Sofiyska Voda AD

Consolidated Financial Statements

For the year ended 31 December 2012

With independent auditors' report

Contents

Consolidated statement of financial position

In thousands of BGN	*Note*	31 December 2012	31 December 2011
Assets			
Property, plant and equipment	*14*	16,130	16,031
Intangible assets	*15*	238,993	222,091
Deferred tax assets	*21*	5,536	5,425
Non-current receivables	*17*	197	257
Non-current assets		260,856	243,804
Inventories	*16*	1,938	1,631
Trade and other receivables	*17,25*	35,992	32,189
Income tax receivables		1,000	15
Cash and cash equivalents	*18,25*	15,434	19,034
Current assets		54,364	52,869
Total Assets		315,220	296,673

Consolidated statement of financial position (continued)

In thousands of BGN	*Note*	31 December 2012	31 December 2011
Equity			
Share capital	*19*	8,884	8,884
Reserves	*19*	3,682	(1,029)
Retained earnings		101,533	76,394
Total equity		114,099	84,249
Liabilities			
Interest bearing loans and borrowings	*20,25*	133,789	142,775
Finance lease liabilities	*20,25*	851	795
Employee benefits	*27*	595	453
Financing for non-current assets		1,301	1,170
Non-current liabilities to Municipality of Sofia	*22*	7,838	7,115
Non-current liabilities		144,374	152,308
Interest bearing loans and borrowings	*20,25*	7,815	8,999
Finance lease liabilities	*20,25*	628	529
Tax liabilities	*24*	535	911
Payables to related parties	*30,25*	6,061	1,540
Trade and other payables	*22,25*	33,012	37,832
Derivatives		5,695	7,411
Provisions	*23*	2,519	2,522
Employee benefits	*27*	482	372
Current liabilities		56,747	60,116
Total liabilities		201,121	212,424
Total equity and liabilities		315,220	296,673

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

Mariana Iteva
General Commercial Proxy

Софийска Вода
София
А Д

Anelia Ilieva
Acting CFO

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 comprehensive income

For the year ending 31 December

In thousands of BGN	*Note*	31 December 2012	31 December 2011
Revenue	5	127,005	124,360
Other income	6	3,337	4,036
Revenue from construction	7	35,889	43,487
		166,231	171,883
Expenses for materials	8	(10,440)	(9,732)
Expenses for hired services	9	(26,781)	(27,790)
Depreciation and amortization	14,15	(22,974)	(19,798)
Personnel expenses	10	(15,169)	(14,422)
Social security contributions and other social expenses	10	(3,670)	(3,541)
Other operating expenses	11	(8,837)	(9,002)
Expenses for construction	7	(35,889)	(43,487)
Results from operating activities		42,471	44,111
Finance income	12	146	220
Finance costs	12	(11,454)	(12,474)
Net finance costs		(11,308)	(12,254)
Profit before income tax		31,163	31,857
Income tax expense	13	(3,167)	(3,241)
Profit for the year		27,996	28,616
Other comprehensive income			
Net change in fair value of cash flow hedges		2,059	1,772
Deferred tax on other comprehensive income	21	(206)	(177)
Other comprehensive income for the period, net of tax		1,853	1,595
Total comprehensive income for the period		29,849	30,211

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Софийска вода
АД

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

Krassimir Hadjidinev
Registered Auditor

Consolidated statement of changes in equity

In thousands of BGN	*Note*	Share capital	Hedging reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2011		8,884	(7,739)	3,664	49,229	54,038
Total comprehensive income for the period						
Profit for the period		-	-	-	28,616	28,616
Other comprehensive income						
Net change in fair value of cash flow hedges		-	1,595	-	-	1,595
Total other comprehensive income		-	1,595	-	-	1,595
Total comprehensive income for the period		-	1,595	-	28,616	30,211
Transactions with owners of the Group, recognized directly in equity						
Transfers between reserves based on shareholder's decision		-	-	1,451	(1,451)	-
Total transactions with owners of the Group		-	-	1,451	(1,451)	-
Balance at 31 December 2011	*19*	8,884	(6,144)	5,115	76,394	84,249

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 2012		8,884	(6,144)	5,115	76,394	84,249
Total comprehensive income for the period						
Profit for the period		-	-	-	27,996	27,996
Other comprehensive income						
Net change in fair value of cash flow hedges		-	1,853	-	-	1,853
Total other comprehensive income		-	1,853	-	-	1,853
Total comprehensive income for the period		-	1,853	-	27,996	29,849
Transactions with owners of the Group, recognized directly in equity						
Transfers between reserves based on shareholders' decision		-	-	2,858	(2,858)	-
Total transactions with owners		-	-	2,858	(2,858)	-
Balance at 31 December 2012		8,884	(4,291)	7,973	101,532	114,098

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

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Софийска Вода София АД

In accordance with an Independent Auditors' Report:
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Специализирано одиторско предприятие София Рег. №045 "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 2012	31 December 2011
Cash flow from operating activities			
Net profit for the year		27,996	28,616
Adjustments for:			
Depreciation of property plant and equipment expenses	*14*	3,200	3,206
Amortisation of intangible assets	*15*	19,774	16,592
Net finance costs	*12*	11,308	12,254
Impairment losses on trade receivables	*11*	6,232	5,663
Write-downs of inventories to net realisable value	*11*	75	97
Expenses for scrapping of materials	*11*	150	279
Expenses for scrapping of non-current assets	*11*	116	74
Income tax expenses	*13*	3,167	3,241
		72,018	70,022
Changes in:			
- employee benefits	*27*	222	(178)
- other provisions	*23*	(3)	(173)
- inventories		(532)	319
- trade and other receivables		(9,700)	(4,992)
- trade and other payables		(119)	(510)
- deferred income, including financing		132	106
Cash generated from operating activities		62,018	64,594
Income tax paid		(4,546)	(4,886)
Net cash from operating activities		57,472	59,708
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,668)	(1,972)
Acquisition of intangible assets		(37,208)	(51,285)
Proceeds from sales of property, plant and equipment		-	-
Net cash used in investing activities		(39,876)	(53,257)

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN	*Note*	31 December 2012	31 December 2011
Cash flow from financing activities			
Receipts of loans and borrowings		4	16,266
Repayment of loans and borrowings		(9,498)	(9,498)
Payment of finance lease liabilities		(617)	(642)
Interest paid		(11,028)	(11,392)
Other financial payments		(57)	(112)
Net cash from financing activities		(21,196)	(5,378)
Net increase/(decrease) in cash and cash equivalents		(3,600)	1073
Cash and cash equivalents at 1 January		19,034	17,961
Cash and cash equivalents at 31 December	*18*	15,434	19,034

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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 2012 comprise 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 Commission.

The Consolidated financial statements for the year ended 31 December, 2012 were approved by the Board of Directors on 28 March 2013.

(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;
- the defined benefit liability is recognised at the present value of the defined benefit obligation.

(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 5- Revenues;
- Note 20 – Accounting for arrangements containing a lease;
- Note 15 – 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 27 - Measurement of defined benefit obligations and personnel liabilities;;
- Note 23 and 28 - Provisions and contingencies;
- Note 15 - Amortization of the intangible asset "Concession right";
- Note 17 – Estimation of the recoverable amount of trade receivables from clients;
- Note 22 – Estimation of the liability to Municipality of Sofia as per Contract settlement.

3. Significant accounting polices

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) 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.

(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

(i) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date they originated. All other financial assets are recognized initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument.

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. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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

The Group has the following non-derivative financial instruments: loans and receivables.

3. Significant accounting polices (continued)

(c) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition loans and receivables are measured at their amortized cost, by using the effective interest rate method, less any impairment losses.

Loans and receivables include cash and cash equivalents and trade and other receivables

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.

(ii) Non-derivative financial liabilities

The Group initially recognizes issued debt securities and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group classifies the non-derivative financial liabilities as other financial liabilities. Such financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. After the initial recognition those financial liabilities are measured at their amortized cost, by using the effective interest rate method.

(iii) 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.

3. Significant accounting polices (continued)

(c) Financial Instruments (continued)

(iv) 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.

(v) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit and loss in the same period or periods during which the non-financial item affects profit and loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that 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 balance in equity is reclassified in 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;
- if the Group is obliged to demount the asset and to restore the area, the estimated cost of dismantling and removing the items and restoring the site on which they are located, and
- 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.

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 costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed 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 that is accounted for seperately, 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 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 to realize revenues 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 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 Concedent (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 the period remaining until the end of the Concession Agreement)
• Improvements of other public assets	10 years

Other intangible assets:

• Capitalised development costs	6.67 years
• Other intangible assets	6.67 years
• Software	10 years

All amortization methods, useful life and residual value are reviewed at every 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 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) 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

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

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

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated in such way as to reduce the carrying amount of the assets in the CGU (group of CGUs) on a *pro rata* basis.

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

3. Significant accounting polices (continued)

(j) Employee benefits

(i) Defined contribution plan

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

(ii) Defined benefit plan

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

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 these regulations in the LC, 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 six 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 27.

The Group recognizes all actuarial profits and losses arising from the defined benefits plans as employee expenses in profit and 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)

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) 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.

(iii) Revenue from carbon emissions

Revenue from sale of carbon emissions is recognized on the basis of verified quantity of emissions reduction under methane gas capture and electricity production at Koubratovo Wastewater Treatment Plant.

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 remaining balance of the liability.

(n) Finance income and finance costs

Finance income comprises interest income from funds invested, profit from transactions in foreign currencies, profit from hedging instruments, recognized in profit or loss. Interest income is recognized as it accrues 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. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences from the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit nor loss.

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 they relate to taxes levied by the same tax authorities.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available considering that unitilized tax loses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

When calculating its current and deferred taxes the Group is using the accounting base as described in note 2 above.

3. Significant accounting polices (continued)

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2012, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early.

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

- Amendments to IFRS 7 Disclosures – 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 2013. 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.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities,* IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and 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 IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity's accounting policy.
- IFRS 13 *Fair Value Measurement* provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies in determining fair values. IFRS 13 shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013.
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income are shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2012. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Group were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: BGN 2,059 thousand, recognised in hedge reserve and the related tax effects of BGN 206 thousand respectively recognised in other comprehensive income. The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.
- Amended IAS 19 Employee Benefits shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. If the Group were to adopt the amendments from 1 January 2012, the impact would be a credit to the employee benefit expenses of BGN 302 thousand and a debit to other comprehensive income for the year ending 31 December 2012 of the BGN 302 thousand.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Group's accounting policy.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities i 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)

- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the Interpretation to have any impact on the financial statements since the Group does not have any stripping activities.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the Amendments to have any 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) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 1 Government Loans with an effective date of 1 January 2013.
- Improvements to IFRSs 2009-2011 with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities with an effective date of 1 January 2014.

