

Sofiyska Voda AD

Consolidated financial statements

For the year ended 31 December 2008

With Independent Auditors' report thereon



Independent Auditors' Report

**To the shareholders of
Sofiyska Voda AD**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sofiyska Voda AD ("the Company"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the professional requirements of International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the "Sofiyiska Voda" AD as of 31 December 2008, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Without qualifying our opinion we draw attention to the following:

- IFRIC Interpretation 12 – Service Concession Arrangements has not yet been endorsed by the European Union, and for this reason is not applied in these financial statements. Endorsement is expected in 2009 and this may have significant effect on the financial statements of the Company. The indicative effects on the financial statements of the Company are discussed more fully in Appendix 1 to the Consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Company 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 prepared by Management and disclosed in the annual report of the activities of the Company, as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the financial information disclosed in the audited consolidated financial statements of the Company as of and for the year ended 31 December 2008. Management is responsible for the preparation of the annual report of the activities of the Company which was approved by the Board of directors 24 March 2009.

Gilbert McCaul
Partner

Sofia, 25 March 2009
KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria



Antoaneta Boicheva
Registered Auditor



Consolidated income statement

For the year ended 31 December 2008

<i>In thousands of BGN</i>	Note	2008	2007
Revenue	5	94,084	80,209
Other income	6	<u>1,322</u>	<u>2,184</u>
		95,406	82,393
Expenses for materials	7	(9,406)	(8,233)
Expenses for hired services	8	(23,877)	(21,932)
Depreciation and amortization	13,14	(12,697)	(12,403)
Salaries, remuneration and other personnel benefits	9	(10,850)	(9,561)
Social security contributions and other social expenses	9	(3,917)	(3,557)
Other operating expenses	10	<u>(10,382)</u>	<u>(6,472)</u>
Profit from operating activities		24,277	20,235
Finance income		813	478
Finance expense		<u>(8,219)</u>	<u>(18,333)</u>
Net Financing expense	11	(7,406)	(17,855)
Profit before tax		16,871	2,380
Income tax expense	12	<u>(507)</u>	<u>(1,387)</u>
Net profit for the year		<u>16,364</u>	<u>993</u>

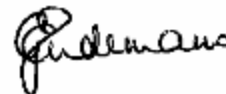
The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 46.

The consolidated financial statement were approved on 24 March 2009 by the Board of Directors.

Teodora Koseva
Financial Director



Gregory Endemano
Executive Director

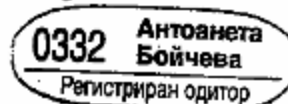


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Registered Auditor

Consolidated statement of changes in equity**For the year ended 31 December 2008***In thousands of BGN*

	Share capital	General reserves	Hedge reserves	Retained earnings	Total
Balance at 1 January 2007	8,884	170	-	4,377	13,431
Change in reserves	-	130	-	(130)	-
Recognized profit for the year	-	-	-	993	993
Balance at 31 December 2007	8,884	300	-	5,240	14,424
Balance at 1 January 2008	8,884	300	-	5,240	14,424
Change in reserves	-	99	-	(99)	-
Fair value evaluation of hedging instruments	-	-	(2,323)	-	(2,323)
Deferred tax asset of fair value estimate of hedging instruments	-	-	232	-	232
Recognized profit for the year	-	-	-	16,364	16,364
Balance at 31 December 2008	8,884	399	(2,091)	21,505	28,697

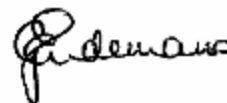
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Gregory Endemano
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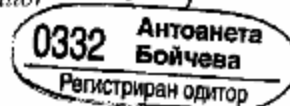


Gilbert McCaul
Partner

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Antoaneta Boicheva
Registered Auditor

Consolidated balance sheet**For the year ended 31 December 2008***In thousands of BGN*

	Note	2008	2007
Non-current assets			
Property, plant and equipment	13	128,402	111,558
Intangible assets	14	8,362	12,747
Goodwill	14	7,393	7,393
Financial assets		-	60
Deferred taxes assets	20	4,342	-
Total non-current assets		<u>148,499</u>	<u>131,758</u>
Current assets			
Inventories	15	1,910	1,327
Trade and other receivables	16	30,629	29,572
Cash and cash equivalents	17	11,082	9,113
Total current assets		<u>43,621</u>	<u>40,012</u>
Total Assets		<u>192,120</u>	<u>171,770</u>
Equity			
Share capital	18	8,884	8,884
Reserves		(1,692)	300
Retained earnings		21,505	5,240
Total capital and reserves		<u>28,697</u>	<u>14,424</u>
Non-current liabilities			
Interest bearing loans and borrowings	19	116,421	110,909
Liabilities under finance leases	19	1,030	589
Deferred taxes liabilities	20	1,840	-
Liabilities for retirement compensation	25	425	404
Total non-current liabilities		<u>119,716</u>	<u>111,902</u>

Consolidated balance sheet**For the year ended 31 December 2008**

<i>In thousands of BGN</i>	Note	2008	2007
Current liabilities			
Interest bearing loans and borrowings	19	4,741	13,508
Liabilities under finance leases	19	652	320
Tax liabilities	23	1,091	1,849
Payables to related parties	28	9,652	13,237
Trade and other payables	21	22,382	16,091
Derivatives	24	2,323	-
Provisions	22	2,540	251
Liabilities for retirement compensation	25	326	188
Total current liabilities		43,707	45,444
Total liabilities		163,423	157,346
Total equity and liabilities		192,120	171,770

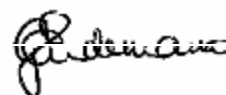
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The consolidated financial statements were approved on 24 March 2009 by the Board of Directors.

Teodora Koseva
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Gregory Endemano
Executive Director



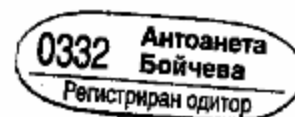
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Consolidated statement of cash flows**For the year ended 31 December 2008***In thousands of BGN*

	Note	2008	2007
Operating activities			
Net profit before tax		16,871	2,380
Adjustments for			
Depreciation and amortization	13,14	12,697	12,403
Expenses on interest bearing loans and borrowings	11	7,242	15,716
Other interest expenses	11	210	1,991
Impairment of receivables	10	6,055	5,395
Provisions		2,540	251
(Gains)/ loss from derivatives		(18)	(12)
Other non cash items		(1,207)	(50)
((Increase)/decrease in trade and other receivables		(11,582)	(8,288)
(Increase)/decrease in inventories		(884)	3
Increase/(decrease) in trade and other payables		9,228	3,222
Corporate income tax paid		(1,882)	(7,571)
Net cash flow from operating activities		<u>39,270</u>	<u>25,440</u>
Investment activities			
Payments for acquisition of property, plant and equipment		(24,398)	(17,988)
Proceeds from sale of property, plant and equipment		123	3
Net cash flow from investing activities		<u>(24,275)</u>	<u>(17,985)</u>
Financing activities			
Repayment of borrowings		(4,217)	(4,057)
Interest paid on borrowings		(7,872)	(4,152)
Payment of finance lease liabilities		(937)	(485)
Net cash flow from financing activities		<u>(13,026)</u>	<u>(8,694)</u>
Net increase/(decrease) in cash and cash equivalents		<u>1,969</u>	<u>(1,239)</u>
Cash and cash equivalents at the beginning of the year	17	<u>9,113</u>	<u>10,352</u>
Cash and cash equivalents at the end of the year	17	<u>11,082</u>	<u>9,113</u>

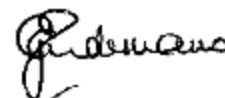
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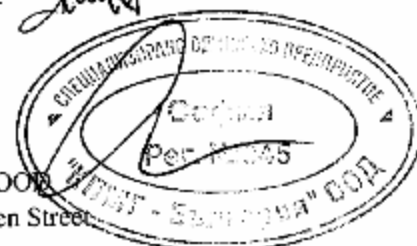
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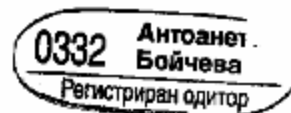
Gregory Endemano
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Notes to the consolidated financial statements

	Page		Page
1. Reporting entity	7	17. Cash and cash equivalents	29-30
2. Basis of preparation	7-8	18. Share capital and reserves	30
3. Significant accounting policies	8-19	19. Interest-bearing loans and borrowings	30-31
4. Financial risk management	20-21	20. Deferred tax assets and liabilities	31-32
5. Revenue	22	21. Trade and other payables	32
6. Other operating income	22	22. Provisions	33
7. Expenses for materials	22	23. Tax liabilities	33
8. Expenses for hired services	23	24. Financial instruments	33-37
9. Salaries, remuneration and other personnel benefits	23	25. Liabilities for retirement compensation	37-38
10. Other expenses	24	26. Contingent liabilities	39
11. Finance income and expenses	24	27. Obligations for acquisition of property, plant and equipment	39-40
12. Income tax expense	25	28. Related parties	40-42
13. Property, plant and equipment	26-27	29. Subsequent events	42-43
14. Intangible assets	28	Appendix 1	44-46
15. Inventories	28		
16. Trade and other receivables	29		

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. The address of the registered office of the Company is Bulgaria, Sofia, bl. Mladost 4, str. Business Park Sofia 1, building 2A. The Company is 77.10% owned by United Utilities (Sofia) BV and 22.90% owned by Vodospredpriemate I Kanalizaciona EAD.

The Company'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 and also construction, financing and managing of new assets.

Sofiyska Voda AD signed on 23 December 1999 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 permission 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.

The Group consists of Sofiyska Voda AD and Water Industry Support and Education EOOD (WISE), which is 100% subsidiary of Sofiyska Voda AD. Water Industry Support and Education EOOD is registered in Sofia City Court under company case № 9889/2000 / №57546, p.663, page 29. The address of the registered office of the subsidiary is Bulgaria, Sofia, bl. Mladost 4, str. Business Park Sofia 1, building 2A, 5 fl. The business of Water Industry Support and Education EOOD involves measurement and maintenance, planning, trade and every other activity, not forbidden by law, with the exception of construction work and building entrepreneurship, as well as real estate trading.

2. Basis of preparation

(a) Statement of compliance

The financial statements for 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Commission.

IAS 8 *Accounting policies, changes in accounting estimates and errors* requires the Company to disclose the fact that it has not applied standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application.

The Company has disclosed the effects from application of published International Financial Reporting Standards that are not effective as at the balance sheet date or are not yet approved by the European Commission, but may have an effect on the Company's activities (see Significant accounting policy 3 (I) and Appendix 1).

The consolidated financial statements for the year ended 31 December 2008 were approved by the Board of Directors on 24 March 2009.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for hedging financial instruments, which are stated at fair value (see Significant accounting policy 3 (b)).

(c) Functional and presentation currency

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

Notes to the consolidated financial statements

2. Basis of preparation (continued)

(d) Use of estimates and judgments

The preparation of the 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 financial statements are described in the following notes:

- Note 13 - Property, plant and equipment;
- Note 24 – Financial instruments;
- Note 14 - Intangible assets;
- Note 16 - Trade and other receivables.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the company at exchange rates stated by the central bank 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-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

From 1997 to the date of the financial statements approval, the exchange rate of the Bulgarian lev (BGN) has been fixed to the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(b) Financial Instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances, current accounts and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3 (j).

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than the impairment losses, and foreign exchange gains and losses and available-for-sale monetary items (see note 3(b)) are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred in profit or loss.

The available-for-sale monetary items are considered current financial assets at fair value. Profit or loss, resulting of the fair value evaluation are recognized in the Income statement.

Financial assets at fair value through profit or loss in the Income statement

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

(ii) 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.

(iii) Derivative financial instruments

Cash flow hedging

The Company holds derivative financial instruments to hedge interest rate risk exposures

The change in the fair value of a hedging instrument, defined as a hedging of a cash flow, is recognized directly in the equity at the effective rate of the hedge. For any ineffective portion of the hedge the changes in the fair value are recognized in the income statement.

