Софийска вода

Sofiyska Voda AD

Annual Management Report and Consolidated Financial Statements

For the year ended 31 December 2020

With independent Auditors' Report thereon

Contents

Consolidated statement of financial position

In thousands of BGN	*Note*	31 December 2020	31 December 2019
Assets			
Property, plant and equipment	*12*	20,779	20,423
Intangible assets	*13*	268,243	281,217
Deferred tax assets	*19*	9,763	8,907
Trade and other receivables	*15*	1,610	1,264
Total non-current assets		300,395	311,811
Inventories	*14*	3,359	2,344
Trade and other receivables	*15*	33,489	28,207
Contract assets	*4*	11,309	10,527
Income tax receivables		2	2
Related party receivables	*26,15*	107	85
Cash and cash equivalents	*16,22*	69,273	49,105
Total current assets		117,539	90,270
Total assets		417,934	402,081
Equity			
Share capital	*17*	8,884	8,884
Reserves	*17*	10,774	10,774
Retained earnings		309,047	274,593
Total equity		328,705	294,251

Consolidated statement of financial position (continued)

In thousands of BGN	*Note*	31 December 2020	31 December 2019
Liabilities			
Loans and borrowings	*18,22*	7,472	22,364
Lease liabilities	*27,22*	2,781	769
Employee benefits	*23*	1,712	1,567
Trade and other payables	*20,26*	6,864	6,436
Total non-current liabilities		18,829	31,136
Loans and borrowings	*18,22*	14,892	22,215
Lease liabilities	*27,22*	1,834	1,324
Contract liabilities	*4*	7,022	5,516
Income tax liabilities		1,784	450
Payables to related parties	*22,26*	3,186	3,653
Trade and other payables	*20*	37,902	40,217
Provisions	*21*	3,163	2,573
Employee benefits	*23*	617	746
Current liabilities		70,400	76,694
Total liabilities		89,229	107,830
Total equity and liabilities		417,934	402,081

The notes on pages 11 to 72 are an integral part of these consolidated financial statements.

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Vasil Trenev
Executive Director

Anelia Ilieva
Finance Director

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

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

Dobrina Kaloyanova
Authorized representative

Ivan Andonov
Registered auditor, responsible for the audit

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of BGN	*Note*	**2020**	**2019**
Revenue	*4*	183,444	174,322
Construction revenue		20,210	30,568
Other income	*5*	1,236	1,350
		204,890	206,240
Expenses for materials	*6*	(13,499)	(12,592)
Expenses for hired services	*7*	(41,487)	(50,531)
Depreciation and amortization	*12,13*	(56,956)	(50,036)
Employee benefit expenses	*8*	(29,327)	(27,081)
Social security contributions and other social expenses	*8*	(7,543)	(7,764)
Impairment loss on trade receivables and contract assets	*22*	(10,218)	(8,691)
Other operating expenses	*9*	(5,996)	(7,140)
Operating profit		39,864	42,405
Finance income	*10*	4	10
Finance costs	*10*	(998)	(1,318)
Net finance costs		(994)	(1,308)
Profit before taxes		38,870	41,097
Income tax expenses	*11*	(4,335)	(4,638)
Profit for the period		34,535	36,459

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

For the year ended 31 December

In thousands of BGN	*Note*	2020	2019
Other comprehensive income			
Items that will not be reclassified in profit or loss:			
Remeasurement of defined benefit liability	*23*	(81)	(121)
		(81)	(121)
Other comprehensive income for the period, net of tax		(81)	(121)
Total comprehensive income for the period		34,454	36,338

The notes on pages 11 to 72 are an integral part of these consolidated financial statements

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Consolidated statement of changes in equity

In thousands of BGN

	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2019		8,884	10,774	238,255	257,913
Total comprehensive income for the period					
Profit for the period		-	-	36,459	36,459
Other comprehensive income, net of taxes		-	-	(121)	(121)
Total comprehensive income for the period		-	-	36,338	36,338
Balance at 31 December 2019	*17*	8,884	10,774	274,593	294,251
Balance at 1 January 2020		8,884	10,774	274,593	294,251
Total comprehensive income for the period					
Profit for the period		-	-	34,535	34,535
Other comprehensive income, net of taxes		-	-	(81)	(81)
Total comprehensive income for the period		-	-	34,454	34,454
Balance at 31 December 2020	*17*	8,884	10,774	309,047	328,705

The notes on pages 11 to 72 are an integral part of these consolidated financial statements.

Vasil Trenev
Executive Director

СОФИЯ СОФИЙСКА ВОДА АКЦИОНЕРНО ДРУЖЕСТВО

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Finance Director

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Registered auditor, responsible for the audit

Consolidated statement of cash flows

For the year ended 31 December

In thousands of BGN	*Note*	2020	2019
Cash flow from operating activity			
Net profit for the period		34,535	36,459
Adjustments for:			
Depreciation of property, plant and equipment	*12*	6,336	6,182
Amortisation of intangible assets	*13*	50,620	43,854
Impairment loss on trade receivables and contract assets	*22*	10,218	8,691
Write-down of inventories to net realizable value/ (realization)	*9*	462	388
Scrapping materials	*9*	28	(2)
Expenses for scrapping fixed assets	*9*	15	5
Net finance costs	*10*	994	1,308
Gain on sale of property, plant and equipment		-	4
Tax expense	*11*	4,335	4,638
		107,543	101,527
Changes in:			
- employee benefits		(79)	174
- provisions		591	737
- inventories		(1,496)	(537)
- trade and other receivables		(15,867)	(11,836)
- trade and other payables		(3,369)	2,867
- contract assets	*4*	(782)	(591)
- contract liabilities	*4*	1,506	765
Cash flow from operating activity		88,047	93,106
Income tax paid		(3,856)	(5,325)
Net cash flow from operating activity		84,191	87,781
Cash flows from investing activity			
Acquisition of property, plant and equipment		(2,096)	(5,600)
Acquisition of intangible assets		(36,945)	(36,412)
Net cash flow used in investing activity		(39,041)	(42,012)

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN	*Note*	2020	2019
Cash flow from financing activity			
Loans paid	18	(22,391)	(28,607)
Payment of lease liabilities	27	(2,084)	(2,411)
Interest paid	18	(507)	(847)
Other finance cost		-	(39)
Net cash flow used in financing activity		(24,982)	(31,904)
Net increase in cash and cash equivalents		20,168	13,865
Cash and cash equivalents at 1 January		49,105	35,240
Cash and cash equivalents at 31 December	*16,22*	69,273	49,105

The notes on pages 11 to 72 are an integral part of these consolidated financial statements.

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Notes to the consolidated financial statements

1. Reporting entity

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

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

The Group's line of business is primarily in 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.

The consolidated financial statements as of and for the year ended 31 December 2020 were approved for issuance by the Board of Directors on 28 May 2021.

(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 (note 20).

(c) Functional and presentation currency

The consolidated financial statements have been prepared in Bulgarian leva (BGN), which is the Group's functional currency. All financial information presented in BGN has been rounded to the nearest thousand unless otherwise 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. The positive outlook for the Group's operations is supported by the fact that despite the unprecedented international and local situation in 2020 due to the coronavirus pandemic, the Group's business activities were not substantially affected:

- the decrease vs. 2019 in the billed potable water volumes for commercial and budget customers was partially offset by the increase with +2.30% in the billed volumes for the domestic customer group, the overall decrease in the volumes of the supplied potable water vs. 2019 being -1.40%. The supplied industrial water was practically at the previous year's level and an increase was registered for the water supplied to other water operators in 2020;
- the revenue of the Group for 2020 was supported by the legally stipulated updates of the prices of the water and sewerage services (effective from Jan 1st, 2020) in compliance with the approved 2017-2021 Business Plan of the Group. In 2020 total revenue, without the revenue from construction, has increased by BGN 9 million vs. the previous year;

2. Basis of preparation (continued)

(d) Going concern (continued)

- in the first months after the announced coronavirus pandemic, the Group's management took further measures to control the operating costs within the framework of a recovery plan with specific operational projects, while at the same time strengthening the ongoing control over cash flow management;
- regarding the Group's investment program, despite a certain temporary lag in the first semester, the investments in regulated services on an annual basis have exceeded (by +11%) those set for 2020 in the 2017-2021 Business Plan.

(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 Group'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 a material adjustments in the next financial year is included in the following notes:

— Notes 12 and 13 – Property, plant and equipment and Intangible Assets – main assumptions used in determining the recoverable amount of the cash-generating unit, including especially the option for extension of the concession contract and the return on equity applied to the regulated assets for calculating the prices of regulated services in the period after 2021;

— Note 15 – Trade and other receivables –in the part for impairment of the recoverable amount of the trade receivables from customers;

— Note 19 – Deferred tax assets – regarding recoverability of deferred tax assets;

— Note 21 and Note 25 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources;

— Note 24 – Employee benefit – measuring the payables under the defined benefit plans and employee benefits

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.

2. Basis of preparation (continued)

(e) Use of estimates and judgments (continued)

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).
- 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 22 – Financial instruments

3. Significant accounting policies

3.1. Changes in accounting policies

The following new and amended standards and interpretations are effective from 1 January 2020 but they do not have a material effect on the Group's consolidated financial statements.

(a) Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments are required to be applied prospectively. They clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

(b) Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*

The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to:

- "Highly probable" requirement;
- Risk components;
- Prospective assessments;
- Retrospective effectiveness test (for IAS 39);
- Recycling of the cash flow hedging reserve.

(c) Amendments to References to the Conceptual Framework in IFRS Standards

(d) Amendments to IFRS 3 Business Combinations

3. Significant accounting policies (continued)

3.1. Change in the 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.

From 1 January1999 the exchange rate of the Bulgarian lev (BGN) has been fixed against the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

(b) Financial Instruments

(i) Recognition and initial measurement

Trade receivables are recognized initially when they are originated. All other financial assets and liabilities are recognized initially when the Group 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
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 both 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

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 Group.

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

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Assessment whether the contractual cash flows are solely payments of principal and interest
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 considers 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 variable-rate features;
- prepayment and extension features; and
- terms that limit the claims of 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 of financial assets

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.

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 Group to manage short-term commitments.

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

Financial Liabilities – classification, subsequent measurement and gains 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 exchange rate gains and losses are recognized in profit or loss. Any profit 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 Group 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.

(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.

3. Significant accounting polices (continued)

(c) Property, plant and equipment (continued)

When parts of an item of property, plant and equipment have different useful life, they are accounted for as consolidated 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, 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 the Group will obtain ownership by the end of the lease term. Land is not depreciated.
The estimated useful life of property, plant and equipment for the current and previous period are as follows

Assets class	**2019**	**2020**
Buildings	25 years	25 years
Plant and equipment	5-25 years	5-25 years
Vehicles – automobiles	5-10 years	5-10 years
Vehicles – trucks	10-12.5 years	10-12.5 years
Improvements of leased assets	10 years	10 years

Depreciation methods, useful life and residual values are reviewed at each financial year-end and adjusted if appropriate (refer to Note 12).

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 the Group 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 the Group to deliver construction services to the grantor in order to enhance the infrastructure, the Group delivers construction services in consideration for an enhancement to its right to collect higher 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

3. Significant accounting polices (continued)

(d) Intangible assets (continued)

(i) Intangible asset "concession right"

The intangible asset "concession right" is recognized at acquisition cost less accumulated amortization and impairment losses (see accounting policy 3 (i)). The intangible asset "concession right" arises in relation to the Concession Agreement, 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. The Group 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 amounts invested by the Group for which it has the right to charge higher tariffs from users of the network are classified as intangible assets "Concession right".

ii) Other intangible assets

Other intangible assets, that do not relate to the concession infrastructure, acquired by the Group, that have limited useful life, are stated at acquisition cost less accumulated amortization and impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortization

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 remaining term of the concession until 2025, determined from the date of acquisition of any additional concession right.

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) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to consolidate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of- use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

3. Significant accounting polices (continued)

(e) Leases (continued)

As a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.
Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;
— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities as part of the respective class of the Group's assets.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Significant accounting polices (continued)

(e) Leases (continued)

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

(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.

(g) Investments

Investments in subsidiaries

Subsidiaries are the entities controlled by the Group.

The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee:

• power over the investee

3. Significant accounting polices (continued)

(g) Investments *(continued)*

• exposure, or rights, to variable returns from its involvement with the investee; and ability to exert power over the investee to affect the amount of the investor's return.

Investments are accounted for in the consolidated financial statements under the cost method. On initial recognition the investment is recognized at cost, including the amounts paid and the attributable expenses: fees, commissions, royalties, non-refundable taxes, etc.

(h) 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.

(i) Impairment

(i) Non-derivative financial assets

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

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs of the financial instrument. For other financial assets, ECLs are measured base on a 12-month ECLs, unless there has been a significant increase in credit risk, in which case ECLs are measured based on the lifetime ECLs. 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 30 days.

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

- is unlikely the borrower to pay the loan commitments to the Group to the full amount without requiring actions on behalf of the Group such as use of guarantee (if any) or
- the financial asset is more than 90 days past due for residential,commercial and budget clients.

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.

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).

ECLs are discounted at the effective interest rate of the financial asset.

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

As for overdue receivables the Group charges interest in the size of the base rate +10%, in determining the amount 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.

3. Significant accounting polices (continued)

(i) Impairment *(continued)*

Measurement of ECLs (continued)

The management of the Group 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%, based on the official information of the Bulgarian National Statistical Institute (NSI).

The unemployment rate in 2020 and the expected rates for that indicator for 2021 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.

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 180 days for residential clients and above 90 days for commercial and budget clients.
- restructuring a Group's trade 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.

For individual customers, the Group has a policy for derecognition of the gross carrying amount, when the financial asset is overdue by 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 polices (continued)

(i) 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.

(j) Employee benefits

(i) Defined contribution plan

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

(ii) Defined benefit plan

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

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art. 222, § 3 of the Labour Code. According to the regulations of the Collective Labour agreement, when a labour contract of a Group's employee, who has acquired a pension right, is ended, the Group is obliged to pay him compensations amounted to two gross monthly salaries. If the employee's length of service in the Group equals to or is greater than 10 years, as at retirement date, then the compensation amounts to seven gross monthly salaries. As at the reporting date the management estimates the amount of such expenses based on a report prepared by a qualified actuary using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the financial statements in Note 23.

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 polices (continued)

(j) Employee benefits (continued)

(iii) ***Short-term employee 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 (SARs), 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.

(k) Provisions

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

Legal provision

Legal 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.

(l) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 4.

(m) 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 same periods in which the expenses are recognized.

3. Significant accounting polices (continued)

(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.

(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.

Interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

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 polices (continued)
New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these financial statements. The Group plans to adopt these pronouncements when they become effective.

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

(a) Amendments to *IFRS 4 Insurance Contracts* – deferral of *IFRS 9* (issued on 25 June 2020)

The main changes resulting from *Amendments to IFRS 17* and Extension of the Temporary Exemption from Applying *IFRS 9 (Amendments to IFRS 4)* are deferral of the date of initial application of *IFRS 17* by two years to annual periods beginning on or after 1 January 2023 and change the fixed expiry date for the temporary exemption in *IFRS 4 Insurance Contracts* from applying *IFRS 9 Financial Instruments*, so that entities would be required to apply *IFRS 9* for annual periods beginning on or after 1 January 2023.

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

(b) Amendments to *IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2* (issued on 27 August 2020)

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

(c) Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions (issued on 28 May 2020)

The amendment is effective for annual periods beginning on or after 1 June 2020. Early application is permitted. The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors

The Group does not expect the amendments to have a material impact on its consolidated 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 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 2023 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 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 financial statements of the Group.

— *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, effective for annual periods beginning on or after 1 January 2023*
— *Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020, effective for annual periods beginning on or after 1 January 2023*
— *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023*
— *Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023*
— *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective for annual periods beginning on or after 1 January 2023.*

4. Revenue

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 the Group. The other sources of revenues have been listed in Note 5.

In thousands of BGN	Note	2020	2019
Revenues from contracts with customers			
Revenues related to water supply and sewerage			
Revenue from water supply		118,813	112,559
Revenue from sewerage		34,258	31,236
Revenue from wastewater treatment		24,020	23,441
Interest income from overdue receivables		3,167	3,359
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget		(198)	(178)
Penalties for industrial discharges of water with excessive concentration of pollutants		488	615
		180,548	171,032
Revenues from non-regulated services			
Revenues from sale of services		2,571	3,011
Revenues from the sale of green energy			
Revenues from green energy		325	279
Total revenues from sales of services and green energy		**183,444**	**174,322**
Revenues from construction services			
Water supply		7,932	10,604
Potable water treatment		947	1,477
Sewerage		5,577	8,558
Wastewater treatment		1,817	4,647
Water service connections and water meters		3,937	5,282
		20,210	**30,568**
Total revenues from contracts with customers		**203,654**	**204,890**

4. Revenue (continued)

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 Group 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 by the Municipality of Sofia from the European Investment Bank (EIB). The end beneficiary of the loan from the European Investment Bank was the Municipality of Sofia.

With a letter of the Ministry of Environment and Water dated 29.03.2016 the Municipality of Sofia and Sofiyska 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 the Group 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 2020, the Group transferred two instalments for a total amount of BGN 819 thousand to the bank account indicated by the Municipality of Sofia, to service the loan from EIB. These installments decrease the amount of ISPA payables (refer to Note 20).

The portion of billed revenue in 2020, set aside for servicing and repayment of the EIB loan, based on the price component included into the WSS services tariff, amounts to BGN 853 thousand (2019: BGN 882 thousand), presented above as a reduction of the Group's yearly revenue for each water supply and sewerage type of services listed above and with the same amounts ISPA payable has been increased in 2020 and 2019 (refer to Note 20)

B. Contract balances

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

	31 December 2020	**1 January 2020**
Receivables, which are included in 'trade and other receivables'	33,407	27,810
Contract assets– unbilled receivables	11,309	10,527
Contract liabilities	(7,022)	(5,516)
Total	37,694	32,822

Contract assets – unbilled receivables

Contract assets refer to the rights of the Group 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 the Group issues an invoice to the customer.

4. Revenue (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 the Group's billing system.
As at 31 December 2020 the Group has contract liabilities at the amount of BGN 7,022 thousand (2019: BGN 5,516 thousand).
The amount of BGN 3,057 thousand recognized as contract assets at the beginning of the period was recognized a income during the period ending on 31 December 2020. No information is provided on the remaining performance obligations as at 31 December 2020, which initially had an expected duration of one year or less, as permitted under IFRS 15.

C. Performance obligations and policies for revenue recognition

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 the Group pursuant to the Concession Agreement and the effective legislation.