4. Determination of fair values

A number of the accounting policies and disclosures of the Group require the determination of the fair value for both financial and non-financial assets and liabilities. Fair values are determined for reporting purposes based on the methods listed below. Whenever applicable, in the relevant notes additional information is given relating to the assumptions made when determining the fair value of a specific asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated at the present value of the future cash flow, discounted at the market interest rate as at the reporting date. This fair value is determined for disclosure purposes only.

(ii) Derivatives

The fair value of interest swaps is based on broker quotes. They have been tested for reasonableness by discounting the future cash flows based on the conditions in each separate contract and the market interest rates for similar financial instruments as at the evaluation date. The fair value reflects the credit risk of the financial instrument and comprises corrections for credit risk reporting whenever appropriate.

(iii) Non-derivative financial obligations

The fair values, that are determined for disclosure purposes, are calculated on the basis of the present value of future cash flows of principal and interest, discounted at the market interest rate as at the reporting date. In respect of financial leases, the market interest rate is calculated based on similar lease agreements.

5. Revenue

In thousands of BGN	Note	2012	2011
Income from water supply		84,934	82,735
Income from sewerage		15,245	14,549
Income from waste water treatment		22,195	21,494
Interest income from overdue receivables		3,378	3,733
Income from service sales		2,493	2,866
Revenue invoiced to customers, which is to be transferred to meet the obligations regarding the financial memorandum ISPA		(1,195)	(944)
Revenue invoiced to customers, which offsets the consideration for the new W&S infrastructure financed by the Municipality of Sofia's budget	*28(b)*	(45)	(73)
		127,005	124,360

According to an agreement dated 22/06/2007 between Sofiyska Voda AD and Sofia Municipality, and in connection with granted funds through 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, at the total expected amount of 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 adoption, 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 2012 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 1,195 thousand (2011: BGN 944 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 3rd 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 February 2012, the Group has already transferred the first amount due for servicing of the EIB funds to a bank account indicated by the Municipality of Sofia.

6. Other income

In thousands of BGN	**2012**	**2011**
Income from carbon credits	1,435	1,996
Penalties of contractors	239	264
Penalties for industrial discharges of water with excessive concentration of pollutants	869	870
Sale of inventories to subcontractors for construction works	132	279
Green energy income	120	89
Income from rent	16	24
Income from financing	135	45
Income from guarantees	-	298
Other	391	171
	3,337	4,036

7. Revenue from and expenses for construction

In thousands of BGN		**2012**			**2011**		
Projects	**Note**	Revenue	Expenses	Profits	Revenue	Expenses	Profits
Water supply		17,641	17,641	-	20,733	20,733	-
Potable water treatment		1,797	1,797	-	756	756	-
Sewerage		9,219	9,219	-	14,686	14,686	-
Waste water treatment		1,342	1,342	-	1,066	1,066	-
House connections and meters		5,890	5,890	-	6,246	6,246	-
Total	*15*	35,889	35,889	-	43,487	43,487	-

8. Expenses for materials

In thousands of BGN	**2012**	**2011**
Electricity	2,208	2,327
Fuels and lubricants	1,598	1,679
Water for technological needs	1,704	1,618
Chemicals	2,899	2,004
Plumbing materials	634	1,086
Other	1,397	1,018
	10,440	9,732

9. Expenses for hired services

In thousands of BGN	**2012**	**2011**
Annual water tax	5,314	4,658
Repairs and maintenance of property, plant and equipment	5,564	6,363
Insurance	1,394	1,350
Rent	1,065	1,035
Security	4,583	4,606
Other services	8,861	9,778
	26,781	27,790

Other expenses for hired services include:

In thousands of BGN	**2012**	**2011**
Water – meters reading	1,692	1,755
Courier services	400	828
Printing services	527	601
Technical services	1,496	1,496
Consultancy	1,032	526
Asphalt covering	301	431
SEWRC fee	426	426
Sterilization	61	27
Communication	138	240
Annual software licenses	580	522
Collection of receivables	585	1,211
Hired transportation	320	297
Other	1,303	1,418
	8,861	9,778

10. Personnel expenses

In thousands of BGN	*Note*	**2012**	**2011**
Wages and salaries		14,888	14,300
Compulsory social security contribution		2,184	2,022
Social expenses		77	94
Expenses for additional pension contribution		342	322
Retirement compensation	*27*	222	122
Voucher expenses		1,126	1,103
		18,839	17,963

The salary expenses include an accrual for unused annual paid leave amounting to BGN 225 thousand (2011: BGN 192 thousand).

The compulsory social security contribution include an accrual for social and health security on unused annual paid leave in the amount of BGN 40 thousand (2011: BGN 33 thousand).

The amount of the retirement compensation includes the total recognized actuarial loss, determined when calculating the present value of the pension liability obligation for personnel (see note 27) in accordance with the option stated in paragraph 95 of IAS 19 "Employee benefits". The average number of personnel is 1,127 employees (2011: 1,122 employees).

11. Other operating expenses

In thousands of BGN	*Note*	2012	2011
Impairment of receivables	*25*	6,232	5,663
Write down of inventories to net realizable value		75	97
One-off taxes		119	114
Accrued provisions expenses	*23*	-	454
Commission for collection of trade receivables		1,152	1,111
Fines		145	83
Scrapping of materials		150	279
Scrapping of non-current assets		116	74
Others		848	1,127
		8,837	9,002

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

In thousands of BGN	2012	2011
Interest income	91	177
Interest income from discounting of a trade liability as per Contract with Municipality of Sofia	-	29
Effect from guarantee discounts	55	14
Financial income	146	220
Interest expenses for Loan "A" based on effective interest rate method calculations	(1,909)	(2,489)
Interest expenses for Loan "B" based on effective interest rate method calculations	(4,867)	(5,464)
Interest expenses for Loan "C" based on effective interest rate method calculations	(17)	(36)
Finance charges on finance leases	(81)	(116)
Interest expenses on employee benefits	(30)	(47)
Effect from guarantee discounts	(27)	(44)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(723)	(675)
Other finance costs	(35)	(57)
Loss from foreign currency exchange differences	58	(194)
Interest expenses on SWAP transactions	(3,823)	(3,352)
Finance costs	(11,454)	(12,474)
Finance costs (net)	(11,308)	(12,254)

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

	2012	2011
Total interest income on financial assets	146	191
Total interest expense on financial liabilities	(10,724)	(11,501)

13. Tax expenses

In thousands of BGN	*Note*	2012	2011
Current tax expense			
Income tax expense for current year		(3,484)	(4,062)
Deferred tax expense			
Origination and reversal of temporary differences	*21*	317	821
Total income tax expense		(3,167)	(3,241)

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

	2012			2011		
In thousands of BGN	**Before tax**	**Tax income**	**Net of tax**	**Before tax**	**Tax income**	**Net of tax**
Cash flow hedges	2,059	(206)	1,853	1,772	(177)	1,595
	2,059	(206)	1,853	1,772	(177)	1,595

Reconciliation of effective tax rate		**2012**		**2011**
In thousands of BGN				
Profit for the year		27,996		28,616
Total tax expenses		3,167		3,241
Profit excluding tax		31,163		31,857
Income tax using the Group's domestic tax rate	10%	3,116	10%	3,185
Non-deductible expenses	0.09%	27	-0.09%	(29)
Effects of temporary tax differences	0.08%	24	0.27%	85
Net current income tax expense/(income)	10.17%	3,167	10.17%	3,241

14. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 January 2011	725	19,430	9,575	1,036	54	30,820
Additions	-	-	-	-	2,198	2,198
Disposals	-	(316)	(11)	-	-	(327)
Transfers	25	1,876	300	21	(2,222)	-
Balance at 31 December 2011	750	20,990	9,864	1,057	30	32,691
Balance at 1 January 2012	750	20,990	9,864	1,057	30	32,691
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	9,995	1,065	381	35,278
Depreciation						
Depreciation as at 1 January 2011	(87)	(7,187)	(5,755)	(677)	-	(13,706)
Depreciation charge for the year	(21)	(2,223)	(859)	(103)	-	(3,206)
Depreciation on disposals	-	241	11	-	-	252
Balance as at 31 December 2011	(108)	(9,169)	(6,603)	(780)	-	(16,660)
Depreciation as at 1 January 2012	(108)	(9,169)	(6,603)	(780)	-	(16,660)
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)	(7,080)	(882)	-	(19,149)
Carrying amounts						
At 1 January 2011	638	12,243	3,820	359	54	17,114
At 31 December 2011	642	11,821	3,261	277	30	16,031
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

14. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, acquired in 2012 amount to BGN 2,920 thousand (2011: BGN 2,223 thousand) and are listed below:

In thousands of BGN	2012	2011
CHP generator	143	34
Transportation vehicles and mechanization	441	312
Laboratory equipment	171	48
Pump Station Zlelyava	365	-
Sewer Pump Station Gorublyane	430	-
Sewer Pump Station Benkovski	55	-
Computer equipment	158	188
GPS Spatial Imaging System	-	44
Installations for the production of sodium hypochlorite	-	119
Open Distribution Device of a substation 110/3 kW	-	474
Substation Kremikovstzi, Pancharevo	55	-
Main Switchboard – Pumping Station Yana	-	32
Other equipment	1,102	972
	2,920	2,223

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.

In accordance with the contract for bank loan with United Bulgarian Bank AD (UBB AD) dated 10 June 2008, regarding the financing of the construction of a co-generation station for utilization of natural gas in the WWTP Koubratovo, the Group has individualized and pledged in the Central Pledges Registry in favor of UBB AD an asset worth BGN 5,181 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.

15. 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 2011	21,041	14,466	218,275	27,999	431	282,212
Acquisitions	-	-	-	43,487	93	43,580
Disposals	-	-	-	-	-	-
Transfers	-	401	47,419	(47,419)	(401)	-
Balance as at 31 December 2011	21,041	14,867	265,694	24,067	123	325,792
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
Amortization						
Balance as at 1 January 2011	(19,897)	(10,677)	(56,535)	-	-	(87,109)
Amortization for the year	(365)	(1,445)	(14,782)	-	-	(16,592)
Balance as at 31 December 2011	(20,262)	(12,122)	(71,317)	-	-	(103,701)
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)
Carrying amounts						
At 1 January 2011	1,144	3,789	161,740	27,999	431	195,103
At 31 December 2011	779	2,745	194,377	24,067	123	222,091
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

15. Intangible assets (continued)

Acquired assets

The major acquisitions of intangible assets in 2012 relate to the increase of the value of the Concession right and amount to BGN 42,082 thousand (2011: BGN 47,419 thousand). The main components are listed below:

In thousands of BGN	**2012**	**2011**
Water supply network and house connections	24,168	20,493
Water Waste Treatment Plant Koubratovo	889	1,372
Sewerage and house connections	9,805	17,946
Hydrants	1,920	2,887
Water meters	1,826	1,902
Leasehold improvements	2,624	1,393
Pumping Stations	850	1,426
	42,082	47,419

Assets under construction

Intangible assets under construction which relate to concession right amount to BGN 17,874 thousand (2011: BGN 24,067 thousand). The most significant of them and are listed below:

In thousands of BGN	**2012**	**2011**
Second stage of strengthening of Beli Iskar Dam	460	381
Waste Water Treatment Plant	664	132
Waste Water and Sewage Treatment Plant	28	-
Construction of water main system, water-main net model and DMA zones for reduction of unaccounted for water	10,025	13,949
Chlorinating stations	948	392
Construction of sewerage mains and sewerage model	4,292	5,452
Potable Water Treatment Plants	810	1,050
Impounding Structures	474	1,863
Rehabilitation of reservoirs, pumping stations, sanitary protection zones	173	448
	17,874	23,951

Assets pledged as collateral

In respect of secured bank loan "A"The Group has pledged all its present and future non-current assets except assets, which are municipal property.

