-	553	42,082	(42,082)	(553)	-
Balance as at 31 December 2012	21,041	15,420	307,776	17,874	357	362,468
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	15,728	353,367	16,946	278	407,360
Amortization						
Balance as at 1 January 2012	(20,262)	(12,122)	(71,317)	-	-	(103,701)
Amortization for the year	(252)	(1,374)	(18,148)	-	-	(19,774)
Balance as at 31 December 2012	(20,514)	(13,496)	(89,465)	-	-	(123,475)
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)
Carrying amounts						
At 1 January 2012	779	2,745	194,377	24,067	123	222,091
At 31 December 2012	527	1,924	218,311	17,874	357	238,993
At 1 January 2013	527	1,924	218,311	17,874	357	238,993
At 31 December 2013	349	1,804	243,711	16,946	278	263,088

14. Intangible assets (continued)

Acquired assets

The major acquisitions of intangible assets in 2013 relate to the increase of the value of the Concession right and amount to BGN 45,601 thousand (2012: 42,082 thousand). The main components are listed below:

In thousands of BGN	**2013**	**2012**
Water supply network and house connections	21,484	24,168
Water Waste Treatment Plant Koubratovo	1,792	889
Sewerage and house connections	11,224	9,805
Hydrants	2,917	1,920
Water meters	2,451	1,826
Leasehold improvements	4,790	2,624
Pumping Stations	943	850
	45,601	42,082

Assets under construction

The major intangible assets under construction which relate to concession right amount to BGN 16,946 thousand (2012: 17,874 thousand). The most significant of them and listed below:

In thousands of BGN	**2013**	**2012**
Second stage of strengthening of Beli Iskar Dam	1,029	460
Waste Water Treatment Plant	613	664
Waste Water and Sewage Treatment Plant	3	28
Construction of water main system, water-main net model and DMA zones for reduction of unaccounted for water	4,357	10,025
Chlorinating stations	282	948
Construction of sewerage mains and sewerage model	8,024	4,292
Potable Water Treatment Plants	1,671	810
Impounding Structures	380	474
Rehabilitation of reservoirs, pumping stations, sanitary protection zones	430	173
Proactive replacement of stop valves, fire hydrants, water connections	157	-
	16,946	17,874

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	**2013**	**2012**
Spare parts and consumables	2,880	3,255
Write-down to net realizable value	(1,184)	(1,317)
	1,696	1,938

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	2013	2012
Balance at 1 January	(1,317)	(1,242)
Accumulated write-down of inventories	-	(75)
Reversed write-down of wasted inventories	-	-
Reversed write-down of used inventories	133	-
Amounts written-off	-	-
Balance at 31 December	(1,184)	(1,317)

16. Trade and other receivables

In thousands of BGN	Note	2013	2012
Trade and other receivables		70,547	70,081
Impairment losses on trade receivables		(40,264)	(36,588)
Court receivables		15,164	11,968
Impairment losses on court receivables		(14,406)	(11,370)
Total trade receivables	*25*	31.041	34,091
Other receivables		138	158
Prepayments for current assets		1,644	1,940
		1.782	2,098
Total trade and other receivables		32,823	36,189
Non-current		133	197
Current		32,690	35,992

In 2013 receivables with 5-year validity period that has expired, amounting to BGN 2,154 thousand have been written off (2012: 3,280 thousand). For detailed information about changes in receivables' impairment see note 24 *Financial Instruments*.

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".
By a bailment contract signed by the Group in relation to bank loan "B", current and future receivables of the Group amounting at a minimum of EUR 200 thousand have been pledged as collateral.

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	2013	2012
Insurance	1,093	1,063
Licenses	169	127
Subscriptions	112	113
Consulting services	60	154
Other	210	483
	1,644	1,940

17. Cash and cash equivalents

In thousands of BGN	Note	2013	2012
Cash on hand		73	61
Local currency		56	47
Foreign currency		17	14
Cash at banks		11,034	15,373
Local currency		10,797	14,891
Foreign currency		237	482
Cash and cash equivalents in the statement of cash flows	24	11,107	15,434

Cash at banks pledged as collateral:

The Group has pledged all its bank accounts under the requirements of a bank loan "A". These accounts will be used for collection of cash from accounts receivable plus any insurance claims payable to the Group in relation to insurance against losses and potential damages.

