



Sofiyiska Voda AD

Annual Consolidated Management Report and Consolidated Financial Statements

For the year ended 31 December 2018

With independent Auditors' Report thereon

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Annual Management Report

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Independent Auditors' Report

ANNUAL CONSOLIDATED REPORT ON ACTIVITIES

SOFIYSKA VODA AD AND WATER INDUSTRY SUPPORT AND EDUCATION FOOD (THE GROUP)

31 DECEMBER 2018

Financial overview:

The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS), approved by the European Union.

In 2018 Group's revenue from main charges amounted to BGN 160.0 million, which was 7.51% higher than the revenue from main charges for the same period of the previous year – BGN 148.9 million. The main reason is the increase in the price as of 1 January 2018 by 9%. The Group's total revenue for 2018 amounted to BGN 198.9 million (BGN 188.1 million for the same period of 2017). The revenue from construction in 2018 amounted to BGN 38.9 million (BGN 39.2 million for the same period of 2017). The breakdown of revenues by types of services is presented in Note 4 of the financial statements.

The cogeneration installation in the WWTP in Kubratovo, acquired at the end of 2009, addressed the plant's demands in 2018 for power supply predominantly.

The Group's operating costs in 2018 amounted to BGN 161.2 million (2017 – BGN 149.6 million). This amount includes BGN 38.9 million for construction costs, which result from the application of IFRIC 12 and these costs offset the construction revenue above.

The depreciation and amortization costs in 2018 amounted to BGN 41.7 million. The value is higher than the one reported for 2017 (BGN 36.8 million), which is mainly due to the higher number of commissioned assets and the depreciation of the "Concession Right" asset until the end of the concession, whose period shortens each year.

The interest expenses during the year were in line with the budgeted by the Group.

The net financial costs for 2018 were by BGN 2,407 thousand less than the reported ones for the same period of 2017, which is mainly due to the effect of the lower interest rates under the long-term financial liabilities of the Group, as result of their renegotiation

As a result of the above factors, the profit after tax for 2018 amounted to BGN 31.22 million as compared to BGN 29.97 million for the same period of 2017.

The management of the financial risk and the exposure of the Group in terms of the price, credit and liquidity risks and the risk of the cash flow are presented in detail in Note 24 Financial instruments to the consolidated financial statements.

Signed significant contracts:

Contract No.	Subject of the contract	Contractor	Start Date	End Date	Value, VAT excluded
7736	Active electricity supply high, medium and low voltage	CEZ Trade Bulgaria EAD	01.02.2018	31.01.2019	3 200 000.00
7746	Full service maintenance of the cogeneration installations the SWWTP in Kubratovo	Filter OOD	25.01.2018	25.01.2022	3 500 000.00
7755	Delivery of butterfly valves, butterfly type check valves and butterfly valves with electric actuators – Lot 1	Vasil Vasilev KVS-3 EOOD	09.02.2018	09.04.2020	1 000 000.00
7789	Supply of ductile iron pipes and fittings for potable water	Vasil Vasilev KVS-3 EOOD	07.03.2018	16.03.2020	4 000 000.00
7825	Electronic processing, printing, folding, placing into an envelope and delivery of invoices, notification letters, information and advertising materials to the customers of Sofiyaska Voda AD	Partnership "Direct Post" (Direct Services OOD and Star Post OOD)	15.05.2018	15.05.2020	2 500 000.00
7886	Emergency repairs related to the maintenance of sewer networks and adjoining facilities, operated by SV,, as well as the construction of new SSC	Partnership "Kanali Sofia 2017" (ET Yoni DM-Yonko Stoilov and Garantstroy Komplekt AD)	12.06.2018	12.08.2020	8 000 000.00
7896	Restoration of the bearing capacity and stability of the construction, repairs of the roof and antisismic securing of Filters building Stage II – Pancharevo PWTP	HASSI GARANT GROUP 1 DZZD (Hasssi Group EOOD and Garant 90 Tsonev i Sie OOD)	18.06.2018	18.12.2020	1 499 905.94
7953	Engineering with subject: Design, construction and commissioning of new digester – 7000m ³	Partnership "Kubratovo 2018" DZZD (SADE Compagnie Generale de Travaux d'Hydraulique, VBE Bioenergy Europe, Veolia Water Technologies)	03.08.2018	03.08.2023	6 399 949.70
7973	Emergency maintenance and civil works on around 30% of the water supply network on the territory of MoS	Raicommerce Construction EAD	27.08.2018	27.10.2020	12 000 000.00
8044	Maintenance, repair and reconstruction of the buildings, facilities and open spaces	Electrolux Tabakov I Sinove OOD	29.10.2018	29.04.2021	2 000 000.00
8055	Insurance - "All risk property Insurance", "Activity interruption" – Lot 1	Insurance Company "OZK Zastrahovane" AD	06.11.2018	05.11.2021	1 408 197.60
8107	Active electricity supply high, medium and low voltage and inclusion into a balancing group of the SV sites	CEZ Trade Bulgaria EAD	01.01.2019	31.12.2019	3 000 000.00
8115	Planned construction of new and the replacement of existing WSC and stop valves on the water network on the territory of MoS	Raicommerce Construction EAD	20.12.2018	20.02.2021	3 000 000.00

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

Related party transactions:

On 1 November 2018 two contracts were signed for rent of real estates: single-family 3-floor residential building with an attic and 1- floor building with garages and warehouse premises in the Sanitary Restricted Area (SRA) of Beli Iskar dam and a terrain in the SRA of *Seminariayata* Reservoir, Municipality of Sofia – Lozenets Region with ViK EAD.

Information about events and indicators of nature unusual for the issuer, which have a substantial impact on its activity, the revenues generated and costs incurred by it; assessment of their impact on the results in the current year:

There are no such events and indicators of unusual nature for the issuer with substantial impact on its activity.

Information about off-balance sheet transactions – nature and business objective, specifying the financial impact of the transactions on the activity if the risk and benefits of these transactions are material for the issuer and if the disclosure of this information is substantial for the financial position of the issuer:

As at the date of the preparation of this report the Group maintains the following bank guarantees:

- Performance guarantee of Sofiyska Voda AD under the Concession Agreement with number PEBPRT593268, issued by HSBC France, amounting to USD 750,000 with validity until 15 December 2019;
- Performance guarantee of Sofiyska Voda AD under Contract No.RD-568-68/10.08.2011 with the Municipality of Sofia for repair of defects and damages that occur in municipal property sites, where Sofiyska Voda AD carries out construction works with No 799 L/11.12.2017, issued by Expressbank AD, to the amount of BGN 400,000 and validity until 31 December 2019;
- Performance guarantee of Sofiyska Voda AD under the Contract for access to the electricity grid with the Electricity System Operator EAD (ESO), No. 800 L/11.12.2017, issued by Expressbank AD, to the amount of BGN 10,397 and validity until 31 January 2019;

Information about shareholdings of the issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estates), as well as investments in equity securities beyond its business group and the sources/ways of funding:

Sofiyska Voda holds 100% of the share capital of Water Industry Support and Education EOOD (2017: 100%). The capital of Water Industry Support and Education EOOD is in the amount of BGN 5,000, divided into 500 shares (BGN 10 per share).

Information about the loan agreements signed by the issuer, respectively the person under §1e of the additional provisions of the Law on Public Offering of Securities, by its subsidiary or parent company in their capacity as borrowers, as the terms under them are specified, including the deadlines for repayment, as well as information about the provided guarantees and commitments

On 30 January 2018 an annex was signed to the subordinated loan agreement between Sofiyska Voda and Veolia Voda Sofia B.V., the shareholder and creditor of the Group. The purpose of the annex is to extend the term of the loan until 31 March 2018 - until the signing of the amendment to the Concession Agreement and the contract for refinancing of the Group.

On 19 March 2018, Sofiyska Voda AD signed a Loan Facility Agreement with the consortium between Societe Generale Expressbank AD and United Bulgarian Bank AD for a loan facility of two tranches for a total amount of EUR 50,270 thousand for the purpose of refinancing the loans to the Group from Veolia Voda (Sofia) B.V. and EBRD. The loan facility was provided under the following conditions:

- Deadline for loan facility drawdown: 24 April 2018
- Maturity of principals under Tranche 1: 11 equal installments, the first one being due 25 April 2018, followed by 10 equal quarterly installments as of 25 June 2018, and the last one being due 25 September 2020.
- Maturity of principals under Tranche 2: 19 equal installments, the first one being due 25 April 2018, followed by 18 equal quarterly installments as of 25 June 2018, the last one being due 25 September 2022

- Interest payment deadlines: on each principal maturity date
- Nominal interest rate: 3 M EURIBOR plus 1.35%
- The loan facility will be subject to a number of collaterals, including registered pledge over aggregate of existing and future assets owned by the Group, registered pledge over the receivables for the positive balance on all bank accounts in Bulgaria; pledge of all shares from the capital of the Group owned by Veolia Voda Sofia B.V.

Information about the loan agreements signed by the issuer, respectively the person under § 1e of the additional provisions of the Law on Public Offering of Securities, by its subsidiary or parent company in their capacity as borrowers, including provision of guarantees of any kind, including to related parties, as the terms under them are specified, including the deadlines for repayment and the objective for which they have been granted:

Sofiyska Voda AD has not concluded any loan agreements as a lender or borrower with companies from the Group. The subordinated loan from Veolia Voda Sofia B.V. was paid in March 2018.

Analysis of the relation between the achieved financial results reflected in the financial statements for the financial year and the forecasts for these results published earlier:

Sofiyska Voda AD did not publish any forecasts for the expected financial results during the year.

Analysis and assessment of the policy on financial resource management by specifying the capacity to service the liabilities, the possible threats and measures which the issuer, respectively the person under § 1e of the additional provisions of the Law on Public Offering of Securities, has applied or intends to apply in view of their elimination:

The financial statements were prepared on the basis of the assumption that the Group is a going concern and it will continue its activity in the foreseeable future.

Assessment of the capacity to implement the investment intentions specifying the amount of the available resources and reflecting the possible changes in the funding structure for this activity:

The investment intentions of the Group are described in detail in the paragraph below for the Business Plan of the Group for the period 2017 – 2021. The implementation of the investment program in the Business Plan is fully funded with own resources, i.e. from the revenues of the Group generated from the expected prices for the rendering of WSS services.

Information about changes that occurred during the reporting period in the main governance principles of the issuer and its business group:

No changes in the main governance principles of the issuer and its business group have occurred.

Information about the main characteristics of the internal control system and risk management system applied by the issuer, respectively the person under §1e of the additional provisions of the Law on Public Offering of Securities, in the process of preparing the financial statements.

Sofiyska Voda AD has developed its internal control system based on good accounting practices and the COSO model (COSO - Committee of Sponsoring Organizations of the Treadway Commission). The five components of internal control according to the model are:

- i. Control Environment;
- ii. Risk Assessment (Process of Enterprise Risk Assessment);
- iii. Information and Communication (Information system, included the related to its business processes referring to financial reporting and communications);
- iv. Control Activities; and
- v. Monitoring (Ongoing monitoring of the controls).

These components are also stated in the International Standard on Auditing (ISA) 315, Appendix 1 – Internal Control Components.

The control environment sets the tone of an entity, by influencing the employees' awareness of the control within an organization and is the foundation for all other components of the internal control, providing discipline and structure. The factors of the control environment comprise: integrity and ethical values; employees' commitment

to competence; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees; as well as attention and guidelines, given by the Board of Directors.

Main policies and procedures ensuring the control environment are:

- Ethics and Code of Conduct of Veolia Group (adopted by SV in 2014)
- Internal Regulations of Sofiyska Voda AD
- Disclosure Policy in compliance with the User Charter for the Ethics Alert Process within Veolia
- Policy on Gifts (the so-called "Hospitality")
- Conflicts of Interest Policy
- Anti-Fraud Policy, which is supported by
 - Fraud Investigation Procedure
 - Anti-Corruption telephone line (+359 2 8122 521, published on SV official website www.sofiyskavoda.bg)
- Accounting Policy
- Procedure on accounting closing
- Instruction on receiving, posting and paying invoices from suppliers
- Procedure on purchasing, stocktaking, sale and writing off of assets, etc.

Sofiyska Voda like every entity faces a variety of risks from external and internal sources that should be assessed. A precondition to risk assessment is the setting of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks threatening the achievement of the objectives, which forms a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with the changes.

The risk management process in Sofiyska Voda is regulated by a Risk Management Policy and supported by Risk Management Procedure, which describes the methodological approach for the identification, measuring, controlling and subsequent monitoring of these circumstances, events and actions that may have an impact on the achievement of the business objectives of the company. The procedure is reviewed and updated once in two years in order to ensure that the Group applies a unified approach of risk assessment and risk management in all fields of its activity.

All employees are given a clear message from top management that control responsibilities should be taken seriously and responsibly. The employees must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They need to understand the meaning of communicating significant information upstream. Effective communication with third interested parties such as customers, suppliers, regulators and shareholders is in place.

Sofiyska Voda's Communications Department ensures the focus on internal as well as external exchange of information with the stakeholders. In addition, the company's Regulation and Concession Compliance Department is in charge of information exchange with the Municipality of Sofia, EWRC and other institutions. The relations with the customers are managed by the teams in Customer Service Directorate.

The intranet and the official website of the company are also a two-way channel for exchange of information both inside and outside the company.

The control activities are in line with the policies of Sofiyska Voda and result from the procedures of the company. They ensure that necessary actions are taken to address the risks related to the achievement of the entity's objectives. Control activities are implemented throughout the organization, at all levels and in all units. They include a range of activities as approvals, authorization, verification, review of the operating performance, security of assets and segregation of duties.

All effective policies, procedures and instructions on the specific work processes are published on Sofiyska Voda's intranet, which is accessible to all employees.

Monitoring – the internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate

evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, as well as other actions taken by employees when performing their duties. The scope and frequency of the separate evaluations depend on the risk assessment and the efficiency of ongoing monitoring procedures.

The management is primarily responsible for the internal control system and the chief executive officer is assumed to be "owner" of the system. Management is accountable to the board of directors, which provides corporate governance, guidance and supervision.

The audit committee of Sofiyska Voda is created and operates (including by implementing its obligations for monitoring regarding financial reporting) under the Independent Financial Audit Act.

Internal auditors play an important role in evaluating the effectiveness of the control systems, and contribute to ongoing effectiveness. Because of its organizational position and authority in the company, the internal audit unit often plays a significant monitoring role.

The weaknesses of internal control, identified during internal audits, inspections and monitoring are reported to the managers and the most serious matters are referred to the senior management and the Board of Directors.

Internal control is, to some degree, the responsibility of everyone in the organization and therefore should be stated in the requirements of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to exercise control.

External parties also carry out monitoring over the activity of Sofiyska Voda and these are the regulatory bodies (Energy and Water Regulatory Commission), the Grantor (Municipality of Sofia), state institutions (tax authorities, ministries, etc.) and external auditors.

Information about pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer at the amount of at least 10% of its equity; if the total value of the liabilities or receivables of the issuer under all initiated proceedings exceeds 10% of its equity, information is provided for each individual procedure:

One of the most important pending cases of the Company is the lawsuit related to the penalty imposed by the Competition Protection Commission (CPC). With the ruling No. 370/19.03.2014, on the grounds of art.74, para.1, item 3 of the Competition Protection Act (CPA), the CPC claimed that Sofiyska Voda had committed an abuse of dominant position by charging default interest on debts based on estimated readings for a service used within the meaning of art. 21, item 1 of the CPA. The imposed penalty is BGN 4,800 thousand and it was calculated on the basis of 0.5% of the Company's income in 2013 as a debt ratio 8 was applied as well.

On 11.01.2016 the SAC approved partially the appeal of Sofiyska Voda against the decision of the CPC and decreased the amount of the imposed penalty from BGN 4,800 thousand to BGN 2,400 thousand. The decision was appealed before a 5-member jury of the SAC both by Sofiyska Voda and the CPC. Regarding the appeals filed by both parties, the lawsuit No. 3161/2016 was initiated, as the hearing was scheduled for April 7th, 2016. At the sitting it was stated that the court decision was to be taken. By its decision dated May 25th, 2018 the Supreme Administrative Court reduced the amount of the imposed sanction to BGN 1,920,240 and confirmed the decision of the Commission for Protection of Competition in the rest of its part. The decision is final and is not subject to appeal. On July 2nd, the sanction imposed by SAC was paid by Sofiyska Voda AD.

In 2017, case 4041/2017, AACG was initiated. The case was filed based on a protest by a prosecutor from the SAC and a group of citizens against the Decision of the EWRC No. БП-И-1 /29.03.2017, which approved the Business plan of the Company and the prices of WSS for the regulatory period 2017 - 2021. After a series of court hearings, a final hearing was held on 15.01.2019, during which the company's economic expertise, which was requested by the Company, was presented. At the meeting the expertise was accepted and the case was announced for resolution.

Renegotiation of the Concession Agreement:

With an order of Sofia Mayor dated 29.03.2016, a new working group was set up with representatives from the Municipality of Sofia and external experts with the task to continue the renegotiation of the Concession

Agreement. The first official meeting between the representatives of the working group and Sofiyska Voda was held on 29.07.2016.

- With decision dated 25 January 2018 Sofia Municipal Council approved the draft of the Third Amendment Agreement to the Concession Agreement in connection with the delivery of water supply and sewerage services for the Municipality of Sofia, as well as the conclusion of a loan agreement for the purpose of complete refinancing (see below). The Third Amendment Agreement to the Concession Agreement was signed on March 23, 2018.

The main changes proposed, in essence, are as follows:

- Obligation of the Concessionaire to make investments at a certain minimum amount for the period until the expiration of the concession term: BGN 209 million for the effective regulatory period (2017-2021) and BGN 165 million by the end of the concession in 2025;
- Introduction of an additional investment commitment of the Concessionaire (in addition to the investment program) to provide an amount in the size of BGN 1.5 million per year for the funding of concrete WSS projects of public interest determined by the Municipality of Sofia.
- The agreed 17% rate of return not to be protected any more by the price restriction mechanism, i.e. in case of approval by the Regulator of a lower rate of return a Price Restriction will not be present within the meaning of art. 22.7. Respectively, for the purposes of the formation of the prices of the WSS services provided by the Concessionaire, the rate of return determined by EWRC will be applied as of 2022.
- It is proposed for all databases, including the customer database, as well as the assets register and GIS, provided to the Concessionaire by the Concession Grantor at the beginning of the concession, to remain property of the Concession Grantor. Moreover, all licenses for using intellectual property rights, as well as the warranties for products or equipment, or other rights or contracts in the Concessionaire's name to be transferred or handed over to the Concession Grantor after the end of the concession term. Correspondingly, the same are subject to return to MoS after termination of the effect of the Concession Agreement.

In the reporting period Sofiyska Voda strictly followed the requirements of the Concession Agreement, signed between the Group and the Municipality of Sofia, as failures to comply with the requirements set in the Agreement were not identified.

General Assembly:

On 16 February 2018 an extraordinary General Assembly was conducted of the shareholders of Sofiyska Voda AD. During the general assembly the following decisions were taken:

1. A draft of the Third Amendment Agreement to the Concession Agreement between the Municipality of Sofia and Sofiyska Voda AD was approved.

2. The signing of a Loan Facility Agreement with Societe Generale Expressbank AD and Cibank EAD was approved as well as the draft contract.

3. The provision of collaterals under the Loan Facility Agreement with Societe General Expressbank AD and Cibank EAD was approved.

On 4 June 2018, the regular annual General Meeting of Shareholders of Sofiyska Voda AD was held. The following decisions were taken at the General Meeting:

1. The consolidated report on the activity of Sofiyska Voda AD for 2017 and the consolidated annual financial statements of the Group for 2017 were approved;

2. The report on the activity of Sofiyska Voda AD for 2017 and the separate annual financial statements of the Group for 2017 were approved;

3. The report on the activity of the Audit Committee of Sofiyska Voda for 2017 was approved;

4. The General Meeting of Shareholders resolved not to distribute the profit of Sofiyska Voda AD for 2017.

5. The General Meeting of Shareholders released from responsibility the members of the Board of Directors of Sofiyska Voda AD for their activity in 2017.

6. The following changes were made to the Board of the Directors of Sofiyska Voda AD:

Mr. Ferenc Szucs and Mr. Arnaud Philippe François Valleteau de Moulliac were released as members of the Board of Directors and Mr. François Michel Debergh and Mr. Vasil Borisov Trenev were elected as members of the Board of Directors.

Within the statutory deadline the Group disclosed the separate and consolidated financial statements and reports on the activity under its account in the Trade Register with the Registry Agency.

On 13 December 2018, an extraordinary General Meeting of Shareholders of Sofiyska Voda AD was held. The following decision was made at it:

KPMG Bulgaria OOD (KPMG Audit), UIC 040595851, registered under No.45 in the Institute of the Chartered Accountants, was appointed as the auditor to verify and certify the separate and consolidated statements of Sofiyska Voda for the financial year 2018.

Board of Directors

In 2018 there was a change in the members of the Board of Directors in the Group.

The Board of Directors of Sofiyska Voda consists of 7 members:

Until 4 June 2018 the Board members were as follows: Mr. Arnaud Philippe François Valleteau de Moulliac, Mr. Frederic Laurent Faroche; Mrs. Mariana Georgieva Iteva, Mr. Ferenc Szucs, Mrs. Milena Staykova Tsenova, Mr. Vladimir Georgiev Stratiev and Mr. Biser Nikolaev Damyanovski. The company was managed and represented individually by Mr. Arnaud Philippe François Valleteau de Moulliac and Mr. Frederic Laurent Faroche.

After 4 June 2018 and at the end of 2018 the members of the Board of Director are as follows: Mr. François Michel Debergh; Mr. Frederic Laurent Faroche, Mrs. Mariana Georgieva Iteva, Mr. Vasil Borisov Trenev, Mrs. Milena Staykova Tsenova, Mr. Vladimir Georgiev Stratiev and Mr. Biser Nikolaev Damyanovski.

From 04 June 2018 to 30 November 2018 the Group was managed and represented individually by Mr. Vasil Borisov Trenev and Mr. Frederic Laurent Faroche. Since 30 November 2018 and as at the end of 2018 the Group has been managed and represented individually by Mr. Vasil Borisov Trenev and Mr. François Michel Debergh.

The remunerations of the members of the Board of Directors for 2018 are in the amount of BGN 722 thousand (2017: BGN 214 thousand), from which the unpaid amount as at the reporting data were BGN 8 thousand (31.12.2017: unpaid BGN 8 thousand). The individual remunerations of the members of the Board of Directors are as following: Mr. Vladimir Stratiev, Mr. Biser Damyanovski and Mrs. Milena Tsenova – BGN 24 thousand each; Mrs. Mariana Iteva – BGN 234 thousand, Mr. Vasil Borisov Trenev – BGN 100 thousand and Arnaud Phillipe François De Moulliac – BGN 316 thousand.

The Board members do not hold, have not acquired or transferred shares and bonds of the Group during the year.

The Board Members have no rights to acquire shares in the Group.

In 2018 the Board Members participate in the management of other companies, registered in the Trade Register with the Registry Agency, entities, commercial proxies, or managers or board members of companies, registered in the Trade Register with the Registry Agency, or participated as partners with unlimited liability, or held more than 25% of the capital in another entity, as follows:

1. Frederic Laurent Faroche – participated in the management of: VEOLIA ENERGY SOLUTIONS BULGARIA, UIC: 130547859; Veolia Energy Bulgaria EAD, UIC: 121371700; VEOLIA ENERGY VARNA EAD, UIC 103195446;

2. Mariana Georgieva Iteva – participated in the management of: Veolia Voda Bulgaria EOOD, UIC: 201404389; managed and held more than 25% of the capital of MI CONSULT INTERNATIONAL EOOD, UIC: 200981719;

3. Biser Nikolaev Damyanovski – participated in the management of and held more than 25% of the capital of INTERTRADE CONSULT EOOD, UIC: 201824172;
4. Arnaud Philippe François Valleteau de Moulliac – participated in the management of Veolia Energy Bulgaria EAD, UIC 121371700;
5. Vasil Borisov Trenev – managed and held more than 25% of the capital of GAZPROM BULGARIA EOOD UIC 131467679;
6. François Michel Debergh – participated in the management of Veolia Energy Bulgaria EAD, UIC: 121371700 and VEOLIA ENERGY SOLUTIONS BULGARIA, UIC: 130547859.

The Board Members did not sign any contracts under art.240b of the Commercial Act during the year.

Acquired and transferred shares:

In 2018 the Group had not acquired or transferred own shares.

Research and development

Sofiyska Voda AD does not carry out research and development.

Business Plan:

In 2018 we have been implementing the annual commitments of the Group set in the Business Plan 2017-2021. Detailed information in relation to the implementation of the main directions of the Business Plan, such as: size of the realized investments in 2018, quality of potable water, commercial and operational issues etc., is presented in the other parts of the present report.

In the reporting period (2018) the Group reported good results with regard to the main aspects of the activity, as the efforts were focused on finalizing the processes of refinancing of the Group's loans and signing of the Third Amendment Agreement to the Concession Agreement.

Over the period 29.05.2018 – 01.06.2018 the EWRC conducted the traditional annual audit of the Group. The highlights of the audit were the provided reported data for 2017, as well as the progress in the implementation of the recommendations of the EWRC for the introduction of databases and registers. On 12 October 2018 a Statement of Findings about the audit was handed over. The Group provided response in the set deadline and a copy of the response was sent also to the Municipality of Sofia. On the 4 December 2018 the Group received also the final report of EWRC in connection with the audit. In its letter dated 10 January 2019 Sofiyska Voda AD sent to EWRC and MoS updated information regarding the recommendations and findings made in the report and sent also the relevant documents and materials. With the submission of this final information, the recommendations made by EWRC were fully fulfilled by the Group.

With its Decision 34/14.12.2017, the EWRC approved the new price of the WSS services for 2018, entering into force as of 1 January 2018. The increase in the price of the WSS services for 2018 compared to the prices of the WSS services valid for 2017, is 9%.

At the end of 2018 the Group had non-compliance under 3 key performance indicators for the WSS services (from a total of 30): water supply continuity, energy efficiency of wastewater treatment activity, efficiency of the establishment of the water meters. Considerable improvement is reported regarding the implementation of the key performance indicators as compared to 2017, when 10 KPIs were not compliant.

On the 23 March 2018 the Third Amendment Agreement to the Concession Agreement was signed. It allowed the disbursement of the sums under the signed Loan Facility Agreement dated 19 March 2018 with the new creditors of the Group. On the 28 March 2018 the loan was disbursed and respectively the exposures of Sofiyska Voda AD to EBRD and the parent Group were closed out.

Events after the reporting date:

No events occurred after the reporting date.

Information about services provided by the independent auditor:

The expenses on the remuneration of the appointed independent auditor amount to BGN 124 thousand, of which BGN 64 thousand for the statutory independent financial audit.