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 (Bulgarian base rate + 10%).
Invoices are issued monthly with a payment term of 30 days after the date of the invoice issuance.
Revenue recognition
Revenue is recognized over 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 of the work performed. The work performed is estimated based on the measurement of the quantities of water supplied as at the date of measurement, when physical measurement is performed or based on the calculated consumption of water if the measurement of the quantities supplied is based on the average consumption in previous periods.
The Group has identified one performance obligation in compliance with the requirements of the 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.
b) Revenue from construction contracts
Nature and timing of satisfaction of performance obligations, including significant payment terms
Construction contracts bring revenue related to the investments in public assets made by the Group in accordance with the Concession agreement. In line with the requirements of the Concession agreement, public assets built by the Group are owned by the Grantor. They include improvement of existing assets and construction of new components of the water supply and sewerage system.
The Group recognizes an intangible asset – concession right. In accordance with the Concession agreement, the Group doesn't receive cash consideration from the Grantor for the investments made, but the right to invoice and charge the customers for the service at the prices approved by EWRC.

4. Revenue (continued)

In this respect, the Group recognizes an intangible asset "Concession right" against revenue from construction contracts. The revenues are recognized over time, during which the construction services are delivered. The stage of completion for determining the revenue recognized is measured on the basis of analysis of the reported expenses. The Group usually engages sub-contractors for construction works and respectively the stage of completion is determined based on the expenses incurred as at the reporting date by the sub-contractors compared to the total expenses expected to be incurred for the respective assets.

The revenue recognized is limited to fair value of the consideration received (i.e. the amount expected to be realized as incremental revenue as a result of the separate construction service provided). If the costs of the additions or improvements exceed the fair value of the consideration received, the additional amounts invested are recognized as an increase of the intangible asset – Concession right, since these investments are necessary for the Group to be able to continue to charge users in the future under the terms of the contract.

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 Group 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.

Revenue recognition under IFRS 15
For most of them the customer takes the control over the services at a certain point of time, when the service is completed and accepted by the client and revenue is recognized in full at that time.

***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, the Group sells to the National Electricity Group (NEC) the green energy that it generates from the natural gas captured during wastewater treatment.

Revenue recognition

The control on the services is transferred over time.
The invoices to NEC are issued on a monthly basis.

5. Other income

In thousands of BGN	**2020**	**2019**
Penalties to contractors	121	326
Gain on sale of inventories to subcontractors for construction works	(8)	188
Gain on sale of Property, plant and equipment	-	21
Income from financing	175	363
Gain on sale of carbon emissions	453	126
Other	495	326
	1,236	1,350

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

	2020	**2019**
Revenue from sale of vehicles	-	22
NBV of sold vehicles	-	(1)
	-	21

6. Expenses for materials

In thousands of BGN	**2020**	**2019**
Electricity, water, heating	1,228	1,562
Sub-contractors	3,220	2,382
Fuels and lubricants	1,009	1,225
Water for technological needs	1,502	1,489
Chemicals	4,007	3,784
Plumbing materials	646	702
Other	1,887	1,448
	13,499	12,592

7. Expenses for hired services

In thousands of BGN	**2020**	**2019**
Construction services provided by sub-contractors	11,720	23,311
Repairs and maintenance of concession infrastructure	5,103	5,420
Insurance	1,263	1,272
Commission for collection of trade receivables	1,597	1,499
Rent	142	128
Security	9,353	8,530
Other expenses for hired services	12,309	10,371
	41,487	50,531

Other expenses for hired services include:

In thousands of BGN	**2020**	**2019**
Water meter reading	1,777	1,768
Transportation of sludge	764	493
Courier services	340	360
Printing services	549	573
Technical services	1,500	1,496
Consultancy	531	544
Asphalt covering	520	488
EWRC fee	392	401
Disinfection	646	25
Communication	497	386
Annual software licenses	1,172	897
Collection of receivables	122	73
Hired transportation	75	140
Water tankers	203	208
Software maintenance and internet	1,119	553
Training	297	368
Announcements and communications	306	339
Local taxes and fees	114	115
Cleaning of offices and water tanks	138	144
Fees	61	38
Other	1,186	962
	12,309	10,371

The accrued charges on remunerations for the appointed auditor for 2019 and 2020 amount to BGN 120 thousand including the statutory independent financial audit of BGN 60 thousand.

8. Employee benefit expenses

In thousands of BGN	*Note*	**2020**	**2019**
Wages and salaries		28,824	26,653
Compulsory social security and pension contribution		5,107	5,545
Social expenses		12	67
Expenses for additional pension contribution		590	554
Current and past service costs in relation to employee benefits	*23*	288	174
Voucher expenses		1,846	1,665
Share-based payments		203	187
		36,870	34,845

The salary expenses include an accrual for unused annual paid leave amounting to BGN 818 thousand (2019: BGN 803 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 159 thousand (2019: BGN 155 thousand).

The average number of the Group's personnel is 1,154 employees (2019: 1,176 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, September 2019 and December, 2020, Group employees were granted the opportunity to get included into plans giving rights over the increase in the price of the shares of the mother company Veolia Environnement (France). Description below is applicable for 2018, 2019 and 2020 plans.

The Group employees have been granted the opportunities to get 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) increase, the employees also obtain the value of the increase in the share prices. If the share prices of Veolia Environnement decrease, the employees get as a minimum the amount of their investment and the invested on their behalf amounts 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 the Group, 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 Group between the date of granting and the date of maturity.

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

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 the Group as equity-settled share-based payments transactions.

As at 31 December 2020 the total invested amount (incl. from the previous year) by the employees under the two programs amounts to BGN 1,067 thousand (BGN 411 thousand for 2018 program and BGN 326 thousand for 2019 program and BGN 330 thousand for 2020 program) and the sum invested by Veolia Environnement under the "Secured Offer" amounts to 670 thousand BGN, which is invoiced by Veolia Environnement to the Group (BGN 280 thousand invoiced and expensed in 2018, BGN 187 thousand invoiced and expensed in 2019 and BGN 203 thousand invoiced and expensed in 2020).

9. Other operating expenses

In thousands of BGN	*Note*	2020	2019
Inventory write-down / (reversal) to net realizable value	*14*	462	388
One-off taxes		195	217
Provisions for fines and penalties, net		601	752
Scrapping of materials		28	10
Scrapping of non-current assets		15	34
Annual fee - water and sewerage		2,741	3,194
Expenses for provision “Handback Account”	*21,25*	365	1,089
Other		1,589	1,456
		5,996	7,140

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

In thousands of BGN	2020	2019
Interest income	2	7
Effect from guarantee discounts	2	2
Revenue from foreign currency transaction, net	-	1
Financial income	4	10
Interest expenses for Loan “C”	(664)	(1,174)
Interest expenses for financial lease contracts	(19)	(39)
Interest expenses on employee benefits	(15)	(18)
Effect from guarantee discounts	(6)	(5)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(21)	(4)
Other finance costs	(262)	(58)
Loss from foreign currency exchange differences, net	(11)	(20)
Finance costs	(998)	(1,318)
Finance costs (net)	(994)	(1,308)

11. Tax expenses

In thousands of BGN	*Note*	2020	2019
Current tax expense			
Income tax for current year		(5,191)	(5,170)
Income tax for previous periods		-	(425)
Deferred tax expense			
Origination and reversal of temporary differences	*19*	856	957
Total tax expense		(4,335)	(4,638)

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 Group with respect to the Corporate Income Tax covers the period up to 31 December 2012 and tax audit on the Group with respect to Value Added Tax covers the period up to 31 August 2013. The two of them are over.

Reconciliation of effective tax rate		**2020**		**2019**
In thousands of BGN				
Profit for the year		34,535		36,459
Total tax expenses		4,335		4,638
Profit before tax		38,870		41,097
Income tax based on the Group's domestic tax rate	10%	(3,887)	10%	(4,111)
Non-deductible expenses	0.21%	(83)	0.25%	(102)
Income tax for previous periods		-	1.03%	(425)
Other	0.95%	(365)		-
Net current income tax expense	11.16%	(4,335)	11.28%	(4,638)

12. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 January 2019	4,802	37,247	16,495	1,954	-	60,498
Additions	-	-	-	-	4,667	4,667
Disposals	(664)	(313)	(405)	-	-	(1,382)
Transfers		1,258	3,281	128	(4,667)	-
Balance at 31 December 2019	4,138	38,192	19,371	2,082	-	63,783
Balance at 1 January 2020	4,138	38,192	19,371	2,082	-	63,783
Additions	4,611	-	-	-	2,095	6,706
Disposals	-	(282)	(154)	-	-	(436)
Transfers	-	1 325	737	33	(2,095)	-
Balance at 31 December 2020	4,611	39,235	19,954	2,115	-	70,053
Depreciation						
Depreciation as at 1 January 2019	(2,834)	(24,337)	(10,160)	(1,175)	-	(38,506)
Depreciation charge for the year	(1,097)	(3,358)	(1,633)	(94)	-	(6,182)
Depreciation on disposals	633	291	404	-	-	1,328
Balance at 31 December 2019	(3,298)	(27,404)	(11,389)	(1,269)	-	(43,360)
Balance at 1 January 2020	(3,298)	(27,404)	(11,389)	(1,269)	-	(43,360)
Depreciation charge for the year	(1,346)	(3,143)	(1,743)	(104)	-	(6,336)
Depreciation on disposals	-	269	153	-	-	422
Balance at 31 December 2020	(4,644)	(30,278)	(12,979)	(1,373)	-	(49,274)
Carrying amounts						
At 1 January 2019	1,968	12,910	6,335	779	-	21,992
At 31 December 2019	840	10,788	7,982	813	-	20,423
At 1 January 2020	840	10,788	7,982	813	-	20,423
At 31 December 2020	4,105	8,957	6,975	742	-	20,779

12. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2020, amount to BGN 2,062 thousand (2019: BGN 4,594 thousand) and are listed below:

In thousands of BGN	**2020**	**2019**
Cogenerator	23	53
Vehicles and mechanization	737	2,700
Laboratory equipment	307	640
Computer equipment	412	335
CCTV	-	146
Diesel aggregate and pumps	8	-
Gardening equipment	1	12
Welding systems, grinders	-	29
Devices for geodetic measurements and leak detection	353	150
Other equipment	221	529
	2,062	4,594

Assets pledged as collateral

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

Assets pledged as collateral under lease contracts

ROU assets recognized for vehicles under leasing contracts serve as collateral on the leasing contracts. The carrying amount as at 31 December 2020 of such assets, for which the lease liabilities are not fully paid, total 1,733 thousand BGN.

13. Intangible assets

In thousands of BGN	Development costs	Software	Concession right	Assets under construction – other	Total
Cost					
Balance at 1 January 2019	21,041	21,196	541,501	30	583,768
Additions	-	-	40,522	1,033	41,555
Disposals					
Transfers		429	-	(429)	-
Balance at 31 December 2019	21,041	21,625	582,023	634	625,323
Balance at 1 January 2020	21,041	21,625	582,023	634	625,323
Additions	-	-	35,763	1,883	37,646
Disposals	-	-	-	-	-
Transfers		2,516	-	(2,516)	-
Balance at 31 December 2020	21,041	24,141	617,786	1	662,969
Depreciation					
Balance at 1 January 2019	(21,037)	(16,668)	(262,548)	-	(300,253)
Depreciation for the year	-	(761)	(43,093)	-	(43,854)
Disposals	-	-	1	-	1
Balance at 31 December 2019	(21,037)	(17,429)	(305,640)	-	(344,106)
Balance at 1 January 2020	(21,037)	(17,429)	(305,640)	-	(344,106)
Depreciation for the year	-	(771)	(49,849)	-	(50,620)
Disposals	-	-	-	-	-
Balance at 31 December 2020	(21,037)	(18,200)	(355,489)	-	(394,726)
Carrying amounts					
At 1 January 2019	4	4,528	278,953	30	283,515
At 31 December 2019	4	4,196	276,383	634	281,217
At 1 January 2020	4	4,196	276,383	634	281,217
At 31 December 2020	4	5 941	262,297	1	268,243

13. Intangible assets (continued)

Determination of recoverable amount

The Third Amendment Agreement to the Concession Agreement with the Municipality of Sofia was signed in March 2018. One of the main changes introduced with the signed amendment agreement was that the agreed 17% rate of return on equity used as one of the components in determination of the selling prices of the services the Group provides to clients should no longer be protected by the price restriction mechanism pursuant to the Concession Agreement. 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 the Group, as of 2022 the rate of return of equity, which is to be used as a component in determination of the selling prices will be applied as 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 is applied by the Regulator in determining the prices of the WSS services provided by the Group. The indicator weighted-average cost of capital is applied to the regulatory value of the assets constructed by the Group (owned assets and those which are subject to transfer to the Municipality of Sofia) and has a considerable weight in determining the values of the prices of the WSS services provided by the Group (for more information about the rate of return of equity and its effect on determination of the selling prices see below).

As a result of the above-mentioned additional agreement to the Concession Agreement in combination with the approaching end of the term of the concession contract, the Group has made an analysis for indications for impairment of fixed tangible and intangible assets as at 31 December 2020 pursuant to the requirements of IAS 36 *Impairment of Assets*. The intangible assets of the Group, the greatest part of which is the "Concession right", as well as the tangible 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 disposal, 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.

Key assumption in the impairment test prepared by the management is the extension of the concession contract within the limits allowed by the law.

The impairment test prepared by Management includes after tax cash flows for a period of 16 years after the reporting date: including 8.3 years extension after October 2025 under the assumption of an extension of the Concession Agreement after October, 2025 until 2033. A subsequent period of 3 more years after 2033 г. has been assumed for the collection of outstanding receivables and settlement of payables. The management considers the extension of the concession contract with one third of the original concession contract term highly probable. The management assessment for the probability of extension is based on the analysis of the applicable legislation, based on the performance of the Group under the active concession contract and the undertaken preliminary steps in initiating the process of negotiation with the Grantor.

Based on the analysis made, the Management considers that in addition to the assumption for extension of the Concession contract another significant assumption in determination of the recoverable amount of the CGU is the indicator "Sales prices of the services related to water supply and sewerage". 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 the Group.

As at the end of 2020, based on the impairment test prepared by the Management, it was concluded that the determined recoverable amount is higher than the carrying amount of the CGU and that no impairment should be recorded as at 31 December 2020.

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

— Revenue from sales, based on quantities and selling prices determined as follows:

- o Quantities - based on the most recent projections for billed volumes in long-term plan of the Group for the years after 2021-2033;.
- o Selling prices – based on the preliminary approved selling prices, as included in the business plan for the period 2017-2021 and selling prices for the period 2022-2026 estimated by the management based on

13. Intangible assets (continued)

the sales price formula included in the applicable piece of legislation approved by the EWCR and inflationary adjustments for the years 2027 until 2033;.

- The selling prices are determined based on the operational expenses of the Group and the return on the regulated assets base involved in providing the water, sewerage and wastewater services to clients . The return on the regulatory basis of the assets is calculated based on the regulatory formula for weighted-average cost of capital, including rates of return on equity and on borrowings.
- The rate of return on equity has the most significant effect in determination of the rate of return applied to the regulated value of the assets. For the years 2020 and 2021 the Group used 17% for the rate of return on equity, as determined in the concession contract and approved by the EWRC. For the periods after 2021 the Group used a rate of return of equity at the value of 9.94%, which was the rate of return on equity estimated by the Regulator in the process of preparation of the business plan for the period 2017-2021.
- Investment in assets – the annual investments in the model are based on the current level of investments as approved by the Regulator in the currently applicable business plan of the Group. The annual investments set in the assumptions for the period 2021-2033 are in average BGN 41,266 thousands.

— The revenue and the operational expenses (excluding amortization and depreciation expenses) are inflated with the expected rate of inflation

— Discount interest rate after taxation 7%.

The management assessed that if the assumption for extension is achieved no reasonable change in all other assumptions used in the model will result in impairment loss as at 31.12.2020. The management considers that there are significant uncertainties related to the future, mostly regarding the extension option of the concession contract. In case the extension of the concession contract is not obtained this would result in significant impairment of the Group long-term assets as at 31 December 2020 at the amount of approximately BGN 27 million.

The management expects that the investments made by Sofiyska voda AD in the period 2000 - 2025 (original term of the concession contract) will be included in the regulatory base of the assets in 2025 if an extension to the concession contract is then agreed and they will be used as a pricing element by the Regulator when determining the selling prices.

14. Inventories

In thousands of BGN	**2020**	**2019**
Spare parts and consumables	3,359	2,344
	3,359	2,344

As at 31 December 2020 the cumulative inventory write-down to net realizable value amounts to BGN 2,061 thousand (2019: BGN 1,559 thousand).

15. Trade and other receivables

In thousands of BGN	**Note**	**2020**	**2019**
Trade and other receivables		69,769	65,420
Impairment losses on trade receivables		(36,358)	(37,604)
Total trade receivables	*22*	33,411	27,816
Other receivables and prepayments		1,795	1,740
		1,795	1,740
Total trade and other receivables		35,206	29,556
Non-current		1,610	1,264
Current		33,596	28,292

15. Trade and other receivables (continued)

In 2020 impairment losses on trade receivables amounting to BGN 1,605 thousand have been written off (2019: BGN 1,758 thousand).

Accounts receivable pledged as collateral:

Under the secured bank Loan "C" from the consortium between Expressbank and UBB, the Group has pledged all of its revenues from sales 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 22 – *Financial Instruments*

Other receivables and prepayments:

In thousands of BGN	2020	2019
Insurance	861	855
Licenses	201	271
Subscriptions	366	126
Advances for non-current assets	103	338
Other	262	150
	1,793	1,740

16. Cash and cash equivalents

In thousands of BGN	Note	2020	2019
Cash on hand		65	50
Local currency		48	40
Foreign currency		17	10
Cash at banks	22	69,208	49,055
Local currency		68,540	48,574
Foreign currency		668	481
Cash and cash equivalents in the statement of cash flows	22	69,273	49,105

Cash at banks pledged as collateral:

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

17. Share capital and reserves

In thousands of shares	**Ordinary shares**	
	2020	**2019**
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 2020 the Group's share capital includes 8,884,435 ordinary shares (2019: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2020 are:

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

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

With a pledged endorsement dated 14 May 2019 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 Group's General Shareholders Meeting of one vote for each share in their possession. All shares rank equally with regard to the Group's residual assets.

Legal reserves

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

18. 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 22, *Financial instruments.*

In thousands of BGN	**2020**	**2019**
Non-current liabilities		
Loans at nominal value	7,486	22,458
Amortization	(14)	(94)
Loans at amortized cost	7,472	22,364
Lease liabilities	2,781	769
	10,253	23,133
Current liabilities		
Loans at nominal value	14,972	22,391
Amortization	(80)	(176)
Loans at amortized cost	14,892	22,215
Lease liabilities (2019: finance lease)	1,834	1,324
	16,726	23,539
Total loans and borrowings	26,979	46,672

In accordance with the loan agreement "C" with consortium Expressbank and UBB AD the Group has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of at least 1.5:1 to the end of 2020 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 calculation of the ADSCR and the ratio between the balance value of the equity and the balance value of its assets shall be made every six months. For the period ended 30-th of June, the ratios will be calculated based on direct method cash flow sent by the Borrower for the preceding 12 months. For the period ending on 31st of December, the ratios will be calculated based on the data from the audited financial statements of the Borrower for the preceding 12 months. 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 2020 the actual ADSCR is 3.77:1. The second ratio (between the book value of the equity and the book value of the assets) is 0.79.