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 2013	2012
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 2013 the Group's share capital includes 8,884,435 ordinary shares (2012: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2013 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.

Hedging reserves

Hedging reserves includes the effective part of the net change in fair value of instruments used for hedging cash flows related to hedge deals.

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	2013	2012
Non-current liabilities		
Loans at nominal value	89,951	134,573
Amortization	(946)	(784)
Loans at amortized cost	89,005	133.789
Finance lease liabilities	2,456	851
	91,461	134,640
Current liabilities		
Loans at nominal value	44,622	9,284
Amortization	(535)	(1,469)
Loans at amortized cost	44,087	7,815
Finance lease liabilities	1,171	628
	45,258	8,443

In accordance with the loan agreement 'A' the Group has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of 1.3:1. The ADSCR should show that at any Calculation Date (ending on 31 December) the ratio of Free Cash Flow for the preceding twelve month period to the aggregate amount of principal and interest payments falling due and payable during such period should be 1.3:1. In accordance with the Amended and Restated Loan Agreement (ARLA) the calculation of the annual debt service coverage ratio is calculated by the bank by the means of a model based on the actual and estimated values as at the date of preparation. As per the internal calculations based on the actual cash flow for 2013 result in an actual ADSCR of 1.52:1. 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 2013		31 December 2012	
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	63,456	62,064	72,520	70,712
Loan „B"	EUR	5.95% plus 6 month EURIBOR	2015	71,117	71,028	71,117	70,673
Loan „C"	EUR	2.50% plus 3 month EURIBOR	2013	-	-	219	219
Finance lease liabilities				3,627	3,627	1,479	1,479
				138,200	136,719	145,335	143,083

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 **2013**	Interest **2013**	Present value of minimum lease payments **2013**	Future minimum lease payments **2012**	Interest **2012**	Present value of minimum lease payments **2012**
Less than 1 year	1,292	121	1,171	719	91	628
Between 1 and 2 years	1,950	118	1,832	524	30	494
2 to 5 years	632	8	624	374	17	357
	3,874	247	3,627	1,617	138	1,479

20. Deferred tax assets and liabilities

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

In thousands of BGN	Assets **2013**	Liabilities **2013**	Net **2013**	Assets **2012**	Liabilities **2012**	Net **2012**
Property, plant and equipment	-	(594)	(594)	-	(915)	(915)
Inventories	117	-	117	131	-	131
Trade receivables	5,467	-	5,467	4,796	-	4,796
Provisions	489	-	489	810	-	810
Accrual for unused paid leave and bonus	261	-	261	37	-	37
Payables as per defined benefit plan	123	-	123	108	-	108
Hedging instruments	-	-	-	477	-	477
Financing from EBRD	25	-	25	25	-	25
Trade payables	67	-	67	67	-	67
Deferred tax assets/ (liabilities)	6,549	(594)	5,955	6,451	(915)	5,536

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 2013 is calculated by using the tax rate applicable to the Group which is the effective income tax rate for 2014 - 10%.

20. Deferred tax assets and liabilities (continued)

Changes in temporary differences during the year

In thousands of BGN	Balance as at 1 January 2012	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2012	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2013
Property, plant and equipment	(1,088)	173	-	(915)	321	-	(594)
Inventories	124	7	-	131	(14)	-	117
Trade receivables	4,501	295	-	4,796	671	-	5,467
Provisions	537	69	-	606	(117)	-	489
Accrual for unused annual paid leave	239	2	-	241	20	-	261
Non-current employee benefit compensation	82	16	-	108	15	-	123
Hedging instruments	683	-	(206)	477	-	(477)	-
Financing from EBRD	29	(4)	-	25	-	-	25
Trade payables	318	(251)	-	67	-	-	67
Deferred tax assets/ (liabilities)	5,425	317	(206)	5,536	896	(477)	5,955

21. Trade and other payables

In thousands of BGN	*Note*	**2013**	**2012**
Trade payables		18,546	11,949
Guarantees		1,916	1,793
Payables to employees		3,540	3,228
Insurance		1,147	1,149
Polution		3,107	3,108
ISPA		3,597	3,456
Total trade payables	*24*	31,853	24,683
Social security payables		510	453
Trade payables as per Contract with Municipality of Sofia		7,943	8,923
Payables for water usage tax		4,579	5,314
Other payables and accruals		625	1,477
		13,657	16,167
Total trade and other payables		45,510	40,850
Non-current		7,895	7,838
Current		37,615	33,012

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

22. Provisions

In thousands of BGN	**2013**	**2012**
Provision for court liabilities	1,480	2,519
	1,480	2,519

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.