For the audited period and to the date of this report KPMG Audit OOD (former trade name KPMG Bulgaria OOD) provided, or is in the process of providing to the Group, the following services:

- **Mandatory statutory financial audit of Group's financial statements, prepared for the year ending 31 December 2018 in compliance with the IFRS adopted by EU;**
- **Audit of financial information for consolidation purposes of Sofiyska Voda AD, prepared as at and for the year ending 31 December 2018, in compliance with the accounting instructions of Veolia Group;**
- **Limited review of the interim financial information for consolidation purposes of Sofiyska Voda AD, prepared as at and for the period ending on 30 June 2018 in compliance with the accounting instructions of Veolia Group;**
- **Reporting for the purposes of the Energy and Water Regulatory Commission (EWRC) in connection with art. 34 (5) of the Ordinance on Regulation of the Prices of Water Supply and Sewerage Services (ORPWSSS) and art. 15 and art. 16 of the Water Supply and Sewerage Services Regulation Act (WSSSRA), and preparation of a report under art. 34 (5) of ORPWSSS for compliance with the rules for accounting under the Single System for Regulatory Reporting (SSRR), pursuant to the published by EWRC directions, rules, principles, deadlines, and other documents and reports in the respective required regulatory format, as well as expressing an opinion on other issues, which may be required by EWRC in connection with SSRR and art. 15 and art 16 of the WSSSRA.**

Customer Service:

SV successfully finished the project for restructuring the network of the customer service centers in 2018. At the beginning of February, the new center in the Mega Mall and the renovated one in Business Park Sofia were opened. The center in TZUM was opened at the beginning of July. The process for closing the six old CSCs had finished by that period.

A new platform for the Call Center of Sofiyska Voda was implemented in June. The platform gave the opportunity to expand the information menus in the system for automatic reply. New functionalities were added as well (customer call back request, training of call center operators, information database etc.) that help provide better customer service and more effective implementation of the daily processes in the Call Center.

Interactions with customers

The overall number of contacts with customers in 2018 increased with 9% compared to 2017, in line with the increased number of calls at the Call Center contributes to it – 488,362 received calls, which were 20% more in comparison with last year. Despite the increased number of calls, the key performance indicators are within the set target levels. The percentage of the missed calls is 2%; the service level (phone calls with received answers in less than 30 seconds) was 89%, the average time, for which the customers were waiting in the queue, is 11 seconds. The number of the complaints from all communication channels decreased by 11%.

Customer Service Centers

In 2018 the total number of visits (excluding payments) at the customer service centers (CSC) was 134,619, which was 18% less compared to the previous year. The number of the payments at the CSCs decreased by 45% in view of the existing network of various payment channels.

Internet services

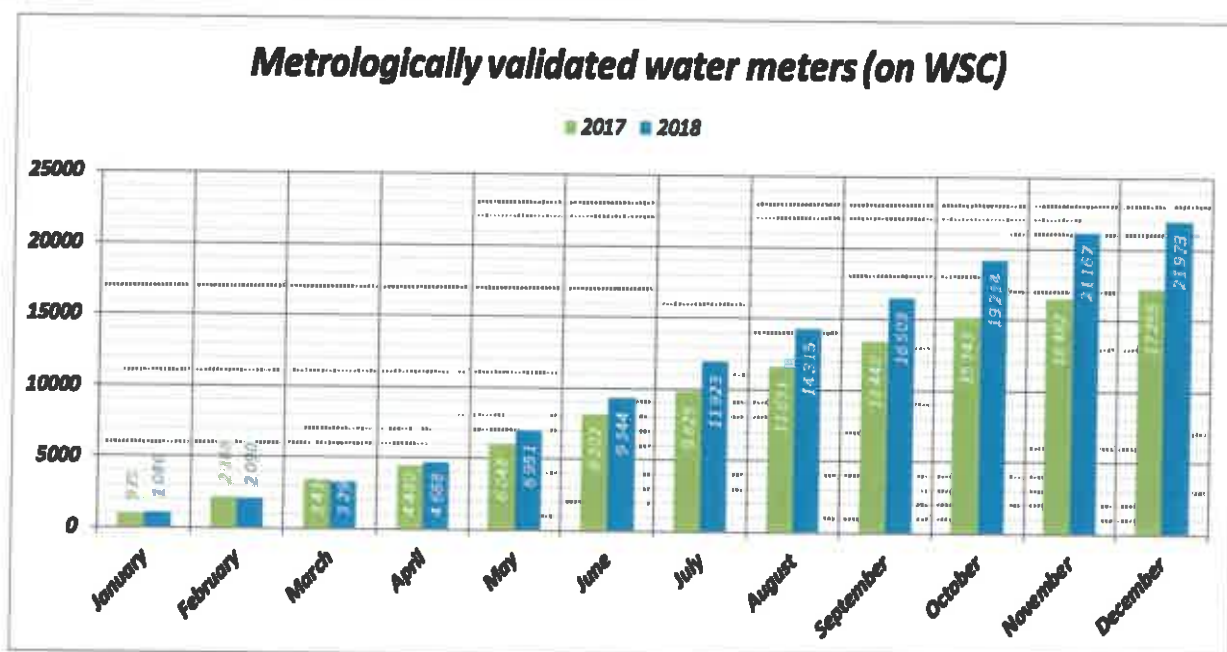
2,084,484 visits at the web site were registered over the period January – December 2018 and 125,198 self-readings by customers were submitted in 2018 compared to 112,187 in 2017.

The enquiries received through the web site in 2018 were 7,564, from which 6,964 required a response, which was 18.5% more compared to the previous year. All answers were sent within 24 hours from the submission of the enquiry.

Over the period January - December 2018, a total of 20,355 customers gave up receiving paper invoices. The official change of the account holders, to whom a paper invoice is sent by default as per the Personal Data Protection Law, are included in this number. As at the end of December 2018, 96,969 customers in total were receiving e-invoices.

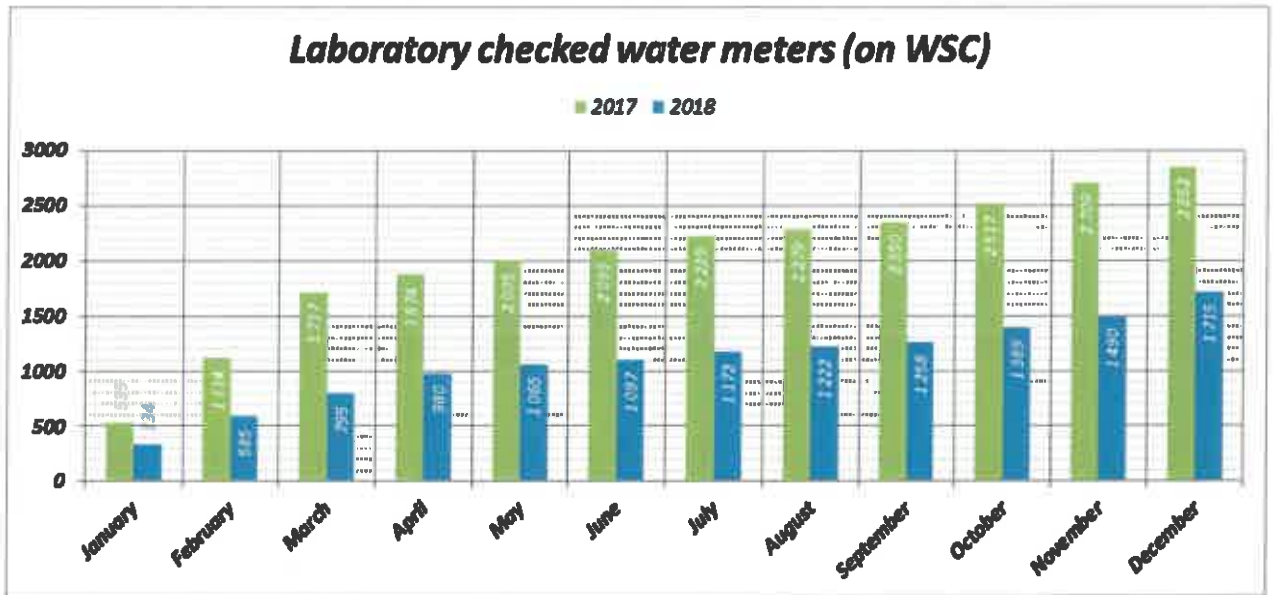
Water meter services, billing and debt collection

Replacing water meters on water service connections



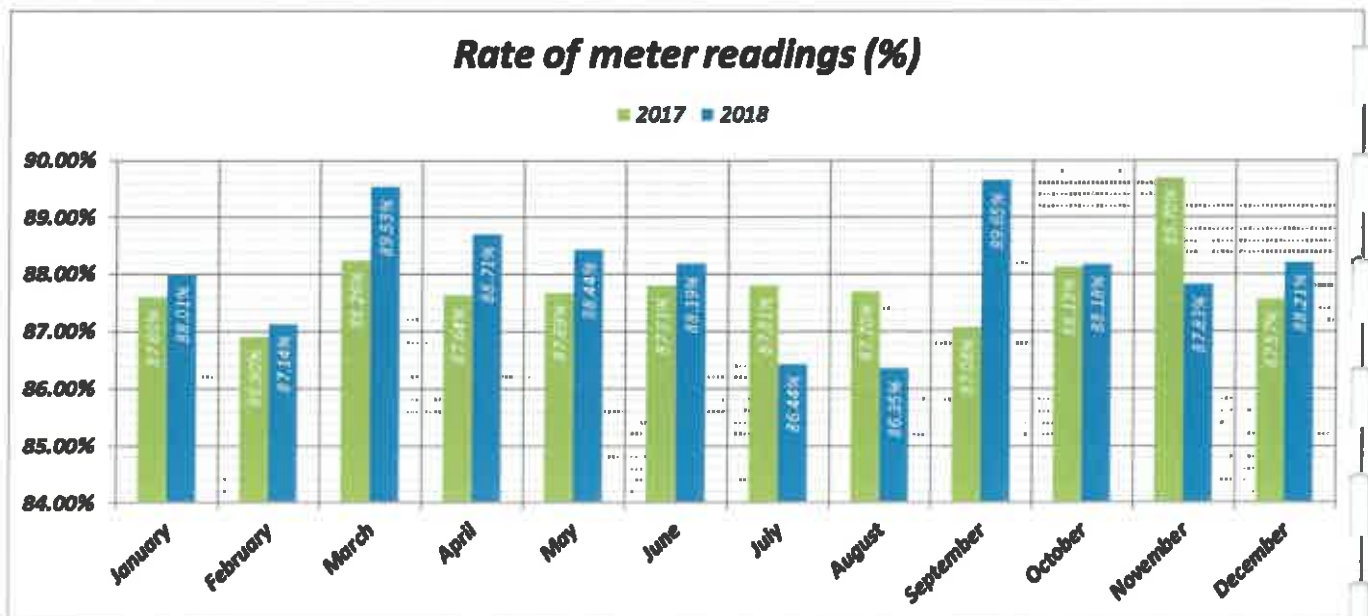
In 2018 the water meters on water service connections, set in metrological validity, were 21,973, which is an increase of 4,721 water meters or 27.36 % more compared to 2017.

In total the water meters on WSC, set in metrological validity, were 85.26%.



In 2018 the water meters checked in authorized laboratories for water meters were 1,715, which is nearly 40% less as compared to 2017. It is due to the efforts of the Group to install new meters instead of inspected ones.

Water Meter Reading



The total success rate regarding the performance of the water meter reading activity in 2018 was 88.07% versus 87.83% in 2017.

Billing

Decrease in the billed potable water volumes by -0.9% was registered on an annual basis in 2018 compared to 2017 (79.85 million m³ in 2018 and 80.55 million m³ in 2017), which is mainly due to the decrease in the consumption of the commercial and domestic customers (more details in the Consumption trends part below).

With decision of EWRC dated 01 January 2018 a new tariff for potable water supply and treatment, and sewerage and wastewater treatment was approved. As a result, the total combined tariff of the regulated water and sewerage services was increased by 9.1% and the total amount of the billed volumes in 2018 amounted to BGN 188.99 million, VAT included, which was BGN 20.2 million more (+12.0%) compared to 2017.

Debt Collection

The Group successfully continued realizing the strategy for increasing the collection of outstanding receivables from its customers in 2018. As a result, the total collected amount as at the end of the year was BGN 180.69 million BGN in comparison with BGN 158.89 million in 2017, or registered increase 13.7% on a yearly basis. The annual collection coefficient for 2018 is 95.61% compared to 94.14% in 2017, as the main problems in the collection of receivables were the delay or lack of payment from the budget and institutional customers.

Considerable increase was registered also in the results and the activity of the internal teams for debt collection in the reporting period and the total amount collected was BGN 21.6 million in comparison with BGN 18.99 million in 2017, or with registered annual growth of 13.1%.

In our constant attempt for improvement of the quality of the provided services and customer satisfaction, the Group continued offering different payment channels through which customers may pay their debts for the consumed WSS services. Sofiyska Voda AD also continued applying the policy aimed at the customers with temporary financial difficulties by offering them flexible and individually structured deferred payment agreements.

Non-regulated business

Sofiyska Voda AD continued developing activities, related to the provision of additional services for the customers – installation, testing and sealing of individual meters, as well as small plumbing services. As at December 2018 the activity was implemented in accordance with the expectations.

OPERATIONS AND MAINTENANCE

Water Resource Management

The continuous monitoring of the water volumes supplied to the Concession Area is at the base of the water management carried out by SV.

The total water used from all water sources over the period January – December 2018 was 151,237,343 m³

The data, obtained from the monitoring during the year, show that the water volumes used for water supply were considerably less compared to 2017. The reduction was as a result of the efforts of the Group for water losses reduction. On the other hand, the weather conditions in 2018 (mild winter and cool summer) suggested lower consumption of the customers of the Group.

The raw water used from all water sources over the period January - December 2018 compared to the same period of 2017 decreased by 11,332,614 m³.

Consumption trends

In 2018, the billed volumes in total decreased by -0.89% compared to 2017, or 839 thousand m³ less. For the potable water, the decrease is by -0.87% or -705 thousand m³ less compared to 2017.

The table below presents the differences by customer type and water type (potable, industrial and raw water supplied):

Water	2017, m ³	2018, m ³	Annual change (m ³)	Annual change (%)
Households	61 151 211	61 016 076	-135 135	-0.22%
Budget Customers	4 668 039	4 577 859	-90 180	-1.93%
Commercial Customers	14 732 939	14 253 676	-479 263	-3.25%
<i>Non-potable water</i>	4 709 444	4 775 753	66 309	1.41%
<i>Raw Water (Samokov and Bozhurishte)</i>	8 824 543	8 623 534	-201 009	-2.28%
Total Potable water Sofia water network	80 552 189	79 847 611	-704 578	-0.87%
Billed water for all water supply systems in total	94 086 176	93 246 898	-839 278	-0.89%

The highest decrease is visible for the commercial customers due to decrease not only in the production and volume of provided services, but also due to reconstruction and leak repairs along the internal water supply networks.

For households, the decreased potable water volumes in 2018 were mainly due to the weather conditions – lower average daily temperature and torrential rains in the summer months.

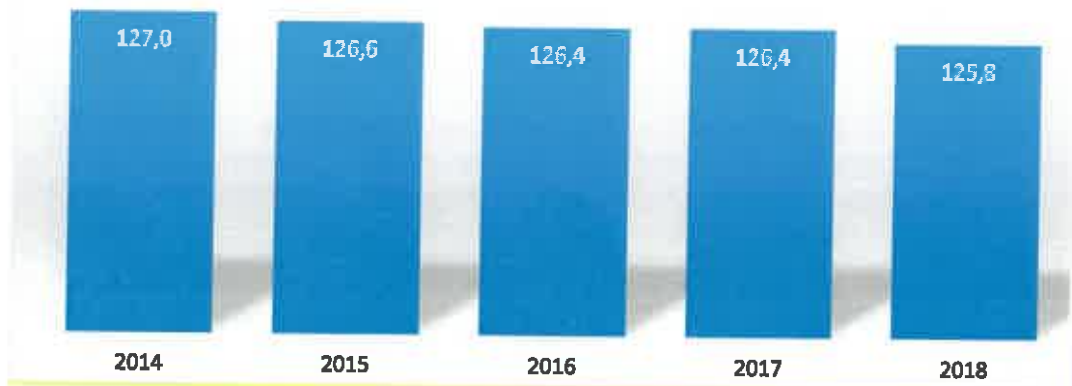
The raw water decreased as well, which was due to decrease in the billed volumes for Samokov (-256 thousand m³), whereas there was increase for WS Bozhurishte (+55 thousand m³) compared to 2017. The delivered volumes of raw water from the two water systems (WS Beli Iskar and WS Bozhurishte) to the only customer of the Group – the state-owned Vodospredpriemstvo I Kanalizatsia EOOD depend on the available reserves of its own drilling wells.

Consumption of household customers – analysis of the current trends

In 2018, the billed water volumes of the households had the highest share of 76% of the total billed consumption, which remained the same as in 2017. The total billed volumes for households were 135 thousand m³ less compared to 2017, which was mainly due to the weather conditions (mentioned above), as well as to the constantly enhancing awareness and culture on water consumption and protection of the resources by the society through the use of more water saving household appliances and sanitation.

The chart below represents the trend in the billed consumption for a 24-hour period per capita in Sofia with a distinct decreasing trend for the last five years:

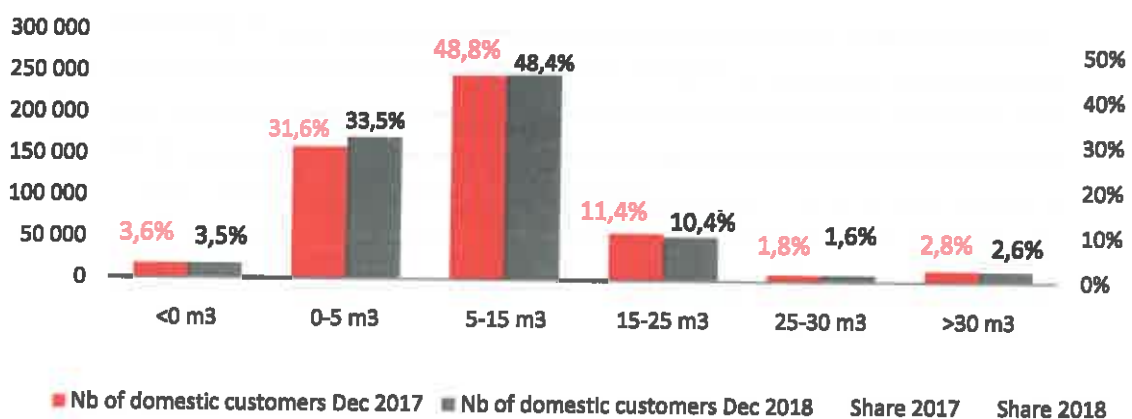
Average daily consumption per capita/ day (l)



The average daily consumption is calculated as a ratio between the billed annual volumes for households and the number of the population of Sofia city (estimation for 2017 of the National Statistical Institute), divided by 365 days.

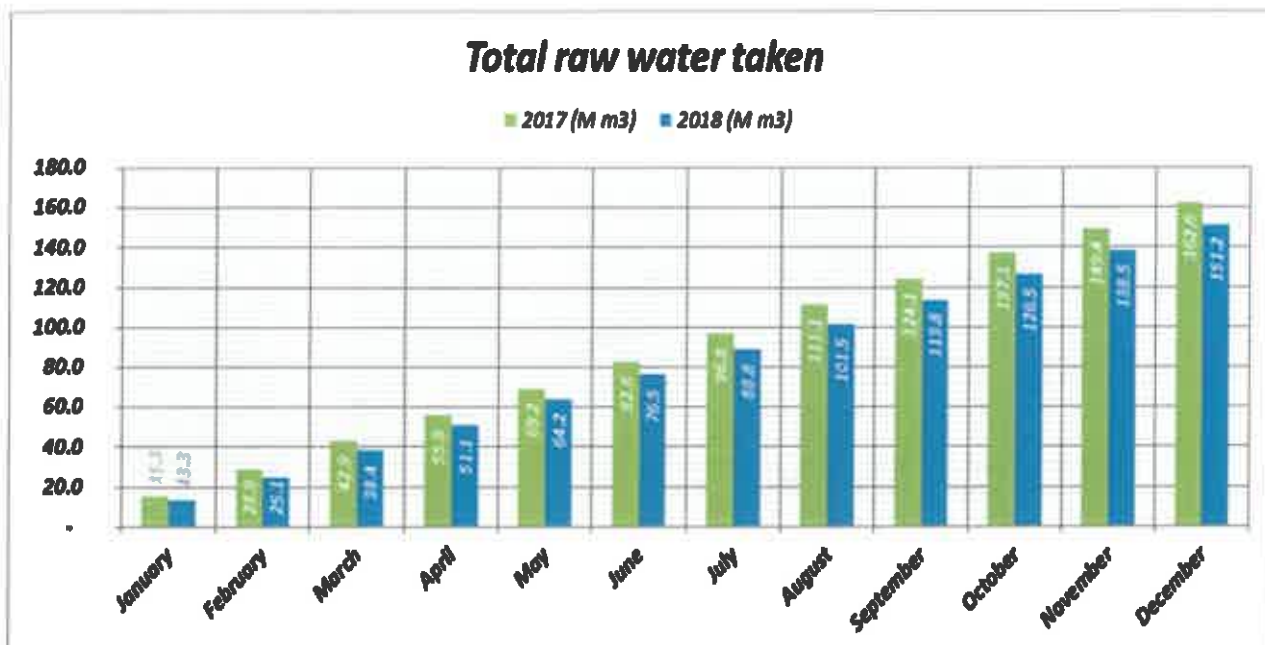
This trend is also related to the dynamics of the customer groups with higher water consumption to those with lower water consumption. On a monthly basis, the Group monitors the number of domestic customers, whose water consumption is measured with the following monthly consumption: 0-5 m³, 5-15 m³, 15-25 m³, 25-30 m³, exceeding 30 m³/month. In 2017, the highest is the share of the customers with average monthly consumption 5-15 m³ (48.4%) and those with 0-5 m³ (33.5%). The trend for decreasing consumption of the households is presented also in the chart below, where it is evident that a higher number of customers shift to the left, from higher to lower average monthly consumption, which is in support of the enhanced culture of water consumption and water saving respectively:

Breakdown in number of domestic customers by levels of consumption as at December 2018 compared to 2017

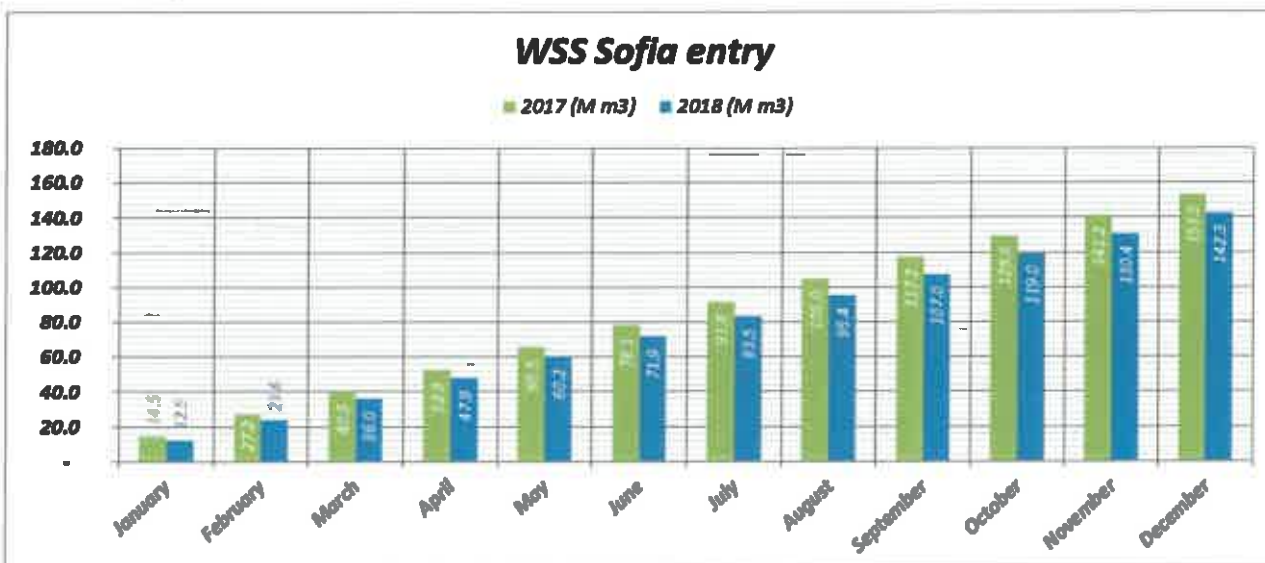


Reduction of unaccounted water quantities

Over the period January – December 2018 the following results were achieved:

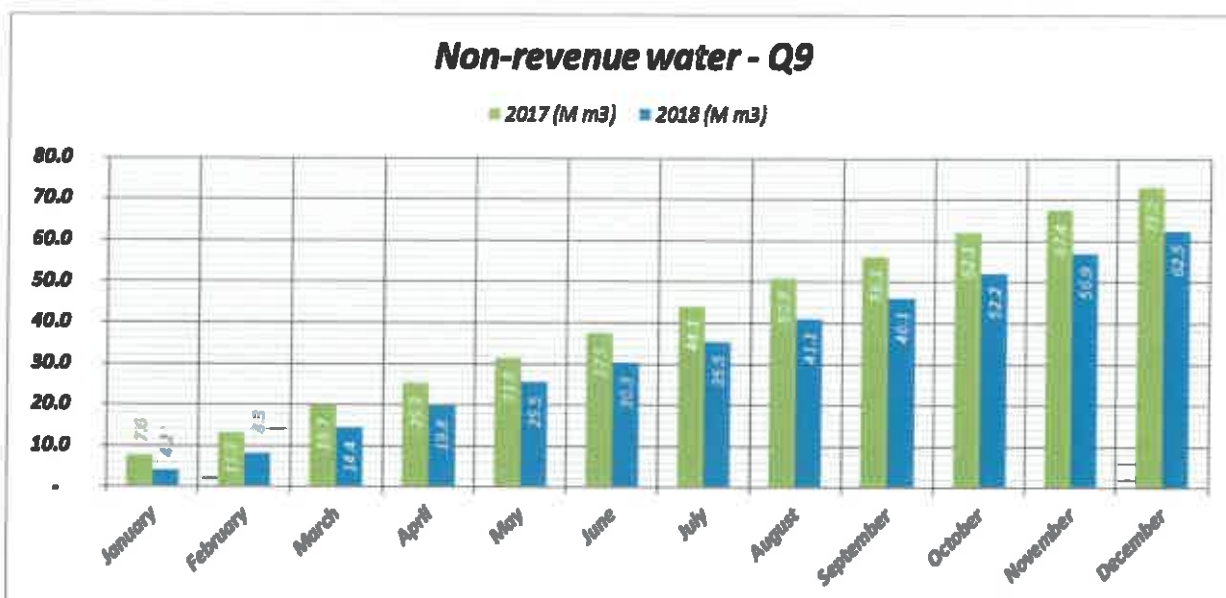


Total abstracted water: reduction by more than 11.3 M m³ (reduction by 7.0%);