Terms and debt repayment schedule

				31 December 2020		**31 December 2019**	
In thousands of BGN	Currency	Nominal interest rate	Year of Maturity	Face Value	Carrying Amount	Face Value	Carrying Amount
Loan "C" from the consortium Expressbank and UBB AD	EUR	1.35% plus 3 month EURIBOR	2022	22,458	22,364	44,849	44,579
				22,458	22,364	44,849	44,579

18. 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 of the Group from Veolia Voda (Sofia) B.V. and European Bank of Reconstruction and Development (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 June 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 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.

18. Loans and borrowings (continued)

Reconciliation of the liabilities from financial activities

In thousands of BGN	Loans and borrowings	Leases	Total
Changes in cash flows from financial activities			
Balance at 1 January 2019	72,859	2,622	75,481
Received from loan and borrowings	-	-	-
Repaid from loan and borrowings	(28,607)	-	(28,607)
Payments on lease liabilities	-	(2,411)	(2,411)
Total changes in cash flows from financial activities	44,252	211	44,463
Changes related to the liability			
New lease	-	1,882	1,882
Accrued interests	1,174	39	1,213
Paid interests	(847)	(39)	(886)
Total changes related to the liability	327	1,882	2,209
Balance at 31 December 2019	44,579	2,093	46,762

In thousands of BGN	Loans and borrowings	Leases	Total
Changes in cash flows from financial activities			
Balance at 1 January 2020	44,579	2,093	46,672
Received from loan and borrowings	-	-	-
Repaid from loan and borrowings	(22,391)	-	(22,391)
Payments on lease liabilities	-	(2,085)	(2,085)
Total changes in cash flows from financial activities	22,188	8	22,196
Changes related to the liability			
New lease	-	4,607	4,607
Accrued interests	664	19	683
Paid interests	(488)	(19)	(507)
Total changes related to the liability	176	4,607	4,783
Balance at 31 December 2020	22,364	4,615	26,979

19. Deferred tax assets and liabilities

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

In thousands of BGN	Assets 2020	Liabilities 2020	Net 2020	Assets 2019	Liabilities 2019	Net 2019
Property, plant and equipment	100	-	100	123		123
Inventories	206	-	206	160	-	160
Trade receivables	8,391	-	8,391	7,720	-	7,720
Provisions	359	-	359	294	-	294
Accrual for unused paid leave and bonuses	489	-	489	416	-	416
Payables as per defined benefit plan	178	-	178	184	-	184
Financing	40	-	40	10	-	10
Deferred tax assets/ (liabilities)	9,763	-	9,763	8,907	-	8,907

19. Deferred tax assets and liabilities (continued)

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 2020 is calculated by using the tax rate applicable to the Group, which is the legally set for now income tax rate for 2020 – 10%.

Changes in temporary differences during the year:

In thousands of BGN	**Balance as at 1 January 2019**	**Recognized in profit or loss**	**Balance as at 31 December 2019**	**Recognized in profit or loss**	**Recognized in equity**	**Balance as at 31 December 2020**
Property, plant and equipment	(115)	238	123	(23)	-	100
Inventories	122	38	160	46	-	206
Trade receivables	7,109	611	7,720	671	-	8,391
Provisions	222	72	294	65	-	359
Accrual for unused annual paid leave and bonuses	365	51	416	73	-	489
Liabilities under a defined benefit plan	165	19	184	(6)	-	178
Financing	15	(5)	10	30	-	40
Trade payables	67	(67)	-	-	-	-
Deferred tax assets/ (liabilities)	7,950	957	8,907	856	-	9,763

20. Trade and other payables

In thousands of BGN	*Note*	**2020**	**2019**
Trade payables		19,282	21,953
Retentions payable to subcontractors		2,662	2,824
Payables to employees		7,173	5,530
Insurance		64	790
ISPA payable		4,316	4,282
Incl. long term part of ISPA		*3,518*	*3,463*
Incl. short term part of ISPA		*798*	*819*
Total trade payables		33,497	35,379
Social security payables		1,045	951
Payable as per Settlement Agreement between the Municipality of Sofia and SV		3,601	4,399
Incl. long term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda		*3,346*	*2,973*
Incl. short term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda		*255*	*1,426*
Payables for water usage tax		2,741	3,194
VAT payable		1,576	1,263
Other taxes payable		425	416
Other payables and accruals		1,881	1,051
		11,269	11,274
Total trade and other payables		44,766	46,653
Incl. Non-current		6,864	6,436
Incl. Current		37,902	40,217

On 16 January 2009, the "Sofiyska voda" AD 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 at that time. Both sides mutually relieved each other from pretended payment of interest on amounts claimed, as "Sofiyska voda" AD 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. The investments in the years 2016, 2017, 2018, 2019 and 2020 are - BGN 1.16 million, BGN 1.06 million, BGN 2.14 million, BGN 0.9 million and BGN 0.9 million respectively. The final BGN 3.6 million will be invested over the period 2021-2023. As the above amounts from the Settlement Agreement are outside the investments set in the Sofiyska voda's business plans and are on the account of Sofiyska voda, they were accounted initially as expense and liability. Subsequently, the liability is decreased with the amount invested for all new assets constructed in accordance with the agreement.

21. Provisions

In thousands of BGN	**2020**	**2019**
Provision for court liabilities	605	380
Provision for interest	1,104	1,104
Provision "Handback Account" (note 25)	1,454	1,089
	3,163	2,573

Provision for court liabilities

The provision is 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.

In a Consolidated group are the provisions in relation to the imposing of administrative sanctions, mostly due to findings for possible abuse of a dominant position. The most significant amount in prior financial periods 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.

The Group 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.

With the final decision of the Supreme Administrative Court of 25 May 2018 the Group 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 the Group for delay of estimated debts in prior periods. As of the date of this report no claims have been initiated by customers.

Based on the professional advice of the legal advisers of the Group the management considers that the Group is not exposed to risk for additional penalties for the period 2013 -2018, since after the final decision of the court the in May 2018 all the prescribed changes were introduced by the management.

21. Provisions (continued)

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

In thousands of BGN	Balance at 1 January 2020	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2020
Provision for court liabilities	380	306	(10)	(71)	-	605
Provision for interests	1,104	-	-	-	-	1,104
Provision "Handback Account"	1,089	365	-	-	-	1.454
	2,573	671	(10)	(71)	-	3,163

22. 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 Committee is being assisted by the Internal Audit department. Internal Audit undertakes both planned and unplanned inspections of the risk management controls and procedures and the results are reported directly to the management.

Credit Risk

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

22. 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:

In thousands of BGN	*Note*	Carrying amount 2020	Carrying amount 2019
Trade and other receivables	*15*	33,304	27,816
Contract assets	*4*	11,309	10,527
Receivables from related parties	*15,26*	107	85
Cash and cash equivalents (at banks)	*16*	69,208	49,055
		113,928	87,483

Trade and other receivables and contract assets

The credit risk exposure of the Group 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 2020 the active customers of the Group are 682,641 (2019: 672,018). 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 for individuals, 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:

In thousands of BGN	Book value 31 December 2020	Impairment 2020	Carrying amount 31 December 2020	Book value 31 December 2019	Impairment 2019	Carrying amount 31 December 2019
Government/municipality controlled entities	6,533	(3,599)	2,934	5,080	(2,483)	2,597
Legal entities	8,394	(3,605)	4,789	8,131	(2,768)	5,363
Domestic population	58,876	(28,956)	29,920	59,658	(32,253)	27,405
Other customers	7,130	(160)	6,970	3,078	(100)	2,978
Related parties	107	-	107	85	-	85
	81,040	(36,320)	44,720	76,032	(37,604)	38,428

22. Financial instruments (continued)

Expected measurement of credit losses for the individual customers as at 1 January and 31 December 2020

The Group uses a provision matrix for measuring ECL (expected credit losses) on trade receivables.

For the purposes of the analysis the Group 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 31 December 2020 and 31 December 2020 on the basis of the analyzed above historical data about the collection rate for each of the categories, the Group has developed a model for expected evolution of the receivables for each of the categories from "Current (not overdue)" to the category "Overdue by more than 300 days". In determining the impairment as at 31 December 2020 based on the thus obtained information the Group has applied discounting of the amounts for each of the categories (except the receivables over 3 years in the category "Overdue by over 300 days") as at the reporting date, applying a discount rate of 6.9% based on published data for interest rates for consumer credits in BGN for households in Bulgaria (2019- 7.4%).

For the receivables with estimated overdue more than 3 years in the scope of the category "Overdue by more than 300 days" below it is applied an impairment accounting for 100% of the receivables values as per the expectations for their future development.

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. A factor that is considered relevant for identifying such changes is the Bulgarian GDP. Based on the official information of the Ministry of Finance as at the reporting date such changes are not expected.

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

In thousands of BGN	**2020 Book Value**	**2020 Impairment**	***Credit impairment***
Not past due	24,536	(1,043)	No
Past due 30 days	3,817	(909)	No
Past due 31-60 days	2,831	(1,050)	No
Past due 61-90 days	2,517	(1,091)	No
Past due 91-180 days	6,821	(3,396)	No
Past due 181-300 days	7,382	(4,426)	No
Past due more than 300 days	33,136	(24,405)	Yes
	81,040	(36,320)	

22. Financial instruments (continued)

In thousands of BGN

	2019 Book Value	2019 Impairment	*Credit impairment*
Not past due	19,906	(902)	No
Past due 30 days	3,617	(670)	No
Past due 31- 60 days	2,611	(742)	No
Past due 61-90 days	2,516	(843)	No
Past due 91-180 days	5,994	(2,268)	No
Past due 181-300 days	7,416	(3,363)	No
Past due more than 300 days	33,972	(28,816)	Yes
	76,032	(37,604)	

Impairment of not past due receivables is related to the Group's assessment of the risk of uncollectibility for certain population groups based on historical information.

Group's receivables impairment at the reporting date of the statement of financial position, including court receivables impairment:

In thousands of BGN	2020	2019
Balance at the beginning of the period	(37,604)	(34,804)
Accruals during the period	(10,218)	(8,691)
Written-off	1,605	1,758
Written- off for purpose of IFRS 9	9,897	4,133
Balance at the end of the period	(36,320)	(37,604)

The quality of the trade and other receivables is assessed based on credit policy prepared by the Risk Management Committee and applied by the Group. The Group's management monitors the customers' credit risk by grouping trade and other receivables by characteristics as in 2020 it continues to carry out analysis of specific customers on the basis of precise proactive actions, working with them and the history of past communication. The Group has also introduced impairment of undue trade receivables and outstanding balances for court fees and legal remuneration related to the debt collection and litigation activities.

22. 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, 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 persuant to the loan agreement for the Loan "B" facility regarding the debt service coverage ratio and the equity to total assets ratio.

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 2020
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"	22,364	(22,726)	(15,202)	(7,524)	-	-
Liabilities to related parties	3,186	(3,186)	(3,186)	-	-	-
Lease liabilities	4,616	(4,645)	(1,854)	(1,479)	(1,312)	-
Trade payables	33,497	(33,497)	(33,497)	-	-	-
	63,663	(63,663)	(53,739)	(9,003)	(1,312)	-

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

As disclosed in Note 18, the Group has secured bank loan "C" 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 18) under 1.5:1 till the end of 2020 and 1.2:1 till the loan maturity in 2022 – the Group 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.

31 December 2019

In thousands of BGN	Carrying Amount	Contracted cash flows	Up to 1 year	Between 1 - 2 years	Between 2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Loan "C"	44,579	(45,605)	(22,879)	(15,202)	(7,524)	-
Liabilities to related parties	3,653	(3,653)	(3,653)	-	-	-
Finance lease liabilities	2,093	(2,120)	(1,343)	(777)	-	-
Trade and other payables	35,379	(35,379)	(35,379)	-	-	-
	85,704	(86,757)	(63,254)	(15,979)	(7,524)	-

22. Financial instruments (continued)

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:

	31 December 2020			**31 December 2019**		
In thousands of	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(751)	(1)	1	(1,543)	(1)	(4)
Interest-bearing loans and borrowings	(11,435)	-	-	(22,793)	-	-
Total	(12,186)	(1)	1	(24,336)	(1)	(4)

The following significant exchange rates are applied during the period:

	Average period FX rate		**FX rate at reporting date**	
	2020	**2019**	**2020**	**2019**
USD 1	1.7154	1.7470	1.5939	1.7475
GBP 1	2.2001	2.2290	2.1755	2.2988

- ***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 2019 is done on the same basis.

In thousands of BGN	**Statement of comprehensive income**	**Statement of comprehensive income**
	31 December 2020	**31 December 2019**
USD	-	(1)
GBP	-	(1)
CZK	-	(3)

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.

22. Financial instruments (continued)

Interest rate risk

- ***Profile***

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

In thousands of BGN	**2020**	**2019**
Fixed rate instruments		
Financial assets	69,208	49,055
Financial liabilities	-	-
	69,208	49,055
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(26,979)	(46,672)
	(26,979)	(46,672)

- ***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 2019 is made on the same basis.

Effects in thousands of BGN	**Profit or loss**		**Equity**	
	25 basis points increase	**25 basis points decrease**	**25 basis points increase**	**25 basis points decrease**
31 December 2020				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(67)	67	-	-
Cash flow sensitivity (net)	(67)	67	-	-
31 December 2019				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(117)	117	-	-
Cash flow sensitivity (net)	(117)	117	-	-

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. The Group was not in a breach of any of the equity requirements enforced by external authorities.

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

22. Financial instruments (continued)

Accounting classifications and fair values

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

31 December 2020		Carrying amount								Fair value			
In thousands of BGN	*Note*	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	*15*	-	-	-	-	33,304	-	-	33,304				
Receivables from related party	*26*	-	-	-	-	107	-	-	107				
Cash and cash equivalents	*16*	-	-	-	-	69,208	-	-	69,208				
		-	-	-	-	102,619	-	-	102,619				
Financial liabilities, not measured at fair value													
Loans	*18*	-	-	-	-	-	-	(22,364)	(22,364)			(22,364)	(22,364)
Trade and other payables	*20*	-	-	-	-	-	-	(33,497)	(33,497)				
Payables to related parties	*26*	-	-	-	-	-	-	(3,186)	(3,186)				
Lease liabilities	*27*	-	-	-	-	-	-	(4,615)	(4,615)				
		-	-	-	-	-	-	(63,662)	(63,662)				

22. Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2019		**Carrying amount**								**Fair value**			
In thousands of BGN	*Note*	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	*15*	-	-	-	-	27,731	-	-	27,731				
Receivables from related party	*26*	-	-	-	-	85	-	-	85				
Cash and cash equivalents	*16*	-	-	-	-	49,055	-	-	49,055				
		-	-	-	-	76,871	-	-	76,871				
Financial liabilities, not measured at fair value													
Loans	*18*	-	-	-	-	-	-	(44,579)	(44,579)			(44,579)	(44,579)
Trade and other payables	*20*	-	-	-	-	-	-	(35,379)	(35,379)				
Payables to related parties	*26*	-	-	-	-	-	-	(3,653)	(3,653)				
Payables on financial lease	*27*	-	-	-	-	-	-	(2,093)	(2,093)				
		-	-	-	-	-	-	(85,704)	(85,704)				

22. 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

2020

Loan C is granted to the Group in March 2018 at market interest rates and the underlying base rate reprice to market each six months. The management considers that no factors have occurred, which would significantly change the market interest rates as at 31 December 2020 and that is why it considers that the carrying amount of the loan is reasonable approximation of its fair value.

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

23. Employee benefits

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

In thousands of BGN	**2020**	**2019**
Present value of the liability on 1 January	2,313	1,999
Interest expense	15	18
Current service cost	288	293
Actuarial loss (profit)	81	121
Paid compensations to retired employees	(368)	(118)
Present value of the liability on 31 December	2,329	2,313

Liability recognized in the statement of financial position as at 31 December, including:	2,329	2,313
Short-term liabilities for retirement compensation	617	746
Long-term liabilities for retirement compensation	1,712	1,567

Expenses recognized in the statement of comprehensive income

In thousands of BGN	**2020**	**2019**
Current service cost	288	293
Past service cost	-	-
Interest expense	15	18

Actuarial assumptions

	2020	**2019**
Discount rate at 31 December	0.65%	0.85%
Salary increase (annual for 10 years)	2.50%	2.50%
Employee turnover	5.7%	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 = 0.65% 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.).

23. Employee benefits (continued)

Actuarial assumptions

In thousands of BGN	25 basis points increase of salaries growth	25 basis points decrease of salaries growth
Effect on the liability for retirement compensation	35	(35)

In thousands of BGN	25 basis points increase of interest growth	25 basis points decrease of interest growth
Effect on the liability for retirement compensation	(35)	35

In thousands of BGN	10 basis points increase of employee turnover	10 basis points decrease of employee turnover
Effect on the liability for retirement compensation	(140)	140

In thousands of BGN	25 basis points increase of mortality rate	25 basis points decrease of mortality rate
Effect on the liability for retirement compensation	(19)	19

24. Contingencies

Bank guarantees

As at the date of the preparation of this report the Group 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, 2021;
• Performance security for the obligations of Sofiyska Voda AD under the Contract No.РД-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 116DSK13585 (before reference No 799 L/11.12.2017), issued by DSK AD, to the amount of 524,000 BGN, and validity till December 31st, 2021.;

25. Commitments for acquisition of property, plant and equipment

Concession agreement

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 was obliged to reach the amount of USD 153 million of investments. After that period no further investments were 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 W&S operators;
- Carries out preliminary control, delivers an opinion on the compliance of concession and other types of WSS system managing contracts with WSSSRA 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 contract 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. 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 was 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 Group performed BGN 241.6 million of investments, which fulfilled the Group's obligation to perform investments for BGN 240 million.

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

On 29 March 2017 the Sofiyska voda AD AD 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 companies 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 Sofiyska voda AD will rely on a contracted tariff schedule for the current 5-year regulatory period until 2021. As of 1 January 2019 the Sofiyska voda AD 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 and consequently as of 1 January 2020 the third price increase was approved. 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 Sofiyska voda AD 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 amd 48 months prior to the expected date of expire of the concession Sofiyska 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, Sofiyska 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 Sofiyska voda AD distributed 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 Sofiyska 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 2020 is BGN 262,297 thousand (2019: BGN 276,384 thousand).

For 2020 the investments amounted to BGN 39,740 thousand (2019: 47,134 thousand), of which BGN 35,762 thousand (2019: 41,435 thousand) represented investments in improvements and new public assets, of which 20,210 (2019: 30,568) are recognized as revenue from construction.