Yet another group form the provisions relate to the imposing of administrative sanctions, mostly due to possible violations connected with the Group's prevailing situation on the market. The most significant amounts for provisions for court liabilities are related to the last group and to a part of the claims for indemnification of damage. Generally it is expected that some of the cases related to the provisions accrued will end by the end of 2014, although there is a possibility that some will continue in the next financial year.

22. Provisions (continued)

The change in provisions throughout the year is presented below:

In thousands of BGN	Balance at 1 January 2013	Provisions accrued during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2013
Provision for court liabilities	2,519	362	(269)	(1,132)	-	1,480
	2,519	362	(269)	(1,132)	-	1,480

23. Tax liabilities

In thousands of BGN	**2013**	**2012**
Other tax liabilities	249	130
VAT payables	229	405
	478	535

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 2013	Carrying amount 2012
Trade and other receivables	*16*	31,041	34,091
Cash and cash equivalents	*17*	11,107	15,434
		42,148	49,525

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 2013 the active clients of the Group are 592,909 (2012 – 578,990). 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 2013	Impairment 2013	Carrying amount 31 December 2013	Cost 31 December 2012	Impairment 2012	Carrying amount 31 December 2012
State budget organizations	1,294	(120)	1,174	1,748	(212)	1,536
Commercial customers	9,853	(5,038)	4,815	10,804	(4,800)	6,004
Domestic population	73,164	(49,512)	23,652	69,317	(42,946)	26,371
Other customers	1,400	-	1,400	180	-	180
	85,711	(54,670)	31,041	82,049	(47,958)	34,091

24. Financial instruments (continued)

Exposure to credit risk

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

In thousands of BGN	2013 Cost	2013 Impairment	2012 Cost	2012 Impairment
Not past due	18,951	(114)	21,805	(102)
Past due 30 days	3,187	(278)	2,979	(266)
Past due from 31-120 days	6,586	(1,073)	7,223	(1,218)
Past due from 121-210 days	5,449	(2,223)	5,252	(2,137)
Past due from 211-270 days	3,217	(2,735)	2,983	(2,493)
Past due from 271-360 days	4,260	(4,185)	4,055	(3,990)
Past due more than 1 year	44,061	(44,062)	37,752	(37,752)
	85,711	(54,670)	82,049	(47,958)

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

In thousands of BGN	Note	2013	2012
Balance in the beginning of the period		(47,958)	(45,006)
Accruals during the period	10	(8,866)	(6,232)
Written-off		2,154	3,280
Balance in the end of the period		54,670	(47,958)

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 2013 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 2013 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 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" (1.35% + 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)	-	-
Loan „C" (2.5% + 3 month EURIBOR)	-	-	-	-	-	-
Liabilities to related parties – non-consolodated	4,543	(4,543)	(4,543)	-	-	-
Finance lease liabilities	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)
Derivative financial liabilities						
Interest rate swaps used for hedging	-	-	-	-	-	-
	-	-	-	-	-	-

The gross amounts in the preceding table are the contractual undiscounted cash flows on derivative financial liabilities held for risk management purposes, as they usually are not closed before their contractual maturity. This disclosure shows net cash flows of derivatives that are settled net in cash.

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 2012

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)	70,712	(78,247)	(10,352)	(10,188)	(29,585)	(28,122)
Loan „B" (5.95% + 6 month EURIBOR)	70,673	(81,245)	(4,505)	(39,496)	(37,243)	-
Loan „C" (2.5% + 3 month EURIBOR)	219	(221)	(221)	-	-	-
Payables to related parties	6,061	(6,061)	(6,061)	-	-	-
Finance lease payables	1,479	(1,617)	(719)	(524)	(374)	-
Trade and other payables	24,683	(24,683)	(24,683)	-	-	-
	173,827	(192,074)	(46,541)	(50,208)	(67,202)	(28,122)
Derivative financial liabilities						
Interest rate swaps used for hedging	5,695	(5,695)	(5,695)	-	-	-
	5,695	(5,695)	(5,695)	-	-	-