Capitalized borrowing costs

The amount of borrowing costs capitalized during the period is BGN 57 thousand. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 5.04%.

16. Inventories

In thousands of BGN	**2012**	**2011**
Spare parts and consumables	3,255	2,873
Write-down to net realizable value	(1,317)	(1,242)
	1,938	1,631

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.

16. Inventories (continued)

Inventory write-down

In thousands of BGN	2012	2011
Balance at 1 January	(1,242)	(1,145)
Accrual of stock write-down of inventories	(75)	(97)
Reversed write-down of wasted inventories	-	-
Reversed write-down of used inventories	-	-
Amounts written-off	-	-
Balance at 31 December	(1,317)	(1,242)

17. Trade and other receivables

In thousands of BGN	Note	2012	2011
Trade and other receivables		70,081	65,191
Impairment losses on trade receivables		(36,588)	(34,787)
Court receivables		11,968	10,758
Impairment losses on court receivables		(11,370)	(10,219)
Total trade receivables	*25*	34,091	30,943
Other receivables		158	4
Prepayments for current assets		1,940	1,499
		2,098	1,503
Total trade and other receivables		36,189	32,446
Non-current		197	257
Current		35,992	32,189

In 2012 receivables with 5-year validity period that has expired, amounting to BGN 3,280 thousand. (2011: BGN 3,211 thousand) have been written off. For detailed information about changes in receivables' impairment see note 25 - *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 "C", 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 25 – Financial Instruments.

Prepayments for current assets include:

In thousands of BGN	2012	2011
Insurance	1,063	1,056
Licenses	127	78
Subscriptions	113	29
Consulting services	154	-
Other	483	336
	1,940	1,499

18. Cash and cash equivalents

In thousands of BGN	Note	2012	2011
Cash on hand		61	42
Local currency		47	28
Foreign currency		14	14
Cash at banks		15,373	18,992
Local currency		14,891	18,507
Foreign currency		482	485
Cash and cash equivalents in the statement of cash flows	25	15,434	19,034

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 25.

19. Capital and reserves

In thousands of shares	Ordinary shares 2012	2011
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 2012 the Group's share capital includes 8,884,435 ordinary shares (2011: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2012 are:

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

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, which have not occurred yet.

20. 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 25.

In thousands of BGN	**2012**	**2011**
Non-current liabilities		
Loans at nominal value	134,573	143,856
Amortization	(784)	(1,081)
Loans at amortized cost	133,789	142,775
Finance lease liabilities	851	795
	134,640	143,570
Current liabilities		
Loans at nominal value	9,284	9,497
Amortization	(1,469)	(498)
Loans at amortized cost	7,815	8,999
Finance lease liabilities	628	529
	8,443	9,528

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 2012 result in an actual ADSCR of 1.72:1. The Group has the obligation of submitting the verified annual separate 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 2012		**31 December 2011**	
In thousands of BGN	Currency	Nominal interest rate	Year of Maturity	Face Value	Carrying Amount	Face Value	Carrying Amount
Loan „A"	EUR	1.35 % + 6m EURIBOR*	2020	72,520	70,712	81,583	80,103
Loan „B"	EUR	5.95% + 6m EURIBOR	2015	71,117	70,673	71,117	71,019
Loan „C"	EUR	2.50% + 3m EURIBOR	2013	219	219	653	652
Finance lease liabilities				1,479	1,479	1,324	1,324
				145,335	143,083	154,677	153,098

20. 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 **2012**	Interest **2012**	Present value of minimum lease payments **2012**	Future minimum lease payments **2011**	Interest **2011**	Present value of minimum lease payments **2011**
Less than 1 year	719	91	628	609	80	529
Between 1 and 2 years	524	30	494	514	45	469
2 to 5 years	374	17	357	337	11	326
	1,617	138	1,479	1,460	136	1,324

21. Deferred tax assets and liabilities

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

In thousands of BGN	**Assets 2012**	**Liabilities 2012**	**Net 2012**	**Assets 2011**	**Liabilities 2011**	**Net 2011**
Property, plant and equipment	-	(915)	(915)	-	(1,088)	(1,088)
Inventories	132		132	124	-	124
Trade receivables	4,796		4,796	4,501	-	4,501
Provisions	810		810	290	-	290
Accrual for unused paid leave	37		37	40	-	40
Non-current employee benefit compensation	59		59	45	-	45
Current employee benefit compensation	48		48	197	-	197
Hedging instruments	477		477	683	-	683
Financing from EBRD	25		25	29	-	29
Trade payables	67		67	604	-	604
Deferred tax assets/ (liabilities)	6,451	(915)	5,536	6,513	(1,088)	5,425

In determining the current and deferred taxes the Group has adopted as an accounting basis the stated one in Significant accounting policies (Note 3). The deferred tax for 2012 is calculated by using the tax rate applicable to the Group which is the effective income tax rate for 2013 - 10%.

21. Deferred tax assets and liabilities (continued)

Changes in temporary differences during the year

In thousands of BGN	Balance as at 1 January 2011	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2011	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2012
Property, plant and equipment	(1,416)	328	-	(1,088)	173	-	(915)
Inventories	114	10	-	124	7	-	131
Trade receivables	4,255	246	-	4,501	295	-	4,796
Provisions	271	19	-	290	(10)	-	280
Accrual for unused annual paid leave	46	(6)	-	40	(4)	-	36
Non-current employee benefit compensation	96	(51)	-	45	15	-	60
Current employee benefit compensation	156	41	-	197	28	-	225
Hedging instruments	860	-	(177)	683	-	(206)	477
Financing from EBRD	28	1	-	29	(3)	-	26
Trade payables	371	233	-	604	(184)	-	420
Deferred tax assets/ (liabilities)	4,781	821	(177)	5,425	317	(206)	5,536

22. Trade and other payables

In thousands of BGN	**2012**	**2011**
Trade payables	11,949	20,415
Guarantees	1,793	1,415
Payables to employees	3,228	3,634
Insurance	1,149	597
Polution	3,108	-
ISPA	3,456	3,363
Total trade payables	24,683	29,424
Social security payables	453	421
Trade payables as per Contract with Municipality of Sofia	8,923	8,412
Payables for water usage tax	5,314	4,656
Advance payment received as per Emissions Reduction Purchase Agreement	-	97
Other payables and accruals	1,477	1,937
	16,167	15,523
Total trade and other payables	40,850	44,947
Non-current	7,838	7,115
Current	33,012	37,832

The Group's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 25 – Financial Instruments.

23. Provisions

In thousands of BGN	**2012**	**2011**
Provision for court liabilities	2,519	2,522
	2,519	2,522

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 2013, although there is a possibility that some will continue in the next financial year.

23. Provisions (continued)

The change in provisions throughout the year is presented below:

In thousands of BGN	Balance at 1 January 2012	Provisions made during the year	Provisions used during the year	Cancelled provisions during the year	Discount effect	Balance at 1 31 December 2012
Provision for court liabilities	2,522	104	(107)	-	-	2,519
	2,522	104	(107)	-	-	2,519

24. Tax liabilities

In thousands of BGN	**2012**	**2011**
Corporate tax liability	-	781
Other tax liabilities	130	130
VAT payables	405	-
	535	911

25. 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. It arises from the Group's receivables from customers and investment securities.

25. 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 2012	Carrying amount 2011
Trade and other receivables	*17*	34,091	30,943
Cash and cash equivalents	*18*	15,434	19,034
		49,525	49,977

Trade and other receivables

The credit risk exposure results from the individual characteristics of the different clients. This 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 2012 the active clients of the Group are 578,990 (2011 – 570,403). 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 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 as per client reflects the credit exposure as at the date of the financial statements of the Group, and it is as follows:

In thousands of BGN	Cost 31 December 2012	Impairment 2012	Carrying amount 31 December 2012	Cost 31 December 2011	Impairment 2011	Carrying amount 31 December 2011
State budget organizations	1,748	(212)	1,536	1,629	(170)	1,459
Commercial customers	10,804	(4,800)	6,004	10,156	(3,950)	6,206
Domestic population	69,317	(42,946)	26,371	63,079	(40,886)	22,193
Other customers	180	-	180	1,085	-	1,085
	82,049	(47,958)	34,091	75,949	(45,006)	30,943

25. Financial instruments (continued)

Exposure to credit risk

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

In thousands of BGN	2012 Cost	2012 Impairment	2011 Cost	2011 Impairment
Neither past due nor impaired	21,805	(102)	18,165	(208)
Past due 30 days	2,979	(266)	3,519	(369)
Past due from 31 to 120 days	7,223	(1,218)	7,391	(1,373)
Past due from 121 to 210 days	5,252	(2,137)	5,734	(2,519)
Past due from 211 to 270 days	2,983	(2,493)	3,191	(2,650)
Past due from 271 to 360 days	4,055	(3,990)	3,916	(3,854)
Past due more than 1 year	37,752	(37,752)	34,033	(34,033)
	82,049	(47,958)	75,949	(45,006)

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

In thousands of BGN	Note	2012	2011
Balance in the beginning of the period		(45,006)	(42,554)
Accruals during the period	11	(6,232)	(5,663)
Written-off		3,280	3,211
Balance in the end of the period		(47,958)	(45,006)

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 2012 it continues carrying out analysis of specific customers on the basis of precise proactive actions, working with them and the history of past communication. In 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.

25. 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 2012 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 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" (1.35% + 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)			

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 20, 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 1.05:1 (see note 20), 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.