For the period since the beginning of the Concession until the end of 2020 the amount of investments made by the Group into the concession infrastructure is BGN 749,949 thousand.

Comparison between committed investments in the approved business plan for the period 2017 – 2021 and actual ones is disclosed in the table below:

Investments in regulated services	**2017** (in mln. BGN)	**2018** (in mln. BGN)	**2019** (in mln. BGN)	**2020** (in mln. BGN)
Committed investments in accordance with approved Business plan 2017- 2021	44.2	44.4	38.7	33,8
Actual investments	43.6	40.8	43.8	38.0

Committed investments in accordance with the approved business plan for 2021 are BGN 33.0 million.

25. 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 209 million for the current regulatory period (2017-2021) and an additional BGN 165 million until the end of the concession in 2025;
- 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-Ц-1/29.03.2017 of EWRC for the approval of the Business Plan of the Group for the period 2017-2021. The Group was constituted as an interested party. With decision No 1895/20.03.2019 the Administrative Court of Sofia ruled against the lawsuit filed by the Supreme Administrative Prosecutor's Office for repeal of decision N- БП-Ц-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 Supreme Administrative Court issued a DECISION № 15937 Sofia, 23.12.2020, ruled under Adm. 5891/2019, which is final.

Investment commitments

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 the Sofiyska voda AD filed a new 5-year Business plan for the period 2017-2021, which was finally approved with the Decision of the EWRC No. БП-Ц-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. Ц-34/ 15.12.2017.

With Decision No. Ц-20/ 28.12.2018 the EWRC approved a third update of the prices of the WSS services provided by Sofiyska Voda in effect from 01.01.2019.
With Decision No. Ц-37/ 23.12.2019 the EWRC approved a fourth update of the prices of the WSS services provided by Sofiyska Voda in effect from 01.01.2020 and subsequently, with Decision No. Ц-46 /30.12.2020 the EWRC approved the update of the prices of the WSS services provided by Sofiyska Voda in effect from 01.01.2020.

In addition to the investment commitments in the approved Business Plan of the Sofiyska voda AD for 2017-2021 the Sofiyska voda AD has committed to perform investments under the Settlement agreement with the Municipality of Sofia (MoS) (dated 16 January 2009). As at 31 December 2019 and 31 December 2020 the nominal remaining amount of the additional investment commitment was BGN 4.4 million and BGN 3.6 million respectively (note 20).

26. 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 same government.

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

- Construction revenue and expenses with MoS
- Green energy income with National Electricity Company EAD – state-owned (disclosed in Note 4);
- Under a contract signed with NEC EAD, the latter has invoiced to Sofiyska Voda BGN 1,215 thousand (without VAT) for water that Sofiyska Voda 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.

The subsidiary in the financial statements of Sofiyska Voda AD is Water Industry Support and Education EOOD, where Sofiyska Voda AD owns 100% of the capital (2019: 100%).

26. Related parties (continued)

The following transactions took place in 2020:

Related party	**Relation**	**Transactions during the year**	**Balance as at 31 December 2020**	
In thousands of BGN			**Receivables**	**Payables**
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,500	-	1,500
Veolia Environnement Finance	Company under common control	Operational guaranty fees 6	-	6
Veolia Campus	Company under common control	Trainings 30	-	7
Veolia Energia Magyarorszag	Company under common control	Purchase of masks 212	-	-
Veolia Environnement SA, France	Company under common control	Discount 15	67	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 51	-	-
		Metering 1	-	11
		Sales of materials	5	-
		Garbage fee	-	-
Veolia Energy Solutions Bulgaria EAD	Company under common control	Reinvoicing costs 3	-	-
		Maintenance of air-conditioners 11	-	-
		Reconstruction of a pipeline route 3	-	-
		Purchase of air-conditioners 12	-	-
		Guarantees under contracts -	-	2
		Consulting services - WWTP Zagorka 1	-	-
		SCADA monitoring 4	1	-
		Inspection and report preparation service 1	2	-

26. Related parties (continued)

The following transactions took place in 2020:

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2020** **Receivables**	**Payables**
Veolia Service Bulgaria EAD	Company under common control	Reinvoicing costs 1	-	-
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Repair works on the WSS network in Sofia 2	-	-
		Guarantees under contracts -	-	11
		Продажба на материали -	3	-
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Sale of materials -	5	-
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 3,647	-	1,393
		Consumables 8	21	-
		Penalites 1,280	1	256
		Rent 6	2	-
		Общо:	107	3,186

26. Related parties (continued)

The following transactions took place in 2019:

Related party	**Relation**	**Transactions during the year**	**Balance as at 31 December 2019**	
In thousands of BGN			**Receivables**	**Payables**
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	2,992
Veolia Environnement Finance	Company under common control	Operational guaranty fees 20	-	11
Veolia Campus	Company under common control	Trainings 29	-	2
Veolia Czech Republic	Company under common control	Participation in event 38	-	26
Veolia Environnement SA, France	Company under common control	Discount 52	52	-
Veolia EAU-Compagnie Generale	Company under common control	Metering 5	-	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 50	-	10
		Costs for lab tests and analyses 2	-	1
		Sale of materials 1	6	-
Veolia Energy Solutions Bulgaria EAD	Company under common control	Guarantees under contracts -	-	2
		Maintenance of air-conditioners 24	-	25
		Physico-chemical analysis 1	1	-
		Purchase of air-conditioners 11	-	2
		SCADA monitoring 1	-	-
		Zagorka service 1	-	-
		Video recording service 5	6	-
Veolia Energy Varna EAD	Company under common control	H&S Training 5	-	4

26. Related parties (continued)

The following transactions with related persons took place in 2019:

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2019** **Receivables**	**Payables**
Veolia Service Bulgaria EAD	Company under common control	Reinvoicing costs 2	-	-
		Physico-chemical analysis 3	3	-
Veolia Energy Bulgaria EAD	Company under common control	Reinvoicing costs 1	-	-
		Participation in event 3	-	-
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Reinvoicing costs 14	-	-
		Guarantees under contracts -	-	11
		Sale of materials -	3	-
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 1,132	-	289
		Sale of materials 5	5	-
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 2,492	-	278
		Consumables 6	9	-
		Total:	85	3,653

26. Related parties (continued)

Transactions with directors and officers on key management personnel:

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

The remunerations for the key managers consist of:

In thousands of BGN	**2020**	**2019**
Short-term employee benefits	296	284
Share-based payment	-	-
	296	284

In thousands of BGN		
Of which on balance sheet short-term income as at 31 December	25	25

In 2020 the Group has incurred expenses amounting to BGN 1,500 thousand for technical services (2019: BGN 1,496 thousand), which include also the remunerations for key management personnel provided. The services are rendered by Veolia Voda CEE and the expenses are disclosed as part of the transactions with this related party in the information above.

27. Leases

(a) Leases as lessee (IFRS 16)

The Group leases buildings, office space and warehouses, IT server locations, vehicles and other equipment. The leases typically run for several years, and some have an option to renew the lease with one year after the end date. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group leases IT equipment with contract terms of one year. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

See accounting policy in Note 3.
Information about leases for which the Group is a lessee is presented below.

(i) Right-of-use assets

Right-of-use assets related to equipment and leased properties that do not meet the definition of investment property are presented below:

In thousands of BGN	**Office rent and other**	**Vehicles**	**Total**
2020			
Balance at 1 January 2020	538	2,399	2,937
Depreciation charge for the year	(1,326)	(666)	(1,992)
Depreciation on disposals	4 ,622	-	4,622
Disposals	(11)	-	(11)
Balance at 31 December	3,823	1,733	5,556

In thousands of BGN	**Office rent and other**	**Vehicles**	**Total**
2019			
Balance at 1 January 2019	1,821	3,065	4,886
Depreciation charge for the year	(1,251)	(666)	(1,917)
Depreciation on disposals	632	-	632
Disposals	(664)	-	(664)
Balance at 31 December	538	2,399	2,937

(ii) Lease liabilities

In thousands of BGN	**2020**	**2019**
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1,854	1,343
One to five years	2,791	777
More than five years	-	-
Total undiscounted lease liabilities at 31 December	**4,645**	**2,120**
Lease liabilities included in the statement of financial position at 31 December	4,615	2,093
Current	1,834	1,324
Non-current	2,781	769

27. Leases (continue)

(iii) Amounts recognised in profit or loss

In thousands of BGN

	Note	2020	2019
2020 – Leases under IFRS 16			
Interest on lease liabilities		19	39
Expenses relating to short-term leases	7	142	128

(iv) Amounts recognised in statement of cash flows

In thousands of BGN	2020	2019
Total cash outflow for leases	2,085	2,411

(v) Extension options

Some leases contracts contain extension options exercisable by the Group. In such cases, for contracts which expire within one year of the reporting date, the Group has assumed and extension of up to one year. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

28. Subsequent events

On 25 January 2021, the Group repaid in full the whole outstanding principal and interest under the loan to the Consortium of banks - United Bulgarian Bank and DSK, in the amount of BGN 22,484 thousand as all the collaterals under the loan are released.

With Decision № HB-1 of 28.05.2021, the Energy and Water Regulatory Commission approves, as of 01.01.2021, rates of return on capital for the next 5-year regulatory period 2022-2026. The valid rate set for the Group is 8.12%. Based on the performed analyzes, the Management considers that the rate of return on capital set by the EWRC will not lead to impairment of the fixed assets of the Group.

ANNUAL CONSOLIDATED REPORT ON ACTIVITIES

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

31 DECEMBER 2020

Financial review:

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

In 2020 the Group's revenue from main charges amounted to BGN 183.4 M, which was by 5.23% higher than the revenue from main charges in the same period of the previous year – BGN 174.3 M. The main reason is the increase in the price as of 1 January 2020 by 7.16%. The Group's total revenue for 2020 amounted to BGN 204.9 M (BGN 206.2 M in the same period of 2019). The revenue from construction in 2020 amounted to BGN 20.2 M (BGN 30.6 M in 2019). The breakdown of revenues by types of services is presented in Note 4 of the financial statements.

The cogeneration installation in Kubratovo WWTP, commissioned at the end of 2009, addressed the plant's demands in 2019 for power supply predominantly.

The Group's operating costs in 2020 amounted to BGN 165.3 M (2019 – BGN 163.8 M). This amount includes BGN 20.2 M for construction costs, which resulted from the application of IFRIC 12.

The depreciation and amortization costs in 2020 amounted to BGN 57 M. The value is higher than the one reported for 2019 (BGN 50 M), 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 every year.

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

The net financial costs for 2020 were by BGN 314 K less than the ones reported for the same period of 2019, which is 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 2020 amounted to BGN 34.5 M as compared to BGN 36.5 M for the same period of 2019.

The management of the financial risk and the exposure of Group in terms of the price, credit and liquidity risks and the cash flow risk are presented in detail in Note 22 Financial instruments to the consolidated financial statements.

Signed significant contracts:

Contract No.	Subject of the contract	Contractor	Start Date	End Date	Value, VAT excluded	Option value and renewal
8534	Road surface restoration works on the territory of 30% of the Concession Area of SV	Consortium "Asfalt Perfekt 2019"	17.01.2020	22.07.2022	1 800 000	600 000
8543	Supply of active power - high, medium and low voltage, and inclusion of the sites of Sofiyska Voda AD in a balancing group	CEZ Trade Bulgaria EAD	29.01.2020	01.07.2021	3 300 000	2 310 000
8785	Emergency repairs related to the maintenance of sewer networks and facilities to them operated by SV, as well as construction of new SSC	Partnership Kanali Sofia 2020 (Gelak OOD, ET Yony DM – Yonko Stoilov)	23.11.2020	23.03.2023	13 000 000	5 850 000

Signed related party transactions:

On 1 November 2018 two contracts were signed with ViK EAD 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 Seminariyata Reservoir, Municipality of Sofia – Lozenets Region.

Contracts concluded in the year as per art. 240b of the Commerce Act

As per art.240 "b" of the Commerce Act, the Board members are obliged to inform in writing the Board of Directors, respectively the Management Board, when they or their related parties conclude contracts with the Group outside the scope of its activity or which substantially deviate from the market conditions.

In 2020 the Board members did not conclude contracts with the Group under art.240 "b" of the Commerce Act.

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 nature unusual 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, to the amount of 750,000 dollars and validity until 15 December 2021;
- Performance guarantee of Sofiyska Voda AD under Contract No.РД-568-68/10.08.2011 with the Municipality of Sofia for repair of defects and damages that have occurred in municipal property sites where Sofiyska Voda AD carries out construction works, with No. 116DSK13585 (previous reference No.799 L/11.12.2017), issued by DSK AD, to the amount of 524,000 BGN and validity until 31 December 2021.

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 (2015: 100%). The capital of Water Industry Support and Education EOOD is in the amount of 5,000 BGN, 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 Group 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

As at 31 December 2020 Sofiyska Voda AD holds a loan agreement with the consortium Expressbank and UBB AD. The nominal interest rate under the agreement is 1.35% plus 3-month Euribor. According to the repayment plan, the loan should be repaid in 2022.
Information for the ultimate parent Group is published on the following website where the consolidated financial statements of Veolia Environnement, France, are:
https://www.veolia.com/en/veolia-group/finance/financial-information/financial-publications

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 Group 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:

As at 31 December 2020 Sofiyska Voda AD has no concluded loan agreements as a lender or borrower with companies from the Group.

Information for the ultimate parent Group is published on the following website where the consolidated financial statements of Veolia Environnement, France, are:
https://www.veolia.com/en/veolia-group/finance/financial-information/financial-publications

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 has no published 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 2017 – 2021 Business Plan of the Group. The implementation of the investment program provided for in the Business Plan is financed with Group's own funds, i.e. from the Group revenue generated through the prices determined for the provision of WSS services, as well as with borrowed funds.

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 the best 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, including the business processes related to it, 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 2 – Internal Control Components.

The control environment sets the tone of an entity, by influencing the control consciousness of people within an organization. It is the foundation for all internal control components, providing discipline and structure. The factors of the control environment comprise: integrity, ethical values and competence of Group employees; management's philosophy and operating style; the way management grants powers and responsibilities, and organizes and develops its employees; as well as attention and guidelines, given by the Board of Directors.

The main policies and procedures ensuring the control environment, which are reviewed and updated regularly, are:

- Ethics Guide of Veolia Group (adopted by SV in 2014, last updated in December 2018);
- Internal Regulations of Sofiyska Voda AD;
- Disclosure Policy of Sofiyska Voda;
- 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's official website www.sofiyskavoda.bg);
- Accounting Policy;
- Procedure on closure of the accounts;
- Instruction on receiving, accounting and paying invoices from suppliers;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets;
- Procedure on Human Resources Management;
- Procedure on Employee Performance Management.

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. Since economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the specific 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 Group. The procedure is reviewed and updated regularly in order to ensure that the Group applies a unified approach in 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 have to 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 Group's Regulation and Concession Compliance Department is in charge of the information exchanged with the Municipality of Sofia, EWRC and other institutions. The relations with the customers are managed by the teams of the Commercial Directorate.

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

The control activities are in line with the policies of Sofiyska Voda and result from the procedures of the Group. 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, approval, 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 the "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 monitoring obligations regarding financial reporting) under the Independent Financial Audit Act.

The 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 powers in the Group, the internal audit team 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.

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:

Legal case 4041/2017 of Administrative Court Sofia City was initiated in 2017. The case was started under an appeal of a prosecutor from the Supreme Administrative Prosecutor's Office and a group of citizens against EWRC Decision No. БП-Ц-1/29.03.2017, whereby the business plan of the Group as well as the prices of WSS services for regulatory period 2017 – 2021 were approved. The Administrative Court of Sofia City issued a ruling on the case, whereby it did not uphold the appeal. The Supreme Administrative Prosecutor's Office filed a cassation appeal, under which Case No. 5891/2019 was initiated with the Supreme

Administrative Court, scheduled for consideration on 13 July 2020. The Supreme Administrative Court dismissed the cassation protest and fully confirmed the decision of the Administrative Court-Sofia City. The decision is definitive.

General Meeting:

On 10 August 2020 the Annual General Meeting of the shareholders of Sofiyska Voda AD was conducted. During the general meeting the following decisions were taken:
1. The consolidated report on the activity of Sofiyska Voda AD for 2019 and the consolidated annual financial statements of the Group for 2019 were approved;
2. The report on the activity of Sofiyska Voda AD for 2019 and the separate annual financial statements of the Group for 2019 were approved;
3. The report on the activity of the Audit Committee of Sofiyska Voda for 2019 was approved;
4. The General Meeting of Shareholders resolved not to distribute the profit of Sofiyska Voda AD for 2019;
5. The General Meeting of Shareholders released from responsibility the members of the Board of Directors of Sofiyska Voda AD for their activity in 2019;
6. The General Meeting removed Mrs. Milena Staykova Tsenova from her post as Sofiyska Voda's Board member and appointed Mr. Georgi Ivanov Bankov as a Board member of the Group in her place.
Within the statutory deadline the Group disclosed the separate and consolidated financial statements and reports on the activity under its file in the Trade Register with the Registry Agency.

On 30 December 2020 an extraordinary General Meeting of Shareholders of Sofiyska Voda AD was held. The following decisions were made at it:

1. KPMG Audit OOD, 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 2020;
2. The General Meeting fixed the remuneration of the Board member appointed on 10.08.2020 at the gross amount of BGN 2,000 as from the date of his appointment until the date of holding the extraordinary General Meeting, and as from the date of the extraordinary General Meeting – the remuneration of the Board members at the gross amount of BGN 2,400 per month, and also the management liability insurance was fixed at the amount of 3 gross remunerations;
3. The General Meeting changed the registered office and head office of the Group in relation to the relocation of the head office as follows: The Republic of Bulgaria, 1618 Sofia, MoS – Krasno selo region, 159 Tsar Boris Blvd., floors 2 and 3, Business Center Interpred Tsar Boris;
4. The General Meeting changed the Articles of Association of Sofiyska Voda AD.

Board of Directors:
In 2020, there was a change in the Board of Director of the Group. On 10.08.2020 with a decision of the General Meeting of the Shareholders Mrs. Milena Staykova Tsenova was released as Board Member and Mr. Georgi Ivanov Bankov was elected as member of the Board of Directors.
The Board of Directors of Sofiyska Voda consists of 7 members:
Until 10.08.2020 the Board Members were: Mr. Francois 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.
After 10.08.2020 the Board Members are: Mr. Francois Michel Debergh, Mr. Frederic Laurent Faroche; Mrs. Mariana Georgieva Iteva, Mr. Vasil Borisov Trenev, Mr. Georgi Ivanov Bankov, Mr. Vladimir Georgiev Stratiev, and Mr. Biser Nikolaev Damyanovski.
In 2020 the Group was managed and represented individually by Mr. Vasil Borisov Trenev and Mr. Francois Michel Debergh.