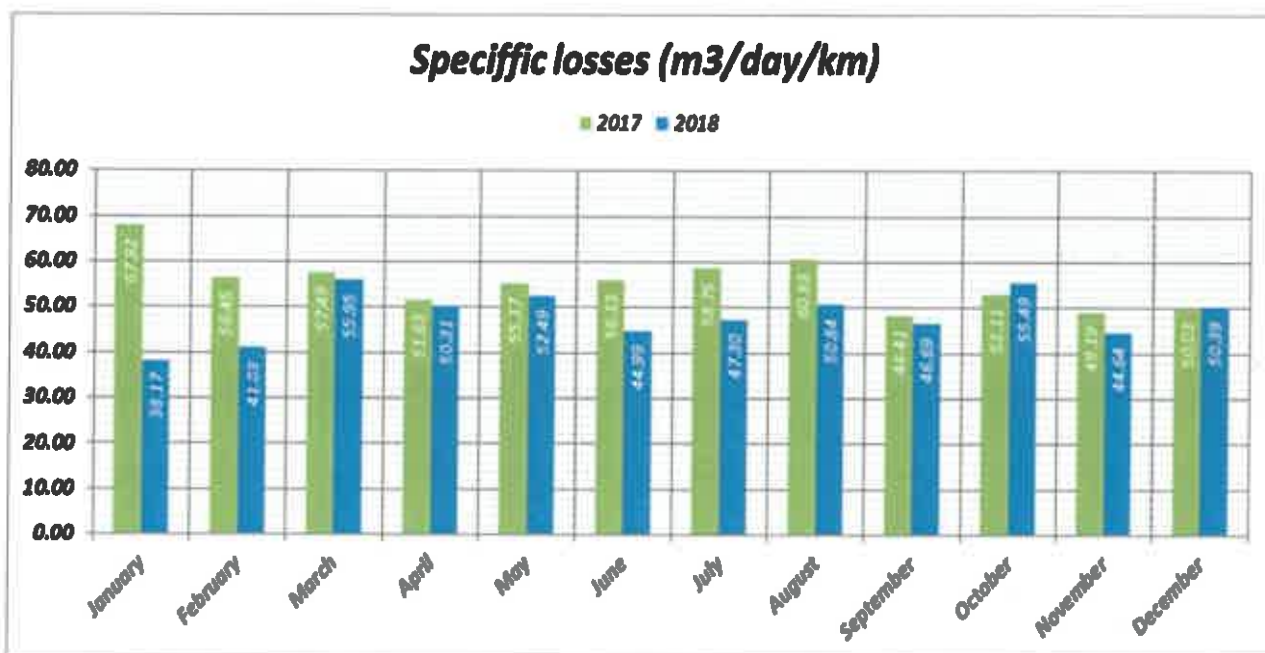


Inlet WS Sofia: reduction by more than 11.2 million m³ (decrease by 7.3%);

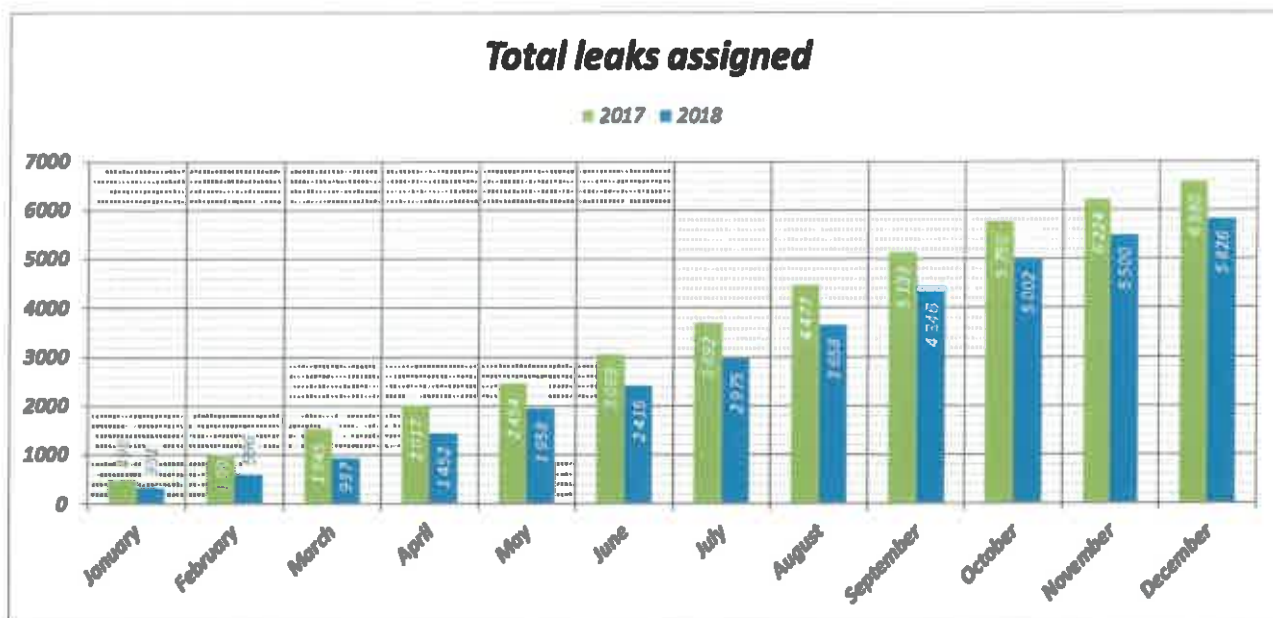
Billed water volumes Q3: reduction by 0.70 M m³ (reduction by 0.9%)



Unaccounted-for water Q9: reduction by more than 10.5 M m³ (reduction by 14.9%)



Specific losses: average decrease by 7.11 m³/day/km of network (reduction by 13.98%)



Total assigned leaks: decrease by 754 no (reduction by 11.46%)

Quality of supplied water

Sofiyska Voda AD certifies through the results of the periodic and control monitoring performed that the applied measures for controlling the risks to the human health along the entire water supply network are efficient. Microbiological, physico-chemical and radiological indicators of indicative significance are monitored for big and small water supply areas separately.

In order to comply with the current requirements of *Ordinance 9 on the Quality of Water for Potable Domestic Purposes* dated 16.01.2018, in 2018 Sofiyska Voda AD:

- Documented a risk assessment for the safety and quality of the potable water supplied by Sofiyska Voda AD, made according to the directions of BDS EN 15975-2 “Safety of Potable Water Supply. Risk and Crisis Management Directions. Part 2: Risk Management”;
- Developed the “Potable Water Monitoring Program, Sofiyska Voda AD” according to the new criteria set in Ordinance No. 9;

According to the requirements of the *Ordinance on the Regulation of the Quality of Water Supply and Sewerage Services* dated 18.01.2016, the fulfillment of the monitoring program is tracked according to the number of water supply areas. The potable water quality is determined through the rate of compliance with the requirements. The compliance of the potable water supplied to the end customers over the period January - December 2018 is as follows:

- KPI2a – compliance rate for large water supply areas - 99.9 %, which exceeds the statutory requirements of 99% for the long-term levels of the KPIs;
- KPI2b - compliance rate for small water supply areas - 98.54 %, which exceeds the statutory requirements of 98.06% for the long-term levels of the KPIs;

For 2018, samples from the points included in all 4 water supply zones were monitored in accordance with the frequency set in Ordinance 9.

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of Sofiyska Voda implements the Group’s plans for monitoring surface and potable water, groundwater, wastewater and sludge in terms of taking samples from water and sludge from the WWTP and analyzing the microbiological, hydro biological, physical and chemical and radiological parameters.

The activities performed by the LTC in the reporting period are related mainly to the implementation of the plans for monitoring potable, surface, underground, as well as sewage and sludge water from WWTP; the maintenance of the accreditation; the control over the processes ensuring traceability and transparency of the performed activities; the ensuring of confidentiality regarding the analytical results for the samples from the customers of LTC and marketing of the laboratory services.

Over the period January – December 2018 in the Potable Water Sector of the LTC a total of 8,812 samples were registered, over which 158,070 analyses were performed, and in the Wastewater Sector 10,692 samples were registered and 92,719 analyses were performed, respectively. For comparison, in 2017 in the Potable Water Sector of LTC a total of 8,443 samples were registered, over which 147,348 analyses were performed, and in the Wastewater sector 10,393 samples were taken and 89,381 analyses were performed, respectively. The analyses made by LTC in 2018 were 8% more and the samples taken - 4% more compared to 2017.

In 2018, the LTC continued servicing successfully its contracts for the rendering of laboratory services to external customers, under which revenues were realized, as well as the service level agreements with internal customers. There were no claims made against the laboratory services on behalf of the customers.

LTC was provided the opportunity to participate in international programs for proficiency testing. In 2018 LTC participated in 21 rounds for 166 tests, from which 164 were successful and 2 unsuccessful – 98.8% success rate of LTC. For comparison, in 2017 LTC participated in 17 rounds with 115 analyses, from which 100 successful and 15 unsuccessful – 87% success rate of LTC. The participations in these programs ensure an independent assessment of the performance of the laboratory and provide an opportunity to compare its efficiency with other equivalent laboratories, often globally. These participations provide feedback for the quality of the measurements and allow the laboratory to find the areas that need improvement in order to obtain more accurate control on the processes and demonstrate competence before the customers, the accreditation authorities and other regulatory units.

On 12.03.2018 LTC received reaccreditation for the next, third in a row, accreditation period and has a new certificate of accreditation and, respectively, a new order with validity until 12 March 2022. Other than extension of the accreditation, LTC expanded its scope by receiving accreditation for the microbiological analyses of sludge from WWTP. Within the scope of accreditation, LTC now offers an analysis for determining uranium as a chemical element and analyses of products used in the treatment of water, such as bleach and iron (III) chloride. The scope is complemented also with analyses of organic pollutants and elements, so that the Group meets the needs of its customers and offers services of a large scope and high quality.

In connection with the policy of EA “BAS” (Executive Agency “Bulgarian Accreditation Service”) for transition from accreditation according to BDS EN ISO/IEC 17025:2006 (EN ISO/IEC 17025:2005) to accreditation according to BDS EN ISO/IEC 17025:2018 (EN ISO/IEC 17025:2017), the LTC prepared and submitted an action plan for transition to the requirements of BDS EN ISO/IEC 17025:2018 for the Laboratory Testing Complex (LTC) to Sofiyska Voda AD.

On 01 October 2018 the LTC implemented the new version of the accreditation standard BDS EN ISO/IEC 17025, issued and harmonized in Bulgaria in January 2018. On the 6th and the 7th of December 2018 the changes were assessed by the accreditation service without any nonconformity ascertained. LTC operates in full compliance with BDS EN ISO/IEC 17025:2018. It is expected that the laboratory will obtain its certificate under the new standard in January - February 2019.

In connection with the new edition of Ordinance No. 9/16.03.2001, amended and supplemented on 16 January 2018, LTC made an analysis of the changes and adapted its activity by implementing the new requirements concerning the methods and their characteristics, as well as the other new requirements.

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

Water Network Management

The focus of the Group in 2018, like in 2017, was on several main aspects:

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

- Improving operational customer service, mainly by reducing the response time in case of disruptions in the normal functioning of the water network and improving the information, which the Group provides to its customers regarding the occurred or future operational events through an Information Center, where the zones affected by the emergency and planned water supply interruptions are visualized, and through the SMS notification service for the upcoming planned and emergency water supply interruptions.
- Upgrade of the Pegasus software system for management of processes for tracking and processing the received signals, which includes a new module for management of the work of the internal teams, a mobile application for reporting the work of the contractors and the mobile application – sewer cleaning machines.
- The total number of the customers who requested the sms notification service for planned water supply interruptions was 21,721, and over the period January - December 2018 a total of 35,489 messages were sent;
- Over the period January - December 2018, the ratio of the number of unplanned water supply interruptions with duration below 4 hours to the total number of the unplanned water supply interruptions in percentage terms was 79% on average.

Sewerage

In 2018, we continued the implementation of the program for proactive maintenance of the sewerage network, as a result of which more than 123 km of the network within the Concession Area were proactively cleaned.

Over the period January - December 2018 the network surveyed with all cameras of the Group was 128 km, which has been the highest achievement so far and is due to the quality check of every preventive activity, as well as to the long sections of surveyed network in streets and boulevards within the program of the Municipality of Sofia for major repairs of the road surfaces.

The result of the proactive activities, in total from the regular maintenance and video survey, is a permanent trend of reduction of the emergency activities, reducing considerably the inconveniences for our customers and guaranteeing better quality of the service.

	Broken sewers	Clogged sewer service connections	Clogged street sewers	Length of the network	Indicator- failures on the sewer network (EWRC)
2015	66	1643	1146	1669	171.06
2016	76	1463	907	1721	142.13
2017	80	1455	785	1727	134.34
2018	77	1278	811	1732	125.06

Moreover, in 2018 the team for surveying big sewers, which was set up in 2016, made a survey of 35 km of walkable facilities on the territory of the concession area. 17 km of them were surveyed by a newly-delivered hand-held camera Ibak Cerberus for walkable sewers, which allows the coding of defects and the exporting of the information directly into the model of the sewer network.

Wastewater treatment

Over the period January – December 2018, Kubratovo Wastewater Treatment Plant (WWTP) treated a total of 133.5 million m³ of wastewater from the sewer network of MoS.

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

Quality of the treated wastewater

According to the permit for wastewater discharge the main indicators are analyzed - biological oxygen demand (BOD₅), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all other indicators specified in the discharge permit for treated wastewater at the outlet of WWTP.

In 2018 the legally defined number of samples for the above quality indicators of the treated wastewater were taken.

The values of the quality indicators of the samples are below the levels, determined in the permit for wastewater discharge.

Sludge stabilization and utilization

The sludge generated through wastewater treatment is stabilized in four anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a 'sludge cake' with dry matter content of about 21.6%.

Over the period more than 106,060 tons of sludge from the treatment processes were stabilized and mechanically dewatered and 42,890 tons were utilized in agriculture.

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

INVESTMENTS JANUARY –DECEMBER 2018

As per the approved Business Plan 2017-2021 the investments program of Sofiyska Voda AD is to a total amount of BGN 48.8 million and the structure of the planned investments is the following:

INVESTMENT 2018	Cost (BGN)
Investments in regulated services	44 435 308
Investments in non-regulated business	2 711 698
Additional investments	1 660 000
TOTAL INVESTMENTS:	48 807 006

The implemented total investments are to the amount of BGN 45.6 million. From them BGN 40.8 million is for regulated services, which is 92% of the plan. The implemented investments outside the regulated ones are at a higher value than the planned ones as in 2018 the Group started implementing also additional investments, envisaged in the Third Amendment Agreement to the Concession Agreement signed on 23 March 2018.

QUALITY MANAGEMENT

In 2018 Sofiyska Voda expanded the scope of the Quality Management System for all activities of the Group and in September it successfully passed external audit by an independent certification body (TUV NORD CERT) of the three management systems – Occupational Health and Safety Management System (OHSMS) under BDS BS OHSAS 18001:2007, Environmental Management System (EMS) - BDS EN ISO 14001:2015 and Quality Management System (QMS) under BDS ISO 9001:2015. In the process of the audit no non-compliances were identified for any of the three management systems. 3 areas for improvement were identified

(recommendations), which will be taken into account at the improvement of the systems. After the publication of the new standard BDS ISO 45001:2018 in March 2018 we started activities for its implementation.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Sofiyska Voda has a certified Environmental Management System (EMS) in compliance with the requirements of the international standard ISO 14001 dated 2015. In 2018 the maintenance of the system continued by improving the EMS documentation and conducting internal regular inspections in line with the approved annual schedule. In connection with the integrated Policy on Quality, Environment and Health and Safety in accordance with the requirements of ISO, new procedures and instructions based on the process approach were updated and created.

In 2018 Sofiyska Voda AD started preparation for registration under EMAS for Bistritsa PWTP. In November 2018 Sofiyska Voda AD passed successfully an external audit by an independent certification body (TUV NORD CERT). The documents for the registration are filed with the Ministry of Environment and Water for review.

Environmental incidents

In 2018, 1 sudden pollution discharge was reported at the inlet of the WWTP in Kubratovo, 5 emergency discharges of untreated wastewater in a water body as result of disturbed operational process, 7 cases of emergency opening of flood gates due to intensive rainfall at the inlet of the WWTP in Kubratovo. The relevant measures for overcoming these incidents were taken in a timely manner and they did not have any considerable environmental impact.

Program for fulfillment of the environmental protection objectives

The environmental protection objectives of the Group are related to introducing best practices for energy efficiency in the operation and maintenance of the water supply and sewerage network, decreasing the water losses along the network, ensuring increasingly efficient and quality treatment of wastewater by reducing at the same time the use of chemicals and reagents and transferring waste into raw material for the production of energy. The implementation of the objectives for 2018 is satisfactory and leads to improved environmental impact.

Trainings and initiatives

In accordance with the annual training program on environmental protection 2 trainings were conducted in 2018. Different internal and external initiatives, related to environmental protection, were held as well – participation in the World Environment Day, participation in the campaign of the Municipality of Sofia – *A Day for a Cleaner Air*, initiative *Abandon Paper Invoice* etc. including also the traditional participation of the Group in the European Week for Waste Reduction 2018.

Waste Management

The Group strictly complies with the Bulgarian waste management legislation. In 2018, the following was submitted for disposal, recovery or recycling

- 15 tons of hazardous waste,
- 35,289 tons of non-hazardous waste, which include excavated earth masses and exclude sludge from Sofia WWTP to be utilized on agricultural areas;
- 42,890 tons (dry matter) - sludge from the Sofia WWTP to be utilized on agricultural areas.

Green energy production

22,260 MWh of green energy were produced in the Sofia WWTP over the period January – December 2018. The production is based on a CHP installation for utilization of biogas released in the process of sludge treatment in the plant. In 2018 the green energy produced in the treatment plant covers more than 115 % of the electricity demands of the treatment plant.

HEALTH AND SAFETY AT WORK

Health and safety at work is a fundamental value and priority for Sofiyska Voda.

Occupational Health and Safety Management System (OHSMS)

Sofiyska Voda has a certified occupational health and safety management system in line with the requirements of OHSAS 18001:2008.

The applicable legal requirements are complied with and exceeded. The annual program for the audits on occupational health and safety is being implemented. The health and safety risks are assessed and managed systemically.

Trainings and exchange of information

In 2018, 5051 training lessons in occupational health and safety were conducted. The number of the employed, who took part in at least one training in occupational health and safety during the year, is 542 people. The number of participations in occupational health and safety trainings is 936 (there are employees, who took part in more than 1 training). In 2018 the nomenclature of the trainings in occupational health and safety, applicable for Sofiyska Voda, and the programs, under which they were conducted, were reviewed and updated. An updated matrix of the H&S trainings by positions and individually for each employee has been developed and is maintained.

In April the *Small Stones* campaign was held in order to draw the attention and commitment of the employees to the management of the “usual” everyday risks. The *Safer Together* project for increasing the awareness and commitment of the managers to OHS, improvement of the communication, risk management, monitoring and control of OHS continues. In September 2018 a corporate safety week was conducted, focused on the significant risks and the standards for their management: trenching works, confined spaces, chemicals, hot works, traffic safety, energy management, and work at heights, hoisting equipment, electrical safety and high pressure water.

The potential contractors are assessed based on competence and occupational health and safety performance. The contractors are inspected in terms of occupational health and safety. Information and good occupational health and safety practices are exchanged.

Accidents, incidents and near-misses

In 2018 there were 2 occupational accidents (two as per art.55 para.1– during work), 8 incidents (without loss of work capacity), 15 near-misses (adverse events, without personal injury) and 202 auto insurance claims were filed. All accidents, incidents and near- misses were reported and analyzed immediately.

HUMAN RESOURCES MANAGEMENT

In its policy and practice SV develops and applies modern forms of human resource management with the understanding that these factors are crucial for business development and high performance. The achievement and maintenance of balance between the interests of the employer and the workforce are based on compliance with the legislation, maintenance of good financial discipline and social partnership with the trade unions.

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

Remuneration and benefits

Valid as of January 1 the salaries of the employees were increased by 2.01 %.

In March 2018 the annual bonuses of the employees for the previous year were paid in line with the approved bonus scheme of the Group, taking into account the fulfillment of the Group's business objectives agreed during the previous year.

As of 1 April the salaries of the employees were increased on average by 3.07% after consultations held with the trade union organizations, presented in the Group.

For the first year the employees of Sofiyska Voda AD had the opportunity to take part in two shareholding plans provided by Veolia Environnement, called SEQUOIA, and each employee had the opportunity to participate with up to 25% of his/her gross annual remuneration. One of the plans offers the purchase of shares for up to 500 EUR, and the invested sum is doubled by Veolia Environnement. The second plan offers the purchase of shares with a 20% discount from the market price.

In May a 1-year contract for health insurance of the employees was signed with health insurance Group "UNIQA Health" AD, which is valid until 30 April 2019. This benefit aims at supplementing the compulsory health insurance and providing equal and easy access for all employees to a wide range of health services, distributed in three main packages with the relevant annual coverage limit:

- Prevention and outpatient medical care – up to BGN 2,000.
- Inpatient and post-hospital health care – up to BGN 3,000.
- Medications – up to BGN 200.

Training, motivation and development

In 2018, trainings on 103 topics were conducted with 1,600 participations and 17,346 training hours.

Rotation was carried out under the internal rotation program, aimed at developing skills and improving processes, for an employee from the LTC in the H&S Department for a period of 1 month.

Talent Program

In 2018 an official working procedure was adopted for the process on identification and development of talents for the realization of the Talent Program.

The main goals of the Program are:

- Development of high-performing employees;
- Identification and preparation of employees as successors on leadership and key positions;
- Enhancement of the commitment and motivation of the employees;

The participants approved after the nominations are divided into 3 categories:

- Key leaders: 9 employees
- Successors: 6 employees
- Key employees: 49 employees

Within the program two Centers for Evaluation and Development of Employees, as well as a motivation event, were organized for all participants from the Key Leaders Group.

Team development

As part of the plan for improving team efficiency, in 2018 sessions with team activities were conducted for the employees of Finance Directorate, the GIS Department and the Front Office Department.

Sofiyska Voda, together with Veolia Energy Solutions Bulgaria EAD, participated in the Career Days in the National Palace of Culture, organized by Job Tiger. The forum was held on the 13th and 14th of March and allowed young specialists to get acquainted with the job opportunities within the Group of Veolia. More than 300 leading Bulgarian and international companies offering vacant internship and job positions in various business sector participated in it.

The event was held for the 16th consecutive year in 7 towns of Bulgaria. This year the forum in Sofia was visited by more than 7,000 students and young specialists.

In the summer of 2018 the traditional internship program of the Group was conducted for the 17th time. The program's duration is 3 months (from July to September).

16 were the students and young specialists to participate in the program in 2018.

Following 2-day induction training, the interns started working in a real working environment. The young people gained practical experience in the following departments: Internal Audit, Control Room, Non-Regulated Business, LTC, Environmental Services, Investment and Technical Control, Construction Control, SWWTP and GIS.

In addition to their daily duties in the departments, the students also had to generate new ideas and implement innovative solutions.

So far 4 of them found realization in the Group, in the departments: Internal Audit, Billing, GIS and LTC.

After a conducted competition two students were chosen to represent Bulgaria during the 8th edition of the Veolia Summer School.

Each year, the program gathers between 25 and 40 students from all over the world, who discuss environmental protection services together with Veolia's experts, meet Group employees, conduct visits on sites, investigate cases from the business environment and participate in group discussions and visits of cultural sites.

The summer school took place from June 24 to July 2 in the Veolia campus, near Paris.

Management responsibilities

In compliance with the statutory requirements, the management prepares a report on the activity and financial statements for each financial year, giving a true and fair view of the financial position of the Group for the calendar year, taking into account the financial performance and cash flows, in accordance with the applicable accounting framework. The Group applies the requirements of the International Financial Reporting Standards (IFRS), applicable in the European Union and the Bulgarian accounting legislation.

Management's responsibility includes: designing, implementing and maintaining internal control system ensuring the preparation and fair presentation of the financial statements so that they are free from material misstatement and inconsistencies, whether due to fraud or error; selecting and implementing appropriate accounting policies; preparing accounting estimates that are reasonable in the circumstances.

The management confirms that it has acted in accordance with its responsibilities and the financial statements are prepared in full compliance with the International Financial Reporting Standards, applicable in the European Union.

The management also confirms that in preparing this activity report, it presented faithfully and fairly the development and results of the activity of the Group over the past period as well as its condition and the main risks it faces. The management has approved the Report on the activity and the Financial statements for 2018.

Sofia March 27th, 2019

Anelia Ilieva

/Finance Director/

Vasil Trenev

/Executive Director/





NON-FINANCIAL INFORMATION TO THE ANNUAL FINANCIAL STATEMENT 2018

SOFIYSKA VODA AD AND WATER INDUSTRY SUPPORT AND EDUCATION EOOD („THE GROUP“)

1. ENVIRONMENTAL MATTERS

1.1. ENVIRONMENTAL PROTECTION IN 2018

The city of Sofia is growing. The needs of the city, in which we live and work, as well. Natural resources are becoming ever more scarce. Sofiyska Voda AD is the biggest WSS operator in Bulgaria and it is the company, which the management of the essential for our city resource – the WATER, has been entrusted to. The transition from resource consumption to resource renewal is the key to the economic growth model. The circular economy contributes to that. Sofiyska Voda AD develops and implements solutions focused on the improvement of the access to clean potable water and its return to nature with excellent quality, led by the circular economy principle.

We are loyal to our mission: RESOURCING THE WORLD.

Sofiyska Voda AD has a certified environmental management system (EMS) corresponding to the requirements of the international standard ISO 14001:2015. The maintenance of the system continued in 2018 through the improvement of the EMS documentation and conducting of internal regular checks in line with the approved annual schedule. In regard to the integrated Policy for quality, environment and health and safety, procedures and instructions, based on the process approach, were updated and new ones were created in conformity with the requirements of ISO.

In 2018 SV started the preparation for registration under EMAS for Bistritsa PWTP. In November 2018 SV was successfully audited by an external certification body (TUV NORD CERT). The registration documents were filed in the Ministry of Environment and Water for consideration.