25. Financial instruments (continued)

Liquidity risk (continued)

31 December 2011

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)	80,103	(93,978)	(11,588)	(22,306)	(21,168)	(38,915)
Loan „B” (5.95% + 6 month EURIBOR)	71,019	(88,963)	(5,495)	(45,855)	(37,613)	-
Loan „C” (2.5% + 3 month EURIBOR)	652	(676)	(454)	(222)	1	-
Payables to related parties	1,540	(1,540)	(1,540)	-	-	-
Finance lease payables	1,324	(1,461)	(633)	(515)	(313)	-
Trade and other payables	29,424	(29,424)	(29,424)	-	-	-
	184,062	(216,042)	(49,134)	(68,898)	(59,093)	(38,915)
Derivative financial liabilities						
Interest rate swaps used for hedging	7,411	(5,695)	(2,939)	(2,756)	-	-
	7,411	(5,695)	(2,939)	(2,756)	-	-

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 2012			**31 December 2011**		
In thousands of	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(2,066)	(503)	(326)	(3,790)	(1)	(724)
Interest-bearing loans and borrowings	(73,157)	-	-	(77,601)	-	-
Interest SWAP	-	-	-	(3,789)	-	-
Gross Balance Exposure	(75,223)	(503)	(326)	(85,180)	(1)	(724)

The following significant exchange rates are applied during the period:

	Average period FX rate		**FX rate at reporting date**	
	2012	**2011**	**2012**	**2011**
USD 1	1.5221	1.4065	1.4836	1.51158
GBP 1	2.4128	2.2544	2.39406	2.34147

25. 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 2011 is done on the same basis.

In thousands of BGN	**Statement of comprehensive income**	**Statement of comprehensive income**
	31 December 2012	**31 December 2011**
USD	(49)	(109)
GBP	-	-

- ***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 SEWRC levels on the reference interest rates on loan agreements as they participate in the calculation of the cost of capital to 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.

- ***Profile***

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

In thousands of BGN	**2012**	**2011**
Fixed rate instruments		
Financial assets	15,373	18,992
Financial liabilities	-	-
	15,373	18,992
Variable rate instruments		
Financial assets	12,388	12,986
Financial liabilities	(148,778)	(160,509)
	(136,390)	(147,523)

25. 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 2011 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 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)	-	-
31 December 2011				
Financial assets with floating interest rate	130	(130)	-	-
Financial liabilities with floating interest rate	(1,527)	1,527	-	-
Financial instrument hedging the interest rate risk	(1,391)	(4,377)	-	-
Cash flow sensitivity (net)	(2,788)	(2,980)	-	-

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 %.

25. Financial instruments (continued)

Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, as well as their book values are stated in the Statement of financial position as follows:

31 December 2012 *In thousands of BGN*		***Fair value – hedging instruments***	***Loans and Receivables***	***Other financial liabilities***	**Carrying Amount**	**Fair value**
Trade and other receivables	*17*	-	34,091	-	34,091	34,091
Receivables from related party	*17*	-	-	-	-	-
Cash and cash equivalents	*18*	-	15,434	-	15,434	15,434
		-	49,525	-	49,525	49,525
Loans from related parties - Loan "B"	*30*	-	(70,673)	-	(70,673)	(70,673)
Loan „A"	*20*	-	(70,712)	-	(70,712)	(70,712)
Loan „C"	*20*	-	(219)	-	(219)	(219)
Trade and other payables	*22*	-	-	(24,683)	(24,683)	(24,683)
Payables to related parties	*30*	-	-	(6,061)	(6,061)	(6,061)
Payables on financial lease	*20*	-	(1,479)	-	(1,479)	(1,479)
Hedging financial instrument		(5,695)	-	-	(5,695)	(5,695)
		(5,695)	(143,083)	(30,744)	(179,522)	(179,522)

As at 31 December 2012 the Group has liabilities on loan „A" and loan "B" at an amortized value of BGN 70,713 thousand and BGN 70,673 thousand. 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.

31 December 2011г. *In thousands of BGN*		***Fair value – hedging instruments***	***Loans and Receivables***	***Other financial liabilities***	**Carrying Amount**	**Fair value**
Trade and other receivables	*17*	-	30,943	-	30,943	30,943
Cash and cash equivalents	*18*	-	19,034	-	19,034	19,034
		-	49,977	-	49,977	49,977
Loans from related parties – Loan B	*30*	-	(71,019)	-	(71,019)	(71,019)
Loan „A"	*20*	-	(80,103)	-	(80,103)	(80,103)
Loan „C"	*20*	-	(652)	-	(652)	(652)
Trade and other payables	*22*	-	-	(29,424)	(29,424)	(29,424)
Payables to related parties	*30*	-	-	(1,540)	(1,540)	(1,540)
Payables on financial lease	*20*	-	(1,324)	-	(1,324)	(1,324)
Hedging financial instrument		(7,411)	-	-	(7,411)	(7,411)
		(7,411)	(153,098)	(31,026)	(191,473)	(191, 473)

25. Financial instruments (continued)

Interest rates used to determine the fair values

The interest rates used for discounting the forecasted cash flows, whenever applicable, are based on the 6m EURIBOR + fixed margin.

	2012	**2011**
Derivatives	*0.39%*	*1.78%*
Loans and borrowings	*2.58% - 7.03%*	*3.5% – 7.8%*
Leases	*2.34% - 5.20%*	*3.5% – 7.8%*

Fair value hierarchy

The table below analyzes the financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for similar assets or liabilities
- Level 2: input data, other than quoted prices included in Level 1, which are observed for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: input data for the asset or the liability, which are not based on available market information (unavailable input data)

In thousands of BGN	***Level 1***	***Level 2***	***Level 3***	***Total***
31 December 2012				
	-	-	-	-
Total assets	-	-	-	-
Interest rate swaps used for hedging	-	(5,695)	-	(5,695)
Total liabilities	-	(5,695)	-	(5,695)
31 December 2011				
	-	-	-	-
Total assets	-	-	-	-
Interest rate swaps used for hedging	-	(7,411)	-	(7,411)
Total liabilities	-	(7,411)	-	(7,411)

26. Operating leases

Leases as lessee

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

In thousands of BGN	**2012**	**2011**
Less than 1 year	1,056	1,006
Between 1 and 5 years	1,744	1,922
More than 5 years	-	-
	2,800	2,928

Leases as lessor

The Group leases out its investment property (see note 14).

In thousands of BGN	**2012**	**2011**
Less than 1 year	6	33
Between 1 and 5 years	-	1
	6	34

27. Defined benefit plan liabilities

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

In thousands of BGN	**2012**	**2011**
Present value of the liability on 1 January	825	955
Interest expense	30	47
Current labour cost	130	103
Actuarial loss	302	19
Restructuring effect	-	-
Paid compensations to retired employees	(210)	(299)
Present value of the liability on 31 December	1,077	825
Liability recognized in the Statement of financial position as at 31 December, including:	1,077	825
Short – term liabilities for retirement compensation	*482*	*372*
Long – term liabilities for retirement compensation	*595*	*453*

Expenses recognized in the income statement

In thousands of BGN	**2012**	**2011**
Current labor cost	130	103
Interest expense	30	47
Actuarial loss	302	19

Actuarial assumptions

	2012	**2011**
Discount rate at 31 December	3,20%	5.30%
Salary increase (annual for 10 years)	3,60%	3%
Employee turnover	11%	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 = 3.20% is used. This rate is based on analysis of the offered long-term investment instruments on the Bulgarian stock market (securities, municipality bonds, etc.).

27. 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	5	(5)

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	(5)	5

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	(8)	8

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	(7)	7

28. Contingencies

(a) Bank guarantees and promissory notes

On 3 December 2012 an annex to performance bank guarantee No.02502-1063911PEE, amounting to USD 750,000 has been issued by Societe Generale S.A., Paris to Sofiyska Voda AD in relation to the satisfactory fulfilment of the Concession Contract. This Annex extends the validity of the guarantee until 15 December 2013, all other terms and conditions remaining unchanged.

On 3 December 2012 the Group signed an annex to bank guarantee No. GI11.231.0090, 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. This annex extends the validity of the guarantee until 31 December 2013, all other terms and conditions remaining unchanged.

On 28 January 2013 the Group signed an annex to performance bank guarantee No.GI07.212.0531, 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. This annex extends the validity of the guarantee until 31 December 2014, all other terms and conditions remaining unchanged.

On 28 January 2013 the Group signed an annex to performance bank guarantee No. GI12.032.0014, 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. This annex extends the validity of the guarantee until 31 December 2014 and amends its amount to BGN 23,329.76. All other terms and conditions remain unchanged.

On 28 January 2013 the Group signed an annex to performance bank guarantee No. GI12.048.0018, issued by Citibank N.A. – Sofia Branch in relation to a Contract for balancing energy with Electricity System Operator EAD. This annex extends the validity of the guarantee until 31 December 2014 and amends its amount to BGN 33,675.48. All other terms and conditions remain unchanged.

In relation to a Contract for sale of electricity to a privileged consumer under condition No 5012/2007 between Sofiyska Voda AD and NEC AD, the Group has issued a promissory note in favor of NEC at the amount of BGN 170 thousand.

(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.

28. Contingencies (continued)

(b) Infrastructure (continued)

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 2012 are the following:

In thousands of BGN	**2012**
Water Supply	38
Sewerage	3
Waste Water Treatment	4
Total:	45

Based on those calculations, the revenue stated in Note 5 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.

29. 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	**2012**	**2013**	**Total**
Business Plan obligations	43,028	51,052	94,080

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, ISPA financing and own funds.

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.

In relation to the following price period, at the time of the preparation of the current financial statements, SEWRC has not published a Decision or a Project of a decision for increase of the tariff in 2013. Hence, despite the excess of the realized investments for the period 2009-2012 over the amount stated in the Business Plan, an uncertainty incurs relating to the ability for generating enough funds from revenues from W&S services, needed for the full implementation of the investment obligations in 2013.

30. 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 2012.

Related party	**Relation**	**Transactions during the year**	**Balance as at 31December 2012 г.**	
In thousands of BGN			**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

30. Related parties (continued)

The following transactions have taken place during 2011.

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31December 2011** **Receivables**	 **Payables**
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of "Sofiyska Voda" AD	Loan provided - Accrued interest 5,464 Other	-	71,019 Liability for loan received at amortized cost 44 Other trade payables
Veolia Voda S.A.	Veolia Voda (Sofia) BV	Technical services rendered 1,496	-	1,496
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rent 8	-	-
		Total	-	72,559

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	**2012**	**2011**
Remuneration of the Board of Directors	62	50
As at 31 December	5	3

31. 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 2012 the amount of investments made is BGN 384,109 thousand. For 2012 the implementation of the business plan is amounting to BGN 40,090 thousand (2011: 45,778 thousand), of which BGN 35,889 thousand (2011: BGN 43,487 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 15^{th} Contractual year until the end of the period Sofiyska Voda AD is due to transfer 1% of its annual distributable profit to a special account. The amount accumulated in that account is transferred to the Municipality of Sofia on the date of the expiration of the Concession Contract in return for a "certificate of transfer back" in form additionally agreed between the parties. The accumulated in the special account amount covers completely Sofiyska Voda AD's liabilities.

Regarding the special right to use public assets and to render services of water supply, sewerage and waste water treatment to the consumers within the concession territory, an intangible asset called concession right has been recognized, and as at 31 December 2012 its book value amounts to BGN 218,311 thousand (2011: BGN 194,377 thousand). In 2012 within the value of the intangible asset concession right interest expenses amounting to BGN 57 thousand (2011: BGN 334 thousand) have been capitalized.