The remunerations of the members of the Board of Directors for 2020 were 296,000 BGN (2019: 284,000 BGN), from which the unpaid amount as at the reporting data was 25,000 BGN (31.12.2019: unpaid 25,000 BGN). The income of the Board members in the period are as follows: Mr. Vladimir Stratiev, Mr. Biser

Damyanovski – 24,000 BGN each; Mrs. Milena Tsenova – 14,000 BGN; Mrs. Mariana Iteva – 30,000 BGN, Mr. Georgi Bankov – 9,000 BGN, and Mr. Vasil Borisov Trenev – 195,000 BGN.

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 2020 the Board Members participated in the management of other companies, registered in the Trade Register with the Registry Agency or entities, or commercial proxies, 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. 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;
2. Biser Nikolaev Damyanovski – participated in the management of and held more than 25% of the capital of INTERTRADE CONSULT EOOD, UIC: 201824172;
3. Vasil Borisov Trenev held more than 25% of the capital of GAZPROM BULGARIA EOOD UIC 131467679;
4. Francois Michel Debergh participated in the management of Veolia Solutions Bulgaria EAD, UIC: 130547859, Veolia Services Bulgaria EAD, UIC: 121371700, Veolia Energy Varna, UIC 1031954464.
5. Georgi Ivanov Bankov – participated in the management of and held more than 25% of the capital of GV Public Partners EOOD, UIC 206041187
The Board members did not conclude contracts under art.240b of the Commerce Act during the year.

Acquired and transferred shares:

In 2020 the Group did not acquire or transfer own shares.

Number and nominal value of the owned own shares and the part of the capital they represent:

As at 31 December 2020 the Group's share capital includes 8,884,435 ordinary shares (2019: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2020 are:

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

Research and development

Sofiyska Voda AD does not carry out research and development.

Branches:

The Group has no branches.

Business Plan:

In 2020 the annual commitments of the Group set in the Business Plan 2017-2021 were fulfilled. Detailed information in relation to the implementation of the main lines of the Business Plan, such as: size of the realized investments in 2020, quality of potable water, commercial and operational issues etc., is presented in the other parts of the present report.

With its Decision dated 30.12.2020, EWRC approved the new price of the WSS services for 2021, effective as of 01.01.2021. The increase in the price of the WSS services for 2021 compared to the effective prices of the WSS service for 2020 is 6.%.

During the reporting period (2020) the Group reported good results as regards the main aspect of the activity, as the efforts were directed towards maintaining its operational efficiency and achieving the key efficiency performance indicators for 2020. At the end of December 2020, EWRC published a "Comparative Analysis of the WSS Sector in the Republic of Bulgaria for 2019". The analysis confirms the leading position of Sofiyska Voda AD in the WSS sector in the country.

Over the period June – August 2020 EWRC conducted the traditional annual audit of the Group. The focus of the audit was on the quality of the provided reporting data for 2019, as well as the implementation of the recommendations of EWRC for the introduction of databases and registers. The Statement of Findings under the audit, prepared by EWRC, was handed over at the end of December.

In the second half of 2020 the Group started working also on the development of the new business plan of Sofiyska Voda AD for the new regulatory period 2022-2026. It should be noted that as at the end of 2020 EWRC did not yet publish the final instructions and e-models for the development of the business plan. The Group participates actively in the working meetings and public consultations held with the Regulator on the preparation for the new regulatory period.

Events following the reporting date:

On 25 January 2021, the Group repaid in full the whole outstanding principal and interest under the loan to the Consortium of banks - United Bulgarian Bank and DSK, in the amount of BGN 22,484 thousand as all the collaterals under the loan are released.

With Decision № НВ-1 of 28.05.2021, the Energy and Water Regulatory Commission approves, as of 01.01.2021, rates of return on capital for the next 5-year regulatory period 2022-2026. The valid rate set for the Group is 8.12%. Based on the performed analyzes, the Management considers that the rate of return on capital set by the EWRC will not lead to impairment of the fixed assets of the Group.

Information about services provided by the independent auditor:

The expenses on the remuneration of the appointed independent auditor amounted to 120 thousand BGN, of which 60 thousand BGN for the statutory independent financial audit.

For the audited period and as at 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:

- **Statutory financial audit required by law of the Group's financial statements, prepared for the year ending 31 December 2020 in compliance with the IFRS adopted by EU**;
- Audit of financial information for consolidation purposes of the Group, prepared as at and for the year ending 31 December 2020, in compliance with the accounting instructions of Veolia Group;
- Limited review of the interim financial information for consolidation purposes of the Group, prepared as at and for the period ending on 30 June 2020, 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 Unified System for Regulatory Reporting (USRR), pursuant to the published by EWRC instructions, 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 demanded by EWRC in connection with USRR and art. 15 and art. 16 of the WSSSRA.

Customer Service:

Over the last few years the Group has implemented many innovations for convenience of its customers, including a free 24/7 phone line, a possibility for contacting us through the social networks (Facebook, Skype open line only calls), modern and functional locations of the customer service centers. In parallel with that, an application was developed for monitoring the parameters of the potable water in the different regions of the Municipality of Sofia.

In the conditions of an extraordinary situation in the country the customers and consumers of WSS services turned to a remote form of contact through the website and the Call Center. During the reviewed period the online communication developed significantly, as that process additionally gained pace on account of the conditions in which the business in the country found itself into, which led to isolation and social distance. Sofiyska Voda AD became adapted to those processes, developing several options for the customers on its website. To date the Group is in the process of implementing a modern platform, including a mobile application with improved functionalities, in order to ensure faster and easier channels for interaction with the customers.
Throughout the entire 2020 we continued to work towards optimization of the resources and fulfillment of the commitments taken in the Customer Charter in order to offer quality servicing in the shortest possible period. The average response time for requests, applications, complaints etc. up to 8 calendar days was kept despite the extraordinary situation during the year. The average response time achieved for online inquiries in over 90% increment on an annual basis was 10 hours.
To increase customer satisfaction, over the last years Sofiyska Voda AD expanded its portfolio of offered services, namely:

- management of the water consumption through the use of "smart water meters";
- online change of the account holder;
- in the conditions of social distancing the Group offered to its customers yet another service for serving accumulated debts – "online conclusion of an agreement".

The measure introduced by the Group for evaluating the overall "customer experience" in the process of asking questions, requests, complaints etc. showed very good results. The overall satisfaction rate registered growth by 2 points, from 87% in 2019 to 89% in 2020, moreover, in the conditions of an extraordinary situation.
Evaluation of the efforts, or "How difficult is it to work with Sofiyska Voda AD" – the survey is conducted through a phone interview of a sample of 2,000 customers per quarter.
Evaluation of the loyalty, or "How likely is it for you to recommend Sofiyska Voda AD" – the indicator is included also into the annual customer satisfaction survey conducted by an external supplier.
"Customer experience" aims at showing how our customers perceive the Group's products and services through all interactions they have with the Group. This is yet another way for us to get feedback from the customers through surveys, complaints and inquiries, which help the Group establish and manage the processes.

The professional customer service is of extreme importance for Sofiyska Voda AD. For that reason, the Group started the development and introduction of a unified customer service standard which will raise the satisfaction level and the image of the Group.

Customer Relations

In 2020, the total number of the contacts with customers increased by 12.2% compared to 2019, as the increased number of calls to the Call Center mostly contributes to that – 670,623, which is 23.4% more compared to the preceding year. For the calendar year the missed calls are 4.3%, or a 1.3% growth over the set KPI (3%) is reported, the main reason for that being the increased number of calls to the Call Center due to the extraordinary epidemiological situation introduced in the country. The level of the service "talks with a reply received in less than 30 seconds" is 88%. For the period the registered average time, which the customers waited in the queue, is 10 seconds.

The number of the complaints from all communication channels decreased by 9.1%.

Customer Service Centers

In 2020 the total number of the visits (excluding for payments) to the customer service centers (CSC) was 103,605 which is by 20.9% less compared to the previous year.
The reason is the declared state of emergency in the country related to COVID-19.
The number of the payments at the CSCs decreased by 32.2% in view of the existing network of various payment channels, incl. the upward trend for digital and non-cash payments.

Internet Services

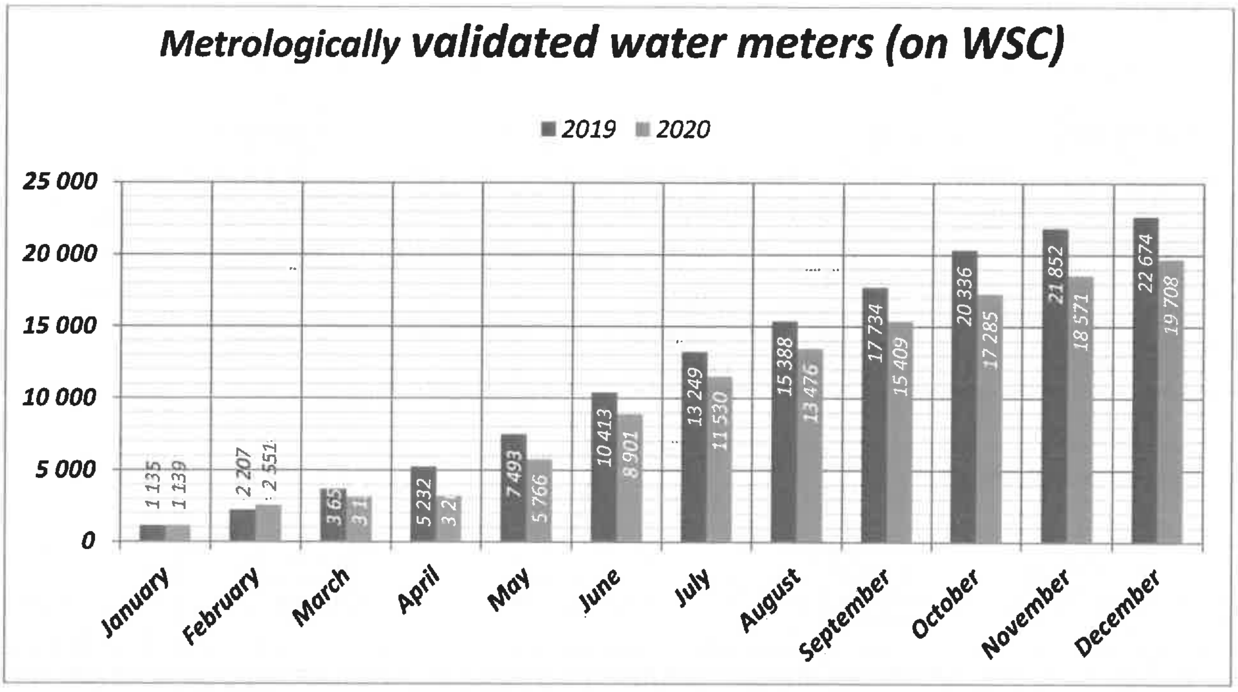
2,496,413 visits to the website were registered in the period January – December 2020 and 220,897 self-readings were submitted by customers in 2020 compared to 146,291 in 2019.

The enquiries received through the website in 2020 were 18,617 and 16,780 required a response, which is 90.9% more compared to the previous year. All answers were sent within 24 hours from the receipt of the enquiry.

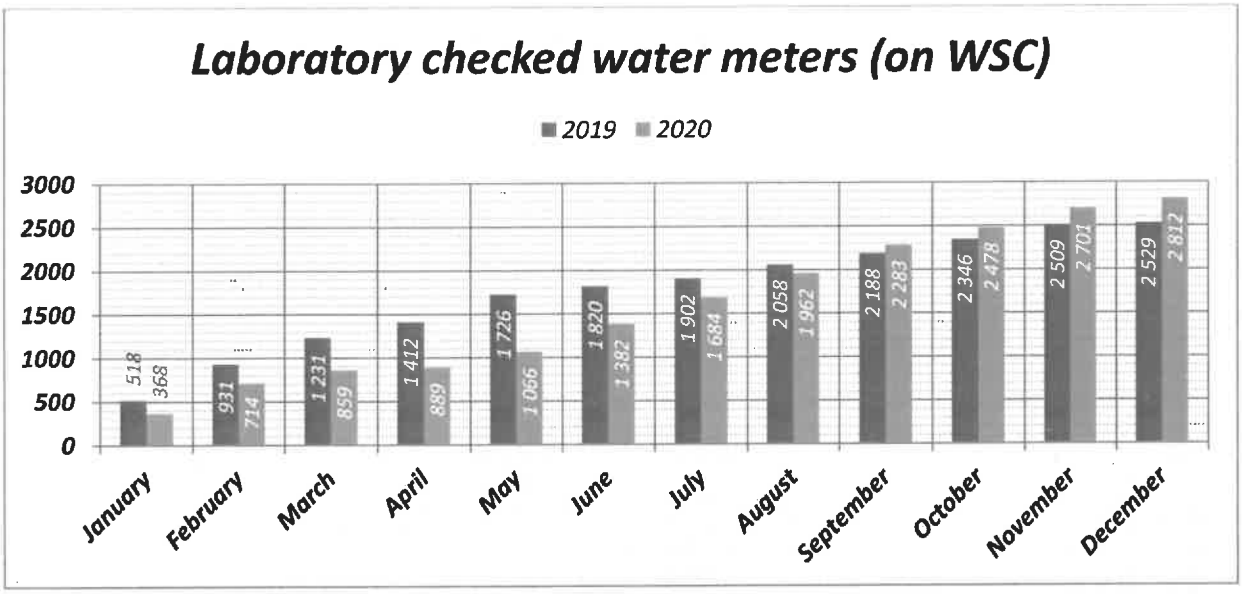
Over the period January - December 2020, 15,545 customers gave up receiving paper invoices. As at the end of the year the total number of customers who received e-invoices reached 156,958.

Water Meter Services, Billing and Debt Collection

Replacement of water meters on water service connections

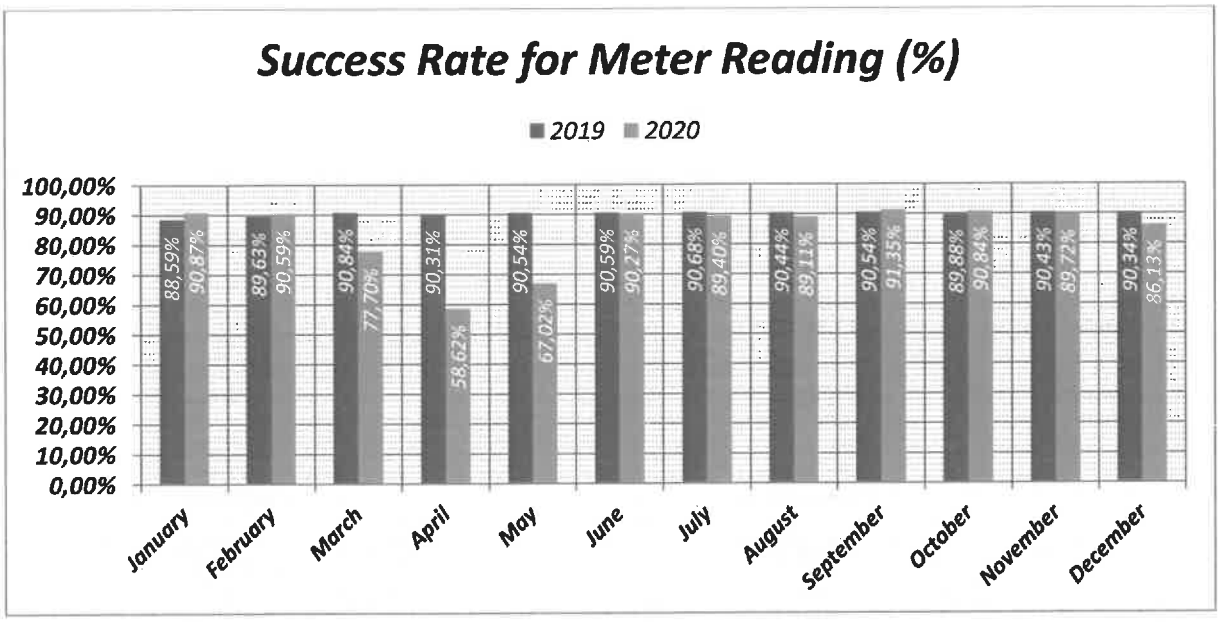


In 2020 the water meters on water service connections, set in metrological validity, are 19,708, which is by 13.14% less compared to 2019. That is due to the smaller number of water meters with expiring or expired metrological validity in 2020. Regardless of the smaller number of water meters set in metrological validity in 2020, they are 90.07% compared to 89.49% in 2019, or an increase by 0.58%.



In 2020 the water meters checked in authorized laboratories for water meters were 2,812, which is by 11% more as compared to 2019. The increase results from the efforts of the Group for testing water meters on a sample basis.

Water Meter Reading



The success rate in the meter reading activity for 2020 was 84.30% as compared to 90.23% in 2019. The main reason for the registered decrease in the success rate is the pandemic situation, and the effect is paricularly visible in March, April and May when the first anti-epidemic measures were announced and the activities were suspended.

Billing

A 1.5% decrease in the billed potable water volumes was registered in 2020 on an annual basis compared to 2019 (76.91 M m^3 in 2020 and 78.07 M m^3 in 2019), which is due to the decrease in the consumption of the commercial and budget customers as a result of the coronavirus pandemic (more details are given in the *Consumption Trends* below).

With the decision of EWRC dated 1 January 2020 a new tariff for the potable water supply and treatment, sewerage and wastewater treatment was approved. As a result, the total combined tariff of the regulated water and sewerage services was increased by 7.2% and the total amount of the billed volumes in 2020 amounted to 214.21 M BGN, VAT included, which is 11.18 M BGN more (+5.5%) compared to 2019.

Collection of Receivables

In 2020, despite the difficult economic and political situation, the Group continued realizing successfully the strategy for increasing the collection of outstanding receivables from its customers. As a result, the total collected amount as at the end of the year was BGN 204.45 M in comparison with BGN 194.15 M in 2019, or the registered increase is 5.3% on an annual basis. The annual collection coefficient for 2020 was 95.45% compared to 95.62% in 2019, as the main problems in the collection of receivables were connected mostly to the consequences from the COVID-19 pandemic, due to which most of the businesses suspended their activities and inevitably affected considerably the solvency of the households, as well as to the delay or lack of payments from the budget and institutional customers.

During the reviewed period an increase was registered also in the result and the activities of the internal debt collection teams, as the total amount collected by them was 23.57 M BGN in comparison with 22.03 M BGN in 2019, or a registered annual growth of 7%.

In its constant attempt to improve the quality of the provided services and customer satisfaction, the Group continued offering different payment channels where customers may pay their debts for the consumed WSS services. The Group 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.