1.2. ENERGY EFFICIENCY IN 2018

The WSS system of the city of Sofia is designed and manufactured in such a way as to use for the most part the force of gravity to move the water. The water sources are in the mountains, and the pumping stations along the water and sewer systems are a few. Nevertheless, the water supply and treatment are processes, which need energy in the order to be realized. Sofiyska Voda AD has implemented and uses systems for permanent energy consumption monitoring at the big potable and wastewater treatment plants.

The generated green energy in the period January – December 2018 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 22,260 MWh (the generated energy was 3.92% MW less versus the previous year which is due to the planned repair of the cogeneration installation). In 2018 the green energy produced in the treatment plant covered 115% the electric power needs of the treatment plant.

1.3. EMISSIONS INTO AIR IN 2018

Direct emissions

The company generates direct emissions in the air through the use of the transport vehicles and also the use of energy sources for heating at some of its sites. In 2018 the direct emissions amounted to

2.09 thousand tons of carbon dioxide equivalent (CO₂), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. There was a decrease by 3.38% versus 2017. With regard to the control of these direct emissions, Sofiyska Voda uses a GPS system to monitor the routes, speed, acceleration and idle time of the company vehicles. Also, in the selection of services and goods, the remoteness of the potential suppliers is assessed, whenever possible.

Indirect emissions

The indirect emissions result from the use of energy – electric and thermal. In 2018 the data show that the indirect emissions of the company amounted to 3.38 thousand tons of carbon dioxide equivalent (CO₂).

The global reduction in emissions of greenhouse gases in 2018 was 17.14 thousand tons of carbon dioxide equivalent (CO₂), as this is mainly due to the production and use of renewable energy.

1.4. WATER RESOURCE IN 2018

Losses reduction

The constant monitoring of the water volumes supplied to the territory of the concession area forms the basis of the water management implemented by Sofiyska Voda AD.

The total water abstracted from all water sources in the period January – December 2018 was 151,237,343 m³. The variance between 2018 and the same period in 2017 of – 11,332,614 m³ is due to the efforts of the Company to reduce the water losses, as well as of the weather conditions in 2018 г. (mild winter and cool summer).

The reduction of the losses in the water network is a priority for the investment program of Sofiyska Voda AD. The total investments made amounted to 45.6 M BGN, as 40.8 M BGN was in regulated services, which is 92% of the planned. The value of the investments made in addition to those in the regulated services was higher than planned because in 2018 the company started to make additional investments provided for in the Third Amendment Agreement to the Concession Agreement, signed on 23.03.2018. In 2018 a total of 37.5 km of the network was rehabilitated and reconstructed.

Potable water quality

Every year Sofiyska Voda AD manages to comply with the statutory standards for potable water quality. Nevertheless, we do not stop to raise higher challenges in order to achieve even better performance. In this respect, in 2018 Sofiyska Voda implemented a project for the rehabilitation of the filter house at PWTP Bistritsa.

Sewerage and wastewater treatment

3.37 km of new sewers were constructed in 2018. In the period January – December 2018, a total of 133.5 million m³ of wastewater from the sewer network of the Municipality of Sofia was treated at WWTP.

Quality of the treated wastewater

The Laboratory Testing Complex (LTC), *Wastewater Sector* in Kubratovo SWWTP, performs continuous monitoring of the quality indicators for the treated wastewater and the sludge generated in the treatment process.

Pursuant to the wastewater discharge permit, the analyzed main indicators are biological oxygen demand (BOD₅), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all remaining indicators defined in the discharge permit for the treated water at SWWTP outlet.

In 2018 Iskar River was spared the following quantities of pollutants from the wastewater:

- 15,182 t BOD5
- 34,193 t COD
- 2,850 t of nitrogen
- 366 t of phosphorous.

In 2018 the determined statutory number of samples were taken for the mentioned above quality indicators for the treated wastewater. The values of the quality indicators of the samples were below the levels determined in the wastewater discharge permit.

1.5. SOILS

In the wastewater water treatment process the so called “sludge” is separated, which represents a mixture of organic and inorganic matter and water. After passing through a process of stabilization and dewatering, sludge could be used in agriculture for fertilizing crops, which are not designated for consumption by man, as a substitute for chemical fertilizers and as a soil enhancer. The quality of the sludge separated in the wastewater treatment process is tested in consistence with the Ordinance on the terms and conditions for utilization of sludge from wastewater treatment through its use in agriculture. After testing the quality of the sludge, it is transported to the respective agricultural fields.

42,890 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2018 over agricultural areas instead of being deposited in landfills or incinerated, as in this way nature was spared the artificial fertilizers used in production. A decision was taken in 2018 for launching a research project with subject “Opportunities for utilization of sludge obtained in wastewater treatment and effect for sustainable agriculture”, and this project is to be implemented by experts from the Institute for Agricultural Economics – Sofia in partnership with experts from “N. Pushkarov” Institute for Soil Science and Agro-ecology.

Such research will allow studying the influence of sludge on the different types of soil and crops, which, in turn, will lead to proven track-records that will benefit all WSS operators in the country.

1.6. WASTE

Sofiyska Voda provides to its employees the possibility to throw their rubbish separately, aiming at its recycling or proper disposal. Apart from separated collection of waste from packages, spent batteries, toners and electric and electronic equipment are also collected in the Company’s offices and handed in.

The Company strictly complies with the Bulgarian waste management legislation. In 2018 the following has been conveyed for disposal, utilization or recycling:

- 15 tons of hazardous waste;
- 35,289 tons of nonhazardous waste, which include dug out soil and do not include sludge from SWWTP for utilization on agricultural areas;
- 42,890 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

1.7. BIODIVERSITY

Biodiversity is a priority area for the company in view of the proximity of some sites to natural parks and protected habitats. In 2018 a total of 25 trees were planted at Bistritsa PWTP and Kubratovo

SWWTP as part of 2 environmental initiatives. 2 sites were identified (Bistritsa PWTP and Pancharevo PWTP) where a biodiversity assessment will be made in 2019 and specific recommendations will be given for its protection and enhancement.

1.8. HAZARDOUS SUBSTANCES AND MATERIALS

Various chemical substances and materials, hazardous to the environment, are used in the processes of potable and wastewater treatment. The most substantial of them in terms of quantity are chlorine gas for potable water disinfection and ferric trichloride for the removal of phosphorous from the wastewater. The failure to remove the nitrogen and phosphorous leads to anthropogenic pollution (eutrophication) of the rivers. The company sets an objective on an annual basis to decrease the load of these substances for the environment. Also, drills are held on an annual basis with hazardous substances and materials, and means for limiting the spills and emergency alert systems are ensured. Brief information sheets are provided at the places for work and storage of hazardous substances, which contribute for their proper use and treatment as waste.

1.9. OTHER ALTERNATIVES

The number of inhabitants and companies in Sofia that gave up receiving paper invoices from Sofiyska Voda last year (2018) increased by 25%. In January 2019 the Company “celebrated” its 100000th customer who chose to support the green idea and gave up receiving a paper invoice for his water consumption.

2. SOCIAL AND STAFF MATTERS

As at 31.12.2018 the employees of Sofiyska Voda were 1,177, of which 101 at managerial positions (46 men and 55 women); in the positions of supervisor and technical supervisors – a total of 240 (162 men and 78 women); office employees – 381 (51 men and 330 women), and workers – 455 (412 men and 43 women).

Two trade union organizations are represented in the company – CONFEDERATION OF LABOUR “PODKREPA” and “VODOSNABDIAVANE” TRADE UNION to the Confederation of the Independent Trade Unions in Bulgaria, with which Sofiyska Voda AD has concluded a collective labor agreement.

Recurring every two years a General Meeting of the Workers and Employees is called. Its organization and conducting are in consistence with the terms and procedures described in the Labor Code. The General Meeting is conducted by representatives of the workers and the employees, as 1 representative out of 10 employees is elected for it. The members of the Labor Conditions Committee are elected at the General Meeting, which include 5 representatives from the employees. The General Meeting for 2018 was held on 04.06.2018.

Sofiyska Voda AD has a policy for development of employee competencies, which is to maintain a high professional standard and increase their motivation.

In 2018, 807 company employees participated in different trainings. The average number of training hours per employee is 21.5 hours.

The training and development programs are directed towards:

- development of professional skills, acquisition and maintaining of professional qualification;
- occupational health and safety;
- increase of the personal potential and development of social and leadership skills;

- digital competence;
- legal and statutory competencies;

There was 1 employee who participated in the program for internal job rotation for the staff aimed at development of skills and improvement of the processes - the employee from the LTC worked for 1 month in H&S Dept.

Talent program

The official working procedure was officially adopted in 2018 for the process of identifying and development of talents for the implementation of the Talent program.

The main objectives of the Program are:

- Development of the employees with high performance;
- Identification and preparation of employees for successors for leadership and key positions;
- Enhancement of the commitment and motivation of the employees;

The participants approved after the nominations were divided into 3 categories:

- Key leaders: 9 employees
- Successors: 6 employees
- Key employees: 49 employees

Two centers for assessment and development for the employees from the group of the Key leaders and a motivational event were carried out within the program.

Development of teams

As part of the plan for the improvement of the team efficiency, two sessions were held with team activities for the employees from the Finance Directorate, GIS Dept. and Front Office Dept.

3. HEALTH AND SAFETY AT WORK

There were two occupational accidents in 2018 (as per art. 55, par. 1), 8 incidents (without loss of working capacity), 15 near-misses (undesired events without personal injury) and 202 registered damages to company vehicles. All accidents, incidents and near-misses are reported and analyzed immediately.

4. PREVENTION OF CORRUPTION AND BRIBERY

The main policies and procedures related to the way in which the Company solves issues and cases of corruption and bribery, are:

- Ethics and Code of Conduct of Veolia Group (adopted by SV in 2014)
- Internal Regulations of Sofiyska Voda AD
- Anti-corruption Code of Conduct of Veolia Group (adopted by SV in 2018)
- Disclosure Policy in compliance with the Charter of Employees' Rights for the ethics alert process within Veolia;
- Policy on Gifts (the so-called "Hospitality")
- Conflict of Interest Policy;
- Anti-Fraud and Corruption Policy, which is supported by:
 - Procedure for investigation of signals for fraud
 - Anti-corruption phone line (+359 2 8122 521, published on the official website of SV: www.sofiyskavoda.bg).

The processes of internal control and the resources intended for corruption and bribery prevention are regulated with the above policies and procedures. The Internal Audit Dept. and Security Dept. have the main role in checking the alerts and complaints, containing information for irregularities/

fraud/ corruption, as they receive them, check with the support of the Legal Dept. and report the results from these checks to the Executive Director and the HR and Administration Director for taking follow-up actions in line with the legislation and the Internal Regulations of the company.

The mechanisms used by the company for submission of signals for breaches, corruption, etc., are:

- Submission of a verbal or written signal to the respective director or if it is believed that it would be inappropriate, there is an option for direct contact with the Executive Director, the Internal Audit, Quality Control and Risk Management Director or HR and Administration Director.
- Anti-Corruption telephone line (+359 2 8122 521, published on the official website of SV: www.sofiyskavoda.bg)
- If there are reasonable doubts that the signal may be adequately resolved at a local level – there is an option to forward it to the Ethics Committee of the Group of Veolia based in Paris.

The risk management process in SV has been regulated in the Risk Management Policy and tailored with a Risk Management Procedure, describing the methodological approach for identification, measurement, control and subsequent monitoring of those circumstances, events and actions, which could influence the achievement of the company's business objectives. The adopted approach for assessment and management of risks is used also for assessment of the risk related to corruption. The applicable criteria refer to assessment of the impact of the risk in financial terms, as well as in areas of goodwill, regulatory etc. impact; assessment of the likelihood of the risk occurring, as well as assessment of the efficiency of the current control, introduced for dealing with the respective risk. In that evaluation inherent characteristics of the assessed activity are considered that could have a greater weight, such as direct contact with customers or suppliers, potential conflict of interest due to relatedness between persons (for instance relatives, business partnership etc.), etc.

The internal auditors play an important role in the assessment of the efficiency of the control systems and contribute to the current efficiency. Due to their organizational position and powers in the company, Internal Audit Team often have a significant role with regard to identification of the risks related to fraud. The weaknesses of the internal control and possibilities for the commitment of frauds identified in internal audits, checks and observations, are reported to the managers, as the most serious issues are communicated to the senior management and the board of directors. In 2018 there was no case of misuse found, therefore there were no disciplinary sanctions imposed on an employee.

Consolidated statement of financial position

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2018	31 December 2017
Assets			
Property, plant and equipment	13	20,171	18,771
Intangible assets and contract assets	14	297,640	295,410
Deferred tax assets	20	7,086	6,506
Trade and other receivables	16	1,027	237
Total non-current assets		325,924	320,924
Inventories	15	2,189	1,990
Trade and other receivables	16	25,409	36,741
Contract assets	3,4	9,936	-
Income tax receivables		12	12
Related party receivables	30,16	25	11
Cash and cash equivalents	17,24	35,240	25,864
Total current assets		72,811	64,618
Total assets		398,735	385,542
Equity			
Share capital	18	8,884	8,884
Reserves	18	10,774	10,774
Retained earnings		246,090	215,746
Total equity		265,748	235,404

Consolidated statement of financial position (continued)

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2018	31 December 2017
Liabilities			
Loans and borrowings	19,24	48,306	18,032
Finance lease liabilities	19,24	1,529	1,505
Employee benefits	26	1,400	1,350
Deferred income	29	5,108	3,408
Trade and other payables	21,28	7,431	7,790
Total non-current liabilities		63,774	32,085
Loans and borrowings	19,24	24,553	80,519
Finance lease liabilities	19,24	1,093	783
Deferred income	29	376	314
Contract liabilities	3,4	4,751	-
Income tax liabilities	23	180	605
Payables to related parties	24,30	3,818	3,351
Trade and other payables	21	32,008	28,923
Provisions	22	1,835	3,154
Employee benefits	26	599	404
Total current liabilities		69,213	118,053
Total liabilities		132,987	150,138
Total equity and liabilities		398,735	385,542

The notes on pages 11 to 79 are an integral part of these consolidated financial statements.


Vasil Trenev
Executive Director





Anelia Ilieva
Finance Director

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


Dobrina Kaloyanova
Manager




Ivan Andonov
Registered auditor,
responsible for the audit

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Revenue	4	158,224	145,908
Construction revenue	6	38,908	39,269
Other income	5	1,822	2,944
		<u>198,954</u>	<u>188,121</u>
Expenses for materials	7	(9,242)	(8,953)
Expenses for hired services	8	(28,616)	(27,140)
Depreciation and amortization	13,14	(41,741)	(36,847)
Employee benefit expenses	9	(22,656)	(20,446)
Social security contributions and other social expenses	9	(5,699)	(5,159)
Impairment loss on trade receivables and contract assets	24	(8,516)	(8,337)
Other operating expenses	10	(5,868)	(3,454)
Construction expenses	6	(38,908)	(39,269)
Operating profit		<u>37,708</u>	<u>38,516</u>
Finance income	11	38	50
Finance costs	11	(2,742)	(5,159)
Net finance costs		<u>(2,704)</u>	<u>(5,109)</u>
Profit before taxes		35,004	33,407
Income tax expenses	12	(3,793)	(3,431)
Profit for the period		<u>31,211</u>	<u>29,976</u>

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

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Other comprehensive income			
<i>Items that will not be reclassified subsequently into profit or loss:</i>			
Remeasurement of defined benefit liability	26	11	(46)
		11	(46)
Other comprehensive income for the period, net of tax		11	(46)
Total comprehensive income for the period		31.222	29.930

The notes on pages 11 to 79 are an integral part of these consolidated financial statements.



Vasil Trenev
Executive Director

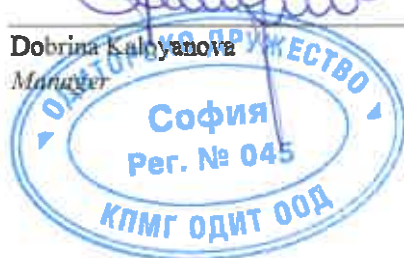




Anelia Ilieva
Finance Director

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



Dobrina Kaloyanova
Manager

Ivan Andonov
Registered auditor,
responsible for the audit

Consolidated statement of changes in equity

In thousands of BGN


	Note	Share capital	Legal reserve	Retained earnings	Total
Balance at 1 January 2017		8,884	10,774	185,816	205,474
Total comprehensive income for the period					
Profit for the period		-	-	29,976	29,976
Other comprehensive income, net of taxes		-	-	(46)	(46)
Total comprehensive income for the period		-	-	29,930	29,930
Balance at 31 December 2017	18	8,884	10,774	215,746	235,404
Adjustment at initial implementation of IFRS 9, net of taxes				(878)	(878)
Adjusted balance at 1 January 2018		8,884	10,774	214,868	234,526
Total comprehensive income for the period					
Profit for the period		-	-	31,211	31,211
Other comprehensive income, net of taxes		-	-	11	11
Total comprehensive income for the period		-	-	31,222	31,222
Balance at 31 December 2018	18	8,884	10,774	246,090	265,748

The notes on pages 11 to 79 are an integral part of these consolidated financial statements..


 Vasil Trenev
 Executive Director


 Anelia Ilieva
 Finance Director
In accordance with an Independent Auditors' Report::
KPMG Audit OOD

 Dobrina Kalovanova
 Manager


 Ivan Andonov
 Registered auditor,
 responsible for the audit

Consolidated statement of cash flows

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Cash flow from operating activity			
Net profit for the period		31,211	29,976
Adjustments for:			
Depreciation of property, plant and equipment	13	4,364	3,871
Amortization of intangible assets	14	37,377	32,977
Impairment loss on trade receivables and contract assets	24	8,516	8,337
Write-down of inventories to net realizable value / (realization)	10	(92)	(156)
Scrapping materials	10	19	88
Expenses for scrapping fixed assets	10	21	24
Net finance costs	11	2,704	5,110
Gain on sale of property, plant and equipment		(3)	(36)
Tax expense	12	3,793	3,431
		<u>87,910</u>	<u>83,622</u>
Changes in:			
- employee benefits		220	169
- provisions		(1,319)	(3)
- inventories		(124)	(858)
- trade and other receivables		(10,868)	(9,665)
- trade and other payables		3,141	(6,575)
- contract assets	4	2,001	-
- contract liabilities	4	575	-
- deferred income, including financing		1,762	637
Cash flow from operating activity		<u>83,298</u>	<u>67,327</u>
Income tax paid		(4,701)	(3,143)
Net cash flow from operating activity		<u>78,597</u>	<u>64,184</u>
Cash flows from investing activity			
Proceeds from sale of property, plant and equipment		200	44
Acquisition of property, plant and equipment		(7,183)	(5,603)
Acquisition of intangible assets		(32,999)	(35,730)
Net cash flow used in investing activity		<u>(39,982)</u>	<u>(41,289)</u>

Consolidated statement of cash flows (continued)

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Cash flow from financing activity			
Loans received		98,320	-
Loans repaid		(123,184)	(9,063)
Payments of finance lease		(1,017)	(1,459)
Interest paid and other finance costs		(3,358)	(4,005)
Net cash flow used in financing activity		(29,239)	(14,527)
Net increase in cash and cash equivalents		9,376	8,368
Cash and cash equivalents at 1 January		25,864	17,496
Cash and cash equivalents at 31 December	17,24	35,240	25,864

The notes on pages 11 to 79 are an integral part of these consolidated financial statements.



Vasil Tranev
Executive Director





Anelia Ilieva
Finance Director

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



Dobrina Kaloyanova
Manager

Ivan Andonov
Registered auditor,
responsible for the audit

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1. Reporting entity

Sofiyska Voda AD (the Company) is a company registered in Sofia City Court on 28 December 1999 under company case N 16172/1999 / No54111, p.557, reg. 1, page 20 and registered as per the Public Register Act in the Public Register to the Registry Agency under uniform identification code 130175000.

The address of the registered office of the Company is Bulgaria, Sofia, Mladost 4 r.q, 1 Business Park Sofia Str, building 2A. The Company is 77.1% owned by Veolia Voda (Sofia) BV and 22.9% owned by Vodospriemata and Kanalizatsia EAD.

These consolidated financial statements of Sofiyska Voda for the year ended 31 December 2018 include the statements of the Company and the statements of its 100% subsidiary "Water Industry Support and Education" EOOD (together referred to as the Group and separately as Companies of the Group). The Group's line of business is primarily the provision of water supply, sewerage and wastewater treatment services in the Municipality of Sofia, including management and maintenance of the public assets which represent part of the water supply and wastewater treatment system in Sofia as well as design, construction, financing and managing of new assets.

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

2. Basis of preparation

(a) Basis of accounting

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

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

The consolidated financial statements as of and for the year ended 31 December 2018 were approved for issuance by the Board of Directors on 27 March 2019.

(b) Basis of measurement

The consolidated financial statements have been prepared on historical cost basis except for the following positions in the statement of financial position:

- the defined benefit liability is recognized at the present value of the defined benefit obligation
- liability under additional Settlement agreement with Municipality of Sofia is recognized at the present value of the expected future cash outflows

(c) Functional and presentation currency

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

(d) Going concern

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

2. Basis of preparation (continued)

(e) Use of estimates and judgments

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

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

(i) Judgements

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

- Note 3 (d) (i) – Accounting for intangible assets in accordance with IFRIC 12 Interpretations: Service Concession Arrangements
- Note 3 (d) (iii) – Intangible assets, subsequent costs

(ii) Assumptions and estimation uncertainties

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

- Notes 13 and 14 –Property, plant and equipment and Intangible Assets and contract assets - on determining the recoverable amount of the cash-generating unit;
- Note 16 – Trade and other payables – in the part for impairment of the recoverable amount of the trade receivables from customers;
- Note 26 – Employee benefits – measuring the payables under the defined benefit plans and employee benefits
- Note 20 – Deferred tax assets – regarding recoverability of deferred tax assets;
- Note 21 – Trade and other payables – in the part estimation of the liability to Municipality of Sofia as per Settlement Agreement;
- Note 22 and Note 27 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources.

Fair values

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

2. Basis of preparation (continued)

(e) Use of estimates and judgments (continued)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

Note 24 – Financial instrument

3. Significant accounting policies

3.1. Change in the significant accounting policies

The Group has initially applied IFRS 15 (see A) and IFRS 9 (see B) as of 1 January 2018. Some other new standards are also valid as of 1 January 2018, but they do not have significant impact on the consolidated financial statements of the Group.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The Group has analysed the requirements of IFRS 15 and has not determined significant effects from the initial application of the standard and respectively has not reported effects as at the date of its initial application. The main effects from the application of IFRS 15 are related to changes in the disclosed accounting policies and respectively the disclosures in the consolidated financial statements.

The effect from the initial application of IFRS 9 is due mainly to the increase in the impairment losses, recognized for financial assets (see B (ii)) and changes related to the disclosed accounting policies and respectively the disclosures in the financial statements.

A. IFRS 15 Revenues from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. This standard replaces IAS 18 *Revenue*, IAS 11 *Contracts for construction* and the related interpretations, excluding IFRIC 12 *Concession Arrangements*. As per the IFRS 15 a revenue is recognized when the customer obtains control of the goods or services. Assessment is required to determine the time, when control is transferred - at some point in time or over time.

The Group has applied IFRS 15 using the cumulative effect method (without practical expedients). The provided information for 2017 has not been recalculated, but is presented as disclosed in the previous period in accordance with the requirements of IAS 18, IAS 11 and the related interpretations. Additionally, the requirements for disclosure as per IFRS 15 in its entirety have not been applied for the comparative information.

The following table summarizes the effects from application of IFRS 15 in the statement of the financial position of the Group as at 31 December 2018 and the statements of profit or loss and other comprehensive income for the year ending at this date for each position, which is affected. There are no significant effects in the statements for profit or loss, the other comprehensive income and the cash flows of the Group for the year ending 31 December 2018:

3. Significant accounting policies (continued)

3.1. Change in the significant accounting policies (continued)

Effect on the consolidated statement of financial position 31 December 2018

<i>In thousands of BGN</i>	As reported	Adjustments	Amounts without adoption of IFRS 15
Assets			
Contact assets	9,936	9,936	-
Trade and other receivables	25,186	(9,936)	35,122
Total assets	35,122	-	35,122
Liabilities			
Trade and other payables	39,439	(4,751)	44,190
Contract liabilities	4,751	4,751	-
Total liabilities	44,190	-	44,190

The Group accounts for the following main categories of revenues:

- Services related to the supply, sewerage and wastewater treatment;
- Services, related to construction activities under the Concession Agreement;
- Other non-regulated services
- Sale of electricity from the cogeneration installation

More information is included in Note 4.

B. IFRS 9 Financial Instruments

IFRS 9 *Financial instruments* sets out the requirements for recognition and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard replaces IAS 39 *Financial instruments: recognition and measurement*.

As a result of the application of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of the Financial Statements*, which require impairment of the financial assets to be presented in a separate item in the statement of profit or loss or loss and the other comprehensive income. In previous period the Group has adopted the approach to include the impairment of the trade receivables in "Costs for Impairment of Trade Receivables". After the enforcement of IFRS 9, the Group has changed the name of the item from "costs for impairment of trade receivables" to "loss from impairment of trade receivables and assets under contracts with customers" in the profit and loss statement and other comprehensive income for the year ending 31 December 2017. The impairment losses of other financial assets are presented in "financial expenses", similar to the presentation as per IAS 39, and are not presented separately in the profit or losses statement and other comprehensive income for materiality considerations. In addition, the Group has adopted the subsequent amendments to IFRS 7 *Financial Instruments: Disclosures*, applied to the disclosures in 2018, but as a whole they have not been generally applied to comparative information.

The next table summarized the effect, net of taxes, from the transition to IFRS 9 on the opening balances of the reserves, the profits and losses and the non-controlling interest (for description of the transition method see (iii)).

<i>In thousands of BGN</i>		Effect from applying IFRS 9 on the opening balance of equity
<i>Note</i>		
Profit and losses		
Recognition of expected credit losses under IFRS 9		(975)
Tax effect		97
Net effect as at 1 January 2018		(878)

3. Significant accounting policies (continued)

3.1. Change in the significant accounting policies (continued)

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value in other comprehensive income (FVOCI) and at fair value through profit and loss (FVTPL). The financial asset classification as per IFRS 9 is mainly based on the business model, under which the financial asset and the characteristics of its cash flows are managed. The standard eliminates the present categories in IAS 39 held-to-maturity, loans and receivables and available for sale. As per IFRS 9, derivatives, embedded in a contract where the host is a financial asset within the scope of the standard, are never be separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The application of the IFRS 9 does not have significant impact on the accounting policies of the Group regarding the financial liabilities and the derivative financial instruments.

Explanation on how the company classifies and measures the financial instruments and accounts for the related profits and losses as per IFRS 9 is disclosed in Note "Significant accounting policies".