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 2013			**31 December 2012**		
In thousands of	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(2,066)	(503)	(326)	(2,066)	(503)	(326)
Interest-bearing loans and borrowings	(68,049)	-	-	(73,157)	-	-
Interest SWAP	-	-	-	-	-	-
Gross Balance Exposure	(70,115)	(503)	(326)	(75,223)	(503)	(326)

The following significant exchange rates are applied during the period:

	Average period FX rate		**FX rate at reporting date**	
	2013	**2012**	**2013**	**2012**
USD 1	1.47363	1.5221	1.41902	1.4836
GBP 1	2.30321	2.4128	2.33839	2.39406

24. Financial instruments (continued)

Market Risk (continued)

Currency risk (continued)

- ***Sensitivity Analysis***

A 10 % increase of the exchange rate at 31 December in relation to the currencies shown below would increase (decrease) the capital and profit or losses with amounts written below. The analysis makes the assumptions that all other variables; especially the interest rates are fixed. The analysis for 2012 is done on the same basis.

In thousands of BGN	**Statement of comprehensive income**	**Statement of comprehensive income**
	31 December 2013	**31 December 2012**
USD	(46)	(49)
GBP	(118)	(120)

- ***Sensitivity analysis of the financial instruments with floating interest rate***

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

The Group has adopted a policy whereby the approved by the SCEWR levels on the reference interest rates on loan agreements as they participate in the calculation of the cost of capital of The Group at the beginning of the relevant regulatory period must not be exceeded during the regulatory period to avoid a decrease due to changes in interest rates of the actual rate of return on capital. In compliance with this policy, the Group enters into interest rate swaps at a fixed rate for the loan contracts which are tied to reference interest rates and are treated as cash flow hedge due to the risk of change in interest rates.

With a SWAP transaction letter agreement from 12 November 2008 the Group fixed its exposure to the six-month EURIBOR for the previously stated loans, as concerning loan "A" the fixed interest rate is 3.694%, and concerning loan "B" the fixed interest rate is 3.650% until 2013 (for the period of the approved Business Plan 2009-2013). Both contracts are for a 5-years period.

- ***Profile***

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

In thousands of BGN	**2013**	**2012**
Fixed rate instruments		
Financial assets	11,034	15,373
Financial liabilities	-	-
	11,034	15,373
Variable rate instruments		
Financial assets	31,043	12,388
Financial liabilities	(136,719)	(148,778)
	(105,676)	(136,390)

24. Financial instruments (continued)

Market Risk (continued)

Currency 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 is a party to financial instruments contracts (Interest swaps) as hedge instruments according the fair value hedging model.

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 2012 is made on the same basis.

Effects 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 2013				
Financial assets with floating interest rate	310	(310)	-	-
Financial liabilities with floating interest rate	(1,506)	1,507	-	-
Financial instrument hedging the interest rate risk	(1,495)	1,495	-	-
Cash flow sensitivity (net)	(2,691)	2,692	-	-
31 December 2012				
Financial assets with floating interest rate	124	(124)	-	-
Financial liabilities with floating interest rate	(1,431)	1,431	-	-
Financial instrument hedging the interest rate risk	(2,614)	(4,896)	-	-
Cash flow sensitivity (net)	(3,921)	(3,589)	-	-

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 capital 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 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, measured at fair value													
Interest rate swaps used for hedging		-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-				
Financial assets, not measured at fair value													
Trade and other receivables	*16*	-	-	-	-	31,041	-	-	31,041	-	-	-	-
Receivables from related party	*29*	-	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	*17*	-	-	-	-	11.107	-	-	11.107	-	-	-	-
		-	-	-	-	42,148	-	-	42,148				
Financial liabilities, measured at fair value													
Interest rate swaps used for hedging		-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-				
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)
Loan „C"	*19*	-	-	-	-	-	-	-	-	-	-	-	-
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)

Accounting classifications and fair values (continued)