If the hedging instrument can no longer meet the hedging reporting conditions, if it is sold, cancelled, or exercised, then the cumulative profit / loss that has been separately recognized in the equity until the fulfillment of the transaction, is transferred into profit / loss in the same period to which the hedged position applies.

When the transaction is completed, the hedge reporting ceases.

If the transaction is not expected to be completed, the cumulative profit / loss that has been directly recognized in the equity, is recognized in the Income statement.

(c) Property, plant and equipment

(i) Recognition and measurement

Owned and public assets

Items of property, plant and equipment and improvement of public assets are stated at cost less accumulated depreciation and impairment losses (see Significant accounting policy 3 (f)). Items of property, plant and equipment are stated at cost at the date of their acquisition. The cost includes the purchase price, including the non-refundable taxes and all expenses incurred to bring the asset into use.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Owned and public assets

Under the Concession Contract the Company has a specific right to use public assets, which are in public ownership in accordance with the Municipality ownership act. The right of ownership of the existing public assets belongs to the Grantor (Sofia Municipality). For the period of the Concession, however, the Concessionaire has the exclusive and special right to use the existing public assets. The right of use of new public assets is transferred to the Concessionaire on the acquisition date or the date the assets are in use by the Concessionaire. The Company has no right to receive any consideration from the Grantor in respect to acquisition, construction, installation and creation of any new public assets. The Company is making significant improvements to the public assets the cost of which is capitalized as leasehold improvements and water-main improvements. The Company does not pay to the Grantor consideration in respect of the specific right to use the new public assets.

The cost of self-constructed assets includes the cost of materials, direct labour and other direct costs, including expenses for hired services of subcontracting companies. In accordance with the Technical Services Agreement and the Asset Management Agreement, the Company incurs expenditure for the services of consultants, which are capitalized in the cost of the assets only where they are directly related to the asset and economic benefits are expected to be received by the Company for the period of utilization of the asset. Based on detailed time-sheets and documents describing the scope and the expected results from the services of the consultants, these expenses are capitalized in the cost of the self-constructed asset.

Profit or loss from sold items of property, plant and equipment are measured as the difference between the selling price and the book value of the items of property, plant and equipment and are recognized as "other revenue" in the Income statement.

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment that is accounted for separately including major inspection and overhaul expenditure is capitalized. Subsequent expenditure is capitalized only if it increases the future economic benefits embodied in the item of property, plant and equipment. The carrying amount of the replaced part is derecognized. All other expenditure is recognized in the income statement as an expense when incurred. When the property, plant and equipment include components with different useful lives, they are recorded separately.

Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the beginning of the lease period, decreased by the accumulated depreciation and impairment losses (refer to Significant accounting policy 3 (f)). Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and assets on operating leasing are not recognized in the Company's balance sheet.

Notes to the consolidated financial statements**3. Significant accounting policies (continued)****(c) Property, plant and equipment (continued)****(ii) Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Assets are depreciated from the month following the acquisition date. The depreciation rates used are based on the estimated useful lives as follows:

• Buildings	25 years
• Plant and equipment	5-25 years
• Vehicles – automobiles	5-10 years
• Vehicles – trucks	12,5 years
• Water network improvements	25 years (or the remaining period of the concession contract)

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

(d) Intangible assets

Intangible assets acquired by the Company are stated at acquisition cost less accumulated amortization and impairment losses (refer to Significant accounting policy 3(f)).

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. (see Significant accounting policy 3(f)).

(ii) Research and development

Expenditure on research activities (internally generated intangible assets from research activities – research phase of a project) is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically feasible and the Company has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred.

(iii) Software

The software purchased by the Company is stated at cost less accumulated amortization (see below) and impairment losses (see Significant accounting policy 3(f)).

Notes to the consolidated financial statements**3. Significant accounting policies (continued)****(d) Intangible assets (continued)****(iv) Subsequent expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when they meet the recognition criteria for intangible assets, that is when future economic benefits are probable and the expenditure can be measured reliably. All other expenditure is expensed as incurred.

(v) Amortization

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

The useful lives of the intangible assets are as follows:

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

(e) Inventories

Inventories are stated at the lower of their cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories at their consumption is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. As far the produced inventories and the semi-finished goods, their value includes part of the indirect manufacturing expenses, based on the normal operational capacity of Company's activity.

The net realizable value is the expected sales price under normal market conditions, reduced with the expected sales costs.

(f) Impairment**(i) Financial Assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial assets 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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The rest are estimated in groups with similar characteristic features.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial Assets (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories (refer to accounting policy 3(e)) and deferred tax assets (refer to accounting policy 3(k)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater 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. For the purpose of impairment testing, assets 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 groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units).

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(g) Defined benefit plans

(i) Long-term benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan 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. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes a portion of the actuarial profits and losses which originate from defined income plans as income or expenses, if until the date concerned the cumulative unrecognized actuarial profits and losses at the end of the previous reported period exceed the current amount of for defined income obligation by 10%.

(ii) Other long-term benefits

The net obligation of the Company for long-term employee income, other than retirement plans, comprises amounts for future income due and payable to employees for present and past service; this income is discounted in order to determine its present value; the fair value of associated assets is reduced. The discount rate is an income as at the date of the balance sheet related to securities which have been awarded credit rating AA and which have maturity approximately corresponding to the term of contractual obligation of the Company. The calculation is performed by the method of credit forecast able units. The actuarial profits or losses are reported in the income statement in which these originate.

(iii) Short-term benefits

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(h) Provisions

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

Legal liabilities provision

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

(i) Revenue

Goods sold and services rendered

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from services rendered is recognized in profit or loss 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.

(j) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(j) Finance income and expenses (continued)

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

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

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the balance sheet method, providing for 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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(i) New International Financial Reporting Standards (IFRSs) and interpretations (IFRIC), endorsed by the European commission but not yet effective as at the balance sheet date

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been adopted in preparing these financial statements:

- Amendment to IFRS 2 *Share-based Payment – vesting and termination conditions* (effective 1 January 2009). The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The Amendment to IFRS 2 will become mandatory for the Company's 2009 financial statements, with retrospective application required. Management considers that the amendments will not have any impact on the Company as the Company does not have any share-based compensation plans.
- IFRS 8 *Operating Segments* (effective 1 January 2009). The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance. The Standard will have no effect on the profit or loss or equity and the management expects the new Standard not to alter significantly the presentation and disclosure of its operating segments in the financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Company is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and it is not expected to give rise to a change in the Company's financial position.
- IFRIC 13 *Customer Loyalty Programs* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have significant impact on the financial statements.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(1) New International Financial Reporting Standards (IFRSs) and interpretations (IFRIC), endorsed by the European commission but not yet effective as at the balance sheet date (continued)

Management believes that it is appropriate to disclose that the following revised standards, new interpretations and amendments to current standards, which are included under the accounting IFRS framework as approved by the International Accounting Standards Board (IASB), but are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements:

New standards and interpretations that are published, but not yet effective or approved by the European Commission

- 35 Improvements to 24 IFRSs and IASs (2008)
- Revised IFRS 3 *Business Combinations* (2008)
- Revised IFRS 1 *First-time adoption of IFRS*
- Amendments to IFRS 1 and IAS 27 related to *Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate*
- Amendments to IAS 32 and IAS 1 related to *Puttable financial instruments and obligations arising on liquidation*
- Amendments to IAS 39 related to *Eligible hedged items; effective date and transition*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners.*

As at the date of preparation of these financial statements, Management considers that the future application of these revised standards, new interpretations and amendments to current standards, once they are endorsed by the European Commission, will not have a significant impact on the Company's financial statements, except for IFRIC 12 – *Service Concession Arrangements*. Applying IFRIC 12 will lead to considerable changes in the financial statements. The Company has analyzed the expected consequences of applying IFRIC 12 - *Service Concession Arrangements*, which can be seen in Appendix 1 of the financial statements.

Notes to the consolidated financial statements

4. Financial risk management

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

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has the overall responsibility for the establishment and supervision of the Company's risk management.

The internal control teams include employees of the company who perform regular and ad-hoc reviews and procedures connected to the management of the financial risks and the results thereof are reported to the Board of Directors.

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

(i) *Trade receivables*

The credit risk exposure of the Company is resulting from individual characteristics of individual clients. This exposure also depends on the risk of not payment relevant to the business sector. The Company is a monopolist in rendering its services on the territory of Sofia Municipality. As at 31 December 2008 the active clients of the company are 539,705 (2007 – 519,476). Based on the analyses of the Company, the services rendered have low price elasticity. The prices are regulated by the State Energy and Water Regulation Commission. The Company requires a guarantee from its customers in relation to the services rendered.

Notes to the consolidated financial statements

4. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The Company performs financial planning, which will meet the payment of current expenses and liabilities for a period of 30 days, including its financial liabilities. This planning excludes the potential effect of unplanned circumstances, which cannot be planned as normal circumstances.

As the Company's business activities are related to regular deliveries and payments from clients, the liquidity risk control is mainly comprised of the following components:

- careful planning of all cash outflows based on monthly forecasts;
- payment conditions with clients, which are executed within a month – special payment schedules are negotiated and there are penalties in case of delay;

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company'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.

The Company undertakes periodical analysis on the macroeconomic environment in the country and in depth analysis on specific macro-indicators, which are presented to the Board of Directors. The Board of Directors has the responsibility for evaluation of future risks that the Company faces, including information of the interest rates. If the market conditions worsen hedging instruments will be used.

The Company manages its interest risk. In 2008 it signed a swap contract through which it hedges its risk exposition to changes in the six-month Euribor.

Capital management

The management's policy is to maintain a strong capital base so as to maintain owners' and market confidence and to sustain future development of the business.

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. The return on equity in 2008 is 57.02% (2007: 6.88%).

There were no changes in the Company's approach to capital management during the year. The Company was not the subject of 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 %.

Notes to the consolidated financial statements

5. Revenue

<i>In thousands of BGN</i>	2008	2007
Income from water supply	63,327	54,000
Income from sewerage	9,056	8,298
Income from waste water treatment	15,210	13,708
Interest income on overdue receivables	4,044	2,780
Income or service sales	2,963	1,770
Invoiced income related to ISPA	(516)	(347)
	<u>94,084</u>	<u>80,209</u>

Pursuant to an Agreement dated 22/06/2007 between Sofiyka 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 Company is obliged to include in the price of the offered service water – supply, sewerage and purification of refuse waters all the necessary funds for repayment of the loan that will be received from the European Investment Bank project, amounting to EUR 8,775 thousand (15 % of project's amount).

The beneficiary of the loan from the European Investment Bank is the Sofia Municipality. The Company is obliged to collect the amounts mentioned above for the repayment of the loan.

The State Energy and Water Regulatory Commission (SEWRC) has approved these necessary amounts for repayment of the loan to be included in the price of provided water – supply and sewerage service.

In 2008 all the revenues, which are meant to be transferred for repayment of this EIB loan amount to BGN 516 thousand (2007: BGN 347 thousand).

The amounts collected by the Company from its customers will be transferred to the Ministry of Environment and Waters in a special bank account opened for the loan. As at the date of the preparation of these consolidated financial statements, the loan from the European Investment Bank has not been received and the special bank account has not yet been opened.

6. Other operating income

The total value of other income for 2008 is BGN 1,322 thousand (2007: BGN 2,184). The major items are revenues from imposed sanctions for industrial discharges with above the standard concentration of fixed pollutants equal to BGN 746 thousand (2007: BGN 1,129 thousand), gains from sold inventories to subcontractors for repair works – BGN 167 thousand. (2007: BGN 185 thousand).