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

In thousands of BGN

	Original classificat ion under IAS 39	New classificat ion under IFRS 9	Original carrying amount as per IAS 39	New carrying amount under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	Amortized cost	35,325	34,350
Cash and cash equivalents	Loans and receivables	Amortized cost	25,787	25,787
Total financial assets			61,112	60,137

Trade and other receivables, which were classified as loans and receivables as per the IAS 39, now are classified at amortized cost. Upon transition to IFRS 9 at 1 January 2018 increase of BGN 975 thousand was recognized in the accrued loss from impairment of trade receivables.

In thousands of BGN

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount as per IAS 39	New carrying amount under IFRS 9
Financial liabilities				
Secured bank loans	Other financial liabilities	Other financial liabilities	(98,551)	(98,551)
Financial lease liabilities	Other financial liabilities	Other financial liabilities	(2,288)	(2,288)
Trade obligations	Other financial liabilities	Other financial liabilities	(23,324)	(23,324)
Total financial liabilities			(124,163)	(124,163)

3. Significant accounting policies (continued)

3.1. Change in the significant accounting policies (continued)

The following table compares the carrying amounts of the financial assets as per IAS 39 with the carrying amounts as per IFRS 9 upon transition to IFRS 9 at 1 January 2018

<i>In thousands of BGN</i>	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
Financial assets				
Amortized cost				
Cash and cash equivalents:				
Carried as: Loans and receivables:	25,787	-	-	-
Presented by: Amortized costs	-	-	-	25,787
Trade and other receivables:	-	-	-	-
Carried as:	35,325	-	-	-
Loans and receivables				
Remeasurement:	-	-	(975)	-
Presented by: Amortized costs	-	-	-	34,350
Total amortized cost	61,112	-	(975)	60,137

ii. Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with the “expected credit loss” model. The new impairment model is applied for the financial assets measured at amortized cost, contract assets and debt investments under FVOCI, but not for investments in capital instruments. As per IFRS 9 the credit losses are recognized earlier than as per IAS 39.

For the assets within the scope of the impairment model of IFRS 9, the impairment losses are expected generally to increase and become more volatile. The Group has determined that the application of the impairment requirements of IFRS 9 as at 1 January 2018 results in an increase in the impairment as follows:

<i>In thousands of BGN</i>	
Impairment loss as at 31 December 2017 as per IAS 39	(64,865)
Additional impairment recognized as at 1 January 2018 for:	-
Trade and other receivables as at 31 December 2017	(975)
Cash and cash equivalent	-
Impairment loss as at 1 January 2018 as per IFRS 9	(65,840)

Additional information on how the Group measures the impairment loss is disclosed in Note 3 (b)(ii).

3. Significant accounting policies (continued)

3.1. Change in the significant accounting policies (continued)

iii. Transition

The changes in accounting policies as a result of the adoption of IFRS 9 have been applied retrospectively except as described below:

- The Group has used the exemption not to restate comparative information for previous periods in terms of the classification and measurement requirements (including impairment). Therefore, comparable periods have not been restated. Differences in the carrying amounts of the financial assets and financial liabilities arising as a result of the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those as per IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of the application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

3. Significant accounting policies (continued)

The Group has applied consistently the significant accounting policies, presented below for all periods, presented in this financial statement unless otherwise specified.

(a) Foreign currency

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

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

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

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

From 1 January 1999 the exchange rate of the Bulgarian lev (BGN) has been fixed against the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

(b) Financial Instruments

(i) Recognition and initial measurement

The trade receivables are recognized initially when they are originated. All other financial assets and liabilities are recognized initially when the company becomes party under the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition the financial asset is classified as measured at: fair value, FVOCI – debt investment, FVOCI – equity investment; or at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3. Significant accounting policies (continued)
(b) Financial instruments (continued)
(ii) Classification and subsequent measurement (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial asset is measured at FVICO if it meets at the same time the following two conditions and is not designated under the FVTPL:

- is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets, and;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets, which are not classified as measured at amortized cost or at FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. Upon initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the purposes of the business model, under which a certain financial asset is held at a portfolio level because this best reflects the way in which the business is managed and information is provided to the management. The information, which is taken into account, includes:

- the stated policies and purposes of the portfolio and the efficiency of these policies in practice.
- how the performance of the portfolio is evaluated and reported to the management of the Group;
- the risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- how the business managers are compensated – for example, whether the compensation is based on the fair value of the assets managed or on the collected contractual cash flows; and
- frequency, volume and timing of the sales of the financial assets in previous periods, the reasons for such sales and the expectations for future sales.

The transfer of financial assets to third parties in transactions, which do not qualify for derecognition, are not considered for sales for this purpose, in conformity with the continued recognition of the assets by the Company.

The financial assets, held for trading or are managed, and whose performance is evaluated on a fair value basis, are measured on the basis at FVTPL.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Financial assets – Assessment whether the contractual cash flows are solely payments of principal and interest: The policy is applicable from 1 January 2018

For the purposes of this assessment, the “principal” is defined as fair value of the financial asset at initial recognition. The “interest” is defined as consideration for the time value of money and for the credit risk related to the outstanding principal in a certain period of time and for other main risks and credit costs (for example, liquidity risk and administrative expenses), as well as a profit margin.

In assessing whether the contractual cash flows are solely the payments of principal and interests, the Group’s companies consider the contractual provisions of the instrument. This includes an assessment whether the financial asset contains a contractual term, which could change the timing or the amount of the contractual cash flows, so that it fails to meet that condition. In that assessment the Group takes into account:

- contingent events, which could change the amount or time of the cash flows;
- conditions, which could adjust the contractual coupon rate, including the attributes with variable-rate features;
- attributes for prepayment and extension features; and
- terms that limit the claims of the companies from the Group to the cash flows from certain assets (for example, characteristics without the right of recourse).

A prepayment feature corresponds to the criteria for payment only of the principal and interests if the prepayment is the outstanding amount of the principal and the interest on the outstanding principal, which may include reasonable additional compensation for early termination of the contract. In addition, a financial asset obtained with discount or premium, up to its contractual nominal amount, an option which allows or requires prepayment in the amount which in essence is the nominal amount, plus accumulated (but unpaid) contractual interest (which may include also reasonable additional compensation for early termination), is considered for corresponding to this criterion if the fair value of the prepayment is insignificant at initial recognition.

Financial assets - Subsequent measurement and profit and loss: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, except for derivatives designated as hedging instruments for which hedge accounting is applied.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3. Significant accounting policies (continued)
(b) Financial Instruments(continued)

Financial assets - policy applied before 1 January 2018

The Group classified non-derivative financial assets into the category loans and receivables. These assets are recognized initially at fair value plus all directly attributable costs under the transactions. After the initial recognition they are measured at amortized cost using the method of the effective interest rate.

Cash and cash equivalents

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

Financial Liabilities – classification, subsequent measurement and profits and losses

The financial liabilities are classified at amortized cost or at FVTPL. The financial liability is classified at FVTPL if it is classified as held for sale, as derivative or designated as such at initial recognition. The financial liabilities under the FVTPL are measured at fair value, and the net profits and losses, including the costs for interest are recognized in the profit or loss. The other financial liabilities are measured subsequently at amortized cost applying the effective interest method. The costs for interest and the exchange rate gains and losses are recognized in the profit or loss. Each gain or loss from derecognition are also recognized in the profit and loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when the rights to receive contractual cash flows from a transaction are transferred, where substantially all risks and rewards of ownership of the financial asset are transferred or where the Group does not transfer and keep substantially all risks and rewards of ownership, nor it keeps control on the financial asset.

Financial liabilities

The Group derecognises a financial asset when the contractual obligations have been fulfilled, annulled or expired. The Group also derecognises a financial asset when its conditions have changed and the cash flows from the modified liability are materially different, and in this case a new financial liability is recognized under the fair value, based on the changed conditions.

When a financial liability is derecognized, the difference between the carrying amount and the paid remuneration (including all transferred non-cash assets or commitments) is recognized in the profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Share capital

Ordinary share

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

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Measurement at recognition and subsequent measurement

Property, plant and equipment are initially measured at cost which includes purchase price, including import duties and non-reimbursable taxes on purchase, as well as all other expenses directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

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

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

When parts of an item of property, plant and equipment have different useful life, they are accounted for as separate items.

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

Subsequent measurement

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

(ii) Subsequent costs

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

(iii) Depreciation

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

The estimated useful live of property, plant and equipment for the current and previous period are as follows:

- | | |
|---------------------------------|---------------|
| • buildings | 25 years |
| • plant and equipment | 5-25 years |
| • vehicles – automobiles | 5-10 years |
| • vehicles – trucks | 10-12.5 years |
| • improvements of leased assets | 10 years |

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

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(d) Intangible assets

IFRIC 12 Concession service arrangements

As stated in Note 1 Sofiyska Voda is party under the Concession Agreement with the Municipality of Sofia (Grantor), under which a specific right emerges for Sofiyska Voda to use public assets as well as an exclusive right to render water supply and sewerage services within the concession area – the territory of the Municipality of Sofia.

Taking into account the concession contract with the Municipality of Sofia, the requirements of IFRIC 12 have been applied, and consequently an intangible asset “concession right” has been recognized in the financial statements of the Group. As the concession agreement includes a requirement for Sofiyska Voda AD to deliver construction services to the Grantor in order to enhance the infrastructure, Sofiyska Voda delivers construction services in consideration for the right to collect tariffs from users of the network and records revenue as it performs the services for water supply, sewerage and waste water treatment to the customers on the territory of the concession.

Intangible asset “concession right”

The intangible asset “concession right” is recognized at acquisition cost less accumulated amortization and impairment losses (see accounting policy 3 (i)). The intangible asset “concession right” arises in relation to the Concession Agreement, under which Sofiyska Voda is granted special right of use of public assets in order to deliver water supply, sewerage and wastewater treatment services to the customers within the concession area.

The Grantor has the ownership rights on all the existing public assets for the concession period, but the Concessionaire has exclusive and specific right to use the existing public assets. The ownership rights of any new assets are transferred to the Grantor at the time of their acquisition by the Concessionaire or at the beginning of their operation. When Sofiyska Voda AD has invested certain amount in public assets but they are still not operating as at the end of the respective reporting period, these investments are classified under caption ‘Contract assets – concession right’. Once these assets become operating ones, they are transferred to the “Concession right” intangible asset. The Company does not have the right to receive any payments from the Grantor related to the acquisition, construction, installation or creation of any new public assets. The improvements in the public assets are capitalized and represented as improvements in the intangible asset “concession right”.

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

Based on assessment and expertise of internal experts of Sofiyska Voda AD, it is considered that when a pipe less than 10 meters long is replaced, it does not increase the life of the water main/ sewer and is accounted for as an expense immediately. Replacement of a pipe with length equal to or more than 10 meters extends the life of the system with more than one year and is capitalized.

(iv) Amortization

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

Other intangible assets:

capitalized development costs	6.67 years
other intangible assets	6.67 years
software	10 years

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

(e) Leased assets

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

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

(f) Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group consolidates the financial position, results and cash flows of Sofiyska Voda and its 100% subsidiary - Water Industry Support and Education EOOD.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (continued)

(g) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses, required to carry out the sale.

(h) Impairment

(i) *Non-derivative financial assets*

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognizes loss allowances for the expected credit losses (ECL) for;

- financial assets measured at amortized cost, and
- contract assets

The Group measures loss allowances at an amount equal to lifetime ECLs of the financial asset. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs of the financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk for a given financial asset has increased considerably if the delay is more than 180 days.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 300 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The maximum period, which is taken into account, when determining the ECL is the maximum contractual period over which the Group is exposed to credit risk.

3. Significant accounting policies (continued)

(h) Impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Regarding trade receivables and assets under contracts the Group applies a simplified approach by using provision matrix. The provision matrix is updated on an annual basis.

Credit-impaired financial assets

At each reporting data the Group measures whether the financial assets accounted for at amortized cost and assets under contracts are with credit impairment. The financial asset is credit-impaired when one or more events that have occurred and have a significant impact on the estimated future cash flows of the financial asset. Evidence that the financial asset is credit-impaired includes the following observable data:

- considerable financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past-due event above 300 days;
- restructuring a Group's receivable under conditions which the Group would not otherwise review
- it becoming probable that the borrower will enter bankruptcy/ becomes insolvent for individuals or other financial reorganisation;

Presenting impairment loss for the expected credit losses in the statement of financial position

Impairment loss of the financial assets, measured at depreciated value are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is derecognized, when the Group does not have reasonable expectations for recovery of a financial asset in its entirety or part of it or when specific receivables are appealed by individual customers and the proceedings regarding them is terminated (invalidated) by the court.

The Group has a policy for derecognition of the gross carrying amount, when the financial asset is overdue by more than 3 years on the basis of the historical experience related to the recovery of similar assets. For corporate customers, the Group makes individual measurement regarding the time and the size of the derecognition on the basis of whether there is reasonable expectation for recovery. The Group does not expect considerable recovery of the sum that is derecognized. The financial assets, which however are derecognized, can still be a subject of an action for enforcement in order to comply with the procedures of the Group for recovery of the amounts due.

3. Significant accounting policies (continued)

(h) Impairment (continued)

Non-derivative financial assets – policy applied before 1 January 2018

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

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

Financial assets measured at amortized cost

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

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

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

3. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non-financial assets

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

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the 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 that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated in such a way as to reduce the book values of the assets in the CGU on a *pro rata* basis.

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

(l) Employee benefits

(i) Defined contribution plan

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

(ii) Defined benefit plan

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

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

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

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Short-term personnel benefits

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

(iv) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the fair value of the liability are recognized as employee benefit expenses in profit or loss.

(j) Provisions

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

Legal provision

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

3. Significant accounting policies (continued)

(κ) Revenue

The Group applies initially IFRS 15 as of 1 January 2018. The information for the accounting policies related to contracts with customers is presented in Note 4. The effect from the initial application of IFRS 15 is described in Note 3.

(l) Government grants

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

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

(m) Leases

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

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

(n) Finance income and finance costs

Finance income comprises interest income and profit from transactions in foreign currencies, recognized in profit or loss. Interest income is recognized as it is accrued using the effective interest method.

Finance expenses comprise interest expense on borrowings, expenses resulting from increase in liabilities due to being one period closer to the date for realizing the provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset meeting the requirements are recognized in profit or loss using the effective interest method.

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

3. Significant accounting policies (continued)

(o) Income tax

Income tax expense for the year comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in OCI.

Current tax

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

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these separate financial statements.

Standards, clarifications and changes to standards, which have not been applied earlier - endorsed for application by the EC

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

(a) IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases as of 1 January 2019. The Group has made an estimation of the impact of the initial application of IFRS 16 on its consolidated financial statements as is described below. The actual impact of the application of the standard may change because:

- The Group has not finalized the tests and the evaluation of the control regarding the new information technology systems; and
- the new accounting policies may be altered by the time when the Group presents its first consolidated financial statements that include the date of the initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees.

Under IFRS 16, one contract is or contains lease elements if it grants the right to control the use of an asset for a certain period of time in return for consideration. The new model requires for such contracts the lessee to recognize an asset for a right of use, representing its right to use the given asset and a lease liability, which is its obligation to make lease payments. The right of use asset is amortized, and interest is charged for the liability. As a result, for most leases, initially higher cost will be recognized even if the lessee pays the same rent. There are exceptions for recognition for short-term lease and low-value lease contracts. The accounting treatment by the lessor continues to be similar to this standard, i. the classification of the lease as financial or operating continues.

IFRS 16 replaces the existing so far guidance on lease accounting, including IAS 17 *Lease*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating lease – Incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*.

Leases for which the Group is a lessee

The Group will recognize new assets and liabilities for its operational leases of offices, warehouses, transportation vehicles and equipment. The essence of the costs related to those leasing contracts will be altered, as the Group will recognize depreciation costs for the right of use of the assets and cost for interest for a leasing liability. Previously the Group recognized the costs for operating lease on a linear base for the term of the lease and recognized assets and liabilities only to the extent, to which there was a time difference between the actual lease payments and the recognized cost.

In addition, the Group will no longer recognize provisions for operating leases, which it evaluates as encumbering. Instead the Group will include the payments due under the lease in its leasing liability.

No significant impact for the financial leases of the Group is expected.

Based on the information available to date the Group has made an estimation that it will recognize additional leasing liabilities amounting to BGN 1,821 thousand as at 1 January 2019. The Group does not expect the application of IFRS 16 to impact its ability to comply with the financial covenants under the loan agreement described in Note 19.

Leases, where the Group is a lessor

No significant impact is expected on the other leases where the Group is a lessor.

3. Significant accounting policies (continued)
New standards and interpretations not yet adopted (continued)

Transition

As a lessee, the Group can apply the standard by using:

- the retrospective approach; or
- a modified retrospective approach using certain practical means by choice.

The lessee applies the chosen consecutively in all of its leasing contracts.

The Group plans to apply IFRS 16 earlier - from 1 January 2019 by using the full retrospective approach. Respectively, the cumulative effect of the application of IFRS 16 will be recognized in the consolidated financial statements of the Group for 2019 as a correction in the opening balance of retained earnings as at 1 January 2018 with restatement of the comparative information for 2018.

The Group has finalized its initial assessment of the potential effect on its consolidated financial statements, but has not finalized its detailed assessment yet. It is not expected the effect of the implementation of the standard to exceed 1% of the total non-current assets upwards.

(b) IFRIC 23 Uncertainty over Tax Treatments

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019 and early application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group does not expect that the clarification will have a material effect on the consolidated financial statements in the period of initial application as the Group does not have significant uncertain tax positions.

(c) Changes in IFRS 9: Prepayment Features with Negative Compensation

The amendments are effective for annual periods beginning on or after 1 January 2019. These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

The Group does not expect that the amendments will have a material impact on the separate financial statements because the Company does not have prepayable financial assets with negative compensation.

(d) Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments are effective for annual periods beginning on or after 1 January 2019. The Amendments clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Group does not expect the Amendments to have a material impact on its separate financial statements when initially applied

3. Significant accounting policies (continued)
New standards and interpretations not yet adopted (continued)

(e) Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

The amendments are effective for annual periods beginning on or after 1 January 2019. The Amendments require that the Group uses current and updated assumptions when a change to a plan, and amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

The Group does not expect the Amendments to have a material impact on its separate financial statements when initially applied.

Standards and interpretations not yet endorsed by the EC

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

(a) IFRS 17 Insurance contracts

The standard is effective for annual periods beginning on or after 1 January 2021 and is to be applied retrospectively, and early application is permitted. The Group expects that the standard, when initially applied, will not have a material impact on the presentation of the consolidated financial statements of the Group because the Group does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(b) Other amendments

The following amendments and improvements to standards are not expected to have a material impact on the consolidated financial statements of the Group.

- *Annual Improvements to IFRS 2015-2017 Cycle*
- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture*
- *Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)*
- *Amendments to IFRS 3 Business Combinations*
- *Amendments to IAS 1 and IAS 8: Definition of Material*

4. Revenue

The effect of the initial application of IFRS 15 on revenue from contracts with customers of the Group has been disclosed below in Note 3. Due to the transition method chosen by the Group to IFRS 15 the comparative information has not been recalculated in order to reflect the new requirements.

A. Categories of revenues and breakdown of the revenues under contracts with customers

The Group generates revenues mainly from the sale of services related to the supply, sewerage and treatment of water and construction services related to the concession agreement of Sofiyska Voda AD. The other sources of revenues have been listed in Note 5.

<i>In thousands of BGN</i>	Note	2018	2017
Revenues from contracts with customers			
<i>Revenues related to water supply and sewerage</i>			
Income from water supply		103,930	95,485
Income from sewerage		27,342	23,573
Income from wastewater treatment		22,338	21,023
Interest income from overdue receivables		2,478	3,869
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the 27(b) Municipality of Sofia's budget ISPA *		(116)	(85)
		<u>(909)</u>	<u>(985)</u>
		<u>155,063</u>	<u>142,880</u>
Revenues from non-regulated services			
Revenues from sale of services		<u>2,675</u>	<u>2,442</u>
Revenues from the sale of green energy			
Revenues from green energy		<u>486</u>	<u>586</u>
Total revenues from sales of services and green energy		<u>158,224</u>	<u>145,908</u>
<i>Revenues from construction services</i>			
Water supply		14,391	15,565
Potable water treatment		2,592	2,998
Sewerage		13,032	12,173
Wastewater treatment		2,153	1,839
Water service connections and water meters		6,740	6,694
		<u>38,908</u>	<u>39,269</u>
Total revenues from contracts with customers		<u>197,132</u>	<u>185,177</u>

* According to an agreement dated 22 June 2007 between Sofiyska Voda AD and Sofia Municipality (MoS), and in relation to Financial Memorandum ISPA 2000 BG 16 P PE 001, signed between the European Commission and the Republic of Bulgaria, the Company is obliged to include in its price for water supply, sewerage and treatment of waste waters an adjustment, allowing it to accumulate the necessary annual funds for repayment of the Financial Memorandum loan that was received from the European Investment Bank (EIB). The total expected amount to be serviced by Sofiyska Voda was approximately EUR 8,775 thousand representing 15% of the project value. The end beneficiary of the loan from the European Investment Bank is the Municipality of Sofia.

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

4. Revenue (continued)

With letter of the Ministry of Environment and Water dated 29.03.2016 the Municipality of Sofia and Sofiyiska Voda AD were notified about changes to the repayment schedule related to the recovery (at the end of 2015) on the account of EIB of unspent amount under the loan.

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

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

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

Having received notices from the Municipality of Sofia in 2018, the Company transferred two instalments for a total amount of BGN 860 thousand to the bank account indicated by the Municipality of Sofia, to service the loan from EIB.

The portion of billed revenue in 2018, set aside for servicing and repayment of the EIB loan, based on the price component included into the WSS services tariff, amounts to BGN 909 thousand (2017: BGN 985 thousand), presented above as a reduction of Sofiyiska Voda's yearly revenue.

B. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	31 December 2018	1 January 2018
Receivables, which are included in 'trade and other receivables'	25,186	23,388
Contract assets– unbilled receivables	9,936	11,937
Contract assets – concession right	23,893	21,860
Contract liabilities	(4,751)	(4,176)
Total	54,264	53,009

Contract assets – unbilled receivables

Contract assets refer to the rights of Sofiyiska Voda AD to receive remuneration for provided WSS services pursuant to the Concession Agreement (water supply, sewerage and wastewater treatment), not billed to the reporting date, but which are billed or will be billed after the end of the reporting period, but concern consumption within the reporting period.

Contract assets are transferred into receivables, when the rights over them become unconditional. That usually happens when Sofiyiska Voda AD issues an invoice to the customer.

Contract assets – concession right

The balance of contract assets – concession rights is consisting investments made by Sofiyiska Voda AD for construction works which are not completed as at the end of the reporting period and the complete set of primary documents required for capitalization of these assets have not been obtained yet. Contract assets – concession right will be transferred to "Intangible assets – concession right" once the construction works are finalized and all underlying documentation required for capitalization of the assets have been obtained.

4. Revenues (continued)

Contract liabilities

Contract liabilities are mainly related to advance payment received (surplus payment) for WSS services or as a result of adjustments of the balances of customer receivables leading to negative net amounts of their open positions in Sofiyska Voda's billing system.

As at 31 December 2018 the Group has contract liabilities for BGN 4,751 thousand (2017: BGN 4,176 thousand).

C. Performance obligation and policies for revenue recognition.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

a) Revenue related to the provision of WSS services

Nature and timing of satisfaction of performance obligations, including significant payment terms

Revenues from WSS services (water supply, sewerage and wastewater treatment) are generated by Sofiyska Voda AD pursuant to the Concession Agreement and the effective legislation, in particular the Water and Sewer Services Regulation Act (WSSRA) and the relevant by-laws. As per art. 5 of WSSRA the tariff of the provided WSS services are regulated by the Energy and Water Regulatory Commission (EWRC). Within the framework of the approved for the respective period Business Plan, Sofiyska Voda proposes and justifies its price applications, which are reviewed and approved with decisions of EWRC.

Revenues from WSS services are recognized on the basis of the quantities of water measured through the readings of water meters.

Key accounts (large customers) are measured and billed monthly on the basis of actual consumption.

For the rest of the clients, as a general rule, actual measurement of clients' devices is performed once every three months. During the other two months, client's consumption is calculated and billed on the basis of the average daily consumption from the last actual consumption. When the actual quarterly reading is made, the difference between already invoiced in the previous 2 months and actual reading on the third month is automatically calculated and invoiced in the third month. If it happens that the quantity of actual quarterly reading is lower than the sum of the previous two invoiced quantities, the consumption is adjusted up to the level of the actual reading by issuing of a credit note.

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

Invoices are issued monthly with a payment term of 30 days after the date of the invoice.

Revenue recognition under IFRS 15 (applicable from 1 January 2018) and under IAS 18 (applicable before 1 January 2018)

Revenue is recognized over a period of time, when the services are provided. The stage of completion for determining the amount of the revenue, which is to be recognized, is measured on the basis of the analysis for the work performed. In practice, there is no difference in the accounting for of these revenues as result of the application of IFRS 15.

The Group has identified one performance obligation for performance in compliance with the requirements of IFRS 15 in the arrangements with its customers, which include three separate components – water supply, sewerage and wastewater treatment. The three components cannot be separated as separate obligations as per the IFRS 15 due to their characteristics.

Expenses related to maintenance of the water network are considered as part of performance obligation for meeting the requirements of the three above mentioned components.

b) Revenue from construction contracts

Nature and timing of satisfaction of performance obligations, including significant payment terms

4. Revenues (continued)

Construction contracts bring revenue related to the investments in public assets, made by Sofiyska Voda AD in accordance with the Concession agreement. In line with the requirements of the Concession agreement, public assets built by the Company are owned by the Grantor. They may include improvement of existing assets and construction of new components of the water supply and sewerage system.

Sofiyska Voda recognizes an intangible asset – concession right. In accordance with the Concession agreement, the Company doesn't receive consideration by the Grantor for the investments made but the right to invoice and charge the customers for the service at the prices approved by EWRC.

In this respect the Sofiyska Voda recognizes non-currently an intangible asset "Concession right" against crediting revenue from construction contracts upon completion of the works.

Control over the services transfers over time.

Sofiyska Voda usually engages sub-contractors for construction works and respectively the stage of completion is determined based on the expenses incurred by the sub-contractors.

Revenue recognition under IFRS 15 (applicable from 1 January 2018) and under IAS 18 (applicable before 1 January 2018)

The revenues are recognized over time, during which the construction services are delivered. The stage of completion for determining the size of the revenue, which is to be recognized is measured on the basis of analysis of the reported expenses, as described above. In practice, there is no difference in the accounting for of these revenues as result of the application of the IFRS 15.