31 December 2012

In thousands of BGN	*Note*	Carrying amount								Fair value			
		Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, measured at fair value													
Interest rate swaps used for hedging		-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-				
Financial assets, not measured at fair value													
Trade and other receivables	*16*	-	-	-	-	34,091	-	-	34,091	-	-	-	-
Receivables from related party	*29*	-	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	*17*	-	-	-	-	15,434	-	-	15,434	-	-	-	-
		-	-	-	-	49,525	-	-	49,525				
Financial liabilities, measured at fair value													
Interest rate swaps used for hedging		-	-	(5,695)	-	-	-	-	(5,695)	-	(5,695)	-	(5,695)
		-	-	(5,695)	-	-	-	-	(5,695)				
Financial liabilities, not measured at fair value													
Loans from related parties – Loan "B"	*19*	-	-	-	-	-	-	(70,673)	(70,673)	-	-	-	-
Loan „A"	*19*	-	-	-	-	-	-	(70,712)	(70,712)	-	-	-	-
Loan „C"	*19*	-	-	-	-	-	-	(219)	(219)	-	-	-	-
Trade and other payables	*21*	-	-	-	-	-	-	(24,683)	(24,683)	-	-	-	-
Payables to related parties	*29*	-	-	-	-	-	-	(6,061)	(6,061)	-	-	-	-
Payables on financial lease	*19*	-	-	-	-	-	-	(1,479)	(1,479)	-	-	(1,479)	(1,479)
		-	-	-	-	-	-	(173,827)	(173,827)				

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 measured at fair value

The fair value of the interest rate swap is determined as the difference between the expected discounted cash flows from the fixed and the floating part. In order to determine the expected cash flows for the floating part is used the yield curve for EUR. The discount factor is derived from the yield curve of zero coupon bonds.

Financial instruments not measured at fair value

Other financial liabilities* are valued on bassi 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 2013.

*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	**2013**	**2012**
Less than 1 year	943	1,056
Between 1 and 5 years	379	1,744
More than 5 years	-	-
	1,322	2,800

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*	**2013**	**2012**
Present value of the liability on 1 January		1,077	825
Interest expense	*11*	44	30
Current labour cost	*26*	192	130
Actuarial loss		81	302
Restructuring effect		-	-
Paid compensations to retired employees		(108)	(210)
Present value of the liability on 31 December		1,286	1,077

Liability recognized in the Statement of financial position as at 31 December, including:	1,286	1,077
Short – term liabilities for retirement compensation	*549*	*482*
Long – term liabilities for retirement compensation	*737*	*595*

Expenses recognized in the income statement

In thousands of BGN	**2013**	**2012**
Current labor cost	192	130
Interest expense	44	30

Actuarial assumptions

	2013	**2012**
Discount rate at 31 December	3,64%	3,20%
Salary increase (annual for 10 years)	2,10%	3,60%
Employee turnover	10%	11%

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 = 3.64% 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	8	(8)

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	(8)	8

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	(35)	35

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 2014.

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 2014.

Performance bank guarantee No. GI11.231.0090, amounting to BGN 19,000, issued by Citibank N.A. – Sofia Branch in relation to a contract between Sofiyska Voda AD and National Electricity Group EAD for transmission of active electricity, with validity until 30 April 2014.

Performance bank guarantee No. GI11.231.0090, issued by Citibank N.A. – Sofia Branch for the obligations of Sofiyska Voda AD in relation to a Contract for access to the electricity grid with Electricity System Operator EAD, amounting to BGN 23,268 and validity until 31 January 2015.

(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 2013 are the following:

In thousands of BGN	**2013**
Water Supply	40
Sewerage	3
Waste Water Treatment	4
Total:	47

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 for the three years since putting the new assets into operation and 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 150 million USD, based on the investment plan for the Concession period. Non-fulfilment of 75% (in value) of these 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-fulfilment 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.

In its decision Nr: BP-008/ 09.10.2008 the State Energy and Water Regulatory Commission approved the Business Plan of Sofiyska Voda for the second regulatory period 2009 – 2013. This decision also approved the proposed Investment programme of Sofiyska Voda AD amounting to BGN 240 million.

The investment obligations of Sofiyska Voda AD are presented below:

In thousands of BGN	**2013**
Business Plan obligations	51,072

The Investment Program of Sofiyska Voda AD has been prepared in compliance with the Business Plan technical parameters, including: the forecasted consumption volumes, the unaccounted-for-water (UFW) reduction programme, capital maintenance and reconstruction of the water mains need, construction of new service connections, aimed at achieving the long-term key performance indicators for the water and sewerage service levels. The implementation of the Investment Program will be financed by bank credit and own funds. For the period 2009-2013 the Group reported investments for more than BGN 241.6 million.