7. Expenses for materials

<i>In thousands of BGN</i>	2008	2007
Electricity	2,737	2,209
Fuels and lubricants	2,209	2,047
Water for technological needs	1,478	1,369
Chemicals	973	941
Other	2,009	1,667
	<u>9,406</u>	<u>8,233</u>

Notes to the consolidated financial statements

8. Expenses for hired services

<i>In thousands of BGN</i>	2008	2007
Annual water tax	4,913	5,063
Repairs and maintenance of non-current assets	4,019	3,459
Insurance	1,046	1,035
Rent	1,281	1,131
Other services	12,618	11,244
	<u>23,877</u>	<u>21,932</u>

Other expenses for hired services include:

Security	4,522	3,167
Water – meters reading	1,097	1,647
Couriers	755	568
Printing services	676	608
Technical services	1,417	1,188
Consultancy	535	759
Asphalt covering	588	513
SEWRC fee	477	473
Sterilization	24	204
Communication	410	449
Yearly software licenses	382	405
Hired transportation	267	192
Other	1,468	1,071
	<u>12,618</u>	<u>11,244</u>

9. Salaries, remuneration and other personnel benefits

<i>In thousands of BGN</i>	2008	2007
Salaries and remuneration	10,850	9,432
Pensions and social security expenses	2,080	1,904
Social expenses	79	562
Expenses for additional pension contribution	218	198
Voucher expenses	1,237	819
Retirement compensation	303	203
	<u>14,767</u>	<u>13,118</u>

The salary expenses include an accrual for unused annual paid leave at the amount of BGN 516 thousand (2007: BGN 416 thousand). The pension and social security expenses include an accrual for social and health security for unused annual paid leave at the amount of BGN 91 thousand (2007: BGN 106 thousand). The amount of the retirement compensation includes the recognized actuarial loss, determined when calculating present value of the pension liability obligation for personnel (see note 25) in accordance with the option stated in paragraph 95 of IAS 19 "Employee benefits".

Notes to the consolidated financial statements

10. Other expenses

In thousands of BGN

	2008	2007
Impairment of receivables	6,055	5,395
Write down of inventories to net realizable value	260	519
One-off taxes	186	200
Scrapping of non-current assets	47	89
Provisions	2,540	251
Others	1,294	18
	<u>10,382</u>	<u>6,472</u>

11. Finance income and expenses

In thousands of BGN

	2008	2007
Interest income	233	154
Effect from guarantee discounts	82	97
Interest income form SWAP transactions	214	-
Gain from subsequent measurement of derivative	-	12
Net foreign exchange gains	284	215
Financial income	<u>813</u>	<u>478</u>
Interest expenses for Loan "A" based on effective interest rate method calculations	(3,988)	(4,766)
Interest expenses for Loan "B" based on effective interest rate method calculations	(3,195)	(10,950)
Interest expenses for Loan "C" based on effective interest rate method calculations	(59)	-
Finance charges on finance leases	(131)	(86)
Interest expenses on retirement compensations' liabilities	(44)	(27)
Effect from guarantee discounts	(35)	(41)
Interest expense from Tax assessment act	-	(1,837)
Other financial expenses	(767)	(626)
Financial expenses	<u>(8,219)</u>	<u>(18,333)</u>
Net finance expenses	<u>(7,406)</u>	<u>(17,855)</u>

Notes to the consolidated financial statements

12. Income tax expense

<i>In thousands of BGN</i>	2008		2007	
Current corporate income tax expense		(2,777)		(1,387)
Deferred taxes		2,270		-
		<u>(507)</u>		<u>(1,387)</u>
Reconciliation of effective tax rate	2008		2007	
<i>In thousands of BGN</i>				
Profit before tax		16,871		2,379
Income tax using the domestic corporation tax rate	10.00%	1,687	10.00%	238
Expenses not recognized for tax purposes	0.24%	41	10.00%	233
Effect of thin capitalization	-	-	(0.5%)	(11)
Tax effects on temporary differences	(7.26%)	(1,225)	39.00%	927
Net current income tax expense	2.98%	<u>503</u>	58.50%	<u>1,387</u>

In 2008 the Company includes in its financial statements deferred taxes, the net effect of which is a deferred tax asset that equals BGN 2,502 thousand, of which BGN 2,270 thousand are recognized in the Income statement, BGN 232 thousand are recognized in the Statement of changes in equity (also see note 20). Deferred taxes have been recognized for the first time in 2008, due to events indicating that the Company will be able to perform under normal conditions and will have profits in the short run, at which the deferred tax asset will be realized.

Notes to the consolidated financial statements

13. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Vehicles	Water network improvements	Leasehold improvements	Assets under construction	Total
Cost							
Balance at 1 January 2007	1,269	17,572	6,427	59,443	16,873	26,476	128,060
Acquisitions	-	1,096	226	-	-	14,169	15,491
Disposals	-	(341)	(28)	-	-	-	(369)
Transfers	-	1,470	-	8,115	2,636	(12,221)	-
Balance at 31 Dec 2007	1,269	19,797	6,625	67,558	19,509	28,424	143,182
Balance at 1 January 2008	1,269	19,797	6,625	67,558	19,509	28,424	143,182
Acquisitions	-	2,078	2,319	-	-	20,749	25,146
Disposals	(2)	(394)	(414)	-	-	-	(810)
Transfers	-	1,619	-	15,327	1,296	(18,242)	-
Balance at 31 Dec 2008	1,267	23,100	8,530	82,885	20,805	30,931	167,518
Depreciation							
Balance at 1 January 2007	(188)	(6,283)	(1,968)	(8,933)	(6,508)	-	(23,880)
Depreciation charge for the year	(43)	(1,714)	(1,635)	(2,838)	(1,846)	-	(8,076)
Depreciation charged on disposals	-	320	12	-	-	-	332
Balance at 31 Dec 2007	(231)	(7,677)	(3,591)	(11,771)	(8,354)	-	(31,624)
Balance at 1 January 2008	(231)	(7,677)	(3,591)	(11,771)	(8,354)	-	(31,624)
Depreciation charge for the year	(43)	(1,925)	(885)	(3,365)	(2,008)	-	(8,226)
Depreciation charged on disposals	-	351	383	-	-	-	734
Balance at 31 Dec 2008	(274)	(9,251)	(4,093)	(15,136)	(10,362)	-	(39,116)
Carrying amount							
At 1 January 2007	1,081	11,289	4,459	50,510	10,365	26,476	104,180
At 31 December 2007	1,038	12,120	3,034	55,787	11,155	28,424	111,558
At 1 January 2008	1,038	12,120	3,034	55,787	11,155	28,424	111,558
At 31 December 2008	993	13,849	4,437	67,749	10,443	30,931	128,402

Notes to the consolidated financial statements

13. Property, plant and equipment (continued)

Acquisitions

During 2008 assets at the amount of BGN 25,146 thousand have been acquired (2007: BGN 15,490 thousand). Major assets amounting BGN 19,635 thousand are stated below (2007: BGN 11,883 thousand):

<i>In thousands of BGN</i>	2008	2007
Machinery and equipment in the water treatment plants and laboratories	366	1,219
Valves and hydrants	756	1,471
Water mains and house connections	11,779	3,895
Hydrophores	369	385
Sewerage mains and house connections	3,050	3,886
Vehicles and mechanization	2,452	238
Water meters	863	789
	<u>19,635</u>	<u>11,883</u>

Property, plant and equipment under construction

At 31 December, 2008 assets under construction amount to BGN 30,931 thousand (2007: BGN 28,424 thousand). The major assets under construction amounting to BGN 29,824 thousand are stated below: (2007: BGN 27,614 thousand):

<i>In thousands of BGN</i>	2008	2007
2 nd stage of strengthening of Beli Iskar Dam	381	581
Machinery and equipment in Waste water treatment plant –sludge carbonation installation, methane-tank reconstruction	14,016	13,825
Construction of water main system, water-main net model and DMA zones for reduction of unmetered water quantities	8,397	8,208
Building of chlorinating stations	77	330
Construction of sewerage mains and sewerage model	6,953	4,670
	<u>29,824</u>	<u>27,614</u>

Assets, pledged as collateral

The Company has pledged all its present and future tangible assets in respect to secured bank loan "A".

A specific pledge on the leased vehicles has been set up in favor of the lessor. These are automobiles and construction machines with a carrying amount of BGN 1,137 thousand (2007: BGN 1,416 thousand).

Notes to the consolidated financial statements

14. Intangible assets

In thousands of BGN

	Goodwill	Development costs	Software	Total
Book value				
Balance at 1 January 2007	7,393	18,649	13,312	39,354
Acquisitions	-	2,250	134	2,384
Balance at 31 December 2007	7,393	20,899	13,446	41,738
Balance at 1 January 2008	7,393	20,899	13,446	41,738
Acquisitions	-	-	86	86
Balance at 31 December 2008	7,393	20,899	13,532	41,824
Amortization				
Balance at 1 January 2007	-	(12,043)	(5,228)	(17,271)
Amortization for the year	-	(2,992)	(1,335)	(4,327)
Balance at 31 December 2007	-	(15,035)	(6,563)	(21,598)
Balance at 1 January 2008	-	(15,035)	(6,563)	(21,598)
Amortization for the year	-	(3,123)	(1,348)	(4,471)
Balance at 31 December 2008	-	(18,158)	(7,911)	(26,069)
Carrying amounts				
At 1 January 2007	7,393	6,606	8,084	22,083
At 31 December 2007	7,393	5,864	6,883	20,140
At 1 January 2008	7,393	5,864	6,883	20,140
At 31 December 2008	7,393	2,741	5,621	15,755

Acquired assets

The acquisition with the greatest value in 2008 represents intangible assets - purchased software for the implementation of the new Company's website and software amounting BGN 39 thousand and software for the needs of the Control centre amounting BGN 32 thousand.

15. Inventories

In thousands of BGN

	2008	2007
Spare parts and consumables	2,883	2,040
Stock write down to net realizable value	(973)	(713)
	<u>1,910</u>	<u>1,327</u>

Inventories pledged as collateral

The Company has pledged all its present and future supplies, raw materials and inventory in respect of secured bank loan "A".

Notes to the consolidated financial statements

16. Trade and other receivables

<i>In thousands of BGN</i>	Note	2008	2007
Trade receivables		53,575	60,483
Impairment losses on trade receivables		(27,640)	(33,649)
Related parties receivables	28	82	50
Prepayments and deferred expenses		3,749	1,659
Tax receivables		2	812
Court receivables		1,686	1,219
Impairment losses on court receivables		(1,602)	(1,158)
Other receivables		777	156
		<u>30,629</u>	<u>29,572</u>

In 2008 fully provided receivables with an expired 5-year validity period were written off, amounting at BGN 11,202 thousand. (For detailed information about changes in receivables' impairment see note 24.)

Accounts receivable pledged as collateral

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

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

Prepayments and deferred expenses include:

<i>In thousands of BGN</i>	2008	2007
Insurance	1,033	763
Licenses	83	193
Subscriptions	6	15
Advance payment for delivery of biogas equipment	2,219	-
Other	408	688
	<u>3,749</u>	<u>1,659</u>

17. Cash and cash equivalents

<i>In thousands of BGN</i>	2008	2007
Cash in hand	46	38
Local currency	31	20
Foreign currency	15	18
Cash at banks	11,036	9,075
Local currency	9,400	9,002
Foreign currency	1,636	73
Cash and cash equivalents in the statement of cash flows	<u>11,082</u>	<u>9,113</u>

Cash at banks pledged as collateral

The Company 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 Company in relation to insurances against losses and potential damages.

Notes to the consolidated financial statements

17. Cash and cash equivalents (continued)

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

18. Share capital and reserves

In thousands of shares

	Ordinary shares	
	2008	2007
Issued at 1 January	8,884	8,884
Installment in kind	-	-
Issued as at 31 December – fully paid	<u>8,884</u>	<u>8,884</u>

As at 31 December 2008 the Company's share capital includes 8,884,435 ordinary shares (2007: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Company as at 31 December 2008 are:

- United Utilities (Sofia) BV – 6,850,000 ordinary shares (77,1%);
- Vodospripravane i Kanalizatsia AD - 2,034,435 ordinary shares (22,9%).

With 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 Company's General Shareholders Meeting of one vote for each share in their possession. All shares rank equally with regard to the Company's residual assets.

Legal reserves

Legal reserves represent 10% of the profit after tax in accordance with the requirements of art. 246 of the Bulgarian Commercial Act.