The Group has identified one performance obligation in line with the requirements of the IFRS 15 under the Concession Agreement.

c) Provision of other non-regulated services

Essence and time parameters of satisfaction of the performance obligations, including significant payment conditions

Based on approved commercial pricelists the Company provides services such as: technical, engineering, additional sewer services, treatment of specific pollutant loads, laboratory services, small plumbing services, including the installation of individual water meters etc.

For most of them the customer takes the control over the services at a certain point of time (with the exception of the additional sewer services and the services on treatment of specific pollutants).

Revenue recognition under IFRS 15 (applicable from 1 January 2018) and under IAS 18 (applicable before 1 January 2018)

In practice, there is no difference in the accounting for of these revenues as result of the application of IFRS 15.

d) Sale of electricity from cogeneration

Nature and timing of satisfaction of performance obligations, including significant payment terms

In accordance with the prices for the relevant period, approved by the EWRC, for the relevant type of electricity production, Sofiyska Voda AD sells to the National Electricity Company (NEC) the green energy that it generates from the natural gas captured during wastewater treatment.

The control on the services is transferred over time.

The invoices to NEC are issued on a monthly basis.

Revenue recognition under IFRS 15 (applicable from 1 January 2018) and under IAS 18 (applicable before 1 January 2018)

In practice, there is no difference in the accounting for of these revenues as result of the application of IFRS 15. The control on the services is transferred over time.

5. Other income

<i>In thousands of BGN</i>	2018	2017
Penalties to contractors	199	490
Penalties for industrial discharges of water with excessive concentration of pollutants	507	983
Gain on sale of inventories to subcontractors for construction works	263	208
Income from rent	7	1
Gain on sale of Property, plant and equipment	3	36
Revenue from financing	434	365
Revenues from the sale of carbon emissions	58	-
Other	351	861
	<u>1,822</u>	<u>2,944</u>

The gain on sale of non-current assets is realized in connection with the sale of vehicles as follows

	2018	2017
Revenue from sale of vehicles	200	38
NBV of sold vehicles	(197)	(2)
	<u>3</u>	<u>36</u>

6. Construction revenue and expenses

<i>In thousands of BGN</i>		2018		2017			
Activity	Note	Revenues	Expenses	Recognized profits	Revenues	Expenses	Recognized profits
Water supply		14,391	14,391	-	15,565	15,565	-
Potable water treatment		2,592	2,592	-	2,998	2,998	-
Sewerage		13,032	13,032	-	12,173	12,173	-
Wastewater treatment		2,153	2,153	-	1,839	1,839	-
House connections and meters		6,740	6,740	-	6,694	6,694	-
Total	14	38,908	38,908	-	39,269	39,269	-

7. Expenses for materials

<i>In thousands of BGN</i>	2018	2017
Electricity, water, heating	1,330	1,200
Fuels and lubricants	1,249	1,193
Water for technological needs	1,473	1,492
Chemicals	2,874	2,513
Plumbing materials	666	728
Other	1,650	1,827
	<u>9,242</u>	<u>8,953</u>

8. Expenses for hired services

<i>In thousands of BGN</i>	2018	2017
Annual tax – water and sewerage	3,764	4,050
Repairs and maintenance of concession infrastructure	4,380	4,958
Insurance	1,331	1,219
Rent	1,143	1,152
Security	7,285	6,057
Consultancy service	3	4
Other expenses for hired services	10,710	9,700
	<u>28,616</u>	<u>27,140</u>

Other expenses for hired services include:

<i>In thousands of BGN</i>	2018	2017
Water meter reading	1,716	1,677
Transportation of sludge	782	-
Courier services	356	341
Printing services	572	440
Technical services	1,496	1,496
Consultancy	538	1,033
Asphalt covering	401	449
EWRC fee	405	402
Disinfection	28	24
Communication	400	235
Annual software licenses	823	759
Collection of receivables	68	56
Hired transportation	120	147
Water tankers	204	154
Software maintenance and internet	592	556
Training	200	154
Announcements and communications	353	132
Local taxes and fees	102	129
Cleaning of offices and water tanks	93	67
Fees	39	33
Other	1,422	1,416
	<u>10,710</u>	<u>9,700</u>

The accrued charges on remunerations for the appointed auditor amount to BGN 124 thousand including the statutory independent financial audit of BGN 64 thousand.

9. Employee benefit expenses

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Wages and salaries		22,077	20,047
Compulsory social security and pension contribution		3,551	3,154
Social expenses		78	62
Expenses for additional pension contribution		513	513
Current and past service costs in relation to employee benefits	26	221	337
Voucher expenses		1,635	1,492
Transactions with payments on the basis of shares		280	-
		<u>28,355</u>	<u>25,605</u>

The salary expenses include an accrual for unused annual paid leave amounting to BGN 840 thousand (2017: BGN 655 thousand).

The compulsory social security and pension contribution includes an accrual for social and health security on unused annual paid leave for the amount of BGN 162 thousand (2017: BGN 124 thousand).

The average number of the Group's personnel is 1,178 employees (2017: 1,134 employees).

Description of share-based payments transaction

Rights over the increase in the price of shares (equity-settled share-based payment transactions)

From September, 2018, the employees of Sofiyska Voda were granted the opportunity to be included into a plan giving rights over the increase in the price of the shares of the mother company Veolia Environnement (France).

The employees of Sofiyska Voda have been granted the opportunities to be included into two plans – *Secure Offer* and *Classic Offer*.

When participating in the *Secure Offer* employees invest a certain amount, which is doubled at the expense of Veolia Environnement. The agreed upon term of the plan is 5 years. Following the 5 years the employees get the nominal value they invested and the amount, which Veolia Environnement invested on their behalf. In addition, if the prices of the shares of Veolia Environnement (France) have increased, the employees obtain also the value of the increase in the share prices. If the share prices of Veolia Environnement have decreased, the employees receive as a minimum the invested by them and the invested on their behalf amounts granted by Veolia Environnement.

When participating in the *Classic Offer* employees invest in shares of Veolia Environnement at their expense. The period of the plan is 5 years. The employees from Sofiyska Voda, who participate in this offer, use a discount of 20% on the reference price of Veolia Environnement share. The rights over the price increase of the shares expire at the end of the fifth year after their granting. The sum to be paid is determined on the basis of the increase of the price of a share of the Sofiyska Voda between the date of granting and the date of maturity.

The mother company Veolia Environnement (France) bills to Sofiyska Voda the costs that the Group incurs in connection with the two programs, provided to employees of Sofiyska Voda.

The participation in the two program is not bound to terms of service as at the date of inclusion in the program or work experience afterwards. The employees should not be in probation period as at the date of its participation.

The two programs are classified by Sofiyska Voda as equity-settled share-based payment transactions.

As at 31 December 2018 the total invested sum by the employees under the two programs amounts to BGN 411 thousand and the sum invested by Veolia Environnement under the "Secured Offer" amounts to BGN 280 thousand, which is invoiced by Veolia Environnement to Sofiyska Voda AD.

10. Other operating expenses

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Inventory write-down / (reversal) to net realizable value	15	(92)	(156)
One-off taxes		192	182
Commission for collection of trade receivables		1,382	1,245
Provisions for fines and penalties, net		826	38
Scrapping of materials		11	86
Scrapping of non-current assets		21	18
Expenses for fines		-	4
Other		3,528	2,037
		<u>5,868</u>	<u>3,454</u>

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

<i>In thousands of BGN</i>	2018	2017
Interest income	31	25
Effect from guarantee discounts	7	3
Revenue from foreign currency transaction, net	-	22
Financial income	<u>38</u>	<u>50</u>
Interest expenses for Loan "A"	(424)	(645)
Interest expenses for Loan "B"	(849)	(3,757)
Interest expenses for Loan "C"	(1,211)	-
Interest expenses for financial lease contracts	(48)	(63)
Interest expenses for retirement compensation	(35)	(26)
Effect from guarantee discounts	(5)	(61)
Interest expenses from discounting trade payables as per Settlement Agreement between Sofiyiska Voda and the Municipality of Sofia	(15)	(548)
Other finance costs	(84)	(60)
Loss from foreign currency exchange differences, net	(71)	-
Finance costs	<u>(2,742)</u>	<u>(5,160)</u>
Finance costs (net)	<u>(2,704)</u>	<u>(5,110)</u>

12. Tax expenses

<i>In thousands of BGN</i>	<i>Бел.</i>	2018	2017
Current tax			
Income tax for the current year		(4,276)	(3,299)
Deferred tax expense			
Origination and reversal of temporary differences	20	483	(132)
Total tax expense		<u>(3,793)</u>	<u>(3,431)</u>

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

A tax audit of the Company with respect to the Corporate Income Tax covers the period up to 31 December 2012 and tax audit of Sofiyka Voda AD with respect to Value Added Tax covers the period up to 31 August 2013. The two of them have been completed.

Reconciliation of effective tax rate		2018		2017
<i>In thousands of BGN</i>				
Profit for the period		31,211		29,976
Total tax expenses		<u>3,793</u>		<u>3,431</u>
Profit before tax		<u>35,004</u>		<u>33,407</u>
Income tax, based on statutory tax rate	10%	(3,501)	10%	(3,341)
Non-deductible expenses	0.46%	(162)	0.16%	(52)
Recognition of previously unrecognized (derecognition of previously recognised) deductible temporary differences	0.37%	(130)	0.08%	(38)
Net tax expense	10.83%	<u>(3,793)</u>	10.24%	<u>(3,431)</u>

13. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 January 2017	710	29,666	14,945	1,185	-	46,506
Additions	-	-	-	-	5,603	5,603
Disposals	-	(244)	(858)	-	-	(1,102)
Transfers	-	4,543	764	296	(5,603)	-
Balance at 31 December 2017	710	33,965	14,851	1,481	-	51,007
Balance at 1 January 2018	710	33,965	14,851	1,481	-	51,007
Additions	-	-	-	-	5,986	5,986
Disposals	-	(655)	(783)	-	-	(1,438)
Transfers	-	3,098	2,416	472	(5,986)	-
Balance at 31 December 2018	710	36,408	16,484	1,953	-	55,555
Depreciation						
Depreciation as at 1 January 2017	(195)	(19,257)	(8,932)	(1,062)	-	(29,446)
Depreciation charge for the year	(22)	(2,458)	(1,357)	(33)	-	(3,871)
Depreciation on disposals	-	229	851	-	-	1,080
Balance at 31 December 2017	(217)	(21,486)	(9,438)	(1,095)	-	(32,236)
Depreciation as at 1 January 2018	(217)	(21,486)	(9,438)	(1,095)	-	(32,236)
Depreciation charge for the year	(20)	(2,782)	(1,483)	(79)	-	(4,364)
Depreciation on disposals	-	444	772	-	-	1,216
Balance at 31 December 2018	(237)	(23,824)	(10,149)	(1,174)	-	(35,384)
Carrying amount						
As at 1 January 2017	515	10,409	6,013	123	-	17,060
As at 31 December 2017	493	12,479	5,413	386	-	18,771
As at 1 January 2018	493	12,479	5,413	386	-	18,771
As at 31 December 2018	473	12,584	6,335	779	-	20,171

13. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2018, amount to BGN 5,514 thousand (2017: BGN 5,307 thousand) and are listed:

In thousands of BGN

	2018	2017
Cogenerator	1,502	374
Vehicles and mechanization	2,438	2,036
Laboratory equipment	402	702
Computer equipment	516	1,017
CCTV	62	196
Modular trench shielding	-	28
Portable gas analyzer	-	66
Professional set Arc Fla	5	-
Telescopic camera	18	-
Underground communication system	80	-
Diescl aggregate and pumps	19	13
Prefabricated building Batalova Vodenitsa	36	65
Professional laundry	48	5
Welding systems, grinders	23	-
Personal protective equipment	-	39
Devices for geodetic measurements and leak detection	36	234
Compressor with container	-	44
Oxygen self-contained breathing apparatus OXY	-	14
Telephone exchange AASTRA AXS	-	2
Other equipment	329	472
	<u>5,514</u>	<u>5,307</u>

Assets pledged as collateral

Under the secured bank Loan "B" granted by a consortium between Societe Generale Expressbank AD (Expressbank) and United Bulgarian Bank AD (UBB), Sofiyska Voda AD pledged all of its current and future non-current tangible assets over BGN 10 thousand.

Assets pledged as collateral under finance lease contracts

The assets acquired by financial leasing serve as collateral on the leasing contracts. The carrying amount as at 31 December 2018 of assets acquired under contracts for financial leasing, which are not paid, is 3,691 thousand BGN.

14. Intangible assets and contract assets

In thousands of BGN

	Developme nt costs	Software	Contract assets – Concession right	Assets under construction – Concession right	Assets under construction – other	Total
Cost						
Balance at 1 January 2017	21,041	20,085	457,060	13,202	30	511,388
Additions	-	-	-	39,269	411	39,710
Transfers	-	411	30,611	(30,611)	(411)	-
Balance at 31 December 2017	21,041	20,496	487,671	21,860	30	551,098
Balance at 1 January 2018	21,041	20,496	487,671	21,860	30	551,098
Additions	-	-	-	38,908	700	39,608
Transfers	-	700	36,875	(36,875)	(700)	-
Balance at 31 December 2018	21,041	21,196	524,546	23,893	30	590,705
Depreciations						
Balance at 1 January 2017	(21,037)	(15,303)	(186,371)	-	-	(222,711)
Depreciation for the year	-	(667)	(32,310)	-	-	(32,977)
Balance at 31 December 2017	(21,037)	(15,970)	(218,681)	-	-	(255,688)
Balance at 1 January 2018	(21,037)	(15,970)	(218,681)	-	-	(255,688)
Depreciation for the year	-	(699)	(36,678)	-	-	(37,377)
Balance at 31 December 2018	(21,037)	(16,669)	(255,359)	-	-	(293,065)
Carrying amounts						
At 1 January 2017	4	4,781	270,690	13,202	-	288,677
At 31 December 2017	4	4,526	268,990	21,860	30	295,410
At 1 January 2018	4	4,526	268,990	21,860	30	295,410
At 31 December 2018	4	4,526	269,187	23,893	30	297,640

14. Intangible assets and contract assets (continued)

Acquired assets

The most significant acquisitions of new intangible assets in 2018 are related to the increase of the value of the Concession right and amount to BGN 36,875 thousand (2017: BGN 30,611 thousand). The main components are listed below:

<i>In thousands of BGN</i>	2018	2017
Water supply network and house connections	14,202	14,478
Wastewater Treatment Plant Kubratovo	1,797	2,075
Sewerage and house connections	13,441	6,939
Hydrants and valves	2,135	2,361
Water meters	3,267	2,239
Leasehold improvements	2,003	2,413
Pumping Stations	30	106
	<u>36,875</u>	<u>30,611</u>

Contract assets – Concession right

Contract assets – concession right which relate to *Concession Right* intangible asset amount to BGN 23,893 thousand (2017: BGN 21,861 thousand). The most significant of them are listed below:

<i>In thousands of BGN</i>	2018	2017
Wastewater Treatment Plant	1,015	1,015
Construction of water mains, hydraulic model and DMA zones for reduction of UFW	852	546
Second stage of strengthening of Beli Iskar Dam wall	7,958	7,445
Chlorinating stations	-	3
Construction of sewers and sewer model	7,542	7,950
Potable Water Treatment Plants	3,542	2,426
Impounding Structures	367	386
Rehabilitation of reservoirs, pumping stations, sanitary restricted areas	2,594	2,045
Proactive replacement of stop valves, fire hydrants, WSC	23	45
	<u>23,893</u>	<u>21,861</u>

Determination of recoverable amount

In March 2018 the Third Amendment Agreement to the Concession Agreement with the Municipality of Sofia was signed. One of the main changes introduced with the signed amendment agreement is that the agreed 17% rate of return on equity should no longer be protected by the price restriction mechanism pursuant to the Concession Agreement, i.e. in case of approval by the Regulator of a lower rate of return, no price restriction will be present within the meaning of art. 22.7 of the Concession Agreement. Respectively, for the purposes of formation of the prices of WSS services provided by Sofiyska Voda AD, as of 2022 the rate of return will be applied determined by EWRC without reference to the conditions agreed in the Concession Agreement. The return on equity is an indicator that is used in determining the weighted-average cost of capital, which measure on its part is applied by the Regulator in determining the prices of the WSS services provided by Sofiyska Voda AD. The indicator weighted-average cost of capital is applied to the regulatory value of the assets constructed by Sofiyska Voda AD (public and private property) and has a considerable weight in determining the values of the prices of the WSS services provided by Sofiyska Voda AD.

14. Intangible assets and contract assets (continued)

As a result of the above-mentioned additional agreement to the Concession Agreement, the management has made an analysis for indications for impairment of fixed tangible and intangible assets as at 31 December 2018 pursuant to the requirements of IAS 36 *Impairment of Assets*. Intangible assets of the Group, the greatest part of which is "Concession right", as well as the material assets owned by the Group are considered as one 'cash-generating unit' (CGU) for the purposes of the impairment test. The recoverable amount of the CGU is determined based on fair value less cost to sell, calculated based on discounted cash flows. The measurement of fair value is categorized as such by level 3 on the basis of the input data used in the valuation technique.

The impairment test prepared by the Management includes cash flows after taxation for a period of 7 years (until the expiration of the original term of the Concession Agreement in October, 2025). The management considers that the using of the original term of the concession agreement in the model is justified, because at present a potential extension of the Concession term with the Municipality of Sofia cannot be reasoned although a legal possibility exists.

Based on the analysis made, the Management considers that the indicator "Sales prices of the services related to water supply and sewerage" is most considerably affected by the rate of return used in the calculation of the prices approved by EWRC. In turn the sale prices are impacted mostly by the return on equity, used by the EWRC when determining the prices of the services, applicable for Sofiyska Voda AD.

As at the end of 2018, based on the impairment test prepared by the Management, there are no indications that the carrying amount of the CGU is higher than the determined recoverable amount, which would lead to the necessity of charging impairment as at 31 December 2018.

The main assumptions used in determining the fair value less cost to sell are as follows:

- Discount interest rate after taxation - 6.9%.
- Return on equity, used for calculation of the weighted-average cost of the capital, which is applicable to the regulated value of the fixed assets of the Group – 17% for the period 2019 – 2021 and 9.94% for the period 2022 – 2025.
- Planned investments and operating costs in accordance with the business plan for the period 2017-2021, approved by the EWRC, and the long-term business plan of Sofiyska Voda.

The management considers that there are significant uncertainties related to the future, mostly regarding the return on equity, which the EWRC will determine after 2021. All these factors and the interaction between them could impact considerably the future results of Sofiyska Voda AD and the Group as a whole both in positive and in negative direction.

15. Inventories

<i>In thousands of BGN</i>	2018	2017
Spare parts and consumables	2,189	1,990
	<u>2,189</u>	<u>1,990</u>

As at 31 December 2018 inventory write-down to net realizable value amounts to BGN 1,215 thousand (2017: BGN 1,307 thousand). In 2018 the reversal of the material stocks impairment amounts to BGN 92 thousand and it is included into caption "Other operating expenses".

16. Trade and other receivables

<i>In thousands of BGN</i>	Note	2018	2017
Trade and other receivables		59,990	100,190
Impairment losses on trade receivables		(34,804)	(64,865)
Total trade receivables	24	25,186	35,325
Other receivables and prepayments		1,319	1,697
Impairment of prepayments		(44)	(44)
		1,275	1,653
Total trade and other receivables		26,461	36,978
<i>incl. non-current</i>		1,027	237
<i>incl. current (related and third parties)</i>		25,434	36,741

In 2018 impairment losses on trade receivables amounting to BGN 1,928 thousand have been written off (2017: BGN 19,796 thousand).

Accounts receivable pledged as collateral:

Under the secured bank Loan "C" from the consortium between Expressbank and UBB, Sofiyiska Voda AD has pledged all of its revenues from sales payable in the future on any account in local currency, trade receivables of general type, against any party, and insurance receivables related to any receivable under an account.

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

Other receivables and prepayments:

<i>In thousands of BGN</i>	2018	2017
Insurance	840	907
Licenses	65	68
Subscriptions	42	365
Advances for non-current assets	29	253
Other	343	104
Impairment	(44)	(44)
	1,275	1,653

17. Cash and cash equivalent

In thousands of BGN

	Бел.	2018	2017
Cash on hand		88	77
Local currency		72	57
Foreign currency		16	20
Cash at banks	24	35,152	25,787
Local currency		35,138	25,551
Foreign currency		14	236
Cash and cash equivalents in the statement of cash flows	24	35,240	25,864

Cash at banks pledged as collateral:

Under the secured bank Loan "C" from the consortium between Expressbank and UBB, received from the bank, Sofiyska Voda has pledged the available cash in all of its bank accounts.

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

18. Capital and reserves

In thousands of shares

	Ordinary shares	
	2018	2017
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	8,884	8,884

As at 31 December 2018 the share capital includes 8,884,435 ordinary shares (2017: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in Sofiyska Voda AD as at 31 December 2018 are:

- Veolia Voda (Sofia) BV – 6,850,000 ordinary shares (77.1%);
- Vodospabdyavane I Kanalizatsia AD - 2,034,435 ordinary shares (22.9%).

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

With a pledged endorsement dated 14 May 2018 in favor of the bank which provided secured bank loan "C", with consortium Expressbank and UBB AD, 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 residual assets in Sofiyska Voda AD.

Legal reserves

Legal reserves are formed based on the requirement of the Bulgarian Commercial Law for transfer of 1/10 of the net profit to Reserves at least until the amount of 1/10 or more of the registered capital of Sofiyska Voda is reached.

19. Loans and borrowings

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

<i>In thousands of BGN</i>	2018	2017
Non-current liabilities		
Loans at nominal value	48,592	18,139
Amortization	(286)	(107)
Loans at amortized cost	48,306	18,032
Finance lease liabilities	1,529	1,505
	49,835	19,537
Current liabilities		
Loans at nominal value	24,864	80,181
Amortization	(311)	338
Loans at amortized cost	24,553	80,519
Finance lease liabilities	1,093	783
	25,646	81,302
Total loans and borrowings	75,481	100,839

In accordance with the loan agreement "C" with consortium Expressbank and UBB AD Sofiyska Voda has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of at least 1.5:1 to the end of 2019 and 1.2:1 to the end of the loan agreement - 2022. Also the ratio between the balance value of its equity (as the sum of its registered capital, non-distribute earnings and Reserve fund) and the balance value of its assets shall be greater than 0.5 (zero point five). The ratio should show that as at the period of calculation (ending on 31 June and 31 December) the ratio of the free cash flows for the past 12-month period referred to the payables for interests and principals due during this period are at least 1.5:1 till the end of 2019 and 1.2:1 till the end of the loan agreement – 2022. In accordance with the loan agreement the calculation of the annual debt service coverage ratio is calculated by the bank by the means of a model based on the actual and estimated values as at the date of preparation. As per the internal calculations based on the actual cash flow for 2018 the actual ADSCR is 2.43:1. The second ratio (between the balance value of the equity and the balance value of the assets) is 0.83. Sofiyska Voda AD has the obligation of submitting to the consortium the audited annual financial statements for the previous year within 90 calendar days of the beginning of the current year.

Terms and debt repayment schedule

<i>In thousands of BGN</i>				31 December 2018		31 December 2017	
	Curren cy	Nominal interest rate	Year of Maturity	Face Value	Carrying Amount	Face Value	Carrying Amount
Loan „A”	EUR	1.35% plus 6 month EURIBOR*	2018	-	-	27,203	26,920
Loan „B”, subordinated and unsecured, from related party	EUR	5.20% plus 6 month EURIBOR	2018	-	-	71,117	71,631
Loan “C” from the consortium Expressbank and UBB AD	EUR	1.35% plus 3 month EURIBOR	2022	73,456	72,859	-	-
Finance lease liabilities	BGN			2,622	2,622	2,288	2,288
				76,078	75,481	100,608	100,839

19. Loans and borrowings (continued)

On March 19, 2018, Sofiyska Voda AD signed a Loan Facility Agreement with the consortium between Societe Generale Expressbank AD and United Bulgarian Bank AD for a loan facility of two tranches for a total amount of 50,270 thousand EUR for the purpose of refinancing the loans to the Group from Veolia Voda (Sofia) B.V. and EBRD. The loan facility was provided under the following conditions:

- Deadline for granting the loan facility: April 24, 2018.
- Maturity of principals under Tranche 1: 11 equal installments, the first one being due 25 April 2018, followed by 10 equal quarterly installments as of 25 June 2018, as the last one being due 25 September 2020.
- Maturity of principals under Tranche 2: 19 equal installments, the first one being due 25 April 2018, followed by 18 equal quarterly installments as of 25 June 2018, as the last one being due 25 September 2022.
- Interest payment deadlines: on each principal maturity date.
- Nominal interest rate: 3M EURIBOR plus 135 bps
- The loan facility is subject to a number of collaterals, including registered pledge over aggregate of existing and future assets owned by Sofiyska Voda AD, registered pledge over the receivables for the positive balance on all bank accounts in Bulgaria; pledge of all shares from the capital of Sofiyska Voda AD owned by Veolia Voda Sofia B.V.

Finance lease liabilities

The finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
<i>In thousands of BGN</i>	2018	2018	2018	2017	2017	2017
Less than 1 year	1,131	37	1,093	825	42	783
Between 1 and 2 years	1,346	25	1,322	1,408	31	1,377
2 to 5 years	209	1	207	129	1	128
	<u>2,686</u>	<u>63</u>	<u>2,622</u>	<u>2,362</u>	<u>74</u>	<u>2,288</u>

Reconciliation of the liabilities from financial activities

Loans and credits

<i>In thousands of BGN</i>	2018	2017
Balance at 1 January (at amortized cost)	98,551	107,155
Received	98,320	-
Repaid	(123,184)	(9,063)
Accrued interest rates	2,484	4,401
Paid interest and other expenses related to loans	(3,312)	(3,942)
Balance at 31 December (at amortized cost)	<u>72,859</u>	<u>98,551</u>

19. Loans and borrowings (continued)

Finance lease

In thousands of BGN

	2018	2017
Balance at 1 January (at amortized cost)	2,288	3,163
Received	1,351	584
Repaid	(1,017)	(1,459)
Accrued interest	48	63
Paid interest	(48)	(63)
Effects from exchange rates	-	-
Balance at 31 December (at amortized cost)	<u>2,622</u>	<u>2,288</u>

20. Deferred tax assets and liabilities

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

<i>In thousands of BGN</i>	Assets	Liabilities	Net	Assets	Liabilities	Net
	2018	2018	2018	2017	2017	2017
Property, plant and equipment	-	(979)	(979)	-	(1,041)	(1,041)
Inventories	122	-	122	131	-	131
Trade receivables	7,109	-	7,109	6,483	-	6,483
Provisions	221	-	221	353	-	353
Accrual for unused paid leave and bonuses	366	-	366	354	-	354
Payables as per defined benefit plan	165	-	165	140	-	140
Financing	15	-	15	19	-	19
Trade payables	67	-	67	67	-	67
Deferred tax assets/ (liabilities)	<u>8,065</u>	<u>(979)</u>	<u>7,086</u>	<u>7,547</u>	<u>(1,041)</u>	<u>6,506</u>

In determining the current and deferred taxes the Group has adopted as an accounting basis - the one stated in significant accounting policies (Note 3). The deferred tax for 2018 is calculated by using the tax rate applicable to the Group, which is the legally set for now income tax rate for 2019 – 10%.