32. Subsequent events

On 07.01.2013 we were informed of a second instance court decision on case 3563/2012, 8th formation, Sofia Court of Appeal, which fully confirms the first instance decision on enforcement proceedings brought by Yalta Youth Cooperation against Sofiyska Voda AD under which Sofiyska Voda AD made a voluntary payment of BGN 583,307.95 of which USD 50,000 thousand are Group participation and the remaining part is covered by an insurer.

CONSOLIDATED ANNUAL REPORT

SOFIYSKA VODA AD

2012

FINANCIAL REVIEW

In financial aspect 2012 was a successful year for Sofiyska Voda AD and its subsidiary Water Industry Support and Education EOOD (from now on referred as The Group). The profit from the operating activities for the year is BGN 42.5 M (as compared to BGN 44.1 M for 2011).

The revenue for 2012 from main charges amounts to BGN 127.0 M, which is 2.1 % above the figure for the previous year – BGN 124.4 M. The main reason for that is the tariff increase, effective as of July 1st, 2012. The Group's total revenue for 2012 amounts to BGN 166.2 M. The revenue from construction in 2012 is BGN 35.9 M (BGN 43.5 M in 2011).

In accordance with the Agreement signed on September 21st, 2007 between The Group and the Carbon Fund established with the EBRD for sale of reduced carbon emissions in 2012 based on the prepared monitoring reports, an income amounting to BGN 1.4 M was recognized. For 2011 the sum amounts to BGN 1.6 M, as well as additional income from previous period amounting to BGN 0.4 M

The co-generation station commissioned in the end of 2009 at Koubratovo WWTP was used in 2012 mainly to meet the internal demand for power supply in the plant.

The operating costs of the Group for 2012 amount to BGN 123.8 M (2011 – BGN 128 M). The specified amount includes construction costs at the amount of BGN 35.9 M resulting from the application of IFRIC 12. These costs offset the construction revenue specified above.

In 2012 the other operating costs specified in detail in Note 11 of the consolidated financial statements decrease by BGN 165 thousand.

The 2012 depreciation and amortization costs are BGN 23 M. The value is higher than the reported in 2011 (BGN 19.8 M), which is mainly due to the fact that more assets have been put into operation.

The interest charges throughout the year are in line with the budgeted, as a result of the signed in 2008 interest rate SWAP contracts for fixing the six-month Euribor exposure under the two main loan agreements.

The financial revenue in 2012 is lower than the reported in 2011 by BGN 74 thousand, which is mainly due to the effect of the lower interest rates on the Group's bank accounts.

As a result of all of the above factors the profit after tax for 2012 amounts to BGN 27.9 M, slightly lower as compared to the 2011 levels.

FINANCIAL INSTRUMENTS

The Group's policy regarding financial risk, as well as its exposure to price, credit and liquidity risk are described in detail in the notes to the 2012 consolidated financial statements.
The Group has used derivative financial instruments in order to hedge its interest rate risk exposure.
Via the SWAP contracts dated 12.11.2008 the Group executed two interest rate hedges:
Contract with ING Bank was signed to fix the six-month Euribor under the Senior loan with EBRD of 3.694% for a 5-year period.
Contract with Citibank was signed to fix the six-month Euribor under the Subordinate loan of 3.650% for a 5-year period.
In order to report the two contracts in the consolidated financial statements, hedge accounting is applied. After their impairment, the effect in the 2012 consolidated financial statements is a financial liability amounting to BGN 4.8 M.

EVENTS FOLLOWING THE BALANCE SHEET DATE

All significant events after the balance sheet date and their effects on the Group's activity are listed in Note 32 to the 2012 Consolidated Financial Statements.

CUSTOMER SERVICE

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

Customer relations

The 24/7 Call Centre of The Group has an average of 16 lines, on which operators receive about 1,311 calls per day.
In 2012 the incoming calls are 470 809, which is about 3.51% less than those in 2011.
In 2012 the missed calls reached 1.96 % of all incoming calls, compared to 2011 when this number was 2.71%.
The percentage of customers served by an operator in 2012 is 76 % of the incoming calls, which is 2.14 % more compared to 2011.

Customer Service Centers

There are eight Customer Service Centers (CSC) of The Group located in various parts of the city. In 2012 a total of 385 680 customer visits were registered at the CSCs, which is 12% less compared to 2011. The purpose of 199 966 of the visits was water bills payment, which is 22% less compared to 2011. The number of the cash payments in the CSCs continues to decrease, due to the increased number of the payment methods and places.
In 2012 the received applications for customer accounts change are 45 432, which is 16% higher than 2011. Despite the increasing complexity of the customer cases the trend is that the number of received complaints decreases, which is a sign for improvement of the quality of service.

Internet services

In 2012 there were more than 1 751 910 registered visits to the webpage of the Group.
70 648 water meter self-readings were submitted by customers online, which is a growth by 37% compared to 2011. 9 116 were the inquiries sent via the website, 8 449 of them requiring a reply. All replies were sent within 24 hours after receiving the request.
In 2011 an innovation was introduced on the webpage of the Group, which gives the customers the opportunity to request an e-invoice on the site and to cancel the paper form delivery. In 2012 39 905 customers took the opportunity to cancel the delivery of paper invoices and 23 615 of them requested an e-invoice.

Water meter services, billing and debt collection

Water meter replacement

The accurate metering 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 2012 16 361 revenue water meters were put in good technical order, which is the best result since the beginning of the Concession:

	2012	2011	2012 compared to 2011 in %
Installed	16 361	11 001	48.72%
Tested	6 375	1 555	309.97%

In 2012 an optimization in the process of water meters testing has been implemented – after dismounting of a water meter for testing another meter is installed, and in case that after the test the meter meets the requirements it is installed at another address. The optimization eliminates the need for visiting the same addresses twice which leads to increased efficiency of the teams.

The volume metered by the replaced water meters (difference before and after the installation) is 302 798 m^3 or 8.31% more than the metered prior to their replacement.

Water Meter Reading

The water meter reading model from previous years was used in 2012 – reading of the 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 visit of the meter readers from notices put up in a visible place in the condominium, the customer service centers, the Group webpage and the Call Centre in order to be able to ensure access for inspection of the water meters. In 2012, 83.55% of the water meters subject to reading were read as compared to 83.62% in 2011. The success rate in the extra-urban area for 2012 is 70.75% as compared to 72.67% in 2011. In terms of the large consumers read by the meter readers of The Group in 2012 the success rate is 96.03% as compared to 95.50% for the previous year. The success rate for reading of revenue water meters in blocks of flats in regime of condominium is 91.97%.

	2012	2011	2012 compared to 2011
TOTAL	**83.55%**	**83.62%**	**-0.08%**
Urban area	83.68%	83.64%	0.05%
Rural area	70.75%	72.67%	-2.64%
Key accounts	96.03%	95.50%	0.55%
Blocks of flats	91.97%	95.12%	-3.31%

The worse indicators and the decrease in success rate in water meters reading is mainly due to a couple of reasons:

- Change of the contractor carrying out the water meters reading activity and the accompanying difficulties that were minimized.
- The harsh climate conditions in winter – long period of unusually low temperatures that do not allow disruption of the winterizing and reporting of urban and rural shafts.

Installation and change of revenue meters

In 2012 16 361 revenue meters were installed, 3 191 of which are of diameter over 40 mm.

Billing

6 621 267 invoices were issued over the reporting period, which is 0.01% more as compared to 2011. The invoices issued after actual reading of the water meters were 2 830 363.

Debt collection

The Group puts great efforts in enhancing cash collection by offering various ways for bill payment by customers or deferred payment schemes for accumulated debts. The cases referred for settlement by the court increased many times and the Group continued to use the services of two companies specialized in debt collection. During the year a number of campaigns were implemented in order to increase debt collection, including sending letters to the debtors, negotiations via the phone, visits at addresses, as well as campaigns related to disconnection of the water supply to physical and legal entities. As a result the collection rate (revenue compared to billed volumes) has remained 96% in 2012.

Non-regulated business

The Group has continued to successfully develop its activity for providing additional services to its customers. In 2012 the total number of the installed water meters was 18 402, and the tested water meters – 4 242. The revenue from non-regulated water meter services (individual water meter testing and installation) was BGN 1,206,747 which is by 6.6% higher compared to the previous 2011.
The total revenue from advertising amounted to BGN 72 073.

OPERATIONS AND MAINTENANCE

Water Resource Management

The constant monitoring of the water volumes supplied to the Concession area is the basis for the water management realized by The Group.

Water supplied in 2012 is as follows:
Total water volume abstracted from all potable water sources – **203,437,028** m^3
Including to the Municipality of Samokov – **7,436,573** m^3
To the Municipality of Sofia – **196,485,892** m^3
Industrial water – **10,577,778 m^3**

The monitoring data show that as compared to 2000 the Group has achieved an actual reduction in the water volumes used for water supply to the Concession area.

The raw water abstracted from water sources in 2012 has decreased as compared to 2011 by **8,723,500** m^3
The water volumes supplied to the Concession area in 2012 have decreased as compared to 2011 by **9,694,844** m^3.

Unaccounted-for water reduction

In 2012 the total losses reduction as compared to 2011 is about **8.5** million m^3. This is a reduction from **55.55%** to **53.94%**. For the reporting period there is a decrease in the billed potable water by **803,122** m^3. There is a considerable decrease in the volumes reported for technological purposes (part of the legal consumption) by **350,535** m^3 due to the lower consumption of backwash in the PWTP.

The reduction of the unaccounted-for water (UFW) remains one of the main priorities of The Group, as it contributes to the preservation of water resources. In the past 2012 the Group managed to keep and further improve the progress achieved in 2011 in a wide range of activities related to the reduction of UFW.

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

The program for constant monitoring of the DMZ/DMA zones has continued. The water network was split into 29 zones for management of the water demand (DMZs) and one zone - the impounding structures. The DMZs were then split into smaller water metering areas – total **215** DMA with consumers, 82 DMAs with strategic water mains and 50 with reservoirs. The DMAs are separated with 580 boundary stop valves. A total of **509** metering devices were installed across the network and they are connected with the SCADA system (data supervision, management, control and collection) and/or the telemetry system.

- **DMA program**

The DMA program encompasses constant monitoring of the water metering zones – boundaries, metering, improvement and optimization of the zones, monitoring and management of the metering devices and data loggers, maintenance of the telemetry system. About 96% were established and metering is done. In 2012, 4.7 % of the DMAs were tested (10 DMAs out of 215) from all DMA zones in the concession area. In addition, another 13 zones were tested without water interruption of the whole zone. The measurement of 14 zones was optimized and 8 new zones were established. The boundaries of every DMA zone were regulated by accurate metering of the water volume and pressure.

- **Water demand survey**

In 2011 The Group continued the project for water demand survey, renewed in 2010, though studying the profile of the demand of the different types of customers – large industrial enterprises and different types of residential buildings. Within the frames of the survey the consumption at the sites is registered through data loggers for a period of one week. In 2011, a total of 353 sites were surveyed, among which 262 residential buildings, 47 industrial and commercial sites and 44 administrative buildings.
In 2012 the water demand survey was stopped due to organizational and team changes. In 2013 it will be resumed.