19. Interest-bearing loans and borrowings

This note provides information for the contractual terms of the Company's interest-bearing loans and borrowings.

<i>In thousands of BGN</i>	Note	2008	2007
<i>Non-current liabilities</i>			
Loans at nominal value		118,175	110,517
Amortization		(1,754)	392
Loans at amortized cost		<u>116,421</u>	<u>110,909</u>
Finance lease liabilities		1,030	589
		<u>117,451</u>	<u>111,498</u>
<i>Current liabilities</i>			
Loans at nominal value		4,369	13,365
Amortization		372	143
Loans at amortized cost		<u>4,741</u>	<u>13,508</u>
Finance lease liabilities		652	320
		<u>5,393</u>	<u>13,828</u>

Notes to the consolidated financial statements

19. Interest – bearing loans and borrowings (continued)

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

In accordance with the loan agreement with EBRD the company has the obligation to maintain an ADSCR of 1.3:1. The ADSCR should show that at any Calculation Date (31 December) the Free Cash Flow for the twelve month period immediately preceding such Calculation Date divided by the aggregate amount of principal and interest payments falling due and payable during such period should be 1.3:1.

Terms and debt repayment schedule

<i>In thousands of BGN</i>	Total	Less than 1 year	1 – 2 – 5 years	More than 5 years
Secured bank loans (nominal value)				
Loan „A” (1,75 % + Euribor)	49,863	4,056	4,056	28,408
Loan „B” (5,95% + Euribor)	71,117			71,117
Loan „C” (2,50% + Euribor)	1,564	313	164	-
Finance lease liabilities	1,682	652	794	-
	<u>124,226</u>	<u>5,021</u>	<u>5,014</u>	<u>99,525</u>

Pursuant to an agreement dated 19 May 2008, the interest rate on Loan “B” is changed from a six-month Euribor + 13% to a six-month Euribor + 5.9%. The change comes into force as of 1 January 2007. The effect from the reduction for 2007, in the amount of BGN 4,456 thousand, has been recognized in 2008.

Finance lease liabilities

The financial lease liabilities are due as follows:

<i>In thousands of BGN</i>	Future minimum lease payments 2008	Interest 2008	Present value of future lease payments 2008	Future minimum lease payments 2007	Interest 2007	Present value of future lease payments 2007
Less than 1 year	780	128	652	383	63	320
Between 1 and 2 years	865	71	794	382	36	346
2 to 5 years	274	38	236	251	8	243
	<u>1,919</u>	<u>237</u>	<u>1,682</u>	<u>1,016</u>	<u>107</u>	<u>909</u>

20. Deferred tax assets and liabilities

The net deferred tax assets are recognized in the consolidated financial statements. The reporting of the existing deferred assets and liabilities is presented below:

<i>In thousands of BGN</i>	Assets 2008	Liabilities 2008	Net 2008
Property, plant and equipment	-	(1,840)	(1,840)
Inventories	97	-	97
Trade receivables	2,857	-	2,857
Provisions	254	-	254
Accrual for unused paid leave	94	-	94
Liabilities for retirement compensations	75	-	75
Income of Bulgarian individuals	91	-	91
Hedging instruments	232	-	232
Trade payables	642	-	642
Deferred tax assets/ (liabilities)	<u>4,342</u>	<u>(1,840)</u>	<u>2,502</u>

Notes to the consolidated financial statements

20. Deferred tax assets and liabilities (continued)

The change in deferred tax assets and liabilities is presented below:

<i>In thousands of BGN</i>	Balance at 1 January 2008	Recognized in the income statement	Recognized in equity	Balance at 31 December 2008
Property, plant and equipment	-	(1,840)	-	(1,840)
Inventories	-	97	-	97
Trade receivables	-	2,857	-	2,857
Provisions	-	254	-	254
Accrual for unused paid leave	-	94	-	94
Liabilities for retirement compensations	-	75	-	75
Income of Bulgarian individuals	-	91	-	91
Hedging instruments	-	-	232	232
Trade payables	-	642	-	642
Deferred tax assets/ (liabilities)	-	2,270	232	2,502

When defining current and deferred taxes, the Company uses the accounting principles, described in note 3. The deferred tax for 2008 is calculated on the basis of the rates of taxation, applicable to the Company, i.e. for 2009 that is the legal rate of income tax, amounting to 10%.

21. Trade and other payables

<i>In thousands of BGN</i>	2008	2007
Trade payables	6,633	3,725
Payables to employees	2,491	2,120
Social security payables	698	532
Payables for water usage tax	404	4,103
Other payables and accruals (see the table below)	12,156	5,611
	<u>22,382</u>	<u>16,091</u>

Other payables and accruals include:

<i>In thousands of BGN</i>	2008	2007
Support of water-main and sewerage network	2,542	2,400
Security	109	336
Guarantees	1,578	997
Insurance	538	830
ISPA	863	347
Reading of meters	160	-
Advance payment on Emissions Reduction Purchase Agreement	4,922	-
Others	1,444	701
	<u>12,156</u>	<u>5,611</u>

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

Notes to the consolidated financial statements

22. Provisions

In thousands of BGN

	2008	2007
Provision for court liabilities	540	251
Liability provision in accordance with the Settlement Agreement between SV and the Municipality of Sofia	2,000	-
	<u>2,540</u>	<u>251</u>

The change in provisions throughout the year is presented below:

<i>In thousands of BGN</i>	Balance at 1 January 2008	Provisions made during the year	Provisions used during the year	Cancelled provisions during the year	Discount effect	Balance at 31 December 2008
Provision for court liabilities	251	540	(251)	-	-	540
Liability provision in accordance to the Settlement Agreement between SV and MOS	-	2,000	-	-	-	2,000
	<u>251</u>	<u>2,540</u>	<u>(251)</u>	<u>-</u>	<u>-</u>	<u>2,540</u>

23. Tax liabilities

In thousands of BGN

	2008	2007
Corporate tax liability	893	1,387
Other tax liabilities	198	462
	<u>1,091</u>	<u>1,849</u>

24. Financial instruments

Credit risk

The value of the financial instruments represents the maximum credit exposure. This maximum credit exposure at the balance sheet date is:

In thousands of BGN

	Book value 31 December 2008	Book value 31 December 2007
Trade and other receivables	26,101	26,945
Cash and cash equivalents	11,082	9,113
Derivative	-	60
	<u>37,183</u>	<u>36,118</u>

The maximum credit exposure, before impairment, at the balance sheet date for all trade receivables prepared by groups of customers:

In thousands of BGN

	Cost 31 December 2008	Cost 31 December 2007
State budget organizations	561	492
Commercial customers	5,258	6,229
Domestic population	40,283	42,789
Other customers	7,555	11,023
	<u>53,657</u>	<u>60,533</u>

Notes to the consolidated financial statements

24. Financial instruments (continued)

The ageing structure of trade receivables of the Company at the balance sheet date is:

<i>In thousands of BGN</i>	2008 Cost	2008 Impairment	2007 Cost	2007 Impairment
Not matured	12,490	-	12,231	-
Overdue 30 days	3,524	(176)	2,971	(149)
Overdue from 31 to 120 days	6,010	(702)	5,673	(356)
Overdue from 121 to 210 days	3,979	(1,439)	3,830	(685)
Overdue from 211 to 270 days	2,245	(1,571)	2,088	(1,043)
Overdue from 271 to 360 days	2,997	(2,942)	3,008	(2,857)
Overdue more than 1 year	22,412	(22,412)	30,732	(28,559)
	<u>53,657</u>	<u>(29,242)</u>	<u>60,533</u>	<u>(33,649)</u>

The Company's receivables impairment at the reporting date, including court receivables impairment is:

<i>In BGN thousands</i>	2008	2007
At the beginning of the period	(34,808)	(29,917)
Change during the period	(6,055)	(5,395)
Cancelled	-	505
Written-off	11,621	-
At the end of the period	<u>(29,242)</u>	<u>(34,807)</u>

Liquidity risk

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

31 December 2008

<i>In thousands of BGN</i>	Book value	Contractual cash flows	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 year
Non-derivative financial liabilities						
Loan „A” (1.75% + Euribor)	48,123	(90,712)	11,907	5,995	(41,892)	(66,722)
Loan „B” (5.95% + Euribor)	71,483	(122,352)	(8,774)	(16,173)	(58,822)	(38,583)
Loan „C” (2.5% + Euribor)	1,556	(1,790)	(391)	(715)	(684)	-
Liabilities to related parties	9,652	(9,652)	(9,652)	-	-	-
Trade and other payables	19,193	(19,193)	(19,193)	-	-	-
	<u>150,007</u>	<u>(243,699)</u>	<u>(26,103)</u>	<u>(10,893)</u>	<u>(101,398)</u>	<u>(105,305)</u>
Derivative financial liabilities						
SWAP Contracts for interest risk hedging	2,323	(2,323)	(2,323)	-	-	-
	<u>2,323</u>	<u>(2,323)</u>	<u>(2,323)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the consolidated financial statements

24. Financial instruments (continued)

Liquidity risk

31 December 2007

In thousand of BGN

	Book value	Contracted cash flows	Up to 1 year	Between 1 and 2 years	Between 2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Loan „A” (3,5 % + Euribor)	52,316	(74,112)	(8,839)	(8,925)	(27,502)	(28,846)
Loan „B” (13% + Euribor)	72,101	(124,518)	(21,100)	(19,492)	(49,052)	(34,874)
Liabilities to related parties	13,237	(13,237)	(13,237)	-	-	-
Trade and other payables	13,439	(13,439)	(13,439)	-	-	-
	<u>151,093</u>	<u>(225,306)</u>	<u>(56,615)</u>	<u>(28,417)</u>	<u>(76,554)</u>	<u>(63,720)</u>

Currency risk

	31 December 2008			31 December 2007		
	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(4,342,670)	(215,727)	(486,484)	(4,716,687)	(661,813)	(487,669)
Interest bearing loans and borrowings	(61,949,133)	-	-	(63,613,263)	-	-
Gross Balance Exposure	<u>(66,291,803)</u>	<u>(215,727)</u>	<u>(486,484)</u>	<u>(68,329,950)</u>	<u>(661,813)</u>	<u>(487,669)</u>

The following significant exchange rates are applied during these periods:

	Average period FX rate		FX rate at balance sheet date	
	2008	2007	2008	2007
USD 1	1.33683	1.42937	1.387310	1.33122
GBP 1	2.46348	2.86005	2.007630	2.66172

Sensitivity Analysis

A 10 % strengthening of the BGN exchange rate at 31 December 2008 against the following currencies would have increased (decreased) equity and profit or loss by the amounts set out below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007

	Equity	Profit or loss
<i>In thousands of BGN</i>		
31 December 2008		
USD	-	(67)
GBP	-	(43)
31 December 2007		
USD	-	(65)
GBP	-	(176)

A 10 % decrease of BGN against the above currencies as at 31 December would have the same, as amounts, but the opposite effect, making the same assumption that all other variables are fixed
Bulgaria operates under the conditions of a Currency board. The exchange rate of BGN is currently fixed to 1.95583 BGN for 1 EUR. All deals, not undertaken in BGN are undertaken in EUR.

Notes to the consolidated financial statements

24. Financial instruments (continued)

Interest rate risk

Profile

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

<i>In thousands of BGN</i>	2008	2007
Instruments with fixed interest rate		
Financial assets	11,036	9,075
Financial liabilities	-	-
	<u>11,036</u>	<u>9,075</u>
Instruments with variable interest rate		
Financial assets	26,017	26,844
Financial liabilities	(121,162)	(124,417)
	<u>(95,145)</u>	<u>(97,573)</u>

Interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Company has not accrued financial assets and liabilities with fixed interest rate at fair value, accounted through profits and loss in the Income statement. The Company has derivatives (Interest swaps) as hedge instruments according the model for hedging the fair value. Therefore the change of the interest rates for the period between the signing of the SWAP contracts and the report date does not result in any profit or loss.