Note to the consolidated financial statements

20. Deferred tax assets and liabilities (continued)

Changes in temporary differences during the year:

	<i>In thousands of BGN</i>						
	Balance as at 1 January 2017	Recognized in OCI	Recognized in profit or loss	Balance as at 31 December 2017	Recognized in profit or loss	Effect as at 1 January 2018 from changes to the accounting policy	Balance as at 31 December 2018
Property, plant and equipment	(995)	(46)	-	(1,041)	62	-	(979)
Inventories	146	(15)	-	131	(9)	-	122
Trade receivables	6,549	(66)	-	6,483	529	97	7,109
Provisions	455	(102)	-	353	(131)	-	222
Accrual for unused annual paid leave and bonuses	271	83	-	354	11	-	365
Liabilities under a defined benefit plan	119	21	-	140	25	-	165
Financing	26	(7)	-	19	(4)	-	15
Trade payables	67	-	-	67	-	-	67
Deferred tax assets/ (liabilities)	6,638	(132)	-	6,506	483	97	7,086

21. Trade and other payables

<i>In thousands of BGN</i>	<i>Note</i>	2018	2017
Trade payables		14,055	10,727
Guarantees		3,086	2,670
Payables to employees		4,866	4,886
Insurance		748	851
ISPA payable		4,239	4,190
<i>Incl. long-term part of ISPA</i>		3,400	3,135
<i>Incl. short term part of ISPA</i>		839	1,055
Total trade payables	24	<u>26,994</u>	<u>23,324</u>
Social security payables		902	736
Payable as per Settlement Agreement between the Municipality of Sofia and SV		5,302	7,425
<i>Incl. long term part of Settlement agreement between the Municipality of Sofia and Sofiyka Voda</i>		4,031	4,655
<i>Incl. short term part of Settlement agreement between the Municipality of Sofia and Sofiyka Voda</i>		1,271	2,770
Payables for water usage tax		3,771	4,044
VAT payable		817	138
Other taxes payable		385	316
Other payables and accruals		<u>1,268</u>	<u>730</u>
		<u>12,445</u>	<u>13,389</u>
Total trade and other payables		<u>39,439</u>	<u>36,713</u>
<i>Incl. Non-current</i>		7,431	7,790
<i>Incl. Current</i>		32,008	28,923

22. Provisions

<i>In thousands of BGN</i>	2018	2017
Provision for court liabilities	731	3,154
Provision for interest	<u>1,104</u>	<u>-</u>
	<u>1,835</u>	<u>3,154</u>

Provision for court liabilities

Provisions are calculated on the basis of estimation of the most likely outcome and historical evidence by the Group's lawyers.

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

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

22. Provisions (continued)

In a separate group are the provisions in relation to the imposing of administrative sanctions, mostly due to findings for possible abuse of a dominant position of Sofiyska Voda AD. The most significant amount in the prior financial period is due to provisions from this group. In accordance with order №370/19.03.2014 on the grounds of art. 74, par. 1, it.3 of the Act for Protection of Competition (APC), the Commission for Protection of Competition initiated proceedings that Sofiyska Voda used its dominant position on the market in relation to charging interest for delayed payments on estimated bills for provided services under art. 21, it.1 from APC. The sanction amounts to BGN 4,800 thousand and was calculated based on 0.5% of Sofiyska Voda 2013 revenue, applying leverage ratio 8. Sofiyska Voda AD has undertaken measures to appeal the penalty imposed in compliance with the applicable legislation. On 11 January 2016 the Supreme Administrative Court (SAC) partially respected the appeal of SV against the decision of the Commission for Protection of Competition and reduced the imposed penalty from BGN 4,800 thousand to BGN 2,400 thousand. Both SV and CPC appealed the decision before a 5-member jury of SAC.

Court case 3161/2016 was commenced and the hearing was on 7 April 2016. The case is announced for resolution (still pending).

With the final decision of the Supreme Administrative Court of 25 May 2018 Sofiyska Voda AD was imposed a penalty of BGN 1,920 thousand under the above proceedings. In that reference an analysis was made by the Management and provisions were accrued for interests paid by customers of Sofiyska Voda AD for delay of estimated debts in prior periods.

Changes in the provisions' balances over the year is presented below:

<i>In thousands of BGN</i>	Balance at 1 January 2018	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2018
Provision for court liabilities	3,154	514	(2,145)	(792)	-	731
Provision for interests	-	1,104	-	-	-	1,104
	<u>3,154</u>	<u>1,618</u>	<u>(2,145)</u>	<u>(792)</u>	<u>-</u>	<u>1,835</u>

23. Income tax liabilities

In thousands of BGN

	2018	2017
Income tax	180	605
	<u>180</u>	<u>605</u>

24. Financial instruments

Financial Risk Management

Overview

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

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

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

Risk Management Framework

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

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

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

Credit Risk

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

24. Financial instruments (continued)

Exposure to credit risk

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

<i>In thousands of BGN</i>	<i>Note</i>	Carrying amount 2018	Carrying amount 2017
Trade and other receivables	16	25,161	35,325
Contract assets	3	9,936	-
Receivables from related parties	16, 30	25	11
Cash and cash equivalents (at banks)	17	35,152	25,864
		<u>70,274</u>	<u>61,200</u>

Trade and other receivables and contract assets

The credit risk exposure of the Company results from the individual characteristics of the individual customers. The exposure also depends on the risk of non-payment common to the utility sector. The Group provides WSS services on the territory of Sofia Municipality and as at 31 December 2018 the active customers of Sofiyska Voda AD are 659,694 (2017: 647,104). Based on the analyses of the Group, the services rendered have low price elasticity. The prices are regulated by the Energy and Water Regulation Commission (EWRC). The Group does not require guarantees from its customers in relation to the services rendered, but is currently developing and implementing a policy to increase the debt collection. In addition, the Group uses external collection agencies in order to take advantage of the expertise and best practices, as well as up-to-date software support. The Group's efforts are orientated towards demanding active contact with customers, tracing results and using a customers' contacts history database and other operational statistics.

In view of the credit risk it can be said that the Group's ability to influence directly its customers' behavior is limited due to the legal framework and the complications at interruption of the consumption, as well as to the fact that the majority of uncollected trade receivables are owed by individual customers (households) and not institutional customers.

The carrying amount of trade receivables and contract assets by type of customers represents the credit exposure at the reporting date of the Group and it is as follows:

<i>In thousands of BGN</i>	Book value 31 December 2018	Impairment 2018	Carrying amount 31 December 2018	Book value 31 December 2017	Impairment 2017	Carrying amount 31 December 2017
Budget organizations	1,212	(258)	954	2,050	(339)	1,711
Legal entities	10,146	(3,803)	6,343	11,516	(4,603)	6,913
Domestic population	56,972	(30,666)	26,306	85,710	(59,923)	25,787
Other customers	1,571	(77)	1,494	913	-	913
Related parties	25	-	25	11	-	11
	<u>69,926</u>	<u>(34,804)</u>	<u>35,122</u>	<u>100,200</u>	<u>(64,865)</u>	<u>35,335</u>

24. Financial instruments (continued)

Expected measurement of credit losses for the individual customers as at 1 January and 31 December 2018

The Group uses a provision matrix for measuring ECL on trade receivables.

For the purposes of the analysis the Company has grouped the customers into three categories:

- individual customers
- legal entities
- budgetary customers

For the three categories of customers the Group has performed an analysis of debt collection based on historical data.

In determining the impairment as at 01 January 2018 and 31 December 2018 on the basis of the analyzed above historical data about the collection rate for each of the categories, the Group (not overdue) to the category "Overdue by more than 300 days". Based on the thus obtained information Sofiyska Voda AD applied discount of the amounts for each of the categories (except for the category "Overdue by over 300 days") as at the reporting date, applying a discount rate on the basis of the interest rates for consumer credits for households in Bulgaria in the size of 8%.

For the category "Overdue by more than 300 days" the size of the impairment has been determined based on the historical data for debt collection, without applying a discount.

As for overdue receivables the Group charges interest in the size of the base rate +10%, in determining the of the impairment for each of the categories the management has analyzed actually collected interest for overdue payments and has respectively adjusted the impairment for each of the categories.

The management considers that the unemployment rate for the individual customers is the indicator, which gives information about the trends in debt collection; nevertheless, the management considers that the unemployment rate has an impact on debt collection in changes of that indicator by over 3%.

The unemployment rate in 2018 and the expected rates for that indicator for 2019 are not envisaged to change by more than 3%.

Other factors, which the management considers to have an impact on the debt collection rates, are inflation and demographic changes.

Regarding the legal entities and the budgetary customers the management considers that the debt collection rates are materially constant and are not influenced by the changes in external factors, except in considerable negative changes in the entire economic situation. Such changes are not expected in 2019.

24. Financial instruments (continued)

The aging of trade receivables and short-term assets under contracts with customers of the Group and receivables from related parties as the reporting date was:

<i>In thousands of BGN</i>	2018	2018	
	Carrying amount	Impairment	Credit impairment
<i>Not past due</i>	18,940	(1,323)	No
<i>Past due 30 days</i>	3,267	(873)	No
<i>Past due 31-60 days</i>	2,379	(918)	No
<i>Past due 61-90 days</i>	2,324	(1,106)	No
<i>Past due 91-180 days</i>	6,010	(3,161)	No
<i>Past due 180-300 days</i>	6,843	(4,241)	No
<i>Past due more than 300 days</i>	30,163	(23,182)	Yes
	<u>69,926</u>	<u>(34,804)</u>	

<i>In thousands of BGN</i>	2017	2017	
	Book Value	Impairment	
<i>Not past due</i>	22,326	(88)	
<i>Past due 30 days</i>	3,631	(246)	
<i>Past due 31-120 days</i>	6,568	(987)	
<i>Past due 121-210 days</i>	5,125	(1,976)	
<i>Past due 211-270 days</i>	2,891	(2,396)	
<i>Past due 271-360 days</i>	3,711	(3,648)	
<i>Past due more than 1 year</i>	55,937	(55,524)	
	<u>100,189</u>	<u>(64,865)</u>	

The movement of the impairment of the trade receivables and assets under contracts throughout the year is as follows. The comparative sums for 2017 are the impairment under the IAS 39.

<i>In thousands of BGN</i>	Note	2018	2017
Balance at the beginning of the period		(64,865)	(76,324)
Effect from applying IFRS 9 as at 1 January 2018	3 (ii)	(975)	-
Balance at the beginning of the period		(65,840)	(76,324)
Charged costs for impairment	24	(8,516)	(8,337)
Written-off		1,966	19,796
Written-off for purpose of IFRS 9		37,586	-
Balance at the end of the period		<u>(34,804)</u>	<u>(64,865)</u>

Impairments are treated as collective impairments. The amount of the individual impairments is not substantial.
** The gross carrying amount of the trade receivables is written off when the Group has no reasonable expectations for their recovery. Nevertheless, the Group continues its measures and actions for legal enforcement in compliance with the internal rules of the Group for recovery of the sums due while observing the applicable legal provisions.

24. Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will face difficulties to meet its obligations relating to financial liabilities, meant to be met by cash or other financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group management's efforts are focused on upholding in accordance with the regulatory framework in Bulgaria the necessary revenue using the tariff, which will make it possible to reach the goals, levels of services and investments set in the current Business Plan of the Group, in the same time taking into account the cost of capital, the level of expenditure, the consumption, the annual inflation and the achieved efficiency of operating and capital costs and also meeting the requirements of the main creditor (EBRD) regarding the service coverage ratio of the loan. In relation to that, Sofiyska Voda AD submits and justifies annual tariff applications as per the terms and procedures in the regulatory legislation.

The agreed maturity for the financial liabilities are given below, including the expected payments of interests as the impact of the agreed offsetting reciprocal commitments is excluded:

31 December 2018
In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Loan „C”	72,859	(75,230)	(25,741)	(22,930)	(26,559)	-
Liabilities to related parties	3,818	(3,818)	(3,818)	-	-	-
Finance lease liabilities	2,622	(2,686)	(1,131)	(1,346)	(209)	-
Trade payables	26,994	(26,994)	(26,994)	-	-	-
	106,293	(108,728)	(57,684)	(24,276)	(26,768)	-

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

As disclosed in Note 19, Sofiyska Voda AD has secured bank loan “B with a requirement to comply with certain conditions, as upon breach of any obligation, e.g. failing to maintain debt service coverage ratio (see note 19) under 1.5:1 till the end of 2019 and 1.2:1 till the loan maturity in 2022 – Sofiyska Voda AD may fall into default and the outstanding amount of the loan may become due to the creditor. The interest payments on loans with floating interest rate in the preceding table reflect the market interest rates as at the end of the period based on EURIBOR and these amounts may vary upon change in the market rate.

Except for these financial liabilities, it is not expected that cash flows included in the table may occur much earlier or be significantly different amounts.

24. Financial instruments (continued)

Liquidity risk (continued)

31 December 2017 r.

In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Loan „A”	26,920	(27,781)	(9,355)	(9,256)	(9,170)	-
Loan „B”	71,631	(71,942)	(71,942)	-	-	-
Liabilities to related parties	3,351	(3,351)	(3,351)	-	-	-
Finance lease liabilities	2,288	(2,362)	(825)	(1,408)	(129)	-
Trade and other payables	23,324	(23,324)	(23,324)	-	-	-
	<u>127,514</u>	<u>(128,760)</u>	<u>(108,797)</u>	<u>(10,664)</u>	<u>(9,299)</u>	<u>-</u>

Market risk

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

Currency risk

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

• **Exposure to currency risk**

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

In thousands of	31 December 2018			31 December 2017		
	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(1,263)	(1)	(326)	(1,292)	(1)	(326)
Interest-bearing loans and borrowings	(37,252)	-	-	(50,388)	-	-
Gross Balance Exposure	<u>(38,515)</u>	<u>(1)</u>	<u>(326)</u>	<u>(51,680)</u>	<u>(1)</u>	<u>(326)</u>

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2018	2017	2018	2017
USD 1	1.7348	1.7348	1.6308	1.6308
GBP 1	2.2318	2.2318	2.2044	2.2044

24. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

• Sensitivity Analysis

A 10% increase of the exchange rate at 31 December in relation to the currencies shown below would increase (decrease) the capital and profit or losses with amounts written below. The analysis makes the assumptions that all other variables, especially the interest rates are fixed. The analysis for 2017 is done on the same basis.

<i>In thousands of BGN</i>	Statement of comprehensive income	Statement of comprehensive income
	31 December 2018	31 December 2017
USD	(32)	(53)

A 10 % decrease of BGN against the above stated currencies as at 31 December would have the same, as amounts, but opposite effect, making the same assumption that all other variables are fixed.

Interest rate risk

• Profile

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

<i>In thousands of BGN</i>	2018	2017
Fixed rate instruments		
Financial assets	35,152	25,787
Financial liabilities	-	-
	<u>35,152</u>	<u>25,787</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(75,481)	(100,839)
	<u>(75,481)</u>	<u>(100,839)</u>

24. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

- *Analysis of the sensitivity versus the fair value of instruments with fixed interest rate*

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

A change of the interest rates by 25 basis points as at the date of financial statements would increase / (decrease) the equity and profit or loss with the amounts shown below. An assumption is made during the analysis that all other variables, especially the currency exchange rates are relatively constant. The analysis for 2017 is made on the same basis.

<i>Effects In thousands of BGN</i>	Profit or loss		Equity	
	25 basis points increase	25 basis points decrease	25 basis points increase	25 basis points decrease
31 December 2018				
Financial assets with floating interest rate	(190)	190	-	-
Financial liabilities with floating interest rate	-	-	-	-
Cash flow sensitivity (net)	(190)	190	-	-
31 December 2017				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(252)	252	-	-
Cash flow sensitivity (net)	(252)	252	-	-

Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain customers', creditors' and market's confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year. As at the date of the report the Group met all the equity requirements enforced by external authorities.

In accordance with the Bulgarian Commercial Act, Sofiyska Voda as a joint stock company should maintain net assets exceeding the registered capital. As at the reporting date this capital adequacy rule is met.

24. Financial instruments (continued)

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information if the carrying amount is a reasonable approximation of fair value

31 December 2018

	Fair value									
	Mandat ory at FVTPL	Fair value- hedging instrument	FVOCI – capital instruments	Financial assets at amortized cost	FVOCI – debt instrume nts	Other financial liabilities	Total			
<i>In thousands of BGN</i>	Note						Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value										
Trade and other receivables	16	-	-	25,161	-	-	-	-	-	25,161
Receivables from related party	30	-	-	25	-	-	-	-	-	25
Cash and cash equivalents	17	-	-	35,152	-	-	-	-	-	35,152
		-	-	60,338	-	-	-	-	-	60,338
Financial liabilities, not measured at fair value										
Loan „C”	19	-	-	-	-	(72,859)	-	-	-	(72,859)
Trade and other payables	21	-	-	-	-	(26,994)	-	-	-	(26,994)
Payables to related parties	30	-	-	-	-	(3,818)	-	-	-	(3,818)
Payables on financial lease	19	-	-	-	-	(2,622)	-	-	-	(2,622)
		-	-	-	-	(106,293)	-	-	-	(106,293)
		-	-	-	-	-	-	(72,859)	-	(72,859)

24. Financial instruments (continued)

a) Accounting classifications and fair values (continued)

31 December 2017

In thousands of BGN	Note	Held for sale	Defined at fair value	Fair value –			Carrying amount			Fair value			
				instruments	hedging	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	16	-	-	-	-	-	35,325	-	-	-	-	35,325	
Receivables from related party	30	-	-	-	-	-	11	-	-	-	-	11	
Cash and cash equivalents	17	-	-	-	-	-	25,787	-	-	-	-	25,787	
		-	-	-	-	-	61,123	-	-	-	-	61,123	
Financial liabilities, not measured at fair value													
Loans from related parties – Loan “B”	19	-	-	-	-	-	-	-	-	(71,631)	-	(71,631)	
Loan “A”	19	-	-	-	-	-	-	-	-	(26,920)	-	(26,920)	
Trade and other payables	21	-	-	-	-	-	-	-	-	(23,324)	-	(23,324)	
Payables to related parties	30	-	-	-	-	-	-	-	-	(3,351)	-	(3,351)	
Payables on financial lease	19	-	-	-	-	-	-	-	-	(2,288)	-	(2,288)	
		-	-	-	-	-	-	-	-	(127,514)	-	(127,514)	
												(27,098)	(27,098)

24. Financial instruments (continued)

Measurement of fair value

(i) *Valuation technique and significant unobservable inputs*

Below are the valuation techniques used in the measuring the fair value of Level 2 and Level 3, as well as the significant unobservable inputs used.

Financial instruments not measured at fair value

2018

Loan C is granted to Sofiyska Voda AD in March 2018 at market interest rates. The management considers that no factors have occurred, which would significantly change the market interest rates as at 31 December 2018 and that is why it considers that the carrying amount of the loan is reasonable approximation of its fair value.

2017

Other financial liabilities* are measured on the basis of discounted cash flows. As significant unobservable inputs is used a discount rate is used, adjusted by the management of the Group, by taking into consideration the specifics of the Group and the sector, where it operates. The size of the reduction is 3% below the average annual percentages for commercial loans of similar size and maturity, granted in Bulgaria, in accordance with the interest statistics of the Central bank for 2017.

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

25. Operating leases

Leases as lessee

Rental payments under operating leases are payable as follows:

<i>In thousands of BGN</i>	2018	2017
Less than 1 year	1,273	1,042
Between 1 and 5 years	548	1,353
More than 5 years	-	-
	<u>1,821</u>	<u>2,395</u>
<i>Leases as lessor</i>		
<i>In thousands of BGN</i>	2018	2017
Less than 1 year	7	3
Between 1 and 5 years	3	-
	<u>10</u>	<u>3</u>

26. Employee benefits

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

<i>In thousands of BGN</i>	2018	2017
Present value of the liability on 1 January	1,754	1,511
Interest expense	35	28
Costs for current length of service	420	337
Actuarial loss (profit)	(11)	46
Paid compensations to retired employees	(199)	(168)
Present value of the liability on 31 December	<u>1,999</u>	<u>1,754</u>

Liability recognized in the statement of financial position as at 31 December, including:	1,999	1,754
<i>Short-term liabilities for retirement compensation</i>	599	404
<i>Long-term liabilities for retirement compensation</i>	1,400	1,350

Expenses recognized in the statement of comprehensive income

<i>In thousands of BGN</i>	2018	2017
Current service cost	420	337
Past service cost	-	-
Interest expense	35	28

Actuarial assumptions

	2018	2017
Discount rate at 31 December	1.85%	1.75%
Salary increase (annual for 10 years)	2.50%	2.50%
Employee turnover	6%	6%

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 $i = 1.85\%$ is used. The selected discount rate is based on analysis of the offered long-term investment instruments on the Bulgarian financial market (government securities, municipality bonds, etc.).

26. Employee benefits (continued)

Actuarial assumptions

<i>In thousands of BGN</i>	25 basis points increase of salaries growth	25 basis points decrease of salaries growth
Effect on the liability for retirement compensation	26	(26)
<i>In thousands of BGN</i>	25 basis points increase of interest growth	25 basis points decrease of interest growth
Effect on the liability for retirement compensation	(26)	26
<i>In thousands of BGN</i>	10 basis points increase of employee turnover	10 basis points decrease of employee turnover
Effect on the liability for retirement compensation	(106)	106
<i>In thousands of BGN</i>	25 basis points increase of mortality rate	25 basis points decrease of mortality rate
Effect on the liability for retirement compensation	(16)	16

27. Contingencies

(a) Bank guarantees

As at the date of the preparation of this report the Company maintains the following bank guarantees:

- Performance security for the obligations of Sofiyska Voda AD under the Concession Agreement with number PEBPRT593268, issued by HSBC France, to the amount of 750,000 USD, and validity till December 15th, 2019;
- Performance security for the obligations of Sofiyska Voda AD under the Contract No.ПД-568-68/10.08.2011 with the Municipality of Sofia for the repair of defects and damages that occurred in municipal areas where Sofiyska Voda AD performs construction works, with No 799 L/11.12.2017, issued by Societe Generale Expressbank, to the amount of 400,000 BGN, and validity till December 31st, 2019 as per Annex No.1 dated 21.11.2018;
- Performance security for the obligations of Sofiyska Voda JSC under the Contract for access to the electricity grid with the Electricity System Operator EAD (ESO), No. 800 L/11.12.2017, issued by Societe Generale Expressbank, to the amount of 10,397 BGN, and validity till January 31st, 2019.

(b) Infrastructure

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

Article 2 of the Annex states a procedure and a formula for the calculation of the annual amount of the consideration that will provide equivalence and reimbursement of the value of the WSS facilities in such a pattern that the granted State capitals will not be considered State aid. As per Art.2.1. of the Annex "the amount of the consideration is different in the different years and depends on the annual incomes and expenditure of the Concessionaire, realized through or in relation to commissioning of the new assets. As per the protocol of the Municipality of Sofia (MoS) and Sofiyska Voda AD dated 12 June 2018, the calculated amount for 2017 of BGN 85.4 thousand is confirmed. For 2018 the calculation as per the calculation model is stated below:

<i>In thousands of BGN</i>	Total in 2018	Total in 2017 as per MoS protocol dated 12.06.2018
Water Supply	79.9	60.6
Sewerage	19.7	13.1
Wastewater Treatment	16.0	11.8
Total:	115.6	85.5

Based on those calculations, the revenue for 2018 stated in Note 4 has been reduced by BGN 115 thousand respectively, and by the total amounts stated above a liability to Municipality of Sofia has been presented.

28. Commitments for acquisition of property, plant and equipment

Concession agreement

23 On 23 December 1999 Sofiyska Voda AD signed a Concession Contract with the Municipality of Sofia, which is effective as of 6 October 2000, after all the preliminary conditions have been satisfied.

As per the Concession Contract the Municipality of Sofia grants and Sofiyska Voda AD receives:

- a specific right to use public assets;
- an exclusive right to render water supply, sewerage and wastewater treatment services within the concession area.

Sofiyska Voda AD has the right to invoice the customers and to collect the amounts for its benefit and at its expense. The risk of non-collected receivables is completely at its risk.

The term of the concession contract is 25 years. The contract does not define any concession fees to be paid.

As per Annex 5 to the Initial Concession Agreement during the first 15 years Sofiyska Voda AD is obliged to reach the amount of USD 153 million of investments. After that period no further investments are specified in the Agreement.

After the Water Supply and Sewerage Services Regulation Act became effective in 2006, Sofiyska Voda's operations are directly regulated by the Energy and Water Regulatory Commission (EWRC, the Commission).

Key powers of the Commission in regulating the activities in the water supply and sewerage (WSS) services sector are as follows):

- Regulates the quality of WSS services;
- Carries out price regulation of the WSS services;
- Handles complaints of customers against WSS operators;
- Approves the general terms and conditions of contracts for the provision of WSS services to customers;
- Exercises control and imposes sanctions;
- Keeps a register of WSS services assignment contracts;
- Approves business plans proposed by the WSS operators;
- Carries out preliminary control, delivers an opinion on the compliance of concession and other types of WSS system managing contracts with WSSRA and by-laws in the process of their preparing and the regulations for its implementation.

More precisely, what is under regulation are the prices of the services and their quality, assessed by the so-called "key- performance indicators" (KPI). In order to reach the level of services, 5-year business plans are prepared (after the 3-year business plan for the period 2006-2008), and they bind the price of the services, the investment program and the KPIs as per Ordinances and Instructions issued by EWRC.

In that relation, in January 2009 the renegotiations for amendments in the Concession Agreement aiming to harmonize it with the requirements of the new regulations, were finalized. According to the amendments to the Concession Agreement, the levels of investments were to be set in the business plans, which had to be preliminarily coordinated with the Municipality of Sofia

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

Concession agreement (continued)

Business plan 2006-2008 was approved in 2007. At the end of October 2008 Business plan 2009-2013 was approved, which envisaged achieving of the compulsory levels of services and an investment program of BGN 240 million for the 5-year period. Failure to achieve at least 75% of the total of investments set in the Business plan for two consecutive years with approved prices of services or double failure to meet the levels of services, acknowledged by a penalty decree issued by EWRC and accompanied by a proposal to Municipality of Sofia (MoS) would be legal grounds for the initiation of a concession termination procedure by MoS.