In 2020 the revenues from the services "Individual water meter installation and testing" amounted to BGN 1,098 thousand, as for 2019 the revenues were BGN 1,193 thousand, or a reduction of BGN 95 thousand.

In April 2019 a new service was launched – "Installation of remotely-read water meters", both for entire buildings/condominiums, new and old buildings, as well as for individual customers. In 2020, 582 packages to a total amount of BGN 165 thousand were installed. In 2019, 831 remotely-read water meters were installed to the total amount of BGN 166 thousand.

OPERATIONS AND MAINTENANCE

Water Source Management

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

The total water abstracted from all water sources in the period January – December 2020 was 146,851,513 m^3.

The data, obtained from the monitoring during the year, show that the water volumes used for water supply decreased in comparison with 2019. The decrease was mainly due to the efforts of the Group to reduce the water losses. The declared epidemiological situation and the related to it reduction of the economic activities also contributed to it.

The raw water abstracted from all water sources in the period January - December 2020 compared to the same period of 2019 decreased by 6,750,224 m^3 regardless of the additional water volumes supplied to the town of Pernik during the water supply crisis in the town.

Consumption Trends

In 2020, the total volumes billed by the Group decreased by -0.95% compared to 2019, or 885 thousand m^3 less. For the potable water, the decrease was by -1.49% or -1,160 thousand m^3 less compared to 2019.

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

Water	2019, m^3	2020, m^3	Annual variation (m^3)	Annual variation (%)
Households	59 949 720	61 274 951	1 325 231	2.21%
Budget Customers	4 245 103	3 597 287	-647 816	-15.26%
Commercial Customers	13 874 884	12 037 729	-1 837 154	-13.24%
Non-potable water	5 343 358	5 343 265	-93	0.00%
Raw Water (WS Beli Iskar and WS Bozhurishte)	9 621 069	9 896 385	275 316	2.86%
Transit water (WS Pernik)		2 761 655	2 761 655	
Total potable water WS Sofia	**78 069 707**	**76 909 968**	**-1 159 739**	**-1.49%**
Total billed water for all water supply systems	**93 034 134**	**94 911 273**	**1 877 139**	**2.02%**

The greatest reduction is observed for the commercial and budget customers, respectively by -13.2% (- 1,837 thousand m3) and -15.26% (-648 thousand m3) on an annual basis, mainly due to the Covid-19 crisis. During the difficult past year, in the conditions of a pandemic, the big shopping centers, hotels, universities, schools, kindergartens etc. were closed due to the epidemiological situation. Employers encourage (wherever possible) teleworking and work with limited human resources in the offices. That led to redirection from commercial and budget consumption to consumption by the population category.

An increase was registered for raw water, which is due to the increased billed volumes for Samokov (+227 thousand m^3), and for WS Bozhurishte (+49 thousand m^3) vs. 2019. The volumes of raw water supplied from the two water systems (WS Beli Iskar and WS Bozhurishte) to the only customer of the Group – the state-owned Vodosnabdyavane i Kanalizatsia EOOD, depend on the available reserves of its own drilling wells.

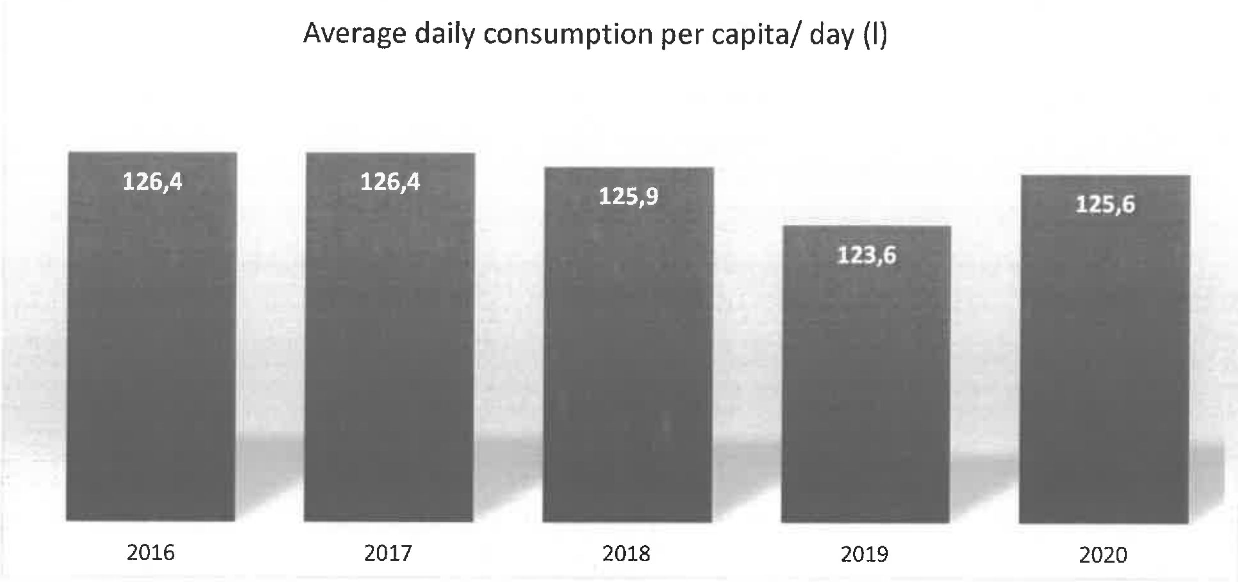
In 2020 the volumes of industrial water remain the same like in 2019 and the main customer is Toplofikatsia Sofia EAD.

In 2020, volumes of transit water supplied to WS Pernik were billed (+2,762 thousand m^3).

Consumption of households – analysis of the current trends

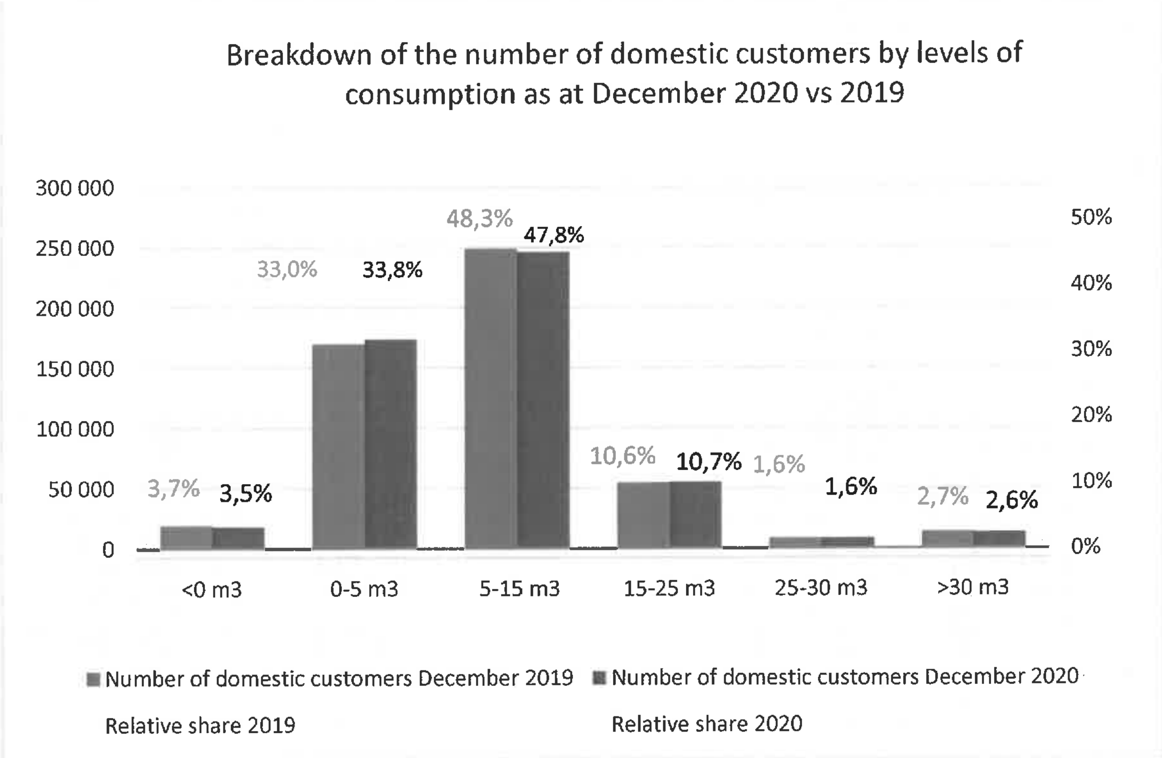
In 2020, the billed volumes of potable water for the households had the highest share of 80% in the total billed consumption as compared to 2019 (77%). The total billed volumes for the households were by 1,325 thousand m^3 more compared to 2019, which was mainly due to crisis resulting from the COVID-19 pandemic.

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



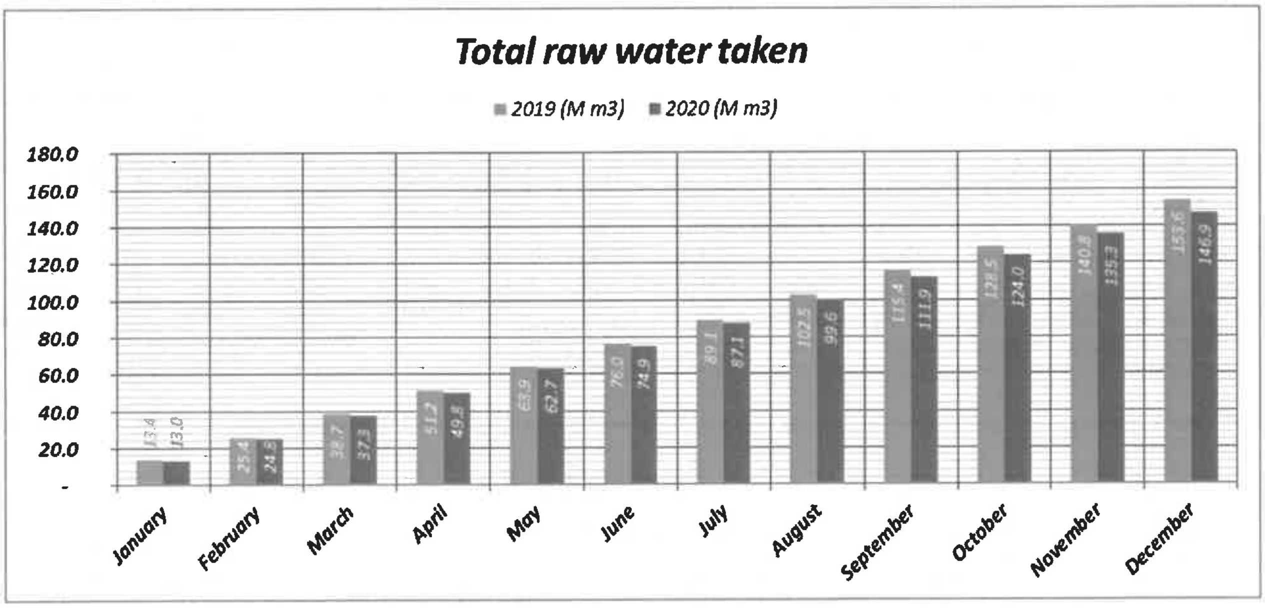
The average daily consumption is calculated as a ratio between the billed annual volumes for households and the number of the population of Sofia city (forecast for 2020 of the National Statistical Institute), divided by 365 days.

This trend is also related to the dynamics of the customer groups with higher water consumption versus those with lower water consumption. On a monthly basis, the Group monitors the number of domestic customers, whose water consumption is measured according to the following monthly consumption: 0-5 m^3, 5-15 m^3, 15-25 m^3, 25-30 m^3, exceeding 30 m^3/month. In 2020, the highest was the share of the customers with average monthly consumption 5-15 m^3 (47.8%) and those with 0-5 m^3 (33.8%). The upward consumption trend for the households is presented also on the chart below where it is evident that a higher number of customers shift "to the right", from lower to higher average monthly consumption, which is in support of the enhanced consumption due to the crisis resulting from the COVID-19 pandemic:

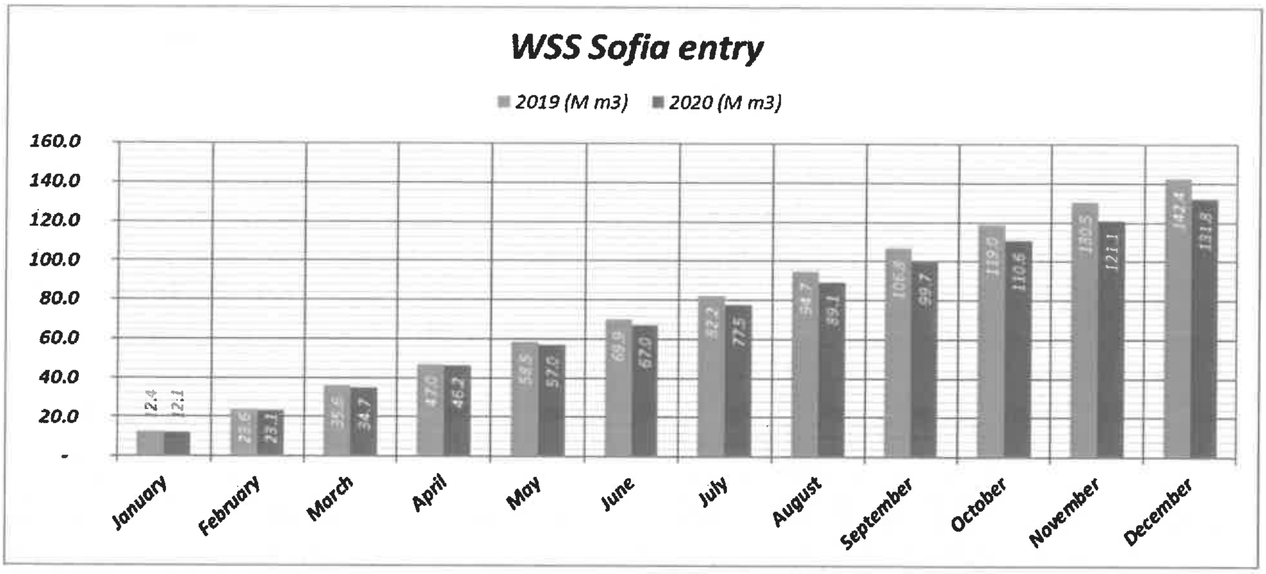


Reduction of unaccounted-for water

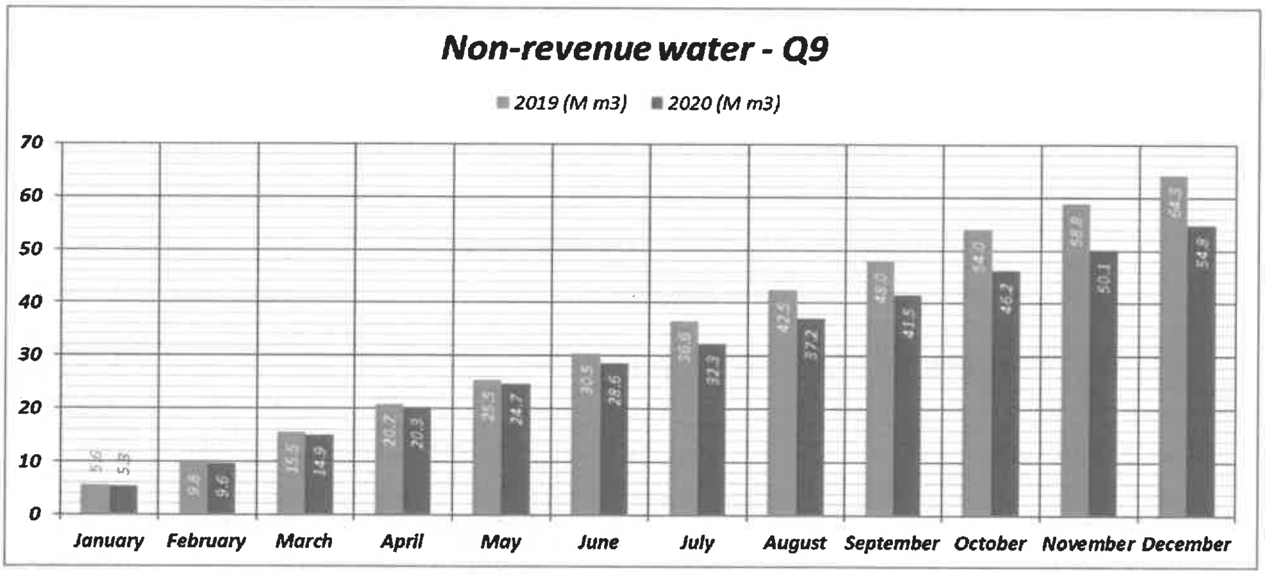
Over the period January – December 2020 the following results were achieved:



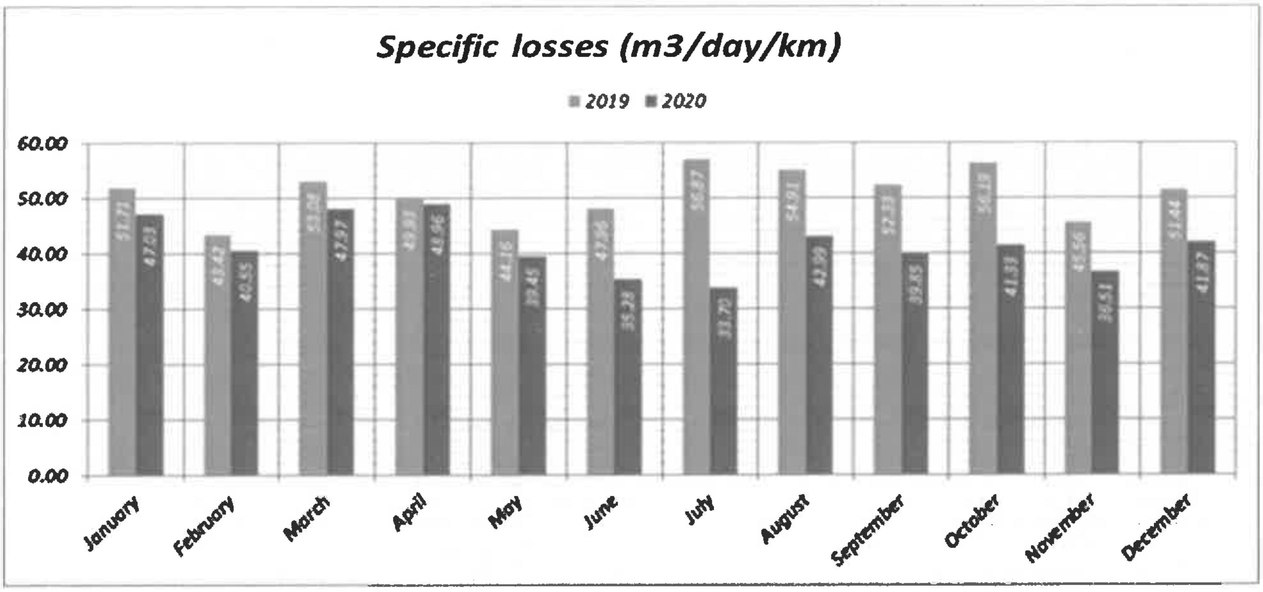
The total abstracted water volumes decreased by 6.75 million m^3, or an 8.88% decrease.