- **Pressure management**

The activity that most seriously influences the decrease in both the number of the registered leaks across the network and the physical potable water losses is the pressure reduction project. 19 new reducing valves were installed in 2012.

- **Leak detection**

The leak detection activities continued, as in 2012, 6 994 hidden leaks were reactively detected and 220 hidden leaks were proactively detected.

Quality of the water supplied

The reports for 2012 of the Sofia Regional Inspection on Public Health Protection and Control (SRIPHPC), which conducts an independent supervision on the water quality, show that the quality of the potable water in Sofia meets the requirements of the Bulgarian legislation which is harmonized with the Potable Water European Directive. During the period no restriction on potable water consumption has been applied both from the central water supply system as well as from local water sources used by the Group.

During the implementation of the program for monitoring the quality of potable water in 2012, the percentage compliance of the samples taken across the water system is 99.31% under physical and chemical parameters and 99.57% compliance for the samples under micro-biological parameters. The reported levels of compliance of the potable water quality fully cover the requirements of the Regulation on long-term levels of the quality indicators for water and sewerage services (98% compliance for physical and chemical parameters and 99% compliance for micro-biological parameters).

A large amount of activity was performed in 2012 for the maintenance of the quality parameters of the filtered water, among them mechanical treatment and disinfection of the facilities along the route of the water in PWTP Bistritsa and PWTP Pancharevo, preventative program for mechanical treatment and maintenance of the service reservoirs, automation and modernization of the of potable water disinfection plants and on-line monitoring of the quality parameters in the reservoirs on the territory of the Concession area.

Procedures for action in case the ascertained transitory deviations from the quality characteristics of potable water, including monitoring, proving and recording the reasons for the deviations are in place and are observed.

A number of surveys and upgrades of the technological processes in Bistritsa PWTP were carried out in order to improve the efficiency and the efficacy of the treatment processes. Changes are applied in the used reagents for treatment of the water incoming to the treatment stations due to which the seasonal changes in the indicators "turbidity" and "aluminum" are compensated.

The ascertained deviations in the quality of potable water are due to:

- Worsened condition of the water supply installation in the buildings at some of the points for monitoring of the water supply network (the legal requirement is to take sample 'from the valve at the customer');

- Adverse impact of the water supply interruptions on the quality indicators after it resuming (such as turbidity, iron, and total number of coli form bacteria). This effect is also due to the age of some water mains and the natural processes of corrosions and biofilm formation;

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

- Seasonal fluctuations in the quality of the raw water from Iskar Dam (aluminum content);

In the period 01.01.2012 - 31.12.2012 the annual program for monitoring the quality of potable water supplied to customers in a scope and volume that complies with the legal requirements was implemented. It was approved agreed by the Sofia Regional Health Inspectorate (SRHI). The monitoring program was implemented by the accredited Laboratory Testing Complex (LTC) at The Group. LTC has accreditation to test potable water, including to take water samples (certificate, issued by the BAS on the basis of the requirements of BDS EN ISO/IEC 17025:2006, registration No. 50 – ЛИ/09.02.2010, valid until 28.02.2014).

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of The Group implements the Group plans for monitoring of surface and potable water, wastewater and sludge in terms of taking samples from water and sludge and analyzing the microbiological, physical, chemical and hydro-biological parameters. Over the reporting period the LTC successfully took part in 27 international programs for inter-laboratory comparative tests for microbiological, physical and chemical parameters, which is an independent confirmation of the accuracy and reliability of the test methods used in the LTC and the high qualification and competence of the employees.

The activities implemented by the LTC in 2012 are mainly connected with the fulfillment of the plans for monitoring of potable and ground water as well as wastewaters and sludge; maintaining of accreditation; development of new methods for analysis of 8 indicators with ionic chromatograph (chlorides, fluorides, ammonium ions, nitrates, nitrites, phosphates, sulphates, bromates); development of methods for analysis of Barium and Mercury in the potable water and waste water with ICP – OES; development and optimization of methods for internal calibrating of technical equipment; development of a method for analyzing sulphates in waste waters with Continuous flow analyzer; process control, improving the 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 improvement of the implemented system for quality management based on the BDS EN ISO 17025; distribution of information brochures and publications on the laboratory services.

On 12.12.2012 LTC obtained a certificate and Order for the extended accreditation scope. The extended scope covers all the previously used methods as well as the following new ones:

Waste water:
Ammonia nitrogen Phosphorus in phosphates, phosphates, nitrates, nitrites, ammonium ions FIA-continuous flow analyzer permanganate oxidation, Phosphorus, Mercury

Potable and surface water:
Barium, Mercury, Salmonella, Free Chlorine (field test), total organic carbon, suspended solids

In 2012, 8 641 potable water samples were analyzed by Potable Water Section of the LTC under 159 979 parameters, respectively 9 125 wastewater samples were analyzed in Wastewater Section of the LTC under 93 248 parameters.

In 2012 two internal audits were held of the quality management system in the LTC, and auditors certified under BDS EN ISO 19011 and BDS EN ISO 17025. No quality deviations and non-compliances regarding the activities performed in the LTC were found.

In June 2012 in LTC took place the second oversight of the Executive Agency "Bulgarian Accreditation Service" with expanded scope of the accreditation. Two minor incompliances have been pointed out and eliminated in due time.
In 2012 LTC is a side on 5 contracts for providing laboratory services to external customers. For the stated period in 144 requests for laboratory services from external clients are received at LTC.

Each sample received in the 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 confidentiality and reliability in terms of the results for the samples analyzed under the requests of the internal and external customers.

Water Supply

Water Network Management

In 2012 the Group strongly focused on the following:

- Better operations service for the customers, mainly by decreasing the reaction time when the usual functioning of the water supply network is interrupted, as well as improvement in the information the Group presents to its customers in relation to ongoing or future operational events.
- Optimization of the employees on-site activities and the processes that insure customer service by adoption of new and revising of existing procedures and implementation of targets for the main parameters, reflecting the maintenance of the water supply network.
- Better control and acceleration of the recovery works after construction.

As a result of the measures taken, there is a reduction in the number of water supply network emergencies – 5 201 in 2012 compared to 6 125 in 2011, which is about 15% decrease on an annual basis.

The leakage eliminating time reached was 1.2 days, which is the lowest historical value of this indicator. Moreover, the water supply interruptions decrease, both for the planned interruptions, related to proactive activities along the network, as well as the unplanned interruptions, directly related with emergencies. Throughout the year there were 269 planned interruptions and 3 912 unplanned interruptions, as the focus with the unplanned interruptions was their duration. As a result of the efforts in this respect, over 76% of the unplanned interruptions continued less than 4 hours.

The improved control on the recovery works lead to annual average number of non-recovered surfaces at the end of each month amounting to 279, which is an improvement of almost 20% of that indicator compared to 2011, when the non-recovered surfaces at the end of each month were on average 355.

Emergency interruptions of the water supply in 2012

- 5 201 emergencies of the distribution network;
- 3 912 interruptions of the water supply;
- 847 212 affected households;

Planned interruptions of the water supply in 2012

- 269 planned interruptions;
- 268 684 affected households;

Sewerage

The sewerage network on the territory of the Municipality of Sofia includes 1,565 km of public assets and more than 500 km of assets with unclear status (as per the TDA of 2003). The majority of the surrounding territories of Sofia, as well as some areas in the city, do not have a central sewerage network. Implementing the Business Plan 2009-2013 The Group observes the priorities of the Municipality of Sofia for the construction of sewers. The projects for the extension of the sewerage network over the last two years are one of the focuses of the Group's investment program. In 2012, 4 167 m of new sewerage system were constructed and 1 862 m of the existing one were reconstructed.

The organization and the maintenance of the sewerage network is carried out through proactive methods - video diagnostics of sites and preventive cleaning, as well as reactive activities - cleaning, repair works and rehabilitation of pipelines.

Operation and maintenance activities on the sewerage system

Activity	Measure	Performance 2010	Performance 2011	Performance 2012
Cleaning of street sewers	meters	214,343	155,743	163,536
Cleaning of gullies	count	320	1,647	9,350
Cleaning of manholes	count	2,827	2,376	2,067
Installation of grids (covers)	count	968	950	557
Unclogged service connections	count	1,802	1,776	1,863
Unclogged service connections	meters	36,596	38,653	45,150
Sludge transportation	cubic meters	1,302	1,823	2,918

In 2012 the implementation of the updated program for proactive maintenance of the sewerage network continued, despite the limited resource of combined vacuum trucks. The data for enhanced efficiency during proactive works is confirmed also by the increased volume of transported sludge, which in 2012 increased as compared to the previous period. As a result of the urge of the district municipalities for prevention of floods the accent was put on cleaning of gullies as well as repair and replacement of compromised horizontal connections.

Wastewater treatment

In 2012, a total of 151.2 million m^3 of wastewater from the sewerage network of Sofia was treated in Koubratovo Wastewater Treatment Plant (WWTP). The treated volume of wastewater is about 86% of the average daily capacity of the plant (480,000 m^3/day). With the implementation of the investment projects for expansion of the sewerage network of the capital city, it is expected that in the coming four years the treatment plant's capacity will be close to the designed one.

Over the reporting period, The Group optimized the control on work processes and strictly followed all legislative requirements related to wastewater treatment. In line with the requirements of the Surface Water Discharge permit, issued by the Danube Region Water Basin Directorate, and the Concession Agreement, the Laboratory Testing Complex, the Wastewater Sector at Koubratovo WWTP conducts continuous monitoring of the quality indicators of treated wastewater and sludge generated in the treatment process.

Quality of the treated wastewater

On a daily basis, analysis is carried out of the indicators Biological Oxygen Demand (BOD_5), Chemical Oxygen Demand (COD) and Suspended Solids (SS) of the treated wastewater at the outlet of WWTP.

In 2012 the normatively defined number of samples was taken and 1 830 analysis of treated wastewater quality were performed. The limit values of water quality as per the requirements of the Discharge permit are as follows:

BOD_5 – 25 mg O_2/l
COD – 125 mg O_2/l
SS – 35 mg/l
Total nitrogen – 10 mg/l
Total phosphorus – 1 mg/l

The average values of the samples are below the levels recommended of the emissions for quality of discharged water as the annual compliance level achieved is 96.72%

Sludge Treatment and Utilization

The sludge produced from 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 2012 The Group continued to provide the stabilized sludge to be used in agriculture for soil fertilization. The Group has all permits required for the sludge utilization on agricultural lands.

Sludge from WWTP Koubratovo	2010	2011	2012
Produced	89,383 t	101,513 t	135, 990 t
Used in agriculture	54,577 t	70,243 t	84, 962 t

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

Electrical and Mechanical Maintenance

In 2012 The Group successfully implemented the annual plan for preventive maintenance of the Group's facilities, as a result of which the time ratio for emergency works versus general works remained within 10% in December 2012.