Fair value sensitivity analysis for variable rate instruments

A change of the interest levels with 100 basic points as at 31 December would have increased/(decreased) the equity and profit or loss with the amounts shown below. This analysis assumes that all other variables, in particular exchange rates, remain constant. The analysis is performed on the same basis for 2007.

<i>Effects in thousands of BGN</i>	Change effect in Profit or loss		Change effect in Equity	
	100 basic points increase	100 basic points decrease	100 basic points increase	100 basic points decrease
31 December 2008				
Instruments with floating interest rate	(951)	951	-	-
Financial instrument hedging the interest rate risk	132	(448)	-	-
Cash flow sensitivity (net)	<u>(819)</u>	<u>503</u>	<u>-</u>	<u>-</u>
31 December 2007				
Instruments with floating interest rate	(976)	976	-	-
Cash flow sensitivity (net)	<u>(976)</u>	<u>976</u>	<u>-</u>	<u>-</u>

Notes to the consolidated financial statements

24. Financial instruments (continued)

Interest rate risk (continued)

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

<i>In thousands of BGN</i>	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	26,878	26,878	27,101	27,101
Cash and cash equivalents	11,082	11,082	9,113	9,113
Derivatives	-	-	60	60
Loans from related parties	(119,606)	(119,606)	(124,417)	(124,417)
Liabilities to related parties	(9,652)	(9,652)	(13,237)	(13,237)
Loan „C”	(1,556)	(1,556)	-	-
Trade and other payables	(19,193)	(19,193)	(13,439)	(13,439)
Hedging financial instrument	(2,323)	(2,323)	-	-
	<u>(114,370)</u>	<u>(114,370)</u>	<u>(114,819)</u>	<u>(114,819)</u>

As at 31 December 2008 the Company has a loan „A” liability with a nominal value of BGN 48,123 thousand and a loan „B” with a nominal value of BGN 71,483 thousand. With a SWAP transaction letter agreement from 12 November 2008 the Company fixed its interest rate as regards 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 5 year periods.

25. Liabilities for retirement compensation

Present value of the liability for defined contributions for retirement

<i>In thousands of BGN</i>	2008	2007
Present value of the liability at 1 January	592	492
Interest expense	44	27
Current labor cost	91	81
Actuarial loss	212	122
Paid compensations to retired employees	(188)	(130)
Present value of the liability at 31 December	<u>751</u>	<u>592</u>
Liability recognized in the balance sheet as at 31 December, including:	751	592
Short – term liabilities for retirement compensations	326	188
Long – term liabilities for retirement compensations	425	404

Notes to the consolidated financial statements

25. Liabilities for retirement compensation (continued)

Expenses recognized in the income statement

<i>In thousands of BGN</i>	2008	2007
Current labor cost	91	81
Interest expense	44	27
Actuarial loss	212	122

Actuarial assumptions

	2008	2007
Discount rate at 31 December	6.5%	5%
Salary increase (annual for 10 years)	5%	5%
Employee turnover	13%	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 $i = 5\%$ is used. It corresponds to annual discount rate $d = 6.5\%$. This rate is calculated analyzing the long-term investment instruments offered on the Bulgarian stock market.

Actuarial assumptions

<i>In thousands of BGN</i>	One basis point increase of salaries growth	One basis point decrease of salaries growth
Effect of the liability for retirement compensation	17	(17)
<i>In thousands of BGN</i>	One basis point increase of interest growth	One basis point decrease of interest growth
Effect of the liability for retirement compensation	(18)	18

Notes to the consolidated financial statements

26. Contingent liabilities

(a) Bank guarantees

A bank guarantee for the amount of USD 750 thousand is issued for good performance of the Company per the Concession Contract.

The bank guarantee expires on 19 December 2009.

(b) Infrastructure

In accordance with a contract dated 08 July 2005 between the Republic of Bulgaria, represented by the Minister of Economy and Energy (the State) and Business Park Sofia EOOD and Lindner AG, Germany (the Investor), the State will finance the construction and rehabilitation of elements of the technical infrastructure in a project "Sofia Park". In accordance with this contract Business Park Sofia EOOD and Lindner AG, Germany are obliged to make investments in project "Sofia Park" in compliance with an approved investment plan, which includes buildings, roads and technical infrastructure. The total amount of the state participation under the conditions of the contract is BGN 13,650 thousand, including water main infrastructure in the amount of BGN 6,103 thousand.

Pursuant to a decision of the Commission for Protection of Competition from October 2005, the State financial obligations will not represent state aid if in a three months period from the construction of the new water main infrastructure, an annex is prepared to the Concession Agreement with the aim to recover the amount of the water main infrastructure expenditure from Sofiyska Voda AD to the Sofia Municipality.

The Company has filed a claim with the Supreme Administrative Court against the decision of the Commission for Protection of Competition. The final decision of the Supreme court (dated 07 June 2007) rejects the appeal of Sofiyska Voda AD.

Irrespective of the fact that the construction works on the water-main and sewerage system, related to the decisions of both the Commission for Protection of Competition and the Supreme Administrative Court, has not yet begun the Company has initiated negotiations with Sofia Municipality on the reinstatement of the equivalent consideration in the Concession contract.

27. Obligations for the acquisition of property, plant and equipment

As per the Concession Agreement with Sofia Municipality from 23 December 1999, the Company must make a minimum capital investment during the first 15 contractual years, counted as from the date of this contract, amounting to not less than USD 150 million, 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 by a Second Annex to the Concession Agreement, signed after the balance sheet date. Pursuant to this Second Annex to the Concession Agreement, a precondition for termination is a 75% non-fulfilment of the projected and approved investments by the State Commission for Energy and Water Regulation, 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 No: BII-008/ 09.10.2008 the State Commission for Energy and Water Regulation approved the Business Plan of the 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:

Notes to the consolidated financial statements

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

<i>In BGN thousands</i>	2009	2010	2011	2012	2013	Total
Concession Agreement obligations	13,951	14,566	13,550	10,775	11,419	64,261
Business Plan obligations	52,500	52,100	41,700	43,000	51,100	240,400
Obligations under the Settlement Agreement with the Municipality of Sofia	7,495	2,000	1,300	-	-	10,795
	<u>73,946</u>	<u>68,666</u>	<u>56,550</u>	<u>53,775</u>	<u>62,519</u>	<u>315,456</u>

The Investment Program of Sofiyska Voda AD has been prepared in compliance with the Business Plan technical parameters, such as: the forecast consumption volumes, the unaccounted-for-water (UFW) reduction programme, capital maintenance and reconstruction of the water mains needs, construction of new service connections and with a view to the achievement of 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 to be approved by SCEWR during the regulatory period. The price increases proposed in the approved Business plan are 10% annual increase for the water supply price and 15% annual increase for sewerage and wastewater treatment price during the period 2010-2013. Sofiyska Voda AD may implement the full capacity of its investment program only if the above mentioned projected increases are approved by SCEWR. The price period is one year. As notified in the announcement as of 01.01.2009 the Company is already applying new prices for the delivered services and started the implementation of its annual investment obligations on the total amount of BGN 52.5 million.

28. Related parties

The Company has a related party relationship with its parent company – “United Utilities UU (Sofia) B.V.”, which holds 77.10% of the Company’s shares, as well as with the other companies in the Group.

The following transactions have taken place during 2008:

Related party	Relation	Transactions during the year	Balance as at 31 December 2008	
			Receivables	Payables
<i>In thousands of BGN</i>				
„United Utilities UU (Sofia) BV”	Controls 77.10% of the shares of “Sofiyska Voda” AD	Loan provided	-	71,483
		Accrued interest		Liability for loan received at amortized cost
		3,195		44
		Other		
„United Utilities International Limited”	Controls 50% of the shares of „United Utilities UU (Sofia) BV” and 50% of the shares of „United Utilities – Europe Holdings BV”	Services rendered under a contract for technical services	82	5,011
		Other		
		1,417		
		83		
„United Utilities – Europe Holdings BV”	Controls 50% of the shares of „United Utilities UU (Sofia) BV”	-	-	4,597

Notes to the consolidated financial statements

28. Related parties (continued)

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2008	
			Receivables	Payables
European Bank for Reconstruction and Development	Controls 50% of the shares of „United Utilities – Europe Holdings BV ”	Interest accrued 3,988	-	48,123 Liability for loan received at amortized cost
		Total:	82	129,258

The following transactions have taken place during 2007:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2007	
			Receivables	Payables
„United Utilities UU (Sofia) BV”	Controls 77.10% of the shares of “Sofiyska Voda” AD	Loan provided - Accrued interest 10,950	-	72,101 Loan liability at amortized cost 44
		Other		
„United Utilities International Limited”	Controls 50% of the shares of „United Utilities UU (Sofia) BV” and 50% of the shares of „United Utilities – Europe Holdings BV ”	Services as per “Technical Services Agreement” 1,500 Other 50	50	7,150
„United Utilities – Europe Holdings BV ”	Controls 50% of the shares of „United Utilities UU (Sofia) BV”	-	-	6,043
European Bank for Reconstruction and Development	Controls 50% of the shares of „United Utilities – Europe Holdings BV ”	Interest accrued 4,766	-	52,316 Liability for loan received at amortized cost
		Total:	50	137,654

Notes to the consolidated financial statements

28. Related parties (continued)

Transactions with directors and officers on key positions

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

<i>In thousands of BGN</i>	2008	2007
Remuneration of the Board of Directors	76	72
	<u>76</u>	<u>72</u>

29. Subsequent events

(a) *Settlement Agreement between Sofiyska Voda AD and the Municipality of Sofia*

In relation to the fulfillment of a condition precedent to the Second Amendment Agreement to the Concession Agreement, namely the settlement of all past disputes between Sofiyska Voda AD and the Municipality of Sofia from the date of the Concession Agreement to the eighth concession year (inclusive), a Settlement Agreement was drafted, agreed by Sofiyska Voda AD shareholders and the Municipal Council and signed on 16 January 2009.

The Parties agree that by virtue of the Settlement Agreement they fully and finally settle all existing actions, Claims and/or Disputes whether actual, pending or prospective and whether arising out of or in connection with the Concession Agreement, the Second Amendment Agreement or howsoever otherwise arising or existing directly or indirectly between the Parties by virtue of their commercial relationship or under the Law.

Sofiyska Voda AD has agreed to satisfy Municipality of Sofia claims in the total amount of BGN 26.5 mln. and Municipality of Sofia has agreed to satisfy Sofiyska Voda AD claims in the total amount of BGN 4 mln. as detailed below:

The claims from the Municipality of Sofia to SofiyskaVoda AD will be limited to:

(i) penalties due by Sofiyska Voda AD under Annex 4 to the Concession Agreement arising out of the failure of the Concessionaire to duly perform its obligations under Annex 3 to the Concession Agreement until January 2009 amounting to BGN 18.2 mln.;

(ii) expenses incurred by the Municipality of Sofia in relation to securing the protection of water supply zones and the equipment pertaining to the sanitary - security zones, part of which were in respect of the sanitary restricted area of the Iskar Dam together with other parts of the water and sewerage system of Sofia City for the period from January 1st, 2004 to March 31st, 2007 amounting to BGN 6 mln. and

(iii) payment of compensation for non-performance of the investment commitment undertaken by the Concessionaire for Contract Year 4 under Annex 5 to the Concession Agreement shall amount to BGN 2.3 mln.

The claims from Sofiyska Voda AD to the Municipality of Sofia will be limited to:

(i) reimbursement of the Antecedent Liability Fund amounting to BGN 2.3 mln.;

(ii) reimbursement of half of the funding for the Concession Dispute Resolution Board and its members amounting to BGN 1.5 mln.;

(iii) reimbursement of half of the costs for the Study of the stability of the Beli Iskar Dam wall – stage II amounting to BGN 0.2 mln.