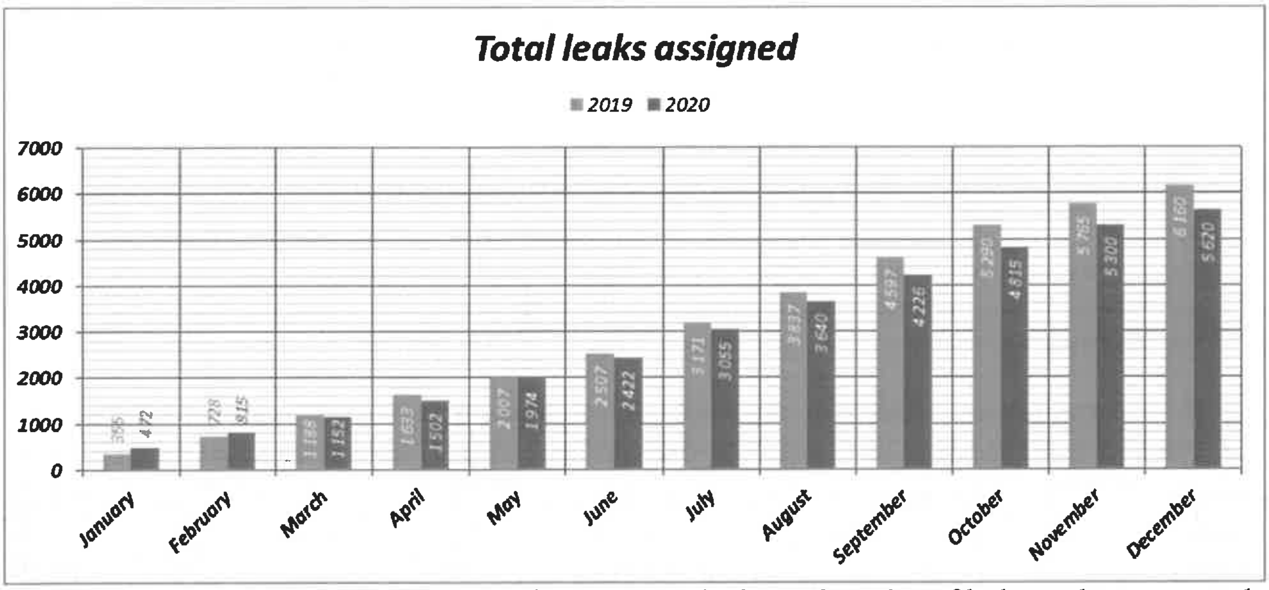
Reduction of the volumes supplied at WS Sofia entry by 10.6 million m^3 or a reduction by 7.5% compared to 2019.



Reduction of the non-revenue water (Q9) by 9.5 million m3 or by 14.7% compared to 2019.



The level of the specific losses is marked by a decrease – 8.57 m^3/day/km of network on average, or 18.36%.



In 2020, there was a reduction by 8.77%, or by 540 cases, in the total number of leaks on the water supply network (street mains, water service connections, fixtures, water meter nodes etc.).

Quality of the Supplied Water

Sofiyska Voda AD certifies through the results of the periodic and control monitoring performed that the measures put in place to control the risks to human health on the entire water supply network are efficient. Microbiological, physico-chemical and radiological indicators of indicative significance are monitored for the large and small water supply zones 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 2020 Sofiyska Voda AD:

- Coordinated with the Regional Health Inspectorate-Sofia the prepared risk assessment for the safety and quality of the potable water supplied by Sofiyska Voda AD, made according to the instructions under BDS EN 15975-2 "Safety of Potable Water Supply. Risk and Crisis Management Instructions. Part 2: Risk Management";

- On an annual basis develops and implements the "Potable Water Monitoring Program, Sofiyska Voda AD" coordinated with the Regional Health Inspectorate-Sofia.

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 the water supply zones. 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 in the period January - December 2020 was as follows:

- KPI2a – compliance rate for large water supply zones - **99.96 %**, which exceeds the statutory requirements of 99% for the long-term levels of the KPIs;
- KPI2b - compliance rate for small water supply zones - **98.34** %, which exceeds the statutory requirements of 98.06% for the long-term levels of the KPIs;

Over the period January-December no deviations were established posing health risks to the population.

In 2020, samples from the points included in all 6 water supply zones were monitored, exceeding the frequency required under 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 LTC in the reporting period were related mainly to the implementation of the plans for monitoring potable water, surface water and groundwater, as well as wastewater and sludge from WWTP; the maintenance and expansion of the accreditation; the control over the processes ensuring impartiality, metrological 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.

In the period January – December 2020, in the Potable Water Sector of LTC, a total of 8,101 samples were received, to which 152,077 analyses were made, and in the Wastewater Sector, respectively, 9,234 samples and 77,968 analyses. For comparison, in 2019 in the Potable Water Sector of LTC a total of 8,729 samples were received, to which 161,470 analyses were made, and in the Wastewater Sector, respectively, 10,252 samples and 88,688 analyses. The analyses conducted by LTC in 2020 were 8% less, and the samples taken – 9% less vs. 2019. Those changes are mainly due to operational and technological reasons (reduced water volumes, number of samples, etc.)., as well as the pandemic caused by COVID-19.

Sofiyska Voda AD met the number of samples and analyses set in proportion to the supplied water volumes and with respect to the operated facilities at the monitoring sites.

In 2020, the LTC continued the successful fulfilment of its contracts for the provision 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 2020, LTC participated in proficiency tests for a total of 79 analyses, from which the successful results were 77 and the unsuccessful – 2. The success rate of LTC from all participations until now is 97.5%. The relevant corrective actions were taken in respect of the unsuccessful results. 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 identify the areas for 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 15-16.12.2020 a second audit and expansion of the scope of accreditation were conducted in LTC through a remote review of documents and records for compliance with the accreditation requirements.

The final completion of the evaluation within the scope of the granted accreditation according to Certificate 50 ЛИ/12.02.2020 (Order A91/12.02.2020) and as in the application for the extension of the scope in conformity with the open procedure Reg. No. 175/50 ЛИ/PO/18.09.2020, will be made after conducting on-site monitoring of the activity in the spring of 2021.

Water Network Management

The focus of the Group in 2020, like in 2019, was on several main aspects:

- Improving the 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 teams from Electrical and Mechanical Maintenance;
- The total number of the customers who requested the SMS notification service for planned water supply interruptions was 40,841, and in the period January - December 2020 a total of 51,330 messages were sent;
- Over the period January - December 2020, 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 was 80% on average.

Sewerage

In 2020, the implementation of the program for proactive maintenance of the sewerage network continued, as a result of which more than 103 km of the network within the Concession Area were proactively cleaned, which is by 4.5 km more as compared to 2019. Improvement was achieved in spite of the lower staff count in certain periods, owing to the reduced traffic and the easier access to the facilities along heavy-traffic arteries during the period of the introduced state of emergency.

In the period January-December 2020, the sewer network surveyed and recorded with all cameras of the Group was 117 km, which is 25 km less compared to 2019. 22 km of the sewer network surveyed and coded with the Cerberus program are large walkable sewer collectors, over Ф1500 mm.

The reason for the reported drop is the smaller number of teams, which does not allow for the fulfillment of the set standard tasks in their complete size, including for the requirement for a minimum number of participants in the implementation of the activity in view of guaranteeing their safety.

In 2020, the trend is retained of reduction of the emergency signals for reasons – sewer clogging, clogging of sewer service connections or structural damage of sewers, which is the result of the proactive activities as a combination of preventive maintenance and video surveillance. The Group strives through the proper planning of the proactive works to continue decreasing the inconvenience caused to our customers for reason of the sewer network.

	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
2019	80	926	547	1748	88.84
2020	75	937	495	1755	85.87
2020	58*	937	495	1755	84.90

* There is a change in the methodology for calculation of the variable structural destruction of the sewer network. The data for 2020 were calculated in 2 ways and the second line is under the new methodology

In 2019 the "Digital Water City" project was launched under the European Horizon 2020 program with a duration of 4 years, which includes two lines: proactive cleaning of 10 km of sewers with a provided nozzle, equipped with a camera and an option for taking photographs during the actual cleaning, and the installation of 50 temperature sensors for monitoring the condition of the rainwater facilities by overflowing/not overflowing status. The restrictive measures taken to address the pandemic led to some delay in the activities under the project, nevertheless, they are expected to be implemented in full.

In that reference, in 2020, 10 off-line sensors were installed on overflow facilities, which should register overflow of the facility, and the planned 40 on-line sensors were postponed for the first half of 2021, when it is expected for the test CCTV survey of 10 km of the network with a nozzle camera to start.

Wastewater Treatment

In the period January – December 2020, Sofia Wastewater Treatment Plant (WWTP) treated a total of 118.7 million m^3 of wastewater from the sewer network of Municipality of Sofia.

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 wastewater discharge permit, the following main indicators are analyzed - biological oxygen demand (BOD_5), 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 2020 the statutory number of samples was taken for the above quality indicators of the treated wastewater.

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

With decision No. 3021/14.07.2020 of the director of Basin Directorate "Danube Region" the validity of the permit No. 13140074/08.08.2008 was extended to 11.08.2030.

The downward trend during the year for reduction of the inflowing volume of wastewater while keeping the level of concentration of carbon pollution from the previous three years is reconfirmed. The trend of increase in the nitrogen and phosphorus loads continues.

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 around 17.34%.

Over the period more than 16,606 tons of absolute dry matter sludge from the treatment processes were stabilized and mechanically dewatered, and 17,346 tons of absolute dry matter were utilized in agriculture.

The generated and utilized volumes of sludge were reported in tons of absolute dry matter.

The control on waste generated at Kubratovo WWTP, 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 2020

In accordance with the approved Business Plan 2017-2021, the investments program of Sofiyska Voda AD is at a total amount of BGN 36.09 M and the structure of the planned investments is the following:

Investments	Investments as per BP 2020 (BGN)
Investments in regulated services	33,779
Investments in non-regulated business	1,248
Additional investments	1,060
Total investments:	**36,087**

The total implemented investments were to the amount of BGN 39.74 M. From them BGN 37.45 M was for regulated services, which is 111% of the plan. The investments implemented outside the regulated ones are at a considerably higher value than the planned ones as in 2018 the Group started implementing also additional investments amounting to BGN 1.5 M per year, envisaged in the Third Amendment Agreement to the Concession Agreement signed on 23 March 2018.

QUALITY MANAGEMENT

In November the Integrated Management System of Sofiyska Voda was successfully audited and the audit confirmed the certification of the Quality Management System under BDS ISO 9001:2015, the Environmental Management System under BDS EN ISO 14001:2015 and the Occupational Health and Safety Management System under BDS ISO 45001:2018. The audit did not detect any non-conformities for any of the three management systems.

In 2020 Sofiyska Voda expanded the IMS by introducing the requirements under the standard BDS ISO 37001:2016 "Anti-bribery Management System" and in April 2020 it was successfully audited by an independent certification body (TUV NORD CERT).

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Sofiyska Voda has a certified Environmental Management System (EMS) in compliance with the requirements of the international standard ISO 14001:2015. In 2020, 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 and in accordance with the ISO requirements, the environmental aspects were updated as well as the necessary agreements with the contractors to maintain and develop the EMS.

In 2020 Sofiyska Voda renewed its registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS) whose scope includes all treatment plants and the water network.

Environmental incidents

In 2020 the reported cases were as follows: 4 sudden pollution discharge events at the inlet of Kubratovo WWTP, 4 cases of emergency discharge of untreated wastewater in a water body as a result of a disrupted operational process, 5 cases of emergency opening of flood gates due to intensive rainfalls at the inlet of Kubratovo. The relevant measures for overcoming those incidents were taken in a timely manner and they did not have considerable environmental impact.

Program for the 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 and sewer networks, reducing the water losses on the network, ensuring increasingly efficient and quality treatment of the 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 2020 was satisfactory and led to improved environmental impact.

Trainings and initiatives

There were 5 trainings held in 2020 in accordance with the annual Environmental System training program. Various external and internal environmental protection initiatives were also carried out - Celebrating the World Environment Day by placing bird houses and feeders at Bistritsa and Pancharevo PWTP, handing over the plastic caps collected by the employees of Sofiyska Voda AD in the campaign "Caps for the future", participation in a public discussion on the project "Program for supplementing the program for air quality management on the territory of Sofia 2015-2020", preparing the rose bushes at Bistritsa PWTP for the winter, including the traditional participation of the Group in the European Week for Waste Reduction 2020.

Waste Management

The Group strictly complies with the Bulgarian waste management legislation. In 2020, the following was handed over for disposal, recovery or recycling:

- 14.67 tons of hazardous waste, including 4.720 tons of asbestos-containing waste;
- 28,611 tons of non-hazardous waste, which include excavated earth masses and exclude sludge from Sofia WWTP to be utilized on agricultural areas;
- 17,346 tons (dry matter) - sludge from the Sofia WWTP to be utilized on agricultural areas.

Green energy production

24,023 MWh of green energy were produced in the Sofia WWTP over the period January – December 2020. The production is based on a CHP installation for the recovery of biogas released in the process of sludge treatment in the plant. In 2020 the green energy produced in the treatment plant covered more than 99% 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)

In 2020, the certification of the Occupational Health and Safety Management System of Sofiyska Voda was reconfirmed in accordance with the requirements of ISO 45001.

The applicable legal requirements were complied with and exceeded. The annual program for monitoring and audits on occupational health and safety was implemented. The health and safety risks are assessed and managed systemically.

Trainings and exchange of information

In 2020, there were 7,982 training hours in occupational health and safety. The number of the employees, who took part in at least one occupational health and safety training during the year, was 1,173. The number of participations in occupational health and safety trainings was 2,373 (there were employees, who took part in more than 1 training).

In 2020 the health and safety risks were assessed and managed systematically. The risks related to the new and reconstructed sites and in case of changes in the working processes, facilities and conditions are assessed and managed continually. The "Safer Together" project continued for increasing the H&S awareness and commitment of the managers, improving communication, risk management, and H&S monitoring and control. In September 2020 a corporate H&S week was conducted, focused on monitoring and feedback as instruments for improvement of the occupational health and safety performance.

The potential contractors are assessed for H&S competence and performance. The contractors are audited for H&S. Information and good practices in terms of H&S are exchanged.

Accidents, incidents and near-misses

In 2020, there were 2 occupational accidents (as per art.55 para.1– during work), 4 incidents (without loss of work capacity), 11 near-misses (adverse events, without personal injury), and 169 registered auto insurance claims. All accidents, incidents and near-misses are reported and analyzed immediately.

HUMAN RESOURCE MANAGEMENT

In its policy and practice Sofiyska Voda AD develops and applies modern forms of human resource management with the understanding that these factors are crucial for the business development and the high performance. The achievement and maintenance of balance between the interests of the employer and the workforce are based on compliance with the legislation, adherence to high budgetary discipline and social partnership with the trade union organizations.

Human resource management is evolving through applying a set of policies and procedures planned in advance, so that the entire management team is involved in this process.

Remuneration and benefits

As of 1 January 2020 the salaries of the employees were increased by 3.1 %, which is the annual inflation for 2019 as per the data of the National Statistical Institute.

In March 2020 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 in the previous year.

As of 1 June the salaries of the employees were increased by 2.88% on average.

For a third consecutive year the employees 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 5% of the employees' gross annual remuneration as the sum at the amount of EUR 300 is doubled by Veolia Environnement. The second plan offers the purchase of shares with a 20% discount from the market price.

Training, Motivation and Development

Trainings

Trainings for raising the professional competence involved a total of 2,341 participations and 13,023 training hours.

The requirements for acquiring legal capacity or refreshing occupational health and safety knowledge necessary for carrying out certain activities are strictly complied with in the Group. In 2020, mandatory H&S trainings involved 2,373 participations and 7,982 training hours.

In 2020, a total of 1,186 people were included in trainings, and the number of participations was 4,714. The completed training hours were 21,005. Of them, 14,340 hours were in the form of distance learning.

In 2020, Sofiyska Voda AD started using actively the distance learning platform ILIAS, through which nearly 4,000 training hours were completed.

Joint training program with Sofia High School of Construction, Architecture and Geodesy "Hristo Botev"

On 21.10.2020 a joint project was initiated between Sofiyska Voda AD and the Sofia High School of Construction, Architecture and Geodesy for conducting practical classes, part of the training program of the students from the 10th grade, speciality "Water Construction". In full compliance with the current epidemiologic situation in the country, the program involves a series of online presentations, which aim to familiarize the students with the main activities along the water's route, from the water sources of the city of Sofia to the discharge of the treated wastewater into the Iskar River.

Management's responsibility

In compliance with legal requirements, the management draws up an annual activity report and financial statements for each financial year, presenting a true and fair view of the financial position of the Group for the calendar year, taking into account the financial performance and the cash flows in conformity with the applicable accounting framework. For the preparation of the financial statements the Group applies the rules of the International Financial Reporting Standards (IFRS), applicable both in the European Union and in the Bulgarian accounting legislation.
The management's responsibility includes: development, deployment and maintenance of an internal control system, ensuring the preparation and fair presentation of the financial statements that are free from material

misstatements, deviations and non-conformities, whether due to fraud or error; selecting and applying appropriate accounting policies; preparing accounting estimates, reasonable in the specific circumstances. The management confirms that it has acted in accordance with its responsibilities and that the financial statements have been prepared in full compliance with the International Financial Reporting Standards applicable in the European Union.

The management also confirms that in the preparation of this activity report it has provided true and fair presentation of the development and financial performance of the Group for the past period, as well as its position and major risks it faced. The management has approved the issuing of the activity report and the financial statements for 2020.

Sofia, 28 May 2021

Aneliya Ilieva
/Finance Director/

Vasil Trenev
/Executive Director/

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

NON-FINANCIAL INFORMATION TO THE ANNUAL REPORT 2020

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

1. ENVIRONMENTAL MATTERS

1.1.ENVIRONMENTAL PROTECTION IN 2020

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 group 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 2020 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 Quality, Environment and Health and Safety Policy and in conformity with the ISO requirements, the environmental aspects and the necessary agreements with the contractors were updated in order to maintain and further develop EMS.

In 2020 Sofiyska Voda AD renewed its registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS) for Bistritsa Potable Water Treatment Plant (Bistritsa PWTP) with a scope covering all treatment plants and the water network.