The implementation of the above mentioned investments is dependent on the prices of the services, rendered by the Group. In the Business Plan, approved by SEWRC, there is an assumption for the period 2010-2013 of annual water supply service, sewerage and waste water treatment services price increase by 13% annually. As of 01 July 2012 an increase of 5% in the prices valid for the period starting on 1 February 2011 has been approved for households and the assimilated consumers. This price, as well as the prices for hte other services remained unchaged during 2013.

On 29 November 2013 in State Gazette number 103 were promulgated amendments to the Water Act (WA) and in compliance with §14 par. 3 and par. 4 of the Transitional and Final Provisions of WA, Sofiyska Voda AD submitted on 4 March 2014 extended Business Plan for the period 2009 -2015 and an application for price approval for 2014. Planned investments for regulatory purposes exceed 76.5 million in 2014-2015 and will be fully financed by own funds. In the first half of 2014 the regulator, SEWRC, will review and approve submitted business plans and the requests for price approval from Sofiyska Voda AD and other W&S companies in the country.

28. Obligations for acquisition of property, plant and equipment (continued)

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 agains each other with relation to the Concession agreement. Both sides mutually releaved each other from pretended payment of interest on amounts claimed, as Sofiyska voda accepted the obligation for investments in the period 2009-2025 in addition to already exising 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.

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, there 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 company – "Veolia Voda (Sofia) B.V.", which holds 77.10% of the shares of "Sofiyska Voda" AD, as well as with the other companies in the Group.

The ultimate parent company is Veolia Voda S.A.

The following transactions have taken place during 2013.

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

29. Related parties (continued)

The following transactions have taken place during 2012.

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2012** **Receivables**	**Payables**
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of "Sofiyska Voda" AD	Loan provided - Accrued interest 4,867	-	70,673 Liability for loan received at amortized cost
		Other -	-	44 Other trade payables
Veolia Voda S.A.	Veolia Voda (Sofia) BV	Technical services rendered 1,496	-	2,992
Veolia Voda UK				3,025
		Total	-	76,734

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	**2013**	**2012**
Remuneration of the Board of Directors and Executive director	194	116
Bonuses and provision for unused paid leave	12	1
Outstanding balance as at 31 December	16	11

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 2013 the amount of investments made is BGN 459,337 thousand. For 2013 the implementation of the business plan is amounting to BGN 50,773 thousand (2012: 40,090 thousand), of which BGN 44,672 thousand (2012: BGN 35,889 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 18 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 15th 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 2013 its book value amounts to BGN 243,711 thousand (2012: BGN 218,311 thousand).

31. Subsequent events

- As of the date of approval of these financial statements, the Group is subject to tax audits from Regional Directorate Big Tax Payers. Subject to audit are Corporate tax (2010-2012), VAT (2010-31 August 2013) and personal income tax and ensurance (2010-2012). After 1 January a tax revision act has been issued, with a finding for a total of unpaid personal income tax and ensurance in the amount of BGN 131,291. The amount has been offset with overpaid amounts from 2012.
- The Group was informed by the State Comission for Protection of Competition for initiated administrative procedure КЗК-1534/2013 for inspection of the assertion for abuse of dominance in relation to accrual of interest for delayed payments on projected bills. The Group received a statements with finding for abuse of dominance, and the Group is required to provide additional information for the purposes of the inspection.
- On 5 February 2014, Sofiyska voda received the audit report from the State Energy and Water Regulation Comission (SEWRC) № В-Дк-14/30.01.2014 with the results from the performed audit for the period 2011 - 2012. With the report, the SEWRC requested additional clarifications and information, which Sofiyska voda submitted within the required deadline.
- The Business plan of the Group for extended regulatory period (2014-2015) was prepared and submitted in SEWRC on 4 March 2014. On the same date, the Group filed a price request for approval of the prices for Company's services for 2014. At this stage, the Regulator requested additional information mainly related to technical and operational issues, which was provided by the Group within the required deadline

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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 60, which comprise the consolidated statement of financial position as at 31 December 2013, 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 2013, 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 2013. 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 2 April 2014.

Margarita Goleva
Director

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 4 April 2014

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