Notes to the consolidated financial statements

29. Subsequent events (continued)

(a) Settlement Agreement between Sofiyska Voda AD and the Municipality of Sofia

The claims will be satisfied in the following manner:

- BGN 4 mln. (due to Sofiyska Voda AD) will be set-off against BGN 26.5 mln. (due to the Municipality of Sofia);
- BGN 2 mln. will be payment in cash to a bank account designated by the Municipality of Sofia;
- BGN 2.5 mln. will be invested by Sofiyska Voda AD in 2009 in addition to the investments approved in the company Business plan;
- BGN 9.7 mln will be invested by Sofiyska Voda AD in the period 2014-2023 in addition to the investments approved in the company Business plan; and
- BGN 8.3 mln. will be invested by Sofiyska Voda AD in the period 2009-2011 in projects from the the investments approved in the company Business plan.

The parties mutually released any claims arising from accumulated interest on the disputed amounts.

(b) Approval of the new prices

On 22 December 2008 the State Commission for Energy and Water Regulation approved Sofiyska Voda AD prices for the services provided by the company with a Decision № 11-078 (in accordance with the already approved Business plan). As of 1 January 2009 the price for the combined water, wastewater and treatment services in the City of Sofia is BGN 1.169 per cubic meter (no VAT). The increase is 14.7 %.

Appendix 1

Appendix 1 to the Consolidated financial statements

Indicative effects from the application of IFRIC 12 "Service Concession Arrangements"

Sofiyska Voda AD provides public services. According to the Concession Agreement, the company has specific investment obligations (for the first 15 years) in the water and sewerage network and a subsequent obligation for the maintenance of certain levels of services.

According to the Concession Agreement, Sofiyska Voda AD has the right to collect charges from the users of the water, wastewater and treatment infrastructure.

The concession-related levels of services and prices of the company were initially regulated by the Grantor (Municipality of Sofia) and subsequently, after a change in the legislation, by the State Commission for Energy and Water Regulation (SCEWR). During the concession period the Municipality of Sofia remains the owner of the public infrastructure through which Sofiyska Voda AD provides its public services. After the end of the concession period the Company has an obligation to return the assets which it operates and are in its balance sheet to the Municipality for further use.

Sofiyska Voda AD has the right to collect charges from the users of the water distribution infrastructure from the start of the concession agreement

Considering the above, it may be concluded that according to the Concession Agreement obligations Sofiyska Voda AD has to apply IFRIC 12 when it is approved by the European Commission.

As notified in note 1 to these consolidated financial statements, the Company prepares its Financial statements in accordance with IFRS as adopted by the European Commission. IFRIC 12 was issued by the IASB on 30 November 2006 and is to be applied retrospectively for accounting periods starting on or after 1 January 2008. IFRIC 12 has not yet been adopted by the European Commission and this is expected to happen in 2009. The Company, however, is expecting to apply IFRIC 12 to its financial statements for the year ending 31 December 2009, subject to the European Commission approval.

The expected major effects resulting from the applying IFRIC 12 are as follows:

1. Provision under the Concession Agreement; According to IFRIC 12 a provision for the remaining public asset investment liabilities (in infrastructure) and meeting of the service level requirements for the Concession term must be recognized in the balance sheet. This provision should be discounted and interest expenses increasing the provision should be recognized each year.
2. Public assets; According to IFRIC 12 the public non-current assets should be separated from the Company's own assets and recognized in the balance sheet as intangible assets, as they are outside of the Concessionaire's control, but are rather considered as a right to use the public assets for the provision of Concession related services. The initial provision amount as per the Concession Agreement should also be included in the public assets amount. Public assets are to be depreciated within the remaining Concession term period.

The Company is continuing to investigate the requirements of this IFRIC. The indicative consolidated income statement and balance sheet of the Company in the case of IFRIC 12 implementation as compared with the current ones are as follows:

Appendix 1

Appendix 1 to the Consolidated financial statements (continued)

Indicative effects from the application of IFRIC 12 "Service Concession Arrangements"

Consolidated income statement

For the year ended 31 December 2008

<i>In BGN thousands</i>	2008	IFRIC 12, 2008 (indicative)
Revenue	94,084	94,084
Other revenue	<u>1,322</u>	<u>1,322</u>
	95,406	95,406
Expenses for materials	(9,406)	(9,406)
Expenses for hired services	(23,877)	(23,877)
Depreciation and amortization	(12,697)	(16,060)
Salaries, remuneration and other personnel benefits	(14,767)	(14,767)
Other operating expenses	<u>(10,382)</u>	<u>(10,382)</u>
Profit from operating activities	24,277	20,914
Finance income	813	813
Finance expense	(8,219)	(8,219)
Interest, corrections and discounts	-	<u>(3,438)</u>
Financing expense, (net)	<u>(7,406)</u>	(10,844)
Profit/(loss) before tax	16,871	10,070
Income tax expense	<u>(507)</u>	<u>(507)</u>
Net profit for the year	16,364	9,563

Appendix 1

Appendix 1 to the Consolidated financial statements (continued)

Indicative effects from the application of IFRIC 12 "Service Concession Arrangements"

Consolidated balance sheet

For the year ended 31 December 2008

In BGN thousands

	2008	IFRIC 12, 2008 (indicative)
Non-current assets		
Public assets	118,933	278,716
Own assets	17,831	17,831
Investments in related parties	-	-
Goodwill	7,393	7,393
Deferred tax assets	4,342	4,342
Total non-current assets	<u>148,498</u>	<u>308,282</u>
Inventories	1,910	1,910
Trade and other receivables	30,629	30,629
Loans to related parties	-	-
Cash and cash equivalents	11,082	11,082
Total current assets	<u>43,621</u>	<u>43,621</u>
Total assets	<u>192,119</u>	<u>351,903</u>
Equity		
Share capital	8,884	8,884
Reserves	(1,692)	(1,692)
Retained earnings	21,505	14,704
Total capital and reserves	<u>28,696</u>	<u>21,896</u>
Non-current liabilities		
Interest bearing loans and borrowings	116,421	116,421
Liabilities under finance leases	1,030	1,030
Deferred tax liability	1,840	1,840
Liabilities for retirement compensation	425	425
Concession Agreement provision	-	166,584
Total non-current liabilities	<u>119,716</u>	<u>286,300</u>
Current liabilities		
Interest bearing loans and borrowings	4,741	4,741
Liabilities under finance leases	652	652
Tax liabilities	1,091	1,091
Payables to related parties	9,652	9,652
Trade and other payables	22,382	22,382
Derivative	2,323	2,323
Provisions	2,540	2,540
Liabilities for retirement compensation	326	326
Total current liabilities	<u>43,707</u>	<u>43,707</u>
Liabilities	<u>163,423</u>	<u>300,007</u>
Total equity and liabilities	<u>192,119</u>	<u>351,903</u>

CONSOLIDATED ANNUAL REPORT

SOFIYSKA VODA AD

2008

FINANCIAL REVIEW

Financially, 2008 was another successful year for Sofiyska Voda AD. Despite the late approval of the 2008 water tariff, the company remains profitable and Earnings Before Interest and Tax EBIT (EBIT) for the year is BGN 24.3 million (as compared to BGN 20.2 million in 2007).

As at the end of 2008, the revenue from main operating activity amounts to BGN 87,6 million, which is 0.1% below the budgeted amount of BGN 87,9 million. The main reason for that is the delay in the tariff increase until first of June compared to the budgeted (15,9% budgeted increase as of 1 April). The Company's total revenue for 2008 is BGN 95,4 million and is 1.4% below budgeted.

The Company's 2008 operating expenses amount to BGN 78.5 million. The total current expenses remained within the level approved in the budget. The total variable expenses are 7.8% above budgeted, the main reason being the increased material costs in 2008, as well as the BGN 2 million provision according to an agreement with the Municipality of Sofia, which is not included in the 2008 budget.

Following the established practice, in May employees' salaries were indexed with the annual inflation rate. As a result, staff expenses increased by 12% as compared to 2007.

The two-month delay in the new tariff approval, as well as the impossibility to absorb funds under the additional EBRD loan resulted in 30.4% or BGN 11 million less investments implemented as compared to the budget for 2008. In relation to that, the depreciation costs are 8.8% less than budgeted, which is a saving of BGN 1,2 million.

The Profit before tax is BGN 16.87 million, which is BGN 6 million more as compared to the 2008 budget. The main reason for that are the lower interest costs than budgeted, which is due to:

- The agreement dated 19 May 2008 between Sofiyska Voda AD and United Utilities (Sofia) B.V., under which the two parties agreed to amend the Subordinated Loan Agreement. As a result of this, the Subordinated Loan interest rate was reduced from a six-month Euribor plus 13% to six-month Euribor plus 5.95%. The amendment was in effect of 1 January 2007, which is reflected in the 2008 financial reports.
- Actual lower 6-month Euribor than the one used in the budget and a positive effect of the November swap transaction of the 6-month Euribor.
- Unabsorbed EBRD loan.

FINANCIAL INSTRUMENTS

The Company's policy regarding financial risk, as well as its exposure to tariff, credit and liquidity risk are described in detail in the notes to the 2008 Financial Statements.

The Company uses derivative financial instruments in order to execute an interest hedge.

With SWAP transactions dated 12.11.2008, the Company executed two interest rate hedges:

- with ING fixing the six-month Euribor as per major loan agreement with EBRD for the next 5 years to 3.694%;
- with Citibank fixing the six-month Euribor as per the Subordinated loan agreement for the next 5 years to 3,650%.

In order to report the two contracts in the financial reports, hedge accounting is applied. Following their impairment, the effect in the financial reports is a financial liability to the total amount of BGN 2,3 million. The annual saving from the hedging transaction results in a reduction in the financial expenses in the amount of BGN 0.2 million.

SUBSEQUENT EVENTS

All significant events after the Balance Sheet date and their effects on the Company's activity are listed in Note 28 to the 2008 Consolidated Financial Statements.

REGULATION OF THE TARIFFS OF THE WSS SERVICES BY THE SCEWR

Sofiyska Voda AD started in year 2008 with a price lower than the one proposed for the provided services, approved with the decision № ІІ-053/23.04.2007 (BGN 0,88 without VAT of the combined service for the households). The prices proposed (amounting to BGN 1,02 without VAT of the combined service for households) became effective as of 01.06.2008 by virtue of the Decision of the SCEWR № ІІ-018/26.05.2008 following the final satisfaction of the three preconditions set in the previous Decision. Under these circumstances SV made investments amounting to BGN 25.2 million, which exceeds the pessimistic expectations but still it is lower than required and set ones under Business Plan 2006 – 2008.

On 07.01.2008 Sofia Municipal Council adopted a Position on Sofiyska Voda AD's Business Plan 2009 – 2013. As a whole the position is positive with some comments and recommendations. With its letter № 37-00-3024 of 30.04.2008 the Municipality of Sofia agreed on the amendments to the investment programme of the Business Plan 2009 – 2013, proposed by SV, referring to the transfer of additional funds for investments in the sewerage network by decreasing the funds for the project for seismic reinforcement of the wall of Beli Iskar dam. These funds amount to BGN 12,65 million.

With the letter ref. № B-17-44-22 of 07.05.2008 the SCEWR required the update of SV's Business Plan using the actual data for 2007 and its submission for a second consideration.

The updated Business Plan 2009 – 2013 was submitted to the SCEWR on 19.05.2008. It provides for investment programme amounting to BGN 250 million in compliance with the applied investment profile, tariffs of the services and revenues.

Following the discussions held with the representatives of the SCEWR, another profile of investments, tariffs of the services and revenues was approved in principle, and it guarantees investments amounting to about BGN 240 million.

On 22.12.2008 with its Decision № ІІ-078 the SCEWR approved the tariffs proposed for the services provided by SV, required for the achievement of the targets set in the Company's Business Plan. In this way as of 01.01.2009 the combined tariff for households, amounting to BGN 1,169 /without VAT/, is effective for the water supply system /WS/ Sofia. The increase is 14.7 %.

RENEGOTIATION OF THE CONCESSION AGREEMENT

At its session held on 28.02.2008 the Sofia Municipal Council adopted the Second Amendment Agreement to the Concession Agreement. On 19.03.2008 it was signed by Mr. Boyko Borisov – Mayor of the Municipality of Sofia and Mr. Leslie Bell – Chairman of the Sofiyska Voda AD's Board of Directors.