During the year the project on the reconstruction of the water line in Sofia wastewater treatment plant was completed. By it the volume of treated wastewater and sludge was increased considerable and the facilities in the treatment plant function at full load. This change is concerned also with bigger challenges for the teams, which ensure the electrical and mechanical maintenance of the site and at present the reliable work of the treatment processes is ensured by preventative and emergency repair works.

During the year the guarantee of all ISPA facilities for reconstruction of the water line in Sofia WWTP expired, which lead to considerable increase in the repair activities. The quantity of treated waste water and sludge was increased and all facilities are working at full capacity. This change presents greater challenges to the teams that provide the electrical and mechanical maintenance of the site, as at present preventative and emergency works ensure the reliable operation of the treatment processes. In 2012 in WWTP an energy management system was created, which allows detailed review of the energy flow and making optimal decisions regarding the management of the energy.

Reduced Carbon Emission Sales Agreement

In 2012 the Group successfully met its obligations under the agreement concluded on September 21st, 2007 between The Group and the Carbon Fund established with the EBRD. The project ended in 2012 as over the period 108,714 tones CO_2 equivalent reduced emissions were generated and transferred to the buyer.

INVESTMENTS 2012

The actual amount of investments in 2012 amount to BGN 40.09 M. The Capital expenditures for 2012 fall into the following categories:

Water supply – BGN 18.34 M
Potable water treatment – BGN 2.51M
Sewerage – BGN 9.30 M
Wastewater treatment – BGN 2.07 M
Service connections, water meters – BGN 5.94 M
Customer service – BGN 1.92 M

Main projects implemented in 2012:

- Reconstruction of water main along Iskarsko defile Str, Novi Iskar (4600 m);
- Reconstruction of water mains along Yabalkova gradina Str. and Otetz Genadii Str. (1200 m);
- Reconstruction of water mains along Orehova gora Str., Dedeagach Str., Chervena roza Str., Zlatna vrata Str. and Kotlenski prohod Str., residential area Strelbishte, Triaditza (1835 m);
- Sewerage and water supply along Bratya Bakston Blvd. – from Todor Kableshkov Blvd. to Ring road, residential area Bakston;
- Construction of Main sewer collector 1 along Baba Str., 379 Str., Moderno predgredie Str., Vrabnitza area and reconstruction of water mains (980 m);
- Construction of separate sewerage with sewerage pumping station and water main in residential area Iliyantzi;
- Reconstruction of chlorination station in PWTP Bistritsa;
- Band thickener, WWTP Koubratovo;
- Energy efficiency projects.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

As a Group providing water supply and sewerage services on the territory of the Municipality of Sofia, the activity of The Group is closely linked to ecology and environmental protection. Sustainable development principles are founding for each aspect of the Group's operation. The achievement of balance between economic growth, environmental protection and improvement and social development is an inseparable part of The Group's business strategy.

The preventative and long-term protection of natural resources, energy saving, harmful emission reduction as well as optimization of the use of raw materials and fuels are key Group tasks. The implementation of a result-orientated ecological policy is accompanied by a number of benefits: cleaner water, protection of the surface and ground water, better public health, safe and responsible waste management, less harm to forests, fields, water basins and parks.

The investments in modern technologies, which were made in 2012 with environmental protection purposes, have improved the economic efficiency and increase the Group's productivity, while in the meantime saving resources and energy. The regulation and management of water and water resources and the activities across the water supply network result in water loss reduction and hence in saving this valuable natural resource. The introduction of best practices in the sewerage network operation and maintenance, the construction of new sewers and the provision of ever more efficient and high-quality wastewater treatment is the Group's priority. The more efficient waste management results in savings of natural resources, and better quality of water by the implementation of new technologies means lower operating costs in the long run.

In order to achieve the environment preservation goals set in The Group, all key sites of the Group are subject to constant reviews and analysis. An update of the environmental impacts that were identified as important was made. Action plans are prepared.

Sanitary Restricted Areas (SRAs) around the water sources

In compliance with the requirements of the normative documents, in 2012 The Group continued to work for establishment and construction of Sanitary Restricted Areas (SRAs) around the water sources.

Sanitary Restricted Area – Iskar Dam

The fulfillment of the obligations under Order № РД-577/08.09.2008 of the Minister of Environment and Water continued at Iskar Dam.

During the reported period, on the territory of Vitosha Natural Park, the fences of the first lines of the SRA for three underground sources were restored (10 catchments).

A procedure was initiated, an executor was appointed and contract signed for the remodeling and updating of the plans for SRAs for 20 water sources.

The Group has Decisions for prolongation of terms of the Water Abstraction Permits for six groundwater sources (catchments) issued by the Danube Region Water Basin Directorate.

ISO 14001:2005 Standard – Environmental management systems

The Group is certified under ISO 14001:2004 (BDS – 2005), an international standard for environmental management system. The maintenance of the system continued in 2012 by improvement of EMS documentation and conducting internal audits. It ensures performance of activities aimed at minimizing the risk of pollution, efficient use of resources and increase of the efficiency of the Group's work. In September an external audit of the implementation of the system was successfully completed. This year the audit was detailed and took place in the presence of a representative of DAKKS – supreme state accreditation institution in Germany. The audit ended with no incompliances. The Group received three recommendations for improvement and two good practices were pointed out.
In the beginning of 2012 some changes in the Environmental Protection Policy were made. It was revised and improved in line with the one of Veolia and in order to represent a better framework for the Group's purposes.
In the end of November the first internal control audit of the Environmental Management System (EMS) was carried out by Veolia Environman. The audit declared full compliance of the Group's EMS with the European policy of Veolia Voda. Some areas that possibly could be improved were pointed out. Group's management took the responsibility of implementing the recommendations in its future action plans.

Waste Management Program

In connection with the changes in the permit for management of waste-related activities in 2012, the Permit for Waste treatment of the Group had to be updated. The application covers all kinds of identified waste which can be generated as a result of the activities performed by The Group. It describes the methods of temporary storage, transportation and handover of waste to licensed companies for its further utilization in line with the relevant legislation. The Group has been constantly working in 2012 for the implementation of the separate collection of waste system. Separate bins have been allocated in all Group sites.

Program for the implementation of the environment protection goals

In relation to the implementation of the goals on environment protection, campaigns for cancelling the delivery of paper invoice were carried out. As a result 40 248 customers have ceased receiving their paper invoice. A total of 30 linden trees were planted in 3 different areas in Sofia. The Group has committed that being an environmentally responsible Group it will plant one tree per each 1000 customers that cancelled their paper invoice.

A cleaning initiative was organized in Sofia. Over 100 bags of waste were picked around the Pancharevo Lake. Flowers were planted in Bistritsa and the sites in Kubratovo, Batalova vodenitsa and Voenna Rampa.

A few events were organized aiming to inform the Group's employees on the proper waste management, which is an important aspect of the Group's activity and the application of the sustainable development principles. In some department quizzes on environment subjects took place, in particular the types of waste. An event was organized and many items were collected: expired medicines, outdated electrical equipment, batteries, mercury lamps, plastics, paper and glass bottles.
5 campaigns dedicated to water quality were completed.
Working on a system for management of installation for nitrogen and phosphorus treatment in order to decrease the consumption of electricity and chemicals.
Sludge thickener was purchased and will be installed in WWTP.
In 2012 considerable reduction of the water losses has been realized: 8.5 mlnm3.
An energy management system is put into operation in WWTP.
The lightning in WWTP Koubratovo was substituted by energy efficient one.
Two remote control stop valves are connected to SCADA, which is part of our obligation to use responsibly and carefully the natural resources. 4 solar panels have been mounted on SCADA sites.
Part of the providing of quality water supply and sewerage services in order to preserve the health of our customers is the maintenance of clean potable water facilities. For 2012 52 reservoirs have been cleaned and disinfected, as well as PWTS Bistritsa, Pancharevo and others.
Also on 5 Jan 2012 The Group adopted an otter family in the capital zoo – Hannah and Smeagle. They are endangered species that cannot live without pure water.

Green energy production
In 2012 Koubratovo Wastewater Treatment Plant produced 18 033 MWh of green energy. The production is based on a co-generation technology for utilization of biogas generated in the process of sludge treatment at the plant. The co-generation installation is a project of Sofiyska Voda JSC at the amount of over BGN 5 million and it was officially commissioned in December 2009. The project is part of the activities for reducing the carbon emissions in line with the Emission Reduction Purchase Agreement between Sofiyska Voda JSC, the Carbon Fund of the European Bank for Reconstruction and Development and the Government of the Netherlands.

OCCUPATIONAL HEALTH AND SAFETY (H&S)

H&S Policy

Key indicator for our performance is the maintenance and the continuously improvement of our Occupational Health and Safety Management System (OHSMS), which ensures, as far as practicable, the health and safety both to our employees and other people, that could be affected by our actions.
The Policy and the commitments, assumed through it, define the key areas of activity, which we consider to be particularly important in this process, and namely:

- Risk management for the health and safety, for the workers and employees and the members of society
- Work in a partnership with employees, contractors and other for ensuring the health and safety
- Training for achieving high levels of H&S competency
- Health and safety auditing and measurement of the performance
- Reporting and investigating all incidents

Risk management for the safety, for workers and employees and members of the society

The management of already assessed risks is guaranteed by a periodical control of their occurrence and by observing the internal procedures and instructions for safety work.
An initial risk assessment for four new sites was performed during the year:
Potable Water Treatment Plant "Mala Tsurkva", Potable Water Treatment Plant "Pasarel", Diesel tank for vehicle fuelling in SWWTP and New confined spaces after re-construction in SWWTP.

Work in a partnership with employees, contractors and other for ensuring health and safety

Consultations with representatives of workers and employees are considered to be particularly important for us. Thus, we conduct regular meetings per quarter with the Labour Conditions Committee for discussing all safety aspects, aiming in safety improvement.
The main discussion topics were:

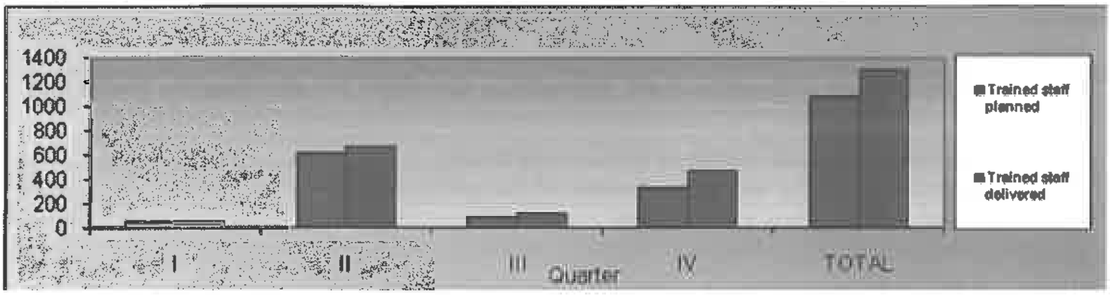
- Risk assessment and status of the occupational traumatism, annual medical analyses;
- Updating the lists of the personal protective equipment and clothing;
- Updating the lists with additional leave of people, working at specific working conditions;
- Other matters, concerning the occupational health and safety conditions

Periodically, we conduct meetings with H&S representatives of the contractors regarding safety matters and exchange of good practices.