1.2. ENERGY EFFICIENCY IN 2020

The WSS system of the city of Sofia is designed and constructed 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 2020 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 24,023 MWh (the generated energy was 17.9% MW more versus the previous year). The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2020 the green energy produced in the treatment plant covered more than 99% the electricity needs of the treatment plant.

1.3. EMISSIONS INTO AIR IN 2020

Direct emissions

The group 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 2020 the direct emissions amounted to 1.98 thousand tons of carbon dioxide (CO_2), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. There was a decrease by 1.3% versus 2019. 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 group vehicles. Also, where possible, the remoteness of the potential suppliers is assessed in the selection of services and goods.

Indirect emissions

The indirect emissions result from the use of energy – electric and heat. In 2020 the data shows that the indirect emissions of the group amounted to 2.84 thousand tons of carbon dioxide (CO_2), which is 29.98% less in comparison with the previous year.

The global reduction in emissions of greenhouse gases in 2020 was 17.93 thousand tons of carbon dioxide equivalent (CO_2), as that was mainly due to the production and use of renewable energy.

1.4. WATER RESOURCES IN 2020

Losses reduction

The constant monitoring of the water volumes supplied to 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 2020 was 146,851,513 m^3.

The data obtained from the monitoring throughout the year shows that the water volumes used for water supply decreased in comparison with 2019. The decrease was mainly due to the efforts of the group to reduce the losses, as the declared epidemiological situation and the reduced economic activities resulting from it also contributed to that.

The raw water abstracted from all water sources in the period January - December 2020 compared to the same period of 2019 decreased by 6,750,224 m^3 regardless of the water volumes supplied during the emergency situation in Pernik at the time of the water supply crisis in the city.

Water losses reduction is a priority in the investment program of Sofiyska Voda AD. The realized total investments were to the amount of BGN 39.7 M. From them BGN 38 M was for regulated services, which is 112% of the plan.

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 set ourselves even higher challenges in order to achieve even better performance. In 2020 the monitored samples were from the points included in all 6 water supply zones, as the frequency required as per *Ordinance 9 on the quality of water intended for domestic purposes dated 16.01.2018* was exceeded.

Sewerage and wastewater treatment

1.17 km of new sewers were constructed in 2020. In the period January – December 2020, a total of

118.7 million m^3 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" at Kubratovo SWWTP, carries out 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 2020 Iskar River was spared the following quantities of pollutants from the wastewater:

- 15,589 t BOD5
- 34,708 t COD
- 2,897 t of nitrogen
- 416 t of phosphorous.

In 2020 the determined statutory number of samples was 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 treatment process the so called "sludge" is separated, which is 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 human consumption. The quality of the sludge separated in the wastewater treatment process is tested in conformity with the Ordinance on the terms and conditions for utilization of sludge from wastewater treatment through its use in agriculture.

17,346 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2020 over agricultural areas instead of being deposited in landfills or incinerated, as in that way nature was spared the artificial fertilizers used in the production. In 2019 a research project on the "Opportunities for utilization of sludge obtained in wastewater treatment and effect for sustainable agriculture" was launched, and it is implemented by experts from the Institute for Agricultural Economics – Sofia in partnership with experts from "N. Pushkarov" Institute for Soil Science and Agro-ecology. The duration of the project is 18 months.
This research will allow studying the impact 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.
Due to the epidemiological situation in the country, the deadline was extended. The final report was submitted by the working group for a review and approval in March 2021.

1.6. WASTE

Sofiyska Voda provides to its employees the possibility to throw their rubbish separately, aiming at its recycling or proper disposal in conformity with the waste management legislation of the Republic of Bulgaria. Apart from the separated collection of waste from packages, spent batteries, toners and electric and electronic equipment are also collected at the group's sites and handed in.
Metal waste, glass, used oils, tires, used disposable clothing, and other types of waste are collected at the different sites. Sofiyska Voda joined the "Caps for Future" campaign in 2018. There are cardboard boxes at all group sites and the employees actively participate in the collection of bottle caps. Thus the commitment is linked not only to the idea of the campaign but also to plastic waste reduction and recycling and the reduction of environmental pollution. In 2020 the group participated in the delivery of the collected plastic caps, their total amount being around 150 kg, for the purchase of new incubators for premature babies.

A bazaar dedicated to "one man's garbage is another man's treasure" was organized for the second year in a row within the European Week for Waste Reduction, which showed another opportunity for preventing waste generation. A competition was organized for food waste reduction. The participants were challenged to participate with a recipe with ingredients – unused products left in their fridges.

The Group strictly complies with the Bulgarian waste management legislation. In 2020 the following has been delivered for disposal, utilization or recycling:

- 14.67 tons of hazardous waste;
- 28,611 tons of nonhazardous waste, which include dug out soil and do not include sludge from SWWTP for utilization on agricultural areas;
- 17,346 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

1.7. BIODIVERSITY

Preservation of biodiversity and ensuring favorable conditions for the ecosystems is a priority for the Group of Veolia and one of the commitments for sustainable development.
4 of the sites of Sofiyska Voda AD were identified as *sensitive* according to the criteria set by the Group. These are: Bistritsa PWTP; Pancharevo PWTP; Kubratovo WWTP and Mala tsarkva PWTP. The project was started in 2019 together with the biologists from the National Research Center at SU "Sv. Kliment Ohridski" and it was divided into two phases:

- phase I /2019/ – a biodiversity survey at Bistritsa PWTP and Pancharevo PWTP;
- phase II /2020/ – a biodiversity survey at Kubratovo WWTP and Mala tsarkva PWTP.

In the period April – July 2020, the second phase of the project – "Preparation of a Report on the Condition of the Biodiversity (Assessment, Analysis and Recommendations) for Kubratovo WWTP and Mala tsarkva PWTP, was completed. A survey within the project was carried out of the flora and fauna of both sites through daily walks around the territory with maximum coverage, video recording of the species and habitats using equipment and camera traps for the purpose of 24-hour surveillance of the sites during the study. An assessment of the condition was made in the prepared reports and concrete measures were presented for the preservation of the existing biodiversity, as well as recommendations and measures with guidelines for future development and improvement. The measures for preserving the biodiversity include the placing of bird houses and feeders, insect hotels and information boards both for the employees, as well as for visitors for raising the awareness with respect to the inhabitants of the plants.

The implementation of part of the measures under phase I started in 2020 as 11 bird houses, 4 bird feeders and 4 insect hotels were purchased and placed at the Bistritsa PWTP and Pancharevo PWTP sites.

In March 2020 a tree was restored in G.S. Rakovski Str. after a signal received in the Contact Center of the Municipality of Sofia – Sredets region for damaged alley plants. The Environmental Services Dept. did what was needed to restore the type of the tree determined by the municipality.

On April 22, 2020 the Earth Day was marked on the internet due to the epidemiological situation. Discussions were held on several platforms where the access for the employees was free.

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 and bleach 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 group 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

Last year (2020) the number of inhabitants and group's in Sofia that requested to receive e-invoices from Sofiyska Voda increased by 20%. 15,545 customers gave up the receipt of paper invoices in the period January – December 2020, and their total number at the end of the year reached 156,958.

2. SOCIAL AND STAFF MATTERS

As at 31.12.2020 the employees of Sofiyska Voda were 1,127, as 110 of them – at managerial positions (50 men and 60 women); at supervisor and technical staff positions – 222 (150 men and 72 women); office employees – 359 (56 men and 303 women), and workers – 436 (400 men and 36 women).

Two trade union organizations are represented in the group – 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.

Sofiyska Voda AD has a policy for development of employee competencies, which is to maintain a high professional standard and increase their motivation.
Various approaches and forms are employed in the development of professional competences, such as in-person and online training and seminars conducted by external suppliers or internal trainers with specific expert skills. Also, the practice has been introduced for temporary job rotation, which allows the opportunity for development of practical knowledge and skills and broader understanding of the activities and processes within the group.

The training and development programs are focused on:

- development of professional skills, acquisition and maintaining of professional skills;
- occupational health and safety;
- increase of the personal potential and development of social and leadership skills;
- digital competence;
- legal and statutory competencies.

There were a total of 2,341 participations and 13,023 training hours in professional trainings held.

The group strictly complies with the requirements for gaining certificates of competence and updating the knowledge in health and safety at work, necessary for carrying out specific activities. There were 2,373 participations and 7,982 training hours in mandatory H&S trainings held in 2020.

1,186 employees participated in trainings in 2020, and the number of the participations was 4,714. The training hours were 21,005, as 14,340 hours – in the form of an online training.

The ILIAS online training platform was actively used in Sofiyska Voda in 2020, and nearly 4,000 training hours were realized through it.

3. HEALTH AND SAFETY AT WORK

There were two occupational accidents in 2020 (as per art. 55, par. 1 – at work), 4 incidents (without loss of working capacity), 11 near-misses (undesired events without personal injury) and 169 registered damages to group 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 group resolves the matters and cases of bribery and corruption are:

- Manuals and guidelines for ethical conduct of Veolia Group – including the Code of Ethics (last updated in 2018) and the Code of Anti-Corruption Code of Conduct (last updated in 2020), as well as the Charter on the use of the right for submission of signals for ethical issues in Veolia;
- Internal Regulations of Sofiyska Voda AD;
- Disclosure Policy of Sofiyska Voda;
- Procedure "Gifts, Hospitality, and Donations. Conflict of Interests", version 2020;
- Anti-Fraud Policy (last updated in 2020), incl. the Anti-Corruption telephone line (+359 2 8122 521, published on SV official website: www.sofiyskavoda.bg);
- Procedure "Due Diligence", which is to regulate the rules and procedure for exercising additional targeted control aiming at corruption risk management and prevention in certain deals, projects, activities, business partners or employees of the group, created in 2020;
- Accounting Policy;
- Procedure on closure of accounts;
- Instruction on receiving, accounting and paying invoices from suppliers;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets;
- Procedure "Conclusion, amendment and termination of the employment contract", last updated in 2020;
- Procedure on Employee Performance Management.

In April 2020 the group was certified under BDS EN ISO 37001:2016 and there is an implemented and effective Anti-bribery management system in place.

The processes of internal control and the resources intended for corruption and bribery prevention are regulated with the above policies and procedures. The Management Systems and Certifications Dept., if necessary, with the assistance of the Internal Audit Dept. and Security Dept., has 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 group.

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

- 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, as well as submission of a signal to the Ethics Committee of Sofiyska Voda AD, chaired by the Executive 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 system-based 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 group's business objectives. The adopted approach for risk assessment and management is used also for the assessment of the risk related to corruption.
For that purpose, in 2020 the system-based instruction "Assessment of the Risk of Corruption" was implemented as part of the system-based risk assessment procedure. 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 occurrence, as well as assessment of the efficiency of the current control, introduced to counter the respective risk. In that assessment 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 set of internal rules /documents/ for identification, assessment, and response to the risks (risk management), including bribery risks, is part of the Integrated Management System of the group. It includes the implemented and functioning management systems under BDS EN ISO: 9001 (Quality Management System), 14001 (Environmental Management System), 45001 (Occupational Health and Safety Management System) and ISO 37001 (Anti-bribery Management System).

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 group, the Internal Audit Team often has a significant role with regard to the 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 2020 there was 1 case of misuse found (unauthorized demand of money from industrial customers) and in that respect measures were taken for termination of the employment contracts of the respective employees, reorganization of the activity and further prevention of that risk.

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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 accompanying consolidated financial statements of Sofiyska Voda AD (the Company) and its subsidiary (together the “Group”) as set out on pages 3 to 72, which comprise the consolidated statement of financial position as at 31 December 2020 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, including a summary of significant accounting policies.

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 2020, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

We have determined the following key audit matters:

Unbilled revenue from water supply, sewerage and waste water treatment services

Revenue from water supply, sewerage and waste water treatment services for the year ended 31 December 2020: BGN 177,091 thousand (2019: BGN 167,236 thousand). Contract assets - unbilled revenue at 31 December 2020: BGN 11,309 thousand (2019: BGN 10,527 thousand)

See Note 3 (l) Significant accounting policies – Revenue and Note 4 Revenue to the consolidated financial statements.

Key audit matter	*How this key audit matter was addressed in our audit*
The Company's core revenue streams relate to the water supply, sewerage and wastewater treatment services. The Company recognized BGN 177,091 thousand as revenue from these sources for the year ended 31 December 2020, of which BGN 11,309 thousand, represents unbilled revenue. Revenue is generally recognized based on periodic meter readings. The amount of revenue for the year includes an estimate of consumption for the period between the date of the last meter reading and the reporting date. Developing the estimate of unread revenue requires significant management judgment and is based on estimates of daily consumption, mainly based on historical patterns. For the above reasons, we considered the unbilled revenue to be associated with an elevated risk of material misstatement. It required our increased attention in the audit and as such was determined to be our key audit matter.	Our audit procedures in the area included, among others: — Updating our understanding of the revenue recognition process and policies 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; — Evaluating the design and implementation of the key controls over preparation of the estimation of unbilled revenue as at 31 December 2020; — Challenging the Company's estimate of accrued unbilled revenues at the reporting date. The procedure included primarily assessing estimated consumption for the unread period by reference to historical metered consumption data by customer type for the respective months of the year; — Tracing the actual invoiced amounts in January and February 2021 to the amounts of the accrued unbilled revenue as at 31 December 2020; — Considering the completeness and accuracy of the Company's disclosures in the consolidated financial statements in respect of revenue recognition policy and revenue by service type.

Service concession arrangement: compliance

Commitments for investments according to the approved business plan for the year ended 31 December 2020: BGN 33.8 million (2019: BGN 38.7 million)

See Note 25 Commitments for investments to the consolidated financial statements.

See Note 3 (c) Significant accounting policies – Property, Plant and Equipment and Note 3 (d) Significant accounting policies – Intangible assets to the consolidated financial statements.

Key audit matter	*How this key audit matter was addressed in our audit*
As stated in Note 1 and Note 25, 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 said service concession and related regulatory arrangements, impose on the Company an obligation to implement specific investment projects through an approved business plan, as also discussed in Note 25, 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, reducing water losses, and maintaining the 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. Failure to comply with the above obligations may result in reduction of the tariffs approved by the Commission in subsequent periods, withdrawal by the Regulator of the Company's license for water supply operation or cancellation of the concession contract In addition, in conjunction with the investments, the Company is obliged to apply the requirements of the Law for public tenders, in particular as concerns purchase prices. Due to the fact that any failure to adhere to the relevant conditions included within the service concession arrangement and the related regulatory regime may have a pervasive effect on operations, including the financial position and financial results, assessment of the Company's compliance with these conditions	Our audit procedures in the area included, among others: — Updating our understanding of the regulatory and concession compliance process, and evaluating selected related management review controls; — Evaluating the design and implementation of the selected key control over the approval of the Company's annual investment plan; — On a sample basis, tracing capital expenditure and maintenance expenditure to supporting documents and payments, in order to assess their existence and accuracy. Also, inquiring of the Engineering and Construction Activities personnel and members of the Board of Directors about any significant deviations between the approved investment plan and the current year's actuals; — Inspect the Company's reporting to and communication with the Grantor and the Commission, including any examination reports issued by those parties during the year in respect of the regulated activities subject of their monitoring; — Examining minutes of meetings of the Company's Board of Directors, specifically focused on the investment projects' progress and approval of the Company's business plan; — Inquiring of the Company's legal advisors and inspecting findings of their report, with an aim to identify any contingent liabilities (e.g. penalties) arising from service concession arrangement at the reporting date; — Evaluating the completeness and accuracy of disclosures in the consolidated financial statements in respect of commitments and contingencies, against the

and regulatory regime required our increased attention in the audit and was considered by us to be a key audit matter.	relevant requirements of the financial reporting standards.

Impairment of non-current assets

Intangible assets as at 31 December 2020: BGN 268,243 thousand (as at 31 December 2019: BGN 281,217 thousand)

Property, plant and equipment (PPE) as at 31 December 2020: BGN 20,779 thousand (as at 31 December 2019: BGN 20,423 thousand)

See Note 3 (c) Significant accounting policies – Property, plant and equipment, Note 3 (d) Significant accounting policies – Intangible assets and Note 13 Intangible assets to the consolidated financial statements.

Key audit matter	*How this key audit matter was addressed in our audit*
As described in Note 13, in the current year, the Company identified impairment indicators in respect of its non-current assets, such as, primarily, signing of an amendment to the Concession contract, giving the Commission a right to set lower prices for the Company's services in the following years, with the resulting potentially lower cash inflows in the future. In the wake of the above, as at 31 December 2020, the Company tested its PPE and intangible assets for impairment, as required by the relevant financial reporting standards. The impairment test was performed by reference to the recoverable amount of the Company's sole cash generating unit („CGU"), determined to be the CGU's fair value less cost of disposal estimated under the discounted cash flow method. Determination of the recoverable amount requires making a number of complex assumptions and judgments, in particular those relating to grouping of assets into CGUs, discount rates used and estimated future cash flows, with the key assumption related to the likelihood of extension of the concession contract's term. Due to the above, the impairment assessment required our significant judgment and increased attention in the course of our audit. As a consequence, we consider the area to be our key audit matter.	Our audit procedures in the area, performed with the assistance of our own valuation specialists, included, among others: — Evaluating, against the requirements of the relevant financial reporting standards, the Company' accounting policy for identification of impairment, and measurement and recognition of any impairment losses in respect of PPE and intangible assets; — Assessing internal controls relating to the identification of impairment indicators and to the process of impairment testing, including controls over management review of the impairment test assumptions and the validation of its outcome; — Assessing the Company's discounted cash flow model against the relevant financial reporting standards, market practice and for internal consistency; — Evaluating the quality of the Company's forecasting by comparing historical projections with actual outcomes; — Assessing the appropriateness of asset grouping into CGUs, based on our understanding of the Company's operations and business units; — Challenging the key assumptions applied in the Company's impairment model, including those in respect of: • extension of the concession term - by inspecting the applicable laws, the Management Board's assessment and

external data in respect of the Company's service quality;

- future prices and expected sales, and operating costs - by reference to the currently effective Regulator-approved business plan, and the Company's internal documents, such as budget and forecasts;
- key macroeconomic assumptions, such as discount rates and inflation rates - by reference to publicly available external sources.

— Assessing susceptibility of the impairment model and the resulting impairment conclusion to management bias, by challenging the Company's analysis of the model's sensitivity to changes in key underlying assumptions;

— Assessing the appropriateness and completeness of impairment-related disclosures in the consolidated financial statements against the relevant requirements of the financial reporting standards.

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, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon.

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:

— 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.

— 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.

— 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 of consolidated financial statements that give a true and fair view 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 the Group for the year ended 31 December 2020 by the general meeting of shareholders held on 30 December 2020 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2020 represents twenty first 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 the 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.

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Одиторско дружество
София
Рег. № 045
КПМГ Одит ООД

Dobrina Kaloyanova
Authorised representative

Ivan Andonov
Registered auditor, responsible for the audit

Sofia, 3 June 2021