The implementation of several preconditions was required for the enforcement of the Second Amendment Agreement, and the main one of them – the parties had to fully and finally settle all disputes through negotiations within a period not longer than 30 days from the date of receipt by each of the parties of the claims of the other Party. The implementation of this condition was also critical for the disbursement of the main part of the loan agreement between Sofiyska Voda AD and the EBRD.

In view of the implementation of its investment programme and the decision of the SCEWR for the obtaining of the combined tariff of BGN 1,02, Sofiyska Voda AD negotiated an additional loan of BGN 50M with the EBRD. With its Decision № 228 of 24.04.2008 the SMC approved the project for the Loan Agreement between Sofiyska Voda AD and the EBRD. On the grounds of this decision the Mayor of the Municipality of Sofia signed a letter of consent, through which the condition of the EBRD for signing the Loan Agreement was implemented. The Loan Agreement was signed on 30.04.2008, and as a result of that on 27.05.2008 the current loan was refunded, and on 30.05.2008 the first transfer amounting to Euro 0,6 million was made.

On 09.12.2008 the Municipality of Sofia filed its claims (supplemented with the letter dated 10.01.2009), containing the position of the Grantor on the stated SV's failure to execute its obligations under Annex 3 and respectively the penalties due by the Concessionaire under Annex 4, the stated failure to execute the obligations for the performance of investments on behalf of the Concessionaire and the compensation claimed for this, as well as reimbursement of the expenses for the security of the water catchment areas incurred by the Grantor.

In reply SV filed its claims (MoS ref. No 2600-12039/15.12.2008), containing the Concessionaire's position on its rights and obligations under the Concession Agreement and the Annexes to it, as well as the position on the stated Grantor's failure to execute its obligation to reimburse to the Concessionaire the sum from the Antecedent Liabilities Fund, half of the sums paid for the Concession Dispute resolution Board and its members, half of expenses incurred for the study of the stability of the dam of Beli Iskar – II stage and compensate the Concessionaire for the arising Tariff Restrictions.

Following the negotiations the parties reached Settlement Agreement, which was approved by the SMC on 15.01.2009.

All consequences of the signed agreement are given in detail in the note "Subsequent events" to the Company's Financial Statements.

CUSTOMER SERVICE

As a whole 2008 was a very successful year for customer service. The service improvement influenced the customers' satisfaction rate – 78.7% of the Company's entire activity, and enhanced receivables collection.

An important part of servicing our customers and enhancing their satisfaction with the Company's activity is **customer relations**. In 2008 Sofiyska Voda again worked actively on improving and expanding the communication channels to customers.

Call Centre

The 24/7 Call Centre has 16 lines, on which operators receive between 1 000 and 1 500 calls per day. We try to answer calls within 10 seconds. The analysis of the customer enquiries shows that the questions related to operational activities constitute most of the registered calls. In order to optimize the communications between the Call Centre, where customer calls are received, and the Control Room, where the signals are assigned for inspection and implementation, the two departments were united into a Control Centre. In 2008, 436 114 customer calls were received, which is almost as many as in 2007. The new Call Centre software introduced in 2007 gives the possibility for real-time monitoring of the key performance indicators. In 2008 this resulted in a much more accurate measurement of the results and as a whole improved customer service.

Customer Service Centers

The nine Customer Service Centers of Sofiyska Voda AD, located in various parts of the city, provide the full range of services that the Company offers. In 2008, over 1 000 000 visits by customers and almost 860 000 payments have been registered, which is an increase by over 200% as compared to 2007 (325 000). More and more customers use the Centers not only to pay their bills, but also as places for receiving services. The reasons are in the numerous alternative methods of bill payment.

In 2008, four Customer Service Centers were repaired, and two were given an entirely new and modern appearance that results in the faster and generally better customer service.

Visits to customer properties

In 2008, upon customers' requests received at the Call Centre, Customer Service Centers, or written enquiries, visits to customer properties were scheduled and implemented by:

- Territory representatives – 25 300 visits;
- Over 28 300 visits for water meter sealing;
- Over 100 visits for water sampling in relation to signals received about dubious water quality.

Water Meter Reading and Billing

Revenue meters are read monthly and individual meters – quarterly. In 2008 the number of read water meters has increased by over 73 000. In 2008, the number of read water meters has increased by over 73 000.

As a whole, in 2008 over 6 000 000 invoices in total were issued, which is almost 4% more than in 2007.

New Activities

In 2008, the trend for seeking possibilities for expanding the scope of services offered by Sofiyska Voda AD continued. In 2008, the water meter delivery, installation and sealing service was available on the territory of the entire city. As a result, 17 800 individual water meters were installed (15 300 for 2007). The revenues from services in 2008 have increased by 22.5% as compared to 2007. During the year, the Company launched two new services – delivery and installation of remotely-read meters and metrological inspection of individual meters.

Receivables collection

Sofiyska Voda AD puts great effort in enhancing receivables collection by means of offering various ways for bill payment by customers or by means of offering deferred payment schemes for accumulated debts. After the 2007 negative trend, in 2008 receivables collection (revenues versus billed) increased from 94% to 95.86%. Despite that, the bad debt over 1 year old as at the end of 2008 increased by 29,3% as compared to 2007.

OPERATIONS AND MAINTENANCE

Managing Water Resources

The water management of Sofiyska Voda AD is based on consistent monitoring of the water supplied to Sofia.

Water supplied in 2008:

1. Total water supplied from all potable water sources - 233 630 497 m³
 - Including the Municipality of Samokov - 8 968 809 m³
 - To the Municipality of Sofia - 224 661 688 m³,
2. Provisionally clean water for the industry - 10 631 962 m³

The monitoring data show that as compared to 2000 the Company has achieved an actual reduction on the water volumes used for Sofia's water supply.

The potable water supplies in 2008 as compared to 2000 has decreased by 42 million m³ or 16%

The water volumes supplied to Sofia in 2008 have decreased as compared to 2007 by 6,6 million m³ or 3%

Reduction of Unrecorded Quantities of Water

In 2008 the unrecorded quantities of water (UQW) volumes increased slightly, from 56.60% to 56.82%.

The reduction of UQW is one of the main priorities of Sofiyska Voda AD, as it contributes to the preservation of water resources. In 2008 the Company achieved progress in a wide range of activities related to the reduction of UQW:

- Continuous monitoring of the supplied water volumes. Implementation of a programme for purchasing and installing metering devices for all 29 Demand Management Zones (DMZ) and all metering points along the impounding structures and reservoirs.
- Improving the zoning of the water distribution network. This programme is a tool for defining water losses and leak detection. In 2008, 22 of the District Metering Areas (DMA) were reestablished, and all were equipped with remotely-read metering devices and boundary stop valves;
- 13 pilot areas were established, in which complex measures for UQW reduction were undertaken. As a result, the average water volumes supplied in these areas was reduced by 39%.
- 7 pressure reduction valves (PRV) were installed under the programme for proactive pressure reduction. Another 7 were replaced.
- Proactive leakage detection was conducted in all villages within the concession area, as well as in neighborhoods mainly populated by houses and using water for irrigation

besides domestic needs. For instance, in the village of Dolni Bogrov, the supplied water volume was reduced by 80%.

- Reactive leakage detection – 3 985 leaks were detected.
- Repair and replacement of 2 400 water service connections.
- Repair and replacement of 478 stop valves and 79 hydrants.
- Replacement and installation of 6 000 new revenue meters to reduce commercial losses.

Quality of the Supplied Water

The 2008 reports of the Sofia Regional Inspectorate for Public Health Protection and Control (SRIPHPC), which performs independent control on the quality of water, show that the potable water in Sofia has excellent quality. The water's quality indicators meet all the requirements of the Bulgarian legislation, harmonized with the European Drinking Water Directive.

For 2008, the trends identified through water monitoring are the following:

- For the treatment plants – 100 % compliance of the samples for microbiological and physical-chemical parameters and 99.24 % compliance of the samples for hydro biological indicators. The deviation is due to natural seasonal fluctuations, but thanks to the successful management of the potable water treatment plants, each identified deviation is immediately eliminated.
- For the distribution network - – 99.80% compliance of the samples for microbiological parameters, 97.85% compliance of the samples for physical-chemical parameters and 97.73% for hydro biological indicators. In 2008 Sofiyska Voda AD introduced a procedure that allows taking immediate measures when registering any deviation in order to maintain the high quality of the potable water supplied to the customers.

The Laboratory Testing Complex of Sofiyska Voda AD strictly monitors the water quality according to microbiological, physical-chemical, hydro biological and radiological parameters in accordance with an approved schedule consistent with the legislative requirements and the Concession Agreement. In 2008, 16 104 potable water samples were analyzed. Additionally, 12 samples were taken to analyze radiological parameters, and they are all compliant with the quality standards for potable water.

Laboratory Testing Complex

In June, an Administration System was introduced in the LTC, developed in accordance with BSS EN ISO 17025. In November Sofiyska Voda AD submitted its documents and an accreditation procedure began for the Laboratory Testing Complex.

The LTC has the only microbiological laboratory in Bulgaria designed and equipped at a world class level.

The 2009 Company's investment plan envisages that the LTC is equipped with new high-tech equipment which will allow reaching even higher precision and extremely low boundaries for the detection of a number of physical-chemical parameters. This will allow the Company to ensure control in accordance with all European and global requirements.

Water Supply

One of the key indicators in the provision of the water supply service is ensuring continuity of the water supply. The Management's efforts in relation to this are directed towards reducing the number of unplanned interruptions due to failures and reducing the disconnection periods. The objective is in case of network repairs and reconstructions, so far as this is technically and organizationally possible, to provide the water supply service with minimum continuity interruptions.

Emergency interruptions of the water supply

2008 – 6 161 failures, 5 187 interruptions;

2007 – 16 200 fixed failures, 7 000 interruptions;

2006 – 15 900 fixed failures, 7 500 interruptions.

Planned interruptions of the water supply

2008 – 124 planned interruptions, 240 000 affected households;

2007 – 213 planned interruptions, 302 700 affected households;

2006 – 173 planned interruptions, 297 600 affected households.

Sewerage

The sewerage network within the territory of the Municipality of Sofia includes 1 483 km of known public assets and about 500 km of assets with unclear status (as per the TDA of 2003). The latter were identified as a result of the Company's network survey. The majority of the surrounding territories of Sofia, as well as some areas in the city, do not have a central sewerage network.

The maintenance of the sewerage network is based on the performance of both, emergency and planned activities.

Operation and maintenance activities on the sewerage system

Activity	Measure	Performance		
		2006	2007	2008
Cleaning of street sewers	meters	290,630	353,616	340,481
Cleaning of gullies	number	64,976	75,607	35,818
Cleaning of manholes	number	3,561	5,786	4,289
Installation of grids (covers)	number	3,615	5,369	1,797
Unclogged service connections	number	2,297	2,440	1,661
Unclogged service connections	meters	52,650	50,708	31,270

Wastewater Treatment

In 2008 at Kubratovo WWTP, 143 720 million m³ of wastewater has been treated. Every day, we treat a wastewater volume equal to around 82% of the plant's design capacity (480 000 m³/day). As the investment projects for expanding Sofia's sewerage network are implemented, the treatment plant will use its full capacity. Sofiyska Voda AD is optimizing control on the processes and operation in order to meet all legal requirements related to wastewater treatment. In accordance with the requirements of the Surface Water Course Discharge permit, issued by the Danube Region Water Basin Directorate, and the Concession Agreement, the Wastewater Sector of the Laboratory Testing Complex at Kubratovo WWTP conducts continuous monitoring of the wastewater and sludge parameters.

Quality of the Treated Wastewater

Samples for the analysis of Biological Oxygen Demand (BOD₅), Chemical Oxygen Demand (COD) and Suspended Solids (SS) are taken at the WWTP outlet on a daily basis.

In 2008, 1 098 samples were taken for the analysis of treated wastewater. The average values of the analysis samples are below the marginal discharge values – the only exception is the average monthly BOD₅ value for January 2008, which is 25.5 mgO₂/l; this means that the plant's operation complies with the requirements of the Discharge Permit for BOD₅, COD, and SS.