Although the fact that the regulatory period 2009-2013 has been extended twice in the following years as per decision of the Commission, initially until 2015 and subsequently until 2016 (see note *Commitments for capital investments*, below), for the original regulatory period 2009-2013, the company performed BGN 241.6 million of investments, which fulfills the company's obligation to perform investments for BGN 240 million for the regulatory period 2009 - 2013.

On 29 March 2017 the company received approval of Business Plan 2017-2021 and for new price increase of the WSS services valid as of 1 April 2017. On 18 January 2016 the Council of Ministers approved the ordinances on the regulation of the prices and the quality of the WSS services as result of which the business plans of the company and the changes in the prices are approved at the same time starting from 2017. Due to this circumstance it might be expected that the company will rely on a contracted tariff schedule for the current 5-year regulatory period until 2021. As of 1 January 2018 the company was given the second increase of the prices of the WSS services for the new regulatory period in compliance with the approved price elements of business plan 2017-2021.

According to the concession agreement, a special Concession Monitoring Unit (the "CMU") was established by the Grantor (MoS) for the purposes of monitoring and ensuring compliance by the Concessionaire with the provisions of this Concession Agreement. The Company cooperates with the CMU to facilitate the monitoring of the performance and the delivery of services, and prepares and submits to CMU various reports and accounts etc.

Between 54 and 48 months prior to the expected date of expire of the concession Sofiyiska Voda and the Municipality of Sofia should make a joint audit of the public assets. Not later than 24 months prior to the date in question, the parties agree for the way of hand over of the assets and the activity.

As of the 15th Contractual year until the end of the period of the concession contract, Sofiyiska Voda AD is due to transfer 1% of its annual distributable profit to a special "handback account". The financial result for the year ending on 31 December 2015 was the first annual profit from which the Company was distribute 1% to the special account in 2016. The money from the Handback Account may be used before the Expiry Date during the last Regulatory Period to pay for construction works only. Such works shall be identified in the Handback Schedule established in accordance with the concession contract, but may not be part of the last Business plan. The Handback Account shall be transferred to "Vodosnabdiyavane I Kanalizacia" EAD on the Expiry Date by the Concessionaire on receipt of a handback certificate issued by the Grantor to the Concessionaire. The accumulated in the special account amount covers completely Sofiyiska Voda AD's liabilities with regards to Handback obligations.

Regarding the special right to use public assets and to render services of water supply, sewerage and wastewater treatment to the customers within the concession territory (service commitment), an intangible asset named "concession right" has been recognized. The carrying amount of the concession right as at 31 December 2018 is BGN 269,187 thousand (2017: BGN 268,990 thousand).

For 2018 the investments amounted to BGN 45,594 thousand (2017: 45,313 thousand), of which BGN 38,908 thousand (2017: 39,269 thousand) and represent investments in improvements and new public assets, which led to recognizing revenue from construction (see Note 6).

For the period since the beginning of the Concession until the end of 2018 the amount of investments made is BGN 617,480 thousand.

28. Commitments for acquisition of property, plant and equipment (continued)
Concession agreement (continued)

The Third Amendment Agreement to the Concession Agreement was signed in March 2018 with Municipality of Sofia. The main proposed substantial amendments are as follows:

- Introducing a commitment for the Concessionaire for a minimum Investment Programme to be made until the end of the concession: BGN 200 million for the current regulatory period (2017-2021) as far as the Business plan and the prices for the regulatory period 2017-2021 remain valid, and BGN 165 million until the end of the concession in 2025 as far as the Business plan and the prices for the regulatory period 2022-2026, which are to be approved by the Regulator, allow it;
- Setting additional investment commitment for the Concessionaire (on top of the Investment Programme) to provide an amount of BGN 1.5 million per annum for funding of specific WSS projects of public interest, specified by MoS.
- The contractual rate of return of 17 % shall no longer be protected by the Price Restriction mechanism, i.e. in case the Regulator approves a lower rate of return, there will not be an Event of Price Restriction as per Clause 22.7. Respectively, for the purposes of formation of Concessionaire's Prices for the WSS services provided, the rate of return determined by the Regulator shall be applied starting as of 2022;
- It is proposed all databases, including the customer database, as well as the assets registry and the geographic information system provided to the Concessionaire by the Grantor at the beginning of the concession to remain ownership of the Grantor. Also, all licenses for the use of intellectual property rights, product or equipment warranties or other rights or contracts in the name of the Concessionaire, shall be assigned or otherwise transferred to the Grantor at the end of the concession. Respectively, they shall be duly returned to MoS after expiry of the Concession Agreement.

Business Plan 2017 – 2021

The Supreme Administrative Prosecutor's Office has filed a lawsuit for repeal of decision N- БП-ІІ-1/29.03.2017 of EWRC for the approval of the Business Plan of the Company for the period 2017-2021. The Company was constituted as an interested party. With decision No 1895/20.03.2019 the Administrative Court of Sofia rules against the lawsuit filed by the Supreme Administrative Prosecutor's Office for repeal of decision N- БП-ІІ-1/29.03.2017 of the Energy and Water Regulatory Commission (EWRC). On the basis of the evidence and expertise gathered and considering the arguments put forward by the parties in the proceedings, the Management considers, based on professional opinion of legal advisers involved, that the outcome of the dispute are positive in confirming the legality of decision N- БП-ІІ-1/29.03.2017.

Commitments for investments

In compliance with the legislative changes in 2016 in the regulation of the WSS services and in particular the adopted ordinances and instructions on the prices and quality of the WSS services – in 2016 Sofiyska Voda filed a new 5-year Business plan for the period 2017-2021, which was finally approved with the Decision of the EWRC No. БП-ІІ-1/ 29.03.2017. The total investments provided for in the new regulatory period amount to BGN 209 thousand with corresponding annual changes in the service tariffs in line with the Ordinance on the prices. The first price increase was approved by EWRC in the decision on the approval of the Business Plan 2017-2021, and the second increase became effective on 1 January 2018 in line with the decision of the EWRC No. ІІ-34/ 15.12.2017.

With the Decision No. ІІ-20/ 28.12.2018 EWRC approved as from 01.01.2019 new prices of the WSS services provided by Sofiyska Voda.

29. Deferred income

On 16 January 2009, the Company signed a Settlement agreement with the Municipality of Sofia (MoS). With this agreement, both sides agreed fully and finally on all existing mutual claims against each other with relation to the Concession agreement. Both sides mutually relieve each other from pretended payment of interest on amounts claimed, as Sofiyska Voda accepted the obligation for investments in the period 2009-2023 in addition to already existing approved by the Regulator investment obligations in the Business plan as follows: BGN 2,5 million for the period 2009-2013, according to Art.5.1.(iii) from the Settlement agreement, BGN 5 million in the period 2014-2018 according to Art 6.1.(i) from the Settlement agreement and BGN 4,7 million in the period 2019-2023 according to Art. 6.1.(ii) from the Settlement agreement.

The obligation of BGN 2,5 million over the period 2009-2013 was fulfilled at the end of February 2014. The obligations for the next two periods are to be fulfilled in the period 2016-2023. In 2017 investments were made to the amount of BGN 1,06 million. In the period 2018-2021 the obligation amounts to BGN 5.47 M. The final BGN 2 million will be invested over the period 2022-2023.

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

30. Related parties

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

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

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

Construction revenue and expenses with MoS (disclosed in Note 6);

Green energy income with National Electricity Company EAD – state-owned (disclosed in Note 5);

Under a contract signed with NEC EAD, the latter has invoiced to Sofiyska Voda BGN 1,215 thousand (without VAT) for water that the Group has purchased and has run through NEK’s plants in order for the water to reach the suburban area of Sofia. The expense is recognized in Expenses for materials – Electricity, water, heating. On the other hand, Sofiyska Voda has invoiced to NEC BGN 1,215 thousand (without VAT) due to the fact that NEC has generated electricity from the water running through their plants. The revenue has been recognized in Revenue from water supply.

30. Related parties (continued)

The following transactions with related parties took place in 2018 :

Related parties <i>In thousands of BGN</i>	Relation	Transaction during the year	Balance as at 31 December 2018	
			Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the capital of Sofiyska Voda AD	Accrued interest 849	-	-
Veolia Voda CEE	Controls 100% of the capital of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK	Company under common control	-	-	1,521
Veolia Campus	Company under common control	Trainings 18	-	18
Veolia Czech Republic	Company under common control	Participation in event 11	-	11
Veolia Environnement SA, France	Company under common control	Discount 2	2	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 14 Costs for lab tests and analyses 2 Reinvoicing costs 5 Sale of materials 1 Paid guarantee 2	1 - 5 1 2	5 1 - - -
Veolia Energy Solutions Bulgaria EAD	Company under common control	Consultancy income 7 Reinvoicing costs 1 Physico-chemical analysis 1 Maintenance of air-conditioners 1 Costs for heating Thermal split systems 19	9 - - - - -	- - - 1 - 23

30. Related parties (continued)

The following transactions with related parties took place in 2018 :

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as ar 31 December 2018	
			Receivables	Payables
Veolia Energy Varna EAD	Company under common control	H&S Training 3 Guarantees under contracts 3 Service of burners 5 Income from study, survey and localization of hidden leaks 2	- - - -	- - - -
Veolia Energy Bulgaria EAD	Company under common control	Reinvoicing costs- Purchase of air-conditioners 4	1 -	- -
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Repair works on the WSS network in Sofia 234 Guarantees under contracts - Sale of materials 20	- 2 -	- 13 -
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Repair works on the WSS network in Sofia 2,963 Sale of materials 2	- 2	696 -
Partnership "Kubratovo 2018" DZZD	SAD S.A. - KLON BALGARIA KCHT owns 95% of the capital of the company	Repair works on the WSS network in Sofia 170	-	33
Total:			25	3,818

30. Related parties (continued)

The following transactions with related persons took place in 2017:

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2017	
			Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the control of Sofiyska Voda AD	Loan provided - Accrued interest 3,757 Other -	-	71,631 Liability for loan received at amortized cost 44 Other trade payables
Veolia Voda CEE	Controls 100% of the capital of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK	Company under common control	-	-	1,495
Veolia Campus	Company under common control	Trainings 4	-	4
Compagnie Générale des Eaux	Company under common control	Mediation for issuing a bank guarantee 9	-	9
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the capital of Sofiyska Voda AD	Rental cost 5 Costs for local taxes and fees 1	-	1 1
		Rental income 5	1	-
Veolia Energy Solutions Bulgaria EAD	Company under common control	Leak repair - Reinvoicing costs 4 Physical and chemical analysis - Purchase of air-conditioners 10 Preparation of expert opinion 12 Maintenance of air-conditioners 10 Maintenance of gas installations and boilers 2 Reinvoicing airplane tickets 1	2 - - - - 1 - -	- - 2 - - - -
			-	-

30. Related parties (continued)

The following transactions with related persons took place in 2017:

Related parties <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2017	
			Receivables	Payables
Veolia Energy Varna EAD	Company under common control	H&S training 5 Guarantees under contracts -	-	1
			-	3
Veolia Energy Bulgaria EAD	Company under common control	Income from re invoicing 123	4	-
SAD S.A. - KLON BALGARIYA KCHT	Company under common control	Repair work on WSS network in Sofia city 234 Guarantees under contracts 1 Re invoicing airplane tickets and sale of materials 1	1 2 -	24 13 -
DZZ Zona 2015	SAD S.A.-KLON BALGARIYA KCHT Owns 50% of the capital of the company	Repair works on WSS network in Sofia city 1,884 Sale of materials 2	- - -	258 - -
Total:			11	74,982

Transactions with directors and officers on key management positions

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

The remunerations for the key managers consist of:

<i>In thousands of BGN</i>	2018	2017
Short-term employee benefits	516	214
Share-based payment	206	-
	722	214

In thousands of BGN

Of which on balance sheet short-term income as at 31 December

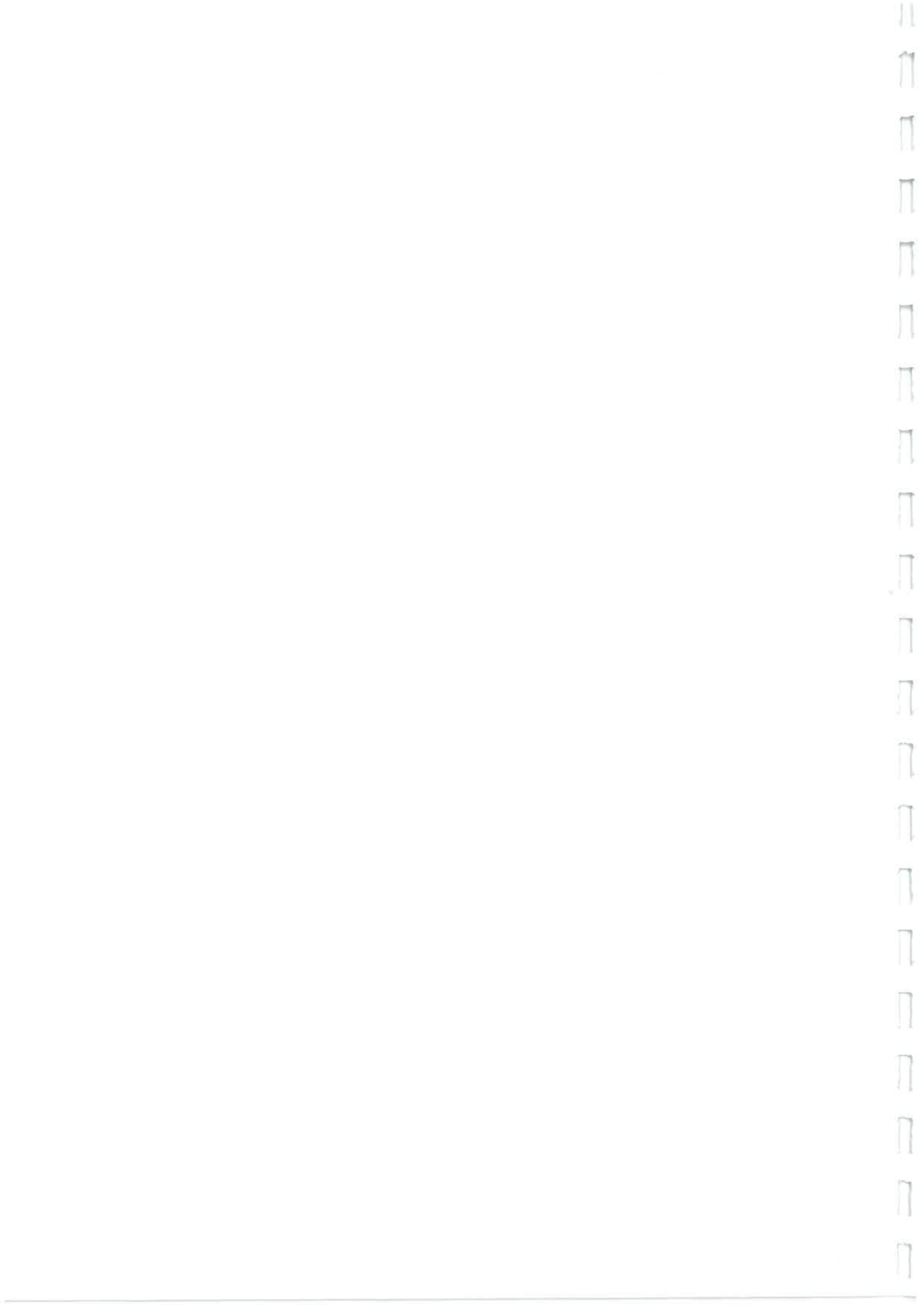
25	8
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30. Related parties (continued)

In 2018 the Group has incurred expenses amounting to BGN 1,496 thousand for technical services (2017: BGN 1,496 thousand), which include also the remunerations for key management personnel. The services are rendered by the legal entity Veolia Voda CEE and the expenses are disclosed as part of the transactions with this related party in the information above.

31. Subsequent events

No subsequent events, that require adjustments or disclosures in the consolidated financial statements, have occurred during the period from the reporting date to the date the consolidated financial statements were authorised for issuance by the Board of Directors.





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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Sofiyska Voda AD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sofiyska Voda AD (the Company) and its subsidiary (together the Group) as set out on pages 1 to 79, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue from water supply, sewerage and waste water treatment services and adoption of IFRS 15 Revenue from contracts with customers

Revenue from water supply, sewerage and waste water treatment services in profit or loss for the year ended 31 December 2018: BGN 153,610 thousand (2017: BGN 140,081 thousand)

See Note 3 (k) *Significant accounting policies – Revenue* and Note 4 *Revenue* and Note 3.1 *Changes in significant accounting policies* to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>The Group's core revenue streams relate to water supply, sewerage and waste water treatment services. The Group recognized BGN 153,610 thousand as revenue from these sources for the year ended 31 December 2018.</p> <p>Recognition and measurement of revenue is an inherent industry risk due to the high volume of transactions and the resulting necessity to maintain a complex operating system for processing customer data and billings. The system processes large volume of customer data coupled with a combination of different tariffs applicable to different consumer groups. There is a multilevel step process that is followed in the measurement, processing, billing and accounting for revenue transactions with some manual input of data.</p> <p>Further, establishing proper accruals for unbilled services is a matter of management's significant judgment, in particular as it relates to estimating quantities consumed but not billed as at the year end.</p> <p>As described in note 3.1 to the consolidated financial statements, the Group has adopted IFRS 15 <i>Revenue from contracts with customers</i> (IFRS 15) from 1 January 2018. IFRS 15</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Updating our understanding of the revenue recognition process in accordance with the applicable financial framework by means of inquiries of the Chief Financial Officer and the Financial Controller, as well as performing a walkthrough of the process, and evaluating the design and implementation of controls over revenue recognition and measurement, such as those over new customers accounts, changes to customer files, authorization of tariff changes and reconciliation of tariffs in the billing system to those set by the Energy and Water Regulatory Commission; — Assisted by our own IT specialists, evaluating relevant IT systems and testing the design, implementation and operating effectiveness of controls over capturing and recording of revenue transactions, authorisation and input of information changes to the systems and calculation of the amounts billed to customers; — Performing a reconciliation of the accounting revenue for the year to

Key Audit Matter	How the matter was addressed in our audit
<p>establishes a comprehensive framework for determining whether, how much and when revenues are recognized and at the same time the standard introduces new estimates and judgmental thresholds that may affect the timing and amount of revenue recognized.</p> <p>The Group elected the cumulative effect method of initially applying IFRS 15, with no restatement of the comparative periods.</p> <p>Based on the analysis performed by the management no effects against retained earnings were recognized as at 1 January 2018. The main effects from the application of IFRS 15 relate to presentation of contract assets and contract liabilities.</p> <p>For the above reasons, related to recognition and measurement of revenue from water supply, sewerage and waste water treatment services we considered this area to be our key audit matter.</p>	<p>the billing system and, on a sample basis, of the measurement data between the billing system and primary information sourced from the personal digital assistant devices;</p> <ul style="list-style-type: none"> — We also traced total accruals for unbilled services at the reporting date to supporting information and evaluating related management assumptions, mainly those in respect of quantities consumed by customer type; — Investigating significant unusual relationships identified between the expected effects of the volume and price changes during the year on the revenue amounts and actual revenue recognized; — Considering the completeness and accuracy of the disclosures in the consolidated financial statements in respect of revenue recognition policy and revenue by service type.

Service concession arrangement: compliance

See Note 28 *Commitments* to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>As stated in Note 1 and Note 28 the Company is a party to a concession contract with the Municipality of Sofia ("the Grantor"), whereby it has been granted the right to use public assets, such as water supply and water treatment infrastructure. The contract also gives the Company an exclusive right to render water supply and sewerage services within the concession area – the territory of the Municipality of Sofia.</p> <p>The said service concession and related regulatory arrangements, impose on the Company an obligation to implement specific investment projects through an</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Updating our understanding of the regulation and concession compliance process, and evaluating management review controls over the compliance with the relevant requirements of the service concession arrangement with the Grantor and the Commission's standards. This included, but was not limited to, testing the management's controls over monitoring and reporting of the key



Key Audit Matter	How the matter was addressed in our audit
<p>approved business plan, as also discussed in Note 28, as well as to achieve certain key performance indicators related to continuous improvement and quality enhancement of the supplied services. The enhancements include, among other things, water losses reduction rate, quality of potable water and continuity of water supply. Further, the Company's operations are regulated by the Energy and Water Regulatory Commission ("the Commission"), which establishes standards relating to the quality of water supply and sewerage services, and also regulates price tariffs.</p> <p>Due to the fact that any non-compliance with the relevant conditions included within the service concession arrangement and the related regulatory regime may have a pervasive effect on the Group's operations, including its financial position and financial results, we considered this area to be our key audit matter.</p>	<p>performance indicators imposed by the above parties;</p> <ul style="list-style-type: none">— Evaluating the design, implementation and operating effectiveness of controls over the transactions related to the investment and maintenance projects laid down in the Company's business plan;— Testing, on a sample basis, of capital expenditure and maintenance expenditure made during the year, and tracing the amounts to supporting documentation and payments, in order to verify their existence and accuracy of measurement. Also seeking explanations from department Engineering and Construction Activities, as well as from the management, about any significant deviations between the approved Investment plan and actual amounts invested;— Examining the Company's reporting to and communication with the Grantor and the Commission, including any examination reports issued by the Grantor and the Commission during the year in respect of the regulated activities subject of their monitoring;— Examining minutes of meetings of the Company's decision making and supervisory bodies, specifically focused on the investment projects' progress and approval of the Company's business plan;— Inquiring of the Company's legal advisors and reading their report, with an aim to identify any contingent liabilities (e.g. penalties) arising from service concession arrangements at the reporting date;— Evaluating the completeness and accuracy of disclosures in the

Key Audit Matter	How the matter was addressed in our audit
	consolidated financial statements in respect of commitments and contingencies.

Impairment of trade receivables and contract assets and adoption of IFRS 9

Trade receivables as at 31 December 2018: BGN 25,186 thousand (as at 31 December 2017: BGN 35,325 thousand), Contract assets as at 31 December 2018: BGN 9,936 thousand

See Note 3 (h) Significant accounting policies – Impairment, Note 16 Trade and other receivables, Note 4 Revenues and Note 3.1 Changes in significant accounting policies to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>Impairment allowances represent the management's best estimate of the expected credit losses within the trade receivables and contract assets at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the management over both the timing of recognition and the amounts of any such impairment.</p> <p>Additionally, as at 1 January 2018, the Group applied the new standard IFRS 9 <i>Financial Instruments</i> (IFRS 9), whose impairment requirements are based on the expected credit loss (ECL) model rather than the incurred loss model, as under IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The Group applied the simplified approach under IFRS 9 for all of its trade receivables and contract assets.</p> <p>For the above reasons, we considered the transitional adjustments from the first time application of IFRS 9 to impairment of trade receivables and contract assets as at 1 January 2018 to be our key audit matter.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Understanding the overall transition process activities and controls, including the process and controls over determining the impact of IFRS 9 transition as well as the underlying process activities that generated the related disclosures; — Inspecting the Group's new ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the new standard; — Assessing the analysis of the management over the historical collectability rates and assessing whether the above analysis appropriately considers the changes in the impairment policy under IFRS 9; — Obtaining the management's analysis of the effects of IFRS 9 as at 1 January 2018 and evaluating the completeness of the input data and mathematical accuracy of the management calculations;

Key Audit Matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> — Performing an analysis of the ECL-based impairment allowances as at the new standard's initial application date, to those calculated at that same date in accordance with the previous standard, and assessing their reasonableness based on inquiries with management; — Evaluating the completeness and accuracy of disclosures in the consolidated financial statements in respect of impairment of trade receivables.

Recoverability of intangible assets

Intangible assets as at 31 December 2018: BGN 297,640 thousand (as at 31 December 2017: BGN 295,410 thousand)

See Note 3 (d) *Significant accounting policies – Intangible assets* and Note 14 *Intangible assets and contract assets* to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit
<p>In March 2018 the Company signed the Third amendment to the Concession contract. According to the terms of the amendment after 2021 by the end of the Concession contract in 2025 the Energy and Water Regulatory Commission (the Commission) could determine the ratio <i>"Rate of Return on Shareholders' Capital"</i> at a level lower compared to the currently applied ratio as determined in the Concession contract. This assumption is used by the Commission in determination of the selling prices of the water supply, sewerage and waste water treatment services provided by the Company to its customers. Potentially, if the Commission sets lower prices for the services provided by the Company this could lead to lower incoming cashflows and there might be a direct impact on the determination of the recoverable amount of the intangible assets of the Company.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Analysis of the compliance of the management's impairment model with the requirements of the relevant accounting standard; — Testing the mathematical accuracy of the calculations within the discounted cash flow model; — Evaluating whether revenue forecasts used in the model are consistent with historical performance adjusted for the expected selling prices, which are approved by the management; — Challenging the projected revenue, after 2021, by benchmarking the expected <i>"Rate of Return on Shareholders' Capital"</i> ratio to the



Key Audit Matter	How the matter was addressed in our audit
<p>As a result of the changes introduced with the Third amendment the management performed an impairment test of intangible assets as at 31 December 2018.</p> <p>Because of the significant degree of judgement in determination of the expected value of the "Rate of Return on Shareholders' Capital" ratio after 2021 and its effect on the impairment test of the Company's intangible assets, we considered this area to be our key audit matter.</p>	<p>cost of capital of comparable companies;</p> <ul style="list-style-type: none">— Assessing the results of management's sensitivity analysis of the impairment model and considering whether the expected level of the "Rate of Return on Shareholders' Capital" ratio after 2021 indicates management bias;— With support of our internal valuation specialists benchmarking the other assumptions in the model to economic and industry averages for other comparable companies;— Evaluating the completeness and accuracy of disclosures in the consolidated financial statements in respect of the impairment test of intangible assets.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the consolidated management report and the consolidated non-financial statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the consolidated management report and the consolidated non-financial statement, we have also performed the procedures added to those



required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report for the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7(2) of the Public Offering of Securities Act.
- c) The consolidated non-financial statement referring to the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,



they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably

be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

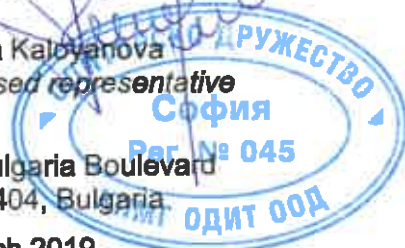
- KPMG Audit OOD was appointed as a statutory auditor of the consolidated financial statements of Sofiyska Voda AD for the year ended 31 December 2018 by the extraordinary general meeting of shareholders held on 13 December 2018 for a period of one year.
- The audit of the separate financial statements of the Company for the year ended 31 December 2018 represents nineteenth total uninterrupted statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

KPMG Audit OOD

Dobrina Kaloyanova
Authorised representative

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

29 March 2019



Ivan Andonov
Registered auditor, responsible
for the audit