Training for achieving high levels of H&S competency

The high levels of competency are crucial factor for achieving high levels of health and safety. The H&S trainings are performed annually under an approved program. Graphically the implementation is shown below.

Trained staff	I	II	III	IV	TOTAL
People that are planned for training	40	620	90	327	1077
Actually trained	**46**	**667**	**117**	**470**	**1300**



Health and safety auditing and performance measurement

In September, the external audit of Management Systems on Occupational Health and Safety and Environment was conducted. The audit was particularly detailed. It was performed in the presence of Mr. Schram, as "an observer", who is a representative of DAkkS – supreme state accreditation body of Germany (this is the body that issues licenses for performing the activity of the certifying organizations, such as TUV NORD).

The audit was completed without any non-conformity. Three recommendations for improvement were given, as for 2011 they were fourteen. This excellent result actually is an assessment for the work of the whole team in the Group.

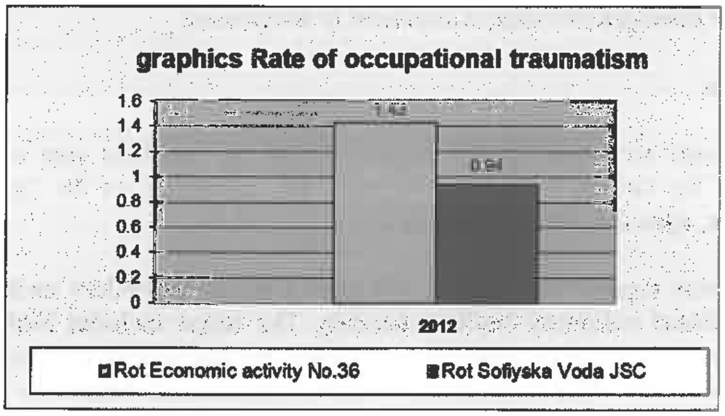
In the final audit report, two positive aspects were pointed out – implemented "good practices", and as the auditors said: "It is not a frequent practice for a Company to be praised with good practices".

.Nr.	PA (Positive Aspekte/Good Practice)	Bereich / Prozess	Norm: Forderung
1	Very good practice of the project for a career development of the personnel	Competency, training and awareness	ISO 14001 4.4.2 OHSAS 18001 4.4.2
2	The good practice to be continued with visualization of the results from the internal audits and the undertaken measures.	Internal audits	OHSAS 18001 4.5.5

Reporting and investigation of all incidents

- **Lost time incidents**

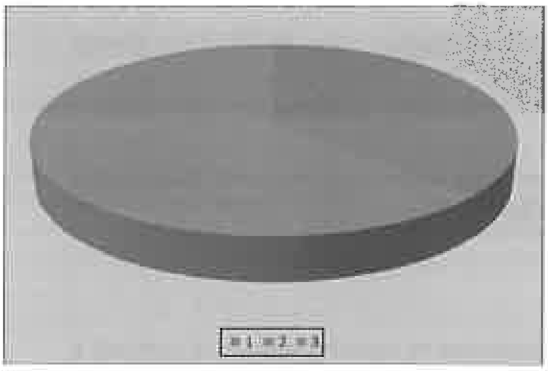
During the year, ten occupational accidents were reported and investigated. Nine of them occurred at the workplaces and one of them – during journey to work. In 2012, the Group achieved lower rate of occupational traumatism than the officially reported one for economic activity “Water treatment, collecting and supply”.



Notice: The rate of the occupational accident (Rot) is an arithmetic mean of the average value of the frequency rate and the severity rate of the occupational accidents for the period of three years.

- **Incidents without lost time**

All incidents are reported in the Group, so that corrective measures to be undertaken in due time for non admission of accidents. The following incidents were reported during the year:



Number	*Incident type*
19	"near miss"
35	property damage incident, without person injury, our employee's fault
91	property damage incident, without person injury, not our employee's fault

HUMAN RESOURCE MANAGEMENT

In its policy and practice, Sofiyska Voda JSC develops and applies contemporary forms of human resource management with the awareness that these factors are of extreme 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, following high budget discipline and social partnership with the trade unions.
In May 2012, the new Collective Labor Agreement was signed.
Human resource management is developed by applying a complex of policies and procedures planned in advance so that the whole management team is involved in the process.

Remuneration and benefits

In April 2012, 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 and personal ones, agreed in the previous year.

In March 2012 a contract was signed with OZOK AD after a tender procedure under PPA for the choice of supplier for additional voluntary health insurance. The scope includes health services for health prevention and prophylaxis; inpatient and outpatient care, reimbursement of employee expenses for purchased medicines and others. This contract represents a considerable benefit for the employees compared to the previous practices.

Training and development

Over the year induction trainings were held for the newly appointed Group employees for the purpose of their quick and easy adaptation to the new environment and getting acquainted with the values, culture and structure of The Group.

In 2012 the Group prepared a second project under the EU Operational Program for Human Resource Development that was approved and will be completed in 2013.

The internship program of The Group was held for the eleventh successive year. In 2012 the Group accepted 38 students. After the internship program was completed, four interns remained to work in the Group and develop professionally in it.

In line with the policy for awarding individual and team achievements of the employees in The Group, 10 employees and a total of four teams were awarded with the Golden Star award in 2012.

15 employees were promoted during the year.

The Group, in agreement with its social partners, implements an extensive social program, which has a positive impact on the relations with the employees, their motivation and making them stay in the Group.

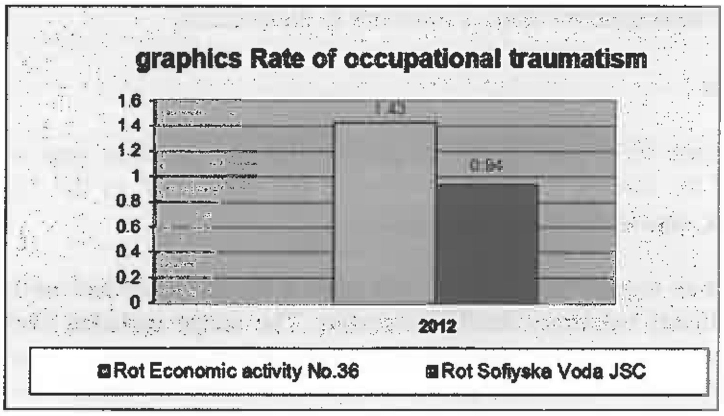
RESEARCH AND DEVELOPMENT ACTIVITY

Sofiyska Voda JSC does not carry out such activity.

Reporting and investigation of all incidents

- **Lost time incidents**

During the year, ten occupational accidents were reported and investigated. Nine of them occurred at the workplaces and one of them – during journey to work. In 2012, the Group achieved lower rate of occupational traumatism than the officially reported one for economic activity "Water treatment, collecting and supply".



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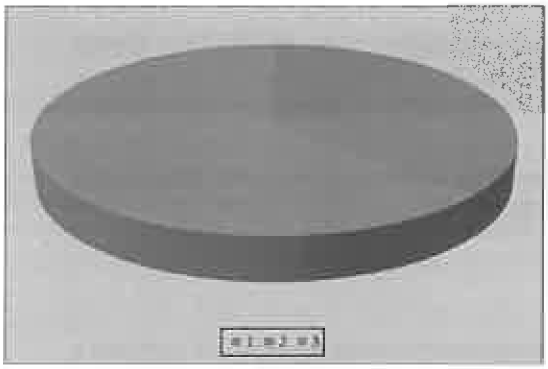

Number	*Incident type*
19	"near miss"
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91	property damage incident, without person injury, not our employee's fault

BOARD OF DIRECTORS

Until 29 June 2012 the Board of Directors of Sofiyska Voda JSC had 6 members. After the specified date, on an Supplemental General Meeting of the Shareholders, Mr. Kamen Mitev Manev and Mr. Nikolay Slavchev Alexandrov were delisted from the Board of Directors and from the quota of Vodosnabdyavane I Kanalizatsia EAD Mr. Ruslan Lyubomirov Kenarov, Mr. Stefan Nikolov Peltekov and Mr. Tzvetan Dobrev Gergov were nominated. Also from the quota of the shareholder Veolia Voda (Sofia) BV Mr Bruno Daniel Paul Roche was delisted and Mr. Jean Edmond Henri Salessy was elected in his place. As at 31.12.2012 the BoD consists of: Mr. Etienne Marie Patrice Petit, Mr. Gyorgy Palko, Mr. Jean Edmond Henri Salessy, Mr. Ferenc Szucs, Mr. Ruslan Lyubomirov Kenarov, Mr. Stefan Nikolov Peltekov and Mr. Tzvetan Dobrev Gergov.
Remuneration to Board of Directors members for 2012 is BGN 62 K (vs. BGN 50 K in 2011) as detailed in Note 30 of the Consolidated Financial Statements.
None of the new members has ever had shares or options for shares in Sofiyska Voda JSC.
General Commercial Proxy of Sofiyska Voda is Mariana Georgieva Iteva.
Mariana Iteva does not own shares or options for shares of The Group.
Mariana Iteva is General Manager of Veolia Voda Bulgaria EOOD and ML Consult International EOOD. She does not own shares in other companies.

RELATED PARTIES

The Group has a related party relationship with its parent company – Veolia Voda (Sofia) BV, which owns 77.10% of Sofiyska Voda AD's shares, as well as with the other companies of the economic group. The amount of the transactions and the sum of the receivables and debts to the related parties are announced in Note 30 to the Consolidated Financial Statements of the Group for 2012.

FORECAST FOR 2013 AND BUSINESS PLAN 2009 – 2013

The main challenge before the Group in 2012 is the delay in the annual tariff indexation for 2013, which at the time of the completion of this Annual Report has not been granted yet. The Group is in active dialogue with both the State Commission for Energy and Water Regulation and the Municipality of Sofia and any requested additional information is promptly delivered. Meanwhile the Group is working on the implementation of the investment program as per the approved in the end of 2008 Business Plan and total amount of investments for the regulatory period 2009-2013 of BGN 240 M.

Софийска Вода София АД

Aneliya Ilieva
/Act. CFO/

Mariana Iteva
/General Commercial Proxy/

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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 ("the Company") as set out on pages 1 to 58, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of 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.

KPMG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2012, 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 Company 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 Company, 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 Company as of and for the year ended 31 December 2012. Management is responsible for the preparation of the consolidated annual report of the activities of the Company which was approved by the Board of Directors of the Company on 28 March 2013.

Margarita Goleva
Director

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 29 March 2013

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