Sludge Treatment and Utilization

The sludge produced from wastewater treatment is treated in three of the four sludge digesters. The digested sludge is mechanically dewatered to produce a 'sludge cake' with dry solids content of around 25%.

In 2008 Sofiyska Voda AD continued to provide the sludge to be used in agriculture for soil fertilization. The Company holds permits issued by the National Service for Plant Protection of the Ministry of Agriculture and Forestry for the reuse of sludge on agricultural land. Prior to granting these permits, the Institute for Agriculture and Forestry carried out a detailed analysis of the sludge to test for the quantities of heavy metals and other contaminants that might pollute the soil, ground water, or that could have a detrimental effect on the biodiversity. The examinations show that the sludge from Kubratovo WWTP is suitable for the fertilization of agricultural land.

Sludge from WWTP	2006	2007	2008
Produced	47 422 m ³	46 331 m ³	69 907 m ³
Used in agriculture	63 222 m ³	27 170 m ³	49 635 m ³

Electrical and Mechanical Maintenance

Over the last year, the department successfully implemented the annual plan for the preventive maintenance of the Company's facilities, as a result of which the time ratio for emergency works versus general works dropped from 28% in January to 15% in December 2008.

The reduction in the number of failures over the year made it possible for the department to take over activities that used to be carried out by contractors:

- Maintenance of safety emergency valves, part of the Iskar Water Main
- Installation of 31 new hydrophore installations, part of the Company's investment programme

In December 2008, a team was established for the preventive maintenance of the Company's facilities, which will use high-tech equipment (vibration measuring device, thermographic camera, laser measuring device) to identify potential faults before they become costly failures.

Based on the analyzed data about schedules and emergency activity, in cooperation with the Capital Works directorate, priorities were determined for replacing inefficient electrical and mechanical facilities in the company. Among the 2009 projects which will enhance the security and efficiency of the Company's operational activities are: replacement of the main distribution panel at Bistritsa PWTP, repair of transformers at Pancharevo PWTP, replacement of inefficient engines in WWTP.

Reduced Carbon Emissions Sales Agreement

According to an agreement concluded on 21 September 2007 between Sofiyska Voda AD and the Carbon Fund established at the EBRD for selling reduced carbon emissions, in 2008 an advance payment was received to the amount of BGN 5,9 million.

INVESTMENTS 2008

2008 was the last year of the first three-year Business Plan 2006 – 2008. The delay in the approval of the new complex tariff by 2 months resulted in a capital budget of BGN 25 million for 2008.

The actual amount of the investments implemented in 2008 is BGN 25,43 million. The Company's Investment Programme is a balance between projects aiming to meet the regulatory long-term target levels, the meeting of other legislative requirements and business efficiency projects. The 2008 capital expenses fall into the following categories:

Water supply – BGN 11,47 million

Potable water treatment – BGN 0,47 million

Sewerage – BGN 5,38 million

Wastewater treatment – BGN 1,02 million

Service connections, water meters – BGN 3,65 million

Customer service – BGN 3,44 million

The main projects in 2008 are:

- Reservoirs – rehabilitation of 5 reservoirs, commissioning of one reservoir in the village of Kremikovtsi
- SRA of the Iskar Dam
- SCADA – continuous expansion of the existing system, new project for expanding the system in Kubratovo WWTP
- Pumping stations – 5 rehabilitated pumping stations
- Hydrophores – installation of 30 hydrophores, constructing insulation houses
- Water meters – replaced 6 727 pieces.
- Chlorination stations – Reconstruction of Pancharevo HS, construction of a new HS at Boyana Reservoir
- Laboratory Testing Complex - reconstruction, accreditation process
- Sewerage – new and rehabilitation

- Water main – new and rehabilitation
- Delivery of a new jet cleaning machine with wastewater recycling

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

As a water utility company providing water supply and sewerage services on the territory of Sofia and the neighboring settlements, the activity of Sofiyska Voda AD is closely linked to ecology and environmental protection. Sustainable development principles are founding for each aspect of the Company's operation and are harmonized with the principles of the major shareholders – the European Bank for Reconstruction and Development and the international multiutility operator United Utilities Plc.

The investment activity of Bulgaria's biggest WSS Operator Sofiyska Voda AD is as a whole also environmental. The water and water resource regulation and management along the water supply network results in water loss reduction and hence in saving this valuable natural resource. Enhancing the awareness of Sofia's residents about efficient water use is a crucial aspect of the Company's work towards applying the sustainable development principles. The introduction of best practices in the sewerage network operation and maintenance, the construction of new sewers and the provision of more and more efficient and high-quality wastewater treatment is the Company's priority in view of improving the condition of water sources.

In 2008 Sofiyska Voda implemented an Environmental Management System as per the requirements of BSS EN ISO 14001:2005. The standard has worldwide recognition and sets requirements for the organizations in the identification, management and control of the activities that impact the environment. The certification audit was conducted by the biggest certification body in the world offering accredited certification in the area - "Bureau Veritas Certification".

In 2008, the legal register was also renewed. All laws and ordinances related to environmental protection amended or newly issued during the year were added and updated. Against each legislative act, the obligation of Sofiyska Voda AD pursuant from it is described, and the structural unit to which the compliance level refers is identified.

One of Sofiyska Voda AD's big successes in 2008 was the introduction of a separate waste collection system in three differently-colored containers. Containers were provided for all of the Company's premises and a contract for the collection and transportation of paper, plastic and glass waste is in place.

In the end of 2008 Sofiyska Voda AD implemented the first jet cleaning machine in the country equipped with a closed recycling system of the water used. The use of this technology eliminates the need of additional trips to fill water for washing, reduces water and fuel costs and achieves great efficiency.

In the beginning of 2008 Sofiyska Voda AD launched a procedure for the selection of a company to deliver, install, commission, and maintain a co-generator for biogas utilization from the Kubratovo Wastewater Treatment Plant. The co-generator's operation will allow the full utilization of the biogas formed in the sludge decomposition and turning it into heating and electricity.

HEALTH AND SAFETY AT WORK

A key factor for our professional performance is the continuous improvement of our Health and Safety Administration System. In the end of July 2008, the preparation began for certifying the Company's OHSAS under the BS OHSAS 18001:2007 standard. The preparation passed through several stages:

- Training of the managers and the Exec Team
- Training of the internal auditors on standards BS OHSAS 18001:2007 and ISO 19001:2004
- Preparing new and updating existing procedures
- Conducting an internal audit
- Conducting a management review for the level of OHSAS and our certification readiness
- Organization of the conducting of the two stages of the external certification audit by TUF NORD.

The external certification audit in December completed without any incompliance, which is extremely rare in the practice of the external certification organization when auditing big organizations like ours.

In January Sofiyska Voda AD received certificate №44116087290 for Occupational Health and System Administration based on the British standard BS OHSAS 18001:2007, which is the first such certificate issued.

Lost Time Incidents

Three occupational accidents have been reported and investigated over the year. These happened while travelling to and from work.

No Lost Time Incidents

Another 40 incidents have been reported without injuries and loss of time, 38 of which involved property damage.

HUMAN RESOURCES MANAGEMENT

Sofiyska Voda AD is an organization applying the best practices in the sphere of Human Resources Development and management.

In April a bonus was paid to Sofiyska Voda AD's employees amounting to 6% of the total annual labor remuneration for 2007 in compliance with the approved Company's bonus scheme.

As of May 1st, 2008 the employees salaries were increased by 12,5%, following the Company's established practice for indexation of the basic remuneration with the amount of the inflation officially announced by the National Statistical Institute.

Another important initiative of the Company in the sphere of the Human Resources was the third Survey held in December 2008, which was entitled "My opinion is important!" 48% of the Company's employees participated in the survey. The results of this survey were summarized at the beginning of 2009.

In execution of the Annual Training Plan a number of trainings from the second stage of the Managers Development Programme were carried out, as well as other trainings, courses and seminars for the employees of the Company, including university and certification programmes. Over the year induction trainings were also held for the newly appointed employees with the

purpose of their quick and easy adapting to the new environment and getting acquainted with the values, culture and structure of the Company.

Sofiyska Voda AD's Internship Programme was held for the seventh successive year. It started on July 9th, 2008. The period varied from 3 weeks to 3 months depending on the obligations in the relevant department. "Challenge the Future" Programme aimed at involving students and young specialists in the working process in different departments of the Company and identifying future employees, finding talents and generating fresh ideas. After the internship programme was completed, 50% of the participants remained to work and develop professionally in the Company.

As a part of the current training and development between Sofiyska Voda AD and United Utilities:

Two SV's employees participated in the third annual programme for international development of United Utilities held in the summer of 2008;

An engineer from United Utilities completed a six-month course in Sofiyska Voda AD as a part of his 2-year training.

Sofiyska Voda AD appreciates the individual contribution to the success of the Company. An example of that is the scheme "Employee of the Month", within which in 2008 there was a record-breaking number of nominations (200), distinguishing the work of the employees. Over the year 12 employees were awarded as "Employee of the Month", another 5 were awarded for their excellent performance.

Within the scope of the strategic target for providing enough information to the employees during the year monthly team briefings were held as a way of delivery of information and key messages to the employees.

The Company performs all its social commitments to the employees regulated as obligatory in the regulations and the collective labor agreement signed between the Company and the trade unions as representatives of the employees.

RESEARCH AND DEVELOPMENT ACTIVITY

Sofiyska Voda AD does not carry out such activity.

BOARD OF DIRECTORS

Over the year Sofiyska Voda AD had 7 members of the Board of Directors with the following remuneration:

Kamen Manev and Georgi Takev – they were each paid BGN 16 000 by Sofiyska Voda AD for their work as Directors. Nikolay Aleksandrov received BGN 24 000, Kalin Stanukov and Svetozar Staikov - BGN 10 000 each.

On 29.05.2008 Kalin Stanukov and Svetozar Staikov were replaced by Georgi Takev and Kamen Manev respectively, and David Kilgour by David Fuller.

On 24.09.2008 David Fuller was replaced by Steven Fraser, and on 29.12.2008 Iliana Tsanova replaced Henry Russel.

Marion Price, Henry Russel, Leslie Bell, Steven Fraser, David Fuller, David Kilgour and Iliana Tsanova took up positions as directors over the year and did not receive remuneration from Sofiyska Voda AD.

No one from the above members has ever had shares or options for shares in Sofiyska Voda AD.

Regarding the information required as per art. 187 (d) of the Commercial Act, the Company has not transferred or acquired own shares over the reporting 2007.

RELATED PARTIES

The Company has a related party relationship with its parent company – United Utilities UU (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 26 to the Consolidated Financial Statements of the Company for 2008.

FORECAST FOR 2009 AND BUSINESS PLAN FOR 2009 - 2013.

In Company’s Budget for 2009, BGN 47,5 million investments were provided for, and their implementation is an important prerequisite for the achievement of the key performance indicators fixed in the Business Plan for the second regulatory period. The expected financial result before depreciation, interest and tax expenses as at the end of 2009 is BGN 52,5 million.

On 09.10.2008 the SCEWR approved the five-year Business Plan, and according to it the Company intends to make investments at the amount of BGN 240 million. With the Decision of the Commission dated 22.12.2008 the price of BGN 1.168 /without VAT/, proposed by the Company, was approved and it will allow the implementation of its investment plan in 2009. The Business Plan investments are going to be financed through borrowings from the EBRD amounting to BGN 44,8 million and own funds amounting to BGN 195,2 million.

The prices for water supply and sewerage services for 2009 were fixed in compliance with the Regulations for price determination of the water supply and sewerage services through upper price limit. The revenue expected for 2009 is in the amount of BGN 117,6 million, which is about 19% more than the revenue in 2008.

It is necessary to highlight that the proposed investment programme for the second regulatory period, amounting to BGN 240 million, can be implemented by Sofiyska Voda AD only if the Company receive the funds from the EBRD of BGN 44,8 million for the period 2009 – 2010 and obtains the planned actual increase of the price of the combined service for 2010 - 2013, as proposed in the approved business plan.